

Flash Report on the Consolidated Financial Results

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

July 11, 2022

Listed Company Name: Lawson, Inc.

Code No.: 2651

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Scheduled date for submission of quarterly securities report: July 13, 2022

Scheduled date for payment of dividend: —

Supplementary materials for quarterly financial results: Yes

Holding of presentation of quarterly results: None

(Amounts less than one million yen are truncated)

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

(1) Consolidated operating results (cumulative)

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

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first quarter ended								
May 31, 2022	237,756	40.5	13,279	25.1	13,599	30.8	8,029	42.4
May 31, 2021	169,264	8.9	10,617	304.6	10,397	760.1	5,637	—

Note: Comprehensive income:

For the first quarter ended May 31, 2022	9,730 million yen	12.9%
For the first quarter ended May 31, 2021	8,615 million yen	—%

	Profit per share	Diluted profit per share
	Yen	Yen
For the first quarter ended		
May 31, 2022	80.24	80.17
May 31, 2021	56.33	56.29

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

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of			
May 31, 2022	1,476,891	279,952	18.6
February 28, 2022	1,337,245	278,473	20.4

Reference: Shareholders' equity:

As of May 31, 2022	274,300 million yen
As of February 28, 2022	272,891 million yen

2. Dividends

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

Note: Revision of the most recent dividends forecast: None

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

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

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
IH of 2022 fiscal year	510,000	46.2	27,500	3.0	26,000	(6.6)	13,500	(22.4)	134.89
2022 fiscal year	1,024,000	46.6	53,000	12.5	48,500	2.0	22,000	22.9	219.83

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

4. Notes

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

Added: None

Excluded: None

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

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

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

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

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(4) Number of shares outstanding (common stock)

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

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

2. Number of treasury shares at the end of period

As of May 31, 2022: 225,507 As of February 28, 2022: 228,807

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

As of May 31, 2022: 100,073,202 As of May 31, 2021: 100,068,636

Note: This flash report is exempt from quarterly review.

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

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

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1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation Regarding Consolidated Operating Results

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

As a result, for the first quarter of fiscal 2022 on a consolidated basis, gross operating revenue increased to 237,756 million yen (up 40.5% from previous fiscal year), operating income increased to 13,279 million yen (up 25.1% from previous fiscal year) and ordinary income increased to 13,599 million yen (up 30.8% from previous fiscal year). Profit attributable to owners of parent was 8,029 million yen (up 42.4% from previous fiscal year).

The Company has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the fiscal year ending February 28, 2023. Therefore, year-on-year comparative figures for the first quarter of the fiscal year ended February 28, 2022 represent amounts based on the previously adopted accounting policies. For information on the changes in relation to the application of the new accounting standards, please refer to “2. Consolidated Financial Statements and Main Notes (3) Notes to Consolidated Financial Statements (Changes in Accounting Policies).”

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

Operating results by business segment were as follows.

(Domestic Convenience Store Business)

During the first quarter under review, the number of new COVID-19 cases decreased, the state of quasi-emergency was lifted in March 2022, and a recovery trend was seen in the movement of people.

Amid such drastic shifts in the business landscape, Lawson has been proceeding with store renovations in line with the business environment surrounding each store, helping them expand their merchandise assortment of frozen foods and other daily necessities to adapt to changes in customers’ lifestyles and better address customer needs. We completed the renovation of 4,858 stores as of the end of May 2022, and are planning to additionally refurbish about 3,500 stores by the end of fiscal 2022. Installation of the Machikado Chubo in-store kitchen service at stores also progressed, with 8,546 stores equipped with the service as of the end of May

2022.

In store operations, we are striving to establish LAWSON stores as convenience stores endorsed by all our customers. To this end, we are implementing measures to achieve our three commitments, namely, to pursue compelling taste, to be considerate to people, and to be environmentally friendly. In addition to further strengthening our distinctive products that focus on taste and health, we are also working to provide heartfelt customer service in our stores, and to strictly address environmental concerns such as reducing food loss, plastic usage, and CO₂ emissions, etc. We adopted an AI-based system that prompts stores to make timely discounts by providing reminders as part of our efforts to reduce food loss, and decreased the use of plastic labels on our original plastic bottle beverages by around 50% in our effort to use less plastic.

[Store Operations]

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

[Merchandising and Service Strategies]

Sales continued to surge in frozen foods and fast-food counter items, whose assortments we have been endeavoring to expand with the aim of supporting the daily lives of customers with store renovations. In the frozen food range, sales were strong for groundbreaking items such as frozen desserts and products that capture customer needs for stocking up on ingredients and ready-made dishes. In the rice range, our “Korega BENTO” box lunch series continued to record steady sales, and the modified regular lineup of onigiri rice balls also performed well. Our original products including the “Nama custard cream puff” released in March 2022 and our “Kara-age-kun” chicken nuggets, which marked their 36th anniversary, were well received, contributing to sales. The Machikado Chubo in-store kitchen service enjoyed strong sales as a result of revamping and enhancing the quality of popular items such as the “Thick-Sliced Sangenton Pork Cutlet Sandwich” and “Mixed-seafood Tempura Rice Bowl.” The “Local Bowl” series that responds to region-specific needs was also very popular.

In food delivery service, the combined number of stores listed on 5 food delivery services such as Uber Eats, reached 3,263 in 45 prefectures as of May 31, 2022. In addition, Uber Eats delivers over-the-counter (OTC) drugs sold at 73 LAWSON stores in 14 prefectures.

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

Fiscal year Product group	Previous fiscal year From March 1, 2021 To May 31, 2021		Current fiscal year From March 1, 2022 to May 31, 2022	
	Sales (Millions of yen)	Percentage of total (%)	Sales (Millions of yen)	Percentage of total (%)
Processed foods	296,214	54.3	304,010	54.3
Fast foods	116,453	21.3	123,225	22.0
Daily delivered foods	85,667	15.7	86,336	15.4
Nonfood products	47,602	8.7	46,337	8.3
Total	545,938	100.0	559,910	100.0

[Store Development]

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

During the first quarter under review, the total number of LAWSON, NATURAL LAWSON and LAWSON STORE100 stores opened in Japan stood at 59 stores. Meanwhile, we closed a total of 55. As of the end of May 2022, the total number of domestic stores was 14,660*.

In an effort to establish convenience store models catered to an aging population and a trend toward self-treatment, we are building partnerships with dispensing pharmacy and drug store chains to operate healthcare-oriented LAWSON stores that offer over-the-counter pharmaceuticals and prescription drugs, as well as a wider assortment of cosmetics and daily necessities than conventional LAWSON stores. The number of stores offering non-prescription drugs has reached 282 stores (includes 50 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of May 2022. Moreover, the number of stores with nursing care consultation desks for seniors has reached 21 as of the end of May 2022. Furthermore, we have also been expanding our chain of “in-hospital LAWSON stores,” which feature strengthened focus on medical, sanitary and nursing supplies in addition to merchandise and services offered at standard convenience stores. The number of such stores has reached 337 as of the end of May 2022. Building on our expertise developed through operation of in-hospital LAWSON stores, we will continue to support the lives of all people interacting with hospitals.

Our NATURAL LAWSON stores, which are popular among customers for supporting their beauty, health, and comfortable lifestyles, offer an exclusive selection of finely picked items of value, including food made with healthy ingredients and environmentally friendly detergents and cosmetics. Meanwhile, our LAWSON STORE100 stores offer high quality, safe and reliable fruits and vegetables with a focus on freshness and daily necessities, supporting customers’ daily dietary lives by helping them plan their meals. The stores are visited by customers of all ages including children and the elderly, and particularly single people and homemakers. As of the end of May 2022, we operate 134 NATURAL LAWSON stores and 668 LAWSON STORE100 stores.

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

[Change in the Total Number of Domestic Stores]

	Total stores as of February 28, 2022	Change during period	Total stores as of May 31, 2022
LAWSON	13,851	7	13,858
NATURAL LAWSON	136	(2)	134
LAWSON STORE100	669	(1)	668
Total	14,656	4	14,660

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

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	676	Ibaraki	216	Kyoto	330	Ehime	215
Aomori	278	Tokyo	1,682	Shiga	154	Tokushima	135
Akita	181	Kanagawa	1,072	Nara	136	Kochi	138
Iwate	178	Shizuoka	276	Wakayama	153	Fukuoka	527
Miyagi	255	Yamanashi	136	Osaka	1,177	Saga	74
Yamagata	110	Nagano	173	Hyogo	701	Nagasaki	124
Fukushima	170	Aichi	717	Okayama	238	Oita	197
Niigata	226	Gifu	180	Hiroshima	303	Kumamoto	162
Tochigi	198	Mie	137	Yamaguchi	128	Miyazaki	109
Gunma	243	Ishikawa	103	Tottori	137	Kagoshima	203
Saitama	694	Toyama	181	Shimane	141	Okinawa	259
Chiba	599	Fukui	106	Kagawa	132	Total (domestic)	14,660

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

As a result, Domestic Convenience Store Business posted gross operating revenue of 166,293 million yen (up 58.4% from previous fiscal year) and segment profit of 8,158 million yen (up 23.2% from previous fiscal year).

(Seijo Ishii Business)

Seijo Ishii provides customers with well-selected, and highly original foods under its philosophy of “Quality food for a quality life.” Operating diverse store formats including street-side stores and stores in station buildings and commercial facilities, the supermarket chain leverages its distinguished product development expertise to offer original products and food items made in-house under the Seijo Ishii brand. The number of directly operated Seijo Ishii stores reached 171 as of the end of May 2022. Sales were slow for perishable food and grocery items including fruit and vegetables, meat and fish, and confectionery, especially at street-side stores. This was attributable to the high relative basis of comparison resulting from the spike in demand same period last year from customers staying at home during the COVID-19 pandemic. However, dishes and dessert products produced in-house at our central kitchen continued to record strong sales, driven by seasonal promotional projects and

reinforced publicity activities. We will continue striving to elevate the brand power of Seijo Ishii by promoting the sustainable development of products of value, effective promotional campaigns, and publicity activities as a manufacturing retailer eager to send messages out to consumers.

As a result, Seijo Ishii Business posted gross operating revenue of 27,849 million yen (up 1.6% from previous fiscal year) and segment profit of 3,066 million yen (up 4.2% from previous fiscal year).

(Entertainment-related Business)

With respect to our ticketing business in our Entertainment-related Business undertaken by Lawson Entertainment, Inc., numerous concerts and live events were staged and sporting events were increasingly held without capacity limits following the lifting of the state of quasi-emergency on March, 2022. In addition, no restrictions were imposed during the long holiday in May for the first time in three years, which saw visitors return to leisure facilities. Under such circumstances, we focused our efforts on securing an expanded lineup of events in each genre with the aim of capturing the increased demand driven by the restored movement of people, which resulted in a rise in our ticket transaction value. Furthermore, sales for our product sales business also increased year on year at HMV music/video software stores and others. Meanwhile, demand from stay-at-home customers slowed in our e-commerce business. The number of stores has reached 55 as of May 31, 2022, including HMV stores, HMV&BOOKS, which markets books, CDs and DVDs, and HMV record shop stores specializing in analog records.

United Cinemas Co., Ltd., an operator of cinema complexes, has been operating all its theaters according to their normal business hours since the state of quasi-emergency was lifted, which resulted in a year-on-year increase in the number of moviegoers. Moreover, we are also striving to increase sales by screening more self-distributed movies and movies based on 4DX, a state-of-the-art technology that offers a multi-sensory cinematic experience, as well as strengthening theater commercial (theater media) sales. As of May 31, 2022, 42 cinema complexes nationwide with 388 screens are operating.

As a result, Entertainment-related Business posted gross operating revenue of 16,919 million yen (up 9.2% from previous fiscal year) and segment profit of 1,116 million yen (up 230.6% from previous fiscal year).

(Financial Services Business)

With respect to our Financial Services Business, in addition to strengthening our foundational ATM business and promoting our conventional cash deposit/withdrawal service, we worked to expand the use of ATM-based services, including international money transfer cards issued by money transfer companies, the “ATM charge service,” where cash can be charged at an ATM to mobile cashless payment apps, and a safety box service, where sales proceeds can be deposited via ATMs. Furthermore, we focused on expanding the number of partner financial institutions and other service operators for our “Immediate Account Settlement Service,” which allows customers to top up their mobile payment app from their account with a financial institution through the ATMs and ATM settlement network of Lawson Bank, Inc.

As of the end of May 2022, the number of ATMs installed nationwide reached 13,542, with each ATM used

51.5 times a day on average. The total number of our financial institution partners reached 378 nationwide. The “Immediate Account Settlement Service” is offered in partnership with five service providers including those operating “au PAY,” “WebMoney Prepaid Card,” and “mobile Suica.” In the first quarter under review, 4 financial institutions joined as new partners, raising the total number of financial institution partners to 13.

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

As a result, Financial Services Business posted gross operating revenue of 8,680 million yen (up 4.1% from previous fiscal year) and segment profit of 990 million yen (up 100.8% from previous fiscal year).

(Overseas Business)

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

The number of LAWSON stores in the People’s Republic of China, reached 4,843 as of the end of May 2022, up 283 stores from the end of previous fiscal year. In addition to opening new stores through our subsidiaries, we are also launching stores by concluding mega franchise agreements with local retailers in different cities, as well as area license agreements—where partner companies serve as headquarters in designated areas and assume overall operation and development—in efforts to accelerate the expansion of business areas and the number of stores. Due to the impact of COVID-19, regional movement restrictions were strengthened across China in and after April 2022, including the introduction of lockdowns. However, the impact was limited during the January–March period, the accounting period in China, resulting in a year-on-year increase in gross operating revenue due partly to an increase in the number of stores. We will work to offer our signature high-quality original products including rice and dessert items, enhance the value of the Lawson brand in China, and increase earnings.

In other regions, apart from some stores that have suspended their operations in response to the spread of COVID-19, all other stores are carrying out normal operations, with rigorous infection prevention measures in place, in order to sustain the daily lives of our customers.

[Distribution of LAWSON Brand Stores Overseas by Region]

Country/Region	Number of stores (As of February 28, 2022)	Change during fiscal year	Number of stores (As of May 31, 2022)
China Shanghai and surrounding area (Shanghai, Zhejiang, Jiangsu)	2,349	26	2,375
China Chongqing and surrounding area (Chongqing, Sichuan)	489	139	628
China Liaoning (including Shenyang, Dalian)	461	26	487
China Beijing and surrounding area (Beijing, Tianjin, Hebei)	343	13	356
China Guangdong (including Shenzhen)	—	20	20
China Hubei (including Wuhan)	526	26	552
China Anhui (including Hefei)	175	19	194
China Hunan (including Changsha)	117	4	121
China Hainan (including Haikou)	100	10	110
China Subtotal	4,560	283	4,843
Thailand	166	5	171
Indonesia	65	—	65
Philippines	69	8	77
United States of America Hawaii	2	—	2
Total	4,862	296	5,158

As a result, Overseas Business posted gross operating revenue of 20,775 million yen (up 30.5% from previous fiscal year) and segment loss of 6 million yen (segment profit was 337 million yen in previous fiscal year).

(2) Explanation Regarding Consolidated Financial Position

Current assets increased by 134,296 million yen from the end of the previous fiscal year to 801,923 million yen, mainly reflecting an increase of 111,090 million yen in cash and deposits, an increase of 31,711 million yen in accounts receivable-trade and a decrease of 8,988 million yen in accounts receivable-other. Non-current assets increased by 5,349 million yen from the end of the previous fiscal year to 674,967 million yen, mainly reflecting an increase of 9,699 million yen in property and store equipment, a decrease of 3,296 million yen in investments and other assets and a decrease of 1,053 million yen in intangible assets. Consequently, total assets increased by 139,645 million yen from the end of the previous fiscal year to 1,476,891 million yen.

Current liabilities increased by 131,803 million yen from the end of the previous fiscal year to 836,494 million yen, mainly reflecting an increase of 70,911 million yen in deposits received and an increase of 64,779 million yen in deposits received for banking business. Non-current liabilities increased by 6,364 million yen from the end of the previous fiscal year to 360,444 million yen, mainly reflecting an increase of 5,956 million yen in lease obligations. Consequently, total liabilities increased by 138,167 million yen from the end of the previous fiscal year to 1,196,939 million yen.

Net assets increased by 1,478 million yen from the end of the previous fiscal year to 279,952 million yen,

mainly reflecting an increase of 1,607 million yen in foreign currency translation adjustment and a decrease of 198 million yen in retained earnings. Consequently, shareholders' equity ratio was 18.6%, down from 20.4% as of the end of the previous fiscal year.

(3) Explanation Regarding Forward-looking Statements

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

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

As of February 28, 2022 and May 31, 2022

(Millions of yen)

	Previous fiscal year As of February 28, 2022	Current 1st Quarter As of May 31, 2022
Assets		
Current assets:		
Cash and deposits	388,463	499,553
Accounts receivable-trade	4,990	36,701
Accounts receivable-due from franchised stores	47,202	47,993
Lease receivables	15,071	14,732
Merchandise	22,128	23,931
Accounts receivable-other	146,443	137,455
Other	43,344	41,570
Allowance for doubtful accounts	(17)	(15)
Total current assets	667,627	801,923
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	189,190	188,724
Tools, furniture and fixtures, net	22,762	23,559
Land	8,507	8,507
Leased assets-net	124,978	130,234
Construction in progress	4,720	6,402
Other-net	18,609	21,040
Total property and store equipment	368,768	378,468
Intangible assets:		
Software	34,884	34,835
Goodwill	34,459	33,549
Trademark right	7,721	7,570
Other	680	736
Total intangible assets	77,746	76,692
Investments and other assets:		
Investment securities	21,738	21,813
Long-term loans receivable	38,044	37,348
Guarantee deposits	103,277	102,696
Deferred tax assets	34,736	32,677
Other	26,066	26,072
Allowance for doubtful accounts	(759)	(802)
Total investments and other assets	223,103	219,806
Total non-current assets	669,618	674,967
Total assets	1,337,245	1,476,891

(Millions of yen)

	Previous fiscal year As of February 28, 2022	Current 1st Quarter As of May 31, 2022
Liabilities		
Current liabilities:		
Accounts payable-trade	125,681	172,848
Short-term loans payable	47,072	4,360
Current portion of long-term loans payable	20,000	20,000
Lease obligations	45,955	47,163
Accounts payable-other	90,412	57,211
Income taxes payable	7,368	1,709
Deposits received	151,809	222,721
Provision for bonuses	4,854	3,349
Call money	108,000	135,000
Deposits received for banking business	91,420	156,200
Other	12,117	15,930
Total current liabilities	704,691	836,494
Non-current liabilities:		
Long-term loans payable	160,000	160,000
Lease obligations	118,445	124,402
Deferred tax liabilities	449	441
Provision for retirement benefits to executive officers and audit and supervisory board members	248	259
Net defined benefit liability	17,438	17,599
Asset retirement obligations	36,622	36,730
Other	20,875	21,011
Total non-current liabilities	354,080	360,444
Total liabilities	1,058,771	1,196,939
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	46,495	46,495
Retained earnings	161,299	161,100
Treasury shares	(973)	(959)
Total shareholders' equity	265,327	265,142
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,585	1,546
Revaluation reserve for land	(69)	(69)
Foreign currency translation adjustment	6,273	7,881
Remeasurements of defined benefit plans	(227)	(200)
Total accumulated other comprehensive income	7,563	9,157
Subscription rights to shares	368	355
Non-controlling interests	5,213	5,296
Total net assets	278,473	279,952
Total liabilities and net assets	1,337,245	1,476,891

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

(Consolidated Statement of Income)

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

	Previous 1st Quarter From March 1, 2021 to May 31, 2021	Current 1st Quarter From March 1, 2022 to May 31, 2022
	(Millions of yen)	
Gross operating revenue	169,264	237,756
Net sales	71,164	144,615
Cost of sales	48,670	114,306
Gross profit	22,494	30,309
Operating revenue:		
Income from franchised stores	72,045	61,975
Other operating revenue	26,053	31,164
Total operating revenue	98,099	93,140
Operating gross profit	120,593	123,450
Selling, general and administrative expenses	109,976	110,171
Operating income	10,617	13,279
Non-operating income:		
Interest income	215	215
Dividend income	195	441
Employment adjustment subsidy due to novel coronavirus disease	237	401
Other	481	487
Total non-operating income	1,130	1,546
Non-operating expenses:		
Interest expenses	847	875
Loss on cancellation of leases	367	182
Other	135	167
Total non-operating expenses	1,350	1,225
Ordinary income	10,397	13,599
Extraordinary losses:		
Loss on retirement of non-current assets	233	260
Impairment loss	754	491
Other	650	89
Total extraordinary losses	1,637	841
Profit before income taxes	8,760	12,758
Income taxes-current	1,427	2,306
Income taxes-deferred	1,729	2,424
Total income taxes	3,157	4,731
Profit	5,603	8,026
Profit (loss) attributable to non-controlling interests	(34)	(2)
Profit attributable to owners of parent	5,637	8,029

(Consolidated Statement of Comprehensive Income)

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

	(Millions of yen)	
	Previous 1st Quarter From March 1, 2021 to May 31, 2021	Current 1st Quarter From March 1, 2022 to May 31, 2022
Profit	5,603	8,026
Other comprehensive income		
Valuation difference on available-for-sale securities	1,774	(39)
Foreign currency translation adjustment	1,251	1,716
Remeasurements of defined benefit plans	(12)	26
Total other comprehensive income	3,012	1,703
Comprehensive income	8,615	9,730
Comprehensive income attributable to		
Owners of parent	8,560	9,624
Non-controlling interests	55	106

(3) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not Applicable.

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

Not Applicable.

(Changes in Accounting Policies)

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

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

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

(1) Sales transactions involving a subsidiary

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

(2) Consideration paid to customers

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

(3) IT systems fees received from customers

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

(4) Points program operated by a subsidiary

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

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

As a result, compared with the amounts based on the previously adopted accounting policies, accounts receivable-trade increased by 30,208, accounts receivable-other decreased by the same amount, accounts payable-trade increased by 32,756 million yen and accounts payable-other decreased by the same amount, net sales and operating revenue increased by 58,124 million yen, cost of sales increased by 63,870 million yen,

and selling, general and administrative expenses decreased by 5,792 million yen for the first quarter under review, while operating income, ordinary income, and profit before income taxes increased by 47 million, respectively yen. The balance of retained earnings at the beginning of the fiscal year decreased by 723 million yen.

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

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

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

(Additional Information)

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

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

(Accounting estimate related to the impact of COVID-19)

There have been no significant changes to the assumptions regarding the impact of COVID-19 as stated in Significant accounting estimates in the Annual Securities Report for the previous fiscal year.