

Flash Report on the Consolidated Financial Results

for the First Half of the Fiscal Year Ending February 28, 2021

October 8, 2020

Listed Company Name: Lawson, Inc.

Tokyo Stock Exchange (First Section)

Code No.: 2651

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

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

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

Tel.: +81-3-5435-2773

Scheduled date for submission of quarterly securities report: October 13, 2020

Scheduled date for payment of dividend: November 10, 2020

Supplementary materials for quarterly financial results: Yes

Holding of presentation of quarterly results: Yes

(Amounts less than one million yen are truncated)

1. Consolidated operating results for the first half ended August 31, 2020 (from March 1, 2020 to August 31, 2020)

(1) Consolidated operating results (cumulative)

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

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first half ended August 31, 2020	322,890	(12.5)	16,690	(54.6)	14,862	(57.7)	3,307	(83.6)
August 31, 2019	369,131	4.9	36,763	6.6	35,147	4.8	20,107	12.1

Note: Comprehensive income:

For the first half ended August 31, 2020	6,758 million yen	(63.8)%
For the first half ended August 31, 2019	18,687 million yen	(2.8)%

	Profit per share	Diluted profit per share
	Yen	Yen
For the first half ended August 31, 2020	33.05	33.03
August 31, 2019	200.95	200.83

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2020	1,294,573	274,417	20.9
February 29, 2020	1,357,732	275,347	20.0

Reference: Shareholders' equity:

As of August 31, 2020	270,028 million yen
As of February 29, 2020	270,877 million yen

2. Dividends

	Annual dividends per share				
	1Q	1H	3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2019 fiscal year	—	75.00	—	75.00	150.00
2020 fiscal year	—	75.00	—	75.00	150.00
2020 fiscal year (forecast)	—	—	—	75.00	150.00

Note: Revision of the most recent dividends forecast: None

3. Forecast of consolidated operating results for the 2020 fiscal year ending February 28, 2021 (from March 1, 2020 to February 28, 2021)

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

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
2020 fiscal year	670,000	(8.2)	35,000	(44.4)	30,000	(46.8)	5,000	(75.1)	49.96

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

4. Notes

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

Added: None

Excluded: None

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

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

1. Changes in accounting policies associated with revision in accounting standards: None

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

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(4) Number of shares outstanding (common stock)

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

As of August 31, 2020: 100,300,000 As of February 29, 2020: 100,300,000

2. Number of treasury shares at the end of period

As of August 31, 2020: 232,805 As of February 29, 2020: 237,762

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

As of August 31, 2020: 100,064,618 As of August 31, 2019: 100,060,603

Note: This flash report is exempt from quarterly review.

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

Forward-looking statements presented herein such as financial forecasts are based on currently available information and certain presumptions deemed to be reasonable as of the date of announcement. The achievement of said forecasts cannot be guaranteed. Actual results may be materially different from those in the forecast as a result of various factors. For preconditions of these financial forecasts and notes concerning their use, please refer to “1. Qualitative Information Regarding Quarterly Financial Results, (3) Explanation Regarding Forward-looking Statements” on page 8.

Contents

1. Qualitative Information Regarding Quarterly Financial Results	2
(1) Explanation Regarding Consolidated Operating Results	2
(2) Explanation Regarding Consolidated Financial Position	8
(3) Explanation Regarding Forward-looking Statements	8
2. Consolidated Financial Statements and Main Notes	9
(1) Consolidated Balance Sheet	9
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	11
Consolidated Statement of Income	11
Consolidated Statement of Comprehensive Income	12
(3) Consolidated Statement of Cash Flows	13
(4) Notes to Consolidated Financial Statements	14
(Going Concern Assumption)	14
(Notes to Significant Changes in the Amount of Shareholders' Equity)	14
(Additional Information)	14

1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation Regarding Consolidated Operating Results

During the first half of fiscal 2020, six months from March 1 to August 31, 2020, the novel coronavirus disease (COVID-19) spread across the world. In Japan, a temporary state of emergency was declared, exerting immense pressure on the nation's economic and social activities and the daily lives of the public, with businesses closing and people staying at home in response to requests from the government. The epidemic also had a considerable effect on the trends in customer visits and buying patterns, significantly reducing the net sales of the Lawson Group.

As a result, for the first half of fiscal 2020 on a consolidated basis, gross operating revenue decreased to 322,890 million yen (down 12.5% from previous fiscal year), operating income decreased to 16,690 million yen (down 54.6% from previous fiscal year) and ordinary income decreased to 14,862 million yen (down 57.7% from previous fiscal year). Profit attributable to owners of parent decreased to 3,307 million yen (down 83.6% from previous fiscal year).

Against such a backdrop, we considered what Lawson could do, and took rigorous precautionary measures to protect our customers and employees from infection and flexibly responded to changing customer needs while continuing with our business operations. Notwithstanding the increasingly challenging business environment surrounding Lawson, Inc. and its franchise stores, our headquarters and franchise stores are making unified efforts toward our shared goal, "Creating Happiness and Harmony in Our Communities," under Lawson's Way, our new action guideline set forth this fiscal year.

Furthermore, we also focused on improving our group-wide internal control system and addressing operating risks based on the 2020 Basic Policy for Improvement of Internal Control Systems. We will continue promoting internal control going forward.

Operating results by business segment were as follows.

It should be noted that new reportable segments have been applied since the first quarter of fiscal 2020 and that the comparison and analysis of figures for the six months from March 1 to August 31, 2020 were based on the new reportable segments.

(Domestic Convenience Store Business)

Owing to the prevalence of remote working and reduced opportunities to go out amid the spread of COVID-19, the number of customers and sales decreased significantly at LAWSON stores. The state of emergency was lifted in late May, and signs of recovery in store sales were seen in June. However, July saw a marked rising trend in the number of new cases of COVID-19 infections, which prompted the government to request the public to refrain from visiting nightlife districts and traveling across prefectures, increasing the alert level. In addition, heavy rains hit a vast area spanning west and east Japan in July, and the rainy season was also prolonged. Such negative factors had an immense impact on customer visits. Against this backdrop, as precautionary store measures against COVID-19, we installed transparent plastic barriers at cash registers; ensured social distancing; encouraged customers to visit our stores during less crowded hours; and made sure employees practiced rigorous hand washing and gargling, disinfected their hands with alcohol-based

disinfectant, and wore face masks.

In store operations, we are striving to establish LAWSON stores as convenience stores endorsed by all our customers. To this end, we are continuing to implement measures to achieve our three commitments, namely, to pursue compelling taste, to be considerate to people, and to be environmentally friendly. By developing distinctive products that are compellingly delicious and health-conscious, we are aiming to further reinforce our product lineup, while rigorously working to offer thoughtful customer service at our stores and ensure environmental friendliness by reducing food waste, the use of plastics and CO₂ emissions, etc.

Lawson Sanin, Inc., a wholly-owned subsidiary of Lawson, Inc., was merged into Lawson, Inc. effective March 1, 2020.

[Store Operations]

In store operations, we continued to focus on reinforcing adherence to the Three Essential Practices, which emphasizes (1) serving customers courteously; (2) offering a merchandise assortment focused on basic items with high demand; and (3) keeping our stores and communities clean. As part of Japan's endeavor to protect the global environment, the government required store operators nationwide to charge for plastic shopping bags starting July 2020. In response, LAWSON stores started providing the bags for three yen each and replaced the bags with those containing 30% vegetable-derived materials in their ongoing efforts to reduce the use of plastic.

[Merchandising and Service Strategies]

Net sales decreased significantly owing to a decline in the number of customers. However, as a result of expanding the assortment of fresh vegetables and frozen foods in response to the rise in home cooking instead of dining out, sales of such products increased. We will continue with our efforts to create stores that cater to customers' lifestyles and needs that are changing in line with the spread of COVID-19 infection.

In the rice range, we launched three new products using some unique ingredients in our "Kinshari Onigiri Rice Ball" series— "Sweet-soy-sauce-grilled Kobe beef" and "Green-chili-miso-flavored Kirishima Kurobuta pork"—which were hugely popular.

In the counter fast food range, "GU-BO," a new hot snack range that can be enjoyed in a variety of ways, and a limited-time-only product, Karaage-Kun series, were in high demand.

In our dessert range, we developed and released more "novel dessert" products, which were well received along with our BASCHEE Basque-style cheesecake and other regular products, contributing to sales of our "Uchi Café SWEETS" series.

The Uber Eats food delivery service, which Lawson introduced in August 2019 initially within Tokyo, is available at more than 1,000 stores in 12 prefectures nationwide as of August 2020.

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

Fiscal year Product group	Previous fiscal year From March 1, 2019 To August 31, 2019		Current fiscal year From March 1, 2020 to August 31, 2020	
	Sales (Millions of yen)	Percentage of total (%)	Sales (Millions of yen)	Percentage of total (%)
Processed foods	634,499	52.8	583,479	53.4
Fast foods	281,405	23.4	233,105	21.3
Daily delivered foods	181,146	15.1	176,478	16.2
Nonfood products	104,924	8.7	98,834	9.1
Total	1,201,975	100.0	1,091,898	100.0

[Store Development]

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

During the first half under review, the total number of LAWSON, NATURAL LAWSON and LAWSON STORE100 stores opened in Japan stood at 236 stores. Meanwhile, we closed a total of 180 such stores in the country as a result of shutting down stores with low earnings and for other reasons. As of the end of August 2020, the total number of domestic stores was 14,500.*

In an effort to establish convenience store models catered to an aging population and a trend toward self-treatment, we are building partnerships with dispensing pharmacy and drug store chains to operate healthcare-oriented LAWSON stores that offer over-the-counter pharmaceuticals and prescription drugs, as well as a wider assortment of cosmetics and daily necessities than conventional LAWSON stores. The number of stores offering non-prescription drugs has reached 242 stores (includes 52 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of August 2020. Moreover, the number of stores offering nursing care consultation services has reached 25 as of the end of August 2020. Furthermore, we have also been expanding our chain of “in-hospital LAWSON stores,” which feature strengthened focus on medical, sanitary, nursing and rehabilitation supplies in addition to merchandise and services offered at standard convenience stores. The number of such stores has reached 333 as of the end of August 2020. Building on our expertise developed through operation of in-hospital LAWSON stores, we will continue to support the lives of all people interacting with hospitals.

With the aim of supporting our customers’ beauty, health, and comfortable lifestyles, our NATURAL LAWSON stores offer an exclusive assortment of items including original products adopting select ingredients as well as products produced in collaboration with renowned brand names. Meanwhile, our LAWSON STORE100 meets customers’ needs with a wide-ranging assortment of products sold at the value-for-money price of 100 yen, including fresh fruit and vegetables, daily delivered fresh foods, prepared dishes, beverages, and daily necessities. As of the end of August 2020, we operate 146 NATURAL LAWSON stores and 687 LAWSON STORE100 stores.

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

[Change in the Total Number of Domestic Stores]

	Total stores as of February 29, 2020	Change during period	Total stores as of August 31, 2020
LAWSON	13,557	110	13,667
NATURAL LAWSON	145	1	146
LAWSON STORE100	742	(55)	687
Total	14,444	56	14,500

[Number of LAWSON stores by prefecture (As of August 31, 2020)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	683	Ibaraki	225	Kyoto	324	Ehime	213
Aomori	275	Tokyo	1,701	Shiga	155	Tokushima	135
Akita	184	Kanagawa	1,082	Nara	138	Kochi	139
Iwate	180	Shizuoka	283	Wakayama	152	Fukuoka	517
Miyagi	257	Yamanashi	135	Osaka	1,111	Saga	75
Yamagata	114	Nagano	174	Hyogo	662	Nagasaki	113
Fukushima	166	Aichi	727	Okayama	208	Oita	192
Niigata	227	Gifu	183	Hiroshima	247	Kumamoto	160
Tochigi	201	Mie	137	Yamaguchi	119	Miyazaki	109
Gunma	245	Ishikawa	105	Tottori	139	Kagoshima	198
Saitama	688	Toyama	187	Shimane	144	Okinawa	243
Chiba	605	Fukui	110	Kagawa	133	Total (domestic)	14,500

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

[Other]

We jointly develop products with regional business operators nationwide that have been affected by COVID-19. Through such initiatives, we aim to support local businesses and producers through our LAWSON stores.

As part of our measures to enhance the financial stability of our franchise stores, we are proceeding with a range of short-, medium- and long-term initiatives to support them with multiple store ownership, store manager development, and measures for new franchise owners. In addition, we provide support for stores facing considerable sales declines due to the spread of COVID-19, restrictions on operating hours or temporary closures. Our aim is to further improve the profits generated by franchise stores and strengthen our partnerships with them.

As a result, Domestic Convenience Store Business posted gross operating revenue of 212,735 million yen (down 12.3% from previous fiscal year) and segment profit of 13,752 million yen (down 53.5% from previous fiscal year).

(Seijo Ishii Business)

At stores of Seijo Ishii, a high-end supermarket chain offering quality foods, we provide our customers with well-selected, safe, and reliable foods. The number of directly operated Seijo Ishii stores reached 162 as of the end of August 2020. On the back of heightened demand at supermarkets amid the spread of COVID-19, demand for perishables including fruits and vegetables, meat and fish grew markedly, resulting in strong overall sales. By continuing to leverage the company's strengths including its product development expertise, know-how acquired as a manufacturing retailer, and retailing techniques, we will endeavor to enhance the brand capacity of Seijo Ishii.

As a result, Seijo Ishii Business posted gross operating revenue of 49,824 million yen (up 10.4% from previous fiscal year) and segment profit of 4,819 million yen (up 24.1% from previous fiscal year).

(Entertainment-related Business)

With regard to our Entertainment-related Business, the ticketing business of Lawson Entertainment, Inc., we experienced a precipitous drop in ticket transaction value as a result of event cancellations and postponements owing to the spread of COVID-19. Hosting of large-scale events continues to be restricted, but we are striving to expand the ticket transactions to live streaming events by prominent artists, along with tickets for leisure facilities and sports events that have resumed. In our product sales business, a total of 57 stores are in operation nationwide as of August 31, 2020, including our mainstay HMV stores dedicated to selling music and video software, HMV&BOOKS, which markets books, CDs and DVDs, and HMB record shop stores specializing in analog records.

United Cinemas Co., Ltd., an operator of cinema complexes, resumed operations of its theaters in phases following the lifting of the state of emergency declaration. As of August 31, 2020, all 43 sites nationwide offering 389 screens including those operated on commission are in operation while taking rigorous measures to protect their customers and employees from infection.

As a result, Entertainment-related Business posted gross operating revenue of 24,992 million yen (down 44.5% from previous fiscal year) and segment loss of 1,037 million yen (segment profit was 3,681 million yen in previous fiscal year).

(Financial Services Business)

With respect to our Financial Services Business, in our ATM business, the foundation of our banking business, we expanded our network of financial institution partners, while working to expand the ATM service of Lawson Bank, Inc.

As of the end of August 2020, the number of ATMs installed nationwide reached 13,465 (up 112 from previous fiscal year), with each ATM used 41.8 times a day on average, decreasing as a result of the decline in the number of customers visiting LAWSON stores due to the spread of COVID-19. The total number of our financial institution partners was 126 nationwide (up 2 from previous fiscal year), including online banks.

By harnessing Lawson Bank's ATMs and their transaction network, we are striving to enhance the bank's functions and convenience. In June 2020, we started offering an "instant bank account settlement service," in

which money can be withdrawn from a user's bank account to top up a mobile payment app. Furthermore, other new services have been launched including the "ATM charge service," where cash can be charged to the user's mobile payment app at an ATM, and the "smartphone ATM service," which allows the user to deposit and withdraw cash at an ATM without using the user's bank card by reading a QR code with the bank's smartphone app.

As a result, Financial Services Business posted gross operating revenue of 15,810 million yen (down 8.4% from previous fiscal year) and segment profit of 740 million yen (down 41.3% from previous fiscal year).

(Overseas Business)

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

In the People's Republic of China, we have expanded mainly into Shanghai, as well as into Chongqing, Dalian, Beijing, Wuhan, Hefei, Changsha, Shenyang, and other cities. In August 2020, we advanced into Tangshan, Hebei province. The number of LAWSON stores in the entire country reached 2,854 as of the end of August 2020.

In response to the spread of COVID-19, we closed some stores or shortened their opening hours overseas, but normal operations at almost all stores have now resumed.

[Distribution of LAWSON Brand Stores Overseas by Region]

Country/Region	Number of stores (As of February 29, 2020)	Change during fiscal year	Number of stores (As of August 31, 2020)
China Shanghai and surrounding area	1,574	20	1,594
China Chongqing	235	49	284
China Dalian	192	27	219
China Beijing and surrounding area	153	27	180
China Shenyang	26	27	53
China Wuhan	401	13	414
China Hefei	50	23	73
China Changsha	15	22	37
Thailand	133	7	140
Indonesia	72	(4)	68
Philippines	65	1	66
United States of America Hawaii	2	—	2
Total	2,918	212	3,130

Note: The number of stores in Beijing and surrounding area includes the number of stores in Tangshan.

As a result, Overseas Business posted gross operating revenue of 24,548 million yen (up 2.1% from previous fiscal year) and segment loss of 1,371 million yen (down 18.6% from previous fiscal year).

(2) Explanation Regarding Consolidated Financial Position

① Assets, liabilities and net assets at the end of the first half of fiscal year 2020

Current assets decreased by 47,323 million yen from the end of the previous fiscal year to 589,373 million yen, mainly reflecting a decrease of 16,717 million yen in cash and deposits and a decrease of 14,280 million yen in current assets-other due to the movement in call loans for banking business. Non-current assets decreased by 15,835 million yen from the end of the previous fiscal year to 705,199 million yen, mainly reflecting decreases of 8,841 million yen in property and store equipment, 5,470 million yen in intangible assets and 1,523 million yen in investments and other assets. Consequently, total assets decreased by 63,159 million yen from the end of the previous fiscal year to 1,294,573 million yen.

Current liabilities increased by 27,189 million yen from the end of the previous fiscal year to 589,153 million yen, mainly reflecting an increase of 87,950 million yen in current liabilities-other due to the movement in call money for banking business, and a decrease of 50,924 million yen in deposits received. Non-current liabilities decreased by 89,418 million yen from the end of the previous fiscal year to 431,002 million yen, mainly reflecting a decrease of 80,000 million yen in long-term loans payable. Consequently, total liabilities decreased by 62,229 million yen from the end of the previous fiscal year to 1,020,156 million yen.

Net assets decreased by 930 million yen from the end of the previous fiscal year to 274,417 million yen, mainly reflecting a decrease of 4,459 million yen in retained earnings and an increase of 3,786 million yen in valuation difference on available-for-sale securities. Consequently, shareholders' equity ratio was 20.9%, up from 20.0% as of the end of the previous fiscal year.

② Cash flows during the first half of fiscal year 2020

Cash and cash equivalents at August 31, 2020 decreased by 16,717 million yen from the end of the previous fiscal year to 326,865 million yen.

Net cash provided by operating activities was 118,353 million yen, a decrease of 17,684 million yen from the corresponding period of the previous fiscal year, mainly because of the movement in deposits received and call money for banking business.

Net cash used in investing activities was (17,779) million yen, a decrease of (8,423) million yen from the corresponding period of the previous fiscal year, mainly because of decreases in purchase of property and store equipment and guarantee deposits.

Net cash used in financing activities was (117,194) million yen, an increase of (27,687) million yen from the corresponding period of the previous fiscal year, mainly because of a decrease in long-term loans payable and the movement in short-term loans payable.

(3) Explanation Regarding Forward-looking Statements

Regarding the financial forecasts for the full fiscal year ending February 28, 2021, the financial forecasts remain unchanged from those announced on July 9, 2020.

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

As of February 29, 2020 and August 31, 2020

(Millions of yen)

	Previous fiscal year As of February 29, 2020	Current 1st Half As of August 31, 2020
Assets		
Current assets:		
Cash and deposits	343,587	326,869
Accounts receivable-due from franchised stores	47,366	40,230
Lease receivables	17,876	17,254
Merchandise	20,985	21,019
Accounts receivable-other	159,122	150,508
Other	47,802	33,521
Allowance for doubtful accounts	(42)	(30)
Total current assets	636,697	589,373
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	201,526	201,461
Tools, furniture and fixtures, net	20,093	18,799
Leased assets, net	146,235	140,197
Other, net	25,082	23,638
Total property and store equipment	392,938	384,096
Intangible assets:		
Software	45,151	42,171
Goodwill	42,381	40,199
Trademark right	8,849	8,541
Other	680	680
Total intangible assets	97,063	91,593
Investments and other assets:		
Long-term loans receivable	42,488	42,548
Guarantee deposits	107,193	104,098
Deferred tax assets	34,378	30,695
Other	47,604	52,750
Allowance for doubtful accounts	(630)	(584)
Total investments and other assets	231,033	229,509
Total non-current assets	721,035	705,199
Total assets	1,357,732	1,294,573

(Millions of yen)

	Previous fiscal year As of February 29, 2020	Current 1st Half As of August 31, 2020
Liabilities		
Current liabilities:		
Accounts payable-trade	129,397	137,388
Short-term loans payable	39,850	36,350
Lease obligations	45,610	44,341
Accounts payable-other	94,848	87,024
Income taxes payable	7,915	3,177
Deposits received	193,096	142,171
Provision for bonuses	4,667	4,171
Other	46,577	134,527
Total current liabilities	561,963	589,153
Non-current liabilities:		
Long-term loans payable	310,000	230,000
Lease obligations	136,665	127,537
Deferred tax liabilities	521	503
Provision for retirement benefits to executive officers and audit and supervisory board members	282	255
Net defined benefit liability	16,245	16,547
Asset retirement obligations	35,335	35,559
Other	21,370	20,599
Total non-current liabilities	520,421	431,002
Total liabilities	1,082,385	1,020,156
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	44,605	44,608
Retained earnings	165,081	160,621
Treasury shares	(1,011)	(990)
Total shareholders' equity	267,181	262,746
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,496	5,282
Revaluation reserve for land	(207)	(207)
Foreign currency translation adjustment	3,341	3,051
Remeasurements of defined benefit plans	(934)	(844)
Total accumulated other comprehensive income	3,695	7,282
Subscription rights to shares	255	333
Non-controlling interests	4,214	4,054
Total net assets	275,347	274,417
Total liabilities and net assets	1,357,732	1,294,573

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

(Consolidated Statement of Income)

For the first half of the fiscal year ended February 29, 2020 and the first half of the fiscal year ending February 28, 2021

	Previous 1st Half From March 1, 2019 to August 31, 2019	Current 1st Half From March 1, 2020 to August 31, 2020
	(Millions of yen)	
Gross operating revenue	369,131	322,890
Net sales	151,426	129,683
Cost of sales	102,794	88,658
Gross profit	48,631	41,025
Operating revenue:		
Income from franchised stores	160,610	145,908
Other operating revenue	57,095	47,298
Total operating revenue	217,705	193,206
Operating gross profit	266,337	234,232
Selling, general and administrative expenses	229,573	217,541
Operating income	36,763	16,690
Non-operating income:		
Interest income	336	327
Share of profit of entities accounted for using equity method	522	270
Employment adjustment subsidy due to novel coronavirus disease	—	409
Other	998	1,092
Total non-operating income	1,858	2,100
Non-operating expenses:		
Interest expenses	1,975	1,943
Loss on cancellation of leases	770	957
Other	727	1,028
Total non-operating expenses	3,474	3,929
Ordinary income	35,147	14,862
Extraordinary income		
Gain on sales of investment securities	163	—
Total extraordinary income	163	—
Extraordinary losses:		
Loss on retirement of non-current assets	2,253	1,832
Impairment loss	1,870	2,099
Loss on novel coronavirus disease	—	2,910
Other	554	635
Total extraordinary losses	4,678	7,478
Profit (loss) before income taxes	30,632	7,383
Income taxes-current	9,932	2,231
Income taxes-deferred	644	1,954
Total income taxes	10,577	4,185
Profit (loss)	20,055	3,198
Profit (loss) attributable to non-controlling interests	(51)	(109)
Profit (loss) attributable to owners of parent	20,107	3,307

(Consolidated Statement of Comprehensive Income)

For the first half of the fiscal year ended February 29, 2020 and the first half of the fiscal year ending February 28, 2021

	(Millions of yen)	
	Previous 1st Half From March 1, 2019 to August 31, 2019	Current 1st Half From March 1, 2020 to August 31, 2020
Profit (loss)	20,055	3,198
Other comprehensive income		
Valuation difference on available-for-sale securities	(916)	3,786
Foreign currency translation adjustment	(535)	(316)
Remeasurements of defined benefit plans	84	90
Total other comprehensive income	(1,367)	3,560
Comprehensive income	18,687	6,758
Comprehensive income attributable to		
Owners of parent	18,722	6,894
Non-controlling interests	(34)	(135)

(3) Consolidated Statement of Cash Flows

For the first half of the fiscal year ended February 29, 2020 and the first half of the fiscal year ending February 28, 2021

(Millions of yen)

	Previous 1st Half From March 1, 2019 to August 31, 2019	Current 1st Half From March 1, 2020 to August 31, 2020
Net cash provided by (used in) operating activities:		
Profit before income taxes	30,632	7,383
Depreciation and amortization	38,417	40,500
Impairment loss	1,870	2,099
Interest income	(336)	(327)
Interest expenses	1,975	1,943
Loss on retirement of non-current assets	2,253	1,832
Decrease (increase) in notes and accounts receivable-trade	(737)	7,111
Decrease (increase) in accounts receivable-other	(43,833)	8,511
Increase (decrease) in notes and accounts payable-trade	28,710	8,234
Increase (decrease) in accounts payable-other	4,178	(7,482)
Increase (decrease) in deposits received	45,389	(50,920)
Increase (decrease) in net defined benefit liability	443	303
Net decrease (increase) in call loans for banking business	20,000	(10,000)
Net increase (decrease) in call money for banking business	—	73,000
Other	13,562	43,212
Subtotal	142,525	125,403
Interest income received	305	343
Interest expenses paid	(1,964)	(1,958)
Income taxes paid	(4,828)	(5,435)
Net cash provided by (used in) operating activities	136,038	118,353
Net cash provided by (used in) investing activities:		
Purchase of property and store equipment	(16,626)	(13,203)
Purchase of intangible assets	(6,653)	(4,692)
Purchase of shares of subsidiaries and associates	(675)	(1,203)
Payments of long-term loans receivable	(2,883)	(2,231)
Collection of long-term loans receivable	2,555	2,444
Payments for guarantee deposits	(8,863)	(5,995)
Proceeds from collection of guarantee deposits	8,292	9,047
Purchase of long-term prepaid expenses	(468)	(135)
Other	(880)	(1,809)
Net cash provided by (used in) investing activities	(26,203)	(17,779)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	(48,450)	(3,500)
Repayments of long-term loans payable	—	(80,000)
Repayments of lease obligations	(24,719)	(26,165)
Cash dividends paid	(12,757)	(7,504)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(3,521)	—
Other	(58)	(24)
Net cash provided by (used in) financing activities	(89,506)	(117,194)
Effect of exchange rate change on cash and cash equivalents	(389)	(96)
Net increase (decrease) in cash and cash equivalents	19,937	(16,717)
Cash and cash equivalents at beginning of period	354,236	343,583
Cash and cash equivalents at end of period	374,173	326,865

(4) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not Applicable.

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

Not Applicable.

(Additional Information)

(Adoption of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

With respect to items subject to review under the Non-Consolidated Taxation System conducted to coincide with the transition from the Consolidated Taxation System to the Group Tax Sharing System stipulated under the Act on Partial Revision of the Income Tax Act, etc. (Act No. 8 of 2020), the Company and certain domestic consolidated subsidiaries have not applied the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 issued February 16, 2018) in accordance with the treatment set out in 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 (PITF No.39 issued March 31, 2020). Accordingly, the amounts of deferred tax liabilities and deferred tax assets have been calculated based on the provisions of tax laws in effect before the revision.