Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Balance Sheet
February 28, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2022	2021	2022
CURRENT ASSETS:			
Cash and cash equivalents	¥388,445	¥401,137	$3,361,705
Time deposits	18	1,447	156
Accounts receivable:			
Due from franchised stores (Note 4)	47,203	46,386	408,507
Other	151,434	165,013	1,310,550
Allowance for doubtful accounts	(18)	(21)	(156)
Lease receivables (Note 5)	15,072	16,622	130,437
Inventories	22,129	20,658	191,510
Other	43,345	39,570	375,119
Total current assets	667,628	690,812	5,777,828
PROPERTY AND STORE EQUIPMEMT:			
Land (Notes 7 and 8)	8,507	8,468	73,622
Buildings (Note 7)	400,566	388,834	3,466,603
Furniture, fixtures, and equipment (Note 7)	87,810	80,960	759,931
Lease assets (Note 7)	248,079	246,720	2,146,941
Other (Note 7)	40,416	28,550	349,770
Total	785,378	753,532	6,796,867
Accumulated depreciation	(416,610)	(385,892)	(3,605,452)
Net property and store equipment	368,768	367,640	3,191,415
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 6)	3,477	8,367	30,091
Investments in associated companies	30,732	21,166	265,963
Long-term loans receivable	38,044	40,621	329,243
Goodwill (Note 7)	34,460	38,215	298,226
Software (Note 7)	34,885	39,089	301,904
Trademark right	7,722	8,350	66,828
Lease deposits	103,277	103,030	893,786
Deferred tax assets (Note 17)	34,737	33,484	300,623
Other (Note 7)	14,276	15,319	123,548
Allowance for doubtful accounts	(760)	(663)	(6,577)
Total investments and other assets	300,850	306,978	2,603,635
TOTAL	¥1,337,246	¥1,365,430	$11,572,878

*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	2022	2021	2022
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 9 and 21)	¥125,681	¥127,487	$1,087,676
Due to franchised stores (Note 10)	1,985	1,703	17,179
Other	90,086	90,335	779,628
Short-term loans (Note 11)	47,072	42,320	407,373
Current portion of long-term debt (Note 11)	65,956	144,585	570,801
Income taxes payable	7,368	4,079	63,765
Deposits received	151,810	246,111	1,313,804
Call money	108,000	40,000	934,660
Deposits received for banking business	91,420	52,169	791,173
Other (Note 14)	15,313	18,966	132,522
Total current liabilities	704,691	767,755	6,098,581
LONG-TERM LIABILITIES:			
Net defined benefit liability (Note 13)	17,439	16,278	150,922
Allowance for retirement benefits to executive officers and audit and supervisory board members	248	277	2,146
Long-term debt (Note 11)	278,446	251,492	2,409,745
Asset retirement obligations (Note 14)	36,622	35,694	316,936
Deferred tax liabilities (Note 17)	450	486	3,894
Other	20,876	20,516	180,667
Total long-term liabilities	354,081	324,743	3,064,310
EQUITY (Note 15):			
Common stock—authorized, 409,300,000 shares in 2022 and 2021; issued, 100,300,000 shares in 2022 and 2021	58,507	58,507	506,335
Capital surplus	46,496	46,495	402,389
Stock acquisition rights	368	334	3,184
Retained earnings	161,299	158,498	1,395,924
Treasury stock—at cost, 228,807 shares in 2022 and 232,954 shares in 2021	(974)	(991)	(8,429)
Accumulated other comprehensive Income:			
Net unrealized gain on available-for-sale securities	1,586	1,782	13,726
Land revaluation difference (Note 8)	(69)	(208)	(597)
Foreign currency translation adjustments	6,274	3,684	54,297
Remeasurements of defined benefit plans	(227)	(135)	(1,965)
Total	273,260	267,966	2,364,864
Noncontrolling interests	5,214	4,966	45,123
Total equity	278,474	272,932	2,409,987
TOTAL	¥1,337,246	¥1,365,430	$11,572,878

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended February 28, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥291,803	¥288,480	$2,525,340
Net sales	292,237	275,945	2,529,096
Other	114,331	101,577	989,450
Total operating revenues	698,371	666,002	6,043,886
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 21)	199,738	188,442	1,728,585
Selling, general, and administrative expenses	451,537	436,683	3,907,720
Total costs and operating expenses	651,275	625,125	5,636,305
Operating income	47,096	40,877	407,581
OTHER INCOME (EXPENSES):			
Interest expense—net	(2,094)	(2,544)	(18,122)
Gain on investments in investment partnerships	1,625	109	14,063
Compensation income	483	490	4,180
Employment adjustment subsidy due to novel coronavirus disease	1,763	794	15,257
Loss on cancellation of leases	(1,423)	(2,066)	(12,315)
Gain on sales of investment securities	1,103	6,233	9,546
Loss on sales of non-current assets	(70)	(296)	(606)
Loss on disposal of property and store equipment	(1,746)	(3,213)	(15,110)
Impairment of long-lived assets (Note 7)	(16,616)	(16,635)	(143,799)
Expense due to system failure		(828)	
Loss on novel coronavirus disease	(702)	(3,607)	(6,076)
Other—net	(1,321)	(1,084)	(11,432)
Other expenses—net	(18,998)	(22,647)	(164,414)
INCOME BEFORE INCOME TAXES	28,098	18,230	243,167
INCOME TAXES (Note 17):			
Current	11,226	9,197	97,153
Deferred	(1,160)	379	(10,039)
Total income taxes	10,066	9,576	87,114
NET INCOME	18,032	8,654	156,053
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	132	(36)	1,142
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥17,900	¥8,690	$154,911

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended February 28, 2022

	Yen		U.S. Dollars
	2022	2021	2022
PER SHARE OF COMMON STOCK (Notes 2.v and 23):			
Net income—basic	¥178.87	¥86.84	$1.55
Net income—diluted	178.71	86.78	1.55
Cash dividends applicable to the year	150.0	150.0	1.30

*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, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET INCOME	¥18,032	¥8,654	$156,053
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	(196)	285	(1,696)
Land revaluation difference	139		1,203
Foreign currency translation adjustments	2,731	307	23,635
Remeasurements of defined benefit plans	(92)	800	(796)
Total other comprehensive income	2,582	1,392	22,346
COMPREHENSIVE INCOME	¥20,614	¥10,046	$178,399
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 19):			
Owners of the parent	¥20,340	¥10,118	$176,028
Noncontrolling interests	274	(72)	2,371

*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, 2022

	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	Non controlling Interests	Total Equity
BALANCE, MARCH 1, 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						0	(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
Net income attributable to owners of the parent					17,900							17,900		17,900
Increase by merger					50							50		50
Change in the parent's ownership interest due to transactions with noncontrolling interests			0									0		0
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					(139)							(139)		(139)
Purchase of treasury stock						0	(1)					(1)		(1)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			1			4	18					19		19
Disposal of treasury stock						0	0					0		0
Others‒net				34				(196)	139	2,590	(92)	2,475	248	2,723
BALANCE, FEBRUARY 28, 2022	100,300	¥58,507	¥46,496	¥368	¥161,299	(229)	¥ (974)	¥1,586	¥ (69)	¥6,274	¥ (227)	¥273,260	¥5,214	¥278,474

	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	Non controlling Interests	Total Equity
BALANCE, FEBRUARY 28, 2021	$506,335	$402,380	$2,891	$1,371,683	$ (8,576)	$15,422	$ (1,800)	$31,882	$ (1,168)	$2,319,049	$42,977	$2,362,026
Net income attributable to owners of the parent				154,911						154,911		154,911
Increase by merger				434						434		434
Change in the parent's ownership interest due to transactions with noncontrolling interests		0								0		0
Year-end cash dividends, $0.65 per share				(64,950)						(64,950)		(64,950)
Interim cash dividends, $0.65 per share				(64,950)						(64,950)		(64,950)
Reversal of land revaluation difference				(1,204)						(1,204)		(1,204)
Purchase of treasury stock					(9)					(9)		(9)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		9			156					165		165
Disposal of treasury stock					0					0		0
Others−net			293			(1,696)	1,203	22,415	(797)	21,418	2,146	23,564
BALANCE, FEBRUARY 28, 2022	$506,335	$402,389	$3,184	$1,395,924	$ (8,429)	$13,726	$ (597)	$54,297	$ (1,965)	$2,364,864	$45,123	$2,409,987

*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, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥28,098	¥18,230	$243,167
Adjustments for:			
Income taxes paid	(8,042)	(12,923)	(69,598)
Depreciation and amortization	79,943	80,778	691,848
Impairment of long-lived assets	16,616	16,635	143,799
Loss on disposal of property and store equipment	1,746	3,213	15,110
Gain on sales of investment securities-net	(1,103)	(6,233)	(9,546)
Changes in assets and liabilities:			
Decrease(Increase) in accounts receivable	14,396	(931)	124,587
Decrease in accounts payable	(4,918)	(6,370)	(42,562)
(Decrease)Increase in deposits received	(94,329)	53,013	(816,348)
Increase in allowance for retirement benefits to employees and executive officers and audit and supervisory board members	1,124	29	9,727
Net decrease in call loans for banking business		10,000	
Net increase in call money for banking business	68,000	21,000	588,490
Other—net	45,114	51,514	390,430
Total adjustments	118,547	209,725	1,025,937
Net cash provided by operating activities	146,645	227,955	1,269,104

(Continued)

Lawson, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 28, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
INVESTING ACTIVITIES:			
Purchases of property and store equipment	(39,038)	(26,294)	(337,845)
Purchases of software and other intangible assets	(7,731)	(8,471)	(66,906)
Increase in long-term loans receivable	(2,353)	(3,675)	(20,363)
Proceeds from collection of long-term loans receivable	4,772	4,917	41,298
Payments for guarantee deposits	(11,123)	(11,833)	(96,261)
Proceeds from collection of guarantee deposits	11,904	16,011	103,020
Long-term prepaid expenses	(1,046)	(381)	(9,052)
Proceeds from sales of investment securities	6,073	7,792	52,557
Acquisition of associated companies	(10,783)	(1,733)	(93,319)
Other—net	(2,457)	(6,316)	(21,264)
Net cash used in investing activities	(51,782)	(29,983)	(448,135)
FINANCING ACTIVITIES:			
Net increase in short-term loans payable	4,752	2,470	41,125
Repayments of long-term debt	(149,233)	(130,700)	(1,291,502)
Proceeds from share issuance to non-controlling shareholders		2,622	
Cash dividends paid	(15,010)	(15,010)	(129,900)
Proceeds from long-term loan-payable	50,000		432,713
Other—net	(25)	(24)	(216)
Net cash used in financing activities	(109,516)	(140,642)	(947,780)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	1,941	224	16,798
NET INCREASE（DECREASE） IN CASH AND CASH EQUIVALENTS	(12,712)	57,554	(110,013)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	401,137	343,583	3,471,545
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	20		173
CASH AND CASH EQUIVALENTS, END OF YEAR	¥388,445	¥401,137	$3,361,705

*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 2021 financial statements to conform to the classifications used in 2022.

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 ¥115.55 to $1, the approximate rate of exchange at February 28, 2022. 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, 2022, 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 (20 in 2021) subsidiaries (collectively, the “Group”). 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 Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in three (three in 2021) associated companies are accounted for by the equity method. Investments in 25 (24 in 2021) 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 Group 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 Group 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 value in use and eventual disposition of the assets or the net selling price at disposition.

l. ***Software*−**Software used by the Group 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 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 Group 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 100,070 thousand shares for 2022 and 100,065 thousand shares for 2021.

Diluted net income per share for the years ended February 28, 2022 and February 28, 2021 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 Group 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 Group 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.

y. Changes in Presentation of Financial Statements

(Application of "Accounting Standard for Disclosure of Accounting Estimates)

The Group has applied the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, issued on March 31, 2020) to the consolidated financial statements for the year ended February 28, 2022 and disclosed notes regarding significant accounting estimates in the consolidated financial statements.

However, no respective disclosure for the year ended February 28, 2021 was made in accordance with transitional treatment prescribed in the proviso of Paragraph 11 of the accounting standard.

(Consolidated Balance Sheet)

In the "Current liabilities" section, "Call money" and "Deposits received for banking business" were included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Call money" and "Deposits received for banking business" are now separately presented. To reflect this change in method of presentation, the Consolidated Balance Sheet for the previous fiscal year has been reclassified.

As a result, in the "Current liabilities" section, 107,557 million yen that was presented as "Other" in the Consolidated Balance Sheet for the previous fiscal year are now presented as 40,000 million yen of "Call money" and 52,169 million yen of "Deposits received for banking business" and 15,388 million yen of "Other."

(Consolidated Statement of Income)

In the "Non-operating income" section, "Gain on investments in investment partnerships" was included in "Other" in the previous fiscal year. As the balance became material, it is presented separately in the current fiscal year.

In the "Non-operating income" section, "Equity in earnings of unconsolidated subsidiaries and associated companies" was presented separately in the previous fiscal year. As the balance became immaterial, it is now included in "Other." 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 "Non-operating income" section, 333 million yen that was presented as "Equity in earnings of unconsolidated subsidiaries and associated companies" and 1,308 million yen that was presented as "Other" in the Consolidated Statement of Income for the previous fiscal year are now presented as 109 million yen of "Gain on investments in investment partnerships" and 1,084 million yen of "Other."

3. SIGNIFICANT ACCOUNTING ESTIMATE

Impairment of fixed assets

(1) Amounts recorded in consolidated financial statements for the current fiscal year

Property and store equipment 16,189million yen

Software 67 million yen

Other 360 million yen
(2) Information on significant accounting estimates concerning identified items
(i) Calculation method
The Group and its consolidated subsidiaries identify each store as the smallest cash generating unit. With regard to asset groups showing indications of impairment, undiscounted future cash flows were calculated, and when they were less than the carrying value, the recoverable amount was measured based on the net selling price or value in use and the carrying value was written down with the difference recognized as an impairment loss under extraordinary losses. The net selling price of land was calculated based on the value appraised by a real estate appraiser or contract price, and the value in use was calculated by discounting estimated future cash flows mainly using a discount rate of 2.6%.
(ii) Major assumptions
The estimates of undiscounted future cash flows related to the recognition of impairment loss of fixed assets of the Company's stores are based on profit forecasts by each store. In addition, it is assumed that the impact of the COVID-19 pandemic will continue even after the fiscal year ending February 2023 in some stores, and such impact is incorporated into profit forecasts.
(iii) Impact on consolidated financial statements for the next fiscal year
In cases where the assumptions used in the aforementioned estimates need to be reviewed due to changes in uncertain economic conditions in the future, additional impairment loss (extraordinary loss) may be incurred in the consolidated financial statements for the next fiscal year and thereafter.

4. 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, training of the franchisees' personnel, and 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.

5. LEASES

As lessee:
Finance lease transactions that do not transfer ownership.
(1) Components of leased assets
The Group 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, 2022 and February 28, 2021, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Lease fee receivable	¥16,468	¥17,167	$142,518
Interest income equivalents	(1,396)	(545)	(12,081)
Lease receivables	¥15,072	¥16,622	$130,437

Maturities of lease receivables for finance leases deemed to transfer leased property to the lessee at February 28, 2022 are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2023	¥2,461	$21,298
2024	2,240	19,386
2025	1,975	17,092
2026	1,621	14,028
2027	1,266	10,956
2028 and thereafter	6,905	59,758
Total	¥16,468	$142,518

6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2022 and February 28, 2021 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Non-current—Marketable and other equity securities	¥3,423	¥8,306	$29,624
Non-current—Corporate bonds	54	61	467
Total	¥3,477	¥8,367	$30,091

The costs and aggregate fair values of marketable and investment securities as of February 28, 2022 and February 28, 2021, were as follows:

	Millions of Yen			
February 28, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale— Equity securities	¥189	¥36	¥32	¥193

	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

	Thousands of U.S. Dollars			
February 28, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale— Equity securities	$1,636	$312	$278	$1,670

The proceeds, realized gains, and realized losses on the available-for-sale securities which were sold during the years ended February 28, 2022 and February 28, 2021, were as follows:

	Millions of Yen		
February 28, 2022	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥6,073	¥1,103	

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

	Thousands of U.S. Dollars		
February 28, 2022	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$52,557	$9,546	

7. LONG-LIVED ASSETS

The Group mainly identify individual stores as the smallest cash generating units. The Group 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 Group recognized an impairment loss in the following asset categories for the years ended February 28, 2022 and February 28, 2021:

Category	Related Assets	Location	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars 2022
Stores	Buildings and	Tokyo	¥ 2,645	¥2,627	$ 22,891
	Furniture, fixtures,	Osaka	1,501	1,265	12,990
	and equipment	Others	12,353	11,846	106,905
Other	Land		50	76	433
	Software		67	821	580
Total			¥ 16,616	¥16,635	$143,799

The above noted assets which incurred impairment losses for the years ended February 28, 2022 and February 28, 2021, consisted of the following:

	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars 2022
Buildings	¥9,812	¥ 9,604	$ 84,916
Furniture, fixtures, and equipment	679	563	5,876
Lease assets	5,648	5,500	48,879
Land	50	76	433
Software	67	821	580
Other	360	71	3,115
Total	¥ 16,616	¥ 16,635	$ 143,799

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 2.6% and 3.0% for the years ended February 28, 2022 and February 28, 2021, respectively.

8. 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, 2022, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥9 million ($78 thousand).

9. 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, 2022 and February 28, 2021, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Accounts payable–trade for franchised stores	¥98,263	¥103,032	$ 850,394
Accounts payable–trade for the Company-operated stores	27,418	24,455	237,282
Total	¥125,681	¥127,487	$ 1,087,676

10. 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 4.

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 sheet~~s~~, such excess balances are presented as "Accounts payable–Due to franchised stores."

11. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at February 28, 2022 and February 28,2021, consisted of notes to banks.

The annual interest rates applicable to the short-term loans were 0.10% and 0.08 % at February 28, 2022 and February 28, 2021, respectively.

Long-term debt at February 28, 2022 and February 28, 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Loans from banks and financial company, due serially to 2024 with a weighted-average interest rate of 0.21% (2022)	¥180,000	¥230,000	$ 1,557,767
Obligations under finance leases	170,239	171,932	1,473,293
Less current portion	66,701	145,241	577,248
Long-term debt, less current portion	¥283,538	¥256,691	$ 2,453,812

The aggregate annual maturities of long-term debt, excluding finance leases, at February 28, 2022, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2023	¥20,000	$173,085
2024	80,000	692,341
2025	80,000	692,341
2026		
2027 and thereafter		
Total	¥180,000	$1,557,767

The aggregate annual maturities of finance lease obligations at February 28, 2022, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2023	¥46,702	$404,171
2024	39,045	337,906
2025	31,227	270,247
2026	22,044	190,774
2027 and thereafter	31,221	270,195
Total	¥170,239	$1,473,293

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 ¥746 million ($6,456 thousand) and ¥5,091 million ($44,059 thousand), respectively.

The Consolidated banking subsidiary of the Company providing credit card services also provides ancillary cash advance services.
The unused lines of credit represent loan commitments as part of these operations at February 28, 2022 and February 28, 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Total loan commitments	¥ 22,268	¥ 9,809	$192,713
Amount of loans executed	460	107	3,981
Net amount	¥ 21,808	¥ 9,702	$188,732

The above loan commitment agreements do not necessarily indicate the amount of the loans to be disbursed, since the loan is subject to a review of the borrower's use of funds, credit status, and other factors.

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, 2022 and February 28, 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Total loan commitments	¥320,000	¥220,000	$2,769,363
Outstanding balance of used loans	22,062	14,070	190,930
Net amount	¥297,938	¥205,930	$2,578,433

12. CONTINGENT LIABILITIES

At February 28, 2022 and February 28, 2021, the Company had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Guarantees and similar items of bank loans	¥ 1,255	¥ 110	$10,861

13. 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, 2022

(1) Changes in defined benefit obligations for the year ended February 28, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥21,392	$185,132
Current service cost	1,850	16,010
Interest cost	94	814
Actuarial losses	281	2,432
Benefits paid	(1,100)	(9,520)
Prior service cost		
Others	(7)	(61)
Balance at end of year	¥22,510	$194,807

(2) Changes in plan assets for the year ended February 28, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥5,577	$48,265
Actuarial gains	(2)	(17)
Balance at end of year	¥5,575	$48,248

(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	¥20,273	$175,448
Plan assets	(5,575)	(48,248)
	14,698	127,200
Unfunded defined benefit obligation	2,237	19,360
Net liability arising from defined benefit obligations	¥16,935	$146,560

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥ 16,935	$ 146,560
Net liability arising from defined benefit obligations	16,935	146,560

(4) Components of net periodic benefit costs for the year ended February 28, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥1,850	$16,010
Interest cost	94	814
Recognized actuarial losses	181	1,566
Amortization of prior service cost	(32)	(277)
Others	(35)	(303)
Net periodic benefit costs	¥2,058	$17,810

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the year ended February 28, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Prior service cost	¥ (32)	$ (277)
Actuarial losses	(101)	(874)
Total	¥ (133)	$ (1,151)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of February 28, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ (285)	$ (2,466)
Unrecognized actuarial losses	613	5,305
Total	¥328	$2,839

(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, 2022, 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, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net periodic benefit cost	¥592	$5,123

Year Ended February 28, 2021

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

	Millions of Yen
Balance at beginning of year	¥21,409
Current service cost	1,950
Interest cost	46
Actuarial losses	(578)
Benefits paid	(1,104)
Prior service cost	(317)
Others	(14)
Balance at end of year	¥21,392

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

	Millions of Yen
Balance at beginning of year	¥5,579
Actuarial gains	(2)
Balance at end of year	¥5,577

(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	¥ 19,326
Plan assets	(5,577)
	13,749
Unfunded defined benefit obligation	2,066
Net liability arising from defined benefit obligations	¥ 15,815

	Millions of Yen
Liability for retirement benefits	¥15,815
Net liability arising from defined benefit obligations	¥15,815

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

	Millions of Yen
Service cost	¥1,950
Interest cost	46
Recognized actuarial losses	261
Others	11
Service cost	¥2,268

(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
Prior service cost	¥317
Actuarial losses	835
Total	¥1,152

(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
Unrecognized prior service cost	¥ (317)
Unrecognized actuarial losses	511
Total	¥194

(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
Net periodic benefit cost	¥578

14. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2022 and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥35,721	¥35,342	$309,139
Additional provisions associated with the acquisition of property, plant, and equipment	1,065	908	9,217
Reconciliation associated with passage of time	359	371	3,107
Reduction associated with settlement of asset retirement obligations	(713)	(907)	(6,170)
Additional provisions associated with changes in accounting estimates	387	7	3,349
Other	(195)		(1,688)
Total	36,624	35,721	316,954
Less current portion	(2)	(27)	(18)
Asset retirement obligations, less current portion	¥36,622	¥35,694	$316,936

15. EQUITY

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

a. Dividends

Under the Group 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 Group 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 Group 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 Group 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Group Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Group 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 Group 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 Group Act, stock acquisition rights are presented as a separate component of equity. The Group 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.

16. 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, 2022, 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
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
22nd Stock Option	6 directors 11 executive officers	24,100 shares	2021.6.11	¥1 ($0.01)	From June 11, 2021 to May 24, 2041

Stock option activity is as follows:

	5th Stock Option	6th (a) Stock Option	7th (a) Stock Option	8th (a) Stock Option	9th Stock Option	10thStock Option	11th 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	1,000
Vested								
Exercised								500
Canceled								
February 28, 2021−Outstanding	500	400	400	600	500	500	500	500

	5th Stock Option	6th (a) Stock Option	7th (a) Stock Option	8th (a) Stock Option	9th Stock Option	10th Stock Option	11th Stock Option	13th Stock Option
Year Ended February 28, 2022								
Non-vested								
February 28, 2021−Outstanding								
Granted								
Canceled								
Vested								
February 28, 2022−Outstanding								
Vested								
February 28, 2021−Outstanding	500	400	400	600	500	500	500	500
Vested								
Exercised								
Canceled	500	400	400	600	500	500	500	500
February 28, 2022−Outstanding								
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0.01)	($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		¥3,178	¥2,852	¥3,477	¥2,652	¥2,689	¥3,339	¥5,146
		($27.50)	($24.68)	($30.09)	($22.95)	($23.27)	($28.90)	($44.53)

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	22nd Stock Option
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	
Year Ended February 28, 2022								
Non-vested								
February 28, 2021−Outstanding								
Granted								24,100
Canceled								
Vested								24,100
February 28, 2022−Outstanding								
Vested								
February 28, 2021−Outstanding	3,200	4,300	7,700	3,000	13,400	16,700	22,800	
Vested								24,100
Exercised				900	800	1,000	1,500	
Canceled	500	500	1,000		1,000	1,000	1,000	
February 28, 2022−Outstanding	2,700	3,800	6,700	2,100	11,600	14,700	20,300	24,100
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)
Average stock price at exercise				¥4,989	¥4,966	¥4,975	¥4,975	
				($43.18)	($42.98)	($43.05)	($43.05)	
Fair value price at grant date	¥6,251	¥6,254	¥5,343	¥5,363	¥4,833	¥3,047	¥4,506	¥3,674
	($54.10)	($54.12)	($46.24)	($46.41)	($41.83)	($26.37)	($39.00)	($31.80)

The assumptions used to measure the fair value of the 22nd stock options were as follows:

	22nd Stock Option
Estimate method	Black-Scholes option pricing model
Volatility of stock price	22.73%
Estimated remaining outstanding period	10 years
Estimated dividend	¥150.0 per share
Risk-free interest rate	(0.04%)

17. 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% for the years ended February 28, 2022 and February 28, 2021.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2022 and February 28, 2021, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets:			
Accrued enterprise taxes	¥932	¥637	$8,066
Accrued employees' bonuses	1,515	1,573	13,111
Excess of depreciation	9,921	9,530	85,859
Excess of amortization of software	490	473	4,241
Employees' retirement benefits	7,158	6,793	61,947
Allowance for doubtful accounts	234	205	2,025
Impairment losses	16,495	14,949	142,752
Tax loss carryforwards	4,224	6,029	36,556
Other	3,558	4,344	30,791
Total of tax loss carryforwards and temporary differences	44,527	44,533	385,348
Less valuation allowance for tax loss carryforwards	(4,105)	(5,707)	(35,525)
Less valuation allowance for temporary differences	(3,824)	(3,332)	(33,094)
Total valuation allowance	(7,929)	(9,039)	(68,619)
Total	36,598	35,494	316,729
Deferred tax liabilities:			
Trademark rights	2,311	2,496	20,000
Net deferred tax assets	¥34,287	¥32,998	$296,729

The amount of valuation reserves increased by ¥1,110 million ($9,606 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, 2022 and February 28, 2021, is as follows:

	2022	2021
Normal effective statutory tax rate	30.6%	30.6%
Change in valuation allowance	0.0	12.0
Non-deductible permanent differences such as entertainment expenses	0.2	0.4
Non-taxable permanent differences such as dividend income	(0.2)	(0.5)
Per-capita inhabitant tax	1.4	2.1
Difference in tax rates of foreign consolidated subsidiaries	2.5	2.4
Reduction of ending deferred tax balance due to change in statutory tax rate	(0.1)	0.3
Amortization of goodwill	2.8	4.9
Other-net	(1.4)	0.3
Actual effective tax rate	35.8 %	52.5%

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of February 28, 2022, were as follows:

	Millions of Yen						
February 28, 2022	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	¥824	¥597	¥1,496	¥432	¥465	¥410	¥4,224
Less valuation allowances for tax loss carryforwards	(818)	(591)	(1,489)	(426)	(465)	(316)	(4,105)
Net deferred tax assets relating to tax loss carryforwards	6	6	7	6	0	94	119

	Thousands of U.S. Dollars						
February 28, 2022	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	$7,131	$5,167	$12,947	$3,739	$4,024	$3,548	$36,556
Less valuation allowances for tax loss carryforwards	(7,079)	(5,115)	(12,886)	(3,687)	(4,024)	(2,735)	(35,526)
Net deferred tax assets relating to tax loss carryforwards	52	52	61	52	0	813	1,030

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

18. SUPPLEMENTAL CASH FLOW INFORMATION

(1) Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 28, 2022, amounted to ¥ 42,512 million ($393,873 thousand).

(2) Asset retirement obligations regarded as non-cash transactions incurred for the year ended February 28, 2022, amounted to ¥ 1,451 million ($12,557 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.

19. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended February 28, 2022 and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrealized gain on available-for-sale securities			
Gains arising during the year	¥666	¥6,631	$5,764
Reclassification adjustments to loss	(948)	(6,220)	(8,205)
Amount before income tax effect	(282)	411	(2,441)
Income tax effect	86	(126)	745
Total	(196)	285	(1,696)
Land revaluation difference			
Adjustments arising during the year	139		1,203
Total	139		1,203
Foreign currency translation adjustments			
Adjustments arising during the year	2,731	307	23,635
Total	2,731	307	23,635
Remeasurements of defined benefit plans			
Gains(Losses) arising during the year	(283)	892	(2,449)
Reclassification adjustments to profit	150	261	1,298
Amount before income tax effect	(133)	1,153	(1,151)
Income tax effect	41	(353)	355
Total	(92)	800	(796)
Total other comprehensive income	¥2,582	¥1,392	$22,346

20. 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

As the segment became material, 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								
	2022								
	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	¥417,527	¥108,633	¥61,642	¥30,526	¥80,040	¥3	¥698,371		¥698,371
Intersegment sales or transfers	7,040		1,354	3,077		630	12,101	¥(12,101)	
Total	¥424,567	¥108,633	¥62,996	¥33,603	¥80,040	¥633	¥710,472	¥(12,101)	¥698,371
Segment profit (loss)	¥28,397	¥11,241	¥2,275	¥2,962	¥2,343	¥(122)	¥47,096		¥47,096
Segment assets	837,123	71,899	52,315	407,480	83,642	402	1,452,861	¥(115,615)	1,337,246
Other:									
Depreciation	56,184	2,010	1,182	7,095	9,642		76,113		76,113
Amortization of goodwill	1,828	1,437	502		63		3,830		3,830
Investments in associated companies	4,728						4,728		4,728
Increase in property, plant, and equipment and intangible assets	34,353	3,774	868	1,112	6,662		46,769		46,769

	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	509	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

	Thousands of U.S. Dollars								
	2022								
	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	$3,613,388	$940,138	$533,466	$264,180	$692,687	$27	$6,043,886		$6,043,886
Intersegment sales or transfers	60,926		11,718	26,629		5,452	104,725	$(104,725)	
Total	$3,674,314	$940,138	$545,184	$290,809	$692,687	$5,479	$6,148,611	$ (104,725)	$6,043,886
Segment profit (loss)	$245,755	$97,283	$19,688	$25,634	$20,277	$(1,047)	$407,581		$407,581
Segment assets	7,244,682	622,233	452,748	3,526,439	723,860	3,479	12,573,441	$(1,000,563)	11,572,878
Other:									
Depreciation	486,231	17,395	10,229	61,402	83,445		658,702		658,702
Amortization of goodwill	15,820	12,436	4,344		546		33,146		33,146
Investments in associated companies	40,917						40,917		40,917
Increase in property, plant, and equipment and intangible assets	297,300	32,661	7,512	9,624	57,654		404,751		404,751

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 about Geographical Areas

Sales

Millions of Yen			
2022			
Japan	China	Others	Total
618,331	72,406	7,634	698,371

Thousands of U.S. Dollars			
2022			
Japan	China	Others	Total
5,351,199	626,621	66,066	6,043,886

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

	Millions of Yen								
	2022								
	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	¥15,774	¥17	¥418		¥407		¥16,616		¥16,616

	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

	Thousands of U.S. Dollars								
	2022								
	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	$136,512	$147	$3,617		$3,523		$143,799		$143,799

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

	Millions of Yen								
	2022								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil-iations	Consol-idated
Goodwill at February 28, 2022	¥9,647	¥18,084	¥6,182		¥547		¥34,460		¥34,460

	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
Goodwill at February 28, 2021	¥11,475	¥19,522	¥6,683		¥535		¥38,215		¥38,215

	Thousands of U.S. Dollars								
	2022								
	Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business	Overseas Business	Other	Total	Reconcil-iations	Consol-idated
Goodwill at February 28, 2022	$83,488	$156,504	$53,501		$4,733		$298,226		$298,226

21. RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with a subsidiary of Mitsubishi Corporation as of and for the years ended February 28, 2022 and February 28, 2021, were as follows:

(1) Transactions between the Company and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Mitsubishi Corporation			
Acceptance of debt guarantees	¥22,062	¥14,070	$190,930
Payment of guarantee fees	0	0	0
Mitsubishi Shokuhin Co., Ltd.			
Accounts payable─trade	¥54,552	¥54,454	$472,107
Purchases	699,341	694,640	6,052,280
Mitsubishi Corporation Financial & Management Services (Japan) Ltd.			
Short-term loans payable	¥22,062	¥14,070	$190,930
Accrued interest	0	0	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
	2022	2021	2022
Mitsubishi Corporation			
Acceptance of debt guarantees	¥30,000	¥50,000	$259,628
Payment of guarantee fees	4	9	35
Accrued expenses	0	1	0
Mitsubishi Corporation Financial & Management Services (Japan) Ltd.			
Short-term loans payable			
Accrued interest			
Long-term loans payable	¥30,000	¥50,000	$259,628
Accrued interest	105	221	909
Borrowing interest	0	1	0
Mitsubishi Shokuhin Co., Ltd.:			
Accounts receivable－Other	¥26,523	¥25,186	$229,537
Sales of processed food, etc.	294,321	285,187	2,547,131

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

22. 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 and call money are mainly for the purpose of procuring working capital, and are due within 1 year.

Deposits received for banking business, which are the deposits of customers received by domestic consolidated subsidiaries engaged in the banking business, are exposed to interest rate fluctuation risks.

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, 2022	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥388,445	¥388,445	
Time deposits	18	18	
Due from franchised stores	47,203	47,203	
Lease receivables	15,072	14,131	¥ (941)
Accounts receivable	198,619	198,619	
Long-term loans receivable	43,805	43,783	(23)
Investment securities	192	192	
Lease deposits	102,832	100,949	(1,883)
Total	¥796,186	¥793,340	¥(2,847)
Accounts payable	¥ 217,752	¥ 217,752	
Short-term loans	47,072	47,072	
Deposits received	151,810	151,810	
Long-term debt (including current portion of long-term debt)	350,239	346,108	¥(4,130)
Call money	108,000	108,000	
Deposits received for banking business	91,420	91,420	
Total	¥966,293	¥962,162	¥ (4,130)

	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	211,378	211,378	
Long-term loans receivable	46,399	43,011	(3,387)
Investment securities	7,009	7,009	
Lease deposits	102,520	100,857	(1,662)
Total	¥832,898	¥826,951	¥ (5,945)
Accounts payable	¥219,525	¥219,525	
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)
Call money	40,000	40,000	
Deposits received for banking business	52,169	52,169	
Total	¥1,002,057	¥997,268	¥ (4,789)

	Thousands of U.S. Dollars		
February 28, 2022	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$3,361,705	$3,361,705	
Time deposits	156	156	
Due from franchised stores	408,507	408,507	
Lease receivables	130,437	122,293	$(8,144)
Accounts receivable	1,718,901	1,718,901	
Long-term loans receivable	379,100	378,910	(199)
Investment securities	1,662	1,662	
Lease deposits	889,934	873,638	(16,296)
Total	$6,890,402	$6,865,772	$(24,639)
Accounts payable	$1,884,483	$1,884,483	
Short-term loans	407,373	407,373	
Deposits received	1,313,804	1,313,804	
Long-term debt (including current portion of long-term debt)	3,031,060	2,995,309	$(35,742)
Call money	934,660	934,660	
Deposits received for banking business	791,173	791,173	
Total	$8,362,553	$8,326,802	$ (35,742)

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 5,837 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 Group' 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. As they are determined using floating interest rates that reflect market rates in a short-time and have short maturities, their carrying values are approximate their fair values.

Call money
The fair values of these instruments are stated at their carrying values because their contract period is short (within one year) and their carrying values approximate their fair values.

Deposits received for banking business
The fair values of demand deposits are stated at the amount to be paid if demanded on the balance sheet date (carrying values). In addition, the fair values of term deposits are stated at their carrying values, because their contract period is short (within one year) and their carrying values approximate 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
	2022	2021	2022
Investments in equity instruments that do not have a quoted market price in an active market	¥384	¥179	$3,323
Investments in unconsolidated subsidiaries and affiliated companies	30,412	20,441	263,194
Others	¥2,900	¥1,179	$25,098

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

	Millions of Yen			
	2022			
	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	¥388,445			
Time deposits	18			
Due from franchised stores	47,203			
Lease receivables	2,096	¥6,208	¥6,767	
Accounts receivable	146,444			
Long-term loans receivable	791	16,328	16,351	¥10,411
Lease deposits	8,774	24,442	25,273	44,788
Total	¥593,771	¥46,978	¥48,391	¥55,199

	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

	Thousands of U.S. Dollars			
	2022			
	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	$3,361,705			
Time deposits	156			
Due from franchised stores	408,507			
Lease receivables	18,139	$53,726	$58,563	
Accounts receivable	1,267,365			
Long-term loans receivable	6,846	141,307	141,506	$90,100
Lease deposits	75,933	211,527	218,719	387,607
Total	$5,138,651	$406,560	$418,788	$477,707

23. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2022 and February 28, 2021, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2022	Net Income	Weighted-Average Shares	EPS	
Basic EPS−Net income available to common shareholders	¥ 17,900	100,070	¥178.87	$1.55
Effect of dilutive securities− Stock options		88		
Diluted EPS−Net income for computation	¥ 17,900	100,158	¥178.71	$1.55

	Millions of Yen	Thousands of Shares	Yen
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
Effect of dilutive securities− Stock options		69	
Diluted EPS−Net income for computation	¥ 8,690	100,134	¥ 86.78

24. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 25, 2022:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥75.0 ($0.65) per share	¥ 7,505	$64,950

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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, 2022, 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, 2022, 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.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
The Group recognized its long-lived fixed assets of 669,618 million yen on the consolidated balance sheet as of February 28, 2022, which included long-lived assets related to the operation of Domestic Convenience Store Business segment for the 14,656 stores in the amount of 302,692 million yen or 23% of total assets. The Group recognized impairment loss of 16,616 million yen on the consolidated statement of income for the year ended February 28, 2022, as described in Note 7. "Impairment loss" with relevant disclosures. If any indications of impairment are identified for the stores, the Group estimates future cash flows generated from the stores. If the total estimates of undiscounted future cash flows generated from the stores are lower than the carrying amount of their long-lived assets, the Group recognizes an impairment loss for the difference between the carrying amount and the recoverable amount, the higher of the net selling price and its value in use. The value in use is measured at discounted future cash flows generated from the assets. The revenue forecasts for individual stores, which are used as a basis for the estimates of future cash flows generated from the stores, are subject to uncertainty, significantly affected by changes in the population of its commercial area, fluctuations in the average sales per customer due to the consumer sentiment, and changes of location of stores of its competitors. As described in Note 3. "Significant Accounting Estimates," the Group included in its sales forecast that the impact of COVID-19 would continue in certain stores after the fiscal year ending February 28, 2023. Therefore, we determined the estimation of future cash flows generated from the stores as a key audit matter because it is subject to the management judgment and a high degree of estimation uncertainty.	Our audit procedures to assess the reasonableness of estimates of future cash flows related to the valuation of long-lived assets of the stores included the following, among others: i. Understanding and evaluating of internal controls We have understood and evaluated the design and operating effectiveness of internal controls over the recognition of impairment losses for long-lived assets of the stores. We have focused on the internal controls relevant to the revenue forecasts for individual stores. ii. Assessment of the reasonableness of the estimates of future cash flows • We have performed the assessment of reasonableness of the estimates of future cash flows by making inquiries of division managers responsible to each individual store and inspecting evidence supporting management's assumptions, such as changes in the population of its commercial area, fluctuations in the sales per customer due to the consumer sentiment, and changes in the location of stores of its competitors. • We have analyzed and compared the revenue forecasts for individual stores to the historical sales trends of asset groups with similar size, location and age of store. • We have examined the reasonableness of certain assumptions for estimated periods, considering the impact of COVID-19 on business performance, and whether the assumptions were reflected in management's revenue forecasts. • We have examined whether there is an indication of possible management bias by comparing revenue forecasts to actual results in prior years for individual stores.

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.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, 2022