

## OFFERING CIRCULAR



# TAKASHIMAYA COMPANY, LIMITED

(incorporated with limited liability under the laws of Japan)

## ¥60,000,000,000 Zero Coupon Convertible Bonds due 2028

### OFFER PRICE: 103.0 PER CENT.

The ¥60,000,000,000 Zero Coupon Convertible Bonds due 2028 (being bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include Stock Acquisition Rights (as defined below) incorporated in the Bonds) of Takashimaya Company, Limited (the “Company”) will be issued in registered form in the denomination of ¥10,000,000 each with a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Right”, and collectively, the “Stock Acquisition Rights”) exercisable on and after, 20 December 2018 up to, and including, 22 November 2028 (unless the Bonds have been previously redeemed or purchased and cancelled or become due and repayable), and entitling the Bondholder (as defined in the terms and conditions of the Bonds (the “Conditions”)) to acquire fully-paid and non-assessable shares of common stock of the Company (the “Shares”) at an initial conversion price, subject to adjustment in certain events as set out in the Conditions, of ¥2,180 per Share. The closing price of the Shares on 20 November 2018, as reported by Tokyo Stock Exchange, Inc. (the “Tokyo Stock Exchange”), was ¥1,895 per Share.

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at 100 per cent. of their principal amount on 6 December 2028. If, at any time prior to the date of the giving of the notice of redemption, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as of the date of issue thereof, the Bonds may be redeemed at 100 per cent. of their principal amount, at the option of the Company as set out in the Conditions. The Bonds may also be redeemed by the Company in whole but not in part in certain other limited events, at the redemption prices specified in the Conditions.

Bondholders may require the Company to redeem any Bond at 100 per cent. of its principal amount on 6 December 2023, as set out in the Conditions.

Payments of principal, premium (if any) and any other amount due in respect of the Bonds will be made without withholding or deduction for or on account of Japanese taxes to the extent set out herein (see Condition 9). If Japanese withholding taxes are imposed on payments in respect of the Bonds, the Company may, at any time, redeem all of the Bonds at 100 per cent. of their principal amount (as set out in the Conditions).

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Bonds to the official list of the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds.

The Bonds will initially be represented by a global certificate (the “Global Certificate”) evidencing the Bonds in registered form, deposited with and registered in the name of, or a nominee for, a common depository for each of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) on or about 6 December 2018 (the “Closing Date”) for the accounts of their respective accountholders. The Joint Lead Managers (as defined in “Subscription and Sale”) expect to deliver the Bonds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

This Offering Circular does not constitute an offer of, or the solicitation of an offer to buy or subscribe for, the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account of, U.S. persons (as defined in Regulation S of the Securities Act (“Regulation S”)). For a summary of certain restrictions on the sale and transfer of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights, see “Subscription and Sale”.

Singapore Securities and Futures Act Product Classification: solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”), the Company has determined, and hereby notifies all relevant persons (as defined in Regulation 3(b) of the Securities and Futures (Capital Markets Products) Regulations 2018) (the “SF (CMP) Regulations”), that the Bonds are “prescribed capital markets products” (as defined in the SF (CMP) Regulations) and “Excluded Investment Products” (as defined in Monetary Authority of Singapore (“MAS”) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

See “Investment Considerations” to read about certain factors that should be considered in connection with an investment in the Bonds.

*Joint Bookrunners and Joint Lead Managers*

**Citigroup**

**Morgan Stanley**

The date of this Offering Circular is 20 November 2018.

*The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*The Company, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares which is material in the context of the issue and offering of the Bonds, the statements contained in it relating to the Company and the Group are in every material particular true and accurate and not misleading, the opinions, intentions, belief or expectation expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.*

*In this Offering Circular, unless otherwise specified or the context requires, references to the “Group” are to the Company, its consolidated subsidiaries and its affiliates accounted for by the equity method taken as a whole.*

*Unless otherwise stated or the context requires, the description of the Company’s business and financial information relating to the Group contained herein are given on a consolidated basis.*

*This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or any Joint Lead Manager to subscribe for, or purchase, any of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights. The distribution of this Offering Circular and the offering of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights and distribution of this Offering Circular, see “Subscription and Sale”.*

*No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by or on behalf of the Company or the Joint Lead Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained herein is correct as of any time subsequent to its date, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.*

*To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Principal Agent, the Custodian, the Registrar nor the Custodian’s Agent accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Company, the Group or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee, the Principal Agent, the Custodian, the Registrar and the Custodian’s Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.*

*The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights are only being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Bonds to be offered have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the “FIEA”) and may not be offered or sold within Japan or to, or for the account or benefit of, residents of Japan including corporations incorporated under the laws of Japan, unless otherwise provided under the FIEA.*

*No action is being taken to permit a public offering of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or the distribution of this Offering Circular (in preliminary or final form) in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, Singapore, the European Economic Area (the “EEA”) (including the United Kingdom and Italy), Hong Kong and Switzerland and to persons connected therewith. See “Subscription and Sale”.*

*Each Joint Lead Manager has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold, and shall not, directly or indirectly, offer or sell, any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an*

exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan.

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the “Companies Act”), the Company may issue new Shares to a Bondholder and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by the Company as treasury stock and the words “issue”, “issued” and “issuable” shall be construed accordingly. In addition, references to the word “acquired” used in conjunction with the Shares shall be read as including both the words “issued” and “transferred”, and the word “acquisition” shall be construed accordingly.

**MiFID II product governance/Professional investors and ECPs only target market:** Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a “distributor”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

**PRIIPs Regulation/Prospectus Directive/Prohibition of sales to EEA retail investors:** The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Unless otherwise specified or the context requires, references to “yen” and “¥” are to Japanese yen.

The Company’s fiscal year end is the last day of February. The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which differ in certain respects from accounting principles generally accepted in certain other countries. Potential investors should consult their own professional advisers for an understanding of the difference between Japanese GAAP and International Financial Reporting Standards (“IFRS”), or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein. See “Investment Considerations—Considerations Relating to the Group and its Business—There are differences between Japanese GAAP and IFRS and generally accepted accounting principles and financial reporting standards in other jurisdictions, and changes in accounting policies may affect the presentation of the Group’s financial results”.

In accordance with applicable Japanese legal requirements, for each fiscal year, the Company prepares audited annual consolidated and non-consolidated financial statements and unaudited quarterly consolidated financial statements, all in accordance with Japanese GAAP. The following financial statements in English are contained in this Offering Circular: (i) the audited consolidated financial statements as of and for the years ended the last day of February, 2017 and 2018, including the consolidated balance sheets of the Company as of the last day of February, 2017 and 2018, and the related consolidated statements of income and comprehensive income, changes in net assets and cash flows for each of the two fiscal years ended the last day of February, 2017 and 2018; (ii) the audited consolidated financial statements as of and for the years ended the last day of February, 2016 and 2017, including the consolidated balance sheets of the Company as of the last day of February, 2016 and 2017, and the related audited consolidated statements of income and comprehensive income, changes in net assets and cash flows for each of the two fiscal years ended the last day of February, 2016 and 2017, and (iii) the unaudited quarterly consolidated financial statements as of 31 August 2018 and for the six-month periods ended 31 August 2018 and 2017, including the quarterly consolidated balance sheets of the Company as of 31 August 2018 (together with condensed consolidated balance sheets of the Company as of 28 February 2018) and the related unaudited interim quarterly consolidated statements of income and comprehensive income and cash flows for each of the six-month periods ended 31 August 2017 and 2018. The

*unaudited quarterly consolidated financial statements of the Company as of and for the six-month periods ended 31 August 2017 and 2018 prepared by the Company in Japanese in accordance with the FIEA have been reviewed by the Company's independent auditor in accordance with the quarterly review standards generally accepted in Japan under the FIEA.*

*In this Offering Circular, unless otherwise specified or the context requires, where information is presented in millions of yen and percentages, amounts of less than one million and percentages of less than one per cent., one-tenth of one per cent. or one-hundredth of one per cent. have been rounded up or down, as the case may be.*

**IN CONNECTION WITH THE ISSUE OF THE BONDS, CITIGROUP GLOBAL MARKETS LIMITED (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## **FORWARD-LOOKING STATEMENTS**

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “might”, “plan”, “project”, “will” or similar phrases. The Company bases these statements on beliefs as well as assumptions made using information currently available to the Company. As these statements reflect the Company’s current views concerning future events, these statements involve risks, uncertainties and assumptions. The Company’s or the Group’s actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Company’s expectations include those risks identified in “Investment Considerations” and the factors discussed in “Recent Business” and “Business”, as well as other matters not yet known to the Company or not currently considered material by the Company. The Company does not undertake to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company’s behalf are qualified in their entirety by these cautionary statements.

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## SUMMARY INFORMATION

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Bonds, see “Investment Considerations”.

### TAKASHIMAYA COMPANY, LIMITED

The Group is one of the leading department store operators in Japan with a history that spans over 185 years. The Company’s business originated from a speciality store in Kyoto selling materials for Japanese clothing which was established in 1831 by Shinshichi Iida. This business expanded with the opening of the Osaka store in 1898 followed by the Nihombashi store two years later. Since then, the Group has further expanded its network of stores in Japan including its Yokohama store which opened in 1959 and its Shinjuku store which opened in 1996. The Group has since expanded its network of stores overseas, including the Singapore store which opened in 1993, the Shanghai store which opened in 2012, the Ho Chi Minh City store which opened in 2016, and most recently the SIAM Takashimaya which opened in Bangkok in November 2018.

Sales and other operating revenue to/from outside customers in the Group’s Department Store segment accounted for 87.3 per cent., 86.3 per cent. and 87.0 per cent. of the Group’s consolidated sales and other operating revenue for the fiscal years ended the last day of February, 2016, 2017 and 2018, respectively. The other four business segments of the Group mostly relate to its department store operations and these comprise Real Estate, Finance, Contract & Design and Others. Currently, the Group’s main focus is to pursue growth under its “Machi-dukuri” (meaning “town formation”) strategy whereby it works to have its department stores serve as the “anchor point” of their respective locations which attract people to the entire city, at the same time as maximising department store attractiveness, while also pursuing its Group Reform Project (see “Business—Strategy—Long-Term Business Plan—Group Reform Project”) under which it fundamentally reforms group operations with the aim to improve operational efficiency and to reinvest the profits thus gained into growth strategies. The Group’s reportable segments, based on services provided, comprise of the following:

- *Department Store.* The Group’s Department Store segment comprises the core of its business and engages primarily in the retail sale of a wide range of merchandise including clothing, accessories, cosmetics, fine jewellery, household goods and food, as well as offering restaurant, cafe and other services.
- *Real Estate.* The Group’s Real Estate segment is involved in the management, acquisition, sale and rental of the Group’s properties, and planning, development and management of shopping malls.
- *Finance.* The Group’s Finance segment engages in financing activities which include the operation of Takashimaya credit cards and credit card loans and leasing.
- *Contract & Design.* The Group’s Contract & Design segment offers specialist services in interior design and construction, including planning, design, supervision and consulting in relation to construction and interior carpentry of commercial facilities such as department stores as well as office space and hotels.

The Group’s other businesses are reported under the “Others” segment, and include wholesale, supply of goods to companies within the Group and to the Group’s department stores, sewing and processing and others, in addition to the “Cross Media Division” which provides mail-order shopping services and online shopping services.

As of 31 August 2018, the Group comprised of the Company and 33 subsidiaries (of which 28 companies were consolidated subsidiaries) and 12 affiliates (of which 5 companies were accounted for by the equity method).

For the fiscal year ended 28 February 2018, on a consolidated basis, the Group recorded sales and other operating revenue of ¥949,572 million, operating income of ¥35,319 million and net income attributable to owners of parent of ¥23,659 million. For the six-month period ended 31 August 2018, on a consolidated basis, the Group recorded sales and other operating revenue of ¥441,525 million, operating income of ¥13,421 million and net income attributable to owners of parent of ¥8,783 million. As of 28 February 2018 and 31 August 2018, the Group had total assets of ¥1,035,807 million and ¥1,039,634 million, respectively.

The registered head office of the Company is located at 1-5, Namba 5-shome, Chuo-ku, Osaka 542-8510, Japan.

The Shares are listed on the First Section of the Tokyo Stock Exchange. The market capitalisation of the Company based on the closing price of the Shares on the Tokyo Stock Exchange on 20 November 2018 was approximately ¥336,855 million.

## THE OFFERING

<b>Securities Offered</b> .....	¥60,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2028 (bonds with stock acquisition rights, <i>tenkanshasaigata shinkabu yoyakuken-tsuki shasai</i> ).
<b>Issue Price</b> .....	100.5 per cent.
<b>Offer Price</b> .....	103.0 per cent.
<b>Closing Date</b> .....	On or about 6 December 2018.
<b>Delivery</b> .....	It is expected that the Global Certificate will be deposited with, and registered in the name of, or a nominee for, a common depository for Euroclear and Clearstream, Luxembourg on or about the Closing Date.
<b>Form</b> .....	The Bonds will be issued in registered form and evidenced by the Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See “Summary of Provisions Relating to the Bonds While in Global Form”.
<b>Listing</b> .....	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST.
<b>Lock-up</b> .....	<p>In connection with the issue and offering of the Bonds, the Company has agreed not to, and not to direct any entities or any persons acting at the direction of the Company to:</p> <ul style="list-style-type: none"><li>(i) issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, Shares or any other capital stock of the Company; or</li><li>(ii) enter into any derivative transaction or any other transaction that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company,</li></ul> <p>in each case, for a period beginning on the date of the Subscription Agreement (as defined in “Subscription and Sale”) and ending on the date 180 calendar days after the Closing Date without the prior written consent of the Joint Lead Managers, other than:</p> <ul style="list-style-type: none"><li>(a) the issue and sale by the Company of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights;</li><li>(b) the issue or transfer of Shares by the Company upon exercise of stock acquisition rights (including bonds with stock acquisition rights) issued and outstanding as of the date hereof and referred to in this Offering Circular;</li><li>(c) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder’s holding, when added to the Shares held by such holder, constitute one full unit of Shares;</li><li>(d) the issue of Shares by the Company as a result of any stock split; and</li></ul>



- (e) any other issue or sale of Shares required by applicable Japanese laws and regulations.

See “Subscription and Sale”.

**Use of Proceeds** ..... The net proceeds of the issue of the Bonds are estimated to be approximately ¥60.0 billion, and are expected to be used by the Company primarily as follows:

- (a) ¥40.0 billion by the end of December 2018, for the redemption of the Company’s zero coupon convertible bonds due 2018;
- (b) approximately ¥10.8 billion by the end of February 2019, as capital expenditure with respect to the recently opened Nihombashi Takashimaya Shopping Center, with the aim of further promoting the Group’s “Machi-dukuri” (meaning “town formation”) strategy both domestically and abroad; and
- (c) the remaining balance by the end of February 2020, as investment to IT systems infrastructure to reform group operations in relation to the Group Reform Project.

## PRINCIPAL TERMS AND CONDITIONS OF THE BONDS

<b>Form and Denomination</b> .....	The Bonds are issued in registered form in the denomination of ¥10,000,000 each.
<b>Initial Conversion Price</b> .....	¥2,180 per Share, subject to adjustment in certain events. See Condition 5.
<b>Coupon</b> .....	Zero.
<b>Exercise of Stock Acquisition</b>	
<b>Rights</b> .....	Subject to and upon compliance with the provisions of Condition 5, any holder of a Bond may exercise the Stock Acquisition Right, at any time on and after 20 December 2018 up to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 22 November 2028 (but in no event thereafter), to acquire fully-paid and non-assessable Shares.  The Conditions provide, among others, that the Stock Acquisition Right may not be exercised during such period whereby the relevant Stock Acquisition Date (as defined in Condition 5.9.4) (or, if the Stock Acquisition Date would not be a Tokyo Business Day (as defined in Condition 5.1.4), the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined in Condition 5.1.4).
<b>Status</b> .....	The obligations of the Company in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking <i>pari passu</i> and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.
<b>Negative Pledge</b> .....	So long as any of the Bonds remain outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Condition 2) unless the same security or such other security or guarantee as provided in Condition 2 is accorded to the Bonds. See Condition 2.
<b>Redemption at Maturity</b> .....	Unless the Bonds have previously been redeemed or purchased and cancelled, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 per cent. of their principal amount on 6 December 2028.
<b>Early Redemption—Redemption at the Option of the Company upon Reduced Outstanding Amounts</b> ....	
	The Company may (subject to Condition 7.12), having given not less than 30 nor more than 60 days' prior notice of redemption to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount if, at any time prior to the date of giving that notice, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds at the date of issue thereof. See Condition 7.2.

**Early Redemption—Redemption for**

**Taxation Reasons** . . . . . If the Company satisfies the Trustee (as defined in the Conditions), immediately prior to giving the notice to the Bondholders, that (i) as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 20 November 2018, the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9) in accordance with Condition 9 and (ii) the Company is unable to avoid such obligation by taking reasonable measures available to it, the Company may (subject to Condition 7.12), but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount. If, however, the outstanding principal amount of the Bonds at the time of such notice of redemption is 10 per cent. or more of the aggregate principal amount of the Bonds as of the date of issue thereof, the Bondholders will have the right to elect that their Bonds should not be redeemed and that, in respect of payments on the Bonds to be made after that date, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Condition 7.3.

**Early Redemption—Corporate**

**Events** . . . . . In the case of a Corporate Event (as defined in Condition 6.1), the Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of such Corporate Event and the anticipated effective date of such transaction and the provisions set out in Condition 6 shall apply. See Condition 6.

However, upon or following the occurrence of a Corporate Event, the Company shall (subject to Condition 7.12) give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable) to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out in Condition 7.4 and in accordance with the provisions of Condition 7.4 on the Corporate Event Redemption Date (as defined in Condition 7.4) specified in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date (as defined in Condition 6.3) or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1; or
- (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1; or

- (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing (as defined in Condition 6.4.2) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1) and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director (as defined in Condition 3.1) stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate.

See Condition 7.4.

**Early Redemption—Delisting of the**

**Shares** ..... In certain circumstances where a tender offer is made to holders of Shares of the Company by an Offeror (as defined in Condition 7.5.1) where, *inter alia*, the Company expresses its opinion to support such offer, the Company or the Offeror publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Condition 3.1), and the Offeror acquires any Shares pursuant to the offer, then the Company shall (subject to Condition 7.12) give notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) each calculated in the same manner as referred to in Condition 7.4, subject to the provisions of Condition 7.5 on the date specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). See Condition 7.5.

**Early Redemption—Squeezeout**

**Event** ..... Upon the occurrence of a Squeezeout Event (as defined in Condition 7.6), the Company shall (subject to Condition 7.12) give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) each calculated in the same manner as referred to in Condition 7.4 (subject to the provisions of Condition 7.6), on the date specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date of the acquisition of the Shares with respect to the Squeezeout Event). See Condition 7.6.

**Early Redemption—Redemption at the Option of the Bondholders** . . . . .

The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond at 100 per cent. of its principal amount on 6 December 2023, by depositing a notice of redemption at

the specified office of any Agent (as defined in the Conditions) within the time limits set out in Condition 7.7. See Condition 7.7.

**Cross Default** ..... The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥500,000,000 (or its equivalent in any other currency or currencies). See Condition 10.

**Taxation** ..... All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 9.

**Governing Law** ..... English law.

**Jurisdiction** ..... English courts.

**International Securities Identification**

**Number (“ISIN”)** ..... XS1915588559.

**Common Code** ..... 191558855.

**Legal Entity Identifier (“LEI”) for the**

**Company** ..... 353800IFO566STDN4V78.

**Trustee, Custodian and Registrar** .... MUFG Union Bank, N.A.

**Principal Agent** ..... MUFG Bank, Ltd., London Branch.

**Custodian’s Agent in Japan** ..... MUFG Bank, Ltd.

## INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should carefully consider, along with other matters set out in this Offering Circular, the following factors. All of these factors are contingencies which may or may not occur and the Company is not in a position to express a view on the likelihood of any such contingency occurring.

### **Considerations Relating to the Group and its Business**

#### ***Economic conditions and consumer spending levels in Japan and worldwide materially affect the Group's business, results of operations and financial condition.***

The Group is highly dependent on sales in the Japanese domestic market. For the fiscal years ended the last day of February, 2016, 2017 and 2018, more than 90 per cent. of the Group's sales and other operating revenue to/from outside customers was attributable to business activities in Japan. As such, the Group is subject to general economic trends in Japan. The future of the Japanese economy is currently uncertain due to unclear indicators in Japan recently showing mixed signs. In recent years, the Bank of Japan has implemented quantitative and qualitative monetary easing measures, with the goal of ending deflation, and in July 2018, the Bank of Japan issued forward guidance stating its intention to maintain short- and long-term interest rates at the prevailing low levels and to continue with its monetary easing programme. However, it is unclear whether these measures will succeed in ending deflation and stimulating economic growth. Further, the Bank of Japan may accelerate its tapering of its monetary easing measures or even tighten monetary policy in the future if it achieves its inflation targets or for any other reason, and it is uncertain how markets, investors and consumers may react to any such anticipated or actual policy changes. In addition, the Japanese government is planning an increase in the consumption tax rate from 8 per cent. to 10 per cent. in October 2019, and this could impact levels of consumer spending (see “—The increase in Japan's consumption tax rate may materially adversely affect the Group's business, results of operations and financial condition”). It is difficult to estimate the level of growth or contraction of the economy, and there can be no assurance that economic conditions in Japan will improve or that any such improvement will increase consumer demand.

Further, changes in demographic trends in Japan may materially affect the Group's business. Japan's consistently low birth-rate and ageing and shrinking population, which has been continuing for an extended period of time, may negatively impact demand for consumer products in Japan. Should such demographic trends result in reduced demand for the Group's merchandise and services, this may materially adversely affect the Group's business, results of operations and financial condition.

The Group is also subject to global economic trends, which can affect inbound tourist demand into Japan as well as its overseas businesses. The immediate outlook for the world economy is uncertain, with factors such as geopolitical risks in the ASEAN countries, rising global trade frictions and unstable stock markets and foreign currency exchange rate fluctuations making it difficult to predict the economic conditions in which the Group operates. The effect to the global economy of various political and social developments is uncertain, and changes in the political and/or economic relationship between Japan and the countries in which the Group operates may adversely affect the Group's business. Changes in business conditions and consumer trends, such as an economic slowdown, foreign currency exchange rate fluctuations or tax rate increases in the relevant economies, could materially adversely affect the demand for the Group's merchandise and services in its overseas stores as well as the inbound demand in its Japanese stores, and therefore affect its business, results of operations and financial condition.

The Department Store segment, which forms the core of the Group's business, belongs to the retail industry, and in particular relies on discretionary spending by consumers, which is particularly sensitive to economic and demographic factors. Discretionary consumer spending is generally materially adversely affected in adverse economic conditions in the context of lower consumer disposable income levels and consumer confidence levels; it may also be adversely affected by factors such as cost of basic necessities and housing. Further, adverse economic conditions generally reduce corporate spending on discretionary items such as corporate gifts which may be purchased at retail stores. Other factors that may affect discretionary consumer spending include changes in tax rates (including but not limited to consumption tax rates), interest rates and foreign currency exchange rates (which may affect levels of spending by tourists in Japan or other locations in which the Group does significant business such as Singapore, as well as affect levels of spending by Japanese consumers within Japan especially with regard to imported goods). There can be no assurance that the economic conditions in Japan will not worsen again or that any improvement in economic conditions will result in increased levels of consumer spending which has a direct impact on the Group's business. There can be no assurance that the Group's business, results of operations and financial condition will not be further adversely affected by the worsening in the Japanese and worldwide economies.

A certain proportion of the Group's department store sales, especially in stores located within the tourist markets such as Tokyo, Osaka and Kyoto, is affected by inbound tourist demand. A decrease in inbound tourist demand, whether through a decline in the number of visitors to Japan or through decreased spending by tourists in Japan, will negatively affect sales in such stores. Inbound tourist demand can be negatively affected by the economic condition of the visitors' home countries. Reduced demand for the Group's merchandise and services from inbound tourists may materially adversely affect the Group's business, results of operations and financial condition. See also "—Slowdown in spending by inbound tourists may adversely affect the Group's business".

***The increase in Japan's consumption tax rate may materially adversely affect the Group's business, results of operations and financial condition.***

Prime Minister Shinzo Abe announced at the cabinet meeting on 15 October 2018 that Japan's consumption tax rate is scheduled to increase from 8 per cent. to 10 per cent. on 1 October 2019 as planned, and proposed a set of measures to attempt to minimise the impact on the economy, such as a two-tier tax rate (in which the consumption tax rate on food and beverage (excluding liquors and eating-out services) as well as certain subscribed newspapers will remain at 8 per cent. whereas the consumption tax rate on all other goods and services will increase to 10 per cent.), and a programme to assist small and medium-sized retailers (whereby consumers who pay by electronic means obtain a refund in the form of reward points of an amount equal to 2 per cent. of their spending). The implementation of such proposals is as yet uncertain, as is the effectiveness of any such measures, if implemented. Although demand and consumption may temporarily increase immediately prior to the tax rate increase, such a tax rate increase may ultimately adversely affect the Japanese economy in general, in particular by reducing consumer spending (both as a reaction to such temporary increase in spending as well as in general), which could in turn reduce the demand for the Group's merchandise and services; for example, an increase in the rate of consumption tax generally has a negative impact on the sales of higher-end or luxury merchandise, which tend to be the strong points of department stores such as those of the Group. When Japan's consumption tax rate was increased from 5 per cent. to 8 per cent. in April 2014, consumer spending declined significantly following a surge preceding the tax rate increase. There can be no assurance that consumer spending will not reduce further with the scheduled increase in consumption tax rate or that the proposals by the Japanese government to soften the impact will effectively alleviate the expected negative impact by such increase in consumption tax rate to demand and consumption for the Group's merchandise and services, which may materially adversely affect the Group's business, results of operations and financial condition.

***Fluctuations in foreign currency exchange rates may materially adversely affect the Group's business, results of operations and financial condition.***

The Group principally conducts its overseas business transactions in foreign currencies. Foreign currency exchange rate changes can affect the yen value of assets and liabilities of the Group's overseas subsidiaries and affiliates and the translation of their operating results into yen, which is the presentation currency for the Group's consolidated financial statements. A weakening of the yen against any other foreign currency in which its overseas group companies transact business will increase the contribution of such overseas group companies in the Group's consolidated results, and conversely a strengthening of the yen against such currencies will decrease the contribution of such overseas group companies. In addition, products sold in the Group's stores in Japan include products that are sourced overseas, and the costs of manufacturing and importing such products may be affected by changes in foreign currency exchange rates. Further, foreign currency exchange rates may affect the number of inbound tourists visiting Japan and their spending habits. Accordingly, foreign currency exchange rate fluctuations may materially adversely affect the Group's business, results of operations and financial condition.

***If the Group is unable to successfully anticipate changing trends, the Group's business may suffer.***

The retail industry is subject to changing trends in fashion and consumer preferences, as well as sales channels. The ability to accurately identify and anticipate on-coming trends and to respond promptly to current and changing trends, fashions and consumer preferences in merchandising contributes to maintaining and increasing sales, customer loyalty and reputation, all of which are important factors in ensuring the success of department stores. Further, it is a feature of the industry that retailers, including large department stores (such as the Group's), sometimes take the lead in creating new fashion or cultural trends. The success of the Group's department stores depends on the Group's ability to anticipate such trends and cater to the tastes and preferences of their customers. The Group's department stores need to provide the right selection of merchandise at the right time through the right channels to satisfy consumer demand in a timely manner to be successful.

However, the Group cannot guarantee that fashion or cultural trends, merchandise selection, interior store design and layout reflected within its stores and the variety of sales channels offered (including online channels) will accurately reflect customer preferences at any given time, or that it will be able to identify and respond

quickly to changes in trends, due to various factors such as the lead time required for procuring appropriate merchandise from suppliers and the potential differences in the type of products preferred by customers in comparison to the type of products normally sold by the Group's stores. The Group works to strengthen its merchandising with a view to offering quality and value while responding to changing trends and preferences. However, there can be no assurance that such measures will be sufficient to capture the changing trends and consumer preferences in a timely manner.

Trends, fashions and consumer preferences are, to a large extent, subjective in nature, which may make it difficult for the Group to ascertain the correct balance of merchandise line-up that would appeal to the majority of its target customers. Further, the Group allows its individual department stores certain levels of autonomy in order to determine the selection of merchandise that is suitable to the characteristics of the local community. In particular, merchandise selection in the Group's Japanese stores and its overseas stores located in Singapore, Shanghai, Ho Chi Minh City and Bangkok may vary significantly (see "—The Group's overseas operations expose it to certain risks"). If the Group or its stores do not accurately identify cultural or fashion trends at an early stage, or if the Group's competitors bring new or more popular products to the market more quickly, this could result in the Group suffering a lower market share and reduced sales volumes and margins, and may materially adversely affect the business, results of operations and financial condition of the Group.

***The Japanese retail industry is highly competitive.***

The Group's operations rely substantially on its department store business. Sales and other operating revenue to/from outside customers in the Group's Department Store segment accounted for 87.0 per cent. of the Group's consolidated sales and other operating revenue for the fiscal year ended 28 February 2018.

The Japanese retail industry and the department store sector are highly competitive. Several groups of department store operators, each with a significant market share, hold the majority of the market share in the Japanese department store industry. The Group's department stores compete with these competitors' stores on a fairly level playing field in terms of brand, location, selection of merchandise, target customers, price and customer service. These factors may make it difficult for any one of the department store operators to gain or maintain market share. The decreasing levels of consumer spending in Japan (caused by various factors such as adverse economic conditions and ageing and reduced population in Japan), as well as the rapid permeation and acceptance of online shopping, have served to continue to shrink the market of the department store sector and further intensify the level of competition in this sector. Other factors affecting department store competitors, including consolidation (whether among department store business or with other types of retail outlets) or industry realignment, could also affect the competitive landscape in this sector.

The Group's department stores compete not only with other department stores in Japan but also with other forms of retail organisation such as large-scale commercial complexes operated by general merchandise stores, outlet malls, speciality stores, local department stores, the numerous small retail stores in Japan, internet shopping websites and telephone and mail order retailers. At the individual-store level, the Group's department stores compete with other retail shops in and around the area in which each store operates. Five flagship department stores account for the bulk of the Group's sales and other operating revenue. All of these stores are located adjacent to major stores operated by competitors. In addition to the ongoing refurbishment and expansion of these rival stores, commercial facilities based on new urban formats are continually being opened. These and other factors are reflected in an increasingly intense competitive environment. There is also escalating competition among retailers and across retail format categories, partly due to the opening of roadside shopping malls, which have made it more difficult for urban department stores to attract customers from suburban areas. As a result, the Group faces competition against a wider variety of retail shops from small shops to large department stores. Further, with the increased penetration and sophistication of e-commerce in Japan, the Group also competes with major e-commerce retailers which may have strengths in direct-to-consumer product delivery and particular product categories and offerings. Any failure on the part of the Group to compete effectively in the area of e-commerce could adversely affect the Group's business.

The Group has been making efforts to further strengthen its self-designed and private brand merchandising, with a view to offering differentiated and value-added products to customers while retaining reasonable margins. However, the Group's competitors have also been focusing on similar types of merchandising, with the effect that competition among department store operators for self-designed and/or private brand merchandising has intensified rapidly. If the Group is unsuccessful in competing in its self-designed and/or private brand merchandise, for which the Group generally takes full inventory risk, its business, results of operations and financial condition may be adversely affected.

Whilst the Group strives to differentiate itself from its competitors by offering customers quality merchandise and services and by strengthening its online business, certain competitors may have more



substantial financial, human and other resources and may be better able to fund marketing campaigns, store renovations, growth and expansion resulting in increased competition for the Group. There can be no assurance that the Group will be able to maintain its competitiveness and market share which, if it is unable to do so, could adversely affect the business, results of operations and financial condition of the Group, and could lead to closure of unprofitable stores.

***The Group may not always be successful in implementing its management plans and strategies.***

The Group generally formulates and revises long-term business plans at the beginning of each fiscal year, reviewing the changes in managerial environment and growth strategies. See “Business—Strategy”. The success of the implementation of any of the Group’s strategies is subject to various internal and external factors, including general economic and market conditions in which the Group and its suppliers operate, the level of competition and the level of consumer spending and demand for the Group’s products, as well as the risks and uncertainties set out in “—Forward-looking Statements” below. There can be no assurance that the Group’s strategies will be implemented successfully, that the implementation of such strategies will have its intended effect, that targets (whether quantitative or qualitative) set in any such strategy will be met in time or at all, or that such targets and aims will not be changed in the future by the Company’s management. Prospective investors should not place undue reliance on targets, goals and aims set out in such visions, plans and strategies.

***The Group may consider mergers and acquisitions, joint ventures and alliances, or change its relationships with certain parties.***

The Group may consider mergers and acquisitions (“M&A”), joint ventures and alliances as opportunities arise in order to achieve desired growth levels. Any such M&A, joint venture or any other alliance will be entered into only after careful examination by the Group in order to reduce the various associated risks; however, there can be no assurance that such activities will achieve the desired results or that the Group will be able to recoup the value of the investments made by the Group. Risks relating to M&A activities and similar activities include becoming subject to unidentified liabilities of the companies which the Group may acquire or merge with, and the possible inability to successfully integrate, manage and synergise the acquired operations and personnel. Further, if the Group decides that a particular business, tie-ups, alliance or other relationships with third parties were not beneficial to the Group’s business, it may divest, rationalise or end such business, tie-ups, alliances or other relationships. Moreover, tie-ups, alliances or other relationships with third parties may be terminated suddenly or unexpectedly by the other party. If the Group fails to successfully manage any acquired business, or otherwise fails to achieve the intended results of such activities, the Group’s business, results of operations and financial condition may be materially adversely affected. In addition, if the Group records goodwill in line with investments or M&A activities, it may be required to record large amounts of amortisation of goodwill for a number of years. Further, the Group may be required to impair goodwill and other assets of the relevant business, if the results of such business were to deteriorate. The Group may also be unsuccessful in identifying appropriate M&A or other opportunities, may be unable to agree on terms with potential counterparties (including as a result of competing bids), may fail to obtain necessary consents, clearance or approvals in connection with such activities, or may be unable to raise necessary capital on favourable terms, each of which may lead to loss of growth opportunities for the Group or an increase in competitive advantage by competitors should such opportunities be taken up by them instead. Any of these factors may have a negative impact on the Group’s business, results of operations and financial condition.

The Corporate Governance Code in Japan encourages Japanese companies to dispose of holdings of shares of other companies which had historically been held under “cross-shareholding” arrangements, unless there are specific beneficial reasons for continuing such holding (such as strengthening business relationships). In line with such guidance, holders of the Company’s Shares may decide to dispose of such holdings, and/or the Company may decide to dispose of its holding of other companies’ shares. Any such actions may affect the price of the Company’s Shares, and/or affect the results of operations and financial condition of the Group in the relevant period.

***If new stores or shopping complexes opened by the Group or other new projects commenced by the Group are not successful or if the existing stores, shopping complexes or projects of the Group do not continue to be successful, the Group’s results of operations and financial condition may be adversely affected.***

As part of its growth strategy, the Group opened its Ho Chi Minh City store in 2016 and recently opened the Nihombashi Takashimaya Shopping Center, a complex comprising of the original Nihombashi flagship department store, a newly developed adjacent block containing over 100 specialty stores, and two other adjacent blocks of stores. The Group has also recently remodelled its Tachikawa store as the Tachikawa Takashimaya Shopping Center, and also opened a new department store in “ICONSIAM”, a large-scale complex development

in the central area of Bangkok in November 2018. The Group may also consider remodelling other stores, or opening further stores in the future if suitable opportunities arise, domestically or overseas (in particular in Asia). There can be no assurance that the Group will be able to operate any new or remodelled stores or shopping complexes profitably, as the success of any future store or complex openings will depend on numerous factors, such as the ability of the Group's management to adequately and accurately analyse and identify suitable markets and locations as well as the competitive conditions, consumer trends and discretionary spending patterns in those markets, the ability to attract targeted specialty shops to shopping complexes, the ability to attract customers targeted by the Group to such new stores or complexes and to generate adequate sales to operate profitably, the availability of employees to staff new stores or complexes and the Group's ability to hire, train and retain store personnel. There are also risks and uncertainties associated with any new real estate project development undertaken by the Group, such as whether a large-scale complex development would be successful, especially in markets where the Group has not entered before (especially overseas). Further, if a new store, shopping complex or other new projects prove to be unsuccessful, the Group may not be able to recover the investment made in a timely manner, in particular in relation to overseas stores or complexes. Further, there can be no assurance that the Group will be able to continue to operate any existing store or shopping complex profitably and there are risks and uncertainties associated with any existing real estate development project undertaken by the Group. These factors could have a negative impact on the business, results of operations and financial condition of the Group.

***The Group's overseas operations expose it to certain risks.***

The Group is engaged in overseas operations, primarily through its department stores, and currently operates stores in Singapore, Shanghai, Ho Chi Minh City and Bangkok. These operations are subject to various regulatory, legal and other requirements (including in relation to taxation (including transfer pricing), tariffs, foreign investment and repatriation of funds) of each country, as well as being affected by the political, economic, social and business conditions in each relevant country. The risks to which the Group's overseas operations are exposed include (but are not limited to) the following:

- political, social or economic instability or turmoil caused by terrorism, riots, war, civil war, natural disasters, adverse weather conditions, infectious diseases or epidemics;
- imposition of or change in regulations relating to exchange controls, import, export, pricing, trade, tariffs, customs and duties and repatriation of income and foreign investment;
- political and social attitudes, laws, rules, regulations and policies within the relevant countries that favour domestic companies over non-domestic companies, including customer or government supported efforts to promote the development and growth of local competitors or inhibit the growth of foreign businesses;
- expropriation or nationalisation of businesses and properties;
- labour disputes, industrial action, general strikes and significant increases in labour costs;
- adverse developments in real estate markets;
- changes in political or social relationships between Japan and the relevant countries;
- the inability to adapt in a timely manner to local market trends and preferences;
- foreign currency exchange rate fluctuations;
- disputes and litigations in respect of operations in local markets;
- relatively limited effective protection for intellectual property rights and other legal rights in the relevant countries; and
- difficulties associated with managing local personnel and operations, including supervision, monitoring, compliance and management control.

Adverse developments in the above and other similar factors may adversely affect, among other things, the demand for the Group's merchandise and services in the Group's overseas stores, the Group's ability to expand its business overseas, or the costs associated with operating overseas. Any of these factors may materially adversely affect the business, results of operations and financial condition of the Group, and/or lead to closure of relevant stores.

***The Group expects to require capital for the renovation and redevelopment of existing stores and complexes, opening of new stores and making other investments.***

The Group's department stores require periodic renovation, and the Group may open new stores. This is necessary to maintain the Group's image as an upmarket store and to stay competitive and continue to attract

customers. Recently, the Group opened a new wing adjacent to its Nihombashi flagship department store as part of the Nihombashi Takashimaya Shopping Center in connection with the redevelopment of the local area, and the renovation of the Nihombashi flagship department store is continuing. The Group opened a new store in Ho Chi Minh City in 2016 and recently opened a new store in Bangkok in November 2018. In order to refurbish its existing stores and complexes and open new ones, the Group is required to incur significant amounts of capital expenditure from time to time. The Group may also, when suitable opportunities arise, purchase real estate or interests therein (including in respect of the properties currently leased by the Group in respect of its department stores). The Group intends to use internal funds generated from its business operations to pay for such capital expenditures and other funding needs, but it may also need to rely on external financing. If additional financing is not available when required or is not available on acceptable terms to the Group, the Group may not be able to fund the renovation of its stores and complexes or other investments.

***Any issues with the quality of products sold at the Group's stores and complexes may materially adversely affect the Group's business, results of operations and financial condition, as well as its reputation.***

As an organisation whose core activity is the operation of department stores, the Group sells a wide variety of merchandise to consumers. The Group's success in the markets for its products depends in part on its brand name and value. While the Group takes careful measures to ensure the suitability and safety of the merchandise sold by it, if any of the Group's merchandise were found to be defective, such as faulty goods or products that cause food poisoning or other problems, the Group may incur costs resulting from official restrictions, product liability claims or liability for damages. Any such claims may also have a negative effect on the reputation of the Group and may lead to a decline in sales resulting from the adverse publicity and uncertainty about the quality of the Group's merchandise. These factors could have a negative impact on the business, results of operations and financial condition of the Group.

The Group is subject to the Act against Unjustifiable Premium and Misleading Representations (Act No. 134 of 1962, as amended) (the "Misleading Representations Act") which prohibits certain inducement of customers through false representation. If the Group's compliance procedures prove to be inadequate, any incidents or other non-compliance are discovered with respect to such laws or other regulations or guidelines, or if the Consumer Affairs Agency of Japan or any other governmental or administrative authorities were to impose any of various administrative measures (including demands for reports or administrative orders) or other sanctions on the Group, the Group could suffer reputational damage and/or incur additional costs (both in respect of refunds and otherwise), which could materially adversely affect the Group's business, results of operations and financial condition.

Further, the Group is subject to the Food Sanitation Act of Japan (Act No. 233 of 1947, as amended). Under this law, those who engage in the sale of food are prohibited from selling foods which are rotten or toxic or which may otherwise injure human health. Although the Group has procedures to control and monitor food sanitation, there is a risk that if the Group is found to not be in compliance with this law, it may be forced to suspend food sales and/or suffer reputational damage, which could have a negative impact on the sales of the Group's food business.

The Group is also subject to the Food Labelling Act (Act No. 70 of 2013, as amended) which is aimed at proper labelling of food including allergen, preservation method, expiration date, additives, nutritional value and caloric value. If any of the products sold by the Group is found not to be in compliance with this law, the Group may be held responsible for injury to human health, and it may be subject to damages claims and/or be forced to suspend its food sales. Any of these factors may adversely affect the Group's food business, as well as its reputation.

***Slowdown in spending by inbound tourists may adversely affect the Group's business.***

Spending by inbound tourists visiting Japan has been a key growth driver for the domestic department store sales in recent years, especially in tourist markets such as Tokyo, Osaka and Kyoto. The number of annual foreign visitors to Japan has increased from 8.3 million in 2012 to 28.7 million in 2017 mainly as a result of the Japanese government's progressive deregulation of visa rules for Chinese and ASEAN tourists. As of the date of this Offering Circular, there are no signs of a major change in inbound trends, nor a shift in the Japanese government's strategy to increase the number of annual foreign visitors to Japan to 40 million by 2020 and to 60 million by 2030. However, the trend in inbound tourism is subject to various factors outside the control of the Group, including changes in visa rules for foreign tourists, foreign currency exchange rate fluctuations, economic conditions of other countries, restrictions imposed by foreign governments on travel to Japan or purchase of Japanese goods, and other events (see "—Natural disasters, accidents and other uncontrollable events may adversely affect the Group"). As the majority of the Group's inbound sales are generated by Chinese tourists,

changes in the political, diplomatic, trade or other relationship between Japan and China, including any anti-Japan sentiment resulting from political or other tensions, as well as adverse developments in the Chinese economy, whether caused by internal factors or external factors (including any deterioration of trade relationships with the United States), may reduce inbound tourists from China. Any of these factors may lead to a slowdown in inbound demand and thus negatively affect the Group's business.

Further, although the Group continues to make efforts to capture inbound tourist demand, the success of such efforts is subject to various internal and external factors, including the level of competition, the ability of the Group's department stores to offer attractive language services and payment options, and the Group's ability to identify and respond quickly to changes in trends and the international popularity and reputation of Japanese products. There can be no assurance that the Group's efforts to capture inbound tourist demand will continue to be successful, and that such efforts will have its intended effect.

***The Group's reputation and brand are important to the success of its businesses, and any damage to them could materially and adversely affect the Group's business, results of operations and financial condition.***

Maintaining the Group's reputation and strong brand is important to the success of its business. The occurrence of the risks described in this section, misconduct on the part of the Group or any of its tenant stores, or human rights or environmental regulation issues in the Group's supply chain could damage its overall reputation and brand image. For example, if a tenant store in one of the Group's shopping centres were to experience a problem (including relating to food safety), the Group may, even if it is not legally responsible, take joint responsibility for the issue as a social matter and its brand and reputation may be negatively affected. Additionally, negative publicity, whether or not based in fact, about any of the Group's businesses could adversely affect its reputation and brand strength. Such negative publicity could force the Group to increase marketing and other expenditures in order to defend and repair its reputation and could otherwise adversely affect the Group's results of operations and financial condition.

***Natural disasters, accidents and other uncontrollable events may adversely affect the Group.***

Japan, the primary market in which the Group operates, has historically experienced earthquakes and other natural disasters, including volcanic eruptions, typhoons, torrential rain and other extreme weather conditions, floods, landslides, tidal waves, fires, infectious diseases and epidemics. In addition, other events outside the control of the Group or its suppliers (such as power outage, war, terrorist attacks, nuclear power plant disasters, deliberate acts of sabotage, or the spread of a computer virus) or accidents (whether due to human or equipment error) may occur. The Group's main sources of income are the operation of department stores and, through the Real Estate segment, rental income from speciality store buildings owned by its group companies. Natural disasters, such as earthquakes, floods and typhoons, fires and other accidents or other uncontrollable events could have a negative impact on the business performance of the Group, whether through directly affecting the operation of the Group's stores, or through their effect on consumer spending. For example, in early September 2018, Typhoon Jebi, the strongest typhoon to hit Japan in 25 years, struck the Kansai area, causing widespread power outages and heavily flooding Kansai International Airport as well as cutting off lifelines to the airport and forcing a large proportion of the airport to be shut down for over a week. This negatively affected duty free sales at the Group's Osaka and Kyoto stores in September 2018. While the fact that the Group's flagship stores are located in different areas in Japan makes it less likely to be catastrophically affected by a single natural disaster, the fact that its stores are spread out also increases the possibility of it being affected by a natural disaster occurring in specific regions in Japan.

Although the Group implements comprehensive fire prevention measures and evacuation drills as required, a fire in a store could result in regulatory restrictions, compensation claims, loss of human resources, damage to fixed assets and inventory as well as damage to the Group's reputation. Although the Group has insurance policies (except earthquake insurance) in place to cover losses relating to certain of such risks, they may not be adequate to cover all possible losses and expenses.

Further, the Group's business is sensitive to other external factors outside of the Group's control such as the outbreak of diseases. If a regional or global health pandemic were to occur, depending upon its location, duration and severity, the Group's business could be materially adversely affected as customers may avoid public places such as department stores; production and delivery of merchandise and store staffing may also be disrupted. Such pandemics or other events outside the Group's control such as terrorist attacks or deterioration of political relationships between Japan and certain countries may also impact inbound trends and thus negatively affect the results of operations for stores located within tourist markets such as Tokyo, Osaka and Kyoto.

The occurrence of any such natural disasters, health pandemics or other uncontrollable events may in particular severely affect the Group's business if they were to occur in the Tokyo metropolitan area or the Kansai area, where a significant number of the Group's major department stores are located.

Any of these factors may disrupt the Group's business and materially adversely affect the Group's results of operations and financial condition.

***Adverse weather conditions may adversely affect the Group's business.***

Customers' spending patterns and sales on various types of products such as winter wear and summer clothing bear a close correlation to the weather in Japan. For instance, a cool summer or a mild winter could have a major adverse impact on sales of summer and winter clothing, respectively. Heavy snowfalls, rainfalls, typhoons or other adverse weather conditions, especially if they occur over weekends and holidays, may also have a material negative impact on the volume of sales at the Group's stores as discretionary shopping may be curtailed. The unpredictable nature of the weather poses a challenge to the Group to anticipate the right product lines in the right quantities and at the right time so as to capitalise on a particular weather condition. The Group may not be able to correctly anticipate weather conditions which could result in reduced sales thereby adversely affecting its business, results of operations and financial condition.

***The Group's sales and other operating revenue are subject to seasonal fluctuations.***

The Group's department stores in Japan tend to experience fluctuations in the level of sales throughout the year, with peak shopping seasons normally occurring in the middle and at the end of the calendar year which are regarded as gift-giving seasons in Japan. The Group would generally incur significant additional expenses in the period leading up to the peak shopping seasons in anticipation for higher sales volume in those periods (including for additional inventory, advertising and employees). The Group's revenue and cash requirements are therefore affected by the seasonal nature of its business. However, the Group may not always be successful in making accurate seasonality assumptions with regard to its cash or merchandise requirements. Further, unanticipated events having an adverse effect on consumer spending during the periods in which the Group expects higher sales may have an adverse effect on the Group's business. As such, there can be no assurance that these fluctuations will not adversely affect the Group's business, results of operations and financial condition.

***The Group may face challenges in securing a sufficient workforce for its store networks.***

Particularly in Japan, it is becoming more difficult to hire and retain a sufficient number of personnel in retail operations due to factors such as demanding working conditions and an increasingly tight labour market due to long-term demographic trends and ageing and shrinking population in Japan. Stricter rules on working hours and broadened requirements for enrolment in social security programmes have also contributed to a rise in labour costs. If the Group is unable to secure adequate numbers of personnel, or must increase compensation materially to do so, it could adversely affect the Group's business, results of operations and financial condition.

***If the Group were to suffer impairment losses on its assets or investment securities, or losses on closure of businesses or transfer of assets, its results of operations and financial condition may be adversely affected.***

The Group holds a significant amount of fixed assets as part of its operations. The Group also holds investment securities, especially where it considers the holding of such securities to be beneficial to its business relationships. If certain stores with assets are not profitable or show losses, or if the value of these assets or investment securities were to decline significantly, the Group may need to recognise impairment loss in its financial statements. Further, if the Group decides to shut down certain stores, or transfer assets to other parties, it may result in the Group recognising losses on disposal of fixed assets. Any such additional costs or losses arising from closures of certain stores, loss on asset disposal or impairment loss, if recorded, may materially adversely affect the Group's results of operations and financial condition.

***The Group's business and operations are subject to a wide range of laws and regulations.***

The Group's business and operations are subject to a wide range of laws and regulations in Japan and the other countries in which it operates. In its business activities, the Group is subject to numerous laws, including the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment of Japan (Act No. 91 of 1998, as amended, the "Large-scale Retail Stores Location Act"), the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947, as amended, the "Antimonopoly Act"), the Money Lending Business Act of Japan (Act No. 32 of 1983, as amended, the "Money Lending Business Act") and the Installment Sales Act of Japan (Act No. 159 of 1961, as amended, the "Installment Sales Act"), as well as laws, regulations and other requirements relating to food safety management, consumer protection, fair trade, taxation, the environment and recycling. In addition, other corporate, commercial and other laws and regulations including those relating to corporate governance, corrupt business practices, labour, health and safety also apply. If the Group is unable to comply with these laws and regulations, if such laws and regulations were to become more stringent or materially new laws or regulations or changes to such laws and regulations are introduced, it may serve to limit or prohibit the Group's activities. If a violation of any of these laws and regulations occurs,

restrictions could be placed on the business activities of the Group, or the Group could face additional compliance costs, costly remedial action or fines or reputational damage. For example, certain recent cases of breaches by the Group of the Antimonopoly Act led to cease and desist orders and surcharge payment orders being imposed on the Group as well as periods during which the Group could not tender for certain governmental auctions (see “Business—Regulation”). In addition, any changes to the Japanese taxation system, including the expected increases in the consumption tax rates, may reduce consumer spending and thereby negatively affect the Group’s performance and financial position. These factors may have a material adverse effect on the business, results of operations and financial condition of the Group.

***Any leakage of personal information held by the Group may materially adversely affect the Group’s business, results of operations and financial condition as well as its reputation.***

The Group maintains a variety of customer information, including information concerning house-card customers and customers of its online business. The Group has established internal management systems under which customer information is rigorously controlled. However, if any material leak or misuse of customers’ personal information occurs due to events beyond the Group’s control such as power outage, natural disasters, malfunction of software and equipment, computer virus attacks, tampering with or unauthorised access to the system, or deliberate misconduct by persons with access to the system, or due to unforeseen accidental human error on the part of employees, the Group could be the subject of lawsuits or complaints from the affected parties. For example, the Group has in the past experienced various incidents that could have led to leakage of personal information (such as the misplacement of invoices containing personal information). Any such occurrences may materially adversely affect the reputation of the Group and sales of the Group’s products, as well as subject the Group to increased costs in respect of any damages suffered by affected parties. The Group may also be required to incur expenses if it needs to change its computer security system.

In addition, under the Act on the Protection of Personal Information of Japan (Act No. 57 of 2003, as amended) and similar laws in other countries outside Japan in which the Group operates, relevant authorities may issue recommendations or orders against any institution in possession of personal information which fails to protect the personal information of its customers. The Group may be required to provide compensation for economic loss and emotional distress arising out of a failure to protect personal information which may also have a negative impact on its reputation as well as its business, results of operations and financial condition.

***Any unanticipated disruptions to the Group’s computer systems may adversely affect the Group.***

The Group relies on various computer systems, especially in its department store business. These are centrally managed in a security centre operated by outside contractors. The centre is designed to withstand earthquakes (up to the Japanese earthquake intensity scale of 7) and is equipped with safety systems, including backup power supplies and communication lines, in-house power generators and measures to prevent unauthorised entry. However, if a natural disaster, system failure, cyber-attacks, attacks (including missile attacks) or fraudulent manipulation by the Group’s employees that exceed anticipated scenarios were to occur, this may result in the disruption of communication lines and/or the interruption of computer systems and leakage of information, which could cause wide-spread disruption to the business activities of the Group. These factors could have a negative impact on the business, results of operation and financial condition of the Group.

***If there are disruptions to the Group’s supplies, the Group’s business may be adversely affected.***

The Group depends on suppliers, wholesalers, distributors and manufacturers to stock the shelves of its stores. The Group cannot fully assure the continued supply of its merchandise since the Group does not have control over the businesses of its suppliers; factors affecting supplies could include changes in suppliers’ strategic directions (including withdrawal of a brand from Japan or their preference to supply competitor department stores) or practical and/or logistical difficulties. Furthermore, some items, such as food, which the Group procures, are perishable, and the Group cannot assure that such items will be delivered by third parties in a condition which is appropriate for sale to the customers. If the Group is not able to source merchandise that meets its requirements, or if suppliers, wholesalers or distributors are not reliable, the Group could experience difficulties in meeting customer demands or catering to customer preferences due to delays from increased lead times in ordering new products, which could in turn adversely affect the Group’s business, results of operations and financial condition.

Further, the Group’s relationships with luxury brands are a key factor in its positioning as a retailer of luxury merchandise. Many of the Group’s key vendors limit the number of retail outlets they use to sell their merchandise, and competition among retailers to obtain and sell these goods can be intense. Although the Group has supply arrangements with some of its merchandising sources, there can be no assurance that such sources will continue to meet the Group’s quality, style and volume requirements. Moreover, nearly all of the top

designer brands sold by the Group are also sold by competing retailers, and many of these top designer brands also have their own dedicated retail stores and/or their own e-commerce sites. If one or more of these top designers were to cease providing the Group with adequate supplies of merchandise or, conversely, were to increase sales of merchandise through their own stores or to the stores of other competitors, the Group's business could be adversely affected.

***The Group's inventory risk may increase in certain circumstances.***

The department store business in Japan tends to have relatively low inventory risk, as a substantial proportion of merchandise is purchased by the stores from suppliers at the time of actual sales to customers, and until such time, suppliers own such merchandise even though it is displayed on the store's shelf. However, the Group, along with its competitors, has been expanding its offering of high-quality, self-designed and/or own-brand items under the "Takashimaya" brand, such as its own-brand cashmere knitwear. Self-designed and own-brand merchandise, which tend to offer higher margins, has a higher inventory risk as they are purchased and owned by the Group as inventory from delivery until sale (in contrast to merchandise which the Group does not purchase the merchandise until the time of its sale to the customer). There can be no assurance that the Group will not suffer increased losses resulting from obsolete inventory due to increases in self-designed and/or own-brand merchandise sold at its stores, nor can there be any assurance that its efforts to increase margins will be successful.

***The Group may not always be successful in maintaining attractive tenants in its Real Estate and Department Store businesses.***

Toshin Development Co., Ltd. ("Toshin Development"), the principal real estate development company in the Group, leases and manages various properties (including the Tamagawa Takashimaya Shopping Center (which includes the Tamagawa Takashimaya store) and certain tenants in the "Takashimaya Times Square" commercial complex (which includes a Kinokuniya book store, Tokyu Hands home improvement and lifestyle store, and Nitori furniture and home furnishing products store, each located adjacent to the Group's Shinjuku store)). The Group's department stores may also, in certain cases, lease some floor space to tenants. These tenants are generally expected to provide increased customer flow to the Group's department stores, as well as provide leasing revenues to the Group. If the Group fails to maintain attractive tenants in respect of such properties and floor space, or if the real estate market declines and market levels of rent were to fall, the Group's leasing revenues, as well as department store sales, may decrease, and adversely affect the Group's results of operations and financial condition.

***The Group's funding may be affected if it loses members of its "Tomonokai" prepaid shopping card system.***

The Group operates a membership card system called Tomonokai, pursuant to which members pay certain fixed amounts to the Group each month to accumulate funds for a certain period, at the end of which the member will receive a "bonus" amount from the Group which is added to the membership card, allowing the member to spend the amounts so accumulated and the "bonus" amount on shopping at the Group's stores. The Group's advances received amounted to ¥96,102 million as of 28 February 2018. If many members were to leave the Tomonokai scheme, due to reasons such as an impairment in the Group's reputation or brand, the Group may be required to repay such advances and may need to find alternative sources of funding. Its cash in hand may also decrease temporarily. Further, if the level of the Group's outstanding gift certificates were to decline sharply, this could also affect the Group's funding strategy. There can be no assurance that the Group will always be successful in obtaining the funding it requires, on terms acceptable to the Group or at all.

***Any failure of the Group's risk management, compliance and/or internal control systems may adversely affect the Group's results of operations and financial condition.***

The Group is faced with the need to comply with anti-corruption and other applicable laws and regulations across a wide range of jurisdictions. Such laws and regulations, and their application and enforcement, are of varying degrees of complexity and strictness in different jurisdictions, and sometimes not only require compliance by the Group but also by parties acting on its behalf (including agents and dealers). If the Group were to become the target of any material investigations (whether regulatory or administrative (including tax)) and were found to be non-compliant, it could be subject to fines, penalties or other disciplinary actions (as well as civil and/or criminal charges). For example, the Group is subject to regular tax inspections by the local tax bureau in the normal course of its business, and depending on the findings, penalties or additional taxes may be imposed, which may have an adverse effect on the Group's results of operations and financial condition, as well as its reputation. The Group has established risk management, compliance and internal control systems and procedures. Certain areas within the risk management, compliance and internal control systems may require constant monitoring, maintenance and continual improvements by the Group's senior management and staff. If the efforts to maintain these systems are found to be ineffective or inadequate, the Group may be subjected to inappropriate activities such as fraudulent acts or corruptive practice (whether by its employees or

third parties), or be found not to be in full compliance with laws and regulations, which may in turn subject the Group to sanctions or penalties (which can, depending on culpability, be substantial) or require it to take remedial action (which can lead to increased costs being incurred), and its business and reputation, as well as its results of operations and financial condition, may be materially adversely affected. The internal control system, no matter how sophisticated in design, still contains inherent limitations caused by misjudgement or fault, or deliberate acts of misconduct or fraud. As such, there can be no assurance that the risk management, compliance and internal control systems of the Group are always adequate or effective notwithstanding the Group's efforts, and any failure to address any internal control matters and other deficiencies could result in investigations and/or disciplinary actions or prosecution being taken against the Group and/or its employees, disruption to the risk management and/or compliance systems, and an adverse effect on the Group's reputation, results of operations and financial condition.

***The Group may be subject to litigation in the course of its business.***

In the course of the Group's business, the Group faces risks of disputes or litigation both in Japan and overseas, whether with or without merit. Such litigation and proceedings may relate, among others, to products, royalties, health and safety, personal injury, antitrust, trade, tax and intellectual property issues, amongst others. Although the Group strives to reduce violations and infringements of laws and regulations in its business operations by instilling a strong compliance culture through employee training and education, due to the inherent uncertainty of disputes or litigations, it is not possible to predict when and whether any significant litigation or other proceedings will be brought against the Group and whether it will prevail. If any significant litigation or legal or administrative proceedings were to occur, the Group may need to spend significant management time and attention as well as costs to deal with such matters, and it is possible that the Group may incur liabilities as a consequence of the proceedings and claims brought against it which may have a negative impact on its reputation and/or have an adverse effect on the Group's business, results of operations and financial condition.

***Costs related to the Group's employee retirement benefit plan may increase.***

Costs related to the Group's employee retirement benefit plans may increase if the fair value of its pension plan assets declines or if there is a change in the actuarial assumptions on which the calculations of the retirement benefit obligation are based, such as changes in assumptions about demography, years of service or salary levels, a change in the assumed discount rate, or a decline in the expected rate of return on plan assets. As such, changes in the interest rate environment and other factors may also adversely affect the amount of unfunded retirement benefit obligations and the resulting annual amortisation expense. In addition, the Group is required to recognise expenses related to the recognition of previously unrecognised service costs as a result of plan amendments. Further, changes in accounting standards and guidance relating to retirement benefits may also affect the Group's results of operations, financial condition and net assets.

***The Group may be subject to environmental risk in the course of its business.***

The Group's operations are subject to a variety of environmental laws and regulations and the Group is expected to abide by certain environmental standards both in Japan and overseas. These standards include the handling and disposal of waste matter, including general waste from the operation of its department stores as well as those relating to industrial waste from construction and interior carpentry which may include hazardous wastes. Although the Group believes there is no significant negative impact on its operations or financial condition from current laws and regulations, there is a possibility that future legal or regulatory restrictions or social developments may affect its business performance. For example, the recent general trend towards reducing the use of plastics in consumer goods may affect the merchandising and packaging of goods sold at the Group's stores, which may affect the Group's costs of operations. In addition, if the Group were to be found not to be in compliance with environmental regulations, the Group may incur penalty, damage and compensation or remediation costs, which may adversely affect the Group's results of operations. Moreover, changes in environmental, health and safety regulations could inhibit, interrupt or require changes to the Group's operations, or require modifications to its facilities. Accordingly, environmental, health or safety regulatory matters may result in significant unanticipated costs or liabilities. Any of these factors could have a materially adverse effect on the Group's results of operations and financial condition.

***There are differences between Japanese GAAP and IFRS and generally accepted accounting principles and financial reporting standards in other jurisdictions, and changes in accounting policies may affect the presentation of the Group's financial results.***

The Group's consolidated and non-consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain respects from IFRS and generally accepted accounting



principles and financial reporting standards in other jurisdictions. The Group's financial statements may therefore differ from those prepared for companies outside Japan in those and other respects. This Offering Circular does not include a reconciliation of the Group's financial statements to IFRS or to any other generally accepted accounting principles or reporting standards. If at any point in the future the Company were to apply IFRS or any other generally accepted accounting principles for its financial reporting, the reported financial results of the Company and/or the Group may differ materially from prior years' financial results prepared under Japanese GAAP, which may make comparisons to prior years more difficult.

Further, even where there has been no significant change in Japanese GAAP, financial results prepared under Japanese GAAP may differ from prior year's financial results as a result of a change in accounting policies under IFRS, which affects the consolidation of the results of the Company's overseas consolidated subsidiaries (see "Recent Business—Critical Accounting Policies, Factors Affecting Results of Operations and Changes in Accounting Policies—Changes in Accounting Policies").

There is also a general trend towards convergence of Japanese GAAP with IFRS. Japanese GAAP has recently changed its revenue recognition standard to be converged with IFRS 15 "Revenue from Contracts with Customers", which shall be applied to the Group's fiscal periods ending on and after 28 February 2023. The lease accounting under Japanese GAAP may also be converged with IFRS 16 "Leases" in the future. These changes may have a significant effect on the presentation of the Group's financial statements, and may make comparisons to prior years' results difficult.

***Certain financial data in this Offering Circular are unaudited.***

This Offering Circular contains quarterly consolidated financial statements in English in respect of the six-month periods ended 31 August 2017 and 2018, which are not required to be, and have not been, audited by the Company's independent auditor. The unaudited quarterly consolidated financial statements of the Company as of 31 August 2018 and for the six-month periods ended 31 August 2017 and 2018 prepared by the Company in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan have been reviewed by the Company's independent auditor in accordance with the quarterly review standards generally accepted in Japan under the FIEA.

The quarterly consolidated financial statements contained in this Offering Circular are not wholly comparable with the annual consolidated financial statements contained in this Offering Circular and should not be so compared. Certain adjustments, accruals and deferrals which are made in the annual audited consolidated financial statements have been estimated or are not made in respect of such quarterly consolidated financial statements.

**Considerations relating to the Bonds and the Shares**

***There are limitations on the timing of the exercise of Stock Acquisition Rights.***

Since the coming into effect of the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including regulations promulgated thereunder, the "Book-Entry Act") in January 2009, under the current rules and practices of the Japan Securities Depository Center, Inc. ("JASDEC") it will take at least three business days for the delivery of the Shares to the Bondholders after the Stock Acquisition Date. For the avoidance of mistakes and confusion that might be caused in the course of the system processing with regard to the shareholders' rights in connection with the Shares to be delivered to the Bondholders upon their exercise of the Stock Acquisition Rights, the Stock Acquisition Rights have been designed under Condition 5.1.4 so that the Stock Acquisition Rights may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period. Bondholders should therefore note in particular that exercises of Stock Acquisition Rights are restricted in the period around any record date in respect of Shares set by the Company (under the Articles of Incorporation of the Company as of the date of this Offering Circular, the last day of February and 31 August in each year).

***No cash amounts will be paid in respect of non-unit Shares.***

Since the coming into effect of the Book-Entry Act, making it possible for listed shares of Japanese companies comprising less than one whole unit to be delivered through the JASDEC book-entry transfer system, JASDEC has given guidance to the effect that stock acquisition rights of Japanese companies issued since then should be structured so that exercising holders should have shares not constituting one whole unit delivered to their accounts, instead of automatically selling back such shares to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not be receiving cash amounts in respect of the Shares of less than one whole unit which would have been issuable upon such exercise, which had been paid, in the practice before the Book-Entry Act came into effect, but

will be receiving those Shares themselves. Currently, the Company's Articles of Incorporation provide that one unit comprises of 100 Shares. Accordingly, the holders of Shares constituting less than one unit will need to request the Company to purchase them in accordance with the rules of the JASDEC book-entry transfer system and the Company's Share Handling Regulations if they would like the Company to do so. The rights of holders of Shares not constituting one whole unit are limited under the Company's Articles of Incorporation, and may not be tradable on the stock exchanges on which they are listed. See "Description of the Shares and Certain Regulations—Unit Share System".

***Future changes in Japanese law may change the provisions relating to Stock Acquisition Rights.***

Future changes to provisions relating to Stock Acquisition Rights may have mandatory effect under Japanese law. Condition 15.2 provides for amendments to be made to the Conditions relating to the Stock Acquisition Rights where those amendments are required in order to comply with mandatory provisions of Japanese law even if those amendments are materially prejudicial to the interests of Bondholders.

***There are limitations on anti-dilution protection for Bondholders.***

The Conversion Price (as defined in the Conditions) at which the Stock Acquisition Rights may be exercised will be adjusted in certain events having a dilutive impact on the Shares, to the extent described in the Conditions. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

***An active trading market for the Bonds may not develop.***

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of the Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, even if such a market does develop, it may not be liquid.

***Rights of shareholders are governed by Japanese law.***

The corporate affairs of the Company are governed by and in accordance with the Articles of Incorporation, Regulations of the Board of Directors and Share Handling Regulations and other related regulations thereunder of the Company, as well as the Companies Act. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties (including actions that may legitimately be taken by them in respect of unsolicited takeover attempts) and liabilities, and shareholders' rights under Japanese law may be different from those that apply to companies incorporated in other jurisdictions. Holders who acquire the Shares upon exercise of the Stock Acquisition Rights may have more difficulty in asserting their rights as a shareholder than they would as a shareholder of a corporation organised in other jurisdictions. In addition, Japanese courts may not be willing to enforce judgments of non-Japanese courts against the Company which are based on non-Japanese securities laws.

***Trading prices of the Bonds will be affected by various factors, including fluctuations in the price of the Shares.***

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Shares and it is impossible to predict whether the price of the Shares will rise or fall. Any decline in the price of the Shares will have an adverse effect on the market price of the Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, the financial position and results of operations of the Group, including the reporting of its financial results. In addition, the market price of the Bonds is expected to be affected by any downgrade or other events negatively affecting the Company's credit rating.

**Forward-looking Statements**

Statements in this Offering Circular with respect to the Group's plans, strategies, projected financial figures and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. These statements are based on assumptions and beliefs derived from information currently available to the Group. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in

which the Group will operate in the future. The important factors that could cause actual results to differ materially from such statements include, but are not limited to: the impact of general economic conditions and consumer spending in Japan and the other markets in which the Group operates, changes in tax regimes, demand for, and competitive pricing pressure on, the Group's merchandise offered, the Group's ability to anticipate and adapt to changing trends, the level of competition, the implementation of its strategies and the Group's ability to comply with various governmental regulations. These forward-looking statements speak only as of the date of this Offering Circular, and the Group does not undertake to release the results of any revision of forward-looking statements which may be made to reflect future events or circumstances. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## TERMS AND CONDITIONS OF THE BONDS

*The following terms and conditions of the Bonds, subject to completion and amendment, and, save for the paragraphs in italics, will be endorsed on the Certificates (as defined herein):*

The ¥60,000,000,000 Zero Coupon Convertible Bonds due 2028 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include Stock Acquisition Rights (as defined below) incorporated in the Bonds) in the denomination of ¥10,000,000 each issued by Takashimaya Company, Limited (the “Company”) are constituted by a trust deed (the “Trust Deed”) dated 6 December 2018 made between the Company and MUFG Union Bank, N.A. (the “Trustee”, which expression shall include its successors as trustee under the Trust Deed), as trustee for the holders of the Bonds. Each Bond is issued in the denomination of ¥10,000,000 each and a stock acquisition right (*shinkabu yoyakuken*) (the “Stock Acquisition Right”), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the “Shares”) as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the “Agency Agreement”) dated 6 December 2018 relating to the Bonds between, *inter alios*, the Company, the Trustee, MUFG Bank, Ltd., London Branch as the principal agent (the “Principal Agent”) and MUFG Union Bank, N.A. as Custodian (as defined in Condition 3.1) and as the registrar (the “Registrar”) and the other agents referred to therein are available for inspection by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at 445 South Figueroa Street, Suite 401, Los Angeles, CA 90071, United States of America, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the “Agents” shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time (but excluding the Registrar).

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

### 1. **Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights**

#### 1.1 **Form, Denomination and Issue Price**

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) (the “Issue Price”) is 100.5 per cent. of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a “Certificate”) will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the “Register”) of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

#### 1.2 **Title**

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a “Bondholder” and (in relation to a Bond) a “holder” mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

*Upon issue, the Bonds will be evidenced by the Global Certificate deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.*

*The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Trust Deed owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.*

### 1.3 Status

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

### 1.4 Transfers of Bonds

1.4.1 *The Register:* The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and redemptions of the Bonds and the exercises of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers:* A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the relevant Agent may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon prior written request.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".*

1.4.3 *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within five Transfer Business Days (as defined below) of receipt of the duly completed and executed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery as agreed between such holder and the Principal Agent or the relevant Agent and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge:* Registration of a transfer of Bonds and issuance of new Certificates shall be effected without charge by or on behalf of the Company, the Registrar or the Agents, but subject to (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the

Registrar or the relevant Agent may require); (ii) the Registrar being satisfied in its absolute discretion with the documents of title and/or the identity of the person making the application; and (iii) the Company and the Registrar or the relevant Agent being satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered (i) during the period of 7 days ending on (and including) the date for redemption pursuant to Condition 7.1, 7.4, 7.5 or 7.6, (ii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4, in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn), (iii) after a notice of redemption has been given pursuant to Condition 7.2 or 7.3 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.3), or (iv) after a notice of redemption is deposited in respect of such Bond pursuant to Condition 7.7.

## 1.5 **Relationship between Bonds and Stock Acquisition Rights**

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

## 2. **Negative Pledge**

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time or prior thereto according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

- (a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and
- (b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

## 3. **Definitions and Construction of References**

### 3.1 **Definitions**

In these Conditions (unless the context otherwise requires):

"Account Management Institution" means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

"Additional Amounts" has the meaning provided in Condition 9;

“Additional Shares” has the meaning provided in Condition 5.3;

“Annual Consolidated Financial Statements” means the audited consolidated financial statements of the Company in respect of an Annual Fiscal Period;

“Annual Fiscal Period” means a period commencing on 1 March and ending on the last day of February of the immediately succeeding year; provided that, if the Company shall change its financial year so as to end on a date other than the last day of February, “Annual Fiscal Period” shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Articles of Incorporation” means the articles of incorporation of the Company from time to time in effect;

“Asset Transfer Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the “Asset Transferee”), pursuant to the terms of which the Company’s obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

“Asset Transferee” has the meaning provided in the definition of Asset Transfer Event;

“Auditors” means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested to them, such other auditors or firm of auditors as may be appointed by the Company and promptly notified in writing to the Trustee by the Company;

“Authorised Officer” means any one of the Directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have identified to the Trustee by notice in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

“Bankruptcy Act” means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

“Base Dividend” has the meaning provided in Condition 5.2.5;

“Board of Directors”, in respect of any company, means the board of directors of such company or, where applicable, the board of statutory executive officers of such company within the meaning of the Companies Act;

“Bondholder” and “holder” have the meaning provided in Condition 1.2;

“Bondholders’ Optional Redemption Date” has the meaning provided in Condition 7.7;

“Book-Entry Act” means the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended);

“Business Day” in respect of any place means a day, other than a Saturday or Sunday, on which banks are open for business in such place;

“Certificate” has the meaning provided in Condition 1.1;

“Civil Rehabilitation Act” means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

“Clean-up Redemption Notice” has the meaning provided in Condition 7.2;

“Closed Period” has the meaning provided in Condition 7.10;

“Closing Date” means 6 December 2018;

“Closing Price” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of

common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be) and approved in writing by the Trustee for such purpose;

“Companies Act” means the Companies Act of Japan (Act No. 86 of 2005, as amended);

“Company’s Territory” has the meaning provided in Condition 12.2;

“Consolidated Financial Statements” means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company prepared as aforesaid;

“Consolidated Subsidiary” means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

“Controlling Shareholder” means a shareholder holding, directly or indirectly, 90 per cent. (or such other percentage above 90 per cent. as provided in the Articles of Incorporation) or more of the Company’s voting rights as calculated in accordance with the Companies Act;

“Conversion Notice” means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the relevant schedule to the Agency Agreement;

“Conversion Price” has the meaning provided in Condition 5.1.3;

“Corporate Event” has the meaning provided in Condition 6.1;

“Corporate Event Effective Date” has the meaning provided in Condition 6.3;

“Corporate Event Redemption Date” has the meaning provided in Condition 7.4;

“Corporate Event Redemption Price” has the meaning provided in Condition 7.4;

“Corporate Reorganisation Act” means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

“Corporate Split Counterparty” has the meaning provided in the definition of Corporate Split Event;

“Corporate Split Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company’s obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the “Corporate Split Counterparty”);

“Current Market Price per Share” has the meaning provided in Condition 5.2.10;

“Custodian” means MUFG Union Bank, N.A. at its specified office at 445 South Figueroa Street, Suite 401, Los Angeles, CA 90071, United States of America, or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

“Custodian’s Agent” means MUFG Bank, Ltd. at its specified office at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8388, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

“Delisting Redemption Date” has the meaning provided in Condition 7.5.1;

“Deposit Date” has the meaning provided in Condition 5.9.4;



“Due Date” has the meaning provided in Condition 9;

“Director”, in respect of any company, means a director of such company within the meaning of the Companies Act;

“Exercise Period” has the meaning provided in Condition 5.1.4;

“Extraordinary Dividend” has the meaning provided in Condition 5.2.5;

“Extraordinary Resolution” means a resolution passed (i) at a meeting of the Bondholders duly convened (including the satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon, or (ii) by a written resolution or electronic consent in accordance with the provisions contained in the Trust Deed;

“FATCA withholding” has the meaning provided in Condition 9;

“Financial Instruments and Exchange Act” means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

“Fiscal Period” means, as the context may require, (i) a period commencing on 1 March and ending on the last day of February of the immediately succeeding year; or (ii) three month periods each commencing on 1 March, 1 June, 1 September and 1 December; provided that, if the Company shall change its financial year so as to end on a date other than the last day of February, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

“Holding Company” has the meaning provided in the definition of Holding Company Event;

“Holding Company Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not necessary, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the “Holding Company”) by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

“Independent Financial Adviser” means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and notified in writing to the Trustee or, if the Company fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser, appointed by the Trustee in accordance with Condition 18 and notified to the Company;

“Issue Price” has the meaning provided in Condition 1.1;

“Listing” has the meaning provided in Condition 6.4.2;

“Maturity Date” has the meaning provided in Condition 7.1;

“Merged Company” means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

“Merger Event” means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not necessary, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

“New Obligor” has the meaning provided in Condition 6.1;

“New Obligor Current Market Price per Share” has the meaning provided in Condition 6.5.3;

“New Stock Acquisition Rights” has the meaning provided in Condition 12.2;

“New Territory” has the meaning provided in Condition 12.2;

“Non-unit Shares” has the meaning provided in Condition 5.1.2;

“Number of Deliverable Shares” has the meaning provided in Condition 6.5.3;

“Number of Held Shares” has the meaning provided in Condition 6.5.3;

“Offeror” has the meaning provided in Condition 7.5.1;

“Payment Business Day” has the meaning provided in Condition 8.3;

“Principal Subsidiary” means any Consolidated Subsidiary of the Company, (i) whose net sales as shown by the annual or quarterly non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, those annual or quarterly consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest Annual Consolidated Financial Statements or Quarterly Consolidated Financial Statements (as the case may be) being made up, are at least 10 per cent. of the net sales of the Company and its Consolidated Subsidiaries as shown by such Annual Consolidated Financial Statements or Quarterly Consolidated Financial Statements (as the case may be), or (ii) whose total assets as shown by the annual or quarterly non-consolidated financial statements (or, as the case may be, the annual or quarterly consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest Annual Consolidated Financial Statements or Quarterly Consolidated Financial Statements (as the case may be) being made up, are at least 10 per cent. of the total assets of the Company and its Consolidated Subsidiaries as shown by such Annual Consolidated Financial Statements or Quarterly Consolidated Financial Statements (as the case may be). A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company’s opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Proceedings” has the meaning provided in Condition 21.2;

“Quarterly Consolidated Financial Statements” means the unaudited consolidated financial statements of the Company in respect of any Fiscal Period other than an Annual Fiscal Period;

“Record Date” means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the “Record Date” shall be construed as a reference to the date of any event in question coming into effect;

“Reference Parity” has the meanings provided in Conditions 7.4, 7.5 and 7.6;

“Register” has the meaning provided in Condition 1.1;

“Registered Account” has the meaning provided in Condition 8.1;

“Relevant Debt” has the meaning provided in Condition 2;

“Relevant GAAP” means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in Japan or the United States or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or any successor thereto) or, if applicable, as adopted or endorsed by Japan including those modified by the Accounting Standards Board of Japan (or any successor thereto));

“Relevant Number of Shares” has the meaning provided in Condition 5.2.5;

“Relevant Securities” has the meaning provided in Condition 5.2.9;

“Relevant Stock Exchange” means the Tokyo Stock Exchange or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on the Tokyo Stock Exchange, the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

“Representative Director” means a Director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

“Retroactive Adjustment” has the meaning provided in Condition 5.3;

“Securities” includes, without limitation, Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

“Shareholder Determination Date” has the meaning provided in Condition 5.1.4;

“Shareholder Determination Date Restriction Period” has the meaning provided in Condition 5.1.4;

“Squeezeout Effective Date” has the meaning provided in Condition 7.6;

“Squeezeout Event” has the meaning provided in Condition 7.6;

“Squeezeout Redemption Date” has the meaning provided in Condition 7.6;

“Stock Acquisition Date” has the meaning provided in Condition 5.9.4;

“Stock Split” means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

“Subsidiary” means a company, more than 50 per cent. of the outstanding shareholders’ voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, “voting rights” means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

“Tax Redemption Date” has the meaning provided in Condition 7.3;

“Tax Redemption Notice” has the meaning provided in Condition 7.3;

“Tokyo Business Day” has the meaning provided in Condition 5.1.4;

“Tokyo Stock Exchange” means Tokyo Stock Exchange, Inc. (or its successor);

“Trading Day” means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

“Transfer Business Day” has the meaning provided in Condition 1.4.3; and

“yen” and “¥” mean Japanese yen, the lawful currency of Japan.

### 3.2 Construction of Certain References

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the “issue” of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words “issue”, “issued” and “issuable” shall be construed accordingly), and references in these Conditions to the word “acquire” used in conjunction with the Shares shall be read as including both the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly, and references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system operated by the Japan Securities Depository Center, Incorporated. The words “substitution” and “grant” used in relation to the exchange of the Company’s obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

#### 4. **Default Interest**

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum determined by the Principal Agent as being equal to the offered rate quoted by a leading bank in the Euro yen market selected by the Principal Agent for deposits in yen for the period of three months, as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

#### 5. **Exercise of Stock Acquisition Rights**

##### 5.1 **Conversion Price, Exercise Period, Shares Issuable and Procedure**

5.1.1 *Contribution of the Bond:* Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which having been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as of the Stock Acquisition Date.

5.1.2 *Number of Shares:* The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares (“Non-unit Shares”) not constituting a unit (*tangen*) of Shares or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

*As of the date of this Offering Circular, the Articles of Incorporation specify that one unit of Shares is comprised of 100 Shares.*

5.1.3 *Conversion Price:* The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the “Conversion Price”) shall initially be ¥2,180 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period:* Each Stock Acquisition Right may be exercised in accordance with Condition 5.9 at any time during the period from, and including, 20 December 2018 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 22 November 2028, or:

(i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.2 or 7.3, then up to the close of business (at the place as

aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.3, the relevant Bondholder has elected that such Bond shall not be redeemed); or

- (ii) if the Bonds shall become due to be redeemed pursuant to Condition 7.4, 7.5 or 7.6, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof; or
- (iii) if the relevant Bond shall become due to be redeemed pursuant to Condition 7.7, then up to the time when the relevant notice of redemption is deposited at the specified office of an Agent pursuant to Condition 7.7; or
- (iv) if the relevant Bond shall have been purchased by the Company or a Subsidiary and cancelled by the Company pursuant to Condition 7.8, then up to the time when such Bond is so cancelled; or
- (v) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

- (a) in no event shall the Stock Acquisition Rights be exercised after 22 November 2028;
- (b) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.4 and 7.5); and
- (c) the Stock Acquisition Right may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined below); provided that if there is a change to the mandatory provisions of Japanese law and regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(c) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

In these Conditions:

“Shareholder Determination Date” means (i) any Record Date, and (ii) any other date set for the purpose of determination of holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act;

“Shareholder Determination Date Restriction Period” means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date); and

“Tokyo Business Day” means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo.

The Company shall give the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and the Bondholders in accordance with Condition 19 a notice of the determination and period referred to in Condition 5.1.4(b) above (together with a description of the days included in such period) at least 30 days prior to the commencement of such period.

The Company shall give the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and the Bondholders in accordance with Condition 19 a notice of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) at least three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

*As of the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are the last day of February and 31 August. By way of example, in respect of the Record Date falling on 28 February 2019, it is currently anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 26 February 2019 to (and including) 28 February 2019.*

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is hereinafter referred to as the “Exercise Period” (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purpose.

- 5.1.5 *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights:* Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

## 5.2 **Adjustments of the Conversion Price**

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

- 5.2.1 *Stock Split and Consolidation of Shares:* if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to

receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

- (i) the Record Date for the issue of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3, or
- (ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.9, or
- (iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.9, or
- (iv) the date of issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.8 or 5.2.9,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.6, 5.2.7, 5.2.8 or 5.2.9, as the case may be, by including in item “n” of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to Shareholders of Rights or Warrants to Acquire Shares:* if the Company shall allot, grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.11) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.12) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of “n” immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.11) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.3 *Issue to Shareholders of Rights or Warrants to Acquire Convertible/Exchangeable Securities:* if the Company shall grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

- (i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.11) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or
- (ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.12) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.11) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or



warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.4 *Distribution to Shareholders of Assets:* if the Company shall distribute to the holders of Shares (i) evidences of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being “distribution of surplus” within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act), then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{CMP} - \text{fmv}}{\text{CMP}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution.

fmv = the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director and delivered by the Company to the Trustee) of the portion of the evidences of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution; provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidences of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

5.2.5 *Distribution to Shareholders of Extraordinary Dividends*: if the Company shall distribute any Extraordinary Dividend to the holders of Shares, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{CMP} - \text{ED}}{\text{CMP}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution of Extraordinary Dividend.

ED = the amount of such Extraordinary Dividend divided by the Relevant Number of Shares used in the calculation thereof.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution of Extraordinary Dividend; provided, however, that if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

“Extraordinary Dividend” means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period.

“Base Dividend” means ¥110,088.

*The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥24.*

“Relevant Number of Shares” means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were it to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

For the purposes of these Conditions, in respect of the Annual Fiscal Period ending on 28 February 2019, the interim dividend per Share, the Record Date for which falls on 31 August 2018, is deemed to amount to ¥12 per Share for the purposes of the calculation of the Base Dividend in respect of such Annual Fiscal Period.

5.2.6 *Issue to Non-shareholders of Convertible/Exchangeable Securities*: if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.11) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at

such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.9, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.12) at the close of business in Japan on the last day of the period during which payment may be made in respect of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.11) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of such convertible or exchangeable securities;

5.2.7 *Issue of Shares:* if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*), in proportion to their shareholding in such corporation immediately prior to such merger or such exchange or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.11) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.9, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.12) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

- n = the number of Shares being issued or transferred as aforesaid.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.11) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of the issue or transfer of such Shares;

- 5.2.8 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/Exchangeable Securities:* if the Company shall grant, issue or offer any rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.6) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.11) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant, issue or offer of such rights or warrants shall, subject to Condition 5.2.9, be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.12) at the close of business in Japan on the date of the issue of such rights or warrants.
- n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.
- v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.11) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the issue of such rights or warrants;

- 5.2.9 *Combined Adjustment:* if the Company shall issue or transfer (as the case may be) securities of a type falling within Condition 5.2.6, 5.2.7 or 5.2.8 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of issue or transfer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the “relevant date”) is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.6, 5.2.7 and/or 5.2.8 which otherwise require an adjustment to the Conversion Price pursuant thereto (all such securities being hereafter referred to as “Relevant Securities”), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v1} + \text{v2} + \text{v3}}{\text{N} + \text{n1} + \text{n2} + \text{n3}}$$

where:

- NCP = the Conversion Price after such adjustment.
- OCP = the Conversion Price before such adjustment.
- N = the number of Shares outstanding (having regard to Condition 5.2.12) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of “n2” below to the extent that such Shares are then issued and outstanding.
- n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.
- n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.
- n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.
- v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.11) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).
- v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.11) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).
- v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.11) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of issue which is the relevant date.

5.2.10 *Current Market Price per Share*: for the purpose of these Conditions, “Current Market Price per Share” on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as of which the adjustment of the Conversion Price in question shall be

effected, any event (other than the event which requires the adjustment in question, and any event which requires an adjustment with reference to the same Current Market Price per Share) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

5.2.11 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.6, 5.2.7, 5.2.8 and 5.2.9, the following provisions shall be applicable:

- (i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;
- (ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;
- (iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the grant, issue or offer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);
- (iv) in the case of the grant, issue or offer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and

- (v) if any consideration referred to in the foregoing provisions of this Condition 5.2.11 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.11 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

5.2.12 *Later Adjustments*: if, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.9 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, or the issue of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.6, 5.2.7, 5.2.8 and 5.2.9, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.13 *Meaning of “Fixed”*: any reference in this Condition 5.2 to the date on which the consideration is “fixed” shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;

5.2.14 *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination; and

5.2.15 *Modification to Operation of Adjustment Provisions*: notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result.

### 5.3 **Retroactive Adjustments**

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a “Retroactive Adjustment”), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares (“Additional Shares”) as is equal

to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as of the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the Stock Acquisition Date shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

#### 5.4 **Limitation on Reduction of Conversion Price**

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law or regulation then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

#### 5.5 **Employee Share Schemes**

Notwithstanding the provisions of this Condition 5, no adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, corporate auditors or directors (including directors holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees' or executives' share or option scheme.

#### 5.6 **Minimum Adjustments**

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least ¥1 provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

#### 5.7 **Calculations**

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth. All calculations relating to the adjustment of the Conversion Price shall be performed by the Company and none of the Trustee, the Principal Agent, the Registrar, the other Agents or the Custodian shall be liable in any respect for such calculations. None of the Trustee, the Principal Agent, the Registrar, the other Agents or the Custodian shall be under any duty to determine, calculate or verify the adjusted Conversion Price or to monitor or make inquiries as to whether any adjustment is required to be made and will not be responsible or liable in any respect to Bondholders for any loss arising from any failure by it to do so.

#### 5.8 **Notification of Adjustments**

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Custodian and the Custodian's Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

#### 5.9 **Procedure for Conversion**

5.9.1 *Conversion Notice:* To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during the hours between 9.00 a.m. and 3.00 p.m. (local time at the place of the specified office of the relevant Agent) on a Business Day in the place where the specified office of the relevant Agent is located, a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.



5.9.2 *Custodian and Custodian's Agent:* The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time with 30 days' written notice to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed MUFG Bank, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent not do so.

The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent:* As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the Agent with details of the relevant tax authorities to which the Agent must pay moneys received. The Agent is under no obligation to determine whether a Bondholder is liable to pay stamp, issue, registration or similar taxes and duties or the amounts payable (if any).

For the avoidance of doubt, the exercising Bondholder shall bear any costs and expenses which relate to the account at the Account Management Institution into which it receives the Shares acquired upon the exercise of the Stock Acquisition Right pursuant to Condition 5.9.5(i). Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

5.9.4 *Deposit Date and Stock Acquisition Date:* The date on which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Date" applicable to such Bond. The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the Certificate will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond). A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company.

If delivery of the Conversion Notice is made after 3.00 p.m. (local time at the place of the specified office of the relevant Agent) or on a day which is not a Business Day in the place of the specified office of the Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such Business Day.

*At any time when the relevant Bond(s) is/are evidenced by the Global Certificate, the exercising Bondholder must deposit the Conversion Notice in the manner aforesaid with any Agent, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder's account pro tanto. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder's account with the number of the Bond(s) the Stock Acquisition Right(s) incorporated in which has/have been exercised and the Register shall be amended accordingly.*

- 5.9.5 *Delivery of Shares:* The Company shall procure that the relevant Agent shall, with effect as of the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise, and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice, or the Articles of Incorporation:

- (i) in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, as soon as practicable and in any event within 14 days after the Stock Acquisition Date, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution) and the Custodian's Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution, in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purpose of such transfer); and
- (ii) as soon as practicable the Company shall deliver to the Custodian's Agent, securities (other than Shares), property or cash required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian's Agent shall, according to the request made in the relevant Conversion Notice, either:
  - (a) as soon as practicable, and in any event within 14 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid) deliver or cause to be delivered to the order of the person named for that purpose in the relevant Conversion Notice at the specified office in Japan for the time being of the Custodian's Agent, any such securities (other than the Shares), property or cash required to be delivered on exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof; or
  - (b) as soon as practicable, and in any event within 21 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid), despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan (not being the specified office in Japan for the time being of the Custodian's Agent) and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than the Shares), property or cash required to be delivered on exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

5.9.6 *Amount of Stated Capital and Additional Paid-in Capital:* With effect as of the Stock Acquisition Date, one-half of the “maximum capital and other increase amount”, as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

## 6. **Certain Corporate Events**

### 6.1 **Corporate Events**

In the case of a proposal for:

- (i) any Merger Event; or
- (ii) any Asset Transfer Event; or
- (iii) any Corporate Split Event; or
- (iv) any Holding Company Event; or
- (v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (such passing of the resolution of such other reorganisation and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a “Corporate Event”) pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a “New Obligor”),

the following provisions of this Condition 6 shall apply.

### 6.2 **Notice of Proposal**

The Company shall give notice to the Trustee and the Principal Agent in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required, or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

### 6.3 **Notice of Passing of Resolution**

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee and the Principal Agent in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company’s proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its “Corporate Event Effective Date”.

### 6.4 **Transfer of Obligations Following a Corporate Event**

6.4.1 *Transfer:* If a Corporate Event occurs and

- (i) it is legally possible under the then applicable law or regulation (taking into account the then official or judicial interpretation or application of such law or

regulation) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;

- (ii) a practical structure for such substitution and grant has been or can be established; and
- (iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing:* In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as “Listing”) on the relevant Corporate Event Effective Date.

6.4.3 *Condition:* The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.4(iv).

## 6.5 **New Stock Acquisition Rights**

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted:* The number of New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights:* Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights:* The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

- (i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the “Number of Deliverable Shares”) receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the “Number of Held Shares”) which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other

property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or

- (ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall upon its exercise immediately after the Corporate Event Effective Date receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the “New Obligor Current Market Price per Share” means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

- 6.5.4 *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof:* Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;
- 6.5.5 *Exercise Period of the New Stock Acquisition Rights:* The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;
- 6.5.6 *Other Conditions for the Exercise of the New Stock Acquisition Rights:* No New Stock Acquisition Right may be exercised in part;
- 6.5.7 *Amount of Stated Capital and Additional Paid-in Capital:* As of the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the “maximum capital and other increase amount” as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and
- 6.5.8 *Others:* Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock

Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

#### **6.6 No Statutory Put Rights**

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

#### **6.7 Subsequent Corporate Events**

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

### **7. Redemption, Purchase and Cancellation**

#### **7.1 Final Maturity**

Unless the Bonds have previously been redeemed or purchased and cancelled, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent. of their principal amount on 6 December 2028 (the “Maturity Date”). The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

#### **7.2 Redemption at the Option of the Company upon Reduced Outstanding Amounts**

The Company may (subject to Condition 7.12), but shall not be bound to, having given not less than 30 nor more than 60 days’ prior notice (the “Clean-up Redemption Notice”) to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is given, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as of the date of issue thereof.

#### **7.3 Redemption for Taxation Reasons**

The Company may (subject to Condition 7.12), but shall not be bound to, at any time, having given not less than 30 nor more than 60 days’ prior notice (the “Tax Redemption Notice”) to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the “Tax Redemption Date”), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice (i) that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 20 November 2018, and (ii) that such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or an Authorised Officer stating that the Company is entitled to effect such redemption and that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and

binding on the Bondholders. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent. of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent. or more of the aggregate principal amount of the Bonds as of the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

#### 7.4 **Corporate Event Redemption**

Upon or following the occurrence of a Corporate Event, the Company shall (subject to Condition 7.12) give not less than 14 Tokyo Business Days' prior notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.4 (the "Corporate Event Redemption Price"), together with all Additional Amounts due on the Bonds (if any), on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Condition 6.4.1; or
- (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1; or
- (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or
- (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.4(iv).

Any notice of redemption given under this Condition 7.4 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.4(iii) or 7.4(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

If the Corporate Event Redemption Date falls on or prior to 22 November 2028, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)																
	50.00	60.00	70.00	80.00	90.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00	
6 December 2018	97.85	98.85	100.68	103.48	107.31	112.17	118.02	124.79	132.44	140.90	150.11	160.00	170.00	180.00	190.00	200.00	
6 December 2019	98.14	98.96	100.59	103.23	106.96	111.78	117.64	124.47	132.19	140.74	150.06	160.00	170.00	180.00	190.00	200.00	
6 December 2020	98.47	99.08	100.47	102.92	106.53	111.31	117.20	124.09	131.91	140.58	150.02	160.00	170.00	180.00	190.00	200.00	
6 December 2021	98.86	99.23	100.32	102.52	105.99	110.75	116.69	123.69	131.63	140.42	150.00	160.00	170.00	180.00	190.00	200.00	
6 December 2022	99.36	99.47	100.12	101.95	105.30	110.10	116.16	123.28	131.36	140.29	150.00	160.00	170.00	180.00	190.00	200.00	
6 December 2023	100.00	100.00	100.00	100.75	104.53	109.53	115.68	122.90	131.10	140.17	150.00	160.00	170.00	180.00	190.00	200.00	
7 December 2023	95.85	96.59	98.15	100.75	104.53	109.53	115.68	122.90	131.10	140.17	150.00	160.00	170.00	180.00	190.00	200.00	
6 December 2024	96.40	96.93	98.19	100.51	104.08	108.98	115.14	122.46	130.81	140.06	150.00	160.00	170.00	180.00	190.00	200.00	
6 December 2025	97.07	97.37	98.27	100.21	103.49	108.24	114.44	121.91	130.49	140.00	150.00	160.00	170.00	180.00	190.00	200.00	
6 December 2026	97.93	98.03	98.51	99.89	102.70	107.23	113.48	121.22	130.16	140.00	150.00	160.00	170.00	180.00	190.00	200.00	
6 December 2027	98.91	98.91	99.00	99.56	101.48	105.57	112.02	120.37	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00	
22 November 2028	100.00	100.00	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00	

In the above table:

“Reference Parity” means:

- (i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and
- (ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:
  - (a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act, or
  - (b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement,

divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

If the Reference Parity or Corporate Event Redemption Date does not appear in the above table, and:

- (x) if the Reference Parity falls between two numbers in the first row of the above table and/ or the Corporate Event Redemption Date falls between two dates in the above table, then the Corporate Event Redemption Price shall be determined by straight-line interpolation between such two numbers and/or two dates, on the basis of a 365-day year, as the case may be, with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth;
- (y) if the Reference Parity is higher than the number in the far right column in the first row of the above table, the Reference Parity shall be deemed to be equal to that number; and
- (z) if the Reference Parity is less than the number set forth in the far left column in the first row of the above table, the Corporate Event Redemption Price shall be 100.00 per cent.



If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.4, is less than 100.00 per cent., the Corporate Event Redemption Price shall be 100.00 per cent. Conversely, if the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.4, is more than 200.00 per cent., the Corporate Event Redemption Price shall be 200.00 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 23 November 2028 to (and including) 5 December 2028, the Corporate Event Redemption Price shall be 100.00 per cent.

## 7.5 **Redemption on Delisting of the Shares**

### 7.5.1 *Offers and Redemption: If:*

- (i) any offer is made by a party or parties (the “Offeror”) other than the Company in accordance with the Financial Instruments and Exchange Act to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares;
- (ii) the Company expresses its opinion to support such offer in accordance with the Financial Instruments and Exchange Act;
- (iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition); and
- (iv) the Offeror acquires any Shares pursuant to the offer,

then the Company shall (subject to Condition 7.12) give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the “Delisting Redemption Date”) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Company shall as soon as practicable give notice of an offer as described in this Condition 7.5.1 to the Trustee in writing and to the Bondholders in accordance with Condition 19. The Trustee may assume until it has received actual written notice from the Company to the contrary that the Offeror has not so acquired any Shares.

7.5.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.5 shall be calculated in the same manner as provided in Condition 7.4, except that references to the Corporate Event Redemption Date shall be replaced by the Delisting Redemption Date and the Reference Parity shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer divided by the Conversion Price in effect on the same day (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer divided by the Conversion Price in effect on the last day of the offer (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so

determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.4 shall apply to the above redemption price without any adjustment.

7.5.3 *Offer Followed by Corporate Event or Squeezeout Event:* Notwithstanding the above provisions of this Condition 7.5, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or a Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company's obligation to redeem the Bonds under this Condition 7.5 shall not apply (but, for the avoidance of doubt, the provisions of Condition 6 and Condition 7.4 or 7.6 (as the case may be) shall be applicable to such Corporate Event or Squeezeout Event (as the case may be)) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Trustee and the Principal Agent in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in Condition 7.5.2 (for the avoidance of doubt, the Reference Parity applicable to such redemption being equal to the Reference Parity that would have been applicable had the Bonds been redeemed under Condition 7.5.1 without being subject to the provisions of this Condition 7.5.3), together with all Additional Amounts due on the Bonds (if any), on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice).

7.5.4 *Irrevocable Notice:* Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.5.5 *Notice to Bondholders:* Upon the occurrence of:

- (a) any of the events set out in (i) through (iv) of Condition 7.5.1; or
- (b) any of the events set out in Condition 7.5.3 which results in the cancellation or revival of the Company's obligation to redeem the Bonds,

the Company shall as soon as practicable give notice thereof to the Trustee and the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

7.5.6 *Condition:* If the Company becomes obliged to redeem the Bonds pursuant to both this Condition 7.5 and either Condition 7.4 or 7.6, the procedure pursuant to Condition 7.4 or 7.6 (as the case may be) shall apply.

## 7.6 **Squeezeout Redemption**

7.6.1 *Redemption:* Upon the occurrence of a Squeezeout Event, the Company shall (subject to Condition 7.12), give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition, sale or the consolidation of the Shares with respect to the Squeezeout Event, provided, however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice,

the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date).

“Squeezeout Event” means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) by way of an amendment to the Articles of Incorporation, such as for the purpose of making the Company a wholly-owned subsidiary of another corporation, (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder’s wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*) under the Companies Act, or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing.

- 7.6.2 *Redemption Price:* The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.4, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the cash amount which the holder of a Share would receive in exchange for Shares to be transferred as a result of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.4 shall apply to the above redemption price without any adjustment.

## 7.7 **Redemption at the Option of the Bondholders**

The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond on 6 December 2023 (the “Bondholders’ Optional Redemption Date”) at 100 per cent. of its principal amount, subject to the provisions of Condition 7.12. To exercise such option, the holder of such Bond shall complete, execute and deposit at the specified office of any Agent, at such Bondholder’s own expense, during normal business hours of such Agent, a notice of redemption in the form (for the time being current) obtainable from any Agent, together with the Certificate in respect of such Bond. Such notice of redemption must be given not less than 30 days nor more than 60 days prior to the Bondholders’ Optional Redemption Date. Such notice may only be withdrawn with the consent in writing of the Company; provided, however, that if, prior to the Bondholders’ Optional Redemption Date, the Bonds evidenced by any Certificate so deposited become immediately due and payable pursuant to Condition 10, or, upon due presentation of any Certificate on the Bondholders’ Optional Redemption Date, payment of the redemption moneys is improperly withheld or refused, such Certificate shall, without prejudice to the exercise of the option contained in this Condition 7.7, be returned to

the relevant holder by uninsured first class mail (airmail if overseas) at the address specified by such holder in the relevant notice of redemption.

*See Condition 7.12 for priorities among the redemption options.*

#### **7.8 Purchase**

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on an Extraordinary Resolution or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

#### **7.9 Cancellation**

All Bonds which are redeemed or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.8 shall be forwarded to the Principal Agent for cancellation.

#### **7.10 Notice of Redemption**

All notices of redemption given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as of the date of the relevant notice, the Closing Price of the Shares as of the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption and the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as of the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.2 or 7.3 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(b) or within 15 days following the last day of a Closed Period.

#### **7.11 Calculations**

The Trustee, the Principal Agent, the other Agents, the Registrar and the Custodian are not liable to determine or calculate any redemption amount or price under these Conditions (howsoever expressed or defined) or to make any other calculations required to be made under these Conditions other than in such cases as specifically stated herein (if any) and shall have no responsibility to verify or monitor such calculations.

#### **7.12 Priorities Among Redemption**

If any notice of redemption is given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5 or 7.6, no other notice may be given (or, as the case may be, is required to be given) pursuant to any other of those Conditions, except in relation to Bonds in respect of which the relevant Bondholder has elected not to be redeemed pursuant to Condition 7.3.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.4 or 7.6, or (b) the events set out in (i) through (iv) of Condition 7.5 occur, then a notice pursuant to Condition 7.2 or 7.3 may not subsequently be given.

If the Company gives notice of its intention to redeem all of the Bonds pursuant to Condition 7.2, 7.3, 7.4, 7.5 or 7.6, that notice shall take priority over any notice given by a Bondholder pursuant to Condition 7.7 (whether such notice is given before or after any notice of redemption being given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5 or 7.6) so long as such notice by the Company is given prior to the relevant Bondholders' Optional Redemption Date. If any notice of redemption is given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5 or

7.6 after any notice of redemption is given by a Bondholder pursuant to Condition 7.7, the Certificate for the relevant Bond shall be deemed to have been surrendered for payment as provided in Condition 8 for the purpose of redemption under Condition 7.2, 7.3, 7.4, 7.5 or 7.6 (as the case may be).

## 8. **Payments**

### 8.1 **Method of Payment**

Payments in respect of principal, default interest (if any) and premium (if any) will be made against presentation and (if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the Registrar or any Agent. Such payments will be made by transfer to its Registered Account subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

“Registered Account” means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the sixth Transfer Business Day before the due date of payment.

### 8.2 **Agents and Registrar**

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time with at least 30 days’ written notice to vary or terminate the appointment of the Principal Agent, the Registrar or any other Agent and to appoint other or further Agents or Registrar (as the case may be), provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; and (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar or any other Agent will be given to the Trustee and the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

### 8.3 **Payments on Payment Business Days**

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. “Payment Business Day” means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried on both in Tokyo and in such place.

## 9. **Taxation**

All payments by the Company in respect of the Bonds, subject to Condition 7.3, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts (“Additional Amounts”) as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

- (i) held by or on behalf of a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with the

Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or enforcement of rights thereunder or the receipt of payment in respect of any Bond; or

- (ii) where the relevant Certificate is presented for payment more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the Certificate in respect of such Bond for payment as of the expiry of such 30-day period.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds, subject to the right of the Bondholders to retain the Bonds without entitlement to such Additional Amounts in accordance with Condition 7.3.

As used herein, the “Due Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

No additional amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the U.S. Internal Revenue Service (“FATCA withholding”). Further, the Company will have no obligation to otherwise indemnify an investor for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

## 10. **Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable on the occurrence of any of the following events:

### 10.1 **Non-payment**

The Company defaults in the payment of the principal of any of the Bonds under Condition 7.3 or Condition 7.7 as and when the same shall become due and payable, and such default is not remedied within 14 days; or

### 10.2 **Breach of Obligations**

The Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay the principal of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or

### 10.3 **Cross Default on Indebtedness**

The obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this

Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (whether on demand (if applicable) or at the expiration of any grace period as originally provided (if applicable)); or

**10.4 Cross Default on Guarantee/Indemnity**

The Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or

**10.5 Initiation of Insolvency Proceedings**

Proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

**10.6 Decree of Insolvency/Dissolution**

A final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or any material (in the opinion of the Trustee) part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or

**10.7 Resolution for Dissolution**

A resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:

- 10.7.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:
- (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or
  - (b) the Bonds will be redeemed pursuant to Condition 7.4, 7.5 or 7.6 prior to the date or proposed date of such winding-up, dissolution or liquidation; or
- 10.7.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by (including upon a merger, consolidation, amalgamation, reorganisation or reconstruction), the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or
- 10.7.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

#### 10.8 **Institution of Insolvency Proceedings**

The Company or any Principal Subsidiary institutes proceedings seeking with respect to the Company or any Principal Subsidiary an adjudication of bankruptcy or seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or any material (in the opinion of the Trustee) part of its property, or makes a general assignment for the benefit of its creditors; or

#### 10.9 **Stop Payment**

The Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

#### 10.10 **Cessation of Business**

The Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on business, except:

10.10.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:

- (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or
- (b) the Bonds will be redeemed pursuant to Condition 7.4, 7.5 or 7.6 prior to the date or proposed date of such cessation of business; or

10.10.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by (including upon a merger, consolidation, amalgamation, reorganisation or reconstruction), the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

#### 10.11 **Encumbrancer**

Any encumbrancer takes possession of the whole or any material (in the opinion of the Trustee) part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or any material (in the opinion of the Trustee) part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned having taken appropriate legal advice upon which the Trustee shall be entitled to rely absolutely;

and, in the case of any of the events described in Conditions 10.2, 10.3, 10.4, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee in forming such an opinion, or making any determination under Condition 10, may exercise all or any of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such directions from the Bondholders and/or expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than Japanese yen may be translated into Japanese yen at the spot rate for the sale of relevant currency



against the purchase of Japanese yen quoted by any leading bank selected by the Company and notified to the Trustee.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent. of their principal amount (together with Additional Amounts, if any, premium, if any, and default interest) as provided in the Trust Deed.

## 11. Undertakings

### 11.1 Undertakings with Respect to the Stock Acquisition Rights

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- 11.1.1 *Shares*: issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be acquired upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully-paid and non-assessable;
- 11.1.2 *Transfers*: not close its register of shareholders or take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;
- 11.1.3 *Financial Year and Record Date*: give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its financial year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;
- 11.1.4 *Listing*: use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company with the prior written approval of the Trustee (acting as instructed by an Extraordinary Resolution) may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that,
  - (i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan;
  - (ii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.4 or Condition 7.5 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in

Condition 7.4(iv), or (y) taking any action provided in items (ii) and (iii) of Condition 7.5.1); and

(iii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.6 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from, among other things, proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*), proposing a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing as a result of the acquisition or consolidation of Shares pursuant to a Squeezeout Event);

11.1.5 *Other Securities*: procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);

11.1.6 *Capital*: not create or issue any class of share capital other than Shares, without giving notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;

11.1.7 *Conversion Price Adjustments*: not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law or regulation then in effect, be legally issued as fully-paid and non-assessable;

11.1.8 *Corporate Event*: if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds will be redeemed pursuant to Condition 7.4 or 7.5); and

11.1.9 *Consents*: obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

*The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.*

## 11.2 **Charges**

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Principal Agent, the Registrar, the other Agents, the Custodian and the Custodian's Agent (including the cost of SWIFT message or fax notices by the Trustee or the Agents to the Principal Agent, the Registrar, the Company or the Custodian's Agent and by the Custodian to the Company or the Custodian's Agent) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of

Shares and the delivery of any other securities, property or cash pursuant to Condition 5.9.5 following such deposit.

## 12. Substitution

### 12.1 Substitution other than under a Corporate Event

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, and (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19. When determining, pursuant to this Condition 12.1, whether a circumstance is materially prejudicial to the interests of the Bondholders, the Trustee may exercise all or any of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such directions from the Bondholders and/or expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing.

*Further conditions to such substitution are set out in the Trust Deed.*

### 12.2 Substitution under a Corporate Event

Prior to a Corporate Event Effective Date the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

- (i) under such supplemental trust deed, the New Obligor agrees, in form and manner satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;
- (ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director or an Authorised Officer of the Company that, as of the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt. In making this determination, the Company shall consult an Independent

Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

- (iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the “New Territory”) other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the “Company’s Territory”), the New Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company’s Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.3 in relation to payment of Additional Amounts by the New Obligor (and/ or the guarantor, if any);
- (iv) a Representative Director or an Authorised Officer of the New Obligor certifies that it will be solvent immediately after such substitution, and the Trustee shall not have regard to the New Obligor’s financial condition, profits or prospects or compare them with those of the Company;
- (v) the Company shall have certified (by a certificate of a Representative Director or an Authorised Officer) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;
- (vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and
- (vii) such substitution and grant of New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

### 12.3 **Release of Obligations**

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2(ii)), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

### 12.4 **Deemed Amendment**

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

- (i) the terms “Stock Acquisition Rights” and “Shares” shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and
- (ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

## 13. **Prescription**

Claims in respect of the Bonds hereunder will become void unless made within the period of 10 years from the Due Date for the payment thereof.

## 14. **Replacement of Certificates**

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the

Company, the Registrar or any Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**15. Meetings of Bondholders; Modification and Waiver**

**15.1 Meetings of Bondholders**

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent. in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, *inter alia*, modifying the date of maturity of the Bonds or the date fixed for payment of principal pursuant to Condition 7.7, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 50 per cent., in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds outstanding shall for all purposes be as valid and effectual as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in the Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders.

**15.2 Modification and Waiver**

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver or authorisation shall be binding on the Bondholders and shall (unless the Trustee agrees otherwise) be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.4 and/or 7.6 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.5, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed imposes obligations, responsibilities or liabilities on it which are greater than those it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into

such supplemental trust deed (in a form satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing. The Trustee in forming any such opinion or making any determination may exercise any or all of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law including but not limited to obtaining and relying on such expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

### **15.3 Entitlement of the Trustee**

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

### **15.4 Authority to the Trustee**

To the fullest extent permitted by applicable law, by accepting the Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action. The Trustee shall not take any action on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

### **15.5 Directions from the Bondholders**

Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by these Conditions or the terms of the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Bondholders by way of an Extraordinary Resolution and to be indemnified and/or secured and/or prefunded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

## **16. Enforcement**

At any time after the Bonds shall have become due and repayable, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails to do so within 30 days of such direction or request or provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure shall be continuing.

17. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds and to be paid its costs and expenses in priority to the claims of Bondholders. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders or any other person on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors or the Independent Financial Adviser or such expert (as the case may be) in respect thereof is limited by a monetary (or any other) cap or otherwise and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under these Conditions and/or the Trust Deed; any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18. **Independent Financial Adviser**

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

If the Company shall fail to appoint an Independent Financial Adviser when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser, the Trustee shall have the power, but shall not be obligated, to make such appointment in its absolute discretion.

19. **Notices**

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). If publication in any of such newspapers is not (in the opinion of the Trustee) practicable, notices will be given in such other English language newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

*So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.*

20. **Contracts (Rights of Third Parties) Act 1999**

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21. **Governing Law and Submission to Jurisdiction**

21.1 **Governing Law**

The Trust Deed and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 **Jurisdiction**

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) and accordingly any legal action or

proceedings arising out of or in connection with the Trust Deed or the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) (“Proceedings”) may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

### 21.3 **Agent for Service of Process**

The Company has irrevocably appointed Law Debenture Corporate Services Limited, whose office is at present at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent in England to receive service of process in any Proceedings in England. If for any reason Law Debenture Corporate Services Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.



## SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

### Meetings

The registered holder (as defined in the Conditions) of the Bonds in respect of which the Global Certificate is issued shall (unless the Global Certificate evidences only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each Bond in respect of which the Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to Bonds in respect of which the Global Certificate has been issued to attend and speak (but not vote) at a meeting of Bondholders on appropriate proof of his identity.

### Exercise of Stock Acquisition Rights

Subject to the requirements of Euroclear or Clearstream, Luxembourg or such other clearing system as shall have been approved in writing by the Trustee (an “Alternative Clearing System”), the Stock Acquisition Right incorporated in a Bond in respect of which the Global Certificate is issued may be exercised by the presentation to, or to the order of, any Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bonds. Deposit of the Global Certificate with an Agent together with the relevant Conversion Notice shall not be required. The exercise of the Stock Acquisition Right shall be notified by the Agent to the Registrar and the holder of the Global Certificate.

### Payments

Payments in respect of Bonds evidenced by the Global Certificate shall be made against presentation of or, if no further payment falls to be made in respect of such Bonds, against presentation and surrender of, the Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the Bondholders for this purpose.

All payments in respect of Bonds evidenced by the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register in respect of the Bonds at the close of business on the Clearing System Business Day immediately prior to the date for payment. For the purposes of this paragraph, “Clearing System Business Day” means Monday to Friday inclusive, excluding 25 December and 1 January in each year.

For the purpose of any payments made in respect of the Global Certificate, the relevant place of presentation shall be disregarded in the definition of “Payment Business Day” as set out in Condition 8.3.

### Notices

So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg or any Alternative Clearing System, notices required to be given to the Bondholders shall be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, for communication by it to entitled accountholders in substitution for publication and mailing as required by the Conditions. Such notices shall be deemed to have been given in accordance with the Conditions on the date of delivery to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System.

### Transfers

Transfers of interests in the Bonds in respect of which the Global Certificate is issued shall be effected through the records of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, and their respective direct and indirect participants.

### Prescription

Claims against the Company for payment in respect of principal and premium (if any) and any other amounts due in respect of the Bonds evidenced by the Global Certificate shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Conditions in respect of the Bonds).

## **Trustee's Powers**

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for any one or more of Euroclear, Clearstream, Luxembourg and an Alternative Clearing System, the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements to the relevant Bonds evidenced by the Global Certificate, and may consider such interests as if such accountholders were the holder of the relevant Bonds.

## **Cancellation**

Cancellation of any Bond evidenced by the Global Certificate which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Bonds in the Register and the endorsement (for information only) of the Global Certificate by the Principal Agent.

## **Early Redemption by the Company**

The options and obligations of the Company to redeem the Bonds prior to maturity provided for in Conditions 7.2, 7.3, 7.4, 7.5 and 7.6 shall be exercised or performed by the Company giving notice to the Bondholders within the time limits set out therein and containing the information required of the Company in accordance with the paragraph entitled "Notices" above.

## **Election by the Bondholders**

The election option of the Bondholders provided for in Condition 7.3 may be exercised by the holder of the Bonds evidenced by the Global Certificate by giving notice to the Principal Agent within the time limits relating thereto set out in that Condition and otherwise in accordance with the procedures of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be) in the form acceptable thereto from time to time.

## **Redemption at the Option of the Bondholders**

The option of the Bondholders provided for in Condition 7.7 may be exercised by the holder of the Bonds in respect of which the Global Certificate is issued by giving notice to the Principal Agent within the time limits relating thereto set out in that Condition and otherwise in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System (as the case may be) in the form acceptable thereto from time to time.

## **Enforcement**

For purposes other than with respect to the payment of principal and premium (if any) on the Bonds in respect of which the Global Certificate is issued, each person who is for the time being shown in the records of Euroclear and Clearstream, Luxembourg or Alternative Clearing System as the holder of a particular principal amount of such Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or Alternative Clearing System) as to the principal amount of Bonds in respect of which the Global Certificate is issued standing to the account of any person shall be conclusive and binding for all purposes) shall be recognised as the holder of such principal amount of Bonds.

## USE OF PROCEEDS

The net proceeds of the issue of the Bonds are estimated to be approximately ¥60.0 billion, and are expected to be used by the Company primarily as follows:

- (a) ¥40.0 billion by the end of December 2018, for the redemption of the Company's zero coupon convertible bonds due 2018;
- (b) approximately ¥10.8 billion by the end of February 2019, as capital expenditure with respect to the recently opened Nihombashi Takashimaya Shopping Center, with the aim of further promoting the Group's "Machi-dukuri" (meaning "town formation") strategy both domestically and abroad; and
- (c) the remaining balance by the end of February 2020, as investment to IT systems infrastructure to reform group operations in relation to the Group Reform Project.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information should be read in conjunction with the Group's audited annual consolidated financial statements and related notes, the Group's unaudited quarterly consolidated financial statements and related notes, and "Recent Business" included elsewhere in this Offering Circular. The consolidated statements of income data for the fiscal years ended the last day of February, 2016, 2017 and 2018 and the consolidated balance sheet data as of the last day of February, 2016, 2017 and 2018 are extracted without material adjustment from the audited annual consolidated financial statements of the Group included elsewhere in this Offering Circular. The consolidated statements of income data for the six-month periods ended 31 August 2017 and 2018 and the consolidated balance sheet data as of 31 August 2018 are extracted without material adjustment from the unaudited quarterly consolidated financial statements of the Group included elsewhere in this Offering Circular. The consolidated balance sheet data as of 31 August 2017 have been extracted from the unaudited quarterly consolidated financial statements of the Group as of 31 August 2017 prepared in Japanese (but with rounding consistent with the unaudited quarterly consolidated financial statements of the Group included elsewhere in this Offering Circular).

The Group's consolidated financial statements have been prepared and presented in accordance with Japanese GAAP, which differ in certain respects from IFRS. The historical results are not necessarily indicative of results to be expected for future periods.

	Fiscal Year Ended/As of the Last Day of February			Six-Month Period Ended/As of 31 August	
	2016	2017	2018	2017	2018
	(Millions of yen, except per Share data)				
<b>Statements of Income Data</b>					
Sales and other operating revenue:					
Net sales	¥865,890	¥860,762	¥886,701	¥401,905	¥409,357
Other operating revenue	63,699	62,840	62,871	31,375	32,168
	<u>929,589</u>	<u>923,602</u>	<u>949,572</u>	<u>433,280</u>	<u>441,525</u>
Operating expenses:					
Cost of sales	651,011	648,765	668,295	297,990	303,559
Selling, general and administrative expenses	245,605	240,836	245,958	121,397	124,545
	<u>32,973</u>	<u>34,001</u>	<u>35,319</u>	<u>13,893</u>	<u>13,421</u>
Operating income					
Other income (expenses):					
Interest and dividend income	1,743	1,648	1,686	954	1,224
Interest expenses	(777)	(631)	(649)	(308)	(319)
Loss on sale and disposal of property, plant and equipment, net	(3,911)	(3,388)	(4,611)	(2,685)	(3,201)
Gain (loss) on sale of investment securities, net	13,734	5,274	2,627	386	—
Impairment loss	—	(4,588)	(1,598)	—	—
Loss on repair construction of building	(6,041)	—	—	—	—
Gain (loss) on liquidation of gift certificates outstanding, net	23	(15)	(407)	(331)	(101)
Equity in gain of affiliated companies	2,990	2,337	2,719	1,308	1,428
Gain on liquidation of affiliated companies	—	877	—	3	—
Exchange gain (loss), net	(24)	(48)	(391)	(245)	121
Other, net	742	(864)	315	327	328
	<u>8,479</u>	<u>602</u>	<u>(309)</u>	<u>(591)</u>	<u>(520)</u>
Income before income taxes	<u>41,452</u>	<u>34,603</u>	<u>35,010</u>	<u>13,302</u>	<u>12,901</u>
Income taxes:					
Current	15,494	10,779	10,396	4,027	3,565
Deferred	1,687	2,244	494	195	202
	<u>17,181</u>	<u>13,023</u>	<u>10,890</u>	<u>4,222</u>	<u>3,767</u>
Net income	<u>24,271</u>	<u>21,580</u>	<u>24,120</u>	<u>9,080</u>	<u>9,134</u>
Net income attributable to non-controlling interests	(441)	(710)	(461)	(68)	(351)
Net income attributable to owners of parent	<u>¥ 23,830</u>	<u>¥ 20,870</u>	<u>¥ 23,659</u>	<u>9,012</u>	<u>8,783</u>

	Fiscal Year Ended/As of the Last Day of February			Six-Month Period Ended/As of 31 August	
	2016	2017	2018	2017	2018
(Millions of yen, except per Share data)					
<b>Segment Information</b>					
Sales and other operating revenue by business segments:					
Department Store	¥ 811,648	¥ 797,254	¥ 826,562	¥ 377,002	¥ 383,736
Real Estate	42,390	47,923	47,476	19,925	20,979
Finance	12,866	13,415	14,188	7,198	7,494
Contract & Design	26,710	30,874	25,916	13,369	12,197
Others	35,975	34,136	35,430	15,786	17,119
Consolidated sales and other operating revenue	929,589	923,602	949,572	433,280	441,525
Segment income (loss):					
Department Store	¥ 14,976	¥ 12,183	¥ 13,509	¥ 4,130	¥ 4,428
Real Estate	10,294	11,029	11,394	5,101	4,733
Finance	4,377	4,496	4,563	2,243	2,402
Contract & Design	1,899	2,343	1,208	739	441
Others	1,497	2,334	3,331	1,353	1,179
Adjustments	(70)	1,616	1,314	327	238
Consolidated operating income	32,973	34,001	35,319	13,893	13,421
<b>Balance Sheet Data<sup>(1)</sup></b>					
Cash and deposits	¥ 75,488	¥107,159	¥ 99,541	¥ 99,877	¥ 107,717
Total assets	974,421	986,464	1,035,807	995,426	1,039,634
Short-term bank loans	5,887	5,947	5,800	5,887	5,800
Current portion of long-term debt	11,300	3,060	44,583	20	49,542
Long-term debt	137,413	146,255	123,880	148,196	118,861
Total liabilities	567,035	564,574	586,281	564,905	585,672
Total net assets	407,386	421,890	449,526	430,521	453,962
<b>Per Share Data (in Yen)</b>					
Basic net income	¥ 67.88	¥ 59.71	¥ 67.69	¥ 51.57	¥ 50.26
Diluted net income	59.81	52.55	59.58	45.35	44.18
Cash dividends applicable to the period	12.00	12.00	12.00	6.00	6.00
<b>Other Data</b>					
Depreciation	19,768	19,421	19,058	9,553	9,634

Note:

(1) The balance sheet data as of 31 August 2017 has been extracted from the Company's unaudited quarterly consolidated financial statements as of and for the six-month period ended 31 August 2017 prepared in Japanese in accordance with the FIEA (but adjusted using the same basis of rounding as the balance sheet data as of 31 August 2018).

## RECENT BUSINESS

### Overview

The Group is one of the leading department store operators in Japan with a history that spans over 185 years. As of the date of this Offering Circular, the Group has 19 department stores spread across Japan including five flagship stores in Osaka, Kyoto, Nihombashi (Tokyo), Yokohama and Shinjuku (Tokyo), and four overseas department stores in Singapore, Shanghai, Ho Chi Minh City and Bangkok.

Sales and other operating revenue to/from outside customers in the Group's Department Store segment accounted for 87.3 per cent., 86.3 per cent. and 87.0 per cent. of the Group's consolidated sales and other operating revenue for the fiscal years ended the last day of February, 2016, 2017 and 2018, respectively. The Group's other segments are mostly related to its department store operations and comprise Real Estate, Finance, Contract & Design and Others.

Overseas sales and other operating revenue accounted for less than 10 per cent. of the total sales and other operating revenue of the Group in each of the three fiscal years ended the last day of February, 2016, 2017 and 2018.

Sales and other operating revenue of the Group are comprised of net sales relating primarily to department store sales, and other operating revenue consisting primarily of real estate rental income and finance income.

Operating expenses of the Group include: (i) costs of sales, consisting mainly of costs of purchasing goods and procurement costs and (ii) selling, general and administrative expenses, consisting mainly of personnel expenses, marketing expenses, rents of leased properties and amortisation.

As of 31 August 2018, the Group comprised of the Company and 33 subsidiaries (of which 28 companies were consolidated subsidiaries) and 12 affiliates (of which 5 companies were accounted for by the equity method).

### Critical Accounting Policies, Factors Affecting Results of Operations and Changes in Accounting Policies

#### *Critical Accounting Policies and Factors Affecting Results of Operations*

##### *Revenue Recognition and Inventory*

Depending on the type of the merchandise, the Group may purchase and own the merchandise from the time of delivery to the Group by its suppliers (for example, the Group's self-designed merchandise), but principally, the Group purchases from suppliers only those products that are actually sold to customers. In the case of the latter, the merchandise is not carried as inventory of the Group.

The Group recognises the net sales and cost of sales of a product at the time of sales to customers, on a gross basis except in relation to overseas consolidated subsidiaries to which the application of IFRS 15 is required for the annual financial periods commencing on or after 1 January 2018 (see “—Changes in Accounting Policies—IFRS 15 “Revenue from Contracts with Customers”” below).

##### *Seasonality, Weather Conditions and Other Conditions*

The Group's department stores in Japan tend to experience fluctuations in the level of sales throughout the year, with peak shopping seasons normally occurring in the middle and at the end of the calendar year which are regarded as gift-giving seasons in Japan. The Group would generally incur significant additional expenses in the period leading up to and including the peak shopping seasons in anticipation for higher sales volume in those periods (including for additional inventory, advertising and employees). In addition, the volume of merchandise sales may be affected by the timing of the commencement of summer and winter seasonal sales, by the Group or its competitors. Further, unanticipated events (including natural disasters) having an effect on consumer spending during the periods in which the Group expects higher sales may also affect the Group's results of operations for the relevant period.

Customers' spending patterns and sales on various types of products such as winter wear or summer clothing bear a close correlation to the weather conditions in Japan. For instance, a cool summer or a mild winter could have a major adverse impact on sales of summer and winter clothing, respectively. Heavy snowfalls, rainfalls, typhoons or adverse weather conditions, especially if they occur over weekends and holidays, may also have a material negative impact on the volume of sales at the Group's stores as discretionary shopping may be curtailed. In addition, economic conditions affect consumer spending which directly affects the volume of sales at the Group's stores.

## ***Changes in Accounting Policies***

### ***IFRS 15 “Revenue from Contracts with Customers”***

#### ***Revenue recognition of uncollected gift certificates by consolidated overseas subsidiaries***

Due to the application of IFRS 15 “Revenue from Contracts with Customers” from fiscal years commencing on or after 1 January 2018, the Company’s consolidated overseas subsidiaries that prepare financial statements in accordance with IFRS shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. With regard to such change in accounting policy, pursuant to the transitional measure under IFRS 15, the cumulative effect of the adoption of such policy has been reflected in retained earnings at the beginning of the three-month period ended 31 May 2018. As a result of such change, retained earnings at the beginning of the three-month period ended 31 May 2018 increased by ¥645 million. The effect of such change on the Group’s consolidated operating income and income before income taxes for the six-month period ended 31 August 2018 was immaterial.

#### ***Accounting treatment for net sales relating to consignment buying transactions of consolidated overseas subsidiaries***

In relation to transactions in which products are purchased from suppliers at the same time that they are sold to customers (the so-called “consignment buying” transactions), previously the Group recorded the transaction amount in each of “net sales” and “cost of sales” (such presentation being referred to herein as presentation on a “gross basis”). However, from the three-month period ended 31 May 2018, with respect to the consignment buying transactions of the Company’s consolidated overseas subsidiaries, the accounting treatment has been changed to record the amount that corresponds to gross profit in “net sales” (such presentation being referred to herein as presentation on a “net basis”).

As a result, the income from these transactions, which had previously been shown using the gross presentation, is changed to being shown using a net presentation.

Following the application of IFRS 15 “Revenue from Contracts with Customers” from fiscal years commencing on or after 1 January 2018, this change has been made comprehensively taking into account the current economic substance regarding the consignment buying transactions of the consolidated overseas subsidiaries whose financial statements are prepared in accordance with IFRS.

The change in the accounting policy is applied retrospectively and the quarterly consolidated financial statements as of and for the six-month period ended 31 August 2017 are presented to reflect such change. As a result, each of net sales and cost of sales for the six-month period ended 31 August 2017 was ¥19,701 million smaller than that of the period prior to the retrospective application; however, consolidated operating income and income before income taxes for the six-month period ended 31 August 2017 were not affected by this change.

### ***Change in accounting policies issued but not yet applied***

#### ***IFRS 16 “Leases”***

IFRS 16 “Leases”, issued in January 2016, will result in almost all leases being recognised on the balance sheet by removing the distinction between operating and finance leases for lessee accounting. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The accounting for lessors will not significantly change. The standard is effective for accounting periods beginning on or after 1 January 2019, and is expected to be adopted in respect of the Company’s consolidated overseas subsidiaries. The new requirement to recognise a right-of-use asset and a related lease liability may impact the amounts recognised in the Group’s consolidated financial statements. The Group is still in the process of assessing the potential impact of such change.

## **Consolidated Results for the Fiscal Year Ended 28 February 2018 Compared to the Fiscal Year Ended 28 February 2017**

### ***Overview***

During the fiscal year ended 28 February 2018, the Japanese economy continued to show a gradual expansion with personal consumption remaining strong. The Group’s department stores in Japan saw a significant increase in revenue underpinned by favourable inbound demand and personal consumption. However, future prospects remained uncertain, given the effects of the normalisation of the monetary policy in the United States and Europe and the geopolitical risks in Asia in addition to unstable stock markets.

In this environment, the Group pursued the group-wide “Machi-dukuri” (meaning “town formation”) strategy and strengthened its sales capability. Under the Machi-dukuri strategy, each of the Group’s department stores fulfilled their anchor roles by drawing people to the area, and worked with the commercial developer, Toshin Development, to bring out the distinctive character of each store (see “Business—Strategy—Long-Term Business Plan—Machi-dukuri Strategy”). Furthermore, the Group pursued the Group Reform Project under which it fundamentally reformed group operations with the aim to improve operational efficiency and to reinvest the profits thus gained into growth strategies (see “Business—Strategy—Long-Term Business Plan—Group Reform Project”).

## **Results**

### *Sales and Other Operating Revenue*

See “—Critical Accounting Policies, Factors Affecting Results of Operations and Changes in Accounting Policies—Changes in Accounting Policies—IFRS 15 “Revenue from Contracts with Customers”—Accounting treatment for net sales relating to consignment buying transactions of consolidated overseas subsidiaries” for an explanation of the presentation of sales and other operating revenue for the fiscal years ended 28 February 2018 and 2017 (on a gross basis).

Sales and other operating revenue for the fiscal year ended 28 February 2018 increased by ¥25,970 million, or 2.8 per cent., to ¥949,572 million as compared to the prior fiscal year, mainly due to increase in sales in the department stores segment amid stable personal consumption, increased inbound demand, strong sales of high-value goods and general goods and an upturn in clothing sales, as well as a sales increase of Takashimaya Ho Chi Minh City and a consolidation of A&S Takashimaya Duty Free Co., Ltd.

### *Operating Expenses*

Operating expenses for the fiscal year ended 28 February 2018 increased by ¥24,652 million, or 2.8 per cent., to ¥914,253 million as compared to the prior fiscal year. Cost of sales increased by ¥19,530 million, or 3.0 per cent., to ¥668,295 million reflecting increase in sales. Selling, general and administrative expenses increased by ¥5,122 million, or 2.1 per cent., to ¥245,958 million mainly due to increases in personnel-related, advertising and commission expenses.

### *Operating Income*

Operating income for the fiscal year ended 28 February 2018 increased by ¥1,318 million, or 3.9 per cent., to ¥35,319 million as compared to the prior fiscal year, mainly due to the increase in sales and other operating revenue. The Group was able to achieve consolidated operating income growth for the eighth consecutive fiscal year.

### *Other Income (Expenses)*

Other expenses (net of other income) for the fiscal year ended 28 February 2018 amounted to ¥309 million, as compared to other income (net of other expense) of ¥602 million recorded in the prior fiscal year. This primarily reflected an increase in loss on sale and disposal of property, plant and equipment, net and a decrease in the gain on sale of investment securities, net, set off to a certain extent by a decrease in impairment loss.

### *Income before Income Taxes*

As a result of the above, income before income taxes for the fiscal year ended 28 February 2018 increased by ¥407 million, or 1.2 per cent., to ¥35,010 million as compared to the prior fiscal year.

### *Net Income*

Net income for the fiscal year ended 28 February 2018 increased by ¥2,540 million, or 11.8 per cent., to ¥24,120 million as compared to the prior fiscal year.

### *Net Income Attributable to Owners of Parent*

Net income attributable to owners of parent for the fiscal year ended 28 February 2018 increased by ¥2,789 million, or 13.4 per cent., to ¥23,659 million as compared to the prior fiscal year.

## **Operating Results by Reporting Segment**

Sales and other operating revenue data in the following discussion of results by each business segment are data relating to sales to and other operating revenue from outside customers, while the segment operating income data in the following discussion of results by each business segment are data before inter-segment adjustments.



### *Department Store*

In the Department Store segment, sales and other operating revenue for the fiscal year ended 28 February 2018 increased by ¥29,308 million or 3.7 per cent., to ¥826,562 million as compared to the prior fiscal year. Operating income for the Department Store segment for the fiscal year ended 28 February 2018 increased by ¥1,326 million, or 10.9 per cent., to ¥13,509 million as compared to the prior fiscal year. The Group fully refurbished the Takasaki store in September 2017 to coincide with the redevelopment of the Takasaki station. In addition, Senboku store, Tachikawa store and Yonago store collaborated with speciality stores and government bodies to develop a framework that attracts greater number of visitors. As a result of these revenue-boosting strategies, all stores in the segment made a profit.

The Group expanded points of connections with customers and made shopping more convenient by actively developing alliances with other companies. In addition to the Group's joint marketing campaign with NTT DOCOMO, INC. and Loyalty Marketing, Inc., it teamed up with Sony Bank Inc. to launch the first department store debit card, Takashimaya Platinum Debit Card. The Group also made efforts to capture the growing inbound demand such as preparing a sales environment that caters to overseas visitors ahead of the surge in inbound demand from the end of the year to Chinese New Year (the Spring Festival). The Group increased the number of sales areas in its major stores that are compatible with Chinese mobile payment services (Alipay, WeChat Pay) and improved the Wi-Fi environment. Additionally, the Group pursued an aggressive sales campaign aimed at drawing tourists into its stores, and as a result of this campaign, net sales and sales volume were significantly higher than the previous fiscal year. Shinjuku store saw the opening of an airport-style duty-free shop, Takashimaya Duty Free SHILLA & ANA, in April 2017. In a further effort to boost sales among overseas visitors, the Shinjuku store coordinated its specialty stores and restaurant area and bolstered its public relations and sales promotion activities under a unified Takashimaya Times Square framework.

Overseas, Takashimaya Singapore Ltd. developed its loyalty card membership, stepped up its efforts toward international tourists, pursued a digital media-focused advertising strategy, and decreased selling, general and administrative expenses. These efforts resulted in increases in sales revenue and profits. Shanghai Takashimaya Co., Ltd. saw growing sales buoyed by strong personal consumption. The store differentiated itself by promoting its "Japanese-Goods Store", a retail space devoted to showcasing Japanese culture and selling Japanese goods, and by opening a new sales area for directly imported high-quality Japanese goods. It also expanded its loyalty membership base by strengthening its loyalty card policies. Takashimaya Ho Chi Minh City has garnered esteem among locals, has substantially increased the number of customers visiting the store and has made steady progress in developing its loyalty card membership. The Ho Chi Minh City store improved its product line-up, reflecting customer needs, and it jointly organised promotional events with specialty stores. These and other initiatives proved successful and contributed to a strong performance.

### *Real Estate*

Sales and other operating revenue in the Real Estate segment for the fiscal year ended 28 February 2018 decreased by ¥447 million, or 0.9 per cent., to ¥47,476 million as compared to the prior fiscal year. Operating income for the fiscal year ended 28 February 2018 increased by ¥365 million, or 3.3 per cent., to ¥11,394 million as compared to the prior fiscal year.

Toshin Development worked to secure profits by selling residential apartments in Yokohama Kita-Saiwai Building. It also collaborated with department stores to make concrete progress in the Machi-dukuri strategy. In Japan, under the redevelopment of Nihombashi, the new Nihombashi Takashimaya Shopping Center opened in September 2018 and the renovation of the Nihombashi department store will be completed in spring 2019. In the run-up to these events, Toshin Development has been working to standardise services and to proceed with leasing and facility development projects. The Tachikawa TM Building, which houses the Tachikawa store, introduced a new tenant, "Nitori", to serve as an anchor drawing people into the building. To mark the 10-year anniversary of Nagareyama Otakanomori Shopping Center, the developer built a kids' zone in the shopping centre featuring children's goods and a childcare facility in an effort to highlight the local area as an attractive place to raise a family. Consequently, the shopping centre's sales and number of visitors in the fiscal year ended 28 February 2018 increased as compared to the prior fiscal year. To mark the 25-year anniversary of Kashiwa Takashimaya Station Mall, Toshin Development set about improving the convenience of the mall and further establishing it as a fixture of daily life, taking advantage of the fact that it adjoins the station.

As for overseas real estate, Saigon Centre, a commercial facility which has Takashimaya Ho Chi Minh City as an anchor tenant, entered its second year of operation and steadily increased its sales by offering the high-quality merchandise and hospitality of the Group. In March 2017, the Group acquired a portion of the property rights for A & B Tower and furthered its Machi-dukuri strategy in Ho Chi Minh City.

## *Finance*

Sales and other operating revenue in the Finance segment for the fiscal year ended 28 February 2018 increased by ¥773 million, or 5.8 per cent., to ¥14,188 million as compared to the prior fiscal year, and operating income for the fiscal year ended 28 February 2018 increased by ¥67 million, or 1.5 per cent., to ¥4,563 million as compared to the prior fiscal year.

Takashimaya Credit Co., Ltd. (“Takashimaya Credit”) marked the tenth anniversary of the “gold” Takashimaya card by conducting a campaign to acquire new members and promote use of the card. Takashimaya Credit endeavoured to improve commission revenue by increasing the number of members and the amount of card transactions. These efforts yielded an increase in revenues and earnings.

## *Contract & Design*

Sales and other operating revenue in the Contract & Design segment for the fiscal year ended 28 February 2018 decreased by ¥4,958 million, or 16.1 per cent., to ¥25,916 million as compared to the prior fiscal year, and operating income for the fiscal year ended 28 February 2018 decreased by ¥1,135 million, or 48.4 per cent., to ¥1,208 million as compared to the prior fiscal year.

Takashimaya Space Create Co., Ltd. (“Takashimaya Space Create”) achieved steady business for large hotels and home renovation-related projects, but with a reactionary decline following the previous year’s large project, the segment posted a decrease in revenue and earnings.

## *Others*

Sales and other operating revenue in the Others segment, including the Group’s Cross Media Division, for the fiscal year ended 28 February 2018 increased by ¥1,294 million, or 3.8 per cent., to ¥35,430 million as compared to the prior fiscal year. The segment recorded an operating income for the fiscal year ended 28 February 2018 of ¥3,331 million, an increase by ¥997 million or 42.7 per cent., as compared to the prior fiscal year.

In the Cross Media Division, the Group significantly improved its earnings by revising its catalogue media policies.

## **Consolidated Results for the Six-Month Period Ended 31 August 2018 Compared to the Six-Month Period Ended 31 August 2017**

### *Overview*

In respect of the business environment surrounding the Group during the six-month period ended 31 August 2018, the Japanese economy saw a modest expansion, driven by strong corporate performance, increased capital investment and improved personal consumption. The Group performed well too; in particular, the domestic Department Store segment saw an increase in revenue, reflecting the strong inbound demand and the country’s steady economic performance. While the future outlook is generally positive, with personal consumption appearing to continue to recover, there are also some causes for concern, including rising global trade friction and fears about the long-term impact of the recent typhoons, flooding and earthquakes in Japan.

During the six-month period ended 31 August 2018, the Group continued to promote its Machi-dukuri strategy, with the East Building of the symbolic project Nihombashi Takashimaya Shopping Center having opened in March 2018, having worked towards the full opening of the Nihombashi Takashimaya Shopping Center in September 2018. Further, the Group has been working to promote its Group Reform Project, which reviews group management and operation comprehensively through the utilisation of digital technology, and has been solidifying its footholds for future growth.

### *Results*

#### *Sales and Other Operating Revenue*

See “—Critical Accounting Policies, Factors Affecting Results of Operations and Changes in Accounting Policies—Changes in Accounting Policies—IFRS 15 “Revenue from Contracts with Customers”—Accounting treatment for net sales relating to consignment buying transactions of consolidated overseas subsidiaries” for an explanation of the presentation of sales and other operating revenue for the six-month periods ended 31 August 2018 and 2017 (on a net basis with regard to the relevant consolidated overseas subsidiaries).

Sales and other operating revenue for the six-month period ended 31 August 2018 increased by ¥8,245 million, or 1.9 per cent., to ¥441,525 million as compared to the six-month period ended 31 August 2017, mainly due to higher sales in domestic stores, the Singapore store and A&S Takashimaya Duty Free Co., Ltd.

### *Operating Expenses*

Operating expenses for the six-month period ended 31 August 2018 increased by ¥8,717 million, or 2.1 per cent., to ¥428,104 million as compared to the six-month period ended 31 August 2017. Cost of sales for the six-month period ended 31 August 2018 increased by ¥5,569 million, or 1.9 per cent., to ¥303,559 million as compared to the six-month period ended 31 August 2017, principally reflecting the increase in sales. Selling, general and administrative expenses for the six-month period ended 31 August 2018 increased by ¥3,148 million, or 2.6 per cent., to ¥124,545 million as compared to the six-month period ended 31 August 2017, mainly due to increases in advertising, distribution and commission expenses.

### *Operating Income*

As a result of the above, operating income for the six-month period ended 31 August 2018 decreased by ¥472 million, or 3.4 per cent., to ¥13,421 million as compared to the six-month period ended 31 August 2017.

### *Other Income (Expenses)*

Other expenses (net of other income) for the six-month period ended 31 August 2018 decreased by ¥71 million, or 11.9 per cent., to ¥520 million as compared to the six-month period ended 31 August 2017. This primarily reflected the recording of an exchange gain in the six-month period ended 31 August 2018 (whereas a loss was recorded in the six-month period ended 31 August 2017) and an increase in interest and dividend income, set off to a certain extent by an increase in loss on sale and disposal of property, plant and equipment, net.

### *Income before Income Taxes*

As a result of the above, income before income taxes for the six-month period ended 31 August 2018 decreased by ¥401 million, or 3.0 per cent., to ¥12,901 million as compared to the six-month period ended 31 August 2017.

### *Net Income*

Net income for the six-month period ended 31 August 2018 increased by ¥54 million, or 0.6 per cent., to ¥9,134 million as compared to the six-month period ended 31 August 2017.

### *Net Income Attributable to Owners of Parent*

Net income attributable to owners of parent for the six-month period ended 31 August 2018 decreased by ¥229 million, or 2.5 per cent., to ¥8,783 million as compared to the six-month period ended 31 August 2017.

### ***Operating Results by Reporting Segment***

Sales and other operating revenue data in the following discussion of results by each business segment are data relating to sales to and other operating revenue from outside customers, while the segment operating income data in the following discussion of results by each business segment are data before inter-segment adjustments.

#### *Department Store*

In the Department Store segment, sales and other operating revenue for the six-month period ended 31 August 2018 increased by ¥6,734 million, or 1.8 per cent., to ¥383,736 million as compared to the six-month period ended 31 August 2017. Operating income for the Department Store segment for the six-month period ended 31 August 2018 increased by ¥298 million, or 7.2 per cent., to ¥4,428 million as compared to the six-month period ended 31 August 2017, due to strong sales of high-value goods and general goods, which were underpinned by increased inbound tourist demand and strong personal consumption.

During the six-month period ended 31 August 2018, the Group opened Pokémon Center Tokyo DX and Pokémon Cafe in Nihombashi Takashimaya Shopping Center's East Wing (in March 2018) ahead of the full opening of Nihombashi Takashimaya Shopping Center in September 2018. In August 2018, the Group renovated the household goods area in Shinjuku store with a view to providing everyday moments of relaxation. In April, the Group opened a new store, Eki-Taka Izumigaoka Takashimaya, on the concourse outside the ticket barriers of Izumigaoka Station (Semboku Rapid Railway, Osaka Prefecture). The store aims to become an everyday fixture for locals during their daily commutes to school or work, and it will work with the nearby Semboku Store to meet shoppers' needs.

In June 2018, next-generation experiential beauty salon, Belle Sympathique, opened in the Yokohama store. Belle Sympathique caters to shoppers' increasingly diverse beauty needs by offering enriched beauty services in a comfortable and approachable setting. Along this same line, the Group introduced more Suit Closet outlets among its department stores. Suit Closet offers an extensive range of suits to professional women, which also expanded the line-up of women's Cool Biz outfits (smart-casual office attire for summer). The Group's department stores tried something new in an effort to increase sales further through holding the traditional summer clearance sale as well as a second summer sale (called the "Midsummer Last-Spurt Sale"). To capture inbound tourist demand, the Group has been working on making its department stores more tourist-friendly such as through expanding mobile payment options and providing multilingual announcements. The Group has revised its organisational approach to social media marketing and issued online video messages. Additionally, to attract even more tourists into its stores, the Group conducted a coupon campaign together with its department stores in Singapore, Shanghai, and Ho Chi Minh City. The Group also conducted a joint campaign with a major Chinese payment company and Chinese online travel agent.

Overseas, Takashimaya Singapore Ltd. posted an operating revenue increase, reflecting the success of its 25th anniversary sales campaign coupled with Singapore's favourable economy, which has been on the recovery since the second half of 2017. The Shanghai store pursued a differentiation strategy for the products that it showcases in its Japanese-goods store. This strategy, combined with the store's customer retention efforts and other initiatives, resulted in increased sales. As for Takashimaya Ho Chi Minh City, capitalising on Vietnam's economic growth, the store steadily increased its card membership and organised promotional campaigns for all card holders. These efforts resulted in increased operating revenue.

#### *Real Estate*

Sales and other operating revenue in the Real Estate segment for the six-month period ended 31 August 2018 increased by ¥1,054 million, or 5.3 per cent., to ¥20,979 million as compared to the six-month period ended 31 August 2017. Operating income for the six-month period ended 31 August 2018 decreased by ¥368 million, or 7.2 per cent., to ¥4,733 million as compared to the six-month period ended 31 August 2017.

Toshin Development recorded higher revenues, mainly due to an increase in rent and management income following the opening of the Pokémon Center Tokyo DX and Pokémon Café, and an increase in condominium sales. Toshin Development's operating income decreased due to rising expenses mainly due to the opening of the Nihombashi Takashimaya Shopping Center's new wing. Overseas, Toshin Development Singapore Pte. Ltd. renewed contracts with some of its tenants which led to decreases in operating revenue and operating income on a local currency basis, although when converted to yen the result was an increase in operating revenue and a decrease in operating income.

#### *Finance*

Sales and other operating revenue in the Finance segment for the six-month period ended 31 August 2018 increased by ¥296 million, or 4.1 per cent., to ¥7,494 million as compared to the six-month period ended 31 August 2017, and operating income for the six-month period ended 31 August 2018 increased by ¥159 million, or 7.0 per cent., to ¥2,402 million as compared to the six-month period ended 31 August 2017.

Takashimaya Credit recorded increased operating revenues and operating income due to a rise in commission revenue, which reflected a higher transaction volume among affiliated stores as well as Takashimaya Credit's efforts to encourage the use of revolving payments.

#### *Contract & Design*

Sales and other operating revenue in the Contract & Design segment for the six-month period ended 31 August 2018 decreased by ¥1,172 million, or 8.8 per cent., to ¥12,197 million as compared to the six-month period ended 31 August 2017, and operating income for the six-month period ended 31 August 2018 decreased by ¥298 million, or 40.2 per cent., to ¥441 million as compared to the six-month period ended 31 August 2017.

Takashimaya Space Create significantly increased its inter-segment revenues relating to the Group's stores. However, due to the fact that the Group recorded significant revenues in this segment in the six-month period ended 31 August 2017 in relation to large projects such as for luxury brands and hotels, which was not replicated in the six-month period ended 31 August 2018, and as intense competition put downward pressure on profit margins, operating revenue and operating income for the segment decreased in the six-month period ended 31 August 2018.

## *Others*

Sales and other operating revenue in the Others segment, including the Cross Media Division, for the six-month period ended 31 August 2018 increased by ¥1,333 million, or 8.4 per cent., to ¥17,119 million as compared to the six-month period ended 31 August 2017 and operating income for the six-month period ended 31 August 2018 decreased by ¥174 million, or 12.9 per cent., to ¥1,179 million as compared to the six-month period ended 31 August 2017.

In the Cross Media Division, catalogue sales performed solidly, resulting in an increase in sales and a decrease in deficit, although other businesses recorded decreases in operating income.

## **Financial Condition**

### ***Consolidated Balance Sheet as of 28 February 2018 Compared to Consolidated Balance Sheet as of 28 February 2017***

Total assets as of 28 February 2018 increased by ¥49,343 million, or 5.0 per cent., to ¥1,035,807 million, as compared to 28 February 2017, mainly due to an increase in land, partially offset by a decrease in leasehold and other deposits.

Total liabilities as of 28 February 2018 increased by ¥21,707 million, or 3.8 per cent., to ¥586,281 million as compared to 28 February 2017, mainly due to increases in advances received and bank borrowings.

Total net assets as of 28 February 2018 increased by ¥27,636 million, or 6.6 per cent., to ¥449,526 million as compared to 28 February 2017, mainly due to an increase in retained earnings.

### ***Consolidated Balance Sheet as of 31 August 2018 Compared to Consolidated Balance Sheet as of 28 February 2018***

Total assets as of 31 August 2018 increased by ¥3,827 million, or 0.4 per cent., to ¥1,039,634 million, as compared to 28 February 2018, mainly due to increases in cash and deposits.

Total liabilities as of 31 August 2018 decreased by ¥609 million, or 0.1 per cent., to ¥585,672 million as compared to 28 February 2018, mainly due to a decrease in accrued income tax.

Total net assets as of 31 August 2018 increased by ¥4,436 million, or 1.0 per cent., to ¥453,962 million as compared to 28 February 2018, mainly due to an increase in retained earnings.

## **Liquidity and Capital Resources**

### ***Cash Flows for the Fiscal Year Ended 28 February 2018 Compared to the Fiscal Year Ended 28 February 2017***

Cash and cash equivalents as of 28 February 2018 amounted to ¥95,120 million, a decrease of ¥8,645 million from 28 February 2017.

Net cash provided by operating activities for the fiscal year ended 28 February 2018 was ¥36,870 million, a decrease of ¥5,396 million from the fiscal year ended 28 February 2017. This mainly reflected a decrease of ¥15,055 million in Decrease (increase) in notes and accounts receivable—trade.

Net cash used in investment activities for the fiscal year ended 28 February 2018 was ¥62,286 million, an increase of ¥53,161 million from the fiscal year ended 28 February 2017. This was mainly due to an increase of ¥47,645 million in Purchase of property, plant and equipment and intangible assets.

Net cash provided by financing activities for the fiscal year ended 28 February 2018 was ¥14,186 million, compared to net cash used in financing activities of ¥4,229 million for the fiscal year ended 28 February 2017. This was mainly due to an increase of ¥5,820 million in Proceeds from long-term loans payable and a decrease of ¥12,725 million in Repayment of long-term loans payable.

### ***Cash Flows for the Six-Month Period Ended 31 August 2018 Compared to the Six-Month Period Ended 31 August 2017***

Cash and cash equivalents as of 31 August 2018 amounted to ¥103,432 million, an increase of ¥8,312 million from 28 February 2018.

Net cash provided by operating activities for the six-month period ended 31 August 2018 was ¥23,753 million, an increase of ¥10,642 million from the six-month period ended 31 August 2017. This mainly reflected an increase of ¥9,657 million in Decrease (increase) in notes and accounts receivable-trade.

Net cash used in investment activities for the six-month period ended 31 August 2018 was ¥14,215 million, a decrease of ¥3,583 million from the six-month period ended 31 August 2017. This was mainly due to decreases of ¥8,554 million in Purchase of property, plant and equipment and intangible assets and ¥1,665 million in Purchase of marketable securities and investment securities, partially offset by a decrease of ¥7,542 million in Proceeds from sales and redemption of marketable securities and investment securities.

Net cash used in financing activities for the six-month period ended 31 August 2018 was ¥1,415 million, a decrease of ¥2,257 million from the six-month period ended 31 August 2017. This was mainly due to a decrease of ¥3,060 million in Repayment of long-term loans payable.

## Funding

As of 28 February 2018, the Group's interest-bearing debt (excluding lease obligations) amounted to ¥174,263 million, compared to ¥155,262 million as of 28 February 2017. Short-term debt (comprising short term bank loans and current portion of long-term debt) as of 28 February 2018 amounted to ¥50,383 million, an increase of 459.3 per cent. from ¥9,007 million as of 28 February 2017. Long-term debt (comprising long-term borrowings and bonds) as of 28 February 2018 amounted to ¥123,880 million, a decrease of 15.3 per cent. from ¥146,255 million as of 28 February 2017. As of 31 August 2018, the Group's interest-bearing debt (excluding lease obligations), short-term debt (comprising short term bank loans and current portion of long-term debt) and long-term debt (comprising long-term borrowings and bonds) amounted to ¥174,203 million, ¥55,342 million and ¥118,861 million, respectively.

The Group derives the funds it requires for its operations from cash flow from operations and borrowings from financial institutions, as well as from issuance of straight bonds and convertible bonds. As is customary in Japan, domestic short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees, as appropriate) with respect to present and future indebtedness will be given at the request of a lending bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset any cash deposited against such obligations.

As of 28 February 2017 and 2018, all of the Group's bank loans were unsecured.

Additionally, the Group operates a membership card system called Tomonokai, pursuant to which members pay certain fixed amounts to the Group each month to accumulate funds for a certain period, at the end of which the member will receive a "bonus" amount from the Group which is added to the membership card, allowing the member to spend the amounts so accumulated and the "bonus" amount on shopping at the Group's stores. The Group's advances received amounted to ¥96,102 million as of 28 February 2018. Such advances, as well as gift certificates offered by the Group to the extent unused, are also sources of funding for the Group. If many members were to leave the Tomonokai scheme, due to reasons such as an impairment in the Group's reputation or brand, the Group may be required to repay such advances and find alternative sources of funding. Further, if the level of the Group's outstanding gift certificates were to decline sharply, this could also affect the Group's funding strategy.

## Capital Expenditure

The following table gives information with respect to the Group's capital expenditure for the periods indicated:

	<b>Fiscal Year Ended the Last Day of February</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	(Millions of yen)		
Department Store .....	¥21,168	¥18,627	¥58,901
Real Estate .....	4,930	3,019	10,500
Finance .....	0	15	3
Contract & Design .....	59	87	230
Others .....	359	299	284
Adjustments .....	(423)	(118)	(432)
	<u>¥26,093</u>	<u>¥21,929</u>	<u>¥69,486</u>

The Group's capital expenditure during each of the fiscal years ended the last day of February, 2016, 2017 and 2018 principally related to redevelopment of the Nihombashi area, acquisition of land and buildings, renovation of stores and development and improvement of shopping centre facilities. The Group's capital expenditure was funded by internally generated funds and borrowings.

Capital expenditure for the fiscal year ending 28 February 2019 is expected to be approximately ¥102.7 billion which has been and/or will be used primarily for the acquisition of land and buildings, and renovation of Nihombashi Takashimaya Shopping Center. The Company intends to fund its capital expenditure for the fiscal year ending 28 February 2019 from internal funds generated from its business operations and from borrowings. Capital expenditure for the fiscal year ending 28 February 2019 may differ significantly from the above estimate because of timing differences or other factors.

The Group is not in a position to estimate capital expenditure levels for periods after 28 February 2019.

## CAPITALISATION AND INDEBTEDNESS

The following table shows the consolidated capitalisation and indebtedness of the Company as of 31 August 2018, which has been extracted without material adjustment from the Company's unaudited quarterly consolidated financial statements as of the same date, and as adjusted to give effect to the issue of the Bonds:

	<b>As of 31 August</b>	
	<b>Actual</b>	<b>As adjusted</b>
	<b>(Millions of yen)</b>	
<b>Short-term debt</b>		
Short-term bank loans	¥ 5,800	¥ 5,800
Current portion of long-term debt	49,542	49,542
Total short-term debt	<u>55,342</u>	<u>55,342</u>
<b>Long-term debt</b>		
Long-term debt	118,861	118,861
The Bonds now being issued	—	60,000
Total long-term debt	<u>118,861</u>	<u>178,861</u>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock		
Authorised: 600,000,000 Shares <sup>(5)</sup>		
Issued: 355,518,963 Shares <sup>(5)</sup>	66,025	66,025
Capital surplus	55,026	55,026
Retained earnings	291,262	291,262
Less: Treasury stock, at cost (6,048,402 Shares)	(6,174)	(6,174)
Total shareholders' equity	<u>406,139</u>	<u>406,139</u>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities, net of taxes	15,746	15,746
Deferred gains or losses on hedges	1	1
Revaluation reserve for land	7,146	7,146
Foreign currency translation adjustment	8,296	8,296
Remeasurements of defined benefit plans	3,457	3,457
Total accumulated other comprehensive income	<u>34,646</u>	<u>34,646</u>
Non-controlling interests in consolidated subsidiaries	13,177	13,177
Total net assets	<u>453,962</u>	<u>453,962</u>
Total capitalisation and indebtedness <sup>(6)</sup>	<u>¥628,165</u>	<u>¥688,165</u>

Notes:

- (1) The above table should be read in conjunction with the consolidated financial statements of the Company contained herein.
- (2) As of 31 August 2018, ¥0 of the Company's consolidated short-term debt was secured and ¥0 of the Company's consolidated short-term debt was guaranteed.
- (3) As of 31 August 2018, ¥0 of the Company's consolidated long-term debt was secured and ¥0 of the Company's consolidated long-term debt was guaranteed.
- (4) As of 31 August 2018, the Company had a total of ¥6,821 million of contingent liabilities in respect of guarantees for loans from financial institutions of Keppel Land Watco II Co., Ltd. and Keppel Land Watco III Co., Ltd. (of which ¥708 million had the benefit of a counter-guarantee from Keppel Land Limited), and ¥69 million of contingent liabilities in respect of loan guarantees made for employees.
- (5) All of the issued Shares are fully-paid and non-assessable. The above table does not reflect any issue of Shares since 1 September 2018 through the exercise of stock acquisition rights in respect of the convertible bonds due 2018 and 2020. The Company implemented one-for-two consolidation of Shares on 1 September 2018, with the result that the authorised capital and issued capital as of 1 September 2018 amounted to 300,000,000 Shares and 177,759,481 Shares, respectively.
- (6) Total capitalisation and indebtedness is the total of total short-term debt, total long-term debt and total net assets.
- (7) Save as disclosed above, there has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of the Group since 31 August 2018.



## INFORMATION CONCERNING THE SHARES

### Changes in Issued Share Capital

The Company has an authorised share capital of 300,000,000 Shares. As of 1 September 2018, 177,759,481 Shares were in issue. The following table shows the changes in the issued share capital of the Company during the periods/dates stated:

<u>Period of issue/cancellation</u>	<u>Type of issue/cancellation</u>	<u>Number of Shares issued/ (cancelled)</u> (thousands of shares)	<u>Total number of Shares in issue</u>
1 March 2014 to 28 February 2015 . . . . .	Exercise of stock acquisition rights	24,691	355,518
1 September 2018 . . . . .	One-for-two stock consolidation	(177,759)	177,759

There has been no change in the issued share capital of the Company since 1 September 2018 (not taking into account any issue of Shares after 1 September 2018 upon exercise of outstanding stock acquisition rights (see “—Stock Acquisition Rights”)).

### Dividends

Under the Company’s Articles of Incorporation, a year-end dividend may be distributed to shareholders of record as of the last day in February of each year pursuant to a resolution passed at the general meeting of shareholders; however, an interim dividend may also be distributed to shareholders of record as of 31 August of each year pursuant to a resolution of the Board of Directors. See “Description of the Shares and Certain Regulations”. The payment of dividends will also be subject to other factors including legal restrictions with respect to the payment of dividends. See “Description of the Shares and Certain Regulations—Distributions of Surplus”.

The following table sets forth the dividends paid by the Company to shareholders of record as of the dates indicated:

<u>Record date</u>	<u>Dividend per Share</u> (Yen)
28 February 2013 . . . . .	¥5.00
31 August 2013 . . . . .	5.00
28 February 2014 . . . . .	5.00
31 August 2014 . . . . .	5.00
28 February 2015 . . . . .	5.00
31 August 2015 . . . . .	6.00
29 February 2016 . . . . .	6.00
31 August 2016 . . . . .	6.00
28 February 2017 . . . . .	6.00
31 August 2017 . . . . .	6.00
28 February 2018 . . . . .	6.00
31 August 2018 . . . . .	6.00

Note:

(1) The amount of dividends per Share set out in the above table are actual amounts paid per Share, unadjusted for the one-for-two stock consolidation that took effect on 1 September 2018.

The Company’s basic policy is to maintain the payment of stable dividends (twice a year, with record dates at the end of the fiscal year and the end of the second quarter of the fiscal year), taking into account its overall results of operations and management base.

## Japanese Stock Markets and Price Range of the Shares

The Shares are listed on the First Section of the Tokyo Stock Exchange. The following table shows the highs and lows of the reported sales prices of the Shares on the Tokyo Stock Exchange as well as the highs and lows of the closing Nikkei Stock Average and the closing level of the Tokyo Stock Price Index (“TOPIX”), for the periods indicated:

Calendar period	Price per Share		Nikkei Stock Average		TOPIX	
	High	Low	High	Low	High	Low
	(Yen)		(Yen)		(Points)	
2013 <sup>(1)</sup>	¥2,366	¥1,214	¥16,291.31	¥10,486.99	1,302.29	871.88
2014 <sup>(1)</sup>	2,142	1,660	17,935.64	13,910.16	1,447.58	1,132.76
2015 <sup>(1)</sup>	2,530	1,816	20,868.03	16,795.96	1,691.29	1,357.98
2016 <sup>(1)</sup>	2,180	1,340	19,494.53	14,952.02	1,552.36	1,196.28
2017 <sup>(1)</sup> :						
1st quarter	2,090	1,900	19,633.75	18,787.99	1,577.40	1,506.33
2nd quarter	2,334	1,900	20,230.41	18,335.63	1,624.07	1,459.07
3rd quarter	2,160	1,982	20,397.58	19,274.82	1,676.17	1,590.71
4th quarter	2,436	2,030	22,939.18	20,400.78	1,831.93	1,673.62
2018 <sup>(1)</sup> :						
1st quarter	2,426	1,920	24,124.15	20,617.86	1,911.07	1,664.94
2nd quarter	2,102	1,788	23,002.37	21,292.29	1,815.25	1,703.80
3rd quarter	1,921	1,785	24,120.04	21,546.99	1,822.44	1,676.20
4th quarter (to 20 November)	1,932	1,662	24,270.62	21,149.80	1,824.03	1,589.56

Note:

- (1) The prices per share for periods prior to (and including) 28 August 2018 (being the last trading day before the shares became ex-rights as regards the stock consolidation) has been adjusted for the one-for-two stock consolidation that took effect on 1 September 2018, as if such stock consolidation took effect on 1 January 2013.

On 20 November 2018, the last reported closing price of the Shares on the Tokyo Stock Exchange was ¥1,895 per Share and the Nikkei Stock Average and TOPIX closed at ¥21,583.12 and 1,625.67, respectively.

## Principal Shareholders and Other Information

As of 28 February 2018, the Company had 50,625 shareholders of record. The 10 largest shareholders of record, the number of Shares held by them and their shareholding percentages as of 31 August 2018 were as follows:

Shareholder	Number of Shares held (Thousands)	Percentage of total Shares in issue (Per cent.)
Japan Trustee Services Bank, Ltd. (Trust Account)	32,326	9.09%
The Master Trust Bank of Japan, Ltd. (Trust Account)	29,729	8.36
H <sub>2</sub> O Retailing Corporation	17,774	5.00
Nippon Life Insurance Company (standing proxy: The Master Trust Bank of Japan, Ltd.)	9,923	2.79
JP Morgan Chase Bank 385765 (standing proxy: Mizuho Bank, Ltd.)	6,429	1.81
Takashimaya Kyoueikai <sup>(1)</sup>	6,334	1.78
Japan Trustee Services Bank, Ltd. (Trust Account No. 5)	5,968	1.68
Japan Trustee Services Bank, Ltd. (Trust Account No. 9)	4,996	1.41
State Street Bank West Client-Treaty 505234 (standing proxy: Mizuho Bank, Ltd.)	4,953	1.39
Sotetsu Holdings, Inc.	4,805	1.35
Total	123,238	34.66%

Notes:

- (1) A shareholding association for the Company’s suppliers.  
(2) The Company held 6,048,402 Shares of treasury stock as of 31 August 2018, which are excluded from the above table.  
(3) The FIEA requires any person who has become, beneficially and solely or jointly, a holder of more than five per cent. of the total issued voting securities of a company listed on any Japanese stock exchange to file a report concerning such shareholdings with the Director of a competent Local Finance Bureau, and also requires such person to file a similar report in respect of any subsequent change of one per cent. or more in holdings or any changes in material matters set out in the reports previously filed (see “Description of the Shares and Certain Regulations—Reporting of Substantial Shareholders”). As of 20 November 2018, the Company has received the following reports in respect of holdings or changes in holdings of the Shares since 1 March 2018:

- A report relating to a change in shareholding filed on 23 March 2018 by Mizuho Securities Co., Ltd. and other joint holder, informing of their ownership of Shares amounting to 25,484,419 Shares as of 15 March 2018, as set out below:

Mizuho Securities Co., Ltd.	11,590,419 Shares
Asset Management One Co., Ltd.	13,894,000 Shares

- A report relating to a change in shareholding filed on 19 October 2018 by Nomura Securities Co., Ltd. and other joint holders, informing of their ownership of Shares amounting to 17,604,052 Shares as of 15 October 2018, as set out below:

Nomura Securities Co., Ltd. ....	5,758,557 Shares
Nomura Holdings Inc. ....	100 Shares
Nomura International plc ....	3,488,695 Shares
Nomura Securities International, Inc. ....	5,500 Shares
Nomura Asset Management Co., Ltd. ....	8,351,200 Shares

- A report relating to a change in shareholding filed on 19 October 2018 by Sumitomo Mitsui Trust Bank, Limited and another joint holder, informing of their ownership of Shares amounting to 9,194,684 Shares as of 15 October 2018, as set out below:

Sumitomo Mitsui Trust Bank, Limited ....	4,802,784 Shares
Nikko Asset Management Co., Ltd. ....	4,391,900 Shares

(4) Except as stated above, the Company is not aware of any change in the information provided above.

The ownership distribution of the Shares by category of shareholders of record of the Company as of 28 February 2018 was as follows:

	Number of shareholders	Number of Shares held (Units <sup>(1)</sup> )	Percentage of total Shares in issue (Per cent.)
Government and public institutions .....	0	0	0.00%
Japanese financial institutions .....	54	123,466	34.88
Japanese financial instruments business operators .....	29	9,863	2.79
Other Japanese corporations <sup>(2)</sup> .....	598	52,252	14.76
Foreign corporations and others (including foreign individuals) .....	485	75,495	21.33
Japanese individuals and others <sup>(3)</sup> .....	49,459	92,847	26.23
Total <sup>(4)</sup> .....	<u>50,625</u>	<u>353,923</u>	<u>100.00%</u>

Notes:

- (1) One unit comprises one thousand Shares.
- (2) Includes one unit of Shares registered in the name of Japan Securities Depository Center, Inc.
- (3) 6,045,405 Shares held as treasury stock by the Company are included (as 6,045 units of Shares) in Japanese individuals and others.
- (4) Other than as set out in the table above, 1,595,963 Shares are outstanding as amounts held by shareholders of less than one whole unit.

As of 31 August 2018, the Company's Directors and Corporate Auditors together held 483 thousand Shares, representing 0.1 per cent. of total Shares in issue as of that date.

As of the date of this Offering Circular, the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

## Stock Acquisition Rights

As of 31 August 2018, the Company had outstanding stock acquisition rights in respect of its unsecured bonds with stock acquisition rights issued in December 2013:

### *Zero Coupon Convertible Bonds due 2018*

Principal amount of bonds with stock acquisition rights outstanding .....	¥40,000 million
Number of stock acquisition rights outstanding .....	4,000
Type of shares into which the stock acquisition rights are exercisable .....	Shares of common stock of the Company
The number of Shares into which the stock acquisition rights are exercisable .....	27,839,643 Shares
Conversion price <sup>(1)</sup> .....	¥1,436.8
Period during which the stock acquisition rights may be exercised .....	25 December 2013 to 27 November 2018
Restrictions on the transfer of stock acquisition rights .....	None

### *Zero Coupon Convertible Bonds due 2020*

Principal amount of bonds with stock acquisition rights outstanding .....	¥25,000 million
Number of stock acquisition rights outstanding .....	2,500
Type of shares into which the stock acquisition rights are exercisable .....	Shares of common stock of the Company
The number of Shares into which the stock acquisition rights are exercisable .....	18,692,986 Shares
Conversion price <sup>(1)</sup> .....	¥1,337.4
Period during which the stock acquisition rights may be exercised .....	25 December 2013 to 27 November 2020
Restrictions on the transfer of stock acquisition rights .....	None

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Note:

- (1) The conversion price in respect of these unsecured bonds with stock acquisition rights is subject to adjustment in certain events. Effective as of 1 September 2018, the conversion prices have been adjusted to ¥2,873.6 and ¥2,674.8, respectively, due to the one-for-two stock consolidation (the record date of which fell on 31 August 2018).

## BUSINESS

### Overview and History

The Group is one of the leading department store operators in Japan with a history that spans over 185 years. The Company's business originated from a speciality store in Kyoto selling materials for Japanese clothing which was established in 1831 by Shinshichi Iida. This business expanded with the opening of the Osaka store in 1898 followed by the Nihombashi store two years later. Since then, the Group has further expanded its network of stores in Japan including its Yokohama store which opened in 1959 and its Shinjuku store which opened in 1996. The Group has since expanded its network of stores overseas, including the Singapore store which opened in 1993, the Shanghai store which opened in 2012, the Ho Chi Minh City store which opened in 2016, and most recently the SIAM Takashimaya which opened in Bangkok in November 2018.

The Company was incorporated under the laws of Japan on 20 August 1919 as Takashimaya Gofukuten Co., Ltd., and it adopted its current name Takashimaya Company, Limited, in 1930. The Shares have been listed on the Tokyo Stock Exchange since 1949.

As of the date of this Offering Circular, the Group has 19 department stores throughout Japan including five flagship stores in Osaka, Kyoto, Nihombashi (Tokyo), Yokohama and Shinjuku (Tokyo). The Group operates overseas department stores in Singapore, Shanghai, Ho Chi Minh City and Bangkok, where the Group has recently opened a new department store in "ICONSIAM", which is one of the biggest large-scale complex development projects in the central area of Bangkok.

The Company operates its five flagship stores in key commercial districts in both western and eastern Japan, attracting customers from the surrounding areas. The Group has recently opened the Nihombashi Takashimaya Shopping Center, a complex comprising of the original Nihombashi flagship department store, a newly developed adjacent block containing over 100 specialty stores, and two other adjacent blocks of stores, in connection with the redevelopment of the local area. The Group estimates that the total number of customer visits at its 17 department stores in Japan (being the domestic stores excluding the JR Nagoya Takashimaya and the Iyotetsu Takashimaya stores) was around 194 million in the fiscal year ended 28 February 2018.

Sales and other operating revenue to/from outside customers in the Group's Department Store segment accounted for 87.3 per cent., 86.3 per cent. and 87.0 per cent. of the Group's consolidated sales and other operating revenue for the fiscal year ended the last day of February, 2016, 2017 and 2018, respectively. The other four business segments of the Group mostly relate to its department store operations and these comprise Real Estate, Finance, Contract & Design and Others. Currently, the Group's main focus is to pursue growth under its "Machi-dukuri" (meaning "town formation") strategy whereby it works to have its department stores serve as the "anchor point" of their respective locations which attract people to the entire city, at the same time as maximising department store attractiveness, while also pursuing its Group Reform Project under which it fundamentally reforms group operations with the aim to improve operational efficiency and to reinvest the profits thus gained into growth strategies. The Group's reportable segments, based on services provided, comprise of the following:

- *Department Store.* The Group's Department Store segment comprises the core of its business and engages primarily in the retail sale of a wide range of merchandise including clothing, accessories, cosmetics, fine jewellery, household goods and food, as well as offering restaurant, cafe and other services.
- *Real Estate.* The Group's Real Estate segment is involved in the management, acquisition, sale and rental of the Group's properties, and planning, development and management of shopping malls.
- *Finance.* The Group's Finance segment engages in financing activities which include the operation of Takashimaya credit cards and credit card loans.
- *Contract & Design.* The Group's Contract & Design segment offers specialist services in interior design and construction, including planning, design, supervision and consulting in relation to construction and interior carpentry of commercial facilities such as department stores as well as office space and hotels.

The Group's other businesses are reported under the "Others" segment, and include wholesale, supply of goods to companies within the Group and to the Group's department stores, sewing and processing and others, in addition to the "Cross Media Division" which provides mail-order shopping services and online shopping services.

As of 31 August 2018, the Group comprised of the Company and 33 subsidiaries (of which 28 companies were consolidated subsidiaries) and 12 affiliates (of which 5 companies were accounted for by the equity method).

## Strategy

### *Business Environment*

Recent years have seen the Japanese economy continue to show a modest expansion, driven by strong corporate performance, increased capital investment and improved personal consumption, and inbound tourist demand has also been increasing. However, future prospects remain uncertain, given rising global trade friction and the possibility of interest rate increases, as well as fears about the long-term impact of the recent typhoons, flooding and earthquakes in Japan. In the medium to long-term, Japan faces structural challenges resulting from its super-ageing and shrinking population. In such business environment, the Group has pursued the strategies contained in its long-term business plan while continuing to be rooted in its management philosophy of “putting people first”, working to contribute to society by valuing the spirit of believing in people, loving people and serving people, implementing the five policies of (i) service that remains within the heart, (ii) creation of new lifestyles and cultures that open up the future, (iii) contributing to creating vibrant local communities, (iv) unceasing efforts to protect the global environment, and (v) activities trusted by the community.

### *Long-Term Business Plan*

Every year, the Group establishes a long-term business plan which covers the following five years. In the current long-term business plan, the Group aims to reach one of the highest levels of earning-power, efficiency and stability among the industry players, through the Machi-dukuri strategy and the Group Reform Project (set out in more detail below). The Machi-dukuri strategy seeks to use the synergies of its department stores to gain competitive advantage in each of its department store, real estate business, finance business, and overseas business. By leveraging the collective strengths of the Group, particularly that of its commercial developer, Toshin Development, the Group seeks to maximise the appeal of its commercial facilities and their surroundings. The Group Reform Project strategically supports the Machi-dukuri strategy through a thorough review of the Group management structure with the aim of improving operational efficiency and reinvesting the profits thus gained into growth strategies.

In terms of capital strategy, the Group will place importance on balancing future growth-oriented investment with shareholder return so as to achieve both financial health and capital efficiency. The Group intends to make strategic growth investments of amounts within its operating cashflows (including cash from disposals of assets), while it also will work to further decrease its interest-bearing debt.

### *Machi-dukuri Strategy*

The Group believes that its “Machi-dukuri” (meaning “town formation”) strategy enables it to respond to changes in the consumer environment as well as to the diversifying values and needs of consumers to provide customer satisfaction. There are two principal concepts in the Group’s Machi-dukuri strategy:

- *Serving as the city’s “anchor point”*: the Group intends to strive for its department stores to serve as the core of each city in which it is located and to function as an “anchor point” which attracts people to the entire city as well as promoting efforts such as cooperation with local government, nearby commercial facilities and railroad companies.
- *Maximising the buildings’ attractiveness*: the Group intends to work towards the combination of department stores and specialty shops in order to improve product line-ups, services and shopping environments. By maximising the buildings’ attractiveness, the Group aims to provide its customers with a sense of excitement and enjoyment similar to that found when walking around a town. The Group intends to promote the creation of its distinctive commercial facilities by utilising the commercial production strength of Toshin Development to support this strategy.

An example of the implementation of the Machi-dukuri strategy is the recently opened Nihombashi Takashimaya Shopping Center. The Group used its synergies to integrate the Nihombashi department store with specialty stores contained in the shopping centre part of the complex to maximise the appeal of the building and to achieve a commercial facility that multiple generations can enjoy throughout the day. The project is designed to offer a premiere commercial facility that combines commerce, business facilities and culture, and comprises the Nihombashi flagship department store, a newly developed adjacent block containing over 100 specialty stores, the East Building containing “Pokémon Center TOKYO DX” offering a large selection of Pokémon merchandise and the Pokémon café, and the “Watch Maison” specialising in offering a wide variety of watch brands.

Further, the Group’s 22 domestic and overseas commercial facilities have been engaged in local Machi-dukuri projects, including the Shinjuku Takashimaya Times Square, which increased the potential of the

Shinjuku Expressway Bus Terminal area while enabling the Group to reduce operating costs by unifying building management under Toshin Development, the Tamagawa Takashimaya shopping centre, which the Group believes is Japan's first fully-fledged shopping centre, the number of visitors to which has increased with the development of the station area, and the Singapore Takashimaya Shopping Centre, which has achieved a commanding position as a hub for the Group's Asian development.

### *Group Reform Project*

The Group is pursuing its Group Reform Project which uses digital technology to fundamentally reform group operations and management structure with the aim to improve operational efficiency and reinvest profits from its improvement into growth strategy.

The Group Reform Project is a management strategy that supports the Machi-dukuri strategy. Its aim is to improve operational efficiency through utilising digital technologies, and through such efforts to form the capital required for investments in future growth.

The Group intends to fundamentally review its existing systems with a view to forming optimal group-wide systems that adapt to changes in customer needs and the business environment in a timely and flexible manner. In addition, the Group will implement measures such as work style reforms, reforms relating to costs common to the group, and renewal of accounting and operational systems (including improving the transparency of operational costs for improved efficiency), and reinvest the profits from such improvements in domestic department store and other businesses as well as overseas businesses through customer experience reforms, with a view to assuring the Group's future growth.

### ***Current strategies by business***

#### *Department Store business*

In the Department Store business, the Group is working to grow its customer base by leveraging trustworthiness and direct connections. In terms of enhancing its department stores' merchandising and selling power, the Group is creating synergies with specialty stores, with a view to improving the ability to discern merchandise with rarity value and curate merchandise thematically, flexibly developing appealing merchandise line-ups that additionally cater to customers who do not visit the store, and linking in-store sales with e-commerce.

The Group is working to effectively capture inbound demand by making its department stores more tourist-friendly such as through expanding mobile payment options and providing multilingual announcements. Further, through its alliance strategy, the Group is working to expand targeted demographics and bring them into membership, while through the Group Reform Project, it is working to improve customer satisfaction and pursue strategy for expanding points of connection.

#### *Real Estate business*

In the real estate business, the Group intends to pursue the Machi-dukuri strategy to form a "next-generation" department store business. With regard to the Nihombashi Takashimaya Shopping Center, the Group intends to continue to attract tenants into the new wing and the east wing, to develop the shopping centre further (including opening the outdoor "Kokage Terrace") and enhance the appeal of the buildings. Toshin Development is working to further develop the area around the Nagareyama Otakanomori Shopping Center, including pursuing a project to develop commercial facilities under the train station walkway. Overseas, with the Singapore Takashimaya Shopping Centre having celebrated its 25th anniversary, the Group is further reinforcing its business base and leveraging on its experience gained in Singapore to expand into ASEAN countries.

#### *Finance business*

The Group is working to gain profits and revenues from Takashimaya Credit through gaining new members and promoting utilisation of cards at department stores and member stores. The Group believes that analysis of customer data as part of the Group Reform Project will underpin its efforts to expand this business. Furthermore, the Finance business aims to analyse its customer data and expand its businesses by providing a wide range of payment options through Takashimaya Credit and a "financial concierge" service as well as financial products, such as insurance tailored to customers' life stages.

#### *Contract & Design business*

The Group intends to leverage on the experience it has gained from its Department Store business to make attractive proposals in this business both to existing clients and to new clients in growth areas, with a view to

gaining stable and constant revenues. Through development of human resources, collaboration and digitalisation, the Group intends to further improve its design and client proposal capabilities in this business.

#### Overseas business

The Singapore business, which is celebrating its 25th anniversary, has seen an upturn in performance following the improvement of the Singapore economy. The Group is utilising its Singapore business as a hub for the Group's rapidly growing Asian business. The Group has recently opened SIAM Takashimaya in Bangkok, one of the biggest large-scale complex development projects in the central area of Bangkok developed by a major local developer, Siam Piwat, which targets the Thai middle-income segment and above as well as the over 35 million tourists which visit Thailand every year.

The Ho Chi Minh store in Vietnam, which is capitalising on Vietnam's economic growth, has been garnering esteem among locals and has made steady progress in developing its loyalty card membership and the Group is working towards gaining profitability at this store while considering future expansion.

The Shanghai store has been leveraging the features of a Japanese-style department store to increase sales. The Group expects the surrounding area to improve with the development of adjacent commercial facilities and intends to maintain efficient management of this store to achieve early profitability.

#### Operations

The Group's reportable segments, based on merchandise and services provided, comprise of (i) Department Store, (ii) Real Estate, (iii) Finance, and (iv) Contract & Design; and the Group's other businesses are reported as (v) Others.

The following table gives details on the Group's sales and other operating revenue and percentage of total sales and other operating revenue to/from outside customers by segment for the fiscal years ended the last day of February, 2016, 2017 and 2018 (presented on a gross basis) and for the six-month periods ended 31 August 2017 and 2018 (presented on a net basis with regard to the relevant consolidated overseas subsidiaries). See "Recent Business—Critical Accounting Policies, Factors Affecting Results of Operations and Changes in Accounting Policies—Changes in Accounting Policies—IFRS 15 "Revenue from Contracts with Customers"—Accounting treatment for net sales relating to consignment buying transactions of consolidated overseas subsidiaries".

	Fiscal Year Ended the Last Day of February					
	2016		2017		2018	
	Sales and Other Operating Revenues (Millions of yen)	Percentage to Consolidated Sales and Other Operating Revenues (Per cent.)	Sales and Other Operating Revenues (Millions of yen)	Percentage to Consolidated Sales and Other Operating Revenues (Per cent.)	Sales and Other Operating Revenues (Millions of yen)	Percentage to Consolidated Sales and Other Operating Revenues (Per cent.)
Department Store	¥811,648	87.3%	¥797,254	86.3%	¥826,562	87.1%
Real Estate	42,390	4.5	47,923	5.2	47,476	5.0
Finance	12,866	1.4	13,415	1.5	14,188	1.5
Contract & Design	26,710	2.9	30,874	3.3	25,916	2.7
Others	35,975	3.9	34,136	3.7	35,430	3.7
Total	¥929,589	100.0%	¥923,602	100.0%	¥949,572	100.0%

  

	Six-Month Period Ended 31 August			
	2017		2018	
	Sales and Other Operating Revenues (Millions of yen)	Percentage to Consolidated Sales and Other Operating Revenues (Per cent.)	Sales and Other Operating Revenues (Millions of yen)	Percentage to Consolidated Sales and Other Operating Revenues (Per cent.)
Department Store	¥377,002	87.0%	¥383,736	86.9%
Real Estate	19,925	4.6	20,979	4.7
Finance	7,198	1.7	7,494	1.7
Contract & Design	13,369	3.1	12,197	2.8
Others	15,786	3.6	17,119	3.9
Total	¥433,280	100.0%	¥441,525	100.0%



The following table gives details on the Group's segment income (loss) presented on an operating income basis for the fiscal years ended the last day of February, 2016, 2017 and 2018 and for the six-month periods ended 31 August 2017 and 2018:

	Fiscal Year Ended the Last Day of February			Six-Month Period Ended 31 August	
	2016	2017	2018	2017	2018
	(Millions of yen)				
Department Store	¥14,976	¥12,183	¥13,509	¥ 4,130	¥ 4,428
Real Estate	10,294	11,029	11,394	5,101	4,733
Finance	4,377	4,496	4,563	2,243	2,402
Contract & Design	1,899	2,343	1,208	739	441
Others	1,497	2,334	3,331	1,353	1,179
Adjustments	(70)	1,616	1,314	327	238
Consolidated operating income	<u>¥32,973</u>	<u>¥34,001</u>	<u>¥35,319</u>	<u>¥13,893</u>	<u>¥13,421</u>

### Department Store Business

#### Stores

As of the date of this Offering Circular, the Group has 19 department stores spread across Japan, including five flagship stores in Osaka, Kyoto, Nihombashi (Tokyo), Yokohama and Shinjuku (Tokyo), and four overseas department stores in Singapore, Shanghai, Ho Chi Minh City and Bangkok.

In comparison with other department store operators, the Group believes that the Group's network of large stores is evenly distributed in major Japanese cities. Further, the Group believes that despite tough market conditions, its smaller regional stores are soundly operated.

The following table sets out the net sales of the Group by each department store in Japan for the periods indicated:

	Fiscal Year Ended the Last Day of February		
	2016	2017	2018
	(Millions of yen)		
<b>Western Japan</b>			
Osaka store	¥127,630	¥129,952	¥141,451
Sakai store	13,860	12,989	13,122
Kyoto store	85,946	84,816	88,126
Senboku store	18,614	17,999	16,879
Okayama store	18,517	18,315	18,674
Gifu store	15,330	14,960	14,663
Yonago store	5,993	5,334	4,913
<b>Eastern Japan</b>			
Nihombashi store	136,631	132,908	134,241
Yokohama store	132,036	129,432	131,650
Konandai store	9,969	8,896	8,237
Shinjuku store	70,441	70,843	73,332
Tamagawa store	42,909	43,088	43,666
Tachikawa store	15,754	14,589	12,332
Omiya store	10,528	10,130	10,158
Kashiwa store	35,727	35,712	38,147
Takasaki store	15,156	15,184	15,447
Total	<u>¥755,041</u>	<u>¥745,147</u>	<u>¥765,038</u>

#### Notes:

- Sales at the Rakusai store are included in the sales figures for the Kyoto store.
- The sales figures for each store include sales to the Group's corporate customers and from the Group's Cross Media Division according to the relevant geographic location.
- Sales at the JR Nagoya Takashimaya store and the Iyotetsu Takashimaya store are not shown in the above table as those stores are operated through affiliates of the Company accounted for by the equity method.

The following table sets out the sales floor space by store of the Group by each department store in Japan as of 28 February 2018:

	<u>Sales Floor Space</u> (Square metres)
<b>Western Japan</b>	
Osaka store .....	63,997
Sakai store .....	18,686
Kyoto store .....	60,098
Senboku store .....	17,107
Okayama store .....	21,569
Gifu store .....	26,117
Yonago store .....	13,834
<b>Eastern Japan</b>	
Nihombashi store .....	49,144
Yokohama store .....	56,529
Konandai store .....	8,214
Shinjuku store .....	53,907
Tamagawa store .....	24,113
Tachikawa store .....	8,156
Omiya store .....	12,401
Kashiwa store .....	29,207
Takasaki store .....	19,892
Total .....	<u>482,971</u>

Notes:

- (1) Floor space at the Rakusai store is included in the floor space for the Kyoto store.
- (2) Floor space at the JR Nagoya Takashimaya store and the Iyotetsu Takashimaya store are not shown in the above table as those stores are operated through affiliates of the Company accounted for by the equity method.

The Group targets a diverse base of customers in terms of age groups and sexes; its current major customer base tends to comprise of middle-aged to older women in the higher income brackets. Whilst the Group maintains a uniform brand image of its department stores, it also believes in tailoring its strategy to fit the profile of customers at the individual store-level, and merchandise is adapted according to the location and space of each store. Three factors are used to guide the formulation of a department store's approach to merchandising, namely (i) the grade of products on offer, (ii) the style of clothes and fashion goods on offer to cater to customers' tastes and to influence the desired type of customer the particular store seeks to attract, and (iii) the age group of the majority of its customers: the profile of the customers varies from store to store (for instance, the Nihombashi department store's customers mostly comprise middle-aged and older women (while the adjoining new wing of Nihombashi Takashimaya Shopping Center has seen both male and female customers in their twenties to forties with children living in high-rise apartments in the Tokyo Bay area), whereas the Shinjuku store's customers comprise a wider-ranging age demographic, including the younger generations as well as older customers). In addition to procurement at a regional level to ensure that merchandise matches customer preference in the appropriate regions, the Group also operates a central buying system managed out of Tokyo, allowing the regional stores to stock merchandise that may otherwise be unavailable.

The focus of the merchandise offered at the Group's department stores is higher quality products.

The Group continually works to strengthen its range of products with a view to offering quality and value while responding to changing trends and preferences; for example, the Group has recently been focusing on offering high-quality products to professional women through introducing "Suit Closet", and "Takashimaya Style Order Salon" which offers bespoke suits and shirts for men. Further, the Group introduced "Robotics Studio", the first dedicated robotics shop to appear in a department store. In addition, the Group also takes initiatives targeting customers in the higher income brackets through services such as issuing VIP credit cards depending on the amount used within the Group.

To capture inbound tourist demand, the Group has been working on making its department stores more tourist-friendly such as through expanding mobile payment options and providing multilingual announcements. The Group has revised its organisational approach to social media marketing and issued online video messages. Additionally, to attract even more tourists into its stores, the Group conducted a coupon campaign together with its department stores in Singapore, Shanghai, and Ho Chi Minh City. The Group also conducted a joint campaign with a major Chinese payment company and Chinese online travel agent.

### *Flagship Stores*

The Osaka store opened in 1930 and is located at a large railway terminal in a shopping and entertainment centre in Osaka. Its merchandise is selected with a view to attracting a wide range of customers. In March 2011, the Osaka store completed its renovation and expanded its sales floor space, with a view to increasing its competitiveness with new department stores and commercial complexes which have opened in the area.

The Kyoto store opened in 1950, and is located close to two major railway lines. The store is the largest department store in Kyoto in terms of net sales.

The Nihombashi store, which opened in 1933, is located in Nihombashi close to Tokyo station and subway stations. In 2009, the Nihombashi store was designated as an Important Cultural Property, the first department store building to receive such status in Japan. The Nihombashi store underwent a major redevelopment culminating the opening of the Nihombashi Takashimaya Shopping Center in September 2018. The project is designed to offer a premiere commercial facility that combines commerce, business facilities and culture, and comprises the Nihombashi flagship department store, a newly developed adjacent block containing over 100 specialty stores, the East Building containing “Pokémon Center TOKYO DX” offering a large selection of Pokémon merchandise and the Pokémon café, and the “Watch Maison” specialising in offering a wide variety of watch brands. The Nihombashi flagship department store portion is currently being refurbished, with a view to an opening in Spring 2019.

The Yokohama store is situated by, and connected with, the main Yokohama railway station, and enjoys the highest department store sales in Kanagawa prefecture, with a core customer base of middle-aged and older women in the higher income brackets. In addition, the Group has another store in the Yokohama area at Konandai.

In 1996, the Group opened a department store in the Shinjuku district of Tokyo next to one of the busiest railway terminals in Japan and in one of Tokyo’s largest shopping and entertainment districts. In 2007, major renovations at the Shinjuku store were completed. The Shinjuku store is part of a commercial complex called “Takashimaya Times Square”, which also includes Tokyu Hands, a popular home improvement and lifestyle store, Nitori, a furniture and home furnishing products store, a Uniqlo clothing store and a Kinokuniya book store. In April 2017, Takashimaya Duty Free Shop SHILLA & ANA opened in “Takashimaya Times Square” attracting foreign tourists visiting Japan.

### *Other Stores and Online Shopping*

The Group’s other department stores in Japan are smaller in size as compared to its flagship stores and are located in Sakai, Rakusai (Kyoto), Senboku, Okayama, Gifu and Yonago in western Japan, and Tamagawa, Tachikawa, Konandai, Omiya, Kashiwa and Takasaki in eastern Japan. Each department store has its own unique style depending on its location and target customer profile. For example, the Tamagawa store, which was opened in 1969 in a residential western suburb of Tokyo, is the first large scale shopping mall-style department store in Japan featuring a combination of a department store and a number of speciality stores; the Group believes that the Tamagawa store, as well as the Tamagawa Takashimaya Shopping Center as a whole, has contributed to the development and popularity of the Tamagawa area. Stores such as the Tamagawa store and the Kashiwa store (located within the station shopping complex), as well as the recently remodelled Tachikawa store (contained within the newly developed Tachikawa Takashimaya Shopping Center), are managed leveraging on the Group’s know-how in operating shopping centres.

The Company also licenses rights to use the Takashimaya name to the JR Nagoya Takashimaya store which is operated by an affiliate of the Company, JR Tokai Takashimaya Co., Ltd., a company majority owned by Central Japan Railway Company, as well as the Iyotetsu Takashimaya store which is operated by an affiliate of the Company, Iyotetsu Takashimaya Co., Ltd., a company majority owned by Iyo Railway Co., Ltd. The JR Nagoya Takashimaya store is comparable to the Company’s flagship stores in terms of floor space and level of sales.

The Group is also strengthening online and mail-order shopping businesses through Takashimaya Online Store and Takashimaya Fashion Square. Leveraging on its strength of having physical stores, the Group aims to distinguish itself from e-commerce retailers by adopting strategies which seek to increase value to the customers (for example, by drawing fully upon the Group’s strength in offering gift products such as for Valentine’s Day and birthdays). In relation to Select Square Co., Ltd., the Group also seeks to improve convenience for customers by cooperating with online sales channels.

## *Merchandise*

The Group is engaged primarily in the retail sale of a wide range of merchandise and the provision of certain services, which can be divided into the following categories:

- *Clothing*: The Group sells a wide variety of clothing largely at the upper end of the market, including designer clothes. More than half the sales in this category are women's clothing, around a fifth are men's clothing and the remainder are children's clothing and others. Sales of clothing comprised 28.7 per cent. of total domestic department store sales (excluding the JR Nagoya Takashimaya store and the Iyotetsu Takashimaya store; hereinafter the same) in the fiscal year ended 28 February 2018, making this category the largest contributor to the sales of the Group's department store operations.
- *Accessories*: Sales in this category comprise sales of domestic and imported handbags and luggage, shoes, accessories and miscellaneous items. Sales of accessories comprised 15.3 per cent. of total domestic department store sales in the fiscal year ended 28 February 2018.
- *Cosmetics, fine jewellery and other items*: Sales in this category comprise sales of cosmetics, fine jewellery and other miscellaneous items such as sports goods and stationery. Sales of the cosmetics, fine jewellery and other items category comprised 17.2 per cent. of total domestic department store sales in the fiscal year ended 28 February 2018.
- *Household goods*: Household goods sold at the Group's stores include sales of furniture, electronic appliances and home-ware such as kitchen utensils, table-ware and toiletries. Sales of household goods comprised 6.6 per cent. of total domestic department store sales in the fiscal year ended 28 February 2018.
- *Food*: In common with other department store chains in Japan, the Group operates food halls in each of its stores. The Group sells a wide range of foods, including speciality goods in seasonal demand. Sales of food items comprised 28.2 per cent. of total domestic department store sales in the fiscal year ended 28 February 2018.
- *Restaurants and cafés*: The Group operates in-store restaurants and cafés. Sales recorded at restaurants and cafés comprised 1.8 per cent. of total domestic department store sales in the fiscal year ended 28 February 2018 (this does not include rental income received by Toshin Development from third party restaurant operators operating in certain of the Group's stores). The in-store restaurants and cafés also contribute to attracting customers to the Group's department stores.
- *Services and other*: The Group's department stores also offer a variety of in-store services to the customers such as beauty salons, dress rental and repair services. Sales recorded in this category comprised 2.2 per cent. of total domestic department store sales in the fiscal year ended 28 February 2018.

The Group implements a merchandising strategy that covers all stages from procurement to retail sales, with the aim of adapting quickly to changes in trends and society and meeting customer expectations in a timely manner.

The Group takes account of regional characteristics in formulating its merchandising strategy in respect of each store, whether it be in respect of smaller stores within Japan or overseas stores such as the highly successful Singapore store, whose merchandise varies substantially from those in the Group's Japanese stores. In respect of the larger stores, the Group has been focusing on strategically strengthening its "high brand" floor space, including the renovation and further development of "Salon le Chic" fashion floors primarily offering international designer brand merchandise. The Group is also strengthening the development of its own-brand "Takashimaya label" range of high quality products that differentiates itself through emphasis on factors such as high quality and original designs taking into account customer requests, including high-quality own-brand knitwear.

The Group has in place its Takashimaya Quality System, which is a combination of the Group's own quality standards and the levels required by regulations and emphasises the importance of proper disclosure as regards quality in order to offer safe and high-quality products to its customers. All of the Group's procurement staff (the "buyers") are expected to comply with the Takashimaya Quality System.

## *Procurement and Distribution*

The Group maintains relationships with a number of suppliers which are mainly manufacturers and wholesalers (which, to a limited extent, include the Company's subsidiaries and affiliates). The Group's relationships with luxury brands are a key factor in its positioning as a retailer of luxury merchandise. The Group is not dependent on any one supplier for its merchandise.

As is common and peculiar among Japanese department stores, a high proportion of the Group's merchandise procurement is done on the basis of the Group purchasing from suppliers only those products that are actually sold to customers (and until such time, suppliers own such merchandise even though it is displayed on the store's shelf), which reduces the Group's inventory risk. After merchandise is sold to customers, the Group will pay to its suppliers the costs of products which will normally be settled on a monthly basis. The Group's arrangements with such suppliers are automatically extended for one year at the end of each term, unless either party notifies the other party otherwise. The Group is also involved in outright purchases of merchandise (which, although it increases inventory risk, also increases margins).

The majority of the buyers are stationed at each flagship store as well as being placed regionally, in order to procure products which cater for store-specific and/or regional trends and requirements. Further, certain buyers are based at the Company's head merchandise department in Tokyo, specialising in specific types of products, to complement the functions of the buyers at the individual stores. The Group operates a logistics centre in Osaka (to principally cover the Kansai area) and Yokohama (to principally cover the Kanto area). Most of the Group's distribution needs are outsourced to a third-party distribution company.

### *Marketing*

The Group's marketing activities are conducted through a wide variety of media, with a particular focus in recent years on strengthening online interfaces. The media used in the Group's sales promotional activities include social networking services, Internet websites, smartphone apps and email magazines, in addition to the traditional media such as newspaper advertisements, leaflets, posters, direct mailing, television and radio. In-store events and fairs and out-store exhibitions and other events are also organised from time to time.

In addition, the Group focuses on establishing personal relationships with its customers and promoting customer loyalty. The Takashimaya Card, the Takashimaya Gold Card and the Takashimaya Platinum Debit Card provide its cardholders with special privileges including access to exclusive promotions and discounts. The Group intends to utilise information gathered from the users of these cards to closely integrate customer relationship management into product line management. The Group also offers VIP credit cards targeting its customers who are especially loyal to the Group.

The Group also offers customers an opportunity to participate in its Tomonokai scheme. Customers make monthly instalment payments ranging from ¥5,000 to ¥50,000. At the end of 12 months, customers will receive the total amount of money deposited together with bonus credits equivalent to one instalment in the form of a credit to a membership card. So for example, if a customer pays ¥10,000 for 12 months, he or she will receive a membership card worth ¥130,000 at the end of 12 months.

The Group also has specialist sales staffs who are exclusively engaged in the marketing to corporate customers, particularly in connection with the supply of seasonal gifts and promotional goods distributed by such customers. The Group also provides personal shopping services including accompanying customers while shopping in-store and delivering the goods purchased to their homes.

The Group has introduced the usage of tablets in stores and offers interpretation services for tourists from overseas. The Group has been further improving its information and communication systems (including in relation to merchandise and customer information) with a view to improving and adding value to merchandising, customer attraction and sales as well as to sales floors, in order to increase customer satisfaction.

### *Overseas Operations*

The Group's overseas operations date from 1888 when it participated in the world trade fair in Barcelona. As of the date of this Offering Circular, the Group has four overseas department stores in Singapore, Shanghai, Ho Chi Minh City and Bangkok.

The Singapore store was opened in 1993 and has a floor space (including the shopping centre floor space) of 77,098 square metres, the largest department store in terms of floor space and net sales in Singapore, and offers a full range of merchandise. Located in Orchard Road, a major tourist attraction and shopping belt in central Singapore, the store forms the principal tenant in one of Singapore's largest shopping centres, and is operated in conjunction with the Singapore Takashimaya Shopping Centre (operated by Toshin Development). The Singapore store, which celebrated its 25th anniversary in 2018, has seen significant success through adapting well to local tastes and needs. The Group's Singapore business has been rapidly growing as the Group's Asian hub from which to launch its ASEAN strategy, including forming the base of the Group's investments in Shanghai and Ho Chi Minh City (see "—Strategy—Overseas business").

The Shanghai store was opened in December 2012 and has a floor space of 60,287 square metres. Located in Shanghai's affluent residential area of Gubei, and directly linked to the Yili Road Station on the Shanghai Metro, it offers a full range of merchandise as well as a restaurant floor.

The Ho Chi Minh City store was opened in 2016 and has a floor space of 15,402 square metres. The store serves as the primary tenant of Saigon Centre (in which Toshin Development has a partial investment), Ho Chi Minh City's first modern, large-scale commercial complex, and offers a full range of merchandise (of over 200 brands), as well as restaurant floors.

The Group has recently opened a new department store, SIAM Takashimaya, in "ICONSIAM", a large-scale complex development in the city of Bangkok in November 2018; it has a floor space of 35,907 square metres covering seven floors inside ICONSIAM, and offers around 530 brands of merchandise, including approximately 80 brands which are being offering in Thailand for the first time, as well as a restaurant floor and food court.

Further, the Group licenses rights to use the Takashimaya name to the Dayeh group in respect of the DAYEH Takashimaya store in Taipei (the Group having exited from its operation in 2016).

The aggregate net sales of the overseas department stores amounted to less than 10 per cent. of the net sales of all department stores of the Group for the fiscal year ended 28 February 2018.

#### *Competition in the Department Store Business*

The Japanese retail industry and the department store sector are highly competitive. Several groups of department store operators, each with a significant market share, holds the majority of the market share in the Japanese department store industry. The Group's department stores compete with these companies' stores on a fairly level playing field in terms of brand, location, selection of merchandise, target customers, price and customer service. These factors may make it difficult for any one of the department store operators to gain market share or to maintain market share. The decreasing levels of consumer spending in Japan (caused by various factors such as adverse economic conditions, a general shift in consumer preferences towards lower priced products and an ageing and reduced population in Japan) has served to continue to shrink the market of the department store sector and further intensify the level of competition in this sector.

There are a number of department store operators with a similar or larger market share of the Japanese retail industry as compared to the Group. The Group strives to differentiate itself from other department stores by promoting brand-focused management. The Group's department stores aim to build on its name which customers have come to trust, by offering quality merchandise and services as well as products that reflect current trends in modern elegant settings.

The Group's department stores compete not only with other major department stores in Japan, but also with other forms of retail organisation such as large-scale city building shopping complexes, suburban large-scale commercial complexes operated by general merchandise stores, outlet malls, speciality stores, local department stores, the numerous small retail stores in Japan, internet shopping websites and telephone and mail order retailers. With the increased penetration and sophistication of e-commerce in Japan, the Group's competition with major e-commerce retailers, which may have strengths in direct-to-consumer product delivery and particular product categories and offerings, has been intensifying. At the individual-store level, the Group's department stores compete with other retail shops in and around the area in which each store operates. For instance, the Group's five flagship stores compete with other large-scale department stores in their respective areas, and the competitive environment can change from time to time, for example through the development or major renovation of competitors' stores or the development of new large-scale shopping buildings and complexes in the same or adjacent area. Factors affecting the competitiveness of the Group's department stores in the retail sector include price, quality, selection of merchandise, reputation, store location, advertising and customer service.

In order to remain competitive, the Group is pursuing growth and is strengthening its sales capacity under the group-wide "Machi-dukuri" (meaning "town formation") strategy (see "—Strategy"). The Group believes that its ability to provide a wide range of quality merchandise (including self-designed merchandise), its brand, the location of its stores, the quality of its management and its employee training, its good relationships with its suppliers and the efficiency of its distribution and inventory control systems will aid it in maintaining its competitive position in the Japanese retail industry. The Group works with business partners to develop and offer competitive products, maintain up-to-date retail sections, improve the quality of its products and periodically renovate its stores to continue to attract customers. The Group is also committed to looking at new initiatives to adapt to the changing retail market in Japan, while retaining its focus on offering high quality merchandise to a broad range of customers.

#### *Non-Department Store Businesses*

The other business segments of the Group are generally related to the Group's department store operations.

## *Real Estate*

The Group's Real Estate segment is involved in the management, acquisition, sale and rental of the Group's properties and planning, development and management of shopping malls. Toshin Development, the Group's principal real estate company, manages properties such as Nihombashi Takashimaya Shopping Center, Tamagawa Takashimaya Shopping Center, Kashiwa Takashimaya Station Mall, Namba Parks T-terrace in Osaka, the Nagareyama Otakanomori Shopping Center and Hakata Riverain Mall by Takashimaya, and sub-leases floors in the Group's Shinjuku store. Toshin Development Singapore Pte., Ltd. manages the Singapore Takashimaya Shopping Center. The shopping centre business has seen continued expansion in recent years, as the Group expands existing facilities and continues to develop shopping centres that propose new lifestyle ideas to customers. Under the Group's Machi-dukuri strategy for the ASEAN region, the Group pursues synergies of its real estate and shopping centre management operations with its department store operations.

The Group holds a minority shareholding in the landlords of each of the Singapore store and Ho Chi Minh City store.

## *Finance*

The Group's Finance segment engages in financing activities which include the operation of Takashimaya credit cards and credit card loans. The Finance business is mainly handled by the Company's consolidated subsidiary, Takashimaya Credit which handles credit card and lending services. The Company also has a partnership with Credit Saison Co., Ltd. ("Credit Saison"), and has outsourced most of the credit card processing operations to Credit Saison in order to enhance the efficiency of its credit card operations, and is now focusing its efforts in attracting more cardholders. The Group offers a range of credit cards designed to appeal to its customers, offering various incentives such as attractive point systems and sales events open only to cardholders.

## *Contract & Design*

The Group's Contract & Design segment operates primarily through a subsidiary, Takashimaya Space Create. This business is largely responsible for the interior design of Takashimaya department stores in addition to planning, design, supervision and consulting in relation to construction and interior carpentry of commercial facilities such as shopping centres as well as office space and hotels. The Group's Contract & Design business has worked on interior designs for the premises of third parties such as major international luxury brand boutiques, offices and guest rooms in hotels.

## *Others*

The Group's business activities falling within the Others segment are mainly wholesale and supply of goods to companies within the Group and the Group's department stores, sewing and processing (such as repair services of clothes) and others. It also includes Select Square Co., Ltd. which specialises in online sales of clothes.

## **Corporate Social Responsibility ("CSR")**

The Group's basic policy of CSR management is to respond and to contribute to the needs of a society that is becoming increasingly diversified and sophisticated, based on its management philosophy of "Putting People First".

The Group seeks to contribute to resolving environmental issues and social issues. The Group includes Sustainable Development Goals ("SDGs") in its management strategy to find important issues which the Group should address.

The Group intends to strive towards realising a carbon-free society by taking part in the "climate change initiative" with other companies, municipalities and non-governmental organisations which proactively work towards resolving climate change. In relation to the current issue of marine pollution, the Group intends to take countermeasures for dealing with plastic wastes.

The Group aims to work towards co-existing harmoniously with the local communities by pursuing the group-wide Machi-dukuri strategy (see "—Strategy—Long-Term Business Plan—Machi-dukuri Strategy"). Under the Machi-dukuri strategy, the Group will work to contribute to the realisation of a sustainable society (which is part of the SDGs) by fulfilling its anchor role in strengthening partnerships with the government and the Group's business partners.

The Group also intends to continue its efforts towards creating an environment where employees of all employment patterns, gender and positions (including sales staff who are sent forth from the Group's business partners) can work ambitiously.

## Property and Equipment

The following table sets out the carrying values of the Company's principal property and equipment by property as of 28 February 2018:

Name of Property	Location	Buildings and Structures	Machinery, Equipment and Transportation Equipment	Land <sup>(1)</sup>	Lease Assets	Others	Total
Corporate headquarters and Osaka Store (main building) . . . . .	Osaka, Japan	¥12,738	¥—	¥ 5,464 (4,197)	¥ 42	¥ 544	¥ 18,788
Corporate headquarters and Osaka Store (administration building) . . . . .	Osaka, Japan	907	—	6,254 (6,780)	—	1,791	8,952
Kyoto Store . . . . .	Kyoto, Japan	13,788	0	19,481 (11,795)	23	661	33,953
Rakusai Store . . . . .	Kyoto, Japan	902	—	748 (6,001)	7	39	1,696
Senboku Store . . . . .	Sakai, Japan	266	—	—	3	40	309
Sakai Store . . . . .	Sakai, Japan	639	—	—	19	91	749
Kansai Logistics Centre . . . . .	Osaka, Japan	2,508	0	3,217 (33,300)	—	17	5,742
Corporate headquarters and Nihombashi Store (main building) . . . . .	Tokyo, Japan	12,025	—	42,410 (8,662)	188	954	55,577
Corporate headquarters and Nihombashi Store (administration building) . . . . .	Tokyo, Japan	1,586	—	34,348 (3,646)	2	212	36,148
Yokohama Store . . . . .	Yokohama, Japan	12,713	0	1,151 (1,294)	35	1,055	14,954
Shinjuku Store <sup>(2)</sup> . . . . .	Tokyo, Japan	36,540	0	168,517 (19,281)	25	598	205,680
Tamagawa Store <sup>(2)</sup> . . . . .	Tokyo, Japan	2,770	—	—	19	467	3,256
Tachikawa Store <sup>(2)</sup> . . . . .	Tokyo, Japan	2,977	0	9,551 (3,634)	15	118	12,661
Omiya Store . . . . .	Saitama, Japan	2,591	—	4,149 (3,376)	14	132	6,886
Kashiwa Store . . . . .	Chiba, Japan	4,342	—	1,365 (1,936)	14	282	6,003
Konandai Store . . . . .	Yokohama, Japan	40	—	—	—	38	78
Yokohama Logistics Centre . . . . .	Yokohama, Japan	1,338	0	862 (12,057)	—	66	2,266

Notes:

- (1) Figures in parentheses are land areas in square metres.
- (2) Partially leased by the Company from Toshin Development.
- (3) The amounts in the above table do not include amounts relating to construction in progress.
- (4) The amounts in the above table do not include consumption tax amounts.



The following table sets out the carrying values of the principal property and equipment of the Company's domestic subsidiaries by subsidiary as of 28 February 2018:

Name of Subsidiary	Location	Buildings and Structures	Machinery, Equipment and Transportation Equipment	Land <sup>(1)</sup>	Lease Assets	Others	Total
Okayama Takashimaya Co., Ltd. . . . . .	Okayama, Japan	898	—	—	14	103	1,015
Gifu Takashimaya Co., Ltd. . . . . .	Gifu, Japan	861	—	—	23	111	995
Yonago Takashimaya Co., Ltd. . . . . .	Tottori, Japan	240	0	312	3	26	581
Takasaki Takashimaya Co., Ltd. . . . . .	Gunma, Japan	1,225	—	853	9	272	2,359
Toshin Development Co., Ltd. . . . . .	Tokyo, Japan and others	45,496	91	49,018	333	1,315	96,253
Takashimaya Space Create Co., Ltd. . . . . .	Osaka, Japan and others	264	6	1,232	1	68	1,571
				(11,644)			

Notes:

- (1) Figures in parentheses are land areas in square metres.
- (2) The amounts in the above table do not include amounts relating to construction in progress.
- (3) The amounts in the above table do not include consumption tax amounts.

The following table sets out the carrying values of the principal property and equipment of the Company's overseas subsidiaries by subsidiary as of 28 February 2018:

Name of Subsidiary	Location	Buildings and Structures	Machinery, Equipment and Transportation Equipment	Land <sup>(1)</sup>	Lease Assets	Others	Total
Takashimaya Singapore Ltd . . . . .	Singapore	598	—	—	—	384	982
Shanghai Takashimaya Co., Ltd. . . . . .	Shanghai, China	732	—	—	—	18	750
Takashimaya Vietnam Ltd. . . . . .	Ho Chi Minh City, Vietnam	494	23	—	—	569	1,086
Toshin Development Singapore Pte. Ltd. . . . . .	Singapore	816	0	131	—	36	983
				(249)			

Notes:

- (1) Figures in parentheses are land areas in square metres.
- (2) The amounts in the above table do not include amounts relating to construction in progress.

## Regulation

The Group's business and operations are subject to a wide range of laws and regulations in Japan and the other countries in which it operates. In its business activities, the Group is subject to numerous laws, including the Large-scale Retail Stores Location Act, which imposes regulations on large-scale retail stores with respect to, among other things, parking space, noise control and waste storage for the purpose of protecting living conditions in the area surrounding such stores, and the Antimonopoly Act, the Misleading Representations Act, the Money Lending Business Act and the Installment Sales Act, as well as laws, regulations and other requirements relating to food safety management, consumer protection (such as those related to price indication, advertisement and quality and origin labels), fair trade, protection of personal information, investment approvals, import and export, tariffs, taxation, exchange control, the environment and recycling. The Group is also subject to other corporate, commercial and other laws and regulations including those relating to tax, corporate governance, corrupt business practices, labour, health and safety.

The Group has received cease and desist orders and payment surcharge orders from the Fair Trade Commission in July and October 2018 for breaches of the Antimonopoly Act with respect to price adjustments for providing uniforms to two companies and delivery charges in a region in Japan. Following such incidents, the Group has set up recurrence prevention policies in August 2018 which were set in place in September 2018. These policies include the publication of a revised compliance handbook, education to the employees of conducts that would be in breach of the Antimonopoly Act, as well as strengthening internal compliance structure by reviewing the internal whistle-blowing system.

**Insurance**

The Group maintains a range of insurance policies which the Company believes are comparable to other companies with similar operations in Japan or overseas. The insurance policies cover certain liability risks, including long-term building insurance which covers damage to property and fire, long-term insurance on movable assets against burglaries and fire and insurance against fraud in respect of false gift certificates. These insurance policies do not cover earthquake damage. The Group has not made any major insurance claims under these policies.

**Legal Proceedings**

The Company is, from time to time, involved in various legal proceedings in various jurisdictions in the ordinary course of its business. Neither the Company nor any of its consolidated subsidiaries is involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Group.

## MANAGEMENT AND EMPLOYEES

### Management

The Company's Board of Directors has the ultimate responsibility for the administration of the Company's affairs. The Articles of Incorporation of the Company provide that the number of Directors may not be less than three but not more than 15. Directors are elected at general meetings of shareholders. The normal term of office of any Director expires at the close of the ordinary general meeting of shareholders held with respect to the last business year ending within one year after such Director's assumption of office. Remuneration for Directors in their capacity as such is subject to approval by shareholders in general meetings. The Board of Directors elects from among its members one or more Representative Directors, each of whom is entitled to represent the Company. The Board of Directors may also appoint by resolution, one Chairman, one President and one or more Executive Vice Presidents, Senior Managing Directors and Managing Directors from among its members. The day to day business of the Group is run by its Operating Officers.

The Articles of Incorporation of the Company provide that the number of Corporate Auditors shall be three or four. The Corporate Auditors are elected at general meetings of shareholders. The normal term of office of any Corporate Auditor expires at the close of the ordinary general meeting of shareholders held with respect to the last business year ending within four years after such Auditor's assumption of office. Under the Companies Act and other related laws, the Corporate Auditors (not less than half of whom must be from outside the Company) are not required to be, and are not, certified public accountants, and may not at the same time be directors or employees of the Company or any of its subsidiaries or accounting counsellors or executive officers of the Company's subsidiaries. The Corporate Auditors form the Board of Corporate Auditors. Corporate Auditors have the duties of supervising the administration by the Directors of the Company's affairs and examining the financial statements and business reports to be submitted by a Representative Director to the ordinary general meeting of shareholders. Corporate Auditors shall attend meetings of the Board of Directors and are entitled to express their opinions, but they are not entitled to vote. They are required to elect from among themselves at least one full-time Corporate Auditor. Corporate Auditors also have a statutory duty to provide their report to the Board of Corporate Auditors, which must submit its auditing report to a Representative Director. The Board of Corporate Auditors will also determine matters relating to the duties of the Corporate Auditors, such as audit policy and methods of investigation of the affairs of the Company.

In addition, under the Securities Listing Regulations of the Tokyo Stock Exchange, listed companies in Japan, including the Company, are required to have at least one independent officer. Such independent officer is required to be an outside director or outside corporate auditor (as defined under the Companies Act) who is unlikely to have conflicts of interest with shareholders of the relevant company.

In addition to Corporate Auditors, the Company must appoint an independent auditor who has the statutory duties of auditing the financial statements to be submitted by a Representative Director to the ordinary general meeting of shareholders and reporting on such financial statements to the Board of Corporate Auditors and the Board of Directors. The Company's independent auditor for such purposes is KPMG AZSA LLC.

The names of the Directors and Corporate Auditors of the Company as of the date of this Offering Circular are as follows:

<b>Name</b>	<b>Title</b>
Koji Suzuki <sup>(1)</sup>	Chairman of the Board
Shigeru Kimoto <sup>(1)</sup>	President
Hiroaki Akiyama <sup>(1)</sup>	Senior Managing Director
Yoshio Murata <sup>(1)</sup>	Managing Director
Mitsuaki Awano	Managing Director
Tsunekata Kameoka	Managing Director
Takeo Yamaguchi	Managing Director
Tsuneaki Okabe	Managing Director
Ryoji Tanaka	Managing Director
Kaoru Nakajima <sup>(2)</sup>	Director
Akira Goto <sup>(2)</sup>	Director
Keiko Torigoe <sup>(2)</sup>	Director
Kenji Sukino	Standing Corporate Auditor
Akira Hiramoto	Standing Corporate Auditor
Eiji Muto <sup>(3)</sup>	Corporate Auditor
Hiroshi Nishimura <sup>(3)</sup>	Corporate Auditor

Notes:

- (1) Representative Directors.
- (2) Outside Directors who fulfil the requirements as provided by the Companies Act.
- (3) Outside Corporate Auditors who fulfil the requirements as provided by the Companies Act.

All the Directors other than Mr. Nakajima, Mr. Goto and Ms. Torigoe are engaged in the Group's business on a full-time basis.

As of 28 February 2018, no Director of the Company had an interest in any transaction which was unusual in its nature or conditions or significant to the Group's business which was effected by the Company. As of 28 February 2018, there were no outstanding loans granted by the Company to the Directors nor any guarantees provided by the Company for their benefit.

The aggregate remuneration (including bonuses) paid to the Company's Directors (other than outside Directors), Corporate Auditors (other than outside Corporate Auditors), and outside Directors and outside Corporate Auditors by the Company in their capacities as such was ¥323 million, ¥45 million and ¥48 million, respectively, for the fiscal year ended 28 February 2018.

The Company's Articles of Incorporation provide that the Company may enter into liability limitation contracts with any of its Outside Directors and Outside Corporate Auditors in order to limit the maximum amount of such damages to the total amount stipulated in Article 425, Paragraph 1, Item 1 and Item 2 of the Companies Act.

## Employees

The following table sets forth the number of the employees of the Company and its consolidated subsidiaries as of the dates indicated, by segment:

	<u>As of the Last Day of February</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Department Store .....	5,834	6,074	6,187
Real Estate .....	297	321	324
Finance .....	85	98	102
Contract & Design .....	231	240	255
Others .....	868	785	701
Total .....	<u>7,315</u>	<u>7,518</u>	<u>7,569</u>

For the fiscal years ended the last day of February, 2016, 2017 and 2018, the Group also employed on average 9,048, 8,942 and 8,595 part-time workers, principally in the Department Store segment.

## Labour Relations

The Company considers its labour relations to be good. The All Takashimaya Labour Union is comprised of unions organised by employees of the Company and six subsidiaries. The All Takashimaya Labour Union is a member of the Japanese Federation of Textile, Chemical, Food, Commercial, Service and General Worker's Unions. All employees of the Company other than management staff and certain other personnel are members of the labour union.

## Directors'/Employees' Stock Options

The Group currently has no director or employee stock option schemes. The Company has an employee stock ownership plan available to employees of the Company and its subsidiaries, under which a certain portion of the salary of the relevant employee is deducted and used to purchase Shares every month.

## SUBSIDIARIES AND AFFILIATES

As of 31 August 2018, the Group comprised of the Company and 33 subsidiaries (of which 28 companies were consolidated subsidiaries) and 12 affiliates (of which 5 companies were accounted for by the equity method).

The following table sets out certain information as of 28 February 2018 with respect to the Company's principal subsidiaries and affiliates:

Name of subsidiary/affiliate	Location	Principal business	Issued share capital as of 28 February 2018 (In millions)	Percentage of voting rights directly or indirectly by the Company <sup>(1)</sup> (Per cent.)
<b>Consolidated Subsidiaries</b>				
<b>Department Store</b>				
Okayama Takashimaya Co., Ltd . . . . .	Okayama, Japan	Department store	¥ 90	66.6
Gifu Takashimaya Co., Ltd. . . . .	Gifu, Japan	Department store	50	100.0
Yonago Takashimaya Co., Ltd. . . . .	Yonago, Japan	Department store	50	100.0
Takasaki Takashimaya Co., Ltd . . . . .	Takasaki, Japan	Department store	50	100.0
Takashimaya Tomonokai Co., Ltd. . . . .	Tokyo, Japan	Brokerage of specified prepaid transactions	50	100.0
R.T. Corporation Co., Ltd. . . . .	Tokyo, Japan	Restaurant	470	100.0
Takashimaya Singapore Ltd. . . . .	Singapore	Department store	SGD 100	100.0
Shanghai Takashimaya Co., Ltd. . . . .	Shanghai, China	Department store	CNY 490	100.0 (83.2)
Takashimaya Vietnam Ltd. . . . .	Ho Chi Minh City, Vietnam	Department store	U.S.\$ 32	100.0 (100.0)
Food and Partners Co., Ltd. . . . .	Tokyo, Japan	Food and related retailing	¥ 100	66.3
Dear Mayuko Co., Ltd. . . . .	Tokyo, Japan	Cosmetics retailing	100	65.5
A&S Takashimaya Duty Free Co., Ltd. . . . .	Tokyo, Japan	Operation of airport-style duty-free shops	490	60.0
<b>Real Estate</b>				
Toshin Development Co., Ltd. . . . .	Tokyo, Japan	Real estate business	¥ 2,140	100.0
Toshin Development Singapore Pte. Ltd. . . . .	Singapore	Real estate business	SGD 8.526	100.0
Fashion Plaza Sunroser Co., Ltd. . . . .	Tokyo, Japan	Operation of cosmetic shops, property leasing and other	¥ 496	100.0 (100.0) (100.0)
<b>Finance</b>				
Takashimaya Credit Co., Ltd. . . . .	Tokyo, Japan	Finance business	¥ 100	66.6
<b>Contract &amp; Design</b>				
Takashimaya Space Create Co., Ltd. . . . .	Tokyo, Japan	Construction business	¥ 100	100.0
Takashimaya Space Create Tohoku Co., Ltd. . . . .	Sendai, Japan	Construction business	30	100.0 (100.0)
<b>Others</b>				
Good Live Co., Ltd. . . . .	Tokyo, Japan	Wholesale and trading of alcohol and other	¥ 100	100.0
Takashimaya Transcosmos International Commers Pte. Ltd. . . . .	Singapore	Wholesale	SGD 17.3	51.0
TAPP Co., Ltd. . . . .	Osaka, Japan	Sewing and processing	¥ 92	100.0
A.T.A Co., Ltd. . . . .	Tokyo, Japan	Advertising business	80	100.0
Century & Co., Ltd. . . . .	Tokyo, Japan	Personnel services	90	100.0

Name of subsidiary/affiliate	Location	Principal business	Issued share capital as of 28 February 2018		Percentage of voting rights directly or indirectly by the Company <sup>(1)</sup>
			(In millions)	(Per cent.)	
Takashimaya Facilities Co., Ltd. . . .	Tokyo, Japan	Building maintenance and management work outsourcing	¥	30	100.0 (9.7)
Takashimaya Hoken Co., Ltd. . . . .	Tokyo, Japan	Insurance agency		100	100.0
The Tamagawa Institute, Ltd. . . . .	Tokyo, Japan	Cultural facilities management		15	100.0 (100.0)
Select Square Co., Ltd. . . . . . . . . . .	Tokyo, Japan	Mail-order shopping business		383	100.0
<b>Affiliates</b>					
<b>Department Store</b>					
JR Tokai Takashimaya Co, Ltd . . . .	Nagoya, Japan	Department store	¥	10,000	33.4
Iyotetsu Takashimaya Co, Ltd. . . . .	Matsuyama, Japan	Department store		100	33.6

Notes:

(1) Figures in parentheses denote indirect holding.

(2) In the above table, “SGD” stands for Singapore dollars, “CNY” stands for Chinese yuan and U.S.\$ stands for U.S. dollars.

## DESCRIPTION OF THE SHARES AND CERTAIN REGULATIONS

Set out below is certain information concerning the Shares, including brief summaries of certain provisions of the Company's Articles of Incorporation and Share Handling Regulations and of the Companies Act relating to joint stock corporations (*kabushiki kaisha*), and certain related legislation, all as currently in effect.

### General

All issued Shares are fully-paid and non-assessable, and are in registered form.

On 5 January 2009, a new central clearing system for shares of Japanese listed companies was established pursuant to the Book-Entry Act, and the shares of all Japanese companies listed on any Japanese stock exchange, including the Shares, became subject to this new system. On the same day, all existing share certificates for such shares became null and void. At present, JASDEC is the only institution that is designated by the relevant authorities as a clearing house which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Act. Under the new clearing system, in order for any person to hold, sell or otherwise dispose of shares of Japanese listed companies, they must have an account at an account management institution unless such person has an account at JASDEC. "Account management institutions" are financial instruments traders (i.e., securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements under the rules of JASDEC ("JASDEC rules") can open accounts directly at JASDEC. For the purpose of the description under "Description of the Shares and Certain Regulations", the Company assumes that the relevant person has no account at JASDEC. Under the Book-Entry Act, any transfer of shares is effected through book entry, and the title to the shares passes to the transferee at the time when the transferred number of the shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act and the Book-Entry Act, in order to assert shareholders' rights against the Company, a shareholder must have his or her name and address registered in the Company's register of shareholders, except in limited circumstances. Under the new clearing system, such registration is generally made upon an all shareholders notice from JASDEC.

Shareholders are required to file their names and addresses with the Company, generally through the account management institution and JASDEC.

Non-resident shareholders are also required to appoint a standing proxy in Japan or provide a mailing address in Japan and to file their standing proxy or a mailing address with the Company, generally through the account management institution and JASDEC. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services for standard fees.

The Company's transfer agent is Mitsubishi UFJ Trust and Banking Corporation, located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan.

### Distributions of Surplus

#### General

Under the Companies Act, distributions of cash or other assets by joint stock corporations to their shareholders, so called "dividends", are referred to as "distributions of Surplus" (as defined in "—Restriction on Distributions of Surplus"). The Company may make distributions of Surplus to its shareholders any number of times per fiscal year, subject to certain limitations described in "—Restriction on Distributions of Surplus".

Distributions of Surplus are required in principle to be authorised by a resolution of a general meeting of shareholders, but may also be made pursuant to a resolution of the Board of Directors but only if all the requirements described in (a) through (c) below are met:

- (a) the Company's Articles of Incorporation provide that the Board of Directors has the authority to decide to make distributions of Surplus;
- (b) the normal term of office of each Director of the Company terminates on or prior to the date of conclusion of the ordinary general meeting of shareholders relating to the last fiscal year ending within the period of one year from the election of such Director; and
- (c) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

At present, the requirement described in (a) above is not met. Nevertheless, the Company may make distributions of Surplus in cash as an interim dividend (the “interim dividend”) to its shareholders by resolutions of the Board of Directors once per fiscal year under the Company’s Articles of Incorporation and the Companies Act.

Under the Company’s Articles of Incorporation, a year-end dividend may be distributed to shareholders of record as of the last day of February of each year pursuant to a resolution of a general meeting of shareholders, and an interim dividend may be distributed to shareholders of record as of 31 August of each year pursuant to a resolution of the Board of Directors. The Company is not obliged to pay any dividends in cash unclaimed for a period of three years after the date on which they first became payable.

Distributions of Surplus may be made in cash or (except for interim dividends) in kind in proportion to the number of Shares held by each shareholder. A resolution of a general meeting of shareholders or the Board of Directors authorising a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders, grant a right to its shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders (see “—Voting Rights” with respect to a “special resolution”).

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the Shares generally goes ex-dividend on the second business day prior to the record date.

#### ***Restriction on Distributions of Surplus***

When the Company makes a distribution of Surplus, it must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed in accordance with an ordinance of the Ministry of Justice.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- “A” = the total amount of other capital surplus and other retained earnings, as each such amount appears on the Company’s non-consolidated balance sheet as of the end of the last fiscal year;
- “B” = (if the Company has disposed of its treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof;
- “C” = (if the Company has reduced its stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any);
- “D” = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any);
- “E” = (if the Company has cancelled its treasury stock after the end of the last fiscal year) the book value of such treasury stock;
- “F” = (if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the total book value of the Surplus so distributed; and
- “G” = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the amount set aside in its additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by the Company may not exceed a prescribed distributable amount (the “Distributable Amount”), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of the Company’s treasury stock;



- (b) the amount of consideration for the Company's treasury stock disposed of by it after the end of the last fiscal year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the Company's non-consolidated balance sheet as of the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with ordinances of the Ministry of Justice.

If the Company has become at its option a company with respect to which consolidated balance sheets should also be taken into consideration in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), it will be required to further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of shareholders' equity appearing on its non-consolidated balance sheet as of the end of the last fiscal year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of shareholders' equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on its consolidated balance sheet as of the end of the last fiscal year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for the Company's treasury stock disposed of by it, during the period in respect of which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements prepared by the Company must be audited by its Corporate Auditors and reviewed by its independent auditor, as required by the Companies Act and ordinances of the Ministry of Justice.

### **Capital and Reserves**

When the Company issues new Shares, the entire amount of money or other assets paid or contributed by subscribers for such Shares is required to be accounted for as stated capital, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as additional paid-in capital by a resolution of the Board of Directors.

The Company may reduce its additional paid-in capital or legal reserve generally by a resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, the Company may reduce its stated capital generally by a special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, the Company may reduce its Surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case, by a resolution of a general meeting of shareholders.

### **Stock Splits**

The Company may at any time split the issued Shares into a greater number of Shares by a resolution of its Board of Directors. When a stock split is to be made, so long as the only type of the Company's outstanding stock is its common stock, it may increase the number of authorised shares to the extent that the ratio of such increase in authorised shares does not exceed the ratio of such stock split by amending its Articles of Incorporation, which amendment may be made without approval by shareholders.

Before a stock split, the Company must give public notice of the stock split, specifying the record date therefor, not less than two weeks prior to such record date. Under the JASDEC rules relating to the new clearing system, the Company must also inform JASDEC of certain matters regarding a stock split promptly after a resolution of its Board of Directors determining such stock split. On the effective date of the stock split, the numbers of Shares recorded in all accounts held by holders of Shares at account management institutions or JASDEC will be increased in accordance with the applicable ratio.

### **Unit Share System**

The Company's Articles of Incorporation provide that 100 Shares constitute one "unit". Its Board of Directors is permitted to reduce the number of Shares that will constitute a unit or abolish the unit share system entirely by amending its Articles of Incorporation without approval by shareholders, while a special resolution of a general meeting of shareholders is required to increase the number of Shares that will constitute a unit. The

number of Shares constituting a unit may not exceed the lesser of 1,000 and one-two hundredth of the total number of issued Shares.

Under the unit share system, a shareholder has one vote for each unit of Shares held by it, except as stated in “—Voting Rights”. Shares constituting less than one unit will carry no voting rights and be excluded for the purposes of calculating the quorum for voting purposes. Moreover, holders of Shares constituting less than one unit will have no other shareholder rights except certain rights specified in the Companies Act, an ordinance of the Ministry of Justice or the Company’s Articles of Incorporation, including the right to receive distribution of Surplus.

Under the new clearing system, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit and, accordingly, may not be sold on the Japanese stock exchanges, unless a different trading unit is designated by the relevant Japanese stock exchange.

Holders of Shares constituting less than one unit may at any time request the Company to purchase Shares held by them. Pursuant to the Company’s Articles of Incorporation and Share Handling Regulations, any such holders may also request the Company to sell to such holder Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute a full one unit. Under the new clearing system, such requests must be made to the Company through the relevant account management institutions and JASDEC. Such purchase or sale of Shares will be effected, in general, at the last trading price of the Shares on the relevant stock exchange on the day such request is made (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter). The request of such purchase or sale may not be withdrawn without the Company’s consent.

### **General Meetings of Shareholders**

The ordinary general meeting of shareholders of the Company is held in May each year pursuant to the Company’s Articles of Incorporation. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a general meeting of shareholders stating, among others, the place, time and purpose thereof must be given to each shareholder having voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an ordinary general meeting of shareholders is the last day of February of each year.

Any shareholder holding at least 300 voting rights or one per cent. of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a Representative Director at least eight weeks prior to the date of such meeting. If the Company’s Articles of Incorporation so provide, any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.

### **Voting Rights**

A holder of Shares constituting one or more units is, in principle, entitled to one voting right for each unit of Shares. However, in general, neither the Company nor any corporate or certain other entity, one-quarter or more of the total voting rights of which are directly or indirectly held by the Company, has voting rights in respect of Shares held by the Company or such entity.

Except as otherwise provided by law or in the Company’s Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by the holder of a majority of the total number of voting rights represented at the meeting. The Company’s Articles of Incorporation provide that the quorum for election of its Directors and Corporate Auditors is one-third of the total number of voting rights. The Company’s shareholders are not entitled to cumulative voting in the election of its Directors. The shareholders may exercise their voting rights in writing or through proxies, provided that the proxies are, in general, also shareholders who have voting rights.

The Companies Act provides that certain important matters shall be approved by a “special resolution” of a general meeting of shareholders. Under the Company’s Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Such important matters include:

- (i) purchase of Shares by the Company from a specific shareholder other than the Company’s subsidiary;

- (ii) consolidation of Shares;
- (iii) issuance or transfer of new Shares or existing Shares held by the Company as treasury stock to persons other than the shareholders at a “specially favourable” price;
- (iv) issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under “specially favourable” conditions;
- (v) removal of any of the Corporate Auditors of the Company;
- (vi) exemption from a portion of liability of the Directors, Corporate Auditors or independent auditor of the Company;
- (vii) distribution of Surplus in kind with respect to which shareholders are not granted the right to require the Company to make distribution in cash instead of in kind;
- (viii) reduction of stated capital;
- (ix) any amendment to the Company’s Articles of Incorporation;
- (x) transfer of the whole or a substantial part of the Company’s business;
- (xi) transfer of the whole or a part of the Company’s equity interests in any of the Company’s significant subsidiaries which meets certain requirements;
- (xii) taking over of the whole of the business of another company;
- (xiii) dissolution or merger or consolidation;
- (xiv) corporate split; and
- (xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or share exchange (*kabushiki-kokan*).

However, under the Companies Act, no shareholder approval, whether by an ordinary resolution or a special resolution at a general meeting of shareholders, is required for any matter described in (viii) through (xv) above, and such matter may be decided by the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act as are necessary to determine that its impact is immaterial.

### **Liquidation Rights**

In the event of the Company’s liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Shares in proportion to the respective numbers of Shares held by them.

### **Subscription Rights**

Holders of Shares have no pre-emptive rights. Authorised but unissued Shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the issuance of new Shares at a “specially favourable” price mentioned in “—Voting Rights” above. The Board of Directors may, however, determine that shareholders be given subscription rights to new Shares, in which case they must be given on uniform terms to all holders of Shares as of a record date of which not less than two weeks’ prior public notice must be given. Each of the shareholders to whom such rights are given must also be given at least two weeks’ prior notice of the date on which such rights expire.

### **Stock Acquisition Rights**

The Company may issue stock acquisition rights (*shinkabu yoyakukun*). Holders of stock acquisition rights are entitled to acquire Shares from the Company, upon payment of the applicable exercise price, and subject to other terms and conditions thereof. The Company may also issue bonds with stock acquisition rights (*shinkabu yoyakukun-tsuki shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorised by the Board of Directors unless it is made under “specially favourable” conditions, as described in “—Voting Rights”.

### **Record Date**

As mentioned above, the last day of February is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders, and 31 August is the record date for the payment of interim dividends.

In addition, by a resolution of the Board of Directors and after giving at least two weeks' prior public notice, the Company may at any time set a record date in order to determine the shareholders who are entitled to certain rights pertaining to Shares.

Under the JASDEC rules relating to the new clearing system, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the Board of Directors determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of holders of Shares, the numbers of Shares held by them and other relevant information as of such record date.

### **Acquisition by the Company of the Shares**

The Company may acquire Shares (i) from a specific shareholder other than any of the Company's subsidiaries (pursuant to a special resolution of a general meeting of shareholders); (ii) from any of the Company's subsidiaries (pursuant to a resolution of the Board of Directors) or (iii) by way of purchase on any Japanese stock exchange on which the Shares are listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to a Representative Director of the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of the Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter) and (y) if the Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted, the price of the Shares under the agreement with respect to such tender offer on such day.

The total amount of the purchase price of Shares may not exceed the Distributable Amount, as described in “—Distributions of Surplus—Restriction on Distributions of Surplus”.

The Company may hold the Shares acquired in compliance with the provisions of the Companies Act, and may generally dispose of or cancel such Shares by a resolution of the Board of Directors.

### **Request by Controlling Shareholder to Sell All Shares**

A shareholder holding, directly or indirectly, 90 per cent. (or such other percentage above 90 per cent. as may be provided in the Company's Articles of Incorporation) or more of the Company's voting rights has the right to request, subject to approval by the Company's Board of Directors, that the other shareholders and (if the controlling shareholder so determines) all holders of stock acquisition rights of the Company (in each case, other than the Company and, if the controlling shareholder so determines, the controlling shareholder's wholly owned subsidiaries) sell to the controlling shareholder all Shares and all stock acquisition rights, as the case may be, held by them (*kabushiki tou uriwatashi seikyū*). If the approval is granted by a resolution of the Company's Board of Directors, the Company will be required to give public notice thereof to all holders and registered pledgees of Shares (and stock acquisition rights, as the case may be) not later than 20 days prior to the effective date of such sales, as proposed by the controlling shareholder.

### **Disposal of Shares by the Company held by Shareholders whose Location is Unknown**

The Company is not required to send notices to a shareholder if delivery of notices to such shareholder fails continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company.

In the above case, if the relevant shareholder to whom delivery of notices has failed also fails to receive distributions of Surplus on the Shares continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company, then the Company may in general dispose of such Shares at their then market price and hold or deposit the proceeds of such disposition on behalf of the relevant shareholder.

### **Reporting of Substantial Shareholders**

The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of issued voting shares (excluding treasury stock) amounting to more than five per cent. of the total issued shares of capital stock of a company that is listed on any Japanese stock exchange to file a report with the director of the relevant Local Finance Bureau of the Ministry of Finance within five business days. With certain exceptions, a similar report must also be filed in respect of any subsequent change of one per cent. or more in the

holding or of any change in material matters set forth in any previously filed reports. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by the holder and the issuer's total issued share capital. Any report so filed will be made available for public inspection. Reports are required to be filed through the Electronic Disclosure for Investors' NETwork, known as the EDINET system.

## JAPANESE TAXATION

The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares, acquired upon exercise of the Stock Acquisition Rights incorporated in the Bonds, who are non-resident individuals or non-Japanese corporations having no permanent establishment in Japan (“non-resident Holders”). The statements regarding Japanese tax laws set out below are based on the laws in force and interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or double taxation conventions occurring after that date.

This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and Shares acquired upon exercise of the Stock Acquisition Rights, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

### **Bonds**

Receipts of premium (if any) upon redemption of the Bonds are subject to Japanese income tax (including corporate income tax) but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds, whether within or outside Japan, by a non-resident Holder thereof, are, in general, not subject to Japanese income tax. Exercise of the Stock Acquisition Rights is not a taxable event in general.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Bonds as legatee, heir or donee even if the individual is not a Japanese resident.

### **Shares**

Generally, a non-resident Holder of Shares is subject to Japanese withholding tax on dividends paid by the Company. Stock splits are not subject to Japanese income tax.

The rate of Japanese withholding tax applicable to dividends paid by the Company to a non-resident Holder of Shares is 20 per cent., subject to any applicable income tax treaty. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the Shares) to any corporate or individual shareholders (including those shareholders who are non-resident individuals or non-Japanese corporations), except for any individual shareholder who holds 3 per cent. or more of the total issued shares of the relevant Japanese corporation, the said 20 per cent. withholding tax rate is reduced to 15 per cent. A special reconstruction surtax (2.1 per cent. of the original applicable tax rate) will be added to the withholding tax rates until 31 December 2037.

Gains derived from the sale of Shares, whether within or outside Japan, by a non-resident Holder thereof are, in general, not subject to Japanese income tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Shares as legatee, heir or donee even if the individual is not a Japanese resident.

## SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 20 November 2018 in respect of the Bonds (the “Subscription Agreement”) among the Company, Citigroup Global Markets Limited (“Citigroup”) and Morgan Stanley & Co. International plc (together with Citigroup, the “Joint Lead Managers”), the Joint Lead Managers have agreed with the Company, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the aggregate principal amount of the Bonds as indicated in the table below at the issue price (the “Issue Price”) of 100.5 per cent. of the principal amount of the Bonds and to offer the Bonds at the offer price as stated on the cover page of this Offering Circular (the “Offer Price”).

<b>Joint Lead Managers</b>	<b>Aggregate Principal Amount of the Bonds</b>
Citigroup Global Markets Limited .....	¥36,000,000,000
Morgan Stanley & Co. International plc .....	24,000,000,000
Total .....	¥60,000,000,000

No selling concession or combined management and underwriting commission will be payable by the Company with respect to the offering of the Bonds. The difference between the Offer Price and the Issue Price will be distributed among the Joint Lead Managers in the manner agreed by them.

The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. The Company has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue and offering of the Bonds.

### Lock-up

In connection with the issue and offering of the Bonds, the Company has agreed not to, and not to direct any entities or any persons acting at the direction of the Company to:

- (i) issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, Shares or any other capital stock of the Company; or
- (ii) enter into any derivative transaction or any other transaction that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company,

in each case, for a period beginning on the date of the Subscription Agreement and ending on the date 180 calendar days after the Closing Date without the prior written consent of the Joint Lead Managers, other than:

- (a) the issue and sale by the Company of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights;
- (b) the issue or transfer of Shares by the Company upon exercise of stock acquisition rights (including bonds with stock acquisition rights) issued and outstanding as of the date hereof and referred to in this Offering Circular;
- (c) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder’s holding, when added to the Shares held by such holder, constitute one full unit of Shares;
- (d) the issue of Shares by the Company as a result of any stock split; and
- (e) any other issue or sale of Shares required by applicable Japanese laws and regulations.

### Selling Restrictions

#### General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights, or the possession, circulation or distribution of

this Offering Circular or any other material relating to the Company, the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights in any jurisdiction where action for the purpose is required. Accordingly, neither the Bonds nor any Shares issuable upon exercise of the Stock Acquisition Rights may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Neither the Company nor any Joint Lead Manager represents that the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating such sales.

### ***United States***

Neither the Bonds nor the Shares issuable upon exercise of the Stock Acquisition Rights offered herein have been or will be registered under the Securities Act or may be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer or sell the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights (i) as part of the distribution at any time or (ii) otherwise, until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and only in accordance with Rule 903 of Regulation S, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to whom it sells the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights, as the case may be, within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

### ***Prohibition of Sales to EEA Retail Investors***

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
  - (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds.

### ***United Kingdom***

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- (b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights in, from or otherwise involving the United Kingdom.



## ***Japan***

The Bonds have not been and will not be registered under the FIEA. Accordingly, each Joint Lead Manager has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## ***Singapore***

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the MAS. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights, or caused the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or cause the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law; or
- (4) as specified in Section 276(7) of the SFA.

## ***Hong Kong***

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32)) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights, which is

directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

### ***Switzerland***

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described herein. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither the document nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

### **Other Relationships**

Certain of the Joint Lead Managers or their affiliates have in the past provided, are currently providing and may in the future provide, investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation. Interests may evolve out of these transactions that could potentially conflict with the interests of investors.

In connection with the offering of the Bonds, any Joint Lead Manager may for its own account act as investor or enter into transactions, including asset swaps, credit derivatives, repackaging, credit default swaps or other derivative transactions relating to the Bonds and/or other securities (or components thereof) of the Company or its subsidiaries or affiliates at the same time as the offer and sale of the Bonds or in secondary market transactions, including facilitating short sales of the Shares by investors who have the Bonds allocated to them. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). As a result of such transactions a Joint Lead Manager may hold long or short positions in the Bonds and/or the Shares and/or derivatives relating thereto. No disclosure will be made of any such positions.

Certain of the Joint Lead Managers or their respective affiliates may also make investment recommendations and/or publish or express independent research views with respect to the Shares or other related financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain of the Joint Lead Managers and/or their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution.

## GENERAL INFORMATION

1. The Company has obtained all necessary consents, approvals and authorisations in Japan in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company dated 20 November 2018.
2. The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The ISIN is XS1915588559 and the Common Code is 191558855.
3. The Securities Identification Code for the Shares is 8233. The LEI for the Company is 353800IFO566STDN4V78.
4. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Certificate is exchanged for definitive Certificates, the Company will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST.
5. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group and no material adverse change in the financial position or prospects of the Group since 28 February 2018 (being the date to which the most recent audited consolidated financial statements have been published).
6. Save as disclosed in this Offering Circular, there are no, nor have there been any, governmental, legal arbitration, administrative or other proceedings involving the Company or its subsidiaries and affiliates which may have or have had during the 12 months immediately preceding the date of this Offering Circular a significant effect on the financial position or the profitability of the Company and its consolidated subsidiaries, taken as a whole and, so far as the Company is aware, there are no such proceedings pending or threatened involving (whether as defendant or otherwise) the Company or any of its subsidiaries.
7. Copies of the latest audited consolidated annual financial statements of the Company, and the latest unaudited consolidated annual and quarterly financial information of the Company, which is included in a summary of annual and quarterly results (*kessan tanshin*) of the Group to be published by the Company in Japanese under the rules of the Tokyo Stock Exchange, may be obtained, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Agents during normal business hours, so long as any of the Bonds is outstanding.
8. Except to the extent provided in Condition 6, the Conditions do not provide for participating rights in the event of a take-over of the Company.
9. The consolidated financial statements of the Company for each of the three fiscal years ended the last day of February, 2016, 2017 and 2018, included in this Offering Circular, have been audited by KPMG AZSA LLC, the Company's independent auditor, as stated in its audit reports appearing herein.
10. The unaudited quarterly consolidated financial statements of the Company for each of the six-month periods ended 31 August 2017 and 2018, included in this Offering Circular, have been reviewed by KPMG AZSA LLC, the Company's independent auditor, as stated in its review report appearing herein.
11. The Trustee is entitled under the Trust Deed to rely without liability to Bondholders or any other person on reports and certificates prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to the Conditions and/or the Trust Deed whether or not addressed to the Trustee and whether or not the same are subject to any limitation on the liability of such party by reference to a monetary cap or otherwise.

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## Independent Auditor's Report

To the Board of Directors of Takashimaya Company, Limited:

We have audited the accompanying consolidated financial statements of Takashimaya Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at February 28, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Takashimaya Company, Limited and its consolidated subsidiaries as at February 28, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

## **KPMG AZSA LLC**

June 29, 2018  
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

# CONSOLIDATED BALANCE SHEETS

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

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

The accompanying notes are an integral part of these statements.



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

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF INCOME

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

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

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

	Number of shares issued	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance, February 29, 2016</b>	355,518,963	¥66,025	¥55,086	¥249,145	¥(6,153)	¥364,103
Dividends of surplus				(4,194)		(4,194)
Profit attributable to owners of parent				20,870		20,870
Purchase of treasury stock and disposal of treasury stock			0		(7)	(7)
Change of scope of consolidation				(788)		(788)
Change in ownership interest of parent due to transactions with non-controlling interests						—
Net changes of items other than shareholders' equity						—
<b>Balance, February 28, 2017</b>	355,518,963	¥66,025	¥55,086	¥265,033	¥(6,160)	¥379,984
Dividends of surplus				(4,193)		(4,193)
Profit attributable to owners of parent				23,659		23,659
Purchase of treasury stock and disposal of treasury stock					(10)	(10)
Change of scope of consolidation				(178)		(178)
Change in ownership interest of parent due to transactions with non-controlling interests			(61)			(61)
Net changes of items other than shareholders' equity						—
<b>Balance, February 28, 2018</b>	<b>355,518,963</b>	<b>¥66,025</b>	<b>¥55,025</b>	<b>¥284,321</b>	<b>¥(6,170)</b>	<b>¥399,201</b>

	Millions of yen							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
<b>Balance, February 29, 2016</b>	¥17,277	¥(15)	¥6,908	¥11,884	¥(1,230)	¥34,824	¥8,459	¥407,386
Dividends of surplus						—		(4,194)
Profit attributable to owners of parent						—		20,870
Purchase of treasury stock and disposal of treasury stock						—		(7)
Change of scope of consolidation						—		(788)
Change in ownership interest of parent due to transactions with non-controlling interests						—		—
Net changes of items other than shareholders' equity	(1,356)	16	238	(3,373)	1,892	(2,583)	1,206	(1,377)
<b>Balance, February 28, 2017</b>	¥15,921	¥1	¥7,146	¥8,511	¥662	¥32,241	¥9,665	¥421,890
Dividends of surplus						—		(4,193)
Profit attributable to owners of parent						—		23,659
Purchase of treasury stock and disposal of treasury stock						—		(10)
Change of scope of consolidation						—		(178)
Change in ownership interest of parent due to transactions with non-controlling interests						—		(61)
Net changes of items other than shareholders' equity	1,916	(4)	—	3,094	2,724	7,730	689	8,419
<b>Balance, February 28, 2018</b>	<b>¥17,837</b>	<b>¥(3)</b>	<b>¥7,146</b>	<b>¥11,605</b>	<b>¥3,386</b>	<b>¥39,971</b>	<b>¥10,354</b>	<b>¥449,526</b>

The accompanying notes are an integral part of these statements.

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance, February 28, 2017</b>	\$614,930	\$513,048	\$2,468,409	\$(57,372)	\$3,539,015
Dividends of surplus			(39,052)		(39,052)
Profit attributable to owners of parent			220,350		220,350
Purchase of treasury stock and disposal of treasury stock				(93)	(93)
Change of scope of consolidation			(1,658)		(1,658)
Change in ownership interest of parent due to transactions with non-controlling interests		(568)			(568)
Net changes of items other than shareholders' equity					—
<b>Balance, February 28, 2018</b>	<b>\$614,930</b>	<b>\$512,480</b>	<b>\$2,648,049</b>	<b>\$(57,465)</b>	<b>\$3,717,994</b>

	Thousands of U.S. dollars (Note 1)							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
<b>Balance, February 28, 2017</b>	\$148,281	\$9	\$66,555	\$79,268	\$6,166	\$300,279	\$90,016	\$3,929,310
Dividends of surplus						—		(39,052)
Profit attributable to owners of parent						—		220,350
Purchase of treasury stock and disposal of treasury stock						—		(93)
Change of scope of consolidation						—		(1,658)
Change in ownership interest of parent due to transactions with non-controlling interests						—		(568)
Net changes of items other than shareholders' equity	17,845	(37)	—	28,816	25,370	71,994	6,417	78,411
<b>Balance, February 28, 2018</b>	<b>\$166,126</b>	<b>\$(28)</b>	<b>\$66,555</b>	<b>\$108,084</b>	<b>\$31,536</b>	<b>\$372,273</b>	<b>\$96,433</b>	<b>\$4,186,700</b>

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1 BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined-benefit retirement plans recognized outside of profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at February 28, 2018, which was ¥107.37 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **(a) Principles of consolidation**

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

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

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

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

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

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

From the consolidated fiscal year under review, A&S Takashimaya Duty free Co., Ltd. is included within the scope of consolidation due to increased materiality.

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

#### **(b) Foreign currency translation**

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

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

#### **(c) Cash and cash equivalents**

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

#### **(d) Securities**

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

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

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

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

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

#### **(e) Derivatives and hedging transactions**

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

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

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

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



receivable or payable,

- (i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and
  - (ii) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
- (2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

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

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

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

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

#### **(f) Allowance for doubtful accounts**

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

#### **(g) Inventories**

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

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

#### **(h) Property, plant and equipment**

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

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

#### **(i) Intangible assets (except lease assets)**

Intangible assets are stated at cost and depreciated by using mainly the straight-line method

over the estimated useful lives of the assets as prescribed by Japanese tax laws. The Companies amortize capitalized software using the straight-line method over its estimated useful life (five years).

**(j) Lease assets**

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

**(k) Allowance for Point Gift Certificates**

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

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

**(l) Employees' retirement benefit liability**

(1) Attribution method for projected retirement benefits

The Companies account for the liability for retirement benefits based on the defined benefit obligations and plan assets at the balance sheet date. The defined benefit obligations are attributed to periods on a benefit formula basis.

(2) How to recognize the prior service cost and the actuarial gains or losses

The unrecognized prior service cost obligations are recognized as expenses and recorded in equal amounts mainly 10 years from their recognition, which is less than the average remaining years of employment of the employees.

Actuarial gains or losses incurred during the year are amortized by using the straight-line method over a certain period of time (mainly 10 years), which is less than the average remaining years of employment of the employees, commencing from the succeeding fiscal year.

(3) Adoption of simplified method in some consolidated subsidiaries

Some consolidated subsidiaries adopt the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year-end for the calculation of net defined liability and retirement benefit costs.

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

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

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

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

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

**(o) Allowance for environmental measures**

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

**(p) Allowance for loss on repair construction of building**

An allowance for loss on repair construction of building is provided based on the estimated

costs for repairment of Nihombashi Takashimaya Store, which is designated as an important cultural property.

#### **(q) Income taxes**

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

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

#### **(r) Per share information**

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

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

#### **(s) Accounting standards not yet adopted**

##### **(1) Consolidated overseas subsidiaries**

- IFRS 15 "Revenue from Contracts with Customers"

###### **(i) Overview**

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

###### **(ii) Schedule date of adoption**

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

###### **(iii) Effect of adoption of the accounting standards**

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

##### **(2) The Company and domestic consolidated subsidiaries**

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

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

###### **(i) Overview**

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

(Main accounting treatments that were revised)

- Treatment of temporary taxable differences associated with stock of subsidiaries in their respective financial statements

- Treatment of recoverability of deferred tax assets in the Company that fall under Classification 1

###### **(ii) Schedule date of adoption**

The guidance will be adopted from March 1, 2019.

###### **(iii) Effect of adoption of the guidance**

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

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

**(t) Additional information**

Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets

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

**3  
CASH AND CASH  
EQUIVALENTS**

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

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

**4  
FINANCIAL  
INSTRUMENTS**

**1. Matters related to financial instruments**

**(1) Policies for financial instruments**

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

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

**(2) Financial instruments and their risks**

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

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

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

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

**(3) Risk management systems relating to financial instruments**

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

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

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

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

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

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

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

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

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

**2. Matters related to fair value of financial instruments**

The book values recorded in the Consolidated Balance Sheets for the years ended February 28, 2018 and 2017, and fair values and their differences are as follows. Figures for which fair value is not readily recognized are not included in the following tables (See Note 2.).

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

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

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

\*1. Accounts receivable—trade are deducted from the carrying amount.

\*2. The figures include guarantee deposits paid with repayment due dates of one year or less.

\*3. The figures include long-term loans with repayment due dates of one year or less.

\*4. Net receivables and payables arising from derivative transactions are shown as a net amount.

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

Assets

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

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

(3) Securities and investment securities

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

(4) Guarantee deposits paid

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

Liabilities

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

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

(4) Long-term debt

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

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

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

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

Derivatives

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

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
(a) Stock of subsidiaries	<b>¥4,312</b>	¥3,953	<b>\$40,160</b>
(b) Stock of affiliates	<b>47,964</b>	42,787	<b>446,717</b>
(c) Unlisted stocks	<b>1,780</b>	1,872	<b>16,578</b>
(d) Guarantee deposits paid	<b>23,204</b>	24,603	<b>216,113</b>

(a) Stock of subsidiaries and (b) Stock of affiliates

They have no market value and their fair value is not readily determinable.

(c) Unlisted stocks

They are not included in “(3) Securities and investment securities” in the above tables, as they have no market value and their fair value is not readily determinable.

(d) Guarantee deposits paid

The fair value of a portion of these guarantee deposits paid has not been presented in “(4) Guarantee deposits paid” in the above tables because it is deemed to be extremely difficult to estimate the time when these will be returned and estimate their fair value.

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

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

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

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

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

Millions of yen						
2018						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt—Corporate bonds	<b>¥40,000</b>	<b>¥—</b>	<b>¥25,000</b>	<b>¥10,000</b>	<b>¥—</b>	<b>¥—</b>
Long-term debt—Long-term loans	<b>4,520</b>	<b>7,520</b>	<b>36,025</b>	<b>13,041</b>	<b>41</b>	<b>32,203</b>
<b>Total</b>	<b>¥44,520</b>	<b>¥7,520</b>	<b>¥61,025</b>	<b>¥23,041</b>	<b>¥41</b>	<b>¥32,203</b>

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

Thousands of U.S. dollars						
2018						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt—Corporate bonds	<b>\$372,544</b>	<b>\$—</b>	<b>\$232,840</b>	<b>\$93,136</b>	<b>\$—</b>	<b>\$—</b>
Long-term debt—Long-term loans	<b>42,097</b>	<b>70,038</b>	<b>335,522</b>	<b>121,459</b>	<b>382</b>	<b>299,925</b>
<b>Total</b>	<b>\$414,641</b>	<b>\$70,038</b>	<b>\$568,362</b>	<b>\$214,595</b>	<b>\$382</b>	<b>\$299,925</b>



## 5 DEPOSITED ASSETS

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

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

## 6 SECURITIES

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

(1) Held-to-maturity debt securities:

Securities with available fair values exceeding book values:

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

Type	Thousands of U.S. dollars		
	2018		
	Book value	Fair value	Book value
Government bonds	\$—	\$—	\$—

Securities with available fair values not exceeding book values:

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

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

(2) Available-for-sale securities:

Securities with book values exceeding acquisition costs:

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

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

Securities with book value not exceeding acquisition costs:

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

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

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

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

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

## 7 INVENTORIES

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

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

## 8 INCOME TAXES

The Companies are subject to a number of taxes based on income. The aggregate statutory tax rate in Japan was approximately 33.1% for the year ended February 28, 2018.

The following table summarizes the significant difference between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended February 28, 2018 and 2017.

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

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

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

## 9 RENTAL PROPERTY

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

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

The carrying amounts of these properties in the Consolidated Balance Sheets, their changes during the current fiscal year, their fair value, and the method for calculating the fair value at February 28, 2018 and 2017 were as follows:

### Amounts on the Consolidated Balance Sheets

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

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

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

- Notes: 1. The amounts presented on the Consolidated Balance Sheets are the acquisition value minus accumulated depreciation.  
2. Rental property: the increase during the year ended February 28, 2018 primarily represents acquisition of rental properties, and the decrease primarily represents depreciation.  
3. Real estate including spaces used as rental properties: the increase during the year ended February 28, 2018 primarily represents the acquisition, and the decrease primarily represents depreciation.  
4. The fair value as of the end of the fiscal year was calculated by the Company based on Real Estate Appraisal and Valuation Standards (including adjustments made using indicators and other information).

Profit (loss) on rental property and the portion of real estate including spaces used as rental properties during the years ended February 28, 2018 and 2017 were as follows:

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

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

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

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

## 10 LAND REVALUATION

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

Related information is shown as follows:

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

## 11 REDUCTION ENTRY

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	<b>¥160</b>	¥172	<b>\$1,490</b>
Total	<b>¥160</b>	¥172	<b>\$1,490</b>

## 12 LEASEHOLD AND OTHER DEPOSITS

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

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

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

### 13 PRESENTATION OF GOODWILL AND NEGATIVE GOODWILL

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

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

### 14 SEGMENT INFORMATION

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

#### 1. General information about reportable segments

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

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

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

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

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

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

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

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

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

(a) Business segment information

Business segment information for the years ended February 28, 2018 and 2017 was as follows:

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

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

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



## (b) Related information

Amortization of goodwill and unamortized balance by reportable segment:

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

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

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

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

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

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

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

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

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

## 15 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans outstanding were generally represented by bank overdrafts and notes issued by the Companies to banks bearing interest at average rates of 0.33% and 0.36% at February 28, 2018 and 2017, respectively.

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

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

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

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

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

## 16 DERIVATIVE TRANSACTIONS

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

#### (1) Currency related derivatives

Classification	Type of derivatives	Millions of yen			
		2018		Fair value	Valuation loss
		Contract amount	Contract amount due after one year		
Non-market transactions	Swaps				
	Buy: U.S. dollars				
	Sell: JP yen	¥3,290	¥—	¥35	¥35
Total		¥3,290	¥—	¥35	¥35

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

		Thousands of U.S. dollars			
		2018			
Classification	Type of derivatives	Contract amount	Contract amount due after one year	Fair value	Valuation loss
Non-market transactions	Swaps				
	Buy: U.S. dollars				
	Sell: JP yen	<b>\$30,642</b>	<b>\$—</b>	<b>\$326</b>	<b>\$326</b>
<b>Total</b>		<b>\$30,642</b>	<b>\$—</b>	<b>\$326</b>	<b>\$326</b>

## 2. Derivatives to which hedge accounting is applied

### (1) Currency related derivatives

			Millions of yen		
			2018		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Deferral hedge accounting	Forward contracts	Accounts payable-trade			
	To buy U.S. dollars		<b>¥122</b>	¥—	<b>¥(4)</b>
	To buy Euros		<b>31</b>	—	<b>(0)</b>
	To buy G.B. pounds		<b>1</b>	—	<b>(0)</b>
<b>Total</b>			<b>¥154</b>	<b>¥—</b>	<b>¥(4)</b>

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

			Thousands of U.S. dollars		
			2018		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Deferral hedge accounting	Forward contracts	Accounts payable-trade			
	To buy U.S. dollars		<b>\$1,137</b>	<b>\$—</b>	<b>\$(37)</b>
	To buy Euros		<b>289</b>	—	<b>(0)</b>
	To buy G.B. pounds		<b>9</b>	—	<b>(0)</b>
<b>Total</b>			<b>\$1,435</b>	<b>\$—</b>	<b>\$(37)</b>

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

## (2) Interest rate related derivatives

			Millions of yen		
			<b>2018</b>		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps	Interest expenses on long-term debt			
	Receive floating rate		<b>¥29,000</b>	<b>¥26,000</b>	<b>¥—</b>
	Pay fixed rate				
<b>Total</b>			<b>¥29,000</b>	<b>¥26,000</b>	<b>¥—</b>

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

			Thousands of U.S. dollars		
			<b>2018</b>		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps	Interest expenses on long-term debt			
	Receive floating rate		<b>\$270,094</b>	<b>\$242,153</b>	<b>\$—</b>
	Pay fixed rate				
<b>Total</b>			<b>\$270,094</b>	<b>\$242,153</b>	<b>\$—</b>

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

## (3) Interest rate and currency related derivatives

			Millions of yen		
			<b>2018</b>		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps	Long-term debt	<b>¥10,000</b>	<b>¥10,000</b>	<b>¥—</b>
<b>Total</b>			<b>¥10,000</b>	<b>¥10,000</b>	<b>¥—</b>

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

## 17 EMPLOYEES' RETIREMENT BENEFITS

			Thousands of U.S. dollars		
			2018		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps	Long-term debt	\$93,136	\$93,136	\$—
Total			\$93,136	\$93,136	\$—

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

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

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

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

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

### 2. Defined benefit obligation

(1) The changes in defined benefit obligation for the years ended February 28, 2018 and 2017 are as follows:

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

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

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

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

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

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

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

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

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

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

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

### (7) Plan assets

1) Components of plan assets are as follows:

	%	
	2018	2017
Debt investments	64%	67%
Equity investments	26	24
General accounts with life insurance companies	9	9
Cash and deposits	1	0
Total	100%	100%

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

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

**(8) The assumptions used for the years ended February 28, 2018 and 2017 are as follows:**

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

### 3. Defined benefit obligation of the simplified method

**(1) The changes in defined benefit obligation of the simplified method for the years ended February 28, 2018 and 2017 are as follows:**

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

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

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

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

#### 4. Defined contribution pension plan

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

## 18 CONTINGENT LIABILITIES

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

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

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

## 19 NET ASSETS

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

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

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



## 20 PER SHARE INFORMATION

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

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

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

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

## 21 IMPAIRMENT LOSS

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

Impairment loss is recognized following asset groups.

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

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

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

Impairment loss is recognized for the following asset groups.

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

\* Impairment loss: the book value of the asset group that is expected to continue to post a loss from operating activities is reduced to the recoverable amount, and such reduction is recorded as an impairment loss of ¥4,490 million under other expense. The recoverable amount is based on the value in use for stores and business assets, and that for real properties with no foreseeable future cash flows is assessed as zero. The value in use is calculated by applying a discount rate of 4.8% to future cash flows.

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

## 22 OTHER COMPREHENSIVE INCOME

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

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

## 23 CASH DIVIDENDS

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

	Millions of yen	Thousands of U.S. dollars
Cash dividends	<b>¥2,097</b>	<b>\$19,531</b>

## 24 LEASES

### Operating leases

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

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

## 25 SIGNIFICANT SUBSEQUENT EVENTS

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

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

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

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

The main points of the meeting are as follows:

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

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

(2) Details of the share consolidation

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

(b) Method and ratio of share consolidation

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

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

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

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

(3) Processing for fractional shares

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

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

300,000,000 shares

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

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

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

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

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

(7) Effect on per share information

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

	yen		U.S. dollars
	2018	2017	2018
Net assets per share	<b>2,513.33</b>	2,359.05	<b>23.41</b>
Basic EPS	<b>135.39</b>	119.43	<b>1.26</b>
Diluted EPS	<b>119.16</b>	105.11	<b>1.11</b>

# INDEPENDENT AUDITOR'S REPORT



## Independent Auditor's Report

To the Board of Directors of Takashimaya Company, Limited:

We have audited the accompanying consolidated financial statements of Takashimaya Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at February 28, 2017 and February 29, 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Takashimaya Company, Limited and its consolidated subsidiaries as at February 28, 2017 and February 29, 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

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

**KPMG AZSA LLC**

May 23, 2017  
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

# CONSOLIDATED BALANCE SHEETS

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

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

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

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

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

# CONSOLIDATED STATEMENTS OF INCOME

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

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

The accompanying notes are an integral part of these statements.



# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1 BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined-benefit retirement plans recognized outside of profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
- (e) Retrospective application of a change in accounting policies
- (f) Accounting for net income attributable to minority interests

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation

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

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

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

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

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

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

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

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

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

#### **(b) Foreign currency translation**

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

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

#### **(c) Cash and cash equivalents**

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

#### **(d) Securities**

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

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

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

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

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

#### **(e) Derivatives and hedging transactions**

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

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

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

- (1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
  - (i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and
  - (ii) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
- (2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

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

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

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

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

#### **(f) Allowance for doubtful accounts**

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

#### **(g) Inventories**

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

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

#### **(h) Property, plant and equipment**

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

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

#### **(i) Intangible assets (except lease assets)**

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

**(j) Lease assets**

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

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

**(k) Allowance for Point Gift Certificates**

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

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

**(l) Employees' retirement benefit liability**

(1) Attribution method for projected retirement benefits

The Companies account for the liability for retirement benefits based on the defined benefit obligations and plan assets at the balance sheet date. The defined benefit obligations are attributed to periods on a benefit formula basis.

(2) How to recognize the prior service cost and the actuarial gains or losses

The unrecognized prior service cost obligations are recognized as expenses and recorded in equal amounts mainly 10 years from their recognition, which is less than the average remaining years of employment of the employees.

Actuarial gains or losses incurred during the year are amortized by using the straight-line method over a certain period of time (mainly 10 years), which is less than the average remaining years of employment of the employees, commencing from the succeeding fiscal year.

(3) Adoption of simplified method in some consolidated subsidiaries

Some consolidated subsidiaries adopt the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year-end for the calculation of net defined liability and retirement benefit costs.

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

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

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

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

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

**(o) Allowance for environmental measures**

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

**(p) Allowance for loss on repair construction of building**

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



**(q) Income taxes**

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

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

**(r) Per share information**

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

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

**(s) Changes in accounting standards**

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

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

**(t) Accounting standards issued but not yet applied**

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

**(1) Overview**

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

(2) Schedule date of adoption

The Company expects to apply the revised accounting standard from the beginning of the fiscal year ending February 28, 2018.

(3) Effect of adoption

The effect of adoption of the aforementioned standards and guidance on the Company's consolidated financial statements is under evaluation.

### 3 OTHER COMPREHENSIVE INCOME

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

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

### 4 CASH AND CASH EQUIVALENTS

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

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

**1. Matters related to financial instruments****(1) Policies for financial instruments**

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

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

**(2) Financial instruments and their risks**

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

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

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

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

**(3) Risk management systems relating to financial instruments****(i) Management of credit risk (risk relating to non-performance of a contract obligation by a counterparty, etc.)**

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

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

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

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

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

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

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

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

## 2. Matters related to fair value of financial instruments

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

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

  

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

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

\*1. Accounts receivable—trade are deducted from the carrying amount.

\*2. The figures include guarantee deposits paid with repayment due dates of one year or less.

\*3. The figures include long-term loans with repayment due dates of one year or less.

\*4. Net receivables and payables arising from derivative transactions are shown as a net amount.

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

Assets

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

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

(3) Securities and investment securities

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

(4) Guarantee deposits paid

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

Liabilities

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

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

(4) Long-term debt

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

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

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

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

Derivatives

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

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

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

(a) Stock of subsidiaries and (b) Stock of affiliates

They have no market value and their fair value is not readily determinable.

(c) Unlisted stocks

They are not included in "(3) Securities and investment securities" in the above tables, as they have no market value and their fair value is not readily determinable.

(d) Guarantee deposits paid

The fair value of a portion of these guarantee deposits paid has not been presented in "(4) Guarantee deposits paid" in the above tables because it is deemed to be extremely difficult to estimate the time when these will be returned and estimate their fair value.

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

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

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

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

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

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

  

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

  

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

## 6 SECURITIES

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

(1) Held-to-maturity debt securities:

Securities with available fair values exceeding book values:

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

  

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

Securities with available fair values not exceeding book values:

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

  

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

(2) Available-for-sale securities:

Securities with book values exceeding acquisition costs:

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

  

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

Securities with book value not exceeding acquisition costs:

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

  

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

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

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

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



## 7 INVENTORIES

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise	<b>¥41,177</b>	¥41,137	<b>\$365,823</b>
Products	<b>12</b>	31	<b>107</b>
Work in process	<b>2,749</b>	3,947	<b>24,422</b>
Raw materials	<b>36</b>	52	<b>320</b>
Supplies	<b>1,076</b>	985	<b>9,559</b>
Total	<b>¥45,050</b>	¥46,152	<b>\$400,231</b>

## 8 LEASEHOLD AND OTHER DEPOSITS

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

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

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

## 9 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

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

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

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

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

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

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

**10****DEPOSITED ASSETS**

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

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

**11****INCOME TAXES**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Amounts on the Consolidated Balance Sheets

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

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

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

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

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

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

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

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

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

### 13 CONTINGENT LIABILITIES

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

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

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

**14**  
**EMPLOYEES'**  
**RETIREMENT**  
**BENEFITS**

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

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

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

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

**2. Defined benefit obligation**

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

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

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

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

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

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

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial losses	<b>¥2,756</b>	¥(766)	<b>\$24,485</b>
Total	<b>¥2,756</b>	¥(766)	<b>\$24,485</b>

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

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

(7) Plan assets

1) Components of plan assets are as follows:

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

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

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

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

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



### 3. Defined benefit obligation of the simplified method

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

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

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

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

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

### 4. Defined contribution pension plan

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

## 15 NET ASSETS

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

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

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

## 16 LAND REVALUATION

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

Related information is shown as follows:

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

## 17 LEASES

### Operating leases

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

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

## 18 DERIVATIVE TRANSACTIONS

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

#### (1) Currency related derivatives

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

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

### 2. Derivatives to which hedge accounting is applied

#### (1) Currency related derivatives

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

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

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

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

## (2) Interest rate related derivatives

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

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

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

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

### (3) Interest rate and currency related derivatives

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

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

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

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

## 19 PER SHARE INFORMATION

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

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

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

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

## 20 SEGMENT INFORMATION

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

### 1. General information about reportable segments

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

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

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

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

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

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

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

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

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

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

(a) Business segment information

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

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

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

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

(b) Related information

Amortization of goodwill and unamortized balance by reportable segment

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

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

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

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

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

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

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

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

## 21 PRESENTATION OF GOODWILL AND NEGATIVE GOODWILL

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

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

## 22 CASH DIVIDENDS

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

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

## 23 IMPAIRMENT LOSS

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

Impairment loss is recognized for the following asset groups.

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

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

## 24 REDUCTION ENTRY

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

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



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## Independent Auditor's Report on Review of Quarterly Financial Statements

To the Board of Directors of Takashimaya Company, Limited:

We have reviewed the accompanying quarterly consolidated financial statements of Takashimaya Company, Limited ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at August 31, 2018, the quarterly consolidated statements of income, comprehensive income and cash flows for the cumulative six-month periods ended August 31, 2018 and 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Quarterly Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these quarterly consolidated financial statements in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan, and for such internal control as management determines is necessary to enable the fair preparation of quarterly consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our reviews. We conducted our reviews in accordance with quarterly review standards generally accepted in Japan.

A review of quarterly financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

### **Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying quarterly consolidated financial statements do not present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at August 31, 2018, and its financial performance and its cash flows for the cumulative six-month periods ended August 31, 2018 and 2017 in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan.

### **Emphasis of Matter**

We draw attention to Note 3 to the quarterly consolidated financial statements. The accounting policies regarding consignment buying of the Company's consolidated overseas subsidiaries have been changed with effect from the three-month period ended May 31, 2018. Our opinion is not modified in respect of this matter.

**KPMG AZSA LLC**

November 13, 2018  
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

## Quarterly Consolidated Balance Sheets

### Takashimaya Company, Limited and Consolidated Subsidiaries August 31, 2018 and February 28, 2018

	Millions of yen	
	August 31, 2018	February 28, 2018
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits (Note 4) . . . . .	107,717	99,541
Marketable securities . . . . .	8	—
Notes and accounts receivable:		
Trade . . . . .	138,815	139,193
Non-consolidated subsidiaries and affiliated companies . . . . .	820	845
Other . . . . .	10,486	15,158
Less: Allowance for doubtful accounts . . . . .	(332)	(306)
	149,789	154,890
Inventories (Note 5) . . . . .	44,184	44,746
Deferred tax assets . . . . .	10,133	10,164
Other current assets . . . . .	19,165	18,161
Total current assets . . . . .	330,996	327,502
<b>Investments and advances:</b>		
Investment securities . . . . .	40,066	42,955
Investments in and advances to:		
Non-consolidated subsidiaries and affiliated companies . . . . .	49,811	53,076
Other . . . . .	10,452	11,245
Less: Allowance for doubtful accounts . . . . .	(2,178)	(1,939)
	58,085	62,382
Total investments and advances . . . . .	98,151	105,337
<b>Property, plant and equipment:</b>		
Land . . . . .	362,725	361,362
Buildings and structures (Note 6) . . . . .	406,625	403,320
Equipment and fixtures . . . . .	36,409	35,792
Lease assets . . . . .	5,586	6,005
Construction in progress . . . . .	12,062	9,658
	823,407	816,137
Less: Accumulated depreciation . . . . .	(267,020)	(265,379)
Total property, plant and equipment . . . . .	556,387	550,758
<b>Other assets:</b>		
Leasehold and other deposits . . . . .	28,843	29,227
Goodwill (Note 7) . . . . .	50	98
Deferred tax assets . . . . .	5,616	4,947
Other . . . . .	19,591	17,938
Total other assets . . . . .	54,100	52,210
<b>Total assets</b> . . . . .	<b>1,039,634</b>	<b>1,035,807</b>

The accompanying notes are an integral part of these statements.

	Millions of yen	
	August 31, 2018	February 28, 2018
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Short-term bank loans	5,800	5,800
Current portion of long-term debt	49,542	44,583
Notes and accounts payable:		
Trade	99,838	96,600
Non-consolidated subsidiaries and affiliated companies	5,924	5,829
Other	17,883	22,802
	123,645	125,231
Accrued income taxes	4,779	6,237
Accrued expenses	3,829	3,254
Allowance for directors' and corporate auditors' bonuses	—	54
Gift certificates outstanding	52,912	52,663
Advances received	98,469	96,102
Employees' saving deposits	15,281	15,415
Allowance for Point Gift Certificates	2,529	2,561
Allowance for loss on repair construction of building	2,139	2,744
Other current liabilities	20,923	16,245
	379,848	370,889
<b>Long-term liabilities</b>		
Long-term debt	118,861	123,880
Deposits from tenants	19,414	23,389
Net defined benefit liability	54,221	54,616
Allowance for directors' and corporate auditors' retirement benefits	259	297
Deferred tax liabilities	399	287
Deferred tax liabilities related to land revaluation	6,879	6,879
Long-term accounts payable	866	973
Asset retirement obligations	1,908	1,908
Allowance for environmental measures	332	342
Allowance for loss on repair construction of building	1,753	1,910
Other long-term liabilities	932	911
	205,824	215,392
<b>Total liabilities</b>	<b>585,672</b>	<b>586,281</b>
Contingent liabilities (Note 8)		
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	66,025	66,025
Authorized: 600,000 thousand shares		
Issued: 355,518,963 shares on August 31, 2018		
355,518,963 shares on February 28, 2018		
Capital surplus	55,026	55,025
Retained earnings	291,262	284,321
Less: Treasury stock, at cost: 6,048,402 shares on August 31, 2018		
6,045,405 shares on February 28, 2018	(6,174)	(6,170)
	406,139	399,201
<b>Accumulated other comprehensive income:</b>		
Valuation difference on available-for-sale securities	15,746	17,837
Deferred gains or losses on hedges	1	(3)
Revaluation reserve for land	7,146	7,146
Foreign currency translation adjustment	8,296	11,605
Remeasurements of defined benefits plans	3,457	3,386
	34,646	39,971
<b>Non-controlling interests in consolidated subsidiaries:</b>	<b>13,177</b>	<b>10,354</b>
<b>Total net assets</b>	<b>453,962</b>	<b>449,526</b>
<b>Total liabilities and net assets</b>	<b>1,039,634</b>	<b>1,035,807</b>

The accompanying notes are an integral part of these statements.

## Quarterly Consolidated Statements of Income

### Takashimaya Company, Limited and Consolidated Subsidiaries

Six Months ended August 31, 2018 and 2017

	<u>Millions of yen</u>	
	<u>Six Months Ended</u>	
	<u>August 31,</u>	
	<u>2018</u>	<u>2017</u>
Sales and other operating revenue (Note 10)		
Net sales .....	409,357	401,905
Other operating revenue .....	32,168	31,375
	<u>441,525</u>	<u>433,280</u>
Operating expenses:		
Cost of sales .....	303,559	297,990
Selling, general and administrative expenses .....	124,545	121,397
	<u>428,104</u>	<u>419,387</u>
Operating income (Note 10) .....	<u>13,421</u>	<u>13,893</u>
Other income (expenses):		
Interest and dividend income .....	1,224	954
Interest expenses .....	(319)	(308)
Gain (loss) on sale and disposal of property, plant and equipment, net .....	(3,201)	(2,685)
Gain (loss) on sale of investment securities, net .....	—	386
Gain (loss) on liquidation of gift certificates outstanding, net .....	(101)	(331)
Equity in gain of affiliated companies .....	1,428	1,308
Exchange gain (loss), net .....	121	(245)
Other, net .....	328	330
	<u>(520)</u>	<u>(591)</u>
Income before income taxes .....	12,901	13,302
Income taxes		
Current .....	3,565	4,027
Deferred .....	202	195
	<u>3,767</u>	<u>4,222</u>
Net income .....	9,134	9,080
Net income attributable to non-controlling interests .....	(351)	(68)
Net income attributable to owners of parent (Note 11) .....	<u>8,783</u>	<u>9,012</u>

The accompanying notes are an integral part of these statements.

## Quarterly Consolidated Statements of Comprehensive Income

Takashimaya Company, Limited and Consolidated Subsidiaries  
Six Months ended August 31, 2018 and 2017

	Millions of yen	
	Six Months Ended August 31,	
	2018	2017
<b>Net income</b> .....	9,134	9,080
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities .....	(2,008)	978
Deferred gains or losses on hedges .....	4	(1)
Foreign currency translation adjustment .....	(2,397)	225
Remeasurements of defined benefits plans, net of tax .....	62	328
Share of other comprehensive income of entities accounted for using equity method .....	(1,104)	186
Total other comprehensive income .....	(5,443)	1,716
<b>Comprehensive income</b> .....	<u>3,691</u>	<u>10,796</u>
<b>Comprehensive income attributable to:</b>		
Owners of parent .....	3,432	10,718
Non-controlling interests .....	259	78

## Quarterly Consolidated Statements of Cash Flows

### Takashimaya Company, Limited and Consolidated Subsidiaries Six Months ended August 31, 2018 and 2017

	Millions of yen	
	Six Months Ended August 31,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Income before income taxes	12,901	13,302
Depreciation	9,634	9,553
Amortization of goodwill	48	48
Increase (decrease) in allowance for doubtful accounts	265	(686)
Increase (decrease) in net defined benefit liability	(305)	(298)
Increase (decrease) in provision for directors' retirement benefits	(38)	3
Increase (decrease) in provision for point card certificates	(29)	(43)
Increase (decrease) in allowance for loss on repair construction of building	(763)	(633)
Interest and dividend income	(1,224)	(954)
Interest expenses	319	308
Share of (profit) loss of entities accounted for using equity method	(1,428)	(1,308)
Loss on disposal of property and equipment	1,607	1,564
Loss (gain) on sales of investment securities, net	—	(386)
Decrease (increase) in notes and accounts receivable-trade	(219)	(9,876)
Decrease (increase) in inventories	516	(2,058)
Increase (decrease) in notes and accounts payable-trade	3,443	2,131
Other	1,207	4,482
Subtotal	25,934	15,149
Interest and dividend income received	2,646	1,791
Interest expenses paid	(233)	(345)
Income taxes paid	(4,594)	(3,484)
Net cash provided by (used in) operating activities	23,753	13,111
<b>Cash flows from investing activities:</b>		
Purchase of time deposits	(2,516)	(2,503)
Proceeds from withdrawal of time deposits	2,941	2,094
Purchase of marketable securities and investment securities	(10)	(1,675)
Proceeds from sales and redemption of marketable securities and investment securities	3,530	11,072
Purchase of property, plant and equipment and intangible assets	(18,182)	(26,736)
Proceeds from sales of property, plant and equipment and intangible assets	18	14
Other	4	(64)
Net cash provided by (used in) investing activities	(14,215)	(17,798)
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in short-term loans payable	—	(60)
Proceeds from long-term loans payable	—	2,020
Repayment of long-term loans payable	(10)	(3,070)
Cash dividends paid	(2,097)	(2,097)
Proceeds from share issuance to non-controlling shareholders	1,027	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(60)
Other	(335)	(405)
Net cash provided by (used in) financing activities	(1,415)	(3,672)
Effect of exchange rate changes on cash and cash equivalents	(2,285)	298
Net decrease (increase) in cash and cash equivalents	5,838	(8,061)
Cash and cash equivalents at beginning of year	95,120	103,765
Increase in cash and cash equivalents from newly consolidated subsidiaries	2,474	392
Cash and cash equivalents at end of period (Note 4)	¥103,432	¥ 96,096

The accompanying notes are an integral part of these statements.



## Notes to Quarterly Consolidated Financial Statements

### NOTE 1. BASIS OF PRESENTING THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

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

In compliance with “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12) and “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14), the accompanying quarterly consolidated financial statements reflect, in principle, all adjustments of a normal recurring nature that are necessary for a fair presentation.

Some information and disclosures required in the full-year consolidated financial statements are not necessarily included in the accompanying quarterly consolidated financial statements. The quarterly consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended February 28, 2018.

The accompanying quarterly consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the statutory Japanese-language quarterly consolidated financial statements. Some supplementary information included in the statutory Japanese-language quarterly consolidated financial statements, but not required for fair presentation, is not presented in the accompanying quarterly consolidated financial statements.

### NOTE 2. CHANGE IN THE SCOPE OF CONSOLIDATION

From the three-month period ended May 31, 2018, Siam Takashimaya (Thailand) Co., Ltd. is included within the scope of consolidation due to increased materiality.

### NOTE 3. CHANGES IN ACCOUNTING POLICIES

Revenue recognition of uncollected gift certificates by consolidated overseas subsidiaries

Due to the application of IFRS 15 “Revenue from Contracts with Customers” from fiscal years commencing on or after January 1, 2018, the Company’s consolidated overseas subsidiaries that prepare financial statements in accordance with IFRS shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. With regard to such change in accounting policy, pursuant to the transitional measure under IFRS 15, the cumulative effect of the adoption of such policy has been reflected in retained earnings at the beginning of the three-month period ended May 31, 2018. As a result of such change, retained earnings at the beginning of the three-month period ended May 31, 2018 increased by ¥645 million. The effect of such change on the Group’s consolidated operating income and income before income taxes for the six-month period ended August 31, 2018 was immaterial.

Accounting treatment for net sales relating to consignment buying transactions of consolidated overseas subsidiaries

In relation to transactions in which products are purchased from suppliers at the same time that they are sold to customers (the so-called “consignment buying” transactions), previously the Group recorded the transaction amount in each of “net sales” and “cost of sales”. However, from the three-month period ended May 31, 2018, with respect to the consignment buying transactions of the Company’s consolidated overseas subsidiaries, the accounting treatment has been changed to record the amount that corresponds to gross profit in “net sales”.

As a result, the income from these transactions, which had previously been shown using the gross presentation, is changed to being shown using a net presentation.

Following the application of IFRS 15 “Revenue from Contracts with Customers” from fiscal years commencing on or after January 1, 2018, this change has been made comprehensively taking into account the current economic substance regarding the consignment buying transactions of the consolidated overseas subsidiaries whose financial statements are prepared in accordance with IFRS.

The change in the accounting policy is applied retrospectively, and the quarterly consolidated financial statements as of and for the six-month period ended August 31, 2017 are presented to reflect such change. As a result, each of net sales and cost of sales for the six-month period ended August 31, 2017, was ¥19,701 million

smaller than that of the period prior to the retrospective application; however, consolidated operating income and income before income taxes for the six-month period ended August 31, 2017 were not affected by this change. For the effects of this change on the segment information, see “Segment Information” below.

#### NOTE 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at August 31, 2018 and 2017 consisted of the following:

	Millions of yen	
	Six Months Ended August 31,	
	2018	2017
Cash and deposits .....	¥107,717	¥99,877
Time deposits with maturities exceeding three months .....	(4,285)	(3,781)
Cash and cash equivalents at end of period .....	¥103,432	¥96,096

#### NOTE 5. INVENTORIES

Inventories at August 31, 2018 and February 28, 2018 consisted of the following:

	Millions of yen	
	August 31, 2018	February 28, 2018
Merchandise .....	¥42,655	¥43,484
Products .....	29	29
Work in process .....	363	112
Raw materials .....	26	19
Supplies .....	1,111	1,102
Total .....	¥44,184	¥44,746

#### NOTE 6. REDUCTION ENTRY

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

	Millions of yen	
	August 31, 2018	February 28, 2018
Buildings and structures .....	¥160	¥160
Total .....	¥160	¥160

#### NOTE 7. PRESENTATION OF GOODWILL AND NEGATIVE GOODWILL

The partial offsetting of goodwill by negative goodwill at August 31, 2018 and February 28, 2018 was as follows:

	Millions of yen	
	August 31, 2018	February 28, 2018
Goodwill .....	¥281	¥375
Negative goodwill .....	231	277
Goodwill, net .....	¥ 50	¥ 98

#### NOTE 8. CONTINGENT LIABILITIES

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

	Millions of yen	
	August 31, 2018	February 28, 2018
Guarantee on loans from financial institutions:		
Keppel Land Watco II Co., Ltd. ....	¥5,216	¥5,028
Keppel Land Watco III Co., Ltd. ....	1,605	1,552
Loan guarantees made for employees and others .....	69	83
Total .....	¥6,890	¥6,663

Note: ¥708 million of ¥6,821 million for guarantees on loans from financial institutions as of August 31, 2018 have been counter-guaranteed from Keppel Land Limited.

## NOTE 9. SUPPLEMENTAL INFORMATION ON CHANGES IN NET ASSETS

Information of dividends is summarized as follows:

### (1) Dividends paid

The following resolution was approved by the ordinary general meeting of shareholders held on May 22, 2018 and May 23, 2017:

Date of shareholders' meeting	Type of stock	Total amount	Per share amount	Record date	Effective date	Source of dividend
22-May-18	Common stock	¥2,097 million	¥6	28-Feb-18	23-May-18	Retained earnings
23-May-17	Common stock	¥2,097 million	¥6	28-Feb-17	24-May-17	Retained earnings

### (2) Dividend whose record date falls within the relevant six-month period but to be effective after the end of the relevant six-month period

The following resolution was approved by the Board of Directors' meeting held on October 12, 2018 and October 10, 2017:

Date of Board meeting	Type of stock	Total amount	Per share amount	Record date	Effective date	Source of dividend
12-Oct-18	Common stock	¥2,097 million	¥6	31-Aug-18	19-Nov-18	Retained earnings
10-Oct-17	Common stock	¥2,097 million	¥6	31-Aug-17	17-Nov-17	Retained earnings

## NOTE 10. SEGMENT INFORMATION

Business segment information for the six-month period ended August 31, 2018 and 2017 was as follows:

Six Months Ended August 31, 2018	Millions of yen								
	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Total	Adjustments	Consolidated
Sales and other operating revenue:									
Outside customers	¥383,736	¥20,979	¥7,494	¥12,197	¥424,406	¥17,119	¥441,525	—	¥441,525
Intersegment	4,737	5,505	2,002	3,336	15,580	8,639	24,219	(24,219)	—
Total	388,473	26,484	9,496	15,533	439,986	25,758	465,744	(24,219)	441,525
Segment income	¥ 4,428	¥ 4,733	¥2,402	¥ 441	¥ 12,004	¥ 1,179	¥ 13,183	¥ 238	¥ 13,421

Six Months Ended August 31, 2017	Millions of yen								
	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Total	Adjustments	Consolidated
Sales and other operating revenue:									
Outside customers	¥377,002	¥19,925	¥7,198	¥13,369	¥417,494	¥15,786	¥433,280	—	¥433,280
Intersegment	4,755	5,734	1,930	1,452	13,871	12,045	25,916	(25,916)	—
Total	381,757	25,659	9,128	14,821	431,365	27,831	459,196	(25,916)	433,280
Segment income	¥ 4,130	¥ 5,101	¥2,243	¥ 739	¥ 12,213	¥ 1,353	¥ 13,566	¥ 327	¥ 13,893

Note: As stated in "Changes in Accounting Policies", the accounting treatment of consignment buying transactions of the Company's consolidated overseas subsidiaries has been changed from the three-month period ended May 31, 2018 to record the amount that corresponds to gross profit in "net sales"; this change has been retrospectively applied in respect of the six-month period ended August 31, 2017.

As a result, the income from these transactions, which had previously been shown using the gross presentation, is changed to being shown using a net presentation, and sales and other operating revenue to outside customers in the Department Store segment for the six-month period ended August 31, 2017 was ¥19,701 million smaller than that of the period prior to the retrospective application. Segment income was not affected by this change.

## NOTE 11. PER SHARE INFORMATION

Reconciliation of the difference between basic and diluted net income attributable to owners of parent per share (“EPS”) for the six months ended August 31, 2018 and 2017 was as follows:

	<u>Millions of yen</u>	
	<u>Six Months Ended</u>	
	<u>August 31,</u>	
	<u>2018</u>	<u>2017</u>
Basic net income attributable to owners of parent per share		
Income (numerator):		
Net income attributable to owners of parent . . . . .	¥ 8,783	¥ 9,012
Amounts not belonging to common stockholders . . . . .	—	—
Net income attributable to owners of parent concerning common stock . . . . .	8,783	9,012
Shares, thousands (denominator):		
Weighted average number of shares . . . . .	174,737	174,740
Basic EPS (yen) . . . . .	¥ 50.26	¥ 51.57
Diluted net income attributable to owners of parent per share		
Income (numerator):		
Net income attributable to owners of parent . . . . .	¥ 8,783	¥ 9,012
Amounts not belonging to common stockholders . . . . .	—	—
Net income attributable to owners of parent concerning common stock . . . . .	8,783	9,012
Effect of dilutive securities — convertible bonds . . . . .	(34)	(34)
Adjusted net income attributable to owners of parent . . . . .	8,749	8,978
Shares, thousands (denominator):		
Weighted average number of shares . . . . .	174,737	174,740
Assumed conversion of convertible bonds . . . . .	23,266	23,226
Adjusted weighted average number of shares . . . . .	198,003	197,966
Diluted EPS (yen) . . . . .	¥ 44.18	¥ 45.35

Note: Basic net income per share and diluted net income per share has been adjusted for the one-for-two share consolidation conducted on September 1, 2018, as if such share consolidation took effect on March 1, 2017.

## NOTE 12. SIGNIFICANT SUBSEQUENT EVENT

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

At the Company’s 152nd Ordinary General Meeting of Shareholders held on May 22, 2018, the resolution relating to a share consolidation was passed. As such, a one-for-two share consolidation (with two shares of common stock being consolidated into one share of common stock) came into effect on September 1, 2018. Furthermore, with the effective date of September 1, 2018, the number of shares comprising one unit of shares was changed from 1,000 shares to 100 shares. For information regarding the effect of this change, see “Per Share Information” above.

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