Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Balance Sheet
February 28, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2021	2020	2021
CURRENT ASSETS:			
Cash and cash equivalents	¥401,137	¥343,583	$3,775,407
Time deposits	1,447	4	13,619
Accounts receivable:			
Due from franchised stores (Note 3)	46,386	47,367	436,574
Other	165,013	162,142	1,553,064
Allowance for doubtful accounts	(21)	(43)	(198)
Lease receivables (Note 4)	16,622	17,877	156,442
Inventories	20,658	20,985	194,428
Other	39,570	44,783	372,424
Total current assets	690,812	636,698	6,501,760
PROPERTY AND STORE EQUIPMEMT:			
Land (Notes 6 and 7)	8,468	8,913	79,699
Buildings (Note 6)	388,834	387,223	3,659,614
Furniture, fixtures, and equipment (Note 6)	80,960	79,188	761,976
Lease assets (Note 6)	246,720	261,556	2,322,071
Other (Note 6)	28,550	22,875	268,706
Total	753,532	759,755	7,092,066
Accumulated depreciation	(385,892)	(366,817)	(3,631,925)
Net property and store equipment	367,640	392,938	3,460,141
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	8,367	9,948	78,748
Investments in associated companies	21,166	20,518	199,209
Long-term loans receivable	40,621	42,488	382,315
Goodwill (Note 6)	38,215	42,382	359,671
Software (Note 6)	39,089	45,152	367,896
Trademark right	8,350	8,850	78,588
Lease deposits	103,030	107,193	969,695
Deferred tax assets (Note 16)	33,484	34,378	315,144
Other (Note 6)	15,319	17,818	144,179
Allowance for doubtful accounts	(663)	(630)	(6,240)
Total investments and other assets	306,978	328,097	2,889,205
TOTAL	¥1,365,430	¥1,357,733	$12,851,106

*See notes to consolidated financial statements.
*Figures are rounded off less than a unit.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2021	2020	2021
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 8 and 20)	¥127,487	¥129,398	$1,199,878
Due to franchised stores (Note 9)	1,703	1,860	16,028
Other	90,335	94,448	850,212
Short-term loans (Note 10)	42,320	39,850	398,306
Current portion of long-term debt (Note 10)	144,585	45,610	1,360,800
Income taxes payable	4,079	7,916	38,391
Deposits received	246,111	193,097	2,316,339
Other (Note 13)	111,135	49,784	1,045,975
Total current liabilities	767,755	561,963	7,225,929
LONG-TERM LIABILITIES:			
Net defined benefit liability (Note 12)	16,278	16,246	153,205
Allowance for retirement benefits to executive officers and audit and supervisory board members	277	283	2,607
Long-term debt (Note 10)	251,492	446,666	2,366,984
Asset retirement obligations (Note 13)	35,694	35,336	335,944
Deferred tax liabilities (Note 16)	486	522	4,574
Other	20,516	21,370	193,091
Total long-term liabilities	324,743	520,423	3,056,405
EQUITY (Note 14):			
Common stock—authorized, 409,300,000 shares in 2021 and 2020; issued, 100,300,000 shares in 2021 and 2020	58,507	58,507	550,654
Capital surplus	46,495	44,605	437,600
Stock acquisition rights	334	256	3,144
Retained earnings	158,498	165,081	1,491,746
Treasury stock—at cost, 232,954 shares in 2021 and 237,762 shares in 2020	(991)	(1,011)	(9,327)
Accumulated other comprehensive Income:			
Net unrealized gain on available-for-sale securities	1,782	1,497	16,772
Land revaluation difference (Note 7)	(208)	(208)	(1,958)
Foreign currency translation adjustments	3,684	3,341	34,673
Defined retirement benefit plans	(135)	(935)	(1,271)
Total	267,966	271,133	2,522,033
Noncontrolling interests	4,966	4,214	46,739
Total equity	272,932	275,347	2,568,772
TOTAL	¥1,365,430	¥1,357,733	$12,851,106

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended February 28, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥288,480	¥314,261	$2,715,106
Net sales	275,945	302,843	2,597,129
Other	101,577	113,133	956,019
Total operating revenues	666,002	730,237	6,268,254
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 20)	188,442	205,746	1,773,572
Selling, general, and administrative expenses	436,683	461,548	4,109,957
Total costs and operating expenses	625,125	667,294	5,883,529
Operating income	40,877	62,943	384,725
OTHER INCOME (EXPENSES):			
Interest expense—net	(2,544)	(3,284)	(23,944)
Compensation income	490	681	4,612
Employment adjustment subsidy due to novel coronavirus disease	794		7,473
Loss on cancellation of leases	(2,066)	(3,675)	(19,445)
Equity in earnings of unconsolidated subsidiaries and associated companies	333	571	3,134
Gain on sales of investment securities	6,233	165	58,664
Loss on sales of non-current assets	(296)	(508)	(2,786)
Loss on disposal of property and store equipment	(3,213)	(6,121)	(30,240)
Impairment of long-lived assets (Note 6)	(16,635)	(18,722)	(156,565)
Expense due to system failure	(828)	(632)	(7,793)
Loss on novel coronavirus disease	(3,607)		(33,948)
Other—net	(1,308)	(1,098)	(12,310)
Other expenses—net	(22,647)	(32,623)	(213,148)
INCOME BEFORE INCOME TAXES	18,230	30,320	171,576
INCOME TAXES (Note 16):			
Current	9,197	12,814	86,560
Deferred	379	(2,563)	3,567
Total income taxes	9,576	10,251	90,127
NET INCOME	8,654	20,069	81,449
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(36)	(39)	(339)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥8,690	¥20,108	$81,788

(Continued)

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended February 28, 2021

	Yen		U.S. Dollars
	2021	2020	2021
PER SHARE OF COMMON STOCK (Notes 2.v and 22):			
Net income—basic	¥86.84	¥200.95	$0.82
Net income—diluted	86.78	200.84	0.82
Cash dividends applicable to the year	150.0	202.5	1.42

*See notes to consolidated financial statements.
*Figures are rounded off less than a unit.

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended February 28, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	¥8,654	¥20,069	$81,449
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	285	(1,852)	2,683
Land revaluation difference			
Foreign currency translation adjustments	307	(543)	2,889
Remeasurements of defined benefit plans	800	(87)	7,529
Total other comprehensive income	1,392	(2,482)	13,101
COMPREHENSIVE INCOME	¥10,046	¥17,587	$94,550
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	¥10,118	¥17,580	$95,228
Noncontrolling interests	(72)	7	(678)

*See notes to consolidated financial statements.
* Figures are rounded off less than a unit.

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended February 28, 2021

Thousands of Shares/Millions of Yen

	Common Stock					Treasury Stock		Accumulated other comprehensive income						
	Shares	Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Shares	Amount	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Remeasure ments of defined benefit plans	Total	Noncontroll ing Interests	Total Equity
BALANCE, MARCH 1, 2019	100,300	¥58,507	¥46,984	¥216	¥166,188	(241)	¥ (1,029)	¥3,349	¥ (567)	¥3,931	¥ (848)	¥276,731	¥5,251	¥281,982
Cumulative effects of changes in accounting policies					(593)							(593)		(593)
Restated balance	100,300	58,507	46,984	216	165,595	(241)	(1,029)	3,349	(567)	3,931	(848)	276,136	5,251	281,388
Net income attributable to owners of the parent					20,108							20,108		20,108
Change in the parent’s ownership interest due to transactions with noncontrolling interests			(2,375)									(2,375)		(2,375)
Year-end cash dividends, ¥127.5 per share					(12,758)							(12,758)		(12,758)
Interim cash dividends, ¥75.0 per share					(7,505)							(7,505)		(7,505)
Reversal of land revaluation difference					(359)							(359)		(359)
Purchase of treasury stock							(1)					(1)		(1)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			(4)			4	19					15		15
Others−net				40				(1,852)	359	(590)	(87)	(2,130)	(1,037)	(3,167)
BALANCE, FEBRUARY 29, 2020	100,300	¥58,507	¥44,605	¥256	¥165,081	(237)	¥(1,011)	¥1,497	¥(208)	¥3,341	¥(935)	¥271,133	¥4,214	¥275,347
Net income attributable to owners of the parent					8,690							8,690		8,690
Decrease by merger					(263)							(263)		(263)
Change in the parent’s ownership interest due to transactions with noncontrolling interests			1,887									1,887		1,887
Year-end cash dividends, ¥75.0 per share					(7,505)							(7,505)		(7,505)
Interim cash dividends, ¥75.0 per share					(7,505)							(7,505)		(7,505)
Reversal of land revaluation difference														
Purchase of treasury stock							(1)					(1)		(1)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			3			4	21					24		24
Disposal of treasury stock			0			0	0					0		0
Others−net				78				285		343	800	1,506	752	2,258
BALANCE, FEBRUARY 28, 2021	100,300	¥58,507	¥46,495	¥334	¥158,498	(233)	¥(991)	¥1,782	¥(208)	¥3,684	¥(135)	¥267,966	¥4,966	¥272,932

	Thousands of U.S. Dollars (Note 1)											
						Accumulated other comprehensive income						
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Remeasurements of defined benefit plans	Total	Noncontrolling Interests	Total Equity
BALANCE, FEBRUARY 29, 2020	$550,654	$419,812	$2,409	$1,553,704	$ (9,515)	$14,089	$(1,958)	$31,445	$ (8,800)	$2,551,840	$39,661	$2,591,501
Net income attributable to owners of the parent				81,788						81,788		81,788
Decrease by merger				(2,475)						(2,475)		(2,475)
Change in the parent’s ownership interest due to transactions with noncontrolling interests		17,760								17,760		17,760
Year-end cash dividends, $0.71 per share				(70,636)						(70,636)		(70,636)
Interim cash dividends, $0.71 per share				(70,635)						(70,635)		(70,635)
Reversal of land revaluation difference												
Purchase of treasury stock					(10)					(10)		(10)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		28			198					226		226
Disposal of treasury stock		0			0					0		0
Others‒net			735			2,683		3,228	7,529	14,175	7,078	21,253
BALANCE, FEBRUARY 28, 2021	$550,654	$437,600	$3,144	$1,491,746	$ (9,327)	$16,772	$ (1,958)	$34,673	$ (1,271)	$2,522,033	$46,739	$2,568,772

*See notes to consolidated financial statements.
* Figures are rounded off less than a unit.

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 28, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥18,230	¥30,320	$171,576
Adjustments for:			
Income taxes paid	(12,923)	(11,436)	(121,628)
Depreciation and amortization	80,778	79,183	760,264
Impairment of long-lived assets	16,635	18,722	156,565
Loss on disposal of property and store equipment	3,213	6,121	30,240
Gain on sales of investment securities-net	(6,233)	(165)	(58,664)
Changes in assets and liabilities:			
Increase in accounts receivable	(931)	(38,594)	(8,762)
(Decrease) in accounts payable	(6,370)	(896)	(59,953)
Increase in deposits received	53,013	61,293	498,946
Increase in allowance for retirement benefits to employees and executive officers and audit and supervisory board members	29	766	273
Net decrease in call loans for banking business	10,000	10,000	94,118
Net increase in call money for banking business	21,000	19,000	197,647
Other—net	51,514	28,390	484,837
Total adjustments	209,725	172,384	1,973,883
Net cash provided by operating activities	227,955	202,704	2,145,459

(Continued)

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 28, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
INVESTING ACTIVITIES:			
Purchases of property and store equipment	(26,294)	(33,852)	(247,473)
Purchases of software and other intangible assets	(8,471)	(10,931)	(79,727)
Increase in long-term loans receivable	(3,675)	(5,961)	(34,588)
Proceeds from collection of long-term loans receivable	4,917	5,736	46,278
Payments for guarantee deposits	(11,833)	(18,023)	(111,369)
Proceeds from collection of guarantee deposits	16,011	17,836	150,692
Long-term prepaid expenses	(381)	(797)	(3,586)
Proceeds from sales of investment securities	7,792	243	73,336
Acquisition of associated companies	(1,733)	(2,246)	(16,311)
Other—net	(6,316)	(1,079)	(59,445)
Net cash used in investing activities	(29,983)	(49,074)	(282,193)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	2,470	(86,750)	23,247
Repayments of long-term debt	(130,700)	(103,319)	(1,230,118)
Proceeds from share issuance to non-controlling shareholders	2,622		24,678
Cash dividends paid	(15,010)	(20,263)	(141,271)
Proceeds from long-term loan-payable		50,000	
Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation		(3,521)	
Other—net	(24)	(58)	(225)
Net cash provided by (used in) financing activities	(140,642)	(163,911)	(1,323,689)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	224	(372)	2,108
NET INCREASE（DECREASE） IN CASH AND CASH EQUIVALENTS	57,554	(10,653)	541,685
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	343,583	354,236	3,233,722
CASH AND CASH EQUIVALENTS, END OF YEAR	¥401,137	¥343,583	$3,775,407

*See notes to consolidated financial statements.
* Figures are rounded off less than a unit.

(Concluded)

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Lawson, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.25 to $1, the approximate rate of exchange at February 28, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Mitsubishi Corporation ("Mitsubishi") owns 50,150 thousand shares of common stock of the Company (including indirect holdings) as of February 28, 2021, which represents 50.12% of the total voting rights of the Company. Accordingly, Mitsubishi is the parent company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements include the accounts of the Company and its 20 (21 in 2020) subsidiaries (collectively, the "Companies"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control and influence concepts, those entities for which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those entities over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

Investments in three (three in 2020) associated companies are accounted for by the equity method. Investments in 24 (22 in 2020) unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these entities, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies has been eliminated.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies over the fair value of the net assets at the dates of acquisition is being amortized over a period not exceeding 20 years.

b. ***Fiscal Year End of the Consolidated Subsidiaries***—The fiscal year end of Chongqing Lawson, Inc.; Shanghai Lawson, Inc.; Dalian Lawson, Inc.; Lawson (China) Holdings, Inc.; Saha Lawson Co., Ltd., Shanghai Le Song Trading Co., Ltd., Shang Hai Gong Hui Trading Co., Ltd., Zhejiang Lawson, Inc.; Beijing Lawson, Inc.; and BEIJING LUOSONG Co., Ltd. is December 31. In order to prepare the consolidated financial statements, the Company used these companies' financial statements prepared as of such fiscal year end, and significant transactions which occur between December 31 and the consolidated fiscal year end are adjusted as required for consolidation.
The fiscal year end of Lawson Bank, Inc. is March 31. In order to prepare the consolidated financial statements, the Company used this subsidiary's provisional settlement of accounts as of the Company's fiscal year end.

The fiscal year end date for the other consolidated subsidiaries is the same as that of the Company.

c. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements***− In May 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss related to pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. ***Unification of Accounting Policies Applied to Foreign Associated Companies Accounted for by Using the Equity Method***−In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The standard requires adjustments to be made to conform associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

e. ***Business Combinations***—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interests is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

f. ***Franchise Agreements and Basis for Recognizing Franchise Commissions***—The Company operates principally in a single industry, referred to as the convenience store business, with its own stores and franchised stores. The Company allows each independent franchisee to operate relatively small-sized convenience stores using specific designs and LAWSON brand names, and provides related managerial or technical know-how under a franchise agreement. Under the agreement, all franchised stores are provided with a variety of services and advice on the operation of convenience stores from the Company as the franchisor. In return, such franchised stores are required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's gross margin. As the franchisor, the Company accounts for franchise commissions on an accrual basis by reference to the gross margin earned by each franchised store and the applicable commission percentage. According to the franchise agreement, a franchised store may pay additional guarantee deposits equal to twice the average monthly sales amounts of the respective store and pay a lower commission percentage.

The term of a franchise agreement is effective primarily for 10 years from the commencement date of a new store's operation as a franchised store and may be extended or renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee.

The franchise agreement usually provides that the franchised store shall make a cash payment to the Company in the amount of ¥1 million upon commencement. Upon receipt of such payment, ¥1 million is credited to income of the Company as “Operating revenues—Franchise commissions from franchised stores” for services related to the opening of the LAWSON store. The remaining amount received by the Company is credited to the “Due to franchised stores” account and then applied to working capital for purchases of merchandise and supplies for the franchised store.

As part of the contractual obligations of the franchisor under the agreement, the Company generally provides franchisees with furniture, fixtures, and equipment designed for the LAWSON stores. In some cases, franchisees may also be provided with the land or buildings for the stores. However, the Company does not require the franchisees to make lease payments related to the stores. Instead, a higher percentage applicable to the gross margin would be used as the basis for determining the franchise commissions. The portion of franchise commission attributable to property and store equipment leases is not separately accounted for by the Company.

g. ***Cash and Cash Equivalents***— Cash and cash equivalents include cash on hand, demand deposits, and short-term investments, which mature or become due within three months of the date of acquisition and which are readily convertible into cash and are exposed to insignificant risk of changes in value.

h. ***Inventories***—Substantially all inventories are stated at the lower of cost, determined by the retail method as generally applied in the retail industry or by the gross average method, or net selling value.

i. ***Marketable and Investment Securities***— Marketable and investment securities are classified and accounted for, depending on management’s intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity, with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are stated at fair value based on market quotations. Unrealized gains and losses, net of applicable taxes, are reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Nonmarketable investment securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, nonmarketable investment securities are reduced to net realizable value by a charge to income.

j. ***Property and Store Equipment*****–** Property and store equipment are stated at cost, except for land (see Note 7). Depreciation is computed mainly by the straight-line method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 34 years for buildings and structures and from 5 to 8 years for furniture, fixtures, and equipment.

The useful lives for lease assets are the terms of the respective leases.

k. ***Long-Lived Assets*****–** The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group, mainly by each store, may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the assets or the net selling price at disposition.

l. ***Software*****–**Software used by the Companies is amortized using the straight-line method based on the estimated useful life (primarily five years).

m. ***Rights-of-use assets*** **–**Rights-of-use assets of the Company's foreign consolidated subsidiaries that apply International Financial Reporting Standard 16 (IFRS 16) "Leases". The Company applies the straight-line method using the lease term as the useful life and a residual value of zero.

n. ***Trademark Rights*****–**Trademark rights are amortized using the straight-line method based on the estimated useful life (primarily 20 years).

o. ***Net Defined Benefit Liability*** **–**In calculating the retirement benefit obligation, in order to attribute the estimated amount of retirement benefits in the period up to the end of the current fiscal year, the obligation is based on the benefit formula method.

Prior service cost is amortized starting from the fiscal year incurred mainly on a straight-line basis over a certain period (10 years) within the average remaining service period of employees at the time of occurrence.

Actuarial differences are mainly amortized from the following fiscal year on a straight-line basis over a certain period (10 years) within the average remaining service period of employees at the time of occurrence.

Certain consolidated subsidiaries apply the simplified method to estimate the amount required for voluntary resignations at the end of the fiscal year as the retirement benefit liability in order to calculate net defined benefit liabilities and retirement benefit expenses.

p. ***Allowance for Retirement Benefits to Executive Officers and Audit and Supervisory Board Members*****–** The provisions are calculated as liabilities at 100% of the amount that would be required if all executive officers and audit and supervisory board members resigned as of each balance sheet date.

q. ***Asset Retirement Obligations*****–**An asset retirement obligation is recoded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

r. ***Stock Options*****−** Compensation expenses for employee stock options which were granted on and after May 1, 2006 are recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for share-based payment". Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right and are included as a separate component of equity until exercised.

s. ***Income Taxes*****−** The Companies provide for income taxes applicable to all items included in the consolidated statement of income regardless of when such taxes are payable. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying current income tax rates to the temporary differences.

The Company and certain consolidated subsidiaries adopted the consolidated taxation system.

t. ***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 the line with the transition to the group tax sharing system.

u. ***Foreign Currency Financial Statements*****−** The balance sheet accounts of associated companies denominated in foreign currencies are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” and “Noncontrolling interests” in separate components of equity. Revenue and expense accounts of affiliated companies denominated in foreign currencies are translated into yen at the current exchange rate.

v. ***Per Share Information*****−** Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

The number of shares used in computing net income per share was 100,065 thousand shares for 2021 and 100,061 thousand shares for 2020.

Diluted net income per share for the years ended February 28, 2021 and February 29, 2020 was computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options that were outstanding during the year.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

w. ***Accounting Changes and Error Corrections*** – In December 2009, the ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,”~~,~~ and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

(1) Changes in accounting policies
When a new accounting policy is applied following the revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

The Company’s foreign consolidated subsidiaries have applied International Financial Reporting Standard 16 (IFRS 16), “Leases,” from the fiscal year ended February 28, 2021.IFRS16, “Leases,” requires lessees to recognize most leases on the balance sheet thereby resulting in the recognition of lease assets and liabilities.
The impact of the application of IFRS 16 on the Company’s consolidated financial statements is immaterial.

(2) Changes in presentation
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior-period errors
When an error in prior-period financial statements is discovered, those statements are restated.

x. New Accounting Pronouncements

Accounting Standard for Revenue Recognition

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

The Company expects to apply the accounting standard and guidance for annual periods beginning on March 1, 2022, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Accounting Standard for Fair Value Measurement

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standards, nonmarketable available-for-sale securities are stated at cost. In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised to provide notes such as the breakdown of financial instruments by market value level.

The Company expects to apply the accounting standard and guidance for annual periods beginning on March 1, 2022, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

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Accounting Standard for Disclosures about Accounting Estimates

On March 31, 2020, the ASBJ issued ASBJ Statement No. 31, "Accounting Standard for Disclosures about Accounting Estimates". Under the New Accounting Standards, the objective is to disclose information that contributes to the understanding of financial statement users with regard to the details of the accounting estimates for items whose amounts recorded in the financial statements for the fiscal year under review were based on accounting estimates and that have a risk of material impact on the financial statements for the following fiscal year.

The Company expects to apply the accounting standard for annual periods ending on February 28, 2022, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

y. Changes in Presentation of Financial Statements

(Consolidated Statement of Income)

In the “OTHER INCOME (EXPENSES)” section, “Expense due to system failure” was included in “Other” in the previous fiscal year. In order to enhance the clarity of the consolidated financial statements from the current fiscal year, “Expense due to system failure” is now separately presented. To reflect these changes in method of presentation, the Consolidated Statement of Income for the previous fiscal year has been reclassified.

As a result, in the “OTHER INCOME (EXPENSES)” section, 632 million yen that was presented as “Other” in the Consolidated Statement of Income for the previous fiscal year are now presented as “Expense due to system failure.”

(Consolidated Statement of Cash Flows)

In the “Cash flow from OPERATING ACTIVITIES” section, “Gain on sale of investment securities” was included in “Other” in the previous fiscal year. In order to enhance the clarity of the consolidated financial statements from the current fiscal year, “Gain on sale of investment securities” is now separately presented. To reflect these changes in method of presentation, the Consolidated Statement of Cash Flows for the previous fiscal year has been reclassified.

In the “Cash flow from INVESTING ACTIVITIES” section, “Purchase of investment securities” was presented separately in the previous fiscal year. Due to a decline in financial materiality, “Purchase of investment securities” is now included in “Other-net.” To reflect these changes in method of presentation, the Consolidated Statement of Cash Flows for the previous fiscal year has been reclassified.

As a result, in the “Cash flow from INVESTING ACTIVITIES” section, (129) million yen that was presented as “Purchase of investment securities” and (950) million yen that was presented as “Other-net” in the Consolidated Statement of Cash Flows for the previous fiscal year is now presented as (1,079) million yen of “Other-net.”

z***. Additional Information***

(Accounting estimates regarding the impact of the spread of the novel coronavirus)

Due to the spread of novel coronavirus (COVID-19), changes have been observed in the sales of some stores of the Lawson Group as well as in trends of customer visits.

In making accounting estimates for impairment of fixed assets, the Group assumes that sales at most stores will recover during the fiscal year ending February 2022, but that certain effects will remain at some stores even after the fiscal year ending February 2023.
However, there are many uncertainties in the aforementioned assumptions, and any change in the timing when the spread of COVID-19 settles down and its impact on the economic environment could affect the Group's financial position, operating results and cash flows in the future.

3. ACCOUNTS RECEIVABLE−DUE FROM FRANCHISED STORES

Under the franchise agreements, the Company is responsible for providing architectural and design services with respect to the franchised stores' facilities, for training of the franchisees' personnel, and for the centralized processing of invoices from suggested vendors of merchandise and subsequent payments of amounts payable to such vendors.

The EDP system of the Company generates a record of merchandise purchased by each franchised store and accumulates the amounts payable to respective vendors. Under the franchise agreements, the Company, as a representative for all franchised stores, pays amounts payable to the vendors on the stores' behalf. When the merchandise is received by each franchised store, the Company records the cost of the merchandise in the "Accounts receivable−Due from franchised stores" account since such costs shall be subsequently recovered from the respective franchised stores.

The "Accounts receivable−Due from franchised stores" account represents net amounts recoverable from the franchised stores.

4. LEASES

As lessee:
Finance lease transactions that do not transfer ownership.

(1) Components of leased assets
The Companies lease certain store facilities and other assets.

(2) Accounting method for depreciation of leased assets
The accounting method for depreciation of leased assets is as described in "2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (j) Property and Store Equipment."

As lessor:
Lease receivables as of February 28, 2021 and February 29, 2020, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Lease fee receivable	¥17,167	¥18,349	$161,572
Interest income equivalents	(545)	(472)	(5,129)
Lease receivables	¥16,622	¥17,877	$156,443

Maturities of lease receivables for finance leases deemed to transfer leased property to the lessee at February 28, 2021 are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2022	¥2,427	$22,842
2023	2,275	21,412
2024	1,996	18,786
2025	1,731	16,292
2026	1,379	12,979
2027 and thereafter	7,359	69,261
Total	¥17,167	$161,572

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Non-current—Marketable and other equity securities	¥8,306	¥9,880	$78,174
Non-current—Corporate bonds	61	68	574
Total	¥8,367	¥9,948	$78,748

The costs and aggregate fair values of marketable and investment securities as of February 28, 2021 and February 29, 2020, were as follows:

	Millions of Yen			
February 28, 2021	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale— Equity securities	¥10,160	¥1,882	¥32	¥12,010

February 29, 2020	Millions of Yen Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale— Equity securities	¥6,719	¥1,648	¥27	¥8,340

February 28, 2021	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale— Equity securities	$95,623	$17,713	$301	$113,035

The proceeds, realized gains, and realized losses on the available-for-sale securities which were sold during the years ended February 28, 2021 and February 29, 2020, were as follows:

February 28, 2021	Millions of Yen Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	¥7,792	¥6,233	

February 29, 2020	Millions of Yen Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	¥319	¥165	¥106

February 28, 2021	Thousands of U.S. Dollars Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	$73,336	$58,664	

6. LONG-LIVED ASSETS

The Companies mainly identify individual stores as the smallest cash generating units. The Companies recognize an impairment loss in cases where the value of long-lived assets has declined, primarily as a result of continuous operating losses. The carrying amounts of those assets are written down to the recoverable amounts and an impairment loss is recorded in other expenses in the consolidated statement of income.

The Companies recognized an impairment loss in the following asset categories for the years ended February 28, 2021 and February 29, 2020:

Category	Related Assets	Location	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Stores	Buildings and	Tokyo	¥ 2,627	¥ 2,533	$ 24,725
	Furniture, fixtures,	Osaka	1,265	1,689	11,906
	and equipment	Others	11,846	13,435	111,492
Other	Land		76	117	715
	Software		821	948	7,727
Total			¥ 16,635	¥ 18,722	$156,565

The above noted assets which incurred impairment losses for the years ended February 28, 2021 and February 29, 2020, consisted of the following:

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Buildings	¥ 9,604	¥ 10,774	$ 90,391
Furniture, fixtures, and equipment	563	709	5,299
Lease assets	5,500	6,104	51,765
Land	76	117	715
Software	821	948	7,727
Other	71	70	668
Total	¥ 16,635	¥ 18,722	$156,565

The recoverable amount of these assets was measured based on net selling price or value in use. The net selling price of land was calculated based on the appraised value by a real estate appraiser or the expected contract price. The value in use was calculated by discounting estimated future cash flows. The discount rates used were mainly 3.0% and 3.8% for the years ended February 28, 2021 and February 29, 2020, respectively.

7. LAND REVALUATION

Under the "Law of Land Revaluation," promulgated on March 31, 1998, and revised on March 31, 1999 and 2001, the Company opted for a one-time revaluation of its own-use land to a value based on real estate appraisal information as of February 28, 2002.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at February 28, 2021, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥53 million ($499 thousand).

8. ACCOUNTS PAYABLE−TRADE

The balances of "Accounts payable−trade" represent the amounts payable to vendors for merchandise purchased by the Company-operated stores and franchised stores. The Company centralizes all merchandise purchasing procedures both for the Company-operated stores and franchised stores and makes collective payments to vendors (see Note 3).

"Accounts payable−trade" as of February 28, 2021 and February 29, 2020, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Accounts payable−trade for franchised stores	¥103,032	¥108,546	$969,713
Accounts payable−trade for the Company-operated stores	24,455	20,852	230,165
Total	¥127,487	¥129,398	$ 1,199,878

9. ACCOUNTS PAYABLE−DUE TO FRANCHISED STORES

The cost of merchandise supplied to franchised stores is recorded as "Accounts receivable−Due from franchised stores" as described in Note 3.

All franchised stores make remittances of cash proceeds from daily sales to the Company. In certain instances, the remittance from a franchised store exceeds the balance of "Accounts receivable−Due from franchised stores." In the accompanying consolidated balance sheets, such excess balances are presented as "Accounts payable−Due to franchised stores."

10. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at February 28, 2021 and February 29,2020, consisted of notes to banks.

The annual interest rates applicable to the short-term loans were 0.10% and 0.08 % at February 28, 2021 and February 29, 2020, respectively.

Long-term debt at February 28, 2021 and February 29, 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loans from banks and financial company, due serially to 2024 with a weighted-average interest rate of 0.21% (2021)	¥230,000	¥310,000	$ 2,164,706
Obligations under finance leases	171,932	187,311	1,618,184
Less current portion	(145,241)	(45,945)	(1,366,974)
Long-term debt, less current portion	¥256,691	¥451,366	$2,415,915

The aggregate annual maturities of long-term debt, excluding finance leases, at February 28, 2021, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2022	¥100,000	$941,177
2023	20,000	188,235
2024	80,000	752,941
2025	30,000	282,353
2026 and thereafter		
Total	¥230,000	$2,164,706

The aggregate annual maturities of finance lease obligations at February 28, 2021, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2022	¥45,241	$425,798
2023	37,845	356,188
2024	31,893	300,170
2025	24,344	229,120
2026 and thereafter	32,609	306,908
Total	¥171,932	$1,618,184

Lease obligations are presented on a net basis by offsetting with long-term loans receivable as the arrangement meets the offsetting requirements.The amounts offset for the lease obligations due within one year and those due over one year are ¥657 million ($6,184 thousand) and ¥5,198 million ($48,922 thousand), respectively.

The Company and certain consolidated subsidiaries have entered into loan commitment agreements to efficiently finance working capital.
The balances of unused loans at February 28, 2021 and February 29, 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Total loan commitments	¥220,000	¥220,000	$2,070,588
Outstanding balance of used loans	14,070	3,000	132,424
Net amount	¥205,930	¥217,000	$1,938,164

11. CONTINGENT LIABILITIES

At February 28, 2021 and February 29, 2020, the Company had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Guarantees and similar items of bank loans	¥ 110		$1,035

12. EMPLOYEES' RETIREMENT BENEFITS

For employees' retirement benefits, the Company and certain consolidated subsidiaries adopt a funded or unfunded defined benefit-type lump-sum retirement allowance plan and a defined contribution-type pension plan.

The lump-sum retirement allowance plan (generally unfunded, with some plans being funded in accordance with an employee pension trust) pays a lump sum as a retirement benefit based on salary and length of service of the employee.

The lump-sum retirement allowance plan employed by some consolidated subsidiaries calculates liabilities related to retirement benefits and retirement benefit expenses by the simplified method.

Year Ended February 28, 2021

(1) Changes in defined benefit obligations for the year ended February 28, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥21,409	$201,496
Current service cost	1,950	18,353
Interest cost	46	433
Actuarial losses	(578)	(5,440)
Benefits paid	(1,104)	(10,391)
Prior service cost	(317)	(2,984)
Others	(14)	(131)
Balance at end of year	¥21,392	$201,336

(2) Changes in plan assets for the year ended February 28, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥5,579	$52,508
Actuarial gains	(2)	(19)
Balance at end of year	¥5,577	$52,489

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets were as follows;

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 19,326	$ 181,891
Plan assets	(5,577)	(52,489)
	13,749	129,402
Unfunded defined benefit obligation	2,066	19,445
Net liability arising from defined benefit obligations	¥ 15,815	$ 148,847

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥15,815	$148,847
Net liability arising from defined benefit obligations	¥15,815	$148,847

(4) Components of net periodic benefit costs for the year ended February 28, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥1,950	$18,353
Interest cost	46	433
Recognized actuarial losses	261	2,456
Others	11	104
Net periodic benefit costs	¥2,268	$21,346

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the year ended February 28, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Actuarial losses	¥1,153	$10,852
Total	¥1,153	$10,852

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of February 28, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ (317)	$(2,984)
Unrecognized actuarial losses	511	4,809
Total	¥194	$1,825

(7) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Cash and cash equivalents	100%
Total	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended February 28, 2021, were set forth as follows:

Discount rate	0.7% (mainly)
Expected rate of return on plan assets	0%

(9) Contributions to the defined contribution pension plan for the year ended February 28, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net periodic benefit cost	¥578	$5,440

Year Ended February 29, 2020

(1) Changes in defined benefit obligations for the year ended February 29, 2020, were as follows:

	Millions of Yen
Balance at beginning of year	¥20,316
Current service cost	1,881
Interest cost	64
Actuarial losses	332
Benefits paid	(1,191)
Others	7
Balance at end of year	¥21,409

(2) Changes in plan assets for the year ended February 29, 2020, were as follows:

	Millions of Yen
Balance at beginning of year	¥5,582
Actuarial gains	(3)
Balance at end of year	¥5,579

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets were as follows;

	Millions of Yen
Funded defined benefit obligation	¥ 19,418
Plan assets	(5,579)
	13,839
Unfunded defined benefit obligation	1,991
Net liability arising from defined benefit obligations	¥ 15,830

	Millions of Yen
Liability for retirement benefits	¥15,830
Net liability arising from defined benefit obligations	¥15,830

(4) Components of net periodic benefit costs for the year ended February 29, 2020, were as follows:

	Millions of Yen
Service cost	¥1,881
Interest cost	64
Recognized actuarial losses	177
Amortization of prior service cost	5
Others	(17)
Net periodic benefit costs	¥2,110

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the year ended February 29, 2020, were as follows:

	Millions of Yen
Actuarial losses	¥ (157)
Total	¥(157)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of February 29, 2020, were as follows:

	Millions of Yen
Unrecognized prior service cost	
Unrecognized actuarial losses	¥1,346
Total	¥1,346

(7) Plan assets

a.Components of plan assets

Plan assets consisted of the following:

Cash and cash equivalents	100%
Total	100%

b.Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended February 29, 2020, were set forth as follows:

Discount rate	0.3% (mainly)
Expected rate of return on plan assets	0%

(9) Contributions to the defined contribution pension plan for the year ended February 29, 2020, were as follows:

	Millions of Yen
Net periodic benefit cost	¥564

13. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2021 and February 29, 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥35,342	¥31,118	$332,630
Additional provisions associated with the acquisition of property, plant, and equipment	908	1,414	8,546
Reconciliation associated with passage of time	371	384	3,492
Reduction associated with settlement of asset retirement obligations	(907)	(1,525)	(8,536)
Additional provisions associated with changes in accounting estimates	7	3,950	66
Total	35,721	35,342	336,198
Less current portion	(27)	(6)	(254)
Asset retirement obligations, less current portion	¥35,694	¥35,336	$335,944

14. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides for common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings to be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides for companies to purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

15. STOCK OPTIONS

The Company has stock option plans as an incentive for directors, executive officers, and selected employees.
The stock options outstanding as of February 28, 2021, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
5th Stock Option	9 directors	22,400 shares	2005.10.12	¥1 ($0.01)	From October 13, 2005 to May 31, 2025
6th (a) Stock Option	9 directors	21,300 shares	2006.10.26	¥1 ($0.01)	From October 27, 2006 to May 26, 2026
7th (a) Stock Option	7 directors	18,000 shares	2007.9.5	¥1 ($0.01)	From September 6, 2007 to August 20, 2027
8th (a) Stock Option	7 directors	26,400 shares	2009.1.16	¥1 ($0.01)	From January 17, 2009 to December 15, 2028
9th Stock Option	7 directors	21,500 shares	2010.2.17	¥1 ($0.01)	From February 18, 2010 to February 1, 2030
10th Stock Option	7 directors	18,900 shares	2011.2.25	¥1 ($0.01)	From February 26, 2011 to February 10, 2031
11th Stock Option	7 directors	27,000 shares	2012.2.17	¥1 ($0.01)	From February 18, 2012 to February 1, 2032
12th Stock Option	7 directors	26,900 shares	2013.4.12	¥1 ($0.01)	From April 12, 2013 to March 26, 2033
13th Stock Option	7 directors	25,400 shares	2014.4.10	¥1 ($0.01)	From April 10, 2014 to March 23, 2034
14th Stock Option	8 directors	12,400 shares	2015.4.10	¥1 ($0.01)	From April 10, 2015 to March 24, 2035
16th Stock Option	8 directors	15,100 shares	2016.5.2	¥1 ($0.01)	From May 2, 2016 to April 12, 2036
17th Stock Option	8 directors	20,100 shares	2017.5.1	¥1 ($0.01)	From May 1, 2017 to April 11, 2037
18th Stock Option	12 executive officers	5,100 shares	2017.7.21	¥1 ($0.01)	From July 21, 2017 to July 4, 2037
19th Stock Option	7 directors 9 executive officers	14,700 shares	2018.6.8	¥1 ($0.01)	From June 8, 2018 to May 21, 2038
20th Stock Option	8 directors 10 executive officers	17,800 shares	2019.6.7	¥1 ($0.01)	From June 7, 2019 to May 20, 2039
21st Stock Option	7 directors 10 executive officers	22,800 shares	2020.6.12	¥1 ($0.01)	From June 12, 2020 to May 26, 2040

Stock option activity is as follows:

	5th Stock Option	6th (a) Stock Option	7th (a) Stock Option	8th (a) Stock Option	9th Stock Option	10th Stock Option	11th Stock Option	12th Stock Option	13th Stock Option
Year Ended February 29, 2020									
<u>Non-vested</u>									
February 28, 2019−Outstanding									
Granted									
Canceled									
Vested									
February 29, 2020−Outstanding									
<u>Vested</u>									
February 28, 2019−Outstanding	500	400	400	600	500	500	4,800	500	1,000
Vested									
Exercised							4,300		
Canceled									
February 29, 2020−Outstanding	500	400	400	600	500	500	500	500	1,000

	5th Stock Option	6th (a) Stock Option	7th (a) Stock Option	8th (a) Stock Option	9th Stock Option	10th Stock Option	11th Stock Option	12th Stock Option	13th Stock Option
Year Ended February 28, 2021									
<u>Non-vested</u>									
February 29, 2020−Outstanding									
Granted									
Canceled									
Vested									
February 28, 2021−Outstanding									
<u>Vested</u>									
February 29, 2020−Outstanding	500	400	400	600	500	500	500	500	1,000
Vested									
Exercised								500	500
Canceled									
February 28, 2021−Outstanding	500	400	400	600	500	500	500	-	500
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)
Average stock price at exercise								¥6,140 ($57.79)	¥6,140 ($57.79)
Fair value price at grant date		¥3,178	¥2,852	¥3,477	¥2,652	¥2,689	¥3,339	¥5,516	¥5,146 ($48.43)
		($29.91)	($26.84)	($32.73)	($24.96)	($25.31)	($31.43)	($51.92)	

Stock option activity is as follows:

	14th Stock Option	16th Stock Option	17th Stock Option	18th Stock Option	19th Stock Option	20th Stock Option	21st Stock Option
Year Ended February 29, 2020							
Non-vested							
February 28, 2019−Outstanding							
Granted						17,800	
Canceled							
Vested						17,800	
February 29, 2020−Outstanding							
Vested							
February 28, 2019−Outstanding	3,700	4,800	8,200	3,400	14,400		
Vested						17,800	
Exercised							
Canceled							
February 29, 2020−Outstanding	3,700	4,800	8,200	3,400	14,400	17,800	
Year Ended February 28, 2021							
Non-vested							
February 29, 2020−Outstanding							
Granted							22,800
Canceled							
Vested							22,800
February 28, 2021−Outstanding							
Vested							
February 29, 2020−Outstanding	3,700	4,800	8,200	3,400	14,400	17,800	
Vested							22,800
Exercised	500	500	500	400	1,000	1,100	
Canceled							
February 28, 2021−Outstanding	3,200	4,300	7,700	3,000	13,400	16,700	22,800
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)
Average stock price at exercise							
Fair value price at grant date	¥6,251	¥6,254	¥5,343	¥5,363	¥4,833	¥3,047	¥4,506
	($58.83)	($58.86)	($50.29)	($50.48)	($45.49)	($28.68)	($42.41)

The assumptions used to measure the fair value of the 21st stock options were as follows:

	21st Stock Option
Estimate method	Black-Scholes option pricing model
Volatility of stock price	22.36%
Estimated remaining outstanding period	10 years
Estimated dividend	¥150.0 per share
Risk-free interest rate	(0.02%)

16. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate, resulted in a normal statutory tax rate of approximately 30.6% and 30.6% for the years ended February 28, 2021 and February 29, 2020.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2021 and February 29, 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Accrued enterprise taxes	¥637	¥959	$5,995
Accrued employees' bonuses	1,573	1,514	14,805
Excess of depreciation	9,530	9,427	89,694
Excess of amortization of software	473	616	4,452
Employees' retirement benefits	6,793	6,772	63,934
Allowance for doubtful accounts	205	198	1,929
Impairment losses	14,949	12,741	140,696
Tax loss carryforwards	6,029	6,381	56,744
Other	4,345	5,907	40,894
Total of tax loss carryforwards and temporary differences	44,533	44,515	419,134
Less valuation allowance for tax loss carryforwards	(5,707)	(5,101)	(53,713)
Less valuation allowance for temporary differences	(3,332)	(2,878)	(31,360)
Total valuation allowance	(9,039)	(7,980)	(85,073)
Total	35,494	36,535	334,062
Deferred tax liabilities:			
Trademark rights	2,496	2,679	23,492
Net deferred tax assets	¥32,998	¥33,856	$310,570

The amount of valuation reserves increased by ¥1,059 million ($9,967 thousand). This primarily reflects an increase in valuation reserves relating to tax loss carried forward at the consolidated subsidiary.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 28, 2021 and February 29, 2020, is as follows:

	2021	2020
Normal effective statutory tax rate	30.6%	30.6%
Change in valuation allowance	12.0	(5.1)
Non-deductible permanent differences such as entertainment expenses	0.4	0.6
Non-taxable permanent differences such as dividend income	(0.5)	(0.0)
Per-capita inhabitant tax	2.1	1.3
Difference in tax rates of foreign consolidated subsidiaries	2.4	2.2
Reduction of ending deferred tax balance due to change in statutory tax rate	0.3	0.5
Amortization of goodwill	4.9	3.9
Other-net	0.3	(0.2)
Actual effective tax rate	52.5 %	33.8%

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of February 28, 2021, were as follows:

	Millions of Yen						
February 28, 2021	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 1,973	¥ 686	¥ 547	¥ 1,502	¥ 543	¥ 778	¥ 6,029
Less valuation allowances for tax loss carryforwards	(1,657)	(686)	(547)	(1,502)	(543)	(772)	(5,707)
Net deferred tax assets relating to tax loss carryforwards	317					6	323

	Thousands of U.S. Dollars						
February 28, 2021	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$18,569	$6,456	$5,148	$14,136	$5,111	$7,323	$56,743
Less valuation allowances for tax loss carryforwards	(15,595)	(6,456)	(5,148)	(14,136)	(5,111)	(7,267)	(53,713)
Net deferred tax assets relating to tax loss carryforwards	2,974					56	3,030

We believe the tax loss carried forward to be recoverable since taxable income is expected in and after the next consolidated fiscal year.

17. SUPPLEMENTAL CASH FLOW INFORMATION

(1) Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 28, 2021, amounted to ¥31,842 million ($299,689 thousand).

(2) Asset retirement obligations regarded as non-cash transactions incurred for the year ended February 28, 2021, amounted to ¥916 million ($8,621 thousand).

IFRS16, “Leases,”has been applied to foreign consolidated subsidiaries. Accordingly, lease transactions entered into by such subsidiaries are included in the amounts of assets and liabilities relating to the above finance lease transactions.

18. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended February 28, 2021 and February 29, 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain on available-for-sale securities			
Gains (losses) arising during the year	¥6,631	¥(2,510)	$62,409
Reclassification adjustments to loss	(6,220)	(121)	(58,541)
Amount before income tax effect	411	(2,631)	3,868
Income tax effect	(126)	779	(1,185)
Total	285	(1,852)	2,683
Foreign currency translation adjustments			
Adjustments arising during the year	307	(543)	2,889
Total	307	(543)	2,889
Remeasurements of defined benefit plans			
Losses arising during the year	892	(335)	8,395
Reclassification adjustments to profit	261	178	2,456
Amount before income tax effect	1,153	(157)	10,851
Income tax effect	(353)	70	(3,322)
Total	800	(87)	7,529
Total other comprehensive income	¥1,392	¥(2,482)	$ 13,101

19. SEGMENT INFORMATION

In March 2008, the ASBJ revised ASBJ Statement No. 17, “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information”, and issued ASBJ Guidance No. 20, “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information.” Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(a) Description of reportable segments

The Company’s financial information is provided separately by reportable segment and is subject to regular review by the Board of Directors with regard to the allocation of managerial resources and performance evaluation.
The Group operates primary businesses Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-related Business, Financial Services Business and Overseas Business while incorporating other related businesses.

Therefore, the Group has made the Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-related Business, Financial Services Business and Overseas Business units its main reportable segments, based on consideration of financial characteristics and the nature of the services provided.

Regarding the Domestic Convenience Store Business, Lawson, Inc. operates a franchise system as well as undertaking company-owned stores in Japan as the parent company of LAWSON, NATURAL LAWSON, and LAWSON STORE100. Lawson Urbanworks, Inc. undertakes company-owned LAWSON stores mainly in Tokyo and Chiba prefectures. Lawson Store100, Inc. undertakes company-owned LAWSON STORE100 stores. SCI, Inc., a functional subsidiary which comprehensively manages the process from procurement to sale, aims to improve 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.

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

Regarding the Overseas Business, the Group’s operating companies opened LAWSON stores in the People’s Republic of China and Thailand.

(b) Changes in reportable segments

Due to its increased importance, the Overseas Business, which was included in Others, has been recorded as a single reporting segment from the current fiscal year. As a result, segment information for the previous fiscal year was reclassified to reflect the change and presented in “(d) Information about sales, profit (loss), assets, and other items.”

(c) Methods of measurement for the amounts of sales, profit , assets, and other items for each reportable segment

The segment accounting policies are the same as those described in “Accounting Policies for the Preparation of Consolidated Financial Statements.” Segment profit is based on operating income. Intersegment sales or transfers are based on market values.

(d) Information about sales, profit (loss), assets, and other items is as follows:

	Millions of Yen								
	2021								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil-iations	Consol-idated
Sales:									
Sales to external customers	¥416,436	¥103,037	¥56,593	¥28,576	¥61,357	¥3	¥666,002		¥666,002
Intersegment sales or transfers	6,065		1,317	2,998		207	10,587	¥(10,587)	
Total	¥422,501	¥103,037	¥57,910	¥31,574	¥61,357	¥210	¥676,589	¥(10,587)	¥666,002
Segment profit (loss)	¥28,740	¥10,329	¥(298)	¥1,753	¥809	¥(456)	¥40,877		¥40,877
Segment assets	881,172	73,382	53,786	450,974	56,703	506	1,516,526	¥(151,096)	1,365,430
Other:									
Depreciation	57,713	1,976	2,301	6,974	7,642		76,606		76,606
Amortization of goodwill	2,179	1,437	502		54		4,172		4,172
Investments in associated companies	4,942						4,942		4,942
Increase in property, plant, and equipment and intangible assets	25,827	1,543	886	2,456	4,053		34,765		34,765

	Millions of Yen								
	2020								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil-iations	Consol-idated
Sales:									
Sales to external customers	¥465,333	¥93,120	¥83,961	¥31,646	¥56,169	¥8	¥730,237		¥730,237
Intersegment sales or transfers	6,219		1,386	2,443		1,098	11,146	¥(11,146)	
Total	¥471,552	¥93,120	¥85,347	¥34,089	¥56,169	¥1,106	¥741,383	¥(11,146)	¥730,237
Segment profit (loss)	¥47,122	¥8,348	¥5,313	¥3,089	¥(1,006)	¥77	¥62,943		¥62,943
Segment assets	908,974	71,903	69,737	395,854	42,113	385	1,488,966	¥ (131,233)	1,357,733
Other:									
Depreciation	57,755	1,888	2,365	6,401	6,334	0	74,743		74,743
Amortization of goodwill	2,444	1,437	502		57		4,440		4,440
Investments in associated companies	5,100						5,100		5,100
Increase in property, plant, and equipment and intangible assets	33,165	1,045	2,772	2,587	5,214		44,783		44,783

	Thousands of U.S. Dollars								
	2021								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil-iations	Consol-idated
Sales:									
Sales to external customers	$3,919,398	$969,760	$532,640	$268,951	$577,478	$27	$6,268,254		$6,268,254
Intersegment sales or transfers	57,082		12,395	28,216		1,949	99,642	$(99,642)	
Total	$3,976,480	$969,760	$545,035	$297,167	$577,478	$1,976	$6,367,896	$(99,642)	$6,268,254
Segment profit (loss)	$270,494	$97,214	$(2,805)	$16,499	$7,614	$(4,291)	$384,725		$384,725
Segment assets	8,293,384	690,654	506,221	4,244,461	533,675	4,791	14,273,186	$(1,422,080)	12,851,106
Other:									
Depreciation	543,181	18,598	21,656	65,638	71,925		720,998		720,998
Amortization of goodwill	20,508	13,525	4,725		508		39,266		39,266
Investments in associated companies	46,513						46,513		46,513
Increase in property, plant, and equipment and intangible assets	243,078	14,522	8,339	23,115	38,146		327,200		327,200

Notes: 1. The business segments within the “Other” category that do not fall under the main reportable segments, include Consulting Business.
2. Adjustments to segment assets are due to the elimination of intra-segment transactions.
3. Segment profit (loss) corresponds to consolidated operating income.

(e) Information regarding loss on impairment of long-lived assets of reportable segments

	Millions of Yen								
	2021								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil-iations	Consol-idated
Loss on impairment of long-lived assets	¥16,206	¥197	¥143		¥89		¥16,635		¥16,635

	Millions of Yen								
	2020								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil-iations	Consol-idated
Loss on impairment of long-lived assets	¥18,359	¥17	¥73		¥273		¥18,722		¥18,722

	Thousands of U.S. Dollars								
	2021								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil-iations	Consol-idated
Loss on impairment of long-lived assets	$152,527	$1,854	$1,346		$838		$156,565		$156,565

(f) Information regarding the carrying amount of goodwill by reportable segments

	Millions of Yen								
	2021								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainme nt- Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil- iations	Consol- idated
Goodwill at February 28, 2021	¥11,475	¥19,522	¥6,683		¥535		¥38,215		¥38,215

	Millions of Yen								
	2020								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainme nt- Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil- iations	Consol- idated
Goodwill at February 29, 2020	¥13,654	¥20,958	¥7,185		¥584		¥42,382		¥42,382

	Thousands of U.S. Dollars								
	2021								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainme nt- Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil- iations	Consol- idated
Goodwill at February 28, 2021	$108,001	$183,736	$62,899		$5,035		$359,671		$359,671

20. RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with a subsidiary of Mitsubishi Corporation as of and for the years ended February 28, 2021 and February 29, 2020, were as follows:

(1) Transactions between the Company and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Mitsubishi Corporation			
Acceptance of debt guarantees	¥14,070	¥3,000	$132,424
Payment of guarantee fees	0	0	0
Mitsubishi Shokuhin Co., Ltd.			
Accounts payable−trade	¥54,454	¥61,836	$512,508
Purchases	694,640	773,366	6,537,788
Mitsubishi Corporation Financial & Management Services (Japan) Ltd.			
Short-term loans payable	¥14,070	¥3,000	$132,424
Accrued interest	0	1	0

Purchase prices and other conditions are determined on an arm's-length basis.

(2) Transactions between subsidiaries and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Mitsubishi Corporation			
Acceptance of debt guarantees	¥50,000	¥130,000	$470,588
Payment of guarantee fees	9	16	85
Accrued expenses	1	2	9
Mitsubishi Corporation Financial & Management Services (Japan) Ltd.			
Short-term loans payable			
Accrued interest			
Long-term loans payable	¥50,000	¥130,000	$470,588
Accrued interest	221	62	2,080
Borrowing interest	1		9
Mitsubishi Shokuhin Co., Ltd.:			
Accounts receivable－Other	¥25,186	¥28,872	$237,045
Sales of processed food, etc.	285,187	331,938	2,684,113

Sales prices and other conditions are determined on an arm's-length basis.

21. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Policy for Financial Instruments*

The Company primarily uses short-term deposits, etc., to manage its funds and raises funds as necessary through borrowings from financial institutions and leasing, according to the financing plan.

(2) *Nature, Extent of Risk, and Risk Management System for Financial Instruments*

Trade receivables, such as accounts receivable due from franchised stores, accounts receivable-other, and lease receivables are exposed to credit risk from business counterparties.

Long-term loans receivable (mainly construction assistance fund receivables) and lease deposits are exposed to credit risks of borrowers and landlords. With regard to this risk, the Company manages credit on a daily basis at the relevant division and aims to identify and minimize collection concerns in the early stages arising from the deterioration in the financial condition of those borrowers and landlords. Investment securities are primarily shares of companies with which the Company has business relationships and listed shares which are exposed to the risk of market price fluctuation. With regard to this risk, the Company monitors the financial conditions of business counterparties on a regular basis.

For trade payables, most of the accounts payable-trade, accounts payable due to franchised stores, accounts payable-other, and deposits received as a result of bill settlement services have payment due dates within one month, while most deposits received held as a result of ticket sales transactions have payment due dates within six months.

Short-term loans payable are mainly for the purpose of procuring working capital, and are due within 1 year.

Long-term loans from banks and financial company payable are mainly for the purpose of managing a banking business and funding M&A, and are due within five years.

The primary purpose of lease obligations related to finance lease transactions is securing the funds required for capital investments, and the maximum redemption period is 15 years after the consolidated balance sheet date.

With regard to the liquidity risk associated with fundraising (i.e., risk that payments cannot be executed on the payment due dates), the Company prepares and updates financial plans on a timely basis and manages liquidity risk by measures including maintaining adequate liquidity on hand.

(3) ***Fair Values of Financial Instruments***

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Since multiple factors are considered in the estimation of fair value, the results of the estimation might differ if other valuation techniques were used.

	Millions of Yen		
February 28, 2021	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥401,137	¥401,137	
Time deposits	1,447	1,447	
Due from franchised stores	46,386	46,386	
Lease receivables	16,622	15,726	¥ (896)
Accounts receivable	161,048	161,048	
Long-term loans receivable	46,399	43,012	(3,387)
Investment securities	12,734	12,734	
Lease deposits	102,520	100,857	(1,662)
Total	¥788,293	¥782,347	¥ (5,945)
Accounts payable	¥218,285	¥218,285	
Short-term loans	42,320	42,320	
Deposits received	246,111	246,111	
Long-term debt (including current portion of long-term debt)	401,932	397,143	¥ (4,789)
Total	¥908,648	¥903,859	¥ (4,789)

February 29, 2020	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥343,583	¥343,583	
Time deposits	4	4	
Due from franchised stores	47,367	47,367	
Lease receivables	17,877	17,598	¥ (279)
Accounts receivable	159,097	159,097	
Long-term loans receivable	47,461	46,608	(853)
Investment securities	9,496	9,214	(283)
Lease deposits	106,778	108,386	1,608
Total	¥731,663	¥731,856	¥193
Accounts payable	¥224,246	¥224,246	
Short-term loans	39,850	39,850	
Deposits received	193,097	193,097	
Long-term debt (including current portion of long-term debt)	497,311	492,060	¥ (5,251)
Total	¥954,503	¥949,253	¥ (5,251)

February 28, 2021	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$3,775,407	$3,775,407	
Time deposits	13,619	13,619	
Due from franchised stores	436,574	436,574	
Lease receivables	156,443	148,009	$(8,433)
Accounts receivable	1,515,746	1,515,746	
Long-term loans receivable	436,696	404,820	(31,878)
Investment securities	119,849	119,849	
Lease deposits	964,894	949,242	(15,642)
Total	$7,419,228	$7,363,266	$(55,953)
Accounts payable	$2,054,447	$2,054,447	
Short-term loans	398,306	398,306	
Deposits received	2,316,339	2,316,339	
Long-term debt (including current portion of long-term debt)	3,782,889	3,737,816	$(45,073)
Total	$8,551,981	$8,506,908	$(45,073)

As long-term loans receivable and lease obligations satisfy the offsetting requirements, long-term loans receivable are offset against lease obligations and the net amount is shown in the consolidated balance sheets. The offset amount is 5,856 million yen.

Cash and deposits, Due from franchised stores and accounts receivables

The carrying values of cash and deposits,Due from franchised stores and accounts receivable (including allowance for doubtful accounts) approximate fair value because of their short maturities.

Lease receivables

The fair values of lease receivables are determined by discounting future cash flows, which reflect collectability, using the yield rate of government bonds for the remaining period.

Long-term loans receivable
The fair values of long-term loans receivable (including allowance for doubtful accounts) are determined by discounting the cash flows related to the obligations at the Companies' assumed corporate discount rate.

Investment securities
The fair values of investment securities are measured at the quoted market price on the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments.

Lease deposits
The fair values of lease deposits (including allowance for doubtful accounts) are determined by discounting future cash flows, which reflect the collectability, using the yield rate of government bonds for the remaining period.

Accounts payable and deposits received
The carrying values of accounts payable and deposits received approximate fair value because of their short maturities.

Short-term loans
These instruments are stated at their carrying values. Because they are determined using floating interest rates that reflect market rates in a short-time and have short maturities, their carrying values are approximately the same as their fair values.

Long-term debt (including current portion of long-term debt)
The fair values of long-term debt are determined by discounting the cash flows related to the obligations at the expected rate of interest to be applied for similar lease transactions.

(4) *Financial Instruments Whose Fair Value Cannot Be Reliably Determined*

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥179	¥309	$1,685
Investments in unconsolidated subsidiaries and affiliated companies	20,441	19,362	192,386
Others	1,179	1,299	11,095

(5) ***Maturity Analysis for Financial Assets and Securities with Contractual Maturities***

	Millions of Yen			
	2021			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and deposits	¥401,137			
Time deposits	1,447			
Due from franchised stores	46,386			
Lease receivables	2,291	¥7,021	¥7,310	
Accounts receivable	161,063			
Long-term loans receivable	676	16,524	16,870	¥12,407
Lease deposits	8,570	24,298	25,027	45,135
Total	¥621,570	¥47,843	¥49,207	¥57,542

	Millions of Yen			
	2020			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and deposits	¥343,583			
Time deposits	4			
Due from franchised stores	47,367			
Lease receivables	2,463	¥7,549	¥7,864	
Accounts receivable	159,122			
Long-term loans receivable	356	17,753	15,481	¥13,932
Lease deposits	8,679	24,837	26,743	46,935
Total	¥561,575	¥50,139	¥50,088	¥60,867

	Thousands of U.S. Dollars			
	2021			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and deposits	$3,775,407			
Time deposits	13,619			
Due from franchised stores	436,574			
Lease receivables	21,563	$66,080	$68,800	
Accounts receivable	1,515,887			
Long-term loans receivable	6,362	155,520	158,777	$116,772
Lease deposits	80,659	228,687	235,548	424,801
Total	$5,850,071	$450,287	$463,125	$541,572

22. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2021 and February 29, 2020, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2021	Net Income	Weighted-Average Shares	EPS	
Basic EPS–Net income available to common shareholders	¥ 8,690	100,065	¥ 86.84	$ 0.82
Effect of dilutive securities–Stock options		69		
Diluted EPS–Net income for computation	¥ 8,690	100,135	¥ 86.78	$ 0.82

	Millions of Yen	Thousands of Shares	Yen
Year Ended February 29, 2020	Net Income	Weighted-Average Shares	EPS
Basic EPS–Net income available to common shareholders	¥ 20,108	100,061	¥ 200.95
Effect of dilutive securities–Stock options		58	
Diluted EPS–Net income for computation	¥ 20,108	100,119	¥ 200.84

23. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 25, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥75.0 ($0.71) per share	¥ 7,505	$70,635

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Lawson, Inc.:

Opinion

We have audited the consolidated financial statements of Lawson, Inc. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of February 28, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of February 28, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

May 25, 2021