Reference Information on the Financial Analysis of AEON MALL

Income and expenditure structure of the shopping mall business

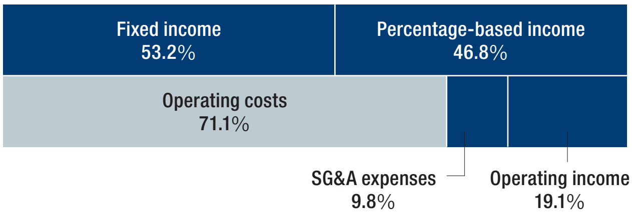
The revenue base of AEON MALL is rent income from tenants that open stores at its malls, which is a form of rent income from real estate. The rent income of real estate consists of fixed rent income that is immovable and percentage-based rent income that fluctuates in line with changes in sales of tenants.

In percentage-based rent income, the operating revenue of AEON MALL increases along with a rise in tenants' sales. In addition, because the company sets guaranteed minimum sales in many cases to hedge the risk when sales are sluggish, the impact of the decline in tenants' sales on operating revenue is limited.

AEON MALL has also adopted a system to receive the purchase prices of customers at tenant stores as their sales, and return the amount in installments to tenants after subtracting rent and expenses. With this system, AEON MALL avoids the risk that accounts receivable could become bad debts.

Operating costs include personnel expenses for employees stationed at malls on a permanent basis, facility maintenance costs, utilities expenses, rent payable to land and building owners, and the depreciation of mall facilities. Of these, the items that account for a large share of about 40% of operating revenue are rent payable, which is a real estate cost, and depreciation.

AEON MALL Earnings Structure (FY 2015)



Types of mall holdings and their impact on financial statements

When securing the land and building essential for developing a shopping mall, AEON MALL selects from the following four types, taking into account each individual situation. This selection appears as a significant difference on the balance sheet.

■ (1) Leasing land and owning the building

The basic approach to developing a mall is to lease land from the land owner and build a building that AEON MALL will own. In this case, the majority of the investment amount is recorded as buildings and structures and furniture and fixtures on the balance sheet.

■ (2) Owning both land and the building

During the negotiation process, the company sometimes decides to build a building that it will own after acquiring the land from the land owner. In this case, although the company will be able to carry out the project uninhibited, the investment amount will increase, and the company will face the risk that land price could decline. The majority of the investment amount is recorded as assets such as land, buildings and structures, and furniture and fixtures.

■ (3) Leasing both the land and building together

When AEON MALL leases the land and building together because the land owner effectively owns them for the purpose of using an old factory site or some other reason, the company pays a construction assistance fund to the owner for the structure that is held by the owner. The construction assistance fund are recorded as an asset as lease deposits paid together with lease deposits, and returned to the company in installments during the term of the lease.

When AEON MALL owns both the land and building in (2), the company actively promotes the securitization of real estate by transferring the land and building to a listed REIT or a private placement fund and leasing them back together. AEON MALL concludes a contract with the REIT, the owner of the land and buildings, to continue management and operation just as it did before the transfer and pays lease deposits. The lease deposits are recorded as lease deposits paid. While the REIT will earn stable income because the rent is fixed, AEON MALL will benefit from additional income generated by operation.

■ (4) Providing only property management

If the land and the building are owned by the owner, AEON MALL provides only the operation and management know-how (property management). In this case, AEON MALL will receive fees for only operation and management, and is able to avoid business risks and the risks involved with holding assets.

In the case of (1) through (3) above, AEON MALL receives lease deposits from tenants and records them as lease deposits from lessees in liabilities of the balance sheet. The lease deposits from lessees are based on six month's rent and the estimated amount of expenses to restore the property to its original state.

Types of mall holdings as of February 29, 2016

Type of mall holdings	Number of malls	Gross profit margin
Owning the land/owning the building	13	38.8%
Leasing the land/owning the building	24	31.9%
Leasing the land/leasing the building	33*	30.7%
Contracting PM	74	17.2%

* Includes 21 securitized properties