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Consolidated Financial Results For the First Quarter Ended June 30, 2018 [JGAAP]

July 31, 2018

Company Name:	START TODAY CO., LTD.
Stock Listing:	Tokyo Stock Exchange – First Section
Code:	3092
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Scheduled date to submit quarterly report:	August 14, 2018
Scheduled date to commence dividend payment:	-
Quarterly supplementary financial document:	Yes
Quarterly results briefing:	Yes (For institutional investors and analysts)

(Rounded down to million yen)

1. Consolidated Business Results for the First Quarter Ended June 30, 2018 (April 1, 2018 to June 30, 2018)

(1) Consolidated Business Performance (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Three months ended June 2018	26,552	23.8	5,874	-26.4	5,859	-26.7	4,163	-24.7
Three months ended June 2017	21,451	39.4	7,981	59.3	7,999	58.8	5,532	54.5

(Note) Comprehensive Income: Three months ended June 2018: 4,171 million yen (-25.6%)
Three months ended June 2017: 5,607 million yen (63.1%)

	Profit per share	Fully diluted profit per share
	Yen	Yen
Three months ended June 2018	13.48	—
Three months ended June 2017	17.75	—

(Note) Fully diluted profit per share are not filled in since there are no dilutive shares

(2) Consolidated Financial Position

	Total assets	Net Assets	Equity Ratio
	million yen	million yen	%
As at June 30, 2018	66,931	14,909	22.3
As at March 31, 2018	70,712	40,810	57.7

(Reference) Shareholder's Equity: As at June 30, 2018: 14,909 million yen
As at March 31, 2018: 40,810 million yen

2. Dividends

	Annual dividend				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	12.00	—	17.00	29.00
Year ending March 31, 2019	—	—	—	—	—
Year ending March 31, 2019 (forecast)	—	14.00	—	22.00	36.00

(Note) Revisions to the latest dividend forecast: None

3. Forecast of Consolidated Business Results for Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Year ending March 31, 2019	147,000	49.3	40,000	22.4	40,000	22.2	28,000	38.9	89.85

(Note) Revisions during this quarter of consolidated business results forecast for year ending March 31, 2019: None

*Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None
- (2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: None
- (3) Change in accounting policies, accounting estimates and restatement
 - ① Changes in accounting policies associated with revision of accounting standards: None
 - ② Changes in accounting policies other than ①: None
 - ③ Changes in accounting estimates: None
 - ④ Restatement: None
- (4) Shares outstanding (common stock)
 - ① Number of shares outstanding at the end of period (treasury stock included)

As at June 30, 2018:	311,644,285 shares
As at March 31, 2018:	311,644,285 shares
 - ② Treasury stock at the end of period

As at June 30, 2018:	6,349,100 shares
As at March 31, 2018:	-
 - ③ Average number of stock during period (quarterly cumulative period)

Three months ended June 30, 2018:	308,952,819 shares
Three months ended June 30, 2017:	311,644,285 shares

* Quarterly financial summary is not subject to the quarterly review procedures by certified public accountants or auditing firms.

* Explanation regarding appropriate use of business forecasts and other special instructions

-Forecasts regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors. Please refer "(3) Future Prospects such as Consolidated Business Results" on page 9 for the suppositions that form the assumptions for business forecasts and cautions concerning the use of business forecasts.

-On July 31, 2018, the company will hold a financial result briefing for the institutional investors and analysts. Its detail as well as presentation materials used will be posted on the company's IR website immediately after the commencement of the financial result briefing.

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1. Overview of Business Results

(1) Overview of Business Results for the Current Quarter

[Table 1] Previous Year Comparison

(Unit: million yen)

	Previous First Quarter (April 1, 2017 to June 30, 2017)		Current First Quarter (April 1, 2018 to June 30, 2018)		YoY
Total transaction value	59,574	(100.0%)	70,406	(100.0%)	18.2%
Net sales	21,451	(36.0%)	26,552	(37.7%)	23.8%
Gross profit	19,844	(33.3%)	24,251	(34.4%)	22.2%
Operating profit	7,981	(13.4%)	5,874	(8.3%)	-26.4%
Ordinary Profit	7,999	(13.4%)	5,859	(8.3%)	-26.7%
Profit attributable to owners of parent	5,532	(9.3%)	4,163	(5.9%)	-24.7%

Numbers inside parentheses are compositions toward the total transaction value

Under the corporate philosophy of “Make the World a better place, bring smiles to the World”, the START TODAY group mainly develops following businesses; 1) one of the largest fashion eCommerce sites in Japan “ZOZOTOWN”, 2) sales of the private brand “ZOZO” and 3) a fashion media “WEAR”.

In the first quarter of the current fiscal year, the group put efforts for configuring “ZOZOTOWN” more attractive for both users and brands to increase the number of unique users and the conversion rate (purchase rate of unique users). Specifically, the company continued to actively open new shops of variety of genres to satisfy users diversified needs and the company have implemented a new sales event “ZOZOWEEK” from the middle of May 2018. Also, the company have shifted the measurement method of the “ZOZOSUIT”, the original body measurement suit, to marker method from previous stretchable sensor system, and started its mass distribution from April 27, 2018. As for the private brand “ZOZO”, the company have started to sell casual shirt for men from June 2018 in addition to U-neck T-shirt and slim tapered denim.

As a result, the total transaction value for the consolidated cumulative first quarter period resulted as 70,406 million yen (+18.2% YoY), net sales resulted as 26,552 million yen (+23.8% YoY) and gross profit resulted as 24,251 million yen (+22.2% YoY). Gross profit margin (towards the total transaction value) rose by 1.1p YoY to 34.4% mainly due to the increase in the other revenue segment such as shipping income and settlement commission.

SG&A resulted as 18,376 million yen (+54.9% YoY) and SG&A ratio (towards the total transaction value) rose by 6.2p YoY to 26.1%. Factors of the rise are increase in advertising expenses from free distribution of “ZOZOSUIT” and increase in shipping fee to the carrier.

Consequently, operating profit for the consolidated cumulative first quarter period resulted as 5,874 million yen (-26.4% YoY), operating profit margin (towards the total transaction value) was 8.3% which was 5.1p lower than the same period of the previous fiscal year. Ordinary profit resulted as 5,859 million yen (-26.7% YoY) and profit attributable to owners of parent resulted as 4,163 million yen (-24.7% YoY).

Since the group operates a single segment of eCommerce business, description by segments are omitted. However, business performance of each of the business units within the single segment are described as follows:

[Table 2] Previous Year Comparison by Business Unit

Business Unit	Previous First Quarter (April 1, 2017 to June 30, 2017)			Current First Quarter (April 1, 2018 to June 30, 2018)			Transaction Value YoY (%)	Net Sales YoY (%)
	Transaction value (million yen)	Ratio (%)	Net Sales (million yen)	Transaction value (million yen)	Ratio (%)	Net Sales (million yen)		
ZOZOTOWN								
(Consignment)	54,548	91.6	15,716	64,263	91.2	18,976	17.8	20.7
(Purchased Stock)	48	0.1	48	44	0.1	44	-8.2	-8.2
(ZOZOUSED)	3,301	5.5	3,301	4,005	5.7	3,968	21.3	20.2
Subtotal	57,897	97.2	19,066	68,313	97.0	22,990	18.0	20.6
Private Brand	—	—	—	113	0.2	113	—	—
BtoB	1,590	2.7	330	1,980	2.8	460	24.5	39.2
ZOZOFURIMA	86	0.1	—	—	—	—	-100.0	-100.0
Others	—	—	2,054	—	—	2,988	—	45.4
Total	59,574	100.0	21,451	70,406	100.0	26,552	18.2	23.8

① ZOZOTOWN Business

The ZOZOTOWN Business consists 3 business forms; consignment shop, purchased stock shop and ZOZOUSED. The consignment shop is a business form where each brand's products are stocked in the company's logistics bases as consigned inventory, and brands sold their products at "ZOZOTOWN" as tenant form. The purchased stock shop is a business form where the company purchases products from multiple brands and sells the products at shops at "ZOZOTOWN" operated by the company. "ZOZOUSED" is a business form purchases second-hand fashion goods from individual users and others as its own inventory and a subsidiary of the company sells products at the shop in "ZOZOTOWN".

The company recognizes that "increase the number of buyers" and "usage ratio of ZOZOTOWN in fashion related consumption" are significant factors to grow the ZOZOTOWN business continuously. In order to maximize these factors, the company is working to make "ZOZOTOWN" more attractive eCommerce site for both users and brands.

KPI performances of ZOZOTOWN Business are as follows:

[Table 3] Number of Shops and Brands

	Previous Fiscal Year				Current Fiscal Year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of Shops on ZOZOTOWN (*)1	987	1,016	1,094	1,111	1,139	—	—	—
Purchased Stock Shop	8	7	6	6	5	—	—	—
Consignment Shop	979	1,009	1,088	1,105	1,134	—	—	—
Number of Brands (*)1, 2	5,859	6,032	6,346	6,443	6,820	—	—	—

(*)

1 Numbers are as at the end of each quarter period

2 Private brand "ZOZO" is not included

The number of newly opened shop in the consolidated cumulative first quarter period was 39 (net increase of 28). Names of the major shops opened during the period are "JENNI" a junior/kid brand, "BANANA REPUBLIC" a globally well-known brand and "the HOUSE" a select shop of golf brands such as "PEARLY GATES" and "new balance golf". By the end of June 30, 2018, the total numbers of shops and brands are 1,139 (1,111 shops at the end of March 31, 2018) and 6,820 respectively.

Transitions of total annual buyers are as follows:

[Table 4] Transition of Total Annual Buyers

	Previous Fiscal Year				Current Fiscal Year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of total buyers	6,734,740	6,963,986	7,205,777	7,223,227	7,392,126	—	—	—
YoY difference	1,902,182	1,711,445	1,422,396	899,194	657,386	—	—	—
QoQ difference	410,707	229,246	241,791	17,450	168,899	—	—	—
Active member	4,181,873	4,591,017	4,957,861	5,112,861	5,458,643	—	—	—
YoY difference	1,337,702	1,531,026	1,536,421	1,219,705	1,276,770	—	—	—
QoQ difference	288,717	409,144	366,844	155,000	345,782	—	—	—
Guest Buyer	2,552,867	2,372,969	2,247,916	2,110,366	1,933,483	—	—	—
YoY difference	564,480	180,419	-114,025	-320,511	-619,384	—	—	—
QoQ difference	121,990	-179,898	-125,053	-137,550	-176,883	—	—	—

(Note)

Data is based on 12 months-period prior to the quarter end

In the consolidated cumulative first quarter period, the number of active member increased compared to its previous quarter from favorable sales performance of “ZOZOWEEK” which was implemented in May 2018. On the other hand, the number of guest buyer is still in the downward trend. This was mainly due to guest buyers shifting to active members, who can use brand coupons only available for those registered users.

Transitions of annual purchase amount and annual purchase pieces are as follows:

[Table 5] Transition of Annual Purchase Amount and Annual Purchase Pieces

	Previous Fiscal Year				Current Fiscal Year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual purchase amount (all members) (*) 1, 2, 3	47,119	46,818	46,707	47,661	46,870	—	—	—
YoY %	-3.1%	-3.6%	-3.2%	2.7%	-0.5%	—	—	—
QoQ %	1.5%	-0.6%	-0.2%	2.0%	-1.7%	—	—	—
Annual purchase pieces (*) 1, 2	10.7	10.9	11.0	11.4	11.3	—	—	—
YoY %	8.2%	4.5%	4.9%	10.8%	5.8%	—	—	—
QoQ %	4.1%	1.7%	0.9%	3.7%	-0.5%	—	—	—
Annual purchase amount (existing active members) (*) 1, 2, 3	63,004	64,290	62,761	61,098	59,569	—	—	—
YoY %	6.9%	7.0%	3.0%	-1.1%	-5.5%	—	—	—
QoQ %	2.0%	2.0%	-2.4%	-2.7%	-2.5%	—	—	—
Annual purchase pieces (*) 1, 2	14.1	14.6	14.5	14.4	14.2	—	—	—
YoY %	19.2%	15.7%	10.5%	6.1%	0.6%	—	—	—
QoQ %	4.0%	3.2%	-0.7%	-0.4%	-1.4%	—	—	—

(*)

1 Data is based on 12 months-period prior to the quarter end

2 Indicators are per active user basis

3 Japanese yen basis

In the consolidated cumulative first quarter period, the reason behind the decrease of the annual purchase amount (all members) compared to its previous quarter and the same quarter of the previous fiscal year, is the increase of light users. Also, the annual purchase amount for active members is also decreasing due to the increase in the proportion of short-term registered existing active members (As the registered period gets longer, the annual purchase amount becomes higher in parallel).

[Table 6] Transition of Average Retail Price, Average Purchase Amount per Shipment and Number of Shipment

	Previous Fiscal Year				Current Fiscal Year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Average Retail Price (*)1, 2	4,099	3,664	4,858	4,203	3,953	—	—	—
YoY %	-8.3%	-5.0%	-7.2%	-6.1%	-3.6%	—	—	—
Average Purchase Amount per Shipment (*)1, 2	8,530	8,186	9,043	8,611	8,122	—	—	—
YoY %	-1.7%	3.1%	-10.9%	-3.8%	-4.8%	—	—	—
Average Purchase Pieces per Order (*)1	2.08	2.23	1.86	2.05	2.05	—	—	—
YoY %	7.1%	8.5%	-3.9%	2.4%	-1.3%	—	—	—
Number of Shipment (*)1	6,787,599	7,148,647	8,303,595	8,293,761	8,425,033	—	—	—
YoY %	45.9%	32.6%	41.1%	19.7%	24.1%	—	—	—

(*)

1 Data is based on 12 months-period prior to the quarter end

2 Japanese yen basis

The average retail price decreased due to the increase in the proportion of transaction value of new shops with relatively low price point to the total. Average purchase amount per shipment also decreased due to the decrease in the number of average purchase pieces per order.

Business results of consignment shop, purchased stock shop and ZOZOUSED are as follows:

a. Consignment Shop

Transaction value of consignment shop for the consolidated cumulative first quarter period resulted 64,263 million yen (+17.8% YoY), constituting 91.2% of the total transaction value (91.6% for the same quarter of the previous fiscal year). Net sales (consignment sales commission) resulted as 18,976 million yen (+20.7% YoY). The number of consignment shop as of June 30, 2018 was 1,134 (1,105 as of March 31, 2018).

b. Purchased Stock Shop

Transaction value of purchased stock shop for the consolidated cumulative first quarter period resulted 44 million yen (-8.2% YoY), constituting 0.1% of the total transaction value (0.1% for the same quarter of the previous fiscal year). The number of purchased stock shop as of June 30, 2018 was 5 (6 as of March 31, 2018).

c. ZOZOUSED

Transaction value of ZOZOUSED for the consolidated cumulative first quarter period resulted 4,005 million yen (+21.3% YoY), constituting 5.7% of the total transaction value (5.5% or the same quarter of the previous fiscal year). Net sales resulted as 3,968 million yen (+20.2% YoY).

② Private Brand (PB) Business

The Private brand “ZOZO” is a business model that sells in-house designed apparel items which are produced at manufacturers and the company purchases inventory. Mass distribution of the body measurement “ZOSUIT” has started from April 27, 2018 and full-scale sales of the private brand business has also started. The transaction value for the consolidated cumulative first quarter period resulted as 113 million yen, constituting 0.2% of the total transaction value. The amount of net sales is equivalent to that of the transaction value.

③ BtoB Business

The BtoB is a business form where the company is entrusted various fulfillment related services of brands for their own eCommerce sites operation. The transaction value for the consolidated cumulative first quarter period resulted as 1,980 million yen (+24.5% YoY), constituting 2.8% of the total transaction value

(2.7% for the same quarter of the previous fiscal year). The net sales (consignment sales commission) resulted as 460 million yen (+39.2% YoY). The number of consigned eCommerce sites as of June 30, 2018 was 9 (8 as of March 31, 2018).

④ Others

Within others segment, net sales generated from businesses related to the ZOZOTOWN business such as shipping income and settlement commission, the advertisement business which has started from this consolidated cumulative first quarter period, and other revenues of wholly-owned subsidiaries are recorded. Net sales of others for the consolidated cumulative first quarter period resulted as 2,988 million yen (+45.4% YoY).

Also, "WEAR" a fashion coordination app aimed at revitalizing the entire fashion market, is continuously operating to expand the user base and contents volume as well as monetizing from advertisement. The number of App download exceeded 11 million as at June 30, 2018 and that monthly active users are showing healthy growth.

(2) Overview of Financial Position for the Current Quarter

(Unit: million yen)

	Previous Fiscal Year (As at March 31, 2018)	Current Fiscal Year (As at June 30, 2018)	Increase/ decrease rate
Total Assets	70,712	66,931	-5.3%
Liabilities	29,902	52,021	74.0%
Net Assets	40,810	14,909	-63.5%

(Total Assets)

The balance of total assets at the end of the first quarter was 66,931 million yen, decreased by 3,781 million yen (-5.3%) from the end of the previous fiscal year. The balance of current assets at the end of the first quarter was 50,216 million yen, decreased by 3,357 million yen (-6.3%) from the end of the previous fiscal year. This was mainly due to a decrease of 6,780 million yen in cash and deposit. The balance of non-current assets at the end of the first quarter was 16,714 million yen, decreased by 424 million yen (-2.5%) from the end of the previous fiscal year. This was mainly due to a decrease of 561 million yen in investment and other assets.

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No.28 February 17, 2018) has been applied from the beginning of the consolidated cumulative first quarter of the fiscal year ending March 31, 2019. Deferred tax assets are presented in investment and other assets, and deferred tax liabilities are presented in non-current liabilities respectively. This amendment is applied retroactively to the accounting standards for the previous fiscal year as well.

(Liabilities)

The balance of liabilities at the end of the first quarter was 52,021 million yen, increased by 22,118 million yen (+74.0%) from the end of the previous fiscal year. The balance of current liabilities at the end of the first quarter was 49,283 million yen, increased by 22,039 million yen (+80.9%) from the end of the previous fiscal year. This was mainly due to an increase of 24,000 million yen in short-term borrowings. The balance of non-current liabilities at the end of the first quarter was 2,738 million yen, increased by 79 million yen (+3.0%) from the end of previous fiscal year. This was mainly due to an increase by 77 million yen in liabilities for retirement benefit.

(Net Assets)

The balance of the net assets at the end of the first quarter was 14,909 million yen, decreased by 25,900

million yen (-63.5%) from the end of previous fiscal year. This was mainly due to an increase by 24,412 million yen from the acquisition of treasury stock.

(3) Future Prospects such as Consolidated Business Forecast

No revisions have been made to the consolidated business forecast for the year ending March 31, 2019 which was announced on April 27, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: million yen)

	Previous Fiscal Year (As at March 31, 2018)	Current First Quarter (As at June 30, 2018)
Assets		
Current assets		
Cash and deposit	24,571	17,790
Account receivable	25,382	28,076
Merchandise	2,194	2,709
Other	1,425	1,641
Total current assets	53,574	50,216
Non-current assets		
Tangible non-current assets	5,668	5,664
Intangible non-current assets		
Goodwill	2,769	2,650
Other	453	713
Total Intangible non-current assets	3,222	3,363
Investment and other assets	8,247	7,685
Total non-current assets	17,138	16,714
Total assets	70,712	66,931
Liabilities		
Current liabilities		
Accounts payable	25	800
Deposit received for consignment sales	13,671	14,589
Short-term borrowings	—	24,000
Accrued income taxes	6,479	1,859
Provision for bonuses	25	349
Provision for directors' bonuses	10	—
Provision for point certificates	1,123	1,187
Provision for sales return	106	89
Other	5,800	6,408
Total current liabilities	27,243	49,283
Non-current liabilities		
Liabilities for retirement benefit	1,566	1,643
Assets retirement obligation	603	605
Other	488	488
Total non-current liabilities	2,659	2,738
Total liabilities	29,902	52,021

(Unit: million yen)

	Previous Fiscal Year (As at March 31, 2018)	Current First Quarter (As at June 30, 2018)
Net Assets		
Shareholders' equity		
Capital stock	1,359	1,359
Capital surplus	1,328	1,328
Retained earnings	38,204	36,704
Treasury stock	—	-24,412
Total shareholders' equity	40,892	14,980
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	91	93
Foreign currency translation adjustments	—	4
Remeasurements of defined benefit plans	-173	-168
Total other accumulated comprehensive income	-81	-70
Total net assets	40,810	14,909
Total liabilities and net assets	70,712	66,931

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
Consolidated Cumulative First Quarter

(Unit: million yen)

	Previous First Quarter (April 1, 2017 to June 30, 2017)	Current First Quarter (April 1, 2018 to June 30, 2018)
Net Sales	21,451	26,552
Cost of sales	1,615	2,318
Gross profit	19,836	24,234
Reversal of provision for sales return	85	106
Provision for sales return	77	89
Net gross profit	19,844	24,251
Selling, general and administrative expenses	11,863	18,376
Operating profit	7,981	5,874
Non-operating income		
Interest income	0	0
Rent income	1	1
Foreign exchange gain	—	13
Recycle income	6	7
Point expiration gain	8	11
Other	5	7
Total non-operating income	21	40
Non-operating expenses		
Interest expenses	—	23
Rent expenses	1	1
Foreign exchange loss	2	—
Loss on investments in partnership	—	30
Total non-operating expenses	3	55
Ordinary profit	7,999	5,859
Extraordinary profit		
Gain on sales of non-current assets	—	0
Total extraordinary profit	—	0
Extraordinary loss		
Loss on sales of non-current assets	0	0
Loss on valuation of investment securities	—	85
Total extraordinary loss	0	85
Income before income taxes	7,998	5,774
Income taxes - current	2,404	1,742
Income taxes - deferred	61	-131
Total income taxes	2,466	1611
Net income	5,532	4,163
Net income attributable to non-controlling interests	0	—
Net profit attributable to owners of parent	5,532	4,163

Quarterly Consolidated Statements of Comprehensive Income

(Unit: million yen)

	Previous First Quarter (April 1, 2017 to June 30, 2017)	Current First Quarter (April 1, 2018 to June 30, 2018)
Net income	5,532	4,163
Other comprehensive income		
Valuation difference on available-for-sales securities	89	1
Foreign currency translation adjustments	-16	1
Adjustments for retirement benefits	2	4
Total other comprehensive income	75	8
Comprehensive income	5,607	4,171
(Breakdown)		
Comprehensive income attributable to owners of parent	5,616	4,171
Comprehensive income attributable to non-controlling interests	-9	—

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on going concern assumptions)

None

(Notes on significant changes in shareholders' equity)

The company acquired 6,349,100 shares of common stock of the company through ToSTNeT-2 Off-Hours Trading System on May 23, 2018. Consequently, treasury stock increased by 24,412 million yen in the consolidated cumulative first quarter period.