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Matters to Be Disclosed on the Internet upon Sending the Notice of Convocation of the 39th Ordinary General Meeting of Shareholders

Notes to the Consolidated Financial Statements Notes to the Nonconsolidated Financial Statements

(March 1, 2019 through February 29, 2020)

FamilyMart Co., Ltd.

The matters above are posted on FamilyMart Co., Ltd. (the “Company”)’s website (<https://www.family.co.jp/english>) for its shareholders to obtain the information in accordance with the relevant laws and regulations, as well as the provision of Article 15 of the Articles of Incorporations of the Company. This document is included in the scope of the audit by the Corporate Auditors and Independent Auditors in preparing audit reports.

[Notes to the Consolidated Financial Statements]

The Basis of Presentation of the Consolidated Financial Statements

1. Standards Applied for Preparation of the Consolidated Financial Statements

The consolidated financial statements of the Company and its subsidiaries (together, the “Group”) are prepared in accordance with International Financial Reporting Standards (“IFRSs”), pursuant to the provisions of the first paragraph of Article 120 of the Ordinance on Company Accounting. Certain disclosure items required by IFRSs are omitted pursuant to the provisions of the second sentence of said paragraph.

2. Scope of Consolidation

Number of subsidiaries: 24 companies

Major subsidiaries: Taiwan FamilyMart Co., Ltd.; famima Retail Service Co., Ltd.; Famima Digital One Co., Ltd.; SENIOR LIFE CREATE Co., Ltd., and EVENTIFY INC.

FamilyMart Co., Ltd. was removed from the scope of consolidation in the fiscal year ended February 29, 2020, following the Company’s absorption-type merger of its wholly-owned subsidiary, FamilyMart Co., Ltd.

Kanemi Co., Ltd. and one other company were removed from the scope of consolidation in the fiscal year ended February 29, 2020, following the reclassification of Kanemi Co., Ltd. from a subsidiary to an associate due to a partial transfer of its shares held by the Company.

3. Application of the Equity Method

Number of associates and joint ventures: 20 companies

Major associates and joint ventures: Okinawa FamilyMart Co., Ltd.; Minami Kyushu FamilyMart Co., Ltd.; Central FamilyMart Co., Ltd.; Shanghai FamilyMart Co., Ltd.; Guangzhou FamilyMart Co., Ltd.; Suzhou FamilyMart Co., Ltd.; POCKET CARD CO., LTD.; LIVE VIEWING JAPAN Inc.; and Kanemi Co., Ltd.

In the fiscal year ended February 29, 2020, Kanemi Co., Ltd. is to be accounted for by the equity method, following the reclassification of Kanemi Co., Ltd. from a subsidiary to an associate due to a partial transfer of its shares held by the Company.

4. Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities which are controlled directly or indirectly by the Company. In judging whether an entity is controlled directly or indirectly by the Company, the Company takes into consideration various factors indicating the possibility of control. Such factors include the existence of voting rights and potential voting rights which the Company can exercise in a substantial way, or whether the majority of the director positions are occupied by the officers and employees dispatched by the Company and its subsidiaries.

Considering the above, the Company decides whether it has the exposure or the right to the variable returns from the involvement of the Company with the entity, and whether it has the ability to use its power over the entity to affect the amount of the Company’s returns through power over the entity.

The financial statements of the subsidiaries are included in the scope of consolidation from the date on which the Group obtains control of a subsidiary and to the date on which the Group loses control of the subsidiary.

When the accounting policies of a subsidiary are different from those of the Group, adjustments are reflected, as needed, in the financial statements of the subsidiary. Intragroup balances and transactions and unrealized gains and losses which have resulted from intragroup transactions are eliminated in the presentation of the consolidated financial statements.

Disposals of a part of equity interests in a subsidiary are accounted for as capital transactions if the Company does not lose control over the subsidiary. The difference between the adjustment of the non-controlling interests and fair value of the consideration is recognized directly in equity as equity interests attributable to owners of the parent.

When the Company loses control of a subsidiary, the gains or losses associated with the loss of control of the subsidiary are recognized in profit or loss.

2) Associates

Associates are entities over which the Group has significant influence. In determining whether the Group has significant influence over an entity or not, the Company takes into consideration various factors. Such factors include the existence of voting rights and potential voting rights which the Company can exercise in a substantial way and the proportion of officers on the board of directors that have been dispatched by the Company and its subsidiaries.

Investments in associates are recognized at cost at the time of acquisition and are accounted for using the equity method. The carrying amount of investments in associates includes goodwill, which is recognized at the time of the acquisition, net of accumulated impairment losses.

When the accounting policies of an associate are different from those of the Group, adjustments are reflected, as needed, in the financial statements of the associate.

3) Joint arrangements

Joint arrangements are referred to as contractual arrangements over which two or more parties have joint control. The Group classifies its involvement in joint arrangements, depending on the rights and obligations of the parties involved in the arrangements, into: joint operations, where the Group has rights to the assets and obligations to the liabilities relating to the arrangements; and joint ventures, where the Group has only rights to the net assets relating to the arrangements. With regard to joint operations over which the Group has joint control, the assets, liabilities, revenues, and expenses attributable to the Group's equity interests are recognized, while investments in joint ventures are accounted for using the equity method.

(2) Business combinations

Business combinations, except for the transactions among entities under common control, are accounted for by the acquisition method. Consideration for a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, net of liabilities assumed by the acquirer to the former owners of the acquiree, and equity interests issued by the acquirer. When the sum of consideration transferred, any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree exceeds the net acquisition-date amount of the identifiable assets acquired and the liabilities assumed, the excess is recorded as goodwill in the consolidated statement of financial position. Conversely, when the net acquisition-date amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognized immediately in profit.

Costs incurred by the acquirer in relation to a business combination, including brokerage, attorney's fees, and due diligence expenses, are expensed in the period in which these costs are incurred.

When the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination (the "measurement period") to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date. During the measurement period, the acquirer also recognizes additional assets or liabilities if new information is obtained that would have resulted in the recognition of those assets and liabilities. The measurement period is at most one year from the acquisition date.

It is also noted that the additional acquisition of non-controlling interests after the acquisition of control is accounted for as a capital transaction, where no goodwill is recognized.

The identifiable assets acquired and the liabilities assumed by the acquirer are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities are recognized and measured in accordance with International Accounting Standards IAS 12,

“Income Taxes.”

- Assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 19, “Employee Benefits.”
- Liabilities related to share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, “Share-based Payment.”
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations,” are measured in accordance with that standard.

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. All business combination transactions among entities under common control are accounted for based on the carrying amounts on a continuous basis.

(3) Foreign currency translation

1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each entity within the Group at the exchange rate on the transaction date.

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

Non-monetary assets and liabilities which are measured at fair value in a foreign currency are translated into the functional currency using the exchange rate at the date on which the fair value was measured.

Exchange differences arising on translation or settlement of monetary items are recognized in profit or loss. Exchange differences arising on financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate at the end of the reporting period, while revenues and expenses of the foreign operations are translated into Japanese yen using the average exchange rate for the period, unless there have been significant changes in exchange rates. Exchange differences arising from the translation of financial statements of the foreign operations have been recognized in other comprehensive income. The cumulative amount of the exchange differences related to foreign operations is recognized in profit or loss in the period in which the foreign operations are disposed of.

(4) Financial instruments

1) Financial assets

(i) Initial recognition and measurement

Financial assets are initially recognized when the Group becomes a party to a contract and are classified into financial assets measured at fair value through profit or loss, through other comprehensive income, or those measured at amortized cost.

All financial assets, other than those measured at fair value through profit or loss, are initially measured at fair value plus transaction costs that are directly attributable to the financial asset.

Financial assets that meet both of the following conditions are classified as financial assets measured at amortized cost.

- The financial asset is held to collect contractual cash flows; and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

Equity instruments measured at fair value, except for equity instruments held for trading that are required to be measured at fair value through profit or loss, are designated either as measured at fair value through profit or loss, or as measured at fair value through other comprehensive income for each equity instrument, and such designation applies on an ongoing basis.

Debt instruments measured at fair value that meet both of the following conditions are classified as financial assets measured at fair value through other comprehensive income and all other debt instruments are classified into financial assets measured at fair value through profit or loss.

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Subsequent measurement

After initial recognition, financial assets are measured according to their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value

Any changes in the fair value of financial assets measured at fair value are recognized in profit or loss.

However, for equity instruments that are designated as measured at fair value through other comprehensive income, any changes in fair value are recognized in other comprehensive income. When these financial assets are derecognized, cumulative gains or losses previously recognized in other comprehensive income are transferred to retained earnings. Dividends on the financial assets are recognized in profit or loss for the period as part of finance income.

For debt instruments that are classified as measured at fair value through other comprehensive income, any changes in fair value, excluding impairment losses (or reversals) and foreign currency exchange gains and losses, are recognized in other comprehensive income until the financial assets are derecognized or reclassified. When these financial assets are derecognized, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Impairment of financial assets

For financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income, an allowance for expected credit losses is recognized.

At the end of each reporting period, the Group assesses whether the credit risk on each financial asset has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group recognizes the loss allowance at an amount equal to 12-month expected credit losses. Meanwhile, if the credit risk has increased significantly since initial recognition, the Group recognizes the loss allowance at an amount equal to the lifetime expected credit losses.

While the Group assumes that there has been a significant increase in credit risk when contractual payments are past due at the time of the assessment, reasonably available and supportable information in addition to past due information is considered when assessing whether the credit risk has increased significantly.

The Group assumes that the credit risk on the financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the end of the reporting period.

However, for certain receivables, the Group always recognizes the loss allowance at an amount equal to the lifetime expected credit losses, regardless of whether there have been significant increases in credit risk since initial recognition.

Expected credit losses are measured as the present value of the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive.

The Group considers any financial asset that is deemed to have defaulted as a credit-impaired financial asset when the financial asset is significantly past due even after taking enforcement activities for the performance of obligations or the debtor has filed legal procedures, including bankruptcy, rehabilitation, civil rehabilitation, and special liquidation. The Group directly reduces the gross carrying amount of a financial asset when it has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof.

The provision of a loss allowance on financial assets is recognized in profit or loss. When an event that results in a reduction of the loss allowance occurs, the amount of reversal of the loss allowance is recognized in profit or loss.

(iv) Derecognition of financial assets

The Group derecognizes a financial asset when contractual rights to the cash flows from the financial asset expire or when it transfers substantially all the risks and rewards of ownership of the financial asset. If the Group retains control of the financial asset that has been transferred, it recognizes the asset and related liability to the extent of its continuing involvement in the financial asset.

2) Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are initially recognized when the Group becomes a party to a contract and are classified into financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost.

All financial liabilities are initially measured at fair value, except for financial liabilities measured at amortized cost, which are initially measured at fair value less directly related transaction costs.

(ii) Subsequent measurement

After initial recognition, financial liabilities are measured according to their classification as follows:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition. They are measured at fair value after initial recognition, and any changes in fair value are recognized in profit or loss for the period.

(b) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method.

Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period as part of finance costs.

(iii) Derecognition of financial liabilities

The Group derecognizes a financial liability when it is extinguished, i.e., when the obligation specified in the contract is discharged or canceled or expires.

3) Presentation of financial assets and financial liabilities

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

4) Derivatives and hedge accounting

The Group uses derivatives, such as forward foreign currency exchange contracts and interest rate swaps, to hedge foreign currency risk and interest rate risk. Such derivatives are initially measured at fair value on the date the contract is entered into and are subsequently remeasured at fair value.

At the inception of the hedging relationship, the Group formally designates and documents the hedging relationship to which the Group intends to apply hedge accounting and the Group's risk management objective and strategy for undertaking the hedge. The

documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the Group will assess the effectiveness of changes in the fair value of the hedging instrument upon offsetting exposure to changes in fair value or variability in cash flows of the hedged item that is attributable to the hedged risk. Specifically, a hedge is deemed effective when all of the following criteria are met:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group continuously assesses whether hedging relationships are likely to be effective in the future.

If a hedging relationship ceases to meet the hedge effectiveness requirements relating to the hedge ratio but the risk management objective remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets qualifying criteria. The Group discontinues the application of hedge accounting when the risk management objective for the hedging relationship has been changed.

Cash flow hedges that meet hedge accounting requirements are accounted for as follows:

The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income. The ineffective portion is immediately recognized in profit or loss in the consolidated statement of profit or loss.

The amount of a hedging instrument that is included in equity through other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss. If the hedged item results in the recognition of a non-financial asset or a non-financial liability, the amount that was recognized in other comprehensive income is included in the initial carrying amount of the non-financial asset or non-financial liability.

The Group discontinues hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria, including instances when the hedging instrument expires or is sold, terminated, or exercised. If the hedged future cash flows are still expected to occur, the amount previously recognized in equity through other comprehensive income remains in equity until the future cash flows occur or, if that amount is a loss, until the amount that is not expected to be recovered is reclassified to profit or loss. If the hedged future cash flows are no longer expected to occur, the cumulative gains or losses previously recognized in equity through other comprehensive income are reclassified into profit or loss.

(5) Cash and cash equivalents

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

(6) Inventories

The cost of inventories comprises all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The cost of inventories is calculated primarily using the retail method, which determines the cost by reducing the sales value of the inventory by the appropriate percentage of gross margin. The grouping of inventories for determining profit margins is reviewed periodically so that the calculation under the retail method approximates the cost.

(7) Property, plant and equipment

The Group applies the cost model to property, plant and equipment, and all property, plant and equipment are presented at cost, less any accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment includes costs directly attributable to the acquisition of the assets, and the costs of

dismantling and removing the item and restoring the site on which it is located.

Depreciation of all assets, except for land and construction in progress, is calculated using the straight-line method over the estimated useful life of each asset. The estimated useful lives of major classes of assets are as follows:

- Buildings and structures: 2 to 50 years
- Machinery, equipment, and vehicles: 2 to 17 years
- Tools, furniture, and fixtures: 2 to 20 years

The estimated useful life, residual value, and depreciation method of an asset are reviewed at the end of each reporting period, and the change, if any, is accounted for as a change in accounting estimate and applied prospectively.

(8) Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment properties include properties held by the Group and properties held as right-of-use assets.

The Group applies the cost model to investment properties, and all investment properties are presented at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation of investment properties, except for land, is calculated using the straight-line method over the estimated useful life of each asset (three to fifty years). Depreciation of right-of-use assets is calculated using the straight-line method over the useful life or lease term of each asset, whichever is shorter.

(9) Goodwill and intangible assets

1) Goodwill

For measurement of goodwill at initial recognition, please refer to “(2) Business Combinations.”

After initial recognition, goodwill is presented at cost less accumulated impairment losses.

Goodwill is not amortized, but is allocated to cash-generating units (“CGUs”) identified based on the region where business is conducted and the type of business and is tested for impairment in each period or whenever there is an indicator of impairment. Impairment losses on goodwill are recognized in profit or loss in the consolidated statement of profit or loss and are not subsequently reversed.

2) Intangible assets

Intangible assets acquired separately are measured at cost at initial recognition. Intangible assets acquired in a business combination are identified separately from goodwill and recognized at fair value at the acquisition date if they meet the definition of an intangible asset, and are identifiable, and their fair value is reliably measured.

The Group applies the cost model to all intangible assets, except for intangible assets with indefinite useful lives, and they are amortized after initial recognition using the straight-line method over their estimated useful lives and presented at cost less any accumulated amortization and impairment losses. The estimated useful lives of major intangible assets are as follows:

- Software: 5 years
- Customer-related: 10 to 20 years

The estimated useful life, residual value, and amortization method of an intangible asset are reviewed at the end of each reporting period, and the change, if any, is accounted for as a change in accounting estimate and applied prospectively.

(10) Leases

1) Lessee

Right-of-use assets and lease liabilities are recognized at the commencement date of the lease arrangement.

Right-of-use assets are initially measured at cost, which is composed of the initial measurement of lease liabilities, and adjusted for any initial direct costs incurred, such as prepaid lease payments.

After recognition, right-of-use assets are measured using a cost model. In the consolidated statement of financial position, right-of-use assets are presented at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation of right-of-use assets is calculated using the straight-line method over the asset's useful life or lease term, whichever is shorter. A lease term is determined as the non-cancellable period of a lease, together with any periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and any periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Lease liabilities are initially measured at present value of the remaining lease payments discount using the lessee's incremental borrowing rate.

After the commencement date of the lease, the carrying amount of lease liabilities is increased or decreased to reflect interest on lease liabilities and lease payments made. In the event of any modifications to lease terms or conditions, lease liabilities are remeasured. Interest expense is presented separately from depreciation for right-of-use assets in the consolidated statement of profit or loss.

The Group does not recognize right-of-use assets and lease liabilities for short-term leases of 12 months or less or leases of low value underlying assets. The Group recognizes the total lease payments associated with these leases as expenses on a straight-line basis over the lease terms.

2) Lessor

For leases in which the Group is the lessor, the Group classifies each lease as a finance lease or an operating lease at the inception date of lease contract.

In classifying each lease, the Group comprehensively evaluates whether a lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

For leases in which the Group is the intermediate lessor, head leases and subleases are separately accounted for. In classifying subleases, the intermediate lessor assesses subleases in reference to the right-of-use asset arising from the head lease.

(i) Finance leases

In a finance lease, a lease receivable is recognized on the commencement date of the lease term as an amount equal to the net investment in the lease. The lease payments received are apportioned by the interest method between the finance income and the collected lease receivables. The finance income is recognized as profit in the period in which it is incurred.

(ii) Operating leases

Assets subject to operating leases are recognized in the consolidated statement of financial position, and the lease payments received are recognized as lease income using the straight-line method over the lease term. Variable lease payments are recognized as income in the period in which they are incurred.

(11) Impairment losses of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that non-financial assets, other than inventories and deferred tax assets, may be impaired. If such indication exists, the Group estimates the recoverable amount of the asset or its CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and intangible assets with indefinite useful lives are tested for impairment at the same time every year and whenever there is an indication that the asset may be impaired. Goodwill allocation to a CGU or CGUs is determined based on the level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less cost of disposal. In calculation of an asset's or CGU's value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects the time value of money and inherent risks of the asset or CGU.

Corporate assets of the Group do not generate cash flows that are independent of those from other assets. When there is an indication that a corporate asset may be impaired, the Group calculates the recoverable amount of CGUs to which the corporate asset belongs.

An impairment loss is recognized in profit or loss when the carrying amount of an asset or a CGU exceeds its recoverable amount. The impairment loss recognized for a CGU is allocated first to reduce the carrying amount of any goodwill allocated to that CGU, and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

Impairment losses on goodwill are not reversed. The Group assesses at the end of the reporting period whether there is any indication that an impairment loss for an asset other than goodwill recognized in a prior period may no longer exist or may have decreased. If there has been a change in the estimates used to determine the recoverable amount of an asset other than goodwill, the related impairment loss is reversed. Reversing an impairment loss for an asset other than goodwill is limited to the amount that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in the prior period.

(12) Employee benefits

1) Postemployment benefits

The Group has a defined benefit plan and a defined contribution plan as retirement benefit plans for its employees.

The Group calculates the present value of defined benefit obligations and the related current service cost and past service cost by the projected unit credit method.

The discount rate is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds corresponding to a discounting period set based on a period up to the expected date of benefit payment in future periods.

Assets or liabilities for retirement benefits are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations.

Remeasurements of the net defined benefit liabilities (or assets) are recognized in other comprehensive income in the period in which they are incurred and are immediately transferred to retained earnings from other components of equity.

Past service cost is recognized in profit or loss in the period in which it is incurred.

Contributions to the defined contribution plan are recognized as expenses in the period in which employees have rendered service to the Group.

2) Short-term employee benefits

Short-term employee benefits are recognized as expenses in the period in which employees have rendered service to the Group. Regarding bonuses, the amounts expected to be paid based on the relative provisions are recognized as liabilities when the Group has a legal or constructive obligation for such payments and when a reliable estimate of the obligation can be made.

(13) Provisions

Provisions are recognized when the Group has a present, legal, or constructive obligation, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. The provisions are determined by discounting the estimated future cash flows to the present value at a pre-tax discount rate that reflects the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a finance cost.

Asset retirement obligations

Regarding real estate lease contracts, for instance, a store with an obligation to restore the premises to the original condition, the estimated costs for restoration are recognized as asset retirement obligations.

(14) Financial guarantee contracts

The Group enters into financial guarantee contracts and similar contracts in which the Group agrees to make repayment of an obligation or to make monetary compensation on behalf of a guaranteed party if the guaranteed party went into certain default status. Guarantee loss provision is recognized at an estimated amount of the obligation when the loss from the financial guarantee contract becomes probable.

(15) Revenues

With regard to contracts with customers, the Group recognizes revenue by applying the following steps (except for interest and dividend income under IFRS 9 and lease payments receivable under IFRS 16).

Step 1: Identify the contract 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 (or as) the entity satisfies a performance obligation

The Group operates chains of convenience stores.

The Group has contractual obligations to its convenience store franchisees. Such obligations include preparations for opening a store; provision of know-how on running a store; provision of licenses such as trademarks; provision of services such as training and accounting services; and lending of sales equipment, signboards, and information systems. These activities are closely related to each other and cannot be separated and fulfilled as separate performance obligations, and thus, these are determined as a single performance obligation, except for lease transactions. This performance obligation is considered to be satisfied over time and as provision of services. Nevertheless, since the transaction price is a variable royalty based on a store's gross operating profit, the Group recognizes revenue over the contractual period for the obligations above as gross operating profit is generated at the store.

The Group sells goods such as food products and daily necessities to customers at directly operated stores. Revenue from sales of these items is recognized when those products are delivered to the customers, considering that control of those products has been transferred to the customers.

When identifying the performance obligations, the Group considers the following criteria in determining whether the Group is acting as a principal or an agent:

- Whether the Group has the primary responsibility to provide the goods or services to the customer or to fulfill the order;
- Whether the Group has inventory risks before and after the customer order while the goods are in transit or regarding return of goods; and
- Whether the Group has discretion in establishing prices, either directly or indirectly.

When the Group is acting as a principal, transaction prices are presented at the gross amount of consideration received from customers. When the Group is acting as an agent for third parties, transaction prices are presented at the net amount of consideration by deducting the amounts collected on behalf of third parties from the gross amount of consideration received from customers.

Discounts and rebates provided to costumers are deducted from the transaction price.

If the Group grants customers an option to acquire additional goods or services and provides them with a material right, the transaction price is allocated to that right as a separate performance obligation, and recognizes revenue when those future goods or services are transferred or the option is expired.

(16) Income taxes

Income taxes are composed of current tax and deferred tax. They are recognized in profit or loss, except for the items related to business combinations and the items directly recognized in equity or other comprehensive income.

Current taxes are measured as the amount of income taxes payable to or recoverable from the taxation authorities. Taxes are calculated using the tax rates and the tax laws that have been enacted or substantially enacted by the end of the reporting period in the countries where the Group conducts business and earns taxable profits.

Deferred taxes are recognized for the carryforward of unused tax losses, the carryforward of tax credits, and the temporary differences between the carrying amount of an asset and liability for accounting purposes and its tax base at the end of the reporting period.

Deferred tax liabilities are recognized, in principal, for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, unused tax loss, and tax credit carryforwards to the extent that it is probable that taxable profit will be available against the deductible temporary differences that can be utilized by the Group.

However, deferred tax assets and liabilities are not recognized for the following temporary differences:

- Arising from the initial recognition of goodwill;
- Arising from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit; and
- Associated with investments in subsidiaries, associates, and joint ventures for which 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.

The carrying amounts of deferred tax assets are reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. The Group reassesses unrecognized deferred tax assets at the end of each reporting period and recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates and 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 the tax laws that have been enacted or substantially enacted by the end of the reporting period.

The Group offsets deferred tax assets and liabilities if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and if such tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Group files a tax return under the consolidated corporate-tax system in Japan.

(17) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding, adjusted for treasury shares, during the period.

(18) Assets held for sale and discontinued operations

The Group classifies assets and asset groups as non-current assets held for sale or as disposal groups if the carrying amount of an asset or asset group will be recovered through a sale transaction rather than through continuing use; if it is highly probable that the sale of the asset will be completed within one year and it is available for immediate sale in its present condition; and if the management of the Group is committed to a sale plan. Non-current assets are not depreciated or amortized and are measured at the lower of the carrying amount and fair value less costs to sell.

A discontinued operation includes a component of an entity that either has been disposed of, or is classified as held for sale, and a component constitutes a line of business or geographical area of operations of the Group. The Group classifies a component as a discontinued operation when there is a plan to abandon of such a line of business or geographical area.

(19) Treasury shares

Treasury shares are measured at cost and deducted from equity. The Group does not recognize gains or losses in purchase, sale, and retirement of treasury shares. The difference between the carrying amount and the disposal amount is recognized in other capital surplus.

(20) Fair value measurement

Particular assets and liabilities are required to be measured at fair value. Fair value of such assets and liabilities are measured based on market information, such as market prices, or on valuation techniques, such as a market approach, income approach, or cost approach.

(21) Franchise agreement

In the convenience store business, each franchisee is provided with a variety of services and advice on the operation of convenience stores from the franchise chain headquarters, such as the Company, under a franchise agreement and continuously pays royalties based on a certain percentage of the respective franchised store's gross profit as consideration for such services and advice.

Each franchisee orders goods through an information system provided by the headquarters, and the headquarters makes lump sum payments to the suppliers on behalf of franchisees and recognizes receivables from the franchisees.

Each franchisee remits sales proceeds and collected utility charges to the headquarters every day. The utility charges collected are recognized as payables to public service providers and are included in "Deposits received" in the consolidated statement of financial position.

The payments for goods purchased on behalf of the franchisees and the sales proceeds remitted from the franchisees every day are offset in order to present the net amount of receivables from and payables to the franchisees. Receivables from franchised stores and payables to franchised stores present such net balances and are included respectively in "Trade and other receivables" and "Trade and other payables" in the consolidated statement of financial position.

5. Changes in Accounting Policy

The Group has applied the following standard effective from the fiscal year ended February 29, 2020.

| IFRS | | Outline of new standards or amendments |
|---------|--------|--|
| IFRS 16 | Leases | Amendment concerning accounting treatment for leases |

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

In adopting IFRS 16, the Group has adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application, which is allowed under the transition approach.

In applying IFRS 16, the Group has chosen the practical expedient detailed in IFRS 16 paragraph C3, and assesses whether contracts contain leases in accordance with IAS 17 "Leases" ("IAS 17") and IFRIC 4 "Determining whether an Arrangement contains a Lease". Since the date of initial application, the Group has made these determinations in accordance with IFRS 16.

Leases previously classified as operating leases under IAS 17 were recognized as lease liabilities on the initial application date of IFRS 16. These lease liabilities are measured at present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. In the measurement of lease liabilities, lease components and related non-lease components are not separated and are recognized as a single lease component.

For leases that were previously classified as lessee finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities as of the date of initial application has been measured based on the carrying amount of lease assets and lease obligations,

respectively, under IAS 17 as of the day immediately before that date.

In the case of short-term leases less than 12 months and leases for low value underlying assets, the Group does not recognize right-of-use assets and lease liabilities. The Group recognizes the payments associated with these leases as expenses on a straight-line basis over the lease terms.

The following is a reconciliation of operating lease contracts as of February 28, 2019 and lease liabilities recognized in the consolidated statement of financial position at the date of initial application.

| | (Millions of yen) |
|---|-------------------|
| | Amount |
| Operating lease contracts as of February 28, 2019 | 163,014 |
| Operating lease contracts discounted using the incremental borrowing rate as of March 1, 2019 | 158,382 |
| Finance lease obligations as of February 28, 2019 | 109,100 |
| Cancellable operating lease contracts, etc. | 474,722 |
| Lease liabilities as of March 1, 2019 | 742,205 |

As a result of adopting IFRS 16, the Group recorded ¥716,429 million in right-of-use assets and ¥633,105 million in lease liabilities at the beginning of the fiscal year ended February 29, 2020. In addition, retained earnings decreased by ¥5,300 million primarily due to having adopted the method where the cumulative effect of applying IFRS 16 is recognized at the date of initial application.

The following practical expedients are used in the Group's adoption of IFRS 16.

- A single discount rate is applied to portfolios of leases with reasonably similar characteristics.
- Leases that end within 12 months of the date of initial application are accounted for in the same way as short-term leases.
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
- The Group uses hindsight to calculate the lease term for lease contracts including options to extend or terminate the lease.

6. Changes in Presentation

Consolidated statement of financial position

“Lease obligations,” which was presented in the consolidated statement of financial position for the previous fiscal year, was reclassified to “Lease liabilities” due to the adoption of IFRS 16 starting from the fiscal year ended February 29, 2020.

Notes to the Consolidated Statement of Financial Position

1. Assets pledged as collateral and related liabilities

(1) Assets pledged as collateral:

| | |
|---|-----------------------|
| Leasehold and guarantee deposits receivable | ¥88,338 million |
| <u>Other financial assets</u> | <u>¥1,567 million</u> |
| Total | ¥89,905 million |

(2) Secured liabilities:

| | |
|------------------------------------|-------------------------|
| Short-term lease liabilities | ¥146,939 million |
| <u>Long-term lease liabilities</u> | <u>¥560,801 million</u> |
| Total | ¥707,740 million |

2. Allowance for doubtful receivables directly deducted from assets

(1) Current assets

| | |
|-----------------------------|--------------|
| Trade and other receivables | ¥108 million |
| Other financial assets | ¥13 million |

(2) Non-current assets

| | |
|---|----------------|
| Leasehold and guarantee deposits receivable | ¥83 million |
| Other financial assets | ¥1,895 million |
| Other non-current assets | ¥234 million |

3. Accumulated depreciation of property, plant and equipment ¥115,687 million

4. Accumulated depreciation of right-of-use assets ¥256,567 million

5. Accumulated depreciation of investment property ¥6,631 million

6. Guarantee obligations

The Group provided guarantees for the obligations of the following companies:

| | |
|--|------------------------|
| Central FamilyMart Co., Ltd. (Note 1) | ¥3,579 million |
| JAPAN FOOD SUPPLY Co., Ltd. (Note 2) | ¥608 million |
| <u>TOKATSU FOODS CO., LTD. and 32 other companies (Note 3)</u> | <u>¥25,671 million</u> |
| <u>Total</u> | <u>¥29,858 million</u> |

Notes: 1. Guarantee obligations for borrowings from financial institutions

2. Guarantee obligations for the fulfillment of performance obligations in contracts related to machinery installation

3. Guarantee obligations for the payment of trade and other payables which suppliers of goods for the Company owe to JAPAN FOOD SUPPLY Co., Ltd.

Notes to the Consolidated Statement of Changes in Equity

1. Class and total number of issued shares as of February 29, 2020

Common stock 506,849,252 shares

2. Dividends

(1) Dividends paid

| Date of resolution | Class of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---------------------------------------|-----------------|-----------------------------------|---------------------------|-------------------|-------------------|
| April 10, 2019 Board of Directors | Common stock | 10,186 | 80.50 | February 28, 2019 | May 7, 2019 |
| October 9, 2019 Board of Directors | Common stock | 10,122 | 20.00 | August 31, 2019 | November 11, 2019 |

Note: The Company effected a 4-for-1 share split of its common stock with the effective date of March 1, 2019. "Dividends per share" for which the record date is before February 28, 2019, represents the actual amount of dividend per share before the share split.

(2) Dividends for which the record date is in the fiscal year ended February 29, 2020, but for which the effective date will be in the following fiscal year

The Company has passed a resolution as follows regarding dividends of common stock shares at the Board of Directors' meeting held on April 13, 2020.

| Total dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|-----------------------------------|---------------------|---------------------------|-------------------|----------------|
| 10,122 | Retained earnings | 20.00 | February 29, 2020 | May 7, 2020 |

Financial Instruments

1. Financial risk management

In the course of carrying out business activities, the Group is exposed to financial risk, including credit risk, liquidity risk, foreign currency exchange rate risk, interest rate risk, and market value fluctuation risk. The Group manages risk in order to reduce the financial risk above.

The Group uses derivative instruments in order to hedge foreign currency exchange rate risk and interest rate risk; however, it does not carry out speculative transactions in accordance with its risk management policy. The Group executes and manages derivative transactions with the approval of the authorizer in accordance with its internal rules, in which the transaction authority and maximum amount are defined.

(1) Credit risk management

Credit risk is the risk of counterparties defaulting on contractual obligations, causing financial losses to the Group. The Group's maximum value of credit risk is the total of trade and other receivables, leasehold deposits receivable, other financial assets excluding equity financial assets, and the balance of guarantee obligations.

With regard to trade receivables, including receivables due from franchised stores and accounts receivable—other, the Group monitors delinquency and outstanding balances by each counterparty, aiming to promptly identify and reduce risk of uncollectibility due to deterioration of financial positions of counterparties and other reasons.

Regarding loans and guarantee obligations for associates, joint ventures, and other business partners, the Group aims to promptly identify and reduce the risk of uncollectibility through exercise of voting rights at general shareholders' meetings of these borrowers, business management and directions by directors appointed by the Group, and collection and evaluation of information concerning their financial positions.

Deposits paid mainly include funds entrusted to a company under the same parent and is exposed to the credit risk of the entrusted company.

With respect to other items, including leasehold deposits receivable, construction assistance fund receivables, and advances paid, the Company aims to promptly identify and reduce the risk related to uncollectibility by collecting and evaluating information concerning the financial positions of counterparties as well as taking collateral and guarantees as necessary.

Regarding derivative assets to which impairment requirements in IFRS 9 are not applicable, the credit risk is immaterial as the Group enters into derivative contracts only with financial institutions with high credit ratings. The Group is not exposed to credit risks that are over-concentrated in an individual party or group to which the party belongs.

The Group measures allowance for doubtful receivables on a collective basis by grouping certain receivables based on the status of delinquency and the nature of transactions from which receivables were recognized.

(2) Liquidity risk management

Liquidity risk is the risk that the Group is unable to perform its repayment obligations regarding financial liabilities on the settlement date.

The Group has commercial paper, borrowings, leases, and other liabilities for funding operating transactions and capital investments, and thus, is exposed to liquidity risk.

The Group manages liquidity risk by diversifying funding channels. Each Group company prepares and updates its funding plans in a timely manner, and maintains sufficient short-term liquidity. The Group also reduces the liquidity risk by entering into commitment line agreements with financial institutions.

(3) Foreign currency exchange rate risk management

The Group hedges foreign exchange risk, depending on foreign exchange conditions, using currency swaps for borrowings denominated in foreign currencies. Accordingly, the Group's exposure to foreign currency exchange rate risk is limited, and the effects of exchange rate fluctuations on profit before income taxes in the consolidated statement of profit or loss is insignificant.

(4) Interest rate risk management

The Group raises funds mainly through borrowings with fixed rates. Although certain borrowings are exposed to interest rate risk, the Group uses interest rate swaps to hedge interest rate risk. Accordingly, the Group's exposure to interest rate risk is limited, and the effects of interest rate fluctuations on profit before income taxes in the consolidated statement of profit or loss is insignificant.

(5) Market value fluctuation risk management

The Group's investments of surplus funds are limited to debt instruments (mainly bonds) with a high level of safety.

The Group is exposed to stock price fluctuation risk arising from equity instruments (stocks). The Group monitors market values and financial positions of issuers of the equity instruments on a regular basis. If the issuer of equity instruments is a business counterparty of the Group, it also reviews its shareholdings on an ongoing basis by considering the relationship with the issuer of the equity instruments.

2. Matters related to the fair values of financial instruments

The following table indicates carrying amounts and fair values as of February 29, 2020.

| (Millions of yen) | | |
|-------------------------------|-----------------|------------|
| | Carrying amount | Fair value |
| Financial assets | | |
| Leasehold deposits receivable | 88,338 | 89,425 |
| Stocks | 96,689 | 96,689 |
| Other financial assets | 28,805 | 28,827 |
| Financial liabilities | | |
| Bonds and borrowings | 113,938 | 113,393 |
| Derivative liabilities | 75 | 75 |
| Other financial liabilities | 13,743 | 13,870 |

The measurement methods of fair values are as follows:

Stocks

Fair values of listed stocks are measured based on the prices transacted at stock exchanges. Unlisted stocks are measured by discounted cash flow method, comparable peer company analysis using financial indicators as inputs, or by valuation models based on net assets. Thus, unobservable inputs, such as earnings before interest, tax, depreciation, and amortization (“EBITDA”) multiples, are used.

Financial instruments measured at amortized cost

Fair values of bonds, included in bonds and borrowings, are measured based on published prices in markets that are not active. Fair values of other financial assets and liabilities are determined based on the present value of reasonably estimated future cash flows discounted using an appropriate discount rate. The Group uses an interest rate that is assumed to be applied for new similar transactions as a discount rate for interest-bearing financial instruments. For non-interest-bearing financial instruments, the Group uses as a discount rate an interest rate that reflects credit risk at appropriate benchmark rates, such as the yield on government bonds corresponding to the remaining period of the financial instruments.

The table above excludes financial assets and liabilities whose fair values are identical or similar to their carrying amounts, including financial instruments that will be settled shortly after the end of the reporting period.

Derivative liabilities

Fair values of derivative assets and liabilities are measured based only on observable input determined by financial institutions.

Investment Property

1. Status of investment property

The Company and some of the Company’s subsidiaries own distribution centers (including land) for leasing, in Saitama Prefecture and other areas. In addition, the Company subleases stores and other properties procured by leasing.

2. Fair value of investment property

| | |
|-----------------|-----------------|
| Carrying amount | Fair value |
| ¥13,608 million | ¥16,904 million |

Notes: 1. The carrying amount represents the cost less any accumulated depreciation and impairment losses.

2. The fair value of investment properties owned by the Company is calculated based mainly on evaluations by independent, external real estate appraisers. In addition, the fair value of right-of-use assets included in investment properties is measured based on the carrying amount of corresponding lease liabilities.

Per-share Information

| | |
|---|---------------|
| 1. Equity per share attributable to owners of the parent: | ¥1,159.70 |
| 2. Basic earnings per share: | |
| Continuing operations | ¥78.30 |
| Discontinued operations | <u>¥7.71</u> |
| Total | <u>¥86.01</u> |

Significant Subsequent Events

Not applicable.

Other Notes

Impairment losses

(1) Property, plant and equipment and intangible assets

The Group estimates the recoverable value of a CGU, which in most cases is each store, while CGUs for idle assets are the individual asset.

The Group recognized impairment losses of ¥10,321 million for the fiscal year ended February 29, 2020, which are included in “Other expenses” in the consolidated statement of profit or loss. The major components include stores’ assets whose profitability declined significantly (buildings and structures; tools, furniture, and fixtures; and others) and the carrying amounts of stores’ assets are reduced to recoverable amounts.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. The discount rate used in measuring the value in use is calculated based on a pre-tax weighted-average cost of capital (3.9%). The fair value is calculated based mainly on evaluations by independent, external real estate appraisers in accordance with appraisal standards in the respective country where the real estate is located.

(2) Goodwill

The Group performs tests of goodwill impairment on an annual basis and whenever there is any indication of impairment. The recoverable amount for impairment testing is calculated based on the value in use.

The value in use is calculated, in principle, by discounting the estimated future cash flows, which are based on an upcoming five-year business plan approved by management, to their present values using a pre-tax weighted-average cost of capital for the CGU (3.9% to 7.6%). The growth rate used for forecasting cash flows after the term of the business plan is determined to the extent that it does not exceed the long-term average growth rate of the market or country where the CGU belongs (0.0% level).

The Group recognized impairment losses of ¥3,064 million for the fiscal year ended February 29, 2020, which are included in “Other expenses” in the consolidated statement of profit or loss.

Loss of Control

(Sale of subsidiary)

Partial transfer of shares in Kanemi Co., Ltd.

The Company decided, by resolution at the Board of Directors meeting held on February 27, 2019, to partially transfer the Company's shares in Kanemi Co., Ltd. to Pan Pacific International Holdings Corporation, and the transfer was completed on April 12, 2019. Consequently, the proportion of voting rights held in Kanemi Co., Ltd. changed from 53.14% to 26.57%, and Kanemi Co., Ltd. became an associate of the Company.

1) Major components of assets and liabilities at the date of loss of control

| | Amount |
|-------------------------|-----------------|
| | Millions of yen |
| Current assets | 20,365 |
| Non-current assets | 17,571 |
| Total assets | <u>37,936</u> |
| Current liabilities | 11,153 |
| Non-current liabilities | 196 |
| Total liabilities | <u>11,349</u> |

2) Cash flows from the loss of control

| | Amount |
|---|-----------------|
| | Millions of yen |
| Cash and cash equivalents received as consideration for the loss of control | 7,892 |
| Cash and cash equivalents of subsidiaries over which control was lost | <u>(8,609)</u> |
| Payments for sale of shares of subsidiaries | <u>(717)</u> |

3) Gain or loss on the loss of control

The ¥732 million loss recognized in conjunction with the loss of control over Kanemi Co., Ltd. is included in "Other expenses" in the consolidated statement of profit or loss. This is a valuation loss recognized as a result of remeasurement of the remaining investment after the transfer at fair value as of the date of loss of control.

Discontinued operations

In October 2018 the Company decided to sell its shares of UNY Co., Ltd. The Company transferred all its shares to Pan Pacific International Holdings Corporation on January 4, 2019 and lost control over UNY Co., Ltd. and its subsidiaries on the same date. Revenues classified as discontinued operations in the fiscal year ended February 29, 2020 are adjustments for the transfer price of the UNY Co., Ltd. shares based on the stock transfer agreement concluded in the previous fiscal year.

Performance of discontinued operations

| | Amount |
|----------|-----------------|
| | Millions of yen |
| Revenues | <u>5,621</u> |

| | |
|---|---------------------|
| Profit before income taxes from discontinued operations | <u>5,621</u> |
| Income taxes | <u>(1,721)</u> |
| Profit from discontinued operations | <u><u>3,900</u></u> |

[Notes to the Nonconsolidated Financial Statements]

Summary of Significant Accounting Policies

1. Valuation basis and method for assets

(1) Marketable securities and investment securities

(i) Held-to-maturity securities:

Measured at amortized cost (straight-line method)

(ii) Shares of subsidiaries and associates:

Measured at cost determined by the moving-average method.

(iii) Available-for-sale securities:

Available-for-sale securities whose fair values are readily determinable:

Measured at fair value at the end of the fiscal year. Unrealized gain or loss is directly included in net assets. Cost of securities sold is determined by the moving-average method.

Available-for-sale securities whose fair values are not readily determinable:

Measured at cost determined by the moving-average method.

(2) Derivatives

Measured at fair value.

(3) Inventories

Merchandise:

Measured at cost primarily using the retail method (i.e., the carrying amount is written down to the net selling value to reflect the declined profitability).

2. Depreciation and amortization of non-current assets

(1) Property, plant and equipment (excluding lease assets)

Property, plant and equipment are depreciated by the straight-line method.

The useful lives are as follows:

- Buildings: 2 to 50 years

- Structures: 2 to 50 years

- Machinery and equipment: 2 to 17 years

- Tools, furniture, and fixtures: 2 to 20 years

(2) Intangible assets

Software:

Software for internal use is amortized by the straight-line method over an expected useful life of five years.

Goodwill:

Goodwill is amortized using the straight-line method over 5 to 20 years.

(3) Lease assets

Lease assets relating to finance lease transactions that do not transfer ownership are depreciated using the straight-line method over the lease term as their useful life with an assumed residual value of zero.

(4) Long-term prepaid expenses

Amortized using the straight-line method

3. Recognition of allowances

(1) Allowance for doubtful receivables

To prepare for potential credit losses on receivables, an allowance for doubtful receivables is provided at an amount based on the actual ratio of bad debts in the past for general receivables and on the individual collectability for specific doubtful receivables.

(2) Accrued employees' bonuses

To prepare for the future payment of bonuses to employees, accrued bonuses are provided at the projected amount for the fiscal year to which such bonuses are attributable.

(3) Accrued directors' bonuses

To prepare for the future payment of bonuses to directors, accrued bonuses are provided at the projected amount for the fiscal year to which such bonuses are attributable.

(4) Provision for retirement benefits

To prepare for the payment of retirement benefits to employees, the Company recognizes a provision based on the projected retirement benefit obligations and pension assets as of February 29, 2020.

(i) Method for attributing projected retirement benefits to individual periods of service

In calculating retirement benefit obligations, the benefit formula basis was used to attribute the projected retirement benefits to periods up to February 29, 2020.

(ii) Treatment of actuarial gains or losses and past service cost

Past service cost is amortized by the straight-line method over a certain period (10 to 14 years) within the average remaining service years for employees at the time of recognition, and allocated proportionally, commencing in the fiscal year in which the cost was incurred.

Actuarial gains or losses are amortized by the straight-line method over a certain period (10 to 14 years) within the average remaining service years for employees at the time of recognition, and allocated proportionally, commencing in the fiscal year following the year in which the respective gain or loss occurred.

(5) Allowance for investment loss

To prepare for losses associated with investments in subsidiaries and associates, the Company records an amount deemed necessary in light of their financial conditions.

(6) Provision for loss on business of subsidiaries and associates

To prepare for losses associated with the businesses of subsidiaries and associates, the Company records an amount deemed necessary in light of subsidiaries' and associates' financial conditions.

4. Other significant matters in preparing the **nonconsolidated** financial statements

(1) Translation of assets and liabilities denominated in foreign currencies

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates at the closing date and exchange differences arising from such translation are recognized in profit or loss.

(2) Hedge accounting method

(i) Hedge accounting method

In principle, hedging transactions are accounted for under a deferral method. The special hedge accounting treatment is applied to interest rate swaps that qualify for such treatment.

(ii) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Borrowings

(iii) Hedging policy

The Company uses interest rate swaps for the purpose of avoiding losses associated with fluctuations in interest rates.

(iv) Method for assessing hedge effectiveness

The effectiveness of hedging is assessed based on a comparison of cumulative fluctuations in cash flows between a hedged item and the related hedging instrument for the period from the commencement of the hedge to the date of judging its effectiveness.

As to foreign exchange forward contracts to which the designated hedge accounting treatment is applied, the assessment of hedge effectiveness is omitted.

(3) Accounting for consumption taxes

Income and expenses are presented exclusive of consumption taxes and similar local taxes.

(4) Application of consolidated corporate-tax system

The Company files a tax return under the consolidated corporate-tax system.

(5) Changes in Presentation

Changes following the Adoption of "Partial Amendments to Accounting Standards for Tax Effect Accounting"

The Company adopted the "Partial Amendments to Accounting Standards for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) starting from the beginning of the fiscal year ended February 29, 2020. Accordingly, deferred tax assets are presented under investments and other assets while deferred tax liabilities are presented under non-current liabilities.

Additionally, in the notes on "Tax-effect accounting," the details set forth in Note 8 (1) (excluding the total amount of valuation allowance) of the "Accounting Standards for Tax Effect Accounting," as stipulated in paragraph 4 of "Partial Amendments to Accounting Standards for Tax Effect Accounting," have been added.

Notes to the Nonconsolidated Balance Sheet

| | |
|--|------------------------|
| 1. Accumulated depreciation of property, plant and equipment | ¥219,332 million |
| 2. Monetary receivables and payables from/to subsidiaries and associates, excluding those separately presented | |
| Short-term monetary receivables | ¥21,634 million |
| Short-term monetary payables | ¥15,082 million |
| 3. Monetary payables to directors and corporate auditors | ¥94 million |
| 4. Guarantee obligations | |
| Clear Water Tsunan Co., Ltd. (Note 1) | ¥898 million |
| VIET NAM FAMILY CONVENIENCE STORES COMPANY LIMITED (Note 1) | ¥642 million |
| Central FamilyMart Co., Ltd. (Note 1) | ¥3,579 million |
| JAPAN FOOD SUPPLY Co., Ltd. (Note 2) | ¥608 million |
| TOKATSU FOODS CO., LTD. and 32 other companies (Note 3) | ¥25,671 million |
| <u>Total</u> | <u>¥31,398 million</u> |

Notes: 1. Guarantee obligations for borrowings from financial institutions
2. Guarantee obligations for the fulfillment of performance obligations in contracts related to machinery installation
3. Guarantee obligations for the payment of trade and other payables which the Company's goods suppliers owe to JAPAN FOOD SUPPLY Co., Ltd.

Note to the Nonconsolidated Statement of Income

| | |
|--|----------------|
| 1. Transactions with subsidiaries and associates | |
| Operating transactions, excluding the amounts separately presented | |
| Operating revenues | ¥6,955 million |
| Operating expenses | ¥4,027 million |
| Nonoperating transactions with subsidiaries and associates | ¥796 million |

2. Operating revenue

Effective September 1, 2019, the Company merged with its wholly-owned subsidiary, FamilyMart Co., Ltd., and became an operating company developing its convenience store business. Each item that was classified as operating revenue in the previous fiscal year is now included in "Other operating revenue" under "Operating revenue".

3. Business restructuring expenses

In order to survive in the increasingly difficult retail industry, the Company is engaged in structural reforms at its headquarters to enhance the competitiveness of the entire chain and to streamline its organization and improve operational efficiency. The costs incurred have been recorded as business restructuring expenses, which mainly consist of premium severance payments for voluntary retirement.

Note to the Nonconsolidated Statement of Changes in Net Assets

| | |
|---|----------------|
| Class and total number of treasury shares as of February 29, 2020 | |
| Common stock | 741,180 shares |

Tax-effect Accounting

Breakdown by cause of deferred tax assets and liabilities

Deferred tax assets:

| | |
|---|-------------------------|
| Enterprise tax payable | ¥743 million |
| Other payables | ¥4,763 million |
| Asset retirement obligations | ¥11,686 million |
| Unearned revenue | ¥838 million |
| Tax loss carryforwards | ¥44,714 million |
| Valuation difference associated with the absorption-type merger | ¥283 million |
| Software | ¥137 million |
| Allowance for doubtful receivables | ¥792 million |
| Provision for loss on business of subsidiaries and associates | ¥1,574 million |
| Provision for retirement benefits | ¥1,247 million |
| Impairment losses | ¥18,072 million |
| Fixed-term land leaseholds | ¥272 million |
| Others | ¥1,250 million |
| Subtotal | <u>¥86,372 million</u> |
| Valuation allowance for total deductible temporary differences | <u>¥(3,842) million</u> |
| Valuation allowance subtotal | <u>¥(3,842) million</u> |
| Total | <u>¥82,530 million</u> |

Deferred tax liabilities:

| | |
|---|------------------------|
| Asset retirement cost corresponding to asset retirement obligations | ¥4,927 million |
| Intangible assets | ¥11,567 million |
| Adjustments | ¥92 million |
| Construction assistance fund receivables | ¥1,017 million |
| Unrealized gain on available-for-sale securities | ¥957 million |
| Others | ¥121 million |
| Total | <u>¥18,681 million</u> |
| Net deferred tax assets | <u>¥63,849 million</u> |

Transactions with Related Parties¹

Subsidiaries and associates

| Attribute | Company name | Location | Capital (Millions of yen) | Business | Ratio of voting rights | Relationship with the related party | Description of transactions | Transaction amount (Millions of yen) | Account name | Ending balance (Millions of yen) |
|----------------------------------|-----------------------|---------------------|------------------------------|--|---------------------------|--|----------------------------------|--|---------------------------------------|-------------------------------------|
| Subsidiary of the parent company | ITOCHU Treasury Corp. | Minato-ku, Tokyo | 4,250 | Financial services | -% | Trustee of funds | Entrusting of funds ³ | 135,000 | Deposits paid | 95,000 |
| | | | | | | | Refund of funds | 190,000 | | |
| | | | | | | | Receipt of interest ³ | 146 | Accrued income | 1 |
| Subsidiary of the parent company | NIPPON ACCESS, INC. | Shinagawa-ku, Tokyo | 2,620 | Sale of foods, alcohol and general merchandise, etc. | Directly held 0.08% | Supplier of merchandise | Purchase of merchandise | 3,653 | Accounts payable - trade ⁴ | 30,955 |
| | | | | | | | Logistics outsourcing | 37,453 | Other payables | 6,683 |
| Subsidiary of the parent company | CONEXIO Corporation | Shinjuku-ku, Tokyo | 2,778 | Sale of mobile phones, etc. | -% | Supplier of merchandise | Purchase of merchandise | 1,236 | Accounts payable - trade ⁴ | 14,539 |

Terms and conditions of transactions and decision policy thereof:

Notes: 1. The transaction amounts above exclude consumption taxes.

2. Transaction terms and conditions are determined in the same manner as general transaction terms and conditions, by taking into account market prices.

3. Interest rates for contracts on entrusting of funds are reasonably determined by taking into account market interest rates.

4. Accounts payable - trade includes franchisees' accounts payable – trade.

Directors and major individual shareholders, etc.

| Attribute | Company name | Location | Capital (Millions of yen) | Business | Ratio of voting rights | Relationship with the related party | Description of transactions | Transaction amount (Millions of yen) | Account name | Ending balance (Millions of yen) |
|--|---|------------------|------------------------------|--------------------------------|---------------------------|--|--|--|----------------|-------------------------------------|
| Company the majority of whose voting rights are owned by its directors and their relatives | Revamp Corporation ³ and one of its subsidiaries | Minato-ku, Tokyo | 100 | business management consulting | - % | Consultation on product promotions, etc., commercials planning | Consultation on product promotions, etc. | 75 | Other payables | 9 |
| | | | | | | | commercials planning | 4 | - | - |

Terms and conditions of transactions and decision policy thereof:

Notes: 1. The transaction amounts above exclude consumption taxes.

2. Transaction terms and conditions are determined in the same manner as general transaction terms and transactions by taking into account market prices.

3. The Company's Director Takashi Sawada and his relatives own the majority of voting rights of the company.

Per-share Information

1. Net assets per share ¥1,130.52

2. Earnings per share ¥63.61

Business Combinations

Transactions under common control

The Company, in accordance with a merger agreement concluded on April 10, 2019, implemented an absorption-type merger of its wholly-owned subsidiary FamilyMart Co., Ltd., and changed its trade name from "FamilyMart UNY Holdings Co., Ltd." to "FamilyMart Co., Ltd." A summary of the merger is as follows.

(1) Summary of transaction

1) Name and business of the company involved in the merger

-Name of the company involved in the merger: FamilyMart Co., Ltd.

-Its business: Convenience store franchise

2) Date of the business combination

September 1, 2019

3) Legal form of the business combination

An absorption-type merger in which the Company was the surviving company and FamilyMart Co., Ltd. was dissolved through the merger.

4) Name of the Company after the merger

FamilyMart Co., Ltd. (The Company's trade name was changed from FamilyMart UNY Holdings Co., Ltd. on September 1, 2019)

5) Other matters related to the transaction summary

The Company, following a business integration with the former UNY Group Holdings Co., Ltd., has transitioned to a management structure in which the Company's convenience store business is its core business. In light of this current management structure, the Company decided to absorb FamilyMart Co., Ltd. in order to improve management efficiency by simplifying the Group's structure and centralizing its management.

As FamilyMart Co., Ltd. is a wholly-owned subsidiary of the Company, there will be no allotment of shares, cash, or any other assets as a result of this merger.

(2) Summary of accounting treatment implemented

Based on the "Accounting Standards for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and the "Guidance on Accounting Standards for Business Combinations and Divestitures" (ASBJ Guidance No. 10, September 13, 2013), the merger was treated as a transaction under common control. In the fiscal year ended February 29, 2020, the Group recorded ¥20,597 million as gains on extinguishment of tie-in shares.

Significant Subsequent Events

Not applicable.

Additional Information

The Company decided, by resolution at the meeting of the Board of Directors held on February 27, 2019, to partially transfer its shares in Kanemi Co., Ltd. to Pan Pacific International Holdings Corporation on April 12, 2019.

Refer to "**Loss of Control** (Sale of subsidiary)" in the "Other Notes" section for details.

Company to which the Restriction on Consolidated Dividends is Applied

The Company has decided to apply the restriction on consolidated dividends.