ÆON Mall Co., Ltd.
and Consolidated Subsidiaries

Financial Information 2019

Consolidated Financial Statements as of and for the
Year Ended February 28, 2019,
and Independent Auditor's Report

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ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
February 28, 2019

ASSETS	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13)	¥ 55,414	¥ 54,223	$ 499,635
Time deposits (Note 13)	1,409	992	12,707
Receivables:			
Trade accounts (Notes 13)	7,426	6,801	66,959
Other	30,526	30,750	275,237
Allowance for doubtful receivables (Note 13)	(34)	(23)	(309)
Deferred tax assets (Note 11)	1,510	1,501	13,618
Prepaid expenses and other	7,849	7,345	70,774
Total current assets	104,102	101,590	938,622
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 5 and 6)	297,196	237,897	2,679,615
Buildings and structures (Notes 4, 5, 6, and 8)	875,910	783,236	7,897,484
Machinery and equipment (Note 4,5)	5,613	5,248	50,614
Furniture and fixtures (Notes 4, 5, and 12)	39,794	37,481	358,802
Construction in progress (Note 5)	15,977	69,936	144,060
Other (Notes 4 and 12)	536	520	4,838
Total	1,235,028	1,134,321	11,135,416
Accumulated depreciation	(294,435)	(260,054)	(2,654,727)
Net property, plant, and equipment	940,593	874,267	8,480,688
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	2,359	2,567	21,270
Lease deposits to lessors (Note 13)	52,061	53,334	469,407
Long-term prepaid expenses (Notes 4 and 5)	87,882	77,065	792,374
Deferred tax assets (Note 11)	11,910	10,226	107,385
Other	4,302	4,728	38,788
Total investments and other assets	158,515	147,923	1,429,225
TOTAL	¥ 1,203,211	¥ 1,123,781	$ 10,848,537

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 13)	¥ 6,000	¥ 11,000	$ 54,097
Current portion of long-term debt (Notes 6 and 13)	24,015	29,746	216,529
Current portion of corporate bonds (Notes 6 and 13)	15,000		135,244
Payables:			
Trade accounts (Note 13)	19,977	17,859	180,125
Construction (Note 13)	47,439	86,369	427,730
Other	4,581	5,695	41,304
Deposits received (Note 13)	46,975	45,456	423,549
Income taxes payable (Note 13)	7,879	8,677	71,040
Accrued expenses	4,084	4,211	36,831
Provision for store closing expenses	612	1,054	5,517
Current portion of lease deposits from lessees (Notes 6 and 13)	305	429	2,750
Other	10,053	10,162	90,641
Total current liabilities	186,923	220,661	1,685,363
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	226,960	195,002	2,046,344
Corporate bonds (Notes 6 and 13)	235,000	170,000	2,118,835
Liability for retirement benefits (Note 7)	1,133	1,046	10,216
Lease deposits from lessees (Notes 6 and 13)	138,842	134,766	1,251,845
Asset retirement obligations (Note 8)	16,226	11,814	146,302
Deferred tax liabilities (Note 11)	410	448	3,703
Other	3,655	4,480	32,960
Total long-term liabilities	622,228	517,558	5,610,207
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)			
EQUITY (Notes 9, 10, and 17):			
Common stock — authorized, 320,000,000 shares; issued, 227,472,789 shares in 2019 and 227,430,089 shares in 2018	42,313	42,271	381,513
Capital surplus	40,597	40,555	366,042
Stock acquisition rights	91	141	821
Retained earnings	306,373	281,477	2,762,361
Treasury stock — at cost, 2,279 shares in 2019 and 1,721 shares in 2018	(4)	(2)	(39)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,312	1,452	11,829
Foreign currency translation adjustments	(6,247)	8,727	(56,326)
Defined retirement benefit plans	(951)	(909)	(8,582)
Total	383,484	373,714	3,457,620
Non-controlling interests	10,574	11,847	95,345
Total equity	394,059	385,561	3,552,965
TOTAL	¥1,203,211	¥1,123,781	$ 10,848,537

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended February 28, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING REVENUE	¥ 312,976	¥288,111	$ 2,821,897
OPERATING COSTS (Notes 7 and 12)	232,831	212,042	2,099,286
Gross profit	80,144	76,068	722,610
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 7 and 12)	27,157	26,857	244,861
Operating income	52,987	49,211	477,749
OTHER INCOME (EXPENSES):			
Interest and dividend income	902	704	8,136
Foreign exchange loss	(235)	(154)	(2,122)
Interest expense	(3,335)	(2,641)	(30,074)
Insurance income	132	402	1,193
Gain(loss) on valuation of derivatives (Note 14)	141	(184)	1,273
Gain on sales of property, plant, and equipment (Note 15)	4,608	7,133	41,553
Loss on sales of property, plant, and equipment (Note 16)	(1)	(3,255)	(15)
Loss on impairment of long-lived assets (Note 4)	(7,754)	(5,639)	(69,919)
Provision for store closing expenses		(442)	
Loss on cancellation of lease contract		(948)	
Subsidy income	1,291	1,256	11,641
Other — net	(1,052)	(380)	(9,488)
Other income (expenses) — net	(5,303)	(4,149)	(47,821)
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	47,683	45,061	429,927
INCOME TAXES (Note 11):			
Current	16,328	16,700	147,222
Deferred	(1,721)	(1,899)	(15,517)
Total income taxes	14,607	14,800	131,704
NET INCOME	33,075	30,260	298,223
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(462)	(281)	(4,172)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 33,538	¥ 30,542	$ 302,396
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.u and 18):			
Basic net income	¥ 147.45	¥ 134.29	$ 1.33
Diluted net income	147.41	134.25	1.33
Cash dividends applicable to the year	38.00	35.00	0.34

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended February 28, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET INCOME	¥ 33,075	¥ 30,260	$ 298,223
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	(140)	287	(1,267)
Foreign currency translation adjustments	(15,777)	480	(142,258)
Defined retirement benefit plans	(42)	(28)	(383)
Total other comprehensive income(loss)	(15,961)	739	(143,909)
COMPREHENSIVE INCOME	¥ 17,114	¥ 31,000	$ 154,313
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥ 18,381	¥ 31,455	$ 165,731
Non-controlling interests	(1,266)	(455)	(11,417)

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended February 28, 2019

	Thousands	Millions of Yen										
							Accumulated Other Comprehensive Income					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non-Controlling Interests	Total Equity
BALANCE, MARCH 1, 2017	227,414	¥ 42,256	¥ 42,030	¥ 135	¥ 257,643	¥ (0)	¥ 1,165	¥ 7,858	¥ (881)	¥ 350,209	¥ 5,994	¥ 356,203
Net income attributable to owners of the parent					30,542					30,542		30,542
Exercise of stock options	15	14	14							29		29
Cash dividends, ¥29.5 per share					(6,708)					(6,708)		(6,708)
Purchase of treasury stock	(1)					(2)				(2)		(2)
Change in treasury shares of parent arising from transactions with non-controlling shareholders			(1,489)							(1,489)		(1,489)
Net change in the year				5			287	869	(28)	1,133	5,852	6,986
BALANCE, FEBRUARY 28, 2018	227,428	¥ 42,271	¥ 40,555	¥ 141	¥ 281,477	¥ (2)	¥ 1,452	¥ 8,727	¥ (909)	¥ 373,714	¥ 11,847	¥ 385,561
Net income attributable to owners of the parent					33,538					33,538		33,538
Exercise of stock options	42	42	42							84		84
Cash dividends, ¥38.0 per share					(8,642)					(8,642)		(8,642)
Purchase of treasury stock	(0)					(1)				(1)		(1)
Change in treasury shares of parent arising from transactions with non-controlling shareholders												
Net change in the year				(50)			(140)	(14,974)	(42)	(15,207)	(1,272)	(16,480)
BALANCE, FEBRUARY 28, 2019	227,470	¥ 42,313	¥ 40,597	¥ 91	¥ 306,373	¥ (4)	¥ 1,312	¥ (6,247)	¥ (951)	¥ 383,484	¥ 10,574	¥ 394,059

	Thousands of U.S. Dollars (Note 1)										
						Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non-Controlling Interests	Total Equity
BALANCE, FEBRUARY 28, 2018	$ 381,134	$ 365,663	$ 1,274	$ 2,537,892	$ (23)	$ 13,096	$ 78,686	$ (8,198)	$ 3,369,527	$ 106,817	$ 3,476,344
Net income attributable to owners of the parent				302,396					302,396		302,396
Exercise of stock options	379	378							758		758
Cash dividends, $0.34 per share				(77,927)					(77,927)		(77,927)
Purchase of treasury stock					(16)				(16)		(16)
Change in treasury shares of parent arising from transactions with non-controlling shareholders											
Net change in the year			(452)			(1,267)	(135,012)	(383)	(137,117)	(11,472)	(148,589)
BALANCE, FEBRUARY 28, 2019	$ 381,513	$ 366,042	$ 821	$ 2,762,361	$ (39)	$ 11,829	$ (56,326)	$ (8,582)	$ 3,457,620	$ 95,345	$ 3,552,965

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 28, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 47,683	¥ 45,061	$ 429,927
Adjustments for:			
Income taxes – paid	(17,194)	(15,956)	(155,030)
Gain on sales of property, plant, and equipment	(4,608)	(7,133)	(41,553)
Loss on sales of property, plant, and equipment	1	3,255	15
Depreciation and amortization	42,640	38,443	384,463
Loss on impairment of long-lived assets	7,754	5,639	69,919
Changes in assets and liabilities:			
Increase in receivables – trade accounts	(1,117)	(766)	(10,074)
Increase in payables – trade accounts	3,192	2,264	28,787
Increase in deposits received	1,800	2,681	16,232
Decrease in allowance for doubtful accounts	(9)	(1,190)	(82)
Increase (decrease) in liability for retirement benefits	8	(13)	75
Other – net	10,447	8,329	94,200
Total adjustments	42,916	35,554	386,953
Net cash provided by operating activities	90,600	80,616	816,880
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(207,522)	(186,525)	(1,871,086)
Proceeds from sales of property, plant, and equipment	36,287	40,293	327,176
Purchases of long-term prepaid expenses	(9,578)	(3,575)	(86,366)
Payments of lease deposits to lessors	(4,449)	(1,830)	(40,114)
Reimbursement of lease deposits to lessors	5,705	5,429	51,441
Repayments of lease deposits from lessees	(10,496)	(9,558)	(94,642)
Proceeds from lease deposits from lessees	14,914	13,975	134,474
Other	(1,049)	(218)	(9,465)
Net cash used in investing activities	(176,189)	(142,009)	(1,588,581)
FINANCING ACTIVITIES:			
Net (decrease) increase in short-term bank loans	(5,000)	11,000	(45,081)
Proceeds from long-term debt	61,159	48,290	551,434
Repayment of long-term debt	(35,759)	(52,563)	(322,414)
Proceeds from issuance of corporate bonds	80,000	50,000	721,305
Repayment of corporate bonds		(10,000)	
Dividends paid	(8,642)	(6,708)	(77,927)
Proceeds from issuance of subsidiaries' stock to non-controlling shareholders		5,039	
Other	(558)	(217)	(5,032)
Net cash provided by financing activities	91,199	44,841	822,283

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 28, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(4,418)	1,182	(39,842)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,191	(15,369)	10,740
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	54,223	69,593	488,895
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 55,414	¥ 54,223	$ 499,635
MAJOR NON-CASH TRANSACTIONS:			
Asset retirement obligations recorded in the consolidated balance sheet	¥ 5,634	¥ 1,187	$ 50,799

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 ¥110.91 to $1, the approximate rate of exchange at February 28, 2019. 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.

Japanese yen figures of less than one million yen are rounded down to the nearest million yen and U.S. dollar figures of less than one thousand dollars are rounded down to the nearest thousand dollars, except for per share data. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation* -** The consolidated financial statements as of February 28, 2019 include the accounts of the Company and its 42 (41 in 2018) subsidiaries (collectively, the "Group"). The following company has been included in the consolidated financial statements as of and for the year ended February 28, 2019 since it was newly established during the year:

AEON MALL (GUANGZHOUZENGCHENG) BUSINESS MANAGEMENT CO., LTD.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

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

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 in the cash pool account of ÆON Mall Co., Ltd., the parent company, both of which mature or are due within three months of the date of acquisition.

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

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

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

f. ***Property, Plant, and Equipment* -** Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Group is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 2 to 39 years for buildings and structures, from 3 to 17 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures.

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

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

i. ***Long-Term Prepaid Expenses*** - Depreciation of long-term prepaid expenses is computed by the straight-line method over the life of the contract, which is principally from 2 to 50 years based on the contract terms.

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

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

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

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis.

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

m. ***Asset Retirement Obligations* -** An asset retirement obligation is recorded for a legal obligation imposed by either law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

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

n. ***Stock Options –*** Compensation expense for employee stock options that were granted on or after May 1, 2006 based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment". Stock options are granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights and as a separate component of equity until exercised. The accounting standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

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

Lessee

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

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

All other leases are accounted for as operating leases.

Lessor

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

All other leases are accounted for as operating leases.

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

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

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

enacted tax rates to the temporary differences.

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

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

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

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

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

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

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

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

v. ***Change to accounting policy -*** The Company’s foreign consolidated subsidiaries applied IFRS No.15, “Revenue from Contracts with Customers,” effective March 1, 2018.
The effect for the Company’s consolidated statement that adopted this accounting standard is minor.

w. ***New Accounting Pronouncements***

The Company and the Company’s domestic consolidated subsidiaries:
The new accounting standards and other pronouncements that have been issued but not yet adopted by the Company and the Company’s domestic consolidated subsidiaries as of February 28, 2019 are as follows:
• “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018)
• “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26 (revised 2018), February 16, 2018)
The amendments to the standards focus on (1) the treatment of taxable temporary differences for investments in subsidiaries, (2) the treatment for determining the recoverability of deferred tax assets for companies classified in category 1, (3) change in classification of deferred tax assets and deferred tax liabilities to investments and other assets and long-term liabilities, respectively, (4) information notes on the breakdown of valuation allowance, and (5) information notes on tax loss carryforwards.
Effective from the beginning of the fiscal year ending February 29, 2020:
The effect the adoption of these standards will have on the consolidated financial statement is currently under evaluation.

• “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 30, 2018)
• “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30, March 30, 2018)

These standards are comprehensive accounting standards for revenue recognition.
Revenue is recognized applying the following five steps:
Step 1: Identify contracts with a customer
Step 2: Identify performance obligations in contracts
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in contracts
Step 5: Recognize revenues when (or as) performance obligations are satisfied.
Effective from the beginning of the fiscal year ending February 28, 2023:
The effect the adoption of these standards will have on the consolidated financial statement is currently under evaluation.

The Company’s foreign consolidated subsidiaries:
The new accounting standards and other pronouncements that have been issued but not yet adopted by the Company’s foreign consolidated subsidiaries as of February 28, 2019 are as follows:
• Leases (IFRS 16)
The amendments to this standard focus mainly on recognizing assets and liabilities on all lessor lease transactions.
Effective from the beginning of the fiscal year ending February 29, 2020:
The effect the adoption of these standards will have on the consolidated financial statement is currently under evaluation.

3. INVESTMENT SECURITIES

Investment securities as of February 28, 2019, and February 28, 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Investment securities:			
Marketable equity securities	¥ 2,351	¥ 2,553	$ 21,201
Other	7	14	69
Total	¥ 2,359	¥ 2,567	$ 21,270

The costs and aggregate fair values of investment securities as of February 28, 2019, and February 28, 2018, were as follows:

	Millions of Yen			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale - Equity securities	¥ 463	¥ 1,890	¥ (2)	¥ 2,351

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale - Equity securities	¥ 463	¥2,090	¥ (0)	¥ 2,553

	Thousands of U.S. Dollars			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale - Equity securities	$ 4,180	$17,043	$ (22)	$ 21,200

There were no sales of available-for-sale securities during the year ended February 28, 2019.

Available-for-sale securities whose fair values are not readily determinable as of February 28, 2019, and February 28, 2018, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Available for sale:			
Equity securities	¥ 7	¥ 14	$ 69

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 28, 2019, and February 28, 2018. The Group recognized impairment losses on the following long-lived assets on February 28, 2019:

Use	Type of Assets	Location	Millions of Yen 2019	Thousands of U.S. Dollars 2019
Shopping mall	Buildings and structures and others	Akita	¥ 730	$ 6,587
Shopping mall	Buildings and structures and others	Tokyo	9	83
Shopping mall	Buildings and structures and others	Kanagawa	8	75
Shopping mall	Buildings and structures and others	Aichi	88	794
Shopping mall	Buildings and structures and others	Kyoto	2	22
Shopping mall	Buildings and structures and others	Osaka	190	1,720
Shopping mall	Buildings and structures and others	Hyogo	6,725	60,636
Total			¥ 7,754	$ 69,919

The book values of the shopping malls which incurred continuous operation losses were reduced to their recoverable amounts, and such reductions in the carrying values were recorded as loss on impairment of long-lived assets in other expenses. The recoverable amounts were measured at their value in use or net realizable value. The discount rates used for the computation of the present value of future cash flows were 3.9%.
Furthermore, regarding some stores, we evaluated the value in use as zero as no future cash flow is expected. We evaluated net realizable value by real estate appraisal value.

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

The Group recognized impairment losses on the following long-lived assets on February 28, 2018:

Use	Type of Assets	Location	Millions of Yen 2018
Shopping mall	Buildings and structures and others	Hokkaido	¥ 1,462
Shopping mall	Buildings and structures and others	Ibaraki	884
Shopping mall	Buildings and structures and others	Tokyo	41
Shopping mall	Buildings and structures and others	Kanagawa	962
Shopping mall	Buildings and structures and others	Kyoto	402
Shopping mall	Buildings and structures and others	Osaka	320
Shopping mall	Buildings and structures and others	Hyogo	1,564
Total			¥ 5,639

The book values of the shopping malls (excluding some in Hyogo) which incurred continuous operating losses were reduced to their recoverable amounts, and such reductions in the carrying values were recorded as loss on impairment of long-lived assets in other expenses. The recoverable amounts were measured at their value in use, and we evaluated the value in use as zero as no future cash flow is expected.

Some stores in Hyogo were closed for the fiscal year ended February 28, 2018, and the entire book value of the stores was reduced to zero and related dismantling costs were recorded as provision for store closing expenses.

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

5. INVESTMENT PROPERTY

The Group holds some rental properties, such as shopping malls, throughout Japan, in China and in the Association of Southeast Asian Nations ("ASEAN") area. The net of rental income and operating expenses for those rental properties were ¥39,280 million ($354,162 thousand) for the fiscal year ended February 28, 2019, and ¥38,189 million for the fiscal year ended February 28, 2018. Gain on sales of property, plant, and equipment was ¥4,607 million ($41,539 thousand) for the fiscal year ended February 28, 2019, and ¥7,125 million for the fiscal year ended February 28, 2018. Impairment loss was ¥6,154 million ($55,487 thousand) for the fiscal year ended February 28, 2019.

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

Millions of Yen			
Carrying Amount			Fair Value
March 1, 2018	Increase/(Decrease)	February 28, 2019	February 28, 2019
¥ 866,036	¥ 70,797	¥ 936,833	¥ 1,177,114

Millions of Yen			
Carrying Amount			Fair Value
March 1, 2017	Increase/(Decrease)	February 28, 2018	February 28, 2018
¥ 751,886	¥ 114,149	¥ 866,036	¥ 1,071,493

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
March 1, 2018	Increase/(Decrease)	February 28, 2019	February 28, 2019
$ 7,808,458	$ 638,333	$ 8,446,791	$ 10,613,238

Notes:
1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Increase during the fiscal year ended February 28, 2019, primarily represents the acquisition of certain properties of ¥162,092 million ($1,461,477 thousand), and the decrease primarily represents the recognition of selling and disposal properties of ¥35,646 million ($321,399 thousand), depreciation expense of ¥38,800 million ($321,399 thousand), and foreign currency translation difference of ¥(11,512) million ($(103,804) thousand).
Increase during the fiscal year ended February 28, 2018, primarily represents acquisition attributable to newly acquired properties of ¥181,732 million, and the decrease primarily represents the recognition of selling and disposal properties of ¥30,943 million, depreciation expense of ¥33,703 million, and foreign currency translation difference of ¥503 million.
3) Fair value of properties is mainly measured based on real estate appraisal values.

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

Short-term borrowings at February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Commercial paper, 0.0% (2018 and 2019)	¥ 6,000	¥ 11,000	$ 54,097
Total	¥ 6,000	¥ 11,000	$ 54,097

Long-term debt at February 28, 2019 and February 28, 2018, consisted of the following:

	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Loans from banks and insurance companies, due through 2030 with interest rates ranging from 0.07% to 4.17% (2019) and0.07% to 3.40% (2018):			
Collateralized	¥ 26,435	¥ 27,392	$ 238,352
Unsecured	224,539	197,356	2,024,521
Total	250,975	224,749	2,262,873
Less current portion	(24,015)	(29,746)	(216,529)
Long-term debt, less current portion	¥226,960	¥195,002	$ 2,046,344

Annual maturities of long-term debt as of February 28, 2019, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 24,015	$ 216,529
2021	35,929	323,948
2022	33,723	304,059
2023	45,976	414,542
2024	36,873	332,462
2025 and thereafter	74,457	671,331
Total	¥250,975	$2,262,873

Corporate bonds as of February 28, 2019 and February 28, 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Issued by the Company:			
Unsecured 0.80% yen corporate bond, due 2020	¥ 15,000	15,000	$ 135,244
Unsecured 0.44% yen corporate bond, due 2022	15,000	15,000	135,244
Unsecured 0.90% yen corporate bond, due 2025	20,000	20,000	180,326
Unsecured 0.95% yen corporate bond, due 2027	5,000	5,000	45,081
Unsecured 0.57% yen corporate bond, due 2023	30,000	30,000	270,489
Unsecured 0.48% yen corporate bond, due 2024	25,000	25,000	225,407
Unsecured 1.10% yen corporate bond, due 2037	10,000	10,000	90,163
Unsecured 0.10% yen corporate bond, due 2021	15,000	15,000	135,244
Unsecured 0.36% yen corporate bond, due 2024	15,000	15,000	135,244
Unsecured 0.60% yen corporate bond, due 2028	20,000	20,000	180,326
Unsecured 0.39% yen corporate bond, due 2024	30,000		270,489
Unsecured 0.03% yen corporate bond, due 2022	15,000		135,244
Unsecured 0.37% yen corporate bond, due 2026	10,000		90,163
Unsecured 0.50% yen corporate bond, due 2029	20,000		180,326
Unsecured 1.05% yen corporate bond, due 2039	5,000		45,081
Total	250,000	170,000	2,254,079
Less current portion	(15,000)		(135,244)
Corporate bonds, less current portion	¥235,000	¥ 170,000	$ 2,118,835

Annual maturities of corporate bonds as of February 28, 2019, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 15,000	$ 135,244
2021	15,000	135,244
2022	30,000	270,489
2023	30,000	270,489
2024	70,000	631,142
2025 and thereafter	90,000	811,468
Total	¥250,000	$ 2,254,079

Collateralized long-term debt and other as of February 28, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt	¥ 957	$ 8,629
Current portion of lease deposits from lessees	75	679
Long-term debt	25,478	229,723
Lease deposits from lessees	980	8,843
Total	¥ 27,491	$ 247,875

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other as of February 28, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 2,418	$ 21,807
Buildings and structures – net of accumulated depreciation	36,614	330,129
Total	¥ 39,033	$ 351,936

7. RETIREMENT AND PENSION PLANS

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

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

(1) The changes in defined benefit obligation for the years ended February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year (as restated)	¥ 4,738	¥ 4,373	$ 42,721
Current service cost	211	206	1,908
Interest cost	35	34	324
Actuarial losses	(40)	301	(361)
Benefits paid	(188)	(177)	(1,696)
Balance at end of year	¥ 4,757	¥ 4,738	$ 42,897

(2) The changes in plan assets for the years ended February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 3,692	¥ 3,375	$ 33,289
Expected return on plan assets	104	90	942
Actuarial losses	(274)	119	(2,473)
Contributions from the employer	289	284	2,607
Benefits paid	(186)	(177)	(1,684)
Balance at end of year	¥ 3,624	¥ 3,692	$ 32,681

(3) A reconciliation between the balances of defined benefit obligation and plan assets and the liability recorded in the consolidated balance sheet is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded defined benefit obligation	¥ 4,717	¥ 4,690	$ 42,531
Plan assets	(3,624)	(3,692)	(32,681)
Total	1,092	998	9,850
Unfunded defined benefit obligation	¥ 40	¥ 47	$ 365
Net liability arising from defined benefit obligation	¥ 1,133	¥ 1,046	$ 10,216

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥ 1,133	¥ 1,046	$ 10,216
Asset for retirement benefits			
Net liability arising from defined benefit obligation	¥ 1,133	¥ 1,046	$ 10,216

(4) The components of net periodic benefit costs for the years ended February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥ 211	¥ 206	$ 1,908
Interest cost	35	34	324
Expected return on plan assets	(104)	(90)	(942)
Recognized actuarial losses	156	141	1,412
Net periodic benefit costs	¥ 299	¥ 292	$ 2,703

(5) Amounts recognized in other comprehensive income (before income tax effects) in respect of defined retirement benefit plans for the years ended February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Actuarial losses	¥ 77	¥ 40	$ 699

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized actuarial losses	¥ 1,385	¥ 1,308	$ 12,496

(7) Plan assets

(1) Components of plan assets

Plan assets as of February 28, 2019 and February 28, 2018, consisted of the following:

	2019	2018
Debt investments	42.6%	53.1%
Equity investments	23.7	21.1
General account of life insurance	13.3	13.2
Others*	20.4	12.6
Total	100.0%	100.0%

*Mainly includes alternative investments

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

The expected rate of return on plan assets is determined considering the long-term rates of return, which are expected currently and in the future from various components of the plan assets. In addition, salary increase rate by age calculated as at the base date of March 31, 2017, was used as an assumption.

(8) Assumptions used for the years ended February 28, 2019 and February 28, 2018, are set forth as follows:

	2019	2018
Discount rate	0.6%	0.7%
Expected rate of return on plan assets	2.8	2.7

Defined contribution plan:
Contributions for defined contribution plan for the years ended February 28, 2019 and February 28, 2018, were ¥309 million ($2,789 thousand) and ¥288 million, respectively.

Advance payment plan:
Payments to the advance payment plan for the years ended February 28, 2019 and February 28, 2018, were ¥63 million ($572 thousand) and ¥69 million, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 12,003	¥ 11,489	$ 108,229
Additional provisions associated with the acquisitions of property, buildings, and equipment	1,504	1,187	13,568
Decrease associated with the sales of property, buildings, and equipment		(123)	
Reconciliation associated with passage of time	218	187	1,965
Reduction due to performance	(118)	(95)	(1,066)
Increase due to changes in estimates	2,780	(733)	25,072
Other increase and decrease		91	
Balance at end of year	¥ 16,389	¥ 12,003	$ 147,769

9. EQUITY

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

a. Dividends

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

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. STOCK OPTIONS

The stock options outstanding as of February 28, 2019, were as follows:

Stock Option	Persons Granted	Number of Options Granted*	Date of Grant	Exercise Price	Exercise Period
2009 Stock Option	17 directors	22,220 shares	2008.4.21	¥1 ($0.01)	From May 21, 2008 to May 20, 2023
2010 Stock Option	16 directors	32,340 shares	2009.4.21	¥1 ($0.01)	From May 21, 2009 to May 20, 2024
2011 Stock Option	12 directors	26,510 shares	2010.4.21	¥1 ($0.01)	From May 21, 2010 to May 20, 2025
2012 Stock Option	11 directors	20,790 shares	2011.4.21	¥1 ($0.01)	From May 21, 2011 to May 20, 2026
2013 Stock Option	12 directors	22,330 shares	2012.4.21	¥1 ($0.01)	From May 21, 2012 to May 20, 2027
2014 Stock Option	8 directors	10,890 shares	2013.4.21	¥1 ($0.01)	From May 21, 2013 to May 20, 2028
2015 Stock Option	10 directors	18,400 shares	2014.4.21	¥1 ($0.01)	From May 21, 2014 to May 20, 2029
2016 Stock Option	10 directors	20,400 shares	2015.5.10	¥1 ($0.01)	From June 10, 2015 to June 9, 2030
2017 Stock Option	8 directors	16,600 shares	2016.5.10	¥1 ($0.01)	From June 10, 2016 to June 9, 2031
2018 Stock Option	9 directors	18,800 shares	2017.5.10	¥1 ($0.01)	From June 10, 2017 to June 9, 2032
2019 Stock Option	9 directors	17,700 shares	2018.5.10	¥1 ($0.01)	From June 10, 2018 to June 9, 2033

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

The stock option activity is as follows:

	2009 Stock Option (Shares)	2010 Stock Option (Shares)	2011 Stock Option (Shares)	2012 Stock Option (Shares)	2013 Stock Option (Shares)	2014 Stock Option (Shares)	2015 Stock Option (Shares)	2016 Stock Option (Shares)	2017 Stock Option (Shares)	2018 Stock Option (Shares)	2019 Stock Option (Shares)
Year Ended February 28, 2018											
Nonvested:											
February 28, 2017 – outstanding											
Granted										18,800	
Canceled											
Vested										(18,800)	
February 28, 2018 – outstanding											
Vested:											
February 28, 2017 – outstanding	4,070	7,480	7,920	5,170	11,000	6,600	11,300	12,800	7,500		
Vested										18,800	
Exercised					(1,760)	(3,630)	(1,100)		(4,200)	(4,700)	
Canceled											
February 28, 2018 – outstanding	4,070	7,480	7,920	5,170	9,240	2,970	10,200	12,800	3,300	14,100	
Year Ended February 28, 2019											
Nonvested:											
February 28, 2018 – outstanding											
Granted											17,700
Canceled											
Vested											(17,700)
February 28, 2019 – outstanding											
Vested:											
February 28, 2018 – outstanding	4,070	7,480	7,920	5,170	9,240	2,970	10,200	12,800	3,300	14,100	
Vested											17,700
Exercised		(1,320)	(1,430)		(6,380)	(2,970)	(9,100)	(10,200)	(1,100)	(3,300)	(6,900)
Canceled											
February 28, 2019 – outstanding	4,070	6,160	6,490	5,170	2,860		1,100	2,600	2,200	10,800	10,800
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise		¥1,832 ($16)	¥1,832 ($16)		¥2,036 ($18)	¥1,978 ($17)	¥2,057 ($18)	¥2,033 ($18)	¥1,816 ($16)	¥1,972 ($17)	¥2,008 ($18)
Fair value price at grant date	¥2,500 ($22)	¥1,089 ($9)	¥1,583 ($14)	¥1,609 ($14)	¥1,473 ($13)	¥2,763 ($24)	¥2,245 ($20)	¥2,116 ($19)	¥1,312 ($11)	¥1,848 ($16)	¥1,912 ($17)

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

The Assumptions Used to Measure Fair Value of 2019 Stock Options:

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	31.42%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥35 per share
Risk-free interest rate:	-0.04%

11. INCOME TAXES

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Payables and accrued expenses	¥ 1,994	¥ 1,896	$ 17,982
Accrued enterprise tax	526	395	4,744
Property, plant, and equipment	10,727	8,074	96,722
Long-term prepaid expenses	1,698	2,104	15,311
Liability for retirement benefits	392	304	3,541
Asset retirement obligation	4,949	3,603	44,622
Long-term deferred revenue	694	731	6,257
Tax loss carryforwards of subsidiaries	2,141	2,279	19,304
Write-down of assets under the reorganization proceedings	731	732	6,594
Other	3,057	2,859	27,567
Less valuation allowance	(7,970)	(7,436)	(71,868)
Total deferred tax assets	18,941	15,544	170,780
Deferred tax liabilities:			
Property revaluation	105	108	954
Lease deposits to lessors and long-term prepaid expenses	98	137	892
Deferred capital gains on property	198	206	1,793
Special depreciation on property	39	95	352
Asset retirement obligation removal expense	3,536	2,178	31,884
Unrealized gain on available-for-sale securities	575	637	5,191
Other	1,376	901	12,410
Total deferred tax liabilities	5,931	4,265	53,479
Net deferred tax assets	¥13,009	¥11,279	$117,300

Net deferred tax assets included in the consolidated balance sheets as of February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
CURRENT ASSETS – deferred tax assets	¥ 1,510	¥ 1,501	$ 13,618
INVESTMENT AND OTHER ASSETS – deferred tax assets	11,910	10,226	107,385
LONG-TERM LIABILITIES – deferred tax liabilities	(410)	(448)	(3,703)
Net deferred tax assets	¥ 13,009	¥11,279	$117,300

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended February 28, 2018, is as follows:

	2019	2018
Normal effective statutory tax rate		30.7%
Expenses not deductible for income tax purposes		0.6
Per capita portion of inhabitant tax		0.3
Tax benefits not recognized on operating losses of subsidiaries		0.9
Change in valuation allowance		0.4
Tax effect related to consolidated adjustment		0.7
Lower income tax rates applicable to income in certain foreign countries		1.0
Special corporation tax credits		(1.5)
Other – net		(0.3)
Actual effective tax rate		32.8%

For the year ended February 28, 2019, the description is omitted because the difference between the normal effective statutory tax rates and the actual effective tax rates is small.
(The normal effective statutory tax rates is 30.5%, the actual effective tax rates is 30.6%.)

At February 28, 2019, certain subsidiaries have tax loss carryforwards aggregating approximately ¥16,469 million ($148,495 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 1,084	$ 9,780
2021	2,198	19,822
2022	4,766	42,972
2023	4,064	36,650
2024 and thereafter	4,355	39,270
Total	¥ 16,469	$ 148,495

12. LEASES

a. Lessee

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

Total rental expenses, including lease payments under finance leases for the years ended February 28, 2019 and February 28, 2018, were ¥92,593 million ($834,849 thousand) and ¥84,503 million, respectively.

As discussed in Note 2.o, the Group accounts for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date on an "as if capitalized" basis for the years ended February 28, 2019, and February 28, 2018, was as follows:

	Millions of Yen	
	2019	
	Furniture and Fixtures	Total
Acquisition cost	¥	¥
Accumulated depreciation		
Net leased property	¥	¥

	Millions of Yen	
	2018	
	Furniture and Fixtures	Total
Acquisition cost	¥ 35	¥ 35
Accumulated depreciation	34	34
Net leased property	¥ 1	¥ 1

	Thousands of U.S. Dollars	
	2019	
	Furniture and Fixtures	Total
Acquisition cost	$	$
Accumulated depreciation		
Net leased property	$	$

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥	¥ 1	$
Due after one year			
Total	¥	¥ 1	$

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Depreciation expense	¥ 1	¥ 3	$ 13
Interest expense	0	0	0
Total	¥ 1	¥ 3	$ 13
Lease payments	¥ 1	¥ 4	$ 15

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

The minimum rental commitments under noncancelable operating leases at February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥ 65,860	¥ 64,768	$ 593,822
Due after one year	476,419	492,228	4,295,552
Total	¥ 542,280	¥ 556,997	$ 4,889,374

Note:
The total for the year ended February 28, 2019, includes the Group's land use rights in China, Vietnam, and Indonesia, amounting to ¥45,525 million ($410,474 thousand).
The total for the year ended February 28, 2018, includes the Group's land use rights in China, Vietnam and Indonesia, amounting to ¥33,554 million. The land use rights for the years ended February 28, 2019 and February 28, 2018, are fully prepaid in advance and are disclosed as "Long-term prepaid expenses" on the consolidated balance sheet.

b. Lessor

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

Future rental revenues from subleases under finance leases for the years ended February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥ 6,091	¥ 5,201	$ 54,919
Due after one year	23,946	27,043	215,909
Total	¥ 30,037	¥ 32,244	$ 270,829

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group policy for financial instruments*

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

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

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

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

Lease deposits to lessors are exposed to the lessors' credit risk.

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

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

Please refer to Note 14 for more details about derivatives.

(3) *Risk management for financial instruments*

Credit risk management

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

Regarding investment securities, the Group assesses the fair values of equity securities quarterly and regularly monitors 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.

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

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

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

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

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

Liquidity risk management

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

(4) *Fair values of financial instruments*

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

Fair values of financial instruments are as follows:

	Millions of Yen		
	2019		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 55,414	¥ 55,414	
Time deposits	1,409	1,409	
Receivables—Trade accounts	7,426		
Allowance for doubtful receivables*	(34)		
	7,392	7,392	
Investment securities	2,351	2,351	
Lease deposits to lessors, including current portion	52,753	49,073	¥ (3,679)
Total	¥ 119,320	¥ 115,641	¥ (3,679)
Short-term borrowings	¥ 6,000	¥ 6,000	
Payables—Trade accounts	19,977	19,977	
Payables—Construction	47,439	47,439	
Deposits received	46,975	46,975	
Income taxes payable	7,879	7,879	
Long-term debt, including current portion	250,975	252,180	¥ 1,204
Corporate bonds, including current portion	250,000	251,378	1,378
Lease deposits from lessees, including current portion	139,147	138,749	(397)
Total	¥ 768,394	¥ 770,581	¥ 2,186

	Millions of Yen		
	2018		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 54,223	¥ 54,223	
Time deposits	992	992	
Receivables—Trade accounts	6,801		
Allowance for doubtful receivables*	(23)		
	6,777	6,777	
Investment securities	2,553	2,553	
Lease deposits to lessors, including current portion	54,014	50,745	¥ (3,269)
Total	¥118,562	¥ 115,293	¥ (3,269)
Short-term borrowings	¥ 11,000	¥ 11,000	
Payables—Trade accounts	17,859	17,859	
Payables—Construction	86,369	86,369	
Deposits received	45,456	45,456	
Income taxes payable	8,677	8,677	
Long-term debt, including current portion	224,749	223,480	¥ (1,269)
Corporate bonds, including current portion	170,000	170,403	403
Lease deposits from lessees, including current portion	135,195	134,910	(284)
Total	¥ 699,306	¥ 698,155	¥ (1,150)

	Thousands of U.S. Dollars		
	2019		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 499,635	$ 499,635	
Time deposits	12,707	12,707	
Receivables—Trade accounts	66,959		
Allowance for doubtful receivables *	(309)		
	66,650	66,650	
Investment securities	21,201	21,201	
Lease deposits to lessors, including current portion	475,641	442,462	$ (33,178)
Total	$ 1,075,835	$ 1,042,656	$ (33,178)
Short-term borrowings	$ 54,097	$ 54,097	
Payables—Trade accounts	180,125	180,125	
Payables—Construction	427,730	427,730	
Deposits received	423,549	423,549	
Income taxes payable	71,040	71,040	
Long-term debt, including current portion	2,262,873	2,273,737	$ 10,863
Corporate bonds, including current portion	2,254,079	2,266,511	12,431
Lease deposits from lessees, including current portion	1,254,595	1,251,013	(3,582)
Total	$ 6,928,093	$ 6,947,805	$ 19,712

*Allowance for doubtful receivables taken for receivables is deducted.

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

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

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

Investment securities

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

Lease deposits to lessors, including the current portion

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

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

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

Corporate bonds, including the current portion

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

Long-term debt, including the current portion

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

Lease deposits from lessees, including the current portion

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

Derivatives

Fair value information for derivatives is included in Note 14.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥ 10	¥ 16	$ 91

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

	Millions of Yen 2019			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after 10 Years
Cash and cash equivalents	¥ 55,414			
Time deposits	1,409			
Receivables—Trade accounts	7,426			
Lease deposits to lessors *	691	¥ 592	¥ 42	¥ 1
Short-term borrowings	6,000			
Long-term debt	24,015	152,502	73,504	952
Corporate bonds	15,000	145,000	75,000	15,000
Lease deposits from lessees	75	75		

	Thousands of U.S. Dollars 2019			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after 10 Years
Cash and cash equivalents	$ 499,635			
Time deposits	12,707			
Receivables—Trade accounts	66,959			
Lease deposits to lessors *	6,234	$ 5,345	$ 386	$ 12
Short-term borrowings	54,097			
Long-term debt	216,529	1,375,012	662,744	8,587
Corporate bonds	135,244	1,307,366	676,223	135,244
Lease deposits from lessees	679	679		

* Lease deposits to lessors with no defined redemption schedule of ¥51,424 million ($463,662 thousand) are not included in the above table.

14. DERIVATIVES

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

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk for 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 authorization and credit limit amounts.

Derivative transactions to which hedge accounting is not applied

	Millions of Yen			
February 28, 2019	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss)
Currency swaps				
Receipt U.S. dollar/Payment Yen	¥ 2,401		¥ (172)	¥ (172)
Receipt Yen/Payment Indonesia Rup				
Receipt Yen/Payment Chinese Yuan	¥ 2,400	¥ 2,400	¥ (191)	¥ (191)
Foreign currency forward contracts				
Receipt Yen/Payment Chinese Yuan	¥ 800		¥ (5)	¥ (5)

February 28, 2018	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss)
Currency swaps				
Receipt U.S. dollar/Payment Yen	¥ 7,202	¥ 2,401	¥ (818)	¥ (818)
Receipt Yen/Payment Indonesia Rup	¥ 605		¥ (1)	¥ (1)
Receipt Yen/Payment Chinese Yuan				
Foreign currency forward contracts				
Receipt Yen/Payment Chinese Yuan				

February 28, 2019	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss)
Currency swaps				
Receipt U.S. dollar/Payment Yen	$ 21,653		$ (1,552)	$ (1,552)
Receipt Yen/Payment Indonesia Rup				
Receipt Yen/Payment Chinese Yuan	$ 21,639	$ 21,639	$ 1,722	$ 1,722
Foreign currency forward contracts				
Receipt Yen/Payment Chinese Yuan	$ 7,213		$ 45	$ 45

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

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

Derivative transactions to which hedge accounting is applied

February 28, 2019	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	¥ 37,254	¥ 35,036	*

February 28, 2018	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	¥ 40,136	¥ 32,201	*

February 28, 2019	Hedged Item	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	$ 335,899	$ 315,899	*

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

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

The figure for the year ended February 28,2019, includes a gain of ¥4,607 million ($41,553 thousand) on the sale of two commercial facilities and lands to leasing company, ÆON REIT Invest Corporation, and other companies.
The figure for the year ended February 28, 2018, includes a gain of ¥7,125 million on the sale of one commercial facility to a special-purpose company.

16. LOSS ON SALES OF PROPERTY, PLANT, AND EQUIPMENT

There is no loss on sales of property for the fiscal year ended February 28,2019.
The figure for the year ended February 28, 2018, includes a loss of ¥3,240 million on the sale of two commercial facilities to a special-purpose company.

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities:			
Gains (loss) arising during the year	¥ (202)	¥ 413	$ (1,823)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(202)	413	(1,823)
Income tax effect	61	(125)	556
Total	¥ (140)	¥ 287	$ (1,267)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (15,777)	¥ 480	$ (142,258)
Reclassification adjustments to profit or loss			
Amount before income tax effect	¥ (15,777)	480	$ (142,258)
Income tax effect			
Total	¥ (15,777)	¥ 480	$ (142,258)
Defined retirement benefit plans			
Adjustments arising during the year	¥ (234)	¥ (182)	$ (2,111)
Reclassification adjustments to profit or loss	156	141	1,412
Amount before income tax effect	(77)	(40)	(699)
Income tax effect	34	12	315
Total	¥ (42)	¥ (28)	$ (383)
Total other comprehensive loss	¥ (15,961)	¥ 739	$ (143,909)

18. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted EPS for the years ended February 28, 2019 and February 28, 2018, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2019	Net Income	Weighted-Average Shares	EPS*	
Basic EPS — Net income available to common shareholders	¥ 33,538	227,454	¥ 147.45	$ 1.33
Effect of dilutive securities — Warrants		65		
Diluted EPS — Net income for computation	¥ 33,538	227,519	¥ 147.41	$ 1.33
Year Ended February 28, 2018				
Basic EPS — Net income available to common shareholders	¥ 30,542	227,421	¥ 134.29	
Effect of dilutive securities — Warrants		80		
Diluted EPS — Net income for computation	¥ 30,542	227,502	¥ 134.25	

19. RELATED-PARTY DISCLOSURES

Transactions with the parent company and its subsidiaries for the years ended February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deposits kept in the cash pool account of ÆON CO., LTD. (the parent company)	¥ 45,800	¥ 10,878	$ 412,952
Interest income from ÆON CO., LTD. (the parent company)	20	6	184
Revenues from leases of shopping malls to ÆON RETAIL CO., LTD. (the parent company's subsidiary)	33,254	32,466	299,837
Credit fee paid to ÆON CREDIT SERVICE CO., LTD. (the parent company's subsidiary)	5,119	4,796	46.160
Net purchase of land from ÆON RETAIL STORE CO., LTD. (the parent company's subsidiary)	17,000		153,277

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

The balances due to/from the parent company and its subsidiaries at February 28, 2019 and February 28, 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Cash equivalents—deposits kept in the cash pool account of ÆON CO., LTD. (the parent company)	¥	¥ 630	$
Receivables—other from ÆON CO., LTD. (the parent company)	4	1	38
Receivables—trade accounts from ÆON RETAIL CO., LTD. (the parent company's subsidiary)	636	590	5,742
Lease deposits received from ÆON RETAIL CO., LTD. (the parent company's subsidiary)	12,206	12,947	110,061
Receivables—other from ÆON CREDIT SERVICE CO., LTD. (the parent company's subsidiary)	9,103	8,569	82,084

Note: Lease deposits received are at stated amounts. Lease deposits include the current portion of lease deposits from lessees and long-term deferred revenue in the long-term liabilities "Other".

20. SEGMENT INFORMATION

(1) *Description of Reportable Segments*

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

The Group has been operating shopping mall businesses in Japan and overseas. The Group develops comprehensive strategies in accordance with the characteristics of different regions and develops operations accordingly.
The Group therefore consists of three geographical reporting segments: Japan, China, and ASEAN.

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

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

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

Millions of Yen

	2019					
	Reportable Segments			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 268,358	¥ 33,369	¥ 11,248	¥ 312,976		¥ 312,976
Intersegment revenues or transfers						
Total	¥ 268,358	¥ 33,369	¥ 11,248	¥ 312,976		¥ 312,976
Segment profit (loss)	¥ 52,415	¥ (453)	¥ 999	¥ 52,961	¥ 25	¥ 52,987
Segment assets	894,146	147,224	155,860	1,197,231	5,980	1,203,211
Other:						
Depreciation	34,958	6,895	3,953	45,808	(25)	45,782
Impairment losses on assets	7,754			7,754		7,754
Increase in property, plant, and equipment and intangible assets	147,663	8,921	21,788	178,374		178,374

Millions of Yen

	2018					
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 255,499	¥ 23,896	¥ 8,715	¥ 288,111		¥ 288,111
Intersegment revenues or transfers						
Total	¥ 255,499	¥ 23,896	¥ 8,715	¥ 288,111		¥ 288,111
Segment profit (loss)	¥ 50,074	¥ (1,132)	¥ 248	¥ 49,190	¥ 20	¥ 49,211
Segment assets	831,635	157,296	132,545	1,121,477	2,303	1,123,781
Other:						
Depreciation	35,540	5,330	3,008	43,878	(20)	43,858
Impairment losses on assets	5,639			5,639		5,639
Increase in property, plant, and equipment and intangible assets	172,090	16,016	20,586	208,693	(242)	208,451

Thousands of U.S. Dollars

	2019					
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	$ 2,419,610	$ 300,867	$ 101,420	$ 2,821,897		$ 2,821,897
Intersegment revenues or transfers						
Total	$ 2,419,610	$ 300,867	$ 101,420	$ 2,821,897		$ 2,821,897
Segment profit (loss)	$ 472,593	$ (4,088)	$ 9,016	$ 477,522	$ 227	$ 477,749
Segment assets	8,061,908	1,327,419	1,405,290	10,794,618	53,920	10,848,537
Other:						
Depreciation	315,200	62,171	35,648	413,020	(227)	412,793
Impairment losses on assets	69,919			69,919		69,919
Increase in property, plant and equipment and intangible assets	1,331,383	80,440	196,456	1,608,279		1,608,279

Notes for the year ended February 28, 2019:

1. Adjustments are as follows:
   (1) The reconciliation of segment profit or loss is the reconciliation of unrealized gains on intersegment trades.
   (2) The reconciliation of segment assets of ¥ 5,980 million ($53,920 thousand) is the reconciliation of the Group's assets of ¥7,836 million ($70,657 thousand), which are not included in the reportable segment and are the result of the elimination of intersegment trades.
   (3) The reconciliation of depreciation is the reconciliation of unrealized gain on fixed assets.
2. The calculation of segment profit or loss is based on the operating income in the consolidated statement of income.
3. The depreciation and the increase in property, plant, and equipment and intangible assets include long-term prepaid expense and its depreciation.

Notes for the year ended February 28, 2018:

1. Adjustments are as follows:
   (1) The reconciliation of segment profit or loss is the reconciliation of unrealized gains on intersegment trades.
   (2) The reconciliation of segment assets of ¥ 2,303 million is the reconciliation of the Group's assets of

¥3,716 million, which are not included in the reportable segment and are the result of the elimination of intersegment trades.
(3) The reconciliation of depreciation is the reconciliation of unrealized gain on fixed assets.
(4) The reconciliation of the increase in property, plant and equipment and intangible assets is the reconciliation of unrealized gain on fixed assets.
2. The calculation of segment profit or loss is based on the operating income in the consolidated statement of income.
3. The depreciation and the increase in property, plant, and equipment and intangible assets include long-term prepaid expense and its depreciation.

(4) *Information about Products and Services*

Information about products and services for the years ended February 28, 2019, and February 28, 2018, has been omitted because revenues in the shopping mall business accounted for more than 90% of consolidated net revenues of the Group.

(5) *Information about Geographical Areas*

(a) Revenues
Information about geographical areas for the year ended February 28, 2019, and February 28, 2018, has been omitted because the same information has been disclosed in segment information.

(b) Property, plant, and equipment

Millions of Yen			
2019			
Japan	China	ASEAN	Total
¥ 779,437	¥ 55,233	¥ 105,921	¥ 940,593

Millions of Yen			
2018			
Japan	China	ASEAN	Total
¥ 715,442	¥ 57,988	¥ 100,835	¥ 874,267

Thousands of U.S. Dollars			
2019			
Japan	China	ASEAN	Total
$ 7,027,662	$ 498,004	$ 955,022	$ 8,480,689

(6) Information about major customers

	2019	
	Millions of Yen	
Name of customers	Revenues	Related segment name
ÆON RETAIL CO., LTD.	¥ 33,956	Japan

	2018	
	Millions of Yen	
Name of customers	Revenues	Related segment name
ÆON RETAIL CO., LTD.	¥ 33,116	Japan

	2019	
	Thousands of U.S. Dollars	
Name of customers	Revenues	Related segment name
ÆON RETAIL CO., LTD.	$ 306,160	Japan

21. SUBSEQUENT EVENTS

(a) Appropriation of Retained Earnings
The following appropriation of retained earnings at February 28, 2019, was approved at the Company's Board of Directors' meeting held on April 9, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19.00 ($0.17) per share	¥4,321	$ 38,961

(b) Bond Issuance
The Company issued bonds on March 29, 2019 based on the approval of the Board of Directors on February 19, 2019.
(1) Name of bonds: ÆON Mall Co., Ltd. unsecured bonds (with special pari passu conditions among bonds) Series19.
(2) Total amount of bonds: ¥30,000 million ($270,489 thousand).
(3) Issue price ¥100 (US$0.90) per face value of ¥100(US$0.90).
(4) Interest rate: 0.30%.
(5) Date of issuance: March 29, 2019.
(6) Date of maturity: March 29, 2024.
(7) Collateral: The bonds are not secured or guaranteed. No assets are reserved for the bonds.
(8) Use of funds: Repayment of Commercial paper and borrowings.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of ÆON Mall Co., Ltd. and its subsidiaries as of February 28, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information , all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its subsidiaries as of February 28, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

May 23, 2019

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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Deloitte Touche Tohmatsu LLC

May 23, 2019

Member of
Deloitte Touche Tohmatsu Limited

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