1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

(i) Consolidated Statement of Financial Position

(Millions of yen)

	Note	As of February 28, 2023	As of February 29, 2024
Assets			
Current assets			
Cash and cash equivalents	7	399,523	432,464
Trade and other receivables	8,25	223,648	234,295
Finance lease receivables	15,25	13,710	7,707
Other financial assets	9,25	3,595	879
Inventories	10	28,689	29,176
Other current assets	11	10,671	11,345
Total current assets		679,839	715,868
Non-current assets			
Property, plant, and equipment	12,16	186,398	193,270
Right-of-use assets	15,16	1,069,233	1,058,069
Investment property	13,16	46,734	47,841
Goodwill	14,16	50,150	52,258
Intangible assets	14,16	51,416	64,003
Investments accounted for using equity method	17	6,532	6,665
Guarantee deposits	25	92,916	97,502
Other financial assets	9,25	5,742	8,399
Deferred tax assets	18	48,234	47,543
Other non-current assets	11,16	5,223	6,077
Total non-current assets		1,562,582	1,581,630
Total assets		2,242,421	2,297,498

	Note	As of February 28, 2023	As of February 29, 2024
Liabilities and equity			
Current liabilities			
Trade and other payables	20,25	231,925	256,411
Deposits received	25	274,224	202,954
Borrowings	19,25	92,877	90,850
Income taxes payable		10,800	16,012
Other financial liabilities	23,25	273,465	418,774
Provisions	22	2,480	2,490
Other current liabilities	24	19,505	23,699
Total current liabilities		905,279	1,011,192
Non-current liabilities			
Borrowings	19,25	80,000	99
Lease liabilities	15	923,588	916,105
Other financial liabilities	23,25	21,407	21,585
Retirement benefit liability	21	16,797	17,280
Deferred tax liabilities	18	430	386
Provisions	22	37,642	37,840
Other non-current liabilities	24	3,417	3,706
Total non-current liabilities		1,083,284	997,005
Total liabilities		1,988,563	2,008,197
Equity			
Share capital	26	58,506	58,506
Capital surplus	26	46,934	47,058
Treasury shares	26	(948)	(947)
Other components of equity		3,799	5,705
Retained earnings	26	141,650	174,429
Total equity attributable to owners of parent		249,941	284,752
Non-controlling interests		3,916	4,548
Total equity		253,858	289,300
Total liabilities and equity		2,242,421	2,297,498

(ii) Consolidated Statement of Income

(Millions of yen)

	Note	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Operating revenues	6,13,15,29	1,000,385	1,087,964
Cost of sales	10,12,14,15,21,30	473,074	507,648
Operating gross profit		527,310	580,315
Selling, general, and administrative expenses	12,13,14,15,21,28,30	462,998	486,225
Other income	31	3,133	2,778
Other expenses	12, 13,14,15,16,31	12,985	13,442
Finance income	15,25,32	1,468	2,104
Finance costs	15,25,32	9,158	9,488
Share of profit of investments accounted for using equity method	17	363	1,250
Profit before tax		47,134	77,292
Income tax expense	18	17,461	24,604
Profit		29,673	52,687
Profit (loss) attributable to			
Owners of parent		29,708	52,148
Non-controlling interests		(34)	53
		29,673	52,687
Earnings per share	34		
Basic earnings per share (Yen)		296.86	521.08
Diluted earnings per share (Yen)		296.60	520.53

(iii) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Note	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Profit		29,673	52,687
Items that will not be reclassified to profit or loss			
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	25,33	120	268
Remeasurements of defined benefit plans	21,33	1,125	(105)
Share of other comprehensive income of investments accounted for using equity method	17,33	10	-
Total of items that will not be reclassified to profit or loss		1,256	163
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	33	2,175	1,715
Share of other comprehensive income of investments accounted for using equity method	17,33	18	18
Total of items that may be reclassified to profit or loss		2,194	1,734
Other comprehensive income		3,450	1,897
Comprehensive income		33,124	54,585
Comprehensive income attributable to			
Owners of parent		33,045	53,949
Non-controlling interests		79	635

(iv) Consolidated Statement of Changes in Equity

Fiscal year ended February 28, 2023

(Millions of yen)

	Note	Equity attributable to owners of parent						
					Other components of equity			
		Share capital	Capital surplus	Treasury shares	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Total
Balance at beginning of period		58,506	46,899	(973)	-	(1,409)	2,997	1,588
Profit								-
Other comprehensive income					1,125	130	2,079	3,336
Comprehensive income					1,125	130	2,079	3,336
Purchase of treasury shares	26			(0)				-
Disposal of treasury shares	26			0				-
Dividends of surplus	27							-
Exercise of share acquisition rights			(24)	24				-
Share-based payment transactions			59					-
Transfer to retained earnings					(1,125)			(1,125)
others								-
Total transactions with owners		-	34	24	(1,125)	-	-	(1,125)
Balance at end of period		58,506	46,934	(948)	-	(1,278)	5,077	3,799

	Note	Equity attributable to owners of parent			
		Retained earnings	Total	Non-controlling interests	Total equity
Balance at beginning of period		125,832	231,853	3,839	235,693
Profit		29,708	29,708	(34)	29,673
Other comprehensive income			3,336	114	3,450
Comprehensive income		29,708	33,045	79	33,124
Purchase of treasury shares	26		(0)		(0)
Disposal of treasury shares	26		0		0
Dividends of surplus	27	(15,011)	(15,011)	(2)	(15,013)
Exercise of share acquisition rights			(0)		(0)
Share-based payment transactions			59		59
Transfer to retained earnings		1,125	-		-
Others		(5)	(5)		(5)
Total transactions with owners		(13,890)	(14,957)	(2)	(14,960)
Balance at end of period		141,650	249,941	3,916	253,858

Fiscal year ended February 29, 2024

(Millions of yen)

	Note	Equity attributable to owners of parent						
					Other components of equity			
		Share capital	Capital surplus	Treasury shares	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Total
Balance at beginning of period		58,506	46,934	(948)	-	(1,278)	5,077	3,799
Profit								-
Other comprehensive income					(105)	268	1,637	1,800
Comprehensive income					(105)	268	1,637	1,800
Purchase of treasury shares	26			(4)				-
Dividends of surplus	27							-
Exercise of share acquisition rights			(5)	5				-
Share-based payment transactions			130					-
Transfer to retained earnings					105			105
Total transactions with owners		-	124	1	105	-	-	105
Balance at end of period		58,506	47,058	(947)	-	(1,009)	6,715	5,705

	Note	Equity attributable to owners of parent		Non-controlling interests	Total equity
		Retained earnings	Total		
Balance at beginning of period		141,650	249,941	3,916	253,858
Profit		52,148	52,148	538	52,687
Other comprehensive income			1,800	97	1,897
Comprehensive income		52,148	53,949	635	54,585
Purchase of treasury shares	26		(4)		(4)
Dividends of surplus	27	(19,264)	(19,264)	(2)	(19,267)
Exercise of share acquisition rights			0		0
Share-based payment transactions			130		130
Transfer to retained earnings		(104)	1	(1)	(0)
Total transactions with owners		(19,369)	(19,138)	(3)	(19,142)
Balance at end of period		174,429	284,752	4,548	289,300

(v) Consolidated Statement of Cash Flows

(Millions of yen)

	Note	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Cash flows from operating activities			
Profit before tax		47,134	77,292
Depreciation and amortization		211,745	213,287
Impairment losses		9,623	9,446
Interest income		(1,280)	(1,272)
Interest expenses		8,298	9,487
Loss on retirement of fixed assets		1,438	2,279
Decrease (increase) in trade and other receivables		(28,693)	(9,766)
Increase (decrease) in trade and other payables		16,801	17,123
Increase (decrease) in deposits received		29,971	(71,129)
Increase (decrease) in retirement benefit liability		(923)	443
Net increase in call money for banking business		15,000	145,000
Other		14,731	13,111
Subtotal		323,849	405,303
Interest and dividend income		1,354	1,330
Interest paid		(4,002)	(4,495)
Income taxes paid		(11,502)	(18,747)
Net cash provided by operating activities		309,699	383,390
Cash flows from investing activities			
Purchase of property, plant, and equipment; right-of-use assets; and investment property		(42,239)	(38,404)
Purchase of intangible assets		(12,427)	(20,127)
Purchase of investments		(4,461)	(1,874)
Proceeds from sale and redemption of investments		8,140	3,119
Payments for guarantee deposits		(11,261)	(13,949)
Proceeds from collection of guarantee deposits		11,880	8,275
Purchase of long-term prepaid expenses		(210)	(2,898)
Other		(1,146)	(1,252)
Net cash used in investing activities		(51,725)	(67,110)
Cash flows from financing activities			
Proceeds from long-term borrowings	35	196,195	1,820,095
Repayments of long-term borrowings	35	(250,836)	(1,902,829)
Repayments of lease liabilities	35	(182,918)	(182,680)
Dividends paid	27	(15,011)	(19,264)
Other		21	126
Net cash used in financing activities		(252,548)	(284,551)
Effect of exchange rate changes on cash and cash equivalents		1,100	1,213
Net (decrease) increase in cash and cash equivalents		6,526	32,941
Cash and cash equivalents at beginning of period		392,996	399,523
Cash and cash equivalents at end of period	7	399,523	432,464

Note to Consolidated Financial Statements

1. REPORTING ENTITY

Lawson, Inc. (the “Company”) is a company located in Japan, and the address of the registered head office is Shinagawa-ku, Tokyo.

The Company’s consolidated financial statements, the reporting period of which ends on the last day of February, consist of accounts of the Company and its subsidiaries (the “Group”), as well as interests in associates and joint arrangements.

The parent company of the Group is Mitsubishi Corporation.

The principal businesses of the Group are stated in Note “6. SEGMENT INFORMATION.”

2. BASIS OF PREPARATION

(1) Compliance with IFRS

The Group’s consolidated financial statements have been prepared in accordance with IFRS as prescribed in Article 93 of the Regulation on Consolidated Financial Statements as the Group meets the requirements of a “specified company complying with designated international accounting standards” set forth in Article 1-2 of said Regulation.

(2) Basis of measurement

The Group’s consolidated financial statements have been prepared on a historical cost basis except items measured at fair value such as certain financial instruments, as stated in Note “3. MATERIAL ACCOUNTING POLICIES.”

(3) Functional currency and presentation currency

The Group’s consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency, and amounts less than one million yen are rounded down.

3. MATERIAL ACCOUNTING POLICIES

(1) Basis of consolidation

(i) Subsidiaries

The Company consolidates entities that it directly or indirectly controls. Therefore, entities in which the Group owns a majority of voting rights are generally treated as consolidated subsidiaries of the Group. However, even in cases where the Group does not own the majority of voting rights of an entity, the entity is treated as a consolidated subsidiary if the Group is deemed to effectively control the decision-making body of the entity.

A subsidiary is consolidated from the date of acquisition, or the date on which the Group obtains control, to the date on which the Group loses the control.

If any accounting policies applied to a subsidiary differ from those applied to the Group, adjustments are made to the financial statements of the subsidiary as necessary.

Intragroup transactions and balance of receivables/payables, as well as unrealized gains and losses arising from intragroup transactions are eliminated when preparing the consolidated financial statements.

Changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the parent’s interest and non-controlling interest are adjusted to reflect changes in their relative interest in the subsidiaries. Any difference between the amount of non-controlling interest and the amount of consideration paid or received is recognized directly in equity and attributed to the parent.

If control over a subsidiary is lost, gains or losses arising from the loss of control are recognized in profit or loss.

(ii) Associates

An associate refers to an entity that is not controlled by the Group but for which the Group has significant influence over the decisions on financial and operating or business policies. If the Group has 20% or more but not more than 50% of the voting rights of another entity, the Group is presumed to have significant influence over that entity. Entities over which the Group has significant influence on their financial and operating policy decisions are also included in associates even if it holds less than 20% of the voting rights. In contrast, the equity method is not applied in cases where the Group is deemed not to have significant influence even if it holds 20% or more of the voting rights.

An associate is accounted for using the equity method from the date on which the Group has come to have significant influence until the date on which the Group loses significant influence.

(iii) Joint arrangement

Joint arrangement is a contractual arrangement of which two or more parties have joint control. The Group classifies its involvement in joint arrangements into joint operations (where the Group has rights to the assets and obligations for the liabilities, relating to the arrangement) and joint ventures (where the Group only has rights to the net assets of the arrangement), depending on the rights and obligations of the parties to the arrangement. For the Group's joint operations, the assets, liabilities, revenues, and expenses relating to its interest in the joint operations are recognized, while joint ventures are accounted for using the equity method.

(iv) Reporting date

The consolidated financial statements include financial statements of subsidiaries whose closing dates are different from that of the Company and investments in equity-method associates, for which unification of the fiscal year end is impracticable due to the local legal system or relationship with other shareholders. The fiscal year end of most subsidiaries and equity-method associates is December 31, and adjustments have been made for the effects of significant transactions or events that occurred between their closing dates and that of the consolidated financial statements.

The closing date of Lawson Bank, Inc. is March 31. For the preparation of the consolidated financial statements, the Company uses financial statements prepared based on the provisional closing of accounts as of the end of the fiscal year.

(2) Business combinations

The Group accounts for business combinations by applying the acquisition method. The consideration transferred in a business combination is measured as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree, and the equity instruments issued by the Group in exchange for control over the acquiree. The non-controlling interests in the acquiree are measured at fair value. The acquisition-related costs incurred are recognized in profit or loss.

In cases where the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree exceeds the net of the amounts of the identifiable assets acquired and the liabilities assumed, goodwill is recognized and measured at the excess amount.

In cases where the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree falls short of the net of the amounts of the identifiable assets acquired and the liabilities assumed, the difference is recognized in profit or loss.

In cases where a business combination is conducted in stages, the equity interests in the acquiree previously held by the Group are revalued at the acquisition-date fair value, and any such gain or loss on step acquisition is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are accounted for under the same method used by the acquirer in disposing of the interest.

If the initial accounting for a business combination has not been completed by the end of the reporting period in which the business combination occurs, the Group accounts for the transaction at provisional amounts. Subsequently, the provisional amounts are adjusted during the measurement period, which does not exceed one year from the acquisition date.

(3) Foreign currency translation

Items in financial statements denominated in a foreign currency are translated at the exchange rate at the transaction date, and monetary items are retranslated at the exchange rate as at the closing date. Non-monetary items measured at fair value are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost are not retranslated. The difference arising from the retranslation of monetary items is recorded in “Other income” or “Other expenses” in the consolidated statement of income.

The assets and liabilities of foreign operations, such as overseas subsidiaries and associates, are translated into Japanese yen at the respective exchange rates on the closing date. Revenue and expense items are translated at the average exchange rates for the period, unless exchange rates have fluctuated significantly during that period. Exchange differences arising from translation are recognized in other comprehensive income, net of tax, and under “Other components of equity.”

If control is lost due to the disposal of foreign operations, the cumulative amount of exchange difference is reclassified into profit or loss. In the case of partial disposal that does not lead to the loss of control of a subsidiary, the ratio of ownership interest in the cumulative amount of exchange difference is reallocated to non-controlling interests, but no amount is recognized in profit or loss. In other cases of partial disposal that leads to the loss of significant influence or joint control, the amount proportionate to the disposal of the cumulative amount of exchange difference is reclassified into profit or loss.

Goodwill and fair value adjustments resulting from the acquisition of foreign operations are retranslated as assets and liabilities of such foreign operations as at the end of the reporting period, and exchange differences are recognized in “Other components of equity" and accumulated in equity.

(4) Financial instruments

(i) Financial assets

i. Classification

The Group classifies financial assets into those measured at amortized cost and those measured at fair value through other comprehensive income or profit or loss.

Financial assets measured at amortized cost

Financial assets are classified as those measured at amortized cost if both of the following conditions are met; otherwise, they are classified as financial assets measured at fair value:

- The assets are held for the purpose of collecting contractual cash flows.
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value

Of the financial assets other than those measured at amortized cost, debt instruments are classified as financial assets measured at fair value through other comprehensive income (“FVTOCI financial assets”) if both of the following conditions are met:

- The assets are held for the purpose of both collecting contractual cash flows and selling the assets.
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Of the financial assets other than those measured at amortized cost, those not stated above are classified as financial assets measured at fair value with fair value changes recognized through profit or loss (“FVTPL financial assets”). However, the Group elects to designate equity instruments not held for trading purposes as equity financial assets measured at fair value with fair value changes recognized through other comprehensive income (“FVTOCI financial assets”). A financial asset is classified as held for trading if:

- It is acquired or incurred principally for the purpose of selling it in the near term.
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which

there is evidence of a recent actual pattern of short-term profit-taking.

- It is a derivative (except a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

ii. Initial recognition and subsequent measurement

The Group determines the classification of financial assets at initial recognition. The Group initially recognizes trade and other receivables on the transaction date, and all other financial assets at the transaction date on which the Group became a party to the contract concerning such financial instruments.

Financial assets measured at amortized cost are recognized initially at fair value, plus transaction costs that are directly attributable to the acquisition of the financial assets. However, trade receivables are recognized initially at their transaction price if they do not contain any significant financing component. After initial recognition, financial assets are measured at amortized cost using the effective interest method.

Of the FVTOCI financial assets, changes in the fair value of equity financial assets are not recognized in profit or loss and directly transferred from other comprehensive income to retained earnings when the assets are derecognized. Dividend income from equity financial assets at FVTOCI is recognized in profit or loss as part of finance income at the time when the right to receive the dividend is established.

Of the FVTOCI financial assets, changes in the fair value of debt financial assets are recognized in profit or loss when the assets are derecognized.

FVTPL financial assets are measured at fair value with changes in the fair value being principally recognized in profit or loss.

iii. Impairment

The Group estimates expected credit losses and recognizes and measures a loss allowance for financial assets measured at amortized cost and debt instruments classified as FVTOCI financial assets. If credit risk on a financial instrument at a reporting date has not increased significantly since the initial recognition, a loss allowance for the financial instrument is calculated based on expected credit losses arising from possible events of default within 12 months from the reporting date. Meanwhile, if credit risk on a financial instrument at a reporting date has increased significantly since the initial recognition, a loss allowance for the financial instrument is calculated based on expected credit losses arising from all possible events of default in expected life of the financial instrument (lifetime expected credit losses).

Based on past due information and other reasonable and supportable information that is available to the Group, the Group assesses whether credit risk has significantly increased. If the financial instrument is determined to have low credit risk at the end of the reporting period, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition.

Expected credit loss is measured based on the present value of the difference between all contractual cash flows that are due to the entity in accordance with the contract and all the cash flows that the entity expects to receive.

Evidence of credit impairment is determined through events, including significant financial difficulty of the issuer or the debtor, and a breach of contract, such as a default or past-due event. When one or more of these events have occurred, the Group individually assesses the financial asset as a credit-impaired financial asset and measures the expected credit loss based primarily on historical credit loss experience and future recoverable amounts. For financial assets that are not credit impaired, expected credit losses are measured collectively based mainly on historical credit loss experience and provision rates adjusted, as necessary, for current and future economic conditions.

However, for trade receivables that do not contain any significant financing component, a loss allowance is always calculated at an amount equal to the lifetime expected credit losses, regardless of whether the credit risk has increased significantly since initial recognition.

When the Group determines that receivables are unlikely to be collected, it directly writes off the amount of expected credit losses from the receivables to derecognize them.

A provision for loss allowance on financial assets is recognized in profit and loss. If any event that reduces the loss allowance arises, reversal of loss allowance is recognized in profit or loss.

iv. Derecognition

The Group derecognizes financial assets when and only when the contractual rights to the cash flows from the financial assets expire, or when substantially all the risks and rewards of ownership have been transferred as a result of the transfer of the financial assets. In cases where the Group neither transfers nor retains substantially all the risks and rewards of ownership, but continues to control the assets transferred, the Group recognizes the retained interest in assets and related liabilities that might be payable.

(ii) Financial liabilities

i. Classification

The Group classifies financial liabilities as those measured at amortized cost.

ii. Initial recognition and subsequent measurement

The Group initially recognizes financial liabilities on the transaction date when the Group becomes a party to the contract concerning such financial instruments. Financial liabilities are initially recognized at fair value, net of directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or a shorter period where appropriate) to the net carrying amount. At the time of initial recognition, there is no financial liability irrevocably designated as a financial liability measured at fair value through profit or loss.

iii. Derecognition

The Group derecognizes financial liabilities when the obligation specified in the contract is discharged, cancelled, or expires.

(iii) Offsetting financial assets and financial liabilities

If the Group currently has a legally enforceable right to offset the balance and has the intention either to settle on a net basis or to realize assets and settle liabilities simultaneously, the Group offsets financial assets against financial liabilities and presents the net amount in the consolidated statement of financial position.

(iv) Equity

i. Common shares

For equity instruments issued by the Company, the proceeds from issuance are recorded in “share capital” and “capital surplus,” and costs directly attributable to the issuance (after tax effect) are deducted from “capital surplus.”

ii. Treasury shares

When treasury shares are acquired, the consideration paid, including directly attributable transaction costs net of tax, is recognized as a deduction from equity.

(5) Cash and cash equivalents

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

(6) Inventories

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

Inventories are measured at the lower of cost and net realizable value. Net realizable value is presented in the amount of estimated selling price of inventories, less the estimated costs necessary to make the sale in the ordinary course of business.

The cost of inventories is determined mainly using the retail method or the weighted-average method. For the retail method, inventory grouping used for the calculation of profit margin is reviewed so that the results approximate cost.

(7) Property, plant, and equipment

(i) Recognition and measurement

Property, plant, and equipment are measured using the cost model and presented at cost, net of accumulated depreciation and accumulated impairment losses. Cost includes the expenses directly attributable to the acquisition of the assets, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs to be capitalized.

(ii) Depreciation

Depreciation on assets other than land and construction in progress is recognized over their respective estimated useful lives using the straight-line method. The estimated useful lives of major classes of assets are as follows:

Buildings and structures:	10 to 34 years
Tools, furniture, and fixtures:	5 to 8 years

The estimated useful lives, residual values, and depreciation method are reviewed at the end of each reporting period, and when any changes are made, those changes are applied prospectively as changes in accounting estimates.

(iii) Derecognition

Property, plant, and equipment are derecognized upon disposal or when future economic benefits are no longer expected from their continued use or disposal. A gain or loss arising from the derecognition of an item of property, plant, and equipment is included in profit or loss when the asset item is derecognized.

(8) Investment property

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

The Group adopts the cost model to measure investment properties, and presents them at cost, net of accumulated depreciation and accumulated impairment losses.

Depreciation on assets other than land and right-of-use assets is calculated over their respective estimated useful lives, which are 10 to 34 years, using the straight-line method. Depreciation on right-of-use assets is calculated using the straight-line method over the shorter of their useful lives or lease terms.

(9) Goodwill and intangible assets

(i) Goodwill

Measurement of goodwill at initial recognition is described in "(2) Business combinations."

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

Goodwill is not amortized but is allocated to cash-generating units identified based on the geographic area and type of business in which they operate, and tested for impairment annually, or whenever there is an indication of impairment. Impairment loss on goodwill is recognized in profit or loss in the consolidated statement of income and is not subsequently reversed.

(ii) Intangible assets

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

Separately acquired intangible assets are measured at cost at initial recognition. Cost of intangible assets acquired in a business combination is measured at fair value at the acquisition date. Expenditures on internally generated intangible assets are all recognized as expenses in the period when incurred, except development costs that qualify for capitalization.

Except for those with indefinite useful lives, intangible assets are amortized over their respective estimated useful life using the straight-line method. The estimated useful lives of major intangible assets are as follows:

- Software: 5 years
- Trademark rights: Primarily 20 years

The estimated useful lives, residual values, and amortization method are reviewed at the end of each reporting period, and if any changes are made, those changes are applied prospectively as changes in accounting estimates.

(10) Leases

(i) As a lessee

The Group recognizes right-of-use asset and lease liability at the commencement date of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. The right-of-use asset is initially measured at the amount of the initial measurement of the lease liability, adjusted for any prepaid lease payments.

For subsequent measurement of right-of-use assets, a cost model is applied. Right-of-use assets are presented at cost, net of accumulated depreciation and accumulated impairment losses on the consolidated statement of financial position.

Right-of-use assets are depreciated using the straight-line method over the shorter of their respective useful lives or lease terms.

The lease term is determined as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

For initial measurement of lease liabilities, they are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, they are discounted at the incremental borrowing rate.

After the initial recognition, lease liabilities are remeasured to reflect changes in lease payments when estimated useful life of right-of-use assets or changes in lease payments if lease terms or lease payments are revised. The amount of the remeasurement of lease liabilities is recognized as an adjustment to the carrying amount of the right-of-use asset. Impairment of right-us-use assets is as described in "(11) Impairment of non-financial assets."

For short-term leases whose lease terms end within 12 months, exemptions are applied not to recognize right-of-use assets or lease liabilities, but to recognize lease payments related to the leases as expenses over the lease period by the straight-line method. For components of a contract, the Group has applied, for underlying properties, not to separate non-lease components from lease components, but to account for each lease component and any associated non-lease components as a single lease component.

(ii) As a lessor

A lease is classified as a finance lease if, under the terms of contract, the Group transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. The amount received from the lessee is presented in "Trade and other receivables" at an amount equal to the net investment in the lease. The finance income is allocated over the lease term on a rational basis against the gross investment in the lease.

Leases other than finance leases are classified as operating leases, and lease payments received are recognized evenly over the lease term.

(11) Impairment of non-financial assets

(i) Testing for impairment

The Group assesses at each reporting date the carrying amount of its non-financial assets, excluding inventories and deferred tax assets to determine whether there is any indication that an asset may be impaired. If there are any events or changes in circumstances indicating that the carrying amount may not be recoverable, the recoverable amounts of such assets are estimated by assuming that there are indications of impairment.

The recoverable amount of goodwill and intangible assets with indefinite useful lives are assessed at the same time every year.

Testing for impairment is conducted by asset, cash-generating unit, or group of cash-generating units. If the carrying amount of the asset, cash-generating unit, or group of cash-generating units exceeds its recoverable amount, an impairment loss is recognized as loss.

The recoverable amount of the asset, cash-generating unit, or group of cash-generating units is the higher of the value in use or the fair value less costs to sell. Value in use is calculated by discounting the estimated future cash flows to the present value using the pretax discount rate reflecting the risks specific to the asset or the cash-generating unit.

(ii) Cash-generating units

In cases where multiple assets together generate cash inflows, the smallest unit that generates cash inflows that is largely independent of the cash inflows from other assets or group of assets is referred to as a cash-generating unit.

A cash-generating unit, including goodwill, is set as the smallest unit at which the goodwill is managed for internal reporting purposes, and that is smaller than an operating segment. If impairment loss is recognized on a cash-generating unit, the carrying amount of any goodwill allocated to the cash-generating unit is reduced first, and if there is any residual amount, the carrying amounts of the other assets of the unit are reduced proportionally.

(iii) Reversal of impairment loss

Impairment recognized in the past is reversed up to the recoverable amount if there are indications of reversal of impairment and changes in the estimates used to determine the asset's recoverable amount. However, no reversal is made for impairment losses recognized for goodwill. Reversal of impairment loss is recognized up to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

(12) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. The amount recognized as provision is the best estimate calculated by taking into account the risks and uncertainties surrounding the obligation and is discounted when the time value of money is material. An increase in liabilities due to the unwinding of discount over a passage of time is recognized as finance costs.

Asset retirement obligations

An asset retirement obligation is recorded in an estimated cost required to restore the property to its original state mainly with respect to properly lease contracts for stores. The calculations are based on an estimated useful life of mainly 20 years from acquisition, and discount rates of mainly 1.1% to 1.5%.

(13) Employee benefits

(i) Postemployment benefits

The Group has adopted defined benefit plans and defined contribution plans as postemployment benefit plans for its employees.

i. Defined benefit plans

Obligations related to defined benefit plans are recognized in the amount of benefit obligations under such plans, net of the fair value of the plan assets, in the consolidated statement of financial position. Benefit obligations are calculated at the discounted present value of the amount of estimated future benefits corresponding to the consideration for services already provided by employees with respect to each plan. Benefit obligations and plan assets are remeasured in each period, and benefit obligations are calculated by qualified pension actuaries.

Changes in benefit obligations for employees' past services due to the revision of the pension plan are recognized in profit or loss.

The Group recognizes changes in obligations due to the remeasurement of benefit obligations and plan assets of defined benefit plans in other comprehensive income, and immediately reclassifies the amount accumulated in "Other components of equity" to "Retained earnings."

ii. Defined contribution plans

Defined contribution plans are postemployment benefit plans in which the employer makes a certain amount of contributions to fund postemployment benefits and does not bear obligations exceeding the amount contributed. The obligation to make contributions under defined contribution plans are recognized in profit or loss as expenses in the period during which services were provided by employees.

(ii) Other employee benefits

Short-term employee benefits are measured on an undiscounted basis and are recognized as expenses when employees render the related service.

Bonuses are recognized as a liability in the amount estimated to be paid if the Group has a present legal or constructive obligation to make such payment and the amount can be reliably estimated.

Paid absence accruals are recognized as a liability in the amount estimated to be paid under the plan, if the Group has a legal or constructive obligation for the accumulating paid absence plan, and the amount can be reliably estimated.

(14) Share-based payments

The Company grants stock options to its directors to allow them to exercise their rights to purchase shares of the Company. Stock options are calculated based on the fair value at the grant date and expensed on a straight-line basis over the period in which the Company receives services as consideration, while a corresponding amount is recorded as equity. The fair value of stock options is calculated based on the Black-Scholes model.

(15) Revenue

(i) Revenue recognition

The Group recognizes revenue from contracts with customers by applying the following steps:

(Lease payments under IFRS 16 *Leases* ("IFRS 16") and interest and dividend income under IFRS 9 *Financial Instruments* ("IFRS 9") are excluded.)

Step 1: Identify the contracts with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

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

Since the consideration for transactions is received primarily within one month after the performance obligation is satisfied, the practical expedient is used, and no adjustment is made for significant financial components.

(ii) Revenue recognition in the Group's main businesses

The Group primarily operates the Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-related Business, Financial Services Business, and Overseas Business.

i. Revenue from franchised stores in the Domestic Convenience Store Business, Seijo Ishii Business, and Overseas Business

The Group has contractual obligations to franchisees in the Domestic Convenience Store Business, Seijo Ishii Business, and Overseas Business, to provide store opening preparation services, operational knowledge, trademarks, and other licenses, offer services including training and accounting paperwork, and lend store fixtures, signboards, and information systems. As these closely interrelated activities cannot be separated and performed as individual services, they are considered to be a single performance obligation, except for lease transactions. This performance obligation is considered to be satisfied over time and as services are rendered; however, because the transaction price for royalty income is a variable royalty based on the operating gross profit of the store, revenue is recognized over the contract period as such operating gross profit is generated.

ii. Revenue from the Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-related Business, Financial Services Business, and Overseas Business

The Group sells consumer goods at its directly managed stores in the Domestic Convenience Business, Seijo Ishii Business and Overseas Business; and music and video software and concert tickets in the Entertainment-related Business. Revenue from the sale of these goods is recognized when merchandise is delivered to a customer, at which time control is deemed to have been transferred.

In addition, certain subsidiaries in the Domestic Convenience Store Business wholesale raw materials or merchandise. Revenue from the sale of these goods is recognized when merchandise is delivered to and accepted by a customer, at which time control is deemed to have been transferred.

In the Entertainment-related Business, which operates multiplex movie theaters, revenue is recognized when the screening is provided, at which time control is deemed to have been transferred.

The Financial Services Business provides, through ATMs, transactions using cash cards of partner financial institutions and deposit services for sales proceeds from franchised store owners.

In identifying performance obligations, the Group conducts principal versus agent consideration. If the nature of its promise is a performance obligation to provide specified goods or services itself, the Group presents revenue as the principal at the gross amount of the consideration; if it is a performance obligation to arrange for those goods or services to be provided by the other party, the Group presents revenue as agent at the fee or commission amount or net amount of the consideration in the consolidated statement of income.

To determine that the Group is a principal, the following three indicators are considered.

- The Group is primarily responsible for fulfilling the promise to provide the specified good or service.
- The Group has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer.
- The Group has discretion in establishing the price for the specified good or service.

Revenue is measured at the transaction price, less consideration paid to the customer, such as discounts, rebates, and refunds.

When the Group grants a customer an option to acquire additional goods or services and provides a material right, the transaction price is allocated to the option as a separate performance obligation, and revenue is recognized when those future goods or services are transferred or when the option expires.

(16) Government grants

Government grants are not recognized until there is a reasonable assurance that the conditions attached to the grants are satisfied and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that contain main conditions requiring the Group to acquire non-current assets by purchase, construction, or other method are recognized by deducting the costs of the related assets in the consolidated statement of financial position and are reclassified into profit or loss on a systematic and rational basis over their useful lives.

(17) Income taxes

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

Current tax is measured at the amount of income taxes expected to be payable to or recoverable from the taxation authorities. Tax amounts are calculated in accordance with the tax rates and tax laws that have been enacted or substantively enacted at the end of reporting period in the countries in which the Group operates and earns taxable profits or losses.

Deferred tax is recognized in respect of temporary difference between the carrying amount of assets and liabilities in the financial statements and the tax basis of these assets and liabilities.

A deferred tax asset or liability is recorded based on the temporary difference between the carrying amount of the assets and liabilities for financial accounting purposes and the tax basis of these assets and liabilities under the asset and liability method. Deferred tax assets and liabilities are not recorded for the following temporary differences arising from:

- Temporary differences arising from goodwill
- Temporary differences arising from initial recognition of assets and liabilities from transactions (except business combinations) that do not affect neither accounting profit nor taxable income (loss) at the time of the transaction.
- Taxable temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary difference is reversed, based on the laws that have been enacted or substantively enacted by the end of consolidated reporting period.

Deferred tax assets are recognized only with respect to tax losses carryforward, tax credits carryforward, and deductible temporary differences where it is probable to reduce future taxable income. The recoverability of deferred tax assets is reviewed at the end of each fiscal year, and the carrying amount is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

The Company and its wholly owned domestic subsidiaries have adopted the Japanese group tax sharing system.

(18) Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to common shareholders of the parent by the weighted average number of common shares issued and outstanding during the period, adjusted for the number of treasury shares. Diluted earnings per share are calculated by adjusting for the impact of all dilutive potential shares.

(19) Non-current assets held for sale and discontinued operations

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable, and only if the Group’s management is committed to implementing the plan of sale and, in principle, the completion of the sale is scheduled within one year. After being classified as held for sale, it is measured at the lower of its carrying amount and fair value, less costs to sell. The non-current asset or disposal group is not depreciated or amortized.

A discontinued operation consists of a component of an entity that either has been disposed of or is classified as held for sale. It is recognized if, it represents Group’s separate major line of business or geographical area of operations; and is part of a plan to dispose of the separate major line of business or geographical area of operations.

Note to Changes in accounting policies

IAS 12「Income Taxes」

Deferred taxes on assets and liabilities arising from a single transaction

The Group has adopted amendments to IAS 12 “Income Taxes” (Clarification of accounting treatment for deferred taxes on assets and liabilities arising from a single transaction) effective from the beginning of the fiscal year. There is no material impact on the consolidated financial statements.

A temporary exception was established providing an exemption from recognition and disclosure requirements of deferred tax assets and deferred tax liabilities related to the Pillar 2 Model Rules. As the Group applies the exception retrospectively, it does not recognize any deferred tax assets and deferred tax liabilities related to the Pillar 2 Model Rules.

There are no Group companies that will be subject to the Income Inclusion Rule (the “IIR”) in the next fiscal year (FY2024) based on the Pillar 2 Model Rules.

From FY2025 onwards, the Company, as the ultimate parent entity, will file tax returns and make payments under the IIR, as well as GloBE information filing in Japan, in accordance with Japanese laws and regulations for all companies within the Group.

Meanwhile, regarding the Undertaxed Payment Rule (the “UTPR”), it is not applicable to the countries where companies within the Group are located in FY2024. As the Company will be able to file and pay taxes for all Group companies based on the IIR from FY 2025, filing or paying taxes under the UTPR is not anticipated.

4. MATERIAL ACCOUNTING JUDGMENTS AND ESTIMATES

In preparing the consolidated financial statements, the management is required to make judgments, estimates, and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual operating results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Effect of revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods that are affected.

Information about judgments made in applying accounting policies that have significant effects on the amounts recognized in the consolidated financial statements was as follows:

- Determination of cash-generating units related to the impairment of assets. (See Note "16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS.")
- Allocation of goodwill to group of cash-generating units. (See Note "16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS.")

Information about uncertainties of assumptions and estimates on future that have a risk of resulting in a material adjustment in the following fiscal year was as follows:

(1) Estimates of useful life and residual value of property, plant, and equipment; investment property; and intangible assets

Useful life of property, plant, and equipment, investment property, and intangible assets is determined based on comprehensive considerations to expected usage, physical wear and tear, and technical or commercial obsolescence. The residual value is the currently estimated amount that would be obtained from disposal of the asset, after deducting the costs of disposal. These may result in material adjustments to depreciation or amortization amount due to changes in uncertain future economic conditions.

Details and amounts of property, plant, and equipment; investment property; and intangible assets are disclosed in Note "12. PROPERTY, PLANT, AND EQUIPMENT," Note "13. INVESTMENT PROPERTY," and Note "14. GOODWILL AND INTANGIBLE ASSETS."

(2) Impairment of non-financial assets including property, plant, and equipment; investment property; right-of-use assets; goodwill; and intangible assets

Recoverable amount used in the impairment test is calculated based on assumptions using factors, such as the useful life of the asset, future cash flows, discount rate, and long-term average growth rate. These assumptions are based on the management's best estimates and judgments but may be affected by changes in economic conditions that could materially affect future consolidated financial statements.

Details and amounts of property, plant, and equipment; investment property; and intangible assets are disclosed in Note "12. PROPERTY, PLANT, AND EQUIPMENT;" Note "13. INVESTMENT PROPERTY;" and Note "14. GOODWILL AND INTANGIBLE ASSETS;" and Note "16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS."

(3) Terms of leases of right-of-use assets

The Group determines the lease term as the period that includes the non-cancellable period of the lease, together with both the period covered by an option to extend the lease when the lessee is reasonably certain to exercise that option and the period covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Specifically, the lease term is estimated by taking into account whether or not there is an option to extend or terminate the lease term, the probability of the option being exercised, and whether or not there are penalties for cancellation. 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 and the result of negotiations upon contract renewal.

Details of determination of lease terms are described in Note "3. MATERIAL ACCOUNTING POLICIES, (10) Leases," and details and amounts of right-of-use assets and lease liabilities are described in Note "15. LEASES."

(4) Recoverability of deferred tax assets

The calculation of income taxes requires estimates and judgments on various factors, including the interpretation of tax regulations and the history of past tax audits. Accordingly, the recorded amount of income taxes may differ from the actual amount borne.

While deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, the timing and amount of taxable income may be affected by changes in uncertain future economic conditions. If the actual timing and amount differ from the estimates, it could result in material changes in the amounts to be recognized in the consolidated financial statements in subsequent fiscal years.

Details and amounts related to income taxes are described in Note "18. INCOME TAXES."

(5) Measurement of provisions

The Group records asset retirement obligations, which are based on the present value measured by discounting the best estimate of expenditures required to settle the obligations, taking into account risks and uncertainties at the balance sheet date, by using the pre-tax discount rate reflecting the risks specific to the liabilities.

Expenditures necessary for settling the obligations are calculated by comprehensively taking into account possible future results. However, they may be affected by unexpected events or changes in conditions which may have a material impact on the consolidated financial statements in subsequent fiscal years, if actual payments differ from the estimates or if there are material changes in the discount rate used to discount estimated expenditures due to changes in economic conditions.

Details and amounts related to provisions are described in Note “22. PROVISIONS.”

(6) Measurement of defined benefit obligations

The present value of defined benefit obligations and related service costs are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates and rates of salary increase.

The Group obtains advice from external pension actuaries with respect to the appropriateness of these actuarial assumptions, including these variables.

The actuarial assumptions are determined based on the management’s best estimates and judgments but may be affected by the results of changes in economic conditions and amendments or promulgation of relevant laws and regulations. Should these assumptions need to be revised, this could result in a material change in the amounts to be recognized in the consolidated financial statements for the subsequent fiscal years.

Details and amounts related to defined benefit obligations are described in Note “21. EMPLOYEE BENEFITS.”

5. NEW STANDARDS NOT YET APPLIED

Of the standards and interpretations newly established, or revised, by the date of approval of the Group’s consolidated financial statements, the following standard was not adopted by the Group as of February 29, 2024. The impact of the application on the Group is under assessment and cannot be estimated at this time.

Standard	Standard title	Mandatory applicable from the fiscal year beginning on or after	To be applied by the Group from the fiscal year ending	Outline of establishment and revision
IAS 1	Presentation of Financial Statement	January 1, 2024	Fiscal year ending February 28, 2025	Clarify requirements for classifying liabilities as current or non-current Amendments to disclosure for non-current liabilities with covenants
IFRS 16	Lease	January 1, 2024	Fiscal year ending February 28, 2025	Clarify the accounting of subsequent measurement for sale and leaseback transactions
IAS 7 IFRS 7	Statement of Cash Flows Financial Instruments: Disclosure	January 1, 2024	Fiscal year ending February 28, 2025	Disclosure requirements to increase transparency of companies' supplier finance
IAS 21	The Effects of Changes in Foreign Exchange Rates	January 1, 2025	Fiscal year ending February 28, 2026	Clarify the method of disclosure requirement to help entities to determine whether a currency is exchangeable into another currency, and the spot exchanges rate to use when it is not exchangeable
IFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027	Fiscal year ending February 29, 2028	Improved comparability in the statement of profit or loss (income statement) Enhanced transparency of management-defined performance measures More useful grouping of information in the financial statements

6. SEGMENT INFORMATION

(1) Outline of reportable segments

The Company's reportable segments are separate components for which discrete financial information is available and which are subject to regular review by the board of directors in order to determine the allocation of managerial resources and evaluate financial performance.

The Group is primarily engaged in the Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-Related Business, Financial Services Business, and Overseas Business, while incorporating related businesses and managing as a group.

Therefore, the Group aggregates its main reportable segments considering the nature of the services provided and economic characteristics as follows: Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-Related Business, Financial Services Business, and Overseas Business.

Regarding the Domestic Convenience Store Business, Lawson, Inc. operates a franchise system as well as undertaking the direct management of stores in Japan as the parent company of LAWSON, NATURAL LAWSON, and LAWSON STORE100. Lawson Urbanworks, Inc. undertakes the direct management of LAWSON stores mainly in Tokyo and Chiba prefectures. Lawson Store100, Inc. undertakes the direct management of LAWSON STORE100 stores and provides management support for franchised stores. Lawson Minamikyushu, Inc. undertakes the direct management of LAWSON stores and provides management support for franchised stores in Kagoshima prefecture. SCI, Inc. is a functional subsidiary that comprehensively manages the business process from procurement to sales, improving the efficiency of the entire process.

Regarding the Seijo Ishii Business, SEIJO ISHII CO., LTD. operates SEIJO ISHII supermarkets.

Regarding the Entertainment-Related Business, Lawson Entertainment, Inc. conducts the management and sales of concert tickets at LAWSON stores and others, music and video software products at HMV stores, and others. In addition, United Cinemas Co., Ltd. operates multiplex movie theatres. United Cinemas Co., Ltd. changed its name to Lawson United Cinemas, Inc. effective as of March 1, 2024.

Regarding the Financial Services Business, Lawson Bank, Inc. operates a banking business.

Regarding the Overseas Business, the operating company in each region develops LAWSON stores in the People's Republic of China, Thailand, the Philippines, and the United States of America (Hawaii).

(2) Information on reportable segments

The accounting policies for reportable segments are the same as those of the Group as stated in Note "3. MATERIAL ACCOUNTING POLICIES."

The Group's reportable segments were as follows: Segment profit represents operating gross profit, less selling, general, and administrative expenses. Intersegment revenues and transfers are based on prevailing market prices.

Fiscal year ended February 28, 2023

(Millions of yen)

	Reportable segment					Others (Note 1)	Total	Adjustments (Note 2)	Total
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Overseas Business				
Revenue from contracts with customers									
Income from franchised stores	250,292	860	-	-	1,862	-	253,016	-	253,016
Net sale Company-operated stores	77,237	109,134	58,016	-	72,918	-	317,307	-	317,307
Other	337,907	123	12,001	31,367	19,554	1,952	402,906	-	402,906
Other revenue	26,504	27	-	-	622	-	27,154	-	27,154
Revenue from external customers									
(1) Revenue from external customers	691,941	110,146	70,017	31,367	94,959	1,952	1,000,385	-	1,000,385
(2) Intersegment revenue or transfer	5,939	-	2,149	3,118	-	813	12,021	(12,021)	-
Total	697,881	110,146	72,167	34,486	94,959	2,765	1,012,406	(12,021)	1,000,385
Segment profit	47,611	12,798	4,858	3,848	(4,999)	195	64,311	-	64,311
Segment assets	1,685,636	78,564	101,509	413,733	95,729	4,493	2,379,666	(137,244)	2,242,421
Other									
Depreciation and amortization	174,287	6,780	4,881	7,184	16,093	72	209,298	-	209,298
Impairment losses (Note 3)	9,133	3	92	-	393	-	9,623	-	9,623
Investments in equity method associates	5,245	-	-	-	382	904	6,532	-	6,532
Capital expenditure	33,907	4,556	1,774	4,060	10,323	46	54,667	-	54,667

Note 1. The business segments within the “Others” category that do not fall under the main reportable segments include Consulting Business, etc.

2. Adjustments to segment assets are due to the elimination of intersegment transactions.

3. Impairment losses are as stated in Note “16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS.”

Fiscal year ended February 29, 2024

(Millions of yen)

	Reportable segment					Others (Note 1)	Total	Adjustments (Note 2)	Total
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-related Business	Financial Services Business	Overseas Business				
Revenue from contracts with customers									
Income from franchised stores	273,005	877	-	-	3,681	-	277,563	-	277,563
Net sale Company-operated stores	86,348	111,542	64,923	-	86,060	-	348,875	-	348,875
Other	356,396	105	14,382	32,576	24,182	1,806	429,449	-	429,449
Other revenue	31,258	18	36	-	762	-	32,076	-	32,076
Revenue from external customers									
(1) Revenue from external customers	747,008	112,544	79,342	32,576	114,686	1,806	1,087,964	-	1,087,964
(2) Intersegment revenue or transfer	8,388	-	1,542	3,106	-	752	13,789	(13,789)	-
Total	755,397	112,544	80,884	35,682	114,686	2,559	1,101,754	(13,789)	1,087,964
Segment profit (loss)	69,734	12,247	6,593	2,960	2,501	52	94,090	-	94,090
Segment assets	1,708,379	79,695	102,933	452,649	96,272	4,443	2,444,374	(146,875)	2,297,498
Other									
Depreciation and amortization	175,882	7,180	5,055	6,422	16,288	72	210,902	-	210,902
Impairment losses (Note 3)	8,698	9	141	-	598	-	9,446	-	9,446
Investments in equity method associates	5,218	-	-	-	476	970	6,665	-	6,665
Capital expenditure	41,632	1,629	1,535	5,242	8,491	-	58,531	-	58,531

Note 1. The business segments within the “Others” category that do not fall under the main reportable segments include Consulting Business, etc.

2. Adjustments to segment assets are due to the elimination of intersegment transactions.

3. Impairment losses are as stated in Note “16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS.”

(3) Information on products and services

A description is omitted because the products and services are the same as those of the reportable segments.

(4) Information by geographical area

(i) Revenue from external customers

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Japan	905,425	973,278
Overseas (Note)	94,959	114,686
Total	1,000,385	1,087,964

(Note) Overseas mainly includes China.

(ii) Non-current assets (excluding financial assets, deferred tax assets, and retirement benefit asset)

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Japan	1,353,582	1,368,468
Overseas (Note)	62,106	59,716
Total	1,415,689	1,428,185

(Note) Overseas mainly includes China.

(5) Information about major customers

There are no external customers that account for 10% or more of the Group's operating revenues.

7. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents was as follows: The balance of cash and cash equivalents in the consolidated statement of financial position agrees with the balance of cash and cash equivalents in the consolidated statement of cash flows.

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Cash and deposits	399,522	432,463
Time deposits with maturity of three months or less	0	0
Cash and cash equivalents	399,523	432,464

8. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables was as follows:

(Millions of yen)

Classification	As of February 28, 2023	As of February 29, 2024
Notes receivable-trade	408	363
Accounts receivable-trade	41,509	46,155
Accounts receivable-due from franchised stores	22,660	15,972
Accounts receivable-other	156,026	168,728
Deposits paid	70	69
Advances paid	1,670	1,240
Other	1,331	1,787
Allowance for doubtful accounts	(29)	(21)
Total	223,648	234,295

In the Domestic Convenience Store Business, franchisees receive advice and various services related to the operation of convenience stores from our franchise chain headquarters under the franchise agreement. In consideration of these services, franchisees regularly pay a certain percentage of each store’s operating income as royalties.

Each franchised store orders merchandise through the information system provided by the headquarters. The headquarters makes a lump-sum payment to the supplier on behalf of each franchised store and records receivables from the franchised store.

Payments for purchases made on behalf of franchised stores and sales proceeds remitted daily by franchised stores are offset against each other to represent the amount of net receivables from or payables to the franchised stores. Accounts receivable-due from franchised stores and accounts payable-due to franchised stores represent the net balance and are included in “Trade and other receivables” and “Trade and other payables” in the consolidated statement of financial position, respectively.

Accounts receivable-other primarily include claims to credit card companies and receivables related to advance payments at Lawson Bank.

The amounts presented in the consolidated statement of financial position are those net of loss allowance.

Credit risk management and changes in loss allowance are stated in Note “25. FINANCIAL INSTRUMENTS (3) Credit risk management.”

9. OTHER FINANCIAL ASSETS

(1) Breakdown of other financial assets

The breakdown of other financial assets was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Financial assets at measured at fair value through profit or loss		
Shares	78	78
Investments in capital	2,288	3,035
Other	159	160
Financial assets measured at fair value through other comprehensive income		
Listed shares	483	883
Unlisted shares	1,461	3,110
Investments in capital	481	797
Other	1	-
Financial assets measured at amortized cost		
Time deposits	19	21
Bad debts	904	1,026
Bonds	3,062	39
Loans receivable	476	23
Guarantee deposits	533	552
Advances paid	203	180
Other	9	299
Loss allowance	(826)	(928)
Total	9,338	9,278
Current assets	3,595	879
Non-current assets	5,742	8,399
Total	9,338	9,278

The amounts presented in the consolidated statement of financial position are those net of loss allowance.

(2) Equity instruments measured at fair value through other comprehensive income

Major issues and fair values of equity instruments measured at fair value through other comprehensive income were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Three-F Co., Ltd.	104	157
POPLAR CO., LTD.	301	617
New Designed by Tokyo Ltd.	237	279
NAHA AIRPORT BUILDING CO., LTD.	371	406
NC GD Holdings, Inc.	-	1,636

These are designated as financial assets measured at fair value through other comprehensive income because they are intended to be held for the long term to maintain and strengthen business relationships.

(3) Dividend income

The breakdown of dividend income for financial assets measured at fair value through other comprehensive income was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Derecognized financial assets	–	–
Financial assets held at the end of the fiscal year	187	237

(4) Financial assets measured at fair value through other comprehensive income disposed of during the period

Not applicable.

10. INVENTORIES

The breakdown of inventories was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Merchandise and finished goods	27,866	28,169
Other	823	1,006
Total	28,689	29,176

Note 1. The amount of inventories recorded in cost of sales was ¥461,337 million and ¥497,337 million for the fiscal years ended February 28, 2023, and February 29, 2024, respectively.

2. No inventories are pledged as collateral for liabilities.

11. OTHER ASSETS

The breakdown of other assets was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Prepaid expenses	5,352	6,896
Suspense payments	2,720	1,967
Long-term prepaid expenses	5,197	6,063
Other	2,624	2,495
Total	15,895	17,422
Other current assets	10,671	11,345
Other non-current assets	5,223	6,077
Total	15,895	17,422

12. PROPERTY, PLANT, AND EQUIPMENT

(1) The acquisition cost, accumulated depreciation, and accumulated impairment losses and carrying amount of property, plant, and equipment were as follows:

(Millions of yen)

	Land	Buildings and structures	Tools, furniture, and fixtures	Other	Construction in progress	Total
As of March 1, 2022						
Acquisition cost	9,700	332,108	92,451	2,594	4,835	441,690
Accumulated depreciation and accumulated impairment losses	(1,280)	(193,307)	(68,684)	(1,598)	-	(264,870)
Carrying amount	8,419	138,801	23,767	995	4,835	176,820
As of February 28, 2023						
Acquisition cost	9,428	351,650	99,163	3,684	1,972	465,900
Accumulated depreciation and accumulated impairment losses	(1,247)	(205,329)	(71,120)	(1,804)	-	(279,502)
Carrying amount	8,180	146,321	28,043	1,880	1,972	186,398
As of February 29, 2024						
Acquisition cost	9,752	371,493	105,619	3,940	871	491,676
Accumulated depreciation and accumulated impairment losses	(1,240)	(220,429)	(74,661)	(2,074)	-	(298,406)
Carrying amount	8,511	151,063	30,958	1,865	871	193,270

(2) Changes in the carrying amount of property, plant, and equipment were as follows:

(Millions of yen)

Carrying amount	Land	Buildings and structures	Tools, furniture, and fixtures	Other	Construction in progress	Total
As of March 1, 2022	8,419	138,801	23,767	995	4,835	176,820
Acquisition	-	14,052	10,837	208	13,760	38,859
Disposal or transfer to assets held for sale	(86)	(1,026)	(770)	(2)	-	(1,885)
Reclassification (Note 2)	(158)	13,191	640	919	(16,633)	(2,040)
Depreciation (Note 3)	-	(14,985)	(6,514)	(232)	-	(21,732)
Impairment losses (Note 4)	-	(3,982)	(450)	(10)	-	(4,442)
Foreign currency translation differences	5	299	629	1	10	946
Other changes	-	(30)	(95)	0	(0)	(126)
As of February 28, 2023	8,180	146,321	28,043	1,880	1,972	186,398
Acquisition	-	14,615	9,594	176	11,262	35,649
Increase by business combination	332	-	-	-	-	332
Disposal or transfer to assets held for sale	-	(1,242)	(1,241)	(1)	(1)	(2,486)
Reclassification (Note 2)	(4)	11,380	1,922	107	(12,381)	1,024
Depreciation (Note 3)	-	(16,127)	(7,524)	(290)	-	(23,942)
Impairment losses (Note 4)	-	(4,169)	(602)	(8)	-	(4,780)
Foreign currency translation differences	3	260	821	1	15	1,101
Other changes	0	25	(55)	0	3	(25)
As of February 29, 2024	8,511	151,063	30,958	1,865	871	193,270

Note 1. The amount of property, plant, and equipment under construction is included in construction in progress.

2. Reclassification includes transfer to investment property.

3. Depreciation is included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statement of income.

4. Impairment losses are included in “Other expenses” in the consolidated statement of income. Please refer to Note “16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS” for details of impairment losses.

The carrying amounts in the above table include property, plant, and equipment leased out by the Group in the form of operating leases, of which store facilities, furniture, and fixtures of franchised stores in the Domestic Convenience Store Business are the main components.

(3) Commitments

Please refer to Note “37. COMMITMENTS” for the commitment to the purchase of property, plant, and equipment.

13. INVESTMENT PROPERTY

(1) Changes

The acquisition cost, changes in accumulated depreciation, and accumulated impairment losses, as well as carrying amount and fair value of investment property were as follows:

Acquisition cost

(Millions of yen)

	Own assets	Right-of-use assets	Total
As of March 1, 2022	1,799	46,713	48,512
Acquisition	43	4,365	4,409
Sale or disposal	(54)	(2)	(57)
Changes due to remeasurement of lease liabilities	-	8,004	8,004
Changes due to cancellation	-	(600)	(600)
Reclassification (Note 3)	(346)	921	575
As of February 28, 2023	1,441	59,402	60,844
Acquisition	22	3,337	3,359
Increase by business combination	-	361	361
Sale or disposal	(95)	-	(95)
Changes due to remeasurement of lease liabilities	-	3,293	3,293
Changes due to cancellation	-	(771)	(771)
Reclassification (Note 3)	724	1,599	2,323
As of February 29, 2024	2,092	67,222	69,315

Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Own assets	Right-of-use assets	Total
As of March 1, 2022	(926)	(6,549)	(7,475)
Depreciation (Note 1)	(31)	(7,092)	(7,123)
Sale or disposal	47	2	50
Changes due to cancellation	-	443	443
Reclassification (Note 3)	207	(212)	(4)
As of February 28, 2023	(702)	(13,407)	(14,109)
Depreciation (Note 1)	(46)	(7,283)	(7,329)
Impairment losses (Note 2)	(48)	(6)	(55)
Sale or disposal	65	-	65
Changes due to cancellation	-	382	382
Reclassification (Note 3)	(422)	(5)	(427)
As of February 29, 2024	(1,154)	(20,320)	(21,474)

Note 1. Depreciation of investment property is included in “Selling, general, and administrative expenses” in the consolidated statement of income.

2. Impairment losses of investment property are included in “Other expenses” in the consolidated statement of income. Please refer to Note “16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS” for details of impairment losses.

3. Reclassification includes transfers to and from property for own use.

Carrying amount and fair value

(Millions of yen)

	As of February 28, 2023		As of February 29, 2024	
	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	46,734	46,280	47,841	47,630

Among investment properties, the fair value of properties owned by the Group is based on amounts calculated by the Group (including adjustments using indicators, etc.) on the basis of external appraisals or the Real Estate Appraisal Standards. The valuation is classified as Level 3 of the fair value hierarchy because it is based on transaction prices of similar assets in the market and the discounted cash flow method, and involves significant unobservable inputs, such as expected return from each property and the discount rate.

The fair value of the right-of-use assets classified as investment property is measured based on the recorded amount of the corresponding lease liabilities.

(2) Revenues and expenses from investment property

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Rental income	6,467	6,848
Direct operating expenses from investment property that generates rental income	7,209	7,441
Direct operating expenses from investment property that does not generate rental income	138	171

Rental income from investment property (primarily convenience store property for which the lease agreement has been entered into separately from the franchise agreement) is included in “Operating revenues” in the consolidated statement of income.

Direct operating expenses (depreciation, maintenance and repair expenses, insurance expenses, taxes and dues, etc.) incurred in association with rental income are included in “Selling, general, and administrative expenses” in the consolidated statement of income.

14. GOODWILL AND INTANGIBLE ASSETS

(1) Goodwill

The details of acquisition cost, accumulated impairment losses, and carrying amount of goodwill were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Acquisition cost	50,150	52,258
Accumulated impairment losses	-	-
Carrying amount	50,150	52,258

The breakdown of changes in goodwill during the fiscal years was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Beginning balance	49,516	50,150
Increase (Note)	-	1,489
Impairment losses	-	-
Disposal	-	-
Other	633	618
Ending balance	50,150	52,258

(2) Intangible assets

The details of acquisition cost, accumulated amortization, accumulated impairment losses, and carrying amount of intangible assets were as follows:

There are no significant intangible assets with indefinite useful lives.

(Millions of yen)

	Trademarks	Software	Other	Total
As of March 1, 2022				
Acquisition cost	12,660	69,794	13,664	96,119
Accumulated amortization and accumulated impairment losses	(4,876)	(36,118)	(3,872)	(44,868)
Carrying amount	7,783	33,675	9,792	51,251
As of February 28, 2023				
Acquisition cost	12,683	72,663	13,572	98,919
Accumulated amortization and accumulated impairment losses	(5,510)	(37,353)	(4,639)	(47,502)
Carrying amount	7,172	35,310	8,933	51,416
As of February 29, 2024				
Acquisition cost	12,700	91,562	13,548	117,812
Accumulated amortization and accumulated impairment losses	(6,135)	(42,356)	(5,316)	(53,808)
Carrying amount	6,565	49,205	8,232	64,003

Changes in the carrying amount of intangible assets were as follows:

(Millions of yen)

Carrying amount	Trademarks	Software	Other	Total
As of March 1, 2022	7,783	33,675	9,792	51,251
Acquisition	13	13,499	50	13,563
Disposal or transfer to assets held for sale	-	(177)	(135)	(313)
Amortization (Note 1)	(634)	(11,055)	(876)	(12,566)
Impairment losses (Note 2)	-	(88)	(1)	(90)
Foreign currency translation differences	3	72	0	76
Other changes	6	(615)	104	(504)
As of February 28, 2022	7,172	35,310	8,933	51,416
Acquisition	21	25,626	87	25,734
Disposal or transfer to assets held for sale	-	(22)	(16)	(38)
Amortization (Note 1)	(634)	(10,184)	(774)	(11,594)
Impairment losses (Note 2)	-	(118)	(0)	(118)
Foreign currency translation differences	4	75	3	83
Other changes	1	(1,480)	0	(1,479)
As of February 29, 2024	6,565	49,205	8,232	64,003

Note 1. Amortization is included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statement of income.

2. Impairment losses for goodwill and intangible assets are included in “Other expenses” in the consolidated statement of income. Please refer to Note “16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS” for details of impairment losses.

(3) Commitments

Please refer to Note “37. COMMITMENTS” for the commitment to the purchase of intangible assets.

15. LEASES

(1) Leases as lessee

The Group leases land, buildings, offices, and other real estates, as well as furniture and fixtures for business use, primarily for convenience store operations. Lease terms range mostly from 15 to 30 years. Certain lease contracts have extension and termination options. At the commencement of the lease, the Group takes into account economic incentives, such as the enforceability and past exercise history of the options, as well as the significance of the underlying asset to the business and reflects them to the initial recognition amount of “Right-of-use assets” and “Lease liabilities.” However, the carrying amount is reviewed according to the actual exercise results of the options.

Changes in the carrying amount of right-of-use assets were as follows:

(Millions of yen)

Carrying amount	Land	Buildings and structures	Machinery and equipment	Tools, furniture, and fixtures	Other	Total
As of March 1, 2022	360,406	530,920	12,618	109,080	1,432	1,014,459
Acquisition (Note 1)	19,544	51,416	655	39,550	1,128	112,295
Depreciation (Note 2)	(32,738)	(101,448)	(3,971)	(31,206)	(957)	(170,322)
Reversal (Note 3)	(4,254)	(10,274)	(9)	(38)	(0)	(14,578)
Impairment losses (Note 4)	(42)	(2,392)	-	(2,655)	-	(5,089)
Changes due to remeasurement of lease liabilities	46,485	90,114	-	(1,131)	-	135,468
Reclassification (Note 5)	(534)	(174)	-	-	-	(708)
Foreign currency translation differences	2	1,330	0	12	2	1,349
Other changes	3	(1,781)	-	(1,862)	-	(3,640)
As of February 28, 2023	388,873	557,711	9,294	111,749	1,604	1,069,233
Acquisition (Note 1)	31,294	48,823	311	37,287	1,050	118,768
Depreciation (Note 2)	(33,326)	(101,530)	(3,536)	(31,044)	(983)	(170,421)
Reversal (Note 3)	(5,065)	(10,325)	(2)	(590)	(9)	(15,993)
Impairment losses (Note 4)	(66)	(981)	-	(3,437)	(0)	(4,485)
Changes due to remeasurement of lease liabilities	8,812	40,964	-	(9)	(3)	49,764
Reclassification (Note 5)	(207)	(1,023)	-	211	-	(1,019)
Increase by business commination	6,714	2,685	-	0	33	9,433
Foreign currency translation differences	2	1,245	0	4	1	1,253
Other changes	353	1,544	-	(360)	(0)	1,536
As of February 29, 2024	397,383	539,113	6,067	113,810	1,694	1,058,069

Note 1. “Acquisition” includes the recorded amount of “Right-of-use assets” associated with the commencement of new leases.

2. “Depreciation” is included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statement of income.

3. “Reversal” includes the reversal of “Right-of-use assets” associated with the expiration of the lease term.

4. “Impairment losses” is included in “Other expenses” in the consolidated statement of income. Please refer to Note “16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS” for details of impairment losses.

5. “Reclassification” includes transfer to “Investment property.”

The maturity analysis of future lease payments included in the measurement of "Lease liabilities" was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Due within one year	156,942	155,931
Due after one year through two years	146,410	144,087
Due after two years through three years	121,807	117,760
Due after three years through four years	99,367	100,491
Due after four years through five years	83,451	85,835
Due after five years	503,339	501,667
Total	1,111,318	1,105,774

Profit or loss associated with leases for the fiscal years ended February 28, 2023, and February 29, 2024, was as follows:

(Millions of yen)

	Line item in the consolidated statement of income	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Interest expense on lease liabilities	Finance costs	7,583	8,811
Short-term lease expenses	Selling, general, and administrative expenses	2,716	2,225
Expenses for leases of low-value assets	Selling, general, and administrative expenses	290	282
Variable lease payments (Note)	Selling, general, and administrative expenses	5,800	6,725
Revenue from subleasing of right-of-use assets	Operating revenues	6,164	6,607

Note: Variable lease payments represent expenses associated with variable lease payments that are not included in the measurement of lease liabilities.

The total cash outflows associated with leases as lessee for the fiscal years ended February 28, 2023, and February 29, 2024, were ¥191,725 million and ¥191,914 million, respectively. In the consolidated statement of cash flows, cash outflows that are included in the measurement of lease liabilities are included in cash flows from financing activities as "Repayments of lease liabilities" and cash flows that are not included in the same measurement are included in cash flows from operating activities.

Please refer to Note "37. COMMITMENTS" for the commitment to the purchase of right-of-use assets.

(2) Leases as lessor

(i) Finance leases as lessor

The Group leases buildings, structures, and other assets in the form of finance leases.

The maturity analysis of lease fee receivables associated with finance leases was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Undiscounted lease fee receivables		
Due within one year	2,020	1,095
Due after one year through two years	1,829	984
Due after two years through three years	1,572	855
Due after three years through four years	1,313	771
Due after four years through five years	1,140	685
Due after five years	6,297	3,468
Total	14,173	7,861
Estimated unguaranteed residual value		
Gross investment in the lease	14,173	7,861
Less: Unearned finance income	463	153
Present value of lease receivables	13,710	7,707
Less: Loss allowance	-	-
Net investment in the lease	13,710	7,707

The primary profit or loss associated with finance leases as lessor was as follows:

(Millions of yen)

	Line item in the consolidated statement of income	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Profit or loss from sales	Operating revenues	-	-
Finance income	Finance income	-	-

Finance leases consist primarily of leases to associates, etc. Please refer to Note “29. OPERATING REVENUES” for the revenue.

(ii) Operating leases as lessor

The Group leases buildings, structures, furniture, and fixtures in the form of operating leases, some of which have termination options. The lessee has no option to purchase the property at the end of the lease term.

Operating leases consist primarily of leases to franchised stores. Such lease revenue is received together with other service revenue as a lump-sum charge revenue and is recognized as “Operating revenues” rather than “Lease revenue” in the consolidated statement of income. Please refer to Note “29. OPERATING REVENUES” for details.

Please refer to Note “12. PROPERTY, PLANT, AND EQUIPMENT” for “Property, plant, and equipment” leased in the form of operating leases as lessor.

Revenue from operating leases and lease revenue for variable lease payments were as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Lease revenue	6,467	6,848
Lease revenue for variable lease payments (Note)	313	428

Note: Lease revenue for variable lease payments represents revenue for variable lease payments that are not linked to any indexes or rates.

The contractual lease terms of operating leases range mostly from 15 to 18 years. The expected annual lease payments received were ¥6,467 million for the fiscal year ended February 28, 2023, and ¥6,848 million for the fiscal year ended February 29, 2024.

Such lease payments received do not include variable lease payments that are not determined by an index or rate, such as variable lease payments included in revenue from franchised stores.

16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

(1) Impairment test on property, plant, and equipment and intangible assets

The Group identifies each store as the smallest cash generating unit, and groups its assets.

The Group recognizes an impairment loss if the carrying amount of the asset or cash-generating unit exceeds its recoverable amount.

The Group recognized impairment losses of ¥9,623 million for the fiscal year ended February 28, 2023, and ¥9,446 million for the fiscal year ended February 29, 2024, which are included in “Other expenses” in the consolidated statement of income. These are primarily due to reducing the carrying amount to the recoverable amount for assets (buildings and structures, tools, furniture, and fixtures, etc.) of stores whose profitability has significantly declined.

The recoverable amount is measured at fair value, less costs of disposal or value in use. The fair value, less costs of disposal of land is determined based primarily on the real estate appraisal. The value in use is calculated by discounting the future cash flows primarily using the pretax weighted-average cost of capital (2.9% for the fiscal year ended February 28, 2023, and 4.6% for the fiscal year ended February 29, 2024).

The fair value is calculated based on an appraisal by an outside independent real estate appraiser in accordance with the valuation standards of the country where the property is located and is classified as Level 3 of the fair value hierarchy.

(2) Impairment losses

The breakdown by type of assets for which impairment losses were recognized was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Buildings and structures	3,982	4,169
Tools, furniture, and fixtures	450	602
Other	10	8
Total property, plant, and equipment	4,442	4,780
Software	90	118
Other	-	0
Total intangible assets	90	118
Right-of-use assets	5,089	4,485
Investment Property	-	55
Other non-current assets(Long-term prepaid expenses)	-	5
Total impairment losses	9,623	9,446

The breakdown of impairment losses by reportable segment was as follows:

Fiscal year ended February 28, 2023

(Millions of yen)

Business segment	Major cash-generating unit	Type	Impairment losses
Domestic Convenience Store Business	Lawson, Inc. stores	Buildings and structures, right-of-use assets, etc.	9,133
Seijo Ishii Business	SEIJO ISHII CO., LTD. stores	Buildings and structures, right-of-use assets, etc.	3
Entertainment-Related Business	Lawson Entertainment, Inc. stores	Buildings and structures, right-of-use assets, etc.	92
Overseas Business	Lawson (China) Holdings, Inc. and Shanghai Lawson, Inc. stores	Buildings and structures, right-of-use assets, etc.	393

Fiscal year ended February 29, 2024

(Millions of yen)

Business segment	Major cash-generating unit	Type	Impairment losses
Domestic Convenience Store Business	Lawson, Inc. stores	Buildings and structures, right-of-use assets, etc.	8,698
Seijo Ishii Business	SEIJO ISHII CO., LTD. stores	Buildings and structures, right-of-use assets, etc.	9
Entertainment-Related Business	Lawson Entertainment, Inc. stores	Buildings and structures, right-of-use assets, etc.	141
Overseas Business	Zhejiang Lawson, Inc. and Lawson (China) Holdings, Inc. stores	Buildings and structures, right-of-use assets, etc.	598

(3) Impairment test on goodwill and intangible assets with indefinite useful lives

(i) Impairment test

The Group tests goodwill and intangible assets with indefinite useful lives for impairment each period or whenever there are any indicators of impairment. The recoverable amount for an impairment test is calculated based on the value in use.

Domestic Convenience Store Business

In principle, the value in use is calculated by discounting the estimated cash flows based on the business plan approved by management for the next five fiscal years to present value using the pretax weighted-average cost of capital of the cash-generating unit (6.4% for the fiscal year ended February 28, 2023, and 7.8% for the fiscal year ended February 29, 2024). The growth rate used for cash flow predictions beyond the period covered by the business plan is determined by considering the long-term average growth rate in the market or country to which the cash-generating unit belongs, but not exceeding this rate (0%). The key assumptions used in the impairment test may be affected by future uncertainties. In addition, if the assumed conditions change, the recoverable amount may fall short of the carrying amount. However, the Group has not recognized such indications.

Seijo Ishii Business

In principle, the value in use is calculated by discounting the estimated cash flows based on the business plan approved by management for the next five fiscal years to present value using the pretax weighted-average cost of capital of the cash-generating unit (6.4% for the fiscal year ended February 28, 2023, and 7.5% for the fiscal year ended February 29, 2024). The growth rate used for cash flow predictions beyond the period covered by the business plan is determined by considering the long-term average growth rate in the market or country to which the cash-generating unit belongs, but not exceeding this rate (0%). The key assumptions used in the impairment test may be affected by future uncertainties. In addition, if the assumed conditions change, the recoverable amount may fall short of the carrying amount. However, the Group has not recognized such indications.

Entertainment-Related Business

In principle, the value in use is calculated by discounting the estimated cash flows based on the business plan approved by management for the next five fiscal years to present value using the pretax weighted-average cost of capital of the cash-generating unit (13.0% for the fiscal year ended February 28, 2023, and 13.5% for the fiscal year ended February 29, 2024). The growth rate used for cash flow predictions beyond the period covered by the business plan is determined by considering the long-term average growth rate in the market or country to which the cash-generating unit belongs, but not exceeding this rate (0%). The key assumptions used in the impairment test may be affected by future uncertainties. In addition, if the assumed conditions change, the recoverable amount may fall short of the carrying amount. However, the Group has not recognized such indications.

Overseas Business

In principle, the value in use is calculated by discounting the estimated cash flows based on the business plan approved by management for the next five fiscal years to present value using the pretax weighted-average cost of capital of the cash-generating unit (14.0% to 16.1% for the fiscal year ended February 28, 2023, and 14.4% to 16.4% for the fiscal year ended February 29, 2024). The growth rate used for cash flow predictions beyond the period covered by the business plan is determined by considering the long-term average growth rate in the market or country to which the cash-generating unit belongs, but not exceeding this rate (0% to 2.8%). The key assumptions used in the impairment test may be affected by future uncertainties. In addition, if the assumed conditions change, the recoverable amount may fall short of the carrying amount. However, the Group has not recognized such indications.

(ii) Goodwill

The carrying amount of goodwill was as follows:

(Millions of yen)

Cash-generating unit	As of February 28, 2023	As of February 29, 2024
SEIJO ISHII CO., LTD.	19,521	19,521
United Cinemas Co., Ltd.	6,455	6,455
Shenzhen Lawson, Inc.	5,996	6,286
Chengdu Lawson, Inc.	4,719	4,948
LTF Co., Ltd.	3,849	3,849
Lawson Store100, Inc.	2,505	2,505
CVS Bay Area Inc.	2,097	2,097
Lawson Kochi, Inc.	2,042	2,042
Other	2,961	4,550
Total	50,150	52,258

(iii) Intangible assets with indefinite useful lives

There are no significant intangible assets with indefinite useful lives.

17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

(1) Investments in associates

The carrying amount of investments in individually immaterial associates was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Total carrying amount	4,544	5,004

The aggregate amounts of the Group's share of comprehensive income of individually immaterial associates were as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Share of profit	157	591
Share of other comprehensive income	28	18
Share of comprehensive income	185	609

(2) Investments in joint ventures

The carrying amount of investments in individually immaterial joint ventures was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Total carrying amount	1,987	1,660

The aggregate amounts of the Group's share of comprehensive income of individually immaterial joint ventures were as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Share of profit	206	659
Share of other comprehensive income	-	-
Share of comprehensive income	206	659

18. INCOME TAXES

(1) Deferred tax

The details of deferred tax assets and liabilities by major cause and changes were as follows:

Fiscal year ended February 28, 2023

(Millions of yen)

	As of March 1, 2022	Recognized through profit or loss	Recognized through other comprehensive income	Business combination	As of February 28, 2023
Inventories	310	(256)	-	-	54
Accounts payable-other and accrued expenses	1,554	371	-	-	1,926
Provisions	3,189	105	-	-	3,294
Retirement benefit liability	7,207	136	(481)	-	6,862
Property, plant and equipment, investment property, and intangible assets	38,362	(3,735)	-	-	34,626
Financial assets measured at fair value through other comprehensive income	(1,244)	627	87	-	(529)
Other	1,421	147	-	-	1,569
Net deferred tax assets and liabilities	50,801	(2,604)	(393)	-	47,803

Fiscal year ended February 29, 2024

(Millions of yen)

	As of March 1, 2023	Recognized through profit or loss	Recognized through other comprehensive income	Business combination	As of February 29, 2024
Inventories	54	6	-	-	60
Accounts payable-other and accrued expenses	1,926	(296)	-	-	1,629
Provisions	3,294	108	-	10	3,413
Retirement benefit liability	6,862	(49)	47	10	6,870
Property, plant and equipment, investment property, and intangible assets	34,626	(1,247)	-	300	33,679
Financial assets measured at fair value through other comprehensive income	(529)	(120)	(224)	-	(873)
Other	1,569	773	-	32	2,375
Net deferred tax assets and liabilities	47,803	(824)	(176)	354	47,156

Deferred tax assets and liabilities in the consolidated statement of financial position were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Deferred tax assets	48,234	47,543
Deferred tax liabilities	430	386
Net deferred tax assets and liabilities	47,803	47,156

In recognizing deferred tax assets, the Group assesses the recoverability of such assets, taking into consideration expected future taxable income and tax planning.

Deferred tax assets are not recognized for certain deductible temporary differences and tax losses carryforward as a result of the assessment of recoverability.

Deductible temporary differences and tax losses carryforward for which deferred tax assets are not recognized were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Deductible temporary differences	11,853	13,251
Tax losses carryforward	22,780	21,888
Total	34,633	35,140

The amounts by expiration date of tax losses carryforward for which deferred tax assets are not recognized were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
1st year	1,914	3,283
2nd year	2,633	3,720
3rd year	4,963	3,082
4th year	3,328	5,337
5th year	7,576	3,985
Over 5th year	2,363	2,478
Total	22,780	21,888

(2) Income taxes

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Current tax expense	14,866	23,778
Total	14,866	23,778
Deferred tax		
Origination and reversal of temporary differences	2,594	826
Total	2,594	826

The Group is primarily subject to corporate income tax, inhabitant tax, and enterprise tax, which is deductible for tax purposes. The applicable tax rate calculated based on these taxes is 30.6% (30.6% for the fiscal year ended February 28, 2023). However, overseas subsidiaries are subject to income taxes in their respective countries of domicile.

The breakdown of items that caused major differences between the effective statutory tax rate and the actual tax rate after the application of tax effect accounting was as follows:

(%)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Effective statutory tax rate	30.6	30.6
(Reconciliations)		
Permanently non-deductible and non-taxable items	0.1	0.3
Per-capita inhabitant tax	0.7	0.1
Impact of assessment of recoverability of deferred tax assets	4.0	0.5
Difference in tax rates of consolidated subsidiaries	2.5	1.1
Other	(0.9)	(0.8)
Average actual tax rate	37.0	31.8

(3) Changes in corporate income tax after the consolidated closing period

On March 30, 2024, "Cabinet Order for Partial Amendment of the Local Tax Act Enforcement Order"(Cabinet Order No.138 of 2024) was promulgated and requires the review of the applicable corporations related to the sized-based business tax of corporate business tax from the consolidated fiscal year beginning on or after April 1, 2026. As the part of subsidiaries in the Group will be applicable, the effective statutory tax rate will be changed for temporary differences that is estimated to be resolved in the consolidated fiscal year beginning on or after March 1, 2027.

There is immaterial impact on changes in corporate income tax.

19. BORROWINGS

The breakdown of borrowings was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024	Due date
Financial liabilities measured at amortized cost			
Short-term borrowings	12,830	40,850	-
Long-term borrowings (including current portion)	160,047	50,099	March 2024 –March 2025
Total	172,877	90,949	-
Current liabilities	92,877	90,850	-
Non-current liabilities	80,000	99	-
Total	172,877	90,949	-

Please refer to Note “25. FINANCIAL INSTRUMENTS” for related information, such as credit facilities, financial covenants, and breakdown by due date.

The weighted-average rates of interest paid during the fiscal year ended February 29, 2024, were as follows:

(%)

	As of February 28, 2023	As of February 29, 2024
Short-term borrowings	0.14	0.16
Long-term borrowings (including current portion)	0.21	0.26

20. TRADE AND OTHER PAYABLES

The breakdown of trade and other payables was as follows:

(Millions of yen)

Classification	As of February 28, 2023	As of February 29, 2024
Accounts payable-trade	161,969	175,031
Accounts payable-other	66,985	76,852
Accounts payable-due to franchised stores	2,549	4,121
Other	419	405
Total	231,925	256,411

21. EMPLOYEE BENEFITS

The Company and its domestic subsidiaries have funded and unfunded defined benefit plans to provide retirement benefits to employees, almost all of whom are covered. The Company has a lump-sum retirement benefit plan. In addition, certain overseas subsidiaries have defined benefit plans.

Under the domestic lump-sum retirement benefit plans, lump-sum payments are provided as retirement benefits based on salary and length of service.

Lump-sum retirement benefit plans are unfunded plans, but some of them are funded plans as a result of the establishment of a retirement benefit trust.

The plan assets are managed under the policy of sound management, but nevertheless are exposed to investment risks associated with financial instruments. In addition, defined benefit obligations are measured based on various pension actuarial assumptions, such as discount rates and is, therefore, exposed to the risk of changes in those assumptions.

The Company and certain domestic subsidiaries also have defined contribution plans. The defined contribution plans are postemployment benefit plans under which the employer contributes certain amounts to other independent entities and does not assume any legal or constructive obligations to payments in excess of the contributed amount.

(1) Defined benefit plans

(i) Changes in the present value of defined benefit obligations and fair value of plan assets

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Beginning balance of present value of defined benefit obligations	23,538	22,635
Recognized as profit or loss		
Current service cost	1,937	1,781
Past service cost	-	-
Interest cost	102	213
Total	2,040	1,994
Recognized through other comprehensive income		
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	(19)	47
Actuarial gains and losses arising from changes in financial assumptions	(1,553)	(380)
Actuarial gains and losses arising from revision of actual results	(74)	400
Total	(1,647)	66
Other		
Benefits paid	(1,298)	(1,598)
Other	3	39
Total	(1,295)	(1,559)
Ending balance of present value of defined benefit obligations	22,635	23,137

The weighted-average duration of the defined benefit obligations was 10.5 years in the fiscal year ended February 28, 2023, and 10.2 years in the fiscal year ended February 29, 2024.

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Beginning balance of fair value of plan assets	5,819	5,837
Interest income	41	85
Remeasurements—return on plan assets	(40)	(86)
Benefits paid	(3)	-
Contributions to plan assets	19	19
Ending balance of fair value of plan assets	5,837	5,856

(ii) Reconciliation of defined benefit obligations and plan assets

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Present value of defined benefit obligations for funded plans	19,569	19,890
Present value of defined benefit obligations for unfunded plans	3,065	3,247
Total	22,635	23,137
Less: Fair value of plan assets	5,837	5,856
Retirement benefit liability	16,797	17,280

(iii) Main components of plan assets

The breakdown of plan assets was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Assets with no active market value:		
Cash and cash equivalents (Note 1)	5,573	5,573
Life insurance company general account (Note 2)	263	283
Total	5,837	5,856

Note 1. Cash and cash equivalents consist of a retirement benefit trust established for a lump-sum retirement benefit plan.

2. Life insurance company general account is a jointly managed investment portfolio by life insurance companies with a guaranteed minimum yield.

(iv) Major actuarial assumptions

	As of February 28, 2023	As of February 29, 2024
Discount rate	Mainly 1.4%	Mainly 1.5%

(v) Sensitivity analysis of key actuarial assumptions

If the discount rate had decreased by 0.5% at the end of the fiscal year ended February 28, 2023, and at the end of the fiscal year ended February 29, 2024, the present value of the defined benefit obligations would have increased by ¥1,212 million and ¥1,136 million, respectively. If the discount rate had increased by 0.5%, the present value of the defined benefit obligations would have decreased by ¥1,054 million and ¥1,075 million, respectively.

There were no changes in the methods or assumptions used in the sensitivity analysis used in past years.

(vi) Impact on future cash flows

The amount of planned contribution for the next fiscal year is ¥19 million. If the defined benefit plan becomes underfunded in terms of plan assets, the Company's policy is to contribute the amount required under its regulations.

(2) Defined contribution plans

The Group's required contribution to the defined contribution plan was ¥594 million in the fiscal year ended February 28, 2023, and ¥612 million in the fiscal year ended February 29, 2024.

(3) Employee benefit expenses

Total employee benefit expenses included in "Cost of sales" and "Selling, general, and administrative expenses" in the consolidated statement of income for the fiscal years ended February 28, 2023, and February 29, 2024, amounted to ¥95.318 million and ¥101,491 million, respectively.

22. PROVISIONS

The breakdown of changes in provisions was as follows:

(Millions of yen)

	Asset retirement obligations	Others (Note)	Total
As of March 1, 2022	38,560	2,573	41,134
Increase during period	1,535	2,480	4,016
Adjustment for the passage of time	141	-	141
Decrease during period (intended use)	(657)	(2,573)	(3,231)
Decrease during period (reversal)	-	-	-
Change in discount rate	(1,938)	-	(1,938)
Other changes	0	-	0
As of February 28, 2023	37,642	2,480	40,122
Increase during period	660	2,483	3,143
Increase by business combination	363	-	363
Adjustment for the passage of time	236	-	236
Decrease during period (intended use)	(670)	(2,480)	(3,150)
Decrease during period (reversal)	-	(0)	(0)
Change in discount rate	(384)	-	(384)
Other changes	0	-	0
As of February 29, 2024	37,847	2,483	40,330
Current liabilities (February 28, 2023)	-	2,480	2,480
Non-current liabilities (February 28, 2023)	37,642	-	37,642
Total	37,642	2,480	40,122
Current liabilities (February 29, 2024)	7	2,483	2,490
Non-current liabilities (February 29, 2024)	37,840	-	37,840
Total	37,847	2,483	40,330

Note: Others include provision for property tax and other levies.

Asset retirement obligations

Asset retirement obligations are mainly for restoring properties to their original condition in accordance with real estate lease contracts for stores and other facilities operated by the Group. These costs are expected to be paid primarily more than one year after the end of the fiscal year, but the timing of these payments will be affected by future business plans and other factors.

23. OTHER FINANCIAL LIABILITIES

The breakdown of other financial liabilities was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Financial liabilities measured at amortized cost		
Call money	123,000	268,000
Guarantee deposits received	18,998	19,183
Other	2,424	2,421
Lease liabilities	150,450	150,755
Total	294,873	440,360
Current liabilities	273,465	418,774
Non-current liabilities	21,407	21,585
Total	294,873	440,360

24. OTHER LIABILITIES

The breakdown of other liabilities was as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Contract liabilities	4,130	4,529
Advances received	398	395
Accrued bonuses	5,002	5,200
Unearned revenue	321	344
Accrued expenses	6,461	6,652
Accrued consumption taxes	3,286	6,543
Other	3,322	3,739
Total	22,922	27,405
Other current liabilities	19,505	23,699
Other non-current liabilities	3,417	3,706
Total	22,922	27,405

25. FINANCIAL INSTRUMENTS

(1) Capital management

The Group's basic capital policy is to achieve sustainable growth and maximize corporate value by strengthening its earnings base, while taking into consideration the capital efficiency and financial soundness. The Group uses return on equity attributable to owners of parent (ROE) as an indicator for capital management.

The ROEs for the fiscal years ended February 28, 2023, and February 29, 2024, are 12.4% and 19.5%, respectively.

The Group has a subsidiary required to maintain the capital adequacy ratio above a certain level under the capital adequacy regulations under the Banking Act, and the capital adequacy ratio of this subsidiary complies with these regulations.

(2) Financial risk management

The Group is exposed to various financial risks (credit, liquidity, foreign exchange, interest rate, and stock price fluctuation) in the course of performing business activities, requiring the Group to manage risks to mitigate these financial risks.

(3) Credit risk management

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

The Group's maximum amount of the credit risk is the sum of trade and other receivables (see Note "8. TRADE AND OTHER RECEIVABLES"), guarantee deposits and other financial assets (see Note "9. OTHER FINANCIAL ASSETS"), excluding equity instruments, and finance lease receivables (see Note "15. LEASES").

For trade receivables, such as accounts receivable-due from franchised stores and accounts receivable-other, it manages due dates and balances for each business partner, while working to early identify and mitigate any collection concerns arising from deterioration in their financial position and standing. In addition, collateral and other security arrangements are made with some of the counterparties. Receivables due from closed franchised stores are treated as credit-impaired financial assets in objective circumstances where the Group faces difficulty in collecting receivables, such as substantial delinquencies or bankruptcy of the counterparty.

For loans receivable from associates, the Group strives to early identify and mitigate collection concerns by exercising voting rights at their general meetings of shareholders and providing management control and guidance through the dispatch of officers, or by gathering and assessing information about their financial position and standing.

With regard to guarantee deposits, the Group makes efforts to early identify collection concerns and mitigate credit risk by gathering and assessing information on the financial position and standing of the counterparty.

The Group has no exposure to credit risks that are over-concentrated in a single counterparty or a group to which the counterparty belongs.

The amount of credit risk exposure (before deduction of loss allowance) and status of delinquencies of trade and other receivables, guarantee deposits, and other financial assets, as well as finance lease receivables, were as follows:

(Millions of yen)

	Loss allowance measured at an amount equal to 12-month expected credit losses	Loss allowance measured at an amount equal to lifetime expected credit losses			Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	Trade receivables, etc.	
As of February 28, 2023					
No overdue	190,875	-	-	143,613	334,488
Overdue	2	246	658	226	1,133
Total	190,877	246	658	143,839	335,621
As of February 29, 2024					
No overdue	200,322	-	-	140,111	340,434
Overdue	256	193	833	42	1,325
Total	200,579	193	833	140,153	341,759

The changes in loss allowance for trade and other receivables, guarantee deposits, and other financial assets, and finance lease receivables were as follows:

(Millions of yen)

	Loss allowance measured at an amount equal to 12-month expected credit losses	Loss allowance measured at an amount equal to lifetime expected credit losses			Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	Trade receivables, etc.	
As of March 1, 2022	(87)	(212)	(521)	(36)	(857)
Increase due to provision during the period	(108)	(25)	(234)	(29)	(397)
Decrease due to intended use	-	-	32	-	32
Decrease due to reversal	87	70	65	36	259
Other	-	-	-	-	-
As of February 28, 2023	(108)	(167)	(658)	(29)	(963)
Increase due to provision during the period	(169)	(38)	(113)	(9)	(329)
Decrease due to intended use	-	-	21	1	23
Decrease due to reversal	195	13	20	6	236
Other	(13)	52	(59)	13	(7)
As of February 29, 2024	(95)	(139)	(788)	(17)	(1,040)

For the fiscal years ended February 28, 2023, and February 29, 2024, there were no significant changes in the aggregate carrying amount that affected changes in the loss allowance.

Details of collateral and other credit enhancements

The Group primarily holds guarantee deposits received as collateral for certain accounts receivable-due from franchised stores.

The balances of guarantee deposits received, which are included in other financial liabilities, were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Guarantee deposits received	18,998	19,183

(4) Liquidity risk management

Liquidity risk is the risk that payments cannot be executed on the due dates when the Group performs repayment obligations for maturing financial liabilities.

The Group is exposed to liquidity risk because it utilizes borrowings and leases to finance its working capital, banking business operations, and mergers and acquisitions, and to fund its capital expenditures, as well.

The Group manages liquidity risk by having each Group company prepare and update financing planning in a timely manner and by maintaining sufficient liquidity on hand. In addition, line of credit agreements have been concluded with partner financial institutions to reduce liquidity risks.

(i) Breakdown of financial liabilities by due date

The breakdown of financial liabilities (except for lease liabilities) by due date was as follows:

For breakdown of lease liabilities by due date, please see Note “15. LEASES.”

As of February 28, 2023

(Millions of yen)

	Contractual cash flows	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Trade and other payables	231,925	231,925	-	-	-	-	-
Deposits received	274,224	274,224	-	-	-	-	-
Borrowings	172,917	92,917	80,000	-	-	-	-
Other financial liabilities	144,505	123,022	1,678	1,627	2,483	1,670	14,022
Total	823,572	722,089	81,678	1,627	2,483	1,670	14,022

As of February 29, 2024

(Millions of yen)

	Contractual cash flows	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Trade and other payables	256,411	256,411	-	-	-	-	-
Deposits received	202,954	202,954	-	-	-	-	-
Borrowings	90,949	90,850	99	-	-	-	-
Other financial liabilities	289,716	268,021	1,291	1,988	2,515	2,872	13,026
Total	840,030	818,236	1,390	1,988	2,515	2,872	13,026

Note: Deposits received mainly consist of utility bills and other payments to public utility companies collected by stores through bill settlement services.

(ii) Overdraft and loan commitment agreements

The Group has entered into overdraft and loan commitment agreements to ensure efficient funding of working capital.

The unutilized balances of loans under these overdraft and loan commitment agreements as of the end of the fiscal years were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Total overdraft limit and loan commitment	380,204	360,000
Amount utilized	41,900	30,000
Unutilized balance	338,304	330,000

(5) Foreign exchange fluctuation risk

Foreign exchange fluctuation risk arises from transactions conducted by the Group companies in currencies other than the functional currency.

A sensitivity analysis has not been performed as the exposure to foreign exchange fluctuation risk in the fiscal year ended February 29, 2024, is minimal, and the impact on the Group is considered immaterial.

(6) Interest rate fluctuation risk

Interest rate fluctuation risk is defined as the risk that the fair value of, or future cash flows from, financial instruments will fluctuate because of changes in market interest rates.

The Group’s interest rate risk arises primarily from long-term borrowings. With floating-rate borrowings, the Group is exposed to the risk of fluctuations in future cash flows. With all other conditions being the same, a 0.1% rise in interest rates would have reduced after-tax profit by ¥112 million in the fiscal year ended February 28, 2023, and by ¥34 million in the fiscal year ended February 29, 2024.

(7) Stock price fluctuation risk

Stock price fluctuation risk arises primarily from the Group’s holdings of equity financial assets (e.g., stocks) of entities with which the Group has business relationships.

To manage the stock price fluctuation risk, the Group regularly monitors the fair values and financial conditions of the issuers and reviews the status of holdings on an ongoing basis in light of the relationship with the entities.

A 10% decline in the stock price of listed shares held by the Group would have impacted other comprehensive income (before tax effect adjustments) by ¥48 million and ¥88 million for the fiscal years ended February 28, 2023, and February 29, 2024, respectively.

In the analysis, all other variables are assumed to be constant.

(8) Fair value of financial instruments

(i) Categorization by level of fair value hierarchy

Financial instruments measured at fair value on a recurring basis after initial recognition are classified into three levels of the fair value hierarchy, according to the observability and materiality of the inputs used for the measurements.

In this categorization, the fair value hierarchy is defined as follows, in the descending order of the levels:

Level 1: Fair value measured at quoted price (unadjusted) in an active market for identical asset or liability

Level 2: Fair value measured using directly or indirectly observable inputs other than Level 1 inputs

Level 3: Fair value measured using unobservable inputs

When multiple inputs are used for the fair value measurement, the level of fair value is determined based on the lowest-level input that is significant to the entire measurement of fair value.

Transfers of financial instruments between levels are recognized on each reporting date.

(ii) Financial instruments measured at fair value on a recurring basis

The breakdown of assets measured at fair value on a recurring basis at the end of the period was as follows:

As of February 28, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
FVTPL financial assets	-	-	2,526	2,526
FVTOCI financial assets	483	-	1,944	2,428
Total assets	483	-	4,471	4,955

For assets and liabilities held at the end of the period, there were no transfers between Level 1 and Level 2.

As of February 29, 2024

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
FVTPL financial assets	-	-	3,273	3,273
FVTOCI financial assets	883	-	3,908	4,791
Total assets	883	-	7,181	8,064

For assets and liabilities held at the end of the period, there were no transfers between Level 1 and Level 2.

Changes in financial instruments classified in Level 3

For financial assets measured within Level 3 on a recurring basis, the changes from the beginning balances to the ending balances were as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Beginning balance	4,566	4,471
Total gains and losses		
Profit or loss (Note 1)	(859)	594
Other comprehensive income (Note 2)	62	92
Purchase	705	2,066
Sale and redemption	(0)	(42)
Other	(3)	0
Ending balance	4,471	7,181

Note 1. Profit or loss included in total gains and losses is related to financial assets measured at fair value through profit or loss. These profits and losses are included in "Finance income" and "Finance costs."

2. Other comprehensive income included in total gains and losses is related to financial assets measured at fair value through other comprehensive income. These profits and losses are included in "Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income."

(iii) Fair value of financial instruments measured at amortized cost

Carrying amounts and fair values of financial instruments measured at amortized cost were as follows:

The table below does not include financial assets and liabilities whose fair values are equal or approximate to their carrying amounts, such as financial instruments that are settled in a short period of time from the end of the reporting period.

(Millions of yen)

Classification	As of February 28, 2023		As of February 29, 2024	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Other financial assets				
Loans receivable	476	458	23	22
Advances paid	203	203	180	179
Other	47	47	39	39
Guarantee deposits	93,023	92,726	97,502	95,135
Finance lease receivables	13,710	12,173	7,707	6,685
Liabilities				
Borrowings	160,047	160,047	50,099	50,099
Other financial liabilities				
Guarantee deposits received	18,998	18,514	19,183	18,508
Other	2,409	2,409	2,402	2,402

(iv) Method of fair value measurement

Cash and cash equivalents

Cash and cash equivalents, except for time deposits, are measured at carrying amount as their fair values approximate the carrying amounts. Time deposits are also measured at carrying amount as their fair values approximate the carrying amounts due to the short maturities of those held by the Company. Accordingly, they are all classified as Level 1.

Trade and other receivables

Trade and other receivables with relatively short maturities are classified as Level 1, as their carrying amounts approximate their fair values, and thus measured at their carrying amounts.

Long-term loans receivable

Fair values of long-term loans receivable are measured by discounting the sum of the principal and interest at the interest rate assumed for similar loans and are classified as Level 2.

Guarantee deposits

Fair values of guarantee deposits are measured by discounting the future cash flows related to the collection by the yield of government bond corresponding to the remaining period, and are classified as Level 2.

Finance lease receivables

Fair values of finance lease receivables are measured by discounting the future cash flows by the yield of government bond corresponding to the remaining period and are classified as Level 2.

Other financial assets

Fair values of listed shares are measured using quoted prices in active markets at the end of the period and are classified as Level 1. Fair values of unlisted shares are measured using appropriate valuation techniques, such as comparable multiple valuation method, and are classified as Level 3. Fair values of advances paid and bonds are measured by discounting their future cash flows by the yield of government bonds corresponding to the period to maturity, and are classified as Level 2. For other financial assets other than the above, such as those settled in a short period of time, the carrying amounts are used as fair values because the fair values approximate the carrying amounts.

Trade and other payables

Trade and other payables with relatively short maturities are classified as Level 1, as their carrying amounts approximate their fair values and thus measured at their carrying amounts.

Long-term borrowings (including current portion)

Those with fixed rate are measured by discounting the sum of the principal and interest at the interest rate assumed for similar borrowings. For those with floating rate, the carrying amounts are used as the fair values, and are classified as Level 2 because the market interest rate is reflected within a short period of time.

Guarantee deposits received

Fair values of guarantee deposits received are measured by discounting the future cash flows by the yield of government bond corresponding to the remaining period, and are classified as Level 2.

For other financial liabilities other than the above, such as those settled in a short period of time, the carrying amounts are used as fair values because the fair values approximate the carrying amounts.

(v) Valuation process

Fair values of Level 3 financial instruments are measured in accordance with the relevant accounting policies, etc., of the Group.

The fair value is measured using valuation techniques and inputs that appropriately reflect the nature, characteristics, and risk of the financial instruments to be measured. The results of the fair value measurements are reviewed by senior managers.

(9) Offsetting financial assets and financial liabilities

The Group offsets financial assets and financial liabilities, presenting the net amount in the consolidated statement of financial position, as it meets offsetting criteria: it currently holds a legally enforceable right to offset the recognized amounts of part of financial assets and financial liabilities, and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Of the financial assets and financial liabilities recognized, the following presents a breakdown of the amounts offset and amounts not offset in the consolidated statements of financial position by type of financial instruments in the fiscal years ended February 28, 2023.

Financial assets and financial liabilities other than the below do not include those subject to enforceable master netting agreements or similar agreements.

As of February 28, 2023

(Millions of yen)

Classification	Gross amount recognized	Amount offset	Carrying amount	Amount not meeting offsetting criteria	Net amount
Financial assets:					
Trade and other receivables	136,163	(10,631)	125,531	(3,275)	122,256
Other financial assets	333	(46)	286	-	286
Financial liabilities:					
Trade and other payables	116,619	(10,353)	106,266	-	106,266
Deposits received	107,424	(209)	107,214	-	107,214
Other financial liabilities	13,933	(115)	13,817	(3,275)	10,542

As of February 29, 2024

(Millions of yen)

Classification	Gross amount recognized	Amount offset	Carrying amount	Amount not meeting offsetting criteria	Net amount
Financial assets:					
Trade and other receivables	148,212	(14,360)	133,852	(2,869)	130,983
Other financial assets	-	-	-	-	-
Financial liabilities:					
Trade and other payables	137,916	(12,468)	125,447	-	125,447
Deposits received	45,080	(1,891)	43,189	-	43,189
Other financial liabilities	13,312	-	13,312	(2,869)	10,443

The amounts not meeting offsetting criteria presented in the table above are financial assets or financial liabilities subject to enforceable master netting agreements or similar agreements that are not intended to be settled on a net basis, and for which the right to offset is enforceable only in the event of default or other prescribed circumstances not expected to occur in the ordinary course of business.

26. SHARE CAPITAL AND OTHER EQUITY ITEMS

(1) The number of shares authorized, shares issued, and treasury shares

Changes in the numbers of shared authorized, shares issued, and treasury shares are as follows:

(Shares)

	As of February 28, 2023	As of February 29, 2024
Number of shares authorized to be issued		
Common stock	409,300,000	409,300,000
Total number of shares issued (Note 1)		
Beginning balance	100,300,000	100,300,000
Changes during the period	-	-
Ending balance	100,300,000	100,300,000
Number of treasury shares		
Beginning balance	228,807	222,962
Changes during the period (Note 2)	(5,845)	(877)
Ending balance	222,962	222,085

Note 1. All the shares the Company issues are no-par value common stock with no restrictions of rights, and all the shares issued are fully paid up.

2. The changes are primarily due to the exercise of stock options.

(2) Capital surplus

The Companies Act of Japan (the “Companies Act”) provides that at least 50% of the payment or contribution for share issue be appropriated as share capital and the remainder be appropriated as legal capital surplus included in capital surplus. The Companies Act permits, upon resolution of a general meeting of shareholders, the transfer of amounts from legal capital surplus to share capital.

(3) Retained earnings

The Companies Act provides that 10% of the amount of surplus that is reduced by the distribution of surplus be appropriated as legal capital surplus or as legal retained earnings until the aggregate amount of legal capital surplus and legal retained earnings equals 25% of share capital.

Accumulated legal retained earnings may be used to eliminate or reduce a deficit or be reversed upon resolution of a general meeting of shareholders.

The distributable amount of the Company under the Companies Act is determined based on the amount of retained earnings in its book of account prepared in accordance with the generally accepted accounting principles in Japan.

Furthermore, the Companies Act sets certain restrictions for the calculation of the distributable amount, and the Company distributes retained earnings within these restrictions.

27. DIVIDENDS

(1) Dividends paid

Dividends paid were as follows:

Resolution	Class of shares	Total amount of dividends (millions of yen)	Amount of dividends per share (yen)	Record date	Effective date
May 25, 2022 Ordinary General Meeting of Shareholders	Common stock	7,505	75.00	February 28, 2022	May 26, 2022
October 6, 2022 Board of Directors	Common stock	7,505	75.00	August 31, 2022	November 10, 2022
May 24, 2023 Ordinary General Meeting of Shareholders	Common stock	7,505	75.00	February 28, 2023	May 25, 2023
October 13, 2023 Board of Directors	Common stock	11,759	117.50	August 31, 2023	November 10, 2023

(2) Dividends for which the record date is in the fiscal year, and the effective date is in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (millions of yen)	Amount of dividends per share (yen)	Record date	Effective date
May 24, 2023 Ordinary General Meeting of Shareholders	Common stock	Retained earnings	7,505	75.00	February 28, 2023	May 25, 2023

28. SHARE-BASED PAYMENTS

Stock options as share-based compensation

By incorporating stock options as share-based compensation as part of stock price-linked compensation paid to directors, the Company has a system in which management shares with shareholders the benefits from a rise in stock price as well as the risks associated with a price decline. The Company positions stock options as compensation that is linked to medium- to long-term improvement of its corporate value.

Exercise price on stock options as share-based compensation is ¥1 per share. The amount of options is increased or decreased according to the base unit for the position multiplied by the earnings per share achievement rate. Under the plan, the stock option holders may exercise their rights only during a certain period after the retirement (limited to 10 days from the day after leaving their position as both director and executive officer of the Company) and may not be exercised during their term of office.

The plan is accounted for as equity-settled share-based payments.

The number of stock options and the weighted average exercise price were as follows:

The number of stock options is converted into the number of shares.

	Fiscal year ended February 28, 2023		Fiscal year ended February 29, 2024	
	Number of options(shares)	Weighted-average exercise price (yen)	Number of options(shares)	Weighted-average exercise price (yen)
Beginning balance	86,000	1	80,800	1
Granted during the period	19,600	1	26,600	1
Forfeited during the period	19,000	1	-	-
Exercised during the period	5,800	1	1,400	1
Expired during the period	-	-	-	-
Ending balance	80,800	1	106,000	1
Exercisable at the end of period	80,800	1	106,000	1

The weighted-average stock prices at the time when stock options were exercised during the fiscal years ended February 28, 2023, and February 29, 2024, were ¥4,612 and ¥5,430, respectively.

Weighted-average residual contract year of stock options outstanding at the end of the period was 17 years.

The date of expiration and exercise price of unexercised options as of the end of reporting periods were as follows:

	Date of expiration	Exercise price per share (yen)	Outstanding as of February 28, 2023 (shares)	Outstanding as of February 29, 2024 (shares)
14th Share Acquisition Rights (Note 1 and 2)	March 24, 2035	1	2,700	2,700
16th Share Acquisition Rights (Note 1 and 2)	April 12, 2036	1	3,800	3,800
17th Share Acquisition Rights (Note 1 and 2)	April 11, 2037	1	6,200	6,200
18th Share Acquisition Rights (Note 1 and 2)	July 4, 2037	1	1,800	1,800
19th Share Acquisition Rights (Note 1 and 2)	May 21, 2038	1	7,400	7,400
20th Share Acquisition Rights (Note 1 and 2)	May 20, 2039	1	9,200	9,200
21st Share Acquisition Rights (Note 1 and 2)	May 26, 2040	1	13,500	13,500
22nd Share Acquisition Rights (Note 1 and 2)	May 24, 2041	1	16,600	16,200
23rd Share Acquisition Rights (Note 1 and 2)	May 24, 2042	1	19,600	18,600
24th Share Acquisition Rights (Note 1 and 2)	May 23, 2043	1	-	26,600
Total		-	80,800	106,000

Note 1. The figures presented are those converted into the number of shares.

2. No vesting requirements are attached.

Fair value of stock options granted during the period and the method of fair value measurement

(1) Valuation technique used: Black-Scholes model

(2) Key inputs and estimation method

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
	23rd Share Acquisition Rights	24th Share Acquisition Rights
Stock price at grant date (yen)	3,023	4,888
Exercise price (yen)	1	1
Stock price volatility (Note 1)	23.58%	23.11%
Estimated remaining period (Note 2)	10	10
Estimated dividend (Note 3)	¥150.0 per share	¥150.0 per share
Risk-free interest rate (Note 4)	0.26%	0.46%

Note 1. For the 24th Share Acquisition Rights, the figure is calculated based on the 10-year performance of stock price (from June 8, 2013, to June 9, 2023).

2. As reasonable estimates are difficult to make due to the lack of sufficient data accumulation, estimates are made assuming that the rights will be exercised at the midpoint of the exercisable period.

3. For the 24th Share Acquisition Rights, the figure is calculated based on actual interim and year-end dividends for the fiscal year ended February 28, 2023.

4. Yield on government bonds with a maturity corresponding to the estimated remaining period.

Method for estimating the number of vested stock options

Basically, it is difficult to reasonably estimate the number of options forfeited in the future; therefore, only the actual number of forfeitures is reflected in the calculation.

Expenses associated with stock options in the fiscal years ended February 28, 2023, and February 29, 2024, were ¥59 million and ¥130 million, respectively. These expenses are recorded in “Selling, general, and administrative expenses” in the consolidated statements of income.

There were no cancellations or changes in conditions of stock options during the fiscal years ended February 28, 2023, and February 29, 2024.

29. OPERATING REVENUES

(1) Disaggregation of revenue

Operating revenues disaggregated by major customer or type of service is as disclosed in Note “6. SEGMENT INFORMATION.”

Income from franchised stores consists of franchise commissions and royalty income received from franchised stores based on franchise agreement in the Domestic Convenience Store Business, Seijo Ishii Business, and Overseas Business. The Group has contractual obligations to franchisees to provide store opening preparation services, operational knowledge, trademarks, and other licenses; offer services, including training and accounting paperwork; and lend store fixtures, signboards, and information systems. As these closely interrelated activities cannot be separated and performed as individual services, they are considered to be a single performance obligation, except for lease transactions. This performance obligation is considered to be satisfied over time and as services are rendered; however, because the transaction price for royalty income is a variable royalty based on the operating gross profit of the store, revenue is recognized over the contract period as such operating gross profit is generated. Various incentives and compensations paid to franchisees are reduced from the transaction prices.

Of the net sale Company-operated stores, sales related to the Domestic Convenience Store Business, Seijo Ishii Business, and Overseas Business consist of net sales from merchandise in the Company-operated stores and sales commissions as agency at stores. The Group sells consumer goods, such as foods and daily necessities, to customers visiting its stores. Revenue from the sale of these goods is recognized when merchandise is delivered to a customer; at which time, control is deemed to have been transferred. Agency at store includes the handling of bill settlement services and parcel reception services.

Of the net sale Company-operated stores, sales related to the Seijo Ishii Business consist of revenues from sale of general consumer goods at the Company-operated stores. Revenue from the sale of these goods is recognized when merchandise is delivered to a customer; at which time, control is deemed to have been transferred.

Income from franchised stores based on franchise agreements includes lease payments made for store facilities, furniture, and fixtures.

Included in the Financial Services Business are the sales from Lawson Bank, which is based on its ATM services. This is commission income from transactions using cash cards of partner financial institutions through Lawson Bank ATMs installed in Lawson stores and other locations, as well as from sales proceeds deposit services for franchised store owners.

Other revenue represents revenues other than those defined in IFRS 15 *Revenue from Contracts with Customers*, such as rental income and various commissions received from product vendors and other clients. Rental income is recognized as revenue in accordance with IFRS 16.

Revenue recognized from sources other than contracts with customers is presented as “Operating revenues” in the consolidated statements of income.

(2) Contract balances

Beginning and ending balances of receivables from contracts with customers and contract liabilities were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Receivables from contracts with customers	130,128	132,445
Contract liabilities	4,130	4,529

In the consolidated statements of financial position, contract liabilities are included in “Other current liabilities.”

There were no significant changes in the contract liability balance during the current reporting period.

Of revenue recognized for the fiscal years ended February 28, 2023, and February 29, 2024, amounts included in the beginning balance of contract liabilities were ¥2,179 million and ¥3,003 million, respectively.

(3) Transaction price allocated to the remaining performance obligations

As the Group does not enter into a significant transaction whose expected individual contract term exceeds one year, it does not disclose information of remaining performance obligation with original expected remaining period of one year or less, applying the practical expedient of IFRS 15, Paragraph 121.

In addition, consideration arising from contracts with customers contains no significant amount that is not included in the transaction price.

30. COST OF SALES AND SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The breakdown of cost of sales was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Cost of merchandise purchased	444,308	476,001
Cost of products manufactured		
Raw materials expense	9,479	11,808
Employee benefit expenses	4,251	5,463
Depreciation	351	511
Other	2,946	3,552
Cost of service provided	11,736	10,311
Total	473,074	507,648

Note: For details of depreciation, please refer to Note "12. PROPERTY, PLANT, AND EQUIPMENT," Note "14. GOODWILL AND INTANGIBLE ASSETS," and Note "15. LEASES."

The breakdown of selling, general, and administrative expenses was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Employee benefit expenses	91,066	96,027
Commission and outsourcing expenses	51,827	53,973
Advertising expenses	24,619	29,197
Transportation expenses	12,739	14,250
Travel and transportation expenses	2,012	2,571
Utilities expenses	7,689	7,764
Taxes and public dues	6,826	7,417
Depreciation	208,946	210,390
Rent expenses	8,678	10,072
Other	48,592	54,558
Total	462,998	486,225

Note: For details of depreciation, please refer to Note "12. PROPERTY, PLANT, AND EQUIPMENT," Note "14. GOODWILL AND INTANGIBLE ASSETS," and Note "15. LEASES."

The breakdown of employee benefit expenses was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Payroll and allowances	60,373	63,272
Bonuses	10,402	10,718
Legal welfare expenses	9,596	10,153
Retirement benefit expenses	2,557	2,510
Other	8,136	9,372
Total	91,066	96,027

Note: Please refer to Note “21. EMPLOYEE BENEFITS” for details of the retirement benefit expenses.

31. OTHER INCOME AND OTHER EXPENSES

The breakdown of other income was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Gain on sale of non-current assets	89	154
Compensation income	553	434
Penalty income	147	174
Insurance claim income	160	17
Employment adjustment subsidy due to novel coronavirus disease	622	0
Gain on step acquisitions	-	489
Other	1,560	1,508
Total	3,133	2,778

The breakdown of other expenses was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Loss on sales of non-current assets	207	79
Loss on retirement of non-current assets	1,438	2,279
Impairment losses (Note)	9,623	9,446
Loss on cancellation of leases	406	216
Other	1,309	1,419
Total	12,985	13,442

Note: Please refer to Note “16. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS” for details of impairment losses.

32. FINANCE INCOME AND FINANCE COSTS

The breakdown of finance income was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Interest income		
Financial assets measured at amortized cost (Note)	1,280	1,272
Dividend income		
Financial assets measured at fair value through other comprehensive income (Note)	187	237
Other	0	1
Gain on valuation of securities		
FVTPL financial assets (Note)	-	593
Total	1,468	2,104

Note: Please refer to Note “9. OTHER FINANCIAL ASSETS” for details of financial assets.

The breakdown of finance costs was as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Interest expenses		
Financial liabilities measured at amortized cost (Note 1)	715	675
Lease liabilities (Note 2)	7,583	8,811
Loss on valuation of securities		
FVTPL financial assets (Note 3)	859	-
Other	-	1
Total	9,158	9,488

Note 1. Please refer to Note “19. BORROWINGS” and Note “23. OTHER FINANCIAL LIABILITIES” for details of financial liabilities.

2. Please refer to Note “15. LEASES” for details of lease liabilities.

3. Please refer to Note “9. OTHER FINANCIAL ASSETS” for details of financial assets.

33. OTHER COMPREHENSIVE INCOME

The amount of each comprehensive income item arising during the period, reclassification adjustments to profit or loss, and amount of income taxes included in other comprehensive income for each fiscal year were as follows:

Fiscal year ended February 28, 2023

(Millions of yen)

	Amount arising during period	Reclassification adjustments	Before income taxes	Income taxes	After income taxes
Items that will not be reclassified to profit or loss					
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	32	-	32	87	120
Remeasurements of defined benefit plans	1,607	-	1,607	(481)	1,125
Share of other comprehensive income of investments accounted for using equity method	10	-	10	-	10
Total	1,650	-	1,650	(393)	1,256
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	2,175	-	2,175	-	2,175
Share of other comprehensive income of investments accounted for using equity method	18	-	18	-	18
Total	2,194	-	2,194	-	2,194
Total other comprehensive income	3,844	-	3,844	(393)	3,450

Fiscal year ended February 29, 2024

(Millions of yen)

	Amount arising during period	Reclassification adjustments	Before income taxes	Income taxes	After income taxes
Items that will not be reclassified to profit or loss					
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	492	-	492	(224)	268
Remeasurements of defined benefit plans	(153)	-	(153)	47	(105)
Share of other comprehensive income of investments accounted for using equity method	-	-	-	-	-
Total	339	-	339	(176)	163
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	1,715	-	1,715	-	1,715
Share of other comprehensive income of investments accounted for using equity method	18	-	18	-	18
Total	1,734	-	1,734	-	1,734
Total other comprehensive income	2,074	-	2,074	(176)	1,897

34. EARNINGS PER SHARE

(1) Basis for the calculation of basic earnings per share

Basic earnings per share and the basis for calculating basic earnings per share were as follows:

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Profit attributable to owners of parent (Millions of yen)	29,708	52,148
Profit not attributable to common shareholders of parent (Millions of yen)	-	-
Profit used for calculating basic earnings per share (Millions of yen)	29,708	52,148
Weighted-average number of shares of common stock (Thousands of shares)	100,076	100,078
Basic earnings per share (Yen)	296.86	521.08

(2) Basis for the calculation of diluted earnings per share

Diluted earnings per share and the basis for calculating diluted earnings per share were as follows:

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Profit used for calculating basic earnings per share (Millions of yen)	29,708	52,148
Profit adjustments (Millions of yen)	-	-
Profit used for calculating diluted earnings per share (Millions of yen)	29,708	52,148
Weighted-average number of shares of common stock (Thousands of shares)	100,076	100,078
Effect of dilutive securities Share-based payments (Thousands of shares)	86	106
Weighted-average number of shares of common stock after dilution (Thousands of shares)	100,162	100,184
Diluted earnings per share (Yen)	296.60	520.53
Potential shares not included in calculation of diluted earnings per share due to antidilutive effect	-	-

35. CASH FLOW INFORMATION

(1) Significant non-cash transactions

The amounts of right-of-use assets acquired through leases were as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Acquisition of right-of-use assets through lease (Note)	260,827	175,199

Note: The amounts include changes arising from the remeasurement of lease liabilities.

The amounts recorded for significant asset retirement obligations were as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Amount of significant asset retirement obligations (Note)	(278)	505

Note: The amounts include changes arising from change in discount rate.

(2) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities were as follows:

Fiscal year ended February 28, 2023

(Millions of yen)

	Carrying amount as of March 1, 2022	Changes involving cash flows	Changes not involving cash flows				Carrying amount as of February 28, 2023
			Foreign currency translation	New leases (Note)	Business combinations	Other	
Short-term borrowings	47,372	(34,621)	79	-	-	-	12,830
Long-term borrowings (including current portion)	179,984	(20,018)	13	-	-	68	160,047
Lease liabilities (including current portion)	1,008,152	(182,918)	1,343	260,827	-	(13,365)	1,074,038
Total	1,235,509	(237,558)	1,436	260,827	-	(13,297)	1,246,916

Note: The amounts include changes arising from the remeasurement of lease liabilities.

Fiscal year ended February 29, 2024

(Millions of yen)

	Carrying amount as of March 1, 2023	Changes involving cash flows	Changes not involving cash flows				Carrying amount as of February 29, 2024
			Foreign currency translation	New leases (Note)	Business combinations	Other	
Short-term borrowings	12,830	28,020	-	-	-	-	40,850
Long-term borrowings (including current portion)	160,047	(110,753)	6	-	759	39	50,099
Lease liabilities (including current portion)	1,074,038	(182,680)	1,309	175,199	9,225	(10,231)	1,066,861
Total	1,246,916	(265,413)	1,315	175,199	9,984	(10,191)	1,157,810

Note: The amounts include changes arising from the remeasurement of lease liabilities.

36. RELATED PARTIES

(1) Related party transactions

Material transactions of the Group with its related parties were as follows:

Fiscal year ended February 28, 2023

(Millions of yen)

Category	Name of the company or individual	Related-party relationships	Description of transaction	Amount of transaction	Outstanding balance
Parent company	Mitsubishi Corporation	Transactions under the business alliance agreement	Acceptance of debt guarantees	41,900	-
			Payment of guarantee fees	3	0
Companies having the same parent	Mitsubishi Shokuhin Co., Ltd.	Customer and supplier of merchandise	Purchases for Company-operated stores	8,881	59,983
			[Purchases for franchised stores]	[718,717]	-
			Sales of processed foods, etc.	314,811	29,190
			Purchase of processed foods, etc.	58,398	4,426
			Transportation expenses	55,811	4,758
			Transportation expenses received	58,741	4,751
	Mitsubishi Corporation Financial & Management Services (Japan) Ltd.	Lender	Repayment of funds	246,223	41,900
			Borrowing of funds	240,561	
			Interest on borrowings	59	-
	KCS Co., Ltd.	Customer and supplier of merchandise	Purchases for Company-operated stores	1,818	7,368
			[Purchases for franchised stores]	[88,604]	
			Sales of processed foods, etc.	45,119	3,696
	Foodlink Corporation	Supplier of merchandise	Purchase of meat, etc.	16,522	1,831
	Mitsubishi Corporation Packaging Ltd.	Supplier of merchandise	Purchase of packaging materials, etc.	17,119	3,074
	Gourmet Delica Co., Ltd.	Supplier of merchandise	Purchase of home-meal replacement, etc.	30,907	2,714

Fiscal year ended February 29, 2024

(Millions of yen)

Category	Name of the company or individual	Related party relationships	Description of transaction	Amount of transaction	Outstanding balance
Parent company	Mitsubishi Corporation	Transactions under the business alliance agreement	Acceptance of debt guarantees	60,000	-
			Payment of guarantee fees	3	0
Companies having the same parent	Mitsubishi Shokuhin Co., Ltd.	Customer and supplier of merchandise	Purchases for Company-operated stores	10,033	64,460
			[Purchases for franchised stores]	[760,834]	-
			Sales of processed foods, etc.	331,861	19,099
			Purchase of processed foods, etc.	63,099	5,638
			Transportation expenses	56,554	4,947
			Transportation expenses received	62,428	5,094
	Mitsubishi Corporation Financial & Management Services (Japan) Ltd.	Lender	Repayment of funds	348,900	60,000
			Borrowing of funds	367,000	
			Interest on borrowings	62	2
	KCS Co., Ltd.	Customer and supplier of merchandise	Purchases for Company-operated stores	2,152	8,218
			[Purchases for franchised stores]	[94,583]	-
			Sales of processed foods, etc.	48,378	4,051
	Foodlink Corporation	Supplier of merchandise	Purchase of meat, etc.	16,512	1,222
	Mitsubishi Corporation Packaging Ltd.	Supplier of merchandise	Purchase of packaging materials, etc.	17,695	3,087
	Gourmet Delica Co., Ltd.	Supplier of merchandise	Purchase of home-meal replacement, etc.	32,496	2,876
	The Mitsuhashi, Inc.	Supplier of merchandise	Purchase of rice, etc.	10,008	925

(Terms and conditions of transactions and their determination policies, etc.)

1. The Company has received a debt guarantee for borrowings from Mitsubishi Corporation Financial & Management Services (Japan) Ltd.
   The guarantee fee rates are determined reasonably, considering the market interest rates.
2. Terms and conditions for the purchase of merchandise are determined in the same manner as general terms and conditions of transactions.
   The amounts of purchases for franchised stores in square brackets [ ] are settled by the Company as an agent and are not direct transactions with the Company.
3. Interest rates on borrowings are determined reasonably, considering the market interest rates.
4. Amount of transaction represents gross transaction amount.

(2) Remunerations for major executives

Remunerations paid to major executives of the Group were as follows:

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Remuneration for directors (and other officers)	163	160
Stock options as share-based compensation	38	87

Note: Major executives are directors of the Company.

37. COMMITMENTS

Commitments to expenditures subsequent to the closing date were as follows:

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Purchase of property, plant and equipment	23	846
Purchase of intangible assets	-	-
Purchase of right-of-use assets (Note)	37,003	68,958
Total	37,026	69,805

Note: These are contracts for leases that have been committed but not yet commenced.
The contractual amounts primarily arose from lease commitments relating to the land or buildings for the stores in the Domestic Convenience Store Business.

38. SUBSEQUENT EVENTS

As a result of the tender offer, the Company was delisted in accordance with the delisting criteria by Tokyo Stock Exchange, Inc. following the prescribed procedure on July 24, 2024.

Please refer to the press release below.

"Notice of Expression of Our Opinion in Favor of the Planned Commencement of and Recommendation to Tender in the Tender Offer for Company's Share Certificates by KDDI Corporation and Notice of Capital and Business Alliance" dated February 6,2024

"(Amendment) Notice Regarding Partial Amendment to "Notice of Expression of Our Opinion in Favor of the Planned Commencement of and Recommendation to Tender in the Tender Offer for Company's Share Certificates by KDDI Corporation and Notice of Capital and Business Alliance" dated February 29, 2024

"Notice of Expression of Our Opinion in Favor of the Commencement of and Recommendation to Tender in the Tender Offer for Company's Share Certificates by KDDI Corporation" dated March 27, 2024

"Notice of Result of the Tender Offer for Company's Share Certificates by KDDI Corporation and Changes in Other Affiliates and Major Shareholders" dated April 26, 2024

"Notice of Share Consolidation, Abolition of the Provision on Share Units and Partial Amendment of the Articles of Incorporation" dated May 21, 2024

"Notice of Resolutions to Approve Share Consolidation, Abolition of the Provision on Share Units and Partial Amendment of the Articles of Incorporation" dated July 3,2024

"Notice of Delisting of Company Stock" dated July 23, 2024

39. INTERESTS IN OTHER ENTITIES

(1) Major subsidiaries and associates

Subsidiaries and associates are as disclosed in "I. Overview of the Company, 4. Subsidiaries and Other Affiliated Entities."

(2) Subsidiaries with material non-controlling interests

The Group has no subsidiaries with material non-controlling interests.

40. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on May 21, 2024.