

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

January 10, 2019

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: January 11, 2019

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 third quarter ended November 30, 2018 (from March 1, 2018 to November 30, 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 third quarter ended								
November 30, 2018	527,637	6.8	47,807	(11.9)	46,641	(13.3)	25,319	(22.8)
November 30, 2017	494,053	6.9	54,261	(5.9)	53,781	(5.5)	32,795	(3.1)

Note: Comprehensive income:

For the third quarter ended November 30, 2018	27,301 million yen	(20.7)%
For the third quarter ended November 30, 2017	34,421 million yen	9.2%

	Profit per share	Diluted profit per share
	Yen	Yen
For the third quarter ended		
November 30, 2018	253.05	252.92
November 30, 2017	327.82	327.63

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of			
November 30, 2018	1,351,971	283,742	20.5
February 28, 2018	900,256	281,446	30.6

Reference: Shareholders' equity:

As of November 30, 2018	277,728 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	—	127.50	—		
2018 fiscal year (forecast)				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 fiscal year	722,000	9.8	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

(4) Number of shares outstanding (common stock)

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

As of November 30, 2018: 100,300,000 As of February 28, 2018: 100,300,000

2. Number of treasury shares at the end of period

As of November 30, 2018: 242,697 As of February 28, 2018: 244,849

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

As of November 30, 2018: 100,056,896 As of November 30, 2017: 100,041,377

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 third quarter of fiscal 2018, nine months from March 1 to November 30, 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 third quarter of fiscal 2018 on a consolidated basis, gross operating revenue increased to 527,637 million yen (up 6.8% from previous fiscal year), operating income decreased to 47,807 million yen (down 11.9% from previous fiscal year) and ordinary income decreased to 46,641 million yen (down 13.3% from previous fiscal year). Profit attributable to owners of parent decreased to 25,319 million yen (down 22.8% from previous fiscal year).

Furthermore, we also focused on addressing operating risks based on the 2018 Basic Policy for Improvement of Internal Control Systems. We will continue promoting internal control even more.

Operating results by business segment were as follows:

(Domestic Convenience Store Business)

In our convenience store business, we offered everyday ready-made dishes including bento lunchboxes, rice balls, deep-fried items, salads and soups at LAWSON stores. In our effort to reinforce our store capacity by expanding our merchandise assortment offered in the evening and nighttime hours, we restructured our system across the entire supply chain from June by changing the order placement deadline and truck delivery times. In addition, with the aim of facilitating cash register operations and achieving higher cash-handling efficiency at stores, we are accelerating the introduction of new point-of-sale (POS) cash registers (for sales information management) equipped with an automatic change dispenser function at all our stores nationwide. Planning to complete the introduction by the end of the fiscal year ending February 2019, we have installed the cash registers at 12,778 stores as of the end of November 2018.

[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 our 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, in April 2018 we launched a pilot project on LAWSON Smartphone Payment, our mobile self-service payment service option based on a dedicated app, which allows customers to purchase items wherever they are within LAWSON stores. The project will be expanded in phases to 100 stores by the end of the fiscal year ending February 2019, mostly

in large cities. Furthermore, beginning in November 2018, we also added a service in which customers can earn and redeem Ponta points when they use Apple Pay at any LAWSON store nationwide. Ponta has become Japan's first multi-partner loyalty card service to allow points to be saved and redeemed simply by using Apple Pay via iPhone or Apple Watch. This service eliminates the need for customers to present their Ponta card or launch their app as well as the need for store staff to scan the barcodes on the Ponta cards presented, leading to improved customer convenience and store operation productivity.

[Merchandising and Service Strategies]

On the merchandise side, we revamped our original "Onigiri-ya" rice ball brand in October 2018 by adopting a new variety of rice and a new kind of laver as well as improving ingredients and production methods, which was well-received by customers. In addition, our "Akuma-no-onigiri" (meaning "devil's rice ball") line also became a huge hit, pushing up sales. Our "Korega" lunchbox series made with rigorously selected ingredients and production methods also enjoyed ongoing popularity. Furthermore, sales of hot noodles, such as our microwavable "Konshin-no-Ippai" (meaning "complete devotion") ramen noodles revamped with new soup and noodles, were also robust. In November 2018, we launched the "Nabe-shime Series," a lineup of convenient single-serving hot pot dishes containing the recommended amount of vegetables per meal*¹ along with rice gruel or noodles to be enjoyed last as *shime* (meaning "the end").

In the counter fast food range, we sold limited-quantity deep-fried breaded chicken tenderloin with cheese and green shiso leaf and deep-fried breaded oysters produced in Hiroshima, while also strengthening our assortment of ready-made dishes offered during the evening and nighttime hours by expanding our lineup of packed dishes composed mainly of items that can go straight to the dinner table. In July 2018, in celebration of our long-selling "Karaage-kun" chicken nuggets crossing the 3-billion-unit mark in cumulative sales, we launched TV commercials and a sales promotional campaign during which an extra piece was added to each serving. The item continued to record robust sales as a popular product.

In the dessert range, in October 2018 we revamped our popular long-selling product "Uchi Café Premium Roll Cake" by changing the cream recipe, while also separately releasing the cream used for the Premium Roll Cake in a limited quantity. Both items were well-received. From the "Uchi Café SWEETS X GODIVA" series, we launched the series' first drink item, "Hot Chocolate," as well as "Fondant au Chocolat," which is best enjoyed heated. Both items were hugely popular, especially among female customers.

On our sales promotion side, while strengthening our merchandise assortment offered during the evening and nighttime hours, we also rolled out a special evening sales campaign, which offered a 20-yen discount when two applicable counter food items were purchased on weekday evenings. In addition, effective measures to attract customers were launched, including a speed lottery capitalizing on our strength in the entertainment field and "Autumn Rilakkuma Stamp Campaign" offered exclusively to Ponta and d-point members.

*1 Recommended daily vegetable requirement: 350 g or more (Source: Health Japan 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 3rd Quarter From March 1, 2017 to November 30, 2017		Current 3rd Quarter From March 1, 2018 to November 30, 2018	
	Net sales (Millions of yen)	Percentage of total (%)	Net sales (Millions of yen)	Percentage of total (%)
Processed foods	862,096	52.8	910,057	52.6
Fast foods	385,984	23.6	414,901	24.0
Daily delivered foods	237,747	14.6	251,887	14.5
Non-food products	146,945	9.0	154,764	8.9
Total	1,632,773	100.0	1,731,611	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 fiscal year stood at 818 and 286 stores, respectively, with the total number of stores reaching 14,524 as of the end of November 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, 259 stores were remodeled into LAWSON THREE F stores from August 2017 to November 2018. Meanwhile, a total of 181 SAVE ON stores were remodeled into LAWSON stores from March to November 2018, with the brand transition scheduled to be completed by the end of the current fiscal year ending February 2019.

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 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 197 stores (includes 45 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of November 2018. Moreover, the number of stores offering nursing care consultation services has reached 18 as of the end of November 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 306 as of the end of November 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 a diverse range of customer needs.

^{*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 November 30, 2018
LAWSON	13,044	547	13,591
NATURAL LAWSON	143	(2)	141
LAWSON STORE100	805	(13)	792
Total	13,992	532	14,524

(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 November 30, 2018)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	667	Ibaraki	220	Kyoto	340	Ehime	220
Aomori	259	Tokyo	1,733	Shiga	158	Tokushima	136
Akita	191	Kanagawa	1,116	Nara	139	Kochi	139
Iwate	175	Shizuoka	274	Wakayama	151	Fukuoka	514
Miyagi	250	Yamanashi	133	Osaka	1,146	Saga	75
Yamagata	111	Nagano	177	Hyogo	678	Nagasaki	108
Fukushima	150	Aichi	715	Okayama	200	Oita	184
Niigata	231	Gifu	178	Hiroshima	230	Kumamoto	156
Tochigi	200	Mie	139	Yamaguchi	118	Miyazaki	108
Gunma	235	Ishikawa	105	Tottori	143	Kagoshima	197
Saitama	693	Toyama	193	Shimane	147	Okinawa	230
Chiba	616	Fukui	113	Kagawa	133	Total (domestic)	14,524

(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 600 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 has been well-received, especially by

female customers, and has become available at around 1,600 stores as of the end of November 2018, with more stores scheduled to offer the service.

As a result, Domestic Convenience Store Business posted gross operating revenue of 357,199 million yen (up 6.2% from previous fiscal year) and segment profit of 39,807 million yen (down 12.4% from previous fiscal year).

(Seijo Ishii Business)

The number of directly operated Seijo Ishii stores, a high-end supermarket chain offering quality foods, reached 145 as of the end of November 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 63,062 million yen (up 6.0% from previous fiscal year) and segment profit of 4,852 million yen (up 7.5% from previous fiscal year).

(Entertainment-related Business)

With regard to our Entertainment-related Business, the ticketing business of Lawson Entertainment, Inc., which forms the core of the business, continued to secure top-class transaction value in the ticketing industry. HMV, which distributes music CDs, DVDs and books, also operates the HMV Record Shop specializing in analog records. As of the end of November 2018, the number of HMV stores totaled 56 including the HMV Record Shop. In November 2018, United Cinemas Co., Ltd., an operator of cinema complexes, introduced in Fukuoka Prefecture a cutting-edge attraction theater system known as 4DX, which offers an immersive viewing experience. In addition, United Cinemas also opened Kyushu's first cinema theater employing ScreenX, which provides a three-dimensional movie projection system using not only the front screen but also the walls on both sides. As of the end of November 2018, United Cinemas operates cinema theaters at 42 sites, offering 368 screens nationwide including those operated on commission.

As a result, Entertainment-related Business posted gross operating revenue of 57,760 million yen (up 1.5% from previous fiscal year) and segment profit of 3,354 million yen (up 6.9% from previous fiscal year).

(Financial Services Business) *3

With respect to our Financial Services Business, Lawson Bank, Inc. acquired its banking license on August 10, 2018 and started providing banking services to customers on October 15. With the aim of building awareness of the bank, we have been running TV and online commercials, implementing promotional campaigns in which ATM users receive discount coupons for "Karaage-kun" fried chicken and "MACHI Café," and started offering ordinary savings account and fixed deposit account services. In our ATM business, the foundation of our banking business, we expanded our network of financial institution partners, while working to install ATMs at locations other than LAWSON stores, including the new ATMs installed at New Chitose Airport and Tokyo Metro. As of the end of November 2018, the number of ATMs installed nationwide reached

13,330 (up 597 from previous fiscal year), with each ATM used 49.4 times a day on average. The total number of our financial institution partners increased to 106 nationwide (up 16 from previous fiscal year), including online banks.*4,*5

*3 Starting from the third quarter ended November 30, 2018, our Financial Services Business, which had been included in the Other Business, has been reclassified as a separate reportable segment due to its increased significance.

*4 JA Bank and JF Marine Bank are classified as separate financial institutions.

*5 Lawson Bank Preparatory Company, Inc. changed its name to Lawson Bank, Inc., effective July 2, 2018.

As a result, Financial Services Business posted gross operating revenue of 22,547 million yen (up 9.7% from previous fiscal year) and segment profit of 1,753 million yen (down 49.0% from previous fiscal year).

(Other Business)

In addition to the aforementioned businesses, the Group is also involved in the 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, 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, and continued to increase steadily. The number of LAWSON stores in the entire country reached 1,856 as of the end of November 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 November 30, 2018)
China Shanghai and surrounding area	865	265	1,130
China Chongqing	165	30	195
China Dalian	122	16	138
China Beijing	73	27	100
China Wuhan	198	84	282
China Hefei	—	11	11
Thailand	101	17	118
Indonesia	37	—	37
Philippines	33	2	35
United States of America Hawaii	2	—	2
Total	1,596	452	2,048

As a result, Other Business posted gross operating revenue of 33,585 million yen (up 25.1% from previous fiscal year) and segment loss of 1,959 million yen (down 14.5% from previous fiscal year).

(2) Explanation Regarding Consolidated Financial Position

Current assets increased by 399,819 million yen from the end of the previous fiscal year to 631,679 million yen, mainly reflecting an increase of 359,383 million yen in cash and deposits including cash for refilling ATMs. Non-current assets increased by 51,896 million yen from the end of the previous fiscal year to 720,291 million yen, mainly reflecting an increase of 26,746 million yen in property and store equipment and an increase of 17,501 million yen in investments and other assets. Consequently, total assets increased by 451,715 million yen from the end of the previous fiscal year to 1,351,971 million yen.

Current liabilities increased by 231,051 million yen from the end of the previous fiscal year to 610,274 million yen, mainly reflecting an increase of 108,410 million yen in short-term loans payable, an increase of 55,751 million yen in accounts payable-other and an increase of 49,425 million yen in current portion of long-term loans payable. Non-current liabilities increased by 218,367 million yen from the end of the previous fiscal year to 457,955 million yen, mainly reflecting an increase of 204,530 million yen in long-term loans payable. Consequently, total liabilities increased by 449,419 million yen from the end of the previous fiscal year to 1,068,229 million yen.

Net assets increased by 2,295 million yen from the end of the previous fiscal year to 283,742 million yen, mainly reflecting an increase of 2,324 million yen in valuation difference on available-for-sale securities. Consequently, shareholders' equity ratio was 20.5%, down from 30.6% as of the end of the previous fiscal year.

(3) Explanation Regarding Forward-looking Statements

The financial forecasts remain unchanged from those announced on October 11, 2018.

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

As of February 28, 2018 and November 30, 2018

(Millions of yen)

	Previous fiscal year As of February 28, 2018	Current 3rd Quarter As of November 30, 2018
Assets		
Current assets:		
Cash and deposits	30,124	389,508
Accounts receivable-due from franchised stores	46,599	49,629
Lease receivables	16,426	19,341
Merchandise	18,913	22,105
Accounts receivable-other	82,633	109,999
Deferred tax assets	3,411	2,993
Other	33,779	38,163
Allowance for doubtful accounts	(28)	(61)
Total current assets	231,860	631,679
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	197,979	210,016
Tools, furniture and fixtures, net	16,355	16,672
Leased assets, net	123,940	137,969
Other, net	11,660	12,023
Total property and store equipment	349,935	376,682
Intangible assets:		
Software	41,602	49,699
Goodwill	47,947	47,955
Trademark right	10,074	9,612
Other	573	577
Total intangible assets	100,197	107,844
Investments and other assets:		
Long-term loans receivable	47,425	48,751
Guarantee deposits	100,686	102,051
Deferred tax assets	24,406	24,332
Other	46,840	61,471
Allowance for doubtful accounts	(1,095)	(842)
Total investments and other assets	218,262	235,764
Total non-current assets	668,395	720,291
Total assets	900,256	1,351,971

(Millions of yen)

	Previous fiscal year As of February 28, 2018	Current 3rd Quarter As of November 30, 2018
Liabilities		
Current liabilities:		
Accounts payable-trade	118,174	134,672
Short-term loans payable	36,340	144,750
Current portion of long-term loans payable	575	50,000
Lease obligations	33,063	36,914
Accounts payable-other	60,741	116,492
Income taxes payable	6,880	3,776
Deposits received	109,629	106,350
Provision for bonuses	3,767	2,935
Other	10,051	14,382
Total current liabilities	379,222	610,274
Non-current liabilities:		
Long-term loans payable	55,469	260,000
Lease obligations	113,617	125,595
Deferred tax liabilities	2,616	3,013
Provision for retirement benefits to executive officers and audit and supervisory board members	271	292
Net defined benefit liability	13,781	14,738
Asset retirement obligations	29,062	30,651
Other	24,767	23,662
Total non-current liabilities	239,587	457,955
Total liabilities	618,809	1,068,229
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	46,689	46,983
Retained earnings	166,124	165,930
Treasury shares	(1,040)	(1,032)
Total shareholders' equity	270,280	270,388
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,084	4,408
Revaluation reserve for land	(575)	(575)
Foreign currency translation adjustment	4,595	4,263
Remeasurements of defined benefit plans	(726)	(756)
Total accumulated other comprehensive income	5,377	7,339
Subscription rights to shares	195	220
Non-controlling interests	5,593	5,793
Total net assets	281,446	283,742
Total liabilities and net assets	900,256	1,351,971

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

Consolidated Statement of Income

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

	Previous 3rd Quarter From March 1, 2017 to November 30, 2017	Current 3rd Quarter From March 1, 2018 to November 30, 2018
	(Millions of yen)	
Gross operating revenue	494,053	527,637
Net sales	196,419	216,485
Cost of sales	135,518	149,377
Gross profit	60,901	67,108
Operating revenue:		
Income from franchised stores	219,975	230,683
Other operating revenue	77,658	80,468
Total operating revenue	297,633	311,151
Operating gross profit	358,535	378,260
Selling, general and administrative expenses	304,273	330,452
Operating income	54,261	47,807
Non-operating income:		
Interest income	540	576
Share of profit of entities accounted for using equity method	567	602
Other	1,758	1,720
Total non-operating income	2,865	2,899
Non-operating expenses:		
Interest expenses	1,485	1,757
Loss on cancellation of leases	964	1,267
Other	895	1,040
Total non-operating expenses	3,346	4,065
Ordinary income	53,781	46,641
Extraordinary income:		
Gain on sales of shares of subsidiaries and associates	302	—
Total extraordinary income	302	—
Extraordinary losses:		
Loss on retirement of non-current assets	1,962	2,843
Impairment loss	1,073	1,403
Other	256	417
Total extraordinary losses	3,292	4,664
Profit before income taxes	50,791	41,976
Income taxes-current	14,064	15,042
Income taxes-deferred	3,653	1,606
Total income taxes	17,717	16,649
Profit	33,073	25,327
Profit attributable to non-controlling interests	277	7
Profit attributable to owners of parent	32,795	25,319

Consolidated Statement of Comprehensive Income

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

(Millions of yen)

	Previous 3rd Quarter From March 1, 2017 to November 30, 2017	Current 3rd Quarter From March 1, 2018 to November 30, 2018
Profit	33,073	25,327
Other comprehensive income		
Valuation difference on available-for-sale securities	1,420	2,324
Foreign currency translation adjustment	(186)	(320)
Remeasurements of defined benefit plans	113	(29)
Total other comprehensive income	1,347	1,974
Comprehensive income	34,421	27,301
Comprehensive income attributable to		
Owners of parent	34,109	27,281
Non-controlling interests	312	19

(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.