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.

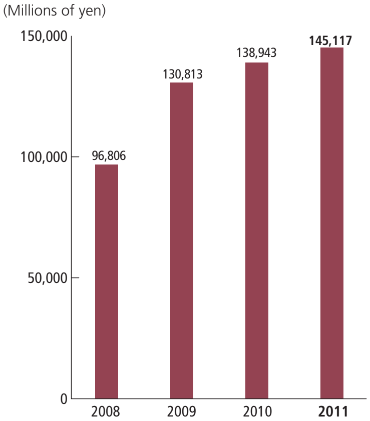
In the shopping center industry, the disparity between successful and unsuccessful shopping malls became wider as the withdrawal of unprofitable stores became obvious, with tenants became more selective about where to open new stores. All this despite same-store growth in sales at existing tenant stores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

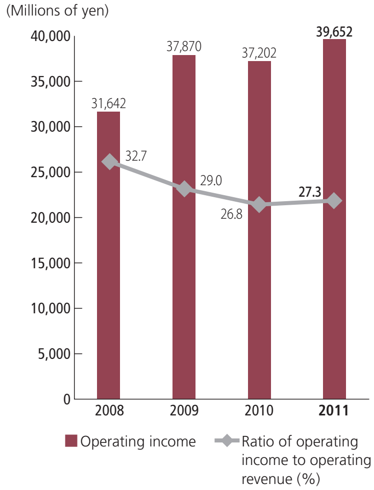
In new shopping malls, March saw the opening of ÆON Mall Aratamabashi (Aichi Prefecture, Japan) and ÆON Mall Yamatokoriyama (Nara Prefecture). We also opened ÆON Mall KYOTO (Kyoto Prefecture) in June, under a property management contract with Shimizu Corporation.

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

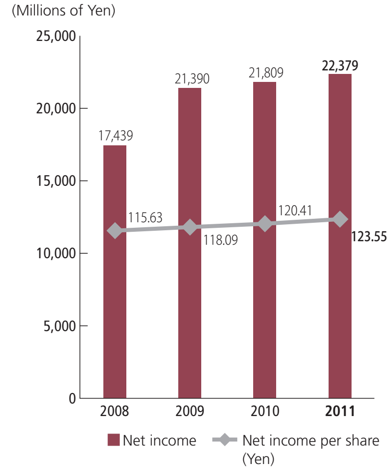
Operating revenue



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.

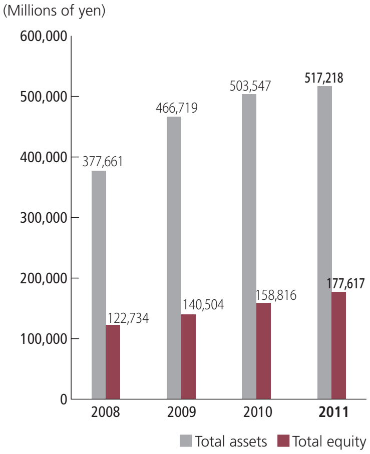
Consolidated net assets on February 20, 2011 were ¥177,617 million, up ¥18,801 million year on year. This outcome largely reflected an increase in retained earnings due to the posting of ¥22,379 million in net income for the year.

Cash Flows

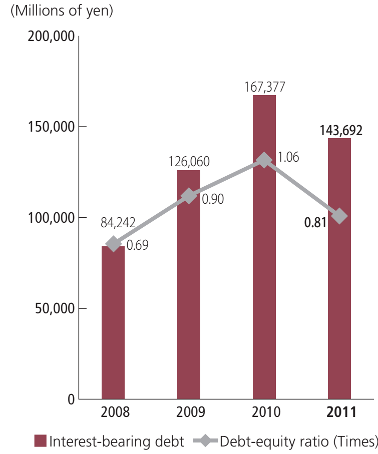
Cash Flows from Operating Activities

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

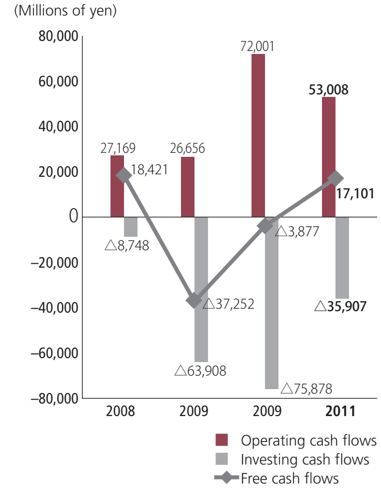
Total assets and total equity



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 (m^2)	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 (m^2)	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

ASSETS	Millions of Yen 2011	Millions of Yen 2010	Thousands of U.S. Dollars (Note 1) 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