Financial Section

For long-term numerical data and graph data, please refer to the PARCO website and FACTBOOK 2019.

Investor Relations
http://www.parco.co.jp/en/ir/

FACTBOOK 2019
www.parco.co.jp/en/ir/library/financial/factbook.php

Management's Discussion and Analysis

Current Situation

In fiscal 2018, ended February 28, 2019, the Japanese economy continued to recover at a moderate pace, supported by rising corporate earnings and an improvement in employment and income conditions. However, consumer confidence remained sluggish amid uncertainty about economic trends and policies overseas and a string of natural disasters in Japan, including heavy rain, typhoons and earthquakes.

Evaluating Fiscal 2018 Results

Overview

Under the market environment described above, the PARCO Group pushed ahead with business development in line with the second-year goals of its Medium-term Business Plan (FY2017-2021).

In fiscal 2018, we worked steadily to develop new locations in urban markets. We opened Harajuku ZERO GATE in March and made the decision in April to open Kawasaki ZERO GATE (tentative name). In August, Kyoto ZERO GATE was fully opened and Sannomiya ZERO GATE opened its doors in September. We also made preparations to open a number of stores in fiscal 2019, including Kinshicho PARCO, which opened in March 2019, SAN-A Urasoe West Coast PARCO CITY, Kawasaki ZERO GATE (tentative name) and Shibuya PARCO. In the PARCO stores business, we stepped up efforts to adapt to changes in consumer values and the retail environment, such as intensifying competition between commercial facilities and growing use of online channels for apparel purchases. Specifically, we adjusted tenant composition, broadened product choice and worked to attract up-and-coming tenants. We also updated our official POCKET PARCO app and the PARCO ONLINE STORE to create a more enjoyable, convenient shopping experience for customers. Earnings were firm in the Space Engineering and Management Business, which grew engineering orders by working closely with other businesses in the Group.

Despite the above measures, operating revenue declined 1.8%, or ¥1,651 million year on year, to ¥89,969 million, mainly reflecting the closure of unprofitable locations in the Retail Business in the previous fiscal year. Operating gross profit was ¥28,108 million, down 3.9%, or ¥1,155 million. The operating gross profit margin was 31.2%, down 0.7 of a percentage point from the previous fiscal year.

Selling, general and administrative expense increased 2.1%, or ¥405 million, to ¥19,384 million, while the ratio of SG&A expense to operating revenue increased 0.8 of a percentage point year on year to 21.5%.

Other income was ¥2,417 million, down 15.3%, or ¥436 million year on year. Other expense was ¥5,715 million, an increase of 301.0%, or ¥4,290 million year on year, mainly reflecting losses related to the planned closure of Utsunomiya PARCO and Kumamoto PARCO in fiscal 2019 and the booking of impairment losses for other stores.

As a result, operating profit was ¥5,425 million, down 53.7%, or ¥6,287 million year on year. The operating profit ratio was 6.0%, down 6.8 percentage points from the previous fiscal year.

Profit before tax was ¥5,049 million, down 55.9%, or ¥6,406 million, and profit attributable to owners of parent was ¥3,370 million, down 56.8%, or ¥4,438 million.

Earnings per share was ¥33.30 and return on equity (ROE) was 2.7%, a decline of 3.6 percentage points from the previous fiscal year.

In line with its policy of maintaining stable shareholder returns, the Company paid a year-end dividend of ¥12 per share for fiscal 2018, giving a total cash dividend applicable to the year of ¥24 per share.

Segment Performances

Shopping Complex Business

The Shopping Complex Business reported operating revenue of ¥51,117 million, down 0.5% year on year, and operating profit of ¥5,142 million, down 53.1%. The decline in operating profit largely reflected losses related to the planned closure of Utsunomiya PARCO and Kumamoto PARCO in fiscal 2019 and the booking of impairment losses for other stores.

PARCO tenant transaction volume*1 totaled ¥246.6 billion, down 1.1% year on year.

In the PARCO stores business, we pushed ahead with preparations to open a number of stores in fiscal 2019, including Kinshicho PARCO, which opened in March 2019, and Shibuya PARCO, scheduled to open in November. Changes in the retail environment such as intensifying competition between commercial facilities and growing use of online channels for apparel purchases are impacting transaction volume, particularly for apparel. To address those changes, we adjusted tenant composition and broadened product choice, and ahead of the planned opening of Shibuya PARCO in November, we worked on new technology-driven shopping experiences and services for customers. Also, we stepped up support for new companies. Specifically, to provide better incubation capabilities for up-and-coming tenants, we opened incubation spaces called UP NEXT at seven Urban Complexes.

In store strategy, we continued to focus on developing and establishing store brands using two different types of shopping facilities – Urban Complexes and Community Complexes. We adjusted tenant composition and expanded the range of merchandise items to target discerning adults who enjoy urban lifestyles, consumption by couples, and the shift in consumption away from goods to services. We also opened UPLINK Kichijoji PARCO, a new cultural dissemination center with a mini-theater. As a result, during fiscal 2018, we renovated approximately 37,000m^2 of floor space across all our stores, supporting an increase of 16.2% year on year in PARCO tenant transaction volume in the refurbished areas.

In store promotions, we ran a number of events that helped boost customer traffic and transaction volume at our stores. Events included "SUPER COOKIE LAND neoneo," an exhibition by comedian Cookie of Yasei Bakudan created with Yoshimoto Creative Agency Co., Ltd., and an exhibition of previously unreleased photos of popular actor Ryoma Takeuchi, taken by photographer Akinori Ito. We also strengthened collaboration with local TV stations, resulting in several events for kids themed around topics as diverse as poisonous insects, the science of smell and interesting animals.

We continue to use ICT in customer strategy. In November 2018 we overhauled our official POCKET PARCO app. In addition to store information, users can now access news about PARCO theaters and galleries, and the app is designed to make shopping more convenient by acting as the gateway to a seamless sales flow, guiding customers from physical stores through to the online store. Along with the redesigned app, we changed the name of the official PARCO online sales portal from KAERU PARCO to PARCO ONLINE STORE. Featuring exclusive online shops, the new site is designed to offer something different to our physical stores.

In inbound strategy, we held the Shibukaru Festival in Hong Kong in May 2018 as an event to raise the visibility of the PARCO brand overseas. We also recruited popular overseas influencers to promote PARCO on social networking services and rolled out initiatives using Alipay and other payment methods. As a result, transaction volume for mobile payment apps and overseas-issued credit cards*2 increased 15.2% year on year.

In domestic store development, we continued to expand our store network. We opened Harajuku ZERO GATE in March, fully opened Kyoto ZERO GATE in August and opened Sannomiya ZERO GATE in September, which marked our tenth store in the ZERO GATE format. We also made steady progress with four upcoming store projects set to open in fiscal 2019 based on different development approaches: Kinshicho PARCO, which opened in March 2019, is a renovation-type development project; SAN-A Urasoe West Coast PARCO CITY is a joint development project with SAN-A Co., Ltd.; Kawasaki ZERO GATE (tentative name) is a ZERO GATE format store; and Shibuya PARCO is a store redevelopment project.

In new businesses, our BOOSTER crowd-funding business formed a business and capital alliance with CAMPFIRE, Inc., Japan's largest provider of fee-based crowd-funding services. The companies have now started working together on identifying promising projects and promoting the business, which is aiming to expand by further strengthening its incubation capabilities.

In overseas business, we leveraged the PARCO Group's content and expertise to set up a "Detective Conan Cafe in Bangkok," Thailand with a local restaurant operator. We also provided consulting services for the development of a shopping complex in Ho Chi Minh, Vietnam.

In other areas, we sponsored the VR*3 content NEWVIEW AWARDS 2018 with Psychic VR Lab Co., Ltd. and Loftwork Inc. Through the pioneering joint project, we aim to help develop new ways of using VR technology and uncover and support the next generation of creators in the fields of fashion and art.

*1 PARCO tenant transaction volume is sales at tenants in PARCO stores.
*2 Transaction volume for mobile payment apps and overseas-issued credit cards does not include transactions at Otsu PARCO, which closed in 2017, or PARCO_ya, which opened in 2017.
*3 Short for virtual reality: the use of computer technology to create virtual environments that appear real.

Retail Business

The Retail Business reported operating revenue of ¥19,754 million, down 6.9% year on year, and an operating loss of ¥25 million, compared with operating profit of ¥75 million a year earlier.

NEUVE A CO., LTD. reported lower operating revenue and operating profit year on year, reflecting a decrease in the number of stores and changes in the inbound demand environment and in

year-end shopping season demand trends. As of the end of fiscal 2018, the company operated a total of 171 stores.

Space Engineering and Management Business

The Space Engineering and Management Business reported operating revenue of ¥21,882 million, up 2.3% year on year, and operating profit of ¥662 million, up 1.4%.

PARCO SPACE SYSTEMS CO., LTD. reported higher operating revenue and operating profit year on year, reflecting an increase in orders from external clients and from PARCO tenants.

Other Business

The Other Business reported operating revenue of ¥6,327 million, up 2.8% year on year, and an operating loss of ¥297 million, compared with operating profit of ¥53 million in the previous fiscal year.

The entertainment business of PARCO CO., LTD. opened two mini-theaters in fiscal 2018, CINE QUINTO and UPLINK Kichijoji PARCO, and staged a number of plays and shows, including "Touch and Go," written and produced by Koki Mitani, and "Do You Wanna Dance," featuring Momoiro Clover Z. The popularity of the events supported higher operating revenue in the entertainment business compared with the previous fiscal year. However, operating profit declined year on year, with the business unable to absorb an increase in expenses related to new initiatives, such as the cost of opening new entertainment facilities.

PARCO Digital Marketing CO., LTD. stepped up efforts to win new clients, focusing on digital services for commercial facilities and specialty retailers. As a result, operating revenue and operating profit both increased compared with the previous fiscal year.

Financial Position

Assets

Total assets at the end of fiscal 2018 were ¥275,369 million, up ¥13,534 million.

Total current assets were ¥42,749 million, an increase of ¥3,503 million. That primarily reflected an increase of ¥7,088 million for inventories, which was related to the Shibuya PARCO redevelopment project.

Total non-current assets were ¥232,620 million, an increase of ¥10,030 million. This was largely due to an increase of ¥8,826 million for property, plant and equipment related to the Shibuya PARCO redevelopment project and the opening of Kinshicho PARCO.

Total asset turnover was 0.33 times and return on assets (ROA) was 1.9%.

Liabilities

Total liabilities were ¥148,460 million, an increase of ¥12,936 million from the end of the previous fiscal year.

Current liabilities were ¥53,798 million, an increase of ¥1,284 million, mainly reflecting a rise of ¥754 million for provision for loss on store closing.

Non-current liabilities were ¥94,662 million, an increase of ¥11,652 million, which largely reflected a rise of ¥9,020 million for borrowings.

Interest-bearing debt was ¥61,740 million, up ¥8,920 million from the end of the previous fiscal year. The debt-to-equity ratio was 0.49.

Equity

Total equity was ¥126,908 million, an increase of ¥597 million from the end of the previous fiscal year. This mainly reflected an increase in retained earnings due to an increase in profit attributable to owners of parent. As a result, the ratio of total equity attributable to owners of parent was 46.1% and equity attributable to owners of parent per share was ¥1,255.30.

Cash Flows

Net cash provided by operating activities was ¥4,529 million, down from net cash provided of ¥21,386 million in the previous fiscal year. The main items in operating cash flow were profit before tax of ¥5,049 million, an adjustment for depreciation and amortization expense, a non-cash item, and increase in inventories related to the redevelopment of Shibuya PARCO.

Net cash used in investing activities was ¥13,909 million, compared with net cash used of ¥11,552 million in the previous fiscal year. The increase in cash used was mainly due to the purchase of property, plant and equipment related to the Shibuya PARCO redevelopment project.

Net cash provided by financing activities was ¥5,610 million, compared with net cash used of ¥7,897 million in the previous fiscal year, mainly reflecting an increase in funds procured through interest-bearing debt.

Capital Expenditure

Capital expenditure increased ¥1,554 million to ¥14,449 million, and included property, plant and equipment, intangible assets, investment property, and lease and guarantee deposits.

Depreciation and amortization expense increased ¥304 million to ¥5,963 million.

Fiscal 2019 Initiatives

In fiscal 2014, we formulated a long-term vision for the Group, aiming to transform PARCO into a "business group that prospers in urban markets—designers of unique offerings for 24/7 urban life; creative drivers of urban revolution." Based on that vision, we have developed a new medium-term business plan covering fiscal 2017 to fiscal 2021. The plan has three main business strategies: cultivation of major urban areas, expansion of core targets, and innovative use of ICT.

Outline of the Medium-term Business Plan

PARCO will contribute to city maturity by leveraging the businesses of the entire Group, including the stores business, to meet the diversifying needs of consumers who enjoy urban lifestyles and business owners active in urban areas through the provision of unique PARCO values, such as personal fulfillment, new inspirations, and contentment.

To achieve this, PARCO Group will update its businesses and expand into new business areas to improve existing value provided and realize business portfolio innovation.

< Three tactics for realizing the Medium-term Business Plan >

Tactic 1: Evolve the store brands
Tactic 2: Produce commercial real estate
Tactic 3: Expand soft content

< Four directions for advancing the three tactics >

1. Expand domain to include commercial real estate and soft businesses that leverage PARCO's intrinsic expertise and capabilities
2. Increase operational efficiency through business resource choice and focus—be a compact, high-yield business group
3. Widen unique value provided to meet the diversifying needs of urban consumers and business owners
4. Develop a corporate culture that expands our purpose in society

In fiscal 2019, we will accelerate improvements to the Group's business portfolio. Specifically, after opening Kinshicho PARCO in March 2019, we plan to open three further locations with different retail formats – SAN-A Urasoe West Coast PARCO CITY, Kawasaki ZERO GATE (tentative name) and Shibuya PARCO. We also decided to close Utsunomiya PARCO in May 2019 and Kumamoto PARCO in February 2020. To mark the 50th anniversary of the opening of Ikebukuro PARCO, we will develop proposals for next-generation commercial facilities, building on the momentum achieved with the redevelopment of Shibuya PARCO. We will also implement reforms in the Stores Business, aiming to respond to the evolving digital landscape by creating a new customer-focused business model anchored by a stronger CRM strategy.

Please refer to PARCO Group's Growth Strategy on P27 and our website for more details about the Medium-term Business Plan.

http://www.parco.co.jp/en/ir/plan/

Shopping Complex Business

In 2019, which marks the 50th anniversary of the opening of Ikebukuro PARCO, we will complete the redevelopment of Shibuya PARCO and open its doors for business. Our goal is to use the new Shibuya PARCO store as a hub to link all the Group's content, creating a next-generation commercial facility that brings together physical and digital retail and promotes the strengths of our new PARCO store brand. We will also implement reforms to build a new customer-focused business model to adapt to the evolving digital landscape, create a more enjoyable and convenient shopping experience for customers, develop new consumer themes and attract tenants.

To ensure those reforms are implemented at a rapid pace, we have created a new joint organization that brings together the know-how of the PARCO stores business and the developer business to accelerate the development of new tenants and new retail formats that are compatible with changing trends in consumption, based on the perspective of customers. We will realign each PARCO store as either a City Complex*1 or a Community Complex*2, based on customers and markets.

In customer strategy, we aim to maximize customer satisfaction through our CRM strategy. To support that, we will use digital tools to gather data and reinforce our proprietary digital channels and content. Specifically, we will use our official POCKET PARCO app as a gateway for sales promotions tailored to individual customers to encourage them to visit physical PARCO stores and the PARCO ONLINE STORE. In fiscal 2019, we also plan to launch a new customer-focused loyalty point program and change some related PARCO Card services. In addition, to support overseas visitors, we will continue to upgrade store environments to accommodate the growing range of payment methods.

In store development, we will expand our business in urban markets by pushing ahead with four different retail formats scheduled to open in fiscal 2019. After opening Kinshicho PARCO in March 2019, we will focus on opening SAN-A Urasoe West Coast PARCO CITY, Kawasaki ZERO GATE (tentative name) and Shibuya PARCO. We will also continue to push forward our second joint project with Daimaru Matsuzakaya Department Stores Co. Ltd., a new store in the North Building of Daimaru Shinsaibashi.

In new businesses, our goal is to stimulate innovation to transform the Group's business model. We plan to use M&A deals, as well as alliances and collaborative projects with partners inside and outside the Group, to create new businesses. To lead our efforts, we have established a new Collaboration Business Planning Office, and we have created a proprietary merchandise business to run our MEETSCAL Stores and a cloud-funding business called BOOSTER

In overseas businesses, we plan to raise the visibility of the PARCO brand overseas, as well as in Japan, by strengthening our agent functions and using Shibuya PARCO as a hub to roll out the Group's various content overseas. We will also continue to provide input for PARCO-produced commercial facilities across Asia.

*1 City Complexes: Sapporo PARCO, Sendai PARCO, Urawa PARCO, Ikebukuro PARCO, PARCO_ya, Kinshicho PARCO (opened March 16, 2019), Shibuya PARCO (PART 1, PART 3 temporarily closed since August 8, 2016), Kichijoji PARCO, Chofu PARCO, Shizuoka PARCO, Nagoya PARCO, Hiroshima PARCO, Fukuoka PARCO

*2 Community Complexes: Utsunomiya PARCO (closed on May 31, 2019), Shin-Tokorozawa PARCO, Tsudanuma PARCO, Hibarigaoka PARCO, Matsumoto PARCO, Kumamoto PARCO

Retail Business

NEUVE A CO., LTD. will reinforce existing businesses by implementing a scrap-and-build policy and work with the Shopping Complex Business to develop innovative new approaches, including new formats. The company will also continue to reinforce CRM in line with Group's digital strategy.

Space Engineering and Management Business

PARCO SPACE SYSTEMS CO., LTD.'s strengths are its expertise and technologies built up through contracting work for PARCO and external clients. Using those strengths, the company aims to consolidate its functions in the facility management department and the retail space design department to reinforce its system for securing combined orders in building management services for external commercial facilities. Also, building on efforts in the previous fiscal year, the company will continue to work closely with the J. Front Retailing Group to expand its business.

Other Business

PARCO CO., LTD.'s entertainment business plans to develop entertainment programs for theatres and multiple other venues, along with the reopening of venues at Shibuya PARCO. Also, the business will work to generate synergies with the PARCO stores business by developing unique content and venues, such as CINE QUINTO and UPLINK Kichijoji PARCO, which were opened in fiscal 2018.

PARCO Digital Marketing CO., LTD. will step up efforts to cultivate external clients and expand its business by reinforcing its core business of providing integrated digital services to commercial facilities and specialty retailers.

Outlook for Fiscal 2019

By implementing the above initiatives, we are targeting fiscal 2019 operating revenue of ¥116.2 billion, up 29.2% year on year*, operating income of ¥12.7 billion, up 134.1%, and profit attributable to owners of parent of ¥7.1 billion, up 110.7% year on year.

* The forecast for operating revenue includes a one-off increase from the sale of land that was kept on hold during the Shibuya redevelopment project. The same amount has been factored into operating cost.

Risks Related to Our Business

With respect to information contained in the financial statements relating to business and accounting conditions, the following factors may significantly affect investment decisions. Recognizing these risks, the PARCO Group will strive to prevent their occurrence and to respond appropriately in the event they occur Information pertaining to the future is based on the PARCO Group's knowledge as of May 27, 2019.

1. Risk of Fluctuations in Demand

The PARCO Group engages in the Shopping Complex Business, including the operation of shopping centers; the Retail Business; and the Space Engineering and Management Business. The Group's business performance and financial position may be significantly affected by decreased sales and orders caused by declining consumer confidence and a slowdown in corporate profitability due to deterioration in the economy and tax reforms such as higher consumption tax rates. Sluggish sales of seasonal products caused by unusual weather, such as cool summers and warm winters, could also dampen sales.

2. Risk of Natural Disasters and Accidents

The PARCO Group has business bases in Japan and overseas. It operates, or operates under contract, shopping complexes in major cities in Japan, as well as standalone tenant stores in shopping complexes in Japan. These locations may experience difficulties in their sales activities in the event of disasters such as earthquakes, fire, conflicts, acts of terrorism, or unrest. In particular, the PARCO Group has stores and locations in the Tokai and Kanto regions, where major earthquakes are predicted, and may therefore incur damages in these regions. A risk response system is being set up and enhanced to minimize damage from such incidents by implementing countermeasures such as ensuring anti-seismic measures, formulating and disseminating the Manual on Major Earthquakes, and conducting disaster drills at the stores. However, depending on the specific circumstances, the PARCO Group's business performance and financial position may be significantly affected.

3. Risk of Regulatory Restraints

The PARCO Group operates its business under a regulated environment, shaped by legislation including the Large-Scale Retail Stores Location Law, the Central City Invigoration Law, the City Planning Law, the Building Law and the Building Standard Law. In planning new store openings and expanding floor space in the future, we may be subject to regulatory controls that may affect our new store plans and operational plans, and restrict our business activities. Under such circumstances, the PARCO Group's business performance and financial position may be significantly affected.

4. Risk of Fluctuations in the Industry and Markets

The PARCO Group conducts detailed marketing to develop shopping complexes and launch new outlets for specialty stores. However, an unpredictable intensification of competition and changes in market conditions may affect store sales and new store opening plans. To quickly respond to such changes in the business environment, the Group is rationalizing its store operating system and adopting a scrap-and-build approach. However, under certain circumstances, the Group's business performance and financial position may be significantly affected.

5. Risk of Corporate Reorganization

The PARCO Group undertakes its business as an integrated whole, comprising PARCO CO., LTD. and its affiliates in Japan and abroad, through an organic collaboration among the Group members. In the future, the scope or business domain of this corporate group may change due to mergers, transfers or acquisition of operations, and the sale or disposal of affiliated companies, in which case the Group's business performance and financial position may be significantly affected.

6. Risk Related to Business Associates

The PARCO Group provides fixed leasehold deposits to land and property owners in its Shopping Complex and Retail Businesses. It also has claims to sales receivables against its business associates in the Space Engineering and Management Business. While we conduct due diligence in credit management with respect to these business associates, land and property owners may experience financial difficulties, causing problems in the collection of fixed leasehold deposits. The business associates may also suffer deterioration in credit standing, giving rise to irrecoverable loans. Under these circumstances, the PARCO Group's business performance and financial position may be significantly affected.

7. Risk Related to the Supply of Products and Services

The PARCO Group handles clothing, sundries and foods, and provides services including interior design and construction work, and building management and operation. While the utmost care is exercised to control quality and ensure the hygienic aspects of products and services, should flaws or defects in products or services cause damage to customers, the Group may lose customers and the public's trust, with a resulting impact on business performance and financial position.

8. Risk Related to Fixed Assets in Possession

The PARCO Group possesses fixed assets for business purposes, including land intended for stores and buildings, as part of its business activities. In the event that profits from business and cash flows deteriorate, or should the application of impairment accounting result in a decline in land prices, the PARCO Group's business performance and financial position may be significantly affected.

9. Risk Related to the Protection of Personal Information

The PARCO Group possesses personal information of its customers for marketing activities. Recognizing the consequences of any leakage of personal information on corporate management and trust, the Group has established a system for managing personal information, including a manual of rules, employee education, and certification regarding the handling of personal information. However, in the event a leak of personal information results in claims for damages and loss of the public's trust, the Group's business performance and financial position may be significantly affected.

10. Risk Related to IT systems

The PARCO Group utilizes various IT systems in its business operations. Management of these systems is largely carried out at data centers operated by external contractors. These data centers incorporate various safety measures, such as earthquake-proof designs, redundancy in power and communications cabling, on-site power generation and security systems to prevent unauthorized access. However, in the event of a natural disaster or accident that exceeds expectations, the Group's business activities could be affected by damage to facilities, system outages and communication difficulties between business sites, which may have a significant impact on the PARCO Group's business performance and financial position.

Consolidated Statements of Financial Position

As of February 28, 2018 and February 28, 2019

	Notes	As of February 28, 2018 (Millions of yen)	As of February 28, 2019 (Millions of yen)
Assets			
Current assets			
Cash and cash equivalents	7	12,464	8,690
Trade and other receivables	8 26	10,839	10,859
Other financial assets	9 35	721	510
Inventories	10	13,458	20,547
Other current assets	11	1,762	2,140
Total current assets		39,245	42,749
Non-current assets			
Property, plant and equipment	12	186,791	195,617
Intangible assets	13	1,494	1,696
Investment property	14	8,493	8,825
Investments accounted for using equity method	16	21	27
Other financial assets	9 35	21,065	21,155
Deferred tax assets	17	1,855	2,654
Other non-current assets	11	2,867	2,643
Total non-current assets		222,590	232,620
Total assets		261,835	275,369
Liabilities and equity			
Liabilities			
Current liabilities			
Borrowings	18	8,580	8,480
Trade and other payables	20	23,780	22,651
Other financial liabilities	18 35	1,212	1,683
Income tax payables		1,475	1,599
Provisions	22	7	761
Contract liabilities	2 26	—	14,479
Other current liabilities	2 23	17,457	4,142
Total current liabilities		52,514	53,798
Non-current liabilities			
Borrowings	18	44,240	53,260
Other financial liabilities	18 35	33,447	37,435
Net defined benefit liability	21	1,792	1,705
Provisions	22	503	2,033
Contract liabilities	2 26	—	19
Other non-current liabilities	2 23	3,026	209
Total non-current liabilities		83,010	94,662
Total liabilities		135,524	148,460
Equity			
Share capital	24	34,367	34,367
Share premium	24	35,129	35,205
Treasury shares	24	(5)	(520)
Other components of equity	24	(209)	(59)
Retained earnings	24	57,029	57,915
Total equity attributable to owners of parent		126,311	126,908
Total equity		126,311	126,908
Total liabilities and equity		261,835	275,369

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

For the years ended February 28, 2018 and February 28, 2019

	Notes	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Operating revenue	6 26	91,621	89,969
Operating cost	27	(62,357)	(61,861)
Operating gross profit		29,263	28,108
Selling, general and administrative expense	28	(18,979)	(19,384)
Other income	29	2,853	2,417
Other expense	29	(1,425)	(5,715)
Operating profit	6	11,713	5,425
Finance income	30	144	154
Finance cost	30	(372)	(537)
Share of profit (loss) of entities accounted for using equity method	16	(29)	6
Profit before tax		11,455	5,049
Income tax expense	17	(3,646)	(1,678)
Profit		7,809	3,370
Profit attributable to			
Owners of parent		7,809	3,370
Profit		7,809	3,370
Earnings per share			
Basic earnings per share (Yen)	32	76.97	33.30
Diluted earnings per share (Yen)	32	—	—

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

For the years ended February 28, 2018 and February 28, 2019

	Notes	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Profit		7,809	3,370
Other comprehensive income	31		
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income		6	88
Remeasurements of defined benefit plans		184	9
Total amount of items that will not be reclassified to profit or loss		191	97
Items that might be reclassified to profit or loss			
Cash flow hedges		37	2
Exchange differences on translation of foreign operations		6	(5)
Total amount of items that might be reclassified to profit or loss		44	(2)
Other comprehensive income, net of tax		235	95
Comprehensive income		8,045	3,465
Comprehensive income attributable to			
Owners of parent		8,045	3,465
Comprehensive income		8,045	3,465

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Equity

For the years ended February 28, 2018 and February 28, 2019

Fiscal year ended February 28, 2018

		Equity attributable to owners of parent					
					Other components of equity		
	Notes	Share capital	Share premium	Treasury shares	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Cash flow hedges
		(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017		34,367	35,129	(4)	(185)	—	19
Profit		—	—	—	—	—	—
Other comprehensive income		—	—	—	6	184	37
Total comprehensive income		—	—	—	6	184	37
Purchase of treasury shares	24	—	—	(1)	—	—	—
Dividends	25	—	—	—	—	—	—
Transfer to retained earnings		—	—	—	(15)	(184)	(60)
Total amount of transactions with owners		—	—	(1)	(15)	(184)	(60)
Balance as of February 28, 2018		34,367	35,129	(5)	(193)	—	(3)

		Equity attributable to owners of parent				
		Other components of equity				
	Notes	Exchange differences on translation of foreign operations	Total	Retained earnings	Total	Total
		(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017		(18)	(184)	51,292	120,600	120,600
Profit		—	—	7,809	7,809	7,809
Other comprehensive income		6	235	—	235	235
Total comprehensive income		6	235	7,809	8,045	8,045
Purchase of treasury shares	24	—	—	—	(1)	(1)
Dividends	25	—	—	(2,333)	(2,333)	(2,333)
Transfer to retained earnings		—	(260)	260	—	—
Total amount of transactions with owners		—	(260)	(2,072)	(2,334)	(2,334)
Balance as of February 28, 2018		(12)	(209)	57,029	126,311	126,311

The accompanying notes are an integral part of these statements.

Fiscal year ended February 28, 2019

	Notes	Equity attributable to owners of parent					
					Other components of equity		
		Share capital	Share premium	Treasury shares	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Cash flow hedges
		(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2018		34,367	35,129	(5)	(193)	—	(3)
Profit		—	—	—	—	—	—
Other comprehensive income		—	—	—	88	9	2
Total comprehensive income		—	—	—	88	9	2
Purchase of treasury shares	24	—	—	(515)	—	—	—
Dividends	25	—	—	—	—	—	—
Share-based payment transactions	34	—	76	—	—	—	—
Transfer to retained earnings		—	—	—	63	(9)	—
Total amount of transactions with owners		—	76	(515)	63	(9)	—
Balance as of February 28, 2019		34,367	35,205	(520)	(42)	—	(0)

	Notes	Equity attributable to owners of parent				
		Other components of equity				
		Exchange differences on translation of foreign operations	Total	Retained earnings	Total	Total
		(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2018		(12)	(209)	57,029	126,311	126,311
Profit		—	—	3,370	3,370	3,370
Other comprehensive income		(5)	95	—	95	95
Total comprehensive income		(5)	95	3,370	3,465	3,465
Purchase of treasury shares	24	—	—	—	(515)	(515)
Dividends	25	—	—	(2,429)	(2,429)	(2,429)
Share-based payment transactions	34	—	—	—	76	76
Transfer to retained earnings		—	53	(53)	—	—
Total amount of transactions with owners		—	53	(2,483)	(2,868)	(2,868)
Balance as of February 28, 2019		(17)	(59)	57,915	126,908	126,908

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended February 28, 2018 and February 28, 2019

	Notes	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Cash flows from operating activities			
Profit before tax		11,455	5,049
Depreciation and amortization expense		5,659	5,963
Impairment loss		497	2,239
Increase (decrease) in net defined benefit liability		(337)	(87)
Finance income		(144)	(154)
Finance cost		372	537
Share of (profit) loss of entities accounted for using equity method		29	(6)
Loss (gain) on sales and retirement of non-current assets		146	164
Decrease (increase) in trade receivables		(1,133)	266
Decrease (increase) in inventories		(3,365)	(7,088)
Increase (decrease) in trade payables		655	441
Increase/decrease in other assets/liabilities		10,391	(343)
Other, net		449	408
Subtotal		24,677	7,391
Interest and dividends received		32	21
Interest paid		(414)	(570)
Payment resulting from store closing		(276)	—
Income taxes paid		(2,631)	(2,312)
Net cash provided by (used in) operating activities		21,386	4,529
Cash flows from investing activities			
Proceeds from withdrawal of time deposits		81	—
Purchase of property, plant and equipment		(11,273)	(12,499)
Proceeds from sales of property, plant and equipment		19	6
Payments for investments in real estates		(709)	(845)
Purchase of investment securities		(3)	(103)
Proceeds from sales of investment securities		96	—
Payments for lease and guarantee deposits		(387)	(403)
Proceeds from collection of lease and guarantee deposits		1,249	752
Other, net		(626)	(816)
Net cash provided by (used in) investing activities		(11,552)	(13,909)
Cash flows from financing activities			
Net increase (decrease) in current borrowings	33	1,000	(1,000)
Net increase (decrease) in commercial papers	33	(2,099)	—
Proceeds from non-current borrowings	33	14,000	19,000
Repayments of non-current borrowings	33	(18,180)	(9,080)
Net decrease (increase) in treasury shares		(1)	(515)
Dividends paid	25	(2,333)	(2,429)
Other, net	33	(282)	(364)
Net cash provided by (used in) financing activities		(7,897)	5,610
Net increase (decrease) in cash and cash equivalents		1,936	(3,768)
Cash and cash equivalents at beginning of period		10,522	12,464
Effect of exchange rate changes on cash and cash equivalents		5	(4)
Cash and cash equivalents at end of period	7	12,464	8,690

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Reporting Entity

PARCO CO., LTD. (hereinafter referred to as the "Company") is a company incorporated in Japan. The addresses of its registered head office and principal business offices are disclosed on the Company's website (URL https://www.parco.co.jp/en/).

The consolidated financial statements of the Company, which were prepared at the end of the fiscal year on February 28, 2019, comprise the Company and its subsidiaries (hereinafter referred to as the "Group"), as well as equity in associates of the Company.

For the Group's major business activities, please refer to "6. Segment Information." In addition, the Company's parent company is J. FRONT RETAILING Co., Ltd.

2. Basis of Preparation

(1) Compliance with IFRS and first-time adoption

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

(2) Basis of measurement

The Group's consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, assets and liabilities related to the post-employment benefit plan measured at fair value as stated in "3. Significant Accounting Policies."

(3) Functional currency and presentation currency

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

(4) Change in Accounting Policy

The Group has adopted the following standard from the current fiscal year.

IFRS	Description of new standards and interpretations or revisions
IFRS 15 Revenue from Contracts with Customers	Revision of accounting treatment for revenue recognition

The Group has adopted "IFRS15 Revenue from Contracts with Customers" (Publication in May 2014) and "Clarifications to IFRS 15" (Publication in April 2016; hereinafter referred to as "IFRS 15") from the current fiscal year. In the application of IFRS 15, the Group has adopted a method, which is recognized as a transitional measure, to recognize the cumulative effects of the application of this standard at the initial application date. There is no cumulative effect at the initial application date.

With the adoption of IFRS 15, the amount of consideration that the Group expects to be entitled in exchange for the transfer of promised goods or services to customers is recognized as revenue based on the following five-step approach. (Interest and dividend income recognized in accordance with IFRS 9 "Financial Instruments" and lease payments receivable in accordance with IAS17 "Leases" are excluded.)

Step 1: Identifying the contract with a customer

Step 2: Identifying the performance obligations in the contract

Step 3: Determining the transaction price

Step 4: Allocating the transaction price to performance obligations

Step 5: Recognizing revenue when a performance obligation is satisfied

As services by operating a shopping complex are rendered continuously, the Group has judged that performance obligations are satisfied over a certain period of time, and revenue is recognized to the extent that services are rendered. With regard to the sale of goods, in many cases the customer obtains control over the goods at the time of delivery, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the goods. If the outcome of a construction contract can be estimated reliably, revenue concerning construction such as design and construction of interior work is recognized based on progress of performance obligation. Input methods based on costs incurred are used for the measurement of progress. If reliable estimation of the outcome of a construction contract is not possible, contract revenue shall be recognized only for contract costs incurred that have probable recoverability. Revenue is measured at the amount of the consideration promised in the contract with the customer, less discounts, rebates and sales-related taxes.

With the adoption of IFRS 15, from the current consolidated fiscal year, advances received and unearned revenue included in other current liabilities, and long-term advances received included in other non-current liabilities are presented as contract liabilities of current liabilities and non-current liabilities, respectively.

As a result of this adoption, compared with the case where the previous accounting standard has been applied, in the consolidated statement of financial position at the end of the current consolidated fiscal year, the contract liabilities of current liabilities increased by 14,479 million yen and the contract liabilities of non-current liabilities increased by 19 million yen. Along with the increase, other current liabilities decreased by 14,479 million yen and other non-current liabilities decreased by 19 million yen.

3. Significant Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

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

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

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

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

When there are subsidiaries whose fiscal year-ends are different from that of the Company because the legal system of the region where such subsidiary is located does not allow it to have the same fiscal year-end as that of the Company, or for other reasons, additional adjustments are made when preparing the consolidated financial statements to prepare such subsidiary's financial statements as of the fiscal year-end of the Company, or to make similar preparations. Furthermore, the fiscal year-end of such subsidiaries is December 31.

2) Associates

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

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

For associates whose fiscal year-ends are different from that of the Company, due to relationships with other shareholders or other reasons, adjustments are made by additionally preparing their financial statements as of the fiscal year-end of the Company or other means.

(2) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

(3) Foreign currency translation

1) Foreign currency transactions

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

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

Non-monetary items that are denominated and measured at cost in foreign currencies are translated using the exchange rate prevailing at the dates of transactions. Non-monetary items that are denominated and measured at fair value in foreign currencies are translated using the exchange rates at the date on which the fair value was measured. Foreign currency monetary assets and liabilities at the end of the reporting period are translated using exchange rates at the end of the reporting period.

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

2) Financial statements of foreign operations

Assets and liabilities of foreign subsidiaries, etc., are translated into Japanese yen at the exchange rate prevailing at the end of the reporting period. Income and expenses of foreign subsidiaries, etc., are translated into Japanese yen at the exchange rates that approximate the rates at the dates of the transactions, unless there are significant changes in the exchange rates.

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

(4) Financial instruments

1) Non-derivative financial assets

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

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

(i) Financial assets measured at amortized cost

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

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

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

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

For investments in equity instruments that are not held for trading, the Group may make an election (irrevocable) at the initial recognition to measure them at fair value and recognize any changes in the fair value in other comprehensive income. In this case, changes in the fair value are recognized in other comprehensive income (not reclassified to profit or loss). However, dividends are recognized in profit or loss.

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

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

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

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

(iv) Impairment of financial assets

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

For trade receivables, lease receivables, etc., without a significant financing component, allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses.

(v) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights to cash flows from the financial asset expire, when it transfers the contractual rights to receive cash flows from the financial asset in a transaction transferring substantially all the risks and rewards related to ownership of the financial asset, and when it neither transfers nor retains substantially all the risks and rewards related to ownership of the financial asset, but does not retain control over the financial asset. Even if the Group transfers an asset recognized in the statements of financial position, the Group does not derecognize the transferred asset when it concludes a transaction that retains all or substantially all the risks and rewards related to the transferred asset or part of the transferred asset. Any interests in transferred financial assets that are created or continuously retained by the Group are recognized as a separate asset or liability.

2) Non-derivative financial liabilities

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

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

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

3) Derivatives and hedge accounting

The Group uses derivatives to hedge interest rate fluctuation risk. Derivatives used by the Group include interest rate swaps.

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

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

To apply cash flow hedges to forecast transactions, the possibility that the forecast transaction occurs must be very high.

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

(i) Cash flow hedges

When a derivative is designated as a hedging instrument to hedge changes in cash flows attributable to certain risks related to highly likely forecast transactions that could affect recognized assets and liabilities or profit or loss, the effective portion of the hedge in changes in fair value of the derivative is included in other components of equity as "cash flow hedges." When a forecast transaction that is hedged will subsequently cause the recognition of a non-financial asset or non-financial liability, the balance of cash flow hedges is directly transferred to the initial cost or other carrying amount of the asset or liability. The balance of other cash flow hedges not included in the above is deducted from other comprehensive income in the consolidated statements of comprehensive income and transferred to profit or loss under the same item as the hedged item in the same period as the period in which cash flows of the hedged item affect profit or loss. The ineffective portion of the hedge in changes in fair value of the derivative is immediately recognized in profit or loss.

When the hedge does not meet requirements of hedge accounting, the hedging instrument is expired, sold, terminated or exercised, or the designation of the hedge is cancelled, the application of hedge accounting is discontinued prospectively.

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

(ii) Fair value hedges

Changes in the fair value of hedging instruments are recognized as profit or loss. The carrying amounts of hedged items are adjusted and a profit or loss is recognized for the portion of changes in the fair value of hedged items caused by hedged risk.

(5) Cash and cash equivalents

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

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The acquisition cost is calculated mainly using the identified cost method, and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(7) Assets held for sale

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

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

An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

After property, plant and equipment, intangible assets and investment property have been classified under "assets held for sale," depreciation or amortization will not be applied to these assets.

(8) Property, plant and equipment

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

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

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

- Buildings and structures (including buildings and structures in trust) 3 to 60 years

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

(9) Intangible assets

1) Goodwill

The Company measures goodwill at the amount calculated by deducting the net recognized amount (usually, fair value) of identifiable assets acquired and liabilities assumed at the date of acquisition from fair value of consideration for the transfer including the recognized amount of non-controlling interests in the acquiree, which is measured at the date of acquisition. Goodwill is not amortized. Instead, it is tested for impairment in each period, or whenever there are indications of potential impairment. Impairment losses of goodwill are recognized in the consolidated statements of income, and not reversed subsequently. In addition, goodwill is carried at cost less accumulated impairment on consolidated statements of financial position.

2) Other intangible assets

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

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

After the initial recognition, intangible assets other than goodwill are amortized using the straight-line method over respective estimated useful lives, except for intangible assets with indefinite useful lives. The estimated useful lives of major intangible assets are as follows:

- Software 5 years

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

(10) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership of leased assets are transferred under the contract. All other leases are classified as operating leases. Determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, in accordance with IFRIC 4, Determining whether an Arrangement contains a Lease, even if the arrangement does not have the form of a lease from the standpoint of the law.

(Lessee)

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

Lease payments are apportioned between the interest expense based on the interest method and the payment of the lease obligations, and interest expense is recognized in the consolidated statements of income.

Lease payments under an operating lease are recognized as an expense on the straight-line method over the lease term in the consolidated statements of income. In addition, contingent rent is recognized as an expense in the period in which it is incurred.

(Lessor)

In finance lease transactions, at the inception of the lease, lease receivables are recorded at the net receivable amount of the lease investment as of the starting date of the lease term. In operating lease transactions, leased assets are recorded in the consolidated statements of financial position, and lease income is recognized as revenue in the consolidated statements of income using the straight-line method over the lease term. In addition, contingent rent is recognized as revenue in the period in which it occurs.

(11) Investment property

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

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

When it is difficult to account for investment property and other portions separately, the entire property is accounted for as investment property only if the owner-occupied portion is insignificant.

(12) Impairment of non-financial assets

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

The recoverable amount of an asset or a cash-generating unit is the larger of its value in use and fair value less cost of disposal. In calculating value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset.

The cash-generating unit is the smallest group of assets that generates cash inflows, from continuous use, that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

(13) Employee benefits

As retirement benefit plans for employees, the Group has defined benefit plans (lump-sum retirement plan, corporate pension fund plan, and prepaid retirement benefit plan) and defined contribution plans.

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

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

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

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

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

The contributions to the defined contribution plans are recognized as expenses over the period for which employees have rendered service.

(14) Share-based payment

In order to strengthen the link between stock value and remuneration, and share interests with shareholders, the Company has adopted a stock delivery trust as share-based payment for executive officers. The stock delivery trust is a system of granting the Company's shares to officers in accordance with the officers' rank (The Company will deliver the stock and pay cash in the amount equivalent to their conversion value at the time of retirement.). The consideration for the services received is calculated using the fair value of the Company's shares on the grant date. This value is expensed over the vesting period from the grant date, and a corresponding amount is recognized as an increase in equity.

(15) Provisions

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

1) Asset retirement obligations
   Asset retirement obligations are recorded at the estimated amount of restoration costs for leased stores, etc., for which the Group has obligations to restore them to the original state at the time when the lease arrangement is terminated and costs for removing harmful substances related to non-current assets.
2) Provision for loss on store closing
   Of losses expected to arise in future for stores decided to be closed, amounts meeting the requirements for provisions are recorded.

(16) Revenue

1) Accounting standard applied from March 1, 2018
   For the contract with a customer, the amount of consideration that the Group expects to be entitled in exchange for the transfer of promised goods or services to customers is recognized as revenue based on the following five-step approach. (Interest and dividend income recognized in accordance with IFRS 9 "Financial Instruments" and lease payments receivable in accordance with IAS 17 "Leases" are excluded.)
   Step 1: Identifying the contract with a customer
   Step 2: Identifying the performance obligations in the contract
   Step 3: Determining the transaction price
   Step 4: Allocating the transaction price to performance obligations
   Step 5: Recognizing revenue when a performance obligation is satisfied
   As services are rendered continuously, the Group has judged that performance obligations are satisfied over a certain period of time, and revenue is recognized to the extent that services are rendered.
   With regard to the sale of goods, in many cases the customer obtains control over the goods upon delivery, the performance obligation is judged to have been satisfied and revenue is therefore mainly recognized at the time of delivery of the goods.
   With regard to sales under a customer loyalty program, which provides customers with points that can be redeemed as discounts on future purchases, the transaction price is allocated to points and goods based on the ratio of the stand-alone selling prices.
   If the outcome of a construction contract can be estimated reliably, revenue concerning construction such as design and construction of interior work is recognized based on progress of performance obligation. Input methods based on costs incurred are used for the measurement of progress. Reliable estimation of the outcome of a construction contract is deemed possible when all the following conditions are satisfied:
   - total contract revenue can be measured reliably;
   - it is probable that the economic benefits associated with the contract will flow to the entity;
   - both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and
   - the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

   If reliable estimation of the outcome of a construction contract is not possible, contract revenue shall be recognized only for contract costs incurred that have probable recoverability.
   When it is probable that total contract costs will exceed total contract revenue, the excess amount shall be recognized as an expense immediately.
2) Accounting standard applied before March 1, 2018
   Revenue is measured at the fair value of the consideration received from the sale of goods, rendering of services, construction contracts, etc., less any discounts, rebates and sales-related taxes.
   (i) Sale of goods
   Revenue from the sale of goods is recognized when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer; the Group retains neither continuing managerial involvement nor effective control over the goods; it is probable that economic benefits related to the transaction will flow to the Group; and these benefits and corresponding costs can be measured reliably.
   For sales under a customer loyalty program in which points are granted at the time of sales, fair value of the points is estimated and the revenue less the estimated fair value is recognized.
   (ii) Rendering of services
   Rendering of services is principally the operation of shopping centers, and revenue is recognized to the extent that services are rendered.

(iii) Construction contracts

When the outcome of a construction contract can be estimated reliably, the percentage of completion method is applied. Under the percentage of completion method, revenue is recognized based on the percentage of construction costs incurred until the reporting date against estimated total costs required for the construction contract, etc. Reliable estimation of the outcome of a construction contract is deemed possible when all the following conditions are satisfied:

- total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the entity;
- both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

If reliable estimation of the outcome of a construction contract is not possible, contract revenue shall be recognized only for contract costs incurred that have probable recoverability.

When it is probable that total contract costs will exceed total contract revenue, the excess amount shall be recognized as an expense immediately.

iv) Interest revenue

Interest revenue is recognized using the effective interest method.

v) Gross and net presentation of revenue

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

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

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

(17) Government grants

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

(18) Income tax

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

1) Current taxes

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

2) Deferred taxes

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

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

- Temporary differences arising from the initial recognition of goodwill
- Temporary differences arising from initial recognition of assets and liabilities from transactions that are not business combinations and affect neither accounting income nor taxable income
- Taxable temporary differences associated with investments in subsidiaries and associates, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

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

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

Deferred tax assets and liabilities are measured at the tax rates and by the tax laws that are expected to apply to the period when the assets are realized or the liabilities are settled, based on the statutory tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

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

(19) Earnings per share

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

(20) Operating segments

Operating segments are constituent units of business activities that earn revenue and incur costs including transactions with other operating segments. Business results of all the operating segments, for which the financial information is separately available, are reviewed periodically by the Management Committee for the purpose of allocating management resources to each segment and evaluating business results.

(21) Treasury shares

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

(22) Borrowing costs

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

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

4. Significant Accounting Estimates and Judgments

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

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the accounting period in which the review was conducted and future accounting periods.

Judgments and estimates made by the management that significantly affect the amounts in the consolidated financial statements are as follows:

(1) Impairment of property, plant and equipment, intangible assets and investment property

The Group conducts impairment tests if there is an indication that property, plant and equipment, intangible assets and investment property may be impaired. The Group performs an impairment test on goodwill at least once a year until the end of the fiscal year regardless of whether there is any indication that the goodwill may be impaired.

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

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

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

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

If revisions to the useful lives become necessary, such revisions could have a material impact on the amounts recognized in the consolidated financial statements in future accounting periods.

(3) Recoverability of deferred tax assets

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

(4) Provisions

The Group recognizes asset retirement obligations and provision for loss on store closing as provisions in the consolidated statements of financial position.

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

(5) Post-employment benefits

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

5. Accounting Standards that have been published but not yet applied

The accounting standard and interpretation newly established or revised by the approval date of the consolidated financial statements but not early applied by the Group is as follows:

IFRS	Mandatory application (From the fiscal year beginning on or after)	Applicable to the Group from the	Description of new standards and interpretations or revisions
IFRS 16 Leases	January 1, 2019	Fiscal year ending February 29, 2020	Revision of accounting treatment for leases

Under IFRS 16, the lessee's lease is not classified as a finance or operating lease, and the Group recognizes all leases excluding leases with short lease terms and leases with a small amount of underlying assets as right-of-use assets that represent the right to use underlying assets and leases liabilities that represent obligation to pay lease payments. Depreciation expenses of the right-of-use assets and interest costs for the lease liabilities during the lease term are recorded after recognition of right-of-use assets and lease liabilities.

The main impact of this change on the consolidated financial statements of the Group is as follows: in the consolidated statement of financial position as of the beginning of the fiscal year ending February 29, 2020, assets and liabilities are estimated to increase by approximately 88 billion yen and 93.1 billion yen, respectively, and equity is estimated to decrease by 5.1 billion yen. In the consolidated statement of income, the impact on profit is estimated to be minor.

6. Segment Information

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which discrete financial information is available and which are subject to periodic reviews at the Management Committee in order to make decisions about resources to be allocated to the respective segments and to assess their respective performances.

The Group operates businesses focusing on shopping centers, and, taking into consideration the content of services, the way of providing them, and other factors, aggregates its businesses into the following reportable segments: the Shopping Complex Business, Retail Business, Space Engineering and Management Business, and Other Business.

The Shopping Complex Business undertakes the development, management, supervision and operation of shopping centers.

The Retail Business undertakes the sale of personal goods, general merchandise, and other products. The Space Engineering and Management Business undertakes interior design and construction, and building maintenance, including cleaning, safety and security services, and facilities maintenance. The Other Business operates an entertainment business and an Internet-related business.

(2) Segment revenues and performance

Revenues and performance of the Group's reportable segments are as follows.

Intersegment transactions are based on prevailing market prices.

Fiscal year ended February 28, 2018

	Shopping Complex Business	Retail Business	Space Engineering and Management Business	Other Business	Total	Adjustments (Note)	Consolidated
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Operating revenue							
Revenue from external customers	50,491	21,216	14,302	5,609	91,621	—	91,621
Intersegment revenue	859	—	7,096	548	8,504	(8,504)	—
Total	51,351	21,216	21,399	6,158	100,125	(8,504)	91,621
Segment profit (Operating profit)	10,964	75	652	53	11,745	(32)	11,713
Finance income	—	—	—	—	—	—	144
Finance cost	—	—	—	—	—	—	(372)
Share of profit (loss) of entities accounted for using equity method	—	—	—	—	—	—	(29)
Profit before tax	—	—	—	—	—	—	11,455
Segment assets	255,643	6,854	10,092	3,166	275,758	(13,922)	261,835
Other items							
Depreciation and amortization expense	5,160	360	124	71	5,716	(56)	5,659
Impairment loss	235	266	—	—	501	(4)	497
Increase in property, plant and equipment and intangible assets	12,262	242	43	58	12,607	(99)	12,507

(Note) Adjustments are eliminations of intersegment transactions.

Fiscal year ended February 28, 2019

	Shopping Complex Business	Retail Business	Space Engineering and Management Business	Other Business	Total	Adjustments (Note)	Consolidated
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Operating revenue							
Revenue from external customers	50,315	19,754	14,158	5,741	89,969	—	89,969
Intersegment revenue	802	—	7,724	586	9,113	(9,113)	—
Total	51,117	19,754	21,882	6,327	99,082	(9,113)	89,969
Segment profit (loss) (Operating profit (loss))	5,142	(25)	662	(297)	5,481	(55)	5,425
Finance income	—	—	—	—	—	—	154
Finance cost	—	—	—	—	—	—	(537)
Share of profit (loss) of entities accounted for using equity method	—	—	—	—	—	—	6
Profit before tax	—	—	—	—	—	—	5,049
Segment assets	268,189	6,506	10,657	3,993	289,346	(13,976)	275,369
Other information							
Depreciation and amortization expense	5,498	348	88	95	6,031	(67)	5,963
Impairment loss	2,135	107	20	22	2,285	(46)	2,239
Increase in property, plant and equipment and intangible assets	12,785	187	65	377	13,415	630	14,046

(Note) Adjustments are eliminations of intersegment transactions.

(3) Information about products and services

Information about products and services for the fiscal years ended February 28, 2018 and February 28, 2019 is omitted as similar information is provided in "(1) Overview of reportable segments" and "(2) Segment revenues and performance."

(4) Information about geographical areas

As operating revenue from external customers in Japan for the fiscal years ended February 28, 2018 and February 28, 2019 accounted for the majority of operating revenue in the consolidated statements of income, this information is omitted.

In addition, as the amounts of non-current assets located in Japan accounted for the majority of the amounts of non-current assets in the consolidated statements of financial position, this information is omitted.

(5) Information about major customers

Information about major customers is omitted, as operating revenue from a specific customer of operating revenue from external customers for the fiscal years ended February 28, 2018 and February 28, 2019 was less than 10% of operating revenue in the consolidated statements of income.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Cash and deposits	12,464	8,690

(Note) "Cash and cash equivalents" recorded in the consolidated statements of financial position as of February 28, 2018 and February 28, 2019 are equal to "cash and cash equivalents" recorded in the consolidated state ments of cash flows.

8. Trade and Other Receivables

The breakdown of trade and other receivables is as follows.

Notes receivable, operating accounts receivable and accounts receivable-other are classified as financial assets measured at amortized cost.

	As of February 28, 2018 (Millions of yen)	As of February 28, 2019 (Millions of yen)
Notes receivable	118	129
Operating accounts receivable	7,392	7,586
Accounts receivable-other	1,055	1,347
Accounts receivable from completed construction contracts	1,205	1,144
Contract assets	—	491
Lease receivables	1,066	160
Total	10,839	10,859

Of the above, trade and other receivables expected to be recovered more than 12 months after February 28, 2018 are 160 million yen and trade and other receivables expected to be recovered more than 12 months after February 28, 2019 are 133 million yen.

9. Other Financial Assets

The breakdown of other financial assets is as follows:

	As of February 28, 2018 (Millions of yen)	As of February 28, 2019 (Millions of yen)
Other financial assets		
Financial assets measured at amortized cost		
Lease and guarantee deposits	21,399	21,047
Loans receivable	110	100
Other	1	11
Financial assets measured at fair value through other comprehensive income		
Equity securities	275	506
Total	21,787	21,666
Current assets	721	510
Non-current assets	21,065	21,155
Total	21,787	21,666

10. Inventories

The breakdown of inventories is as follows:

	As of February 28, 2018 (Millions of yen)	As of February 28, 2019 (Millions of yen)
Merchandise and finished goods	3,150	3,189
Work in process	353	187
Real estate for sale in process	9,846	17,070
Raw materials and supplies	107	99
Total	13,458	20,547
Inventories scheduled to be sold after 12 months (Real estate for sale in process)	9,846	—

The amount of inventories recognized as expenses for the fiscal years ended February 28, 2018 and February 28, 2019 are 22,108 million yen and 21,147 million yen, respectively.

In addition, the amount of inventory write-downs recognized as expenses for the fiscal years ended February 28, 2018 and February 28, 2019 are 153 million yen and 152 million yen, respectively.

11. Other Current Assets and Other Non-current Assets

The breakdown of other current assets and other non-current assets is as follows:

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Other current assets		
Prepaid expenses	1,218	1,294
Other	544	846
Total	1,762	2,140
Other non-current assets		
Long-term prepaid expenses	2,116	1,935
Other	750	707
Total	2,867	2,643

12. Property, Plant and Equipment

(1) Schedule of changes

Costs, accumulated depreciation and accumulated impairment losses, and the carrying amounts of property, plant and equipment are as follows:

Costs

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	32,250	111,500	855	6,860	42,023
Acquisitions	—	7,291	5	517	4,686
Sales or disposals	—	(1,255)	(1)	(464)	—
Reclassification	—	568	—	1	(615)
Other	—	1	—	0	—
Balance as of February 28, 2018	32,250	118,107	858	6,914	46,094
Acquisitions	—	7,604	31	725	7,940
Sales or disposals	—	(1,272)	(13)	(284)	—
Reclassification	—	904	—	0	(978)
Other	—	(1)	—	(0)	—
Balance as of February 28, 2019	32,250	125,341	876	7,356	53,055

	Land in trust	Buildings and structures in trust	Machinery, equipment and vehicles in trust	Tools, furniture and fixtures in trust	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	42,297	22,040	171	193	258,192
Acquisitions	—	30	6	—	12,536
Sales or disposals	—	(3)	—	—	(1,725)
Reclassification	—	—	—	—	(45)
Other	—	—	—	—	2
Balance as of February 28, 2018	42,297	22,067	177	193	268,960
Acquisitions	—	30	—	—	16,332
Sales or disposals	—	—	—	—	(1,570)
Reclassification	—	—	—	—	(73)
Other	—	—	—	—	(1)
Balance as of February 28, 2019	42,297	22,097	177	193	283,646

Accumulated depreciation and accumulated impairment losses

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	(143)	(66,347)	(704)	(4,575)	—
Depreciation expense	—	(3,297)	(35)	(575)	—
Impairment loss	(38)	(351)	(0)	(60)	—
Sales or disposals	—	1,134	1	423	—
Reclassification	—	—	—	—	—
Other	—	(0)	—	(0)	—
Balance as of February 28, 2018	(182)	(68,862)	(739)	(4,788)	—
Depreciation expense	—	(3,478)	(21)	(606)	—
Impairment loss	(20)	(2,036)	(0)	(85)	—
Sales or disposals	—	1,125	12	258	—
Reclassification	—	—	—	—	—
Other	—	0	—	0	—
Balance as of February 28, 2019	(202)	(73,251)	(748)	(5,222)	—

	Land in trust	Buildings and structures in trust	Machinery, equipment and vehicles in trust	Tools, furniture and fixtures in trust	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	—	(6,384)	(47)	(145)	(78,349)
Depreciation expense	—	(982)	(16)	(20)	(4,927)
Impairment loss	—	—	—	—	(451)
Sales or disposals	—	1	—	—	1,560
Reclassification	—	—	—	—	—
Other	—	—	—	—	(0)
Balance as of February 28, 2018	—	(7,365)	(64)	(166)	(82,168)
Depreciation expense	—	(983)	(16)	(8)	(5,114)
Impairment loss	—	—	—	—	(2,142)
Sales or disposals	—	—	—	—	1,396
Reclassification	—	—	—	—	—
Other	—	—	—	—	0
Balance as of February 28, 2019	—	(8,348)	(80)	(175)	(88,028)

Carrying amounts

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	32,106	45,153	150	2,284	42,023
Balance as of February 28, 2018	32,067	49,244	119	2,125	46,094
Balance as of February 28, 2019	32,047	52,089	128	2,134	53,055

	Land in trust	Buildings and structures in trust	Machinery, equipment and vehicles in trust	Tools, furniture and fixtures in trust	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	42,297	15,655	123	48	179,843
Balance as of February 28, 2018	42,297	14,701	113	27	186,791
Balance as of February 28, 2019	42,297	13,748	96	18	195,617

(Notes) 1. The amount of depreciation expense of property, plant and equipment is included in "operating cost" and "selling, general and administrative expenses" in the consolidated statements of income.
2. Please refer to "29. Other Income and Expenses" for loss on retirement of property, plant and equipment for the fiscal years ended February 28, 2018 and February 28, 2019.

(2) Leased assets

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

	Buildings and structures	Tools, furniture and fixtures	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	279	737	1,017
Balance as of February 28, 2018	3,477	637	4,114
Balance as of February 28, 2019	6,575	665	7,241

(3) Assets pledged as collateral

Not applicable.

(4) Commitments

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

(5) Property, plant and equipment under construction

Amounts paid recognized and included in the carrying amounts of property, plant and equipment items are presented under construction in progress in "(1) Schedule of changes" above.

(6) Borrowing costs

Borrowing costs capitalized as assets as components of the costs of qualifying assets for the fiscal years ended February 28, 2018 and February 28, 2019 are 115 million yen and 183 million yen, respectively.

Furthermore, the capitalization rates applied to these cases for the fiscal years ended February 28, 2018 and February 28, 2019 are 0.55% and 0.47%, respectively.

13. Intangible Assets

(1) Schedule of changes

Costs, accumulated amortization and accumulated impairment losses, and the carrying amounts of goodwill and intangible assets are as follows:

Costs

	Goodwill	Software	Other	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	53	3,091	56	3,202
Acquisitions	—	476	15	492
Sales or disposals	—	(134)	—	(134)
Reclassification	—	1	(1)	(0)
Balance as of February 28, 2018	53	3,435	70	3,559
Acquisitions	—	616	134	751
Sales or disposals	—	(138)	(74)	(212)
Reclassification	—	72	—	72
Balance as of February 28, 2019	53	3,985	131	4,170

Accumulated amortization and accumulated impairment losses

	Goodwill	Software	Other	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	(43)	(1,531)	(56)	(1,631)
Amortization expense	—	(512)	—	(512)
Impairment loss	(10)	(29)	—	(39)
Sales or disposals	—	118	—	118
Other	—	—	—	—
Balance as of February 28, 2018	(53)	(1,954)	(56)	(2,064)
Amortization expense	—	(528)	—	(528)
Impairment loss	—	(11)	—	(11)
Sales or disposals	—	131	—	131
Other	—	—	—	—
Balance as of February 28, 2019	(53)	(2,363)	(56)	(2,474)

Carrying amounts

	Goodwill	Software	Other	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	10	1,560	—	1,570
Balance as of February 28, 2018	—	1,480	13	1,494
Balance as of February 28, 2019	—	1,621	74	1,696

(Note) The amount of amortization expense of intangible assets is included in "operating cost" and "selling, general and administrative expenses" in the consolidated statements of income.

14. Investment Property

(1) Schedule of changes

Costs, accumulated depreciation and accumulated impairment losses, and the carrying amounts and fair values of investment properties are as follows:

Costs

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	7,516	9,351
Acquisitions	2,457	728
Sales or disposals	(357)	(721)
Reclassification	(265)	668
Balance at end of period	9,351	10,027

Accumulated depreciation and accumulated impairment losses

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	(995)	(857)
Depreciation expense	(217)	(318)
Impairment loss	—	(25)
Sales or disposals	355	—
Balance at end of period	(857)	(1,201)

Carrying amounts and fair values

	As of February 28, 2018		As of February 28, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Investment property	8,493	16,508	8,825	18,499

Appraisals by real estate appraisers, etc., are used for the fair values at the end of each fiscal year. These appraisals are calculated using the income approach, based on expected rental from each property and other input data.

As unobservable inputs are included, the measurement of investment property is categorized within Level 3 of the fair value hierarchy.

(2) Income and expenses from investment property

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Rental income	2,818	3,504
Direct operating expenses	1,585	2,016

The amounts of rental income from investment property and accompanying direct operating expenses are included in "operating revenue" and "operating cost," respectively, in the consolidated statements of income.

In addition, direct operating expenses from investment property that did not generate rental income for the fiscal year ended February 28, 2018 are 4 million yen and are included in "operating cost" in the consolidated statements of income. There are no relevant matters for the current consolidated fiscal year.

(3) Commitments

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

15. Impairment of Non-financial Assets

(1) Cash-generating units

The Group determines cash-generating units taking into consideration management accounting classifications. For idle land, each property is considered as a cash-generating unit.

(2) Impairment loss

Impairment loss is recorded in "other expense" in the consolidated statements of income.

The breakdown of impairment loss by class of assets is as follows:

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Shopping Complex Business		
Property, plant and equipment	197	1,999
Intangible assets	29	7
Investment property	—	25
Other non-current assets	5	59
Total Shopping Complex Business	232	2,092
Retail Business, Space Engineering and Management Business, and Other Business		
Property, plant and equipment	254	142
Intangible assets	10	4
Total Retail Business, Space Engineering and Management Business, and Other Business	264	146
Total	497	2,239

The details of impairment losses recorded during the fiscal year ended February 28, 2018 are as follows:

1) Shopping Complex Business

In regard to Utsunomiya PARCO, the Group reduced the carrying amount of the cash-generating unit to the recoverable amount and recognized the amount of the reduction as an impairment loss (143 million yen; breakdown: building, etc., 98 million yen; land, etc., 44 million yen) because operating activities were expected to generate a loss on an ongoing basis.

Furthermore, the recoverable amount (194 million yen) of Utsunomiya PARCO is based on fair value less costs of disposal. The fair value less costs of disposal is based on the appraisal value by real estate appraisers (income approach, etc.), and the fair value measurement is categorized within Level 3 of the fair value hierarchy.

2) Retail Business, Space Engineering and Management Business, and Other Business

In regard to the Retail Business, Space Engineering and Management Business, and Other Business, the Group reduced the carrying amount of the cash-generating units to the recoverable amount and recognized the amount of the reduction as an impairment loss (264 million yen; breakdown: buildings, etc., 254 million yen; goodwill, 10 million yen) because operating activities have generated a loss on an ongoing basis, and thus the profitability of these cash-generating units has declined and recovery of the investment amount cannot be anticipated.

Furthermore, the recoverable amount (11 million yen) of each of these cash-generating units is based on value in use, and the carrying amount of each asset was reduced to the value in use, calculated by discounting future cash flows at 4%.

The details of impairment losses recorded during the fiscal year ended February 28, 2019 are as follows:

1) Shopping Complex Business

In regard to Kumamoto PARCO, as a result of taking into account the building's age and changes to Kumamoto's business environment, etc., the Group decided to close Kumamoto PARCO in timing with the expiration of the building's lease agreement. The Group reduced the carrying amount of the cash-generating unit to the recoverable amount and recognized the amount of the reduction as an impairment loss (693 million yen; breakdown: buildings, etc., 692 million yen; software, 0 million yen).

Furthermore, the recoverable amount (65 million yen) of Kumamoto PARCO is based on value in use, and the carrying amount was reduced to the value in use, calculated by discounting future cash flows until the end of the business at 4%.

In regard to Utsunomiya PARCO, as a result of taking into account the future changes in the commercial environment surrounding the store, the Group decided to close Utsunomiya PARCO as of May 31, 2019. The Group reduced the carrying amount of the cash-generating unit to the recoverable amount and recognized the amount of the reduction as an impairment loss (143 million yen; breakdown: buildings, etc., 63 million yen; land, etc., 22 million yen; software, 0 million yen; long-term prepaid expense, 56 million yen).

Furthermore, the recoverable amount (101 million yen) of Utsunomiya PARCO is based on the fair value less costs of disposal. The fair value less costs of disposal is based on the appraisal value by a real estate appraiser based on the real appraisal standard, and the fair value measurement is categorized within Level 3 of the fair value hierarchy.

In regard to Tsudanuma PARCO, the Group reduced the carrying amount of the cash-generating unit to the recoverable amount, as it is expected that the revenue will decline due to tenant withdrawals, etc., and the amount of the reduction was recognized as an impairment loss (1,220 million yen; breakdown: buildings, etc., 1,220 million yen).

Furthermore, the recoverable amount (138 million yen) of Tsudanuma PARCO is measured by value in use based on the budget for the next fiscal year approved by the management, and the carrying amount was reduced to the value in use, calculated by discounting future cash flows at 4% taking into consideration the future profitability and other factors.

2) Retail Business, Space Engineering and Management Business, and Other Business

In regard to Retail Business, Space Engineering and Management Business, and Other Business, the Group reduced the carrying amount of the cash-generating units to a recoverable amount, as the profitability of the cash-generating unit has declined and recovery of the investment amount cannot be anticipated due to the stores, etc., that the Group had decided to close, and the stores, etc., where operating activities have generated a loss on an ongoing basis. The amount of the reduction was recognized as an impairment loss (146 million yen; breakdown: buildings, etc., 122million yen; lease assets, 20 million yen; software, 4 million yen).

Furthermore, the recoverable amount (16 million yen) of the cash-generating units is measured by value in use, and the carrying amount was reduced to the value in use, calculated by discounting future cash flows at 4%.

3) Loss on closing of stores

As of February 28, 2019

The main breakdown is as follows:

Loss on closing of stores	2,286 million yen
Impairment loss	852 million yen

16. Investments Accounted for Using Equity Method

Investments in associates are accounted for using the equity method. In addition, there are no individually material associates.

The carrying amount of investments in individually immaterial associates is as follows:

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Total carrying amount	21	27

The Group's share of comprehensive income of the individually insignificant associates is as follows:

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Share of profit	(29)	6
Share of other comprehensive income	—	—
Share of comprehensive income	(29)	6

17. Income Taxes

(1) Deferred tax assets and liabilities

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

Fiscal year ended February 28, 2018

	Balance as of March 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Deferred tax assets				
Prepaid expenses (leasehold right)	2,938	11	—	2,949
Accrued sales promotion expenses	140	(15)	—	125
Retirement benefits	694	(24)	(81)	588
Non-current assets	527	60	—	587
Provision for loss on store closing	328	(328)	—	—
Accrued employees' bonuses	363	(14)	—	348
Long-term deferred revenue	2,116	(603)	—	1,513
Loss on valuation of shares	250	—	15	266
Accrued paid leave	169	0	—	169
Accrued property taxes	465	10	—	476
Asset retirement obligations	145	8	—	153
Accrued enterprise tax	122	25	—	147
Other	851	(157)	9	703
Total	9,114	(1,028)	(55)	8,030
Deferred tax liabilities				
Non-current assets	6,067	(5)	—	6,061
Other	89	11	11	112
Total	6,156	6	11	6,174

Fiscal year ended February 28, 2019

	Balance as of March 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of February 28, 2019
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Deferred tax assets				
Prepaid expenses (leasehold right)	2,949	11	—	2,961
Accrued sales promotion expenses	125	(35)	—	90
Retirement benefits	588	(17)	(4)	566
Non-current assets	587	250	—	838
Provision for loss on store closing	—	699	—	699
Accrued employees' bonuses	348	(10)	—	338
Deferred revenue	1,513	(603)	—	910
Loss on valuation of shares	266	—	(42)	224
Accrued paid leave	169	24	—	193
Accrued property taxes	476	10	—	486
Asset retirement obligations	153	(34)	—	119
Accrued enterprise tax	147	(1)	—	145
Other	703	189	(1)	891
Total	8,030	482	(47)	8,465
Deferred tax liabilities				
Non-current assets	6,061	(999)	—	5,062
Other	112	639	(3)	748
Total	6,174	(359)	(3)	5,811

When recognizing deferred tax assets, the Group considers the possibility that unused tax losses or deductible temporary differences can be utilized against future taxable profit. With respect to the recoverability of deferred tax assets, scheduled reversal of deferred tax liabilities, expected future taxable profit and tax planning are taken into account.

As a result of the above assessment of the recoverability of deferred tax assets, the Group has not recognized deferred tax assets for certain unused tax losses and deductible temporary differences. The amounts of unused tax losses and deductible temporary differences for which deferred tax assets have not been recognized are as follows:

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Unused tax losses	1,595	1,543
Deductible temporary differences	49	118
Total	1,645	1,662

The expiry of unused tax losses for which deferred tax assets have not been recognized is as follows:

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
1st year	0	—
2nd year	—	—
3rd year	—	—
4th year	—	—
5th year and after	1,595	1,543
Total	1,595	1,543

As of February 28, 2018 and February 28, 2019, the total amounts of temporary differences associated with investments in subsidiaries that are not recognized as deferred tax liabilities are 2,738 million yen and 2,904 million yen, respectively.

(2) Income tax expense

The breakdown of income tax expense is as follows:

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Current tax expense:		
Current period	2,643	2,536
Prior periods	(24)	(14)
Total current tax expense	2,618	2,521
Deferred tax expense:		
Origination and reversal of temporary differences, etc.	1,011	(918)
Changes in unrecognized deferred tax assets	27	26
Changes in tax rates, etc.	(4)	21
Total deferred tax expense	1,034	(870)
Total tax expense related to comprehensive income	(6)	28
Total	3,646	1,678

(3) Reconciliation of effective tax rates

Factors for differences between the effective statutory tax rate and average effective tax rate are as follows:

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	%	%
Effective statutory tax rate	30.9	30.9
Expense not deductible in determining taxable profit	0.5	1.0
Revenue not taxable in determining taxable profit	0.0	0.0
Unrecognized deferred tax assets	0.2	0.5
Share of profit (loss) of entities accounted for using equity method	0.1	0.0
Adjustments to deferred tax assets owing to changes in tax rates	0.0	0.4
Deduction of unrealized profit	0.0	0.1
Other, net	0.1	0.2
Average effective tax rate	31.8	33.2

18. Borrowings and Other Financial Liabilities

(1) Breakdown of financial liabilities

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

	As of February 28, 2018	As of February 28, 2019	Average interest rate (Note)	Repayment deadline
	(Millions of yen)	(Millions of yen)	%	
Current borrowings	1,000	—	—	—
Current portion of non-current borrowings	7,580	8,480	0.68	—
Non-current borrowings	44,240	53,260	0.4	From March 2020 to September 2025
Current lease obligations	386	497	—	—
Non-current lease obligations	6,265	10,175	—	From March 2020 to March 2039
Current portion of guarantee deposits received	821	1,184	—	—
Guarantee deposits received	27,181	27,259	—	—
Other	4	0	—	—
Total	87,480	100,858		
Current liabilities	9,792	10,163		
Non-current liabilities	77,687	90,695		
Total	87,480	100,858		

(Note) The average interest rate represents the weighted average interest rate applicable to the borrowings, etc., that are outstanding at the end of the period.

There are no financial covenants attached to the borrowings that will significantly affect the Group's financial activities.

(2) Assets pledged as collateral

Not applicable.

19. Leases

(1) As lessee

1) Finance Leases

The Group rents real estate for commercial use, etc., as the lessee under finance leases.

The total of future minimum lease payments under finance lease arrangements and their present value are as follows. Furthermore, future finance costs are the difference between minimum lease payments for real estate lease transactions and present values.

	Minimum lease payments		Present value of minimum lease payments	
	As of February 28, 2018	As of February 28, 2019	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Due within one year	815	1,414	386	497
Due after one year through five years	2,819	5,035	1,203	1,562
Due after five years	8,453	15,907	5,062	8,613
Total	12,088	22,356	6,652	10,673
Future finance costs	5,435	11,683		
Present value of minimum lease payments	6,652	10,673		

As of February 28, 2018 and February 28, 2019, future minimum sublease payments expected to be received under non-cancellable subleases were 2,799 million yen and 2,510 million yen, respectively.

There are no contingent rents, renewal or purchase options, escalation clauses (clauses specifying a raise in the lease contract amount) or restrictions imposed by lease arrangements (such as restrictions concerning dividends, additional debt and further leasing) on lease arrangements.

2) Operating Leases

The Group rents real estate for commercial use, etc., as the lessee under operating leases.

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

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Due within one year	3,029	3,497
Due after one year through five years	6,223	7,725
Due after five years	8,095	8,493
Total	17,349	19,716

Minimum lease payments and contingent rents under operating lease arrangements recognized as an expense are as follows:

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Minimum lease payments	11,324	11,251
Contingent rents	686	714
Total	12,010	11,966

Future minimum sublease payments expected to be received under non-cancellable subleases as of February 28, 2018 and February 28, 2019 were 2,814 million yen and 1,834 million yen, respectively.

Sublease payments recognized as income under cancellable or non-cancellable operating leases for the fiscal years ended February 28, 2018 and February 28, 2019 were 9,582 million yen and 9,246 million yen, respectively.

Some lease arrangements contain renewal options. In addition, there are no purchase options, escalation clauses (clauses specifying a raise in the lease contract amount) or restrictions imposed by lease arrangements (such as restrictions concerning dividends, additional debt and further leasing).

(2) As lessor

The Group leases real estate for commercial use, etc., as the lessor under finance leases and operating leases.

1) Finance leases

The gross investment in the leases under finance leases and the present value of future minimum lease payments receivable are as follows:

	Gross investment in leases		Present value of minimum lease payments receivable	
	As of February 28, 2018	As of February 28, 2019	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Due within one year	905	27	905	27
Due after one year through five years	108	101	108	101
Due after five years	52	32	52	32
Total	1,066	160	1,066	160
Deferred finance income	—	—		
Net investment in leases	1,066	160		
Unguaranteed residual values	—	—		
Present value of minimum lease payments receivable	1,066	160		

There are no accumulated provisions for uncollectible minimum lease payments receivable as of February 28, 2018 and February 28, 2019, or contingent rents recognized as income during the period.

2) Operating Leases

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

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Due within one year	3,656	4,059
Due after one year through five years	5,422	5,397
Due after five years	569	363
Total	9,647	9,820

Total contingent rents recognized as income for the fiscal years ended February 28, 2018 and February 28, 2019 were 25,968 million yen and 25,396 million yen, respectively.

20. Trade and Other Payables

The breakdown of trade and other payables is as follows.

Both are classified as financial liabilities measured at amortized cost.

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Electronically recorded obligations - operating	2,186	2,107
Operating accounts payable	13,177	13,090
Accounts payable for construction contracts	991	1,599
Accounts payable - other	5,623	4,047
Accounts payable - facilities	1,801	1,806
Total	23,780	22,651

21. Employee Benefits

As retirement benefit plans for employees, the Group has defined benefit plans (corporate pension fund plan, lump-sum retirement plan, and prepaid retirement plan) and defined contribution plans. In addition, the Group may pay extra retirement payments when employees retire before their normal retirement date.

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

The plan is operated by a corporate pension fund that is independent from the Group. The Board of Representatives comprises the same number of Representatives elected by the employer (Elected Representatives) and Representatives elected by employees (Mutually Elected Representatives), and the Chairperson (President) of the Board of Representatives is elected by the employer.

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

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

The Group is required to pay contributions to the corporate pension fund, contributions are regularly reviewed within the range permitted by laws and regulations, and the Group will be obliged to pay contributions determined by the corporate pension fund into the future.

The plan is exposed to actuarial risk and fair value change risk of plan assets. Actuarial risk is mainly interest rate risk. Interest rate risk is the risk that the debt may increase if the discount rate falls, because the present value of the defined benefit obligation is calculated using the discount rate determined based on the market yield of the high-quality corporate bonds. The fair value change risk of plan assets is that the funded status of the plan may deteriorate, when the interest rate on plan assets falls below the interest rate specified in the investment standard of plan assets.

In regard to the lump-sum retirement plan and prepaid retirement plan, the Group is obliged to make payments directly to recipients. There are no statutory requirements regarding funding.

(1) Defined benefit plans

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

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Defined benefit obligations (with plan assets)	5,408	5,226
Fair value of plan assets	(4,008)	(3,937)
Subtotal	1,400	1,288
Defined benefit obligations (no plan assets)	392	417
Liabilities of defined benefit plans	1,792	1,705
Net defined benefit liability (asset) in the consolidated statement of financial position	1,792	1,705

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

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	5,878	5,800
Service cost	309	300
Interest cost	20	18
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	—	—
Actuarial gains and losses arising from changes in financial assumptions	(81)	(83)
Benefits paid	(325)	(392)
Balance at end of period	5,800	5,643

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

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	3,748	4,008
Interest income	12	12
Remeasurements		
Return on plan assets	184	(69)
Contributions by employer	365	361
Benefits paid	(303)	(375)
Balance at end of period	4,008	3,937

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

	As of February 28, 2018			As of February 28, 2019		
Items of plan assets	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Total	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Cash and cash equivalents	69	—	69	83	—	83
Jointly managed trusts (equity securities)	—	1,036	1,036	—	1,021	1,021
Jointly managed trusts (public and corporate bonds)	—	1,610	1,610	—	1,575	1,575
Life insurance general accounts	—	547	547	—	545	545
Other	—	743	743	—	711	711
Total	69	3,938	4,008	83	3,854	3,937

The Group's management of plan assets is aimed at ensuring the necessary income over the long term to reliably make pension and lump-sum payments into the future. With that objective, the investment policy is based on diversified investment in multiple investment targets with different risk and return characteristics, within the range of acceptable risk, taking into consideration the characteristics of liabilities of the corporate pension fund into the future and the circumstances of the Group.

Specifically, management is conducted by the contract management institution, maintaining an asset allocation over the long term based on a strategic asset composition ratio formulated based on the optimal combination into the future, projecting expected rates of return on investment assets and taking into consideration correlation with standard deviation.

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

The Group's pension funding takes into consideration various factors, including the funded status of plan assets and actuarial calculations. Contributions to plan assets are intended to cover benefits for service already rendered, in addition to benefits for service to be rendered in future.

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

The Group plans to pay contributions of 361 million yen in the fiscal year ending February 29, 2020.

The weighted average duration of the defined benefit obligations as of February 28, 2018 and February 28, 2019 was 11 years in each case.

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

	As of February 28, 2018	As of February 28, 2019
	%	%
Discount rate	Mainly 0.3	Mainly 0.3
Anticipated rate of salary increase	Mainly 7.8	Mainly 7.4

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

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

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

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Changes in discount rate		
0.1% increase	(63)	(60)
0.1% decrease	65	61

Amounts recognized as retirement benefit expenses are as follows:

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Service cost	309	300
Net interest	7	6
Other, net	197	144
Total	514	451

(2) Defined contribution plans

The amount recognized as expenses in association with defined contribution plans for the fiscal year ended February 28, 2018 and the fiscal year ended February 28, 2019 is 52 million yen and 69 million yen, respectively.

(3) Employee benefit expenses

Total employee benefit expenses included in "operating cost" and "selling, general and administrative expenses" in the consolidated statements of income for the fiscal years ended February 28, 2018 and February 28, 2019 were 14,637 million yen and 14,581 million yen, respectively.

22. Provisions

The breakdown and changes of provisions are as follows:

	Asset retirement obligations	Provision for loss on store closing	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2018	510	—	510
Increase during the period	23	2,286	2,310
Period interest expenses for the discount calculation	4	—	4
Decrease during the period (use)	(36)	—	(36)
Decrease during the period (reversal)	6	—	6
Other	(0)	—	(0)
Balance as of February 28, 2019	508	2,286	2,794

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

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Current liabilities	7	761
Non-current liabilities	503	2,033
Total	510	2,794

(1) Asset retirement obligations

Asset retirement obligations are recorded at the estimated amount of restoration costs for rented stores, offices, etc., for which the Group has obligations to restore them to the original state at the time when the lease arrangement is terminated and costs for removing harmful substances related to non-current assets. These costs are mainly expected to be paid after 0 to 33 years, and will be affected by future business plans, etc.

(2) Provision for loss on store closing

In regard to stores that will close, the Group records a reasonably estimated amount in light of the status of negotiations with business partners, etc., to provide for losses expected to occur. These costs are mainly expected to be paid within three years of the stores closing, and will be affected by the progress of negotiations with business partners, etc.

23. Other Current Liabilities and Other Non-current Liabilities

The breakdown of other current liabilities and other non-current liabilities is as follows:

	As of February 28, 2018 (Millions of yen)	As of February 28, 2019 (Millions of yen)
Other current liabilities		
Accrued expenses	1,498	1,516
Accrued bonuses	1,035	1,048
Advances received	11,173	—
Other	3,750	1,578
Total	17,457	4,142
Other non-current liabilities		
Deferred revenue	2,988	—
Government grants	—	129
Other	38	79
Total	3,026	209

24. Equity and Other Equity Items

(1) Share capital and share premium

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

	Number of authorized shares (Shares)	Number of issued shares (Shares)	Share capital (Millions of yen)	Share premium (Millions of yen)
As of March 1, 2017	320,000,000	101,462,977	34,367	35,129
Changes during the period	—	—	—	—
As of February 28, 2018	320,000,000	101,462,977	34,367	35,129
Changes during the period	—	—	—	76
As of February 28, 2019	320,000,000	101,462,977	34,367	35,205

(Note) All shares issued by the Company are common shares with no restrictions and no par value. Issued shares are fully paid.

(2) Treasury shares

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

	Number of shares (Shares)	Amount (Millions of yen)
As of March 1, 2017	4,591	(4)
Changes during the period	778	(1)
As of February 28, 2018	5,369	(5)
Changes during the period	359,158	(515)
As of February 28, 2019	364,527	(520)

(Notes) 1. Changes as of February 28, 2018 are mainly due to purchase of shares less than one unit or demands for sale.
2. The number and balance of treasury shares for the current consolidated fiscal year includes the Company's shares owned by the Stock Delivery Trust for Executive Officers. Changes as of February 28, 2019 are mainly due to acquisition of the Company's shares by the Stock Delivery Trust for Executive Officers

(3) Share premium

Share premium comprises legal share premium and other share premium. Under the Companies Act of Japan (hereinafter referred to as the "Companies Act"), at least 50% of the contribution for share issue shall be credited to share capital, and the remainder shall be credited to legal share premium included in share premium. In addition, under the Companies Act, legal share premium can be transferred to share capital by resolution of the shareholders meeting.

(4) Retained earnings

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

(5) Other components of equity

1) Exchange differences on translation of foreign operations
   Exchange differences on translation of foreign operations represent the translation difference in consolidating a foreign operation whose financial statements are denominated in a foreign currency.
2) Cash flow hedges
   The Group uses derivatives to hedge the risk of fluctuations in future cash flows. Cash flow hedges represent the effective portion of changes in fair value of derivative transactions designated as cash flow hedges.
3) Financial assets measured at fair value through other comprehensive income
   Financial assets measured at fair value through other comprehensive income represent the changes in fair value of financial assets measured at fair value through other comprehensive income, etc.
4) Remeasurements of defined benefit plans
   Remeasurements of defined benefit plans represent actuarial differences on defined benefit obligations and the return on plan assets (excluding the amount included in interest income).

25. Dividends

(1) Dividends paid

Fiscal year ended February 28, 2018

Resolution	Class of shares	Total amount of dividends	Amount of dividends per share	Reference date	Effective date
		(Millions of yen)	(Yen)		
Meeting of the Board of Directors held on April 6, 2017	Common shares	1,217	12.00	February 28, 2017	May 8, 2017
Meeting of the Board of Directors held on October 6, 2017	Common shares	1,116	11.00	August 31, 2017	October 23, 2017

Fiscal year ended February 28, 2019

Resolution	Class of shares	Total amount of dividends	Amount of dividends per share	Reference date	Effective date
		(Millions of yen)	(Yen)		
Meeting of the Board of Directors held on April 9, 2018	Common shares	1,217	12.00	February 28, 2018	May 7, 2018
Meeting of the Board of Directors held on October 5, 2018	Common shares	1,217	12.00	August 31, 2018	October 22, 2018

(Note) The total dividend resolved by the Meeting of the Board of Directors held on October 5, 2018 includes a dividend of 5 million for Company's shares owned by the Stock Delivery Trust for Executive Officers.

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

Fiscal year ended February 28, 2018

Resolution	Class of shares	Total amount of dividends	Amount of dividends per share	Reference date	Effective date
		(Millions of yen)	(Yen)		
Meeting of the Board of Directors held on April 9, 2018	Common shares	1,217	12.00	February 28, 2018	May 7, 2018

Fiscal year ended February 28, 2019

Resolution	Class of shares	Total amount of dividends	Amount of dividends per share	Reference date	Effective date
		(Millions of yen)	(Yen)		
Meeting of the Board of Directors held on April 8, 2019	Common shares	1,217	12.00	February 28, 2019	May 7, 2019

(Note) The total dividend resolved by the Meeting of the Board of Directors held on April 8, 2019 includes a dividend of 5 million for Company's shares owned by the Stock Delivery Trust for Executive Officers.

26. Operating Revenue

(1) Disaggregation of revenue

In accordance with IFRS 8 Business Segments, the Group reports four segments: Shopping Complex Business, Retail Business, Space Engineering and Management Business, and Other Business. The reportable segments are components of the Group for which discrete financial information is available and which are subject to periodic reviews at the Management Committee in order to make decisions about resources to be allocated to the respective segments and to assess their respective performances.

The Group has determined that the classification of the reportable segment can be used to meet the objective of the disaggregation disclosure requirement in paragraph 114 of IFRS 15. The following table illustrates the disaggregation revenue based on the above categories, including a reconciliation of how the disaggregated revenue ties in with segments.

Revenues generated from these businesses are recorded in accordance with contracts with customers, and the amount of operating revenue related to variable consideration, etc., is immaterial. In addition, the amount of the promised consideration does not include any significant financial factors.

Reportable segments		Fiscal year ended February 28, 2019 (Millions of yen)
	PARCO stores business	46,666
	Zero gate business	3,965
	Other business	485
Shopping Complex Business		51,117
Retail Business		19,754
Space Engineering and Management Business		21,882
Other Business		6,327
Eliminations of intersegment operating revenue		(9,113)
Total		89,969
	Revenue from contracts with customers	58,383
	Revenue from other sources	31,585
Operating revenue		89,969

(Note) Revenue from other sources includes mainly revenue from lease contracts.

1) Shopping Complex Business

The Shopping Complex Business undertakes the development, management, supervision and operation of shopping centers.

As provision of services by operation of shopping centers is rendered continuously, the Group has judged that performance obligations are satisfied over a certain period of time, and revenue is recognized to the extent that services are rendered.

2) Retail Business

The Retail Business undertakes the sales of personal goods, general merchandise, and other products. In many cases, the customer obtains control over the goods upon delivery, the performance obligation is judged to have been satisfied and revenue is therefore mainly recognized at the time of delivery of the goods.

For sales under a customer loyalty program, which provides customers with points that can be redeemed as discounts on future purchases, the transaction price is allocated to points and goods based on the ratio of the stand-alone selling prices.

3) Construction contracts

The Space Engineering and Management Business undertakes interior design and construction, and building maintenance, including cleaning, safety and security services, and facilities maintenance. If the outcome of a construction contract can be estimated reliably, revenue concerning work such as interior design and construction is recognized based on progress of performance obligation. Input methods based on costs incurred are used for the measurement of progress. Reliable estimation of the outcome of a construction contract is deemed possible when all the following conditions are satisfied:

- total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the entity;
- both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

If reliable estimation of the outcome of a construction contract is not possible, contract revenue shall be recognized only for contract costs incurred that have probable recoverability.

When it is probable that total contract costs will exceed total contract revenue, the excess amount shall be recognized as an expense immediately.

4) Other Business

The Other Business operates an entertainment business and an internet-related business. In the entertainment business, etc., when the Group conducts transactions as a principal, revenue is presented at the gross amount of consideration received from customers. When the Group conducts transactions as an agent for the benefit of a third party, revenue is presented at the net amount calculated by deducting the amount collected for the benefit of the third party from the gross amount of consideration received from customers.

The following indicators are taken into account in the determination of whether the Group conducts a transaction as a principal or agent:
Whether the Group has principal responsibility for providing the goods or services to the customer or for fulfilling the order
Whether the Group has inventory risk before or after the customer order, during shipping or on return
Whether the Group has discretion in establishing prices directly or indirectly
Whether the Group bears credit risk of the customer in association with receivables from the customer
Whether the amount received is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed

(2) Contract balances

The breakdown of contract balances is as follows:

	Balance as of March 1, 2018	Balance as of February 28, 2019
	(Millions of yen)	(Millions of yen)
Receivables from contracts with customers	3,656	4,204
Contract assets	228	491
Contract liabilities	16,542	14,498

The amount included in the balance of contract liabilities at the beginning of the fiscal year, which is recognized as revenue in the current consolidated fiscal year, is 2,992 million yen.

Significant changes in contract assets during the fiscal year are 263 million yen mainly due to an increase in construction orders.

Significant changes in contract liabilities during the fiscal year are 2,043 million yen, mainly due to a decrease by revenue recognition.

(3) Transaction price allocated to the unfulfilled performance obligation

As of February 28, 2019, with respect to the total transaction price allocated to the unfulfilled performance obligation amounting to 25,683 million yen, the Group expects to recognize 25,616 million yen in the consolidated fiscal year 2019 and 67 million yen in the consolidated fiscal year 2020 as revenue.

In addition, in the consideration resulting from contracts with customers, there are no significant amounts that are not included in the transaction price.

27. Operating Cost

The breakdown of operating cost is as follows:

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Cost of goods sold	11,815	10,882
Personnel expenses	6,605	6,265
Leasehold and office rents	8,531	8,961
Outsourcing expenses	12,514	12,493
Depreciation and amortization expense	4,802	5,081
Promotion expenses	4,768	4,584
Utilities expenses	3,573	3,642
Taxes and dues	1,305	1,347
Other	8,439	8,603
Total	62,357	61,861

28. Selling, General and Administrative Expenses

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

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Personnel expenses	8,032	8,315
Leasehold and office rents	3,013	3,006
Outsourcing expenses	1,200	1,353
Depreciation and amortization expense	857	882
Promotion expenses	665	580
Taxes and dues	818	777
Other	4,391	4,467
Total	18,979	19,384

29. Other Income and Expenses

The breakdown of other income is as follows:

	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Compensation income	1,951	1,951
Other	901	465
Total	2,853	2,417

(Note) Compensation income is compensation for the Shibuya PARCO redevelopment project.

The breakdown of other expenses is as follows:

	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Loss on closing of stores	—	3,139
Impairment loss	497	1,386
Loss on retirement of non-current assets	665	675
Other	261	514
Total	1,425	5,715

30. Finance Income and Finance Cost

The breakdown of finance income is as follows:

	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Interest income		
Financial assets measured at amortized cost		
Deposits, etc.	30	27
Lease and guarantee deposits	111	125
Dividend income		
Financial assets measured at fair value through other comprehensive income	2	1
Total finance income	144	154

The breakdown of finance cost is as follows:

	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Interest expenses		
Financial liabilities measured at amortized cost		
Borrowings, etc.	181	82
Guarantee deposits received	(45)	(33)
Lease obligations	231	484
Other	4	4
Total finance cost	372	537

31. Other Comprehensive Income

	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income		
Additions during the period	9	127
Tax effect	(3)	(38)
Financial assets measured at fair value through other comprehensive income	6	88
Remeasurements of defined benefit plans		
Additions during the period	266	13
Tax effect	(81)	(4)
Remeasurements of defined benefit plans	184	9
Total amount of items that will not be reclassified to profit or loss	191	97
Items that might be reclassified to profit or loss		
Cash flow hedges		
Additions during the period	27	3
Reclassification adjustments	—	—
Amount before tax effect adjustments	27	3
Tax effect	9	(1)
Cash flow hedges	37	2
Exchange differences on translation of foreign operations		
Additions during the period	6	(5)
Reclassification adjustments	—	—
Amount before tax effect	6	(5)
Tax effect	—	—
Exchange differences on translation of foreign operations	6	(5)
Total amount of items that might be reclassified to profit or loss	44	(2)
Total other comprehensive income	235	95

32. Earnings per Share

Basis of calculating basic earnings per share is as follows:

	Fiscal year ended February 28, 2018 (Millions of yen)	Fiscal year ended February 28, 2019 (Millions of yen)
Profit attributable to owners of parent (Millions of yen)	7,809	3,370
Weighted average number of ordinary shares outstanding (Thousands of shares)	101,458	101,203
Basic earnings per share (Yen)	76.97	33.30
Diluted earnings per share (Yen)	—	—

(Notes) 1. Since the Company's shares held by Stock Delivery Trust for the Executive Officer are treated as treasury shares in the calculation of basic earnings per share, the number of shares is deducted from the weighted average number of ordinary shares outstanding.
2. Information on diluted earnings per share is omitted due to an absence of potential shares.

33. Cash Flow Information

(1) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

Fiscal year ended February 28, 2018

	Balance as of March 1, 2017	Changes involving cash flows	Changes not involving cash flows			Balance as of February 28, 2018
			Exchange differences on translation of foreign operations	Changes in fair values	Lease obligations	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Current borrowings	—	1,000	—	—	—	1,000
Non-current borrowings	56,062	(4,240)	(1)	—	—	51,820
Commercial paper	2,099	(2,099)	—	—	—	—
Lease obligations	1,283	(282)	—	—	5,651	6,652
Derivatives	(67)	60	—	6	—	—
Total	59,378	(5,562)	(1)	6	5,651	59,472

(Notes) 1. Derivatives are held in order to hedge non-current borrowings.
2. Non-current borrowings include current portion of non-current borrowings.

Fiscal year ended February 28, 2019

	Balance as of March 1, 2018	Changes involving cash flows	Changes not involving cash flows			Balance as of February 28, 2019
			Exchange differences on translation of foreign operations	Changes in fair values	Lease obligations	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Current borrowings	1,000	(1,000)	—	—	—	—
Non-current borrowings	51,820	9,920	—	—	—	61,740
Commercial paper	—	—	—	—	—	—
Lease obligations	6,652	(364)	—	—	4,384	10,673
Derivatives	—	—	—	—	—	—
Total	59,472	8,555	—	—	4,384	72,413

(Note) Non-current borrowings include current portion of non-current borrowings.

(2) Non-cash transactions

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

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Property, plant and equipment and investment property acquired through finance leases	4,983	3,591

34. Share-based Payment

(1) Details of share-based payment

In order to strengthen the link between stock value and remuneration and share interests with shareholders, the Company has adopted a stock delivery trust as share-based payment for executive officers. The stock delivery trust, which the Company has set up by contributing money within the range approved by the Compensation Committee, acquires the Company's shares and is a system of granting the number of shares equivalent to the number of points to each executive officer.

The consideration for the services received is calculated using the fair value of the Company's shares on the grant date. The consideration is expensed over the vesting period from the grant date, and a corresponding amount is recognized as an increase in equity.

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

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

	As of February 28, 2018	As of February 28, 2019
Number of points granted during the period	—	61,244
Weighted average fair value (Yen)	—	1,252

(3) Share-based payment expense

The amount recognized as share-based payment expense, which is included in the consolidated statement of profit or loss, was 76 million yen in the fiscal year ended February 28, 2019

35. Financial Instruments

(1) Capital management

In order to realize sustainable growth and the medium- to long-term enhancement of corporate value, the Group's capital management policy is to enhance capital efficiency, while maintaining financial soundness and maintaining a financial base tailored to future uncertain risks and ensuring strategic investment opportunities.

The main monitoring indicators for capital management are ROE and the D/E ratio. Furthermore, the Group is not subject to any material capital regulations.

(2) Financial risk management policy

In the process of engaging in management activities, the Group is exposed to financial risks (credit risk, liquidity risk, foreign currency risk, interest rate risk, and the risk of fluctuations in market prices), and engages in risk management to reduce these financial risks.

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

(3) Credit risk management

The Group is exposed to credit risk from trade receivables, etc., held. Credit risk is the risk that a trade partner will default on contractual obligations and cause the Group to incur a financial loss.

In regard to the risk, each Group company manages due dates and balances for each trade partner, and endeavors to promptly identify and reduce any concerns about collection.

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

Furthermore, the Group does not have any credit risk overly concentrated in a single counterparty or a group to which the counterparty belongs.

1) Changes to allowance for doubtful accounts

The Group considers whether or not there has been a significant increase in credit risk from the date of initial recognition, and establishes an allowance for doubtful accounts. Specifically, if the credit risk has not increased significantly since initial recognition, allowance for doubtful accounts is measured at an amount equal to 12-month expected credit losses. On the other hand, if the credit risk has increased significantly since initial recognition, allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses. Whether credit risk has significantly increased or not is determined based on changes in default risk. Regardless of the above, for trade receivables, lease receivables, etc., without a significant financing component, allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses.

In addition, the Group deems receivables to be in default when 90 days or more have passed since the due date, and receivables are classed as credit-impaired financial assets when they are categorized as in default, or when proof of impairment exists, such as cases when the issuer or debtor is in serious financial difficulty, and allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses. Furthermore, if it is reasonably judged that all or part of a financial asset is uncollectible, such as cases when the receivables are legally extinguished, then the Group writes off the total carrying amount of the financial asset.

When measuring these expected credit losses, the Group uses reasonable and supportable information that is available as of the end of the fiscal year for historical bad debt data and the status of delinquent receivables, the financial status of creditors, etc., historical events, recent circumstances, and forecasts of economic circumstances.

For financial assets whose credit risk has not increased significantly and trade receivables, lease receivables, etc., without a significant financing component, expected credit losses are collectively valued based on historical credit loss data, with all these assets classed as one group, as their credit risk characteristics are almost the same.

For financial assets whose credit risk has increased significantly and credit-impaired financial assets, expected credit losses are valued on an individual basis, after adjustment for historical credit loss data, future estimated recoverable amount, etc.

Changes in allowance for doubtful accounts are as follows:

	Trade and other receivables	Financial assets other than trade and other receivables		
	Lifetime expected credit losses (trade receivables, etc., without a significant financing component)	12-month expected credit losses	Lifetime expected credit losses (Financial assets whose credit risk has increased significantly since initial recognition)	Credit-impaired financial assets (Lifetime expected credit losses)
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	3	—	115	114
Provision (net)	1	0	—	—
Use	—	—	—	(10)
Balance as of February 28, 2018	5	0	115	103
Provision (net)	3	0	107	—
Use	—	—	—	(39)
Balance as of February 28, 2019	9	1	222	64

2) The carrying amounts of financial assets by risk type (before deducting allowance for doubtful accounts) are as follows:

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Trade and other receivables (Lifetime expected credit losses)	10,844	10,869
Financial instruments other than trade and other receivables (12-month expected credit losses)	21,338	20,466
Financial instruments whose credit risk has increased significantly since initial recognition (Lifetime expected credit losses)	289	917
Credit-impaired financial instruments (Lifetime expected credit losses)	103	64

There are no significant changes to the total amount of carrying amounts of the kind that would materially affect allowance for doubtful accounts.

Credit risk for trade and other receivables on each reporting date was assessed as extremely low. In addition, for financial instruments other than trade and other receivables, the Group does not have any credit risk overly concentrated in any specific counterparty or a group to which the counterparty belongs.

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

(4) Liquidity risk management

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

The Group manages liquidity risk by methods including preparing monthly cash flow plans at each company, in addition to managing liquidity risk through overdraft agreements with its main banks.

The balance of financial liabilities (other than lease obligations) by maturity is as follows:

As of February 28, 2018

	Carrying amount	Contractual amount	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Non-derivative financial liabilities								
Trade and other payables	23,780	23,780	23,780	—	—	—	—	—
Current borrowings	1,000	1,000	1,000	—	—	—	—	—
Non-current borrowings	51,820	52,686	7,827	7,560	5,216	10,891	6,085	15,105
Guarantee deposits received	28,002	27,988	821	3,823	2,925	3,065	1,710	15,641
Derivative financial liabilities								
Interest rate swaps	4	4	3	1	—	—	—	—
Total	104,608	105,460	33,433	11,384	8,142	13,956	7,796	30,747

As of February 28, 2019

	Carrying amount	Contractual amount	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Non-derivative financial liabilities								
Trade and other payables	22,651	22,651	22,651	—	—	—	—	—
Current borrowings	—	—	—	—	—	—	—	—
Non-current borrowings	61,740	62,645	8,721	7,872	13,540	8,726	7,196	16,589
Guarantee deposits received	28,444	28,467	1,184	4,033	3,850	2,183	1,747	15,467
Derivative financial liabilities								
Interest rate swaps	0	0	0	—	—	—	—	—
Total	112,837	113,765	32,558	11,905	17,390	10,909	8,943	32,057

(Note) Net receivables and liabilities resulting from derivative transactions are presented on a net basis.

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

	As of February 28, 2018	As of February 28, 2019
	(Millions of yen)	(Millions of yen)
Commitment line		
Used	—	—
Unused	—	—
Total	—	—
Overdraft limit		
Used	1,000	—
Unused	28,560	29,560
Total	29,560	29,560
Commercial paper issuance limit		
Used	—	—
Unused	20,000	20,000
Total	20,000	20,000

(5) Foreign currency risk management

The Group conducts transactions denominated in foreign currencies and is exposed to the risk of fluctuations in exchange rates of foreign currencies against the Japanese yen.

In order to mitigate the risk of fluctuations in exchange rates, the Group hedges the risk by entering exchange contracts.

Foreign exchange sensitivity analysis

In regard to transactions denominated in foreign currencies with the risk of fluctuations in exchange rates, the Group uses exchange contracts, etc., to ensure fixed cash flows and mitigate the risk of fluctuations in exchange rates. Accordingly, the Group's exposure to the risk of fluctuations in exchange rates is limited, and the effect from fluctuations in exchange rates is immaterial.

Furthermore, other comprehensive income fluctuates in line with the translation of financial statements of the Group's foreign subsidiaries, etc., but the Group does not consider the effect thereof as material.

(6) Interest rate risk management

The Group procures funds through interest-bearing liabilities. A variable interest rate is applied to certain interest-bearing liabilities, and the Group is exposed to the risk of fluctuations in interest rates.

In order to mitigate the risk of fluctuations in interest rates for all variable interest rates, the Group hedges the risk by conducting interest rate swaps.

Interest rate sensitivity analysis

In regard to variable interest rate non-current borrowings with the risk of interest rate fluctuations, the Group uses interest rate swaps to ensure fixed cash flows and mitigate the risk of fluctuations in interest rates. Accordingly, the Group's exposure to the risk of fluctuations in interest rates is limited, and the effect from fluctuations in interest rates is immaterial.

(7) Market price fluctuation risk management

The Group is exposed to the risk of fluctuations in prices caused by equity securities held. The Group regularly grasps the fair values, financial condition of issuers, etc., of equity instruments, and reviews the status of holdings on an ongoing basis.

Stock market price sensitivity analysis

Equity securities are designated as financial assets measured at fair value through other comprehensive income, and fluctuations in share prices have no impact on profit or loss, and the effect on other comprehensive income is immaterial.

(8) Fair value of financial instruments

1) Calculation method of fair value

The calculation methods of the fair value of financial instruments are as follows:

Other financial assets and other financial liabilities

In regard to lease and guarantee deposits and guarantee deposits received, the Group calculates fair value by discounting future cash flows at an interest rate adjusted for the period until the due date and credit risk.

Borrowings

In regard to borrowings, fair value is calculated by the method that the total principal and interest are discounted at an interest rate expected if similar new borrowings were conducted.

Lease obligations

Fair value is calculated by the method that the total principal and interest are discounted at an interest rate expected if similar new lease transactions were conducted.

2) Financial instruments measured at amortized cost

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

Furthermore, financial instruments measured at fair value and financial instruments whose carrying amount and fair value are extremely close are not included in the following table.

	As of February 28, 2018		As of February 28, 2019	
	Carrying amount (Millions of yen)	Fair value (Millions of yen)	Carrying amount (Millions of yen)	Fair value (Millions of yen)
Assets:				
Financial assets measured at amortized cost				
Other financial assets				
Lease and guarantee deposits	21,399	22,551	21,047	22,325
Total	21,399	22,551	21,047	22,325
Liabilities:				
Financial liabilities measured at amortized cost				
Borrowings				
Borrowings	52,820	52,647	61,740	62,103
Other financial liabilities				
Guarantee deposits received	28,002	27,990	28,444	28,500
Total	80,822	80,638	90,184	90,603

The fair value of borrowings is categorized within Level 2 and that of lease and guarantee deposits and guarantee deposits received is categorized within Level 3.

3) Lease obligations

The carrying amount and fair value of the lease obligations are as follows:

	As of February 28, 2018		As of February 28, 2019	
	Carrying amount (Millions of yen)	Fair value (Millions of yen)	Carrying amount (Millions of yen)	Fair value (Millions of yen)
Liabilities:				
Lease obligations	6,652	11,010	10,673	20,330

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

The Group holds investments in equity instruments mainly in order to maintain and strengthen business relationships, and therefore the Group designates them as financial assets measured at fair value through other comprehensive income.

1) Fair value of each security

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

	As of February 28, 2018			As of February 28, 2019	
	Securities	(Millions of yen)		Securities	(Millions of yen)
Tower Records Japan Inc.		116	Tower Records Japan Inc.		346
Ryohin Keikaku Co., Ltd.		66	Ryohin Keikaku Co., Ltd.		49
NOMURA Co., Ltd.		37	NOMURA Co., Ltd.		57
FamilyMart UNY Holdings Co., Ltd.		18	Other		53
Other		37			

2) Dividend income

	Fiscal year ended February 28, 2018		Fiscal year ended February 28, 2019
Investments derecognized during the period	Investments held on February 28, 2018	Investments derecognized during the period	Investments held on February 28, 2019
(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
0	1	—	1

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

In order to increase efficiency and ensure effective utilization of assets held, the Group sells financial assets measured at fair value through other comprehensive income, and fair value on the date of sale thereof and cumulative gain or loss on the sale (before tax) are as follows:

	Fiscal year ended February 28, 2018		Fiscal year ended February 28, 2019
Fair value on the date of sale	Cumulative gain (loss) on sale	Fair value on the date of sale	Cumulative gain (loss) on sale
(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
96	22	—	—

4) Transfer to retained earnings

If disposing of investments, or in cases when fair value has significantly declined compared with the acquisition cost, the Group transfers cumulative gain or loss caused by fluctuations in the fair value of financial assets measured at fair value through other comprehensive income to retained earnings. In the fiscal years ended February 28, 2018 and February 28, 2019, cumulative gain or loss (after tax) in other comprehensive income transferred to retained earnings was 15 million yen and (63) million yen, respectively.

(10) Derivatives and hedges

1) Cash flow hedges

Cash flow hedges are hedges to avoid the risk of fluctuations in future cash flows. The Company uses interest rate swaps to hedge fluctuations in cash flows related to variable interest rate borrowings. Furthermore, the hedge ratio of variable interest rate borrowings and their hedging instruments, interest rate swaps, is 1:1, as they are conducted with the same amounts. Of changes in the fair value of derivatives transactions that are hedging instruments, the effective portion of the hedge is recognized as other comprehensive income and reclassified to profit or loss in the same period during which the hedged cash flows affect profit or loss.

Furthermore, the Group determines the economic relationship between the hedged item and hedging instrument based on the amount and timing of related cash flows, etc. In addition, the critical terms of the hedging instrument and the hedged item match in hedging relationships to which the Group currently applies hedge accounting, and at the same time, transaction counterparties are highly rated financial institutions with low credit risk, and therefore, the Group basically does not expect hedges to become ineffective, and in fact no hedges have become ineffective.

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

As of February 28, 2018

	Notional principal	Exceeding one year	Carrying amount		Line item in the consolidated statement of financial position
			Assets	Liabilities	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	
Interest rate risk					
Interest rate swaps	1,660	380	—	4	Other financial liabilities (current liabilities)

The average interest rate on interest rate swaps is 0.72%.

As of February 28, 2019

	Notional principal	Exceeding one year	Carrying amount		Line item in the consolidated statement of financial position
			Assets	Liabilities	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	
Interest rate risk					
Interest rate swaps	380	—	—	0	Other financial liabilities (current liabilities)

The average interest rate on interest rate swaps is 0.69%.

Changes in other components of equity (changes in the fair value of hedging instruments) are as follows:

Fiscal year ended February 28, 2018

	Effective portion of changes in the fair value of cash flow hedges		
	Foreign currency risk	Interest rate risk	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	46	(27)	19
Other comprehensive income			
Amount arising during the period (Note) 1	(6)	34	27
Reclassification adjustments (Note) 2	(60)	—	(60)
Tax effect	20	(10)	9
Balance as of February 28, 2018	—	(3)	(3)

Information on changes in the value of hedged items used as the basis for recognizing ineffective portions of hedges is omitted, as no ineffective portions of hedges were recognized in profit or loss.

(Notes) 1. The Group designates all interest rate swaps and currency swaps as hedging instruments, and at the same time, no hedges became ineffective, and therefore this information matches the changes in the fair value of hedging instruments.

2. The line item of reclassification adjustments is included in other expense.

Fiscal year ended February 28, 2019

	Effective portion of changes in the fair value of cash flow hedges		
	Foreign currency risk	Interest rate risk	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2018	—	(3)	(3)
Other comprehensive income			
Amount arising during the period (Note) 1	—	3	3
Reclassification adjustments (Note) 2	—	—	—
Tax effect	—	(1)	(1)
Balance as of February 28, 2019	—	(0)	(0)

Information on changes in the value of hedged items used as the basis for recognizing ineffective portions of hedges is omitted, as no ineffective portions of hedges were recognized in profit or loss.

(Notes) 1. The Group designates all interest rate swaps as hedging instruments, and at the same time, no hedges became ineffective, and therefore this information matches the changes in the fair value of hedging instruments.

2. The line item of reclassification adjustments is included in other expense.

36. Fair Value Measurement

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

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

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

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

(1) Sensitivity analysis for changes in significant unobservable inputs

Of the fair values of assets measured at fair value on a recurring basis that are categorized within Level 3, the fair values of financial assets measured at fair value through other comprehensive income valued with the income approach decrease (increase) with increases (decreases) in the discount rate, and increase (decrease) with increases (decreases) in the revenue growth rate.

(2) Fair value hierarchy

The fair value hierarchy of financial instruments measured at fair value is as follows:

As of February 28, 2018

	Level 1	Level 2	Level 3	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Assets:				
Financial assets measured at fair value through other comprehensive income				
Equity securities	122	—	153	275
Total	122	—	153	275
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	—	4	—	4
Total	—	4	—	4

As of February 28, 2019

	Level 1	Level 2	Level 3	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Assets:				
Financial assets measured at fair value through other comprehensive income				
Equity securities	114	—	392	506
Total	114	—	392	506
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	—	0	—	0
Total	—	0	—	0

Transfers between fair value hierarchy levels are recognized on the date of the event or change in circumstances that caused the transfer. In the fiscal years ended February 28, 2018 and February 28, 2019, no transfers between levels have occurred.

For derivative financial assets whose fair value measurement is categorized within Level 2, the fair value is determined by a reasonable valuation method based on available data, including fair value presented by counterparty financial institutions, etc.

Financial instruments whose fair value measurement is categorized within Level 3 comprise non-listed securities. The fair value of non-listed securities is measured using a valuation model based on the market prices of similar companies, with an illiquidity discount (30%) as the main unobservable input.

Furthermore, the Group does not expect any significant changes in the fair values of financial instruments whose fair value measurement is categorized within Level 3 if one or more unobservable inputs are changed to reflect reasonably possible alternative assumptions.

(3) Valuation process

In regard to financial instruments whose fair value measurement is categorized within Level 3, external valuation specialists or suitable persons responsible for valuation conduct valuations and analyze valuation results in accordance with valuation policies and procedures approved by managers in finance departments. Valuation results are reviewed and approved by the managers of finance departments.

(4) Reconciliation of financial instruments whose fair value measurement is categorized within Level 3 from the opening balances to the closing balances

Changes in financial instruments whose fair value measurement is categorized within Level 3 are as follows:

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	224	153
Total gains or losses		
Other comprehensive income (Note)	(50)	138
Purchase	—	100
Sale	(19)	—
Other, net	—	—
Balance at end of period	153	392

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

(5) Assets and liabilities measured at fair value on a non-recurring basis

For assets and liabilities measured at fair value on a non-recurring basis, please refer to "15. Impairment of Non-financial Assets."

37. Important Subsidiaries

(1) Subsidiaries

Status of major subsidiaries at the end of each fiscal year is as follows:

			Proportion of voting rights held (%)	
Name	Location	Reportable segment	As of February 28, 2018	As of February 28, 2019
NEUVE A CO., LTD.	Japan	Retail Business	100.0	100.0
PARCO SPACE SYSTEMS CO., LTD.	Japan	Space Engineering and Management Business	100.0	100.0
PARCO Digital Marketing CO., LTD.	Japan	Other Business	100.0	100.0
PARCO (Singapore) Pte Ltd	Singapore	Shopping Complex Business	100.0	100.0

(2) Subsidiaries with non-controlling interests that are material to the reporting entity

The Company has no subsidiaries with non-controlling interests that are material to it.

38. Related Parties

(1) Parent company

The parent company of the Group is J. FRONT RETAILING Co., Ltd.

There are no significant transactions between the Group and its parent company.

(2) Related party transactions

Fiscal year ended February 28, 2018

Category	Name	Content of transactions	Amount of transactions	Amount of outstanding balances
			(Millions of yen)	(Millions of yen)
Subsidiary of parent company	Daimaru Matsuzakaya Department Stores Co. Ltd.	Lease of real estate for commercial use	97	5,861
Key management personnel of the Company and close members of the family thereof	Poppins Corporation (Note) 1	Contracting of construction work	158	114

(Notes) 1. Director Ms. Noriko Nakamura and her close members of the family hold a majority of voting rights.
2. Of the above amounts, the amount of transactions does not include consumption taxes, etc., while the amount of outstanding balances includes consumption taxes, etc.
3. Terms and conditions of transactions and the policy of determining the terms and conditions of the transactions:
•Leases of real estate for commercial use are determined after negotiation, based on prices presented, etc.
•In regard to contracting of construction work, transaction amounts are determined in the same way as general transaction criteria.
4. There are no transactions with collateral or guarantee, and transactions are settled in cash. In addition, an allowance for doubtful accounts is established for receivables as general receivables, but as it is immaterial, disclosure is omitted.

Fiscal year ended February 28, 2019

Category	Name	Content of transactions	Amount of transactions	Amount of outstanding balances
			(Millions of yen)	(Millions of yen)
Subsidiary of parent company	Daimaru Matsuzakaya Department Stores Co. Ltd.	Lease of real estate for commercial use	276	5,562
Key management personnel of the Company and close members of the family thereof	Poppins Corporation (Note) 1	Contracting of construction work	131	0

(Notes) 1. Director Ms. Noriko Nakamura and her close members of the family hold a majority of voting rights.
2. Of the above amounts, the amount of transactions does not include consumption taxes, etc., while the amount of outstanding balances includes consumption taxes, etc.
3. Terms and conditions of transactions and the policy of determining the terms and conditions of the transactions:
•Leases of real estate for commercial use are determined after negotiation, based on prices presented, etc.
•In regard to contracting of construction work, transaction amounts are determined in the same way as general transaction criteria.
4. There are no transactions with collateral or guarantee, and transactions are settled in cash. In addition, an allowance for doubtful accounts is established for receivables as general receivables, but as it is immaterial, disclosure is omitted.

(3) Key management personnel compensation

Key management personnel compensation is as follows.

The key management personnel of the Group are Directors and Executive Officers of the Company in each fiscal year.

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
	(Millions of yen)	(Millions of yen)
Base compensation, etc.	489	432
Share-based payment	—	76
Total	489	509

39. Commitments

As of February 28, 2018 and February 28, 2019, material commitments contractually committed to in regard to the acquisition of property, plant and equipment and investment property were 8,568 million yen and 5,237 million yen, respectively.

40. Subsequent Events

Not applicable.

41. Approval of Consolidated Financial Statements

The Company's consolidated financial statements were approved on May 27, 2019 by Kozo Makiyama, President and Representative Executive Officer.

Independent Auditor's Report

To the Board of Directors of PARCO Co., Ltd.:

We have audited the accompanying consolidated financial statements of PARCO Co., Ltd. and its consolidated subsidiaries , which comprise the consolidated statement of financial position as at February 28, 2019, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for 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 audit. We conducted our audit 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 PARCO Co., Ltd. and its consolidated subsidiaries as at February 28, 2019, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AZSA LLC

July 10, 2019
Tokyo, Japan