

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

July 11, 2019

Listed Company Name: Lawson, Inc.

Tokyo Stock Exchange (First Section)

Code No.: 2651

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

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Scheduled date for submission of quarterly securities report: July 12, 2019

Scheduled date for payment of dividend: —

Supplementary materials for quarterly financial results: Yes

Holding of presentation of quarterly results: None

(Amounts less than one million yen are truncated)

1. Consolidated operating results for the first quarter ended May 31, 2019 (from March 1, 2019 to May 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 quarter ended								
May 31, 2019	178,800	4.9	14,247	12.4	13,399	11.1	7,184	16.5
May 31, 2018	170,516	7.1	12,677	(22.0)	12,063	(24.5)	6,169	(35.7)

Note: Comprehensive income:

For the first quarter ended May 31, 2019	6,936 million yen	9.5%
For the first quarter ended May 31, 2018	6,334 million yen	(35.1)%

	Profit per share	Diluted profit per share
For the first quarter ended	Yen	Yen
May 31, 2019	71.80	71.77
May 31, 2018	61.65	61.63

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of	Millions of yen	Millions of yen	%
May 31, 2019	1,486,833	271,564	18.0
February 28, 2019	1,342,329	281,982	20.6

Reference: Shareholders' equity:

As of May 31, 2019	267,334 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	—				
2019 fiscal year (forecast)		75.00	—	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 1H (cumulative)	365,000	3.7	33,500	(2.9)	30,500	(9.1)	15,500	(13.6)	154.90
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, (3) Notes to Consolidated Financial Statements

(Changes in Accounting Policies)” on page 13.

(4) Number of shares outstanding (common stock)

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

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

2. Number of treasury shares at the end of period

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

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

As of May 31, 2019: 100,058,804 As of May 31, 2018: 100,055,902

Note: This flash report is exempt from quarterly review.

Note: Descriptions on appropriate use of financial performance forecasts and other special notes

Forward-looking statements presented herein such as financial forecasts are based on currently available information and certain presumptions deemed to be reasonable as of the date of announcement. The achievement of said forecasts cannot be guaranteed. Actual results may be materially different from those in the forecast as a result of various factors. For preconditions of these financial forecasts and notes concerning their use, please refer to “1. Qualitative Information Regarding Quarterly Financial Results, (3) Explanation Regarding Forward-looking Statements” on page 8.

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1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation Regarding Consolidated Operating Results

During the first quarter of fiscal 2019, three months from March 1 to May 31, 2019, changes in community 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, among others, 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 quarter of fiscal 2019 on a consolidated basis, gross operating revenue increased to 178,800 million yen (up 4.9% from previous fiscal year), operating income increased to 14,247 million yen (up 12.4% from previous fiscal year) and ordinary income increased to 13,399 million yen (up 11.1% from previous fiscal year). Profit attributable to owners of parent increased to 7,184 million yen (up 16.5% 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 strengthen our product lineup, 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.

First, we started replacing our cash registers with self-checkout machines by leveraging the self-checkout function of the new POS cash registers installed at all stores during the previous fiscal year. The replacement is scheduled to be completed at all stores by autumn this year. We are also expanding the number of stores equipped with the LAWSON Smartphone Cash Register, our mobile self-service payment system based on a dedicated smartphone app, to streamline checkout and allow customers to purchase items without lining up at

the cash register. Furthermore, we are also introducing new types of fixtures including self-serve cases for fried food, which are convenient for customers and enhance operational efficiency at stores.

During the first quarter under review, for the purpose of improving store operation efficiency, we replaced our store computers with new models equipped with functions that facilitate business management of multiple stores as well as enhanced information processing capacity.

In March 2019, we launched a number of new services including WeChat Pay, which offers enhanced convenience for tourists visiting Japan; Merpay, a smartphone payment service based on the Mercari app, which is Japan’s largest flea market app; PayPay; and QUO Card Pay. In April, au PAY, a smartphone-based barcode payment service, was added to our service lineup, bringing the number of barcode payment services available at all LAWSON stores nationwide to 10.

[Merchandising and Service Strategies]

In the rice and noodles range, we added the “Kinshari Onigiri Series” to our standard rice ball lineup, and also added a new flavor to our popular “Akuma-no-onigiri” (meaning “devil’s rice ball”) line, which helped push up sales. Our pasta lineup featuring a firm and resilient texture and our chilled Chinese noodles lineup were also well received.

In the counter fast food range, our long-selling “Karaage-kun” chicken nugget range was reinforced with the addition of “Super Karaage-kun” containing condiments and featuring newly designed packaging, which proved popular. We also strengthened our assortment of ready-made dishes offered during the evening and nighttime hours by focusing on “prepared food cups,” which can be served as part of dinner or as hors d'oeuvres.

In the bakery products range, we launched a new bread series named “Machinopan” (meaning “town bakery”) featuring meticulously selected basic ingredients and sophisticated production methods in a quest to offer items with exquisite texture and delicious fillings. We also revamped our existing standard products by reviewing their ingredients and production methods, which resulted in strong sales for the entire bakery products range.

In our dessert range, we launched a new kind of dessert named “BASCHÉE” (short for Basque-style cheesecake), which became a huge hit, recording sales of over one million units in the first three days of its release in March. BASCHÉE contributed to increased sales for the Uchi Café dessert range.

On our sales promotion side, we rolled out a Golden Week 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 Quarter From March 1, 2018 to May 31, 2018		Current 1st Quarter From March 1, 2019 to May 31, 2019	
	Net sales (Millions of yen)	Percentage of total (%)	Net sales (Millions of yen)	Percentage of total (%)
Processed foods	296,079	53.0	312,014	53.2
Fast foods	130,777	23.4	136,065	23.2
Daily delivered foods	82,105	14.7	87,722	14.9
Non-food products	49,803	8.9	50,785	8.7
Total	558,766	100.0	586,587	100.0

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

[Store Development]

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

Regarding the entire Lawson Group, the total number of LAWSON, NATURAL LAWSON, and LAWSON STORE100 stores opened and closed during the current first quarter stood at 130 and 108 stores, respectively, with the total number of stores reaching 14,681 as of the end of May 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 214 stores (includes 48 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of May 2019. Moreover, the number of stores offering nursing care consultation services has reached 20 as of the end of May 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 313 as of the end of May 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 May 2019, we operate 141 NATURAL LAWSON stores and 797 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 May 31, 2019
LAWSON	13,714	29	13,743
NATURAL LAWSON	139	2	141
LAWSON STORE100	806	(9)	797
Total	14,659	22	14,681

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

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	672	Ibaraki	224	Kyoto	331	Ehime	218
Aomori	262	Tokyo	1,741	Shiga	159	Tokushima	138
Akita	189	Kanagawa	1,127	Nara	141	Kochi	137
Iwate	181	Shizuoka	285	Wakayama	151	Fukuoka	525
Miyagi	254	Yamanashi	136	Osaka	1,152	Saga	74
Yamagata	113	Nagano	173	Hyogo	680	Nagasaki	112
Fukushima	159	Aichi	734	Okayama	204	Oita	190
Niigata	229	Gifu	182	Hiroshima	235	Kumamoto	158
Tochigi	205	Mie	142	Yamaguchi	116	Miyazaki	107
Gunma	256	Ishikawa	103	Tottori	142	Kagoshima	199
Saitama	704	Toyama	193	Shimane	149	Okinawa	232
Chiba	619	Fukui	114	Kagawa	134	Total (domestic)	14,681

(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]

On April 25, 2019, we announced our action plan to support and build stronger relationships with franchise stores as an initiative we have been and will be continuing to undertake. We are determined to extend 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.

On June 11, 2019, at LAWSON stores in Ehime and Okinawa prefectures, we implemented “Another Choice,” a food loss reduction program that engages customers, and encourages donations for children. Under this scheme, Ponta card and d POINT CARD holders are rewarded with five points for every 100 yen spent on designated items nearing their use-by date (tax excluded), with 5% of the total purchase value donated to support programs for children, who will shape our future.

As a result, Domestic Convenience Store Business posted gross operating revenue of 117,702 million yen (up 2.2% from previous fiscal year) and segment profit of 11,095 million yen (up 9.1% 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 149 as of the end of May 2019. Driven by widely successful original hit products, sales were solid, and the wide array of well-selected products has been endorsed by many customers. In addition, we started selling some frozen Chinese food items from the Seijo Ishii “desica” series at LAWSON stores nationwide, which were also well received. 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 23,253 million yen (up 8.1% from previous fiscal year) and segment profit of 2,292 million yen (up 22.3% 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 May 2019 we operate 55 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. In April 2019, we started offering "HMVmusic powered by KKBOX," a music subscription service, in partnership with KKBOX Japan LLC.

As of the end of May 2019, United Cinemas Co., Ltd., an operator of cinema complexes, operates cinema theaters at 41 sites nationwide, offering 367 screens including those operated on commission.

As a result, Entertainment-related Business posted gross operating revenue of 21,000 million yen (up 8.7% from previous fiscal year) and segment profit of 1,812 million yen (up 57.6% from previous fiscal year).

(Financial Services Business)

With respect to our Financial Services Business, during the first quarter under review 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. In May 2019, Lawson Bank concluded an agreement with Norinchukin Bank to install Lawson Bank's ATMs at JA Banks. From the current fiscal year ending February 2020, Norinchukin Bank ATMs currently installed in JA Banks will be replaced by Lawson Bank ATMs in accordance with requests by Japan Agricultural Cooperatives (JA) and the Prefectural Banking Federations of Agricultural Cooperatives (JA Shinnoren).

In January 2019, Lawson Bank started issuing LAWSON Ponta Plus credit cards, which allow cardholders to collect extra Ponta points when using their cards at LAWSON stores, NATURAL LAWSON stores, or LAWSON STORE100. By emphasizing its Special Stage Program, in which extra Ponta points commensurate with the total monthly transactions are rewarded every month, LAWSON Ponta Plus credit card membership is expanding. Starting April 2019, we have also been taking further measures to enhance customer convenience, including allowing LAWSON Ponta Plus cardholders to make mobile payments through Apple Pay.

As of the end of May 2019, the number of ATMs installed nationwide reached 13,500 (up 41 from previous fiscal year), with each ATM used 47.9 times a day on average. The total number of our financial institution partners increased to 117 nationwide (up 6 from previous fiscal year), including online banks.

As a result, Financial Services Business posted gross operating revenue of 8,440 million yen (up 17.3% from previous fiscal year) and segment profit of 528 million yen (down 34.6% 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 June 2019, we became the first Japanese convenience store operator to advance into Hunan province, opening five stores in Changsha, the capital city of the province. The number of LAWSON stores in the entire country reached 2,153 as of the end of May 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 May 31, 2019)
China Shanghai and surrounding area	1,227	119	1,346
China Chongqing	198	6	204
China Dalian	146	5	151
China Beijing	108	—	108
China Wuhan	308	14	322
China Hefei	20	2	22
Thailand	120	2	122
Indonesia	42	1	43
Philippines	39	3	42
United States of America Hawaii	2	—	2
Total	2,210	152	2,362

As a result, Other Business posted gross operating revenue of 11,032 million yen (up 16.5% from previous fiscal year) and segment loss of 1,481 million yen (up 11.6% from previous fiscal year).

(2) Explanation Regarding Consolidated Financial Position

Current assets increased by 132,904 million yen from the end of the previous fiscal year to 752,508 million yen, mainly reflecting an increase of 101,959 million yen in cash and deposits. Non-current assets increased by 11,599 million yen from the end of the previous fiscal year to 734,325 million yen, mainly reflecting increases of 14,590 million yen in property and store equipment. Consequently, total assets increased by 144,504 million yen from the end of the previous fiscal year to 1,486,833 million yen.

Current liabilities increased by 145,846 million yen from the end of the previous fiscal year to 744,369 million yen, mainly reflecting an increase of 68,111 million yen in deposits received, and an increase of 37,900 million yen in short-term loans payable. Non-current liabilities increased by 9,075 million yen from the end of the previous fiscal year to 470,900 million yen, mainly reflecting an increase of 9,033 million yen in lease obligations. Consequently, total liabilities increased by 154,922 million yen from the end of the previous fiscal year to 1,215,269 million yen.

Net assets decreased by 10,418 million yen from the end of the previous fiscal year to 271,564 million yen, mainly reflecting a decrease of 6,590 million yen in retained earnings. Consequently, shareholders' equity ratio was 18.0%, 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 quarter 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.

(3) Explanation Regarding Forward-looking Statements

Regarding the financial forecasts for the first half and full year of the current 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 May 31, 2019

(Millions of yen)

	Previous fiscal year As of February 28, 2019	Current 1st Quarter As of May 31, 2019
Assets		
Current assets:		
Cash and deposits	354,240	456,199
Accounts receivable-due from franchised stores	47,179	51,098
Lease receivables	19,120	18,817
Merchandise	20,862	22,034
Accounts receivable-other	120,969	137,526
Other	57,355	67,068
Allowance for doubtful accounts	(124)	(236)
Total current assets	619,603	752,508
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	207,755	207,975
Tools, furniture and fixtures, net	16,056	16,152
Leased assets, net	146,880	149,375
Other, net	11,607	23,387
Total property and store equipment	382,300	396,890
Intangible assets:		
Software	49,791	50,160
Goodwill	46,836	45,739
Trademark right	9,468	9,315
Other	576	592
Total intangible assets	106,672	105,808
Investments and other assets:		
Long-term loans receivable	44,024	44,198
Guarantee deposits	107,034	107,373
Deferred tax assets	30,995	30,188
Other	52,535	50,729
Allowance for doubtful accounts	(835)	(863)
Total investments and other assets	233,753	231,626
Total non-current assets	722,726	734,325
Total assets	1,342,329	1,486,833

(Millions of yen)

	Previous fiscal year As of February 28, 2019	Current 1st Quarter As of May 31, 2019
Liabilities		
Current liabilities:		
Accounts payable-trade	123,408	137,590
Short-term loans payable	126,600	164,500
Current portion of long-term loans payable	50,000	50,000
Lease obligations	38,750	43,535
Accounts payable-other	101,995	93,445
Income taxes payable	6,683	2,874
Deposits received	131,804	199,916
Provision for bonuses	4,263	3,322
Other	15,015	49,184
Total current liabilities	598,522	744,369
Non-current liabilities:		
Long-term loans payable	260,000	260,000
Lease obligations	131,441	140,475
Deferred tax liabilities	550	548
Provision for retirement benefits to executive officers and audit and supervisory board members	300	325
Net defined benefit liability	15,125	15,358
Asset retirement obligations	31,102	31,306
Other	23,303	22,887
Total non-current liabilities	461,824	470,900
Total liabilities	1,060,347	1,215,269
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	46,984	44,605
Retained earnings	166,187	159,596
Treasury shares	(1,028)	(1,010)
Total shareholders' equity	270,649	261,698
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	3,349	2,863
Revaluation reserve for land	(566)	(566)
Foreign currency translation adjustment	3,930	4,133
Remeasurements of defined benefit plans	(848)	(794)
Total accumulated other comprehensive income	5,865	5,636
Subscription rights to shares	215	201
Non-controlling interests	5,251	4,028
Total net assets	281,982	271,564
Total liabilities and net assets	1,342,329	1,486,833

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

Consolidated Statement of Income

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

	Previous 1st Quarter From March 1, 2018 to May 31, 2018	Current 1st Quarter From March 1, 2019 to May 31, 2019
	(Millions of yen)	
Gross operating revenue	170,516	178,800
Net sales	71,998	74,281
Cost of sales	49,534	50,276
Gross profit	22,463	24,005
Operating revenue:		
Income from franchised stores	73,829	77,584
Other operating revenue	24,688	26,934
Total operating revenue	98,517	104,518
Operating gross profit	120,981	128,523
Selling, general and administrative expenses	108,304	114,276
Operating income	12,677	14,247
Non-operating income:		
Interest income	192	159
Share of profit of entities accounted for using equity method	223	239
Other	491	427
Total non-operating income	907	826
Non-operating expenses:		
Interest expenses	594	971
Loss on cancellation of leases	552	393
Other	373	309
Total non-operating expenses	1,521	1,674
Ordinary income	12,063	13,399
Extraordinary losses:		
Loss on retirement of non-current assets	838	1,021
Impairment loss	516	650
Other	13	183
Total extraordinary losses	1,369	1,855
Profit before income taxes	10,694	11,543
Income taxes-current	3,705	3,366
Income taxes-deferred	807	1,027
Total income taxes	4,513	4,393
Profit	6,181	7,150
Profit (loss) attributable to non-controlling interests	12	(34)
Profit attributable to owners of parent	6,169	7,184

Consolidated Statement of Comprehensive Income

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

	(Millions of yen)	
	Previous 1st Quarter From March 1, 2018 to May 31, 2018	Current 1st Quarter From March 1, 2019 to May 31, 2019
Profit	6,181	7,150
Other comprehensive income		
Valuation difference on available-for-sale securities	278	(485)
Foreign currency translation adjustment	(158)	218
Remeasurements of defined benefit plans	32	53
Total other comprehensive income	153	(213)
Comprehensive income	6,334	6,936
Comprehensive income attributable to		
Owners of parent	6,328	6,955
Non-controlling interests	5	(19)

(3) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not Applicable.

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

Not Applicable.

(Changes in Accounting Policies)

The Company's foreign consolidated subsidiaries are applying International Financial Reporting Standard 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.