

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

July 11, 2018

Listed Company Name: Lawson, Inc.

Code No.: 2651

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Scheduled date for submission of quarterly securities report: July 13, 2018

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, 2018 (from March 1, 2018 to May 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 quarter ended May 31, 2018 | 170,516 | 7.1 | 12,677 | (22.0) | 12,063 | (24.5) | 6,169 | (35.7) |
| May 31, 2017 | 159,216 | 6.9 | 16,252 | (6.9) | 15,982 | (4.2) | 9,597 | 8.8 |

Note: Comprehensive income:

| | | |
|--|-------------------|---------|
| For the first quarter ended May 31, 2018 | 6,334 million yen | (35.1)% |
| For the first quarter ended May 31, 2017 | 9,754 million yen | 21.5% |

| | Profit per share | Diluted profit per share |
|--|------------------|--------------------------|
| | Yen | Yen |
| For the first quarter ended May 31, 2018 | 61.65 | 61.63 |
| May 31, 2017 | 95.96 | 95.87 |

(2) Consolidated financial position

| | Total assets | Net assets | Shareholders' equity ratio |
|--------------------|-----------------|-----------------|----------------------------|
| | Millions of yen | Millions of yen | % |
| As of May 31, 2018 | 956,709 | 274,910 | 28.1 |
| February 28, 2018 | 900,256 | 281,446 | 30.6 |

Reference: Shareholders' equity:

| | |
|-------------------------|---------------------|
| As of May 31, 2018 | 269,242 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 | — | | | | |
| 2018 fiscal year (forecast) | | 127.50 | — | 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 1H (cumulative) | 360,000 | 9.3 | 30,500 | (21.7) | 29,000 | (24.6) | 17,000 | (28.1) | 169.90 |
| 2018 fiscal year | 732,000 | 11.4 | 60,000 | (8.8) | 57,000 | (12.5) | 28,000 | 4.4 | 279.83 |

Note: Revision of the most recent consolidated operating results forecast: None

4. Notes

(1) Change in significant subsidiaries during the quarterly consolidated period (Changes in certain specified subsidiaries resulting in changes in scope of consolidation): None

Added: None

Excluded: None

(2) Adoptions of specific accounting methods for preparing quarterly financial statements: None

(3) Changes in accounting policies, changes in accounting estimates or restatements

1. Changes in accounting policies associated with revision in accounting standards: Yes

2. Changes in accounting policies other than 1. above: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

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

2. Number of treasury shares at the end of period

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

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

As of May 31, 2018: 100,055,902 As of May 31, 2017: 100,014,831

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 2018, three months from March 1 to May 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 quarter of fiscal 2018 on a consolidated basis, gross operating revenue increased to 170,516 million yen (up 7.1% from previous fiscal year), operating income decreased to 12,677 million yen (down 22.0% from previous fiscal year) and ordinary income decreased to 12,063 million yen (down 24.5% from previous fiscal year). Profit attributable to owners of parent decreased to 6,169 million yen (down 35.7% from previous fiscal year).

Furthermore, we also focused on promoting internal control and addressing operating risks across the entire Group based on the 2018 Basic Policy for Improvement of Internal Control Systems. We will continue promoting internal control across the board including companies that newly joined the Group.

Operating results by business segment were as follows:

(Domestic Convenience Store Business)

In our convenience store business, we expanded our merchandise assortment offered in the evening and nighttime hours by promoting at LAWSON stores since March 2018 the GOCHISO-LAWSON (Enjoy meals from Lawson) lineup (from Gochiso, meaning “feast”; colloquially shortened to “GOCHI-LAW”) comprised of everyday ready-made dishes including bento lunchboxes, rice balls, deep-fried items, salads and soups. We also succeeded in enhancing store productivity by such measures as introducing tablet terminals at LAWSON stores in the previous fiscal year to further facilitate sales management of counter fast food items. Furthermore, with the aim of achieving higher cash-handling efficiency at stores, we are introducing in phases new point-of-sale (POS) cash registers (for sales information management) equipped with an automatic change dispenser function at all our stores nationwide this fiscal year.

[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 not only existing stores but also new 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 started a pilot project on LAWSON Smartphone Payment, our mobile payment service, at three LAWSON stores in Tokyo

in April 2018. The service allows customers to purchase items seamlessly at these LAWSON stores simply by scanning them on their smartphone using a dedicated app, thus eliminating the need to line up at the cash register. We will evaluate utilization trends in the pilot to examine its expansion.

[Merchandising and Service Strategies]

On the merchandise side, we revamped the entire lineup of “Onigiriya,” our rice ball brand, in April 2018 by employing new and improved ingredients and production methods, which resulted in sales growth. In addition, our “Motto! Yasai” (meaning “More vegetables!”) series featuring delicious and healthy fare was also replaced with new dishes including Starchy Sauce Rice Bowl and Fried Rice Noodles containing half the recommended daily vegetable intake, which also sold well. We also launched some new products, including “NL Green Smoothie One Day 200 g,” which contains the equivalent of the recommended daily intake of vegetables*¹.

In the counter fast food range, our assortment of ready-made dishes offered during the evening and nighttime hours was strengthened by expanding our lineup of packed dishes composed mainly of items that can go straight to the dinner table such as yakitori (grilled chicken) and croquettes.

In the dessert range, in April 2018 we launched “Chocolate Parfait” and “Chocolate Macaron” in the sixth phase of our “Uchi Café SWEETS X GODIVA” series produced in collaboration with Godiva, which were hugely popular, especially among female customers. In addition, we also released “Soft Rice Cake stuffed with Chocolate,” in June 2018 as our first Japanese dessert from the series.

On our sales promotion side, we rolled out Friday Sale campaigns offering a 20% discount on applicable products on Friday evenings. In addition, effective measures to attract customers were launched, including a “speed lottery” themed on “GENERATIONS from EXILE TRIBE,” which demonstrated our strength in the entertainment field.

*¹ Recommended daily intake of vegetables: At least 350 g (Source: Health Japan 21 [Kenko Nippon 21], Ministry of Health, Labour and Welfare)

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

| Fiscal period Product categories | Previous 1st Quarter From March 1, 2017 to May 31, 2017 | | Current 1st Quarter From March 1, 2018 to May 31, 2018 | |
|-------------------------------------|---|----------------------------|--|----------------------------|
| | Net sales (Millions of yen) | Percentage of total (%) | Net sales (Millions of yen) | Percentage of total (%) |
| Processed foods | 280,613 | 53.3 | 296,079 | 53.0 |
| Fast foods | 121,900 | 23.2 | 130,777 | 23.4 |
| Daily delivered foods | 76,537 | 14.5 | 82,105 | 14.7 |
| Non-food products | 47,146 | 9.0 | 49,803 | 8.9 |
| Total | 526,198 | 100.0 | 558,766 | 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 293 and 71 stores, respectively, with the total number of stores reaching 14,214 as of the end of May 2018. ^{*2}

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

With regard to THREE F stores, 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 194 SAVE ON stores were remodeled into LAWSON stores from June 2017 to May 2018, with the brand transition scheduled to be completed by the end of 2018.

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 180 stores (includes 45 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of May 2018. Moreover, the number of stores offering nursing care consultation services has reached 16 as of the end of May 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 300 as of the end of May 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 customer needs for value.

^{*2} The numbers of store openings and closings and total number of stores in Japan include stores operated by Lawson, Inc., subsidiary Lawson Sanin, Inc. and three equity-method affiliates, Lawson Kochi, Inc., Lawson Minamikyushu, Inc. and Lawson Okinawa, Inc.

[Change in the Total Number of Domestic Stores]

| | Total stores as of February 28, 2018 | Change during period | Total stores as of May 31, 2018 |
|-----------------|---|-------------------------|------------------------------------|
| LAWSON | 13,044 | 224 | 13,268 |
| NATURAL LAWSON | 143 | (2) | 141 |
| LAWSON STORE100 | 805 | — | 805 |
| Total | 13,992 | 222 | 14,214 |

(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 May 31, 2018)]

| Prefecture | Number of stores | Prefecture | Number of stores | Prefecture | Number of stores | Prefecture | Number of stores |
|------------|------------------|------------|------------------|------------|------------------|------------------|------------------|
| Hokkaido | 657 | Ibaraki | 212 | Kyoto | 339 | Ehime | 220 |
| Aomori | 251 | Tokyo | 1,720 | Shiga | 157 | Tokushima | 136 |
| Akita | 192 | Kanagawa | 1,100 | Nara | 138 | Kochi | 139 |
| Iwate | 172 | Shizuoka | 272 | Wakayama | 149 | Fukuoka | 499 |
| Miyagi | 244 | Yamanashi | 128 | Osaka | 1,135 | Saga | 72 |
| Yamagata | 107 | Nagano | 176 | Hyogo | 679 | Nagasaki | 107 |
| Fukushima | 147 | Aichi | 693 | Okayama | 192 | Oita | 184 |
| Niigata | 228 | Gifu | 175 | Hiroshima | 216 | Kumamoto | 152 |
| Tochigi | 195 | Mie | 139 | Yamaguchi | 118 | Miyazaki | 106 |
| Gunma | 121 | Ishikawa | 104 | Tottori | 144 | Kagoshima | 195 |
| Saitama | 681 | Toyama | 192 | Shimane | 146 | Okinawa | 225 |
| Chiba | 612 | Fukui | 114 | Kagawa | 134 | Total (domestic) | 14,214 |

(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 500 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 is currently available at around 200 stores in Tokyo and some parts of Kanagawa. We will consider expanding the service area in the future.

As a result, Domestic Convenience Store Business posted gross operating revenue of 115,144 million yen (up 6.2% from previous fiscal year) and segment profit of 10,172 million yen (down 22.3% from previous fiscal year).

(Seijo Ishii Business)

The number of directly operated Seijo Ishii stores, a high-end supermarket chain offering quality foods, reached 141 as of the end of May 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 21,515 million yen (up 9.2% from previous fiscal year) and segment profit of 1,874 million yen (up 5.7% from previous fiscal year).

(Entertainment-related Business)

With regards to our entertainment-related business, Lawson HMV 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 second-hand analog records and CDs. Including the HMV Record Shop, the number of HMV stores totaled 56 as of the end of May 2018. As of the end of May 2018, United Cinemas Co., Ltd. operates cinemas at 40 sites, offering 351 screens nationwide including those operated on commission. Effective June 1, 2018, Lawson HMV Entertainment, Inc. changed its name to Lawson Entertainment, Inc. The company will continue consolidating and promoting the Lawson Group's entertainment business encompassing the ticketing business, merchandise retail business and cinema complex business with the aim of offering an expanded range of products and services in response to customers' needs.

As a result, Entertainment-related Business posted gross operating revenue of 19,326 million yen (up 1.2% from previous fiscal year) and segment profit of 1,149 million yen (down 12.7% 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, maintaining a steady increase trajectory. The number of LAWSON stores in the entire country reached 1,580 as of the end of May 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 May 31, 2018) |
|-------------------------------------|--|-------------------------|---|
| China Shanghai and surrounding area | 865 | 118 | 983 |
| China Chongqing | 165 | 8 | 173 |
| China Dalian | 122 | 7 | 129 |
| China Beijing | 73 | 6 | 79 |
| China Wuhan | 198 | 18 | 216 |
| Thailand | 101 | 3 | 104 |
| Indonesia | 37 | — | 37 |
| Philippines | 33 | 1 | 34 |
| United States of America Hawaii | 2 | — | 2 |
| Total | 1,596 | 161 | 1,757 |

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 13,015 (up 282 from previous fiscal year) as of the end of May 2018.

Lawson Bank Preparatory Company, Inc. (hereafter, the “Preparatory Company”), which was established in November 2016, has been preparing to establish a bank. As a result of an absorption-type company split effective June 1, 2018, the Preparatory Company absorbed Lawson’s ATM business jointly operated with Lawson ATM Networks, Inc. The preliminary examination for which Lawson, Inc. had applied to the Financial Services Agency (FSA) in order to obtain a banking license was completed on June 26, 2018. In response, the Preparatory Company changed its name to Lawson Bank, Inc., effective July 2, 2018, and plans to apply to the FSA for a banking license pursuant to Article 4 of the Banking Act.

As a result, Other Business posted gross operating revenue of 16,664 million yen (up 18.9% from previous fiscal year) and segment loss of 519 million yen (in contrast to posting segment profit of 67 million yen in the same period of the previous fiscal year).

(2) Explanation Regarding Consolidated Financial Position

Current assets increased by 42,401 million yen from the end of the previous fiscal year to 274,261 million yen, mainly reflecting an increase of 26,096 million yen in cash and deposits. Non-current assets increased by 14,052 million yen from the end of the previous fiscal year to 682,448 million yen, mainly reflecting increases of 5,466 million yen in property and store equipment and 5,796 million yen in intangible assets. Consequently, total assets increased by 56,453 million yen from the end of the previous fiscal year to 956,709 million yen.

Current liabilities increased by 59,598 million yen from the end of the previous fiscal year to 438,821 million yen, mainly reflecting an increase of 73,400 million yen in deposits received, and a decrease of 33,321 million yen in short-term loans payable. Non-current liabilities increased by 3,390 million yen from the end of the previous fiscal year to 242,977 million yen, mainly reflecting an increase of 2,953 million yen in lease obligations. Consequently, total liabilities increased by 62,989 million yen from the end of the previous fiscal year to 681,798 million yen.

Net assets decreased by 6,535 million yen from the end of the previous fiscal year to 274,910 million yen, mainly reflecting a decrease of 6,587 million yen in retained earnings. Consequently, shareholders' equity ratio was 28.1%, down from 30.6% as of the end of the previous fiscal year.

(3) Explanation Regarding Forward-looking Statements

Regarding the financial forecasts for the first half and full year of the current fiscal year ending February 28, 2019, the financial forecasts remain unchanged from those announced on April 11, 2018.

Forecast of non-consolidated operating results for the first half and full year of the fiscal year ending February 28, 2019 announced on April 11, 2018 has been partially revised. For details, please refer to the “(Revision/Revision of Numeric Data) Notice Concerning Partial Revision to LAWSON’s Consolidated Financial Statements (Japanese Standards) for the Fiscal Year Ended February 28, 2018” and “Notice Concerning Partial Revision to Supplements for Financial Results for the Fiscal Year Ended February 28, 2018”.

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

As of February 28, 2018 and May 31, 2018

(Millions of yen)

| | Previous fiscal year As of February 28, 2018 | Current 1st Quarter As of May 31, 2018 |
|--|--|--|
| Assets | | |
| Current assets: | | |
| Cash and deposits | 30,124 | 56,221 |
| Accounts receivable-due from franchised stores | 46,599 | 44,391 |
| Lease receivables | 16,426 | 19,848 |
| Merchandise | 18,913 | 20,673 |
| Accounts receivable-other | 82,633 | 96,054 |
| Deferred tax assets | 3,411 | 2,719 |
| Other | 33,779 | 34,408 |
| Allowance for doubtful accounts | (28) | (55) |
| Total current assets | 231,860 | 274,261 |
| Non-current assets: | | |
| Property and store equipment: | | |
| Buildings and structures, net | 197,979 | 201,284 |
| Tools, furniture and fixtures, net | 16,355 | 16,052 |
| Leased assets, net | 123,940 | 125,715 |
| Other, net | 11,660 | 12,349 |
| Total property and store equipment | 349,935 | 355,401 |
| Intangible assets: | | |
| Software | 41,602 | 45,004 |
| Goodwill | 47,947 | 50,498 |
| Trademark right | 10,074 | 9,924 |
| Other | 573 | 566 |
| Total intangible assets | 100,197 | 105,994 |
| Investments and other assets: | | |
| Long-term loans receivable | 47,425 | 47,694 |
| Guarantee deposits | 100,686 | 101,494 |
| Deferred tax assets | 24,406 | 25,787 |
| Other | 46,840 | 47,122 |
| Allowance for doubtful accounts | (1,095) | (1,046) |
| Total investments and other assets | 218,262 | 221,052 |
| Total non-current assets | 668,395 | 682,448 |
| Total assets | 900,256 | 956,709 |

(Millions of yen)

| | Previous fiscal year As of February 28, 2018 | Current 1st Quarter As of May 31, 2018 |
|--|--|--|
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable-trade | 118,174 | 133,818 |
| Short-term loans payable | 36,340 | 3,019 |
| Current portion of long-term loans payable | 575 | 948 |
| Lease obligations | 33,063 | 34,096 |
| Accounts payable-other | 60,741 | 67,410 |
| Income taxes payable | 6,880 | 2,228 |
| Deposits received | 109,629 | 183,029 |
| Provision for bonuses | 3,767 | 2,905 |
| Other | 10,051 | 11,364 |
| Total current liabilities | 379,222 | 438,821 |
| Non-current liabilities: | | |
| Long-term loans payable | 55,469 | 55,096 |
| Lease obligations | 113,617 | 116,571 |
| Deferred tax liabilities | 2,616 | 3,099 |
| Provision for retirement benefits to executive officers and audit and supervisory board members | 271 | 287 |
| Net defined benefit liability | 13,781 | 14,104 |
| Asset retirement obligations | 29,062 | 29,811 |
| Other | 24,767 | 24,007 |
| Total non-current liabilities | 239,587 | 242,977 |
| Total liabilities | 618,809 | 681,798 |
| Net assets | | |
| Shareholders' equity: | | |
| Capital stock | 58,506 | 58,506 |
| Capital surplus | 46,689 | 46,693 |
| Retained earnings | 166,124 | 159,537 |
| Treasury shares | (1,040) | (1,031) |
| Total shareholders' equity | 270,280 | 263,705 |
| Accumulated other comprehensive income: | | |
| Valuation difference on available-for-sale securities | 2,084 | 2,363 |
| Revaluation reserve for land | (575) | (575) |
| Foreign currency translation adjustment | 4,595 | 4,443 |
| Remeasurements of defined benefit plans | (726) | (694) |
| Total accumulated other comprehensive income | 5,377 | 5,537 |
| Subscription rights to shares | 195 | 148 |
| Non-controlling interests | 5,593 | 5,518 |
| Total net assets | 281,446 | 274,910 |
| Total liabilities and net assets | 900,256 | 956,709 |

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

| | (Millions of yen) | |
|---|---|--|
| | Previous 1st Quarter From March 1, 2017 to May 31, 2017 | Current 1st Quarter From March 1, 2018 to May 31, 2018 |
| Gross operating revenue | 159,216 | 170,516 |
| Net sales | 64,384 | 71,998 |
| Cost of sales | 44,055 | 49,534 |
| Gross profit | 20,328 | 22,463 |
| Operating revenue: | | |
| Income from franchised stores | 70,509 | 73,829 |
| Other operating revenue | 24,322 | 24,688 |
| Total operating revenue | 94,832 | 98,517 |
| Operating gross profit | 115,160 | 120,981 |
| Selling, general and administrative expenses | 98,908 | 108,304 |
| Operating income | 16,252 | 12,677 |
| Non-operating income: | | |
| Interest income | 174 | 192 |
| Share of profit of entities accounted for using equity method | 180 | 223 |
| Other | 380 | 491 |
| Total non-operating income | 735 | 907 |
| Non-operating expenses: | | |
| Interest expenses | 478 | 594 |
| Loss on cancellation of leases | 254 | 552 |
| Other | 272 | 373 |
| Total non-operating expenses | 1,005 | 1,521 |
| Ordinary income | 15,982 | 12,063 |
| 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 | 734 | 838 |
| Impairment loss | 205 | 516 |
| Other | 149 | 13 |
| Total extraordinary losses | 1,088 | 1,369 |
| Profit before income taxes | 15,196 | 10,694 |
| Income taxes-current | 3,317 | 3,705 |
| Income taxes-deferred | 2,066 | 807 |
| Total income taxes | 5,384 | 4,513 |
| Profit | 9,812 | 6,181 |
| Profit attributable to non-controlling interests | 214 | 12 |
| Profit attributable to owners of parent | 9,597 | 6,169 |

Consolidated Statement of Comprehensive Income

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

| | (Millions of yen) | |
|---|---|--|
| | Previous 1st Quarter From March 1, 2017 to May 31, 2017 | Current 1st Quarter From March 1, 2018 to May 31, 2018 |
| Profit | 9,812 | 6,181 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 92 | 278 |
| Foreign currency translation adjustment | (187) | (158) |
| Remeasurements of defined benefit plans | 37 | 32 |
| Total other comprehensive income | (57) | 153 |
| Comprehensive income | 9,754 | 6,334 |
| Comprehensive income attributable to | | |
| Owners of parent | 9,535 | 6,328 |
| Non-controlling interests | 219 | 5 |

(3) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not Applicable.

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

Not Applicable.

(Changes in Accounting Policies)

The Company's foreign consolidated subsidiaries are applying International Financial Reporting Standard 15 (IFRS 15) "Revenue from Contracts with Customers" from the first quarter of the fiscal year ending February 28, 2019.

The impact of the application of IFRS 15 on the Company's consolidated financial statements is immaterial.