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Consolidated Financial Results for the First Six Months of the Fiscal Year Ending February 28, 2019 (under IFRS)

October 11, 2018

Company name: **FamilyMart UNY Holdings Co., Ltd.**
Listing: Tokyo Stock Exchange and Nagoya Stock Exchange
Securities code: 8028
URL: http://www.fu-hd.com/english/index.html
Representative: Koji Takayanagi, Representative Director and President
Inquiries: Hiroshi Iwasaki, General Manager of Corporate Communications Office
TEL: +81-3-3989-7338
Scheduled date to file quarterly securities report: October 15, 2018
Scheduled date to commence dividend payments: November 9, 2018
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Yen amounts are rounded to the nearest million, unless otherwise noted)

1. Consolidated financial results for the first six months of the fiscal year ending February 28, 2019 (from March 1, 2018 to August 31, 2018)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Gross operating revenue		Core operating profit		Profit before tax		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
August 31, 2018	641,839	1.3	49,893	18.9	48,655	43.1	37,977	54.1
August 31, 2017	633,636	199.5	41,959	48.8	33,997	64.0	24,640	77.8

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Six months ended						
August 31, 2018	30,385	35.8	35,179	23.9	240.13	–
August 31, 2017	22,367	86.7	28,384	129.9	176.64	–

Note: The core operating profit is disclosed as an earnings indicator, which represents the amount after subtracting cost of sales and selling, general and administrative expenses from gross operating revenue.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent	Equity attributable to owners of parent per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of					
August 31, 2018	1,714,849	607,671	564,189	32.9	4,458.88
February 28, 2018	1,731,787	588,659	543,235	31.4	4,293.16

Note: In the second quarter of the fiscal year ending February 28, 2019, the provisional accounting treatments related to a business integration were finalized, and figures for the fiscal year ended February 28, 2018 have been restated accordingly.

2. Cash dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2018	–	56.00	–	56.00	112.00
Fiscal year ending February 28, 2019	–	63.50			
Fiscal year ending February 28, 2019 (Forecast)			–	63.50	127.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending February 28, 2019 (from March 1, 2018 to February 28, 2019)

(Percentages indicate year-on-year changes.)

	Gross operating revenue		Core operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending February 28, 2019	1,270,200	(0.4)	77,300	16.7	67,100	134.3	40,000	18.8	316.12

Note: Revisions to the earnings forecasts most recently announced: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

Newly included: None; Excluded: 1 company: UNY (HK) CO., LIMITED

(2) Changes in accounting policies and changes in accounting estimates

(i) Changes in accounting policies required by IFRS: Yes
(ii) Changes in accounting policies due to other reasons: None
(iii) Changes in accounting estimates: None

Note: Please refer to "Changes in accounting policies" in "(6) Notes to consolidated financial statements" of "2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto" on page 15 for details.

(3) Number of issued shares (ordinary shares)

a. Total number of issued shares at end of the period (including treasury shares)

As of August 31, 2018	126,712,313 shares
As of February 28, 2018	126,712,313 shares

b. Number of treasury shares at end of the period

As of August 31, 2018	180,811 shares
As of February 28, 2018	177,428 shares

c. Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

For the six months ended August 31, 2018	126,533,077 shares
For the six months ended August 31, 2017	126,624,041 shares

*** Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.**

*** Proper use of earnings forecasts, and other special items**

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. Actual business and other results may differ substantially due to various factors.

Attached Material Index

1. Qualitative Information Regarding Financial Results for the First Six Months

Consolidated financial results for the first six months of the fiscal year ending February 28, 2019 were as follows.

(1) Information regarding operating results

During the first six months of the fiscal year ending February 28, 2019 (March 1, 2018 to August 31, 2018), the Japanese economy was on a path of gradual recovery mainly due to the improved employment and income environments. In the retail industry, improved consumer confidence continued.

Under these circumstances, FamilyMart UNY Holdings Co., Ltd. (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) endeavored to innovate its retail business models, which take full advantage of the Group’s unique management resources, by adhering to the Group principles of “Everyday Fun and Fresh.” The Group also aims to be a social and lifestyle infrastructure provider indispensable to consumers’ lives.

As a result, gross operating revenue for the period under review increased by 1.3% year on year to ¥641,839 million, core operating profit increased by 18.9% to ¥49,893 million, profit before tax increased by 43.1% to ¥48,655 million and profit attributable to owners of parent increased by 35.8% to ¥30,385 million.

Furthermore, a tender offer for the Company’s shares of common stock conducted by ITOCHU RETAIL INVESTMENT, LLC, a wholly owned subsidiary of ITOCHU Corporation, succeeded. As a result, the number of voting rights held by ITOCHU Corporation became a majority of the voting rights held by all shareholders, etc., of the Company, and accordingly the Company became a subsidiary of ITOCHU Corporation as of August 16, 2018. Looking forward, ITOCHU Corporation intends to strengthen collaboration with the Company while keeping the Company listed and its management autonomous, and therefore aims to build an appropriate governance structure that respects the independence of the Company as a listed company and a framework that is able to maximize synergies with the ITOCHU group.

Operating results by business segment were as follows.

(i) Convenience store business

FamilyMart Co., Ltd. is implementing a range of measures to create a stronger, more competitive convenience store chain. To improve quality at existing stores, the company is enhancing product competitiveness, improving store operating procedures and reinforcing store foundations (completing brand conversion, advancing build-and-scrap (B&S) initiatives, renovating existing stores, implementing localized sales promotion).

In brand conversion, a cumulative total of 4,746 stores had been converted by August 31, 2018, including B&S stores. Daily sales and number of customers are both rising year on year at converted stores. In addition to leveraging the Group’s domestic network of roughly 17,000 stores, the Group plans to generate further synergies by integrating product ranges and distribution, particularly in ready-to-eat meals.

To enhance product competitiveness, the Group renewed rice balls, chilled noodles, Chinese steamed buns, and other product categories, aiming to improve the intrinsic value of ready-to-eat meals and create a merchandise lineup tailored to changes in the market. For the rice balls, the Group has introduced technological innovations such as improvements to the shaping mold, along with improvements to the fillings and packaging, giving the product a full, hand-molded feel. Sales of rice balls have also been firm, rising year on year. For Chargrilled Chicken, which was launched in June 2017, further improvements to the chicken and sauce saw cumulative sales surpass 200 million units in August 2018, and the product has now grown significantly to become a signature FamilyMart product alongside FAMICHIKI. Furthermore, following the launch of a TV commercial featuring Shingo Katori as a brand ambassador, the Group set up designated sales shelves in stores and conducted special discount sales campaigns, which contributed to increased customer attraction particularly among the female customer base.

To improve store operating procedures, the Group is pushing ahead with radical reforms to support operations at franchised stores, including improving the efficiency of store staff practices to address labor shortages. Since April 2018, the Group has been promoting the introduction of a system that eliminates the need to inspect products on delivery, aiming to reduce the operational load on stores. Meanwhile, in June 2018, the Group started rolling out self-checkout registers to achieve labor savings and ease register crowds at peak hours, and it will proceed to expand the number of stores offering these registers while working to reduce and streamline operational processes at stores.

To reinforce store foundations, the Group is creating a network of high-quality stores by advancing its B&S policy in store development based on optimized store locations. In July 2018, the Group concluded a Comprehensive Partnership Agreement on Regional Revitalization with Asahi-mura in Higashichikuma-gun, Nagano prefecture, and JA Matsumoto High-Land, and in August 2018 opened FamilyMart Shinshu Asahi-mura store. The new store is intended to alleviate shopping inconvenience in the area and improve the municipal services for the village residents, with initiatives closely tied to the local community such as offering a product lineup that promotes local production for local consumption, promoting the local development. Moreover, in June 2018 the Group opened FamilyMart Katsuyama Minami store and FamilyMart Noto Airport Interchange store as stores that incorporate numerous ideas and innovations by the Company's female employees involved with store construction, including baby rooms and powder rooms inside the stores.

The total number of stores operated in Japan was 16,720 (including 918 stores operated by three domestic area franchisers) as of August 31, 2018. The total number of stores operated overseas in Taiwan, Thailand, China, Vietnam, Indonesia, Philippines and Malaysia was 7,176 and the aggregate number of FamilyMart chain stores worldwide totaling both domestic and overseas stores was 23,896 as of the same date.

As a result, gross operating revenue of the convenience store business segment decreased by 6.6% year on year to ¥274,120 million, segment profit (core operating profit) increased by 22.7% to ¥35,833 million, and segment profit (profit attributable to owners of parent) increased by 58.8% to ¥19,742 million.

(ii) General merchandise store business

UNY CO., LTD. is tackling tasks under the slogan of "NEW UNY―Change Our Awareness, Sales Floors and Stores―," and its initiatives include changing the mindset of employees thorough execution of customer-first practices; providing new value by developing new sales floors and merchandising options; and taking on new, potentially profitable store formats free from stereotypes.

In merchandise, the Group added new products to its range of UNY original Mama Pocket Satchels 2019 model, a product line designed using feedback from experienced mothers, and began releasing them out from April 2018. Furthermore, to bolster the lineup of its health-oriented private label products, in June 2018, the Group launched four items in its Style ONE Dried Fruit series, followed in August 2018 by the launch of two items using quality, proprietary Yuzendori brand chicken in the Prime ONE Yuzendori Salad Chicken products. In addition, Tasty Low-Sodium Well-Seasoned Chinese Cabbage Kimchi in the Group's Style ONE Healthy private label series, which was launched as a range of healthy options in June 2014, received the gold prize in May 2018 at the 4th JSH Low-Sodium Food Awards sponsored by the Low-Sodium Committee of The Japanese Society of Hypertension (JSH).

In promotion, the Group implemented the UCS Premium Ticket campaign, in which UCS card members are provided with 5% discount tickets on any day chosen by card members during the period from the 1st to the 15th of every month. Also, as part of increased efforts to enhance benefits to UCS and uniko card members and secure customers, from the current fiscal year, the Group is offering UCS and uniko card members an extra "5% Discount Reward Day" on the 29th of each month. Previously, this promotion was only available on the 19th and 20th of each month.

In store development, in March 2018 the Group held the grand opening of APITA Food Market and APITA TERRACE Yokohama Tsunashima, a compact shopping center with 60 specialist stores, as a commercial facility inside Tsunashima SST, a next-generation urban smart city in Yokohama-shi, Kanagawa.

In store vitalization, the Group has reopened the renovated APITA Shin-Moriyama store in April 2018. KUSAMURA BOOKS opened in the store last year, and the latest renovation attracted eight new tenants, mainly fashion and general merchandise shops, as well as improving the directly managed food sales area, particularly delicatessen categories. Furthermore, amid a decline in the number of bank branch counters, in July 2018 the Group installed U.S.-made Coinstar® coin change machines in Japan for the first time. These are able to change coins to notes, and so forth. The Group installed the machines in three stores: APITA TERRACE Yokohama Tsunashima store, APITA Nagatsuta store, and APITA Totsuka store.

As for its initiatives to establish a new retail business, in February and March 2018, the Group implemented full renovation of six existing stores of UNY CO., LTD. and converted them into the double-branded MEGA Don Quijote UNY stores, which combined the strengths and expertise of UNY CO., LTD. with those of Don Quijote Holdings Co., Ltd. It has been about six months since the conversion, and the stores have been visited by different customer bases from before, such as young people aged 10 to 20 and people aged 30 to 40 with families. Sales have continued to be solid.

The number of APITA and PIAGO stores of UNY CO., LTD., combined with MEGA Don Quijote UNY stores, was 198 as of August 31, 2018.

As a result, gross operating revenue of the general merchandise store business segment increased by 8.7% year on year to ¥370,818 million, segment profit (core operating profit) increased by 13.6% to ¥14,756 million, and segment profit (profit attributable to owners of parent) decreased by 15.4% to ¥8,073 million.

(2) Explanation of financial position

(i) Assets, liabilities and equity

Assets were ¥1,714,849 million, a decrease of ¥16,938 million compared with the end of the fiscal year ended February 28, 2018. This was primarily due to decreases in assets held for sale, leasehold deposits and deferred tax assets.

Liabilities were ¥1,107,178 million, a decrease of ¥35,950 million compared with the end of the fiscal year ended February 28, 2018. This was primarily due to a decrease in deposits received.

Equity was ¥607,671 million, an increase of ¥19,012 million compared with the end of the fiscal year ended February 28, 2018. This was primarily due to an increase in retained earnings.

(ii) Cash flows

Cash and cash equivalents (hereafter “cash”) at the end of the second quarter of the fiscal year ending February 28, 2019 was ¥250,849 million, a decrease of ¥2,325 million compared with the end of the fiscal year ended February 28, 2018. The respective cash flow positions and the factors thereof are as follows.

Cash flows from operating activities
Net cash provided by operating activities was ¥69,811 million, a decrease of ¥52,763 million compared with the first six months of the fiscal year ended February 28, 2018. This was primarily due to a decreased amount of increase in deposits received compared with the same period of the previous fiscal year offsetting the increase due to recognition of profit before income taxes.

Cash flows from investing activities
Net cash used in investing activities was ¥17,154 million, a decrease of ¥13,194 million compared with the first six months of the fiscal year ended February 28, 2018. This was primarily due to proceeds from sales of shares of subsidiaries and a decrease in purchase of non-current assets, despite an increase in expenditure for purchase of additional investment securities in conjunction with the reorganization of group companies and others.

Cash flows from financing activities
Net cash used in financing activities was ¥54,435 million, an increase of ¥12,580 million compared with the first six months of the fiscal year ended February 28, 2018. This was primarily due to an increase in repayments of loans payable.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

The earnings forecasts for the fiscal year ending February 28, 2019 are unchanged from the forecasts announced on April 11, 2018.

2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Condensed quarterly consolidated statement of financial position

(Millions of yen)

	As of February 28, 2018	As of August 31, 2018
Assets		
Current assets		
Cash and cash equivalents	253,174	250,849
Trade and other receivables	259,654	265,473
Other financial assets	19,463	18,278
Inventories	55,558	56,502
Other current assets	24,838	22,492
Subtotal	612,686	613,593
Assets held for sale	4,485	—
Total current assets	617,171	613,593
Non-current assets		
Property, plant and equipment	393,596	396,982
Investment property	137,004	134,060
Goodwill	156,557	155,762
Intangible assets	66,252	63,230
Investments accounted for using equity method	23,956	27,713
Leasehold deposits	122,917	116,708
Other financial assets	153,279	150,703
Retirement benefit asset	1,758	1,923
Deferred tax assets	45,697	39,462
Other non-current assets	13,599	14,712
Total non-current assets	1,114,615	1,101,256
Total assets	1,731,787	1,714,849

(Millions of yen)

	As of February 28, 2018	As of August 31, 2018
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	288,744	326,939
Deposits received	152,155	112,872
Bonds and borrowings	48,864	42,087
Lease obligations	27,160	29,242
Income taxes payable	7,885	6,896
Other current liabilities	57,802	50,816
Total current liabilities	582,611	568,850
Non-current liabilities		
Bonds and borrowings	332,282	312,785
Lease obligations	93,843	92,493
Other financial liabilities	53,732	52,245
Retirement benefit liability	16,970	16,923
Provisions	51,979	52,932
Other non-current liabilities	11,711	10,949
Total non-current liabilities	560,517	538,327
Total liabilities	1,143,128	1,107,178
Equity		
Share capital	16,659	16,659
Capital surplus	236,785	236,757
Treasury shares	(1,104)	(1,138)
Other components of equity	15,925	13,495
Retained earnings	274,970	298,418
Total equity attributable to owners of parent	543,235	564,189
Non-controlling interests	45,424	43,481
Total equity	588,659	607,671
Total liabilities and equity	1,731,787	1,714,849

(2) Condensed quarterly consolidated statement of profit or loss

(Millions of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Gross operating revenue	633,636	641,839
Cost of sales	(276,140)	(287,869)
Operating gross profit	357,495	353,970
Selling, general and administrative expenses	(315,536)	(304,077)
Share of profit (loss) of investments accounted for using equity method	(536)	1,668
Other income	1,802	8,373
Other expenses	(9,751)	(11,108)
Finance income	1,729	1,466
Finance costs	(1,206)	(1,637)
Profit before tax	33,997	48,655
Income tax expense	(9,357)	(10,678)
Profit	24,640	37,977
Profit attributable to		
Owners of parent	22,367	30,385
Non-controlling interests	2,273	7,592
Profit	24,640	37,977
Earnings per share		
Basic earnings per share (Yen)	176.64	240.13
Diluted earnings per share (Yen)	–	–

Reconciliation of core operating profit

(Millions of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Gross operating revenue	633,636	641,839
Cost of sales	(276,140)	(287,869)
Selling, general and administrative expenses	(315,536)	(304,077)
Core operating profit	41,959	49,893

Note: Core operating profit, which represents the amount after subtracting cost of sales and selling, general and administrative expenses from gross operating revenue, is an earnings indicator unique to the Company, and is not required to be disclosed under IFRS.

(3) Condensed quarterly consolidated statement of comprehensive income

(Millions of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Profit	24,640	37,977
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	5,690	(2,530)
Remeasurements of defined benefit plans	(1,530)	–
Share of other comprehensive income of investments accounted for using equity method	(12)	(5)
Total of items that will not be reclassified to profit or loss	4,148	(2,534)
Items that may be reclassified to profit or loss		
Cash flow hedges	(86)	(16)
Exchange differences on translation of foreign operations	(308)	(217)
Share of other comprehensive income of investments accounted for using equity method	(9)	(32)
Total of items that may be reclassified to profit or loss	(404)	(264)
Other comprehensive income, net of tax	3,744	(2,798)
Comprehensive income	28,384	35,179
Comprehensive income attributable to		
Owners of parent	26,372	28,074
Non-controlling interests	2,012	7,105
Comprehensive income	28,384	35,179

(4) Condensed quarterly consolidated statement of changes in equity

First six months of the fiscal year ended February 28, 2018 (from March 1, 2017 to August 31, 2017)

(Millions of yen)

	Equity attributable to owners of parent					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of March 1, 2017	16,659	237,008	(441)	(361)	336	8,228
Profit	–	–	–	–	–	–
Other comprehensive income	–	–	–	(117)	(86)	5,738
Total comprehensive income	–	–	–	(117)	(86)	5,738
Purchase of treasury shares	–	–	(18)	–	–	–
Disposal of treasury shares	–	0	3	–	–	–
Dividends	–	–	–	–	–	–
Increase (decrease) by business combination	–	–	(223)	–	–	–
Changes in ownership interest in subsidiaries that do not result in a loss of control	–	13	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(234)
Transfer from other components of equity to non-financial assets	–	–	–	–	9	–
Total transactions with owners	–	13	(238)	–	9	(234)
Balance as of August 31, 2017	16,659	237,021	(679)	(478)	259	13,732

(Millions of yen)

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
Balance as of March 1, 2017	–	8,203	256,414	517,842	15,555	533,398
Profit	–	–	22,367	22,367	2,273	24,640
Other comprehensive income	(1,530)	4,005	–	4,005	(261)	3,744
Total comprehensive income	(1,530)	4,005	22,367	26,372	2,012	28,384
Purchase of treasury shares	–	–	–	(18)	–	(18)
Disposal of treasury shares	–	–	–	3	–	3
Dividends	–	–	(7,094)	(7,094)	(3,502)	(10,596)
Increase (decrease) by business combination	–	–	–	(223)	10,965	10,742
Changes in ownership interest in subsidiaries that do not result in a loss of control	–	–	–	13	261	274
Transfer from other components of equity to retained earnings	1,530	1,296	(1,296)	–	–	–
Transfer from other components of equity to non-financial assets	–	9	–	9	–	9
Total transactions with owners	1,530	1,304	(8,389)	(7,310)	7,724	414
Balance as of August 31, 2017	–	13,512	270,391	536,905	25,291	562,196

First six months of the fiscal year ending February 28, 2019 (from March 1, 2018 to August 31, 2018)

(Millions of yen)

	Equity attributable to owners of parent					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of March 1, 2018	16,659	236,785	(1,104)	(565)	228	16,262
Profit	–	–	–	–	–	–
Other comprehensive income	–	–	–	(46)	(19)	(2,246)
Total comprehensive income	–	–	–	(46)	(19)	(2,246)
Purchase of treasury shares	–	–	(36)	–	–	–
Disposal of treasury shares	–	1	1	–	–	–
Dividends	–	–	–	–	–	–
Changes in ownership interest in subsidiaries that do not result in a loss of control	–	(29)	–	–	–	–
Other	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(157)
Transfer from other components of equity to non-financial assets	–	–	–	–	38	–
Total transactions with owners	–	(28)	(35)	–	38	(157)
Balance as of August 31, 2018	16,659	236,757	(1,138)	(611)	247	13,859

(Millions of yen)

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
Balance as of March 1, 2018	–	15,925	274,970	543,235	45,424	588,659
Profit	–	–	30,385	30,385	7,592	37,977
Other comprehensive income	–	(2,311)	–	(2,311)	(487)	(2,798)
Total comprehensive income	–	(2,311)	30,385	28,074	7,105	35,179
Purchase of treasury shares	–	–	–	(36)	–	(36)
Disposal of treasury shares	–	–	–	2	–	2
Dividends	–	–	(7,086)	(7,086)	(2,490)	(9,576)
Changes in ownership interest in subsidiaries that do not result in a loss of control	–	–	–	(29)	(6,611)	(6,640)
Other	–	–	(8)	(8)	54	46
Transfer from other components of equity to retained earnings	–	(157)	157	–	–	–
Transfer from other components of equity to non-financial assets	–	38	–	38	–	38
Total transactions with owners	–	(119)	(6,937)	(7,119)	(9,047)	(16,166)
Balance as of August 31, 2018	–	13,495	298,418	564,189	43,481	607,671

(5) Condensed quarterly consolidated statement of cash flows

(Millions of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Cash flows from operating activities		
Profit before tax	33,997	48,655
Depreciation and amortization	32,276	33,706
Impairment losses	4,865	4,150
Share of loss (profit) of investments accounted for using equity method	536	(1,668)
Decrease (increase) in trade and other receivables	(1,887)	(6,447)
Decrease (increase) in inventories	(1,428)	(2,342)
Increase (decrease) in trade and other payables	24,130	35,999
Increase (decrease) in deposits received	15,763	(38,665)
Increase or decrease in retirement benefit asset or liability	2,459	(163)
Other	10,868	(2,604)
Subtotal	121,579	70,621
Interest and dividends received	1,808	1,587
Interest paid	(1,443)	(1,831)
Income taxes paid	(3,850)	(2,961)
Income taxes refund	4,479	2,396
Net cash provided by (used in) operating activities	122,574	69,811
Cash flows from investing activities		
Purchase of property, plant and equipment and investment property	(23,712)	(21,740)
Proceeds from sale of property, plant and equipment and investment property	2,372	3,365
Purchase of intangible assets	(5,594)	(2,722)
Payments for leasehold deposits and construction assistance fund	(9,820)	(5,465)
Proceeds from collection of leasehold deposits and construction assistance fund	4,595	4,262
Purchase of investments	(11)	(2,895)
Proceeds from sale and redemption of investments	1,936	328
Proceeds from acquisition of business	700	–
Proceeds from disposal of businesses	–	3,617
Payments for disposal of businesses	–	(467)
Other	(815)	4,564
Net cash provided by (used in) investing activities	(30,348)	(17,154)

(Millions of yen)

	Six months ended August 31, 2017	Six months ended August 31, 2018
Cash flows from financing activities		
Proceeds from issuance of bonds and borrowings	66,370	151,164
Repayments of bonds and borrowings	(50,606)	(176,728)
Repayments of lease obligations	(13,357)	(14,901)
Payments for purchase of treasury shares	(18)	(38)
Purchase of interests in subsidiaries from non-controlling shareholders	(55)	(6,576)
Dividends paid	(7,094)	(7,086)
Dividends paid to non-controlling interests	(1,428)	(286)
Increase (decrease) in commercial papers	(36,000)	–
Other	332	16
Net cash provided by (used in) financing activities	(41,855)	(54,435)
Effect of exchange rate changes on cash and cash equivalents	(70)	(547)
Net increase (decrease) in cash and cash equivalents	50,301	(2,325)
Cash and cash equivalents at beginning of period	188,289	253,174
Cash and cash equivalents at end of period	238,589	250,849

(6) Notes to condensed quarterly consolidated financial statements

Notes on going concern assumption

Not applicable.

Changes in accounting policies

The significant accounting policies for the condensed quarterly consolidated financial statements of the Group have not changed from the previous fiscal year except for the following accounting standard.

Income tax expense for the first six months of the fiscal year ending February 28, 2019 was calculated based on the estimated average annual effective tax rate.

The Group applied the following standard starting from the first quarter of the fiscal year ending February 28, 2019.

IFRS		Outline of a new standard and amendments
IFRS 15	Revenue from Contracts with Customers	Amendment concerning accounting treatment for revenue recognition

The Group adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (collectively, “IFRS 15”) from the first quarter of the fiscal year ending February 28, 2019.

In the adoption of IFRS 15, the Group has employed the method where the cumulative effect of applying this standard is recognized at the date of initial application, which is allowed as the transition option.

In accordance with IFRS 15, with regard to contracts with customers, the Group recognizes revenue by applying the following steps (except for interest and dividend revenue, etc. under IFRS 9 and lease payments receivable under IAS 17).

Step 1: Identify the contract with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group, as a retail chain, operates convenience stores and general merchandise stores.

The Group undertakes contractual obligations, such as preparation for opening stores, offering of know-how on operation and licensing of trademark, etc., provision of services including training and accounting-related administrative services, rental of store fixtures for sales, signboards, information systems, etc., to convenience store franchisees. Since these activities are closely interlinked and cannot be performed separately as distinct services, the Group determines that the activities, except for lease transactions, are a single performance obligation. This performance obligation is considered to be satisfied over time as the services are provided. However, because the transaction price is a variable royalty based on operating gross profit of the store, revenue is recognized over the contract term as the operating gross profit is generated.

The Group sells consumer goods including foods and daily necessities to customers visiting stores. Once products are handed over to customers, the Group judges the control of these goods to be transferred and recognizes the revenue from the sale of said goods.

When the performance obligations are identified, the following indicators are taken into account in the determination of whether the Group conducts a transaction as a principal or agent:

- Whether the Group has principal responsibility for providing the goods or services to the customer or for fulfilling the order
- Whether the Group has inventory risk before or after the customer order, during shipping or on return
- Whether the Group has discretion in establishing prices directly or indirectly

When the Group conducts transactions as a principal, trading prices are presented at the gross amount of consideration received from customers. When the Group conducts transactions as an agent for the benefit of a third party, trading prices are presented at the net amount calculated by deducting the amount collected for the benefit of the third party from the gross amount of consideration received from customers.

Consideration paid to customers such as price concessions, discounts and rebates is deducted from the transaction price.

If the Group grants customers an option to acquire additional goods or services and provides them with a material right, the transaction price is allocated with this provision deemed as a separate performance obligation, and revenue is recognized when the future goods or services are transferred or the option is extinguished.

The adoption of this standard does not have a material impact on the condensed quarterly consolidated financial statements of the Group.

Changes in presentation

Condensed quarterly consolidated statement of profit or loss

The amount after adding or subtracting cost of sales, selling, general and administrative expenses, share of profit (loss) of investments accounted for using equity method, other income and other expenses from gross operating revenue was presented as “operating profit” until the previous fiscal year. However, this presentation is no longer provided from the first quarter of the fiscal year ending February 28, 2019, and the condensed quarterly consolidated statement of profit or loss for the first six months of the fiscal year ended February 28, 2018 was reclassified.

This change was made because the Group has judged that the change will help provide information that more highly fits for purposes to users of consolidated financial statements, as a result of review of presentation of condensed quarterly consolidated financial statements in light of disclosure practices in the industry to which the Group belongs, in the wake of the start of disclosure of the amount after subtracting cost of sales and selling, general and administrative expenses from gross operating revenue as segment profit (loss) (core operating profit) to serve as an important management indicator in segment information (please refer to “Segment information”).

In addition, the Group has newly disclosed reconciliation of core operating profit because it has judged that demonstrating the relation between the consolidated statement of profit or loss and segment information is useful for decision-making of investors.

Segment information

Information about operating segments

The reportable segments of the Group are constituent units of the Group for which separate financial information is available and which are subject to periodic examination by the Board of Directors and management meetings of the Company for the purpose of deciding the allocation of management resources and evaluating business results.

The Group has adopted a holding company structure. The Company, as a holding company, conducts planning and general management of the Group’s business strategies and each subsidiary develops business activities. The Group consists of segments by business and has determined that “convenience store business” and “general merchandise store business” are its reportable segments, taking into account the business form and merchandise, services, etc. that it offers.

In the “convenience store business,” FamilyMart Co., Ltd. and area franchisers in Japan and abroad have been developing chain stores including “FamilyMart” convenience stores. In the “general merchandise store business,” UNY CO., LTD. plays a central part in operation of general merchandise businesses including retailing, specialty stores and financial services.

Change in profit or loss of reportable segments (addition of an earnings indicator)

For profit or loss of reportable segments, the amount based on profit attributable to owners of parent was used previously. However, since management integration and business restructuring implemented in prior years have reached a certain point, the Group has determined to newly utilize profit after subtracting cost of sales and selling, general and administrative expenses from gross operating revenue (the Company uses the unique name “core operating profit” for this profit) for the purposes of decision-making on allocation of resources to segments and assessment of business performance of segments from the first quarter of the fiscal year ending February 28, 2019, in light of disclosure practices in the industry to which the Group belongs, and thereby to also newly disclose this earnings indicator.

Reclassification was also made for the first six months of the previous fiscal year.

First six months of the fiscal year ended February 28, 2018 (from March 1, 2017 to August 31, 2017)

(Millions of yen)

	Reportable segments			Adjustments (Note 1)	Consolidated
	Convenience store business	General merchandise store business	Total		
Gross operating revenue					
External revenue	293,084	340,551	633,635	0	633,636
Intersegment revenue	548	688	1,236	(1,236)	–
Total	293,632	341,239	634,871	(1,235)	633,636
Segment profit (loss) (core operating profit)	29,199	12,988	42,187	(228)	41,959
Share of profit (loss) of entities accounted for using equity method	(251)	(284)	(536)	–	(536)
Other income	867	944	1,811	(9)	1,802
Other expenses	(9,055)	(768)	(9,822)	71	(9,751)
Finance income	1,560	77	1,637	92	1,729
Finance costs	(1,025)	(885)	(1,909)	704	(1,206)
Profit before tax	21,296	12,072	33,368	629	33,997
Segment profit (loss) (profit attributable to owners of parent)	12,435	9,545	21,980	386	22,367
Other items					
Depreciation and amortization	(26,455)	(5,816)	(32,271)	(5)	(32,276)
Impairment losses (Note 2)	(4,758)	(108)	(4,865)	–	(4,865)
Income tax expense	(6,916)	(2,199)	(9,115)	(243)	(9,357)
Segment assets	1,190,403	544,023	1,734,426	(9,486)	1,724,940
Investments accounted for using equity method	14,400	232	14,632	–	14,632
Capital expenditures (Note 3)	42,201	3,791	45,993	3	45,996

Notes:
1. Adjustments to segment profit (loss) (core operating profit) of negative ¥228 million and adjustments to segment profit (loss) (profit attributable to owners of parent) of ¥386 million include unallocated corporate expenses and elimination of intersegment transactions, which are mostly general and administrative expenses that are not attributable to reportable segments.
   Adjustments to segment assets of negative ¥9,486 million mainly include unallocated corporate assets of ¥59,304 million, elimination of intersegment receivables and payables of negative ¥54,534 million and other of negative ¥14,256 million. The unallocated corporate assets are mostly cash and cash equivalents that are not attributable to reportable segments.
2. Impairment losses principally relate to property, plant and equipment and intangible assets for non-profitable stores and stores to be closed in the convenience store business and the general merchandise store business and are included in “other expenses” in the condensed quarterly consolidated statement of profit or loss.
3. Capital expenditures relate to property, plant and equipment, investment property and intangible assets.
4. In the second quarter of the fiscal year ending February 28, 2019, the provisional accounting treatments related to a business integration were finalized, and the figures have been restated accordingly.

First six months of the fiscal year ending February 28, 2019 (from March 1, 2018 to August 31, 2018)

(Millions of yen)

	Reportable segments			Adjustments (Note 1)	Consolidated
	Convenience store business	General merchandise store business	Total		
Gross operating revenue					
External revenue	272,091	369,748	641,839	0	641,839
Intersegment revenue	2,028	1,070	3,099	(3,099)	－
Total	274,120	370,818	644,938	(3,099)	641,839
Segment profit (loss) (core operating profit)	35,833	14,756	50,589	(696)	49,893
Share of profit (loss) of entities accounted for using equity method	1,663	4	1,668	－	1,668
Other income	875	3,594	4,470	3,903	8,373
Other expenses	(8,869)	(1,870)	(10,738)	(370)	(11,108)
Finance income	1,360	108	1,469	(3)	1,466
Finance costs	(985)	(1,266)	(2,252)	615	(1,637)
Profit before tax	29,878	15,327	45,205	3,450	48,655
Segment profit (loss) (profit attributable to owners of parent)	19,742	8,073	27,815	2,570	30,385
Other items					
Depreciation and amortization	(27,551)	(6,149)	(33,700)	(6)	(33,706)
Impairment losses (Note 2)	(4,097)	(52)	(4,150)	－	(4,150)
Income tax expense	(8,067)	(1,731)	(9,798)	(880)	(10,678)
Segment assets	1,155,866	520,927	1,676,793	38,056	1,714,849
Investments accounted for using equity method	27,451	262	27,713	－	27,713
Capital expenditures (Note 3)	31,837	5,921	37,759	49	37,808

Notes:
1. Adjustments to segment profit (loss) (core operating profit) of negative ¥696 million and adjustments to segment profit (loss) (profit attributable to owners of parent) of ¥2,570 million include unallocated corporate expenses and elimination of intersegment transactions, which are mostly general and administrative expenses that are not attributable to reportable segments and other income.
   Adjustments to segment assets of ¥38,056 million mainly include unallocated corporate assets of ¥105,341 million, elimination of intersegment receivables and payables of negative ¥53,029 million and other of negative ¥14,256 million. The unallocated corporate expenses are mostly cash and cash equivalents that are not attributable to reportable segments.
2. Impairment losses principally relate to property, plant and equipment, intangible assets and goodwill for non-profitable stores and stores to be closed in the convenience store business and the general merchandise store business and are included in “other expenses” in the condensed quarterly consolidated statement of profit or loss.
3. Capital expenditures relate to property, plant and equipment, investment property and intangible assets.

Business combination and loss of control

First six months of the fiscal year ending February 28, 2019 (from March 1, 2018 to August 31, 2018)

Sale of subsidiaries

Sale of UNY (HK) CO., LIMITED

The Company entered into an agreement, on May 24, 2018, to transfer all shares of UNY (HK) CO., LTD. held by the Company to Urban Kirin Limited, and sold the shares as of May 31, 2018. Consequently, gain on sale of investments in subsidiaries and associates of ¥3,884 million was recorded, and this gain on sale is included in “other income” in the condensed quarterly consolidated statement of profit or loss.

Finalization of provisional accounting treatments related to business integration

The Company conducted provisional accounting treatment in the previous fiscal year for a business integration with Kanemi Co., Ltd. carried out in July 2017. This accounting treatment was finalized in the second quarter of the fiscal year ending February 28, 2019.

In line with the finalization of this provisional accounting treatment, the initial allocation of the acquisition cost was revised, resulting in a decrease of ¥1,512 million in deferred tax assets. Consequently, non-controlling interests decreased by ¥719 million and goodwill increased by ¥793 million.

(1) Fair value of consideration paid as of the acquisition date and amounts recognized for each major category of acquired assets and assumed liabilities

(Millions of yen)

	Provisional	Retrospective adjustment	Finalized
Fair value of consideration paid (cash)	8,733	–	8,733
Fair value of existing equity	8,611	–	8,611
Total	17,345	–	17,345
Recognized amounts of acquired assets and assumed liabilities			
Current assets	16,443	–	16,443
Non-current assets	17,678	(1,512)	16,165
Total assets	34,121	(1,512)	32,609
Current liabilities	(8,680)	–	(8,680)
Non-current liabilities	(189)	–	(189)
Total liabilities	(8,869)	–	(8,869)
Recognized amounts of acquired assets and assumed liabilities (net)	25,252	(1,512)	23,739
Non-controlling interests (Note)	(12,002)	719	(11,283)
Goodwill	4,095	793	4,889

Note: Non-controlling interests are measured by the percentage of interests owned by non-controlling shareholders to the recognized amounts of identifiable net assets.

Significant subsequent events

On August 31, 2017, the Company and Don Quijote Holdings Co., Ltd. (hereafter, "Don Quijote HD," and the Company and Don Quijote HD are hereafter collectively referred to as "Both Companies") entered into a business alliance agreement for the purpose of strengthening Both Companies' businesses by leveraging strengths and know-how of Both Companies' groups. In order to make some advances through the business alliance and nurture a distribution group by further strengthening and unifying its relationship with Don Quijote HD group (including the new relationship with UNY CO., LTD.), the Company resolved, at the meeting of its board of directors held on October 11, 2018, that the Company's fully-owned subsidiary (hereafter, the "Tender Offeror") will acquire the shares of common stock of Don Quijote HD by tender offer (hereafter, the "Tender Offer") in accordance with the Financial Instruments and Exchange Act and that all shares of UNY CO., LTD., the Company's subsidiary, will be transferred to Don Quijote HD (hereafter, the "Transfer"), and concluded the share transfer agreement, which provides for the execution of the Transfer in January 2019 (planned) and other matters, as of the same date.

Decision to commence the tender offer for the shares of Don Quijote Holdings Co., Ltd.

a. Outline of the Tender Offer

(a)	Number of shares to be purchased	32,108,700 common shares (proportion of voting rights: 20.17%)
(b)	Purchase value	¥6,600 per share (¥211,917 million in total)
(c)	Tender offer period	To be determined (Note)
(d)	Settlement commencement date	To be determined (Note)

Note: The Tender Offer is scheduled to be implemented promptly subject to satisfaction of the preconditions, which include Don Quijote HD's board of directors resolving to express an opinion that it supports the Tender Offer and not resolving any decision that would either result in withdrawal of that resolution or contradicting that resolution. If the aforementioned preconditions have been satisfied, the Company plans to cause the Tender Offeror to promptly commence the Tender Offer based on a schedule where the tender offer period is a period of 20 to 30 business days, and as of today, the Company aims to make the Tender Offeror commence the Tender Offer in early November 2018. Further, the procedures, etc. under the Anti-monopoly Act have not been completed as of today, but it is expected to be completed before commencement of the Tender Offer or without delay after commencement of the Tender Offer at the latest. If there are any changes to the forecast, the timing of commencement of the Tender Offer may be postponed or the tender offer period extended.

b. Impact on future results

The impact of this transaction on the Company's consolidated results in the fiscal year ending February 28, 2019 has not been finalized at this point in time.

Decision to sell UNY CO., LTD. and conclusion of the share transfer agreement

a. Outline of the transaction

(a)	Agreement execution date	October 11, 2018
(b)	Share transfer execution date	January 2019 (planned) (Note)
(c)	Estimated transfer value	Common stock of UNY CO., LTD. ¥28,200 million

Note: Subject to conditions, which include the passing of the waiting period and the examination period under the Anti-monopoly Act.

b. Ownership proportion before and after the share transfer

(a)	Ownership proportion before the transfer	60.0%
(b)	Ownership proportion after the transfer	−% (Note)

Note: Due to the Transfer, the Company will lose control over UNY CO., LTD.

c. Impact on future results

The impact of this transaction on the Company's consolidated results in the fiscal year ending February 28, 2019 has not been finalized at this point in time.