

Section 5 Financial Information

1. Basis for Preparation of Consolidated and Non-consolidated Financial Statements

- (1) The consolidated financial statements of Nitori Holdings Co., Ltd. (hereinafter the “Company”) are prepared in accordance with the International Financial Reporting Standards (hereinafter “IFRS” or “IFRS Accounting Standards”) pursuant to the provisions of Article 312 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976; hereinafter the “Regulation on Consolidated Financial Statements”).
- (2) The non-financial statements of the Company are prepared based on the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963; hereinafter the “Regulation on Financial Statements”).

In addition, the Company is a special company submitting financial statements and prepares non-consolidated financial statements pursuant to the provisions of Article 127 of the Regulation on Financial Statements.

2. Audit Certificate

The Company has undergone an audit by Deloitte Touche Tohmatsu LLC for its consolidated and non-consolidated financial statements for the fiscal year (from April 1, 2024 to March 31, 2025), based on the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special Efforts to Ensure the Appropriateness of Consolidated Financial Statements, etc., and Establishment of a System to Properly Prepare Consolidated Financial Statements, etc., under IFRS

The Company has made special efforts to ensure the appropriateness of its consolidated financial statements, etc., and has established a system to properly prepare consolidated financial statements, etc., under IFRS. The details are as follows:

- (1) To appropriately understand the details of the accounting standards, etc., and to establish a system that can accurately respond to changes in the accounting standards, etc., the Company has assigned employees with sufficient knowledge of IFRS Accounting Standards, joined the Financial Accounting Standards Foundation, and obtains information on accounting standards, etc. The Company also participates in training sessions sponsored by audit firms and others.
- (2) Regarding the application of IFRS Accounting Standards, the Company obtains press releases and standards published by the International Accounting Standards Board as needed to keep abreast of the latest standards. In addition, to prepare appropriate consolidated financial statements under IFRS, the Company has prepared group accounting policies and accounting guidelines in accordance with IFRS Accounting Standards and performs accounting treatment based on these.

I. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

(i) Consolidated statement of financial position

		(Millions of yen)		
	Note	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Assets				
Current assets				
Cash and cash equivalents	6	123,881	117,978	136,001
Trade and other receivables	7	66,700	91,152	80,515
Other financial assets	8, 34, 35	12,773	23,733	25,515
Inventories	9	117,456	105,500	112,750
Income taxes receivable		59	–	19
Other current assets	10	11,137	7,528	9,888
Total current assets		332,009	345,893	364,690
Non-current assets				
Property, plant and equipment	11,13,16	756,182	814,087	905,121
Intangible assets	12	7,105	7,693	9,324
Investment property	14	82,404	96,189	96,051
Investments accounted for using equity method	15	22,291	22,979	24,772
Other financial assets	8, 34, 35	74,367	77,304	79,151
Deferred tax assets	17	42,338	45,239	48,870
Retirement benefit asset	21	363	38	15
Other non-current assets	10	2,295	1,866	1,423
Total non-current assets		987,349	1,065,398	1,164,730
Total assets		1,319,358	1,411,292	1,529,421

		(Millions of yen)		
	Notes	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	18	71,365	100,784	75,459
Borrowings	19	83,068	107,557	173,138
Other financial liabilities	20, 34, 35	39,341	36,077	36,218
Income taxes payable	17	26,052	18,177	19,954
Contract liabilities	26	23,818	29,223	30,506
Provisions	22	814	502	720
Other current liabilities	23	18,856	22,257	17,666
Total current liabilities		<u>263,317</u>	<u>314,581</u>	<u>353,664</u>
Non-current liabilities				
Borrowings	19	57,330	30,000	20,000
Other financial liabilities	20, 34, 35	219,013	203,066	220,476
Deferred tax liabilities	17	132	370	86
Retirement benefit liability	21	6,645	6,446	6,421
Provisions	22	14,818	14,803	22,172
Other non-current liabilities	23	1,263	1,319	862
Total non-current liabilities		<u>299,204</u>	<u>256,005</u>	<u>270,019</u>
Total liabilities		<u>562,521</u>	<u>570,587</u>	<u>623,684</u>
Equity				
Share capital	24	13,370	13,370	13,370
Capital surplus	24	30,711	30,715	30,715
Treasury shares	24	(10,111)	(10,113)	(10,118)
Retained earnings	24	722,408	795,584	861,634
Other components of equity	24	458	11,143	10,127
Total equity attributable to owners of parent		<u>756,837</u>	<u>840,700</u>	<u>905,729</u>
Non-controlling interests		<u>–</u>	<u>4</u>	<u>6</u>
Total equity		<u>756,837</u>	<u>840,704</u>	<u>905,736</u>
Total liabilities and equity		<u>1,319,358</u>	<u>1,411,292</u>	<u>1,529,421</u>

(ii) Consolidated statement of profit or loss

(Millions of yen, unless otherwise stated)

	Notes	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Revenue	5, 13, 26	896,667	928,828
Cost of sales	27	439,264	454,904
Gross profit		457,403	473,923
Selling, general and administrative expenses	27	322,760	348,576
Other income	28	4,108	4,051
Other expenses	16,28	16,554	14,998
Share of profit of investments accounted for using equity method	15	2,078	3,265
Operating profit		124,274	117,665
Finance income	29	3,057	3,019
Finance costs	29	2,492	3,236
Profit before tax		124,838	117,448
Income tax expense	17	34,680	34,899
Profit		90,158	82,548
Profit attributable to:			
Owners of parent		90,158	82,546
Non-controlling interests		–	2
Profit		90,158	82,548
Earnings per share			
Basic earnings per share (Yen)	31	797.78	730.42
Diluted earnings per share (Yen)	31	797.78	730.42

(iii) Consolidated statement of comprehensive income

(Millions of yen)

	Notes	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Profit		90,158	82,548
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	30	2,979	2,252
Remeasurements of defined benefit plans	30	(255)	229
Total of items that will not be reclassified to profit or loss		2,723	2,482
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	30	6,364	(2,098)
Cash flow hedges	30	(17)	(999)
Total of items that may be reclassified to profit or loss		6,347	(3,097)
Total other comprehensive income		9,071	(614)
Comprehensive income		99,229	81,933
Comprehensive income attributable to:			
Owners of parent		99,229	81,930
Non-controlling interests		0	2
Comprehensive income		99,229	81,933

(Note) The items in the above statement are presented after tax.

Income taxes related to each component of other comprehensive income are disclosed in Note "30. Other Comprehensive Income."

(iv) Consolidated statement of changes in equity

(Millions of yen)

	Equity attributable to owners of parent							
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity		
						Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations
Balance at April 1, 2023		13,370	30,711	(10,111)	722,408	–	1,798	–
Profit		–	–	–	90,158	–	–	–
Other comprehensive income	30	–	–	–	–	(255)	2,979	6,364
Comprehensive income		–	–	–	90,158	(255)	2,979	6,364
Purchase of treasury shares	24	–	–	(2)	–	–	–	–
Disposal of treasury shares	24	–	3	0	–	–	–	–
Dividends	25	–	–	–	(16,725)	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	(256)	255	0	–
Transfer to hedged non-financial assets		–	–	–	–	–	–	–
Other		–	–	–	–	–	–	–
Total transactions with owners		–	3	(1)	(16,982)	255	0	–
Balance at March 31, 2024		13,370	30,715	(10,113)	795,584	–	4,778	6,364
Profit		–	–	–	82,546	–	–	–
Other comprehensive income	30	–	–	–	–	229	2,252	(2,098)
Comprehensive income		–	–	–	82,546	229	2,252	(2,098)
Purchase of treasury shares	24	–	–	(5)	–	–	–	–
Disposal of treasury shares	24	–	0	0	–	–	–	–
Dividends	25	–	–	–	(16,725)	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	229	(229)	–	–
Transfer to hedged non-financial assets		–	–	–	–	–	–	–
Total transactions with owners		–	0	(5)	(16,495)	(229)	–	–
Balance at March 31, 2025		13,370	30,715	(10,118)	861,634	–	7,031	4,266

(Millions of yen)

Equity attributable to owners of parent						
Other components of equity						
Notes	Cash flow hedges	Share of other comprehensive income of investments accounted for using equity method	Total	Total	Non-controlling interests	Total equity
Balance at April 1, 2023	(1,340)	–	458	756,837	–	756,837
Profit	–	–	–	90,158	–	90,158
Other comprehensive income	30 (17)	–	9,071	9,071	0	9,071
Comprehensive income	(17)	–	9,071	99,229	0	99,229
Purchase of treasury shares	24 –	–	–	(2)	–	(2)
Disposal of treasury shares	24 –	–	–	4	–	4
Dividends	25 –	–	–	(16,725)	–	(16,725)
Transfer from other components of equity to retained earnings	–	–	256	–	–	–
Transfer to hedged non-financial assets	1,357	–	1,357	1,357	–	1,357
Other	–	–	–	–	4	4
Total transactions with owners	1,357	–	1,613	(15,366)	4	(15,361)
Balance at March 31, 2024	–	–	11,143	840,700	4	840,704
Profit	–	–	–	82,546	2	82,548
Other comprehensive income	30 (999)	–	(615)	(615)	0	(614)
Comprehensive income	(999)	–	(615)	81,930	2	81,933
Purchase of treasury shares	24 –	–	–	(5)	–	(5)
Disposal of treasury shares	24 –	–	–	0	–	0
Dividends	25 –	–	–	(16,725)	–	(16,725)
Transfer from other components of equity to retained earnings	–	–	(229)	–	–	–
Transfer to hedged non-financial assets	(170)	–	(170)	(170)	–	(170)
Total transactions with owners	(170)	–	(400)	(16,901)	–	(16,901)
Balance at March 31, 2025	(1,169)	–	10,127	905,729	6	905,736

(v) Consolidated statement of cash flows

(Millions of yen)

	Notes	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Net cash provided by (used in) operating activities			
Profit before tax		124,838	117,448
Depreciation and amortization		61,082	66,143
Impairment losses	16	16,309	13,994
Interest and dividend income		(2,169)	(2,104)
Interest expenses		2,463	3,234
Share of loss (profit) of investments accounted for using equity method		(2,078)	(3,265)
Loss (gain) on sale of property, plant and equipment		(1,842)	(95)
Decrease (increase) in trade and other receivables		(23,891)	10,205
Decrease (increase) in inventories		12,941	(7,095)
Increase (decrease) in trade and other payables		18,385	(4,423)
Increase (decrease) in contract liabilities		5,312	1,269
Other		16,099	(13,016)
Subtotal		227,451	182,293
Dividends received		1,910	2,024
Interest received		1,766	1,471
Interest paid		(2,502)	(3,119)
Income taxes paid		(48,109)	(38,619)
Income taxes refund		647	334
Net cash provided by (used in) operating activities		181,164	144,384
Net cash provided by (used in) investing activities			
Payments into time deposits		(23,147)	(58,264)
Proceeds from withdrawal of time deposits		13,320	55,512
Purchase of property, plant and equipment, and investment property		(124,056)	(121,432)
Proceeds from sale of property, plant and equipment, and investment property		3,263	324
Purchase of intangible assets		(3,284)	(3,876)
Purchase of securities		–	(42)
Proceeds from sale of securities		2	–
Payments of leasehold and guarantee deposits		(1,921)	(2,276)
Proceeds from refund of leasehold and guarantee deposits		2,453	2,773
Proceeds from deposits and guarantee deposits received		436	899
Repayments of deposits received and refund of guarantee deposits received		(350)	(599)
Purchase of long-term prepaid expenses		(72)	(106)
Payments for loans receivable		(0)	–
Collection of loans receivable		248	114
Other		–	(883)
Net cash provided by (used in) investing activities		(133,107)	(127,856)

		(Millions of yen)	
	Notes	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term borrowings	32	40,222	82,665
Repayments of long-term borrowings	32	(43,068)	(27,330)
Repayments of lease liabilities	32	(35,816)	(37,319)
Purchase of treasury shares		(2)	(5)
Dividends paid	25	(16,713)	(16,715)
Net cash provided by (used in) financing activities		(55,378)	1,295
Effect of exchange rate changes on cash and cash equivalents		1,419	199
Net increase (decrease) in cash and cash equivalents		(5,902)	18,022
Cash and cash equivalents at beginning of period	6	123,881	117,978
Cash and cash equivalents at end of period	6	117,978	136,001

Notes on Consolidated Financial Statements

1. Reporting Entity

Nitori Holdings Co., Ltd. (hereinafter “the Company”) is a company located in Japan. The address of its registered head office and principal places of business is disclosed on the Company’s website (<https://www.nitorihd.co.jp/>).

The consolidated financial statements of the Company and its subsidiaries (hereinafter collectively “the Group”) are composed of the Group and its interests in associates as of March 31, 2025, the fiscal year-end.

The Group’s main businesses are divided into the NITORI Business and the SHIMACHU Business. Details of each business are described in Note “5. Segment Information.”

2. Basis of Preparation

(1) Statement of compliance with IFRS Accounting Standards and matters concerning first-time adoption

As the Group meets the requirements of a Specified Company Complying with Designated International Accounting Standards under Article 1-2 of the Regulation on Consolidated Financial Statements, the Group’s consolidated financial statements are prepared in accordance with IFRS Accounting Standards pursuant to Article 312 of the said Regulation. The Group first adopted IFRS Accounting Standards for the fiscal year ended March 31, 2025, with the date of transition to IFRS Accounting Standards (hereinafter the “transition date”) being April 1, 2023.

The impact of the transition to IFRS Accounting Standards on the Group’s financial position, operating results, and cash flows at the transition date and in the comparative period is described in Note “41. First-time Adoption.”

With the exception of IFRS Accounting Standards that have not been early adopted and mandatory exceptions and optional exemptions under IFRS 1 *First-time Adoption of International Financial Reporting Standards* (hereinafter “IFRS 1”), the Group’s accounting policies comply with IFRS Accounting Standards effective as of March 31, 2025.

These consolidated financial statements were approved by Akio Nitori, Chairman and Chief Executive Officer, on June 24, 2025.

(2) Basis of measurement

The Group’s consolidated financial statements have been prepared on a historical cost basis, with the exception of certain assets, liabilities, and financial instruments measured at fair value, as described in Note “3. Material Accounting Policies.”

(3) Functional and presentation currency

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

(4) New standards and interpretations issued but not yet adopted

Among the new standards and interpretations issued or amended by the approval date of the consolidated financial statements, the main ones that the Group has not early adopted in the fiscal year ended March 31, 2025 (hereinafter the “current fiscal year”) are as follows. The impact on the Group from the application of new IFRS Accounting Standards is under review and cannot be estimated at this time. The impact of the application of IFRS 19 on the Company’s consolidated financial statements is judged not to be material.

IFRS Accounting Standards	Mandatory effective date (Fiscal year beginning on or after)	The Group's first year of application	Summary of new standards and amendments
IFRS 9 <i>Financial Instruments</i>	January 1, 2026	Fiscal year ending March 31, 2027	Amendments to standards for classification and measurement of financial instruments (IFRS 9 and IFRS 7)
IFRS 7 <i>Financial Instruments: Disclosures</i>			<ul style="list-style-type: none"> • Clarification of classification of financial assets containing environmental, social and corporate governance (ESG) elements and similar elements • Derecognition of financial liabilities settled through electronic payment systems • Disclosures related to investments in equity instruments elected to be measured at fair value through other comprehensive income
IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>	January 1, 2027	Fiscal year ending March 31, 2028	New standard to replace IAS 1 <i>Presentation of Financial Statements</i> , the current accounting standard for presentation and disclosure in financial statements
IFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i>	January 1, 2027	Fiscal year ending March 31, 2028	<ul style="list-style-type: none"> • Permits eligible subsidiaries to apply reduced IFRS disclosure requirements

3. Significant Accounting Policies

(1) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date on which control is lost.

When the accounting policies adopted by a subsidiary differ from those adopted by the Group, adjustments are made to the subsidiary's financial statements as necessary. When a subsidiary's fiscal year-end differs from that of the Company, the subsidiary's financial figures based on provisional closing as of the fiscal year-end are used.

Intragroup balances and transactions, and unrealized gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, the assets and liabilities of the subsidiary and the non-controlling interests related to the subsidiary are derecognized, and any retained interest that continues to be held after the loss of control is remeasured at its fair value at the date when control is lost, with any resulting gain or loss recognized in profit or loss.

(ii) Associates

Associates are entities over which the Group has significant influence over the financial and operating policies, but not control or joint control.

The Group is presumed to have significant influence over another entity when the Group holds 20% or more but 50% or less of the voting rights of the other entity.

Investments in associates are accounted for using the equity method from the date on which the Group obtains significant influence until the date on which the Group loses significant influence. The fiscal year-end of associates coincides with that of the Company. When the accounting policies adopted by an associate differ from those of the Group, adjustments are made to the financial statements of the associate as necessary.

Under the equity method, investments are initially measured at cost and subsequently adjusted to reflect the Group's share of the post-acquisition changes in the associate's net assets. The Group's share of the associate's profit or loss is recognized in the Group's profit or loss. The Group's share of the associate's other comprehensive income is recognized in the Group's other comprehensive income. Profits from significant internal transactions are eliminated in proportion to the Group's ownership interest in the associate.

Goodwill arising from the acquisition of interests in associates is included in the carrying amount of the investment and is tested

for impairment on the investment accounted for using the equity method as a whole. When there is an indication that an investment may be impaired, an impairment test is performed by comparing the carrying amount of the entire investment with its recoverable amount (the higher of value in use and fair value less costs of disposal). Reversals of such impairment losses are recognized to the extent that the recoverable amount of the investment subsequently increases.

(iii) Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities that the Group controls and consolidates include share-based payment trusts established under the share-based payment trust system for officers and employees.

(2) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured as the aggregate of the fair values at the acquisition date of assets transferred, liabilities assumed and equity instruments issued by the Company in exchange for control of the acquiree. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured, in principle, at their fair values at the acquisition date.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net amount of the identifiable assets and liabilities at the acquisition date. If this difference is negative, it is immediately recognized in profit or loss.

Transaction costs incurred in connection with a business combination, such as intermediary fees, legal fees, and due diligence costs, are expensed as incurred.

If the initial accounting for a business combination is incomplete by the end of the fiscal year in which the business combination occurs, the items for which the accounting is incomplete are reported at provisional amounts. If information is obtained during the measurement period that would have affected the measurement of amounts recognized as of the acquisition date had it been known at that time, the provisional amounts recognized at the acquisition date are adjusted retrospectively. When new information results in the recognition of additional assets and liabilities, the additional assets and liabilities are recognized. The measurement period is a maximum of one year.

(3) Foreign currency translation

(i) Foreign currency transactions

The financial statements of each Group company are prepared in the functional currency, which is the currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of each Group company at the exchange rate prevailing on the transaction date or at a rate that approximates it. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into the functional currency at the exchange rate prevailing at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate prevailing on the date when the fair value was determined. Exchange differences arising from such translation or settlement are recognized in profit or loss. However, exchange differences arising from equity financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

(ii) Foreign operations

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising from acquisition) are translated at the closing rate, and income and expenses are translated at exchange rates approximating those at the transaction dates, with exchange differences on translation of foreign operations recognized in other comprehensive income.

Upon disposal of a foreign operation, the exchange differences on translation of the foreign operation that were recognized in other comprehensive income and accumulated in equity are reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

(4) Financial instruments

(i) Non-derivative financial assets

i. Initial recognition and measurement

The Group initially recognizes financial assets when it becomes a party to the contract and classifies them as either: (a) financial assets measured at amortized cost, (b) debt financial assets measured at fair value through other comprehensive income, (c) equity financial assets measured at fair value through other comprehensive income, or (d) financial assets measured at fair value through profit or loss. This classification is determined at initial recognition.

At initial recognition, all financial assets are measured at fair value plus, in the case of a financial asset not classified as measured at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial asset. Transaction costs related to financial assets measured at fair value through profit or loss are recognized in profit or loss.

(a) Financial assets measured at amortized cost

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

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- 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.

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

Debt financial assets are classified as financial assets measured at fair value through other comprehensive income when both of the following conditions are met:

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

(c) Equity financial assets measured at fair value through other comprehensive income

Equity financial assets such as shares held primarily for the purpose of maintaining or strengthening business relationships with investees and enhancing corporate value are designated at initial recognition as financial assets measured at fair value through other comprehensive income, and this designation is applied consistently.

(d) Financial assets measured at fair value Through Profit or Loss

Financial assets other than those in (a), (b), and (c) above are classified as financial assets measured at fair value through profit or loss.

ii. Subsequent measurement

Financial assets are subsequently measured after initial recognition according to their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at the gross carrying amount determined using the effective interest method, less any loss allowance.

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

After initial recognition, they are measured at fair value. Among the subsequent changes, foreign exchange gains and losses, impairment gains or losses, and interest income based on the effective interest method are recognized in profit or loss, while other changes are recognized in other comprehensive income. When derecognized, the cumulative amount of gains or losses recognized through other comprehensive income is reclassified from other components of equity to profit or loss as a reclassification adjustment.

(c) Equity financial assets measured at fair value through other comprehensive income

Subsequent changes in the fair value of equity financial assets such as shares are recognized in other comprehensive income. When such financial assets are disposed of, the cumulative amount of gains or losses recognized through other comprehensive income is transferred from other components of equity to retained earnings.

Note that dividends from such financial assets are recognized as profit or loss for the period and included in "Finance income."

(d) Financial assets measured at fair value through profit or loss

Subsequent changes in the fair value of the relevant financial assets are recognized in profit or loss.

iii. Impairment of Financial Assets

Loss allowances are recognized for expected credit losses on financial assets measured at amortized cost.

Loss allowances are measured based on an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition at each reporting date.

If the credit risk on a financial asset has not increased significantly since initial recognition, the loss allowance for that financial asset is measured at an amount equal to 12-month expected credit losses. On the other hand, if the credit risk on a financial asset has increased significantly since initial recognition, the loss allowance for that financial asset is measured at an amount equal to lifetime expected credit losses. Whether the credit risk on a financial asset has increased significantly since initial recognition is determined by comparing the risk of default at initial recognition with the risk of default at each quarter-end. This takes into consideration available reasonable and supportable forward-looking information, including information on past due status.

A default is deemed to have occurred when events that adversely affect the estimated cash flows of a financial asset arise, such as significant financial difficulty of the issuer or borrower, or contractual payments being more than 90 days past due.

When a default is identified, it is determined that objective evidence of credit impairment exists and the asset is classified as a credit-impaired financial asset.

However, for trade and other receivables, the loss allowance is always measured at an amount equal to lifetime expected credit losses.

Expected credit losses on financial instruments are estimated using methods that reflect historical credit loss experience. The amount of such measurement is recognized in profit or loss. When a bad debt is legally confirmed, the expected credit loss is written off directly from the carrying amount. If an event occurs after the recognition of an impairment loss that reduces the impairment loss, the decrease in the impairment loss is reversed through profit or loss.

iv. Derecognition of financial assets

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

(ii) Non-derivative financial liabilities

i. Initial recognition and measurement

The Group classifies financial liabilities as either: (a) financial liabilities measured at amortized cost or (b) financial liabilities measured at fair value through profit or loss. This classification is determined at initial recognition.

Financial liabilities measured at amortized cost are measured at fair value, less transaction costs directly attributable to the liability, while financial liabilities measured at fair value through profit or loss are initially measured at fair value.

ii. Subsequent measurement

Financial liabilities are subsequently measured after initial recognition according to their classification as follows:

(a) Financial liabilities measured at amortized cost

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

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

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

Financial liabilities measured at fair value through profit or loss are measured at fair value, and subsequent changes are recognized in profit or loss for the period.

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, cancelled, or expires.

(iii) Hedge accounting and derivatives

(a) Qualifying hedging instruments and hedged items

The Company engages in foreign exchange forward contracts as derivative transactions for the purpose of managing foreign exchange risk. At the inception of the hedge, the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy, are documented. In addition, the Company continuously evaluates whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows of the related hedged item during the hedged period. When a hedging relationship no longer meets the hedge effectiveness requirements relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the hedge ratio of the hedging relationship is adjusted so that it meets the qualifying criteria again, and hedge accounting is discontinued prospectively only when the hedging relationship no longer meets the qualifying criteria.

Derivatives to which hedge accounting is not applied are classified as “financial assets measured at fair value through profit or loss” or “financial liabilities measured at fair value through profit or loss” and are accounted for based on such classification.

(b) Cash flow hedges

For cash flow hedges, the effective portion of gains or losses on the hedging instrument is recognized in other comprehensive income as cash flow hedges, and the cumulative amount is included in other components of equity. The ineffective portion of gains or losses is recognized immediately in profit or loss.

Amounts accumulated in other components of equity are reclassified from other components of equity to profit or loss as reclassification adjustments in the same period when the hedged item affects profit or loss. However, when the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the amount accumulated in other components of equity is treated as an adjustment to the initial carrying amount of the non-financial asset or non-financial liability.

(5) Cash and cash equivalents

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

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories include purchase costs, conversion costs, and all other costs incurred in bringing the inventories to their present location and condition. The cost of inventories and work in process manufactured by the Group includes an allocation of manufacturing overheads based on the normal operating capacity. In determining cost, inventories are measured primarily using the weighted average method.

(7) Property, plant and equipment

Property, plant and equipment are measured using the cost model and are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to the acquisition of the asset, dismantling and removal costs, land restoration costs, and borrowing costs required to be capitalized.

When the useful lives of major components of an item of property, plant and equipment differ, each major component is accounted for separately as a distinct item of property, plant and equipment.

Subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from the derecognition of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized. The Group recognizes gains or losses arising from the derecognition of property, plant and equipment in "Other income" or "Other expenses" in the consolidated statement of profit or loss.

Depreciation of each asset other than land and construction in progress is calculated primarily using the straight-line method over the estimated useful lives.

The estimated useful lives of major asset categories are as follows:

- Buildings and structures 5–47 years
- Machinery and vehicles 4–12 years
- Tools, furniture and fixtures 2–10 years

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at the end of each fiscal year, and any changes are applied prospectively as changes in accounting estimates.

(8) Goodwill and intangible assets

(i) Goodwill

Goodwill arising from the acquisition of subsidiaries is stated in the consolidated statement of financial position at cost less accumulated impairment losses.

Goodwill is measured as the excess amount when the consideration transferred exceeds the net amount of identifiable assets and liabilities at the acquisition date. If this difference is negative, it is immediately recognized in profit or loss.

Goodwill is not amortized and is tested for impairment annually at the same time each year or whenever there is an indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of profit or loss and are not subsequently reversed.

(ii) 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 on initial recognition, and intangible assets recognized from business combinations are initially recognized at fair value at the acquisition date. The cost of intangible assets acquired in business combinations is measured at fair value as of the acquisition date. Internally generated intangible assets are recognized as assets only when they meet the criteria for capitalization, with all other expenditures being expensed when incurred.

Intangible assets are derecognized upon disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of intangible assets are calculated as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss upon derecognition. The Group recognizes gains or losses arising from the derecognition of property, plant and equipment in "Other income" or "Other expenses" in the consolidated statement of profit or loss.

Intangible assets with finite useful lives are amortized using the straight-line method over the useful life of the asset and tested for impairment whenever there is an indication of impairment. Amortization commences when the asset becomes available for use.

The estimated useful lives of major intangible assets are as follows:

- Software 5 years

The useful lives and amortization methods of intangible assets with finite useful lives are reviewed at the end of each fiscal year, and any changes are applied prospectively as changes in accounting estimates.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized but are tested for impairment annually or whenever there is an indication of impairment.

(9) Leases

The Group determines at contract inception whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Leases as lessee

The Group recognizes right-of-use assets and lease liabilities at the commencement date of the lease. Right-of-use assets are measured at cost at the commencement date, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right-of-use assets are depreciated using the straight-line method over the shorter of their useful life or the lease term, and are measured at cost less accumulated depreciation and accumulated impairment losses. The lease term is determined as the non-cancellable period of a lease, adjusted for any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

Lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date. The present value is calculated using the interest rate implicit in the lease if that rate can be readily determined; otherwise, the lessee's incremental borrowing rate is used. After the commencement date, the carrying amount of lease liabilities is adjusted to reflect interest on the lease liability and lease payments made. When a lease is reassessed or the lease terms are modified, the lease liability is remeasured, and the right-of-use asset is adjusted accordingly.

The Group applies IFRS 16 *Leases* paragraph 6 to short-term leases and leases of low-value assets, recognizing lease payments as an expense on a straight-line basis over the lease term. In addition, as a practical expedient, the Group has elected not to separate non-lease components from lease components and to account for lease components and related non-lease components as a single lease component.

(ii) Leases as lessor

Leases are classified as either operating leases or finance leases. When substantially all the risks and rewards incidental to ownership of the underlying asset are transferred, the lease is classified as a finance lease; when substantially all the risks and rewards incidental to ownership of the underlying asset are not transferred, the lease is classified as an operating lease. Whether a lease is a finance lease or an operating lease is determined based on the substance of the transaction rather than the form of the contract.

When the Group is a party to a sublease, the head lease (as lessee) and the sublease (as lessor) are accounted for separately. Classification of a sublease is determined by reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease accounted for applying the above exemption, the sublease is classified as an operating lease.

For finance leases, the net investment in the lease is recorded as a receivable at the amount of the unrecovered net lease investment through maturity at the time the lease is determined. Lease payments received are apportioned between finance income and repayment of principal. Lease receivables are measured at amortized cost using the effective interest method, and interest income using the effective interest method is recognized in profit or loss.

Lease payments from operating leases are recognized as income on a straight-line basis.

(10) Investment property

Investment property is property held to earn rental income or for capital appreciation or both. Investment property is stated at cost less accumulated depreciation and accumulated impairment losses, applying the cost model.

Investment property is depreciated principally using the straight-line method over the useful life of the depreciable amount, which is the cost of investment property less the residual value. The estimated useful lives of major investment property items are as follows:

- Buildings and structures 6–39 years

Land is not depreciated.

The residual values, useful lives and depreciation methods of investment property are reviewed at the end of each fiscal year, and any changes are applied prospectively as changes in accounting estimates.

(11) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets, other than inventories, deferred tax assets and retirement benefit assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated for each individual asset or cash-generating unit. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets through continuing use.

For goodwill and intangible assets with indefinite useful lives, or those not yet available for use, the recoverable amount is estimated whenever there is an indication of impairment and at the same time each year. When performing impairment tests for goodwill, goodwill is allocated to the cash-generating unit or group of cash-generating units that is expected to benefit from the synergies of the business combination, and impairment testing is then performed.

The recoverable amount is the higher of value in use and fair value less costs of disposal. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

Corporate assets do not generate independent cash inflows; therefore, if there is an indication of impairment of corporate assets, the recoverable amount of the cash-generating unit to which the corporate assets belong is calculated for assessment.

Impairment losses are recognized in profit or loss when the carrying amount of an asset or cash-generating unit exceeds the estimated recoverable amount. Impairment losses recognized in relation to a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

Impairment losses related to goodwill are not reversed. For non-financial assets other than goodwill, previously recognized impairment losses are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. If there has been a change in the estimates used to determine the recoverable amount, the impairment loss is reversed. The reversal of impairment loss is limited to the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized in prior years.

(12) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the time value of money and the risks specific to the liability.

The main provisions of the Group are as follows:

(i) Asset retirement obligations

For stores and other facilities with restoration obligations at the end of lease contracts, the estimated restoration costs are recognized as provisions for asset retirement obligations and are added to the cost of the relevant asset. Future estimated costs and the discount rate applied are reviewed annually, and if adjustments are deemed necessary, they are added to or deducted from the carrying amount of the asset and treated as changes in accounting estimates.

(ii) Provision for shareholder benefit program costs

Provision for shareholder benefit program costs is recognized to cover future expenses expected to arise from the use of shareholder benefit coupons. The provision is calculated based on the estimated utilization rate of the coupons and reflects the amount expected to be incurred after the end of the fiscal year.

(13) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are recognized as an expense when the related service is provided by employees, without discounting.

For bonuses and paid leave expenses, when the Group has a present legal or constructive obligation to pay as a result of past service provided by employees and a reliable estimate is possible, the amounts estimated under those plans are recognized as liabilities.

(ii) Post-employment benefits

The Company and certain consolidated subsidiaries have adopted defined contribution plans and defined benefit plans as retirement benefit plans.

(a) Defined contribution plans

Contributions payable to defined contribution plans are expensed when employees have rendered the related services.

(b) Defined benefit plans

The net defined benefit liability (asset) is the present value of the defined benefit obligation less the fair value of plan assets (including adjustments for the asset ceiling and minimum funding requirements, if necessary), and is recognized as retirement benefit asset or liability in the consolidated statement of financial position. The defined benefit obligation is calculated using the projected unit credit method, and its present value is calculated by applying a discount rate to expected future payments. The discount rate is determined by reference to market yields on high quality corporate bonds that have maturity dates approximating the terms of the benefit payments. Contributions to pension plans are calculated through periodic actuarial calculations and are usually paid to funds managed by insurance companies or trust companies.

Service costs and net interest on the net defined benefit liability (asset) are recognized in profit or loss. Actuarial gains and losses, return on plan assets excluding amounts included in net interest expense, and changes in the effect of the asset ceiling are recognized in other comprehensive income as remeasurements of defined benefit plans in the period in which they occur and are immediately reclassified from other components of equity to retained earnings. In addition, past service costs are recognized in profit or loss in the period of plan amendment or curtailment.

(14) Share-based payment

(i) Performance-linked share-based remuneration plan

The Company has adopted a performance-linked share-based remuneration plan to enhance awareness among the Company's directors of their contribution to the sustainable improvement of corporate value and shareholder value through improved medium- to long-term performance, and applies accounting treatment for equity-settled share-based payment transactions. Under the performance-linked share-based remuneration plan, the consideration for services received is measured at the fair value of the Company's shares on the grant date, recognized as an expense over the vesting period from the grant date, with a corresponding increase in equity. The conditions are reviewed periodically and estimates of the number of shares expected to vest are revised as necessary.

(ii) Employee share grant plan

The Group has adopted a share grant plan as an incentive plan for Group employees, and applies accounting treatment for equity-settled share-based payment transactions. Under the share grant plan, the consideration for services received is measured at the fair value of the Company's shares on the grant date, recognized as an expense over the vesting period from the grant date, with a corresponding increase in equity. The conditions are reviewed periodically and estimates of the number of shares expected to vest are revised as necessary.

(iii) Share-based payment trust (J-ESOP)

The Group has introduced a share-based payment trust (J-ESOP) as an incentive plan for Group employees, and applies accounting treatment for equity-settled share-based payment transactions.

Under the share-based payment trust (J-ESOP), services received are measured at the fair value of the Company's shares on the grant date, and recognized as an expense over the vesting period, with a corresponding increase in equity. The conditions are reviewed periodically and estimates of the number of shares expected to vest are revised as necessary.

(15) Equity

(i) Share capital and capital surplus

Equity instruments issued by the Company are recorded in share capital and capital surplus at the issue price. Transaction costs directly attributable to the issuance (net of tax) are deducted from equity.

(ii) Treasury shares

When treasury shares are acquired, they are recognized at cost and presented as a deduction from equity. No gain or loss is recognized on the purchase, sale or cancellation of the Company's treasury shares. The difference between the carrying amount and the consideration on sale is recognized as equity.

(16) Revenue

The Group recognizes revenue from contracts with customers, excluding interest and dividend income based on IFRS 9 Financial Instruments, at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to customers by applying the following steps: When consideration in a contract with a customer includes variable consideration, it is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The amount of variable consideration in the transaction price is not material.

Transaction consideration is received primarily within one year of satisfying performance obligations and does not include significant financing components.

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 performance obligation is satisfied.

The Group is primarily engaged in the development, manufacture and sale of furniture, interior goods and home center products, and its performance obligation is to sell products to customers. For these products, the Group determines that control of the products is transferred to customers and performance obligations are satisfied upon delivery of the products; therefore, revenue is recognized primarily upon delivery of the products. The Group also operates a loyalty program for member customers. Points granted to customers in connection with product sales are identified as performance obligations, and the amount of contract liabilities is calculated by allocating the transaction price based on the stand-alone selling price of the points calculated considering expected future forfeitures. Contract liabilities are reversed and revenue is recognized when points are used or forfeited.

(17) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(18) Income taxes

Income taxes comprise current tax and deferred tax. These are recognized in profit or loss, except for those related to business combinations and items recognized directly in equity or other comprehensive income.

(i) Current tax

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred tax is calculated based on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the end of the reporting period. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which they can be utilized, and deferred tax liabilities are recognized for taxable temporary differences in principle.

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

- Temporary differences arising from the initial recognition of goodwill
- Temporary differences arising from the initial recognition of assets or liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit at the time of the transaction and does not give rise to equal taxable and deductible temporary differences
- Taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future
- Deductible temporary differences associated with investments in subsidiaries and associates, where it is not probable that the temporary differences will reverse in the foreseeable future or it is not probable that taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be made available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized 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 based on tax laws) that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when:

- The income taxes are levied by the same taxation authority on the same taxable entity
- They are levied on different taxable entities, but these entities intend to settle current tax assets and current tax liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously

The Group applies the temporary exception in IAS 12 Income Taxes amended on May 23, 2023, and does not recognize or disclose deferred tax assets and liabilities related to income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organization for Economic Co-operation and Development (OECD).

(19) Earnings per share

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

(20) Segment information

An operating segment is a component of a business that engages in business activities from which it may earn revenues and incur expenses, including transactions with other operating segments. The operating results of all operating segments are reviewed regularly by the Company's Board of Directors to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available.

(21) Assets held for sale and discontinued operations

(i) Assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For an asset (or disposal group) to be classified as held for sale, the sale must be highly probable, and the asset must be available for immediate sale in its present condition, and Group management must be committed to the plan to sell the asset, which should be expected to be completed within one year.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, and depreciation or amortization on property, plant and equipment or intangible assets classified as such ceases.

(ii) Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and represents any of the following, in which case it is recognized as a discontinued operation:

- A separate major line of business or geographical area of operations
- Part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
- A subsidiary acquired exclusively with a view to resale

When an operation is classified as a discontinued operation, the Consolidated Statement of Profit or Loss is re-presented as if the operation had been discontinued from the start of the comparative period.

4. Significant accounting estimates and judgments

In preparing the consolidated financial statements in accordance with IFRS, management is required to make judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions are based on management's best judgment, which is based on historical experience and various factors that are believed to be reasonable under the circumstances as of the reporting date, including available information. However, by their nature, actual results may differ from these estimates and assumptions. Estimates and underlying assumptions are reviewed on an ongoing basis, and the effects of changes in accounting estimates are recognized in the accounting period in which the estimate is revised and in future accounting periods.

The following items involve estimates that carry a risk of material adjustment to the carrying amounts of assets and liabilities in the next fiscal year:

(1) Impairment of non-financial assets

The Group tests property, plant and equipment (including right-of-use assets) and intangible assets for impairment when there is an indication of impairment for each asset or cash-generating unit. However, goodwill is tested for impairment annually and whenever indicators of impairment are identified, and impairment losses are recognized when the recoverable amount is less than the carrying amount. The recoverable amount is measured at the higher of value in use or fair value less costs of disposal.

The Group determines the recoverable amount for property, plant and equipment (including right-of-use assets) and intangible assets principally by store as the cash-generating unit.

The above estimates of recoverable amounts are determined based on management's best estimates and judgment, but may be affected by changes in uncertain future economic conditions, and if revisions are necessary, they may have a material impact on the amounts recognized in the consolidated financial statements for the following fiscal year and thereafter.

The assets of subsidiaries belonging to the Mainland China business as a whole were judged to have indicators of impairment due to declining profitability of stores in China resulting from the stagnation of the real estate market and other factors, and impairment tests were performed. As a result of the review, no impairment loss was recognized as the value in use exceeded the carrying amount. The business plan for the Mainland China business incorporates significant assumptions including future increases in the number of stores and growth in sales per store. Regarding these estimates, store development and operations in the Mainland China business are more novel compared to the domestic business, and if estimates need to be revised due to changes in uncertain future economic conditions, impairment losses may occur in the consolidated financial statements for the following fiscal year and thereafter.

The Mainland China business includes property, plant and equipment of ¥11,725 million and intangible assets of ¥54 million.

For details and amounts related to impairment of property, plant and equipment (including right-of-use assets) and intangible assets, refer to Note "12. Goodwill and intangible assets (2) Impairment testing of cash-generating units and groups of cash-generating units, including goodwill," and Note "16. Impairment of non-financial assets."

(2) Determination of lease term

The Group determines lease term by adding to the non-cancellable period of a lease any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Specifically, the Group estimates lease terms considering the existence of options to extend or terminate leases and the

likelihood of their exercise, the existence of termination penalties, and other factors. These may result in material adjustments to the amounts of right-of-use assets and lease liabilities due to changes in uncertain future economic conditions or the business environment upon contract renewal.

For details on the determination of lease terms, refer to Note “3. Significant Accounting Policies (9) Leases,” and for details and amounts related to right-of-use assets and lease liabilities, refer to Note “13. Leases.”

(3) Recoverability of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. In recognizing deferred tax assets, the Group reasonably estimates the timing and amount of future taxable profit that can be obtained in determining the probability of taxable profit arising, and calculates the amount.

The timing and amount of taxable profit underlying these estimates may differ from the actual timing and amount of taxable profit due to changes in uncertain future economic conditions, which may result in different assessments of the recoverability of deferred tax assets.

For details and amounts related to deferred tax assets, refer to Note “17. Income tax.”

(4) Measurement of defined benefit obligations

The present value of defined benefit obligations and related service costs are calculated based on actuarial assumptions. Actuarial assumptions require estimates and judgments regarding various variables, including discount rates and expected salary increase rates. Actuarial assumptions are determined based on management’s best estimates and judgment, but may be affected by changes in uncertain future economic conditions or amendments to or promulgation of related laws and regulations, and if revisions are necessary, they may have a material impact on the amounts recognized in the consolidated financial statements for the following fiscal year and thereafter.

For details and amounts related to defined benefit obligations, refer to Note “21. Employee benefits.”

5. Segment information

(1) Overview of reportable segments

The Group’s reportable segments are those units of the Group for which discrete financial information is available, and which are subject to periodic review by the Company’s Board of Directors for the purpose of determining the allocation of management resources and evaluating their performance.

The Group consists of two reportable segments based on two core operating companies: NITORI Business and SHIMACHU Business.

Description of reportable segments

Reportable segment	Business description
NITORI Business	Development, manufacturing, and sales of furniture and interior goods, as well as real estate leasing, advertising services, and logistics services.
SHIMACHU Business	Sales of furniture, interior goods, and home improvement products, etc.

(2) Information on reportable segments

Accounting policies for the reported business segments are generally the same as those used to prepare the consolidated financial statements.

The following shows information for each of the Group's reportable segments. Profits of reportable segments are calculated on an operating profit basis. Inter-segment transactions are based on the prevailing market prices.

As of April 1, 2023 (Transition date)

(Millions of yen)

	Reportable segment			Adjustments (Note)	Consolidated
	NITORI Business	SHIMACHU Business	Total		
Segment assets	1,049,940	289,032	1,338,973	(19,614)	1,319,358
Investments in equity-method entities	22,291	–	22,291	–	22,291

Note: Adjustments to segment assets are based on the elimination of inter-segment transactions.

For the fiscal year ended March 31, 2024

(Millions of yen)

	Reportable segment			Adjustments (Notes 1&2)	Consolidated
	NITORI Business	SHIMACHU Business	Total		
Revenue					
Retail store sales	658,950	109,514	768,465	–	768,465
E-commerce sales	88,535	778	89,314	–	89,314
Other	22,261	261	22,522	–	22,522
Revenue from contracts with customers	769,747	110,554	880,302	–	880,302
Other revenue (Note 3)	7,955	8,409	16,365	–	16,365
Revenue from sales to external customers	777,703	118,964	896,667	–	896,667
Intersegment revenue	8,603	299	8,902	(8,902)	–
Total	786,306	119,263	905,570	(8,902)	896,667
Segment profit (loss)	128,638	(4,376)	124,261	13	124,274
Finance income					3,057
Finance costs					2,492
Profit before tax					124,838
Segment assets	1,145,080	280,287	1,425,367	(14,075)	1,411,292
Other items					
Depreciation and amortization	51,446	9,635	61,082	–	61,082
Impairment losses (Note 4)	5,256	11,053	16,309	–	16,309
Investments in equity-method entities	22,979	–	22,979	–	22,979
Capital expenditures	124,531	12,994	137,525	–	137,525

- Notes: 1. Adjustments to segment revenue and segment profit are due to elimination of intersegment transactions.
2. Adjustments to segment assets represent the elimination of inter-segment transactions.
3. Other revenue consists primarily of operating lease revenue, which is broken down in Note 13, “Leases (2) Leases as lessor,” and Note 14, “Investment property.”
4. Details regarding impairment losses are provided in Note 16, “Impairment of non-financial assets.”

For the fiscal year ended March 31, 2025

(Millions of yen)

	Reportable segment			Adjustments (Notes 1&2)	Consolidated
	NITORI Business	SHIMACHU Business	Total		
Revenue					
Retail store sales	678,817	109,400	788,217	–	788,217
E-commerce sales	96,823	782	97,606	–	97,606
Other	26,012	238	26,250	–	26,250
Revenue from contracts with customers	801,652	110,421	912,073	–	912,073
Other revenue (Note 3)	8,031	8,722	16,754	–	16,754
Revenue from sales to external customers	809,684	119,143	928,828	–	928,828
Intersegment revenue	11,202	452	11,654	(11,654)	–
Total	820,886	119,596	940,483	(11,654)	928,828
Segment profit (loss)	118,975	(1,288)	117,686	(21)	117,665
Finance income					3,019
Finance costs					3,236
Profit before tax					117,448
Segment assets	1,268,711	279,085	1,547,796	(18,375)	1,529,421
Other items					
Depreciation and amortization	56,915	9,227	66,143	–	66,143
Impairment losses (Note 4)	5,423	8,571	13,994	–	13,994
Investments in equity-method entities	24,772	–	24,772	–	24,772
Capital expenditures	122,565	1,319	123,885	–	123,885

- Notes: 1. Adjustments to segment revenues and segment profits are due to elimination of intersegment transactions.
2. Adjustments to segment assets represent the elimination of inter-segment transactions.
3. Other revenue consists primarily of operating lease revenue, which is broken down in Note “13. Leases (2) Leases as lessor,” and Note “14. Investment property.”
4. Details regarding impairment losses are provided in Note “16. Impairment of non-financial assets.”

(3) Information on products and services

Since the classification of products and services is the same as that of the reportable segments, information on products and services is omitted.

(4) Information regarding geographic areas

(i) Sales revenue from external customers

Since revenue from external customers in Japan account for most of the Group's net sales, this information is omitted.

(ii) Non-current assets

Since the amount of non-current assets located in Japan accounts for most of the non-current assets in the consolidated statement of financial position, this information is omitted.

(5) Information about major customers

Since there is no customer that accounts for 10% or more of net sales from external customers in the consolidated statements of profit or loss, this information has been omitted.

6. Cash and cash equivalents

Cash and cash equivalents consist of the following.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	(Millions of yen) As of March 31, 2025
Cash and deposits	110,894	111,611	125,907
Time deposits with maturities of three months or less	12,987	6,367	10,093
Total	<u>123,881</u>	<u>117,978</u>	<u>136,001</u>

- Notes: 1. The balances of “Cash and cash equivalents” presented in the consolidated statements of financial position as of April 1, 2023 (transition date), March 31, 2024, and March 31, 2025 are consistent with the corresponding balances of “Cash and cash equivalents” presented in the consolidated statements of cash flows.
2. The Company did not have significant cash and cash equivalents subject to withdrawal restrictions in the previous and current fiscal years.
3. Cash and cash equivalents are classified as financial assets measured at amortized cost.

7. Trade and other receivables

The breakdown of trade and other receivables is as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	(Millions of yen) As of March 31, 2025
Notes and accounts receivable – trade	56,717	78,788	71,006
Accounts receivable – other	9,360	11,736	8,876
Lease receivables	622	627	632
Total	<u>66,700</u>	<u>91,152</u>	<u>80,515</u>

Note: Trade and other receivables, excluding lease receivables, are classified as financial assets measured at amortized cost.

8. Other financial assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Other financial assets (current):			
Financial assets measured at amortized cost			
Time deposits	12,520	23,602	25,421
Other	253	130	93
Total	<u>12,773</u>	<u>23,733</u>	<u>25,515</u>
Other financial assets (non-current):			
Financial assets measured at fair value through profit or loss			
Investments in capital	430	427	365
Other	158	169	157
Financial assets measured at amortized cost			
Lease and security deposits	45,248	46,166	44,931
Other	5,114	3,480	3,861
Financial assets measured at fair value through other comprehensive income			
Shares	17,012	21,291	24,701
Other	7	–	–
Lease receivables	6,395	5,768	5,136
Total	<u>74,367</u>	<u>77,304</u>	<u>79,151</u>

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

Stocks and other securities are equity financial assets, and are classified as financial assets measured at fair value through other comprehensive income because they are held for the purpose of expanding the Company's revenue base by maintaining and strengthening relationships with business partners.

(i) Principal equity securities and fair value

The major equity securities and fair values of equity financial assets measured at fair value through other comprehensive income are as follows.

	(Millions of yen)		
Equity securities	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
EDION Corporation	13,109	15,829	19,183
Sumitomo Realty & Development Co., Ltd.	1,145	2,226	2,147
AIN Holdings Inc.	1,110	1,105	1,007
Other	1,648	2,131	2,362
Total	<u>17,012</u>	<u>21,291</u>	<u>24,701</u>

(ii) Dividend income

The breakdown of dividend income related to equity financial assets measured at fair value through other comprehensive income is as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Financial assets derecognized during the period	0	–
Financial assets held as of the closing date	521	555
Total	521	555

(iii) Equity financial assets measured at fair value through other comprehensive income that have been derecognized

The fair value upon derecognition of equity financial assets measured at fair value through other comprehensive income that were derecognized during the period, and the cumulative gain or loss (before tax), are as follows.

These were derecognized in the previous and current fiscal years when a portion of the equity financial assets measured at fair value through other comprehensive income were disposed of by sale, mainly for the purpose of reassessing business relationships.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Fair value upon derecognition	2	–
Cumulative gain or loss upon derecognition	0	–

(iv) Transfer to retained earnings

The Group transfers the cumulative profit or loss from changes in the fair value of equity financial assets measured at fair value through other comprehensive income to retained earnings when the assets are derecognized. Accumulated losses in other comprehensive income transferred to retained earnings (after tax) amounted to ¥(0) million for the previous fiscal year. There is no applicable information for the current fiscal year.

9. Inventories

The breakdown of inventories is as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Merchandise and products	110,502	98,825	106,235
Work in progress	642	728	766
Raw materials and supplies	6,311	5,946	5,748
Total	117,456	105,500	112,750

- Notes: 1. The amounts of inventories recognized as expenses for the previous and current fiscal years are ¥429,590 million and ¥446,050 million, respectively.
2. Inventory write-downs recognized as expenses for the previous and current fiscal years were ¥704 million and ¥612 million, respectively.
3. There were no inventories pledged as collateral for liabilities or inventories expected to be recovered beyond 12 months during the previous and current fiscal years.

10. Other assets

The breakdown of other assets is as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
(Millions of yen)			
Current assets:			
Prepaid expenses	4,807	5,082	5,592
Consumption taxes refund receivable	4,154	771	1,826
Other	2,175	1,675	2,469
Total	11,137	7,528	9,888
Non-current assets:			
Long-term prepaid expenses	2,295	1,866	1,423
Total	2,295	1,866	1,423

11. Property, plant and equipment

(1) Schedule of changes

Changes in the carrying amount, cost, accumulated depreciation, and accumulated impairment loss of property, plant and equipment are as follows.

Carrying amount

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
(Millions of yen)						
Balance at April 1, 2023	390,309	307,030	8,185	12,552	38,104	756,182
Acquisition	21,134	20,681	980	4,435	97,445	144,677
Depreciation	(11,153)	(41,710)	(2,364)	(2,010)	–	(57,238)
Impairment losses	(11,225)	(4,880)	(6)	(162)	–	(16,273)
Sale or disposal	(3,108)	(625)	(31)	(28)	–	(3,794)
Transfer of accounts	6,706	71,398	3,773	311	(90,365)	(8,174)
Foreign currency exchange differences	736	1,676	410	57	119	3,000
Other	(249)	(3,166)	5	118	(998)	(4,291)
Balance at March 31, 2024	393,150	350,403	10,953	15,274	44,306	814,087
Acquisition	71,615	42,245	2,444	3,048	46,604	165,958
Depreciation	(11,358)	(46,377)	(2,792)	(2,327)	–	(62,855)
Impairment losses	(7,098)	(6,341)	(6)	(504)	–	(13,951)
Sale or disposal	(189)	(802)	(91)	(120)	–	(1,203)
Transfer of accounts	12,752	37,938	8,338	153	(62,831)	(3,649)
Foreign currency exchange differences	(120)	88	(58)	101	(146)	(134)
Other	(627)	7,699	148	11	(360)	6,870
Balance at March 31, 2025	458,123	384,852	18,935	15,637	27,571	905,121

Notes: 1. Construction in progress includes expenses related to property, plant and equipment under construction.

2. Depreciation of property, plant and equipment is included in the consolidated statement of profit or loss under “Cost of sales” and “Selling, general and administrative expenses.”

3. Impairment losses are included in “Other expenses” in the consolidated statement of profit or loss. For details regarding impairment losses, see Note “16. Impairment of non-financial assets.”

Cost

	(Millions of yen)					
	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at April 1, 2023	403,675	511,321	22,177	29,070	38,104	1,005,340
Balance at March 31, 2024	428,797	598,675	27,658	33,601	44,306	1,133,038
Balance at March 31, 2025	509,471	667,430	38,100	35,798	27,571	1,278,372

Accumulated depreciation and accumulated impairment losses

	(Millions of yen)					
	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at April 1, 2023	(13,366)	(205,280)	(13,992)	(16,518)	–	(249,157)
Balance at March 31, 2024	(35,646)	(248,271)	(16,704)	(18,326)	–	(318,950)
Balance at March 31, 2025	(51,347)	(282,577)	(19,165)	(20,161)	–	(373,251)

(2) Property, plant and equipment pledged as collateral

Property, plant and equipment pledged as collateral for borrowings and other debts, and corresponding liabilities are as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Assets pledged as collateral			
Property, plant and equipment			
Buildings and structures	3,388	3,163	3,000
Other financial assets			
Lease and security deposits	39	38	34
Total	3,428	3,202	3,034
Corresponding liabilities			
Trade and other payables	41	40	36
Other financial liabilities			
Leasehold and guarantee deposits received	1,266	1,168	1,089
Total	1,307	1,208	1,125

(3) Breakdown of carrying amount of right-of-use assets

The breakdown of the carrying amount of right-of-use assets included in the carrying amount of property, plant and equipment is as follows.

	(Millions of yen)				
	Classification of underlying assets				
	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Total
Balance at April 1, 2023	119,063	120,407	1,213	372	241,057
Balance at March 31, 2024	115,617	107,848	941	263	224,671
Balance at March 31, 2025	119,290	124,686	632	358	244,967

Note: The increase in right-of-use assets was ¥26,043 million in the previous fiscal year and ¥54,589 million in the current fiscal year.

(4) Borrowing costs

Borrowing costs capitalized as a component of the cost of qualifying assets totaled ¥106 million for the current fiscal year. The capitalization rate applied for this calculation was 0.67% for the current fiscal year.

12. Goodwill and intangible assets

(1) Schedule of changes

Changes in the carrying amount, cost, accumulated amortization, and accumulated impairment loss of goodwill and intangible assets are as follows.

Carrying amount

					(Millions of yen)
	Goodwill	Intangible assets		Total	Total goodwill and intangible assets
		Software	Other		
Balance at April 1, 2023	–	7,002	103	7,105	7,105
Individual acquisitions	–	3,226	0	3,227	3,227
Amortization	–	(2,608)	(2)	(2,611)	(2,611)
Impairment losses	–	(7)	(0)	(8)	(8)
Disposal	–	(4)	–	(4)	(4)
Transfer of accounts	–	28	–	28	28
Foreign currency exchange differences, etc.	–	11	(0)	10	10
Other	–	(54)	0	(54)	(54)
Balance at March 31, 2024	–	7,593	100	7,693	7,693
Individual acquisitions	–	3,944	0	3,945	3,945
Amortization	–	(2,078)	(2)	(2,080)	(2,080)
Impairment losses	–	(15)	(0)	(16)	(16)
Disposal	–	(0)	–	(0)	(0)
Transfer of accounts	–	(194)	–	(194)	(194)
Foreign currency exchange differences, etc.	–	4	(0)	4	4
Other	–	(29)	3	(26)	(26)
Balance at March 31, 2025	–	9,224	99	9,324	9,324

Note: The amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

Cost

					(Millions of yen)
	Goodwill	Intangible assets		Total	Total goodwill and intangible assets
		Software	Other		
Balance at April 1, 2023	19,619	26,156	134	26,291	45,910
Balance at March 31, 2024	19,619	29,342	134	29,476	49,096
Balance at March 31, 2025	19,619	30,245	136	30,381	50,001

Accumulated amortization and accumulated impairment losses

					(Millions of yen)
	Goodwill	Intangible assets		Total	Total goodwill and intangible assets
		Software	Other		
Balance at April 1, 2023	(19,619)	(19,154)	(31)	(19,185)	(38,804)
Balance at March 31, 2024	(19,619)	(21,748)	(34)	(21,783)	(41,403)
Balance at March 31, 2025	(19,619)	(21,020)	(36)	(21,056)	(40,676)

(2) Impairment testing of cash-generating units and groups of cash-generating units, including goodwill

Goodwill arising from a business combination is allocated to the cash-generating unit or group of cash-generating units that will benefit from the synergies that result. Goodwill for the Group was generated from the acquisition of the Shimachu business and is allocated to the Shimachu business.

The Group tests goodwill for impairment each period or any time there is an indication of impairment. The recoverable amount in impairment tests of the Shimachu business is calculated based on its value in use.

The value in use is calculated by discounting estimated cash flows based on the business plan approved by management for the next five fiscal years to current value using the discount rate (weighted average cost of equity before taxes) of 6.5% for the cash-generating unit concerned. The business plan reflects management's assessment of future industry trends and historical data, and is based on both external

and internal information. Cash flows for periods beyond the period of the business plan are calculated based on a growth rate of 1.0%, taking into consideration the long-term average growth rate of the market or country to which the cash-generating unit belongs, and do not exceed the average long-term market growth rate.

At the date of transition, the Company conducted an impairment test of goodwill, and as a result, the recoverable amount of the cash-generating unit or group of cash-generating units was less than the carrying amount, and the goodwill arising from the acquisition of the Shimachu business was impaired by ¥19,619 million.

13. Leases

(1) Leases as lessee

The Group leases real estate (land and buildings) mainly for stores and sales offices. The Group is not subject to any material purchase options, escalation clauses, or restrictions imposed by the lease agreements (restrictions on dividends, additional borrowings, additional leases, etc.).

(i) Amounts recognized in profit or loss

The breakdown of gains and losses recognized in profit or loss from leases is as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Depreciation of right-of-use assets		
Land	11,153	11,358
Buildings and structures	24,276	26,424
Machinery, equipment and vehicles	462	439
Tools, furniture and fixtures	100	135
Total	35,992	38,358
Interest expense on lease liabilities	2,093	2,388
Short-term lease expenses	3,254	2,890
Lease expenses for low-value assets	109	151
Expenses for variable lease payments not included in the measurement of lease liabilities (Note)	8,899	9,315

Note: Variable lease payments are mainly related to lease payments linked to store performance under store-opening contracts.

(ii) Total cash outflows

Total cash outflows related to leases are as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Total cash outflows related to leases	50,173	52,065

(iii) Right-of-use assets and lease liabilities

The breakdown of the carrying costs of right-of-use assets and increases in the carrying costs are provided in Note “11. Property, plant and equipment.” The maturity analysis of lease liabilities is shown in Note “34. Financial instruments (2) (ii) Liquidity risk management.”

(iv) Extension and termination options

Some of the Group's leased properties have termination options. These mainly relate to real estate lease contracts for stores and sales offices, most of which have early termination options upon written notice to the other party within a certain period of time prior to the expiration of the contract (e.g. six months). At the start of the lease, the Company determines the lease term based on the exercisability of the cancellation option, taking into consideration past experience of exercising cancellation options and economic incentives such as the importance of the underlying asset to the Company group. This evaluation is reviewed whenever there is an event or a material change in facts and circumstances that would affect this evaluation.

(v) Lease agreements that the lessee has entered into but have not yet started

The amounts of future cash outflows potentially exposed by leases that have already been contracted but have not yet started, and that are not reflected in the calculation of lease liabilities as of the transition date, in the previous fiscal year, and in the current fiscal year are ¥8,555 million, ¥8,975 million, and ¥8,330 million, respectively.

(2) Leases as lessor

(i) Income from lease contracts

Income from lease contracts in which the Group acts as lessor is as follows. Lease income related to investment real estate is shown in Note "14. Investment property."

(Millions of yen)

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Finance leases		
Finance income on net investment in the lease	59	54
Operating leases		
Lease income	15,120	14,948
Income from variable lease payments	120	111

(ii) Maturity analysis of lease payments receivable

(a) Operating leases

The Group leases tenant space in certain stores under operating leases as lessor. The maturity analysis of the undiscounted lease payments receivable related to operating leases is as follows.

(Millions of yen)

	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Less than 1 year	13,368	13,324	12,747
1-2 years	12,398	11,552	10,762
2-3 years	10,870	9,798	9,904
3-4 years	9,198	8,919	8,797
4-5 years	8,346	7,813	7,378
More than 5 years	40,630	35,080	36,607
Total undiscounted lease payments receivable	94,812	86,489	86,198

(b) Finance leases

The Group leases tenant space and vehicles in certain stores under finance leases as lessor. The maturity analysis of undiscounted lease payments receivable under finance leases and a reconciliation of total undiscounted lease payments receivable to net investment in the lease are as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	(Millions of yen) As of March 31, 2025
Less than 1 year	682	682	682
1-2 years	682	682	682
2-3 years	682	682	649
3-4 years	682	649	492
4-5 years	649	492	445
More than 5 years	4,073	3,581	3,135
Total undiscounted lease payments receivable	7,452	6,770	6,088
Discounted non-guaranteed residual value	–	–	–
Unearned finance income	(433)	(374)	(319)
Net investment in the lease	7,018	6,395	5,768

14. Investment property

(1) Schedule of changes

Changes in the carrying amount, cost, accumulated depreciation, accumulated impairment loss, and fair value of investment properties are as follows.

Carrying amount

	(Millions of yen) Investment property
Balance at April 1, 2023	82,404
Acquisition	15,016
Depreciation	(1,232)
Balance at March 31, 2024	96,189
Acquisition	988
Depreciation	(1,206)
Other	81
Balance at March 31, 2025	96,051

Cost

	(Millions of yen) Investment property
Balance at April 1, 2023	90,258
Balance at March 31, 2024	105,284
Balance at March 31, 2025	106,354

Accumulated depreciation and accumulated impairment losses

	(Millions of yen) Investment property
Balance at April 1, 2023	(7,853)
Balance at March 31, 2024	(9,095)
Balance at March 31, 2025	(10,302)

Fair value

(Millions of yen)

	Fair value
Balance at April 1, 2023	101,271
Balance at March 31, 2024	110,949
Balance at March 31, 2025	114,170

(2) Method used to calculate fair value

The fair value of significant investment properties is based on real estate appraisals by outside real estate appraisers, as well as market evidence that reflects the market value of similar assets according to the valuation standards of the country in which the property is located. The fair value hierarchy of investment properties is Level 3. The fair value hierarchy is described in Note “35. Fair value of financial instruments.”

(3) Gains and losses on investment properties

The amounts of rental income and expenses from investment properties are as follows.

Rental income represents lease income from operating leases (as lessor) in accordance with IFRS 16 *Leases*.

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Rental income	5,538	5,109
Rental cost	(2,954)	(2,356)
Rental profit or loss	2,584	2,752

Note: Rental income is recorded under “Other income” in the consolidated statement of profit or loss. Rental expenses are the costs associated with rental income (depreciation, maintenance, insurance premiums, taxes and other public charges, etc.) and are included in “Cost of sales,” “Selling, general and administrative expenses,” and “Other expenses” in the consolidated statement of profit or loss. No amounts were recognized as net income or loss arising from investment properties that did not generate rental income.

15. Investments accounted for using equity method

(1) Carrying amounts of investments in associates that are individually immaterial

The carrying amounts of investments in associates that are individually immaterial are as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Total carrying amount	22,291	22,979	24,772

(2) Share of profit, other comprehensive income, and comprehensive income of individually insignificant associates

The shares of profit, other comprehensive income, and comprehensive income of individually insignificant associates are as follows.

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Share of profit for the period	2,078	3,265
Share of comprehensive income for the period	2,078	3,265

16. Impairment of non-financial assets

The Group recognized impairment losses on store assets, etc., as they were no longer expected to generate the originally projected earnings. The breakdown by category of assets for which impairment losses were recognized is as follows.

(Millions of yen)

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Land	11,225	7,098
Buildings and structures	4,880	6,341
Machinery, equipment, and vehicles	6	6
Tools, furniture and fixtures	162	504
Total property, plant and equipment	16,273	13,951
Software	7	15
Other	0	0
Total intangible assets	7	16
Other non-current assets (long-term prepaid expenses, etc.)	27	25
Total impairment losses	16,309	13,994

The Group recognized impairment losses of ¥16,309 million in the previous fiscal year and ¥13,994 million in the current fiscal year. These are included under “Other expenses” in the consolidated statement of profit or loss.

For the fiscal year ended March 31, 2024

Of the ¥16,309 million impairment loss, ¥16,302 million was due to a decline in profitability of store assets, etc., with the carrying amount of such assets reduced to the recoverable amount.

Asset groupings are based on the smallest cash-generating unit that generates cash inflows which are generally independent of the business type, and the recoverable amount is the larger of the value in use or the fair value minus the cost of disposal.

The value in use is determined by discounting cash flows at the discount rates generally between 5.5% and 13.0% (pre-tax) based on management-approved projections and growth rates. Projections are generally limited to five years, and growth rates that exceed the long-term average growth rate of the market are not used. Discount rates (pre-tax) are calculated primarily based on the weighted average cost of capital. The fair value is calculated based on appraisals by external independent real estate appraisers in accordance with the valuation standards of the country in which the property is located, and is classified as Level 3 in the fair value hierarchy.

The main cash-generating units for which impairment losses were recognized are as follows.

Business segment	Region	Cash-generating unit	Category
NITORI Business	Japan	Nitori stores, DECOHOME stores, N+ stores	Buildings and structures, right-of-use assets, etc.
	Mainland China	Nitori stores	Buildings and structures, tools, furniture, and fixtures
SHIMACHU Business	Japan	Shimachu stores	Land, buildings and structures, right-of-use assets, etc.

For the fiscal year ended March 31, 2025

The impairment loss of ¥13,994 million was recognized due to the decline in profitability of store assets, with the carrying amount of such assets reduced to the recoverable amount.

Asset groupings are based on the smallest cash-generating unit that generates cash inflows which are generally independent of the business type, and the recoverable amount is the larger of the value in use or the fair value minus the cost of disposal.

The value in use is determined by discounting cash flows at the discount rates generally between 6.8% and 13.4% (pre-tax) based on management-approved projections and growth rates. Projections are generally limited to five years, and growth rates that exceed the long-term average growth rate of the market are not used. Discount rates (pre-tax) are calculated primarily based on the weighted average cost of capital. The fair value is calculated based on appraisals by external independent real estate appraisers in accordance with the valuation standards of the country in which the property is located, and is classified as Level 3 in the fair value hierarchy.

The main cash-generating units for which impairment losses were recognized are as follows.

Business segment	Region	Cash-generating unit	Category
NITORI Business	Japan	Nitori stores, DECOHOME, and stores of the Corporate & Remodeling Division	Buildings and structures, right-of-use assets, etc.
		E-commerce Business Division	Buildings and structures, software, right-of-use assets, etc.
		Nitori Mall lease property	Buildings
	Mainland China	Nitori stores	Buildings and structures, right-of-use assets, etc.
	Malaysia	Nitori stores	Buildings and structures, right-of-use assets, etc.
SHIMACHU Business	Japan	Shimachu stores	Buildings and structures, right-of-use assets, etc.

17. Income taxes

(1) Breakdown of major components of deferred tax assets and deferred tax liabilities by principal source of temporary differences and changes during the period

The breakdown of major components of deferred tax assets and deferred tax liabilities by principal source of temporary differences and changes during the period are as follows.

For the fiscal year ended March 31, 2024

	(Millions of yen)				
	April 1, 2023	Recognized through profit or loss	Recognized in other comprehensive income	Other	March 31, 2024
Deferred tax assets					
Inventories	883	90	–	–	973
Property, plant and equipment and intangible assets	33,670	4,748	–	2	38,421
Contract liabilities	635	(43)	–	–	592
Accrued bonuses	2,237	(527)	–	–	1,710
Accrued paid leave	1,225	(24)	–	–	1,201
Assessed levies	1,461	226	–	–	1,688
Lease liabilities	73,371	(5,441)	–	2	67,932
Retirement benefit liability	2,743	(241)	112	0	2,615
Asset retirement obligations	4,909	(17)	–	0	4,892
Tax loss carryforwards	330	(154)	–	–	176
Other	7,684	766	(608)	19	7,863
Subtotal	<u>129,154</u>	<u>(616)</u>	<u>(496)</u>	<u>25</u>	<u>128,067</u>
Deferred tax liabilities					
Property, plant and equipment and intangible assets	84,003	(5,160)	–	2	78,846
Other financial assets	1,779	36	1,297	–	3,113
Retained earnings of subsidiaries	962	196	–	–	1,159
Other	202	(81)	–	(42)	78
Subtotal	<u>86,948</u>	<u>(5,008)</u>	<u>1,297</u>	<u>(39)</u>	<u>83,198</u>
Net amount	<u>42,205</u>	<u>4,391</u>	<u>(1,793)</u>	<u>65</u>	<u>44,869</u>

For the fiscal year ended March 31, 2025

(Millions of yen)

	April 1, 2024	Recognized through profit or loss	Recognized in other comprehensive income	Other	March 31, 2025
Deferred tax assets					
Inventories	973	427	–	(0)	1,401
Property, plant and equipment and intangible assets	38,421	4,371	–	(1)	42,792
Contract liabilities	592	(33)	–	–	559
Accrued bonuses	1,710	(267)	–	–	1,442
Accrued paid leave	1,201	(70)	–	–	1,131
Assessed levies	1,688	319	–	–	2,007
Lease liabilities	67,932	7,170	–	33	75,137
Retirement benefit liability	2,615	144	(85)	0	2,673
Asset retirement obligations	4,892	2,635	–	(0)	7,527
Tax loss carryforwards	176	(167)	–	(0)	8
Other	7,863	(728)	516	(96)	7,553
Subtotal	<u>128,067</u>	<u>13,801</u>	<u>430</u>	<u>(64)</u>	<u>142,235</u>
Deferred tax liabilities					
Property, plant and equipment and intangible assets	78,846	8,602	–	36	87,485
Other financial assets	3,113	25	1,113	–	4,251
Retained earnings of subsidiaries	1,159	152	–	–	1,311
Other	78	326	4	(7)	402
Subtotal	<u>83,198</u>	<u>9,107</u>	<u>1,117</u>	<u>28</u>	<u>93,451</u>
Net amount	<u>44,869</u>	<u>4,694</u>	<u>(686)</u>	<u>(93)</u>	<u>48,783</u>

(2) Unrecognized deferred tax assets

Tax loss carryforwards and deductible temporary differences for which no deferred tax assets have been recognized are as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Tax loss carryforwards	6,575	7,520	9,587
Deductible temporary differences	1,336	1,356	1,184
Total	<u>7,911</u>	<u>8,876</u>	<u>10,772</u>

The expiration schedule of tax loss carryforwards for which no deferred tax assets have been recognized is as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Within 1 year	535	328	509
Over 1 year to 2 years	318	529	173
Over 2 years to 3 years	480	175	426
Over 3 years to 4 years	163	431	556
Over 4 years	5,076	6,054	7,921
Total	<u>6,575</u>	<u>7,520</u>	<u>9,587</u>

(3) Unrecognized deferred tax liabilities

The temporary differences related to investments in subsidiaries and others for which no deferred tax liabilities have been recognized are as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Taxable temporary differences related to investments in subsidiaries and others	12,183	16,402	20,645

No deferred tax liabilities have been recognized for taxable temporary differences related to investments in subsidiaries and others, except for those attributable to undistributed earnings for which distribution is planned as of the end of the reporting period. This is because the Group is able to control the timing of the reversal of the temporary differences, and it is probable that such temporary differences will not reverse in the foreseeable future.

(4) Income tax expense

The breakdown of income tax expense is as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Current tax expense	39,072	39,594
Deferred tax expense		
Change in tax rates	–	(977)
Origination and reversal of temporary differences	(4,391)	(3,703)
Recognition of previously unrecognized tax loss carryforwards	–	(8)
Recognition of previously unrecognized deductible temporary differences	–	(4)
Total deferred tax expense	(4,391)	(4,694)
Total income tax expense	34,680	34,899

Following the enactment of the “Act Partially Amending the Income Tax Act, etc.” related to the FY2025 tax reform on March 31, 2025, the statutory effective tax rate used in the calculation of deferred tax assets and deferred tax liabilities for the Company and its domestic subsidiaries has been changed from 30.62% to 31.52% for temporary differences expected to be recovered or settled on or after April 1, 2027.

(5) Income taxes recognized in other comprehensive income

Income taxes recognized in other comprehensive income are disclosed in Note “30. Other comprehensive income.”

(6) Reconciliation of the statutory effective tax rate and the average actual tax rate

The differences between the statutory effective tax rate and the Group’s average actual tax rate are as follows. The actual tax rate represents the ratio of income tax expense to profit before tax on a consolidated basis for the fiscal year. The Group is subject primarily to corporate income tax, inhabitant tax, and enterprise tax in Japan. The statutory effective tax rate based on these taxes was 30.6% for both the previous and current fiscal years. Overseas subsidiaries are subject to corporate income taxes in their respective jurisdictions.

	(%)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Statutory effective tax rate	30.6	30.6
Non-deductible permanent differences	0.2	0.2
Tax credits	(2.3)	–
Change in unrecognized deferred tax assets	0.4	2.1
Share of profit (loss) of investments accounted for using equity method	(0.5)	(0.9)
Difference in tax rates applied to subsidiaries	(1.0)	(1.5)
Change in tax rates	–	(0.8)
Other	0.5	–
Average actual tax rate	27.8	29.7

(7) Global minimum tax

The “Act Partially Amending the Income Tax Act, etc.” (Act No. 3 of 2023), which introduced a global minimum tax regime in accordance with the OECD Pillar Two Model Rules, was enacted in Japan, where the Company is headquartered, on March 28, 2023. The Company has applied this legislation from the current fiscal year.

Based on the most recent tax returns, country-by-country reports, and financial statements of each constituent entity subject to the regime, the Company has assessed the potential impacts of the global minimum tax. While top-up taxes are expected to be imposed on the Company located in Japan to bring the tax burden in certain low-tax jurisdictions, where some of its subsidiaries operate, up to the 15% minimum rate, the Company does not anticipate any material exposures.

18. Trade and other payables

The breakdown of trade and other payables is as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	(Millions of yen) As of March 31, 2025
Accounts payable – trade	38,450	45,115	36,013
Accounts payable – other	30,136	52,892	35,184
Accrued expenses	2,778	2,777	4,260
Total	71,365	100,784	75,459

Note: Trade and other payables are classified as financial liabilities measured at amortized cost.

19. Borrowings

The breakdown of borrowings is as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025	Average interest rate (%) (Note)	Maturity date
Current liabilities:					
Short-term borrowings	40,000	80,227	163,138	0.774	–
Long-term borrowings due within one year	43,068	27,330	10,000	0.351	–
Total	83,068	107,557	173,138		–
Non-current liabilities:					
Long-term borrowings	57,330	30,000	20,000	0.351	2026–2028
Total	57,330	30,000	20,000		–

Note: The average interest rate represents the weighted average interest rate based on the balance of borrowings at the end of the fiscal year.

Borrowings are classified as financial liabilities measured at amortized cost.

20. Other financial liabilities

The breakdown of other financial liabilities is as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	(Millions of yen) As of March 31, 2025
Other financial liabilities (current):			
Derivative liabilities for which hedge accounting is applied	2,637	–	1,738
Financial liabilities measured at amortized cost			
Leasehold and guarantee deposits received	204	200	169
Other	1,061	1,496	1,122
Lease liabilities (Note)	35,438	34,380	33,188
Total	<u>39,341</u>	<u>36,077</u>	<u>36,218</u>
Other financial liabilities (non- current):			
Financial liabilities measured at amortized cost			
Leasehold and guarantee deposits received	10,032	9,896	9,755
Lease liabilities (Note)	208,981	193,169	210,721
Total	<u>219,013</u>	<u>203,066</u>	<u>220,476</u>

Note: For lease liabilities, please refer to Note “13. Leases.”

21. Employee benefits

The Company and certain consolidated subsidiaries have adopted defined benefit corporate pension plans, lump-sum retirement benefit plans, and defined contribution plans as their retirement benefit arrangements. In addition, certain consolidated subsidiaries have established retirement payment trusts.

(1) Defined benefit plans

1) Features of defined benefit plans and related risks

(a) Overview of defined benefit plans

The Group's principal defined benefit plans consist of (i) lump-sum retirement benefit plans and (ii) defined benefit corporate pension plans.

(i) Lump-sum retirement benefit plan

A lump-sum retirement benefit plan is an unfunded retirement benefit plan under which no external assets are set aside for the defined benefit obligation, and lump-sum benefits are paid solely from internal funds. The amount of the lump-sum payment is determined based on the Company's retirement benefit regulations, such as work rules, and is calculated with reference to factors including base salary, length of service, and other relevant criteria.

(ii) Defined benefit corporate pension plan

A defined benefit corporate pension plan is a funded defined benefit pension plan established in accordance with the Defined Benefit Corporate Pension Act, which came into effect in April 2002. With the consent of its employees, the Company has established a defined benefit corporate pension agreement that sets forth the terms of the pension plan, including eligibility, benefits, payment methods, and contribution responsibilities. The agreement has been approved by the Minister of Health, Labour and Welfare. The Company has entered into agreements with trust banks, insurance companies, and other institutions for the payment of contributions and the management of plan assets. These contracted institutions are responsible for managing and investing the plan assets, performing actuarial calculations, and administering the payment of pension benefits and lump-sum benefits. The Company is required to make contributions to the pension fund and remains obligated to continue such contributions in accordance with the rules of the fund. Contribution amounts are reviewed periodically within the limits permitted by applicable laws and regulations.

(b) Risks to which the Company is exposed through the defined benefit plans

Through its defined benefit plans, the Group is exposed to various actuarial risks, including general investment risk, interest rate risk, inflation risk, and currency risk. In addition, if the investment returns on plan assets are insufficient to cover the defined benefit obligations as determined by the plan design, the Group may be required to make additional contributions to the plan.

2) Present value of defined benefit obligations and fair value of plan assets

The relationship between the present value of defined benefit obligations and the fair value of plan assets and the net amount recognized as defined benefit liabilities or assets in the consolidated statement of financial position is as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Present value of funded defined benefit obligations	9,447	9,211	9,212
Fair value of plan assets	(8,064)	(8,722)	(8,964)
Effect of the asset ceiling	655	1,498	1,911
Subtotal	2,037	1,987	2,159
Present value of unfunded defined benefit obligations	4,244	4,420	4,246
Net defined benefit liability (asset)	6,282	6,408	6,406
Amounts recognized in the consolidated statement of financial position			
Defined benefit liability	6,645	6,446	6,421
Defined benefit asset	363	38	15
Net defined benefit liability (asset) recognized in the consolidated statement of financial position	6,282	6,408	6,406

3) Reconciliation of the present value of defined benefit obligations

The changes in the present value of defined benefit obligations are as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Beginning balance of the present value of defined benefit obligations	13,691	13,632
Current service cost	1,387	1,349
Interest cost	150	184
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	418	(79)
Actuarial gains and losses arising from changes in financial assumptions	(432)	(934)
Actuarial gains and losses arising from experience adjustments	(42)	44
Past service cost	(628)	-
Benefits paid	(918)	(782)
Exchange differences	7	44
Ending balance of the present value of defined benefit obligations	13,632	13,458

The weighted average duration of the defined benefit obligations was 9.63 years in the previous fiscal year and 9.72 years in the current fiscal year.

4) Reconciliation of the fair value of plan assets

The changes in the fair value of plan assets are as follows.

	For the fiscal year ended March 31, 2024	(Millions of yen) For the fiscal year ended March 31, 2025
Beginning balance of the fair value of plan assets	8,064	8,722
Interest income	97	127
Remeasurements	410	(262)
Employer contributions	437	578
Benefits paid	(288)	(201)
Ending balance of the fair value of plan assets	<u>8,722</u>	<u>8,964</u>

The Group plans to contribute ¥541 million in the next fiscal year (ending March 31, 2026).

5) Breakdown of plan assets by category

The breakdown of the major components of plan assets is as follows.

As part of its asset-liability matching strategy, the Group's investment policy for plan assets is designed to ensure the reliable fulfillment of defined benefit obligations over the long term. Within the scope of acceptable risk, the Group maintains a well-diversified portfolio comprising multiple asset classes with different risk-return characteristics. This approach is intended to secure a sufficient level of assets in a stable and sustainable manner to meet future benefit payments. To achieve its investment objectives, the Group diversifies investments across a broad range of asset classes, including domestic and foreign equities, bonds, and general accounts of life insurance companies, thereby mitigating risk. Asset allocation is determined based on expected medium- to long-term risks and returns, as well as the correlation among historical performance of each asset class. The expected long-term return on plan assets is set to exceed the discount rate, thereby minimizing the mismatch between assets and liabilities. Asset allocation is reviewed as necessary, particularly in response to significant changes in the market environment.

	(Millions of yen)								
	As of April 1, 2023 (Transition date)			As of March 31, 2024			As of March 31, 2025		
	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total
Cash and cash equivalents	353	–	353	381	–	381	394	–	394
Equity instruments									
Domestic equities	30	–	30	30	–	30	15	–	15
Foreign equities	83	–	83	59	–	59	44	–	44
Pooled investment trusts (Note 1)	–	3,330	3,330	–	3,640	3,640	–	3,590	3,590
Debt instruments									
Domestic bonds	10	–	10	10	–	10	10	–	10
Foreign bonds	25	–	25	30	–	30	27	–	27
Pooled investment trusts (Note 2)	–	1,555	1,555	–	1,822	1,822	–	1,912	1,912
Other assets									
General accounts of life insurance companies (Note 3)	–	2,615	2,615	–	2,671	2,671	–	2,885	2,885
Pooled investment trusts	–	59	59	–	76	76	–	83	83
Total	<u>503</u>	<u>7,561</u>	<u>8,064</u>	<u>512</u>	<u>8,209</u>	<u>8,722</u>	<u>492</u>	<u>8,472</u>	<u>8,964</u>

Notes: 1. The pooled investment trusts classified as equity instruments primarily consist of domestic and foreign listed equities.

2. The pooled investment trusts classified as debt instruments primarily consist of domestic and foreign government bonds, public bonds, and corporate bonds.

3. The general accounts of life insurance companies provide guaranteed principal and a fixed minimum interest rate.

6) Effect of the asset ceiling

The changes in the effect of the asset ceiling are as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Beginning balance of the effect of asset ceiling	655	1,498
Interest income	8	21
Remeasurements		
Effect of limiting the net defined benefit asset to the asset ceiling	835	391
Ending balance of the effect of asset ceiling	1,498	1,911

7) Principal actuarial assumptions

The principal assumptions used in the actuarial valuation are as follows.

	(%)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Discount rate	1.11	1.38	2.15

8) Sensitivity analysis

The impact on the present value of defined benefit obligations of a 0.5% change in the discount rate used in the actuarial valuation is as follows.

		(Millions of yen)	
		As of March 31, 2024	As of March 31, 2025
Discount rate	0.5% increase	(567)	(544)
	0.5% decrease	610	584

The above analysis is based on the assumption that all actuarial assumptions other than the discount rate remain constant. In practice, changes in other actuarial assumptions may also affect the present value of defined benefit obligations.

(2) Defined contribution plans

The amount recognized as expenses for defined contribution plans was ¥6,644 million in the previous fiscal year and ¥7,327 million in the current fiscal year.

(3) Employee benefit expenses

Total employee benefit expenses for the previous and current fiscal years were ¥118,227 million and ¥131,794 million, respectively, and are included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of profit of loss.

22. Provisions

The breakdown of provisions and changes during the period are as follows.

	(Millions of yen)			
	Asset retirement obligations	Provision for shareholder benefit program costs	Other	Total
As of April 1, 2023 (Transition date)	14,977	422	232	15,632
Increase	663	230	–	893
Unwinding of discount due to over passage of time	80	–	–	80
Decrease (intended use)	(295)	(334)	(220)	(849)
Decrease (reversal)	(408)	–	–	(408)
Other changes	(41)	–	–	(41)
As of March 31, 2024	14,976	318	11	15,306
Increase	599	400	–	999
Unwinding of discount due to over passage of time	111	–	–	111
Decrease (intended use)	(1,010)	(263)	(0)	(1,274)
Decrease (reversal)	–	–	–	–
Adjustments due to changes in estimates	7,761	–	–	7,761
Other changes	(12)	–	–	(12)
As of March 31, 2025	22,426	455	11	22,892

(i) Asset retirement obligations

Asset retirement obligations primarily relate to the restoration obligations associated with real estate lease contracts for stores and offices operated by the Group. The estimated useful lives for these asset retirement obligations range from 1 to 42 years from the time of acquisition. Where the effect of the time value of money is material, these obligations are measured at the present value of the expected expenditures required to settle the obligations. In calculating present value, the Group uses pre-tax risk-free discount rates that reflect the timing of the expected future cash flows. Uncertainty regarding the occurrence of the obligating event is reflected in the estimated future cash flows.

(ii) Provision for shareholder benefit program costs

A provision for shareholder benefit program costs is recognized to cover the expected costs associated with the future use of shareholder benefit coupons under the shareholder benefit program. The provision is measured based on the estimated usage rate of the coupons, and reflects the amount expected to be incurred after the end of the reporting period. The related expenditures are expected to be made primarily within one year.

The breakdown of provisions presented in the consolidated statement of financial position is as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Current liabilities	814	502	720
Non-current liabilities	14,818	14,803	22,172
Total	15,632	15,306	22,892

23. Other liabilities

The breakdown of other liabilities is as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	(Millions of yen) As of March 31, 2025
Current liabilities			
Accrued enterprise tax	1,456	1,260	1,279
Accrued bonuses	8,322	6,761	5,831
Accrued paid leave	4,005	3,927	3,731
Accrued consumption taxes	4,288	9,423	5,891
Other	784	884	932
Total	<u>18,856</u>	<u>22,257</u>	<u>17,666</u>
Non-current liabilities:			
Long-term unearned revenue	949	1,100	656
Other	314	218	206
Total	<u>1,263</u>	<u>1,319</u>	<u>862</u>

24. Share capital and other equity items

(1) Number of authorized shares and issued shares

Changes in the numbers of authorized shares and issued shares are as follows.

(Shares)

	Number of authorized shares	Number of issued shares
As of April 1, 2023 (Transition date)	288,000,000	114,443,496
As of March 31, 2024	288,000,000	114,443,496
As of March 31, 2025	288,000,000	114,443,496

Note: All shares issued by the Company are non-par value ordinary shares with no restrictions on rights, and all issued shares are fully paid.

(2) Capital surplus

Under the Companies Act of Japan (the “Companies Act”), at least 50% of the amount paid or contributed upon the issuance of shares must be recorded as share capital, while the remaining amount is recorded as legal capital surplus, which is included in capital surplus. The Companies Act also provides that legal capital surplus may be transferred to share capital upon resolution of the general meeting of shareholders.

Changes in capital surplus are as follows.

(Millions of yen)

	Legal capital surplus	Other	Total
As of April 1, 2023 (Transition date)	30,711	–	30,711
Disposal of treasury shares	–	3	3
Increase due to share-based payment transactions	–	–	–
As of March 31, 2024	30,711	3	30,715
Disposal of treasury shares	–	0	0
As of March 31, 2025	30,711	3	30,715

(3) Treasury shares

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

	Number of shares	(Shares, Millions of yen) Monetary amount
As of April 1, 2023 (Transition date)	1,431,761	(10,111)
Change during the period (Note 1)	(123)	(1)
As of March 31, 2024	1,431,638	(10,113)
Change during the period (Note 2)	276	(5)
As of March 31, 2025	<u>1,431,914</u>	<u>(10,118)</u>

- Notes
1. The increase of 137 treasury shares during the previous fiscal year was due to the purchase of shares constituting less than one unit. The decrease of 260 treasury shares during the previous fiscal year was due to the disposal of treasury shares under the performance-based stock compensation plan for directors, as approved by the Board of Directors on May 10, 2023.
 2. The increase of 312 treasury shares during the current fiscal year was due to the purchase of shares constituting less than one unit. The decrease of 36 treasury shares during the current fiscal year was due to the exercise of rights under the share-based payment trust (J-ESOP).
 3. As of the end of the current fiscal year, the number of treasury shares of ordinary shares includes 387,418 shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account E) under the share-based payment trust (J-ESOP).

(4) Retained earnings

Under the Companies Act, an amount equivalent to one-tenth of dividends paid from retained earnings must be appropriated to legal capital surplus or legal retained earnings until the total of these accounts equals one-quarter of share capital. Legal retained earnings may be used to offset a deficit, and may also be reversed by a resolution of the general meeting of shareholders.

25. Dividends

(1) Dividends paid

The amounts of dividends paid in each fiscal year are as follows.

For the fiscal year ended March 31, 2024

Resolution	Type of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting held on May 9, 2023 (Note 1)	Ordinary shares	8,278	73	March 31, 2023	June 5, 2023
Board of Directors meeting held on November 10, 2023 (Note 2)	Ordinary shares	8,504	75	September 30, 2023	December 5, 2023

Notes: 1. The total amount of dividends includes ¥28 million in dividends on the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) under the share-based payment trust (J-ESOP).
2. The total amount of dividends includes ¥29 million in dividends on the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) under the share-based payment trust (J-ESOP).

For the fiscal year ended March 31, 2025

Resolution	Type of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting held on May 14, 2024 (Note 1)	Ordinary shares	8,164	72	March 31, 2024	June 4, 2024
Board of Directors meeting held on November 6, 2024 (Note 2)	Ordinary shares	8,618	76	September 30, 2024	December 3, 2024

Notes: 1. The total amount of dividends includes ¥27 million in dividends on the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) under the share-based payment trust (J-ESOP).
2. The total amount of dividends includes ¥29 million in dividends on the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) under the share-based payment trust (J-ESOP).

(2) Dividends with an effective date falling in the following fiscal year

Among the dividends with a record date within the current fiscal year, those whose effective date falls in the following fiscal year are as follows.

For the fiscal year ended March 31, 2024

Resolution	Type of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting held on May 14, 2024	Ordinary shares	8,164	72	March 31, 2024	June 4, 2024

Note: The total amount of dividends includes ¥27 million in dividends on the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) under the share-based payment trust (J-ESOP).

For the fiscal year ended March 31, 2025

Resolution	Type of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting held on May 13, 2025	Ordinary shares	8,618	76	March 31, 2025	June 10, 2025

Note: The total amount of dividends includes ¥29 million in dividends on the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) under the share-based payment trust (J-ESOP).

26. Revenue

(1) Breakdown of revenue

The following table presents revenue disaggregated by major customer or type of service.

For the fiscal year ended March 31, 2024

(Millions of yen)

	Reportable segment		Consolidated
	NITORI Business	SHIMACHU Business	
Revenue			
Retail store sales	658,950	109,514	768,465
E-commerce sales	88,535	778	89,314
Other	22,261	261	22,522
Revenue recognized from contracts with customers	769,747	110,554	880,302
Revenue recognized from other sources	7,955	8,409	16,365
Total revenue from sales to external customers	777,703	118,964	896,667

Note: Other of revenue includes real estate rental income, which is presented in Note “14. Investment properties.”

For the fiscal year ended March 31, 2025

(Millions of yen)

	Reportable segment		Consolidated
	NITORI Business	SHIMACHU Business	
Revenue			
Retail store sales	678,817	109,400	788,217
E-commerce sales	96,823	782	97,606
Other	26,012	238	26,250
Revenue recognized from contracts with customers	801,652	110,421	912,073
Revenue recognized from other sources	8,031	8,722	16,754
Total revenue from sales to external customers	809,684	119,143	928,828

Note: Other of revenue includes real estate rental income, which is presented in Note “14. Investment properties.”

Revenue recognized from contracts with customers primarily arises from the transfer of goods or services to customers at a point in time. Revenue recognized over time is not separately disclosed in the disaggregation of revenue from contracts with customers, as the amount is immaterial.

(2) Contract balances

The breakdown of contract balances is as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Receivables arising from contracts with customers			
Notes and accounts receivable – trade	56,717	78,788	71,006
Contract liabilities	23,818	29,223	30,506

Contract liabilities consist of amounts allocated to performance obligations identified in relation to customer loyalty points granted upon the sale of goods, based on the stand-alone selling price estimated by taking into account expected expirations, as well as advance payments received. Contract liabilities are reversed upon the recognition of revenue as the related performance obligations are satisfied. Of the revenue recognized during the fiscal years ended March 31, 2024 and 2025, the amounts related to contract liabilities at the beginning of each fiscal year were ¥23,818 million and ¥29,223 million, respectively.

There were no material amounts of revenue recognized in the fiscal years ended March 31, 2024 and 2025 from performance obligations satisfied in prior periods.

(3) Remaining performance obligations

The Group has applied the practical expedient not to disclose information on remaining performance obligations, as there are no material contracts with an original expected duration of more than one year. In addition, there are no significant amounts of consideration from contracts with customers that are not included in the transaction price.

(4) Assets recognized from the costs to obtain or fulfill contracts with customers

During the fiscal year, there were no material assets recognized in relation to the costs to obtain or fulfill contracts with customers. In addition, the Group has applied the practical expedient to expense incremental costs of obtaining a contract when the amortization period of the asset that would otherwise have been recognized is one year or less.

27. Cost of sales and selling, general and administrative expenses

The breakdown of cost of sales and selling, general and administrative expenses by nature is as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Cost of goods purchased	427,325	443,576
Employee benefit expenses (Note 1)	118,227	131,794
Depreciation and amortization (Note 2)	61,082	66,143
Shipping and delivery expenses	33,632	35,658
Advertising expenses	21,450	20,958
Outsourcing expenses	18,544	19,039
Taxes and dues	11,218	11,954
Commission expenses	10,623	11,475
Rental costs	4,858	4,783
Other	55,062	58,096
Total	762,025	803,481

Notes: 1. For employee benefit expenses, refer to Note “21. Employee benefits.”

2. For depreciation and amortization, refer to Notes “11. Property, plant and equipment” and “12. Goodwill and intangible assets.”

28. Other income and expenses

The breakdown of other income is as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Gain on sale of non-current assets	1,846	103
Vending machine income	341	353
Income from sale of valuable materials	286	384
Subsidy income	179	233
Gain on lease liability cancellation (Note)	78	851
Income from sale of materials	318	454
Gain on reversal of debt	28	344
Penalty income	–	196
Other	1,027	1,127
Total	<u>4,108</u>	<u>4,051</u>

Note: Gain on lease liability cancellation mainly arose at a subsidiary of the Company upon the cancellation of long-term lease contracts for retail stores. It represents the difference between the remaining balance of the lease liability and the carrying amount of the related right-of-use asset, net of any cancellation costs.

The breakdown of other expenses is as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Impairment losses (Note)	16,309	13,994
Other	245	1,004
Total	<u>16,554</u>	<u>14,998</u>

Note: For impairment losses, refer to Note “16. Impairment of non-financial assets.”

29. Finance income and finance costs

The breakdown of finance income is as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Interest income		
Financial assets measured at amortized cost	1,648	1,549
Dividends income		
Financial assets at fair value through other comprehensive income (equity instruments)	521	555
Foreign exchange gains	887	912
Other	–	1
Total	<u>3,057</u>	<u>3,019</u>

The breakdown of finance costs is as follows.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Interest expenses		
Lease liabilities	2,093	2,388
Financial liabilities measured at amortized cost	370	845
Other	29	1
Total	<u>2,492</u>	<u>3,236</u>

30. Other comprehensive income

The following table presents the current period amounts of each component of other comprehensive income, reclassification adjustments to profit or loss, and the related tax effects.

For the fiscal year ended March 31, 2024

	(Millions of yen)				
	Amount recognized during the period	Reclassification adjustments	Before tax	Tax effect	After tax
Items that will not be reclassified to profit or loss					
Financial assets measured at fair value through other comprehensive income	4,293	–	4,293	(1,314)	2,979
Remeasurements of defined benefit plans	(368)	–	(368)	112	(255)
Total	3,925	–	3,925	(1,201)	2,723
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	6,364	–	6,364	–	6,364
Cash flow hedges	(27)	1	(25)	7	(17)
Total	6,337	1	6,339	7	6,347
Total other comprehensive income	10,263	1	10,265	(1,194)	9,071

For the fiscal year ended March 31, 2025

	(Millions of yen)				
	Amount recognized during the period	Reclassification adjustments	Before taxes	Tax effect	After taxes
Items that will not be reclassified to profit or loss					
Financial assets measured at fair value through other comprehensive income	3,370	–	3,370	(1,117)	2,252
Remeasurements of defined benefit plans	315	–	315	(85)	229
Total	3,685	–	3,685	(1,203)	2,482
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	(2,098)	–	(2,098)	–	(2,098)
Cash flow hedges	(1,385)	(54)	(1,440)	441	(999)
Total	(3,483)	(54)	(3,538)	441	(3,097)
Total other comprehensive income	201	(54)	147	(761)	(614)

31. Earnings per share

The basis for calculating basic earnings per share and diluted earnings per share is as follows.

(Millions of yen, unless otherwise stated)

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Basis for calculating basic earnings per share		
Profit attributable to owners of parent	90,158	82,546
Profit not attributable to ordinary shareholders of parent	—	—
Profit used to calculate basic earnings per share	90,158	82,546
Average number of ordinary shares outstanding during the period (thousand shares)	113,011	113,011
Basic earnings per share (yen)	797.78	730.42
Basis for calculating diluted earnings per share		
Profit used to calculate basic earnings per share	90,158	82,546
Adjustments to profit	—	—
Profit used to calculate diluted earnings per share	90,158	82,546
Average number of ordinary shares outstanding during the period (thousand shares)	113,011	113,011
Share-based payment trust (thousand shares)	—	—
Average number of ordinary shares outstanding during the period after dilution (thousand shares)	113,011	113,011
Diluted earnings per share (yen)	797.78	730.42

32. Cash flow information

(1) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows.

For the fiscal year ended March 31, 2024

(Millions of yen)

	April 1, 2023	Changes involving cash flows	Changes not involving cash flows				March 31, 2024
			New leases	Early termination	Changes in fair value	Other (Note 2)	
Short-term borrowings	40,000	40,222	–	–	–	4	80,227
Long-term borrowings (Note 1)	100,398	(43,068)	–	–	–	–	57,330
Derivative liabilities	2,637	–	–	–	(2,637)	–	–
Lease liabilities	244,419	(35,816)	25,395	(2,402)	–	(4,045)	227,549
Total	387,455	(38,662)	25,395	(2,402)	(2,637)	(4,040)	365,107

Notes: 1. Long-term borrowings include the current portion.

2. Other changes include the effects of changes in estimates of lease liabilities.

For the fiscal year ended March 31, 2025

(Millions of yen)

	April 1, 2024	Changes involving cash flows	Changes not involving cash flows				March 31, 2025
			New leases	Contract cancellations in progress	Changes to fair value	Other (Note 2)	
Short-term borrowings	80,227	82,665	–	–	–	245	163,138
Long-term borrowings (Note 1)	57,330	(27,330)	–	–	–	–	30,000
Derivative liabilities	–	–	–	–	1,738	–	1,738
Lease liabilities	227,549	(37,319)	46,520	(1,985)	–	9,144	243,909
Total	365,107	18,016	46,520	(1,985)	1,738	9,389	438,786

Notes: 1. Long-term borrowings include the current portion.

2. Other changes include the effects of changes in estimates of lease liabilities.

(2) Material non-cash transactions

The details of material non-cash transactions are as follows.

(Millions of yen)

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Acquisition of right-of-use assets through leases	26,043	54,589

33. Share-based payment

The Group has adopted a share-based payment arrangement with the aim of enhancing its medium- to long-term performance and corporate value by providing incentives to directors, employees, and others.

(1) Performance-linked share-based remuneration plan

To provide executive directors with incentives to enhance the Company's corporate value on a sustainable basis and further promote the sharing of interests with our shareholders, the Company has introduced a performance-linked share-based remuneration plan for its directors (excluding non-executive directors). For an overview and structure of this plan, refer to "Section 4: Information about Reposting Company, 1. Company's Shares, etc. (8) Share ownership plan for officers and employees."

This share-based remuneration plan is accounted for as an equity-settled share-based payment arrangement.

No expenses related to the performance-linked share-based remuneration plan were recognized in the consolidated statement of profit or loss for either the previous fiscal year or the current fiscal year.

(2) Employee share grant plan

To provide incentives to enhance the Company's corporate value on a sustainable basis and future promote the sharing of interests with our shareholders, the Company has introduced a share grant plan for employees of the Company and its subsidiaries (including executive officers but excluding part-time employees). For an overview and structure of this plan, refer to "Section 4: Information about Reposting Company, 1. Company's Shares, etc. (8) Share ownership plan for officers and employees." This share-based remuneration plan is accounted for as an equity-settled share-based payment arrangement.

No expenses related to the performance-linked share-based remuneration plan were recognized in the consolidated statement of profit or loss for either the previous fiscal year or the current fiscal year.

(3) Share-based payment trust (J-ESOP)

(i) Details of the plan

To foster a sense of belonging among employees and to enhance their motivation to improve the Company's stock price and business performance, the Company has introduced a share-based payment trust (J-ESOP) as an incentive plan, under which the Company's shares are granted to employees. For an overview and structure of this plan, refer to "Section 4: Information about Reposting Company, 1. Company's Shares, etc. (8) Share ownership plan for officers and employees."

This J-ESOP is accounted for as an equity-settled share-based payment arrangement.

(ii) Number of points

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Balance at beginning of period	–	36
Granted	36	–
Exercised	–	36
Forfeited	–	–
Outstanding at end of period	36	–
Exercisable at end of period	36	–

(iii) Fair value of points granted and the method used to estimate fair value

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Weighted average fair value (yen)	23,600	–

Note: 1. The fair value at the grant date was measured using the Company's share price on the grant date, as it was considered to approximate the Company's share price on the grant date.

(iv) Amount recorded in the consolidated statements of profit or loss

Expenses related to the share-based payment trust (J-ESOP) recognized in the consolidated statements of profit or loss amounted to ¥0 million in the previous fiscal year and were included in "Selling, general and administrative expenses." No such expenses were recognized in the current fiscal year.

34. Financial instruments

(1) Capital management

The Group's basic policy on capital management is to enhance corporate value by pursuing growth investment opportunities that exceed the cost of capital, improving asset efficiency through operational enhancements, and establishing an optimal capital structure with due consideration to financial soundness. To maintain an optimal capital structure, the Group monitors key financial indicators. In particular, financial soundness and flexibility are assessed primarily through credit ratings, while capital efficiency is monitored using return on equity attributable to owners of parent (ROE).

	As of March 31, 2024	As of March 31, 2025
ROE	11.3	9.5

ROE: Profit attributable to owner of parent / Equity attributable to owner of parent (average of the beginning and ending balances)

The Group is not subject to any significant capital regulations, other than general provisions under the Companies Act and other applicable laws.

(2) Financial risk management

The Group is exposed to financial risks—namely credit risk, liquidity risk, and market risk—in the course of its business activities. To mitigate these risks, the Group implements appropriate risk management measures. In addition, the Group uses forward exchange contracts to hedge foreign exchange risk and has a policy of not engaging in speculative transactions.

1) Credit risk management

Credit risk is the risk that a counterparty to a financial asset will default on its contractual obligations, resulting in a financial loss to the Group.

Trade receivables, including notes and accounts receivable – trade, are exposed to the credit risk of business counterparties. However, these receivables are generally short-term in nature, and the Group has experienced very low default rates. The Group monitors due dates and balances for each counterparty, and in cases where credit concerns arise, it takes prompt collection measures to mitigate risk.

Guarantee and security deposits are primarily related to lease agreements for retail stores and are exposed to the credit risk of the deposit counterparties. The Group monitors the maturity and outstanding balances for each counterparty, and works to identify potential credit issues early based on the financial condition of counterparties in order to reduce risk.

As of the end of the reporting period, the Group's maximum exposure to credit risk is the carrying amount of financial assets after impairment. The Group has not recognized any material credit losses in prior fiscal years.

Derivative transactions consist of forward exchange contracts used to hedge foreign exchange risk related to foreign currency-denominated monetary liabilities and forecast transactions. All counterparties to these transactions are highly creditworthy financial institutions, and the Group believes the credit risk of counterparty default to be minimal. Execution and management of such transactions are conducted by the Finance and Accounting Department in accordance with internal rules, subject to approval by authorized personnel.

The Group is not exposed to significant concentrations of credit risk with any single counterparty or group of related counterparties.

Given that the Group's overall exposure to credit risk is limited and the impact on financial asset impairment is immaterial, disclosures regarding credit risk exposure and changes in loss allowances have been omitted.

2) Liquidity risk management

Liquidity risk is the risk that the Group may encounter difficulty in fulfilling obligations related to financial liabilities that must be settled in cash or other financial assets.

The Group generally funds its liquidity needs through internally generated cash and borrowings. However, these liabilities are exposed to liquidity risk in the event that the Group's financial condition or funding environment deteriorates, which could impair its ability to make payments when due.

To manage liquidity risk, the Group prepares and updates cash flow plans in a timely manner based on reports from each department, and maintains adequate liquidity on hand to ensure that scheduled payments can be met even under unforeseen circumstances. In addition, the Group secures funds in advance in a planned manner to ensure timely repayment of borrowings. The Group also monitors its cash flow position and outlook on an ongoing basis as part of its liquidity risk management.

(a) Maturity analysis of financial liabilities

The maturity analysis of financial liabilities is as follows.

April 1, 2023 (Transition date)

	(Millions of yen)							
	Carrying amount	Contractual amount	Within 1 year	More than 1 year and within 2 years	More than 2 years and within 3 years	More than 3 years and within 4 years	More than 4 years and within 5 years	More than 5 years
Non-derivative financial liabilities								
Trade and other payables	71,365	71,365	71,365	–	–	–	–	–
Borrowings	140,398	141,010	83,348	27,477	10,096	10,061	10,026	–
Other financial liabilities	11,297	11,945	2,480	906	1,020	809	570	6,158
Lease liabilities	244,419	262,508	37,438	34,660	27,364	22,675	18,646	121,722
Derivative financial liabilities								
Forward exchange contracts	2,637	2,637	2,637	–	–	–	–	–
Total	470,119	489,467	197,271	63,044	38,481	33,546	29,243	127,880

Note: Net receivables and payables arising from derivative transactions are presented on a net basis.

As of March 31, 2024

	(Millions of yen)							
	Carrying amount	Contractual amount	Within 1 year	More than 1 year and within 2 years	More than 2 years and within 3 years	More than 3 years and within 4 years	More than 4 years and within 5 years	More than 5 years
Non-derivative financial liabilities								
Trade and other payables	100,784	100,784	100,784	–	–	–	–	–
Borrowings	137,557	137,822	107,638	10,096	10,061	10,026	–	–
Other financial liabilities	11,594	12,403	3,101	1,159	899	605	1,212	5,425
Lease liabilities	227,549	244,258	36,237	30,060	23,624	20,078	17,461	116,796
Total	477,486	495,269	247,762	41,316	34,585	30,709	18,673	122,221

As of March 31, 2025

	(Millions of yen)							
	Carrying amount	Contractual amount	1 year or less	More than 1 year, up to 2 years	More than 2 years, up to 3 years	More than 3 years, up to 4 years	More than 4 years, up to 5 years	More than 5 years
Non-derivative financial liabilities								
Trade and other payables	75,459	75,459	75,459	–	–	–	–	–
Borrowings	193,138	191,345	171,257	61	20,026	–	–	–
Other financial liabilities	11,047	11,451	2,742	859	768	925	855	5,301
Lease liabilities	243,909	267,229	35,771	31,436	25,829	22,301	19,169	132,721
Derivative financial liabilities								
Forward exchange contracts	1,738	1,738	1,738	–	–	–	–	–
Total	525,293	547,224	286,969	32,357	46,623	23,227	20,024	138,022

Note: Net receivables and payables arising from derivative transactions are presented on a net basis.

(b) Overdraft facility agreement

The unused balance of borrowings under overdraft facility agreements is as follows.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	(Millions of yen) As of March 31, 2025
Total committed overdraft facility limit	120,450	120,450	180,000
Outstanding borrowings	40,000	80,000	160,000
Unused balance	80,450	40,450	20,000

3) Market risk management

The Group is exposed to foreign exchange risk arising from foreign currency transactions, interest rate risk arising from financing activities, and market price risk arising from the holding of listed equity securities.

(a) Foreign exchange risk

As the Group develops and imports the majority of the products it sells as private-brand items, it is exposed to foreign exchange risk related to trade payables. To mitigate the risk associated with fluctuations in foreign exchange rates, the Group enters into forward exchange contracts. The Group manages foreign exchange risk by continuously monitoring its currency exposures and trends in exchange rates.

(i) Exposure to foreign exchange risk

The net foreign exchange risk exposure is as follows. Amounts for which foreign exchange risk is hedged through derivative transactions are excluded.

	As of March 31, 2024	As of March 31, 2025
USD	(7,952)	43

(ii) Foreign exchange sensitivity analysis

The following table presents the estimated impact on profit or loss in the consolidated statement of profit or loss and other comprehensive income (net of tax) for each reporting period, assuming a 1% appreciation of the Japanese yen against the U.S. dollar, for entities whose functional currency is the Japanese yen. This analysis assumes that all other variables, such as balances and interest rates, remain constant.

The Group does not have significant exposure to changes in exchange rates for currencies other than the U.S. dollar.

	As of March 31, 2024	As of March 31, 2025
USD	79	(0)

(b) Interest rate risk

Interest rate risk is the risk that changes in market interest rates will affect the fair value or future cash flows of financial instruments. The Group obtains borrowings based on capital investment plans and cash flow forecasts. These borrowings, primarily used to finance capital investments and other investments, are subject to fixed interest rates. As the balance of borrowings exposed to interest rate fluctuations is immaterial, a sensitivity analysis for interest rate risk has been omitted.

(c) Stock price fluctuation risk

The Group holds shares of business partners for the purpose of facilitating the execution of its business strategies and is therefore exposed to the risk of fluctuations in the market prices of such equity financial assets (shares). The Group regularly monitors the market prices and financial conditions of the issuers of these equity financial assets and continuously reviews the status of its holdings. The Group does not hold equity financial assets for short-term trading purposes and does not actively trade these investments.

(i) Stock price fluctuation risk sensitivity analysis

Assuming all other variables remain constant, the following table presents the estimated impact on other comprehensive income (before tax) if the market prices of equity financial assets (listed equity securities) held by the Group as of the end of the fiscal years ended March 31, 2024 and 2025 were to decline by 10%.

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Impact on other comprehensive income (before tax)	(2,023)	(2,364)

(3) Hedge accounting

1) Overview of hedge accounting

The Group uses forward exchange contracts to hedge foreign exchange risk associated with foreign currency-denominated trade payables and forecast transactions. These transactions are designated as cash flow hedges, and hedge accounting is applied accordingly. The Group manages foreign exchange risk by executing forward exchange contracts in a timely manner and shares and monitors relevant information through meetings of the Board of Directors.

At the inception of a hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is to be applied, as well as the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the specific hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and the method used to assess the effectiveness of the hedging instrument in offsetting changes in the cash flows of the hedged item attributable to the hedged risk. The terms of the Group's forward exchange contracts are consistent with those of the highly probable forecast transactions being hedged. Accordingly, the Group assesses that an economic relationship exists between the hedging instruments and the hedged items.

Throughout the reporting period for which the hedge designation applies, the Group assesses hedge effectiveness by monitoring the existence of an economic relationship between the hedged item and the hedging instrument. This is done through qualitative assessments (e.g., whether the critical terms of the hedged item and hedging instrument are matched or closely aligned) or quantitative assessments (e.g., whether the values of the hedged item and the hedging instrument change in opposite directions in response to the same risk).

At hedge inception, the Group sets the hedge ratio based on the notional amounts of the hedged item and the hedging instrument, typically on a one-to-one basis. As the Group maintains highly effective hedging relationships, no material ineffectiveness has been recognized.

The Group hedges the entire cash flow exposure of the hedged items and does not enter into hedging relationships that cover only specific risk components.

(a) Information on items designated as hedging instruments

The impact of the hedging instruments on the Group's consolidated statement of financial position is as follows. Derivative liabilities are included in "Other financial liabilities" in the consolidated statement of financial position.

April 1, 2023 (Transition date)

(Millions of yen)

	Notional amount	Of which, due after more than 1 year	Carrying amount of hedging instruments (fair value)		Average rate
			Assets	Liabilities	
Foreign exchange risk					
Forward exchange contracts	28,297	—	—	2,637	¥147.04/USD

As of March 31, 2024

Not applicable.

As of March 31, 2025

	Notional amount	Of which, due after more than 1 year	Carrying amount of hedging instruments (fair value)		Average rate
			(Millions of yen)		
			Assets	Liabilities	
Foreign exchange risk					
Forward exchange contracts	289,379	–	–	1,738	¥147.64/USD

(b) Information on items designated as hedging items

The amounts of cash flow hedge reserves related to continuing hedging relationships within the Group are as follows. There are no cash flow hedge reserves related to discontinued hedge accounting.

	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
	(Millions of yen)		
Cash flow hedge reserves related to continuing hedging relationships			
Foreign exchange risk	(1,931)	–	(1,685)

(c) Impact of hedge accounting on the consolidated statements of profit or loss and the consolidated statement of comprehensive income

The impact of the hedging instruments on the consolidated statements of profit or loss and the consolidated statements of comprehensive income is as follows. Amounts reclassified from the cash flow hedge reserve to profit or loss are included in “Finance costs” in the consolidated statements of profit or loss. These reclassification adjustments reflect the impact of the hedged items on profit or loss.

As of March 31, 2024

	Changes in fair value of hedging instruments recognized in other comprehensive income (before tax)	Reclassification adjustments reclassified from cash flow hedge reserve to profit or loss (before tax)
	(Millions of yen)	
Foreign exchange risk		
Forward exchange contracts	(27)	1

As of March 31, 2025

	Changes in fair value of hedging instruments recognized in other comprehensive income (before tax)	Reclassification adjustments reclassified from cash flow hedge reserve to profit or loss (before tax)
	(Millions of yen)	
Exchange rate risk		
Exchange forward contracts	(1,385)	(54)

35. Fair value of financial instruments

(1) Fair value hierarchy

For financial instruments measured at fair value, fair value measurements are categorized into Levels 1 to 3 based on the observability and significance of the inputs used in the valuation techniques. The fair value hierarchy is defined as follows:

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

Level 2: Fair value determined using inputs other than those included in Level 1 that are observable, either directly or indirectly

Level 3: Fair value determined using valuation techniques that include unobservable inputs

Where multiple inputs are used in a fair value measurement, the fair value hierarchy level is determined based on the lowest level input that is significant to the entire measurement.

(2) Financial assets and financial liabilities measured at fair value

1) Breakdown of financial assets and financial liabilities measured at fair value

The following table presents the financial assets and financial liabilities that are measured at fair value on a recurring basis in the consolidated statements of financial position, classified by level of the fair value hierarchy.

April 1, 2023 (Transition date)

	Level 1	Level 2	Level 3	(Millions of yen) Total
Financial assets				
Other financial assets				
Financial assets measured at fair value through profit or loss				
Investments in capital	–	–	430	430
Other	–	158	–	158
Equity financial assets measured at fair value through other comprehensive income				
Equity securities	16,036	–	976	17,012
Other	–	7	–	7
Total	16,036	165	1,406	17,608
Financial liabilities				
Other financial liabilities				
Derivative liabilities for which hedge accounting is applied	–	2,637	–	2,637
Total	–	2,637	–	2,637

As of March 31, 2024

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial assets measured at fair value through profit or loss				
Investments in capital	–	–	427	427
Other	–	169	–	169
Equity financial assets measured at fair value through other comprehensive income				
Equity securities	20,237	–	1,054	21,291
Other	20,237	169	1,482	21,888

As of March 31, 2025

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial assets measured at fair value through profit or loss				
Investments in capital	–	–	365	365
Other	–	157	–	157
Equity financial assets measured at fair value through other comprehensive income				
Equity securities	23,644	–	1,056	24,701
Other	23,644	157	1,421	25,223
Total				
Financial liabilities				
Other financial liabilities	–	1,738	–	1,738
Derivative liabilities for which hedge accounting is applied	–	1,738	–	1,738

Note: Whether there have been any significant transfers between levels of the fair value hierarchy is assessed as of the end of each reporting period. There were no significant transfers between Level 1 and Level 2 during the fiscal years ended March 31, 2024 and 2025.

2) Methods for measuring the fair value of financial assets and financial liabilities

(a) Investments in capital

Investments in capital represent primarily capital contributions to investment limited partnerships. Their fair value is measured based on the Group's proportionate share of the net assets of the partnerships and is classified as Level 3 in the fair value hierarchy.

(b) Equity securities

The fair value of listed equity securities is measured based on the market prices at the end of the reporting period and is classified as Level 1 in the fair value hierarchy. The fair value of unlisted equity securities, for which quoted prices in active markets are not available, is measured using valuation techniques such as the comparable company analysis method and is classified as Level 3. Under the comparable company analysis method, listed companies similar to the subject company are selected, and fair value is estimated using the market multiples of those comparable companies.

(c) Derivative assets and liabilities to which hedge accounting is applied

Derivative assets and liabilities to which hedge accounting is applied are measured at fair value based on valuations provided by counterparty financial institutions or fair value determined using only observable inputs, and are classified as Level 2.

3) Reconciliation of financial instruments classified as Level 3

The following table presents a reconciliation of recurring fair value measurements classified as Level 3 from the beginning balance to the ending balance for the period.

	(Millions of yen)	
	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Beginning balance	1,406	1,482
Gains or losses		
Profit and loss (Note 1)	(2)	(62)
Other comprehensive income (Note 2)	78	1
Ending balance	1,482	1,421
Changes in unrealized gains or losses recognized in profit or loss on assets held at the end of the reporting period (Note 3)	(2)	(62)

- Notes: 1 The gains and losses included in profit or loss relate to financial assets and financial liabilities that are measured at fair value through profit or loss as of the reporting date. These amounts are included in "Finance income" and "Finance costs" in the consolidated statements of profit or loss.
2. The gains and losses included in other comprehensive income relate to financial assets that are measured at fair value through other comprehensive income as of the reporting date. These amounts are included in "Financial assets measured at fair value through other comprehensive income" in the consolidated statements of comprehensive income.
3. These amounts are included in "Finance income" and "Finance costs" in the consolidated statements of profit or loss.
4. The following table presents principal quantitative information about significant unobservable inputs used in recurring fair value measurements classified as Level 3.

Item	Valuation technique	Unobservable input	April 1, 2023	March 31, 2024	March 31, 2025
Equity securities	Comparable company analysis	Price-to-book ratio (PBR)	0.66x	0.78x	0.63x

There is a positive correlation between PBR and fair value of equity securities, such that an increase in PBR leads to a higher fair value. For financial instruments classified as Level 3, the Group does not expect any significant changes in fair value even if unobservable inputs were to be replaced with reasonably possible alternative assumptions.

5. For financial instruments classified as Level 3, fair value is measured based on valuation techniques determined by the responsible department in accordance with valuation policies and procedures approved by authorized personnel. The results of the fair value measurements are approved by the appropriate responsible officers.

4) Fair value of financial assets and financial liabilities measured at amortized cost

(a) Fair values and carrying amounts

The carrying amounts and fair values of financial instruments measured at amortized cost are as follows. Financial instruments for which the carrying amount approximates fair value are not included in the table below.

(Millions of yen)

	As of April 1, 2023 (Transition date)		As of March 31, 2024		As of March 31, 2025	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Other financial assets						
Leasehold and guarantee deposits	45,248	45,766	46,166	45,254	44,931	42,386
Lease receivables	7,018	6,962	6,395	6,259	5,768	5,461
Total	<u>52,266</u>	<u>52,729</u>	<u>52,562</u>	<u>51,514</u>	<u>50,699</u>	<u>47,848</u>
Financial liabilities						
Borrowings (Note)	140,398	140,476	137,557	137,428	193,138	192,759
Other financial liabilities						
Leasehold and guarantee deposits received	10,236	10,516	10,097	10,492	9,925	9,493
Total	<u>150,634</u>	<u>150,993</u>	<u>147,654</u>	<u>147,921</u>	<u>203,063</u>	<u>202,252</u>

Note: The balance of borrowings includes the current portion.

(b) Method of calculation of fair value of financial assets and financial liabilities

The method of calculation of the fair value of financial assets and financial liabilities is as follows.

(i) Leasehold and guarantee deposits, leasehold and guarantee deposits received

The fair value of leasehold and guarantee deposits, and leasehold and guarantee deposits received is measured at the present value of future cash flows discounted at rates based on appropriate indicators such as government bond yields at regular intervals. These are classified as Level 2.

(ii) Lease receivables

The fair value of lease receivables is measured based on the present value of the receivable amounts, discounted over the remaining term using interest rates that reflect the time to maturity and credit risk. The fair value is classified as Level 2.

(iii) Borrowings

The fair value of borrowings is measured by discounting the total of principal and interest payments using interest rates that would be applicable to similar new borrowings. The fair value is classified as Level 2.

36. Related party transactions

(1) Transactions with related parties

The transactions and outstanding balances of receivables and payables between the Group and related parties are as follows. For disclosures regarding subsidiaries and associates, refer to Note 15 “Investments accounted for using equity method” and Note 37 “Significant subsidiaries.”

April 1, 2023 (Transition date)

Category	Name of company, etc. or personal name	Location	Share capital or investments in capital (million yen)	Description of business or occupation	Percentage of voting rights, etc. held in (held by) related parties (%)	Relationship with related party	Details of transaction	Account	Ending balance (million yen)
Officers of subsidiaries	Shigehito Matsukura	—	—	Representative Director of a subsidiary	(held by) Direct 0.04	—	Loans of funds (Note 1)	Other financial assets	109
Officers and their close relatives	Mitsuko Nitōri	—	—	Close relative of representative director of the Company	(held by) Direct 0.01	Lease of buildings	Lease of buildings (Note 2)	Other financial assets	28

Notes: 1. For loans of funds, interest rates are determined with reference to market interest rates..

2. For lease of buildings, terms are determined through negotiation, taking into consideration comparable transactions in the surrounding area.

For the fiscal year ended March 31, 2024

Category	Name of company, etc. or personal name	Location	Share capital or investments in capital (million yen)	Description of business or occupation	Percentage of voting rights, etc. held in (held by) related parties (%)	Relationship with related party	Details of transaction	Transaction amount (million yen)	Account	Ending balance (million yen)
Officers of subsidiaries	Shigehito Matsukura	-	-	Representative director of a subsidiary	(held by) Direct 0.04	-	Collection of loans (Note 1)	109	-	-
							Receipt of interest (Note 1)	3	-	-
Officers and their close relatives	Mitsuko Nitori	-	-	Close relative of representative director of the Company	(held by) Direct 0.01	Lease and purchase of buildings	Lease of buildings (Note 2)	2	-	-
							Purchase of buildings (Note 3)	73	-	-
							Refund of leasehold deposit	28	-	-

Notes: 1. For loans of funds, interest rates are determined with reference to market interest rates..

2. For lease of buildings, terms are determined through negotiation, taking into consideration comparable transactions in the surrounding area.

3. The purchase price of buildings is determined based on a real estate appraisal report.

For the fiscal year ended March 31, 2025

Not applicable.

(2) Compensation for key management personnel

Compensation for key management personnel of the Group is as follows.

(Millions of yen)

	For the fiscal year ended March 31, 2024	For the fiscal year ended March 31, 2025
Short-term employee benefits	254	293
Total	254	293

Note: Compensation for key management personnel is compensation paid to directors of the Company.

37. Significant subsidiaries

(1) Status of subsidiaries

The status of significant subsidiaries of the Group is as follows.

Name	Address	Reportable segment	Percentage of voting rights owned (Note)		
			As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Nitori Holdings Co., Ltd.	Kita-ku, Sapporo-shi, Hokkaido	NITORI Business	100	100	100
Home Logistics Co., Ltd.	Kita-ku, Sapporo-shi, Hokkaido	NITORI Business	100	100	100
Shimachu Co., Ltd.	Chuo-ku, Saitama-shi, Saitama	SHIMACHU Business	100	100	100
NITORI TAIWAN CO., LTD.	Taipei, Taiwan	NITORI Business	100	100	100
NITORI China Holdings Co., Ltd.	Shanghai, China	NITORI Business	100	100	100
Deco Home China Co., Ltd.	Shanghai, China	NITORI Business	100 (100)	100 (100)	100 (100)
NITORI (SHANGHAI) HOME FURNISHING CO., LTD.	Shanghai, China	NITORI Business	100 (100)	100 (100)	100 (100)
NITORI (SHANGHAI) HOME FURNISHING SALES CO., LTD.	Shanghai, China	NITORI Business	100 (100)	100 (100)	100 (100)
NITORI Taicang Trading & Logistics Co., Ltd.	Taicang, Jiangsu Province, China	NITORI Business	100	100	100
NITORI FURNITURE VIETNAM EPE	Hanoi, Vietnam	NITORI Business	100 (100)	100 (100)	100 (100)
Nitori Public Co., Ltd.	Kita-ku, Sapporo-shi, Hokkaido	NITORI Business	100	100	100
HOME DECO Co., Ltd.	Kazo-shi, Saitama	NITORI Business	100	100	100

Note: For the percentage of voting rights owned, the indirect ownership percentage is shown in parentheses.

(2) Subsidiaries with key non-controlling interests

No subsidiaries hold material non-controlling interests.

38. Commitments

Commitments for expenditures after the reporting date are as follows.

	(Millions of yen)		
	As of April 1, 2023 (Transition date)	As of March 31, 2024	As of March 31, 2025
Purchase of property, plant and equipment	148,023	84,804	18,194
Purchase of intangible assets	262	601	480
Total	148,286	85,405	18,674

39. Contingencies

For the fiscal year ended March 31, 2024

Not applicable.

For the fiscal year ended March 31, 2025

Not applicable.

40. Significant subsequent events

Not applicable.

41. First-time adoption

(1) Transition to financial reporting under IFRS Accounting Standards

The Group has prepared and disclosed its consolidated financial statements in accordance with IFRS Accounting Standards (hereinafter “IFRS”) from the current fiscal year. The most recent consolidated financial statements prepared in accordance with Japanese GAAP were for the fiscal year ended March 31, 2024. The date of transition to IFRS (hereinafter the “transition date”) was April 1, 2023.

(2) Exemptions under IFRS 1

Under IFRS, entities that apply IFRS for the first time (hereinafter “first-time adopters”) are, in principle, required to retrospectively apply the standards prescribed by IFRS. However, IFRS 1 *First-time Adoption of International Financial Reporting Standards* (hereinafter “IFRS 1”) provides for certain exemptions from retrospective application. These include mandatory exceptions that must be applied and optional exemptions that may be applied at the entity’s discretion. The impact of applying these exemptions has been recognized as adjustments to retained earnings or other components of equity at the date of transition. The exemptions adopted by the Group in transitioning from Japanese GAAP to IFRS are as follows:

(i) Business combinations

IFRS 1 allows an entity to elect either to retrospectively apply IFRS 3 *Business Combinations* (hereinafter “IFRS 3”) to all past business combinations prior to the date of transition, or to apply it only from a specific business combination occurring on or after the date of transition. The Group elected not to retrospectively apply IFRS 3 to business combinations that occurred before the date of transition. As a result, goodwill arising from business combinations prior to the date of transition is recognized at its carrying amount under Japanese GAAP as of the transition date, adjusted to reflect the results of impairment testing.

(ii) Deemed cost

IFRS 1 permits an entity to elect to use the fair value of property, plant and equipment and investment property at the date of transition as deemed cost at that date. The Group elected to use the fair value at the date of transition as deemed cost for certain items of property, plant and equipment and investment property.

(iii) Leases

IFRS 1 permits first-time adopters to assess whether an existing contract at the date of transition contains a lease based on the facts and circumstances existing at that date. It also allows entities to measure lease liabilities at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of transition, and to recognize right-of-use assets at the same amount as the lease liabilities. In addition, IFRS 1 permits entities to recognize lease payments as expenses for leases with a lease term ending within 12 months of the transition date and for leases of low-value underlying assets. The Group has applied these exemptions.

(iv) Borrowing costs

IFRS 1 permits an entity to elect not to apply IAS 23 *Borrowing Costs* retrospectively to borrowing costs related to qualifying assets for which the commencement date for capitalization is before the date of transition. The Group elected not to apply IAS 23 retrospectively to such borrowing costs incurred before the date of transition.

(v) Designation of financial instruments recognized prior to the transition date

IFRS 1 permits an entity to determine the classification of financial instruments under IFRS 9 *Financial Instruments* (hereinafter “IFRS 9”) based on the facts and circumstances existing at the transition date, rather than those existing at the date of initial recognition. It also allows an entity to designate equity instruments held at the date of transition as financial assets measured at fair value through other comprehensive income (FVOCI), based on the facts and circumstances existing at that date.

The Group determined the classification of financial instruments under IFRS 9 based on the facts and circumstances existing at the transition date, and designated equity instruments as financial assets measured at fair value through other comprehensive income.

(vi) Measurement of fair value at initial recognition of financial instruments

The Group has elected to apply the provisions of IFRS 9 relating to the measurement of fair value and the recognition of gains or losses on initial recognition of financial assets and liabilities prospectively.

(vii) Share-based Payment

IFRS 1 permits an entity to elect not to apply IFRS 2 *Share-based Payment* (hereinafter “IFRS 2”) to share-based payment arrangements granted on or after November 7, 2002, and vested before the later of the transition date or January 1, 2005. The Group has elected not to apply IFRS 2 to share-based payment arrangements that vested before the transition date.

(viii) Translation difference for foreign operations

IFRS 1 permits an entity to elect to deem the cumulative translation differences for all foreign operations to be zero at the transition date. The Group has elected to reset the cumulative translation differences for foreign operations to zero as of the transition date.

(3) Mandatory exceptions under IFRS 1

IFRS 1 prohibits retrospective application of certain aspects of IFRS, including estimates, derecognition of financial assets and financial liabilities, hedge accounting, non-controlling interests, and classification and measurement of financial assets. The Group has applied these requirements prospectively from the transition date.

(4) Reconciliations from Japanese GAAP to IFRS

The effects of the transition from Japanese GAAP to IFRS on the Group’s financial position, operating results, and cash flows are presented below. “Impact of change in fiscal year-end” represents the effects of aligning the fiscal year-end of subsidiaries whose fiscal year-end previously differed from that of the consolidated group, with the consolidated fiscal year-end in accordance with IFRS.

“Reclassification” includes items that do not affect retained earnings or other comprehensive income. “Recognition and measurement differences” include items that affect retained earnings and other comprehensive income.

Reconciliation of equity as of April 1, 2023 (transition date)

(Millions of yen)

Line item disclosed under Japanese GAAP	Japanese GAAP	Impact of change in fiscal year-end	Reclassification	Recognition and measurement differences	IFRS	Notes	Line item disclosed under IFRS
Assets							Assets
Current assets							Current assets
Cash and deposits	131,928	4,410	(12,520)	63	123,881	(a), (xiii)	Cash and cash equivalents
Notes and accounts receivable – trade	57,408	(683)	9,283	692	66,700	(b)	Trade and other receivables
Merchandise and finished goods	112,401	(1,044)	7,184	(1,085)	117,456	(c), (i)	Inventories
Work in progress	479	163	(642)	–	–	(c)	
Raw materials and supplies	7,496	(953)	(6,543)	–	–	(c)	
Other	20,641	46	(9,631)	81	11,137	(b), (vii)	Other current assets
Allowance for doubtful accounts	(1)	(6)	7	–	–		
	–	–	12,773	–	12,773	(a)	Other financial assets
	–	–	87	(28)	59		Income taxes receivable
Total current assets	330,353	1,932	–	(277)	332,009		Total current assets
Non-current assets							Non-current assets
Property, plant and equipment (Note)	649,479	(757)	(82,405)	189,865	756,182	(d), (ii), (v), (vi)	Property, plant and equipment
	–	–	19,619	(19,619)	–	(iv), (vi)	Goodwill
Intangible assets (Note)	33,005	(4)	(19,619)	(6,276)	7,105	(iii), (vi)	Intangible assets
	–	–	82,404	–	82,404	(d), (ii)	Investment property
Investment securities	39,089	–	30,297	4,981	74,367	(e), (f), (vii)	Other financial assets
Long-term loans receivable	562	–	(562)	–	–	(e)	
Guarantee deposits	16,893	2	(16,895)	–	–	(e)	
Leasehold deposits	30,313	31	(30,344)	–	–	(e)	
	–	–	22,291	–	22,291	(f)	Investments accounted for using equity method
Deferred tax assets	21,765	4,793	–	15,779	42,338	(xi)	Deferred tax assets
	–	–	383	(20)	363	(g), (ix)	Retirement benefit asset
Other	12,379	148	(5,241)	(4,991)	2,295	(g), (vii), (xiii)	Other non-current assets
Allowance for doubtful accounts	(72)	–	72	–	–		
Total non-current assets	803,417	4,213	–	179,718	987,349		Total non-current assets
Total assets	1,133,771	6,145	–	179,441	1,319,358		Total assets

Note: Under Japanese GAAP, the Group previously disclosed the cost and accumulated depreciation for each class of property, plant and equipment and intangible assets on a gross basis. However, in the reconciliation table, these assets are aggregated into property, plant and equipment and intangible assets, and presented at their carrying amounts.

(Millions of yen)

Line item disclosed under Japanese GAAP	Japanese GAAP	Impact of change in fiscal year-end	Reclassification	Recognition and measurement differences	IFRS	Notes	Line item disclosed under IFRS
Liabilities							Liabilities and equity
Current liabilities							Liabilities
Notes and accounts payable – trade	38,459	800	25,911	6,195	71,365	(h), (x)	Current liabilities
Short-term borrowings	83,068	–	–	–	83,068		Trade and other payables
Lease liabilities	1,602	9	3,904	33,826	39,341	(i), (v)	Borrowings
Accounts payable – other	24,058	(836)	(23,222)	–	–	(h)	Other financial liabilities
Income taxes payable	28,351	(117)	–	(2,181)	26,052		Income taxes payable
Contract liabilities	23,774	44	–	–	23,818		Contract liabilities
Provision for bonuses	8,380	(57)	(7,509)	–	814	(j), (k)	Provisions
Provision for point card certificates	11	–	(11)	–	–	(k)	
Provision for shareholder benefit program	422	–	(422)	–	–	(k)	
Provision for loss on business liquidation	220	–	(220)	–	–	(k)	
Other	13,419	(141)	1,570	4,008	18,856	(j), (viii)	Other current liabilities
Total current liabilities	221,769	(300)	–	41,848	263,317		Total current liabilities
Non-current liabilities							Non-current liabilities
Long-term borrowings	57,330	–	–	–	57,330		Borrowings
Lease liabilities	4,598	(510)	10,563	204,362	219,013	(l),(v)	Other financial liabilities
Provision for retirement benefits for directors (and other officers)	228	–	(228)	–	–	(m)	
Retirement benefit liability	5,886	–	–	759	6,645	(ix)	Retirement benefit liability
Asset retirement obligations	14,800	18	–	–	14,818	(n)	Provisions
	–	–	4,801	(4,669)	132	(xi)	Deferred tax liabilities
Other	11,060	4,804	(15,136)	535	1,263	(m)	Other non-current liabilities
Total non-current liabilities	93,905	4,312	–	200,986	299,204		Total non-current liabilities
Total liabilities	315,674	4,011	–	242,835	562,521		Total liabilities
Net assets							Equity
Share capital	13,370	–	–	–	13,370		Share capital
Capital surplus	30,711	–	–	–	30,711		Capital surplus
Treasury shares	(10,111)	–	–	–	(10,111)		Treasury shares
Retained earnings	771,743	1,418	–	(50,753)	722,408	(xiv)	Retained earnings
	–	–	(97)	555	458	(o)	Other components of equity
Valuation difference on available-for-sale securities	1,769	–	(1,769)	–	–	(o)	
Deferred gains or losses on hedges	(1,829)	–	1,829	–	–	(o), (vii)	
Foreign currency translation adjustment	12,479	716	–	(13,195)	–	(o), (xii)	
Remeasurements of defined benefit plans	(36)	–	36	–	–	(o)	
Total net assets	818,096	2,134	–	(63,393)	756,837		Total equity
Total liabilities and net assets	1,133,771	6,145	–	179,441	1,319,358		Total liabilities and equity

Adjustments to capital as of the previous consolidated fiscal year (March 31, 2024)

(Millions of yen)

Line item disclosed under Japanese GAAP	Japanese GAAP	Impact of change in fiscal year-end	Reclassification	Recognition and measurement differences	IFRS	Notes	Line item disclosed under IFRS
Assets							Assets
Current assets							Current assets
Cash and deposits	137,943	3,531	(23,602)	106	117,978	(a), (xiii)	Cash and cash equivalents
Notes and accounts receivable – trade	79,247	(456)	11,724	637	91,152	(b)	Trade and other receivables
Merchandise and finished goods	101,206	(1,371)	6,963	(1,298)	105,500	(c), (i)	Inventories
Work in progress	520	207	(727)	–	–	(c)	
Raw materials and supplies	6,802	(567)	(6,235)	–	–	(c)	
Other	22,018	(2,910)	(11,868)	288	7,528	(b), (vii)	Other current assets
Allowance for doubtful accounts	(2)	1	1	–	–		
	–	–	23,733	–	23,733	(a)	Other financial assets
	–	–	9	(9)	–		Income taxes receivable
Total current assets	347,736	(1,566)	–	(275)	345,893		Total current assets
Non-current assets							Non-current assets
Property, plant and equipment (Note)	736,897	3,618	(96,189)	169,761	814,087	(d), (ii), (v), (vi)	Property, plant and equipment
	–	–	17,060	(17,060)	–	(iv), (vi)	Goodwill
Intangible assets (Note)	31,162	1	(17,060)	(6,409)	7,693	(iii), (vi)	Intangible assets
	–	–	96,189	–	96,189	(d), (ii)	Investment property
Investment securities	42,439	–	30,362	4,503	77,304	(e), (f), (vii)	Other financial assets
Long-term loans receivable	520	–	(520)	–	–	(e)	
Guarantee deposits	16,646	1	(16,647)	–	–	(e)	
Leasehold deposits	30,982	41	(31,023)	–	–	(e)	
	–	–	21,443	1,536	22,979	(f)	Investments accounted for using equity method
Deferred tax assets	21,513	4	0	23,721	45,239	(xi)	Deferred tax assets
	–	–	366	(328)	38	(g), (ix)	Retirement benefit asset
Other	10,851	(19)	(4,052)	(4,914)	1,866	(g), (vii), (xiii)	Other non-current assets
Allowance for doubtful accounts	(72)	–	72	–	–		
Total non-current assets	890,942	3,647	–	170,808	1,065,398		Total non-current assets
Total assets	1,238,679	2,080	–	170,533	1,411,292		Total assets

Note: Under previous Japanese standards, for property, plant and equipment and intangible assets, cost of acquisition and cumulative depreciation were disclosed as totals for each type of non-current asset. On the Table of Adjustments, however, these are aggregated into property, plant and equipment and intangible assets and are disclosed as carrying amount.

(Millions of yen)

Line item disclosed under Japanese GAAP	Japanese GAAP	Impact of change in fiscal year-end	Reclassification	Recognition and measurement differences	IFRS	Notes	Line item disclosed under IFRS
Liabilities							Liabilities and equity
Current liabilities							Liabilities
Notes and accounts payable – trade	48,294	(3,179)	47,929	7,740	100,784	(h), (x)	Current liabilities
Short-term borrowings	107,557	–	–	–	107,557		Trade and other payables
Lease liabilities	1,895	(17)	1,697	32,502	36,077	(i), (v)	Borrowings
Accounts payable – other	45,933	(679)	(45,254)	–	–	(h)	Other financial liabilities
Income taxes payable	20,366	29	–	(2,218)	18,177		Income taxes payable
Contract liabilities	29,091	132	–	–	29,223		Contract liabilities
Provision for bonuses	6,604	157	(6,259)	–	502	(j),(k)	Provisions
Provision for point card certificates	11	–	(11)	–	–	(k)	
Provision for shareholder benefit program	318	–	(318)	–	–	(k)	
Provision for loss on business liquidation	–	–	–	–	–	(k)	
Other	16,264	(152)	2,215	3,930	22,257	(j), (viii)	Other current liabilities
Total current liabilities	276,336	(3,710)	–	41,955	314,581		Total current liabilities
Non-current liabilities							Non-current liabilities
Long-term borrowings	30,000	–	–	–	30,000		Borrowings
Lease liabilities	4,519	(144)	10,607	188,084	203,066	(l), (v)	Other financial liabilities
Provision for retirement benefits for directors (and other officers)	145	–	(145)	–	–	(m)	
Retirement benefit liability	5,558	–	–	888	6,446	(ix)	Retirement benefit liability
Asset retirement obligations	14,748	55	–	–	14,803	(n)	Provisions
	–	1	–	369	370	(xi)	Deferred tax liabilities
Other	11,061	–	(10,460)	718	1,319	(m)	Other non-current liabilities
Total non-current liabilities	66,033	(88)	–	190,060	256,005		Total non-current liabilities
Total liabilities	342,370	(3,798)	–	232,015	570,587		Total liabilities
Net assets							Equity
Share capital	13,370	–	–	–	13,370		Share capital
Capital surplus	30,715	–	–	–	30,715		Capital surplus
Treasury shares	(10,113)	–	–	–	(10,113)		Treasury shares
Retained earnings	841,541	2,412	–	(48,369)	795,584	(xiv)	Retained earnings
	–	–	11,338	(195)	11,143	(o)	Other components of equity
Valuation difference on available-for-sale securities	4,711	–	(4,711)	–	–	(o)	
Deferred gains or losses on hedges	–	–	–	–	–	(o), (vii)	
Foreign currency translation adjustment	15,816	3,743	(6,364)	(13,195)	–	(o), (xii)	
Remeasurements of defined benefit plans	262	–	(262)	–	–	(o)	
Non-controlling interests	4	–	–	–	4		Non-controlling interests
Total net assets	896,308	6,156	–	(61,759)	840,704		Total equity
Total liabilities and net assets	1,238,679	2,357	–	170,255	1,411,292		Total liabilities and equity

Notes on the reconciliation of equity

Impact of change in fiscal year-end

As of the transition date, certain subsidiaries had a fiscal year-end of December 31. Under Japanese GAAP, the Group consolidated the financial statements of these subsidiaries based on their December 31 fiscal year-end. However, under IFRS, the Group has prepared provisional financial statements as of March 31, the consolidated fiscal year-end, for consolidation purposes.

Reclassification

- (a) **Reclassification of cash and cash equivalents**
Under Japanese GAAP, “Cash and deposits” was presented separately. Under IFRS, it has been reclassified and presented as “Cash and cash equivalents.” In addition, time deposits with original maturities of more than three months, which were included in “Cash and deposits” under Japanese GAAP, have been reclassified to “Other financial assets (current)” under IFRS.
- (b) **Reclassification of trade and other receivables**
Under Japanese GAAP, “Accounts receivables – other” were included in “Other” under current assets. Under IFRS, it has been reclassified and presented as part of “Trade and other receivables.”
- (c) **Reclassification of inventories**
Under Japanese GAAP, “Merchandise and finished goods,” “Work in process,” and “Raw materials and supplies” were presented separately. Under IFRS, these items have been reclassified and presented collectively as “Inventories.”
- (d) **Reclassification of investment property**
Under Japanese GAAP, “Investment property” was included in “Property, plant and equipment.” Under IFRS, it is presented separately.
- (e) **Reclassification of other financial assets**
Under Japanese GAAP, “Investment securities,” “Long-term loans receivable,” “Guarantee deposits,” and “Leasehold deposits” were presented separately. Under IFRS, these items have been reclassified and presented collectively as “Other financial assets (non-current).”
- (f) **Reclassification of investments accounted for using equity method**
Under Japanese GAAP, “Investments accounted for using equity method” was included in “Investment securities” under “Investments and other assets.” Under IFRS, they are presented separately as a distinct line item.
- (g) **Reclassification of retirement benefit assets**
Under Japanese GAAP, “Retirement benefit assets” was included in “Other” under “Investments and other assets.” Under IFRS, it is presented separately.
- (h) **Reclassification of trade and other payables**
Under Japanese GAAP, “Notes and accounts payable – trade” and “Accounts payable – other” were presented separately. Under IFRS, these items have been reclassified and presented collectively as “Trade and other payables.”
- (i) **Reclassification of other financial liabilities (current)**
Under Japanese GAAP, “Lease obligations” was presented separately. Under IFRS, they have been reclassified and presented as “Other financial liabilities (current).”
- (j) **Reclassification of other current liabilities**
Under Japanese GAAP, “Provision for bonuses” was presented separately. Under IFRS, it has been reclassified and presented as “Other current liabilities (current).”
- (k) **Reclassification of provisions (current)**
Under Japanese GAAP, “Provision for point card certificates,” “Provision for shareholder benefit program,” and “Provision for loss on business liquidation” were presented separately. Under IFRS, they have been reclassified and presented collectively as “Provisions (current).”
- (l) **Reclassification of other financial liabilities (non-current)**
Under Japanese GAAP, “Lease liabilities” was presented separately. Under IFRS, it has been reclassified and presented as “Other financial liabilities (non-current).”

- (m) Reclassification of provision for retirement benefits for directors (and other officers)
Under Japanese GAAP, “Provision for retirement benefits for directors (and other officers)” was presented separately. Under IFRS, it has been reclassified and presented as “Other non-current liabilities.”
- (n) Reclassification of provisions (non-current)
Under Japanese GAAP, “Asset retirement obligations,” which was presented separately under non-current liabilities. Under IFRS, it has been reclassified and presented as “Provisions (non-current).”
- (o) Reclassification of other components of equity
Under Japanese GAAP, “Valuation difference on available-for-sale securities,” “Deferred gains or losses on hedges,” “Foreign currency translation adjustment,” and “Remeasurements of defined benefit plans” were presented separately. Under IFRS, they have been reclassified and presented collectively as “Other components of equity.”

Recognition and measurement differences

- (i) Adjustment inventories
Under Japanese GAAP, certain subsidiaries used the retail method to measure inventories. Under IFRS, the Group has changed the inventory valuation method to the weighted average cost method.
- (ii) Adjustment to property, plant and equipment
Upon first-time adoption, the Group elected to apply the exemption under IFRS 1 and used the fair value at the transition date as the deemed cost for certain items of property, plant and equipment and investment property. The difference between the fair value and the carrying amount under Japanese GAAP was adjusted through retained earnings. The fair value of the applicable property, plant and equipment and investment property as of the transition date was ¥96,874 million, which was ¥41,319 million lower than the carrying amount under Japanese GAAP. The fair value was determined based on third-party appraisals and classified as Level 3 of the fair value hierarchy.

In addition, the depreciation method for certain items of property, plant and equipment was changed from the declining balance method under Japanese GAAP to the straight-line method under IFRS.

Acquisition-related real estate taxes, which were expensed under Japanese GAAP, have been recorded as non-current assets as costs directly attributable to acquisition under IFRS.

- (iii) Adjustment to intangible assets
Under Japanese GAAP, certain expenditures deemed to have long-term benefits were capitalized and amortized over the expected period of benefit. Under IFRS, such expenditures have been expensed as incurred, as they do not meet the criteria for recognition as intangible assets.
- (iv) Adjustment to goodwill
Under Japanese GAAP, goodwill was amortized on a straight-line basis over 10 years. Under IFRS, goodwill is not amortized.
In addition, goodwill related to investments accounted for using the equity method was amortized under Japanese GAAP but is not amortized under IFRS.
- (v) Adjustment to leases
Under Japanese GAAP, leases were classified as either finance leases or operating leases. Operating leases were accounted for in a manner similar to rental transactions. Under IFRS, all leases (except for short-term leases and leases of low-value assets) meeting the definition of a lease under IFRS 16 are recognized on the balance sheet as right-of-use assets and lease liabilities as the distinction between finance and operating leases for lessees does not apply under IFRS.

(vi) Adjustment to impairment of non-financial assets

Under Japanese GAAP, when there were indications of impairment, the Group assessed whether an impairment loss should be recognized by comparing the total undiscounted future cash flows expected from the asset with its carrying amount. If the carrying amount exceeded the total undiscounted future cash flows, an impairment loss was recognized in the amount by which the carrying amount exceeded the recoverable amount, which was the higher of value in use and fair value less costs of disposal. Under IFRS, if there are indications of impairment, the Group recognizes an impairment loss when the recoverable amount is less than the carrying amount. The impairment loss is measured as the difference between the carrying amount and the recoverable amount.

In addition, under IFRS, goodwill is subject to an annual impairment test at the level of the cash-generating unit (CGU) or group of CGUs to which it has been allocated. As a result of impairment testing performed at the transition date, the recoverable amount of certain CGUs or groups of CGUs was lower than their carrying amount, and therefore the full amount of goodwill was impaired. For details of the impairment test as of the transition date, refer to Note “12. Goodwill and intangible assets.”

(vii) Adjustment to financial instruments

Under Japanese GAAP, guarantee deposits were measured at their principal amounts. Under IFRS, such deposits are initially measured at fair value and subsequently measured at amortized cost. The adjustment difference is recognized as an additional lease payment and included in the measurement of right-of-use assets.

Unlisted shares and investments in capital without fair values were measured at cost under Japanese GAAP. Under IFRS, they are measured at fair value.

For forward exchange contracts, hedge accounting was applied using the “Furiate shori” (designated exceptional hedge accounting) under Japanese GAAP. Under IFRS, these contracts are accounted for as cash flow hedges.

(viii) Adjustment to amounts recognized as accrued paid leave, etc.

Under Japanese GAAP, unused paid leave was not required to be recognized as a liability and was therefore not recorded. Under IFRS, such unused paid leave is recognized as a liability and presented as “Other current liabilities.”

(ix) Adjustment to post-retirement benefits

For post-employment benefits under defined benefit plans, under Japanese GAAP, service cost, interest cost, and expected return on plan assets were recognized in profit or loss. Actuarial gains and losses not recognized in profit or loss were recognized in other comprehensive income and subsequently amortized to profit or loss over future periods.

Under IFRS, current service cost is recognized in profit or loss. Net interest cost is calculated by applying the discount rate to the net defined benefit liability (asset) and recognized in profit or loss. Remeasurements of the net defined benefit liability (or asset) are recognized in other comprehensive income and transferred directly to retained earnings without passing through profit or loss. Remeasurements consist of actuarial gains and losses on defined benefit obligations and the return on plan assets, excluding interest income on plan assets.

Additionally, unlike Japanese GAAP, IFRS requires that if a defined benefit plan is in a surplus position, the net defined benefit asset is subject to an asset ceiling. Furthermore, if minimum funding requirements related to past service exist and the surplus is not available as a refund or a reduction in future contributions, the adjustment is recognized in other comprehensive income and immediately transferred to retained earnings.

(x) Adjustments to assessed levies

Under Japanese GAAP, property acquisition taxes and other levies were recognized based on the receipt of a tax notice. Under IFRS, the expected payment amount is recognized when the obligating event occurs.

(xi) Adjustment to deferred tax assets and deferred tax liabilities

In adopting IFRS, the Group has reassessed recoverability of all deferred tax assets. In addition, as temporary differences arose from adjustments made in the transition from Japanese GAAP to IFRS, the amounts of deferred tax assets and deferred tax liabilities have been adjusted accordingly.

(xii) Adjustment to cumulative translation differences of foreign operations

In adopting IFRS, the Group elected to apply the exemption under IFRS 1 related to cumulative translation differences of foreign operations and reset the cumulative amount of translation differences to zero at the transition date. The resulting adjustment has been recognized in retained earnings.

(xiii) Scope of consolidation

Under Japanese GAAP, share-based payment trusts (J-ESOP) were not included within the scope of consolidation. Under IFRS, trust arrangements are assessed based on whether the Group has substantive control, which is determined by evaluating whether the Group has the power to direct the activities that significantly affect the variability of returns from the investee. If control is deemed to exist, the trust is included within the scope of consolidation. Based on this assessment of the scope of consolidation, the Group has included the share-based payment trust (J-ESOP), over which it has substantive control, within the scope of consolidation. This change had no impact on retained earnings.

(xiv) Adjustment to retained earnings

	As of April 1, 2023 (Transition date)	(Millions of yen) As of March 31, 2024
Impact of change in fiscal year-end	1,418	2,412
Adjustment to inventories	(882)	(702)
Adjustment to financial instruments	559	311
Adjustment to property, plant and equipment and intangible assets	(27,147)	(27,758)
Adjustment to goodwill	–	4,095
Adjustment to leases	1,886	2,105
Adjustment to impairment of goodwill and non-financial assets	(32,724)	(33,805)
Adjustment to deferred tax assets and deferred tax liabilities	1,036	1,330
Adjustment to assessed levies	(3,320)	(3,834)
Adjustment to amounts recognized as accrued paid leave, etc.	(2,779)	(2,725)
Adjustment to post-retirement benefits	(577)	(581)
Adjustment to cumulative translation differences of foreign operations	13,195	13,195
Total	<u>(49,335)</u>	<u>(45,956)</u>

Adjustments to comprehensive income related to the previous consolidated fiscal year (April 1, 2023 to March 31, 2024)

(Millions of yen)

Line item disclosed under Japanese GAAP	Japanese GAAP	Impact of change in fiscal year-end	Reclassification	Recognition and measurement differences	IFRS	Notes	Line item disclosed under IFRS
Net sales	895,799	1,550	–	(682)	896,667		Revenue
Cost of sales	439,850	(582)	–	(3)	439,264	(i), (ii), (iv)	Cost of sales
Gross profit	455,949	2,133	–	(679)	457,403		Gross profit
Selling, general and administrative expenses	328,223	994	–	(6,457)	322,760	(ii), (iii), (iv), (vi), (vii), (viii)	Selling, general and administrative expenses
	–	–	3,908	199	4,108	(vi)	Other income
	–	–	10,562	5,992	16,554	(v), (vi)	Other expenses
	–	–	542	1,536	2,078		Share of profit (loss) of investments accounted for using equity method
Operating profit	127,725	1,139	(6,112)	1,521	124,274		Operating profit
Non-operating income							
Total non-operating income	5,349	42	(5,391)	–	–		
Non-operating expenses							
Total non-operating expenses	697	9	(707)	–	–		
Extraordinary income							
Total extraordinary income	1,784	0	(1,784)	–	–		
Extraordinary losses							
Total extraordinary losses	10,257	97	(10,355)	–	–		
	–	–	2,726	331	3,057	(iv), (vi)	Finance income
	–	–	499	1,992	2,492	(iv), (vi)	Finance costs
Profit before income taxes	123,904	1,075	(1)	(140)	124,838		Profit before tax
Income taxes – current	39,293	271	–	–	–		
Income taxes – deferred	(1,912)	4	–	–	–		
Total income taxes	37,381	275	–	(2,976)	34,680	(ix)	Income tax expense
Profit	86,523	800	(1)	2,836	90,158		Profit
Profit attributable to owners of parent	86,523	800	–	2,836	90,158		Profit attributable to owners of parent
Profit	86,523	800	(1)	2,836	90,158		Profit
Other comprehensive income							
							Items that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	2,941	–	–	38	2,979		Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	298	–	–	(553)	(255)	(viii)	Remeasurements of defined benefit plans
	–	–	–	–	2,723		Total of items that will not be reclassified to profit or loss
							Items that may be reclassified to profit or loss
Foreign currency translation adjustment	3,337	3,027	–	0	6,364		Exchange differences on translation of foreign operations
Deferred gains or losses on hedges	1,829	–	–	(1,846)	(17)		Cash flow hedges
	–	–	–	–	6,347		Total of items that may be reclassified to profit or loss
Total other comprehensive income	8,407	3,027	–	(2,361)	9,071		Total other comprehensive income
Total comprehensive income	94,931	3,827	(1)	475	99,229		Total comprehensive income

Notes on adjustments to profit and loss and comprehensive income

Impact of change in fiscal year-end

As of the transition date, certain subsidiaries had a fiscal year-end of December 31. Under Japanese GAAP, the Group consolidated the financial statements of these subsidiaries based on their December 31 fiscal year-end. However, under IFRS, the Group has prepared provisional financial statements as of March 31, the consolidated fiscal year-end, for consolidation purposes.

Reclassification

Under Japanese GAAP, certain items were presented under “Non-operating income,” “Non-operating expenses,” “Extraordinary income,” and “Extraordinary losses.” Under IFRS, financial-related income and expenses have been reclassified into “Finance income” and “Finance costs,” while other items have been reclassified into “Other income,” “Other expenses,” or “Share of profit (loss) of investments accounted for using equity method,” as appropriate.

Recognition and measurement differences

(i) Adjustment to inventories

Under Japanese GAAP, certain subsidiaries used the retail method to measure inventories. Under IFRS, the Group has changed the inventory valuation method to the weighted average cost method.

(ii) Adjustment to property, plant and equipment

The depreciation method for certain items of property, plant and equipment (excluding leased assets) was changed from the declining balance method under Japanese GAAP to the straight-line method under IFRS.

Acquisition-related real estate taxes, which were expensed upon acquisition under Japanese GAAP, have been recorded as non-current assets as costs directly attributable to acquisition under IFRS.

(iii) Adjustment to amortization of goodwill

Under Japanese GAAP, goodwill was amortized on a straight-line basis over a period not exceeding 10 years, based on the estimated period of benefit. Under IFRS, goodwill is not amortized, resulting in a decrease in “Selling, general and administrative expenses.”

(iv) Adjustment to depreciation and interest expenses associated with the recording of right-of-use assets and lease liabilities

Under Japanese GAAP, operating leases were accounted for in a manner similar to rental transactions. Under IFRS, right-of-use assets and lease liabilities are recognized, and depreciation and interest expenses are recorded accordingly.

(v) Adjustment to impairment of non-financial assets (excluding goodwill)

Under Japanese GAAP, only when there were indications of impairment, the Group assessed whether an impairment loss should be recognized by comparing the total undiscounted future cash flows expected from the asset with its carrying amount. Under IFRS, if there are indications of impairment, the Group recognizes an impairment loss when the recoverable amount is less than the carrying amount. The impairment loss is measured as the difference between the carrying amount and the recoverable amount.

(vi) Adjustment to financial instruments

Under Japanese GAAP, unlisted equity securities were measured at cost. Under IFRS, they are measured at fair value through other comprehensive income.

In addition, under Japanese GAAP, impairment losses on equity instruments such as equity securities were recognized in profit or loss. Under IFRS, changes in fair value are recognized in other comprehensive income.

Under Japanese GAAP, gains or losses on disposal of equity instruments such as equity securities were fully recognized in profit or loss. Under IFRS, for equity instruments designated as financial assets measured at fair value through other comprehensive income, changes in fair value are recognized in other comprehensive income, and cumulative amounts are reclassified directly to retained earnings upon disposal.

Under Japanese GAAP, guarantee deposits were measured at their principal amounts. Under IFRS, such deposits are initially measured at fair value and subsequently measured at amortized cost. The adjustment difference is recognized as an additional lease payment and included in the measurement of right-of-use assets. The right-of-use asset is subsequently depreciated, and the interest income on the guarantee deposit is recognized over time.

(vii) Adjustment of recorded amount of accrued paid vacation, etc.

Under Japanese GAAP, unused paid leave as well as special leave and bonuses granted based on a certain length of service were not required to be recognized. However, under IFRS, these are recognized as liabilities and recorded as expenses.

(viii) Adjustments to post-retirement benefits

Under Japanese GAAP, for post-employment benefits under defined benefit plans, service cost, interest cost, and expected return on plan assets were recognized in profit or loss. Actuarial gains and losses not recognized in profit or loss were recognized in other

comprehensive income and subsequently amortized to profit or loss over future periods.

Under IFRS, for post-employment benefits under defined benefit plans, current service cost is recognized in profit or loss. Net interest cost is calculated by applying the discount rate to the net defined benefit liability (asset) and recognized in profit or loss.

(ix) Adjustment to deferred tax assets and deferred tax liabilities

In adopting IFRS, the Group has reassessed recoverability of all deferred tax assets. In addition, as temporary differences arose from adjustments made in the transition from Japanese GAAP to IFRS, the amounts of deferred tax assets and deferred tax liabilities have been adjusted accordingly.

Adjustment to cash flows for the previous fiscal year (April 1, 2023 to March 31, 2024)

Under Japanese GAAP, lease payments related to operating leases were classified as cash flows from operating activities. However, under IFRS, all leases are generally required to be recognized as lease liabilities, and repayments of lease liabilities are classified as cash flows from financing activities. As a result, cash flows from financing activities decreased by ¥34,772 million, while cash flows from operating activities increased by the same amount.

(2) Other

Semi-annual information for the current fiscal year

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2024	Six months ended September 30, 2024	Nine months ended December 31, 2024	Fiscal year ended March 31, 2025
Revenue	232,819	445,768	704,945	928,950
Profit before tax	35,032	59,185	101,594	114,201
Profit attributable to owners of parent	24,213	40,456	70,023	76,891
Basic earnings per share (yen)	214.26	357.99	619.61	680.38

	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (yen)	214.26	143.73	261.63	60.77

- Notes: 1. Semi-annual information for the current fiscal year has been prepared in accordance with Japanese GAAP.
2. Reviews of the consolidated financial statements for the three months ended June 30, 2024 and the nine months ended December 31, 2024: Yes