Flash Report on the Consolidated Result

for the First Half Ended February 28, 2015

October 7, 2014

Listed Company Name: Lawson, Inc. Tokyo Stock Exchange (First Section)
Code No.: 2651 (URL http://www.lawson.co.jp/company/ir/index.html)
Company Representative: Genichi Tamatsuka, Representative Director, President and CEO
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Scheduled date for submission of quarterly earnings report: October 8, 2014
Scheduled date for payment of dividend: November 10, 2014
Supplementary Documents quarterly results: Yes
Presentation of quarterly results: Yes (For institutional investors and analysts)

Note: Amounts below one million yen are truncated

1. Consolidated Performance for the current first half of the current period (from March 1, 2014, to August 31, 2014)
(1) Consolidated operating results (accumulated)

Note: Percentages for total operating revenues, operating income, ordinary income and net income show increase (decrease) compared to the same period of previous year.

	Gross operating revenue		Operating income		Ordinary income	
	¥ Million	%	¥ Million	%	¥ Million	%
Current 1st Half	241,930	(2.5)	40,019	12.3	39,616	11.5
Previous 1st Half	248,197	(0.3)	35,624	3.1	35,533	3.7

	Net income		Net income per share	Fully diluted profit per share
	¥ Million	%	¥	¥
Current 1st Half	21,889	14.9	219.15	218.73
Previous 1st Half	19,047	6.6	190.67	190.32

Note: Comprehensive income: Current 1st Half: 21,662 million yen (6.3%)
Previous 1st Half: 20,373 million yen (16.1%)

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ Million	¥ Million	%
Current 1st Half	722,321	262,436	35.5
Previous fiscal year	620,992	250,497	39.5

Reference: Shareholders' equity: Current 1st Half: 255,037 million yen
Previous fiscal year: 245,289 million yen

2. Dividends status

	Annual dividends per share				
	1Q	1H	3Q	Year-end dividend	Total
	¥	¥	¥	¥	¥
2013 fiscal year	ー	110.00	ー	110.00	220.00
2014 fiscal year	ー	120.00			
2014 fiscal year (forecast)			ー	120.00	240.00

Note: Revision of forecast for dividends in the first half: None

3. Forecast Consolidated Performance for 2014 fiscal year（from March 1, 2014 to February 28, 2015）

Note: Percentages for total operating revenues, operating income, ordinary income and net income show increase (decrease) from previous year.

	Gross operating revenue		Operating income		Ordinary income		Net income	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
2014 fiscal year	487,000	0.4	75,000	10.1	73,900	7.3	38,900	2.5

Reference: Forecast net profit per share for the 2014 fiscal year: 389.33 yen
Note: Revision of forecasts for consolidated performance during the first half: Yes

4. Notes
(1) Change in important subsidiaries during this quarterly consolidated period (Changes in certain specified subsidiaries resulting in revised scope of consolidation): None
Added: None Excluded: None

(2) Adoptions of special accounting methods in presentation of quarterly financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, retrospective restatements
1. Changes of accounting policies associated with revision in accounting standards: None
2. Other changes: Yes
3. Changes in accounting estimates: Yes
4. Retrospective restatements: None

(4) Number of issued shares:
i) The number of the stocks issued in the end of term
August, 2014: 100,300,000 February, 2014: 100,300,000
ii) The number of treasury shares in the end of term
August, 2014: 386,124 February, 2014: 395,953
iii) Average number of shares during the term
August, 2014: 99,879,873 August, 2013: 99,895,181

Note: Disclosure of progress of quarterly review procedures
At the time of disclosure of this quarterly flash report, review procedures for quarterly earnings reports based on the Financial Instruments and Exchange Act were being performed.

Note: Terms of use for financial forecasts, and other special notes
Forward-looking statements presented in this material such as financial forecasts are based on currently available information and certain presumptions deemed to be reasonable as of the date of announcement. They are not intended to guarantee the Company's achievement. Actual results may differ significantly from these forecasts due to many 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 Information Such As Forecast Consolidated Performance" on page 7.

1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation Regarding Consolidated Operating Results

During the first half of fiscal 2014, six months from March 1 to August 31, 2014, the Lawson Group (hereinafter, the "Group") continuously implemented measures to reinforce its social infrastructure function that provides essential items and services at the local level with the aim of realizing the Group's corporate philosophy of "Creating Happiness and Harmony in our Communities." Based on its analysis of purchase data retrieved from the multi-partner loyalty program, Ponta, the Group focused on customer relationship management (CRM)[*1] and supply chain management (SCM)[*2] in order to offer a merchandise assortment that meets the specific needs of customers in each neighborhood.

[*1] CRM: A marketing management method for providing merchandise and services that meet the specific needs of customers.

[*2] SCM: A business administration method for comprehensively managing all stages of business, from procurement to sales, to streamline and optimize the entire business process.

As a result, for the first half of fiscal 2014 on a consolidated basis, due to an increase in the number of franchised stores and a decrease in the number of company-operated stores, although operating revenue increased by ¥5,272 million, net sales decreased by ¥11,539 million, and gross operating revenue decreased to ¥241,930 million down 2.5% year on year from corresponding period of the previous fiscal year. In accordance with this, cost of sales also decreased by ¥8,359 million. Selling, general, and administrative expenses decreased by ¥2,302 million to ¥143,818 million down 1.6% year on year due to a decrease of depreciation, etc. As a result, operating income increased by ¥4,394 million, up 12.3% year on year, to ¥40,019 million. Ordinary income increased by ¥4,083 million up 11.5% year on year, to ¥39,616 million. Net income increased by ¥2,841 million, up 14.9% year on year, to ¥21,889 million.

Operating results by business segment are as follows.

(Domestic Convenience Store Business)

[Merchandising and Service Strategies]

On the merchandise front, we strengthened merchandise assortment throughout the year by expanding our lineup of ready-made meals, including carbohydrate-based foods such as lunch boxes, rice balls and sandwiches, and over-the-counter fast foods, in order to enhance satisfaction of customers visiting our stores.

In our mainstay rice category, as high-value-added products using ingredients specific to different regions across Japan, our Furusato-no-umai! line offering lunch boxes and rice balls has continued its deployment and become a strong sales.

In the over-the-counter fast foods category, we launched "Genkotsu Croquette" made with Hokkaido-produced Kitaakari potatoes. Based on a new production method, the croquette is made by shaping half-mashed and lumpy potatoes into balls. The new product became a hit item following "Genkotsumenchi" (fried minced meat balls). Furthermore, a new flavor was added to our "Karaage-kun" fried chicken, our mainstay item, which was well received, helping the category achieve robust sales. We proceeded with the installation of our in-store kitchen facility Machikado Chubo, where such items as “Thick Pork Katsu Sandwiches” and “Machikado Chubo Curry” are cooked. The number of stores equipped with the facility reached 2,666 as of the end of August 2014.Furthermore, we further expanded the number of stores equipped with MACHI café, an in-store café offering freshly ground and brewed coffee, to 9,368 stores as of the end of August 2014, following a sharp increase last year.

The UCHI Café Frappe frozen drink series, served by thawing in the microwave oven, was offered in mango, chocolate, cream soda, and other flavors. The dessert with a new twist became a hit product of the summer season. In the dessert and bakery category, our Pure Series simple dessert made with a minimum number of carefully selected ingredients to bring out their inherent flavors continued to be popular among customers.

In addition to bran bread[*3] for carbohydrate-conscious consumers, the Group also started selling its NATURAL LAWSON brand original confectionery featuring reduced amounts of carbohydrate, calories, and salt content. Moreover, as a health station, we are also continuing to reinforce our lineup of health-oriented products that are safe, reliable, and delicious, including pre-cut vegetables made with vegetables produced based on the Nakashima Farming Method[*4], one of the most prominent mineral farming methods in Japan. The number of Lawson Farms, in which Lawson, Inc. (hereinafter, the “Company”) invests with the aim of stably supplying high-quality fresh foods, has increased to 19 nationwide. Based on these initiatives, we will further boost Lawson’s corporate brand image as a health-promoting company.

In addition to the strengthening of these product line-up, we are increasing our lineup of gift cards[*5] offered at our stores. Among them, Variable Cards launched ahead of other convenience chains, whose value can be specified at purchase, is especially popular.

[*3] Bran: The external layer of wheat. Contains abundant nutrition including dietary fiber, iron, calcium, magnesium, zinc, and copper. The food is noted for its low level of carbohydrate.

[*4] Nakashima Farming Method: A cultivation method that supplies appropriate nutrients in accordance with the growth status of crops and the nutritional balance of the soil (mineral balance). Uses techniques for developing healthy soil based on diagnosis of soil conditions in conjunction with techniques to control the growth process of crops to maintain healthy growth.

[*5] Gift cards: Collective term for prepaid cards that can be used for online transactions.

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

Fiscal period / Product group	Previous 1st Half March 1, 2013 to August 31, 2013		Current 1st Half March 1, 2014 to August 31, 2014	
	Sales (Millions of yen)	Percentage of total (%)	Sales (Millions of yen)	Percentage of total (%)
Processed foods	546,513	55.2	531,655	53.7
Fast foods	206,416	20.9	215,721	21.8
Daily delivered foods	140,769	14.2	145,841	14.8
Nonfood products	96,087	9.7	96,230	9.7
Total	989,787	100.0	989,449	100.0

As for sales promotions, we continued to strengthen the point-reward campaign targeting Ponta members to encourage purchasing with the aim of increasing the rate of repeat visits by promoting campaigns such as rewarding double points for credit card transactions[*6], etc. Total number of Ponta members reached 65 million as of the end of August 2014, including members that joined through other participating companies. The sales ratio of Ponta members reached approximately 50%.

[*6] Exclusively applicable in cases where a specific credit card has been registered and used for a transaction.

[Store Operations]

In store operations, we continued to reinforce 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, in addition to expanding our lineup of health-conscious products. Notably, with the increasing number of stores equipped with MACHI café, store employees are more capable of offering products and services in a caring manner through better communication with customers. We strived to further improve the quality of stores by clarifying the customer service goals to be pursued by store employees and fostering leaders among them.

We will continue to promote merchandise assortments that best suit customers in each neighborhood by leveraging store-by-store analysis reports on Ponta members' purchase data, shelf allocation tailored to the locational characteristics of each store, and sharing of best practices presented at monthly area-based meetings where we discuss area strategies with franchise store owners.

[Store Development and Store Format Strategy]

In opening new stores, the Group prioritized profitability based on its proprietary return on investment (ROI)-focused store development standard. With regard to store format strategy, we increased the number of LAWSON MART stores, which were developed based on LAWSON STORE100, to 25 as of the end of August 2014. Since the deregulation of pharmaceutical sales in 2009, the Group has been striving to expand the number of stores offering over-the-counter (OTC) pharmaceuticals by proactively hiring and fostering registered drug sellers. As part of this initiative, the Group started opening healthcare-oriented LAWSON stores through partnerships with Drug Hikari, a drug store chain in Kyoto Prefecture, MIZ pharmacy chain in Saga Prefecture, and the Mik Japan drug store chain in Osaka Prefecture. With the addition of healthcare items including OTC pharmaceuticals, cosmetics, and daily necessities, the stores offer a merchandise assortment of around 5,000 items, twice as many as conventional LAWSON stores. Furthermore, the number of Pharmacy LAWSON stores equipped with drug-dispensing pharmacies, which are operated in partnership with Qol Co., Ltd., a major pharmacy chain operator, reached 40 as of the end of August 2014. Through such initiatives, the Group will continue to respond to changes in customer needs resulting from the aging of the population and an increase in the number of working women.

As a result, the total number of LAWSON, NATURAL LAWSON, and LAWSON MART (including LAWSON STORE100) stores opened and closed during the first half of the fiscal year (six months) under review stood at 498 and 204 stores, respectively, with the total number of stores in Japan reaching 11,615 as of the end of August 2014.

[Change in the Total Number of Domestic Stores]

	Total stores as of February 28, 2014	Change during fiscal year	Total stores as of August 31, 2014
LAWSON	10,108	221	10,329
NATURAL LAWSON	107	2	109
LAWSON STORE100/ LAWSON MART	1,202	(25)	1,177
Total	11,417	198	11,615

Note: Small stores are included in this figure.

[Number of LAWSON stores by prefecture (As of August 31, 2014)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	614	Ibaraki	145	Kyoto	326	Ehime	181
Aomori	205	Tokyo	1,571	Shiga	154	Tokushima	124
Akita	182	Kanagawa	839	Nara	131	Kochi	67
Iwate	163	Shizuoka	214	Wakayama	121	Fukuoka	429
Miyagi	220	Yamanashi	107	Osaka	1,019	Saga	65
Yamagata	74	Nagano	150	Hyogo	622	Nagasaki	103
Fukushima	101	Aichi	559	Okayama	141	Oita	163
Niigata	130	Gifu	148	Hiroshima	174	Kumamoto	137
Tochigi	134	Mie	108	Yamaguchi	120	Miyazaki	100
Gunma	90	Ishikawa	102	Tottori	108	**Total(domestic)**	**11,615**
Saitama	496	Toyama	185	Shimane	113		
Chiba	456	Fukui	106	Kagawa	118		

Note: Small stores are included in this figure.

In addition to the above, Lawson Minamikyushu, Inc. operates 202 Lawson chain stores in Kagoshima Prefecture and Lawson Okinawa, Inc. operates 170 Lawson chain stores in Okinawa Prefecture as of the end of August 2014.

(**Other Businesses**)

In addition to domestic convenience store business, the Group is involved in overseas business, Entertainment & Home Convenience business, financial services-related business, and other businesses.

With regards to overseas business, the Group's operating companies, 4 companies shown in the following table, opened stores in Shanghai, Chongqing, Dalian, and Beijing in the People's Republic of China.

In the People's Republic of China, the Group's operating companies shown on the following table have opened stores in Shanghai, Chongqing, Dalian, and Beijing. In Indonesia, PT MIDI UTAMA INDONESIA Tbk, in which Lawson Asia Pacific Holdings Ptd. Ltd. (hereinafter, "LAP"), our Asian umbrella subsidiary in Singapore, holds a 30% stake, operates Lawson stores.In Thailand, Saha Lawson Co., Ltd., a joint venture between LAP and the SAHA Group, Thailand's leading distributor of consumer goods, operates stores under the store brand of LAWSON108 and 108SHOP. In addition, in Hawaii in the United States, Lawson USA Hawaii, Inc. operates LAWSON stores. Furthermore, in an effort to advance into the Philippines, we concluded an agreement to invest in PG Lawson Company, Inc. established by Puregold Price Club, Inc. (hereinafter, "PPCI"), a leading retailer in the Philippines. We will continue expand Lawson stores in Manila.

[Distribution of LAWSON Brand Stores Overseas by Region]

Company	Country/region	Total stores As of February 28, 2014	Change during fiscal year	Total stores As of August 31, 2014
Shanghai Hualian Lawson, Inc.	Shanghai, China	289	21	310
Chongqing Lawson, Inc.	Chongqing, China	77	11	88
Dalian Lawson, Inc.	Dalian, China	18	6	24
Beijing Lawson, Inc.	Beijing, China	5	4	9
Saha Lawson Co., Ltd.	Bangkok, Thailand	29	3	32
PT MIDI UTAMA INDONESIA Tbk	Capital City of Jakarta and its suburbs, Indonesia	61	(3)	58
Lawson USA Hawaii, Inc.	Hawaii, U.S.A.	4	—	4
Total		483	42	525

Note: Saha Lawson Co., Ltd. operates 190 108SHOP brand stores as of the end of August 2014 in addition to the above LAWSON108 stores. PT MIDI UTAMA INDONESIA Tbk operates 749 stores other than LAWSON brand stores.

With regards to Entertainment & Home Convenience business, Lawson HMV Entertainment, which forms the core of entertainment related business, posted a solid performance led by an increase in ticket sales of leisure activities, etc and continued to secure top position in the ticketing industry. The number of HMV stores that sell music CDs and DVDs totaled 52 as of the end of August 2014. On August 28, 2014, Lawson HMV Entertainment, Inc. acquired all shares in United Entertainment Holdings Co., Ltd., the holding company of United Cinemas Co., Ltd. (UC), through a subsidiary established for this purpose. By integrating UC, the third largest movie theater operator in Japan, which operates 331 screens at 36 locations nationwide (including affiliated sites), the Group is looking to expand its ticketing services in order to offer a wider range of products and services that respond to customers' expectations. In addition, we will also strive to strengthen our existing business by such initiatives as promotional campaigns implemented in partnership with movie content providers. The Group aims to reinforce its earnings base for its entertainment-related business by disseminating movie information to Ponta members and LAWSON store customers on a timely basis.

Furthermore, the regular food delivery service operated by Smart Kitchen, Inc., the Company's consolidated subsidiary, was succeeded by the Company effective July 1, 2014, and newly launched as Lawson Fresh online food delivery service. Approximately 16,000 items are offered through this service, including farm fresh and high quality produce procured from Daichi Wo Mamoru Kai and Radishbo-ya, Lawson's signature health-conscious products such as the 10-minute cooking kits and bran bread managed by NATURAL LAWSON, and over 500 pharmaceutical products (second and third class).

Lawson ATM Networks, Inc., which operates a financial services-related business, posted a solid performance owing to an increase in the number of ATMs installed, along with a rise in the number of transactions. We started providing new financial services for Tomato Bank in April, Kansai Urban Bank in May, Saikyo Bank Japan Net Bank in July, Aichi Bank in August bringing the total number of our financial institution partners to 68 nationwide, including online banks, and the number of ATMs installed nationwide to 10,465 (up 347 year on year) as of the end of August 2014.

(2) Explanation Regarding Consolidated Financial Position

(i) Assets, liabilities and net assets position at the end of the first half of fiscal year 2014

As of August 31, 2014, total current assets stood at ¥261,090 million yen, climbing ¥65,306 million from February 28, 2014, the end of the previous fiscal year. This reflected an increase of ¥48,199 million in cash and deposits mainly due to the end of the first half under review falling on a bank holiday, and a rise of ¥11,024 million in accounts receivable-other because of an increase in transaction volume at subsidiary companies. Non-current assets grew ¥36,022 million from February 28, 2014 to ¥461,230 million, mainly owing to an increase of ¥17,716 million in property and store equipment resulting from opening of new stores. Consequently, total assets climbed ¥101,328 million from the end of the previous fiscal year to ¥722,321 million.

As of August 31, 2014, total current liabilities increased ¥70,736 million from the end of the previous fiscal year to ¥317,443 million, mainly reflecting an increase of ¥24,812 million in deposits received, an increase of ¥24,532 million in accounts payable-trade owing to a rise in the number of stores and total procurement value across the entire chain, as well as a growth of ¥14,041 million in accounts payable-other owing to the end of the first half under review falling on a bank holiday. Non-current liabilities stood at ¥142,441 million, growing ¥18,653 million from February 28, 2014, mainly owing to lease obligations growing ¥8,884 million due to opening of new stores, and to an increase of ¥8,425 million in long-term loans payable due to purchase of consolidated subsidiaries. Consequently, total liabilities increased ¥89,390 million from the end of the previous fiscal year to ¥459,885 million.

As of August 31, total net assets stood at ¥262,436 million, climbing ¥11,938 million from February 28, 2014. This was mainly due to an increase resulting from first half net income of ¥21,889 million, a decrease resulting from payment of ¥10,989 million in dividends, and a growth of ¥10,291 million in retained earnings. Consequently, shareholders' equity ratio amounted to 35.3%, down from 39.5% as of the end of the previous fiscal year.

(ii) Cash flows during the first half of fiscal year 2014

Cash and cash equivalents at August 31, 2014 were ¥113,759 million, up ¥44,999 million compared with February 28, 2014.

Operating activities provided net cash of ¥92,127 million, an increase of ¥30,382 million from the corresponding period of the previous fiscal year, mainly due to a rise in deposits received.

Investing activities used net cash of ¥38,287 million, an increase of ¥8,445 million from the corresponding period of the previous fiscal year, mainly due to an increase in purchase of investments in subsidiaries resulting in change in scope of consolidation.

Financing activities used net cash of ¥8,606 million, a decrease of ¥10,860 million from the corresponding period of the previous fiscal year, mainly due to an increase in long-term loans payable.

(3) Explanation Regarding Forward-looking Information Such As Forecast Consolidated Performance

We have amended the gross operating revenue forecast for the 2014 fiscal year.

The business forecasts and future prospects in this document are made based on currently available information and contain potential risks and uncertainties. As such, actual business results may significantly differ from those expressed or implied in the forecasts due to changes in various factors.

2. Matters Related To Summary Information (Notes)

(1) Change in important subsidiaries during the period (Changes in certain specified subsidiaries resulting in revised scope of consolidation): Not Applicable

(2) Adoptions of accounting methods particular to presentation of quarterly financial statements:
Not Applicable

(3) Changes in accounting policies, changes in accounting estimation, retrospective restatement
(Changes in accounting policies that are difficult to differentiate from changes in accounting estimation)

Lawson, Inc. and its domestic consolidated subsidiaries had previously adopted the declining-balance method as the depreciation method for property, store and equipment (excluding lease assets). Starting from the first quarter of the consolidated fiscal year under review, however, the depreciation method was changed to the straight-line method.

Under the Lawson Group's policy of placing emphasis on existing stores, the Group adopted a strategy of enhancing their competitiveness through such initiatives as capitalizing on membership card data, and started restructuring of group businesses. Accordingly with this opportunity, the depreciation method for property, store and equipment was reviewed. As a result, it was considered appropriate to allocate equal amounts of depreciation (straight-line method) because the number of customers is expected to remain at the current level even if store assets age with the passage of time, and the degree of facility usage, a major factor that reduces economic value, is proportionate to the number of customers.

Based on this change, operating income, ordinary income, and income before income taxes and minority interests for the first half of the consolidated fiscal year under review have increased respectively by ¥4,368 million compared with the figures based on the conventional declining-balance method.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

As of February 28, 2014 and August 31, 2014

(Millions of yen)

	As of February 28, 2014	As of August 31, 2014
Assets		
Current assets:		
Cash and deposits	76,763	124,963
Accounts receivable－due from franchised stores	32,186	30,927
Merchandise	9,596	11,749
Accounts receivable－other	54,193	65,217
Deferred tax assets	4,481	4,727
Other	20,956	25,752
Allowance for doubtful accounts	(2,393)	(2,247)
Total current assets	**195,784**	**261,090**
Non-current assets:		
Property and store equipment:		
Buildings and structures	265,952	292,333
Accumulated depreciation	(137,117)	(152,655)
Buildings and structures, net	128,835	139,678
Vehicles, tools, furniture and fixtures	65,944	70,626
Accumulated depreciation	(53,861)	(57,921)
Vehicles, tools, furniture and fixtures, net	12,083	12,704
Lease assets	126,056	139,637
Accumulated depreciation	(45,289)	(52,874)
Lease assets, net	80,767	86,763
Others	11,751	12,006
Total property and store equipment	**233,436**	**251,152**
Intangible assets:		
Software	18,262	16,915
Goodwill	9,719	18,902
Other	497	532
Total intangible assets	**28,480**	**36,350**
Investments and other assets:		
Long-term loans receivable	33,727	35,905
Guarantee deposits	86,150	90,034
Deferred tax assets	21,627	21,545
Other	22,751	27,423
Allowance for doubtful accounts	(965)	(1,181)
Total investments and other assets	**163,291**	**173,727**
Total non-current assets	**425,208**	**461,230**
Total assets	**620,992**	**722,321**

(Millions of yen)

	As of February 28, 2014	As of August 31, 2014
Liabilities		
Current liabilities:		
Accounts payable－trade	89,171	113,703
Accounts payable－due to franchised stores	1,405	1,661
Short-term loans payable	680	2,390
Lease obligations	16,585	17,739
Accounts payable－other	29,344	43,385
Income taxes payable	14,330	14,558
Deposits received	87,585	112,397
Provision for bonuses	2,372	2,176
Other	5,232	9,430
Total current liabilities	**246,706**	**317,443**
Non-current liabilities:		
Lease obligations	61,666	70,551
Long-term loans payable	―	8,425
Provision for retirement benefits	11,082	11,709
Provision for retirement benefits to executive officers and audits & supervisory board members	408	400
Asset retirement obligations	17,874	20,018
Other	32,755	31,337
Total non-current liabilities	**123,788**	**142,441**
Total liabilities	**370,494**	**459,885**
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	47,741	47,765
Retained earnings	138,141	148,432
Treasury shares	(1,556)	(1,630)
Total shareholders' equity	**242,832**	**253,074**
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	(93)	(89)
Revaluation reserve for land	(567)	(567)
Foreign currency translation adjustment	3,118	2,619
Total accumulated other comprehensive income	**2,456**	**1,962**
Subscription rights to shares	**557**	**450**
Minority interests	**4,650**	**6,948**
Total net assets	**250,497**	**262,436**
Total liabilities and net assets	**620,992**	**722,321**

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

Consolidated Statement of Income

For the First Half of the fiscal year (From March 1, 2014 to August 31, 2014)

(Millions of yen)

	From March 1,2013 to August 31, 2013	From March 1,2014 to August 31, 2014
Gross operating revenue	**248,197**	**241,930**
Net sales	**88,286**	**76,746**
Cost of sales	**66,451**	**58,092**
Gross profit	**21,834**	**18,653**
Operating revenue:		
Income from franchised stores	123,424	127,272
Other	36,486	37,911
Total operating revenue	**159,910**	**165,183**
Operating gross profit	**181,745**	**183,837**
Selling, general and administrative expenses	146,120	143,818
Operating income	**35,624**	**40,019**
Non-operating income:		
Interest income	406	389
Penalty income	45	402
Other	822	479
Total non-operating income	**1,274**	**1,270**
Non-operating expenses:		
Interest expense	649	679
Loss on cancel of lease contracts	404	543
Other	311	450
Total non-operating expenses	**1,366**	**1,673**
Ordinary income	**35,533**	**39,616**
Extraordinary income:		
Gain on sales of investment securities	—	369
Gain on change in equity	—	756
Total extraordinary income	—	**1,126**
Extraordinary losses:		
Loss on retirement of non-current assets	1,241	1,390
Impairment loss	1,815	2,526
Other	399	36
Total extraordinary losses	**3,456**	**3,953**
Income before income taxes and minority interests	**32,077**	**36,789**
Income taxes - current	**13,414**	14,098
Income taxes - deferred	(424)	527
Income taxes	**12,990**	**14,626**
Income before minority interests	**19,087**	**22,163**
Minority interests in income	**39**	**274**
Net income	**19,047**	**21,889**

Consolidated Statement of Comprehensive Income

For the First Half of the fiscal year (From March 1, 2014 to August 31, 2014)

(Millions of yen)

	From March 1,2013 to August 31, 2013	From March 1,2014 to August 31, 2014
Income before minority interests	**19,087**	**22,163**
Other comprehensive income		
Valuation difference on available-for-sale securities	(248)	4
Foreign currency translation adjustment	1,497	(468)
Share of other comprehensive income of associates accounted for using equity method	37	(37)
Total other comprehensive income	**1,286**	**(500)**
Comprehensive income	**20,373**	**21,662**
Comprehensive income attributable to		
Owners of the parent	20,392	21,394
Minority interests	(18)	267

(3) Consolidated Statement of Cash Flows

For the First Half of the fiscal year (From March 1, 2014 to August 31, 2014)

(Millions of yen)

	From March 1,2013 to August 31, 2013	From March 1,2014 to August 31, 2014
Net cash provided by (used in) operating activities**:**		
Income before income taxes	32,077	36,789
Depreciation and amortization	22,809	19,902
Impairment loss	1,815	2,526
Increase (decrease) in provision for retirement benefits	604	434
Increase (decrease) in allowance for doubtful accounts	268	(34)
Interest income	(406)	(389)
Interest expenses	649	679
Loss on retirement of noncurrent assets	1,241	1,390
Decrease (increase) in notes and accounts receivable-trade	(1,645)	1,040
Decrease (increase) in accounts receivable-other	(10,748)	(11,465)
Increase (decrease) in notes and accounts payable-trade	19,966	22,817
Increase (decrease) in accounts payable-other	11,343	13,657
Increase (decrease) in deposits received	(2,904)	24,421
Increase (decrease) in guarantee deposits received	(1,485)	(1,317)
Other	2,347	(4,581)
Subtotal	**75,932**	**105,870**
Interest income received	405	394
Interest expenses paid	(642)	(674)
Income taxes paid	(13,950)	(13,462)
Net cash provided by (used in) operating activities	**61,744**	**92,127**
Net cash provided by (used in) investing activities**:**		
Payments into time deposits	(14,000)	(11,200)
Proceeds from withdrawal of time deposits	12,000	8,000
Purchase of stocks of subsidiaries and affiliates	(3,155)	(634)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(10,914)
Purchase of property, plant and equipment	(16,984)	(18,713)
Purchase of intangible assets	(2,240)	(2,378)
Purchase of long-term prepaid expenses	(1,447)	(2,915)
Other	(4,013)	470
Net cash provided by (used in) investing activities	**(29,841)**	**(38,287)**

Net cash provided by (used in) financing activities**:**		
Net increase (decrease) in short-term loans payable	(1,443)	1,710
Proceeds from long-term loans payable	—	9,000
Proceeds from stock issuance to minority shareholders	—	2,000
Repayments of lease obligations	(8,194)	(10,080)
Cash dividends paid	(9,989)	(10,989)
Other	160	(246)
Net cash provided by (used in) financing activities	**(19,467)**	**(8,606)**
Effect of exchange rate change on cash and cash equivalents	**1,079**	**(234)**
Net increase (decrease) in cash and cash equivalents	**13,515**	**44,999**
Cash and cash equivalents at beginning of period	**72,766**	**68,759**
Cash and cash equivalents at end of period	**86,281**	**113,759**

(4) Notes to consolidated financial statements

(Notes Concerning Going Concern Assumption)

Not Applicable.

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

Not Applicable.