ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2016	2015	2016
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 19)	¥ 53,652	¥ 67,222	$ 472,131
Time deposits (Note 13)	1,722	5,118	15,157
Receivables:			
Trade accounts (Notes 13 and 19)	5,713	4,724	50,274
Other (Notes 13 and 19)	25,901	21,609	227,925
Allowance for doubtful receivables	(33)	(20)	(292)
Deferred tax assets (Note 11)	1,830	1,265	16,107
Prepaid expenses and other	3,341	3,651	29,407
Total current assets	92,129	103,572	810,710
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 5 and 6)	212,423	196,690	1,869,264
Buildings and structures (Notes 4, 5, 6, and 8)	694,649	588,701	6,112,722
Machinery and equipment (Notes 4 and 5)	4,081	3,515	35,916
Furniture and fixtures (Notes 4 and 5)	31,001	26,213	272,804
Construction in progress (Note 5)	21,941	64,372	193,081
Total	964,097	879,493	8,483,789
Accumulated depreciation	(209,381)	(189,672)	(1,842,501)
Net property, plant, and equipment	754,716	689,820	6,641,288
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	2,234	2,159	19,661
Investments in associated companies	97	190	857
Lease deposits to lessors (Note 13)	44,105	40,407	388,112
Long-term prepaid expenses (Note 5)	68,813	51,676	605,541
Deferred tax assets (Note 11)	6,442	5,430	56,694
Other (Note 13)	6,431	7,700	56,596
Total investments and other assets	128,124	107,564	1,127,461
TOTAL	¥ 974,970	¥ 900,957	$ 8,579,462

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 13)	¥ 8,339		$ 73,383
Current portion of long-term debt (Notes 6 and 13)	38,585	¥ 24,709	339,544
Current portion of corporate bonds (Notes 6 and 13)	200		1,759
Payables:			
Trade accounts (Note 13)	14,239	11,848	125,304
Construction (Note 13)	78,886	95,845	694,183
Other	3,213	1,785	28,278
Deposits received (Note 13)	40,135	54,232	353,178
Income taxes payable (Note 13)	10,556	9,436	92,891
Accrued expenses	3,101	2,909	27,294
Provision for store closing expenses	1,797	645	15,813
Current portion of lease deposits from lessees (Notes 6, 13, and 19)	526	985	4,632
Other	11,816	7,063	103,979
Total current liabilities	211,398	209,461	1,860,243
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	192,281	163,889	1,692,021
Corporate bonds (Notes 6 and 13)	95,000	65,200	835,973
Liability for retirement benefits (Note 7)	600	400	5,288
Provision for loss on guarantees (Note 16)	525		4,619
Lease deposits from lessees (Notes 6, 13 and 19)	122,199	117,701	1,075,320
Asset retirement obligations (Note 8)	9,680	9,169	85,186
Deferred tax liabilities (Note 11)	113	92	1,002
Other	3,321	2,505	29,229
Total long-term liabilities	423,722	358,959	3,728,641
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12,14 and 16)			
EQUITY (Notes 9, 10, 18, and 21):			
Common stock — authorized, 320,000,000 shares; issued, 227,902,027 shares in 2016 and 227,890,747 shares in 2015	42,217	42,207	371,498
Capital surplus	42,525	42,516	374,215
Stock acquisition rights	193	169	1,704
Retained earnings	235,826	216,223	2,075,208
Treasury stock - at cost, 2,802,839 shares in 2016 and 38,939 shares in 2015	(6,101)	(99)	(53,691)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,168	1,061	10,279
Foreign currency translation adjustments	18,213	25,938	160,269
Defined retirement benefit plans	(302)	(138)	(2,657)
Total	333,740	327,878	2,936,826
Minority interests	6,108	4,658	53,751
Total equity	339,849	332,536	2,990,577
TOTAL	¥ 974,970	¥ 900,957	$ 8,579,462

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING REVENUE (Note 19)	¥ 229,754	¥203,902	$ 2,021,777
OPERATING COSTS (Notes 7, 12, and 19)	163,436	141,464	1,438,199
Gross profit	66,317	62,437	583,578
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 7 and 12)	22,446	20,565	197,526
Operating income	43,870	41,872	386,051
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 19)	650	535	5,720
Gain on sales of investment securities		707	
Foreign exchange gains	176	510	1,556
Interest expense	(2,570)	(2,315)	(22,623)
Gain on change in equity	438		3,858
Loss on valuation of derivatives (Note 14)	(797)		(7,019)
Provision for loss on guarantees (Note 16)	(525)		(4,619)
Gain on sales of property, plant, and equipment (Note 15)	1,862	905	16,385
Loss on sales of property, plant, and equipment	(6)	(36)	(57)
Loss on impairment of long-lived assets (Note 4)	(686)		(6,039)
Provision for store closing expenses	(1,152)		(10,137)
Other - net	(222)	181	(1,955)
Other (expenses) income - net	(2,833)	489	(24,929)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	41,037	42,361	361,122
INCOME TAXES (Note 11):			
Current	18,453	17,692	162,382
Deferred	(1,468)	321	(12,919)
Total income taxes	16,984	18,013	149,462
NET INCOME BEFORE MINORITY INTERESTS	24,053	24,348	211,659
MINORITY INTERESTS IN NET LOSS	(586)	(164)	(5,162)
NET INCOME	¥ 24,639	¥ 24,513	$ 216,822

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2 and 18):			
Basic net income	¥ 108.43	¥ 107.58	$ 0.95
Diluted net income	108.38	107.53	0.95
Cash dividends applicable to the year	22.00	22.00	0.19

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME BEFORE MINORITY INTERESTS	¥ 24,053	¥ 24,348	$ 211,659
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain on available-for-sale securities	106	632	940
Foreign currency translation adjustments	(8,075)	12,950	(71,058)
Defined retirement benefit plan(s)	(163)		(1,435)
Total other comprehensive (loss) income	(8,131)	13,582	(71,554)
COMPREHENSIVE INCOME	¥ 15,921	¥ 37,931	$ 140,105
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 16,857	¥ 37,719	$ 148,344
Minority interests	(936)	211	(8,238)

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries
Consolidated Statement of Changes in Equity
Year Ended February 29, 2016

	Thousands	Millions of Yen										
							Accumulated other comprehensive income					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan(s)	Total	Minority Interests	Total Equity (Deficit)
BALANCE, FEBRUARY 28, 2014	227,841	¥ 42,195	¥42,504	¥ 164	¥ 196,722	¥ (92)	¥ 429	¥ 13,364		¥ 295,289	¥ 3,237	¥ 298,526
Net income					24,513					24,513		24,513
Exercise of stock options	14	11	11							23		23
Cash dividends, ¥22 per share					(5,012)					(5,012)		(5,012)
Purchase of treasury stock	(3)					(7)				(7)		(7)
Net change in the year				4			632	12,574	(138)	13,072	1,420	14,493
BALANCE, FEBRUARY 28, 2015	227,851	¥ 42,207	¥ 42,516	¥ 169	¥ 216,223	¥ (99)	¥ 1,061	¥ 25,938	¥ (138)	¥ 327,878	¥ 4,658	¥ 332,536
BALANCE, FEBRUARY 28, 2015 (MARCH 1, 2015, as previously reported)	227,851	¥ 42,207	¥42,516	¥ 169	¥ 216,223	¥ (99)	¥ 1,061	¥25,938	¥ (138)	¥ 327,878	¥ 4,658	¥ 332,536
Cumulative effect of accounting change					(23)					(23)		(23)
BALANCE, FEBRUARY 28, 2015 (as restated)	227,851	42,207	42,516	169	216,199	(99)	1,061	25,938	(138)	327,854	4,658	332,512
Net income					24,639					24,639		24,639
Exercise of stock options	11	9	9							19		19
Cash dividends, ¥22 per share					(5,012)					(5,012)		(5,012)
Purchase of treasury stock	(2,763)					(6,001)				(6,001)		(6,001)
Net change in the year				23			106	(7,725)	¥ (163)	(7,758)	1,450	(6,307)
BALANCE, FEBRUARY 29, 2016	225,099	¥ 42,217	¥ 42,525	¥ 193	¥ 235,826	¥(6,101)	¥ 1,168	¥ 18,213	¥ (302)	¥ 333,740	¥ 6,108	¥ 339,849

	Thousands of U.S. Dollars (Note 1)										
						Accumulated other comprehensive income					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan(s)	Total	Minority Interests	Total Equity (Deficit)
BALANCE, FEBRUARY 28, 2015 (MARCH 1, 2015, as previously reported)	$ 371,413	$ 374,130	$1,494	$ 1,902,702	$ (876)	$ 9,338	$ 228,252	$ (1,221)	$ 2,885 ,234	$ 40,989	$ 2,926,223
Cumulative effect of accounting change				(204)					(204)		(204)
BALANCE, FEBRUARY 28, 2015 (as restated)	371,413	374,130	1,494	1,902,497	(876)	9,338	228,252	(1,221)	2,885 ,029	40,989	2,926,018
Net income				216,822					216,822		216,822
Exercise of stock options	85	85							170		170
Cash dividends, $0.19 per share				(44,111)					(44,111)		(44,111)
Purchase of treasury stock					(52,815)				(52,815)		(52,815)
Net change in the year			209			940	(67,983)	(1,435)	(68,268)	12,761	(55,506)
BALANCE, FEBRUARY 29, 2016	$ 371,498	$ 374,215	$1,704	$ 2,075,208	$(53,691)	$ 10,279	$ 160,269	$ (2,657)	$ 2,936,826	$ 53,751	$ 2,990,577

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 41,037	¥ 42,361	$ 361,122
Adjustments for:			
Income taxes - paid	(17,278)	(25,877)	(152,047)
Gain on sales of property, plant, and equipment	(1,862)	(905)	(16,385)
Loss on sales of property, plant, and equipment	6	36	57
Gain on charge in equity	(438)		(3,858)
Depreciation and amortization	32,088	29,574	282,371
Loss on impairment of long-lived assets	686		6,039
Changes in assets and liabilities:			
Increase in receivables - trade accounts	(1,163)	(1,552)	(10,241)
Increase in payables - trade accounts	2,839	200	24,987
Decrease (increase) in deposits received	(14,018)	22,292	(123,360)
Increase (decrease) in allowance for doubtful accounts	12	(32)	113
Decrease in liability for retirement benefits	(64)	(13)	(571)
Other – net	19,940	10,069	175,473
Total adjustments	20,748	33,790	182,576
Net cash provided by operating activities	61,785	76,152	543,698
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(194,315)	(180,863)	(1,709,925)
Proceeds from sales of property, plant, and equipment	55,442	34,013	487,874
Purchases of long-term prepaid expenses	(12,899)	(1,089)	(113,515)
Payments of lease deposits to lessors	(3,713)	(2,176)	(32,679)
Reimbursement of lease deposits to lessors	1,123	5,712	9,886
Proceeds from sales of guarantee deposits		8,077	
Repayments of lease deposits from lessees	(9,405)	(7,987)	(82,766)
Proceeds from lease deposits from lessees	13,616	16,088	119,818
Other	3,820	719	33,618
Net cash used in investing activities	(146,332)	(127,505)	(1,287,688)
FINANCING ACTIVITIES:			
Net increase in short-term borrowings	8,440		74,274
Proceeds from long-term debt	74,679	52,707	657,161
Repayment of long-term debt	(31,025)	(10,566)	(273,017)
Proceeds from issuance of corporate bonds	30,000	40,000	263,991
Repayment of corporate bonds		(23,000)	
Dividends paid	(5,012)	(5,012)	(44,111)
Proceeds from issuance of subsidiaries' stock to minority shareholders	2,539	1,215	22,343
Other	(6,174)	(348)	(54,337)
Net cash provided by financing activities	73,446	54,994	646,306

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(2,468)	4,484	(21,725)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,569)	8,126	(119,408)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	67,222	59,096	591,540
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 53,652	¥ 67,222	$472,131
MAJOR NONCASH TRANSACTIONS:			
Asset retirement obligations recorded in the consolidated balance sheet	¥ 347	¥ 1,293	$ 3,053

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
As of and for the Year Ended February 29, 2016

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ÆON Mall Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥113.64 to $1, the approximate rate of exchange at February 29, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. Japanese yen figures of less than one million yen are rounded down to the nearest million yen and U.S. dollar figures of less than one thousand dollars are rounded down to the nearest thousand dollars, except for per share data. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥113.64 to $1, the approximate rate of exchange at February 29, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation -*** The consolidated financial statements as of February 29, 2016, include the accounts of the Company and its 34 (31 in 2015) subsidiaries (collectively, the "Group"). The following companies have been included in the consolidated financial statements as of and for the year ended February 29, 2016, since they were newly established during the year:

AEON MALL DIANYA (TIANJIN) BUSINESS MANAGEMENT CO., LTD.
YANTAI MALL REAL ESTATE DEVELOPMENT CO., LTD.
AEON MALL (SANHE) BUSINESS MANAGEMENT CO., LTD.

Investments in two (two in 2015) associated companies are accounted for by the equity method.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements -*** In May 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Practical Issues

Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the accounting principles generally accepted in the United States of America may be used tentatively for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions, which has been recorded in equity through other comprehensive income; (c)expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. ***Cash Equivalents -*** Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and deposits kept at the cash pool account of the parent company, both of which mature or become due within three months of the date of acquisition.

d. ***Investment Securities -*** Investment securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. ***Allowance for Doubtful Accounts -*** The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. ***Property, Plant, and Equipment -*** Property, plant and equipment are stated at cost. Depreciation of property, plant, and equipment of the Group is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 39 years for buildings and structures and from 2 to 20 years for furniture and fixtures.

g. ***Intangible Assets -*** Depreciation of software is computed by the straight-line method based on five years of the estimated useful lives.

h. ***Long-Lived Assets -*** The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

i. ***Long-Term Prepaid Expenses*** - Depreciation of long-term prepaid expenses is computed by the straight-line method over the life of the contract, which is principally from 4 to 50 years based on the contract terms.

j. ***Provision for Store Closing Expenses*** - A provision for store closing expenses, including rental agreement cancellation penalties, is recognized when a decision to close a store is made by management and such expenses may be reasonably estimated.

k. ***Lease Deposits to Lessors and Lease Deposits from Lessees -*** Certain shopping malls operated by the Group are leased under 20-year lease agreements. The lease agreements require that the Group make a lease deposit to the lessor.

The Group receives lease deposits from tenants (lessees) of shopping malls generally under 20-year lease agreements.

l. ***Bond Issue Costs -*** Bond issue costs are charged to income as incurred.

m. ***Retirement and Pension Plans -*** The Company has a defined benefit plan, defined contribution pension plan and advance payment plan. Liability for employees' retirement benefits is accounted for based on the projected benefit obligations and plan assets at the consolidated balance sheet date. A certain domestic consolidated subsidiary has joined the Smaller Enterprise Retirement Allowance Mutual Aid System. In addition, certain foreign subsidiaries have lump-sum payment plans.

Prior service costs are amortized fully as incurred. Actuarial gains and losses are amortized in the years following the year in which the gain or loss occurs by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the employees.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits, which had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or an asset (asset for retirement benefits).

(b) The revised accounting standard does not change the method to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income (loss), and actuarial gains and losses and past service costs that were recognized in other comprehensive income (loss) in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note17).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above effective February 28, 2015, and for (c) above effective March 1, 2015.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of March 1, 2015, in retained earnings. As a result, liability for retirement benefits as of March 1, 2015, increased by 36 million ($317 thousand) and retained earnings as of March 1, 2015, decreased by 23 million ($204 thousand), and the effect on operating income, ordinary income and income before income taxes and minority interests for the year ended February 29, 2016, is immaterial. There is also no material impact on per share information.

n. ***Asset Retirement Obligations -*** In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed by either law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value in each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. ***Stock Options –*** In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance that are applicable to stock options granted on or after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights and as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

p. ***Leases -*** In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Lessee

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

In addition, the revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions with certain “as if capitalized” information disclosed in the notes to the lessee’s financial statements.

All other leases are accounted for as operating leases.

Lessor

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the notes to the lessor's financial statements. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee be recognized as lease receivables and that all finance leases that are not deemed to transfer ownership of the leased property to the lessee be recognized as investments in leases.

All other leases are accounted for as operating leases.

The Company applied the revised accounting standard effective February 20, 2009.

q. ***Bonuses to Directors and Employees -*** Bonuses to directors and employees are accrued at the year-end to which such bonuses are attributable.

r. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax rates to the temporary differences.

s. ***Foreign Currency Transactions -*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

t. ***Foreign Currency Financial Statements -*** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

u. ***Derivatives and Hedging Activities -*** The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Interest rate swaps and currency swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks.The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income, and (b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

v. ***Per Share Information -*** Basic net income per share (EPS) is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period and retroactively adjusted for stock splits.

Diluted EPS reflects the potential dilution that could occur if warrants were exercised. Diluted EPS of common stock assumes full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

w. ***Provision for Loss on Guarantees***

To provide for loss guarantees, the Company makes an allowance for potential losses at the end of the fiscal year.

x. ***Accounting Changes and Error Corrections*** - In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) *Changes in Accounting Policies*

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) *Changes in Presentation*

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) *Changes in Accounting Estimates*

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) *Corrections of Prior-Period Errors*

When an error in prior-period consolidated financial statements is discovered, those consolidated statements are restated.

y. ***New Accounting Pronouncements***

The Company and its domestic consolidated subsidiaries:

The new accounting standards and other pronouncements that have been issued, which the Company and its domestic consolidated subsidiaries have not yet adopted as of February 29, 2016, are as follows:

• Accounting Standard for Business Combinations (ASBJ Statement No. 21, revised on September 13, 2013)
• Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on September 13, 2013)
• Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on September 13, 2013)
• Accounting Standard for Earnings per Share (ASBJ Statement No. 2, revised on September 13, 2013)
• Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, revised on September 13, 2013)
• Guidance on Accounting Standard for Earnings per Share (ASBJ Guidance No. 4, revised on September13, 2013)

The changes in these accounting standard, and other pronouncements mainly focus on (a) accounting for the changes in a parent's ownership interest in its subsidiary due to a parent's additional purchase of ownership interests in its subsidiary or other cases, while the parent retains its controlling interest in its subsidiary, (b) accounting for acquisition-related costs, (c) accounting for finalization of the provisional purchase price allocation, and (d) presentation of net income and the name change from "minority interests" to "noncontrolling interests." The Company and its consolidated subsidiaries will adopt the revised standards at the beginning of the fiscal year commencing on March 1, 2016, except for accounting for finalization of the provisional purchase price allocation that will be applied to business combinations to be completed on or after March 1, 2016. The effect that the adoption of these standards will have on the consolidated financial statements is currently under evaluation.

The Company's foreign consolidated subsidiaries:

The new accounting standards and other pronouncements that have been issued which the Company's foreign consolidated subsidiaries have not yet adopted as of February 29, 2016, are as follows.

• Revenue from Contracts with Customers (IFRS No. 15)

• Leases (IFRS No. 16)

The changes in these standards mainly focus on (a) accounting for revenue recognition and (b) recognizing assets and liabilities on all lessor lease transactions, in principle. The Company's foreign consolidated subsidiaries will adopt the revised IFRS No. 15 in the fiscal year commencing on March 1, 2018, and IFRS No. 16 in the fiscal year commencing on March 1, 2019. The effect that the adoption of these standards will have on the consolidated financial statements is currently under evaluation.

3. INVESTMENT SECURITIES

Investment securities as of February 29, 2016, and February 28, 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Investment securities:			
Marketable equity securities	¥ 2,188	¥ 2,112	$ 19,256
Other	46	46	404
Total	¥ 2,234	¥ 2,159	$ 19,661

The costs and aggregate fair values of investment securities as of February 29, 2016, and February 28, 2015, were as follows:

	Millions of Yen			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale - Equity securities	¥ 467	¥1,724	¥(3)	¥2,188

	Millions of Yen			
	2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale - Equity securities	¥ 467	¥1,645	¥(0)	¥2,112

	Thousands of U.S. Dollars			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale - Equity securities	$ 4,117	$15,171	¥ (32)	$19,256

There were no sales of the available-for-sales securities during the year ended February 29, 2016. The proceeds, realized gains, and realized losses of the available-for-sale securities that were sold during the year ended February 28, 2015, were as follows:

February 28, 2015	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 847	¥ 707	

Available-for-sale securities whose fair values are not readily determinable as of February 29, 2016 and February 28, 2015, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Available-for-sale:			
Equity securities	¥ 46	¥ 46	$ 404

There were no impairment losses for the years ended February 29, 2016, and February 28, 2015.

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 29, 2016 and February 28, 2015. No impairment loss was recognized on February 28, 2015 and the Group recognized impairment loss on the following long-lived assets on February 29, 2016:

Use	Type of Assets	Location	Millions of Yen 2016	Thousands of U.S. Dollars 2016
Shopping mall	Buildings and structures and others	Osaka	¥ 686	$ 6,039
Total			¥ 686	$ 6,039

The Group mainly categorizes a shopping mall as the standard unit that generates cash flows and an idle asset as an individual independent unit.

Based on the decision to scrap and build a shopping mall in Osaka, the entire book value of the shopping mall was reduced to zero and related dismantling costs were recorded as provision for store closing expenses.

5. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20, “Accounting Standard for Investment Property and Related Disclosures” and ASBJ Guidance No. 23, “Guidance on Accounting Standard for Investment Property and Related Disclosures.”

The Group holds some rental properties, such as shopping malls, throughout Japan, in China and in the Association of Southeast Asian Nations (ASEAN) area. The net of rental income and operating expenses for those rental properties were ¥33,532 million ($295,075 thousand) for the fiscal year ended February 29, 2016, and ¥32,904 million for the fiscal year ended February 28, 2015. Gain on sales of property, plant, and equipment was ¥1,862 million ($16,385 thousand) for the fiscal year ended February 29, 2016, and ¥897 million for the fiscal year ended February 28, 2015. Impairment loss was ¥686 million ($6,039 thousand) for the fiscal year ended February 29, 2016.

In addition, the carrying amounts, changes in such balances, and fair value of such properties are as follows:

Millions of Yen			
Carrying Amount			Fair Value
March 1, 2015	Increase/Decrease	February 29, 2016	February 29, 2016
¥ 701,197	¥ 64,180	¥ 765,377	¥ 987,336

Millions of Yen			
Carrying Amount			Fair Value
March 1, 2014	Increase/Decrease	February 28, 2015	February 28, 2015
¥ 537,866	¥ 163,331	¥ 701,197	¥ 927,843

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
March 1, 2015	Increase/Decrease	February 29, 2016	February 29, 2016
$ 6,170,338	$ 564,766	$ 6,735,105	$ 8,688,283

Notes:
1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Increase during the fiscal year ended February 29, 2016, was primarily attributable to newly acquired properties of ¥152,907 million ($1,345,544 thousand), which were partially offset by selling and disposal properties of ¥52,309 million ($460,304 thousand), and depreciation expense of ¥28,599 million ($251,667 thousand).
Increase during the fiscal year ended February 28, 2015, was primarily attributable to newly acquired properties of ¥177,915 million, which were partially offset by selling and disposal properties of ¥33,110 million, and depreciation expense of ¥24,441 million.
3) Fair value of properties is mainly measured based on real estate appraisal value.

6. SHORT-TERM BANK LOANS, LONG-TERM DEBT, AND CORPORATE BONDS

Short-term bank loans at February 29, 2016, and February 28, 2015, consisted of the following.

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Short-term loans principally from banks, 0.52%to 5% (2016)	¥ 8,339		$ 73,383
Total	8,339		73,383

Long-term debt and corporate bonds as of February 29, 2016 and February 28, 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loans from banks and insurance companies, due through 2030 with interest rates ranging from 0.15% to 5.10% (2016) and 0.35% to 6.78% (2015):			
Collateralized	¥ 30,352	¥ 10,122	$ 267,094
Unsecured	200,514	178,476	1,764,471
Total	230,867	188,598	2,031,565
Less current portion	(38,585)	(24,709)	(339,544)
Long-term debt, less current portion	¥192,281	¥163,889	$1,692,021

Annual maturities of long-term debt as of February 29, 2016, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 38,585	$ 339,544
2018	52,589	462,770
2019	29,533	259,886
2020	23,393	205,860
2021	21,494	189,147
2022 and thereafter	65,269	574,356
Total	¥230,867	$2,031,565

Corporate bonds as of February 29, 2016 and February 28, 2015 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Issued by the Company:			
Unsecured 0.50% yen corporate bond, due 2018	¥ 10,000	¥ 10,000	$ 87,997
Unsecured 0.80% yen corporate bond, due 2020	15,000	15,000	131,995
Unsecured 0.44% yen corporate bond, due 2022	15,000	15,000	131,995
Unsecured 0.90% yen corporate bond, due 2025	20,000	20,000	175,994
Unsecured 0.95% yen corporate bond, due 2027	5,000	5,000	43,998
Unsecured 0.57% yen corporate bond, due 2023	30,000		263,991
Issued by HIWADA SHOPPING MALL CO., LTD.:			
Unsecured 0.64% yen corporate bond, due 2017	200	200	1,759
Total	95,200	65,200	837,733
Less current portion	(200)		(1,759)
Corporate bonds, less current portion	¥ 95,000	¥ 65,200	$ 835,973

Annual maturities of corporate bonds as of February 28, 2016, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 200	$ 1,759
2018	10,000	87,997
2019		
2020	15,000	131,995
2021		
2022 and thereafter	70,000	615,980
Total	¥ 95,200	$ 837,733

Collateralized long-term debt and other as of February 29, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt	¥ 1,657	$ 14,588
Current portion of lease deposits from lessees	75	662
Long-term debt	28,694	252,506
Lease deposits from lessees	1,206	10,619
Total	¥ 31,634	$ 278,377

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other as of February 29, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 17,416	$ 153,256
Buildings and structures - net of accumulated depreciation	60,007	528,046
Total	¥ 77,423	$ 681,303

7. RETIREMENT AND PENSION PLANS

The Company has severance payment plans for employees. The Company has a defined benefit pension plan, advance payment plan, and defined contribution pension plan covering substantially all employees. A certain domestic consolidated subsidiary has joined the Smaller Enterprise Retirement Allowance Mutual Aid System. In addition, certain foreign subsidiaries have lump-sum payment plans.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

(1) The changes in defined benefit obligation for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 1,766	¥ 1,553	$ 15,545
Cumulative effect of accounting change	13		123
Balance at beginning of year (as restated)	1,780	1,553	15,668
Current service cost	129	76	1,141
Interest cost	23	29	203
Actuarial losses	347	177	3,057
Benefits paid	(87)	(69)	(773)
Balance at end of year	¥ 2,192	¥ 1,766	$19,297

(2) The changes in plan assets for the years ended February 29, 2016. and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 1,365	¥ 1,249	$ 12,019
Expected return on plan assets	31	19	280
Actuarial losses	82	33	725
Contributions from the employer	221	133	1,951
Benefits paid	(87)	(69)	(773)
Others	(22)		(194)
Balance at end of year	¥ 1,591	¥ 1,365	$ 14,008

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of February 29, 2016 and February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Funded defined benefit obligation	¥ 2,192	¥ 1,766	$ 19,297
Plan assets	(1,591)	(1,365)	(14,008)
Net liability arising from defined benefit obligation	¥ 600	¥ 400	$ 5,288

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥ 600	¥ 400	$ 5,288
Asset for retirement benefits			
Net liability arising from defined benefit obligation	¥ 600	¥ 400	$ 5,288

(4) The components of net periodic benefit costs for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 129	¥ 76	$ 1,141
Interest cost	23	29	203
Expected return on plan assets	(31)	(19)	(280)
Recognized actuarial losses	34	33	306
Net periodic benefit costs	¥ 155	¥ 119	$ 1,371

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 29, 2016 and February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Actuarial losses	¥ 230		$ 2,025
Total	¥ 230		$ 2,025

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 29, 2016 and February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized actuarial losses	¥ 445	215	$ 3,919
Total	¥ 445	215	$ 3,919

(7) Plan assets

(1) Components of plan assets

Plan assets as of February 29, 2016 and February 28, 2015, consisted of the following:

	2016	2015
Debt investments	55.5%	58.5%
Equity investments	14.0	14.6
General account of life insurance	14.7	11.5
Others*1	15.8	15.4
Total	100.0%	100.0%

*1 Mainly includes alternative investments

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended February 29, 2016 and February 28, 2015, are set forth as follows:

	2016	2015
Discount rate	0.9%	1.3%
Expected rate of return on plan assets	2.4	1.6

Defined contribution plan:
Contributions for advance payment plan for the years ended February 29, 2016 and February 28, 2015 were ¥198 million ($1,747thousand) and ¥134 million, respectively.

Advance payment plan:
Payments for advance payment plan for the years ended February 29, 2016 and February 28, 2015 were ¥55 million ($491thousand) and ¥44 million, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 29, 2016 and February 28, 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 9,169	¥ 7,704	$ 80,692
Additional provisions associated with the acquisitions of property, buildings, and equipment	347	1,293	3,053
Reconciliation associated with passage of time	163	158	1,440
Others		13	
Balance at end of year	¥ 9,680	¥ 9,169	$ 85,186

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. *Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if a company has prescribed so in its articles of incorporation. The Company meets all of the above criteria.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. *Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus*

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. *Treasury Stock and Treasury Stock Acquisition Rights*

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies

Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock options outstanding as of February 29, 2016, are as follows:

Stock Option	Persons Granted	Number of Options Granted*	Date of Grant	Exercise Price	Exercise Period
2009 Stock Option	17 directors	22,220 shares	2008.4.21	¥1 ($0.01)	From May 21, 2008 to May 20, 2023
2010 Stock Option	16 directors	32,340 shares	2009.4.21	¥1 ($0.01)	From May 21, 2009 to May 20, 2024
2011 Stock Option	12 directors	26,510 shares	2010.4.21	¥1 ($0.01)	From May 21, 2010 to May 20, 2025
2012 Stock Option	11 directors	20,790 shares	2011.4.21	¥1 ($0.01)	From May 21, 2011 to May 20, 2026
2013 Stock Option	12 directors	22,330 shares	2012.4.21	¥1 ($0.01)	From May 21, 2012 to May 20, 2027
2014 Stock Option	8 directors	10,890 shares	2013.4.21	¥1 ($0.01)	From May 21, 2013 to May 20, 2028
2015 Stock Option	10 directors	18,400 shares	2014.4.21	¥1 ($0.01)	From May 21, 2014 to May 20, 2029
2016 Stock Option	10 directors	20,400 shares	2015.5.10	¥1 ($0.01)	From June 10, 2015 to June 9, 2030

*The number of options granted has been restated, as appropriate, to reflect a 1.1-for-1 stock split effected on August 1, 2013.

The stock option activity is as follows:

	2009 Stock Option (Shares)	2010 Stock Option (Shares)	2011 Stock Option (Shares)	2012 Stock Option (Shares)	2013 Stock Option (Shares)	2014 Stock Option (Shares)	2015 Stock Option (Shares)	2016 Stock Option (Shares)
Year Ended February 28, 2015								
Nonvested:								
February 28, 2014 – outstanding								
Granted							18,400	
Canceled								
Vested							(18,400)	
February 28, 2015 – outstanding								
Vested:								
February 28, 2014 – outstanding	7,810	19,250	20,570	19,580	20,570	10,890		
Vested							18,400	
Exercised	(1,430)	(4,180)	(3,080)	(3,630)		(660)	(1,100)	
Canceled	(1,430)	(2,090)	(2,200)	(2,420)				
February 28, 2015 – outstanding	4,950	12,980	15,290	13,530	20,570	10,230	17,300	
Year Ended February 29, 2016								
Nonvested:								
February 28, 2015 – outstanding								
Granted								20,400
Canceled								
Vested								(20,400)
February 29, 2016 – outstanding								
Vested:								
February 28, 2015 – outstanding	4,950	12,980	15,290	13,530	20,570	10,230	17,300	
Vested								20,400
Exercised		(770)	(2,310)	(1,210)	(4,180)	(1,210)		(1,600)
Canceled								
February 29, 2016 – outstanding	4,950	12,210	12,980	12,320	16,390	9,020	17,300	18,800
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)
Average stock price at exercise		¥2,163	¥1,893	¥2,141	¥1,883	¥1,890		¥2,202
		($19)	($16)	($18)	($16)	($16)		($19)
Fair value price at grant date	¥2,500	¥1,089	¥1,583	¥1,609	¥1,473	¥2,763	¥2,245	¥2,116
	($21)	($9)	($14)	($14)	($12)	($24)	($19)	($18)

The Company made a stock split by way of a free share distribution at the rate of 1.1-for-1 for each outstanding share on August 1, 2013.
The number of shares is retroactively adjusted for the stock split.

The Assumptions Used to Measure Fair Value of 2016 Stock Options:

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	41.61%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥22 per share
Risk-free interest rate:	0.29%

11. INCOME TAXES

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at February 29, 2016 and February 28, 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Payables and accrued expenses	¥ 1,323	¥ 979	$ 11,642
Accrued enterprise tax	760	659	6,691
Property, plant, and equipment	4,833	4,994	42,533
Long-term prepaid expenses	1,023	885	9,008
Liability for retirement benefits	184	67	1,622
Asset retirement obligation	3,107	3,255	27,344
Long-term deferred revenue	685	546	6,029
Tax loss carryforwards of subsidiaries	1,932	1,763	17,008
Provision for loss on guarantees	168		1,482
Other	1,398	1,004	12,303
Less valuation allowance	(3,651)	(3,415)	(32,131)
Total deferred tax assets	11,765	10,739	103,533
Deferred tax liabilities:			
Property revaluation	117	126	1,038
Lease deposits to lessors and long-term prepaid expenses	427	521	3,758
Deferred capital gains on property	193	220	1,704
Special depreciation on property	332	545	2,924
Asset retirement obligation removal expense	1,954	2,138	17,195
Unrealized gain on available-for-sale securities	552	584	4,859
Other	28		251
Total deferred tax liabilities	3,606	4,136	31,732
Net deferred tax assets	¥ 8,159	¥ 6,603	$ 71,801

Net tax deferred tax assets were included in the consolidated balance sheets as of February 29, 2016 and February 28, 2015, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
CURRENT ASSETS ‐ deferred tax assets	¥ 1,830	¥ 1,265	$ 16,107
INVESTMENT AND OTHER ASSETS ‐ deferred tax assets	6,442	5,430	56,694
LONG-TERM LIABILITIES ‐ deferred tax liabilities	(113)	(92)	(1,002)
Net deferred tax assets	¥ 8,159	¥ 6,603	$ 71,801

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended February 29, 2016 and February 28, 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	35.4%	37.9%
Expenses not deductible for income tax purposes	0.2	0.1
Per capita portion of inhabitant tax	0.2	0.2
Tax benefits not recognized on operating losses of subsidiaries	1.9	1.3
Change in valuation allowance	0.0	1.0
Tax effect related to consolidated adjustment	(0.2)	(0.3)
Lower income tax rates applicable to income in certain foreign countries	2.2	2.0
Special credit of corporation tax	(1.3)	(0.5)
Effect of tax reduction	2.2	0.2
Other – net	0.8	0.6
Actual effective tax rate	41.4%	42.5%

"Special credit of corporation tax," which was included in "Other-net" for the year ended February 28, 2015, is presented as an independent item from the fiscal year under review in consideration of its ratio to the normal effective statutory tax rate. To reflect this change in presentation, the note for the year ended February 28, 2015 is restated.
In the previous fiscal year's report, "Other-net" for the year ended February 28, 2015 was 0.1%. In this report, "Other-net" is broken down into "special credit of corporation tax,"-0.5%, and "Other-net," 0.6%.

The Ministry of Finance in Japan enacted the "Act on Partial Amendment to the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act on Partial Amendment to the Local Tax Act, etc." (Act No. 2 of 2015) on March 31, 2015, to reduce the corporation tax rate and to gradually reduce the business tax, effective from fiscal years beginning on or after April 1, 2015. As a result, the effective statutory tax rate for calculating deferred tax assets and liabilities has been reduced from 35.4% to 32.8% for temporary differences that are expected to be realized during the fiscal year beginning on March 1, 2016, and from 35.4% to 32.1% for temporary differences that are expected to be realized during the fiscal years beginning on or after March 1, 2017. As a result, deferred tax assets and deferred tax liabilities decreased by ¥865 million ($7,614 thousand) and ¥4 million ($37 thousand), respectively. Additionally, income taxes deferred (debit), unrealized gain (loss) on available-for-sale securities (credit), and defined retirement benefit plans (debit) increased by ¥903 million ($7,947 thousand), ¥56 million ($499 thousand), and ¥14 million ($129 thousand), respectively.

The Ministry of Finance in Japan enacted the "Act on Partial Amendment to the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act on Partial Amendment to the Local Tax Act, etc." (Act No. 13 of 2016) on March 31, 2016, to reduce the corporation tax rate and to gradually reduce the business tax, effective from fiscal years beginning on or after April 1, 2016. As a result, the effective statutory tax rate for calculating deferred tax assets and liabilities will be reduced from 32.1% to 30.7% for temporary differences that are expected to be realized during the fiscal year beginning on March 1, 2017, and from 32.1% to 30.5% for temporary differences that are expected to be realized during the fiscal years beginning on or after March 1, 2019. If the new effective statutory tax rate had been applied in the fiscal year ended February 29, 2016, deferred tax assets and deferred tax liabilities would have decreased by ¥355 million ($3,125 thousand) and ¥5 million ($49 thousand), respectively. Additionally, income taxes deferred (debit), unrealized gain (loss) on available-for-sale securities (credit), and defined retirement benefit plans (debit) would have increased by ¥369 million ($3,255 thousand), ¥27 million ($242 thousand) and ¥7 million ($62 thousand), respectively.

At February 29, 2016, certain subsidiaries have tax loss carryforwards aggregating approximately ¥9,450 million ($83,164 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 692	$ 6,089
2018	801	7,053
2019	1,444	12,713
2020	3,119	27,452
2021 and thereafter	3,392	29,854
Total	¥ 9,450	$ 83,164

12. LEASES

a. Lessee

The Group leases certain furniture and fixtures, and other assets.

Total rental expenses including lease payments under finance leases for the years ended February 29, 2016 and February 28, 2015, were ¥59,289 million ($521,730 thousand) and ¥50,781 million, respectively.

As discussed in Note 2.p, the Group accounts for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date on an "as if capitalized" basis for the years ended February 29, 2016 and February 28, 2015, was as follows:

	Millions of Yen	
	2016	
	Furniture and Fixtures	Total
Acquisition cost	¥ 35	¥ 35
Accumulated depreciation	26	26
Net leased property	¥ 8	¥ 8

	Millions of Yen	
	2015	
	Furniture and Fixtures	Total
Acquisition cost	¥ 35	¥ 35
Accumulated depreciation	23	23
Net leased property	¥ 12	¥ 12

	Thousands of U.S. Dollars	
	2016	
	Furniture and Fixtures	Total
Acquisition cost	$ 312	$ 312
Accumulated depreciation	236	236
Net leased property	$ 75	$ 75

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 3	¥ 3	$ 34
Due after one year	4	9	35
Total	¥ 7	¥ 13	$ 69

Depreciation expense, interest expense, and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Depreciation expense	¥ 3	¥ 3	$ 31
Interest expense	0	0	3
Total	¥ 3	¥ 4	$ 34
Lease payments	¥ 4	¥ 4	$ 36

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statement of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at February 29, 2016 and February 28, 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 47,106	¥ 41,265	$ 414,523
Due after one year	366,074	251,610	3,221,352
Total	¥ 413,180	¥ 292,876	$ 3,635,876

Note:
The total for the year ended February 29, 2016, includes the Group's land use rights in China, Vietnam, and Indonesia, amounting to ¥38,269 million ($336,760 thousand). The land use rights are fully paid out and are disclosed as "Long-term prepaid expenses" on the consolidated balance sheet. The total for the year ended February 28, 2015, includes the Group's land use rights in China and Vietnam, amounting to ¥29,924 million. The land use rights are fully paid out and are disclosed as "Long-term prepaid expenses" on the consolidated balance sheet.

b. Lessor

The Group leases certain store space to tenants and other assets.

Future rental revenues from subleases under finance leases for the years ended February 29, 2016 and February 28, 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 2,478	¥ 723	$ 21,810
Due after one year	19,876	5,827	174,911
Total	¥ 22,355	¥ 6,550	$ 196,721

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group policy for financial instruments*

The Group operates shopping mall businesses as its core business. The Group rents retail facilities in shopping malls to tenants, ÆON Retail Co., Ltd. (the "parent's subsidiary"), operating general merchandise stores, and other ÆON group companies. The Group uses financial instruments, mainly long-term debt, including bank loans and corporate bonds, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets, such as deposits in banks and the parent company. Derivatives are used, not for speculative purposes, but to manage exposure to financial risk.

(2) *Nature and extent of risks arising from financial instruments*

Receivables, such as trade accounts, are exposed to customers credit risk.

Investment securities are business-related equities and are exposed to market price fluctuation risk and credit risk.

Loans are exposed to credit risk due to breach of contract.

Lease deposits to lessors are exposed to lessor's credit risk.

Payment terms of payables, such as trade accounts, are less than one year.

Short-term bank loans, commercial papers, long-term debt and bonds are used for financing mainly for operating transactions and property investments. Liquidity risk, which comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates, is managed by dispersal of due dates or maturity dates. Although certain bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using interest rate swaps.

Please refer to Note 14 for more details about derivatives.

(3) *Risk management for financial instruments*

Credit risk management

The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

Regarding investment securities, the Group assesses quarterly the fair values of equity securities and regularly monitors the issuer's financial position for equity securities without market values.

The Group manages its credit risk from loans by monitoring payment terms and balances by each business administration department to identify the default risk of the counterparties at an early stage.

Certain parts of lease deposits from lessees are covered by mortgages and right of pledges.

Because the counterparties to the derivatives are major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Market risk management (interest rate risk and foreign exchange risk)

Interest rate swaps and currency swaps are used to manage exposure to fluctuations in interest rates and foreign exchange of loan payables.

Basic principles of derivative transactions have been approved by management based on internal guidelines, set by the Corporate Treasury Department, which prescribe the authority and the limit for each transaction. Reconciliations of transactions and balances with customers are performed, and transaction data is reported to the chief financial officer.

Investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

Liquidity risk management

The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the Corporate Treasury Department.

(4) *Fair values of financial instruments*

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead.

Fair values of financial instruments are as follows:

	Millions of Yen		
	2016		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 53,652	¥ 53,652	
Time deposits	1,722	1,722	
Receivables—Trade accounts	5,713	5,713	
Long-term loans, including current portion	295	294	¥ (1)
Investment securities	2,188	2,188	
Lease deposits to lessors, including current portion	44,684	42,660	(2,024)
Total	¥ 108,257	¥ 106,231	¥ (2,025)
Short-term bank loans	¥ 8,339	¥ 8,339	
Payables—Trade accounts	14,239	14,239	
Payables—Construction	78,886	78,886	
Deposits received	40,135	40,135	
Income taxes payable	10,556	10,556	
Long-term debt, including current portion	230,867	230,685	¥ (181)
Corporate bonds, including current portion	95,200	96,207	1,007
Lease deposits from lessees, including current portion	122,725	123,221	495
Total	¥ 600,950	¥ 602,271	¥ 1,320

	Millions of Yen		
	2015		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 67,222	¥ 67,222	
Time deposits	5,118	5,118	
Receivables—Trade accounts	4,724	4,724	
Long-term loans, including current portion	314	314	¥ (0)
Investment securities	2,112	2,112	
Lease deposits to lessors, including current portion	41,225	37,964	(3,260)
Total	¥ 120,718	¥ 117,457	¥ (3,261)
Payables—Trade accounts	¥ 11,848	¥ 11,848	
Payables—Construction	95,845	95,845	
Deposits received	54,232	54,232	
Income taxes payable	9,436	9,436	
Long-term debt, including current portion	188,598	189,480	¥ 881
Corporate bonds	65,200	65,846	646
Lease deposits from lessees, including current portion	118,686	118,481	(204)
Total	¥ 543,848	¥ 545,172	¥ 1,323

	Thousands of U.S. Dollars		
	2016		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	$ 472,131	$ 472,131	
Time deposits	15,157	15,157	
Receivables—Trade accounts	50,274	50,274	
Long-term loans, including current portion	2,602	2,592	$ (10)
Investment securities	19,254	19,254	
Lease deposits to lessors, including current portion	393,214	375,396	(17,818)
Total	$ 952,634	$ 934,806	$ (17,828)
Short-term bank loans	$ 73,383	$ 73,383	
Payables—Trade accounts	125,304	125,304	
Payables—Construction	694,183	694,183	
Deposits received	353,178	353,178	
Income taxes payable	92,891	92,891	
Long-term debt, including current portion	2,031,565	2,029,966	$ (1,599)
Corporate bonds,including current portion	837,733	846,598	8,865
Lease deposits from lessees, including current portion	1,079,953	1,084,311	4,358
Total	$ 5,288,193	$ 5,299,817	$ 11,624

(a) The methods and assumptions used to estimate the fair values of financial instruments are summarized below:

Cash and cash equivalents, Time deposits, and Receivables—Trade accounts

The carrying values of cash and cash equivalents, time deposits, and receivables— trade accounts approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments.

Long-term loans, including the current portion, and Lease deposits to lessors, including the current portion

The fair values of long-term loans, including the current portion, and lease deposits to lessors, including the current portion, are measured by discounting the total amount to be received based on the contract period at the risk-free rate.

Short-term bank loans, Payables—Trade accounts, Payables —Construction, Deposits received and Income taxes payable

The fair values of payables—trade accounts, payables—construction, deposits received and income taxes payable approximate fair value because of their short maturities.

Corporate bonds, including the current portion

The fair values of corporate bonds issued by the Company are based on the quoted market price.

Long-term debt, including the current portion

The fair values of long-term debt, including the current portion, are determined by discounting the cash flows related to the loans at the Group's assumed borrowing rate.

Lease deposits from lessees, including the current portion

The fair values of lease deposits from lessees, including the current portion, are determined by discounting the cash flows related to the deposits at the Group's assumed borrowing rate.

Derivatives

Fair value information for derivatives is included in Note 14.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined.

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Investments in equity instruments that do not have a quoted market price in an active market	¥ 143	¥ 236	$ 1,264

(c) Maturity analysis for financial assets and interest-bearing liabilities with contractual maturities

	Millions of Yen			
	2016			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 53,652			
Time deposits	1,722			
Receivables—Trade accounts	5,713			
Long-term loans, including current portion	82	¥ 181	¥ 30	¥ 0
Lease deposits to lessors *1	579	2,013	451	2
Short-term bank loans	8,339			
Corporate bonds	200	25,000	65,000	5,000
Long-term debt	38,585	127,011	61,320	3,948
Lease deposits from lessees	175	501		

	Thousands of U.S. Dollars			
	2016			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 472,131			
Time deposits	15,157			
Receivables—Trade accounts	50,274			
Long-term loans, including current portion	728	$ 1,601	$ 268	$ 5
Lease deposits to lessors *1	5,101	17,716	3,973	19
Short-term bank loans	73,383			
Corporate bonds	1,759	219,992	571,981	43,998
Long-term debt	339,544	1,117,664	539,607	34,749
Lease deposits from lessees	1,541	4,409		

*1 Lease deposits to lessors with no defined redemption schedule of ¥41,638 million ($366,402 thousand) are not included in the above table.

14. DERIVATIVES

The Group enters into interest rate swap and currency swap contracts to manage its interest rate exposure and foreign exchange risk on certain liabilities.

All derivative transactions are entered into hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been made in accordance with internal policies that regulate the authorization and credit limit amount.

Derivative transactions to which hedge accounting is not applied

	Millions of Yen			
February 29, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt U.S.dollar/Payment Yen	¥13,206	¥10,805	¥(874)	¥(874)
Receipt Yen/Payment Indonesia Rup	¥1,670		¥44	¥44

	Thousands of U.S. Dollars			
February 29, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt U.S.dollar/Payment Yen	$116,209	$ 95,082	$ (7,698)	$ (7,698)
Receipt Yen/Payment Indonesia Rup	$14,699		$ 392	$ 392

*The fair values of currency swaps are measured at the quoted price obtained from the financial institutions.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative transactions to which hedge accounting is applied

February 29, 2016	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	¥ 46,307	¥ 36,079	*

February 28, 2015	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	¥ 48,509	¥ 38,509	*

February 29, 2016	Hedged Item	Thousands of U.S. Dollars Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	$ 407,493	$ 317,493	*

*The above interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of hedged items (i.e., long-term debt).

15. GAIN ON SALES OF PROPERTY, PLANT, AND EQUIPMENT

The figures for the years ended February 29, 2016 and February 28, 2015, include ¥1,861 million ($16,379 thousand) and ¥897 million, respectively, of gain on the sale of two commercial facilities and one commercial facility to Aeon REIT Invest Corporation.

16. CONTINGENT LIABILITIES

KANDU JAPAN INC., an associated company, concluded an agreement to extend the borrowing period for debt due on February 29, 2016 with a financial institution. In association with the agreement, the Company introduced a credit enhancement. Details are as shown below.

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Credit enhancement	¥ 1,050		$ 9,239
Provision for loss on guarantees	525		4,619
Net	¥ 525		$ 4,619

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥75	¥1,687	$660
Reclassification adjustments to profit or loss		(707)	
Amount before income tax effect	75	979	660
Income tax effect	31	(347)	280
Total	¥106	¥ 632	$940
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (7,792)	¥12,950	$(68,568)
Reclassification adjustments to profit or loss	(282)		(2,490)
Amount before income tax effect	(8,075)	12,950	(71,058)
Income tax effect			
Total	¥ (8,075)	¥ 12,950	$(71,058)
Defined retirement benefit plan(s)			
Adjustments arising during the year	¥ (265)		$(2,332)
Reclassification adjustments to profit or loss	34		306
Amount before income tax effect	(230)		(2,205)
Income tax effect	67		589
Total	¥ (163)		$(1,435)
Total other comprehensive (loss) income	¥ (8,131)	¥13,582	$(71,554)

18. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted EPS for the years ended February 29, 2016 and February 28, 2015, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 29, 2016	Net Income	Weighted-Average Shares	EPS*	
Basic EPS - Net income available to common shareholders	¥ 24,639	227,230	¥ 108.43	$ 0.95
Effect of dilutive securities - Warrants		106		
Diluted EPS - Net income for computation	¥ 24,639	227,336	¥ 108.38	$ 0.95
Year Ended February 28, 2015				
Basic EPS - Net income available to common shareholders	¥ 24,513	227,849	¥ 107.58	
Effect of dilutive securities - Warrants		97		
Diluted EPS - Net income for computation	¥ 24,513	227,947	¥ 107.53	

19. RELATED-PARTY DISCLOSURES

Transactions with the parent company and its subsidiaries for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deposits kept at the cash pool account of ÆON CO., LTD. (the parent company)	¥ 3,759	¥ 13,067	$ 33,083
Interest income from ÆON CO., LTD. (the parent company)	6	27	57
Revenues from leases of shopping malls to ÆON RETAIL CO., LTD. (the parent's subsidiary)	29,787	27,397	262,125
Credit fee paid to ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	4,393	4,116	38,663

Note: These transactions were made on an arm's-length basis in the normal course of business.

The balances due to/from the parent company and its subsidiaries at February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Cash equivalents—deposits kept at the cash pool account of ÆON CO., LTD. (the parent company)		¥ 5,000	
Receivables—trade accounts from ÆON RETAIL CO., LTD. (the parent's subsidiary)	¥ 683	744	$ 6,015
Lease deposits received from ÆON RETAIL CO., LTD. (the parent's subsidiary)	13,318	13,783	117,201
Receivables—other from ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	9,118	8,407	80,244

Note: Lease deposits received are at stated amounts. Lease deposits include the current portion of lease deposits from lessees.

20. SEGMENT INFORMATION

(1) *Description of Reportable Segments*

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated within the Group.

The Group has been operating only a shopping mall business in Japan and overseas. The Group develops comprehensive strategies according to the characteristics of different regions and develops operations.
The Group therefore consists of three geographical reporting segments: Japan, China, and ASEAN.

(2) *Changes in Reportable Segments*

While the Group has operated solely within the shopping mall business, the segmentation method has been revised due to the increased importance of overseas business, and as a result, the reporting segments have been changed from the conventional single segment to the Japan, China, and ASEAN segments starting in the current fiscal year.
Segment information for the previous fiscal year is prepared according to the revised segments and is presented in (4) Information about Revenues, Profit (Loss), Assets, Liabilities and Other Items of each reporting segment (for the year ended February 28, 2015).

(3) *Methods of Measurement for the Amounts of Revenues, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment*

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(4) ***Information about Revenues, Profit (Loss), Assets, Liabilities and Other Items***

	Millions of Yen					
	2016					
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 214,006	¥ 11,506	¥ 4,241	¥ 229,754		¥ 229,754
Intersegment revenues or transfers						
Total	¥ 214,006	¥ 11,506	¥ 4,241	¥ 229,754		¥ 229,754
Segment profit (loss)	¥ 49,322	¥ (4,448)	¥ (1,013)	¥ 43,859	¥ 11	¥ 43,870
Segment assets	703,222	160,195	109,493	972,912	2,058	974,970
Other:						
Depreciation	31,684	1,972	1,489	35,145	(11)	35,134
Impairment losses of assets	686			686		686
Increase in property, plant and equipment and intangible assets	102,974	48,812	32,164	183,951	(288)	183,663

	Millions of Yen					
	2015					
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 196,650	¥ 6,065	¥ 1,187	¥ 203,902		¥ 203,902
Intersegment revenues or transfers						
Total	¥ 196,650	¥ 6,065	¥ 1,187	¥ 203,902		¥ 203,902
Segment profit (loss)	¥ 46,346	¥ (3,529)	¥ (944)	¥ 41,872		¥ 41,872
Segment assets	695,938	106,098	86,826	888,862	¥ 12,094	900,957
Other:						
Depreciation	29,578	1,065	361	31,004		31,004
Impairment losses of assets						
Increase in property, plant and equipment and intangible assets	149,021	20,930	21,270	191,223	(389)	190,833

	Thousands of U.S. Dollars					
	2016					
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	$ 1,883,198	$ 101,257	$ 37,321	$ 2,021,777		$ 2,021,777
Intersegment revenues or transfers						
Total	$ 1,883,198	$ 101,257	$ 37,321	$ 2,021,777		$ 2,021,777
Segment profit (loss)	$ 434,024	$ (39,149)	$ (8,921)	$ 385,954	$ 97	$ 386,051
Segment assets	6,188,163	1,409,672	963,515	8,561,352	18,110	8,579,462
Other:						
Depreciation	278,811	17,356	13,103	309,270	(97)	309,173
Impairment losses of assets	6,039			6,039		6,039
Increase in property, plant and equipment and intangible assets	906,150	429,534	283,038	1,618,723	(2,536)	1,616,187

Notes for the year ended February 29, 2016:

1. Adjustments are as follows:
   (1) The reconciliation in segment profit or loss is the reconciliation of unrealized gain on intersegment trades.
   (2) The reconciliation in segment assets of ¥ 2,058 million ($18,110) is the Group's assets of ¥ 3,539 million ($31,148), which are not included in the reportable segment and the result of the elimination of intersegment trades.
   (3) The reconciliation in depreciation is the reconciliation of unrealized gain on fixed assets.
   (4) The reconciliation in the increase in property, plant and equipment and intangible assets is the reconciliation of unrealized gain on fixed assets.
2. The calculation of the segment profit or loss is based on the operating income in the consolidated statement of income.
3. The depreciation and the increase in property, plant and equipment and intangible assets include long-term prepaid expense and its depreciation.

Notes for the year ended February 28, 2015:

1. Adjustments are as follows:
   (1) The reconciliation in segment assets of ¥ 12,094 million is the Group's assets of ¥ 13,785 million, which are not included in the reportable segment and the result of the elimination of intersegment trades.
   (2) The reconciliation in the increase in property, plant and equipment and intangible assets is the reconciliation of unrealized gain on fixed assets.
2. The calculation of the segment profit or loss matches operating income in the consolidated statement of income.
3. The depreciation and the increase in property, plant and equipment and intangible assets include long-term prepaid expense and its depreciation.

(5) Information about Products and Services

Information about products and services for the years ended February 29, 2016, and February 28, 2015, has been omitted because revenues in the shopping mall business accounted for more than 90% of consolidated net revenues of the Group

(6) *Information about Geographical Areas*

(a) Revenues
Information about geographical areas for the years ended February 29, 2016 and February 28, 2015 has been omitted because revenues in Japan accounted for more than 90% of consolidated net revenues of the Group.

(b) Property, plant and equipment

Millions of Yen			
2016			
Japan	China	ASEAN	Total
¥ 620,676	¥ 56,319	¥ 77,720	¥ 754,716

Millions of Yen			
2015			
Japan	China	ASEAN	Total
¥ 603,704	¥ 28,446	¥ 57,669	¥ 689,820

Thousands of U.S. Dollars			
2016			
Japan	China	ASEAN	Total
$ 5,461,776	$ 495,592	$ 683,919	$ 6,641,288

(7) Information about major customers

	2016	
	Millions of Yen	
Name of customers	Revenues	Related segment name
ÆON RETAIL CO.,LTD	¥ 29,812	Japan

	2015	
	Millions of Yen	
Name of customers	Revenues	Related segment name
ÆON RETAIL CO.,LTD	¥ 27,422	Japan

	2016	
	Thousands of U.S. Dollars	
Name of customers	Revenues	Related segment name
ÆON RETAIL CO.,LTD	$ 262,344	Japan

21. SUBSEQUENT EVENTS

a. OPA Co., Ltd. has become a wholly-owned subsidiary upon a share exchange

Following a resolution at a meeting of the Board of Directors held on November 17, 2015, the Company implemented a share exchange (effective on March 1, 2016, and hereinafter referred to as the "Share Exchange") upon which the Company became a wholly owning parent company, and OPA Co., Ltd. (hereinafter referred to as "OPA") became a wholly owned subsidiary. On March 1, 2016, OPA succeeded the VIVRE FORUS business of ÆON Retail Co., Ltd. (hereinafter referred to as "ÆON Retail") upon the absorption-type company demerger and ÆON Co., Ltd. (hereinafter referred to as "ÆON") acquired all the shares of OPA from The Daiei, Inc., and the Company made OPA a wholly owned subsidiary through a short-form share exchange.

(1) Purpose of the Share Exchange

The Company, which has become the wholly owning parent company, manages 144 domestic large-scale shopping malls under guidelines stating that it should contribute to improving people's lifestyles and developing local communities through the development of distinctive malls that are unique to each area based on the perspective of localization in Japan and overseas.

Meanwhile, OPA, which has become the wholly owned subsidiary, manages and operates nine fashion buildings located in the urban area, and it also manages and operates fashion buildings in the VIVRE FORUS business (other than the retail business) of ÆON Retail, which OPA succeeded upon the absorption-type demerger on March 1, 2016.
Through the Share Exchange, these businesses have been integrated into the Company, which plays a core role in the ÆON Group as a developer; and the business expertise of both companies has been combined. The Company decided to conduct this Share Exchange in order to drive the development of attractive commercial facilities for customers by expansion of new business bases and renovation of existing facilities, as well as to strengthen its management foundations and to enhance its corporate value.

(2) Effective date of the Share Exchange

March 1, 2016

(3) Details of the allotment upon the Share Exchange

	The Company (Wholly owning parent company)	OPA (Wholly owned subsidiary)
Share exchange ratio	1	47.48

(Notes) 1. Share exchange ratio for the Share Exchange
For each common share of OPA, 47.48 common shares of the Company were allotted and delivered.
2. Number of shares delivered in the Share Exchange
Number of common shares of the Company delivered in the Share Exchange: 2,268,879.
All the common shares of the Company that were delivered were shares of the Company's treasury stock.
3. Basis for the share exchange ratio
In the Share Exchange, the Company allotted and delivered the common shares of the Company to the shareholders of OPA who were stated or recorded in OPA's shareholder registry at the time immediately before the Company's acquisition of all the issued shares of OPA in the Share Exchange. The number of shares allotted and delivered in exchange for OPA's common shares was calculated by multiplying the number of OPA's common shares by the share exchange ratio

based on the following formula (hereinafter referred to as the "Variable Share Exchange Ratio Method").

Share exchange ratio = 98,900 (*) / the average stock price of the Company's common shares
*The appraised value per common share of OPA determined by the Company

In the formula described above, the "average stock price of the Company's common shares" shall mean the average price of the weighted average price per common share of the Company (calculated to the first decimal place and rounded off to whole numbers) for 30 trading days (other than the days when trading is not conducted) from December 1, 2015 inclusive to January 15, 2016 inclusive on the first section of the Tokyo Stock Exchange. The share exchange ratio was rounded off to the second decimal place.

Calculation result
Average stock price of the Company's common shares = ¥2,083
Share exchange ratio = ¥98,900/¥2,083 = 47.479 ≒ 47.48

(4) Calculation basis, etc. for allotment upon the Share Exchange

In consideration of the share exchange ratio used for the Share Exchange, the Company decided to appoint PricewaterhouseCoopers Kyoto (PwC Kyoto), as an independent third-party institution, for evaluation of the stock value of OPA , in order to ensure fairness and appropriateness.

PwC Kyoto analyzed the stock value of OPA's common shares using the discounted cash flow (DCF) method to reflect the future business activities on the valuation, considering the fact that OPA is a private company. In addition, OPA planned to succeed the VIVRE FORUS business (other than the retail business) of ÆON Retail Co., Ltd. upon the absorption-type company demerger, and thus the stock value analysis was based on the business forecasts after the succession.

The results of the appraisal of the stock value per common share of OPA by PwC Kyoto based on the DCF method are as follows.

	Results of appraisal (yen per share)
DCF method	¥79,356 to ¥167,262

The exchange ratio shall be calculated according to the Variable Share Exchange Ratio Method.

(5) Overview of accounting treatment

For accounting purposes, the Company treats the Share Exchange as a transaction under common control in accordance with Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued September 13, 2013) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 issued September 13, 2013).

b. Kumamoto Earthquakes

The Company's malls in Kumamoto Prefecture were damaged by the Kumamoto earthquakes that occurred on April 14, 2016. The Company is assessing the damage. The malls are master-leased properties, and the effect of the damage is estimated to be minor.

At this point, it is difficult to reasonably estimate the effect of the damage done by the earthquakes on the financial position and operating results in the next consolidated fiscal year.

c. Appropriation of Retained Earnings

The following appropriation of retained earnings at February 29, 2016, was approved at the Company's Board of Directors' meeting held on April 13, 2016.

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥11.00 ($0.09) per share	¥ 2,476	$ 21,788