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Internet Disclosure Items for Notice of Convocation of the 15th Annual Shareholders Meeting

Systems to Ensure Properness of Operations <Basic Policy to Build Internal Control System>
in the Business Report
Notes to Consolidated Financial Statements
Notes to Non-consolidated Financial Statements
(From March 1, 2021 to February 28, 2022)

J. FRONT RETAILING Co., Ltd.

As for Systems to Ensure Properness of Operations <Basic Policy to Build Internal Control System>, Notes to Consolidated Financial Statements and Notes to Non-consolidated Financial Statements, the Company provides those to shareholders by means of disclosure through the Internet (on the Company's website: https://www.j-front-retailing.com/) in accordance with the laws and regulations and Article 16 of the Company's Articles of Incorporation.

Systems to Ensure Properness of Operations <Basic Policy to Build Internal Control System> (revised on June 1, 2021)

This is a basic policy relating to building an internal control system for lawful and appropriate execution of overall business within the corporate group comprising J. FRONT RETAILING Co., Ltd. (hereinafter the "Company") and its operating companies (collectively, the "Group"). By specifically promoting this policy, the Group aims to contribute to increasing corporate value.

- The Company aims to realize corporate governance that is a structure for transparent, fair, swift and resolute decision-making with due attention to the perspectives of shareholders and also customers, employees and local communities in order to ensure the sustainable growth of the Group and increase corporate value over the medium to long term. The Company has therefore adopted the company with three committees (nomination, audit, and remuneration committees) in order to strengthen the oversight function and decision-making function for business execution of the Board of Directors by clearly separating management oversight and execution functions.
- In order to achieve our best possible corporate governance structure, it is important that the President and Representative Executive Officer takes and hedges various risks (uncertainties) within the corporate group to build an internal control system capable of appropriate and efficient business execution.
- The internal control system is a structure that companies should establish to control internal risks (uncertainties) with a view to realizing sustainable, stable growth. Specifically, the system comprises the following Group management system, risk management system, legal compliance system, internal audit structure, and structure of the audit committee.

I. Group Management System

(i) Board of Directors

- The Board of Directors shall perform an oversight function by monitoring the Executive Officers' and Directors' execution of business.
- The Board of Directors shall discuss and resolve matters defined in the Companies Act and/or the Articles of Incorporation, as well as the Group Vision, Medium-term Business Plan, overall policy and plan for the Group management, M&As, the Group financing plans, and other individual important matters relating to the Group management. In order to speed up business decisions and execution, the task of determining matters involving business execution other than the above shall be delegated to execution, with the exception of matters which have a material impact on the Group management.
- For monitoring action, decision making and the like by the Board of Directors, a certain number or more of highly independent Outside Directors shall be appointed, having no risk of a conflict of interest with the Company's shareholders, and being able to provide judgments independently from top management and make decisions appropriately.
- To ensure effectiveness of objective management oversight, in addition to the Outside Directors, internally promoted Directors who do not execute business and who are well informed about internal information shall also be appointed.
- To further strengthen oversight function while conducting smooth operation of the Board of Directors, an Inside Director who does not execute business shall be selected as the Chairperson of Board of Directors.

(ii) Management execution framework

- The Company shall clearly separate management oversight and execution and strengthen the Board of Directors' oversight function while delegating authority for execution to enable swift management decision-making. Meanwhile, execution shall be controlled by having the following framework.
- The organization responsible for execution shall consist of the Management Strategy Unit, Group Digital Strategy Unit, Financial Strategy Unit, Human Resources Strategy Unit and Administration Unit, and Executive Officers shall be appointed as the head of the units, through which the Company shall achieve swift and efficient business execution.

- The Company clarifies the missions of the President and Representative Executive Officer and each strategy unit. Each division formulates and executes a concrete plan based on the mission, and the roles and operations set forth in the Rules for Division of Organizations and Duties.
- Execution shall formulate the major Group management policies and individual important matters, and oversee business execution of operating companies. The Board of Directors shall discuss and determine (approve) the suitability of major policies and plans that execution has prepared as well as individual important matters.
- It discusses the overall policy, plan, and other matters concerning the Group's management at the Group Management Meeting, the Group Policy Meeting, each segment's Medium-term Business Plan Progress Meetings, the Affiliated Business Companies Results and Strategy Examination Meeting, etc. At them, participants confirm the progress of management strategies, share information between management, and so forth.
- The Company shall construct systems to raise overall efficiency of the Group such as the introduction of the Group's common accounting system in principle and promotion of centralized management of the Group funds.
- The Company has adopted the International Financial Reporting Standards (IFRS) voluntarily in the interest of implementing effective management based on appropriate asset evaluation, applying business management that gives emphasis to the profit of the current period and increasing convenience for overseas investors by improving the international comparability of financial information.

(iii) System to secure appropriateness of financial reporting

- With regard to internal controls over financial reporting, the Company shall be in compliance with Japan's Financial Instruments and Exchange Act and various associated laws and regulations, and construct an internal company system to ensure the legality and appropriateness of its financial reporting. In addition, all operating companies shall also construct the same system.

II. Risk Management System

(i) Risk Management Committee

- The Company shall establish the Risk Management Committee as an advisory body to the President and Representative Executive Officer with regard to risk management. The committee is chaired by the President and Representative Executive Officer and comprises Executive Officers and others.
- An officer shall be put in charge of risk management in order to promote the operation of risk management.
- Each operating company shall put departments and responsible persons in charge of promoting compliance and risk management, and carry out daily supervision and direction of risk management.
- The Risk Management Committee shall systematically manage and address strategic and other risks as a whole from a company-wide perspective, enabling management decisions from the perspective of risk management.
- For risks involved in business operations, the Risk Management Committee shall carry out evaluations and management, and for important risks, the committee shall periodically report on the risk management status to the Board of Directors.
- Risks to be addressed shall be managed by the Management Planning Division by reviewing the JFR Group Risk List and JFR Group Risk Map, which centrally list all the risks in the Group at any time.
- Of the risks involved in business operations that are identified, for particularly serious items, the Risk Management Committee shall deliberate over and determine a policy in response, and shall respond to them by having the Company and operating companies execute the policy.

(ii) Execution control

- Under the direction of President and Representative Executive Officer, the Company shall assign full-time staff to the Management Planning Division in the Management Strategy Unit to strengthen internal control over execution. The person responsible shall develop and manage the control environment at the Company and the operating companies.

- The Management Planning Division shall develop and manage the internal controls under the Companies Act and the internal control system under the Financial Instruments and Exchange Act at the Company and the operating companies.
- The Management Planning Division shall coordinate with the Audit Committee, the Internal Audit Division, and each supervisory units and operating companies to share information and remedy any deficiencies that occur in the internal controls.

(iii) Hazard risk response

For hazard risks such as large-scale earthquakes, fires and accidents, crisis management shall be controlled by the Emergency Response Headquarters headed by the President and Representative Executive Officer.

III. Legal Compliance System

(i) Compliance Committee

- The Company shall establish the Compliance Committee as an advisory body to the President and Representative Executive Officer regarding the operation of compliance management. The President and Representative Executive Officer shall be the chairperson and the members of the committee shall be a corporate lawyer, Executive Officers and others.
- An officer shall be put in charge of compliance in order to promote the operation of compliance management.
- Each operating company shall put departments and responsible persons in charge of promotion of compliance and risk management, and shall carry out daily supervision and direction of business operations that are in accordance with laws and regulations and internal company rules.
- The Compliance Committee shall work to develop the foundations of compliance management such as internal company rules, operation management manuals and formulation of management systems. In addition, the committee shall periodically formulate and track progress on compliance penetration activities such as e-learning, through departments in charge of promotion of compliance at each company.
- The Compliance Committee shall periodically request reports from persons in charge of promotion of compliance at operating companies regarding the status of compliance management in their respective areas of responsibility, and take proper rectification measures. In addition, the committee shall formulate guidelines and measures to prevent recurrence to be followed and taken by the Group as a whole, and implement the said guidelines and measures.

(ii) Whistle-blowing system

- The Company shall establish the "JFR Group Compliance Hotline" as the whistle-blowing system of the Group that also extends beyond companies (to a corporate lawyer), which may be used by all persons working at the Company and operating companies.
- The hotline's policy shall be to maintain strict confidentiality regarding notifications and reports and shall not disclose the personal information of whistleblowers to a third party without their consent; to be careful to avoid identification of the whistleblower when investigating the facts; and to ensure that whistleblowers are not subjected to disadvantageous treatment in terms of personnel affairs or any other aspect.
- For hotline reports concerning management personnel, the Company shall build a structure whereby the reports are submitted directly to the Audit Committee and subjected to directions from the Audit Committee so as to secure an independent reporting route.

IV. Internal Audit Structure

- The Company shall establish an independent Internal Audit Division under the direction of the President and Representative Executive Officer. In accordance with internal audit rules and under the direction of the President and Representative Executive Officer, the Internal Audit Division shall audit the operations of the Company and operating companies or properly report the results of audits of operations, examine the properness and effectiveness of the processes for their operations, and provide guidance, advice and proposals to all departments at the Company and to operating companies.
- The persons responsible for the internal audit departments, while providing directions, guidance and assistance to the internal audit divisions of the operating companies, provide a report to the President and Representative Executive Officer of the status of internal control functions through a third-party evaluation of the audit plans and audit results of the operating companies.
- To further enhance corporate governance by strengthening auditing functions, the Company shall clarify links between the President and Representative Executive Officer, the Audit Committee and the Internal Audit Division. Specifically, the Company shall adopt a system in which reports are submitted to both the President and Representative Executive Officer and the Audit Committee. When the reports are made, the audit report and the improvement report shall be made together to realize swift measures.
- Appointments and transfers of persons responsible for the internal audit departments shall be subject to advance approval by the Audit Committee, and when such persons are evaluated, the Audit Committee states an opinion to the execution of such evaluation.

V. Structure of the Audit Committee

- The Audit Committee shall audit the legality and suitability of the execution of duties by the Executive Officers and Directors.
- To aim to maintain and improve the accuracy of audits, a full-time Audit Committee member shall be appointed from among the Inside Directors who do not execute business as Audit Committee members.
- The Audit Committee Secretariat has been established as an organization in charge of assistance for the Audit Committee's duties.
- Regarding personnel affairs related to the Audit Committee Secretariat organization and staff members, the Audit Committee's advance approval is required to ensure independence.
- The Audit Committee shall have periodic meetings with the President and Representative Executive Officer to share information. Moreover, the Company's Executive Officers and Directors may be asked to attend Audit Committee meetings to provide reports and opinions as necessary.
- The Audit Committee shall regularly coordinate with the Internal Audit Division to share information. Moreover, the Accounting Auditor, outside experts and others may be asked to attend Audit Committee meetings to provide reports and opinions as necessary.
- The Audit Committee members shall report to the Audit Committee on the status of audits of the following matters:
    - Matters resolved by or reported to the Board of Directors
    - Matters identified by the Audit Committee as issues
    - Internal audit implementation status and results (audit report, improvement report, etc.)
- The Audit Committee members shall attend the Group Management Meeting and other meetings, inspect important documents associated with the execution of duties, such as approval circulars, and request explanations from officers and employees of operating companies as necessary.
- Operating companies shall submit the necessary audit reports and perform other duties if requested to do so by the Audit Committee.
- The Audit Committee shall have periodic meetings and the like with Audit & Supervisory Board Members of the operating companies to enhance and strengthen the auditing of the entire Group.

- Personnel appointments and transfers for audit & supervisory board members of operating companies shall require approval from the Audit Committee, and the audit & supervisory board members of operating companies concurrently serve as members in the Audit Committee Secretariat.
- The Audit Committee may claim expenses deemed necessary for performing the duties from the Company, and the Company shall bear them.

VI. Other

(i) System for storage and management of information

- For documents relating to the execution of duties by Executive Officers and Directors, in accordance with the rules on confidential information management, each responsible department shall carry out document storage and management during the stipulated period and shall develop a system to enable inspections of such documents at any time.
- For minutes and related documents regarding meetings chaired by Executive Officers and Directors, and other important documents relating to the execution of duties by Executive Officers and Directors, each responsible department shall carry out document storage and management and shall develop a system to enable inspections of such documents at any time.

(ii) Digital information security

- Senior Executive General Manager of the Group Digital Strategy Unit shall control digital information management of the Company based on the IT Governance Policy, and shall report periodically and whenever necessary on the status of digital information management and related matters to the Board of Directors, the Audit Committee, the Management Meeting and the President and Representative Executive Officer.

Notes to Consolidated Financial Statements

Notes on important matters forming the basis of preparation of consolidated financial statements, etc.

1. Reporting standards for the preparation of consolidated financial statements

The Group has been preparing its consolidated financial statements in accordance with the "International Financial Reporting Standards (IFRS)," based on the provisions of Article 120, Paragraph 1 of the Regulation on Accounting of Companies.

Certain items of the consolidated financial statements that are required to be disclosed by the IFRS are omitted based on the latter provisions of the same Paragraph.

2. Matters concerning the scope of consolidation

Consolidated subsidiaries 20 companies

Major consolidated subsidiaries are listed in "1. Current status of the corporate group, (8) Status of significant parent company and subsidiaries" in the Business Report.

PARCO CO., LTD., which is a consolidated subsidiary of the Company, transferred all shares of NEUVE A Co., Ltd. on June 30, 2021. As a result, the Company removed NEUVE A Co., Ltd. from the scope of consolidation.

Daimaru Matsuzakaya Department Stores Co. Ltd., a consolidated subsidiary of the Company, merged with and absorbed Daimaru Matsuzakaya Sales Associates Co. Ltd. on September 1, 2021.

The Company removed Dimples' Co., Ltd. from the scope of consolidation upon transfer of 90% of its shares on February 28, 2022.

3. Matters concerning the application of the equity method

Equity method associates 8 companies

Major equity method associates include StylingLife Holdings Inc. With regard to equity method associates whose balance sheet dates are different from the consolidated balance sheet date, necessary adjustments are made by additionally preparing their financial statements as of the fiscal year end of the Company or other means.

4. Matters concerning the fiscal year of consolidated subsidiaries

With regard to subsidiaries whose balance sheet dates are not the end of February, which is balance sheet date of the Company, because the legal system of the region where the subsidiaries are located does not allow them to have the same balance sheet date as that of the Company, or for other reasons, adjustments are made by additionally preparing their financial statements as of the fiscal year end of the Company or other means.

5. Matters concerning accounting policies

(1) Foreign currency transactions

1) Foreign currency transactions

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

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

Foreign currency monetary assets and liabilities at the end of the reporting period are translated using exchange rates at the end of the reporting period.

Exchange differences arising from translation or settlement are recognized as profit or loss.

However, when gains or losses on non-monetary items are recorded in other comprehensive income, exchange differences are also recorded in other comprehensive income.

2) Financial statements of foreign subsidiaries, etc.

Assets and liabilities of foreign subsidiaries, etc., are translated into Japanese yen at the exchange rate prevailing at the end of the reporting period. Income and expenses of foreign subsidiaries, etc. are translated into Japanese yen at the average exchange rate for the period, unless there is significant change in the exchange rate during the period. When there is significant change in the exchange rate, the income and expenses are translated using the exchange rate at the transaction date.

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

(2) Basis and method of valuation of significant assets and accounting method for deferred assets

1) Financial instruments

(i) Non-derivative financial assets

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

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

(a) Financial assets measured at amortized cost

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

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

(b) Financial assets measured at fair value through other comprehensive income (financial assets at FVTOCI)

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

For investments in equity instruments that are not held for trading, the Group may make an election (irrevocable) at the initial recognition to measure them at fair value and recognize any changes in the fair value in other comprehensive income. In this case, changes in the fair value are recognized in other comprehensive income (not reclassified to profit or loss). The cumulative amount recognized as other comprehensive income is transferred to retained earnings when the financial asset is derecognized. Dividends are recognized in profit or loss unless they obviously represent a partial recovery of the cost of the investment.

Transaction cost directly attributable to acquisition of financial assets at FVTOCI is included in the amount of initial measurement.

(c) Financial assets measured at fair value through profit or loss (financial assets at FVTPL)

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

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

(d) Impairment of financial assets

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

For trade receivables arising from the ordinary course of business of the Group, since the period up to the collection is short, expected credit losses of such trade receivables are recognized over their remaining lives from the inception simply based on historical credit loss experience.

(e) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or the contractual rights to receive cash flows from the financial asset are transferred in a transaction where substantially all the risks and rewards incidental to ownership of the financial asset are transferred. Any interests in transferred financial assets that are created or continuously retained by the Group are recognized as a separate asset or liability.

(ii) Non-derivative financial liabilities

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

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

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

(iii) Presentation of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iv) Derivatives and hedge accounting

The Group uses derivatives to hedge interest rate fluctuation risk and foreign exchange fluctuation risk. Derivatives used by the Group include forward exchange contracts and interest rate swaps.

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

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

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

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

(a) Cash flow hedges

When a derivative is designated as a hedging instrument to hedge changes in cash flows attributable to certain risks related to highly likely forecast transactions that could affect recognized assets and liabilities or profit or loss, the effective portion of the hedge in changes in fair value of the derivative is included in other components of equity as "cash flow hedges." The balance of cash flow hedges is deducted from other comprehensive income in the consolidated statement of comprehensive income and transferred to profit or loss under the same item as the hedged item in the same period as the period in which cash flows of the hedged item affect profit or loss. The ineffective portion of the hedge in changes in fair value of the derivative is immediately recognized in profit or loss.

(b) Fair value hedges

Changes in fair value of derivatives that are hedging instruments are recognized in profit or loss. Carrying amounts of hedged items are measured at fair value. For gains or losses on hedged items attributable to hedged risk, any changes in the fair value are recognized in profit or loss.

(v) Cash and cash equivalents

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

2) Basis and method of valuation of non-financial instruments

(i) Inventories

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

(ii) Assets held for sale

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

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

An asset held for sale is measured at the lower of its carrying amount and fair value less cost to sell. After property, plant and equipment, intangible assets and investment property have been classified under "assets held for sale," depreciation or amortization will not be applied to these assets.

3) Property, plant and equipment

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

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

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

- Buildings and structures 3 to 50 years
- Machinery and vehicles 2 to 20 years
- Furniture and fixtures 2 to 20 years

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

4) Goodwill

The Group measures goodwill at the amount calculated by deducting the net recognized amount (usually, fair value) of identifiable assets acquired and liabilities assumed at the date of acquisition from fair value of consideration for the transfer including the recognized amount of non-controlling interests in the acquiree, which is measured at the date of acquisition.

Goodwill is not amortized. Instead, it is tested for impairment annually, or whenever there are indications of potential impairment.

Impairment losses of goodwill are recognized in the consolidated statement of profit or loss, and not reversed subsequently.

In addition, goodwill is carried at cost less accumulated impairment losses on consolidated statement of financial position.

5) Intangible assets

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

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

After the initial recognition, intangible assets other than goodwill are amortized using the straight-line method over respective estimated useful lives, except for intangible assets with indefinite useful lives. Estimated useful lives of major intangible assets are as follows. In addition, the Group has no intangible assets with indefinite useful lives.

- Software 5 years

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

6) Right-of-use assets

The Group confirms a right-of-use asset on the lease commencement date and initially measures it at its acquisition cost. The aforementioned acquisition cost consists of the amount of the lease liabilities, the amount of lease payments made before the lease commencement date adjusted to exclude any received lease incentives, and the initial direct cost that was incurred.

After the initial measurement, right-of-use assets are depreciated using the straight-line method over the lease term. The lease term is determined based on the non-cancellable term of the lease, taking into consideration any term for which there is reasonable certainty of extension and any term for which there is reasonable certainty of non-cancellation. In cases where a right-of-use asset is impaired, the impairment loss is deducted from the carrying amount of the right-of-use asset.

7) Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments to be paid in the future over the lease term on and after the lease commencement date. When calculating the present value, if the interest rate implicit in the lease can be readily determined, that is used, and if it cannot, the lessee's incremental borrowing rate is used.

The lease payments used in the measurement of lease liabilities include the lease payments of the extended term if the lease term reflects the exercise of a lease extension option, and include the cancellation fees if the lease term reflects the exercise of a lease cancellation option.

After the initial measurement, lease liabilities are measured at the amortized cost using the effective interest method. Moreover, if changes in future lease payments arise due to changes in indexes or rates, or if changes in the assessment regarding the potential for execution of an extension option or a cancellation option arises, the Group remeasures the lease liabilities.

If remeasuring the lease liabilities, the carrying amount of the right-of-use asset is also adjusted using the remeasured amount of the lease liabilities. However, if the decrease in liabilities due to remeasurement of the lease liabilities is larger than the carrying amount of the right-of-use asset, the amount remaining after impairing the right-of-use asset to zero is recognized in profit or loss.

8) Investment property

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

Investment property is measured using the cost model and stated at cost less accumulated depreciation and accumulated impairment losses (For the depreciation method and useful lives, please refer to "3) Property, plant and equipment").

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

9) Impairment of non-financial assets

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

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

To test goodwill for impairment, cash-generating units to which the goodwill is allocated are integrated so that impairment is tested reflecting the smallest unit related to the goodwill. Goodwill acquired in business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

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

(3) Accounting policy for significant provisions

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

Asset retirement obligations

Asset retirement obligations are recorded at the estimated amount of restoration costs for leased stores, offices, etc. for which the Group has obligations to restore them to original state at the time when the lease is terminated.

Provision for loss on business liquidation

Legal or constructive obligations are recorded for the cost of store dismantlement, etc. that is expected to be borne in the future as a result of business liquidation, store closure and store rebuilding.

(4) Revenue recognition

Based on the following five-step approach, revenue is recognized as the amount of consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to customers.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group, under a holding company structure, develops businesses such as the SC Business, the Developer Business, and the Payment and Finance Business, with the Department Store Business at its core. The Department Store Business carries out the sale of clothing, general goods, household goods, food products and others. With regard to these sales of goods, since it is determined that performance obligation is satisfied at the time of delivery of goods when customers gain control of such goods, the Group mainly recognizes revenue at the time of delivery of such goods. Furthermore, revenue is measured at the amount of consideration promised in contracts between customers, less any discounts, rebates and sales returns, etc.

1) Revenue recognition by business segment

(i) Department Store Business

The Department Store Business carries out the sale of clothing, general goods, household goods, food products and others. With regard to these sales of goods, since it is determined that performance obligation is satisfied at the time when goods are delivered to customers, the Group recognizes revenue at the time of delivery of such goods. Payments for goods are received mainly at the time of delivery of the goods, which is the time when performance obligation is satisfied.

(ii) SC Business

The SC Business undertakes development, management, supervision and operation, etc. of shopping centers as well as sale of personal belongings, general goods and others.

With regard to services, because these services are provided on a continuous basis and thus it is determined that performance obligation is satisfied over a certain period of time, revenue is recognized as the services are rendered.

With regard to the sale of accessories, general goods and others, since it is usually determined that performance obligation is satisfied at the time when goods are delivered to customers, revenue is recognized at the time of delivery of such goods. Payments for goods are received at the time of delivery of the goods, which is the time when performance obligation is satisfied.

Revenue from lease of shopping centers and others is recognized over the lease term, in accordance with IFRS 16.

(iii) Developer Business

The Developer Business carries out development, supervision, operation, interior decorating work, etc. of real estate.

Revenue from lease of real estate and others is recognized over the lease term, in accordance with IFRS 16.

With regard to the design and operation of interior decorating work, if the outcome of a work contract can be estimated reliably, revenue is recognized according to the stage of completion of the performance obligation. If the outcome of a work contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable that the contract costs incurred will be recoverable.

(iv) Payment and Finance Business

The Payment and Finance Business undertakes issuance and administration, etc. of credit cards.

In the Payment and Finance Business, annual membership fees from cardholders, and fees from department stores and external affiliated stores are recognized as revenue. With regard to interest on installment sales, the Group multiplies the revolving balance and number of installment payments by their respective set interest rates to calculate interest revenue, and recognizes the interest in the period to which it is attributable, in accordance with IFRS 9.

(v) Other

Within other, for sales of products and merchandise such as electronic components, automobile components, industrial supplies, and liquor within the wholesale business, the Group deems that in most cases the customer acquires control of the products when they are delivered and its performance obligations are satisfied. Therefore, usually revenue is recognized for the goods upon their delivery.

2) Interest revenue

Interest revenue is recognized using the effective interest method.

3) Dividends

Dividend income is recognized when the right to receive dividends is established.

4) Gross and net presentation of revenue

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

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

- Whether the entity is primarily responsible for fulfilling a contract
- Whether the entity has inventory risk before or after the customer order, during shipping or on return
- Whether the entity has discretion in establishing prices

(5) Government grants

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

(6) Income tax

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

1) Current taxes

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

2) Deferred taxes

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

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

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

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

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

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

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

(7) Employee benefits

The Group has established defined benefit plans (such as a corporate pension fund plan and lump-sum retirement benefit plan) as employee retirement benefit plans, and certain consolidated subsidiaries have adopted defined contribution plans.

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

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

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

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

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

Costs for defined contribution benefits are recognized as expenses when the contributions are made.

(8) Share-based payment

To ensure steady execution of the Medium-term Business Plan for realizing the Group Vision, the Company has adopted a stock-based remuneration system for officers utilizing a trust (officer remuneration BIP trust). The officer remuneration BIP trust is a system of granting the Company's shares to officers (in this system, in certain cases, the Company's shares are converted into cash within the trust and cash in the amount equivalent to their conversion value is paid) in accordance with the officers' level of achievement of the Medium-term Business Plan, etc. The value of the service received is measured by the fair value of the Company's shares on the grant date. This value is expensed over the vesting period from the grant date, and a corresponding amount is recognized as an increase in equity.

(9) Earnings per share

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

(10) Treasury shares

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

(11) Borrowing costs

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

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

(12) Other important matters forming the basis of preparation of consolidated financial statements

Consumption tax and local consumption tax are accounted for under the tax exclusion method.

Notes to accounting estimates

1. Property, plant and equipment, right-of-use assets, intangible assets and investment property

The Group conducts impairment tests if there is an indication that property, plant and equipment, right-of-use assets, intangible assets and investment property may be impaired.

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

The recoverable amount is usually determined by the value in use. For the value in use, the Group estimates the discounted present value of future cash flows generated from the use of the asset and the discounted present value of future cash flows generated by its final disposal.

The forecasting period for future cash flows is estimated by considering the remaining useful life of the relevant asset.

Future cash flows before discounting are estimated based on the business plan. The main assumptions include forecast trends for personal spending in Japan and projected recovery in inbound tourism demand, the impact of the novel coronavirus disease (COVID-19), and the rate of sales growth after the business plan.

For the forecast trend for personal spending in Japan, the Group refers to forecast trends provided by several external specialist organizations, factors in the effect of measures in its business plan, and sets the sales growth rates for each of the relevant primary business segments for the following fiscal year onward. In addition, in the outlook for inbound tourism demand recovery, the Group creates a scenario based on international shipping forecasts and tourism demand forecasts by external organizations, and forecasts the demand recovery within the scope of that scenario.

For the impact of COVID-19, it is difficult to predict future trends and the time when the pandemic will come to an end; however, at this point in time the Group expects the impact of COVID-19 on its earnings to be apparent until fiscal 2023.

The growth rate from the time of the business plan onwards is determined by making reference to long-term growth rates for the relevant markets. These estimates are based on management's best estimates, but may differ from actual results due to effects of changes in uncertain future economic conditions.

Moreover, the amounts of impairment losses in the consolidated financial statements and non-current assets in the Department Store Business and the SC Business are as follows.

	Department Store Business	SC Business
Impairment losses	¥113 million	¥234 million
Property, plant and equipment	¥237,310 million	¥240,894 million
Right-of-use assets	¥85,641 million	¥59,784 million
Intangible assets	¥4,247 million	¥1,569 million
Investment property	¥113,343 million	¥1,314 million

2. Recoverability of deferred tax assets

The Group recognizes deferred tax assets to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

The Group recognizes deferred tax assets to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized, and the judgment of the recoverability is made on the basis of an estimate of taxable profit, etc. for each future fiscal year determined based on the Group's business plan.

The major assumptions in the Group's business plan are forecast trends for personal spending in Japan and projected recovery in inbound tourism demand, and the impact of COVID-19, as well as the forecast for operating profit taking into consideration sales revenue factoring in the effects of the business plan and the effects of cost reductions achieved through business structure reforms.

These major assumptions are based on management's best estimates, but may differ from actual results due to effects of changes in uncertain future economic conditions. If significant revisions become necessary, it may have a material impact on the amounts to be recognized in the consolidated financial statements for the following fiscal year onward.

Deferred tax assets in the consolidated financial statements are as follows:

Deferred tax assets ¥8,209 million

3. Retirement benefit

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

Retirement benefit liability in the consolidated financial statements is as follows:

Retirement benefit liability	¥19,416 million

4. Determination and revision of lease periods

The Group determines the lease periods based on the non-cancellable term of the lease, taking into consideration any term for which there is reasonable certainty of extension and any term for which there is reasonable certainty of non-cancellation. Specifically, the Group estimates the period for which there is reasonable certainty considering changes in rent expenses resulting from extension or shortening of the lease period, the existence of cancellation penalties, and the payback period for investments in significant fixtures, facilities, etc. for rental properties.

For real estate leases in which the Group is the lessee in the Department Store Business, there may be revisions to the lease period for the flagship store or properties tied to the flagship store individually coinciding with the next large-scale renovation plan or when the next Medium-term Business Plan is decided. If revisions to the lease periods become necessary, such revisions could have a material effect on the amounts to be recognized in the consolidated financial statements in the next fiscal year and beyond.

Lease liabilities in the consolidated financial statements are as follows:

Lease liabilities	¥184,394 million

Additional information

Accounting treatment following adoption of the consolidated taxation system

The Company decided in October 2021 to apply the consolidated taxation system effective from the fiscal year ending February 28, 2023, and the Company filed the application form with the relevant authorities in November 2021. Accordingly, from the current fiscal year, the Company has applied tax effect accounting assuming the introduction of the consolidated taxation system with the Company has the consolidated taxation parent company.

Notes on consolidated statement of financial position

1. Allowance for doubtful accounts directly deducted from assets

(1) Trade and other receivables	¥240 million
(2) Other financial assets	¥3,913 million

2. Total amount of accumulated depreciation

(1) Property, plant and equipment	¥323,623 million
(2) Right-of-use assets	¥116,718 million
(3) Investment property	¥30,366 million

3. Assets pledged as collateral and secured liabilities

(1) Assets pledged as collateral

Other financial assets	¥160 million
Other	¥81 million
Total	¥242 million

(2) Secured liabilities

Trade and other payables	¥177 million
Total	¥177 million

4. Contingent liabilities

Guarantee of financing for employee housing and others	¥1 million
Total	¥1 million

Notes on consolidated statement of profit or loss

1. Other operating income

Gain on sales of shares of subsidiaries (Note 1)	¥3,951 million
Gain on sales of non-current assets (Note 2)	¥2,666 million
Subsidies for employment adjustment (Note 3)	¥399 million
Other subsidies	¥1,012 million
Other	¥3,038 million
Total	¥11,068 million

(Note 1) Gain on sales of shares of subsidiaries for the current fiscal year is a gain on the transfer of 90% of the shares of Dimples' Co., Ltd. to WORLD HOLDINGS CO., LTD.

(Note 2) Gain on sales of non-current assets for the current fiscal year is mainly a gain on sales due to the sale of real estate holdings in the Developer Business.

(Note 3) Due to the impact of COVID-19, the Company was subject to special measures such as subsidies for employment adjustment.

2. Other operating expenses

Loss on sales of shares of subsidiaries (Note 1)	¥1,818 million
Loss on disposals of non-current assets	¥1,726 million
Impairment losses (Note 2)	¥1,136 million
Costs associated with suspension of store operations (Note 3)	¥3,146 million
Structural reform costs (Note 4)	¥3,802 million
Other	¥1,775 million
Total	¥13,406 million

(Note 1) Loss on sales of shares of subsidiaries for the current fiscal year was a loss on sale related to the transfer of all shares of NEUVE A Co., Ltd. to Libra Invesco Co., Ltd.

(Note 2) Impairment losses of ¥1,136 million for the current fiscal year mainly comprised ¥113 million in the Department Store Business, ¥234 million in the SC Business, and ¥776 million in the Developer Business.
In the Department Store Business, the main item is an impairment loss of ¥103 million recognized for an expected decrease in revenue due to tenant withdrawals and write-down of the carrying amount of buildings and structures to the recoverable amount in relation to the formulation of a rebuilding and redevelopment plan for the Ginza Core building, in which Daimaru Matsuzakaya Department Stores Co. Ltd. participates as a joint building business. The recoverable amount of the cash-generating unit is measured as the fair value less cost of disposal.
In the SC Business, the main item is an impairment loss of ¥231 million recognized for a write-down of the carrying amount of right-of-use assets to the recoverable amount due to a decrease in the profitability of PARCO CO., Ltd.'s Tsudanuma PARCO. The recoverable amount of the cash-generating unit was measured at value in use, and was calculated by discounting future cash flows by a pre-tax discount rate of 3.9%, which was based on the WACC at the time of measurement, taking into account the future profitability and other factors.
In the Developer Business, the main item is an impairment loss of ¥593 million recognized for a write-off of the entire amount of the carrying amount of investment real estate due to a decision to terminate the PARCO CO., Ltd.'s Dotonbori ZERO GATE project. The recoverable amount was based on the value-in-use, which was zero.

In addition, an impairment loss of ¥159 million was recognized for the entire amount of the carrying value of the structure portion only of investment real estate due to a decision to dismantle and rebuild PARCO CO., Ltd.'s Nishiki 3-chome building. The recoverable amount was based on the value-in-use, which was zero.

(Note 3) Costs associated with suspension of store operations are mainly fixed costs (depreciation and amortization, personnel expenses, etc.) incurred by Daimaru Matsuzakaya Department Stores Co. Ltd. and PARCO Co., Ltd. during the suspension of operations of stores, etc. that closed due to the impact of the spread of COVID-19.

(Note 4) Structural reform costs are extra retirement payments due to the expanded voluntary early retirement program for Daimaru Matsuzakaya Department Stores Co. Ltd. and The Hakata Daimaru, Inc.

Notes on consolidated statement of changes in equity

1. Class and total number of shares issued as of the end of the current fiscal year

Common shares 270,565,764 shares

2. Matters concerning dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting held on April 13, 2021	Common shares	4,751	18.00	February 28, 2021	May 7, 2021
Board of Directors meeting held on October 12, 2021	Common shares	3,700	14.00	August 31, 2021	November 11, 2021

(Note 1) Total amount of dividends resolved at the Board of Directors meeting held on April 13, 2021 includes ¥39 million of dividends paid to the Company's shares held by an officer remuneration BIP trust.

(Note 2) Total amount of dividends resolved at the Board of Directors meeting held on October 12, 2021 includes ¥34 million of dividends paid on the Company's shares held by the officer remuneration BIP trust.

(2) Dividends with the record date falling within the current fiscal year and with the effective date falling within the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting held on April 12, 2022	Common shares	Retained earnings	3,964	15.00	February 28, 2022	May 6, 2022

(Note) Total amount of dividends resolved at the Board of Directors meeting held on April 12, 2022 includes ¥37 million of dividends paid on the Company's shares held by the officer remuneration BIP trust.

Notes on financial instruments

1. Matters concerning conditions of financial instruments

Risk management regarding financial instruments

The Group, in order to avoid or mitigate market risk, credit risk and liquidity risk, manages risks associated with financial instruments based on the following policies.

1) Market risk management

The Group limits its management of funds to highly stable deposits, bonds and the like. For the procurement of funds, the Group's policy is to use bank loans, issuances of commercial papers, issuances of bonds, securitized receivables and the like. The Group uses derivatives solely to avoid foreign exchange fluctuation risks on monetary claims and liabilities denominated in foreign currencies and interest rate fluctuation risks on borrowings and bonds, and does not enter into derivative transactions for speculative purposes.

(i) Foreign exchange fluctuation risk

The majority of the Group's notes and accounts payable - trade, which are trade and other payables, are those with payment dates within one year. Although some of them are denominated in foreign currencies and are exposed to foreign exchange fluctuation risk, the Group enters into forward exchange contracts for some of the settlement amounts to avoid this risk.

(ii) Interest rate fluctuation risks

Current borrowings, commercial papers, securitized receivables and the like are mainly to procure funds for operational transactions, while bonds and long-term borrowings are mainly to procure funds for capital investment. Although borrowings with floating interest rates are exposed to interest rate fluctuation risk, for some of the long-term borrowings, derivative transactions (interest rate swaps) for each individual contract are used as hedging instruments to avoid fluctuation risk on interest to be paid and to fix the interest to be paid. As a method for assessing hedge effectiveness, the Group periodically verifies hedging effects for each individual contract.

(iii) Market price fluctuation risk

The Group holds marketable securities, mainly ones of companies with which it has business relationships. Although such securities are exposed to market price fluctuation risk, the Group not only periodically monitors their market prices but also continuously reviews its shareholding positions. Further, as all of these securities are designated as the financial assets which are measured at fair value through other comprehensive income, the fluctuation of market price has no impact on profit or loss.

2) Credit risk management

The Group is exposed to credit risk, the risk of suffering financial loss from failure of counterparty of financial assets held.

(i) Trade and other receivables

Notes and accounts receivable – trade, which are trade receivables, are exposed to customer credit risk. To handle this risk, all Group companies carry out due date management and balance management by customer and seek early identification and mitigation of collectability concerns.

(ii) Short-term investments

Cash and cash equivalents and short-term investments which are included in other financial assets are highly stable and liquid financial instruments such as commercial papers of highly rated corporations, bond investment trust, money trust.

(iii) Loans receivable

Loans receivables are exposed to the credit risk of borrowers. In order to control such risk, the Group thoroughly follows internal deliberations and approval processes regarding borrowers' credit status for a new loan and requires guarantee deposits and collateral as necessary, while accessing borrowers' credit status on a regular basis.

(iv) Derivative transactions

Execution and management of derivative transactions are carried out in accordance with internal rules that stipulate its objectives, limit amount, scope of transactions, organizational structure and other matters. The use of derivatives is solely for the purpose of avoiding risks based on actual demand, not for speculation purpose, and limited to contracts with highly creditworthy financial institutions in order to reduce credit risk.

3) Liquidity risk management

Liquidity risk refers to the risk that the Group is unable to fulfill its repayment obligations of financial liabilities which is due.

Although trade payables, borrowings and the like are exposed to liquidity risk, the Group manages this risk with methods such as preparing monthly cash flow management plans at all companies, and secures sufficient liquidity on hand through commitment line contracts and overdraft contracts with its main financing banks.

2. Matters concerning fair values of financial instruments

Carrying amount, fair values as of February 28, 2022, and their differences are as follows.

(Millions of yen)

	Carrying amount (*)	Fair value (*)	Difference
Assets			
(1) Cash and cash equivalents	93,278	93,278	–
(2) Trade and other receivables	112,262	112,262	–
(3) Derivatives	7	7	–
(4) Other financial assets	91,899	94,023	2,123
Liabilities			
(5) Trade and other payables	[116,107]	[116,107]	–
(6) Other financial liabilities	[66,657]	[66,602]	(55)
(7) Borrowings	[202,960]	[202,691]	(268)
(8) Commercial papers	[15,002]	[15,002]	–
(9) Bonds	[99,752]	[99,475]	(277)

(*) The items recorded in liabilities on the consolidated statement of financial position are shown in square brackets [ ].

(Note) Method for measuring fair values

(1) Cash and cash equivalents, (2) trade and other receivables, (4) other financial assets (current), (5) trade and other payables, (6) other financial liabilities (current), and (8) commercial papers

The carrying amount is used as the fair value of these assets, given that the fair value is almost the same as the carrying amount, as they are mostly settled in a short time.

(4) Other financial assets (non-current), (6) other financial liabilities (non-current)

The fair value of listed stocks is measured based on market prices at the last date of a fiscal year. The fair value of unlisted stocks is measured by discounted future cash flows, valuation model based on revenue and net assets, comparable company analysis method or the like.

Other financial assets or other financial liabilities measured at amortized cost mainly consist of lease and guarantee deposits paid or lease and guarantee deposits received, and their fair value is measured at present value calculated by discounting future cash flows at the current market interest rates or the like.

(7) Borrowings, (9) bonds

For bonds, fair value is estimated using the reference trading statistics of Japan Securities Dealers Association and others. The fair value of borrowings is mainly measured by present value obtained by discounting future cash flows at interest rates that would be charged for a new similar borrowing.

(3) Derivatives (assets)

For derivatives, as financial assets measured at fair value through profit or loss, fair value is measured based on prices presented by financial institutions.

Notes on investment property

1. Matters concerning status of investment property

Some of the Company's subsidiaries own rental buildings, etc. in Tokyo and other regions.

2. Matters concerning fair values of investment property

(Millions of yen)

Consolidated statement of financial position amount	Fair value at the end of the current fiscal year
189,688	257,720

(Note 1) The consolidated statement of financial position amount is the acquisition cost less accumulated depreciation.

(Note 2) For major properties, fair value at the end of the current fiscal year is an amount based on the real estate appraisal standards of an external real estate appraiser, etc. For other properties, fair value is an amount estimated by employing the land price index with necessary adjustments applied at the Company.

Notes on per share information

1. Equity attributable to owners of parent per share: ¥1,337.29
2. Basic earnings per share: ¥16.50

(Note) The calculation of per share information excludes the number of Company's shares owned by the officer remuneration BIP trust from the number of shares at the end of the period and the average number of shares during the period because such shares are treated as the Company's treasury shares.

Notes to Non-consolidated Financial Statements

Notes on matters concerning important accounting policies

1. Basis and method of valuation of assets

(1) Basis and method of valuation of securities

Shares of subsidiaries and associates	Stated at cost using the moving-average method
Available-for-sale securities	
Securities with available fair market values	Stated at fair value based on the market prices at the fiscal year-end (Valuation differences are included in net assets; cost of securities sold is determined by the moving-average method)
Securities without available fair market values	Stated at cost using the moving-average method

(2) Basis and method of valuation of derivatives

Derivatives	Stated at fair value

(3) Basis and method of valuation of inventories

Supplies	Stated at cost using the FIFO method (the book value is written down based on the decreased profitability)

2. Depreciation method of non-current assets

Property, plant and equipment (excluding leased assets)	Straight-line method
Intangible assets (excluding leased assets)	Straight-line method Internal use software is amortized using the straight-line method over the internally expected useful life (5 years).
Leased assets	
Leased assets in finance leases that do not transfer ownership	Straight-line method with zero residual value assuming the lease periods as useful lives

3. Accounting method for deferred assets

Bond issuance cost	Amortized using the straight-line method over the period until redemption

4. Accounting policy for provisions

Allowance for doubtful accounts	To prepare for losses from bad debt, an estimated uncollectible amount is provided.
Provision for bonuses	To prepare for the payment of bonuses to employees, the amount expected to be paid is provided.
Provision for bonuses for directors and other officers	To prepare for the payment of bonuses to corporate officers, the amount expected to be paid is provided.
Provision for officer remuneration BIP trust	To prepare for the granting of the Company's shares through an officer remuneration BIP trust, the amount equivalent to the value of shares in proportion to the number of points awarded to officers in accordance with the Stock Benefit Rules is provided.

5. Hedge accounting method

Hedge accounting method	Exceptional treatment is applied to interest rate swaps that satisfy the requirements for exceptional treatment.

Hedging instruments and hedged items

Hedging instruments	Interest rate swaps
Hedged items	Borrowings and interest expenses on borrowings

Hedging policy
Based on the risk management policy, hedging is undertaken to hedge interest rate fluctuation risk.

Method for assessing the hedge effectiveness
At the end of each fiscal year, hedge effectiveness with respect to the hedged items and hedging instruments is assessed for each hedging transaction. This annual assessment excludes any transaction where important terms and conditions such as principal, interest rate, and duration are identical between the assets or liabilities of hedged items and hedging instruments.

6. Accounting treatment for consumption taxes

Consumption tax and local consumption tax are accounted for under the tax exclusion method.

Of consumption tax on assets that are not qualified for tax deductions, deferred consumption taxes stipulated under tax law are recorded in long-term prepaid expenses and amortized on a straight-line basis during a five-year period.

Notes on changes in presentation

Adoption of "Accounting Standard for Disclosure of Accounting Estimates"

The Company has adopted the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) for the year-end financial statements for the fiscal year under review, and has presented notes regarding accounting estimates.

Notes to accounting estimates

1. Recoverability of deferred tax assets

(1) Amounts recorded in financial statements for the current fiscal year

Deferred tax assets ¥1,615 million

(2) Other information contributing to understanding the details of accounting estimates

This information is omitted here as it is presented under "Notes to accounting estimates" in the notes to consolidated financial statements.

Additional information

Accounting treatment following adoption of the consolidated taxation system

Since the Company applied for approval for the consolidated taxation system in the current fiscal year and the consolidated tax payment system is to be applied from the next fiscal year, from the current fiscal year it has applied accounting treatment assuming the adoption of the consolidated taxation system in accordance with "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (ASBJ PITF No. 5, January 16, 2015) and "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (ASBJ PITF No. 7, January 16, 2015).
Moreover, regarding the transition to the group tax sharing system established in the "Act Partially Amending the Income Tax Act" (Act No. 8 of 2020) and the items revised in the non-consolidated taxation system in line with the transition to the group tax sharing system, in accordance with the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No.

39, March 31, 2020), the Company has not applied the provision of Paragraph 44 of “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018), and the amounts of its deferred tax assets and deferred tax liabilities are in accordance with the tax laws prior to revision.

Notes on non-consolidated balance sheet

1. Short-term monetary liabilities to subsidiaries and associates
   ¥1,504 million
2. Accumulated depreciation of property, plant and equipment
   ¥80 million

Notes on non-consolidated statement of income

1. Transaction with subsidiaries and associates

Operating transaction	
Operating revenue	¥15,482 million
General and administrative expense	¥595 million
Non-operating transactions	
Interest income	¥697 million
Interest expenses	¥2 million

Notes on non-consolidated statement of changes in equity

1. Class and total number of shares issued as of the end of the current fiscal year
   Common shares 270,565,764 shares
2. Class and number of treasury shares as of the end of the current fiscal year
   Common shares 8,756,955 shares

Notes on tax effect accounting

1. Deferred tax assets and deferred tax liabilities by major category of cause

Deferred tax assets	
Provision for bonuses	¥42 million
Accrued insurance expenses	¥6 million
Accrued enterprise tax	¥83 million
Accrued expenses	¥26 million
Loss on valuation of shares of subsidiaries and associates	¥61 million
Allowance for doubtful accounts for subsidiaries and associates	¥266 million
Provision for officer remuneration BIP trust	¥77 million
Loss on impairment of non-current assets	¥112 million
Loss on valuation of investment securities	¥15 million
Revised carrying amount of investment	¥16 million
Unused tax losses	¥1,667 million
Other	¥11 million
Sub total deferred tax assets	¥2,387 million
Valuation allowance for unused tax losses for taxation	¥(321) million
Valuation allowance for total of deductible temporary differences, etc.	¥(445) million
Sub total valuation allowance	¥(767) million
Total deferred tax assets	¥1,620 million
Deferred tax liabilities	
Valuation difference on available-for-sale securities	¥(3) million
Asset retirement obligations	¥(1) million
Total deferred tax liabilities	¥(4) million
Net amount of deferred tax assets	¥1,615 million

Notes on transactions with related parties

Subsidiaries, etc.

(Millions of yen)

Type	Company name	Ownership ratio of voting rights	Relationship	Nature of transactions	Transaction amount (Note 6)	Account item	Balance at the end of the fiscal year
Subsidiary	Daimaru Matsuzakaya Department Stores Co. Ltd.	Holding Directly 100%	Interlocking of officers Business advisory	Receipt of consulting fee income (Note 1)	2,976	–	–
				Lending of funds	–	Long-term loans receivable	25,000
				Collection of funds	175		
				Receipt of interests (Note 2)	87	–	–
Subsidiary	PARCO Co., Ltd.	Holding Directly 100%	Interlocking of officers Business advisory	Lending of funds	–	Short-term loans receivable	22,000
						Long-term loans receivable	83,500
				Receipt of interests (Note 2)	466	–	–
Subsidiary	JFR Service Co. Ltd.	Holding Directly 100%	Interlocking of officers Business advisory	Lending and collection of funds (Note 3)	17,923	Short-term loans receivable	11,704
				Receipt of interests (Note 2)	53	–	–
Subsidiary	JFR Card Co., Ltd.	Holding Directly 100%	Interlocking of officers Business advisory	Lending of funds	10,000	Short-term loans receivable	15,000
				Collection of funds	10,000	Long-term loans receivable	15,000
				Receipt of interests (Note 2)	89	–	–
Subsidiary	JFR Kodomo Mirai Co., Ltd.	Holding Directly 100%	Business advisory	Lending of funds (Note 4)	400	Short-term loans receivable	370
				Collection of funds	370	Long-term loans receivable	500
Subsidiary	Angel Park Co., Ltd.	Holding Directly 0.38% Indirectly 49.88%	Business advisory	Deposits of funds	1,500	Deposits	1,500
				Repayment of deposits	1,000		
				Payment of interests (Note 2)	2	–	–
Subsidiary	JFR Information Center Co., Ltd.	Holding Directly 100%	Business advisory	Requests for computation services (Note 5)	554	–	–

Transaction conditions and policy for deciding transaction conditions

(Note 1) Consulting fee income is determined by contract terms.

(Note 2) Interest rates on funds lent and funds deposited are determined reasonably with reference to market interest rates.

(Note 3) As transactions for lending and collection of funds are carried out repetitively, the amount shown in the transaction amount column is the average balance during the period.

(Note 4) For the loans to JFR Kodomo Mirai Co., Ltd., the Company recorded an allowance for doubtful accounts of ¥870 million.

(Note 5) The Company will reasonably determine with reference to market prices whether to request this company mainly in relation to computation services.

(Note 6) Transaction amounts do not include consumption taxes.

Notes on per share information

1. Net assets per share:	¥1,280.48
2. Basic earnings per share:	¥54.44