ÆON
Planting Seeds of Growth
We are ÆON

Annual Report 2011

Year ended February 20, 2011

ÆON MALL

ÆON MALL CO., LTD.

ÆON Mall is Japan's sole specialist shopping mall developer

ÆON Mall is the only specialist shopping mall developer in Japan that deals comprehensively with all related business domains from design, development, and planning, to construction, tenant leasing, and operation and management.

We anticipated the arrival of the shopping mall age amid the growing diversification of needs and lifestyles and ongoing structural changes in an increasingly automobile-oriented society. Since then we have continued to develop new sites, creating multifunctional shopping malls to meet the needs of the times.

We have expanded our business through a combination of opening new shopping malls in the suburbs of major cities and regional centers, and revitalizing our existing shopping malls. Fiscal 2010 marked the 22nd straight year of growth in revenue and earnings since the launch of ÆON Mall's developer business, and the 9th consecutive year of growth since the Company's public listing.

In tandem with the development of a solid business base in Japan, ÆON Mall is seeking to grow further by pursuing shopping mall development in overseas markets.

22 years of consolidated growth in revenue and earnings

Japan **56** shopping malls Overseas **2** shopping malls (As of May 20, 2011)

Some **3.3** million m^2 of gross leasable area (As of May 20, 2011)

Year-on-year specialty store sales up **4.7**% **2.8**% increase in visitor numbers (Fiscal year ending February 20, 2011)

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Leveraging expertise honed as a specialist shopping mall developer, ÆON Mall is creating shopping malls that attract customers, and is elevating mall value through close partnerships with tenants.

The mission of ÆON Mall is to continually improve revenues after a shopping mall opens and raise its value. Using a basic format, we pursue the development of shopping malls that serve as a one-stop solution for customers who visit. Furthermore, we have the expertise to provide support for tenants that forms the basis for close partnerships. We are working with tenants to develop a range of initiatives to better attract customers, and to improve customer satisfaction by creating safe and comfortable shopping malls.

Basic Format for Shopping Mall Development Strategy

1. "Two Anchors with a Mall" Building Style

Anchor stores (typically Japanese-style GMS*, department stores, or a collection of other large-scale specialty stores) are placed at either end of the mall. The space in between is then filled with a wide variety of specialty stores. The low-rise structural style of the mall building, generally two or three floors, makes it easy for visitors to move around.

*A combination of supermarket and U.S.-style general merchandise store under one roof

2. Trade Area Population of 400,000 within 30-Minute Driving Distance

We assume that customers will access our malls primarily by car. For this reason, as a rule we select outlying and suburban areas of major cities and regional centers for mall development. Of ÆON Mall's 56 shopping malls in Japan, 19 are located in front of or in close vicinity to railway terminals.

3. Gross Leasable Area of 70,000 to 80,000m^2

As a rule, the gross leasable area of our commercial facilities is 70,000 to 80,000m^2 to allow for the creation of spaces that will attract customers and provide them with a variety of functions.

4. Parking Area for over 3,500 cars

Enabling easy access by car is essential for drawing in customers. This requires securing a large parking area that can handle more than 3,500 cars.

5. Secure a Site Large Enough for Planned Future Expansion of Floor Space

At the development stage ÆON Mall plans for the space needed for future floor expansion to continuously enhance the mall's revenues, then takes steps to secure a site expansive enough to accommodate this plan.

6. Maintain Ratio of EBITDA to Total Investment at 13%

In the development of shopping malls, we generally prefer a model of leasing the site and owning the building. Our standard for investment profitability is a ratio of EBITDA to total investment of more than 13%.

The Position of the ÆON Group and ÆON Mall

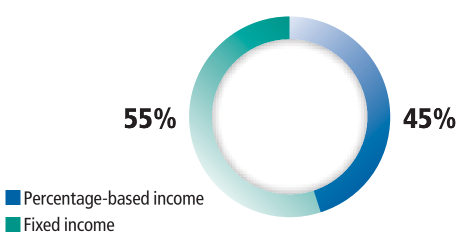
ÆON is a retailing group of 179 companies (as of February 28, 2011), based both in Japan and overseas, under a pure holding company, ÆON Co., Ltd. The Group operates in 12 businesses including general merchandise stores, specialty stores, shopping center development, and services. ÆON Mall, as ÆON's core company responsible for shopping mall development, acts as the business incubator for the Group.

Earnings Structure Image

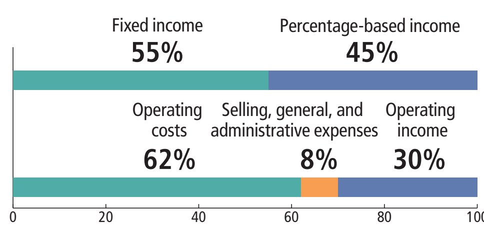
Fixed and Variable Percentages of Operating Revenue, Operating Costs, SG&A Expenses, and Percentage of Operating Income

The majority of "income from real estate lease" within ÆON Mall operating revenue comes from "income from fixed rent" and "income from percentage rent," the latter being determined in accordance with sales achieved by mall tenants. Consequently, when tenant sales increase, so too does the operating revenue for ÆON Mall. In many cases, ÆON Mall sets the minimum sales for each tenant on a monthly or yearly basis; therefore, despite their designation, percentage rents comprise an extra fixed rent component. The result is that ÆON Mall is not immediately impacted by lower tenant sales. Operating costs are costs directly related to mall management, comprised of personnel costs for employees stationed onsite for mall management and operating expenses related to mall facilities. Operating expenses are mainly comprised of facility maintenance expenses, water, lighting and heating expenses, rents paid to owners of mall land and buildings, and depreciation of mall facilities.

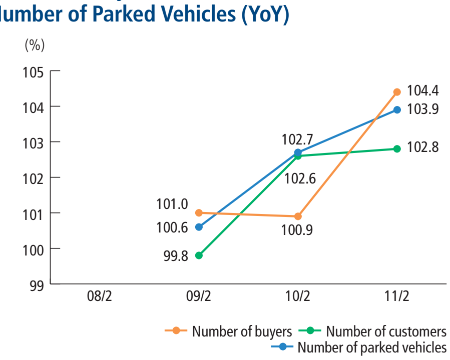
Composition Ratio of Fixed and Variable Income



Earnings Structure Image

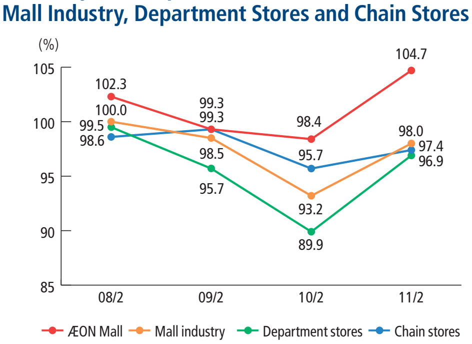


Number of Buyers /Number of Customers/ Number of Parked Vehicles (YoY)



*Number of buyers, customers, and parked vehicles are omitted for fiscal 2007 as no figures were compiled.

Year-on-year Comparison of ÆON Mall Sales to the Mall Industry, Department Stores and Chain Stores



Real Vacancy Rates and Percentage of Rents at ÆON Mall Shopping Malls Accounted for by Tenant Sales

	08/2	09/2	10/2	11/2
Real vacancy rate* (end of period)	—	—	0.7%	0.4%
Percentage of rent at ÆON Mall shopping malls accounted for by tenant sales	10.6%	10.8%	10.9%	10.5%

*Real vacancy rate: The actual area of a mall vacant (excluding space reserved for incoming tenants based on gross leasable area).
*The real vacancy rate is omitted for fiscal 2008 as no figures were compiled.

Four Functions Making ÆON Mall Shopping Malls a One-stop Solution for Customers

1. Shopping

A Consistently Attractive and Sophisticated Tenant Mix

Our shopping malls are home to a wide variety of specialty stores catering to every possible need, from fashion, general merchandise, and services, as well as restaurants, to food and daily goods at the GMS anchor store. When selecting specialty stores, we consider very carefully the balance of nationwide chain stores, local retailers, and stores making their first foray into that local market. In this way, we believe that the tenant mix at our malls remains dynamic and in tune with the lifestyle patterns of our customers, and creates an atmosphere conducive to comfortable, enjoyable shopping.

2. Entertainment

Our malls provide entertainment services that enable our customers to enjoy their time at the mall.

Our shopping malls offer more than just a place to eat and shop. There are endless entertainment options, including cinemas, fitness centers, and facilities providing instruction in cultural activities such as martial arts english conversation, cookery and flower arranging. We also hold concerts featuring local musicians and events involving customer participation. This element of our mall is designed to create a relaxing, comfortable space in which customers can spend a whole day with their family, friends, or partners.

ÆON Mall is bolstering the four functions that shape its shopping centers: shopping, entertainment, community, and ecology. Through this strengthening, ÆON Mall intends to create shopping malls that are not only the most competitive in their respective regions, but that are considered a hub of the local community. By offering the newest products and services, as well as the most up-to-date information, ÆON Mall is developing malls that constantly evolve, together with changing lifestyles, and thereby offer one-stop solutions for all our customers' daily needs.

3. Community

Town and Neighborhood Creation with Deep Ties to Community

ÆON Mall shopping malls are aggressively introducing a number of public facilities, such as bank and post office branches, as well as healthcare facilities and branch offices of local government. The ÆON 1% Club is active in local communities in a host of functions, including support for local festivals, traditional arts, and cultural activities, not to mention providing venues for blood donation drives, tax return filing centers, and early voting sites. ÆON Mall is also entering into cooperative disaster response agreements with local governments and other entities in the regions where it develops to help secure lifeline services in case of an emergency, thus increasing further the importance of our malls as one pillar of local social infrastructure.

4. Ecology

Creating Shopping Malls that Coexist with the Environment

At ÆON Mall, we are taking proactive steps to curb our carbon emissions and preserve local environments, with our eventual goal being the development of "zero emission shopping malls." To this end, we have introduced a number of energy saving technologies, such as ice thermal storage systems for air conditioning, solar power generation systems, and LED lighting, as well as promoting the recycling of all waste generated by our malls, and endeavoring to provide our customers with information on environmental preservation. Another example of such steps is the "ÆON Hometown Forests" program in which ÆON Mall and local residents plant saplings from local species of flora within the grounds of each shopping mall.

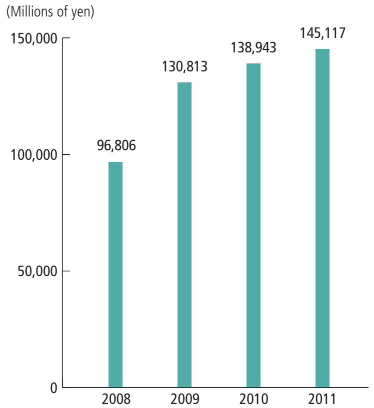
Consolidated Financial Highlights

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20

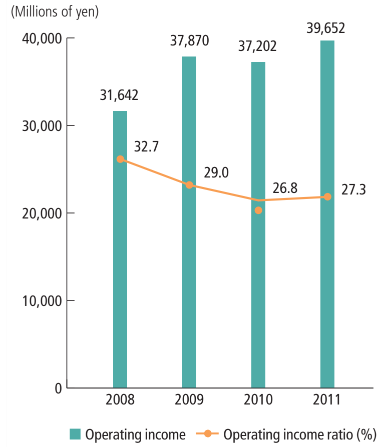
				Millions of Yen (except per share data)	Thousands of U.S. Dollars (except per share data)
	2008	2009	2010	**2011**	**2011**
For the year:					
Operating revenue	¥ 96,806	¥ 130,813	¥ 138,943	**¥ 145,117**	**$ 1,740,640**
Operating income	31,642	37,870	37,202	**39,652**	**475,611**
Net income	17,439	21,390	21,809	**22,379**	**268,434**
Capital expenditures	37,564	71,378	73,507	**54,763**	**656,861**
Depreciation and amortization	10,933	14,586	18,469	**19,722**	**236,556**
Operating cash flows	27,169	26,656	72,001	**53,008**	**635,816**
Investing cash flows	(8,748)	(63,908)	(75,878)	**(35,907)**	**(430,699)**
Financing cash flows	(20,441)	38,181	37,688	**(27,316)**	**(327,648)**
Free cash flows	18,421	(37,252)	(3,877)	**17,101**	**205,117**
Per share data (yen and U.S. dollars):					
Net income	¥ 115.63	¥ 118.09	¥ 120.41	**¥ 123.55**	**$ 1.48**
Cash dividends	17.50	20.00	20.00	**20.00**	**0.24**
At year-end:					
Total assets	¥ 377,661	¥ 466,719	¥ 503,547	**¥ 517,218**	**$ 6,203,887**
Total equity	122,734	140,504	158,816	**177,617**	**2,130,468**
Interest-bearing debt	84,242	126,060	167,377	**143,692**	**1,723,543**
Ratio:					
Equity ratio (%)	32.4	30.0	31.4	**34.2**	—
ROE (Return of equity) (%)	19.2	16.3	14.6	**13.4**	—
ROA (Ratio of net income to total assets) (%)	4.6	4.6	4.3	**4.3**	—
Debt-equity ratio (times)	0.69	0.90	1.06	**0.81**	—
PER (times)	21.8	10.1	13.3	**17.8**	—
PBR (times)	3.7	1.5	1.8	**2.2**	—

Note: U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥83.37=U.S. $1, the exchange rate prevailing on February 20, 2011.

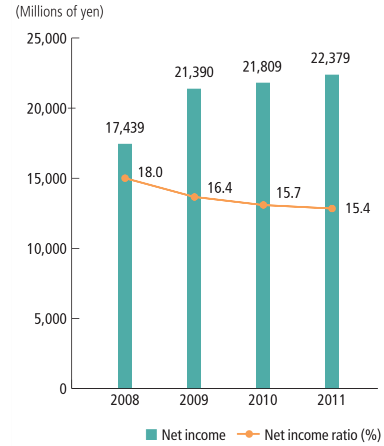
Operating revenue



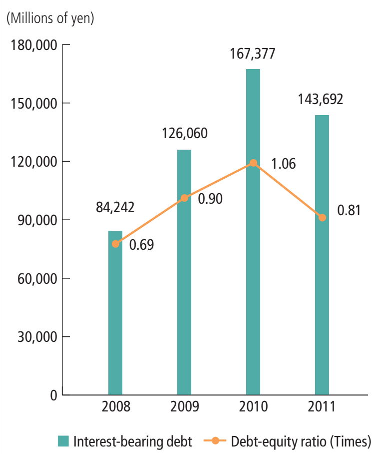
Operating income and Operating income ratio



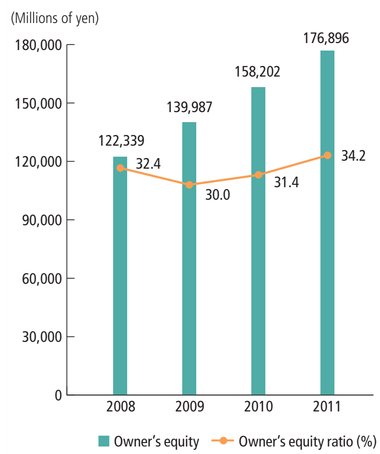
Net income and Net income ratio



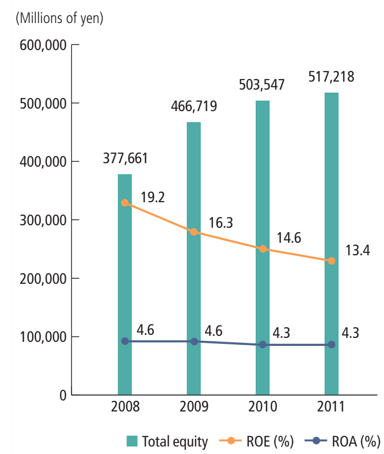
Interest-bearing debt and Debt-equity ratio



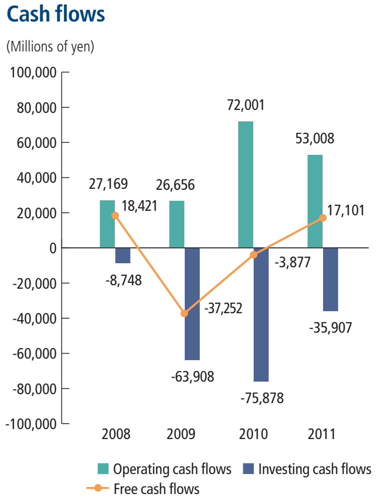
Owner's equity and Owner's equity ratio



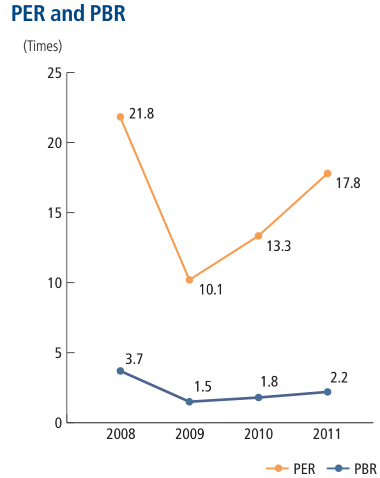
Total equity, ROE and ROA



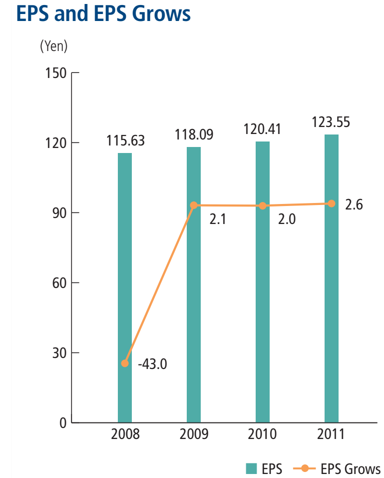
Cash flows



PER and PBR



EPS and EPS Grows



Notes: 1.On August 21, 2007, ÆON Mall Co., Ltd. merged with Diamond City Co., Ltd.

2.ÆON Mall carried out a 2-for-1 stock split on February 21, 2007. Net income per share for the fiscal year ended February 20, 2007 would have been ¥101.50 if this stock split had taken place prior to the start of the period.

At ÆON Mall, we are moving to further strengthen our business base in Japan. In parallel, we are eyeing new growth by quickening the development of our shopping mall business in China and ASEAN markets.

President and CEO
Soichi Okazaki

Operating Results for Fiscal 2010

The fiscal year ended February 20, 2011 saw the opening of three new shopping malls in Japan - ÆON Mall Aratamabashi (Aichi Prefecture), ÆON Mall Yamatokoriyama (Nara Prefecture), and ÆON Mall KYOTO (Kyoto Prefecture) - as well as renovations at 12 existing malls. In China, the year saw the opening on September 21, 2010 of ÆON Mall Tianjin TEDA (Tianjin), our second store in China after the ÆON Beijing International Mall Shopping Center (Beijing), opened in 2008.

Along with these initiatives, we continued to promote ongoing cost structure reforms. As a result, operating revenue for the fiscal year under review rose 4.4% year on year, to ¥145.1 billion. Operating income was up 6.6% to ¥39.6 billion, while net income rose 2.6% to ¥22.3 billion, as we recorded a 22nd consecutive term of growth in revenue and earnings (net income).

ÆON Mall offers its sincerest condolences to all those whose lives have been deeply affected by the Great East Japan Earthquake.

The Impact of the Great East Japan Earthquake and Conditions in Fiscal 2011

In terms of ÆON Mall's own situation with respect to the Great East Japan Earthquake that struck on March 11, 2011, we experienced no physical injuries from the disaster. As for the malls themselves, several in the Tohoku and Kanto (northeastern and eastern Japan) regions experienced light damage to buildings and equipment as a direct result of the earthquake. However none saw any water damage due to the tsunami, with most buildings and parking structures left largely unaffected.

In the immediate aftermath of the disaster, we set up a task force to confirm the safety of our customers, and all employees of both ÆON Mall and our tenants, in addition to assessing the damage to our shopping malls. Seven of our malls suffered partial damage and had to close temporarily. Stores at these malls managed directly by ÆON (GMS) soon reopened however, and began supplying food and other daily essentials. Specialty stores too were swift to reopen their doors with stores at six of the damaged malls open again before the end of March. The remaining mall, ÆON Mall Natori AIRY (Miyagi Prefecture), having sustained substantial damage, was not due to reopen until September. The strength of local demand however, was such that we decided to restart operations of specialty stores on the first two floors on April 24. Stores on the third floor followed suit on June 9, with the whole shopping mall open for business by the end of that same month.

Regarding conditions in the fiscal year ending February 20, 2012, we were successful in completing all mall openings and renovations of existing malls scheduled for the first quarter of fiscal 2011 as planned. These new shopping malls were ÆON Mall Kofu Showa (Yamanashi Prefecture), opened on March 17, and ÆON Mall Omuta (Fukuoka Prefecture), opened on March 18. Sales from specialty stores, together with visitor numbers, at the Company's 51 existing malls (as of February 20, 2010) in March and April were down on figures for the same period last year. The main factors behind this slump were the steep drop in consumption in the wake of the disaster as well as the temporary closures of certain shopping malls associated with the earthquake. Figures from May onwards on the other hand, indicated a recovery with both sales and visitor numbers rising year on year.

In terms of financial results in fiscal 2011, we are projecting operating revenue of ¥152.0 billion (up 4.7% year on year), operating income of between ¥41.5 billion (up 4.7%) and ¥43.0 billion (up 8.4%), and net income of between ¥21.5 billion (down 3.9%) and ¥22.4 billion (up 0.1%). The projection for operating revenue takes the impact of the Great East Japan Earthquake into account. The lower and upper limit projections for operating income on the other hand, represent figures calculated before and after the earthquake respectively. Having said that, we are making efforts to realize the pre-earthquake target of ¥43.0 billion by reducing costs through structural reform.

In accordance with Article 27 of the Electricity Business Act, shopping malls within the service areas of Tohoku Electric Power and Tokyo Electric Power are legally obliged to reduce their power consumption by 15% during the peak summer months. According to demonstration experiments carried out at affected shopping malls from May, we have the potential to reduce consumption by more than the stipulated 15%. The same was found to be true for all shopping malls, including those in Kansai region which are currently facing similar restrictions.

Now a word on the payment of cash dividends to our shareholders. Based on our policy of stable and consistent dividends, we propose a total annual dividend of ¥20 per share, consisting of interim and year-end dividends of ¥10 per share respectively for fiscal 2011, aiming for the same annual payout ratio as fiscal 2010 of 15%.

Dividends

	Dividend Per Share (Yen)			Total Dividends Paid (Full year)	Payout Ratio (Consolidated)	Dividends /Net Assets (Consolidated)
	2nd Quarter	Year-end	Full year	(Millions of yen)	(%)	(%)
11/2	10.00	10.00	20.00	3,622	16.2	2.2
10/2	10.00	10.00	20.00	3,622	16.6	2.4
09/2	10.00	10.00	20.00	3,622	16.9	2.8
08/2	7.50	10.00	17.50	3,169	15.3	3.0

Towards Further Growth–Overview of the New Medium-Term Management Plan and its Mission

ÆON Co., Ltd. announced a new Medium-Term Management Plan starting from fiscal 2011. The direction outlined in the plan calls for a consolidating of functions in the ÆON Group's developer business around ÆON Mall.

As the core company responsible for the Group's developer business, we intend to take full advantage of the Group's management resources to accelerate the pace of openings, develop new sites for malls, and promote our property management business, while further expanding our domestic operations. In tandem, we will forge ahead with our program of shopping center renovations and groom new sources of revenue, such as advertising at the Group's 100-plus malls. Through such policies we intend to expand our business base in Japan while, at the same time, embarking on measures to develop our shopping mall business in China and ASEAN markets, and become the best known developer of shopping centers across Asia. Taking these initiatives into account, our new three-year Medium-Term Management Plan, starting in fiscal 2011, targets an annual growth rate of 9% in the final year of the plan, the year ending February 20, 2014.

Our mission, in moving forward with the policies outlined above is threefold.

1. Foster an "All New ÆON Mall"
2. Integrate all functions of the ÆON Group's developer business
3. Expedite development of shopping malls in Asia (China and the ASEAN region)

1 Foster an "All New ÆON Mall"

In order to improve the value of our malls we are aggressively pursuing both the development of new shopping malls and the renovation of existing malls. We believe that the concept of the shopping mall evolves, and we are working to reflect our perception of what the next generation of shopping malls should offer into new mall developments and renovation plans for existing malls, thereby creating an "All New ÆON Mall."

2 Integrate all functions of the ÆON Group's developer business

The Group's shopping mall business performed well in fiscal 2010 on the back of renovations to 12 malls and synchronized sales across the 23,000 general merchandise stores and specialty stores at our malls. By expediting the restructuring of our organization to integrate all functions of the developer business, including development and leasing, we intend to take full advantage of the scale of the ÆON Group's 100 malls when pursuing similar coordinated sales and projects in our mall media business. With this in mind, we intend to double the number of mall openings from fiscal 2013 onwards. The scale of the Group's mall network has benefits from the point of view of leasing also. For example, a tenant opening a store in our malls for the first time is spoilt for choice with over 100 malls in 100 different markets. This increases the appeal of our malls to prospective tenants and by extension allows us to select a more attractive tenant mix. We also expect this integration of functions to yield synergies for the whole Group for scrap and build projects and existing mall renovations.

3 Expedite development of shopping malls in Asia (China and the ASEAN region)

In China, where the pace of economic growth remains strong, ÆON Mall has identified a number of sites capable of supporting malls in the suburbs of Beijing and Tianjin. On June 27, 2011, ÆON Mall entered into cooperation agreements with the Tianjin Commission of Commerce and the Tianjin Municipal People's Government for the opening of over five new shopping malls in the next five years. Meanwhile, in ASEAN economies, two new trends–suburbanization and widespread car ownership–indicate to us the dawn of the age of the shopping mall. In order to advance our developments in both China and ASEAN economies, we intend to pool all staff from developer business divisions of all ÆON Group companies together in our development division, and thereby position ÆON Mall as the core company for shopping mall development both domestically and overseas. In addition to plans for new malls in regions of China outside Beijing and Tianjin, we are starting to identify possible properties for new mall developments in Vietnam, and are looking at initiatives in Indonesia, Cambodia, Laos, Malaysia, and India. Going forward, we aim to accelerate further mall developments in China and the ASEAN region.

ÆON Mall Growth Strategy

ÆON Group Developer Business Strategy

Shift in Shopping Malls to Asia	Promote greater competitiveness and efficiency by integrating functions	Groom new businesses

Operations in Japan

- Expand new business bases
- Systematically renovate existing malls
- Secure new revenue sources

Overseas Operations

- China: Expand shopping mall business
- A EAN: Promote steps to open shopping malls

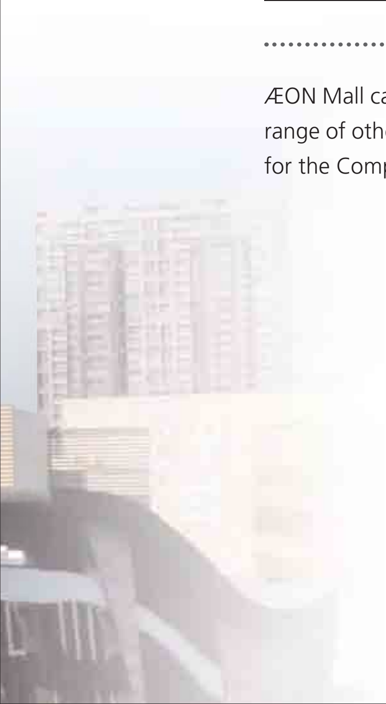
Promote and Expand New Businesses

- PM business: Expand business bases in Japan
- Expand revenue from advertising and events leveraging the Group's 100 shopping malls

Management Targets for Fiscal 2013 (ending Feb. 2014)

Operating revenue	180,000 million yen (7.4% annual growth)
Ordinary income	50,000 million yen (9.4% annual growth)
Capital expenditures	220,000 million yen (3-year total)
Depreciation and amortization	73,000 million yen (3-year total)

ÆON Mall cannot hope to achieve the sustainable growth we seek without the vital support of our shareholders and range of other stakeholders, including members of the community and tenant companies. To meet your expectations for the Company, we are determined to strive to attain ever greater growth.



July 2011

President and CEO

ÆON Mall Growth Strategy

In addition to consistent new growth and a vigorous program of renovation at existing malls in Japan, ÆON Mall is looking ahead to aggressive shopping mall development in China and the ASEAN region as well. As the ÆON Group's core company responsible for shopping mall development, ÆON Mall is aiming for sustainable growth.

ÆON Mall Omuta (Fukuoka Prefecture), opened on March 18, 2011


Floor space expansion at ÆON Mall Kurashiki (Okayama Prefecture)

New Shopping Malls

Promoting the Stable Opening of New Malls in Japan

ÆON Mall is pushing ahead with the opening of new shopping malls and the development of a new mall format. At the same time, the Company seeks to strengthen initiatives that will accelerate the pace of openings and the development of sites for new malls.

ÆON Mall's capacity to open new shopping malls in Japan is formidable. This is reflected in the frequency with which local governments from around the country approach the Company regarding mall development potential. It is also reflected in the strong reputation that ÆON Mall commands among many specialty store companies, who frequently name its malls as desired locations for opening new stores. We intend to open two to three malls per year in the near future, with a quickening of pace planned from fiscal 2013 to four to six per year.

Going forward, we will aggressively expand openings of urban shopping malls in the Greater Tokyo region, and the conurbations centered on Nagoya and Osaka. Our plans also include expansion in government-ordinance-designated cities, and cities with populations of 500,000 or more. Central to these efforts will be a new format for urban shopping malls tailored for small-scale commercial areas.

Existing Malls

Reinforcing the Earnings Base by Renovating Existing Shopping Malls

At existing shopping malls, ÆON Mall is speeding up renovation initiatives in order to boost earnings and attain sustainable growth by enhancing the ability of these facilities to attract customers.

Sales at the average shopping mall start to soften 5 to 6 years after its opening. With this in mind, we will make constant adjustments to maintain the attractiveness of our malls to customers. For example, along with systematic floor space expansion, when our tenant's 6-year leases expire, we look to bring in exciting new tenants, and make major changes to the location or format of existing tenants. On average, we will renovate 40 to 60% of the tenants in a given mall in pursuit of increased revenues.

Note: The ASEAN region is taken to be ASEAN countries plus India.

New Business

Expansion in the PM and Mall Media Businesses as New Earnings Drivers

ÆON Mall intends to promote its property management business in order to secure new sources of revenue and expand its business bases in Japan.

Our PM business provides a stable stream of income for two reasons: the complete lack of investment risk, and strong incentives to foster increased sales. In a business climate marked by an increasing disparity between successful and unsuccessful shopping malls, there is healthy demand for our services as a specialist renovator of commercial facilities. Our medium-term goals are to secure two PM contracts per year, in addition to the several projects we are already currently involved in.

Another area of interest for us is the potential for revenue growth in our mall media business. The combination of available space and customer attraction makes our shopping malls prime tools for advertising and other media-related activities.

Overseas Development

Ramping Up Mall Development in China and the ASEAN region as an Engine for Growth

Strong economic growth in China and its ASEAN neighbors to the south has sparked two trends–suburbanization and widespread car ownership– that, to us, indicate the dawn of the age of the shopping mall. Taking this cue, we intend to further expand our shopping mall development business in Asia and thereby enhance corporate value.

We see a real market opportunity for the mall business in China. The rate of car ownership is skyrocketing, and yet there are no shopping centers tailored to the growing suburban areas of major cities.

Our policy in China, going forward, is primarily to gain a dominant position in the key markets of Beijing and Tianjin, while at the same time pursuing development in other regions. We will also focus on developing new malls in the ASEAN region. We are aiming to increase the number of our facilities overseas by double-digit figures, or more, each year from fiscal 2014.

Future Developments: Shopping Mall Business in Japan

Along with the steady opening of new malls, we intend to accelerate the pace of new openings. Steps will also be taken to bolster our earnings strength through the renovation of existing malls and attempts to expand new business.

Stable New Mall Openings Coupled with Faster Pace of Openings

In operations in Japan, our first task is to continue efforts to expand new business bases. Since the collapse of Lehman Brothers, competition between shopping centers has intensified. In this climate, ÆON Mall has pushed ahead with the rigorous selection of properties for development and the opening of new shopping malls. As we continue with the stable opening of new malls, we plan to channel energy into quickening the pace of openings and initiatives for developing new prime locations. The current fiscal year ending February 20, 2012, has already seen the opening as scheduled in March 2011 of ÆON Mall Kofu Showa (Yamanashi Prefecture) and ÆON Mall Omuta (Fukuoka Prefecture). Both malls are off to a strong start, especially Kofu Showa, where performance has surpassed targets despite the impact of scheduled blackouts associated with the Great East Japan Earthquake and other issues.

In the fiscal year ending February 20, 2013, plans call first for two shopping malls, then four more malls in Japan's Kanto, Kinki, and Kyushu regions the following year. The ÆON Group is integrating all developer business functions into ÆON Mall, a move we expect to accelerate the pace of shopping mall openings going forward.

New Shopping Malls (Japan)

	12/2	13/2	14/2	Total
New mall openings	2SC	2SC	4SC	8SC

*Excluding properties under PM contracts

Renovating over Half of Existing Shopping Malls

We plan to vigorously carry out renovations at existing malls to better attract customers and boost earnings. In fiscal 2011, plans call for renovating 9 malls across the Chubu, Kinki, and Kyushu regions. Another 10 shopping malls are slated for similar treatment in the fiscal year ending February 20, 2013, followed by 9 more the following year. Ultimately, ÆON Mall is scheduled to renovate 28 malls, or more than half of its existing roster, over the next three years. Floor space expansion is on tap for two of these facilities.

Renovated malls [Japan]

10/2	11/2	12/2	13/2	14/2
6SC	12SC	9SC	10SC	9SC

Expand New Businesses to Groom New Earnings Sources

ÆON Mall is also seeking to expand new businesses that will serve as new sources of earnings. In the property management (PM) business, which continues to deliver stable results, we are currently involved in several projects. In the mall media business, where we leverage the customer attraction of ÆON Mall facilities to conduct advertising and other media-related activities, our intent is to take advantage of the Group's more than 100 shopping centers to further groom this business as a stable earnings source.

Ultimately, the goal is to promote stable earnings expansion by strengthening our business base in Japan, and accelerate the development of operations in China and ASEAN economies.

3-year Capital Investment Plan

(Millions of yen)

Japan New mall openings	165,000
Japan Renovation of existing malls	30,000
Overseas	25,000
Total	**220,000**

*Investment related to new mall openings includes ¥35,000 million in upfront investments for mall openings from the fiscal year ending February 20,2015.

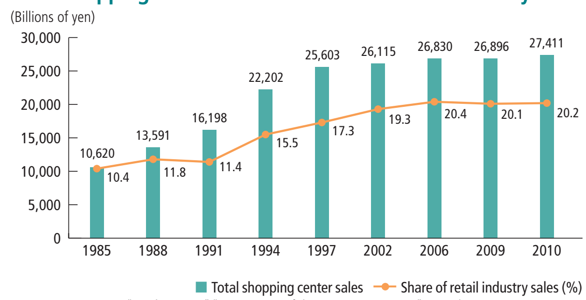
Conditions in the shopping center business [Japan]

Shopping centers command a central position in the domestic retail industry, holding a significant share of both total retail sales, and retail floor space. What is more, the gap between successful and unsuccessful complexes is widening, increasing further the competitive edge of developers with expertise in the development, operation, and management of shopping malls.

■ Retail Industry Sales in Japan and Shopping Center Share

Total shopping center sales in Japan in 2010 were ¥27,411 billion, an increase of over ¥500 billion from 2009. In 1985, shopping centers including large-format stores accounted for 10.4% of total retail sales. In 2010, this share had grown to 20.2%.

Total Shopping Center Sales and Share of Retail Industry Sales

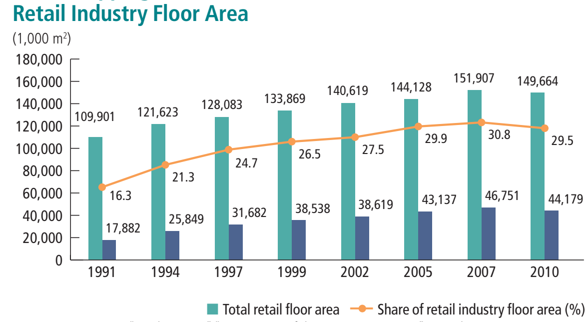


Source: METI "Retail Statistics;" "Basic Statistics of Shopping Centers in Japan" Japan Shopping Center Association

■ Retail Industry Floor Area in Japan and Shopping Center Share

Total floor area of shopping centers in Japan in 2010 was 44.17 million square meters. This accounted for 29.5% of total floor area for the retail industry (149.66 million square meters). Shopping centers thus continue to account for about a third of retail space and represent a major location choice for tenant companies.

Total Shopping Center Floor Area and Share of Retail Industry Floor Area

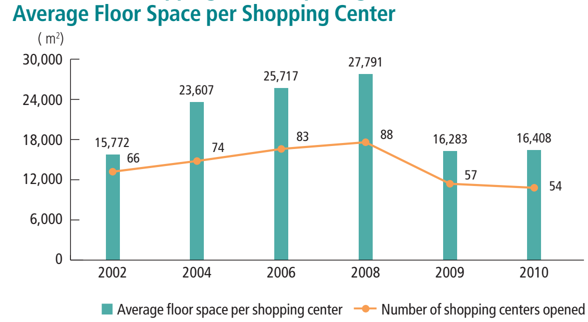


Source: METI "Retail Statistics;" "Basic Statistics of Shopping Centers in Japan" Japan Shopping Center Association

■ Number of New Shopping Centers in Japan

In 2010, 54 new shopping centers were built in Japan, a modest decline from 57 in 2009. In contrast to 2009, when the impact of the global economic recession was keenly felt, recovery trends were evident, led by growth in export sectors and policies to stimulate consumer spending. Nevertheless, the number of mall openings continued to trend lower, reflecting regulations placed on shopping mall openings and a widening gap between successful and unsuccessful malls. Key points in achieving excellence going forward will be know-how and the number of shopping centers managed and operated as a developer.

Annual New Shopping Center Openings and Average Floor Space per Shopping Center



Source: Japan Shopping Center Association

New Shopping Malls in Fiscal 2011

2011.3.17 OPEN

ÆON Mall Kofu Showa (Yamanashi Prefecture)

2011.3.18 OPEN

ÆON Mall Omuta (Fukuoka Prefecture)

Future Developments: Overseas Operations

In a follow-up to development in China, ÆON Mall is looking to build a base for its shopping mall business in ASEAN countries as well. Going forward, ÆON Mall will expand operations outside of Japan, with sights set on double-digit, or more, mall openings annually in China and the ASEAN region from the fiscal year ending February 20, 2015.

Initiating Shopping Mall Operations in ASEAN Markets and China

In operations in China, our mall development is moving forward, driven by an estimated trade area population per shopping center of 1 million people. In Beijing and Tianjin, where ÆON Mall has opened one mall each, our focus is on suburban developments as we move to establish a dominant presence.

Furthermore, ahead of our own business expansion in China, six more provinces have been designated as priority development areas. Thus in addition to Beijing and Tianjin in northern China, we are moving to initiate development in Shandong, specifically the provincial capital of Jinan, as well as in other provinces such as Jiangsu, Zhejiang and Hubei in eastern China, and Guangdong and Fujian in southern China.

Meanwhile in the ASEAN region, in a follow-up to a feasibility study already underway in Vietnam, we have started building bases for our shopping mall business in Indonesia, Cambodia, Laos, Malaysia, and India.

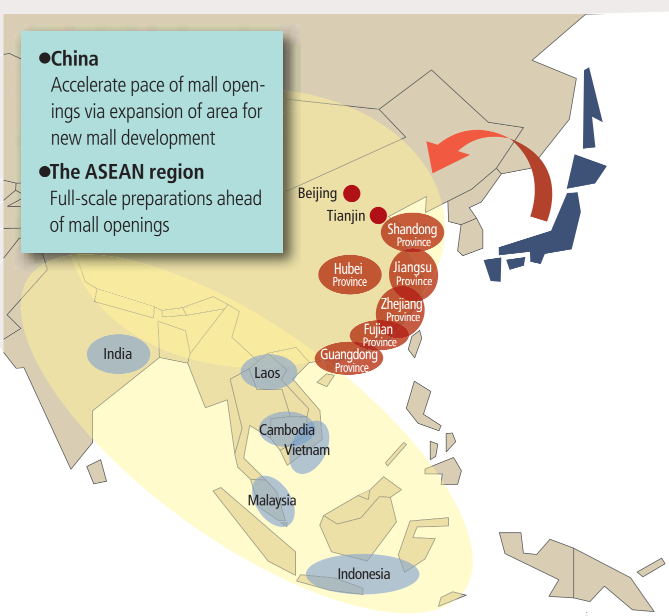
Strengthen Overseas Business Structure to Usher in Future Growth

Bolstering our business promotion structure is crucial to assertively advancing our operations overseas. This recognition prompted the establishment of our new China Development Management Department and ASEAN Development Management Department. In China, personnel that will supervise development have been dispatched to each area, and have begun first to secure properties for development in provincial capitals. Personnel have similarly been dispatched to each country in the ASEAN region as we try to build bases for eventual mall openings.

In terms of specific plans, we are slated to open one shopping mall in China in the fiscal year ending February 20, 2013 and more than five there in the following year. The properties needed for development are also materializing in Vietnam, where we plan to have an opening within the next few years.

From the fiscal year ending February 20, 2015 and beyond, our aim is to realize double-digit, or more, mall openings in China and the ASEAN region each year. The first task, though, is to grow our business base through the development of multiple shopping malls as we transform overseas operations into a new growth driver for ÆON Mall.

Initiatives in China and the ASEAN region



New Shopping Malls (Overseas)

	12/2	13/2	14/2	Total
New Shopping Mall Openings	—	1SC	5SC or more	6SC or more

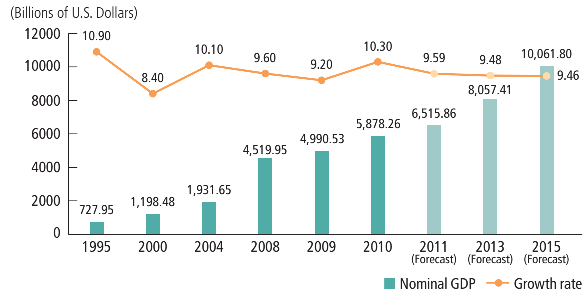
Conditions in the shopping center business [Overseas: China and ASEAN economies]

Strong economic growth in China has sparked two trends-suburbanization and widespread car ownership. In addition, ASEAN economies are seeing expansion in the number of middle- and upper-income households. These trends together indicate to us that the time is ripe to begin our full-scale entry into the Asian shopping mall market.

■ Economic Growth Rate in China and Forecast

China's nominal GDP growth rate for 2009 dipped briefly below its long-maintained 10% level, reflecting the impact of the global economic recession in 2008. From 1995 to 2010, however, Chinese GDP had been growing at around 10% annually. China's growth rate, though, is expected to remain high over the medium to long term, with the International Monetary Fund (IMF) forecasting GDP growth of 9% for China over the next five years.

China's Nominal GDP and Economic Growth

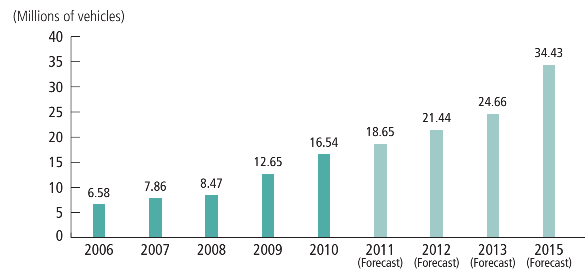


Source: IMF - World Economic Outlook (2011.4)

■ The Growth of Car Ownership in China

Per capita income levels have risen markedly in China on the back of strong economic growth. There has been a corresponding shift in personal consumption too, with cars now replacing consumer electronics as the biggest consumer durable on household shopping lists. Indeed, demand for cars has been so impressive that in 2009, China overtook the US to become the world's largest market for automobiles by volume. Forecasts expect China to maintain a level of growth in excess of 10% for the foreseeable future, with car ownership spreading from the affluent coastal regions inwards into the country's interior.

Demand for automobiles in China

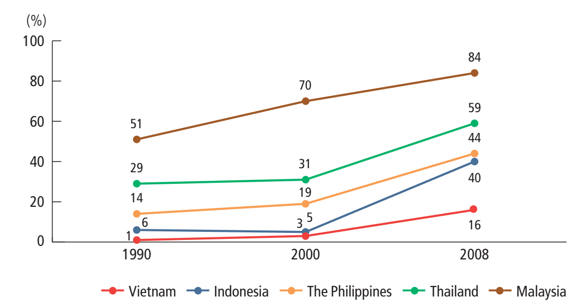


(Note) The above figures are for passenger and light commercial vehicles
Source: Nomura Securities Co., Ltd. Equity Research Department

■ Percentage of ASEAN Population with Disposable Income over $5,000

In the ASEAN region, the number of households with a certain amount of purchasing power has expanded steadily since 2000. The percentage of the ASEAN population with over $5,000 in disposable income, the main purchasers of cars and other consumer durables, is now over 50% in Malaysia and Thailand, and is approaching that figure in Indonesia, the Philippines, and Vietnam.

Percentage of ASEAN Population with Disposable Income over $5,000

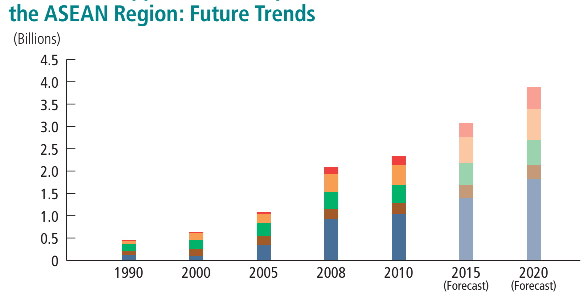


(Note) Percentage of households per income group
Source: Euromonitor (2009a)

■ Middle and Upper Income Population in the ASEAN Region: Future Trends

By 2020, the number of people in the ASEAN region with $5,000 in disposable income is estimated to be near 400 million. This figure is double the number present in 2008. By country, Indonesia, which has a huge population, will see this number nearly double from 91 million in 2008 to 180 million in 2020. Meanwhile, Vietnam is projected to see this population more than triple, from 13 million in 2008 to 46 million in 2020.

Middle and Upper Income Population in the ASEAN Region: Future Trends



Source: Mizuho Research Institute (Mizuho Research annals III, 2010)
*$5,000. Figures for 2010 onwards are the estimates of Mizuho Research Institute.

Shopping Mall Business in Japan

ÆON Mall is pressing ahead in creating shopping malls that answer customer needs and are the most competitive in their respective regions.

Market Environment and Business Results in Fiscal 2010

The business environment during the fiscal year ended February 20, 2011 started to recover gradually due to a number of factors including increased exports backed by growth in emerging economies, and the effect of the Japanese government's stimulus packages. However, uncertainty persisted as consumer spending remained lackluster for a number of reasons, most notably stagnation in household incomes, curbing the extent of recovery. In the shopping center industry, the gap between successful and unsuccessful shopping malls grew wider despite an overall improvement trend in tenant sales. In this climate, we continued to create shopping malls that were the most competitive in their respective regions while also being in line with customer needs. Additionally, we took aggressive measures to attract new tenants and reduce costs through structural reform. In the domestic market, cumulative consolidated sales from specialty stores at our 49 (as of February 20, 2011) existing malls, visitor numbers, and vehicle numbers all rose compared to the previous fiscal year. Behind these increases was the opening of 3 new shopping malls, the renovation of 12 existing malls, and a series of synchronized sales at the Group's 23,000 general merchandise stores and some tenant stores in March, June, September, and December. Moreover, vacant floor space (by area), excluding space reserved for incoming tenants, also improved.

As a result of the above, ÆON Mall recorded an increase in both operating revenue and operating income. Other income included gains on the sales of stocks of an affiliate under the equity method, resulting in an increase in net income for the fiscal year ended February 20, 2011, to ¥22,379 million.

New Shopping Mall Openings in Fiscal 2010

In addition to traditional suburban facilities, ÆON Mall developed new shopping malls in urban settings, which offer highly convenient access to public transportation, and malls in front of major urban rail terminals, such as Kyoto Station.

ÆON Mall Aratamabashi (Nagoya, Aichi Prefecture)

Situated in close proximity to 3 stations, ÆON Mall Aratamabashi is an urban shopping mall offering excellent public transportation access on a site surrounded by high-density residential areas. The facility is intended to serve as a daily urban shopping center offering new value to its users. Although annualized sales for the mall as a whole fell slightly below our initial targets, we expect revisions, including those to our apparel MD strategy, to result in increased sales going forward.

◆Site area: around 53,000m²
◆Floor area: around 101,000m²
◆Commercial area: around 24,000m²
◆Parking: around 1,600 cars
◆Tenants: 130
◆Trade area population: 15-min. drive radius, around 350,000 people (around 150,000 households)

2010.3.9 OPEN

ÆON Mall Yamatokoriyama (Yamatokoriyama, Nara Prefecture)

Located on the main prefectural traffic artery of National Route 24, and within 5 kilometers of the Keinawa and Nishi-Meihan expressways, ÆON Mall Yamatokoriyama is easily accessible from a wide area. The entire facility borrows from traditional Japanese aesthetics both for the exterior and the interior to create a shopping mall that harmonizes with the history and culture of Nara. Sales figures were strong for the mall as a whole and we expect the opening of the new cinema complex in July, 2011, to result in further sales growth.

◆Site area: around 166,000m²
◆Floor area: around 112,000m²
◆Commercial area: around 74,000m²
◆Parking: around 4,200 cars
◆Tenants: 170
◆Trade area population: 30-min. drive radius, around 560,000 people (around 210,000 households)

2010.3.25 OPEN

ÆON Mall KYOTO (Kyoto, Kyoto Prefecture) *PM project

Located near the Hachijo exit of Kyoto Station, this shopping mall forms the heart of a private-sector urban revitalization project to develop the southern side of the station. In our first shopping mall located in front of a major urban train station, we are striving to provide a comfortable shopping environment not only for local residents, but also for visitors to Kyoto from around Japan and overseas. The mall is to be the region's first one-stop solution, not only for shopping, but also as a hub for interaction in the area around Kyoto Station. Annualized sales figures for the mall as a whole were robust and approximately in line with our initial targets.

◆Site area: around 30,100m²
◆Floor area: around 148,300m²
◆Total leased area: around 51,000m²
◆Parking: around 1,100 cars
◆Tenants: 130
◆Trade area population: 5-km radius, around 640,000 people (around 300,000 households)

2010.6.4 OPEN

Shopping Malls Renovated in Fiscal 2010

ÆON Mall carried out renovations at a record 12 shopping malls during the year. Along with renovations coinciding with the expiration of 6-year leases, this work included scrap-and-build projects, large-scale changes to layout, the adding of new functions, and floor space expansion.

Renovations Coincident with Expiry of 6-year Leases **(7 malls)**

This type of renovation is conducted periodically in line with the expiry of 6-year leases at ÆON Mall shopping malls. Together with a review of mall zoning and the introduction of new tenants, existing tenants undergo format changes, relocation, and refurbishment. On average, approximately 45% of the tenants in a given mall are renovated in the process.

Tenant Refurbishment/ Relocation Coincident with Fixed-Lease Expiry in Fiscal 2010

Shopping malls	Tenants	New stores	Stores refurbished/ relocated	Percent refurbished/ relocated
ÆON Mall Kashihara ARURU	243	24	51	31%
ÆON Mall Hiroshima Fuchu SOLEIL	191	35	40	39%
ÆON Mall Kyoto Hana	143	32	58	63%
ÆON Mall Fukuoka LUCLE	197	26	50	39%
ÆON Mall Kisogawa KiRiO	149	20	86	71%
ÆON Mall Sakaikitahanada prou	160	29	45	46%
ÆON Mall Hamamatsu Shitoro	153	30	55	56%
Total	**1,236**	**196**	**385**	**47%**

Large-scale Layout Remodeling **(1 mall)**

This remodeling scheme involved renovating areas vacated by large stores. Space vacated by a home improvement center at ÆON Mall Ota was converted into an approximately 10,000-square meter specialty store zone. All told, the introduction of new tenants and the relocation and refurbishment of existing ones resulted in the renovation of approximately 30% of the mall's stores.

Renovation as an Urban Shopping Mall **(1 mall)**

This involves the complete renovation of old malls. ÆON Mall Neyagawa Green City (Osaka Prefecture), which first opened in 1978, underwent major renovations to later reopen as a new urban shopping mall. Approximately 90% of the mall's tenants were replaced, including through new store openings, relocation, and refurbishment, making the renovation comparable to the opening of a completely new mall.

Addition of New Functions **(2 malls)**

This category of renovation seeks to add new functions not found at traditional shopping malls. ÆON Mall Higashiura saw the addition of bridal specialty stores, including ÆON Mall's first wedding center, as well as a chapel, party space, and other functions. Renovations at ÆON Mall Kusatsu, meanwhile, saw the opening of a spa facility in the mall's sports and leisure wing.

Floor Space Expansion

At ÆON Mall Niihama, an entirely new wing of expanded floor space was added on adjacent land, extending the total length of the mall now to 370 meters. In tandem, the mall's tenant mix was substantially upgraded, and included the addition of tenants with new businesses and formats, store relocations, and refurbishments at the existing mall site.

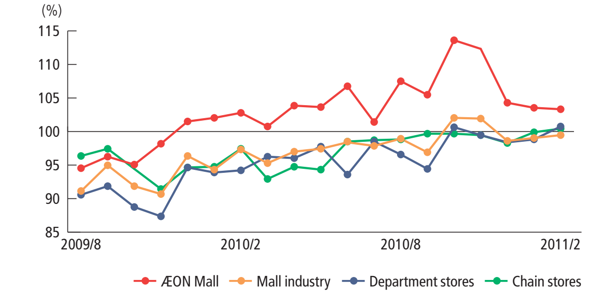
Data for ÆON Mall shopping centers

Year-on-year Comparison of ÆON Mall (49* Existing Malls) Sales to the Mall Industry, Department Stores and Chain Stores

Growth in specialty store sales at ÆON Mall's 49 existing malls far outpaced those of the mall industry, department stores, and chain stores in a year-on-year comparison. This growth trend has continued for 15 consecutive months since December 2009. Reasons for this growth are the one-stop solutions that ÆON Mall shopping malls offer, aggressive renovation of existing malls, and synchronized sales in which ÆON Group 23,000 GMS and specialty stores can take part.

*Shopping malls opened as of February 20, 2009.

Year-on-year Comparison of ÆON Mall (49* Existing Malls) Sales to the Mall Industry, Department Stores and Chain Stores

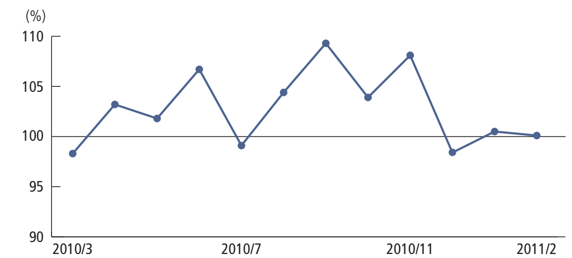


Sources: Japan Council of Shopping Centers, Japan Department Stores Association, Japan Chain Stores Association
*ÆON Mall figures are adjusted for day of the week.

Number of customers at ÆON Mall's 49 (as of February 20, 2011) existing shopping malls (YoY)

The number of customers visiting our shopping malls has risen in both the fiscal year under review, the year ending February 20, 2011, and the preceding year. Coincident with this rise has been a year-on-year increase in the number of buyers, as well as in spending per customer. In addition, restaurants and food courts have reported sales increases proportional to the growth in customer numbers.

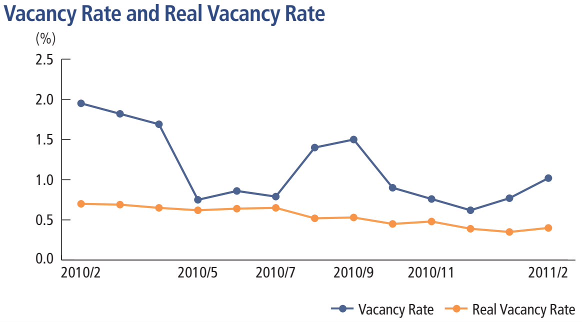
Number of customers at ÆON Mall's 49 (as of February 20, 2011) existing shopping malls (YoY)



Vacancy Rate and Real Vacancy Rate

The real vacancy rate refers to the actual area of a mall vacant and the vacancy rate after excluding space reserved for incoming tenants on a contractual basis. To ensure malls remain open for business during renovation work, vacant space is temporarily increased through tenant replacement and other means. Nevertheless, the real vacancy rate in fiscal 2010 improved from 0.7% the previous year to 0.4%.

Vacancy Rate and Real Vacancy Rate



Overseas Operations

Fiscal 2011 will see us speed up our developments in China by opening new shopping centers in areas as yet without an ÆON Mall. We will also be preparing to open malls in ASEAN markets.

New Shopping Malls Opening in China

ÆON Mall Tianjin TEDA

2010.9.21
OPEN

In our business in China, we opened ÆON Mall Tianjin TEDA, our second facility in China, and the first mall in the Tianjin area to be built on the concept of two anchors per mall. Located in the Tianjin Economic-Technological Development Area (TEDA), one of China's two major development zones, the surrounding area could soon be home to a booming population as residential development continues apace. In terms of access, the mall is easily accessible from downtown Tianjin via the Central Station of the "Jinbin Monorail," and is within reach of numerous highways, linking it with Beijing and places further afield, making this a promising location in terms of potential new customers.

- ◆Site area: around 98,000m^2
- ◆Floor area: around 110,000m^2
- ◆Commercial area: around 75,000m^2
- ◆Parking: around 2,500 cars
- ◆Tenants: 130
- ◆Trade area population: 20-min. drive, around 500,000 people

Existing Shopping Malls in China

ÆON Beijing International Mall Shopping Center

2008.11.7
OPEN

A new station was opened on December 31, 2010, completing a subway link between our first mall in China and the capital, Beijing. Combined with other factors such as an increased number of bus routes, improved transportation access brought in 10% more customers. This boost in customers led to a record increase in net sales of 50%, as of January 1, 2011, and 120% since then. Current initiatives include the replacement of specialty stores, as well as the conversion, within the next few years, of third-floor parking spaces into retail floor space.

- ◆Site area: around 89,000m^2
- ◆Floor area: around 147,000m^2
- ◆Commercial area: around 91,000m^2
- ◆Parking: around 3,000 cars
- ◆Tenants: 104
- ◆Trade area population: 15-min. drive radius, around 116,000 people

ÆON Mall Tianjin TEDA

Mall exterior

Specialty store zone

Cinema complex

Directors and Corporate Auditors (As of May 19, 2011)

Chairman
Noriyuki Murakami

President and CEO
Soichi Okazaki

Managing Director
Kenji Kawahara
CFO
General Manager, Administration Division

Managing Director
Yukio Konishi
General Manager, New Business Promotion Division

Managing Director
Kaoru Iwamoto
General Manager, Development Division

Managing Director
Fujio Takahashi
General Manager, Sales Division

Director and Advisor

Motoya Okada

President ÆON Co., Ltd.

Director

Masaaki Toyoshima

Executive, Vice President,
CEO, Shopping Center Development Business
ÆON Co., Ltd.

Director

Masaru Soma

General Manager,
Shopping Mall Support Department

Director

Hiroshi Iwamoto

General Manager,
East Japan Business Department

Director

Yuzo Fujiwara

General Manager,
Chubu & Kinki Business Department

Director

Masato Murai

General Manager,
Corporate Social Responsibility
Management Department

Director

Akifumi Nakamura

General Manager,
PM Business Department

Director

Yoshiharu Umeda

General Manager,
West Japan Business Department

Full-time Corporate Auditor

Kenji Harada

Corporate Auditor

Seiichi Chiba

Vice President, Group CFO
ÆON Co., Ltd.

Corporate Auditor

Mami Taira

Corporate Auditor

Yoshihiro Machida

*Ms. Mami Taira and Mr. Yoshihiro Machida are both independent outside auditors with no conflict of interest with ordinary shareholders as determined by the Tokyo Stock Exchange.

Corporate Governance

Corporate Governance Initiatives

In order to realize long-term and stable enhancement of corporate value, ÆON Mall is developing a framework that upgrades the function of corporate governance and allows prompt decision-making.

Basic Approach

Following our basic philosophy of "Customers First," we aim to boost our participation in community life. Through our lifestyle centers in which we create "surprises, excitement, and fun," we aim to create "Towns with Vitality" that offer new lifestyles brimming with appeal.

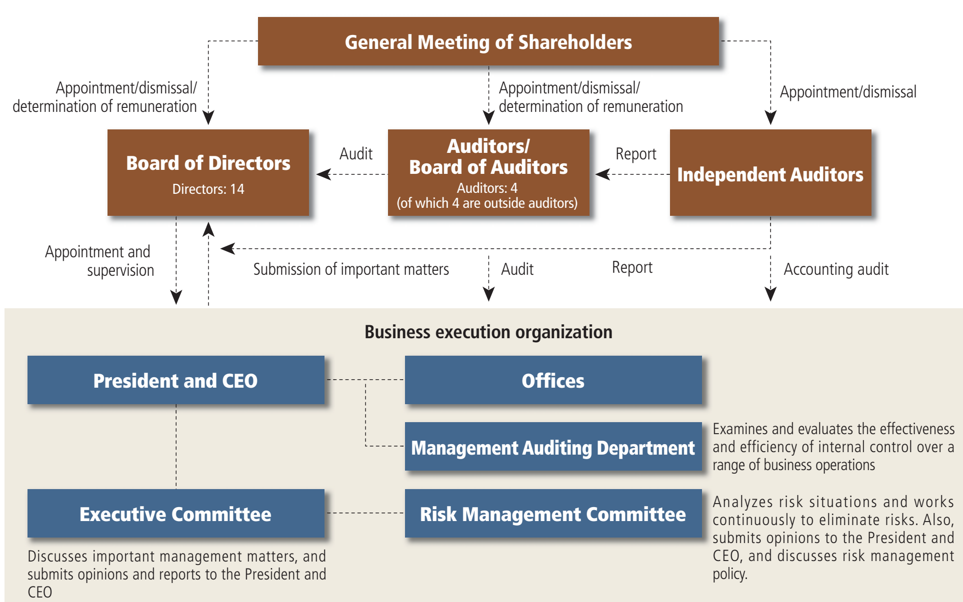
Our partners in creating these vital towns include the local residents, administrations, commercial corporations, and specialty store companies. We are committed to continuing to work with them to help realize rich and stimulating lifestyles for local residents.

Following this basic policy, we shall contribute to the growth of local economies and culture and create shopping malls that serve as essential community centers for the local communities.

We are also working to further enhance our strength as a dedicated mall developer with roots in the retail business through corporate management led by directors with thorough knowledge of the retail business, and to maintain and reinforce sound management through the adoption of an auditing system.

We believe that fulfilling our responsibilities to stakeholders including shareholders and customers as well as business partners, local communities, and employees through corporate activities guided by these initiatives will lead to long-term and stable enhancement of corporate value. To realize that goal, we strive to boost our competitiveness by upgrading the function of corporate governance and achieve prompt decision-making. Under these initiatives, we will move forward to enhance the transparency and efficiency of management, upgrade compliance and risk management, and thereby further improve the corporate governance system.

Corporate Governance Structure



- The Board of Directors, chaired by the President, is held at least once a month in order to strengthen the supervisory role of management. Our corporate auditors also attend.
- The Board of Auditors works closely with the independent auditors and the Management Auditing Department, our internal audit division, mutually exchanging information and opinions as needed, in an effort to enhance both audit efficacy and efficiency. Of our 4 corporate auditors, 2 are independent outside auditors.
- The Executive Committee, established under the Board of Directors as an advisory body for the President, normally meets once a week, and is mainly comprised of directors of managing director rank or higher and full-time auditors. The Executive Committee enhances our management strategy functions and promotes efficient decision-making processes.
- The Management Auditing Department, made up of seven full-time officials, works in close cooperation with the heads of other divisions, and examines and evaluates the effectiveness and efficiency of internal control over a range of business operations to ensure the smooth management and control of business operations. This department is independent from all business-related executive divisions.

Relationship with ÆON Co., Ltd.

On August 21, 2008, ÆON Co., Ltd., the parent company of ÆON Mall, became a pure holding company. In line with this change, the holding company manages the Group's 12 main operations, including GMS and other retail store operations, specialty store operations, shopping center development operations, and general financing operations, as well as the respective functional companies. ÆON Mall is considered the core company responsible for the Group's shopping center development business. ÆON Co., Ltd., either on its own or via affiliated companies, holds 57.43% of the voting rights in ÆON Mall (55.84% direct ownership). However, decisions with respect to the terms and conditions of trade with ÆON Co., Ltd. or its affiliated companies are decided based on economic terms and other factors in the same manner as with ordinary transactions, and require the same approval procedures, including approval of the Board of Directors.

ÆON Mall, as a member of the ÆON Group, is subject to policies stipulated for the entire Group, but makes its own management decisions and maintains a certain degree of autonomy. The business activities of ÆON Mall are not hindered by its relationship with ÆON Co., Ltd. or companies within the ÆON Group.

Internal Control System

We have established an internal control system, as described below, in order to ensure that operations are conducted in a manner that is both appropriate and in compliance with laws, regulations, and articles of incorporation.

Internal Control System

Maintenance and Management of Information

As regards records of directors' decision-making, under the internal rules of ÆON Mall, directors create and appropriately maintain records relating to the execution of their duties, including approval documentation, minutes of meetings, and other information that the internal rules stipulate, in accordance with these same internal rules. Moreover, in managing these records the department that is responsible under our rules takes the necessary measures to prevent leakage of such information to third parties.

Efficient Execution of Duties

We hold meetings of the Board of Directors once a month and additional board meetings in a timely manner as necessary. For approval matters that involve material risk requiring approval by the President or higher authority, we established the Executive Committee, which mainly comprises directors of managing director rank or higher and full-time auditors, as an advisory body for the President, enabling joint discussion of the matters from a wide range of viewpoints before the President makes approval or the Board of Directors passes a resolution.

For execution of duties we have established "rules for job position management," "rules for the division of duties," "rules for authority," and "rules for asking approval," that govern allocation of necessary authority for execution and clarify management responsibility as well as setting out details of responsibilities and execution procedures.

System for Ensuring That Execution of Duties by Directors Conforms to Laws, Regulations and Articles of Incorporation

We put great importance on management in compliance with the ÆON Code of Conduct to build better relations with local communities and fulfill our social responsibility as a good corporate citizen.

In our internal reporting system, we have established a Compliance Committee as an organization subordinate to the Executive Committee, and have set up Helpline ÆON Mall "Employee's 110 hotline." A similar hotline has also been established for our labor union: "Union 110." In the event that a person uses the hotline to report information that they have received, the Compliance Committee examines the details and, if an infringement is recognized, takes required measures as prescribed by internal rules. The Compliance Committee also formulates measures to prevent a reoccurrence of the infringement and the relevant departments then implement these measures company-wide.

The Compliance Committee reports material matters to the Board of Auditors.

Ensuring Appropriate Business Operations by the Corporate Group Comprising the Company, its Parent Company, and Subsidiaries

When there is any possibility of the interests of the parent company and the Company coming into conflict over a transaction with the parent company or over carrying out business in competition with the parent company, the details of such matters are reviewed and referred to the Board of Directors for approval before proceeding. The Company, moreover, manages subsidiaries based on the "rules for managing affiliate companies" and establishes a system of cooperation to ensure appropriate operations of subsidiaries. Transactions between ÆON Group companies are conducted according to appropriate conditions based on market prices. When it is possible to obtain an objective valuation based on values set by a third-party valuation, the Group companies will endeavor to obtain such a valuation.

Auditing and Monitoring Structure

For the internal audit we have established the Management Auditing Department, a body of seven members under the direct management of the President. The Management Auditing Department undertakes an operating audit of every department in the Company. It thus helps to ensure that internal controls are functioning properly and to verify their efficacy. The Management Auditing Department reports results of these operating audits to the President each time, and makes regular reports to the Executive Committee and to the auditors. The Company does not appoint any of its employees as staff members to assist in the operation of auditors. Full-time auditors directly undertake auditing operations, including formulation of an audit plan and audit budget as well as actual auditing, and strive to ensure the effectiveness of auditing operations by regularly receiving and reviewing reports on internal auditing as well as reports from independent audits carried out by the Management Auditing Department. The Management Auditing Department's auditing role is to closely cooperate with the Board of Auditors and help the auditors conduct efficient audits such as by discussing with them the content of internal auditing on a timely basis. Directors are also obliged to report to the Board of Auditors without delay matters that could have an influence on the Company's business and/or earnings performance, violations of law, and other compliance-related problems when such matters involve the discovery of facts that potentially pose material risk of loss to the Company. Furthermore, when directors are requested by the auditors to submit reports concerning execution of duties, such requests must be given precedence over other matters and promptly and honestly responded to.

Risk Management

To address business risks such as those related to disaster or loss, the environment, or compliance, we have established a risk management committee, as an organization subordinate to the Executive Committee, to serve as the company-wide risk management entity. The committee identifies risks throughout the company, collects information, and prepares policies for formulating responsive measures. The various departments prescribed as responsible by our rules for the division of duties, use these policies to create regulations and handling procedures etc., and periodically conduct a review of existing regulations and procedures. To ensure the above regulations and handling procedures are made known throughout the Company, we take thorough measures to communicate necessary information to all employees such as through periodic internal company training and electronic bulletin boards. If imminent and serious risk of loss becomes apparent, we shall appropriately transmit information and carry out approval based on our Management Crisis Management Regulations and take appropriate responsive action such as by making efforts to minimize damage.

Measures to eliminate antisocial forces

Fundamental Policies

Based on our commitment to thorough compliance management and from the viewpoint of defending our company, we hold no relationships with antisocial forces. We recognize that it is our social responsibility as a corporation to eliminate antisocial forces by responding resolutely against any unjust demands.

Measures Regarding Antisocial Forces

In the event that we receive unjust demands from antisocial forces, the Company's response will not be made through an individual; rather, the response will be an organizational one structured on close cooperation with outside specialists and investigative bodies, including a legal response based on both civil law and criminal law. The Company is a member of the Bouryokudan Tsuihou Chiba Kenminkaigi (Chiba Prefectural Citizen Committee Against Organized Crime Groups) and works closely with the police and anticrime groups to collect information regarding antisocial forces. We centrally manage Company-wide information including that of each of our business offices by forwarding the information to the responsible department in order to maintain awareness throughout the Company of such matters.

Other Corporate Governance Structures

We have established the ÆON Mall Social Responsibility (SR) Council to promote policies for corporate activities from social, environmental, and ethical aspects. We also formulated codes of conduct and standards for environmental protection and contributions to society in addition to legal compliance, and we work to make sure that the rules relating to these codes and standards are known and observed in every part of our organization.

Corporate Governance Data

Information concerning directors and auditors (the fiscal year ended February 20, 2011)

	Persons (outside persons)	Term of service (years)	Remuneration (millions of yen)	Maximum amount of remuneration (millions of yen)
Directors	15 (–)	1	281	600
Auditors	4 (3)	4	27	50

*1 Includes two directors who resigned as of the 99th Ordinary General Meeting of Shareholders (May 12, 2010), and one director who resigned as of August 25, 2010. Excludes one unpaid director and two external auditors.

*2 For directors, we have introduced a performance-based remuneration system and stock options. In terms of director remuneration, the Company has, for the monetary portion of remuneration, increased the percentage linked to performance, including executive bonuses. At the same time, the 96th Ordinary General Meeting of Shareholders (May 17, 2007) abolished the payment of retirement bonuses to directors, and introduced a system of remuneration-type stock options. The total remuneration paid to directors is limited to ¥700 million for each fiscal year. Of this amount, monetary remuneration, including the conventional payment of bonuses to the directors, is held to within ¥600 million, with the portion accounted for by remuneration-type stock options at fair market value held to within ¥100 million on an annual basis.

Information concerning independent auditors (the fiscal year ended February 20, 2011)

Name of independent auditors	Deloitte Touche Tohmatsu LLC
Remuneration related to the current business year*1	51 million yen
Total remuneration payable by the Company to independent auditors*2	54 million yen

*1 Total remuneration related to auditing duties as provided by the Companies Act and the Financial Instruments and Exchange Act.

*2 Total cash and other financial benefits payable by the Company and its subsidiaries etc.

Meetings held of Board of Directors, Board of Auditors and Executive Committee (the fiscal year ended February 20, 2011)

Meeting		Meetings held (times)	Members/Participants
Board of Directors	Chaired by the President and held 15 times per fiscal year with at least one meeting held per month.	15	Directors and Auditors
Board of Auditors		13	Auditors
Executive Committee	An advisory body for the president mainly comprising directors of managing director rank or higher and full-time auditors and normally meeting once a week.	28	President and Directors

Status of systems or regulations

Item	Status	Explanation
Existence of mechanism for deciding remuneration of directors	Yes	Remuneration is based on a performance-based system.
Existence of Stock Option System	Yes	
Existence of agreements limiting liability with outside directors and auditors	Yes	
Existence of agreements limiting liability with independent auditors	No	
Existence of defensive measures against hostile takeover	No	
Existence of risk management regulations	Yes	Such matters fall under the Management Crisis Management Regulations.
Existence of internal reporting system	Yes	Such matters fall under the "Employee's 110 hotline," established by the Compliance Committee.
Existence of Corporate Ethics Regulations	Yes	Such matters fall under the ÆON Code of Conduct.

Corporate Social Responsibility (CSR) Activities

We are a company that proposes new lifestyles brimming with appeal, aiming to create "Towns with Vitality" shaped to be full of "surprises, excitement, and fun." We are proactively implementing CSR activities that foster the attractiveness of each local area, promote the development of a warm-spirited culture, and maintain our recognition earned from society.

Promotion of CSR Activities

We develop, manage, and operate mainly large-scale mall complexes that fulfill multiple functions for wide trading areas, and are well aware that the opening of our malls can greatly influence the economy, society, and the environment of host communities. The growth and development of malls are of importance not only to customers who shop there but also to those who work at these facilities, including ÆON Mall and tenant store employees, cleaning and security staff, and maintenance personnel. Similarly, the malls we develop are equally vital to specialty store companies as to local economies. To bring smiles and satisfaction to our customers and people in host communities, we will strive to build a relationship of prosperous coexistence between us and all stakeholders with the aim of creating shopping malls that develop in tandem with the local communities, while seeking to balance the economy, society, and the environment.

CSR Promotion Structure

To promote Company-wide CSR activities, we hold a monthly meeting of the ÆON Mall SR (Social Responsibility) Council, chaired by the President, with directors and managers responsible for every division also sitting as council members, to address topics related to the environment, social contributions, and compliance. The aim of this meeting is to share goals and issues for the promotion of CSR activities, and to take swift action on these. Going forward, we will record steady progress in such areas as promotion of energy-saving initiatives, safe and comfortable shopping mall operations, robust activities in collaboration with tenants, and responses to the Japanese version of the Sarbanes-Oxley Act (J-SOX).

CSR Promotion Structure

President and CEO

- **ÆON Mall SR Council**
  - **Social Contribution Committee**
    - Activities contributing to the local community
    - Fund-raising activities
    - Volunteer activities
    - Social welfare activities
  - **Environmental Committee**
    - Forestation activities
    - Prevention of global warming (CO_2 Reduction Committee)
    - Promotion of ISO 14001
  - **Compliance Committee**
    - Promotion of Compliance
    - Protection of personal information (Privacy Mark accreditation)
    - ÆON Code of Conduct
    - J-SOX Promotion
- **Risk Management Committee**

▶For details, please refer to the ÆON Mall sustainability report "The 2011 Report for the Future" on our website.
http://www.aeonmall.com/environment/sr.html

Creating Working Environments Where Everyone Can Thrive

Supporting the activities of diverse human resources

ÆON Mall has long focused on efforts to groom women for roles in management. ÆON Mall appointed its first women to the position of general manager (GM) of a shopping mall in fiscal 2010. Additionally, women make up more than 20% of the operations managers/sales managers assigned to our shopping malls in Japan. We have also developed systems for our flex employees (part-time employees) that link proficiency with job advancement as a tool to support their development.

Aiming to improve work-life balance

ÆON Mall takes vigorous steps to promote a good work-life balance among employees that emphasizes the importance of both work and home life. To support child reaning, we have drafted an action plan based on Japan's Act on Advancement of Measures to Support Raising Next-Generation Children, and have been certified by the Chiba Labour Bureau as a business committed to the development of the next generation of children. We have also established several systems to offer working styles that can be tailored to specific family circumstances, including waiving periodic work site transfers for employees responsible for nursing care.


ÆON Mall has created its own guidebook on childrearing to support employees in this activity. The book is packed with vital knowledge and procedures on everything from pregnancy to a child's early developmental stages, and also has easy-to-understand guides to the various government documents that new parents must fill out and submit. In 2007, our efforts were recognized by the Chiba Labor Bureau, which certified ÆON Mall as a business committed to the development of the next generation of children.

Various programs for promoting employee growth

From the standpoint of employee growth, we have put training systems in place and made our goal-setting and evaluation rationale more transparent. This change enables employees to better identify ways to progress their career plans. Each year, ÆON Mall offers recruitment placement tests as a mechanism that opens the door to upper-level qualifications for employees. In fiscal 2010, the pass rate for the test was roughly 30%, with around 100 people taking part in job rank-specific training. Additionally, we offered seminars in fiscal 2010 to train candidates for work assignments overseas as part of our global management promotion efforts. We also intend to enhance the number of training sessions that include observation outside of Japan in order to cultivate a more global mindset.

A variety of training programs foster the specialization and skills employees need to perform their jobs.

From Local Communities to Our Planet - Promoting Environmental Preservation

ÆON Mall Environmental Management

ÆON Mall has obtained ISO 14001 environmental management system certification for all of its shopping malls, excluding those operated as PM projects, and for all divisions.

We operate a Social Responsibility (SR) System for reporting on CSR activities at all shopping malls and divisions in Japan and promoting efficient management of CSR targets. The system, which manages progress on targets in areas such as energy consumption, generation of industrial waste, and resource use, also enables us to compile and manage data on charitable donations and social contribution activities.

In addition to placing windows near ceilings to allow in sunlight, we are reducing power consumption by converting to LED lighting.

Consideration of the environment from the development stage

When developing a shopping mall, we conduct pre-development surveys and strive to preserve the environment to the greatest extent possible. In this way, ÆON Mall seeks to minimize its impact on local ecosystems and biodiversity from the site selection stage. When designing a mall, we opt for energy-efficient equipment, natural energy sources such as solar power generation systems (installed at 14 malls as of February 20, 2011), and recycled materials. When selecting equipment for the revitalizing of our existing malls, we do so with the reduction of environmental impact foremost in mind.

Electricity generated from solar power and reductions in carbon emissions are displayed on boards within the shopping mall.

Prevention of Global Warming

With the shift to a low-carbon society an ongoing topic of discussion worldwide, leading companies are expected to be at the forefront of curbing carbon emissions. To bolster its promotion structure in this area, ÆON Mall has moved to reinforce its Energy Efficiency Committee established in February 2005, followed by the establishment of the CO_2 Countermeasures Group within the CSR Promotion Department in March 2008. In parallel, ÆON Mall has added a CO_2 Reduction Committee to its Company-wide organization.

We have implemented a number of initiatives aimed at shaping ÆON Mall shopping malls into integral parts of the social infrastructure of local communities while preparing for the era of the electric vehicle. One of these initiatives is a steady expansion in the installation of electric vehicle charging stations at our shopping malls. Another is the promoting of car-sharing services in conjunction with ORIX Auto Corporation.

Promoting environmental communication

Each shopping mall has dedicated environmental communication spaces on site, typically referred to as "Eco Stations" and "Eco Benches." Along with conveying the operational status of solar power generation systems, information on environmental equipment within the mall, and a host of other environmental initiatives happening at the mall, these spaces introduce activities that solicit customer participation, such as eco-bag use for shopping and recycling. Furthermore, employees at all specialty stores are given a copy of Eco Noto (Eco Notebook), a pamphlet summarizing the environmental mindset and behavior employees should exhibit as shopping mall members, including the basics of waste separation for recycling, energy conservation, and other topics.

Each shopping mall has an "Eco Station" and "Eco Bench" that provide environmental data to customers.

Promoting Sound and Amiable Partnerships

Creating shopping malls where everyone wants to work

Approximately 110,000 employees, including those of specialty stores, work at our malls across Japan. A single large-scale shopping mall can employ over 3,000 people, and these employees play a key role in supporting the growth of ÆON Mall. To create a more comfortable environment to work in, we provide a relaxation space specifically for employees at each of our shopping malls. We are also adding employee-only convenience stores to more of our shopping malls.

To advance concerted measures throughout the mall, we hold regular meetings of the Tenant Store Council, a body consisting of specialty store companies, as an opportunity to share information.

Spacious relaxation area for employees and employee-only convenience store.

Building good relationships with stakeholders

Information disclosure to, and communication with shareholders and investors forms an important part of business management. Regarding information disclosure, we regularly disclose information on the current status and future outlook of our business, such as the CSR activities targeted at each stakeholder group, qualitative financial information, etc., in a timely manner through annual reports and periodic reports to shareholders, as well as via the website message board, "To Our Shareholders."

As part of communication activities, along with press conferences for the mass media designed to widely convey information pertaining to ÆON Mall, we hold individual meetings with domestic and overseas institutional investors and also organize on-site tours of malls. Moreover, explanatory meetings for individual investors are held at halls and other spaces in shopping malls.

Tools for individual investors.

Explanatory meeting.

Ensuring Reliability Through the Tireless Pursuit of Safety

Safety management at shopping malls

On any given day, many different customers will visit a mall. Having the right facilities and staff on hand are thus critical to ensuring that customers safely enjoy their time there. In addition to installing all equipment mandated by building codes, fire codes, and other regulations, we give extensive guidance to our employees and those at specialty stores on matters of public safety. Automated External Defibrillators (AEDs) are located throughout our malls, and ÆON Mall and tenant employees receive regular training in the use of these devices so that they will be able to help if someone in the mall should suffer a ventricular fibrillation. In an effort to enhance safety and security, we recruit people with police and firefighter training to head up security and serve as liaisons with local police and fire departments. These staff members give full attention to ensuring the safety of operations and providing related instruction at our malls.


This sign is clearly visible even at a distance.

For the sake of all customers

At ÆON Mall we incorporate universal design into every one of our malls to create malls that are safe and comfortable for all customers. In our spacious shopping malls, signs that direct visitors to essential facilities are extremely important. For this reason, we consult with specialists on ways to make these and other elements more visible and intuitive, so that even first-time visitors can find their way around easily. Restrooms at our malls, for example, emphasize comfort and ease of use. Facilities typically include not only multifunctional restrooms for convenient use by elderly and disabled customers, ostomate-compatible restrooms, and for children, but also powder rooms, nursing rooms, and baby changing beds.


Nursing rooms and baby changing beds emphasizing comfort and ease of use.

Role in disaster prevention

ÆON Mall is entering into cooperative disaster response agreements with local governments and other entities in the regions where it develops. In conjunction with these partners, ÆON Mall is not only utilizing malls for disaster prevention drills, but is also putting up large-sized tents (balloon shelters) at malls to serve as evacuation sites for victims of earthquakes and similar catastrophes.


The balloon shelter serves as an evacuation site during emergencies.

Raising awareness among tenant employees

For specialty store employees, who come into direct daily contact with customers, ÆON Mall seeks to improve safety consciousness and has measures in place to achieve this. For example, specialty store employees take part in disaster response drills at the mall, and gain firsthand experience in leading a safety evacuation and in extinguishing fires. In addition, we require employees to submit a health condition checklist to combat the spread of influenza, and we also require employees of restaurant and drinking establishment tenants to submit to regular stool tests.


Disaster prevention drills held on shopping mall grounds.

Contributing to Local Communities

Community-revitalizing shopping centers

Furthermore, the opening of a new shopping center is expected to attract customers from a wider region, leading to greater consumption, sparking new employment opportunities and other features that lead to economic revitalization. The development of a shopping mall in the region can also add significantly to local tax revenues. We are starting to see contributions of this kind translate into improved social welfare services from local governments in some areas.

Government agency and post office services are available even on holidays.

The opening of a shopping mall can bring a host of benefits to a community, including expanding the scope of activity and living patterns in new and exciting ways. At the same time, a mall can also raise concerns about the impact that changes in traffic volume and mall development will have on the natural environment. Driven by a management philosophy committed to creating more vibrant communities, ÆON Mall strives in mall development and planning to maximize the value that its malls deliver to communities, and to minimize any impact on a community that might be associated with the new facility.

Contributing broadly to local life and the economy

In terms of social contribution activities, our shopping centers across Japan function as key bases in their respective communities, and we actively support the preservation of local culture and traditions, and co-sponsor events with local people for the promotion of sports. In addition, we also host campaigns, fundraising activities and other disaster relief support efforts. Since 2001 the ÆON 1% Club, made up of the ÆON Group's finest companies that each contribute 1% of pre-tax income, has continuously promoted fundraising activities in which customers and specialty store employees alike can take part in the form of ongoing school construction projects in Asia.

ÆON Hall hosts memorable events such as coming-of-age ceremonies.

Major CSR Topics

Ice Thermal Storage System at ÆON Mall Yamatokoriyama Awarded the Director General Prize by the Agency for Natural Resources and Energy

As part of ÆON Mall's commitment to developing "eco" shopping malls, we are equipping our facilities with air conditioning systems that use stored cooling in order to both reduce carbon emissions and shift power consumption for air conditioning to off-peak periods. The system we introduced at ÆON Mall Yamatokoriyama (Nara Prefecture) employs an ultra-efficient chiller unit with large temperature differences, and boosts efficiency levels across the system as a whole. This project was so well received that it was awarded the Director General Prize by the Agency for Natural Resources and Energy.

Recognition for Excellence as One of the "Corporate Greening Linked to Conservation of Biodiversity: Best 100"

As a specialist developer of shopping malls, ÆON Mall takes steps to preserve biodiversity in order to pass on a better environment to the next generation. When building new malls, we promote numerous initiatives to protect ecosystems. One example is the creation of ÆON Hometown Forests, in which ÆON Mall and local residents transplant saplings from flora found on the development site to a different location. Another is our effort to achieve "zero emission shopping malls" by aiming to lift the recycling rate for waste generated by our malls.

These activities have been so well received that ÆON Mall Kusatsu (Shiga Prefecture) was recognized by the Urban Green Space Development Foundation as a "Corporate Greening Linked to Conservation of Biodiversity: Best 100" for its practical example of how companies can preserve, create, and utilize local greenery.

Installation of rapid charging equipment for electric vehicles

As part of the "Osaka EV Action Program" promoted by the Osaka EV Action Council, ÆON Mall Rinku Sennan was selected to receive a grant given to companies to offset expenses for the joint installation of rapid charging equipment and solar power generation systems. Installation of the equipment has been completed. We intend to install similar facilities at our other shopping malls to accelerate the uptake of eco-friendly electric vehicles and thereby contribute to reductions in carbon emissions.

Financial Section

Four-Year Financial Summary

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20

	Millions of Yen (except per share data)				Thousands of U.S. Dollars (except per share data)
	2008	2009	2010	**2011**	**2011**
For the year:					
Operating revenue	¥ 96,806	¥130,813	¥138,943	**¥145,117**	**$1,740,640**
Operating income	31,642	37,870	37,202	**39,652**	**475,611**
Net income	17,439	21,390	21,809	**22,379**	**268,434**
Capital expenditures	37,564	71,378	73,507	**54,763**	**656,861**
Depreciation and amortization	10,933	14,586	18,469	**19,722**	**236,556**
Operating cash flows	27,169	26,656	72,001	**53,008**	**635,816**
Investing cash flows	(8,748)	(63,908)	(75,878)	**(35,907)**	**(430,699)**
Financing cash flows	(20,441)	38,181	37,688	**(27,316)**	**(327,648)**
Free cash flows	18,421	(37,252)	(3,877)	**17,101**	**205,117**
Per share data (yen and U.S. dollars)**:**					
Net income	¥ 115.63	¥ 118.09	¥ 120.41	**¥ 123.55**	**$ 1.48**
Cash dividends	17.50	20.00	20.00	**20.00**	**0.24**
At year-end:					
Total assets	¥377,661	¥466,719	¥503,547	**¥517,218**	**$6,203,887**
Total equity	122,734	140,504	158,816	**177,617**	**2,130,468**
Interest-bearing debt	84,242	126,060	163,377	**143,692**	**1,723,543**
Ratio:					
Equity ratio (%)	32.4	30.0	31.4	**34.2**	—
ROE (Return of Equity) (%)	19.2	16.3	14.6	**13.4**	—
ROA (Ratio of net income to total assets) (%)	4.6	4.6	4.3	**4.3**	—
Debt-equity ratio (times)	0.69	0.90	1.06	**0.81**	—
PER (times)	21.8	10.1	13.3	**17.8**	—
PBR (times)	3.7	1.5	1.8	**2.2**	—

Notes: 1. On August 21, 2007, ÆON Mall Co., Ltd. merged with Diamond City Co., Ltd.
2. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥83.37=U.S.$1, the exchange rate prevailing on February 20, 2011.
3. ÆON Mall carried out a 2-for-1 stock split on February 21, 2007. Net income per share for the fiscal year ended February 28, 2007 would have been ¥101.50 if this stock split had taken place prior to the start of the period.

Financial Analysis

1. Reference Information on Financial Analysis of ÆON Mall

Impact of Development Investment on Financial Statements

ÆON Mall Co., Ltd.'s basic approach to mall development is to lease land from landowners and then construct and retain ownership of buildings. In this case, most of the total investment made is recorded on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures."

Depending on the course of negotiations, ÆON Mall may also acquire land from landowners and then construct buildings on purchased land for its own possession. In this case, the total amount of investment by ÆON Mall tends to be the largest, with the risk of land prices falling in the future. Thus, ÆON Mall takes proactive steps to promote the securitization of real estate it owns.

In the process of the real estate securitization, ÆON Mall vends lands and buildings it owns to exchange-listed real estate investment trusts (REITs) and private funds, and then leases back land and buildings sold in blocks. In this case, ÆON Mall places security deposits with the owners and records them on the asset side of the balance sheet as "lease deposits to lessors." ÆON Mall may also acquire part of auxiliary facilities, other than main buildings, and record them on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures."

For example, a landlord seeking efficient use of land, such as an old factory site, may retain ownership of the land and buildings erected upon it, which ÆON Mall leases in a package. In this case, ÆON Mall acquires part of the auxiliary facilities, other than main buildings, and records them on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures." For the purpose of contributing to the construction of the main buildings to be owned by the landlord, ÆON Mall puts up construction cooperation funds to help the landlord and records these funds on the asset side of the balance sheets as "fixed leasehold deposits to lessors," together with security deposits. The construction cooperation funds are fully repaid by the landlord in installments over the lease period.

There is also the case of property management, where the landlord owns land and buildings and ÆON Mall provides mall management expertise. In this case, ÆON Mall obtains management fees with no asset-holding or business risks.

In summary, there are four patterns of mall ownership for ÆON Mall: (1) lease land and own buildings; (2) own both land and buildings; (3) lease both land and buildings; and (4) provide only management expertise (property management).

Meanwhile, ÆON Mall receives security deposits from specialty stores and tenants in the above-mentioned cases (1), (2) and (3), and these deposits are recorded on the liability side of the balance sheets as "lease deposits from lessees." Standard security deposits are six months' rent plus the estimated cost of restoration.

Operating Revenue and Operating Costs of ÆON Mall

Operating Revenue

ÆON Mall's operating revenue from operations comprises mainly "income from real estate lease" and "common service fees."

Most "income from real estate lease" comes from "income from fixed rent" and "income from percentage rent," which are determined in accordance with sales achieved by mall tenants.

Rent percentages are determined in consideration of such matters as business categories of tenants, their profitability and market rates for setting up shops. They are typically set at 8% to 15% for merchandising businesses and 10% to 20% for tenants providing food and beverages and services. In many cases, ÆON Mall sets the minimum sales for each tenant on a monthly or yearly basis; therefore, "income from percentage rent" is essentially percentage rents with added fixed rents.

Most tenant sales are tallied and managed by ÆON Mall, which reimburses them to tenants on a half-monthly basis after deducting rent and various expenses.

Operating Costs

Operating costs are costs directly related to mall management, consisting of personnel costs for employees stationed for mall management and operations and expenses related to mall facilities. Expenses mainly comprise facility maintenance expenses, water, lighting and heating expenses, rents paid to owners of mall land and buildings, and depreciation for mall facilities.

2. Management's Discussion and Analysis

Current Status of the Corporate Group

The ÆON Mall Group (ÆON Mall and consolidated subsidiaries) consists of ÆON Mall Co., Ltd., whose parent company is ÆON Co., Ltd. and three consolidated subsidiaries (Shimoda Town Co., Ltd., ÆON Mall (China) Business Management Co., Ltd., and one other Chinese subsidiary). ÆON Mall and its three subsidiaries are involved in the mall business.

ÆON Mall, the core operator of the ÆON Group's developer business, leases mall store buildings and facilities to ÆON Retail Co., Ltd., a general merchandiser, and ÆON Group companies, as well as tenants at large.

Overview of Business Operations

Business Environment

During the fiscal year ended February 20, 2011, the Japanese economy started a gradual recovery on the back of a number of factors including increased exports due to growth in emerging economies, and the effect of the Japanese government's stimulus packages. However, consumer spending remained lackluster due to several factors, most notably stagnation in household incomes, curbing the extent of recovery. Concerns that higher prices for resources and raw materials would cause the global economy to stall cast a shadow over this fledgling recovery.

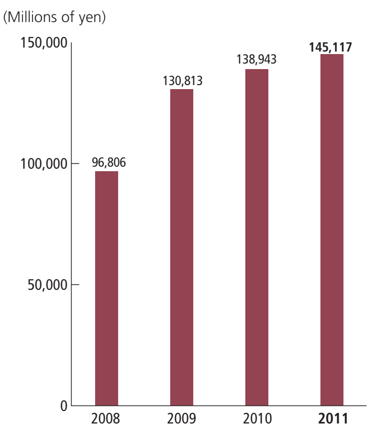
In the shopping center industry, the disparity between successful and unsuccessful shopping malls became wider as the withdrawal of unprofitable stores became obvious, with tenants became more selective about where to open new stores. All this despite same-store growth in sales at existing tenant stores across the industry as a whole.

Against this backdrop, the AEON Mall Group managed to post increases in both sales and earnings as it continued to press ahead in creating shopping malls that answer customer needs and are the most competitive in their respective regions. In addition, the Group took vigorous steps to attract tenants and continued its reforms in cost structures, centered mainly on efficiency improvements in mall operation.

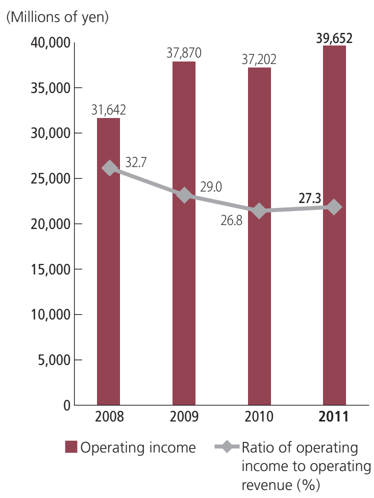
In new shopping malls, March saw the opening of ÆON Mall Aratamabashi (Aichi Prefecture, Japan) and ÆON Mall Yamatokoriyama (Nara Prefecture). We also opened ÆON Mall KYOTO (Kyoto Prefecture) in June, under a property management contract with Shimizu Corporation.

The year under review also saw renovations of 12 existing malls. April saw the extension of the ÆON Mall Ota (Gunma Prefecture) facilities to the area vacated by the second anchor tenant to include a specialty store zone. In September, ÆON Mall Neyagawa Green City (Osaka Prefecture), first opened in 1978, was completely renovated as a new urban shopping mall. ÆON Mall Niihama (Ehime Prefecture) saw an entirely new wing of expanded floor space open in November. The following shopping malls saw center-wide changes carried out to coincide with the expiration of specialty store lease contracts, including the introduction of new specialty stores and the relocation or a business category change of existing stores: ÆON Mall Kashihara ARURU (Nara Prefecture) and ÆON Mall Hiroshima Fuchu SOLEIL (Hiroshima Prefecture) in the first quarter of fiscal 2010; ÆON Mall Kyoto Hana (Kyoto Prefecture) in the second quarter; ÆON Mall Fukuoka Lucle (Fukuoka Prefecture), ÆON Mall Hamamatsu Shitoro (Shizuoka Prefecture), and ÆON Mall Kisogawa KIRIO (Aichi Prefecture) in the third quarter; and ÆON Mall Sakai Kitahanada Prou (Osaka Prefecture) in the fourth quarter. ÆON Mall Kusatsu (Shiga Prefecture) and ÆON Mall Higashiura (Aichi Prefecture) added new facilities to their range of service in the first quarter. As a result of the renovations mentioned

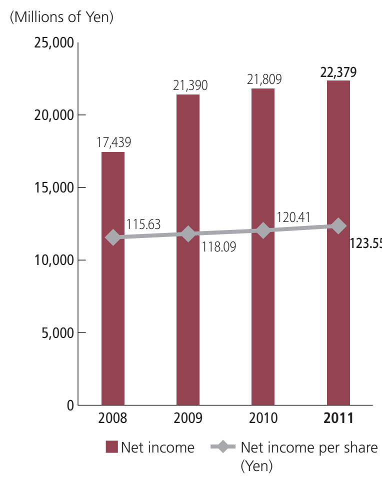
Operating revenue



Operating income and Ratio of operating income to operating revenue



Net income and Net income per share



above, and a series of sales simultaneously carried out at some 23,000 tenant stores in March, June, September and December, cumulative consolidated sales from specialty stores at the Company's 49 existing malls for the fiscal year under review rose 4.7% year on year, visitor numbers rose 2.8%, and vehicle numbers were up 3.9%. The vacancy rate (by area), excluding space reserved for incoming tenants, improved 0.3% year on year, from 0.7% last fiscal year to 0.4% on February 20, 2011.

In mall operations in China, September 21, 2010 saw the opening of ÆON Mall Tianjin TEDA Shopping Center (Tianjin). This is our second store in China after the ÆON Beijing International Mall Shopping Center (Beijing), opened in November 2008.

Overview of Earnings

For fiscal 2010, operating revenue was ¥145,117 million, up 4.4% from the previous fiscal year. Cost structure reforms aimed at existing malls in tandem with increased scale of operations saw operating costs rise 4.1% year on year to ¥95,426 million, and SG&A expenses fall 0.1% to ¥10,039 million. As a result, operating income rose 6.6% year on year to ¥39,652 million.

In other income (expenses), the Company posted interest expenses, loss on disposal of property, plant and equipment following refurbishment and floor area expansion at existing malls, and loss on impairment of long-lived assets among others, which were offset by ¥4,477 million in gains on the sales of stocks of ÆON Insurance Service Co., Ltd., an affiliate under the equity method, resulting in income for fiscal 2010 decreasing ¥1,495 million from the previous fiscal year.

As a result of the above, net income was ¥22,379 million, up 2.6% from the previous fiscal year.

Financial Conditions

As of February 20, 2011, the fiscal year-end, total assets stood at ¥517,218 million, an increase of ¥13,671 million compared to the previous fiscal year-end. Depreciation of ¥19,722 million on property, plant and equipment and ¥13,447 million for securitization of real estate for ÆON Mall Aratamabashi were ultimately offset by an increase of ¥61,820 million in property, plant and equipment acquired for the opening of new shopping malls, the renovation of existing malls, and plans for new premises and extensions in floor space.

Total liabilities as of February 20, 2011 amounted to ¥339,601 million, down ¥5,130 million from the previous fiscal year-end. Declines stemmed mainly from a net decrease of ¥18,930 million in long-term debt. Partially offsetting this was ¥7,086 million in payables-construction associated with the opening of new shopping malls and the expansion of existing shopping malls, coupled with an increase of ¥10,412 million in specialty store deposits received.

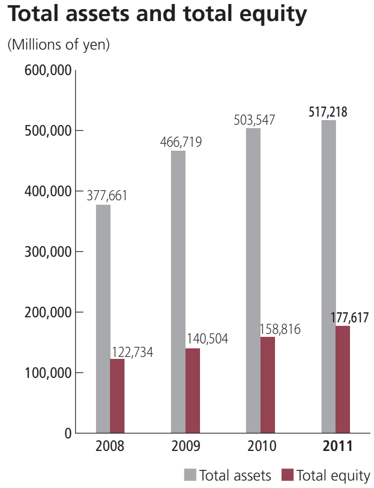
Consolidated net assets on February 20, 2011 were ¥177,617 million, up ¥18,801 million year on year. This outcome largely reflected an increase in retained earnings due to the posting of ¥22,379 million in net income for the year.

Cash Flows

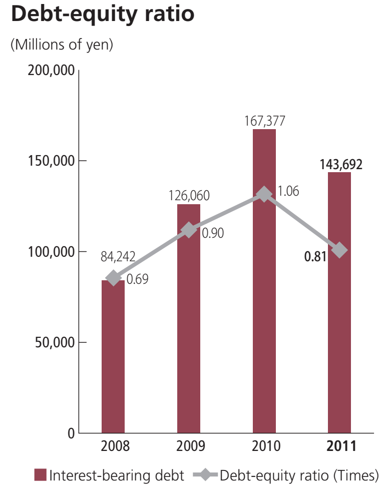
Cash Flows from Operating Activities

Net cash provided by operating activities for fiscal 2010 came to ¥53,008 million, compared with ¥72,001 million in the previous fiscal year. In addition to ¥38,223 million in income before income taxes and minority interests (¥37,268 million the previous fiscal year), depreciation and amortization expenses of ¥19,722 million (¥18,469 million the previous fiscal year), and impairment losses

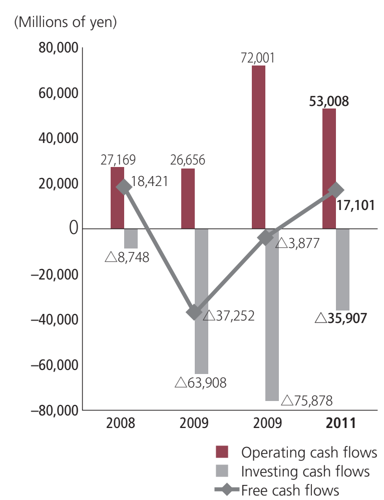
Total assets and total equity



Interest-bearing debt and Debt-equity ratio



Cash flows



of ¥3,901 million (¥663 million the previous fiscal year), the Company recorded an increase of ¥10,415 million in deposits received (¥20,560 million in the previous fiscal year). Growth in the latter came as a result of increased sales at 2 new ÆON shopping malls. The main use of cash was ¥13,242 million in income taxes— paid, compared to ¥11,842 million in the previous fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities for fiscal 2010 came to ¥35,907 million, compared with ¥75,878 million in net cash used the previous fiscal year. The main uses of cash included ¥54,763 million for the acquisition of plant and equipment accompanying the opening of ÆON Mall Aratamabashi and ÆON Mall Yamatokoriyama, and for the acquisition of new premises and extensions in floor space (¥73,507 million in the previous fiscal year), and ¥7,941 million (¥8,497 million in the previous fiscal year) in repayments of lease deposits from lessees. Cash inflows included ¥6,998 million (¥4,537 million in the previous fiscal year) in proceeds from lease deposits from lessees accompanying the opening of 2 malls, ¥18,128 million (¥1,813 million in the previous fiscal year) in proceeds from sales of property, plant and equipment as a result of the securitization of real estate for ÆON Mall Aratamabashi, and ¥5,099 million in gains on the sales of stocks of an associated company with a sale of shares in ÆON Insurance Service Co., Ltd., an affiliate under the equity method.

Cash Flows from Financing Activities

Net cash used in financing activities for fiscal 2010 came to ¥27,316 million, compared with ¥37,688 million in net cash provided in the previous fiscal year. Cash inflows included ¥5,000 million of long-term debt (versus ¥61,900 million in the previous fiscal year).

Outflows included ¥23,930 million for the repayment of long-term debt (¥25,583 million in the previous fiscal year), and a net decrease in short-term borrowings of ¥4,755 million, compared to a net increase of ¥18,000 million for the previous fiscal year. The Company also recorded ¥3,622 million in dividends—paid, the same figure as a year earlier.

As a result, cash and cash equivalents amounted to ¥27,631 million as of February 20, 2011, a decrease of ¥10,267 million from the previous fiscal year.

Dividend Policy

ÆON Mall regards the expansion of its earning power in order to increase returns to shareholders as a key management priority. Our basic policy on profit distribution emphasizes the maintenance of reliable dividend payments to shareholders, combined with the effective use of retained earnings to strengthen our business base and financial structure, especially through investment in growth areas and new businesses.

Outlook for the Coming Year

The slump in consumer spending since the Lehman Shock has resulted in stiffer competition between shopping malls, and tenants being more selective when deciding where to open new stores. In the domestic market we have continued to open new shopping malls in carefully selected locations, as well as actively renovate existing ones. One aim in this period was to expand our business base in order to secure both sustainable growth and profitability despite the adverse climate. Overseas meanwhile, we have actively worked to develop further our shopping mall business in China.

Uncertainty over electricity supplies and lackluster consumer spending has cast a shadow over the Japanese economy since the Great East Japan Earthquake. However, a more positive mood is being seen among consumers as reconstruction of the affected regions begins to instill hope for the future. With this in mind, the ÆON Mall Group, with the support of its customers, will seek to create shopping malls in tune with the local community and its needs.

Many of our shopping malls are built at the request of local communities. By working together with these communities in the development and management of our malls, we can contribute to the local economy in many ways, such as employment creation, greater tax revenues for local government, and by providing local entrepreneurs with business opportunities. Going forward, ÆON Mall, the core company responsible for the Group's development business, will marshal its management resources in order to build upon past achievements and expand its domestic businesses further. Overseas, our priorities will include securing a stronger business base in China, and making inroads into the shopping mall sectors in the ASEAN region in the quest for new growth.

3. ÆON Mall Shopping Centers at a Glance

Shopping malls (Japan)

(As of May 11, 2011)

	Shopping malls	Commercial area (m²)	Parking	Tenants	Land and building owned	Land leased, building owned	Land and building leased
1	ÆON Mall Tsugaru Kashiwa	42,000	2,600	100	◎		
2	ÆON Mall Shimoda	53,000	4,000	118	◎		
3	ÆON Mall Akita	67,000	3,800	171	◎		
4	ÆON Mall Morioka	44,000	2,800	117	◎		
5	ÆON Mall Natori AIRY	75,000*1	3,900	170		◎	
6	ÆON Mall Ota	62,000	4,200	170			◎
7	ÆON Mall Takasaki	60,000	3,700	168		◎	
8	ÆON Mall Mito Uchihara	71,000	4,000	185		◎	
9	ÆON Mall Kawaguchi Green City	32,000*1	1,300	101			◎
10	ÆON Mall Kawaguchi carat	66,000*1	2,400	177			◎
11	ÆON Mall Hanyu	88,000	5,000	210		◎	
12	ÆON LakeTown kaze	80,000	2,300	216			◎
13	ÆON Mall Musashimurayama mu	84,000*1	4,000	180			☆
14	ÆON Mall Hinode	73,000	3,600	159		◎	
15	ÆON Mall Yamato	33,000	1,900	103			☆
16	ÆON Mall Futtsu	33,000	1,800	94	◎		
17	ÆON Mall Narita	71,000	4,000	170	◎		
18	ÆON Mall Chiba NEW TOWN	83,000	4,000	146			☆
19	ÆON Mall Kofu Showa	48,000*1	2,500	130	◎		
20	ÆON Mall Takaoka	64,000	3,600	152		◎	
21	ÆON Mall Hamamatsu Shitoro	65,000	3,500	156			☆
22	ÆON Mall Okazaki	95,000	4,300	178		◎	
23	ÆON Mall Higashiura	56,000	5,000	107			☆
24	ÆON Mall Kisogawa KiRiO	69,000*1	4,400	173			◎
25	mozo wondercity	85,000*1*3	5,000	230		Outsources PM	
26	ÆON Mall Aratamabashi	24,000*2	1,600	130			◎
27	ÆON Mall Suzuka BELLCITY	66,000	4,200	168	◎		
28	ÆON Mall Kusatsu	86,000	4,300	183		◎	
29	ÆON Mall Kyoto Hana	40,000*1	1,600	143			☆
30	Kyoto Family	24,000*1	700	69		Outsources PM	
31	ÆON Mall KYOTO	51,000*1	1,100	130		Outsources PM	
32	ÆON Mall Kashihara ARURU	84,000*1	5,000	243		◎	
33	ÆON Mall Yamatokoriyama	74,000	4,200	170		◎	
34	Nara Family	81,000*1	2,000	156		Outsources PM	
35	ÆON Mall Fujiidera	20,000*1	600	78	◎		
36	ÆON Mall Neyagawa Green City	29,000*1	700	57	◎		
37	ÆON Mall Sakaikitahanada prou	71,000*1	2,800	171			☆
38	ÆON Mall Rinku Sennan	77,000	4,300	173		◎	
39	ÆON Mall Tsurumi Leafa	54,000*1	2,100	172			☆
40	ÆON Mall Itami Terrace	57,000*1	2,600	143			☆
41	ÆON Mall Kobe Kita	60,000	4,000	166			☆
42	ÆON Mall Kurashiki	72,000	4,500	145	◎		
43	ÆON Mall Hiroshima Fuchu SOLEIL	81,000*1	4,300	191			◎
44	ÆON Mall Hiroshima Gion	57,000	2,800	130		◎	
45	ÆON Mall Niihama	71,000	3,400	108		◎	
46	ÆON Mall Kochi	59,000	3,100	133			◎
47	ÆON Mall Fukuoka LUCLE	83,000*1	5,200	216			☆
48	ÆON Mall Nogata	62,000	3,400	140			◎
49	ÆON Mall Chikushino	76,000	3,600	180		◎	
50	ÆON Mall Sankoh	36,000	2,500	70	◎		
51	Otsu Shopping Plaza	7,000	600	25	◎		
52	ÆON Mall Omuta	61,000	4,800	140	◎		
53	ÆON Mall Kumamoto CLAIR	71,000*1	4,500	174		◎	
54	ÆON Mall Uki VALUE	70,000*1	3,300	114			☆
55	ÆON Mall Miyazaki	77,000	4,000	170		◎	
56	ÆON Mall MiELL Miyakonojo-Ekimae	33,000	1,700	101	◎		

*1: Site area *2: Store area *3 Excludes cinema wings ☆: Securitized assets

Shopping malls (Overseas)

	Shopping malls	Commercial area (m²)	Parking	Tenants	Land and building owned	Land leased, building owned	Land and building leased
57	ÆON Beijing International Mall Shopping Center	91,000	3,000	104		Outsources PM	
58	ÆON Mall Tianjin TEDA	75,000	2,500	130			◎

4. Risk Factors

In this section, we describe several important matters related to our business operations and financial conditions, which, in our view, might have a significant impact on judgments and decisions by investors. However, we should note that risks and uncertainties surrounding our future earnings and financial conditions are not limited to those described here. References to future prospects made in this section reflect our judgment as of May 12, 2011, when the annual securities report was submitted.

1. Relationship with ÆON Co., Ltd. and Its Affiliates (Hereinafter Referred to as "the ÆON Group Companies")

(1) Risk Involved in Earnings Dependence on ÆON and ÆON Group Companies

Operating revenue from business with ÆON Retail Co., Ltd. accounted for 11.5% of ÆON Mall's operating revenue in the fiscal year ended February 20, 2011, while the ratio of operating revenue from the ÆON Group companies other than ÆON Retail stood at 13.6%.

In the development of malls, the presence of anchor tenants that can pull in many customers is extremely important. Capitalizing on the close ties with ÆON, ÆON Mall has ÆON stores as anchor tenants at its malls. We expect ÆON stores to be our key tenants at new malls planned for the future.

Thus, the relationship between ÆON Mall, ÆON and all ÆON Group companies provides a great advantage in drawing anchor tenants in a stable manner in our mall projects. Because of such close ties, however, ÆON Mall's earnings performance may become vulnerable to business results of ÆON and other ÆON Group companies, and their policies regarding the opening of new stores and shutdown of existing stores.

(2) Risk That Business Growth May Be Constrained by Recruitment

As of February 20, 2011, ÆON Mall's payroll of 685 employees includes 9 on loan from ÆON Retail and ÆON Group companies; all of them commit themselves full-time to ÆON Mall's day-to-day business operations, causing no disruption in the stable execution of business.

The mall development and management that are our core business tend to require the multifaceted expertise accumulated by particular individuals. At present, ÆON Mall depends on experienced individuals on loan from ÆON Retail to a greater extent.

We are working to secure qualified people by fostering human resources in-house and also by strengthening recruitment and job-training activities on our own. For the immediate future, however, we expect that our dependence on people on loan from ÆON Retail may continue, and that the growth of our mall business may be affected by the personnel policy of ÆON.

2. Regulatory Restrictions

(1) Regulations under the City Planning Law and the Large-Scale Retail Stores Location Law (Hereinafter Referred to as "Large Stores Location Law")

ÆON Mall's mall development and management operations are regulated by the Large Stores Location Law and other laws. Under the Large Stores Location Law, the opening of new stores or store expansions involving a retail floor space of over 1,000 square meters are subject to regulations by local governments in terms of city planning, public transportation and preservation of the community environment. In addition, from November 2007, the revised City Planning Law restricts areas where large-scale stores with a floor space of over 10,000 square meters can be established to three use zones, including the commercial zone, prescribed by the City Planning Law. Thus, ÆON Mall's future store opening plans may be affected by these regulations.

(2) Changes in Real Estate-Related Taxes

Changes in real estate-related tax systems, if any, may push up the costs of holding, acquiring and disposing of real estate assets, affecting the ÆON Mall Group's earnings performance.

3. Operational Matters

(1) Periods Required for Mall Development

The development of a mall requires a long period of time as it involves a series of steps, ranging from market research, site selection and negotiations with land owners to acquire land to various legal procedures, store designs and recruitment of tenants. As such, if development projects do not proceed as planned or are suspended, ÆON Mall's earnings performance may be affected.

(2) Risk of Buildings Being Damaged, Destroyed or Degraded

ÆON Mall's mall operations may be disrupted if buildings and facilities are damaged, destroyed or otherwise degraded by fire, earthquakes or any other unforeseen events. All malls currently operated by ÆON Mall are covered by fire insurance and loss of profit insurance, which compensates for the loss of rent, among others, in the event of fire, flood or other large-scale disasters causing substantial damage. However, as malls are large-scale facilities, there are currently no insurance companies willing to underwrite earthquake insurance policies with economically reasonable terms. Thus this and other reasons, our insurance coverage falls short of compensating a full amount of physical damage caused by earthquakes. Under these circumstances, the ÆON Mall Group's earnings performance may be greatly affected in the event of mall structures being damaged, burned down or otherwise degraded in earthquakes.

(3) Environmental Contamination of Development Areas

ÆON Mall occasionally develops malls on land where industrial plants were previously located. When contaminants are found in an environmental survey, under contract, the cost of removing contaminants is borne by the seller of contaminated land in the case where ÆON Mall purchased the land, and by the landlord in the case where ÆON Mall leases the land. However, if any contaminant is found after the completion of the survey, it would certainly slow down the mall development project there, with the likelihood of an impact on ÆON Mall's earnings.

(4) Risk of Declining Availability of Development Sites

The growth of ÆON Mall's business depends on our ability to continue developing new malls. If the supply of large-scale sites suitable for mall development declines significantly, it may slow down the pace of our mall development activities.

(5) Management of Personal Information

ÆON Mall is striving to ensure the proper management of customers' personal information through such measures as strict compliance based on in-house regulations and the Information Management Manual, in addition to education of employees.

Should the leakage of personal information occur in accidents or under other unforeseeable circumstances, however, it could damage the reputation of and confidence in the ÆON Mall Group, eventually affecting its earnings performance.

(6) Overseas Business Development

ÆON Mall is seeking to undertake mall development business in China and other overseas markets as part of its broad business strategy. Overseas business operations may affect our earnings performance because of possible changes in legal regulations related to investment, trade, competition, taxation and foreign exchange, differences in business practices, labor relations, and other political and social factors, on top of overall economic trends and exchange rate fluctuations.

(7) Risk from Competition with Rival Companies

Competition from other real estate developers and general merchandisers is intensifying, a trend that may adversely affect ÆON Mall's business operations, financial conditions and earnings performance.

(8) Risk Associated with Economic Conditions

Tenants at malls owned and operated by ÆON Mall are mostly retailers and service providers, and demand for their products and services is susceptible to trends in the overall economy and personal consumption in particular. If economic conditions in Japan deteriorate in the future, our business operations may be adversely affected, with the risk of falling values of assets we hold.

4. Financial Matters

(1) Possible Earnings Fluctuations Due to Interest Rate Changes

ÆON Mall has been placing emphasis on borrowings at fixed interest rates in the procurement of necessary funds from various financial institutions. As of February 20, 2011, the balance of borrowings including bonds stood at ¥143,692 million on a consolidated basis, of which ¥132,499 million, or 92.2%, were borrowings at fixed interest rates. Should interest rates rise, it would push up interest paid on floating-rate borrowings as well as costs of refinancing and fundraising for new projects, with a likely adverse impact on the Company's earnings performance.

(2) Fund-Raising Operations

ÆON Mall occasionally takes on additional debt or increases equity capital for the development of new malls based on its growth strategy. However, we may not be able to raise necessary funds with ideal financing terms in a timely manner, due to the overall business and economic downturn, or a possible decline of our credit standing and deteriorating business prospects, among other factors.

Furthermore, the possibility cannot be entirely ruled out of ÆON Mall being unable to raise funds at all.

(3) Risk Associated with the Impact of the Impairment Accounting Standard

Based on the "Accounting Standard Regarding Impairment Loss on Fixed Assets" (hereinafter referred to as "the impairment accounting standard"), announced in August 2002, ÆON Mall applies the impairment accounting standard to its accounting of business operations. If individual business establishments incur operating losses, market prices of land held fall sharply, mall facilities become idle due to the withdrawal of tenants, or the business environment deteriorates considerably, the resulting impairment losses may adversely affect ÆON Mall's financial conditions and earnings performance.

Consolidated Balance Sheets

ÆON Mall Co., Ltd. and Subsidiaries
February 20, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2011**	2010	**2011**
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 16)	**¥ 27,631**	¥ 37,898	**$ 331,430**
Receivables:			
Trade accounts (Notes 13 and 16)	**2,718**	2,827	**32,603**
Other (Note 16)	**11,703**	9,063	**140,379**
Allowance for doubtful accounts	**(26)**	(28)	**(315)**
Deferred tax assets (Note 11)	**1,111**	797	**13,322**
Prepaid expenses and other	**3,068**	3,817	**36,801**
Total current assets	**46,205**	54,374	**554,220**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 4, 5 and 7)	**102,795**	95,094	**1,232,998**
Buildings and structures (Notes 4, 5 and 7)	**369,329**	348,204	**4,430,001**
Machinery and equipment	**1,066**	1,115	**12,786**
Furniture and fixtures	**18,433**	17,356	**221,090**
Construction in progress	**18,110**	12,687	**217,224**
Total	**509,733**	474,456	**6,114,099**
Accumulated depreciation	**(126,881)**	(108,843)	**(1,521,901)**
Net property, plant and equipment	**382,852**	365,613	**4,592,198**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	**774**	723	**9,278**
Investment in an associated company		1,094	
Lease deposits paid (Notes 6 and 13)	**61,268**	61,752	**734,892**
Long-term prepaid expenses	**17,512**	12,741	**210,058**
Deferred tax assets (Note 11)	**4,039**	2,552	**48,451**
Other	**4,568**	4,698	**54,790**
Total investments and other assets	**88,161**	83,560	**1,057,469**
TOTAL	**¥ 517,218**	¥ 503,547	**$ 6,203,887**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2011	2010	Thousands of U.S. Dollars (Note 1) 2011
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 13)	**¥ 200**	¥ 4,955	**$ 2,399**
Current portion of long-term debt (Notes 7 and 13)	**21,285**	22,950	**255,311**
Payables:			
Trade accounts (Note 13)	**5,603**	5,462	**67,207**
Construction (Note 13)	**14,068**	7,012	**168,746**
Other	**1,662**	1,598	**19,940**
Deposits received (Notes 7 and 13)	**54,049**	43,637	**648,298**
Income taxes payable (Note 13)	**10,923**	6,785	**131,022**
Accrued expenses	**2,038**	1,807	**24,449**
Current portion of lease deposits from lessees (Notes 7 and 13)	**1,544**	1,439	**18,524**
Other	**2,636**	5,085	**31,603**
Total current liabilities	**114,008**	100,730	**1,367,499**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 13)	**89,207**	106,472	**1,070,007**
Corporate bonds (Notes 7 and 13)	**33,000**	33,000	**395,826**
Liability for retirement benefits (Note 8)	**111**	65	**1,336**
Lease deposits from lessees (Notes 7, 13 and 16)	**102,957**	103,975	**1,234,940**
Other	**318**	489	**3,811**
Total long-term liabilities	**225,593**	244,001	**2,705,920**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6, 12 and 14)			
EQUITY (Notes 9, 10, 15 and 17):			
Common stock—authorized, 320,000,000 shares in 2011 and 2010; issued, 181,134,407 shares in 2011 and 181,130,207 shares in 2010	**16,671**	16,667	**199,963**
Capital surplus	**16,980**	16,975	**203,667**
Stock acquisition rights	**117**	84	**1,399**
Retained earnings	**143,178**	124,421	**1,717,377**
Net unrealized gain on available-for-sale securities	**226**	196	**2,716**
Foreign currency translation adjustments	**(133)**	(34)	**(1,590)**
Treasury stock—at cost, 9,470 shares in 2011 and 8,210 shares in 2010	**(26)**	(23)	**(309)**
Total	**177,013**	158,286	**2,123,223**
Minority interests	**604**	530	**7,245**
Total equity	**177,617**	158,816	**2,130,468**
TOTAL	**¥517,218**	¥503,547	**$6,203,887**

Consolidated Statements of Income

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	**2011**
OPERATING REVENUE (Note 16)	**¥145,117**	¥138,943	**$1,740,640**
OPERATING COSTS	**95,426**	91,690	**1,144,604**
Gross profit	**49,691**	47,253	**596,036**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 16)	**10,039**	10,051	**120,425**
Operating income	**39,652**	37,202	**475,611**
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 16)	**542**	666	**6,502**
Interest expense	**(2,925)**	(3,056)	**(35,085)**
Loss on disposal of property, plant and equipment	**(927)**	(1,247)	**(11,120)**
Loss on impairment of long-lived assets (Note 4)	**(3,901)**	(663)	**(46,790)**
Gain on sales of property, plant and equipment	**344**		**4,131**
Equity in earnings of an associated company	**460**	394	**5,516**
Gain on sales of shares in an associated company	**4,477**		**53,696**
Penalty income from leaving tenants	**475**	3,756	**5,702**
Other—net	**26**	216	**306**
Other income (expenses)—net	**(1,429)**	66	**(17,142)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**38,223**	37,268	**458,469**
INCOME TAXES (Note 11):			
Current	**17,585**	13,393	**210,924**
Deferred	**(1,821)**	1,990	**(21,846)**
Total income taxes	**15,764**	15,383	**189,078**
MINORITY INTERESTS IN NET INCOME	**80**	76	**957**
NET INCOME	**¥ 22,379**	¥ 21,809	**$ 268,434**

	Yen		U.S. Dollars
	2011	2010	**2011**
PER SHARE OF COMMON STOCK (Notes 2.r and 15):			
Basic net income	**¥ 123.55**	¥ 120.41	**$ 1.48**
Diluted net income	**123.51**	120.38	**1.48**
Cash dividends applicable to the year	**20.00**	20.00	**0.24**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20, 2011 and 2010

	Thousands	Millions of Yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 20, 2009	181,120	¥ 16,663	¥ 16,972	¥ 56	¥ 106,234	¥166	¥ (25)	¥ (23)	¥ 140,043	¥ 461	¥ 140,504
Net income					21,809				21,809		21,809
Exercise of stock options	3	4	3						7		7
Cash dividends, ¥20.0 per share					(3,622)				(3,622)		(3,622)
Purchase of treasury stock	(1)										
Net change in the year				28		30	(9)		49	69	118
BALANCE, FEBRUARY 20, 2010	181,122	16,667	16,975	84	124,421	196	(34)	(23)	158,286	530	158,816
Net income					**22,379**				**22,379**		**22,379**
Exercise of stock options	**4**	**4**	**5**						**9**		**9**
Cash dividends, ¥20.0 per share					**(3,622)**				**(3,622)**		**(3,622)**
Purchase of treasury stock	**(1)**							**(3)**	**(3)**		**(3)**
Net change in the year				**33**		**30**	**(99)**		**(36)**	**74**	**38**
BALANCE, FEBRUARY 20, 2011	**181,125**	**¥16,671**	**¥16,980**	**¥117**	**¥143,178**	**¥226**	**¥(133)**	**¥(26)**	**¥177,013**	**¥604**	**¥177,617**

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 20, 2010	$199,912	$203,615	$ 999	$1,492,394	$2,356	$ (403)	$(278)	$1,898,595	$6,360	$1,904,955
Net income				**268,434**				**268,434**		**268,434**
Exercise of stock options	**51**	**52**						**103**		**103**
Cash dividends, $0.24 per share				**(43,451)**				**(43,451)**		**(43,451)**
Purchase of treasury stock							**(31)**	**(31)**		**(31)**
Net change in the year			**400**		**360**	**(1,187)**		**(427)**	**885**	**458**
BALANCE, FEBRUARY 20, 2011	**$199,963**	**$203,667**	**$1,399**	**$1,717,377**	**$2,716**	**$(1,590)**	**$(309)**	**$2,123,223**	**$7,245**	**$2,130,468**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	**2011**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 38,223**	¥ 37,268	**$ 458,469**
Adjustments for:			
Income taxes—paid	**(13,242)**	(11,842)	**(158,837)**
Depreciation and amortization	**19,722**	18,469	**236,556**
Loss on impairment of long-lived assets	**3,901**	663	**46,790**
Equity in earnings of an associated company	**(460)**	(394)	**(5,517)**
Gain on sales of property, plant and equipment	**(316)**		**(3,791)**
Gain on sales of shares in an associated company	**(4,477)**		**(53,696)**
Changes in assets and liabilities:			
Decrease in receivables—trade accounts	**103**	1,578	**1,240**
Increase (decrease) in payables—trade accounts	**141**	(1,305)	**1,695**
Increase in deposits received	**10,415**	20,560	**124,926**
Decrease (increase) in allowance for doubtful accounts	**(46)**	93	**(548)**
Increase (decrease) in liability for retirement benefits	**46**	(175)	**556**
Other—net	**(1,002)**	7,086	**(12,027)**
Total adjustments	**14,785**	34,733	**177,347**
Net cash provided by operating activities	**53,008**	72,001	**635,816**
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	**(54,763)**	(73,507)	**(656,861)**
Proceeds from sales of property, plant and equipment	**18,128**	1,813	**217,434**
Proceeds from sales of shares in an associated company	**5,099**		**61,158**
Payment of lease deposits to lessors	**(915)**	(852)	**(10,976)**
Reimbursement of lease deposits to lessors	**2,151**	1,397	**25,800**
Repayment of lease deposits from lessees	**(7,941)**	(8,497)	**(95,255)**
Proceeds from lease deposits from lessees	**6,998**	4,537	**83,934**
Other	**(4,664)**	(769)	**(55,933)**
Net cash used in investing activities	**(35,907)**	(75,878)	**(430,699)**
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	**(4,755)**	(18,000)	**(57,035)**
Proceeds from long-term debt	**5,000**	61,900	**59,974**
Repayment of long-term debt	**(23,930)**	(25,583)	**(287,033)**
Proceeds from issuance of corporate bonds		23,000	
Dividends paid	**(3,622)**	(3,622)	**(43,451)**
Other	**(9)**	(7)	**(103)**
Net cash provided by (used in) financing activities	**(27,316)**	37,688	**(327,648)**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	**2011**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(52)**	(6)	**(616)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(10,267)**	33,805	**(123,147)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**37,898**	4,093	**454,577**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 27,631**	¥ 37,898	**$ 331,430**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20, 2011 and 2010

1. Basis of Presenting 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 conformity with accounting principles generally accepted in Japan, which are different in certain respects as to 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 2010 consolidated financial statements to conform to the classifications used in 2011.

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 ¥83.37 to $1, the approximate rate of exchange at February 20, 2011. 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 20, 2011 include the accounts of the Company and its three (two in 2010) subsidiaries (together, the "Group"). AEON MALL (TIANJIN) BUSINESS CO., LTD. has been included in the consolidated financial statements for the year ended February 20, 2011 since it was newly established during the year.

Under the control or influence concept, 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.

An associated company was accounted for by the equity method.

The Company excluded ÆON Insurance Service Co., Ltd. from the scope of equity method at February 20, 2011 as a result of selling its securities during the year.

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 (the "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: (1) 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, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008. The Company applied this accounting standard effective February 21, 2009. The effect of this change was nil on the consolidated statement of income for the year ended February 20, 2010.

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 ÆON Co., Ltd. (the parent company), both of which mature or become due within three months of the date of acquisition.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable 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. 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.

h. Lease Deposits to Lessors and Lease Deposits from Lessees—Certain shopping centers operated by the Group are generally 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 the shopping centers generally under 20-year lease agreements.

i. Bond Issue Costs—Bond issue costs are charged to income as incurred.

j. Retirement and Pension Plans—The Company has a defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees.

Liability for employees' retirement benefits is accounted for based on the projected benefit obligations and plan assets at the balance sheet date.

k. Stock Options—The ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance which is 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 non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right 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.

The Company has applied this accounting standard for stock options to those granted on and after May 1, 2006.

l. 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 issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

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 to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which 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.

The Company applied the revised accounting standard effective February 20, 2010. In addition, the Company continues to account for leases which existed at the transition date and did not transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change was nil on the consolidated statement of income for the year ended February 20, 2010.

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 all finance leases that are deemed not to transfer ownership of the leased property to the lessee be recognized as investments in leases.

The Company applied the revised accounting standard effective February 20, 2010. The effect of this change was nil on the consolidated statement of income for the year ended February 20, 2010.

All other leases are accounted for as operating leases.

m. Bonuses to Directors—Bonuses to directors are accrued at the year end to which such bonuses are attributable.

n. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements 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 laws to the temporary differences.

o. 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 statements of income to the extent that they are not hedged by forward exchange contracts.

p. 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" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

q. Derivatives and Hedging Activities—The Company uses interest rate swaps to manage its exposures to fluctuations in interest rates. They are utilized by the Company to reduce interest rate risk. 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 statements of income and (b) for derivatives used for hedging purposes, if 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 which 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 expenses or income.

r. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

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

s. New Accounting Pronouncements

Asset Retirement Obligations—On March 2008, the ASBJ published a new accounting standard for asset retirement obligations, 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 either by law or contract that results from the acquisition, construction, development and the 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 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 each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010.

Accounting Changes and Error Corrections—In December 2009, 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 with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations
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 financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures—In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No.20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. Investment Securities

Investment securities as of February 20, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Investment securities:			
Marketable equity securities	**¥728**	¥677	**$8,726**
Other	**46**	46	**552**
Total	**¥774**	¥723	**$9,278**

The costs and aggregate fair values of investment securities at February 20, 2011 and 2010 were as follows:

	Millions of Yen			
	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	**¥346**	**¥410**	**¥(28)**	**¥728**

	Millions of Yen			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	¥346	¥358	¥(27)	¥677

	Thousands of U.S. Dollars			
	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	**$4,155**	**$4,907**	**$(336)**	**$8,726**

Available-for-sale securities whose fair values are not readily determinable as of February 20, 2011 and 2010 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Available-for-sale:			
Equity securities	**¥46**	¥46	**$552**

4. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of February 20, 2011 and 2010. As a result, the Group recognized impairment losses of ¥3,901 million ($46,790 thousand) and ¥663 million, respectively, on the following long-lived assets in February 20, 2011 and 2010.

Use	Type of Assets	Location	Millions of Yen		Thousands of U.S. Dollars
			2011	2010	**2011**
Shopping center	Buildings and structures and others	Aomori	**¥3,901**		**$46,790**
Shopping center	Buildings and structures and others	Saitama		¥353	
Shopping center	Land, buildings and structures	Miyazaki		310	
Total			**¥3,901**	¥663	**$46,790**

The Group mainly categorizes shopping centers as a standard unit, which is the minimum cash-generating unit, and idle assets as individual independent units. The book values of the shopping centers which incurred or are expected to incur continuous operating losses and idle assets which are not scheduled to be used were reduced to recoverable amounts, and such changes were recorded as impairment losses in other expenses. The recoverable amounts of the asset groups are measured at net selling price or value in use.

The net selling price is measured based on real estate appraisal value. The value in use is based on the discounted present value of expected cash flows. The discount rate for the fiscal year ended February 20, 2011 was 9.3%.

The breakdowns of impairment losses for the years ended February 20, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Land		¥310	
Buildings and structures	**¥3,773**	333	**$45,255**
Other	**128**	20	**1,535**
Total	**¥3,901**	¥663	**$46,790**

5. Investment Property

In November 2008, the ASBJ issued ASBJ Statement No. 20 "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23 "Guidance on Accounting Standard for Investment Property and Related Disclosures." This accounting standard and guidance are applicable to investment property and related disclosures at the end of the fiscal year ending on or after March 31, 2010. The Group applied the new accounting standard and guidance effective February 20, 2011.

The Group holds some rental properties such as shopping center in some region throughout Japan. The net of rental income and operating expenses for those rental properties was ¥28,764 million ($345,019 thousand) for the fiscal year ended February 20, 2011.

The carrying amounts, changes in such balances and market prices of such properties are as follows.

Millions of Yen			
Carrying amount			Fair value
February 21, 2010	Increase/Decrease	February 20, 2011	February 20, 2011
¥340,671	**¥7,401**	**¥348,071**	**¥565,059**

Thousands of U.S. Dollars			
Carrying amount			Fair value
February 21, 2010	Increase/Decrease	February 20, 2011	February 20, 2011
$4,086,252	**$88,768**	**$4,175,020**	**$6,777,729**

Notes:
1) Carrying amount recognized in balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Increase during the fiscal year ended February 20, 2011 primarily represents the acquisition of certain properties of ¥33,187 million ($398,070 thousand), which was partially offset by depreciation of ¥16,420 million ($196,948 thousand).
3) Fair value of properties as of February 20, 2011 is mainly measured based on evaluations based on real estate appraisal value.

6. Fixed Leasehold Deposits to Lessors

The Company has securitized certain amounts of fixed leasehold deposits to lessors by transferring these deposits to an unconsolidated special purpose entity (the "SPE"), J-one Assets Corporation. The aggregate amounts of securitized deposits as of February 20, 2011 and 2010 were ¥401 million ($4,806 thousand) and ¥801 million, respectively. This SPE has options to sell the transferred deposits back to ÆON Retail Co., Ltd., the Company's parent's subsidiary, in certain cases including lessors' insolvency. In that case, ÆON Retail Co., Ltd. has its option to sell it to the Company.

When the SPE exercises its put options, it also cancels interest rate swap agreements, which it entered into with financial institutions for hedging interest exposures, incorporated in these transactions and as such the cancellation gains or losses are borne by ÆON Retail Co., Ltd. When ÆON Retail Co., Ltd. uses the option, such cancellation gains or losses are borne by the Company. The unrealized losses on these interest rate swap agreements as of February 20, 2011 and 2010 were ¥32 million ($385 thousand) and ¥62 million, respectively.

7. Short-term Borrowings, Long-term Debt and Corporate Bonds

Short-term borrowings at February 20, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Short-term loans principally from banks, 0.89% to 0.94% (2011) and 0.80% to 1.05% (2010)	**¥200**	¥4,955	**$2,399**

Long-term debt at February 20, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Loans from banks and insurance companies, due through 2019 with interest rates ranging from 0.27% to 6.00% (2011) and from 0.27% to 6.00% (2010)			
Collateralized	**¥ 9,392**	¥ 36,280	**$ 112,654**
Unsecured	**101,100**	93,142	**1,212,664**
Total	**110,492**	129,422	**1,325,318**
Less current portion	**(21,285)**	(22,950)	**(255,311)**
Long-term debt, less current portion	**¥ 89,207**	¥106,472	**$1,070,007**

Corporate bonds at February 20, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Unsecured 1.60% yen corporate bond, due 2013	**¥10,000**	¥10,000	**$119,947**
Unsecured 1.54% yen corporate bond, due 2014	**23,000**	23,000	**275,879**
Total	**¥33,000**	¥33,000	**$395,826**

Annual maturities of long-term debt as of February 20, 2011 were as follows:

Year Ending February 20	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 21,285	$ 255,311
2013	26,415	316,840
2014	29,034	348,256
2015	7,961	95,485
2016	13,807	165,612
2017 and thereafter	11,990	143,814
Total	¥110,492	$1,325,318

Annual maturities of corporate bonds as of February 20, 2011 were as follows:

Year Ending February 20	Millions of Yen	Thousands of U.S. Dollars
2013	¥10,000	$119,947
2014	23,000	275,879
Total	¥33,000	$395,826

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other at February 20, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	**¥27,671**	**$331,905**
Buildings and structures—net of accumulated depreciation	**53,921**	**646,768**
Total	**¥81,592**	**$978,673**

Collateralized long-term debt and other at February 20, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt	**¥ 2,149**	**$ 25,771**
Current portion of lease from lessees	**109**	**1,310**
Deposits received	**6,700**	**80,365**
Long-term debt	**7,243**	**86,883**
Lease deposits from lessees	**2,775**	**33,283**
Total	**¥18,976**	**$227,612**

8. 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.

The Company amended its defined benefit pension plan on January 15, 2010 and implemented the new pension plan which features cash balance plans from April 1, 2010. Under the cash balance plans, the amount of benefits retirees receive fluctuates based on the market interest rates. The Company recognized all prior service costs arising from the amendment of the defined benefit pension plan in the year ended February 20, 2010. The effect of the amendment was to record reversal of liability for retirement benefits of ¥240 million in other income in the consolidated statements of income for the year ended February 20, 2010.

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.

The liability for employees' retirement benefits at February 20, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Projected benefit obligation	**¥(1,300)**	¥(1,236)	**$(15,589)**
Fair value of plan assets	**976**	937	**11,703**
Unrecognized actuarial gain	**213**	234	**2,550**
Net liability	**¥ (111)**	¥ (65)	**$ (1,336)**

The components of net periodic retirement benefit costs for the years ended February 20, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Service cost	**¥ 47**	¥ 52	**$ 568**
Interest cost	**30**	34	**356**
Expected return on plan assets	**(12)**	(11)	**(144)**
Recognized actuarial gain	**71**	76	**848**
Other (Note)	**118**	96	**1,419**
Total	**254**	247	**3,047**
Reversal of liability for retirement benefits		(240)	
Net periodic costs	**¥254**	¥ 7	**$3,047**

Note: "Other" includes payments to the advance payment plan and contributions to the defined contribution pension plan.

Assumptions used for the years ended February 20, 2011 and 2010 are set forth as follows:

	2011	2010
Discount rate	**2.40%**	2.40%
Expected rate of return on plan assets	**1.28%**	1.30%
Recognition period of actuarial gain/loss	**10 years**	10 years
Amortization period of prior service cost	**Amortized one-time as incurred**	Amortized one-time as incurred

9. Equity

Japanese companies have been 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 such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the 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 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 20, 2011 are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2007 Stock Option	17 directors	20,200 shares	2008.4.21	¥1 ($0.01)	From May 21, 2008 to May 20, 2023
2008 Stock Option	16 directors	29,400 shares	2009.4.21	¥1 ($0.01)	From May 21, 2009 to May 20, 2024
2009 Stock Option	12 directors	24,100 shares	2010.4.21	¥1 ($0.01)	From May 21, 2010 to May 20, 2025

The stock option activity is as follows:

	2007 Stock Option (Shares)	2008 Stock Option (Shares)	2009 Stock Option (Shares)
For the Year Ended February 20, 2010			
Non-vested:			
February 20, 2009—outstanding			
Granted		29,400	
Canceled			
Vested		(29,400)	
February 20, 2010—outstanding			
Vested:			
February 20, 2009—outstanding	20,200		
Vested		29,400	
Exercised	(2,700)		
Canceled			
February 20, 2010—outstanding	17,500	29,400	
For the Year Ended February 20, 2011			
Non-vested:			
February 20, 2010—outstanding			
Granted			24,100
Canceled			
Vested			(24,100)
February 20, 2011—outstanding			
Vested:			
February 20, 2010—outstanding	17,500	29,400	
Vested			24,100
Exercised	(2,300)	(1,900)	
Canceled			
February 20, 2011—outstanding	15,200	27,500	24,100
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise	¥1,831 ($22)	¥1,828 ($22)	
Fair value price at grant date	¥2,750 ($33)	¥1,197 ($14)	¥1,741 ($21)

The Assumptions Used to Measure Fair Value of 2009 Stock Options

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	46.41%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥20 per share
Interest rate with risk free:	0.90%

11. Income Taxes

The Company and its domestic subsidiary are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the years ended February 20, 2011 and 2010.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at February 20, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Current:			
Deferred tax assets:			
Accrued enterprise tax	**¥ 827**	¥ 515	**$ 9,917**
Other	**284**	282	**3,405**
Deferred tax assets	**¥1,111**	¥ 797	**$13,322**
Non-current:			
Deferred tax assets:			
Property, plant and equipment	**¥5,249**	¥3,591	**$62,960**
Long-term prepaid expenses	**398**	299	**4,782**
Liability for retirement benefits	**45**	26	**542**
Other	**205**	258	**2,458**
Deferred tax assets	**5,897**	4,174	**70,742**
Deferred tax liabilities:			
Lease deposits to lessors and long-term prepaid expenses	**457**	401	**5,484**
Deferred capital gains on property	**270**	236	**3,241**
Special depreciation on property	**976**	851	**11,710**
Unrealized gain on available-for-sale securities	**155**	134	**1,856**
Deferred tax liabilities	**1,858**	1,622	**22,291**
Net non-current deferred tax assets	**¥4,039**	¥2,552	**$48,451**

The difference between the statutory tax rate and the effective tax rate for the years ended February 20, 2011 and 2010 is less than 5%, so the reconciliation of the difference is omitted.

12. Leases

a. Lessee

The Group leases certain machinery and equipment, and other assets.

Total rental expenses including lease payments under finance leases for the years ended February 20, 2011 and 2010 were ¥36,379 million ($436,362 thousand) and ¥36,262 million, respectively.

As discussed in note 2.l, the Group accounts for leases which 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 exiting at the transition date, on an "as if capitalized" basis for the years ended February 20, 2011 and 2010 was as follows:

	Millions of Yen		
	2011		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥44**	**¥1,386**	**¥1,430**
Accumulated depreciation	**35**	**921**	**956**
Net leased property	**¥ 9**	**¥ 465**	**¥ 474**

	Millions of Yen		
	2010		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥100	¥1,461	¥1,561
Accumulated depreciation	83	716	799
Net leased property	¥ 17	¥745	¥ 762

	Thousands of U.S. Dollars		
	2011		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**$537**	**$16,615**	**$17,152**
Accumulated depreciation	**426**	**11,038**	**11,464**
Net leased property	**$111**	**$ 5,557**	**$ 5,688**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Due within one year	**¥272**	¥291	**$3,258**
Due after one year	**226**	497	**2,711**
Total	**¥498**	¥788	**$5,969**

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Depreciation expense	**¥288**	¥318	**$3,460**
Interest expense	**20**	29	**234**
Total	**¥308**	¥347	**$3,694**
Lease payments	**¥310**	¥344	**$3,724**

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

The minimum rental commitments under noncancelable operating leases at February 20, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Due within one year	**¥ 22,901**	¥ 22,758	**$ 274,692**
Due after one year	**163,818**	176,762	**1,964,946**
Total	**¥186,719**	¥199,520	**$2,239,638**

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 20, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Due within one year	**¥ 204**	¥ 75	**$ 2,447**
Due after one year	**1,240**	117	**14,873**
Total	**¥1,444**	¥192	**$17,320**

13. Financial Instruments and Related Disclosures

In March 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the new guidance effective February 20, 2011.

(1) Policy for financial instruments

The Group conducts shopping center businesses as its core shopping center development businesses. The Group rent retail facilities in shopping center to tenants, ÆON Retail Co., Ltd., operating general merchandise store and other 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 to bank and ÆON Co., Ltd. Short term bank loans are used to fund its ongoing operations. 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 customer's credit risk.

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

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

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

Short-term borrowings, long-term debt and bonds are financing mainly for operating transactions and property investment. Although such contractual obligations comprise the risk that they fail to be met in full on maturity dates, such liquidity risk are avoided by deconcentration of due dates or maturity dates.

Although certain of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest-rate swaps.

The Group enters into interest-rate swap contracts to manage exposure to market risks from changes in interest rates of bank loans. Please see Note 14 for more detail 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 term and balances of major customers by each business administration department to identify the default risk of customers in early stage.

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

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

Market risk management (interest rate risk)

Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables and bond payable.

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

Basic principles of derivative transactions have been approved by management meeting based on the internal guidelines which prescribe the authority and the limit for each transaction by the corporate treasury department. Reconciliation of the transaction and balances with customers is made, and the transaction data has been reported to the chief financial officer.

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 price in active markets. If quoted price in not available, other rational valuation techniques are used instead.

Fair values of financial instruments

	Millions of Yen		
	2011		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 27,631	¥ 27,631	
Receivables: Trade accounts	2,718	2,718	
Investment securities	728	728	
Lease deposits paid, including current portion (Prepaid expenses and other)	63,083	57,988	¥(5,095)
Total	¥ 94,160	¥ 89,065	¥(5,095)
Short-term borrowings	¥ 200	¥ 200	
Payables: Trade accounts	5,603	5,603	
Payables: Construction	14,068	14,068	
Deposits received	54,049	54,049	
Income taxes payable	10,923	10,923	
Long-term debt, including current portion	110,492	112,190	¥(1,698)
Corporate bonds	33,000	33,559	(559)
Lease deposits from lessees, including current portion	104,501	103,116	1,385
Total	¥332,836	¥333,708	¥ (872)

	Thousands of U.S. Dollars		
	2011		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	$ 331,430	$ 331,430	
Receivables: Trade accounts	32,603	32,603	
Investment securities	8,727	8,727	
Lease deposits paid, including current portion (Prepaid expenses and other)	756,664	695,550	$(61,114)
Total	$1,129,424	$1,068,310	$(61,114)
Short-term borrowings	$ 2,399	$ 2,399	
Payables: Trade accounts	67,207	67,207	
Payables: Construction	168,746	168,746	
Deposits received	648,298	648,298	
Income taxes payable	131,022	131,022	
Long-term debt, including current portion	1,325,318	1,345,691	$(20,373)
Corporate bonds	395,826	402,528	(6,702)
Lease deposits from lessees, including current portion	1,253,464	1,236,851	16,613
Total	$3,992,280	$4,002,742	$(10,462)

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

Cash and cash equivalents, Receivables: Trade accounts

The carrying values of Cash and cash equivalents 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 the equity instrument, and at the quoted price obtained from the financial instruction for certain debt instruments.

Lease deposits paid

The fair values of Lease deposits paid are measured by discounting the total amount to be received based on the contract period at the risk-free rate.

Short-term borrowings, Payables: Trade accounts, Payables: Construction and Income taxes payable
The fair values of Short-term borrowings, Payables: Trade accounts, Payables: Construction and Income taxes payable approximate fair value because of their short maturities.

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

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

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

Derivatives
The information of the fair value for derivatives is included in Note 14.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
	2011	2011
Investments in equity instruments that do not have a quoted market price in an active market	**¥46**	**$552**

(c) Maturity analysis for financial assets securities with contractual maturities

	Millions of Yen			
	2011			
	Due in One Year or Least	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	**¥27,631**			
Lease deposits paid*1	**1,816**	**¥11,214**	**¥14,575**	**¥2,484**
Corporate bonds		**33,000**		
Long-term debt	**21,285**	**77,217**	**11,990**	
Lease deposits from lessees*2	**1,544**	**4,431**	**1,470**	

	Thousands of U.S. Dollars			
	2011			
	Due in One Year or Least	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	**$331,430**			
Lease deposits paid*1	**21,771**	**$134,511**	**$174,827**	**$29,791**
Corporate bonds		**395,826**		
Long-term debt	**255,311**	**926,193**	**143,814**	
Lease deposits from lessees*2	**18,524**	**53,150**	**17,631**	

*1 Lease deposits paid with no defined redemption schedule of ¥32,995 million ($395,763 thousand) are not included in the above table.
*2 Lease deposits from lessees with no defined redemption schedule of ¥97,056 million ($1,164,159 thousand) are not included in the above table.

14. Derivatives

The Company enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest 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.

	Millions of Yen			
	2011			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	**Long-term debt**	**¥38,468**	**¥34,938**	**¥37,447**

	Thousands of U.S. Dollars			
	2011			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	**Long-term debt**	**$461,407**	**$419,066**	**$449,169**

15. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended February 20, 2011 and 2010 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 20, 2011	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥22,379**	**181,124**	**¥123.55**	**$1.48**
Effect of Dilutive Securities—Warrants		**64**		
Diluted EPS—Net income for computation	**¥22,379**	**181,188**	**¥123.51**	**$1.48**
Year Ended February 20, 2010				
Basic EPS—Net income available to common shareholders	¥21,809	181,121	¥120.41	
Effect of Dilutive Securities—Warrants		43		
Diluted EPS—Net income for computation	¥21,809	181,164	¥120.38	

16. Related Party Disclosures

The Group adopted "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11 issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13 issued on October 17, 2006) for the year ended February 20, 2010. There was no amendment to the scope of disclosures for the year ended February 20, 2010 as a result of the adoption of this accounting standard and its guidance.

Transactions with the parent company and its subsidiary for the years ended February 20, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Deposits kept at the cash pool account of ÆON Co., Ltd. (the parent company)	**¥(20,000)**	¥30,000	**$(239,894)**
Interest income from ÆON Co., Ltd.	**13**	18	**151**
Revenue from leases of shopping centers to ÆON Retail Co., Ltd. (the parent's subsidiary)	**16,686**	17,015	**200,142**
Pledge of collateral for ÆON Retail Co., Ltd.		11,254	
Credit fee for ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	**1,940**		**23,273**

Notes: These transactions are on an arm's length basis and in the normal course of business.

The balances due to or from the parent company and its subsidiary at February 20, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	**2011**
Cash equivalents—Deposits kept at the cash pool account of ÆON Co., Ltd. (the parent company)	**¥10,000**	¥30,000	**$119,947**
Receivables—Trade accounts from ÆON Retail Co., Ltd. (the parent's subsidiary)	**915**	1,023	**10,970**
Lease deposits received from ÆON Retail Co., Ltd.	**15,814**	17,163	**189,686**
Receivables—Other from ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	**5,364**		**64,346**

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

17. Subsequent Events

a. Impact of the Great East Japan Earthquake

The earthquake and tsunami that hit the Tohoku and Kanto regions on March 11, 2011, caused damage to shopping centers of the Company and its domestic subsidiary in those regions. Primarily buildings and structures were damaged by the disaster and the Company and the subsidiary are currently in the process of investigation to determine the amount of losses.

The Company has Earthquake Insurance and the contract will be compensated with up to 20 billion yen. As this point, it is impossible to provide reasonable estimates of the disaster's impact on the consolidated financial position, operating results, and cash flows for the fiscal year beginning February 21, 2011. However, losses on disposal of fixed assets and asset restoration costs are expected to be recorded as a result of the disaster.

b. Appropriation of Retained Earnings

The following appropriation of retained earnings at February 20, 2011 was approved at the Company's Board of Directors meeting held on April 5, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.00 ($0.12) per share	¥1,811	$21,727

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ÆON Mall Co., Ltd.:

We have audited the accompanying consolidated balance sheets of ÆON Mall Co., Ltd. and subsidiaries (the "Company") as of February 20, 2011 and 2010, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ÆON Mall Co., Ltd. and subsidiaries as of February 20, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

May 6, 2011

Member of
Deloitte Touche Tohmatsu Limited

History

ÆON Mall History

1911	November	The Company was founded
1973	August	Started non-life insurance agency business in partnership with five non-life insurance companies
1974	December	Started life insurance agency business as an agent for American Family Life Assurance Company of Columbus Japan Branch
1979	May	Increased capital to ¥98 million by a paid-in capital increase through a rights offering
1989	September	Increased capital to ¥4,000 million
	October	Changed the corporate name from JUSCO Kosan Co., Ltd. to ÆON Kosan Co., Ltd. and began developing and managing large-scale shopping malls
1993	February	Established Shimoda Town Co., Ltd. (to develop ÆON Mall Shimoda)
1997	July	Increased capital to ¥4,650 million
2001	June	Changed name to ÆON Mall Co., Ltd.
2002	July	Listed on the First Section of the Tokyo Stock Exchange and increased capital to ¥6,065 million
2003	April	Conducted stock split (1:1.2)
	August	Increased capital to ¥7,796 million
2005	April	Conducted stock split (1:2)
2007	February	Conducted stock split (1:2)

Diamond City History

1969	March	Company founded. Capital ¥50 million (Joint investment by JUSCO Kosan Co., Ltd. (now ÆON Co., Ltd.) and Mitsubishi Corporation)
1970	December	Established Diamond Family Co., Ltd. as a joint investment with Kintetsu Corporation
1989	October	Stocks listed on the second section of the Osaka Stock Exchange (Capital ¥3,695 million)
1990	November	Established CITY PEC Co., Ltd.
2002	November	Stocks listed on the second section of the Tokyo Stock Exchange (Capital ¥4,975 million)
2003	February	Listings changed to first sections of Tokyo Stock Exchange and Osaka Stock Exchange
	February	Wound up subsidiary CITY PEC Co., Ltd.
2005	February	Moved head office from Osaka to Tokyo
2006	March	Merged with affiliate company Diamond Family Co., Ltd.
2007	February	Conducted stock split (1:2)

2007 August ÆON Mall merged with Diamond City

2007	September	All shopping mall names changed to ÆON Mall
2008	February	Spun off the insurance agency business
2011	February	Sold all stocks held in Aeon Insurance Service Co., Ltd.

Investor Information (As of February 20, 2011)

■ Shares

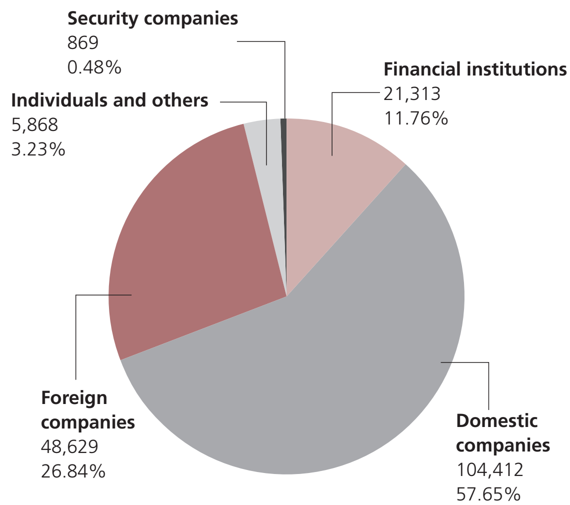
Number of Shares Authorized	320,000,000
Number of Shares Outstanding	181,134,407
Number of Shareholders	11,913

■ Major Shareholders

	Number of shares (Thousands)	Percentage of voting rights (%)
ÆON Co., Ltd.	101,057	55.79
Mellon Bank, N.A. as Agent for its Client Mellon OMNIBUS US Pension	3,641	2.01
Japan Trustee Services Bank Ltd. (Trust Account)	3,143	1.73
Japan Master Trust Bank of Japan, Ltd. (Trust Account)	2,425	1.33
SAJAP	2,251	1.24
State Street Bank and Trust Company 505225	1,849	1.02
BNY for Treaty JASDEC OMNIBUS No.2	1,838	1.01
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,683	0.92
The Bank of New York, Treaty JASDEC Account	1,573	0.86
Mizuho Trust & Banking Co., Ltd.	1,439	0.79
Japan Trustee Services Bank Ltd. (CMTB Equity Investments Co., Ltd. Trust account re-entrusted by Chuo Mitsui Asset Trust and Banking Company Limited)	1,439	0.79

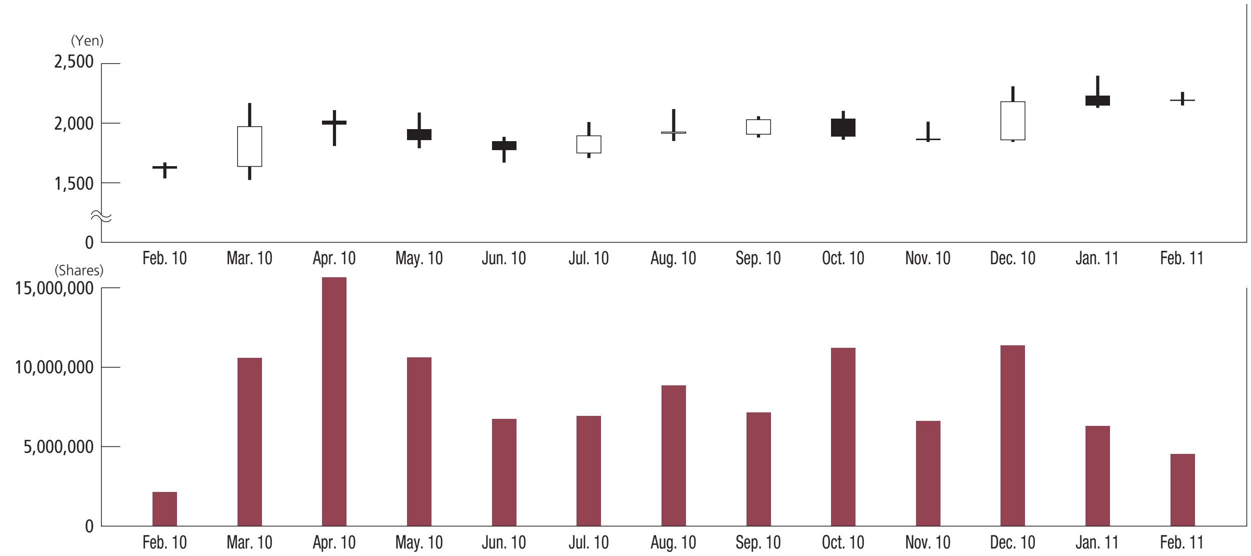
Notes: 1. Shareholdings are rounded down to the nearest 1,000 shares.
2. Percentages of voting rights are calculated after deducting treasury stock of 9,470 shares, and rounded down to 2 decimal places.

■ Distribution of Shares (Thousands of shares)



Note: Share, held by the Japan Securities Depository Center, Inc. and share held by ÆON Mall are omitted.

■ Share Prices / Trading Value



Corporate Data (As of May 11, 2011)

Company Name	ÆON Mall Co., Ltd.
Date Established	November 12, 1911
Capital Stock	¥16,667 million
Headquarters	1-5-1, Nakase, Mihama-ku, Chiba 261-8539, Japan Tel: 81-(43)-212-6450 Fax: 81-(43)-212-6737
Offices (As of July 31, 2011)	
Osaka Office	Kurabo Annex Building 12F, 2-4-11, Kyutaromachi, Chuo-ku, Osaka 541-0056, Japan
Nagoya Office	NUP Fushimi Building 5F, 2-2-12 Sakae, Naka-ku, Nagoya-shi, Aichi 460-0008, Japan
Fukuoka Office	Sankyo Fukuoka Building 3F, 2-9-11 Hakataekiminami, Hakata-ku, Fukuoka-shi, Fukuoka 812-0016, Japan
Beijing Office	Unit 1110 East Ocean Center, No. 24A Jianguo Menwai Road, Chao Yang District, Beijing, CHINA, P.C. 100004
Vietnam Office	Floor 5, 85 Nguyen Huu Cau, Tan Dinh Ward, Dist. 1, HCMC, Vietnam
Number of Shopping Malls	58 malls (incl. overseas)
Business Activities	Development of large-scale shopping malls, tenant leasing, operation/management, dealing in real estate, leasing, and services (registered under Certification Number 7682 with the Japanese Ministry of Land, Infrastructure and Transportation)
Number of Employees	685
Stock Listing	Tokyo Stock Exchange, First Section
Transfer Agent	Mizuho Trust and Banking Co., Ltd. 2-1, Yaesu 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan
Independent Auditors	Deloitte Touche Tohmatsu LLC 13-23, Shibaura 4-chome, Minato-ku, Tokyo 108-8530, Japan

For further information, please contact the Investor Relations section of the Management Planning Department at the ÆON Mall Co., Ltd. Head Office.
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