Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 28, 2019 (Japanese GAAP)

October 10, 2018

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Scheduled date of filing of quarterly report: October 12, 2018 Starting date of dividend payment: October 24, 2018
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results briefing: Yes (for institutional investors and analysts)

(Amounts in millions of yen rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 2019 (March 1, 2018 – August 31, 2018)

(1) Consolidated results of operations (cumulative) (Percentages represent year-on-year changes)

	Operating revenue		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended August 31, 2018	154,637	9.6	24,689	9.3	23,885	8.8	15,628	22.4
Six months ended August 31, 2017	141,035	6.3	22,582	11.4	21,958	6.5	12,765	14.3

(Note) Comprehensive income: Six months ended August 31, 2018: ¥4,933 million (-39.8%);
Six months ended August 31, 2017: ¥8,190 million (–%)

	Net income per share	Net income per share (diluted)
	Yen	Yen
Six months ended August 31, 2018	68.71	68.69
Six months ended August 31, 2017	56.13	56.11

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
August 31, 2018	1,227,780	386,200	30.6
February 28, 2018	1,123,781	385,561	33.2

(Reference) Equity: August 31, 2018: ¥375,314 million,
February 28, 2018: ¥373,572 million

2. Dividends

	Annual Dividend				
	First quarter-end	First half-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended February 28, 2018	—	16.00	—	19.00	35.00
Year ending February 28, 2019	—	19.00			
Year ending February 28, 2019 (projection)			—	19.00	38.00

(Note) Revisions to dividend forecast announced recently: None

3. Consolidated Earnings Projections for the Year Ending February 28, 2019 (March 1, 2018 – February 28, 2019)

(Percentages represent year-on-year changes)

	Operating revenue		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	320,000	11.1	53,500	8.7	51,000	4.0	32,000	4.8	140.70

(Note) Revisions to earnings forecast announced recently: None

* Notes

(1) Material changes in consolidated subsidiaries during the period (changes in specific subsidiaries resulting in a change in the scope of consolidation): None

(2) Application of special accounting methods in the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes of accounting-based estimates, revisions & restatements
[1] Changes in accounting policies due to changes in accounting standards, etc.: Yes
[2] Changes in accounting policies other than the above: None
[3] Changes in accounting estimates: None
[4] Revisions and restatements: None

(4) Number of shares issued and outstanding (common stock)

[1] Number of shares outstanding at period-end (including treasury stock)	Six months ended August 31, 2018	227,463,329	Year ended February 28, 2018	227,430,089
[2] Treasury stock at period-end	Six months ended August 31, 2018	2,059	Year ended February 28, 2018	1,721
[3] Average number of shares during the period (quarterly cumulative)	Six months ended August 31, 2018	227,442,318	Six months ended August 31, 2017	227,415,878

* This summary of quarterly financial results is exempt from quarterly review procedures.

* Explanations and other special notes concerning the appropriate use of earnings projections
(Cautionary statement regarding forward-looking statements, etc.)
Earnings projections and other forward-looking statements included in these materials are based on information currently available to the Company and certain assumptions deemed reasonable. These forward-looking statements do not constitute a promise of future performance by the Company. Moreover, actual performance may vary considerably due to a variety of factors. See *1. Qualitative Information on Quarterly Financial Performance (3) Explanation of Consolidated Earnings Projections and Other Projections* on P.8 of the accompanying materials for assumptions used in earnings projections and matters to note when using earnings projections,

(Procedures for obtaining supplementary information on financial results)
The Company is scheduled to hold a briefing for institutional investors and analysts on October 11, 2018. The materials handed out at this briefing will be posted on the Company's website on October 10, 2018. An audio recording of the briefing will be made available on the Company's website soon after the briefing has ended.

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1. Qualitative Information on Quarterly Financial Performance

(1) Explanation of Operating Results

The Company formulated a medium-term management plan covering fiscal 2017 (FYE February 28, 2018) through fiscal 2019. Under this plan, we are revising existing business models and securing new growth models. We have defined five initiatives through which we will achieve sustainable growth and improve profitability: (1) Capture growth opportunities in Asia; (2) Develop latent sources of domestic demand; (3) Become the overwhelmingly dominant mall in each region; (4) Capture urban growth opportunities; and (5) Implement an optimal financing mix and build organizational structures that support growth.

The Company recorded operating revenue of ¥154,637 million for the six months ended August 31, 2018, up 9.6% compared to the same period in the prior fiscal year.

While operating costs rose to ¥116,198 million (+11.2%) due to expansions in business, gross profit also rose, coming in at ¥38,438 million (+5.1%). Selling, general and administrative expenses amounted to ¥13,749 million (-1.7%), while operating income rose 9.3% year on year to ¥24,689 million.

Net non-operating profits and expenses decreased ¥179 million compared to the first half of the previous fiscal year, resulting in ordinary income of ¥23,885 million (+8.8%).

Net extraordinary gains and losses rose ¥2,401 million year on year. During the first six months of consolidated fiscal 2018, the Company recorded extraordinary gains of ¥616 million in compensation income. The Company also recorded ¥1,414 million in gains on sale of fixed assets. These amounts represent an increase of ¥764 million in extraordinary gains compared to the same period in the prior fiscal year. Extraordinary losses decreased ¥1,637 million year on year, mainly due to a loss on cancellation of lease contracts of ¥948 million and an increase in provision for loss on store closings of ¥442 million.

As a result, net income attributable to owners of parent rose to ¥15,628 million, an increase of 22.4% year on year.

The following text is a discussion of consolidated earnings and earnings by segment for the period under review:

◆ Consolidated Earnings (Million yen)

	FY2017 Q2	FY2018 Q2	Change [YoY]
Operating revenue	141,035	154,637	+13,601 [9.6%]
Operating income	22,582	24,689	+2,106 [9.3%]
Ordinary income	21,958	23,885	+1,926 [8.8%]
Net income attributable to owners of parent	12,765	15,628	+2,863 [22.4%]

◆ Earnings by Segment (Million yen)

	Operating Revenue			Segment Income (loss)		
	FY2017 Q2	FY2018 Q2	Change [YoY]	FY2017 Q2	FY2018 Q2	Change [YoY]
Japan	126,220	133,006	+6,785 [5.4%]	23,100	24,350	+1,249 [5.4%]
China	10,888	16,477	+5,588 [51.3%]	(635)	(183)	+451 [–]
ASEAN	3,926	5,153	+1,227 [31.3%]	107	509	+402 [372.7%]
Overseas	14,814	21,630	+6,816 [46.0%]	(527)	326	+853 [–]
Adjustment	―	―	― [–]	9	12	+3 [32.7%]
Total	141,035	154,637	+13,601 [9.6%]	22,582	24,689	+2,106 [9.3%]

a. Overseas (China, ASEAN)

The Company continues to secure improving branding advantages through area-dominant store openings in China and ASEAN. As a result, operating revenue grew to ¥21,630 million, representing a 46.0% increase year on year. Operating income swung to positive territory, reaching ¥326 million, compared to an operating loss of ¥527 million in the year-ago period. Our Overseas business has become a growth driver, poised for future profit growth in response to new store openings, renovations for new tenants in existing malls, and initiatives to improve our level of operations.

◆ Capture Growth Opportunities in Asia

(China)

The Company recorded operating revenue in China in the amount of ¥16,477 million, an increase of 51.3% year on year. Operating loss narrowed to ¥183 million, compared to an operating loss of ¥635 million for the same period in the prior fiscal year.

As of the end of the period under review, the Company owned and operated 17 malls in China (see note), ten of which have become profitable. Compared to the year-ago period, the Company improved operating income by ¥451 million.

Our current medium-term management plan (ending FYE 2019) calls for opening eight new malls in China. We have already opened four new malls under this plan during fiscal 2017. During fiscal 2018, we plan to open two malls, including the May opening of AEON MALL Yantai Jinshatan (Yantai City, Shandong Province), our first in Shandong Province.

In China, the Company is continuing its area-dominant store openings, mainly in the four areas of Beijing/Tianjin, Jiangsu/Zhejiang, Hubei and Guangdong. The impact of these store openings has increased the Company's brand power to attract more customers. This type of brand advantage also lets us attract quality tenants and enter into lease contracts under more favorable terms.

As with Japan, we will continue to renovate tenant space timed at the end of contracts and entry of new tenants. We will also engage in deliberate floor space expansion to improve our ability to attract customers and establish an area-dominant presence.

In June, AEON MALL Suzhou Yuanqu Hudong (Jiangsu, Suzhou Province), which opened in May 2015, underwent renovations covering upgrades for 20 percent of mall tenants. AEON MALL Wuhan Jinyintan (Wuhan City, Hubei Province), which opened in December 2014, renovated more than 40 percent of mall

tenants in May. The mall plans to renovate the remaining 90 tenant spaces and expand floorspace in spring 2020.

In August, AEON MALL Suzhou Wuzhong (Jiangsu, Suzhou Province) hosted the Third Annual AEON MALL National Customer Service Role-Play Contest. The contest was open to nearly 45,000 employees, representing 17 malls and almost 3,300 stores across China. After preliminary contests, 24 individuals competed in the final stage. This contest not only improves individual customer service levels, but also raises the skills of mall employees as a whole.

(ASEAN)
The Company recorded operating revenue in ASEAN in the amount of ¥5,153 million, an increase of 31.3% year on year. Operating income amounted to ¥509 million, up 372.7%.

During the first six months of fiscal 2018, all seven malls (see note) in ASEAN were profitable. Operating income rose ¥402 million compared to the year-ago period.

Our current medium-term management plan (ending FYE 2019) calls for opening four new malls in ASEAN. We have already opened one new mall in Indonesia under this plan during fiscal 2017. In May of the current fiscal year, we opened AEON MALL Sen Sok City (Phnom Penh City), our second mall in Cambodia. This is a distinctive mall that includes large amusement facilities (water park, aquarium, concert hall, etc.), government administrative offices (passport issuance center, driver license renewal, etc.), and a financial zone. These amenities offer a much higher level of service for customers, making this mall a leader in anticipating future market needs.

In Vietnam, we began construction on AEON MALL Ha Dong in Hanoi City (fifth mall in Vietnam; scheduled to open in fiscal 2019) and the AEON MALL Hai Phong Le Chan in Hai Phong City (sixth mall in Vietnam; scheduled to open in fiscal 2020). These mall openings will accelerate our area-dominant store openings in the country.

As the number of malls expands in Vietnam, we will use the same successful initiatives we used in China. One example is the First Annual AEON MALL Vietnam National Customer Service Role-Play Contest scheduled for November, to be hosted by AEON MALL Binh Tan (Ho Chi Minh City). Nearly 8,500 employees across some 450 stores representing four malls in the Ho Chi Minh and Hanoi area are eligible to participate. Preliminary contests will be held in July and September at each mall, after which eight individuals will participate in the final stage.

In Indonesia, AEON MALL Sentul City (West Java) is under construction, scheduled to open in FY2019. This will be our third mall in Indonesia. We have secured tenants for AEON MALL Tanjung Barat (southern Jakarta district; scheduled for 2020 opening), accelerating area-dominant store openings in a similar fashion to our approach in Vietnam.

Note: Mall openings as of February 28, 2018

New Business Locations (Malls) Overseas during the First Six Months of the Year Ending February 28, 2019

	Name	Location	Opening Date (Note)	Number of Tenants	Total Rentable Area (m^2)
China	AEON MALL Yantai Jinshatan	Yantai City, Shandong	May 2018	220	72,000
Cambodia	AEON MALL Sen Sok City	Phnom Penh City	May 2018	200	85,000

New Mall Openings Overseas in the Third Quarter of the Year Ending February 28, 2019

	Name	Location	Opening Date (Note)
China	AEON MALL Guangzhou Jinsha	Guangzhou City, Guangdong	FY2018

Note: The fiscal year of the opening date is the fiscal year used in Japan. The accounting period for companies outside Japan is the year ending December 31.

b. Japan

The Company recorded Japan operating revenue of ¥133,006 million, representing an increase of 5.4% year on year. Operating income amounted to ¥24,350 million, up 5.4%.

Our Mall Business expanded sales floor space in two malls and renovated five existing malls during the period. Along with the effects expansions and existing mall renovations, the Company implemented measures to increase customer drawing power (Happiness Mall initiative, etc.) and executed sales policies to promote localization. We opened three malls in new locations, including THE OUTLETS HIROSHIMA (Hiroshima Pref.), a new mall concept for the Company, and AEON MALL Iwaki Onahama (Fukushima Pref.).

◆ Develop Latent Sources of Domestic Demand

The AEON Group has been strengthening Health and Wellness initiatives that contribute to rich and varied lifestyles for customers through physical and mental health. Striving to be spaces that customers associate with happy times, each Company mall conducts a *Happiness Mall* program that emphasizes four areas: Health, Wellness, Community, and Opportunity. Under the banner of Health, we promote mall walking activities at every AEON mall location throughout Japan, promoting better health among our customers. One example of a Wellness program is our Opera de AEON MALL, operas held at various malls in cooperation with the Japan Opera Foundation. To encourage Community, we introduced the Hyper-Localization 2018 program designed to promote the attraction of our local communities. Each AEON MALL location participates in a variety of collaborative events and projects across six different areas: (1) Industry; (2) Education; (3) Government; (4) Private Organizations; (5) Culture & History; and (6) Products.

To provide new experiences and discoveries to our customers, the Company is actively working to attract overseas specialty stores to Japan. In April, we welcomed popular rice noodle restaurant Axiang mixian as a new tenant in AEON Lake Town (Saitama Pref.). In June, MJstyle, a popular Shanghai fast fashion brand, opened a location in AEON MALL Makuhari Shintoshin (Chiba Pref.). In August, HaiDiLao Hot Pot opened a store in the same AEON MALL Makuhari Shintoshin. HaiDiLao Hot Pot is a hot pot chain with nearly 200 locations in China and throughout the world. We will continue to leverage our network among Overseas businesses in China and ASEAN to attract leading companies as tenants in Japan.

◆ Become the Overwhelmingly Dominant Mall in Each Region

As more retail facilities become victims of natural selection, we are increasing our share of dominant regional malls that enjoy the highest rates of customer support. Becoming the dominant No.1 mall in one region raises our competitive advantage throughout the Japanese shopping mall market.

Our current medium-term management plan calls for us to expand floorspace at eight malls, renovate 30 malls, and opened 10 new malls. During FY 2017, we expanded floor space at two malls, renovated 12 malls, and opened five new mall locations. We plan to expand two malls, renovate eight malls, and open four new malls during FY2018.

Through the first six months of FY 2018, we expanded floor space at two malls and renovated five malls.

In March and July, we reopened the AEON MALL Miyazaki (Miyazaki Pref.) and AEON MALL Kumamoto (Kumamoto Pref.) locations, which now feature expanded floor space. We reopened AEON MALL Kumamoto in stages after the April 2016 Kumamoto earthquakes, renovating the building and expanding floor space in the earthquake-damaged anchor tenant zone on the west side of the mall in March 2017, making this area a newly

expanded wing. As a result, the mall now has a total rentable area of 84,000m2 (an increase of 11,000m2) and enough room for 200 tenants (increase of 45 stores). This mall has secured an overwhelmingly strong position as the No.1 mall in the region, building upon its already sizable market share. To prevent damage in the future from large-scale earthquakes, we have completely rethought the materials and construction methods for facilities within the mall. This reflects our stance to improve security and strengthen earthquake resistance in our buildings.

Our tenants enjoyed solid sales performance in the 21 malls where we expanded floor space or conducted renovations in the previous and current period. Sales grew a strong 8.3% compared to the same period in the prior fiscal year. We plan to renovate three more malls during the third quarter of the current fiscal year.

New mall openings for the first six months of the fiscal year were AEON MALL Zama (Kanagawa Pref.) in March, THE OUTLETS HIROSHIMA in April, and AEON MALL Iwaki Onahama in June.

AEON MALL Iwaki Onohama features several major disaster-ready features, including pedestrian decks connected to internal walkways and the open AEON Hall rooftop area after business hours, providing temporary evacuation centers during earthquakes or other disasters. To harden facilities against flood damage due to tsunami, the ground floors have been built with a pilotis structure installed at a height even higher than that of the projected maximum tsunami levels, projecting that these malls will serve as key strategic facilities. We promote localization initiatives in partnership with nearby aquamarine parks and other tourist facilities, local businesses, and educational institutions to publicize the attractiveness of the surrounding area.

We plan to open AEON MALL Tsu-Minami (Mie Pref.) during the third quarter of the current fiscal year (November).

Malls Renovated During the Second Quarter of Fiscal 2018

Name	Location	Date Reopened	Number of Tenants	Number of New Specialty Stores (A) (Note 1)	Relocated/ Renovated (B)	Number of Renovated Specialty Stores (A) + (B)
AEON MALL Miyazaki (Note 2)	Miyazaki Pref.	March 16	250	91 (69)	64	155
AEON MALL Kashihara	Nara Pref.	March 17	230	10 (2)	12	22
AEON MALL Sakai Kitahanada	Osaka Pref.	March 20	170	20 (—)	7	27
AEON MALL Itami	Hyogo Pref.	April 27	150	15 (—)	18	33
AEON MALL Fukutsu	Fukuoka Pref.	July 13	190	12 (2)	3	15
AEON MALL Kumamoto (Note 2)	Kumamoto Pref.	July 20	200	42 (10)	3	45
AEON MALL Kurashiki	Okayama Pref.	July 20	240	8 (2)	—	8

(Notes) 1. Numbers in parentheses indicate the number of new specialty stores opening their first location in that prefecture.
2. AEON MALL Miyazaki and AEON MALL Kumamoto underwent floor space expansions and renovation.

New Business Locations (Malls) in Japan During the Second Quarter of Fiscal 2018

Name	Location	Opening Date	Number of Tenants	Total Leased Space (m^2)
AEON MALL Zama	Kanagawa Pref.	March 2018	160	50,000
THE OUTLETS HIROSHIMA	Hiroshima Pref.	April 2018	200	53,000
AEON MALL Iwaki Onahama	Fukushima Pref.	June 2018	130	50,000

New Business Locations (Malls) Scheduled to Open During Through the Third Quarter of Fiscal 2018

Name	Location	Opening Date
AEON MALL Tsu-Minami	Mie Pref.	November 2018

◆ Capture Urban Growth Opportunities

OPA Co., Ltd. plans to open Naha OPA (Okinawa Pref.) in October 2018 and Hachioji OPA (Tokyo Pref.) in November 2018. We are moving forward with extensive renovations among existing stores to move away from our traditionally fashion-heavy business format. In July, we expanded the existing MUJI store in Akashi Vivre (Hyogo Pref.). We also added renovations for housing handicraft goods retailers, restaurants, and other tenants. During the third quarter, we will welcome the first-ever Japanese locations for the United Kingdom's oldest toy store, *Hamleys*, to World Porters Vivre (Kanagawa Pref.) and Canal City OPA (Fukuoka Pref.). We are proceeding with renovation plans at Shinsaibashi OPA (Osaka) to install the popular HaiDiLao Hot Pot restaurant as an attractive tenant that will help drive new customers to the existing stores.

New Japanese Business Locations (Urban Shopping Centers) Scheduled to Open Through the Third Quarter of Fiscal 2018

Name	Location	Opening Date
Naha OPA	Okinawa Pref.	October 2018
Hachioji OPA	Tokyo Pref.	November 2018

2) Explanation of Financial Position

1) Assets, Liabilities and Net Assets

Assets

Total assets amounted to ¥1,227,780 million, up ¥103,999 million compared to the end of the prior consolidated fiscal year. This increase was mainly due to ¥83,966 million in acquisitions of property, plant and equipment related to new mall openings and land for development. Cash and deposits increased ¥7,511 million, while deposits paid to affiliates (including Other current assets) rose ¥34,370 million. At the same time fixed assets decreased ¥21,009 million due to depreciation and amortization.

Liabilities

Total liabilities stood at ¥841,580 million, up ¥103,360 million compared to the end of the prior consolidated fiscal year. This increase was mainly due to an increase of ¥13,872 million in deposits received from specialty stores, as well as an increase in bonds of ¥80,000 million (including bonds due within one year) and a rise in long-term debt (including the current portion of long-term debt) of ¥21,978 million. At the same time commercial paper decreased by a net ¥11,000 million, while accounts payable-other (including Other current liabilities) decreased ¥12,421 million.

Net assets

Net assets totaled ¥386,200 million, up ¥638 million compared to the end of the prior fiscal year. This result was mainly due to an increase in retained earnings from net income attributable to owners of parent of ¥15,628 million, partly offset by a decrease of ¥9,610 million in foreign currency translation adjustments.

2) Cash Flows

Cash and cash equivalents ("Cash") as of the end of the cumulative consolidated second quarter amounted to ¥95,314 million, up ¥41,091 million compared to the end of the prior consolidated fiscal year.

The following text describes cash flows for the period under review:

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥52,798, compared to cash flows of ¥41,322 million in for the same period in the prior fiscal year. This result was mainly due to income before income taxes and other adjustments of ¥23,901 million (¥19,574 million in the year-ago period), depreciation and amortization of ¥21,009 million (¥18,668 million in the year-ago period), an increase in deposits received from specialty stores of ¥14,009 million (versus ¥11,306 million in the year-ago period). At the same time, income taxes paid amounted to ¥8,828 million, compared to ¥7,966 million in the year-ago period.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥94,984 million, compared to ¥104,789 million through the second quarter of the prior fiscal year. This result was mainly due to payments for facilities at malls opened during the prior consolidated fiscal year (AEON MALL Tokushima, AEON MALL Matsumoto) and malls opened during the current consolidated fiscal year (AEON MALL Zama, THE OUTLETS HIROSHIMA), as well as cash outlays of ¥103,571 million in purchase of property, plant and equipment associated with land for development (¥107,853 million in the year-ago period). These cash outlays were somewhat offset by proceeds from lease deposits from lessees in the amount of ¥9,508 million (¥6,699 million in the year-ago period).

Cash flows from financing activities

Net cash provided by financing activities amounted to ¥85,047 million, compared to net cash provided of ¥39,497 million through the second quarter of the previous fiscal year. This result was mainly due to proceeds from issuance of bonds in the amount of ¥80,000 million (¥50,000 million in the year-ago period), proceeds from long-term debt of ¥33,735 million (¥26,636 million in the year-ago period). During the same period, the Company made cash outlays for repayments of short-term loans and commercial paper of ¥11,000 million (proceeds of ¥3,255 million in the year-ago period), repayments of long-term debt in the amount of ¥12,873 million (¥27,111 million in the year-ago period), and paid dividends in the amount of ¥4,321 million (¥3,070 million in the year-ago quarter).

3) Explanation of Consolidated Earnings Projections and Other Projections

The Company has made no changes to the consolidated earnings projections announced April 11, 2018.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of February 28, 2018	As of August 31, 2018
Assets		
Current assets:		
Cash and deposits	54,586	62,097
Notes and accounts receivable–trade	6,801	7,552
Other current assets	40,226	80,003
Allowance for doubtful receivables	(23)	(22)
Total current assets	101,590	149,630
Fixed assets		
Property, plant and equipment:		
Buildings and structures, net	551,839	633,075
Land	237,897	261,108
Other, net	84,530	31,549
Total property, plant and equipment	874,267	925,734
Intangible assets	3,812	3,695
Investments and other assets:		
Lease deposits paid	53,334	51,884
Other	90,813	96,870
Allowance for doubtful receivables	(36)	(34)
Total investments and other assets	144,110	148,721
Total fixed assets	1,022,190	1,078,150
Total assets	1,123,781	1,227,780

(Million yen)

	As of February 28, 2018	As of August 31, 2018
Liabilities		
Current liabilities:		
Notes and accounts payable–trade	17,859	21,952
Commercial paper	11,000	—
Bonds due within one year	—	15,000
Current portion of long-term debt	29,746	24,121
Income taxes payable	8,677	8,890
Deposits received from specialty stores	38,614	52,486
Allowance for employee bonus	1,458	847
Allowance for director and corporate auditor performance-based remuneration	107	53
Provision for loss on store closing	1,054	1,054
Other current liabilities	112,143	97,327
Total current liabilities	220,661	221,733
Long-term liabilities:		
Straight bonds	170,000	235,000
Long-term debt	195,002	222,606
Accrued retirement benefits to employees	1,046	978
Asset retirement obligations	11,814	17,455
Lease deposits from lessees	134,766	138,905
Other long-term liabilities	4,928	4,901
Total long-term liabilities	517,558	619,847
Total liabilities	738,219	841,580
Net assets		
Shareholders' equity:		
Common stock	42,271	42,305
Capital surplus	40,555	40,589
Retained earnings	281,477	292,785
Treasury stock, at cost	(2)	(3)
Total shareholders' equity	364,302	375,675
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	1,452	1,376
Foreign currency translation adjustment	8,727	(883)
Remeasurements of defined benefit plans	(909)	(854)
Total accumulated other comprehensive income	9,270	(361)
Stock acquisition rights	141	108
Non-controlling interests	11,847	10,777
Total net assets	385,561	386,200
Total liabilities and net assets	1,123,781	1,227,780

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Quarterly Consolidated Statements of Income)

(For the six months ended August 31, 2017 and August 31, 2018)

(Million yen)

	FY2017 Q2 March 1— August 31, 2017	FY2018 Q2 March 1— August 31, 2018
Operating revenue	141,035	154,637
Operating costs	104,472	116,198
Gross profit	36,562	38,438
Selling, general and administrative expenses	13,979	13,749
Operating income	22,582	24,689
Non-operating profits		
Interest income	328	368
Compensation paid by departing tenants	557	711
Gain on valuation of derivatives	—	325
Compensation income	243	296
Other non-operating profits	328	256
Total non-operating profits	1,458	1,957
Non-operating expenses:		
Interest expenses	1,299	1,598
Loss on valuation of derivatives	115	—
Foreign exchange losses	76	253
Other non-operating expenses	590	910
Total non-operating expenses	2,082	2,761
Ordinary income	21,958	23,885
Extraordinary gains		
Gain on sale of fixed assets	8	1,414
Subsidy income	616	—
Other extraordinary gains	25	—
Total extraordinary gains	650	1,414
Extraordinary losses		
Loss on sale of fixed assets	11	1
Loss on retirement of fixed assets	556	521
Impairment loss	888	730
Provision for loss on store closing	442	—
Loss on cancellation of lease contract	948	—
Other extraordinary losses	188	144
Total extraordinary losses	3,034	1,397
Income before income taxes and other adjustments	19,574	23,901
Income tax – current	7,176	8,953
Income tax – deferred	(271)	(290)
Total income taxes	6,904	8,663
Net income	12,669	15,238
Net income (loss) attributable to non-controlling interests	(95)	(390)
Net income attributable to owners of parent	12,765	15,628

(Quarterly Consolidated Statements of Comprehensive Income)
(For the six months ended August 31, 2017 and August 31, 2018)

(Million yen)

	FY2017 Q2 March 1— August 31, 2017	FY2018 Q2 March 1— August 31, 2018
Net income	12,669	15,238
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	222	(76)
Foreign currency translation adjustment	(4,750)	(10,283)
Remeasurements of defined benefit plans	49	54
Total other comprehensive loss	(4,479)	(10,305)
Comprehensive income	8,190	4,933
Comprehensive income (loss) attributable to:		
Owners of parent	8,429	5,997
Non-controlling interests	(238)	(1,063)

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	FY2017 Q2 March 1— August 31, 2017	FY2018 Q2 March 1— August 31, 2018
Cash flows from operating activities:		
Income before income taxes and other adjustments	19,574	23,901
Depreciation and amortization	18,668	21,009
Impairment loss	888	730
Increase (decrease) in provision for loss on store closing	125	—
Interest and dividend income	(348)	(389)
Interest expenses	1,299	1,598
Decrease (increase) in receivables–trade accounts	109	(1,032)
Increase (decrease) in payables–trade accounts	3,521	4,674
Increase (decrease) in deposits received from specialty stores	11,306	14,009
Other	(4,872)	(1,814)
Subtotal	50,272	62,687
Interest and dividends received	300	304
Interest paid	(1,283)	(1,364)
Income taxes paid	(7,966)	(8,828)
Net cash provided by (used in) operating activities	41,322	52,798
Cash flows from investing activities:		
Purchase of property, plant and equipment	(107,853)	(103,571)
Proceeds from sales of property, plant and equipment	46	5,278
Payment of lease deposits to lessors	(120)	(136)
Reimbursement of lease deposits to lessors	3,731	1,402
Repayment of lease deposits from lessees	(4,294)	(5,109)
Proceeds from lease deposits from lessees	6,699	9,508
Other payments	(4,080)	(3,045)
Other proceeds	1,082	688
Net cash provided by (used in) investing activities	(104,789)	(94,984)
Cash flows from financing activities:		
Increase (decrease) in short-term debt and commercial paper	3,255	(11,000)
Proceeds from long-term debt	26,636	33,735
Repayment of long-term debt	(27,111)	(12,873)
Proceeds from issuance of bonds	50,000	80,000
Redemption of bonds	(10,000)	—
Purchase of treasury stock	(0)	(1)
Dividends paid	(3,070)	(4,321)
Dividends paid to non-controlling interests	(6)	(6)
Other	(206)	(486)
Net cash provided by (used in) financing activities	39,497	85,047
Foreign currency translation adjustments on cash and cash equivalents	(692)	(1,769)
Net increase (decrease) in cash and cash equivalents	(24,662)	41,091
Cash and cash equivalents at beginning of the period	69,593	54,223
Cash and cash equivalents at end of the period	44,930	95,314

(4) Notes to the Quarterly Consolidated Financial Statements

Notes on the going concern assumption

Not applicable

Notes on significant changes in shareholders' equity

Not applicable.

Changes in major consolidated subsidiaries during the period under review

Not applicable.

We added AEON MALL (GUANGZHOUZENGCHENG) BUSINESS MANAGEMENT CO., LTD. to the scope of consolidation during the consolidated second quarter (said change does not qualify as a change in specified subsidiary).

Changes in accounting policies

The Company adopted IFRS 15 (Revenue from Contracts with Customers) at overseas consolidated subsidiaries in the first quarter of the fiscal year ending February 28, 2019. The application of this accounting standard has no material effect on the Company's consolidated financial statements.

Segment and other information

Segment information

. Six Months Ended August 31, 2017

1. Information on operating revenue and profit (loss) of each reporting segment

(Million yen)

	Japan	China	ASEAN	Total	Adjustments (Note 1)	Amount to Quarterly Consolidated Statements of Income (Note 2)
Operating Revenue						
Operating revenue from external customers	126,220	10,888	3,926	141,035	—	141,035
Intersegment operating revenue or transfers	—	—	—	—	—	—
Total	126,220	10,888	3,926	141,035	—	141,035
Segment profit (loss)	23,100	(635)	107	22,573	9	22,582

(Notes) 1. Adjustments to segment income (loss) reflect unrealized profits on intersegment transactions.

2. Segment profit (loss) adjustment reflected in operating income on the quarterly consolidated statement of income.

2. Information related to impairment of fixed assets, goodwill, etc. by reportable segment

Material impairment of fixed assets

The Company recognized impairment losses in the Japan segment for asset groups related to store closings and asset groups which have experienced a significant decline in profitability. The Company recorded ¥888 million in impairment loss for the cumulative consolidated second quarter of the prior fiscal year.

Goodwill did not change materially during the period noted above.

. Six Months Ended August 31, 2018

1. Information on operating revenue and profit (loss) of each reporting segment

(Million yen)

	Japan	China	ASEAN	Total	Adjustments (Note 1)	Amount to Quarterly Consolidated Statements of Income (Note 2)
Operating Revenue						
Operating revenue from external customers	133,006	16,477	5,153	154,637	—	154,637
Intersegment operating revenue or transfers	—	—	—	—	—	—
Total	133,006	16,477	5,153	154,637	—	154,637
Segment profit (loss)	24,350	(183)	509	24,676	12	24,689

(Notes) 1. Adjustments to segment income (loss) reflect unrealized profits on intersegment transactions.

2. Segment profit (loss) adjustment reflected in operating income on the quarterly consolidated statement of income.

2. Information related to impairment of fixed assets, goodwill, etc. by reportable segment

Material impairment of fixed assets

The Company recognized impairment losses in the Japan segment for asset groups which have experienced a significant decline in profitability. The impairment loss recorded for the cumulative consolidated second quarter amounted to ¥730 million.

Goodwill did not change materially during the period under review.

Significant subsequent events

Not applicable.