

Internet Disclosure Items for Notice of Convocation of the 13th Annual Shareholders Meeting

Notes to Consolidated Financial Statements
Notes to Non-consolidated Financial Statements
(From March 1, 2019 to February 29, 2020)

J. FRONT RETAILING Co., Ltd.

As for 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 the Company's Articles of Incorporation.

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 J. Front Retailing Group (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 25 companies

Major consolidated subsidiaries are listed in “1. Current status of the corporate group, (7) Status of significant parent company and subsidiaries” in the Business Report.

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 companies 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.

In addition, the Company acquired a portion of the preferred shares of Ginza 6-chome Kaihatsu Tokutei Mokuteki Kaisha on December 9, 2019, making that company an equity method associate effective from the current fiscal year.

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 credit losses. 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 credit losses. 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 liability, 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 re-measurement 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 as a net 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 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 business such PARCO Business, Real Estate Business and Credit and Finance Business with 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 at the time of delivery of the goods, which is the time when performance obligation is satisfied.

ii) PARCO Business

The PARCO Business operates the shopping center business undertaking development, management, supervision and operation of shopping centers, the specialty store business selling personal belongings, general goods and others, and the space engineering and management business undertaking design, execution, etc. of interior decorating work, and other businesses.

With regard to services in the shopping center business, 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 personal belongings, 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.

With regard to the design and execution of interior decorating work in the space engineering and management business, 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.

iii) Real Estate Business

The Real Estate Business carries out development of the Group's own properties located mainly in areas surrounding each store of Daimaru Matsuzakaya Department Stores, expansion of rental space by leasing and acquiring external properties, management and operation of such properties, and others.

Revenue from lease of real estate and others is recognized in the period in which it is earned, in accordance with IFRS 16.

iv) Credit and Finance Business

The Credit and Finance Business undertakes issuance and administration of credit cards.

In the Credit and Finance Business, annual membership fees from cardholders, fees from department stores and external affiliated stores, and interest from installment sales are recognized as revenue.

2) Interest revenue

Interest revenue is recognized using the effective interest method.

3) Dividends

Divided 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 at the end of 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 the stock-based remuneration system using a trust for officers (a system of granting the Company's shares to officers (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' rank and 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.

6. Changes in accounting policies

(Application of IFRS 16 "Leases")

The Group has applied IFRS 16 "Leases" (issued in January 2016) (hereinafter "IFRS 16") from the fiscal year ended February 29, 2020.

The Group has applied IFRS 16 retrospectively in accordance with the transitional requirements under which the cumulative effect of initially applying IFRS 16 has been recognized as an adjustment to the opening balance of retained earnings for the fiscal year ended February 29, 2020. In transitioning to IFRS 16, the Group has elected to apply the practical expedient provided in IFRS 16 paragraph C3 and maintained its assessment of whether a contract contains a lease under IAS 17 "Leases" (hereinafter "IAS 17") and IFRIC 4 "Determining whether an Arrangement Contains a Lease."

Accordingly, effective the date of initial application, IFRS 16 is applied to contracts recognized as

leases based on the existing IAS 17 and IFRIC 4 but IFRS 16 is not applied to those contracts that were not recognized as leases.

The Group uses the following practical expedients.

- A lessee may rely on its assessment of whether leases are onerous applying IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” immediately before the date of initial application as an alternative to performing an impairment review,
- A lessee may account for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases,
- A lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Effects of application of standards to the Group

The Group recognized right-of-use assets and lease liabilities at the date of initial application of IFRS 16 for leases that it previously classified as operating leases under IAS 17. The lease liabilities are measured at the present value of outstanding lease payments discounted using the lessee’s incremental borrowing rate at the date of initial application. The weighted average of the lessee’s incremental borrowing rates applied to the lease liabilities recognized on the consolidated statement of financial position at the date of initial application is 1.8%. The right-of-use assets are measured retrospectively as if IFRS 16 had been applied since the commencement date of the lease contract. Right-of-use assets are depreciated using the straight-line method. It is noted, however, that the Group has elected not to apply the requirements of IFRS 16 to short-term leases or low-value leases.

Consequently, at the beginning of the fiscal year under review, excluding the transfer portion, such as the lease assets and lease liabilities, etc. that were previously classified as finance leases under IAS 17, right-of-use assets (including investment properties) and lease liabilities, increased ¥208,208 million and ¥228,414 million, respectively, and retained earnings and non-controlling interests decreased ¥12,675 million and ¥1,914 million, respectively. In the current fiscal year, compared against the case of applying the former accounting standard, operating profit increased by ¥4,584 million but the impact on profit before tax was immaterial.

Notes on consolidated statement of financial position

1. Allowance for doubtful accounts directly deducted from assets

(1) Trade and other receivables	¥217 million
(2) Other financial assets	¥3,927 million

2. Total amount of accumulated depreciation

(1) Property, plant and equipment	¥298,507 million
(2) Right-of-use assets	¥75,227 million
(3) Investment property	¥21,914 million

3. Assets pledged as collateral and secured liabilities

(1) Assets pledged as collateral	
Buildings and structures	¥2,442 million
Land	¥5,290 million
Other	¥221 million
Total	¥7,953 million

(2) Secured liabilities

Long-term borrowings	¥525 million
Other	¥200 million
Total	¥725 million

4. Contingent liabilities

Guarantee of financing for employee housing and others	¥3 million
Total	¥3 million

Notes on consolidated statement of profit or loss

1. Other operating income

Gain on sales of non-current assets	¥2,832 million
Compensation income	¥3,649 million
Other	¥2,181 million
Total	¥8,663 million

2. Other operating expense

Loss on disposals of non-current assets	¥3,576 million
Impairment losses	¥1,745 million
Business structuring expenses	¥2,173 million
Revitalization plan expenses	¥1,075 million
Loss on liquidation of business	¥870 million
Other	¥4,298 million
Total	¥13,740 million

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 9, 2019	Common shares	4,751	18.00	February 28, 2019	May 7, 2019
Board of Directors meeting held on October 8, 2019	Common shares	4,751	18.00	August 31, 2019	November 11, 2019

(Note 1) Total amount of dividends resolved at the Board of Directors meeting held on April 9, 2019 includes ¥42 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 8, 2019 includes ¥40 million of dividends paid to the Company's shares held by an 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 10, 2020	Common shares	Retained earnings	4,751	18.00	February 29, 2020	May 8, 2020

(Note) Total amount of dividends resolved at the Board of Directors meeting held on April 10, 2020 includes ¥40 million of dividends paid to the Company's shares held by an 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 and income taxes payable, 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 29, 2020, and their differences are as follows.

	(Millions of yen)		
	Carrying amount (*)	Fair value (*)	Difference
Assets			
(1) Cash and cash equivalents	34,633	34,633	—
(2) Trade and other receivables	144,244	144,244	—
(3) Derivatives	8	8	—
(4) Other financial assets	96,467	100,747	4,280
Liabilities			
(5) Trade and other payables	[144,020]	[144,020]	—
(6) Other financial liabilities	[71,286]	[71,443]	157
(7) Borrowings	[174,510]	[174,994]	484
(8) Commercial papers	[4,000]	[4,000]	—
(9) Bonds	[79,766]	[80,426]	659
(10) Derivatives	[—]	[—]	—

(*) The items recorded in liabilities on the consolidated balance sheet 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

Borrowings and bonds are 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) and (10) derivatives (liabilities)

Derivatives are measured, as financial assets or liabilities measured at fair value through profit or loss, based on prices presented by the counterparty financial institutions.

Notes on investment property

1. Matters concerning status of investment property

Some of the Company's subsidiaries own rental buildings (including land) 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
219,354	317,782

(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: ¥1,479.07

2. Basic earnings per share: ¥81.19

(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 on significant subsequent events

(Spread of the novel coronavirus (COVID-19))

As a result of the spread of the novel coronavirus (COVID-19), the Group has been adversely affected with respect to the number of customers visiting stores in the Department Store Business and PARCO Business due to abstinence and restriction of travel from overseas to Japan, self-quarantine in Japan, unplanned closures or shortened operating hours of stores, the suspension of events, and other factors. On April 7, 2020, the Government of Japan declared a state of emergency, and the Group decided to suspend operations excluding some stores from April 8, 2020. Based on such developments, there may be a considerable adverse effect on the Group's business results in the coming fiscal year, but it is difficult to reasonably calculate such an effect at present.

Other notes

(Acquisition of non-controlling interests)

On February 25, 2020, the Group carried out a tender offer and acquired an additional 31.45% interest in PARCO Co., Ltd. that had been held by non-controlling interests. Cash of ¥59,000 million was paid to non-controlling interests, and the Group's ownership interest in that company increased from 64.98% to 96.43%. Furthermore, as a result of demanding that all shareholders of the remaining 3.57% non-controlling interests sell all shares (demand for share cash-out) on February 27, 2020, the Group

accounts for that company as owning 100% of ownership interests as of the end of the current fiscal year and has recognized scheduled payments for the amount required to acquire those shares.

As a result, non-controlling interests decreased ¥42,400 million as a result of the additional acquisition, and the difference between the additionally acquired interests and the decrease in non-controlling interest was ¥23,100 million, which was deducted from capital surplus.

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

Other 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.

Provision for loss on business of subsidiaries and associates

To prepare for any losses on business of subsidiaries and associates, the estimated amount of loss to be borne by

	the Company is calculated giving consideration of the financial position of the relevant subsidiaries and associates.
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

The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant Guidance effective from the beginning of this fiscal year. Accordingly, deferred tax liabilities are now presented under “Non-current liabilities.”

Notes on non-consolidated balance sheet

1. Accumulated depreciation of property, plant and equipment	
	¥42 million

Notes on non-consolidated statement of income

1. Transaction with subsidiaries and associates	
Operating transaction	
Operating revenue	¥34,116 million
General and administrative expenses	¥556 million
Non-operating transactions	
Interest income	¥468 million
Dividend income	¥179 million
Interest expenses	¥3 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 8,862,367 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	¥50 million
Accrued insurance expenses	¥7 million
Accrued enterprise tax	¥39 million
Accrued expenses	¥55 million
Loss on valuation of shares of subsidiaries and associates	¥61 million
Allowance for doubtful accounts for subsidiaries and associates	¥208 million
Provision for officer remuneration BIP trust	¥120 million
Unused tax losses	¥1,769 million
Other	¥14 million

Sub total deferred tax assets ¥2,325 million

Valuation allowance ¥(2,325) million

Total deferred tax assets –

Deferred tax liabilities

Asset retirement obligations	¥(4) million
Valuation difference on available-for-sale securities	¥3 million

Total deferred tax liabilities ¥(1) million

Net deferred tax liabilities ¥(1) million

Notes on transactions with related parties

Subsidiaries and associates, etc.

(Millions of yen)

Type	Company name	Ownership ratio of voting rights	Relationship	Nature of transactions	Transaction amount (Note 5)	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)	4,103	–	–
				Lending of funds	–	Short-term loans receivable	10,700
				Collection of funds	700	Long-term loans receivable	65,675
				Receipt of interests (Note 2)	352	–	–
Subsidiary	JFR Service Co. Ltd.	Holding Directly 100%	Interlocking of officers Business advisory	Lending and collection of funds (Note 3)	6,619	Short-term loans receivable	30,365
				Receipt of interests (Note 2)	6	–	–
				Payment of interests (Note 2)	3	–	–
Subsidiary	JFR Card Co., Ltd.	Holding Directly 100%	Interlocking of officers Business advisory	Lending of funds	–	Short-term loans receivable Long-term loans receivable	15,000 15,000
				Receipt of interests (Note 2)	107	–	–
Subsidiary	JFR Kodomo Mirai Co., Ltd.	Holding Directly 100%	Business advisory	Lending of funds (Note 4)	–	Short-term loans receivable Long-term loans receivable	180 500
				Receipt of interests (Note 2)	2	–	–

Transaction conditions and policy for deciding transaction conditions

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

(Note 2) Interest rates on loans 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 ¥680 million. In addition, a provision of allowance for doubtful accounts of ¥680 million was recorded for the current fiscal year.

(Note 5) Transaction amounts do not include consumption taxes.

Notes on per share information

1. Net assets per share: ¥1,256.46
2. Basic earnings per share: ¥106.80

Notes on significant subsequent events

(Spread of the novel coronavirus (COVID-19))

On April 7, 2020, the Government of Japan declared a state of emergency in response to the spread of the novel coronavirus (COVID-19). Due to such circumstances, there may be a considerable adverse effect on the Company's business results in the coming fiscal year, but it is difficult to reasonably calculate such an effect at present.