

Flash Report on the Consolidated Financial Results

for the First Half of the Fiscal Year Ending February 28, 2023

October 6, 2022

Listed Company Name: Lawson, Inc.

Code No.: 2651

Company Representative: Sadanobu Takemasu, President and CEO, Representative Director,
Chairman of the Board

Contact: Tomoki Takanishi, Senior Vice President, Financial Administration Division Director

Tokyo Stock Exchange

(URL <https://www.lawson.jp/en/ir>)

Tel.: +81-3-5435-2773

Scheduled date for submission of quarterly securities report: October 12, 2022

Scheduled date for payment of dividend: November 10, 2022

Supplementary materials for quarterly financial results: Yes

Holding of presentation of quarterly results: Yes (for institutional investors and analysts)

(Amounts less than one million yen are truncated)

1. Consolidated operating results for the first half ended August 31, 2022 (from March 1, 2022 to August 31, 2022)

(1) Consolidated operating results (cumulative)

Note: Percentages represent increases (decreases) compared with the corresponding period of the previous fiscal year.

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first half ended								
August 31, 2022	483,503	38.6	28,993	8.6	28,951	4.0	15,409	(11.5)
August 31, 2021	348,768	8.0	26,706	60.0	27,830	87.3	17,405	426.2

Note: Comprehensive income:

For the first half ended August 31, 2022	18,397 million yen	(2.2) %
For the first half ended August 31, 2021	18,811 million yen	178.3 %

	Profit per share	Diluted profit per share
	Yen	Yen
For the first half ended		
August 31, 2022	153.98	153.84
August 31, 2021	173.93	173.79

Note: "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020) and other standards are applied from the beginning of the first quarter of the fiscal year ending February 28, 2023.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of			
August 31, 2022	1,377,128	288,602	20.5
February 28, 2022	1,337,245	278,473	20.4

Reference: Shareholders' equity:

As of August 31, 2022	282,888 million yen
As of February 28, 2022	272,891 million yen

2. Dividends

	Annual dividends per share				
	1Q	1H	3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2021 fiscal year	—	75.00	—	75.00	150.00
2022 fiscal year	—	75.00	—	—	—
2022 fiscal year (forecast)	—	—	—	75.00	150.00

Note: Revision of the most recent dividends forecast: None

3. Forecast of consolidated operating results for the 2022 fiscal year ending February 28, 2023 (from March 1, 2022 to February 28, 2023)

Note: Percentages represent increases (decreases) compared with the corresponding period of the previous fiscal year.

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
2022 fiscal year	1,024,000	46.6	53,000	12.5	48,500	2.0	22,000	22.9	219.83

Note: Revision of the most recent consolidated operating results forecast: None

4. Notes

(1) Change in significant subsidiaries during the quarterly consolidated period (Changes in certain specified subsidiaries resulting in changes in scope of consolidation): None

Added: None

Excluded: None

(2) Adoptions of specific accounting methods for preparing quarterly financial statements: None

(3) Changes in accounting policies, changes in accounting estimates or restatements

1. Changes in accounting policies associated with revision in accounting standards: Yes

2. Changes in accounting policies other than 1. above: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding at the end of period (including treasury shares)

As of August 31, 2022: 100,300,000 As of February 28, 2022: 100,300,000

2. Number of treasury shares at the end of period

As of August 31, 2022: 223,007 As of February 28, 2022: 228,807

3. Average number of shares during the period (cumulative six months)

As of August 31, 2022: 100,075,070 As of August 31, 2021: 100,069,928

Note: This flash report is exempt from quarterly review.

Note: Descriptions on appropriate use of financial performance forecasts and other special notes

Forward-looking statements presented herein such as financial forecasts are based on currently available information and certain presumptions deemed to be reasonable as of the date of announcement. The achievement of said forecasts cannot be guaranteed. Actual results may be materially different from those in the forecast as a result of various factors. For preconditions of these financial forecasts and notes concerning their use, please refer to “1. Qualitative Information Regarding Quarterly Financial Results, (3) Explanation Regarding Forward-looking Statements” on page 9.

Contents

1. Qualitative Information Regarding Quarterly Financial Results	2
(1) Explanation Regarding Consolidated Operating Results.....	2
(2) Explanation Regarding Consolidated Financial Position	8
(3) Explanation Regarding Forward-looking Statements.....	9
2. Consolidated Financial Statements and Main Notes.....	10
(1) Consolidated Balance Sheet	10
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income.....	12
Consolidated Statement of Income.....	12
Consolidated Statement of Comprehensive Income.....	13
(3) Consolidated Statement of Cash Flows	14
(4) Notes to Consolidated Financial Statements.....	16
(Going Concern Assumption).....	16
(Notes to Significant Changes in the Amount of Shareholders' Equity)	16
(Changes in Accounting Policies)	16
(Additional Information)	17

1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation Regarding Consolidated Operating Results

During the first half of fiscal 2022, from March 1 to August 31, 2022, we continued to take rigorous prevention measures against the infection of the novel coronavirus and responded to new normal demand by exerting concerted Group-wide efforts. Specifically, under the leadership of our Lawson Group Sweeping Transformation Executive Committee, which was launched in September 2020 to realize “Challenge 2025” formulated for 2025, the 50th anniversary of our establishment, we renovated our stores and revamped our product lineups in Domestic Convenience Store Business in response to changes in the business environment, and the whole Lawson Group endeavored to resolve medium- to long-term issues for sustainable growth, acquire new revenue opportunities and foster job satisfaction. Upholding a strategic concept of focusing on community, individual customers, and individual stores in fiscal 2022, we are introducing an area company system to build a stronger structure for rigorously pursuing the creation of value for customers at locations closer to them.

As a result, for the first half of fiscal 2022 on a consolidated basis, gross operating revenue increased to 483,503 million yen (up 38.6% from previous fiscal year), operating income increased to 28,993 million yen (up 8.6% from previous fiscal year) and ordinary income increased to 28,951 million yen (up 4.0% from previous fiscal year). Profit attributable to owners of parent was 15,409 million yen (down 11.5% from previous fiscal year).

The Company has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the fiscal year ending February 28, 2023. Therefore, year-on-year comparative figures for the first half of the fiscal year ended February 28, 2022 represent amounts based on the previously adopted accounting policies. For information on the changes in relation to the application of the new accounting standards, please refer to “2. Consolidated Financial Statements and Main Notes (4) Notes to Consolidated Financial Statements (Changes in Accounting Policies).”

We also focused on improving our group-wide internal control system and addressing operating risks based on the 2022 Basic Policy for Improvement of Internal Control Systems. We will continue promoting internal control going forward.

Operating results by business segment were as follows.

(Domestic Convenience Store Business)

During the first half under review, the number of new COVID-19 cases increased again from July to August, but no restrictions were imposed after the quasi state of emergency was lifted in March, which resulted in an overall rising trend in the movement of people.

Amid such drastic shifts in the business landscape, Lawson has been proceeding with store renovations in line with the business environment surrounding each store, helping them expand their merchandise assortment of frozen foods and other daily necessities to adapt to changes in customers’ lifestyles and better address customer needs. We are planning to refurbish around 3,500 stores during fiscal 2022, completing the renovation of 1,240 stores in the first half-year. The total number of stores renovated since fiscal 2021 reached 5,545 as of the end of August 2022. Installation of the Machikado Chubo in-store kitchen service at stores also

progressed, with 8,853 stores equipped with the service as of the end of August 2022. In addition, we implemented a full-scale introduction of MUJI products at LAWSON stores in May 2022, with a total of 3,780 stores including those in the previous fiscal year offering the merchandise as of the end of August 2022.

In store operations, as we work our way toward 2025, our 50th anniversary year, we launched the HAPPY LAWSON PROJECT in June 2022 with the aim of creating “new hubs of refreshment in every community,” and promoted measures to fulfill the three promises of our business policy—“Superior taste,” “Human kindness,” and “Environmental (Machi) friendliness”—in an effort to operate LAWSON stores endorsed by all our customers.

In addition to further strengthening our distinctive products that focus on taste and health, we are also working to provide heartfelt customer service in our stores, and to strictly address environmental concerns such as reducing food loss, plastic usage, and CO₂ emissions, etc. We adopted an AI-based system that prompts stores to make timely discounts by providing reminders as part of our efforts to reduce food loss. Around 180 stores employed the system from June 2022 ahead of other stores. We intend to continue to verify the system in preparation for a nationwide rollout by the end of fiscal 2023.

[Store Operations]

In store operations, we continued to focus on reinforcing adherence to the Three Essential Practices, which emphasizes (1) serving customers courteously; (2) offering a merchandise assortment focused on basic items with high demand; and (3) keeping our stores and communities clean. In our efforts to respond to customer needs and increase sales, we also focused on expanding our merchandise assortment to respond to changes in customer lifestyles and values. Furthermore, we kept up our initiatives to increase the profitability of franchise stores, including helping them streamline their store operation and reduce costs associated with food waste and utility expenses.

[Merchandising and Service Strategies]

Sales continued to surge in frozen foods and fast-food counter items, whose assortments we have been endeavoring to expand with the aim of supporting the daily lives of customers with store renovations. In the frozen food range, sales were strong for groundbreaking items such as frozen desserts and products that capture customer needs for stocking up on ingredients and ready-made dishes. In the rice range, overall sales of onigiri rice balls were strong, driven by strengthened merchandise assortment resulting from the development of a product that employs a hard-to-find rice brand and a collaborative product development with an outdoors brand, along with sales promotional measures. Our original products contributed to pushing up sales, thanks to the popularity of a new flavor of “Kara-age-kun” chicken nuggets, which are marking their 36th anniversary, as well as sandwiches and hamburgers with high unit prices. With regard to products offered by the Machikado Chubo in-store kitchen service, we saw strong performance for regular items such as the “Thick-Sliced Sangenton Pork Cutlet Sandwich” and “Mixed-seafood Tempura Rice Bowl” as well as the “Local Bowl” series that responds to region-specific needs.

In food delivery service, the combined number of stores listed on 4 food delivery services such as Uber Eats, reached 3,498 in 45 prefectures as of August 31, 2022. In addition, Uber Eats delivers over-the-counter (OTC) drugs sold at 87 LAWSON stores in 16 prefectures.

[Breakdown of Sales by Merchandise Category at Chain Stores in Domestic Convenience Store Business]

Fiscal year Product group	Previous fiscal year From March 1, 2021 To August 31, 2021		Current fiscal year From March 1, 2022 to August 31, 2022	
	Sales (Millions of yen)	Percentage of total (%)	Sales (Millions of yen)	Percentage of total (%)
Processed foods	601,285	53.7	619,342	53.7
Fast foods	242,822	21.7	256,698	22.3
Daily delivered foods	176,873	15.8	178,639	15.5
Nonfood products	98,244	8.8	98,670	8.5
Total	1,119,225	100.0	1,153,350	100.0

[Store Development]

In opening new stores, the Group continued to focus on developing profitable stores.

During the first half under review, the total number of LAWSON, NATURAL LAWSON and LAWSON STORE100 stores opened in Japan stood at 129 stores. Meanwhile, we closed a total of 130. As of the end of August 2022, the total number of domestic stores was 14,655 ^{*1}.

In an effort to establish convenience store models catered to an aging population and a trend toward self-treatment, we are building partnerships with dispensing pharmacy and drug store chains to operate healthcare-oriented LAWSON stores that offer over-the-counter pharmaceuticals and prescription drugs, as well as a wider assortment of cosmetics and daily necessities than conventional LAWSON stores. The number of stores offering non-prescription drugs has reached 289 stores (includes 50 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of August 2022. Moreover, the number of stores with nursing care consultation desks for seniors has reached 21 as of the end of August 2022. Furthermore, we have also been expanding our chain of “in-hospital LAWSON stores,” which feature strengthened focus on medical, sanitary and nursing supplies in addition to merchandise and services offered at standard convenience stores. The number of such stores has reached 340 as of the end of August 2022. Building on our expertise developed through operation of in-hospital LAWSON stores, we will continue to support the lives of all people interacting with hospitals.

Our NATURAL LAWSON stores, which are popular among customers for supporting their beauty, health, and comfortable lifestyles, offer an exclusive selection of finely picked items of value, including food made with healthy ingredients and environmentally friendly detergents and cosmetics. Meanwhile, our LAWSON STORE100 stores offer high quality, safe and reliable fruits and vegetables with a focus on freshness and daily necessities, supporting customers’ daily dietary lives by helping them plan their meals. The stores are visited by customers of all ages including children and the elderly, and particularly single people and homemakers. As of the end of August 2022, we operate 133 NATURAL LAWSON stores and 668 LAWSON STORE100 stores.

^{*1} The numbers of store openings and closings and total number of stores in Japan include stores operated by Lawson, Inc. and three equity-method affiliates, Lawson Kochi, Inc., Lawson Minamikyushu, Inc. and Lawson Okinawa, Inc.

[Change in the Total Number of Domestic Stores]

	Total stores as of February 28, 2022	Change during period	Total stores as of August 31, 2022
LAWSON	13,851	3	13,854
NATURAL LAWSON	136	(3)	133
LAWSON STORE100	669	(1)	668
Total	14,656	(1)	14,655

[Number of LAWSON stores by prefecture (As of August 31, 2022)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	680	Ibaraki	216	Kyoto	329	Ehime	216
Aomori	278	Tokyo	1,679	Shiga	153	Tokushima	137
Akita	179	Kanagawa	1,069	Nara	134	Kochi	138
Iwate	180	Shizuoka	275	Wakayama	154	Fukuoka	525
Miyagi	257	Yamanashi	136	Osaka	1,183	Saga	75
Yamagata	110	Nagano	170	Hyogo	701	Nagasaki	123
Fukushima	170	Aichi	717	Okayama	239	Oita	198
Niigata	227	Gifu	178	Hiroshima	300	Kumamoto	161
Tochigi	198	Mie	136	Yamaguchi	128	Miyazaki	109
Gunma	244	Ishikawa	103	Tottori	138	Kagoshima	202
Saitama	698	Toyama	179	Shimane	141	Okinawa	256
Chiba	599	Fukui	105	Kagawa	132	Total (domestic)	14,655

(Note) These figures include stores operated by Lawson, Inc. and equity-method affiliates, Lawson Kochi, Inc., Lawson Minamikyushu, Inc. and Lawson Okinawa, Inc.

As a result, Domestic Convenience Store Business posted gross operating revenue of 343,390 million yen (up 58.8% from previous fiscal year) and segment profit of 21,202 million yen (up 14.4% from previous fiscal year).

(Seijo Ishii Business)

Seijo Ishii Co., Ltd provides customers with well-selected, and highly original foods under its philosophy of “Quality food for a quality life.” Operating diverse store formats including street-side stores and stores in station buildings and commercial facilities, the supermarket chain leverages its distinguished product development expertise to offer original products and food items made in-house under the Seijo Ishii brand. The number of directly operated Seijo Ishii Co., Ltd stores reached 172 as of the end of August 2022. Sales were slow for perishable food and grocery items including fruit and vegetables, meat and fish, and confectionery, especially at street-side stores. This was attributable to the high relative basis of comparison resulting from the spike in demand same period of last year from customers staying at home during the COVID-19 pandemic. However, dishes produced in-house at our central kitchen record strong sales driven by promotional projects and reinforced publicity activities. Furthermore, in July 2022 we started operating a new central kitchen, doubling our production

capacity. By harnessing the expanded capacity, we are stepping up our efforts to develop new items in-house and to increase the proportion of items produced in-house. We will continue striving to elevate the brand power of Seijo Ishii Co., Ltd by promoting the sustainable development of products of value, effective promotional campaigns, and publicity activities as a manufacturing retailer eager to send messages out to consumers. In addition, Seijo Ishii Co., Ltd. filed a listing application with the Tokyo Stock Exchange on September 9, 2022.

As a result, Seijo Ishii Business posted gross operating revenue of 53,457 million yen (down 0.8% from previous fiscal year) and segment profit of 5,244 million yen (down 2.5% from previous fiscal year).

(Entertainment-related Business)

With respect to our ticketing business in our Entertainment-related Business undertaken by Lawson Entertainment, Inc., numerous large-scale concerts and live events were staged as a result of visitors returning to leisure facilities in the first half-year, primarily during the long holidays in May and August, when no restrictions were imposed for the first time in three years. Some performances were cancelled or postponed in July, however, due to the spread of COVID-19. Under such circumstances, we focused our efforts on securing an expanded lineup of events in each genre with the aim of capturing the increased demand driven by the restored movement of people, which resulted in our ticket transaction value to exceed the level recorded in pre-pandemic fiscal 2019. Furthermore, sales for our product sales business also increased year on year at HMV music/video software stores and others. Meanwhile, demand from stay-at-home customers slowed in our e-commerce business, which resulted in decreased sales, but we are working to expand the scope of merchandise we handle to include entertainment and cosmetics goods. The number of stores has reached 55 as of August 31, 2022, including HMV stores, HMV&BOOKS, which markets books, CDs and DVDs, and HMV record shop stores specializing in analog records.

United Cinemas Co., Ltd., an operator of cinema complexes, attracted more moviegoers with hit movies. Moreover, sales increased as a result of screening more self-distributed movies and movies based on 4DX, a state-of-the-art technology that offers a multi-sensory cinematic experience, and IMAX, as well as strengthening digital advertising and theater commercial (theater media) sales. As of August 31, 2022, 43 cinema complexes nationwide with 397 screens are operating.

As a result, Entertainment-related Business posted gross operating revenue of 36,573 million yen (up 13.6% from previous fiscal year) and segment profit of 2,618 million yen (up 197.9% from previous fiscal year).

(Financial Services Business)

With respect to our Financial Services Business, we endeavored to offer an expanded range of new services through Lawson Bank's ATMs and ATM settlement network. As of the end of August 2022, the number of ATMs installed nationwide reached 13,538, with each ATM used 51.9 times a day on average. The total number of our financial institution partners reached 382 nationwide. We now have six partners for the "smartphone ATM (QR code deposit/withdrawal)"*2 service, 21 for the "Immediate Account Settlement Service"*3 (16 financial institutions and five other service operators), and six for international money transfer cards. In addition

to conventional demand for cash withdrawal services, changing to cashless payment services has contributed to the increased use of ATMs.

Regarding LAWSON Ponta Plus credit cards issued by Lawson Bank, Inc, we are steadily expanding credit card membership by rolling out a range of promotional campaigns and strengthening promotional efforts at stores.

*2 A service where customers can deposit/withdraw cash or take out/repay a credit card loan at an ATM by using a smartphone app instead of a bank card. “smartphone ATM” is a registered trademark of au Jibun Bank Corporation.

*3 A service that allows customers to top up their mobile payment app from their account with a financial institution by harnessing the ATM network.

As a result, Financial Services Business posted gross operating revenue of 17,422 million yen (up 3.1% from previous fiscal year) and segment profit of 2,056 million yen (up 43.9% from previous fiscal year).

(Overseas Business)

With regards to Overseas Business, the Group’s operating companies opened LAWSON stores in the People’s Republic of China, Thailand, Indonesia, the Philippines, and the United States of America (Hawaii).

The number of LAWSON stores in the People’s Republic of China, reached 5,235 as of the end of August 2022, up 675 stores from the end of previous fiscal year. In addition to opening new stores through our subsidiaries, we are also launching stores by concluding mega franchise agreements with local retailers in different cities, as well as area license agreements—where partner companies serve as headquarters in designated areas and assume overall operation and development—in efforts to accelerate the expansion of business areas and the number of stores. In July 2022, the number of stores exceeded 5,000, a milestone first for a Japanese convenience store chain. Due to the spread of COVID-19, large-scale movement restrictions were imposed across China in and after April 2022, and about half of the stores in the eastern part of the country suspended their operations due to the lockdown across Shanghai. Almost all the stores were reopened after the lockdown was lifted in June, but the impact of the movement restrictions and ongoing self-restraint still lingers. We will work to offer our signature high-quality original products including rice and dessert items, enhance the value of the Lawson brand in China, and increase earnings by strengthening our delivery business.

In other regions, stores that had been suspending their operations or operating with shorter hours have resumed normal operations in phases and are gradually recovering from the impact of COVID-19. We will continue to operate our stores to sustain the daily lives of our customers and strive to further expand our earnings.

[Distribution of LAWSON Brand Stores Overseas by Region]

Country/Region	Number of stores (As of February 28, 2022)	Change during fiscal year	Number of stores (As of August 31, 2022)
China Shanghai and surrounding area (Shanghai, Zhejiang, Jiangsu)	2,349	105	2,454
China Chongqing and surrounding area (Chongqing, Sichuan)	489	238	727
China Liaoning (including Shenyang, Dalian)	461	68	529
China Beijing and surrounding area (Beijing, Tianjin, Hebei)	343	45	388
China Guangdong and Fujian (including Shenzhen, Xiamen)	—	77	77
China Hubei (including Wuhan)	526	50	576
China Anhui (including Hefei)	175	54	229
China Hunan (including Changsha)	117	24	141
China Hainan (including Haikou)	100	14	114
China Subtotal	4,560	675	5,235
Thailand	166	9	175
Indonesia	65	27	92
Philippines	69	13	82
United States of America Hawaii	2	—	2
Total	4,862	724	5,586

As a result, Overseas Business posted gross operating revenue of 38,236 million yen (up 8.3% from previous fiscal year) and segment loss of 2,113 million yen (segment profit was 632 million yen in previous fiscal year).

(2) Explanation Regarding Consolidated Financial Position

① Assets, liabilities and net assets at the end of the first half of fiscal year 2022

Current assets increased by 37,255 million yen from the end of the previous fiscal year to 704,882 million yen, mainly reflecting an increase of 35,335 million yen in accounts receivable-trade. Non-current assets increased by 2,627 million yen from the end of the previous fiscal year to 672,245 million yen, mainly reflecting an increase of 10,522 million yen in property and store equipment, a decrease of 5,569 million yen in investments and other assets and a decrease of 2,325 million yen in intangible assets. Consequently, total assets increased by 39,882 million yen from the end of the previous fiscal year to 1,377,128 million yen.

Current liabilities increased by 24,602 million yen from the end of the previous fiscal year to 729,294 million yen, mainly reflecting an increase of 65,467 million yen in accounts payable-trade, an increase of 18,158 million yen in deposits received, an increase of 13,775 million yen in deposits received for banking business, a decrease of 45,842 million yen in short-term loans payable, and a decrease of 25,789 million yen in accounts payable-other. Non-current liabilities increased by 5,151 million yen from the end of the previous fiscal year to 359,231 million yen, mainly reflecting an increase of 3,257 million yen in lease obligations and an increase of 1,184 million yen in asset retirement obligations. Consequently, total liabilities increased by 29,754 million

yen from the end of the previous fiscal year to 1,088,525 million yen.

Net assets increased by 10,128 million yen from the end of the previous fiscal year to 288,602 million yen, mainly reflecting an increase of 7,181 million yen in retained earnings, and an increase of 3,094 million yen in foreign currency translation adjustment. Consequently, shareholders' equity ratio was 20.5%, up from 20.4% as of the end of the previous fiscal year.

② Cash flows during the first half of fiscal year 2022

Cash and cash equivalents at August 31, 2022 increased by 3,187 million yen from the end of the previous fiscal year to 391,632 million yen.

Net cash provided by operating activities was 98,446 million yen, an increase of 50,909 million yen from the corresponding period of the previous fiscal year, mainly because of the movement in deposits received and call money for banking business.

Net cash used in investing activities was (18,297) million yen, a decrease of 4,445 million yen from the corresponding period of the previous fiscal year, mainly because of a decrease in sales of investment securities.

Net cash used in financing activities was (79,076) million yen, a decrease of 11,664 million yen from the corresponding period of the previous fiscal year, mainly because of a decrease in short-term loans payable.

(3) Explanation Regarding Forward-looking Statements

Regarding the financial forecasts for the full fiscal year ending February 28, 2023, the financial forecasts remain unchanged from those announced on April 11, 2022.

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

As of February 28, 2022 and August 31, 2022

(Millions of yen)

	Previous fiscal year As of February 28, 2022	Current 1st Half As of August 31, 2022
Assets		
Current assets:		
Cash and deposits	388,463	392,671
Accounts receivable-trade	4,990	40,325
Accounts receivable-due from franchised stores	47,202	46,777
Lease receivables	15,071	14,297
Merchandise	22,128	24,924
Accounts receivable-other	146,443	145,019
Other	43,344	40,883
Allowance for doubtful accounts	(17)	(15)
Total current assets	667,627	704,882
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	189,190	195,039
Tools, furniture and fixtures, net	22,762	24,464
Land	8,507	8,429
Leased assets-net	124,978	128,939
Construction in progress	4,720	1,090
Other-net	18,609	21,326
Total property and store equipment	368,768	379,291
Intangible assets:		
Software	34,884	34,684
Goodwill	34,459	32,631
Trademark right	7,721	7,414
Other	680	690
Total intangible assets	77,746	75,421
Investments and other assets:		
Investment securities	21,738	21,432
Long-term loans receivable	38,044	36,649
Guarantee deposits	103,277	102,277
Deferred tax assets	34,736	32,370
Other	26,066	25,619
Allowance for doubtful accounts	(759)	(815)
Total investments and other assets	223,103	217,533
Total non-current assets	669,618	672,245
Total assets	1,337,245	1,377,128

(Millions of yen)

	Previous fiscal year As of February 28, 2022	Current 1st Half As of August 31, 2022
Liabilities		
Current liabilities:		
Accounts payable-trade	125,681	191,148
Short-term loans payable	47,072	1,230
Current portion of long-term loans payable	20,000	20,000
Lease obligations	45,955	47,224
Accounts payable-other	90,412	64,622
Income taxes payable	7,368	7,845
Deposits received	151,809	169,967
Provision for bonuses	4,854	4,420
Call money	108,000	101,000
Deposits received for banking business	91,420	105,195
Other	12,117	16,637
Total current liabilities	704,691	729,294
Non-current liabilities:		
Long-term loans payable	160,000	160,000
Lease obligations	118,445	121,703
Deferred tax liabilities	449	494
Provision for retirement benefits to executive officers and audit and supervisory board members	248	257
Net defined benefit liability	17,438	17,833
Asset retirement obligations	36,622	37,806
Other	20,875	21,136
Total non-current liabilities	354,080	359,231
Total liabilities	1,058,771	1,088,525
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	46,495	46,495
Retained earnings	161,299	168,480
Treasury shares	(973)	(949)
Total shareholders' equity	265,327	272,533
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,585	1,230
Revaluation reserve for land	(69)	(69)
Foreign currency translation adjustment	6,273	9,368
Remeasurements of defined benefit plans	(227)	(174)
Total accumulated other comprehensive income	7,563	10,354
Subscription rights to shares	368	328
Non-controlling interests	5,213	5,386
Total net assets	278,473	288,602
Total liabilities and net assets	1,337,245	1,377,128

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income**(Consolidated Statement of Income)**

For the first half of the fiscal year ended February 28, 2022 and the first half of the fiscal year ending February 28, 2023

	Previous 1st Half From March 1, 2021 to August 31, 2021	Current 1st Half From March 1, 2022 to August 31, 2022
	(Millions of yen)	
Gross operating revenue	348,768	483,503
Net sales	145,150	293,764
Cost of sales	99,234	232,207
Gross profit	45,916	61,557
Operating revenue:		
Income from franchised stores	148,836	126,410
Other operating revenue	54,781	63,328
Total operating revenue	203,617	189,738
Operating gross profit	249,534	251,295
Selling, general and administrative expenses	222,827	222,302
Operating income	26,706	28,993
Non-operating income:		
Interest income	448	444
Dividend income	276	568
Gain on investments in investment partnerships	1,664	—
Employment adjustment subsidy due to novel coronavirus disease	584	472
Other	873	1,133
Total non-operating income	3,846	2,620
Non-operating expenses:		
Interest expenses	1,753	1,768
Loss on cancellation of leases	613	479
Other	356	413
Total non-operating expenses	2,722	2,661
Ordinary income	27,830	28,951
Extraordinary income:		
Gain on sales of investment securities	1,025	—
Total extraordinary income	1,025	—
Extraordinary losses:		
Loss on retirement of non-current assets	595	718
Impairment loss	1,243	819
Loss on novel coronavirus disease	566	1,043
Other	396	260
Total extraordinary losses	2,801	2,842
Profit before income taxes	26,055	26,109
Income taxes-current	6,767	7,788
Income taxes-deferred	1,880	2,919
Total income taxes	8,647	10,707
Profit	17,407	15,402
Profit (loss) attributable to non-controlling interests	1	(7)
Profit attributable to owners of parent	17,405	15,409

(Consolidated Statement of Comprehensive Income)

For the first half of the fiscal year ended February 28, 2022 and the first half of the fiscal year ending February 28, 2023

(Millions of yen)

	Previous 1st Half From March 1, 2021 to August 31, 2021	Current 1st Half From March 1, 2022 to August 31, 2022
Profit	17,407	15,402
Other comprehensive income		
Valuation difference on available-for-sale securities	(221)	(355)
Foreign currency translation adjustment	1,562	3,298
Remeasurements of defined benefit plans	62	52
Total other comprehensive income	1,404	2,995
Comprehensive income	18,811	18,397
Comprehensive income attributable to		
Owners of parent	18,720	18,201
Non-controlling interests	90	196

(3) Consolidated Statement of Cash Flows

For the first half of the fiscal year ended February 28, 2022 and the first half of the fiscal year ending February 28, 2023

(Millions of yen)

	Previous 1st Half From March 1, 2021 to August 31, 2021	Current 1st Half From March 1, 2022 to August 31, 2022
Net cash provided by (used in) operating activities:		
Profit before income taxes	26,055	26,109
Depreciation and amortization	39,323	40,697
Impairment loss	1,243	819
Interest and dividend income	(448)	(1,013)
Interest expenses	1,753	1,768
Loss (gain) on sales of investment securities	(1,025)	—
Loss on retirement of non-current assets	595	718
Decrease (increase) in notes and accounts receivable-trade	(34)	(8,358)
Decrease (increase) in accounts receivable-other	1,546	(24,310)
Increase (decrease) in notes and accounts payable-trade	13,188	34,045
Increase (decrease) in accounts payable-other	2,912	3,115
Increase (decrease) in deposits received	(103,336)	18,126
Increase (decrease) in net defined benefit liability	505	392
Net increase (decrease) in call money for banking business	45,000	(7,000)
Other	25,994	21,525
Subtotal	53,272	106,635
Interest and dividends received	431	1,009
Interest expenses paid	(1,728)	(1,838)
Income taxes paid	(4,438)	(7,360)
Net cash provided by (used in) operating activities	47,536	98,446
Net cash provided by (used in) investing activities:		
Purchase of securities	(4,000)	(999)
Proceeds from redemption of securities	4,000	6,000
Purchase of property and store equipment	(16,500)	(16,427)
Purchase of intangible assets	(3,761)	(5,931)
Proceeds from sales of investment securities	5,974	—
Purchase of shares of subsidiaries and associates	(106)	(191)
Payments of long-term loans receivable	(1,265)	(941)
Collection of long-term loans receivable	2,398	2,322
Payments for guarantee deposits	(6,060)	(4,942)
Proceeds from collection of guarantee deposits	5,869	5,453
Purchase of long-term prepaid expenses	(830)	(137)
Other	430	(2,501)
Net cash provided by (used in) investing activities	(13,852)	(18,297)

(Millions of yen)

	Previous 1st Half From March 1, 2021 to August 31, 2021	Current 1st Half From March 1, 2022 to August 31, 2022
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	(35,550)	(45,842)
Repayments of lease obligations	(24,331)	(25,705)
Cash dividends paid	(7,505)	(7,505)
Other	(24)	(24)
Net cash provided by (used in) financing activities	(67,411)	(79,076)
Effect of exchange rate change on cash and cash equivalents	1,054	2,115
Net increase (decrease) in cash and cash equivalents	(32,673)	3,187
Cash and cash equivalents at beginning of period	401,136	388,444
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	19	—
Cash and cash equivalents at end of period	368,483	391,632

(4) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not Applicable.

(Notes to Significant Changes in the Amount of Shareholders' Equity)

Not Applicable.

(Changes in Accounting Policies)

(Application of Accounting Standards for Revenue Recognition, etc.)

Effective from March 1, 2022, the Company applies the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020, "Accounting Standard for Revenue Recognition") and other standards and recognizes revenue at an amount that it expects to receive in exchange for promised goods or services when control of the goods or services is transferred to a customer.

The changes in relation to the application of the accounting standards for revenue recognition are stated below:

(1) Sales transactions involving a subsidiary

Sales transactions involving SCI, Inc., a subsidiary of the Company in the domestic convenience store business, that were previously recognized on a net basis are now recorded on a gross basis in consideration of the subsidiary's role in sales to customers (whether it is principal or agent).

(2) Consideration paid to customers

Sales promotion costs and other costs were previously recognized as selling, general and administrative expenses, such as sales commission and advertising expenses, but such consideration paid to customers is now deducted directly from revenue.

(3) IT systems fees received from customers

Fees received from customers for IT system utilization and data provision were previously deducted from selling, general and administrative expenses, but transactions based on contracts with customers are now recognized as revenue.

(4) Points program operated by a subsidiary

With respect to the in-house points program operated by United Cinemas Co., Ltd., a subsidiary of the Company in the Entertainment-related Business, points awarded were previously recognized as revenue on a gross basis at the time the services were sold. However, the points awarded at the time of sales are now recognized as a separate performance obligation to be executed when customers choose to purchase additional services in the future. As a result, transaction values allocated to points are recognized as contract liabilities at the time the points are awarded, and later recognized as revenue when services are sold in exchange for the points. Transaction values are allocated in proportion to the independent selling prices. The membership fees for the points program were previously recognized as revenue in a lump sum at the time of receipt, but they are now recorded based on the elapsed period.

The Accounting Standards for Revenue Recognition have been applied in accordance with Proviso of Paragraph 84 of the Accounting Standards for Revenue Recognition with the cumulative effect of retrospective application added to or deducted from the beginning balance of retained earnings of the first quarter of the current fiscal year, thus, the new accounting policy has been adopted from the first quarter of this fiscal year.

As a result, compared with the amounts based on the previously adopted accounting policies, accounts receivable-trade increased by 32,754 million yen, accounts receivable-other decreased by the same amount, accounts payable-trade increased by 35,967 million yen and accounts payable-other decreased by the same amount, net sales and operating revenue increased by 117,638 million yen, cost of sales increased by 131,410

million yen, and selling, general and administrative expenses decreased by 13,792 million yen for the first half under review, while operating income, ordinary income, and profit before income taxes increased by 21 million yen, respectively. The balance of retained earnings at the beginning of the fiscal year decreased by 723 million yen.

The account transfer (related to the changes in accounting policy for revenue recognition) on the Consolidated Balance Sheet has no effect on the Consolidated Statement of Cash Flows as a non-cash transaction. As a result, notes and accounts receivable-trade increased by 26,359 million yen, accounts receivable-other decreased by the same amount, notes and accounts payable-trade increased by 29,430 million yen and accounts payable-other decreased by the same amount for the first half under review.

In accordance with the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Company has not restated the financial results for the previous fiscal year to reflect the new method of presentation. Furthermore, in accordance with the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), a breakdown of revenue from contracts with customers for the first half of the previous fiscal year has been omitted.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30, July 4, 2019; hereafter “Fair Value Accounting Standards”) has been applied prospectively from the beginning of the first quarter of the current fiscal year as prescribed by the Fair Value Accounting Standards in accordance with the transitional treatment set forth in Paragraph 19 of Fair Value Accounting Standards and Section 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, July 4, 2019). This change had no effect on the quarterly consolidated financial statements.

(Additional Information)

(Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system)

The Company and certain domestic consolidated subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities in accordance with tax laws in effect before amendment based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision in Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018), regarding the transition to group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No.8 of 2020), and items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.