

Flash Report on the Consolidated Financial Results
for the First Half of the Fiscal Year Ending February 29, 2020

October 9, 2019

Listed Company Name: Lawson, Inc.
Code No.: 2651

Tokyo Stock Exchange (First Section)
(URL <http://www.lawson.jp/en/ir>)

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Scheduled date for submission of quarterly securities report: October 11, 2019

Scheduled date for payment of dividend: November 8, 2019

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, 2019 (from March 1, 2019 to August 31, 2019)

(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, 2019	369,131	4.9	36,763	6.6	35,147	4.8	20,107	12.1
August 31, 2018	351,973	6.9	34,485	(11.5)	33,536	(12.8)	17,942	(24.1)

Note: Comprehensive income:

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

For the first half ended August 31, 2018 19,223 million yen (21.5)%

	Profit per share	Diluted profit per share
For the first half ended	Yen	Yen
August 31, 2019	200.95	200.83
August 31, 2018	179.32	179.23

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of	Millions of yen	Millions of yen	%
August 31, 2019	1,400,535	283,950	20.0
February 28, 2019	1,342,329	281,982	20.6

Reference: Shareholders' equity:

As of August 31, 2019 279,521 million yen

As of February 28, 2019 276,514 million yen

Note: Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28; February 16, 2018), etc. have been applied from the beginning of the first quarter of the fiscal year ending February 29, 2020 in preparing the consolidated financial statements. The standards have been retrospectively applied to the consolidated financial statements for the previous fiscal year.

2. Dividends

	Annual dividends per share				
	1Q	1H	3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2018 fiscal year	—	127.50	—	127.50	255.00
2019 fiscal year	—	75.00			
2019 fiscal year (forecast)			—	75.00	150.00

Note: Revision of the most recent dividends forecast: None

3. Forecast of consolidated operating results for the 2019 fiscal year ending February 29, 2020 (from March 1, 2019 to February 29, 2020)

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
2019 fiscal year	727,000	3.8	60,800	0.0	54,500	(5.5)	18,000	(29.6)	179.88

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, (4) Notes to Consolidated Financial Statements (Changes in Accounting Policies)” on page 14.

(4) Number of shares outstanding (common stock)

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

As of August 31, 2019: 100,300,000 As of February 28, 2019: 100,300,000

2. Number of treasury shares at the end of period

As of August 31, 2019: 237,597 As of February 28, 2019: 241,897

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

As of August 31, 2019: 100,060,603 As of August 31, 2018: 100,056,667

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 half of fiscal 2019, six months from March 1 to August 31, 2019, changes in society needs resulting from an aging population, the prevalence of the nuclear family, the increasing number of working women, and the heightening awareness of healthy lifestyles, are serving as a tailwind for the convenience store industry. Meanwhile, competition is intensifying across sector lines and circumstances surrounding franchise stores are also becoming increasingly challenging due to a labor shortage and rising personnel expenses. Given such a business environment, we have made efforts to raise store productivity by making maximum use of digital technology. Specifically, a few years ago we started introducing a semi-automatic ordering system and new point-of-sale (POS) cash registers equipped with an automatic change dispenser function. We will continue to provide franchise stores with stronger support and reinforce our relationships with them.

As a result, for the first half of fiscal 2019 on a consolidated basis, gross operating revenue increased to 369,131 million yen (up 4.9% from previous fiscal year), operating income increased to 36,763 million yen (up 6.6% from previous fiscal year) and ordinary income increased to 35,147 million yen (up 4.8% from previous fiscal year). Profit attributable to owners of parent increased to 20,107 million yen (up 12.1% from previous fiscal year).

Furthermore, we also focused on promoting internal control and addressing operating risks across the entire Group based on the 2019 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 are striving to establish LAWSON stores as convenience stores endorsed by all our customers. To this end, we are implementing 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 and the use of plastics.

[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. During the current fiscal year, we are taking decisive steps to improve store operations and strengthen franchise support by headquarters.

As part of our initiative to introduce self-checkout machines by leveraging the self-checkout function of the new POS cash registers installed at all stores during the previous fiscal year, we implemented a pilot experiment in July 2019 at our LAWSON stores in Tokushima Prefecture. Based on the results, we will verify the method and time of operation, as well as other factors, to start operating the machines at all stores after autumn. In addition, in August 2019, as a means of addressing the labor shortage, we started a smartphone self-service experiment at a LAWSON store in Yokohama City, Kanagawa Prefecture. Under the experiment, no staff are

deployed at the store during the late night hours, and customers are able to purchase items by themselves through their smartphone. We are looking to expand this initiative by verifying issues involved in store operations, security and logistics, changes in sales, and customer feedback.

[Merchandising and Service Strategies]

In the rice and noodles range, we added a new flavor to our popular “Akuma-no-onigiri” (meaning “devil’s rice ball”) line, which resulted in strong sales. Our pasta lineup featuring a firm and resilient texture and our seasonal chilled noodles line also contributed to increasing sales.

In the counter fast food range, our L Chiki fried chicken line, which was revamped in June, added a new flavor and gained popularity. We also strengthened our MACHI Café lineup by releasing seasonal products, which, among others, contributed to strong sales.

In the bakery products range, our new bread series named “Machinopan” (meaning “town bakery”) continued to register strong sales. We also successfully revamped our existing standard products, which contributed to increasing sales.

In our dessert range, “BASCHEE” (short for Basque-style cheesecake) released in March 2019 enjoyed continued popularity. In addition, we successively launched hit products in the Uchi Café dessert range, including “SAKUBATA” (butter cream cookie sandwich) and Japanese rice cake dessert “Doramocchi”, which resulted in sales far outperforming the same period of the previous fiscal year.

On our service front, we started a pilot experiment on a new last-one-mile delivery initiative at the end of August. Under the experiment, some LAWSON stores in Tokyo are delivering approximately 100 items offered at the stores by using the Uber Eats food delivery service. The experiment will be implemented until the end of November to verify store operations and customer needs, after which we will look into expanding the initiative to include other stores.

On our sales promotion side, we rolled out a summer stamp rally campaign, and implemented effective measures to attract customers, including a speed lottery capitalizing on our strength in the entertainment field.

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

Fiscal period Product categories	Previous 1st Half From March 1, 2018 to August 31, 2018		Current 1st Half From March 1, 2019 to August 31, 2019	
	Net sales (Millions of yen)	Percentage of total (%)	Net sales (Millions of yen)	Percentage of total (%)
Processed foods	607,282	52.4	634,499	52.8
Fast foods	276,057	23.8	281,405	23.4
Daily delivered foods	171,950	14.9	181,146	15.1
Non-food products	103,269	8.9	104,924	8.7
Total	1,158,560	100.0	1,201,975	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 first half of the current fiscal year stood at 307 and 245 stores, respectively, with the total number of stores reaching 14,721 as of the end of August 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 218 stores (includes 49 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of August 2019. Moreover, the number of stores offering nursing care consultation services has reached 22 as of the end of August 2019. 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 319 as of the end of August 2019. 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 2019, we operate 143 NATURAL LAWSON stores and 780 LAWSON STORE100 stores.

* 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, 2019	Change during period	Total stores as of August 31, 2019
LAWSON	13,714	84	13,798
NATURAL LAWSON	139	4	143
LAWSON STORE100	806	(26)	780
Total	14,659	62	14,721

[Number of LAWSON stores by prefecture (As of August 31, 2019)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	681	Ibaraki	224	Kyoto	328	Ehime	216
Aomori	266	Tokyo	1,746	Shiga	156	Tokushima	137
Akita	191	Kanagawa	1,133	Nara	141	Kochi	138
Iwate	178	Shizuoka	289	Wakayama	151	Fukuoka	526
Miyagi	254	Yamanashi	137	Osaka	1,151	Saga	75
Yamagata	114	Nagano	175	Hyogo	678	Nagasaki	112
Fukushima	164	Aichi	737	Okayama	206	Oita	191
Niigata	229	Gifu	182	Hiroshima	237	Kumamoto	158
Tochigi	205	Mie	143	Yamaguchi	119	Miyazaki	107
Gunma	255	Ishikawa	104	Tottori	143	Kagoshima	199
Saitama	704	Toyama	194	Shimane	149	Okinawa	236
Chiba	611	Fukui	115	Kagawa	136	Total (domestic)	14,721

(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]

In April 2019, we announced our action plan to strengthen relationships with and support franchise stores, extending even stronger support to franchise stores while working to reduce staffing requirements in their store operations as a measure to cope with the worsening labor shortage. In July 2019, we installed the Lawson Franchise Owner Hotline exclusively for franchise owners at two locations, one within and one outside the Company. Through the hotline, we provide franchise owners with advice on store management.

Furthermore, as part of our initiative to help achieve the Sustainable Development Goals (SDGs), we began supplying leftover food to be discarded at our logistics centers to facilities that need food support via the Japan Food Bank Association. In September 2019, we also redesigned all our triangular sandwich packages, which is expected to reduce the annual amount of plastic consumption by approximately 60 tons.

As a result, Domestic Convenience Store Business posted gross operating revenue of 242,549 million yen (up 1.5% from previous fiscal year) and segment profit of 29,574 million yen (up 3.0% 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 151 as of the end of August 2019. Seijo Ishii's original quality prepared food continued to be supported by many customers, contributing to steady 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 45,150 million yen (up 7.5% from previous fiscal year) and segment profit of 3,882 million yen (up 19.3% 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. In our product sales business, as of the end of August 2019 we operate 56 stores, mainly comprised of HMV stores dedicated to selling music and video software nationwide, as well as HMV&BOOKS, which markets books, CDs, and DVDs, and HMV Record Shop stores specializing in analog records.

As of the end of August 2019, United Cinemas Co., Ltd., an operator of cinema complexes, operates cinema theaters at 42 sites nationwide, offering 378 screens including those operated on commission.

As a result, Entertainment-related Business posted gross operating revenue of 45,062 million yen (up 14.5% from previous fiscal year) and segment profit of 3,681 million yen (up 45.7% from 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 Lawson Bank's ATM service.

Lawson Bank issues LAWSON Ponta Plus credit cards, which allow cardholders to collect extra Ponta points when used at LAWSON, NATURAL LAWSON, or LAWSON STORE100 stores, and is expanding the credit card membership.

As of the end of August 2019, the number of ATMs installed nationwide reached 13,528 (up 69 from previous fiscal year), with each ATM used 48.4 times a day on average. The total number of our financial institution partners increased to 118 nationwide (up 7 from previous fiscal year), including online banks.

As a result, Financial Services Business posted gross operating revenue of 17,260 million yen (up 17.6% from previous fiscal year) and segment profit of 1,261 million yen (down 25.5% 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, we have expanded mainly into Shanghai, as well as into Chongqing, Dalian, Beijing, Wuhan, Hefei, and other cities. In August 2019, we became the first Japanese convenience store operator to advance into Shenyang in Liaoning province, opening three stores. The number of LAWSON stores in the entire country reached 2,323 as of the end of August 2019.

[Distribution of LAWSON Brand Stores Overseas by Region]

Country/Region	Number of stores (As of February 28, 2019)	Change during fiscal year	Number of stores (As of August 31, 2019)
China Shanghai and surrounding area	1,227	223	1,450
China Chongqing	198	14	212
China Dalian	146	13	159
China Beijing	108	10	118
China Shenyang	—	3	3
China Wuhan	308	39	347
China Hefei	20	8	28
China Changsha	—	6	6
Thailand	120	4	124
Indonesia	42	3	45
Philippines	39	14	53
United States of America Hawaii	2	—	2
Total	2,210	337	2,547

As a result, Other Business posted gross operating revenue of 24,584 million yen (up 15.9% from previous fiscal year) and segment loss of 1,636 million yen (down 3.6% 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 2019

Current assets increased by 42,891 million yen from the end of the previous fiscal year to 662,495 million yen, mainly reflecting an increase of 43,609 million yen in accounts receivable-other. Non-current assets increased by 15,314 million yen from the end of the previous fiscal year to 738,040 million yen, mainly reflecting an increase of 21,735 million yen in property and store equipment, a decrease of 4,044 million yen in intangible assets, and a decrease of 2,377 million yen in investments and other assets. Consequently, total assets increased by 58,206 million yen from the end of the previous fiscal year to 1,400,535 million yen.

Current liabilities increased by 45,078 million yen from the end of the previous fiscal year to 643,601 million yen, mainly reflecting a decrease of 48,450 million yen in short-term loans payable, and an increase of 45,387 million yen in deposits received and an increase of 28,551 million yen in accounts payable-trade. Non-current liabilities increased by 11,158 million yen from the end of the previous fiscal year to 472,983 million yen, mainly reflecting an increase of 11,385 million yen in lease obligations. Consequently, total liabilities increased by 56,237 million yen from the end of the previous fiscal year to 1,116,585 million yen.

Net assets increased by 1,968 million yen from the end of the previous fiscal year to 283,950 million yen, mainly reflecting an increase of 6,753 million yen in retained earnings. Consequently, shareholders' equity ratio was 20.0%, down from 20.6% as of the end of the previous fiscal year.

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28; February 16, 2018), etc. have been applied from the beginning of the first quarter of the fiscal year ending February 29, 2020 in preparing the consolidated financial statements. Related information regarding the consolidated financial position at the end of the first half under review was calculated based on an analysis in comparison with the consolidated financial statements for the previous fiscal year after retrospectively applying the standards.

② Cash flows during the first half of fiscal year 2019

Cash and cash equivalents at August 31, 2019 increased by 19,937 million yen from the end of the previous fiscal year to 374,173 million yen.

Net cash provided by operating activities was 136,038 million yen, an increase of 47,999 million yen from the corresponding period of the previous fiscal year, mainly because of an increase in deposits received.

Net cash used in investing activities was (26,203) million yen, a decrease of (14,369) million yen from the corresponding period of the previous fiscal year, mainly because of decreases in purchase of property and store equipment, purchase of intangible assets and payments for transfer of business.

Net cash used in financing activities was (89,506) million yen, an increase of (56,451) million yen from the corresponding period of the previous fiscal year, mainly because of a decrease in short-term loans payable.

(3) Explanation Regarding Forward-looking Statements

Regarding the financial forecasts for the full fiscal year ending February 29, 2020, the financial forecasts remain unchanged from those announced on April 11, 2019.

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

As of February 28, 2019 and August 31, 2019

(Millions of yen)

	Previous fiscal year As of February 28, 2019	Current 1st Half As of August 31, 2019
Assets		
Current assets:		
Cash and deposits	354,240	374,177
Accounts receivable-due from franchised stores	47,179	47,898
Lease receivables	19,120	18,605
Merchandise	20,862	21,546
Accounts receivable-other	120,969	164,579
Other	57,355	35,790
Allowance for doubtful accounts	(124)	(103)
Total current assets	619,603	662,495
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	207,755	210,224
Tools, furniture and fixtures, net	16,056	16,757
Leased assets, net	146,880	153,664
Other, net	11,607	23,389
Total property and store equipment	382,300	404,035
Intangible assets:		
Software	49,791	48,282
Goodwill	46,836	44,601
Trademark right	9,468	9,160
Other	576	583
Total intangible assets	106,672	102,627
Investments and other assets:		
Long-term loans receivable	44,024	44,523
Guarantee deposits	107,034	107,575
Deferred tax assets	30,995	30,688
Other	52,535	49,225
Allowance for doubtful accounts	(835)	(637)
Total investments and other assets	233,753	231,376
Total non-current assets	722,726	738,040
Total assets	1,342,329	1,400,535

(Millions of yen)

	Previous fiscal year As of February 28, 2019	Current 1st Half As of August 31, 2019
Liabilities		
Current liabilities:		
Accounts payable-trade	123,408	151,960
Short-term loans payable	126,600	78,150
Current portion of long-term loans payable	50,000	50,000
Lease obligations	38,750	44,824
Accounts payable-other	101,995	105,887
Income taxes payable	6,683	10,366
Deposits received	131,804	177,192
Provision for bonuses	4,263	4,684
Other	15,015	20,535
Total current liabilities	598,522	643,601
Non-current liabilities:		
Long-term loans payable	260,000	260,000
Lease obligations	131,441	142,826
Deferred tax liabilities	550	539
Provision for retirement benefits to executive officers and audit and supervisory board members	300	246
Net defined benefit liability	15,125	15,569
Asset retirement obligations	31,102	31,629
Other	23,303	22,172
Total non-current liabilities	461,824	472,983
Total liabilities	1,060,347	1,116,585
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	46,984	44,605
Retained earnings	166,187	172,940
Treasury shares	(1,028)	(1,010)
Total shareholders' equity	270,649	275,041
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	3,349	2,432
Revaluation reserve for land	(566)	(566)
Foreign currency translation adjustment	3,930	3,377
Remeasurements of defined benefit plans	(848)	(763)
Total accumulated other comprehensive income	5,865	4,480
Subscription rights to shares	215	255
Non-controlling interests	5,251	4,172
Total net assets	281,982	283,950
Total liabilities and net assets	1,342,329	1,400,535

(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 28, 2019 and the first half of the fiscal year ending February 29, 2020

	Previous 1st Half From March 1, 2018 to August 31, 2018	Current 1st Half From March 1, 2019 to August 31, 2019
	(Millions of yen)	
Gross operating revenue	351,973	369,131
Net sales	145,471	151,426
Cost of sales	99,661	102,794
Gross profit	45,810	48,631
Operating revenue:		
Income from franchised stores	154,375	160,610
Other operating revenue	52,126	57,095
Total operating revenue	206,502	217,705
Operating gross profit	252,312	266,337
Selling, general and administrative expenses	217,827	229,573
Operating income	34,485	36,763
Non-operating income:		
Interest income	369	336
Share of profit of entities accounted for using equity method	467	522
Compensation income	64	397
Other	1,161	600
Total non-operating income	2,063	1,858
Non-operating expenses:		
Interest expenses	1,178	1,975
Loss on cancellation of leases	943	770
Other	889	727
Total non-operating expenses	3,011	3,474
Ordinary income	33,536	35,147
Extraordinary income		
Gain on sales of investment securities	—	163
Total extraordinary income	—	163
Extraordinary losses:		
Loss on retirement of non-current assets	1,816	2,253
Impairment loss	1,190	1,870
Other	325	554
Total extraordinary losses	3,332	4,678
Profit before income taxes	30,204	30,632
Income taxes-current	12,150	9,932
Income taxes-deferred	125	644
Total income taxes	12,275	10,577
Profit	17,928	20,055
Profit (loss) attributable to non-controlling interests	(13)	(51)
Profit attributable to owners of parent	17,942	20,107

Consolidated Statement of Comprehensive Income

For the first half of the fiscal year ended February 28, 2019 and the first half of the fiscal year ending February 29, 2020

(Millions of yen)

	Previous 1st Half From March 1, 2018 to August 31, 2018	Current 1st Half From March 1, 2019 to August 31, 2019
Profit	17,928	20,055
Other comprehensive income		
Valuation difference on available-for-sale securities	1,526	(916)
Foreign currency translation adjustment	(163)	(535)
Remeasurements of defined benefit plans	(67)	84
Total other comprehensive income	1,295	(1,367)
Comprehensive income	19,223	18,687
Comprehensive income attributable to		
Owners of parent	19,264	18,722
Non-controlling interests	(40)	(34)

(3) Consolidated Statement of Cash Flows

For the first half of the fiscal year ended February 28, 2019 and the first half of the fiscal year ending February 29, 2020

(Millions of yen)

	Previous 1st Half From March 1, 2018 to August 31, 2018	Current 1st Half From March 1, 2019 to August 31, 2019
Net cash provided by (used in) operating activities:		
Profit before income taxes	30,204	30,632
Depreciation and amortization	31,875	38,417
Impairment loss	1,190	1,870
Interest income	(369)	(336)
Interest expenses	1,178	1,975
Loss on retirement of non-current assets	1,816	2,253
Decrease (increase) in notes and accounts receivable-trade	3,577	(737)
Decrease (increase) in accounts receivable-other	(18,279)	(43,833)
Increase (decrease) in notes and accounts payable-trade	26,580	28,710
Increase (decrease) in accounts payable-other	13,386	4,178
Increase (decrease) in deposits received	1,659	45,389
Increase (decrease) in net defined benefit liability	456	443
Net decrease (increase) in call loans for banking business	—	20,000
Other	4,989	13,562
Subtotal	98,265	142,525
Interest income received	370	305
Interest expenses paid	(1,206)	(1,964)
Income taxes paid	(9,391)	(4,828)
Net cash provided by (used in) operating activities	88,038	136,038
Net cash provided by (used in) investing activities:		
Purchase of property and store equipment	(19,928)	(16,626)
Purchase of intangible assets	(10,386)	(6,653)
Purchase of shares of subsidiaries and associates	(3,044)	(675)
Payments of long-term loans receivable	(3,665)	(2,883)
Collection of long-term loans receivable	2,539	2,555
Payments for guarantee deposits	(9,641)	(8,863)
Proceeds from collection of guarantee deposits	9,290	8,292
Purchase of long-term prepaid expenses	(2,138)	(468)
Payments for transfer of business	(2,730)	—
Other	(868)	(880)
Net cash provided by (used in) investing activities	(40,573)	(26,203)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	5,358	(48,450)
Repayments of long-term loans payable	(6,044)	—
Repayments of lease obligations	(19,532)	(24,719)
Cash dividends paid	(12,757)	(12,757)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(3,521)
Other	(79)	(58)
Net cash provided by (used in) financing activities	(33,055)	(89,506)
Effect of exchange rate change on cash and cash equivalents	(739)	(389)
Net increase (decrease) in cash and cash equivalents	13,670	19,937
Cash and cash equivalents at beginning of period	30,120	354,236
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	10	—
Cash and cash equivalents at end of period	43,801	374,173

(4) 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 16 "Leases" (IFRS 16) from the first quarter of the fiscal year ending February 29, 2020.

The impact of the application of IFRS 16 on the Company's consolidated financial statements is immaterial.

(Additional Information)

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28; February 16, 2018), etc. have been applied from the beginning of the first quarter of the fiscal year ending February 29, 2020 in preparing the consolidated financial statements. Accordingly, deferred tax assets are classified as investments and other assets and deferred tax liabilities are classified as non-current liabilities.

(Application of consolidated taxation system)

The Company and certain of its consolidated subsidiaries have applied the consolidated taxation system from the first quarter of the fiscal year ending February 29, 2020.