

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

October 11, 2018

Listed Company Name: Lawson, Inc.

Tokyo Stock Exchange (First Section)

Code No.: 2651

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

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Scheduled date for submission of quarterly securities report: October 12, 2018

Scheduled date for payment of dividend: November 9, 2018

Supplementary materials for quarterly financial results: Yes

Holding of presentation of quarterly results: Yes (for institutional investors and analysts)

(Amounts less than one million yen are truncated)

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

(1) Consolidated operating results (cumulative)

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

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first half ended								
August 31, 2018	351,973	6.9	34,485	(11.5)	33,536	(12.8)	17,942	(24.1)
August 31, 2017	329,402	7.6	38,945	(2.5)	38,456	0.2	23,644	4.6

Note: Comprehensive income:

For the first half ended August 31, 2018	19,223 million yen	(21.5)%
For the first half ended August 31, 2017	24,500 million yen	17.9%

	Profit per share	Diluted profit per share
For the first half ended	Yen	Yen
August 31, 2018	179.32	179.23
August 31, 2017	236.36	236.21

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of	Millions of yen	Millions of yen	%
August 31, 2018	960,760	288,198	29.4
February 28, 2018	900,256	281,446	30.6

Reference: Shareholders' equity:

As of August 31, 2018	282,174 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: Yes

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 15.

(4) Number of shares outstanding (common stock)

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

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

2. Number of treasury shares at the end of period

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

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

As of August 31, 2018: 100,056,667 As of August 31, 2017: 100,034,650

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 9.

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1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation Regarding Consolidated Operating Results

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

As a result, for the first half of fiscal 2018 on a consolidated basis, gross operating revenue increased to 351,973 million yen (up 6.9% from previous fiscal year), operating income decreased to 34,485 million yen (down 11.5% from previous fiscal year) and ordinary income decreased to 33,536 million yen (down 12.8% from previous fiscal year). Profit attributable to owners of parent decreased to 17,942 million yen (down 24.1% 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 expand 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. Our plan is to complete the introduction by the end of the fiscal year ending February 2019.

[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, we are executing a pilot project on LAWSON Smartphone Payment, our mobile self-service payment service option based on a dedicated app, at three LAWSON stores in Tokyo, which allows customers to purchase items at these LAWSON stores simply by scanning them on their smartphone wherever they are within the store, eliminating the need

to line up at the cash register. The project will be expanded in phases to 100 stores by the end of the fiscal year ending February 2019, mostly in large cities.

[Merchandising and Service Strategies]

On the merchandise side, our onigiri rice ball lineup, which we revamped entirely in April 2018 by employing new and improved ingredients and production methods, was well received by customers. Our “Korega” lunchbox series made with rigorously selected ingredients and production methods, as well as our chilled lunchboxes that bring out the best from ingredients, also enjoyed ongoing popularity. Furthermore, we also revamped our “Motto! Yasai” (meaning “More vegetables!”) series featuring delicious and healthy fare with abundant vegetables by adding Starchy Sauce Fried Noodles and Fried Rice Noodles containing half the recommended daily vegetable intake, which also sold well.

In the counter fast food range, we revamped our “Genkotsu Croquettes” and “Genkotsu Menchi” (deep-fried ground beef), 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 such as our “Okazu Croquettes” and “Okazu Menchi” (deep-fried ground meat). In July 2018, in celebration of our long-selling “Kara-age-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 June 2018 we launched “Soft Rice Cake Stuffed with Chocolate” as our first Japanese dessert from the “Uchi Café SWEETS X GODIVA” series produced in collaboration with Godiva, as well as “Chocolate Roll Cake” in celebration of the first anniversary of the series, which were both hugely popular, especially among female customers. In addition, we started offering a series of seasonal dessert items, the first of which was “Uchi Café X GODIVA Etoile du Chocolat” themed on tanabata, or star festival, in July. This was followed by the launch in September of the second item in the series, “Uchi Café X GODIVA Otsukimi Chocolate Soft Rice Cake (4 pieces)” themed on the autumn moon-viewing festival.

Driven by the higher average temperature this summer, sales of ice cream were robust, especially our private brand “Uchi Café Fruit Bar” series.

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 “Summer Snoopy Fair Stamp Campaign,” offered exclusively to Ponta and d-point members.

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

Fiscal period Product categories	Previous 1st Half From March 1, 2017 to August 31, 2017		Current 1st Half From March 1, 2018 to August 31, 2018	
	Net sales (Millions of yen)	Percentage of total (%)	Net sales (Millions of yen)	Percentage of total (%)
Processed foods	575,867	52.7	607,282	52.4
Fast foods	257,237	23.5	276,057	23.8
Daily delivered foods	161,151	14.8	171,950	14.9
Non-food products	98,010	9.0	103,269	8.9
Total	1,092,266	100.0	1,158,560	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 525 and 177 stores, respectively, with the total number of stores reaching 14,340 as of the end of August 2018. ^{*1}

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

With regard to THREE F stores, 258 stores were remodeled into LAWSON THREE F stores from August 2017 to May 2018, completing the brand transition with the planned exclusion of some stores. Meanwhile, a total of 73 SAVE ON stores were remodeled into LAWSON stores from March to August 2018, with the brand transition scheduled to be completed by the end of 2018. In addition, LAWSON stores were opened in the Chugoku/Shikoku region's largest bus terminal, which is used by approximately 33,000 people a day, and in the Fukuoka Prefectural Government building in July.

In an effort to establish convenience store models catered to an aging population and rising health consciousness, we are building partnerships with dispensing pharmacy and drug store chains to operate healthcare-oriented LAWSON stores that offer a wider assortment of merchandise than conventional LAWSON stores including over-the-counter pharmaceuticals, cosmetics and daily necessities. The number of stores offering non-prescription drugs has reached 194 stores (includes 44 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of August 2018. Moreover, the number of stores offering nursing care consultation services has reached 17 as of the end of August 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 302 as of the end of August 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.

*1 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 August 31, 2018
LAWSON	13,044	361	13,405
NATURAL LAWSON	143	(2)	141
LAWSON STORE100	805	(11)	794
Total	13,992	348	14,340

(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 August 31, 2018)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	665	Ibaraki	217	Kyoto	339	Ehime	220
Aomori	256	Tokyo	1,730	Shiga	157	Tokushima	136
Akita	191	Kanagawa	1,102	Nara	138	Kochi	141
Iwate	173	Shizuoka	275	Wakayama	150	Fukuoka	512
Miyagi	246	Yamanashi	131	Osaka	1,142	Saga	74
Yamagata	111	Nagano	176	Hyogo	681	Nagasaki	108
Fukushima	151	Aichi	705	Okayama	196	Oita	183
Niigata	231	Gifu	177	Hiroshima	227	Kumamoto	156
Tochigi	196	Mie	138	Yamaguchi	119	Miyazaki	106
Gunma	123	Ishikawa	104	Tottori	143	Kagoshima	197
Saitama	691	Toyama	192	Shimane	147	Okinawa	227
Chiba	612	Fukui	113	Kagawa	135	Total (domestic)	14,340

(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 700 stores as of the end of August 2018, including stores in the Tama and Jonan districts of Tokyo. By the end of the current fiscal year ending February 2019, the Loppick service network is scheduled to be expanded to some 2,000 stores mainly in the Tokyo metropolitan area.

As a result, Domestic Convenience Store Business posted gross operating revenue of 239,008 million yen (up 6.0% from previous fiscal year) and segment profit of 28,706 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 142 as of the end of August 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 42,008 million yen (up 7.9% from previous fiscal year) and segment profit of 3,255 million yen (up 7.4% from previous fiscal year).

(Entertainment-related Business)

With regards to our Entertainment-related Business, Lawson Entertainment, Inc., which forms the core of the business, continued to secure top-class ticket transaction value in the ticketing industry. HMV, which sells music CDs and DVDs, also operates the HMV Record Shop specializing in analog records. As of the end of August 2018, the number of HMV stores totaled 56 including the HMV Record Shop. United Cinemas Co., Ltd. operates cinema theaters at 41 sites, offering 357 screens nationwide including those operated on commission as of the end of August 2018.

As a result, Entertainment-related Business posted gross operating revenue of 39,344 million yen (down 0.1% from previous fiscal year) and segment profit of 2,527 million yen (up 2.5% from previous fiscal year).

(Other Business)

In addition to the aforementioned businesses, the Group is also involved in the Overseas Business and the Financial Services Business.

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

In the People's Republic of China, after being the first Japanese convenience store operator to advance into Shanghai, we made inroads into Chongqing, Dalian, Beijing, Wuhan, and Nanjing. In June 2018, the number of stores exceeded 1,000 in Shanghai and its neighboring regions, while in July, five new stores were opened simultaneously in Hefei, Anhui Province, contributing to the steady increase trajectory. The number of LAWSON stores in the entire country reached 1,709 as of the end of August 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 August 31, 2018)
China Shanghai and surrounding area	865	179	1,044
China Chongqing	165	17	182
China Dalian	122	14	136
China Beijing	73	13	86
China Wuhan	198	57	255
China Hefei	—	6	6
Thailand	101	8	109
Indonesia	37	—	37
Philippines	33	2	35
United States of America Hawaii	2	—	2
Total	1,596	296	1,892

With respect to our Financial Services Business, the number of ATMs installed in LAWSON and other stores increased. We strengthened partnerships with new financial institutions bringing the total number of our financial institution partners to 93 nationwide (up 3 from previous fiscal year), including online banks, and the number of ATMs installed nationwide to 13,140 (up 407 from previous fiscal year) as of the end of August 2018. ^{*2}

As a result of an absorption-type company split effective June 1, 2018, Lawson Bank, Inc. absorbed Lawson's ATM business of Lawson ATM Networks, Inc. The banking license was received from the Financial Services Agency on August 10, and the banking business was launched on September 10. Provision of banking services to customers is scheduled to start on October 15. In view of the high potential demand for extensive banking services, we are poised to offer financial services that will serve as essential financial infrastructure in the communities we serve. ^{*3}

^{*2} JA Bank and JF Marine Bank are classified as separate financial institutions.

^{*3} Lawson Bank Preparatory Company, Inc. changed its name to Lawson Bank, Inc., effective July 2, 2018

As a result, Other Business posted gross operating revenue of 35,896 million yen (up 20.8% from previous fiscal year) and segment loss of 4 million yen (in contrast to posting segment profit of 642 million yen in the same period of the 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 2018

Current assets increased by 31,934 million yen from the end of the previous fiscal year to 263,795 million yen, mainly reflecting an increase of 18,231 million yen in accounts receivable-other and an increase of 13,680 million yen in cash and deposits. Non-current assets increased by 28,569 million yen from the end of the previous fiscal year to 696,965 million yen, mainly reflecting an increase of 14,135 million yen in property and store equipment, an increase of 6,626 million yen in intangible assets and an increase of 7,807 million yen in investments and other assets. Consequently, total assets increased by 60,504 million yen from the end of the previous fiscal year to 960,760 million yen.

Current liabilities increased by 50,896 million yen from the end of the previous fiscal year to 430,119 million yen, mainly reflecting an increase of 26,267 million yen in accounts payable-trade, an increase of 13,584 million yen in accounts payable-other and an increase of 5,358 million yen in short-term loans payable. Non-current liabilities increased by 2,855 million yen from the end of the previous fiscal year to 242,442 million yen, mainly reflecting an increase of 6,763 million yen in lease obligations, a decrease of 5,469 million yen in long-term loans payable and an increase of 1,139 million yen in asset retirement obligations. Consequently, total liabilities increased by 53,752 million yen from the end of the previous fiscal year to 672,561 million yen.

Net assets increased by 6,752 million yen from the end of the previous fiscal year to 288,198 million yen, mainly reflecting an increase of 5,185 million yen in retained earnings. Consequently, shareholders' equity ratio was 29.4%, down from 30.6% as of the end of the previous fiscal year.

② Cash flows during the first half of fiscal year 2018

Cash and cash equivalents at August 31, 2018 increased by 13,680 million yen from the end of the previous fiscal year to 43,801 million yen.

Net cash provided by operating activities was 88,038 million yen, a decrease of 31,106 million yen from the corresponding period of the previous fiscal year, mainly because of a decrease in deposits received.

Net cash used in investing activities was (40,573) million yen, a decrease of (3,866) million yen from the corresponding period of the previous fiscal year, mainly because of a decrease in payments for long-term prepaid expenses.

Net cash used in financing activities was (33,055) million yen, a decrease of (33,952) million yen from the corresponding period of the previous fiscal year, mainly because of an increase in short-term loans payable.

(3) Explanation Regarding Forward-looking Statements

Regarding the financial forecast of the full fiscal year ending February 28, 2019, the forecast of consolidated gross operating revenue and the forecast of non-consolidated gross operating revenue, ordinary income and profit have been revised in view of the recent trends in operating results. The business forecasts and future prospects presented herein are made based on currently available information and are subject to 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.

	Forecast of consolidated operating results (full year)				Forecast of non-consolidated operating results (full year)			
	Previous forecast		Revised forecast		Previous forecast		Revised forecast	
	Forecast (in millions of yen)	YoY comparison (%)	Forecast (in millions of yen)	YoY comparison (%)	Forecast (in millions of yen)	YoY comparison (%)	Forecast (in millions of yen)	YoY comparison (%)
Gross operating revenue	732,000	111.4	722,000	109.8	401,000	107.5	395,000	105.9
Operating income	60,000	91.2	60,000	91.2	44,500	87.2	44,500	87.2
Ordinary income	57,000	87.5	57,000	87.5	60,000	118.8	50,000	99.0
Profit (attributable to owners of parent)	28,000	104.4	28,000	104.4	38,000	195.7	34,000	175.1

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

As of February 28, 2018 and August 31, 2018

(Millions of yen)

	Previous fiscal year As of February 28, 2018	Current 1st Half As of August 31, 2018
Assets		
Current assets:		
Cash and deposits	30,124	43,805
Accounts receivable-due from franchised stores	46,599	40,950
Lease receivables	16,426	19,682
Merchandise	18,913	20,623
Accounts receivable-other	82,633	100,864
Deferred tax assets	3,411	3,910
Other	33,779	34,045
Allowance for doubtful accounts	(28)	(87)
Total current assets	231,860	263,795
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	197,979	204,928
Tools, furniture and fixtures, net	16,355	16,319
Leased assets, net	123,940	131,067
Other, net	11,660	11,755
Total property and store equipment	349,935	364,070
Intangible assets:		
Software	41,602	47,426
Goodwill	47,947	49,062
Trademark right	10,074	9,768
Other	573	566
Total intangible assets	100,197	106,824
Investments and other assets:		
Long-term loans receivable	47,425	48,454
Guarantee deposits	100,686	101,599
Deferred tax assets	24,406	25,081
Other	46,840	51,811
Allowance for doubtful accounts	(1,095)	(876)
Total investments and other assets	218,262	226,070
Total non-current assets	668,395	696,965
Total assets	900,256	960,760

(Millions of yen)

	Previous fiscal year As of February 28, 2018	Current 1st Half As of August 31, 2018
Liabilities		
Current liabilities:		
Accounts payable-trade	118,174	144,442
Short-term loans payable	36,340	41,698
Current portion of long-term loans payable	575	—
Lease obligations	33,063	35,356
Accounts payable-other	60,741	74,326
Income taxes payable	6,880	7,561
Deposits received	109,629	111,286
Provision for bonuses	3,767	3,894
Other	10,051	11,553
Total current liabilities	379,222	430,119
Non-current liabilities:		
Long-term loans payable	55,469	50,000
Lease obligations	113,617	120,381
Deferred tax liabilities	2,616	3,065
Provision for retirement benefits to executive officers and audit and supervisory board members	271	274
Net defined benefit liability	13,781	14,529
Asset retirement obligations	29,062	30,202
Other	24,767	23,988
Total non-current liabilities	239,587	242,442
Total liabilities	618,809	672,561
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	46,689	46,688
Retained earnings	166,124	171,310
Treasury shares	(1,040)	(1,031)
Total shareholders' equity	270,280	275,474
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,084	3,610
Revaluation reserve for land	(575)	(575)
Foreign currency translation adjustment	4,595	4,458
Remeasurements of defined benefit plans	(726)	(793)
Total accumulated other comprehensive income	5,377	6,699
Subscription rights to shares	195	220
Non-controlling interests	5,593	5,804
Total net assets	281,446	288,198
Total liabilities and net assets	900,256	960,760

(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, 2018 and the first half of the fiscal year ending February 28, 2019

	Previous 1st Half From March 1, 2017 to August 31, 2017	Current 1st Half From March 1, 2018 to August 31, 2018
	(Millions of yen)	
Gross operating revenue	329,402	351,973
Net sales	131,033	145,471
Cost of sales	90,077	99,661
Gross profit	40,956	45,810
Operating revenue:		
Income from franchised stores	147,248	154,375
Other operating revenue	51,120	52,126
Total operating revenue	198,369	206,502
Operating gross profit	239,325	252,312
Selling, general and administrative expenses	200,380	217,827
Operating income	38,945	34,485
Non-operating income:		
Interest income	352	369
Share of profit of entities accounted for using equity method	431	467
Other	1,103	1,225
Total non-operating income	1,887	2,063
Non-operating expenses:		
Interest expenses	959	1,178
Loss on cancellation of leases	660	943
Other	755	889
Total non-operating expenses	2,376	3,011
Ordinary income	38,456	33,536
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	1,293	1,816
Impairment loss	668	1,190
Other	149	325
Total extraordinary losses	2,111	3,332
Profit before income taxes	36,648	30,204
Income taxes-current	10,581	12,150
Income taxes-deferred	2,157	125
Total income taxes	12,739	12,275
Profit	23,908	17,928
Profit (loss) attributable to non-controlling interests	263	(13)
Profit attributable to owners of parent	23,644	17,942

Consolidated Statement of Comprehensive Income

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

(Millions of yen)

	Previous 1st Half From March 1, 2017 to August 31, 2017	Current 1st Half From March 1, 2018 to August 31, 2018
Profit	23,908	17,928
Other comprehensive income		
Valuation difference on available-for-sale securities	888	1,526
Foreign currency translation adjustment	(373)	(163)
Remeasurements of defined benefit plans	76	(67)
Total other comprehensive income	592	1,295
Comprehensive income	24,500	19,223
Comprehensive income attributable to		
Owners of parent	24,224	19,264
Non-controlling interests	276	(40)

(3) Consolidated Statement of Cash Flows

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

(Millions of yen)

	Previous 1st Half From March 1, 2017 to August 31, 2017	Current 1st Half From March 1, 2018 to August 31, 2018
Net cash provided by (used in) operating activities:		
Profit before income taxes	36,648	30,204
Depreciation and amortization	27,911	31,875
Impairment loss	668	1,190
Interest income	(352)	(369)
Interest expenses	959	1,178
Loss on retirement of non-current assets	1,293	1,816
Decrease (increase) in notes and accounts receivable-trade	1,818	3,577
Decrease (increase) in accounts receivable-other	(11,974)	(18,279)
Increase (decrease) in notes and accounts payable-trade	25,692	26,580
Increase (decrease) in accounts payable-other	5,471	13,386
Increase (decrease) in deposits received	33,434	1,659
Increase (decrease) in net defined benefit liability	369	456
Other	5,840	4,989
Subtotal	127,780	98,265
Interest income received	355	370
Interest expenses paid	(960)	(1,206)
Income taxes paid	(8,031)	(9,391)
Net cash provided by (used in) operating activities	119,144	88,038
Net cash provided by (used in) investing activities:		
Purchase of property and store equipment	(17,801)	(19,928)
Purchase of intangible assets	(8,635)	(10,386)
Purchase of shares of subsidiaries and associates	(209)	(3,044)
Payments of long-term loans receivable	(3,650)	(3,665)
Collection of long-term loans receivable	2,567	2,539
Purchase of long-term prepaid expenses	(7,362)	(2,138)
Payments for transfer of business	(6,692)	(2,730)
Other	(2,654)	(1,219)
Net cash provided by (used in) investing activities	(44,439)	(40,573)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	(30,047)	5,358
Repayments of long-term loans payable	(285)	(6,044)
Repayments of lease obligations	(16,365)	(19,532)
Cash dividends paid	(12,501)	(12,757)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(7,799)	—
Other	(8)	(79)
Net cash provided by (used in) financing activities	(67,007)	(33,055)
Effect of exchange rate change on cash and cash equivalents	(67)	(739)
Net increase (decrease) in cash and cash equivalents	7,629	13,670
Cash and cash equivalents at beginning of period	67,692	30,120
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	765	10
Cash and cash equivalents at end of period	76,086	43,801

(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 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.