

**Flash Report on the Consolidated Financial Results**  
for the First Quarter of the Fiscal Year Ending February 28, 2019

July 11, 2018

Listed Company Name: Lawson, Inc.

Tokyo Stock Exchange (First Section)

Code No.: 2651

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

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Scheduled date for submission of quarterly securities report: July 13, 2018

Scheduled date for payment of dividend: —

Supplementary materials for quarterly financial results: Yes

Holding of presentation of quarterly results: None

(Amounts less than one million yen are truncated)

1. Consolidated operating results for the first quarter ended May 31, 2018 (from March 1, 2018 to May 31, 2018)

(1) Consolidated operating results (cumulative)

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

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first quarter ended								
May 31, 2018	170,516	7.1	12,677	(22.0)	12,063	(24.5)	6,169	(35.7)
May 31, 2017	159,216	6.9	16,252	(6.9)	15,982	(4.2)	9,597	8.8

Note: Comprehensive income:

For the first quarter ended May 31, 2018	6,334 million yen	(35.1)%
For the first quarter ended May 31, 2017	9,754 million yen	21.5%

	Profit per share	Diluted profit per share
For the first quarter ended	Yen	Yen
May 31, 2018	61.65	61.63
May 31, 2017	95.96	95.87

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of	Millions of yen	Millions of yen	%
May 31, 2018	956,709	274,910	28.1
February 28, 2018	900,256	281,446	30.6

Reference: Shareholders' equity:

As of May 31, 2018	269,242 million yen
As of February 28, 2018	275,658 million yen

2. Dividends

	Annual dividends per share				
	1Q	1H	3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2017 fiscal year	—	127.50	—	127.50	255.00
2018 fiscal year	—				
2018 fiscal year (forecast)		127.50	—	127.50	255.00

Note: Revision of the most recent dividends forecast: None

3. Forecast of consolidated operating results for the 2018 fiscal year ending February 28, 2019 (from March 1, 2018 to February 28, 2019)

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
2018 1H (cumulative)	360,000	9.3	30,500	(21.7)	29,000	(24.6)	17,000	(28.1)	169.90
2018 fiscal year	732,000	11.4	60,000	(8.8)	57,000	(12.5)	28,000	4.4	279.83

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

4. Notes

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

Added: None

Excluded: None

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

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

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

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

3. Changes in accounting estimates: None

4. Retrospective restatements: None

Note: For changes in accounting policies associated with revision in accounting standards, please refer to “2.

Consolidated Financial Statements and Main Notes, (3) Notes to Consolidated Financial Statements

(Changes in Accounting Policies)” on page 13.

(4) Number of shares outstanding (common stock)

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

As of May 31, 2018: 100,300,000 As of February 28, 2018: 100,300,000

2. Number of treasury shares at the end of period

As of May 31, 2018: 242,568 As of February 28, 2018: 244,849

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

As of May 31, 2018: 100,055,902 As of May 31, 2017: 100,014,831

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.

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## **1. Qualitative Information Regarding Quarterly Financial Results**

### **(1) Explanation Regarding Consolidated Operating Results**

During the first quarter of fiscal 2018, three months from March 1 to May 31, 2018, we have advanced and accelerated our “1000-Day Action Plan,” which is in its final fiscal year, and focused our business activities on building Lawson’s next-generation convenience store model. Changes in community needs resulting from an aging population and the prevalence of the nuclear family, among others, are serving as a tailwind for the convenience store industry. Meanwhile, competition is intensifying across sector lines, constantly spurring us to take swift action. Given such a business environment, we have made efforts to evolve our business model as a manufacturing retailer targeting small catchment areas and to raise our store productivity to an unprecedented level toward our ongoing goal of fulfilling our customers’ needs in everyday life by serving as an essential part of their communities. We intend to aim for further progress forward to achieve this goal.

As a result, for the first quarter of fiscal 2018 on a consolidated basis, gross operating revenue increased to 170,516 million yen (up 7.1% from previous fiscal year), operating income decreased to 12,677 million yen (down 22.0% from previous fiscal year) and ordinary income decreased to 12,063 million yen (down 24.5% from previous fiscal year). Profit attributable to owners of parent decreased to 6,169 million yen (down 35.7% from previous fiscal year).

Furthermore, we also focused on promoting internal control and addressing operating risks across the entire Group based on the 2018 Basic Policy for Improvement of Internal Control Systems. We will continue promoting internal control across the board including companies that newly joined the Group.

Operating results by business segment were as follows:

#### **(Domestic Convenience Store Business)**

In our convenience store business, we expanded our merchandise assortment offered in the evening and nighttime hours by promoting at LAWSON stores since March 2018 the GOCHISO-LAWSON (Enjoy meals from Lawson) lineup (from Gochiso, meaning “feast”; colloquially shortened to “GOCHI-LAW”) comprised of everyday ready-made dishes including bento lunchboxes, rice balls, deep-fried items, salads and soups. We also succeeded in enhancing store productivity by such measures as introducing tablet terminals at LAWSON stores in the previous fiscal year to further facilitate sales management of counter fast food items. Furthermore, with the aim of achieving higher cash-handling efficiency at stores, we are introducing in phases new point-of-sale (POS) cash registers (for sales information management) equipped with an automatic change dispenser function at all our stores nationwide this fiscal year.

[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. Furthermore, we also actively promoted not only existing stores but also new stores by strengthening our product lineup, and improving operations and franchise support by headquarters.

As part of our efforts to enhance customer convenience and store operation productivity, we started a pilot project on LAWSON Smartphone Payment, our mobile payment service, at three LAWSON stores in Tokyo

in April 2018. The service allows customers to purchase items seamlessly at these LAWSON stores simply by scanning them on their smartphone using a dedicated app, thus eliminating the need to line up at the cash register. We will evaluate utilization trends in the pilot to examine its expansion.

[Merchandising and Service Strategies]

On the merchandise side, we revamped the entire lineup of “Onigiriya,” our rice ball brand, in April 2018 by employing new and improved ingredients and production methods, which resulted in sales growth. In addition, our “Motto! Yasai” (meaning “More vegetables!”) series featuring delicious and healthy fare was also replaced with new dishes including Starchy Sauce Rice Bowl and Fried Rice Noodles containing half the recommended daily vegetable intake, which also sold well. We also launched some new products, including “NL Green Smoothie One Day 200 g,” which contains the equivalent of the recommended daily intake of vegetables\*1.

In the counter fast food range, our assortment of ready-made dishes offered during the evening and nighttime hours was strengthened by expanding our lineup of packed dishes composed mainly of items that can go straight to the dinner table such as yakitori (grilled chicken) and croquettes.

In the dessert range, in April 2018 we launched “Chocolate Parfait” and “Chocolate Macaron” in the sixth phase of our “Uchi Café SWEETS X GODIVA” series produced in collaboration with Godiva, which were hugely popular, especially among female customers. In addition, we also released “Soft Rice Cake stuffed with Chocolate,” in June 2018 as our first Japanese dessert from the series.

On our sales promotion side, we rolled out Friday Sale campaigns offering a 20% discount on applicable products on Friday evenings. In addition, effective measures to attract customers were launched, including a “speed lottery” themed on “GENERATIONS from EXILE TRIBE,” which demonstrated our strength in the entertainment field.

\*1 Recommended daily intake of vegetables: At least 350 g (Source: Health Japan 21 [Kenko Nippon 21], Ministry of Health, Labour and Welfare)

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

Fiscal period Product categories	Previous 1st Quarter From March 1, 2017 to May 31, 2017		Current 1st Quarter From March 1, 2018 to May 31, 2018	
	Net sales (Millions of yen)	Percentage of total (%)	Net sales (Millions of yen)	Percentage of total (%)
Processed foods	280,613	53.3	296,079	53.0
Fast foods	121,900	23.2	130,777	23.4
Daily delivered foods	76,537	14.5	82,105	14.7
Non-food products	47,146	9.0	49,803	8.9
Total	526,198	100.0	558,766	100.0

(Note) These figures include stores operated by both Lawson, Inc. and Lawson Sanin, Inc.

[Store Development]

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

Regarding the entire Lawson Group, the total number of LAWSON, NATURAL LAWSON, and LAWSON STORE100 stores opened and closed during the current first quarter stood at 293 and 71 stores, respectively, with the total number of stores reaching 14,214 as of the end of May 2018. \*2

With regard to our partnership initiatives with other chain retailers in Japan, as in the previous fiscal year, we are remodeling THREE F stores operated by Three F Co., Ltd. into LAWSON THREE F stores, and SAVE ON stores operated by Save On Corp. into LAWSON stores.

With regard to THREE F stores, 258 stores were remodeled into LAWSON THREE F stores from August 2017 to May 2018, completing the brand transition with the planned exclusion of some stores. Meanwhile, a total of 194 SAVE ON stores were remodeled into LAWSON stores from June 2017 to May 2018, with the brand transition scheduled to be completed by the end of 2018.

In an effort to establish convenience store models catered to an aging population and rising health consciousness, we are building partnerships with dispensing pharmacy and drug store chains to operate healthcare-oriented LAWSON stores that offer a wider assortment of merchandise than conventional LAWSON stores including over-the-counter pharmaceuticals, cosmetics and daily necessities. The number of stores offering non-prescription drugs has reached 180 stores (includes 45 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of May 2018. Moreover, the number of stores offering nursing care consultation services has reached 16 as of the end of May 2018. 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 300 as of the end of May 2018. Building on our expertise developed through operation of in-hospital LAWSON stores, we will continue supporting the well-being of people and society.

With respect to LAWSON STORE100, we will continue to offer 100-yen items (excluding tax) by scaling down product portions to respond to customer needs for value.

\*2 The numbers of store openings and closings and total number of stores in Japan include stores operated by Lawson, Inc., subsidiary Lawson Sanin, Inc. and three equity-method affiliates, Lawson Kochi, Inc., Lawson Minamikyushu, Inc. and Lawson Okinawa, Inc.

[Change in the Total Number of Domestic Stores]

	Total stores as of February 28, 2018	Change during period	Total stores as of May 31, 2018
LAWSON	13,044	224	13,268
NATURAL LAWSON	143	(2)	141
LAWSON STORE100	805	—	805
Total	13,992	222	14,214

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

[Number of LAWSON stores by prefecture (As of May 31, 2018)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	657	Ibaraki	212	Kyoto	339	Ehime	220
Aomori	251	Tokyo	1,720	Shiga	157	Tokushima	136
Akita	192	Kanagawa	1,100	Nara	138	Kochi	139
Iwate	172	Shizuoka	272	Wakayama	149	Fukuoka	499
Miyagi	244	Yamanashi	128	Osaka	1,135	Saga	72
Yamagata	107	Nagano	176	Hyogo	679	Nagasaki	107
Fukushima	147	Aichi	693	Okayama	192	Oita	184
Niigata	228	Gifu	175	Hiroshima	216	Kumamoto	152
Tochigi	195	Mie	139	Yamaguchi	118	Miyazaki	106
Gunma	121	Ishikawa	104	Tottori	144	Kagoshima	195
Saitama	681	Toyama	192	Shimane	146	Okinawa	225
Chiba	612	Fukui	114	Kagawa	134	Total (domestic)	14,214

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

[Other]

As Lawson's "last-one-mile solution," we started offering the LAWSON FRESH PICK service (colloquially shortened to "Loppick") in March 2018. Loppick enables customers to reserve products on a dedicated smartphone app by 8 a.m. and receive them after 6 p.m. on the same day at their designated LAWSON store. By leveraging our existing store and logistics network, the service offers customers the freedom of not having to wait at home for delivery and allows them to pick up their purchased items when they want in the evening. Approximately 500 kinds of items can be purchased ranging from perishable foods and seasonings to meal kits for easy cooking in addition to products from Seijo Ishii and other specialty stores. Loppick is currently available at around 200 stores in Tokyo and some parts of Kanagawa. We will consider expanding the service area in the future.

As a result, Domestic Convenience Store Business posted gross operating revenue of 115,144 million yen (up 6.2% from previous fiscal year) and segment profit of 10,172 million yen (down 22.3% from previous fiscal year).

#### **(Seijo Ishii Business)**

The number of directly operated Seijo Ishii stores, a high-end supermarket chain offering quality foods, reached 141 as of the end of May 2018. Sales were solid and its well-selected products have remained popular among customers. 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 21,515 million yen (up 9.2% from previous fiscal year) and segment profit of 1,874 million yen (up 5.7% from previous fiscal year).

**(Entertainment-related Business)**

With regards to our entertainment-related business, Lawson HMV Entertainment, Inc., which forms the core of the business, continued to secure top-class ticket transaction value in the ticketing industry. HMV, which sells music CDs and DVDs, also operates the HMV Record Shop specializing in second-hand analog records and CDs. Including the HMV Record Shop, the number of HMV stores totaled 56 as of the end of May 2018. As of the end of May 2018, United Cinemas Co., Ltd. operates cinemas at 40 sites, offering 351 screens nationwide including those operated on commission. Effective June 1, 2018, Lawson HMV Entertainment, Inc. changed its name to Lawson Entertainment, Inc. The company will continue consolidating and promoting the Lawson Group's entertainment business encompassing the ticketing business, merchandise retail business and cinema complex business with the aim of offering an expanded range of products and services in response to customers' needs.

As a result, Entertainment-related Business posted gross operating revenue of 19,326 million yen (up 1.2% from previous fiscal year) and segment profit of 1,149 million yen (down 12.7% from previous fiscal year).

**(Other Business)**

In addition to the aforementioned businesses, the Group is also involved in the Overseas Business and the Financial services 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, after being the first Japanese convenience store operator to advance into Shanghai, we made inroads into Chongqing, Dalian, Beijing, Wuhan, and Nanjing. In June 2018, the number of stores exceeded 1,000 in Shanghai and its neighboring regions, maintaining a steady increase trajectory. The number of LAWSON stores in the entire country reached 1,580 as of the end of May 2018.



[Distribution of LAWSON Brand Stores Overseas by Region]

Country/Region	Number of stores (As of February 28, 2018)	Change during period	Number of stores (As of May 31, 2018)
China Shanghai and surrounding area	865	118	983
China Chongqing	165	8	173
China Dalian	122	7	129
China Beijing	73	6	79
China Wuhan	198	18	216
Thailand	101	3	104
Indonesia	37	—	37
Philippines	33	1	34
United States of America Hawaii	2	—	2
Total	1,596	161	1,757

With respect to our Financial services business, the number of ATMs installed in LAWSON and other stores increased. We strengthened partnerships with new financial institutions bringing the total number of our financial institution partners to 93 nationwide (up 3 from previous fiscal year), including online banks, and the number of ATMs installed nationwide to 13,015 (up 282 from previous fiscal year) as of the end of May 2018.

Lawson Bank Preparatory Company, Inc. (hereafter, the “Preparatory Company”), which was established in November 2016, has been preparing to establish a bank. As a result of an absorption-type company split effective June 1, 2018, the Preparatory Company absorbed Lawson’s ATM business jointly operated with Lawson ATM Networks, Inc. The preliminary examination for which Lawson, Inc. had applied to the Financial Services Agency (FSA) in order to obtain a banking license was completed on June 26, 2018. In response, the Preparatory Company changed its name to Lawson Bank, Inc., effective July 2, 2018, and plans to apply to the FSA for a banking license pursuant to Article 4 of the Banking Act.

As a result, Other Business posted gross operating revenue of 16,664 million yen (up 18.9% from previous fiscal year) and segment loss of 519 million yen (in contrast to posting segment profit of 67 million yen in the same period of the previous fiscal year).

## **(2) Explanation Regarding Consolidated Financial Position**

Current assets increased by 42,401 million yen from the end of the previous fiscal year to 274,261 million yen, mainly reflecting an increase of 26,096 million yen in cash and deposits. Non-current assets increased by 14,052 million yen from the end of the previous fiscal year to 682,448 million yen, mainly reflecting increases of 5,466 million yen in property and store equipment and 5,796 million yen in intangible assets. Consequently, total assets increased by 56,453 million yen from the end of the previous fiscal year to 956,709 million yen.

Current liabilities increased by 59,598 million yen from the end of the previous fiscal year to 438,821 million yen, mainly reflecting an increase of 73,400 million yen in deposits received, and a decrease of 33,321 million yen in short-term loans payable. Non-current liabilities increased by 3,390 million yen from the end of the previous fiscal year to 242,977 million yen, mainly reflecting an increase of 2,953 million yen in lease obligations. Consequently, total liabilities increased by 62,989 million yen from the end of the previous fiscal year to 681,798 million yen.

Net assets decreased by 6,535 million yen from the end of the previous fiscal year to 274,910 million yen, mainly reflecting a decrease of 6,587 million yen in retained earnings. Consequently, shareholders' equity ratio was 28.1%, down from 30.6% as of the end of the previous fiscal year.

## **(3) Explanation Regarding Forward-looking Statements**

Regarding the financial forecasts for the first half and full year of the current fiscal year ending February 28, 2019, the financial forecasts remain unchanged from those announced on April 11, 2018.

Forecast of non-consolidated operating results for the first half and full year of the fiscal year ending February 28, 2019 announced on April 11, 2018 has been partially revised. For details, please refer to the “(Revision/Revision of Numeric Data) Notice Concerning Partial Revision to LAWSON’s Consolidated Financial Statements (Japanese Standards) for the Fiscal Year Ended February 28, 2018” and “Notice Concerning Partial Revision to Supplements for Financial Results for the Fiscal Year Ended February 28, 2018”.

## 2. Consolidated Financial Statements and Main Notes

### (1) Consolidated Balance Sheet

As of February 28, 2018 and May 31, 2018

(Millions of yen)

	Previous fiscal year As of February 28, 2018	Current 1st Quarter As of May 31, 2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash and deposits	30,124	56,221
Accounts receivable-due from franchised stores	46,599	44,391
Lease receivables	16,426	19,848
Merchandise	18,913	20,673
Accounts receivable-other	82,633	96,054
Deferred tax assets	3,411	2,719
Other	33,779	34,408
Allowance for doubtful accounts	(28)	(55)
<b>Total current assets</b>	<b>231,860</b>	<b>274,261</b>
<b>Non-current assets:</b>		
<b>Property and store equipment:</b>		
Buildings and structures, net	197,979	201,284
Tools, furniture and fixtures, net	16,355	16,052
Leased assets, net	123,940	125,715
Other, net	11,660	12,349
<b>Total property and store equipment</b>	<b>349,935</b>	<b>355,401</b>
<b>Intangible assets:</b>		
Software	41,602	45,004
Goodwill	47,947	50,498
Trademark right	10,074	9,924
Other	573	566
<b>Total intangible assets</b>	<b>100,197</b>	<b>105,994</b>
<b>Investments and other assets:</b>		
Long-term loans receivable	47,425	47,694
Guarantee deposits	100,686	101,494
Deferred tax assets	24,406	25,787
Other	46,840	47,122
Allowance for doubtful accounts	(1,095)	(1,046)
<b>Total investments and other assets</b>	<b>218,262</b>	<b>221,052</b>
<b>Total non-current assets</b>	<b>668,395</b>	<b>682,448</b>
<b>Total assets</b>	<b>900,256</b>	<b>956,709</b>

(Millions of yen)

	Previous fiscal year As of February 28, 2018	Current 1st Quarter As of May 31, 2018
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable-trade	118,174	133,818
Short-term loans payable	36,340	3,019
Current portion of long-term loans payable	575	948
Lease obligations	33,063	34,096
Accounts payable-other	60,741	67,410
Income taxes payable	6,880	2,228
Deposits received	109,629	183,029
Provision for bonuses	3,767	2,905
Other	10,051	11,364
<b>Total current liabilities</b>	<b>379,222</b>	<b>438,821</b>
<b>Non-current liabilities:</b>		
Long-term loans payable	55,469	55,096
Lease obligations	113,617	116,571
Deferred tax liabilities	2,616	3,099
Provision for retirement benefits to executive officers and audit and supervisory board members	271	287
Net defined benefit liability	13,781	14,104
Asset retirement obligations	29,062	29,811
Other	24,767	24,007
<b>Total non-current liabilities</b>	<b>239,587</b>	<b>242,977</b>
<b>Total liabilities</b>	<b>618,809</b>	<b>681,798</b>
<b>Net assets</b>		
<b>Shareholders' equity:</b>		
Capital stock	58,506	58,506
Capital surplus	46,689	46,693
Retained earnings	166,124	159,537
Treasury shares	(1,040)	(1,031)
<b>Total shareholders' equity</b>	<b>270,280</b>	<b>263,705</b>
<b>Accumulated other comprehensive income:</b>		
Valuation difference on available-for-sale securities	2,084	2,363
Revaluation reserve for land	(575)	(575)
Foreign currency translation adjustment	4,595	4,443
Remeasurements of defined benefit plans	(726)	(694)
<b>Total accumulated other comprehensive income</b>	<b>5,377</b>	<b>5,537</b>
<b>Subscription rights to shares</b>	<b>195</b>	<b>148</b>
<b>Non-controlling interests</b>	<b>5,593</b>	<b>5,518</b>
<b>Total net assets</b>	<b>281,446</b>	<b>274,910</b>
<b>Total liabilities and net assets</b>	<b>900,256</b>	<b>956,709</b>

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

### Consolidated Statement of Income

For the first quarter of the fiscal year ended February 28, 2018 and the first quarter of the fiscal year ending February 28, 2019

	Previous 1st Quarter From March 1, 2017 to May 31, 2017	Current 1st Quarter From March 1, 2018 to May 31, 2018
	(Millions of yen)	
<b>Gross operating revenue</b>	159,216	170,516
<b>Net sales</b>	64,384	71,998
<b>Cost of sales</b>	44,055	49,534
<b>Gross profit</b>	20,328	22,463
<b>Operating revenue:</b>		
Income from franchised stores	70,509	73,829
Other operating revenue	24,322	24,688
<b>Total operating revenue</b>	94,832	98,517
<b>Operating gross profit</b>	115,160	120,981
Selling, general and administrative expenses	98,908	108,304
<b>Operating income</b>	16,252	12,677
<b>Non-operating income:</b>		
Interest income	174	192
Share of profit of entities accounted for using equity method	180	223
Other	380	491
<b>Total non-operating income</b>	735	907
<b>Non-operating expenses:</b>		
Interest expenses	478	594
Loss on cancellation of leases	254	552
Other	272	373
<b>Total non-operating expenses</b>	1,005	1,521
<b>Ordinary income</b>	15,982	12,063
<b>Extraordinary income:</b>		
Gain on sales of shares of subsidiaries and associates	302	—
<b>Total extraordinary income</b>	302	—
<b>Extraordinary losses:</b>		
Loss on retirement of non-current assets	734	838
Impairment loss	205	516
Other	149	13
<b>Total extraordinary losses</b>	1,088	1,369
<b>Profit before income taxes</b>	15,196	10,694
Income taxes-current	3,317	3,705
Income taxes-deferred	2,066	807
<b>Total income taxes</b>	5,384	4,513
<b>Profit</b>	9,812	6,181
<b>Profit attributable to non-controlling interests</b>	214	12
<b>Profit attributable to owners of parent</b>	9,597	6,169

## Consolidated Statement of Comprehensive Income

For the first quarter of the fiscal year ended February 28, 2018 and the first quarter of the fiscal year ending February 28, 2019

	(Millions of yen)	
	Previous 1st Quarter From March 1, 2017 to May 31, 2017	Current 1st Quarter From March 1, 2018 to May 31, 2018
<b>Profit</b>	9,812	6,181
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	92	278
Foreign currency translation adjustment	(187)	(158)
Remeasurements of defined benefit plans	37	32
<b>Total other comprehensive income</b>	(57)	153
<b>Comprehensive income</b>	9,754	6,334
Comprehensive income attributable to		
Owners of parent	9,535	6,328
Non-controlling interests	219	5

**(3) Notes to Consolidated Financial Statements**

**(Going Concern Assumption)**

Not Applicable.

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

Not Applicable.

**(Changes in Accounting Policies)**

The Company's foreign consolidated subsidiaries are applying International Financial Reporting Standard 15 (IFRS 15) "Revenue from Contracts with Customers" from the first quarter of the fiscal year ending February 28, 2019.

The impact of the application of IFRS 15 on the Company's consolidated financial statements is immaterial.