ÆON Mall Co., Ltd. and Subsidiaries

Financial Information 2020

Consolidated Financial Statements as of and for the
Year Ended February 29, 2020,
and Independent Auditor's Report

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ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Balance Sheet
February 29, 2020

ASSETS	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 114,368	¥ 55,414	$ 1,044,942
Time deposits (Note 13)	7,314	1,409	66,826
Receivables:			
Trade accounts (Notes 13)	7,755	7,426	70,857
Other	32,795	30,526	299,643
Allowance for doubtful receivables (Note 13)	(66)	(34)	(603)
Prepaid expenses and other	7,186	7,849	65,657
Total current assets	169,354	102,592	1,547,323
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 5 and 6)	305,383	297,196	2,790,166
Buildings and structures (Notes 4, 5, 6, and 8)	933,962	875,910	8,533,233
Machinery and equipment (Notes 4 and 5)	5,617	5,613	51,327
Furniture and fixtures (Notes 4 and 5)	41,998	39,794	383,721
Right-of-use assets (Notes 2.w, 4, 5 and 19)	141,671	-	1,294,396
Construction in progress (Note 5)	16,670	15,977	152,309
Other (Note 4)	536	536	4,903
Total	1,445,840	1,235,028	13,210,057
Accumulated depreciation	(354,385)	(294,435)	(3,237,875)
Net property, plant, and equipment	1,091,455	940,593	9,972,181
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	1,793	2,359	16,390
Lease deposits to lessors (Note 13)	49,919	52,061	456,091
Long-term prepaid expenses (Notes 4 and 5)	50,428	87,882	460,746
Deferred tax assets (Notes 2.y and 11)	13,902	13,420	127,017
Other	4,364	4,302	39,873
Total investments and other assets	120,408	160,025	1,100,119
TOTAL	¥ 1,381,217	¥ 1,203,211	$ 12,619,624

LIABILITIES AND EQUITY	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 13)	¥	¥ 6,000	$
Current portion of long-term debt (Notes 6 and 13)	35,774	24,015	326,855
Current portion of corporate bonds (Notes 6 and 13)	15,000	15,000	137,048
Current portion of long-term lease obligations (Notes 2.w, 13 and 19)	12,107	21	110,623
Payables:			
Trade accounts (Note 13)	8,530	19,977	77,939
Construction (Note 13)	32,859	47,439	300,225
Other	5,300	4,581	48,426
Deposits received (Note 13)	70,310	46,975	642,399
Income taxes payable (Note 13)	11,388	7,879	104,047
Accrued expenses	4,653	4,084	42,516
Provision for store closing expenses	572	612	5,226
Current portion of lease deposits from lessees (Notes 6 and 13)	133	305	1,220
Other	15,286	10,031	139,663
Total current liabilities	211,916	186,923	1,936,193
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	199,322	226,960	1,821,124
Corporate bonds (Notes 6 and 13)	300,000	235,000	2,740,977
Long-term lease obligations (Notes 2.w, 13 and 19)	103,872	106	949,038
Liability for retirement benefits (Note 7)	1,278	1,133	11,676
Lease deposits from lessees (Notes 6 and 13)	140,375	138,842	1,282,551
Asset retirement obligations (Note 8)	16,575	16,226	151,445
Deferred tax liabilities (Note 2.y)	344	410	3,145
Other	3,011	3,548	27,513
Total long-term liabilities	764,779	622,228	6,987,474
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)			
EQUITY (Notes 9, 10, and 16):			
Common stock — authorized, 320,000,000 shares; issued, 227,515,009 shares in 2020 and 227,472,789 shares in 2019	42,347	42,313	386,916
Capital surplus	40,666	40,597	371,557
Stock acquisition rights	47	91	435
Retained earnings	318,755	306,373	2,912,342
Treasury stock — at cost, 2,697 shares in 2020 and 2,279 shares in 2019	(5)	(4)	(47)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	920	1,312	8,407
Foreign currency translation adjustments	(7,832)	(6,247)	(71,565)
Defined retirement benefit plans	(1,003)	(951)	(9,171)
Total	393,896	383,484	3,598,874
Non-controlling interests	10,625	10,574	97,081
Total equity	404,522	394,059	3,695,956
TOTAL	¥1,381,217	¥1,203,211	$ 12,619,624

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Income
Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING REVENUE (Notes 21)	¥ 324,138	¥312,976	$ 2,961,521
OPERATING COSTS (Notes 7 and 12)	234,813	232,831	2,145,396
Gross profit	89,324	80,144	816,125
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 7 and 12)	28,530	27,157	260,668
Operating income	60,794	52,987	555,456
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,172	902	10,710
Foreign exchange gain(loss)	332	(235)	3,034
Interest expense	(9,795)	(3,335)	(89,493)
Insurance income	243	132	2,222
(Loss) gain on valuation of derivatives (Note 14)	(46)	141	(428)
Gain on sales of property, plant, and equipment (Note 15)	2,508	4,608	22,923
Loss on sales of property, plant, and equipment	(1)	(1)	(16)
Loss on impairment of long-lived assets (Note 4)	(5,034)	(7,754)	(46,001)
Gain on bargain purchase (Note 18)	1,239		11,323
Gain on step acquisitions	706		6,455
Subsidy income	771	1,291	7,051
Compensation income	688		6,285
Lease deposit collection income	1,340		12,249
Other — net	(899)	(1,052)	(8,222)
Other expenses (income) — net	(6,775)	(5,303)	(61,905)
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	54,019	47,683	493,550
INCOME TAXES (Note 11):			
Current	(19,060)	16,328	(174,151)
Deferred	(436)	(1,721)	(3,984)
Total income taxes	(19,496)	14,607	(178,135)
NET INCOME	34,522	33,075	315,414
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(282)	(462)	(2,582)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 34,239	¥ 33,538	$ 312,832
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.v and 17):			
Basic net income	¥ 150.50	¥ 147.45	$ 1.38
Diluted net income	150.47	147.41	1.37
Cash dividends applicable to the year	39.00	38.00	0.36

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥ 34,522	¥ 33,075	$ 315,414
OTHER COMPREHENSIVE INCOME (LOSS) (Note 16):			
Unrealized loss on available-for-sale securities	(391)	(140)	(3,580)
Foreign currency translation adjustments	(1,809)	(15,777)	(16,530)
Defined retirement benefit plans	(51)	(42)	(474)
Total other comprehensive income(loss)	(2,252)	(15,961)	(20,584)
COMPREHENSIVE INCOME	¥ 32,269	¥ 17,114	$ 294,830
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥ 32,210	¥ 18,381	$ 294,289
Non-controlling interests	59	(1,266)	540

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended February 29, 2020

	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, 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 ownership interest of parent due to transactions with non-controlling interests												
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
Cumulative effect of changes in accounting policies					(12,985)					(12,985)		(12,985)
BALANCE,FEBRUARY 28, 2019 (as restated)	227,470	42,313	40,597	91	293,388	(4)	1,312	(6,247)	(951)	370,499	10,574	381,074
Net income attributable to owners of the parent					34,239					34,239		34,239
Exercise of stock options	42	34	34							68		68
Cash dividends, ¥39.0 per share					(8,872)					(8,872)		(8,872)
Purchase of treasury stock	(0)					(0)				(0)		(0)
Change in ownership interest of parent due to transactions with non-controlling interests			34							34		34
Net change in the year				(43)			(391)	(1,585)	(51)	(2,070)	50	(2,022)
BALANCE, February 29, 2020	227,512	¥ 42,347	¥ 40,666	¥ 47	¥ 318,755	¥ (5)	¥ 920	¥ (7,832)	¥ (1,003)	¥ 393,896	¥ 10,625	¥ 404,522

	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock	Accumulated Other Comprehensive Income: Unrealized Gain on Available-for-Sale Securities	Accumulated Other Comprehensive Income: Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income: Defined Retirement Benefit Plans	Total	Non-Controlling Interests	Total Equity
	Thousands of U.S. Dollars (Note 1)										
BALANCE, FEBRUARY 28, 2019	$ 386,602	$ 370,925	$ 832	$ 2,799,210	$ (40)	$ 11,987	$ (57,077)	$ (8,697)	$ 3,503,742	$ 96,617	$ 3,600,360
Cumulative effect of changes in accounting policies				(118,638)					(118,638)		(118,638)
BALANCE,FEBRUARY 28, 2019(as restated)	386,602	370,925	832	2,680,571	(40)	11,987	(57,077)	(8,697)	3,385,104	96,617	3,481,721
Net income attributable to owners of the parent				312,832					312,832		312,832
Exercise of stock options	313	313							626		626
Cash dividends, $0.36 per share				(81,061)					(81,061)		(81,061)
Purchase of treasury stock					(6)				(6)		(6)
Change in ownership interest of parent due to transactions with non-controlling interests		318							318		318
Net change in the year			(397)			(3,580)	(14,488)	(474)	(18,939)	464	(18,475)
BALANCE, February 29, 2020	$ 386,916	$ 371,557	$ 435	$ 2,912,342	$ (47)	$ 8,407	$ (71,565)	$ (9,171)	$ 3,598,874	$ 97,081	$ 3,695,956

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 54,019	¥ 47,683	$ 493,550
Adjustments for:			
Income taxes – paid	(15,701)	(17,194)	(143,459)
Gain on sales of property, plant, and equipment	(2,508)	(4,608)	(22,923)
Loss on sales of property, plant, and equipment	1	1	16
Depreciation and amortization	56,858	42,640	519,494
Loss on impairment of long-lived assets	5,034	7,754	46,001
Gain on bargain purchase (Note 18)	(1,239)		(11,323)
Changes in assets and liabilities:			
Increase in receivables – trade accounts	(447)	(1,117)	(4,085)
Increase in payables – trade accounts	413	3,192	3,779
Increase in deposits received	22,710	1,800	207,499
Increase (decrease) in allowance for doubtful accounts	30	(9)	279
Increase in liability for retirement benefits	29	8	265
Other – net	14,444	10,447	131,971
Total adjustments	79,626	42,916	727,516
Net cash provided by operating activities	133,645	90,600	1,221,066
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(97,192)	(207,522)	(888,003)
Proceeds from sales of property, plant, and equipment	8,220	36,287	75,108
Purchases of long-term prepaid expenses	(2,441)	(9,578)	(22,309)
Investments in subsidiaries resulting in a change in scope of consolidation (Note 19)	(1,229)		(11,231)
Payments of lease deposits to lessors	(2,382)	(4,449)	(21,771)
Reimbursement of lease deposits to lessors	5,338	5,705	48,777
Repayments of lease deposits from lessees	(10,279)	(10,496)	(93,919)
Proceeds from lease deposits from lessees	11,313	14,914	103,369
Other	(7,131)	(1,049)	(65,155)
Net cash used in investing activities	(95,783)	(176,189)	(875,136)
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans	(6,000)	(5,000)	(54,819)
Repayment of lease obligations	(11,210)	(25)	(102,427)
Proceeds from long-term debt	8,500	61,159	77,661
Repayment of long-term debt	(24,015)	(35,759)	(219,418)
Proceeds from issuance of corporate bonds	80,000	80,000	730,927
Repayment of corporate bonds	(15,000)		(137,048)
Dividends paid	(8,872)	(8,642)	(81,061)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation (Note 19)	(161)		(1,475)
Other	(432)	(532)	(3,948)
Net cash provided by financing activities	22,808	91,199	208,388

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(1,715)	(4,418)	(15,676)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,954	1,191	538,642
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,414	54,223	506,300
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 114,368	¥ 55,414	$ 1,044,942

NON-CASH INVESTING AND FINANCING ACTIVITIES

See Note 19 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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 ¥109.45 to $1, the approximate rate of exchange at February 29, 2020. 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 29, 2020 include the accounts of the Company and its 43 (42 in 2019) subsidiaries (collectively, the "Group"). The following company has been included in the consolidated financial statements as of and for the year ended February 29, 2020 since all its shares were acquired by the Group in the current fiscal year(Notes 18 and 19).

Yokohama Importmart Inc.

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; (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. ***Business Combinations—*** Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. [The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.] A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. ***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.

e. ***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.

f. ***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.

g. ***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.

h. ***Intangible Assets -*** Depreciation of software is computed by the straight-line method based on 5 years of estimated useful life.

i. ***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.

j. ***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.

k. ***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.

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

m. ***Retirement and Pension Plans -*** The Company and its certain domestic 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 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.

n. ***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.

o. ***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.

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

Lessee

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

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

All other leases are accounted for as operating leases.

Lessor

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

All other leases are accounted for as operating leases.

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

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

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

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

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

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

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

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

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

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

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

w. ***Change to accounting policy -*** The Group applied IFRS 16 (Leases) at overseas consolidated subsidiaries beginning with the consolidated fiscal year ended February 2020.

In accordance with the transitional treatment under IFRS 16, the Group recognized the cumulative effect of adopting this accounting standard on the effective date of adoption as an adjustment to the beginning balances of the current consolidated fiscal year.

As a result, right-of-use assets (net), lease obligations under current liabilities, and lease obligations under long-term liabilities increased by ¥123,798 million ($1,131,094 thousand), ¥12,086 million ($110,428 thousand), and ¥103,786 million ($948,256 thousand), respectively, on the Company's consolidated balance sheet for the current consolidated fiscal year. Retained earnings decreased by ¥12,985 million ($118,638 thousand). Land-use rights of ¥36,097 million ($329,807 thousand), which was included in long-term prepaid expenses within investments and other assets in prior years, is now included in right-of-use assets (net) for the current consolidated fiscal year.

On the Company's consolidated statement of income for the current consolidated fiscal year, operating income rose by ¥5,340 million ($48,790 thousand), while ordinary income, income before taxes, and other adjustments decreased by ¥1,024 million ($9,363 thousand).

The impact of these changes on per-share data for the first quarter of the consolidated fiscal year was immaterial.

x. ***New Accounting Pronouncements***
On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition. "The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after March 1, 2022, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

y. Changes in Presentation
Application of Partial Amendments to Accounting Standard for Tax-Effect Accounting
The Company adopted Partial Amendments to Accounting Standard for Tax-Effect Accounting (ASBJ Statement No.28, February 16, 2018) in the current consolidated fiscal year. This standard requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard.
As a result, deferred tax assets of ¥1,510 million ($13,799 thousand) which were previously classified as current assets, as of February 28, 2019, have been reclassified as investments and other assets of ¥13,420 million ($121,003 thousand) in the accompanying consolidated balance sheet.
The contents excluding total amount of the valuation allowance, which are stipulated in Paragraph 3 to 5 of Partial Amendment to "Accounting Standard for Tax-Effect Accounting", have been reflected in the notes to tax-effect accounting. However, in accordance with the transitional treatment stipulated in Paragraph 7 of Partial Amendment to "Accounting Standard for Tax-Effect Accounting", the information concerning the prior consolidated fiscal year is not disclosed.

Consolidated Balance Sheet
Lease Obligations which were included in "Other" under "Current Liability" (¥21 million ($199 thousand) in previous fiscal year) and "Long-term Liability"(¥106 million ($977 thousand) in previous fiscal year), are separately presented in the consolidated balance sheet from the current consolidated fiscal year. It is because the amount of Lease Obligations became more significant due to adoption of IFRS 16 (Leases).

Consolidated Statements of Cash Flows
Lease Obligations, which were previously included in "Other" under "Cash flows from financing activities" section, are now presented separately as "Repayment of lease obligations" for this fiscal year. Also, prior-period financial statements are reclassified in accordance with the new presentation. Therefore, a cash outflow of ¥ 25 million ($235 thousand), which was previously included in "Other" under "Cash flows from financing activities" section, is now restated and presented separately as "Repayment of lease obligations" in the consolidated statement of cash flows for the prior consolidated fiscal year.

z. ***Additional information***
Anticipated impact of COVID-19 pandemic
The Group makes an assumption that the impact of COVID-19 pandemic on its operating income and so on will continue through the first half of the next fiscal year. Our estimates are based on the information available at the time of preparation of the consolidated financial statements. （Please see Note 22 in page 46）

3. INVESTMENT SECURITIES

Investment securities as of February 29, 2020, and February 28, 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investment securities:			
Marketable equity securities	¥ 1,787	¥ 2,351	$ 16,332
Other	6	7	58
Total	¥ 1,793	¥ 2,359	$ 16,390

The costs and aggregate fair values of investment securities as of February 29, 2020, and February 28, 2019, were as follows:

	Millions of Yen			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale - Equity securities	¥ 463	¥ 1,328	¥ (4)	¥ 1,787

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

	Thousands of U.S. Dollars			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale - Equity securities	$ 4,235	$12,140	$ (43)	$ 16,332

There were no sales of available-for-sale securities during the year ended February 29, 2020.

Available-for-sale securities whose fair values are not readily determinable as of February 29, 2020, and February 28, 2019, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Available for sale:			
Equity securities	¥ 6	¥ 7	$ 58

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 29, 2020, and February 28, 2019. The Group recognized impairment losses on the following long-lived assets on February 29, 2020:

Use	Type of Assets	Location	Millions of Yen 2020	Thousands of U.S. Dollars 2020
Shopping mall	Buildings and structures and others	Akita	¥ 28	$ 262
Shopping mall	Buildings and structures and others	Ibaraki	32	297
Shopping mall	Buildings and structures and others	Gunma	602	5,506
Corporate assets	Furniture and fixtures and others	Chiba	227	2,082
Shopping mall	Buildings and structures and others	Tokyo	820	7,499
Shopping mall	Buildings and structures and others	Kanagawa	195	1,783
Shopping mall	Buildings and structures and others	Kyoto	37	343
Shopping mall	Buildings and structures and others	Osaka	1,152	10,533
Shopping mall	Buildings and structures and others	Fukuoka	153	1,406
Shopping mall	Buildings and structures and others	Okinawa	869	7,943
Shopping mall	Buildings and structures and others	Overseas (China)	913	8,342
Total			¥ 5,034	$ 46,001

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. Common-use and shared assets are grouped in larger units that include groups contributing to the generation of future cash flows. The recoverable amounts were measured at their value in use or net realizable value. We used a discount rate of 8.48% to calculate the future cash flows of value in use for overseas (China).
Furthermore, regarding some stores, we evaluated the value in use as zero as no future cash flow is expected. In such cases, we evaluated net realizable value by real estate appraisal value.

As certain malls in Kyoto Prefecture and Fukuoka Prefecture have been closed, the entire book values in question have been written off by recognizing impairment losses under extraordinary losses.

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, 2019:

Use	Type of Assets	Location	Millions of Yen 2019
Shopping mall	Buildings and structures and others	Akita	¥ 730
Shopping mall	Buildings and structures and others	Tokyo	9
Shopping mall	Buildings and structures and others	Kanagawa	8
Shopping mall	Buildings and structures and others	Aichi	88
Shopping mall	Buildings and structures and others	Kyoto	2
Shopping mall	Buildings and structures and others	Osaka	190
Shopping mall	Buildings and structures and others	Hyogo	6,725
Total			¥ 7,754

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. In such cases, 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.

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 ¥48,394 million ($442,160 thousand) for the fiscal year ended February 29, 2020, and ¥39,280 million for the fiscal year ended February 28, 2019. Gain on sales of property, plant, and equipment was ¥2,501 million ($22,854 thousand) for the fiscal year ended February 29, 2020, and ¥4,607 million for the fiscal year ended February 28, 2019. Loss on disposal of fixed assets amounted to ¥1,635 million ($14,945 thousand) for the fiscal year ended February 29, 2020.Impairment loss was ¥1,089 million ($9,950 thousand) for the fiscal year ended February 29, 2020, and ¥6,154 million 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, 2019	Increase/(Decrease)	February 29, 2020	February 29, 2020
¥1,067,163	¥ 23,674	¥ 1,090,837	¥ 1,317,200

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

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
March 1, 2019	Increase/(Decrease)	February 29, 2020	February 29, 2020
$ 9,750,238	$ 216,300	$ 9,966,539	$ 12,034,728

Notes:
1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) The Company applied IFRS 16 Leases at the beginning of the current consolidated fiscal year. As a result, property categorized as rental property was increased by adjusting the beginning balance by ¥130,329 million ($1,190,771 thousand). Increase during the fiscal year ended February 29, 2020, primarily represents the acquisition of certain properties of ¥94,563 million ($863,988 thousand), and the decrease primarily represents the recognition of selling and disposal properties of ¥6,916 million ($63,190 thousand), impairment losses ¥1,089 million ($9,950 thousand), depreciation expense of ¥56,422 million ($515,505 thousand), and foreign currency translation difference of ¥(4,400) million ($(40,203) thousand).
Increase during the fiscal year ended February 28, 2019, is primarily attributable to newly acquired properties of ¥162,092 million, and the decrease primarily represents the recognition of selling and disposal properties of ¥35,646 million, impairment losses ¥6,154 million, depreciation expense of ¥38,800 million, and foreign currency translation difference of ¥(11,512) 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 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Commercial paper, 0.0% (2019 and 2020)	¥	¥ 6,000	$
Total	¥	¥ 6,000	$

Long-term debt at February 29, 2020 and February 28, 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans from banks and insurance companies, due through 2030 with interest rates ranging from 0.07% to 4.17% (2020) and 0.07% to 4.17% (2019):			
Collateralized	¥ 26,478	¥ 26,435	$ 241,923
Unsecured	208,617	224,539	1,906,056
Total	235,096	250,975	2,147,980
Less current portion	(35,774)	(24,015)	(326,855)
Long-term debt, less current portion	¥199,322	¥226,960	$ 1,821,124

Annual maturities of long-term debt as of February 29, 2020, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 35,774	$ 326,855
2022	33,694	307,848
2023	45,940	419,739
2024	36,730	335,589
2025	43,504	397,480
2026 and thereafter	39,453	360,467
Total	¥235,096	$2,147,980

Corporate bonds as of February 29, 2020 and February 28, 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Issued by the Company:			
Unsecured 0.80% yen corporate bond, due 2020		¥ 15,000	
Unsecured 0.44% yen corporate bond, due 2022	¥ 15,000	15,000	$ 137,048
Unsecured 0.90% yen corporate bond, due 2025	20,000	20,000	182,731
Unsecured 0.95% yen corporate bond, due 2027	5,000	5,000	45,682
Unsecured 0.57% yen corporate bond, due 2023	30,000	30,000	274,097
Unsecured 0.48% yen corporate bond, due 2024	25,000	25,000	228,414
Unsecured 1.10% yen corporate bond, due 2037	10,000	10,000	91,365
Unsecured 0.10% yen corporate bond, due 2021	15,000	15,000	137,048
Unsecured 0.36% yen corporate bond, due 2024	15,000	15,000	137,048
Unsecured 0.60% yen corporate bond, due 2028	20,000	20,000	182,731
Unsecured 0.39% yen corporate bond, due 2024	30,000	30,000	274,097
Unsecured 0.03% yen corporate bond, due 2022	15,000	15,000	137,048
Unsecured 0.37% yen corporate bond, due 2026	10,000	10,000	91,365
Unsecured 0.50% yen corporate bond, due 2029	20,000	20,000	182,731
Unsecured 1.05% yen corporate bond, due 2039	5,000	5,000	45,682
Unsecured 0.30% yen corporate bond, due 2025	30,000		274,097
Unsecured 0.05% yen corporate bond, due 2023	10,000		91,365
Unsecured 0.29% yen corporate bond, due 2027	10,000		91,365
Unsecured 0.40% yen corporate bond, due 2030	20,000		182,731
Unsecured 0.90% yen corporate bond, due 2040	10,000		91,365
Total	315,000	250,000	2,878,026
Less current portion	(15,000)	(15,000)	(137,048)
Corporate bonds, less current portion	¥ 300,000	¥ 235,000	$ 2,740,977

Annual maturities of corporate bonds as of February 29, 2020, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 15,000	$ 137,048
2022	30,000	274,097
2023	40,000	365,463
2024	70,000	639,561
2025	50,000	456,829
2026 and thereafter	110,000	1,005,025
Total	¥315,000	$ 2,878,026

Collateralized long-term debt and other as of February 29, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt	¥ 716	$ 6,548
Current portion of lease deposits from lessees	75	688
Long-term debt	25,761	235,375
Lease deposits from lessees	905	8,272
Total	¥ 27,459	$ 250,885

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other as of February 29, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 2,418	$ 22,098
Buildings and structures – net of accumulated depreciation	30,584	279,436
Total	¥ 33,002	$ 301,534

7. RETIREMENT AND PENSION PLANS

The Company and its certain subsidiaries have severance payment plans for employees. The Company and its certain domestic subsidiaries have a defined benefit pension plan, advance payment plans, and defined contribution pension plans covering substantially all employees. Other domestic 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 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year (as restated)	¥ 4,757	¥ 4,738	$ 43,469
Increase from new consolidation	22		201
Current service cost	246	211	2,249
Interest cost	31	35	291
Actuarial losses	227	(40)	2,075
Benefits paid	(187)	(188)	(1,710)
Balance at end of year	¥ 5,097	¥ 4,757	$ 46,576

(2) The changes in plan assets for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 3,624	¥ 3,692	$ 33,117
Expected return on plan assets	113	104	1,033
Actuarial losses	(38)	(274)	(350)
Contributions from the employer	305	289	2,790
Benefits paid	(185)	(186)	(1,690)
Balance at end of year	¥ 3,819	¥ 3,624	$ 34,899

(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
	2020	2019	2020
Funded defined benefit obligation	¥ 5,024	¥ 4,717	$ 45,910
Plan assets	(3,819)	(3,624)	(34,899)
Total	1,205	1,092	11,011
Unfunded defined benefit obligation	¥ 72	¥ 40	$ 665
Net liability arising from defined benefit obligation	¥ 1,278	¥ 1,133	$ 11,676

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits/ Asset for retirement benefits	¥ 1,278	¥ 1,133	$ 11,676

(4) The components of net periodic benefit costs for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥ 246	¥ 211	$ 2,249
Interest cost	31	35	291
Expected return on plan assets	(113)	(104)	(1,033)
Recognized actuarial losses	177	156	1,621
Net periodic benefit costs	¥ 342	¥ 299	$ 3,129

(5) Amounts recognized in other comprehensive income (before income tax effects) in respect of defined retirement benefit plans for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Actuarial losses	¥ 88	¥ 77	$ 804

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized actuarial losses	¥ 1,473	¥ 1,385	$ 13,467

(7) Plan assets

(1) Components of plan assets

Plan assets as of February 29, 2020 and February 28, 2019, consisted of the following:

	2020	2019
Debt investments	41.8%	42.6%
Equity investments	26.0	23.7
General account of life insurance	12.4	13.3
Others*	19.8	20.4
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, 2018, was used as an assumption.

(8) Assumptions used for the years ended February 29, 2020 and February 28, 2019, are set forth as follows:

	2020	2019
Discount rate	0.4%	0.6%
Expected rate of return on plan assets	3.1	2.8

Defined contribution plan:
Contributions for defined contribution plan for the years ended February 29, 2020 and February 28, 2019, were ¥355 million ($3,248 thousand) and ¥309 million, respectively.

Advance payment plan:
Payments to the advance payment plan for the years ended February 29, 2020 and February 28, 2019, were ¥60 million ($548 thousand) and ¥63 million, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 16,389	¥ 12,003	$ 149,740
Increase due to change in the scope of consolidation	873		7,979
Additional provisions associated with the acquisitions of property, buildings, and equipment	459	1,504	4,201
Decrease associated with the sales of property, buildings, and equipment	(1,091)		(9,968)
Reconciliation associated with passage of time	205	218	1,881
Reduction due to performance	(99)	(118)	(905)
Increase due to changes in estimates		2,780	
Other increase and decrease	(24)		(225)
Balance at end of year	¥ 16,713	¥ 16,389	$ 152,703

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 29, 2020, 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
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
2020 Stock Option	10 directors	17,800 shares	2019.5.10	¥1 ($0.01)	From June 10, 2019 to June 9, 2034

*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)	2015 Stock Option (Shares)	2016 Stock Option (Shares)	2017 Stock Option (Shares)	2018 Stock Option (Shares)	2019 Stock Option (Shares)	2020 Stock Option (Shares)
Year Ended February 28, 2019											
Nonvested:											
February 28, 2018 – outstanding										17,700	
Granted											
Canceled										(17,700)	
Vested											
February 28, 2019 – outstanding											
Vested:											
February 28, 2018 – outstanding	4,070	7,480	7,920	5,170	9,240	10,200	12,800	3,300	14,100		
Vested										17,700	
Exercised		(1,320)	(1,430)		(6,380)	(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	
Year Ended February 29, 2020											
Nonvested:											
February 28, 2019 – outstanding											
Granted											17,800
Canceled											
Vested											(17,800)
February 29, 2020 – outstanding											
Vested:											
February 28, 2019 – outstanding	4,070	6,160	6,490	5,170	2,860	1,100	2,600	2,200	10,800	10,800	
Vested											17,800
Exercised	(4,070)	(6,160)	(6,490)			(1,100)		(2,200)	(7,100)	(3,300)	(11,800)
Canceled											
February 29, 2020 – outstanding				5,170	2,860		2,600		3,700	7,500	6,000
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)
Average stock price at exercise	¥1,735	¥1,735	¥1,735			¥1,737		¥1,639	¥1,692	¥1,692	¥1,644
	($15)	($15)	($15)			($15)		($14)	($15)	($15)	($15)
Fair value price at grant date	¥2,500	¥1,089	¥1,583	¥1,609	¥1,473	¥2,245	¥2,116	¥1,312	¥1,848	¥1,912	¥1,408
	($22)	($9)	($14)	($14)	($13)	($20)	($19)	($11)	($16)	($17)	($12)

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 2020 Stock Options:

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	30.76%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥38 per share
Risk-free interest rate:	-0.15%

11. INCOME TAXES

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Payables and accrued expenses	¥	¥ 1,994	$
Accrued enterprise tax	538	526	4,918
Lease obligations	28,518		260,564
Property, plant, and equipment	11,354	10,727	103,741
Long-term prepaid expenses	1,666	1,698	15,226
Liability for retirement benefits	465	392	4,250
Asset retirement obligation	5,087	4,949	46,478
Long-term deferred revenue	960	694	8,773
Tax loss carryforwards of subsidiaries *2)	2,268	2,141	20,724
Write-down of assets under the reorganization proceedings	322	731	2,946
Property revaluation	461		4,217
Other	2,498	3,057	22,826
Total of tax loss carryforwards and temporary differences	54,141	26,912	494,667
Valuation allowance for tax loss carryforward	(2,222)		(20,309)
Valuation allowance for total deductible temporary difference	(10,750)		(98,223)
Less valuation allowance *1)	(12,973)	(7,970)	(118,532)
Total deferred tax assets	41,167	18,941	376,134
Deferred tax liabilities:			
Right-of-use assets	21,784		199,034
Property revaluation	103	105	943
Lease deposits to lessors and long-term prepaid expenses	74	98	680
Deferred capital gains on property	194	198	1,779
Special depreciation on property	9	39	90
Asset retirement obligation removal expense	3,576	3,536	32,677
Unrealized gain on available-for-sale securities	403	575	3,689
Other	1,463	1,376	13,368
Total deferred tax liabilities	27,610	5,931	252,263
Net deferred tax assets	¥13,557	¥13,009	$123,871

Net deferred tax assets included in the consolidated balance sheets as of February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
INVESTMENT AND OTHER ASSETS – deferred tax assets	13,902	13,420	127,017
LONG-TERM LIABILITIES – deferred tax liabilities	(344)	(410)	(3,145)
Net deferred tax assets	¥ 13,557	¥ 13,009	$123,871

*1) The valuation allowance increased by ¥5,002 million ($45,705thousand). The main reason for the increase is reversal of the deferred tax assets as a result of the assessment of recoverability of deferred tax assets.

*2) Tax loss carryforwards and their deferred tax assets by expiration period

Current fiscal year (February 29, 2020)

	Due within 1 year	Due after more than 1 years Due within 2 years	Due after more than 2 years Due within 3 years	Due after more than 3 years Due within 4 years	Due after more than 4 years Due within 5 years	Due after more than 5 years	Total
Tax loss carryforward	155	554	494	382	436	244	¥ 2,268 million
Valuation allowance	(155)	(554)	(483)	(347)	(436)	(244)	(2,222)
Deferred tax assets			11	34			45

Current fiscal year (February 29, 2020)

	Due within 1 year	Due after more than 1 years Due within 2 years	Due after more than 2 years Due within 3 years	Due after more than 3 years Due within 4 years	Due after more than 4 years Due within 5 years	Due after more than 5 years	Total
Tax loss carryforward	1,423	5,065	4,516	3,492	3,991	2,235	$ 20,724 thousands
Valuation allowance	(1,423)	(5,065)	(4,415)	(3,178)	(3,991)	(2,235)	(20,309)
Deferred tax assets			100	314			414

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended February 29, 2020 is as follows:

	2020	2019
Normal effective statutory tax rate	30.5%	
Expenses not deductible for income tax purposes	0.3	
Per capita portion of inhabitant tax	0.3	
Tax benefits not recognized on operating losses of subsidiaries	0.4	
Change in valuation allowance	4.0	
Tax effect related to consolidated adjustment	(0.3)	
Lower income tax rates applicable to income in certain foreign countries	0.5	
Past year corporate taxes	1.0	
Special corporation tax credits	(0.2)	
Other – net	(0.4)	
Actual effective tax rate	36.1	

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%.)

12. LEASES

a. Lessee

The minimum rental commitments under noncancelable operating leases at February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥ 46,736	¥ 65,860	$ 427,014
Due after one year	295,384	476,419	2,698,806
Total	¥ 342,121	¥ 542,280	$ 3,125,820

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.
The land use rights for the years ended February 28, 2019 is fully prepaid in advance and is disclosed as "Long-term prepaid expenses" on the consolidated balance sheet.

b. Lessor

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

Future rental revenues from subleases under finance leases for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥ 6,376	¥ 6,091	$ 58,258
Due after one year	20,628	23,946	188,469
Total	¥ 27,004	¥ 30,037	$ 246,728

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		
	2020		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 114,368	¥ 114,368	
Time deposits	7,314	7,314	
Receivables—Trade accounts	7,755		
Allowance for doubtful receivables*	(66)		
	7,689	7,689	
Investment securities	1,787	1,787	
Lease deposits to lessors, including current portion	50,059	49,182	¥ (877)
Total	¥ 181,219	¥ 180,342	¥ (877)
Short-term borrowings			
Payables—Trade accounts	¥ 8,530	¥ 8,530	
Payables—Construction	32,859	32,859	
Deposits received	70,310	70,310	
Income taxes payable	11,388	11,388	
Long-term debt, including current portion	235,096	236,430	¥ 1,334
Corporate bonds, including current portion	315,000	317,296	2,296
Lease obligations, including current portion	115,980	115,942	(37)
Lease deposits from lessees, including current portion	140,508	140,762	254
Total	¥ 929,674	¥ 933,522	¥ 3,847

	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

	Thousands of U.S. Dollars		
	2020		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 1,044,942	$ 1,044,942	
Time deposits	66,826	66,826	
Receivables—Trade accounts	70,857		
Allowance for doubtful receivables *	(603)		
	70,253	70,253	
Investment securities	16,332	16,332	
Lease deposits to lessors, including current portion	457,371	449,356	$ (8,014)
Total	$ 1,655,726	$ 1,647,711	$ (8,014)
Short-term borrowings			
Payables—Trade accounts	$ 77,939	$ 77,939	
Payables—Construction	300,225	300,225	
Deposits received	642,399	642,399	
Income taxes payable	104,047	104,047	
Long-term debt, including current portion	2,147,980	2,160,171	$ 12,190
Corporate bonds, including current portion	2,878,026	2,899,010	20,984
Lease obligations, including current portion	1,059,662	1,059,323	(338)
Lease deposits from lessees, including current portion	1,283,771	1,286,092	2,320
Total	$ 8,494,053	$ 8,529,210	$ 35,156

*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
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥ 9	¥ 10	$ 85

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

	Millions of Yen			
	2020			
	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	¥ 114,368			
Time deposits	7,314			
Receivables—Trade accounts	7,755			
Lease deposits to lessors *	140	¥ 487	¥ 19	¥ 1
Long-term debt	35,774	159,868	38,976	476
Corporate bonds	15,000	190,000	85,000	25,000
Lease obligations	12,107	62,000	41,871	-
Lease deposits from lessees	105			

	Thousands of U.S. Dollars			
	2020			
	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	$ 1,044,942			
Time deposits	66,826			
Receivables—Trade accounts	70,857			
Lease deposits to lessors *	1,279	$ 4,454	$ 180	$ 10
Long-term debt	326,855	1,460,657	356,116	4,350
Corporate bonds	137,048	1,735,952	776,610	228,414
Lease obligations	110,623	566,477	382,561	-
Lease deposits from lessees	962			

* Lease deposits to lessors with no defined redemption schedule of ¥49,410 million ($451,445 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 29, 2020	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss)
Currency swaps				
Receipt U.S. dollar/Payment Yen				
Receipt Chinese Yuan /Payment Yen	¥ 4,567	¥ 4,267	¥ (297)	¥ (297)
Foreign currency forward contracts				
Receipt Chinese Yuan /Payment Yen	¥ 2,897	807	¥ 55	¥ 55

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

February 29, 2020	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				
Receipt Yen/Payment Indonesia Rup				
Receipt Yen/Payment Chinese Yuan	$ 41,726	$ 38,985	$ (2,714)	$ (2,714)
Foreign currency forward contracts				
Receipt Yen/Payment Chinese Yuan	$ 26,470	$ 7,375	$ 505	$ 505

*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 29, 2020	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	¥ 34,897	¥ 27,330	*

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 29, 2020	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	$ 318,846	$ 249,709	*

*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 29, 2020, mainly includes a gain of ¥2,501 million ($22,855 thousand) on the sale of one commercial facility to leasing company.
The figure for the year ended February 28, 2019, mainly includes a gain of ¥4,607 million on the sale of two commercial facilities and lands to leasing company, ÆON REIT Invest Corporation, and other companies.

16. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gain (loss) on available-for-sale securities:			
Loss arising during the year	¥ (563)	¥ (202)	$ (5,151)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(563)	(202)	(5,151)
Income tax effect	171	61	1,571
Total	¥ (391)	¥ (140)	$ (3,580)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (1,809)	¥ (15,777)	$ (16,530)
Reclassification adjustments to profit or loss			
Amount before income tax effect	¥ (1,809)	¥ (15,777)	$ (16,530)
Income tax effect			
Total	¥ (1,809)	¥ (15,777)	$ (16,530)

Defined retirement benefit plans			
Adjustments arising during the year	¥ (265)	¥ (234)	$ (2,425)
Reclassification adjustments to profit or loss	177	156	1,621
Amount before income tax effect	(88)	(77)	(804)
Income tax effect	36	34	330
Total	¥ (51)	¥ (42)	$ (474)
Total other comprehensive loss	¥ (2,252)	¥ (15,961)	$ (20,584)

17. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted EPS for the years ended February 29, 2020 and February 28, 2019, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 29, 2020	Net Income	Weighted-Average Shares	EPS*	
Basic EPS — Net income available to common shareholders	¥ 34,239	227,501	¥ 150.50	$ 1.38
Effect of dilutive securities — Warrants		35		
Diluted EPS — Net income for computation	¥ 34,239	227,536	¥ 150.47	$ 1.37
Year Ended February 28, 2019				
Basic EPS — Net income available to common shareholders	¥ 33,538	227,454	¥ 147.45	
Effect of dilutive securities — Warrants		65		
Diluted EPS — Net income for computation	¥ 33,538	227,519	¥ 147.41	

18. BUSINESS COMBINATIONS

Business Combination through Acquisition

a. Overview of Business Combination

(1) Name and business overview of acquired company

Name Yokohama Importmart Inc.

Business Overview Management and Operation of Yokohama World Porters

(2) Reason of Business Combination

OPA co., ltd, our consolidated subsidiary, partially operated and managed World Porters Vivre in Yokohama World Porters. As a part of "Capturing of growth opportunities in urban areas", one of our important measurements, our company will manage and operate the whole facility to drive profit expansion by increasing customer attraction by renewing and enhancing the operational efficiency.

(3) Acquisition Date August 29 ,2019

(4) Legal form of Business Combination

Stock Acquisition by cash

(5) Name of the company after Acquisition

Acquired Company Name won't be changed

(6) Acquired Voting Rights Ratio

Voting Rights Ratio before the Business Combination	9.86%	(Indirect holdings 9.86%)
Acquired Voting Rights Ratio	87.89%	(Indirect holdings −%)
Voting Rights Ratio after the Business Combination	97.75%	(Indirect holdings −%)

(7) The Reason to Decide to Acquire the Company

Our company acquired their stock by cash

b. Operation Period of Acquired Company Described in Consolidated Financial Report

From September 1,2019 to February 29 ,2020

c. Acquisition Cost and Detail by Consideration

Market Value of the holding stock as of acquisition date	¥ 706 million ($ 6,455 thousand)
Cash used for this acquisition	¥ 6,297 million ($ 57,534 thousand)
Acquisition Cost	¥ 7,003 million ($ 63,989 thousand)

d. Expenses for this Acquisition

Advisory Expenses ¥ 8million ($80 thousand)

e. Amount and Causes of Gain on bargain purchase

(1) Amount of Gain on bargain purchase ¥ 1,239 million ($11,323 thousand)

(2) Causes

Since the market value of Net Assets exceeds the acquisition cost at the date of acquisition, the excess amount has been recognized as gain on bargain purchase.

f. Amount of Assets and Liabilities at the Date of Acquisition Date and Details

Current Assets	¥ 5,326 million ($ 48,669 thousand)
Fixed Assets	¥ 5,682 million ($ 51,916 thousand)
Total Assets	¥ 11,009 million ($ 100,585 thousand)
Current Liabilities	¥ 894 million ($ 8,173 thousand)
Long-term Liabilities	¥ 1,677 million ($ 15,325 thousand)
Total Liabilities	¥ 2,572 million ($ 23,499 thousand)

Transactions under Common Controls Additional Purchases of Subsidiaries' Equities

a. Transaction Overview

(1) Name and Business Overview of Acquired Company

Name Yokohama Importmart Inc. (The consolidated subsidiary)

Business Overview Management and Operation of Yokohama World Porters

(2) Acquisition Date

November 30,2019 (deemed acquisition date)

(3) Legal Form of Business Combination

Purchase of stocks from non-controlling shareholders

(4) Name of the Company after Acquisition

Acquired Company Name won't be changed

(5) Other Transactions

The ratio of voting rights acquired through the additional stock purchase is 2.25%. Through the purchase, Yokohama Importmart Inc. became a consolidated subsidiary of the Company. Our company purchased stock from the non-controlling shareholders to enhance management system and increase management efficiency of the Group.

b. Accounting Treatment

Based on Accounting Standard for Business Combinations (ASBJ Accounting Standard No. 21, September 13, 2013) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013) the stock purchase was treated as a transaction under common control with non-controlling stockholder.

c. Additional Purchase of Subsidiaries' Equity

Cost of the acquisition of the acquired company and the details

Acquisition by Cash ¥161 million ($1,475 thousand)

Acquisition Cost ¥161 million ($1,475 thousand)

d. Equity Changes Related to Transaction with Non-controlling Shareholders

(1) Main Factor of the change in capital surplus

Additional Purchases of Subsidiaries' Equities

(2) Decrease of capital surplus amount due to the transaction with the non-controlling shareholders

¥34 million ($318 thousand)

19. SUPPLEMENTAL CASH FLOW INFORMATION

a. The amount of assets and liabilities for lease transactions as a result of the adoption of IFRS 16 was as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Right-of-use assets	¥ 141,671	¥	$ 1,294,396
Lease obligations	126,926		1,159,678

Note: Right-of-use asset of ¥ 92,007 million ($840,634 thousand) and Lease obligations of ¥ 115,939 million ($1,059,290 thousand) were recognized due to adoption of IFRS 16 effective March 1, 2019.

b. Asset retirement obligations recorded in the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Asset retirement obligations	¥ 459	¥ 5,634	$ 4,201

c. Details of major corporate assets and liabilities for a subsidiary newly consolidated through acquisition of shares in the fiscal year ended February 2020 (March 1, 2019 to February 29, 2020)

Details of assets and liabilities of newly consolidated Yokohama Importmart Inc. at the commencement of consolidation through acquisition of shares, valuation of stock, and costs (net) of acquisition are as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Current assets:	¥ 5,326	$ 48,669
Fixed assets	5,682	51,916
Current liabilities	(894)	(8,173)
Long-term liabilities	(1,677)	(15,325)
Non-controlling interests	(194)	(1,772)
Gain on bargain purchase	(1,239)	(11,323)
Subtotal	7,003	63,989
Gain on step acquisitions	(706)	(6,455)
Consolidated subsidiary acquisition cost	6,297	57,534
Cash and cash equivalents at consolidated subsidiary	(5,067)	(46,303)
Investments in subsidiaries resulting in a change in scope of consolidation	1,229	11,231

20. RELATED-PARTY DISCLOSURES

Transactions with the parent company and its subsidiaries for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deposits kept in the cash pool account of ÆON CO., LTD. (the parent company)	¥ 37,712	¥ 45,800	$ 344,566
Interest income from ÆON CO., LTD. (the parent company)	25	20	234
Revenues from leases of shopping malls to ÆON RETAIL CO., LTD. (the parent company's subsidiary)	33,061	33,254	302,064
Credit fee paid to ÆON CREDIT SERVICE CO., LTD. (the parent company's subsidiary)	5,790	5,119	52,908
Net purchase of land from ÆON RETAIL STORE CO., LTD. (the parent company's subsidiary)		17,000	

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

The balances due to/from the parent company and its subsidiaries at February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Cash equivalents—deposits kept in the cash pool account of ÆON CO., LTD. (the parent company)	¥ 63,400	¥	$ 579,259
Receivables—other from ÆON CO., LTD. (the parent company)	8	4	79
Receivables—trade accounts from ÆON RETAIL CO., LTD. (the parent company's subsidiary)	665	636	6,081
Lease deposits received from ÆON RETAIL CO., LTD. (the parent company's subsidiary)	12,031	12,206	109,928
Receivables—other from ÆON CREDIT SERVICE CO., LTD. (the parent company's subsidiary)	10,228	9,103	93,449

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".

21. 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					
	2020					
	Reportable Segments			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 274,999	¥ 35,850	¥ 13,288	¥ 324,138		¥ 324,138
Intersegment revenues or transfers						
Total	¥ 274,999	¥ 35,850	¥ 13,288	¥ 324,138		¥ 324,138
Segment profit (loss)	¥ 52,460	¥ 5,622	¥ 2,686	¥ 60,769	¥ 25	¥ 60,794
Segment assets	918,027	221,428	176,520	1,315,976	65,241	1,381,217
Other:						
Depreciation	40,124	18,698	5,112	63,936	(25)	63,910
Impairment losses on assets	4,121	913		5,034		5,034
Increase in property, plant, and equipment and intangible assets	66,763	15,384	12,052	94,199		94,199

	Millions of Yen					
	2019					
	Reportable Segment			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

	Thousands of U.S. Dollars					
	2020					
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	$ 2,512,559	$ 327,554	$ 121,409	$ 2,961,521		$ 2,961,521
Intersegment revenues or transfers						
Total	$ 2,512,559	$ 327,554	$ 121,409	$ 2,961,522		$ 2,961,522
Segment profit (loss)	$ 479,313	$ 51,367	$ 24,546	$ 555,226	$ 230	$ 555,456
Segment assets	8,387,639	2,023,106	1,612,796	12,023,541	596,084	12,619,624
Other:						
Depreciation	366,604	170,843	46,712	584,159	(230)	583,928
Impairment losses on assets	37,659	8,342		46,001		46,001
Increase in property, plant and equipment and intangible assets	609,989	140,561	110,117	860,666		860,666

Notes for the year ended February 29, 2020:

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 ¥ 65,241 million ($596,084 thousand) is the reconciliation of the Group's assets of ¥65,776 million ($600,975 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.
4. As described in "Changes in Accounting Policy" section, the Company has applied IFRS 16 from this consolidated fiscal year. As a result of this change, segment profit increased by ¥4,859 million ($44,398 thousand) in China, and ¥480 million ($4,392 thousand) in ASEAN in this consolidated fiscal year. Also, in addition to increase in Property, plant and equipment and Intangible asset by investment, Segment assets were increased by ¥84,067 million ($768,092 thousand) in China, and by ¥7,939 million ($72,542 thousand) in ASEAN at the beginning of this consolidated fiscal year.

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 is the reconciliation of the Group's assets of ¥7,836 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.
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 29, 2020, and February 28, 2019, 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 29, 2020, and February 28, 2019, has been omitted because the same information has been disclosed in segment information.

(b) Property, plant, and equipment

Millions of Yen			
2020			
Japan	China	ASEAN	Total
¥ 802,227	¥ 149,220	¥ 140,007	¥ 1,091,455

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

Thousands of U.S. Dollars			
2020			
Japan	China	ASEAN	Total
$ 7,329,625	$ 1,363,368	$ 1,279,187	$ 9,972,182

(6) Information about major customers

	2020	
	Millions of Yen	
Name of customers	Revenues	Related segment name
ÆON RETAIL CO., LTD.	¥ 33,671	Japan

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

	2020	
	Thousands of U.S. Dollars	
Name of customers	Revenues	Related segment name
ÆON RETAIL CO., LTD.	$ 307,645	Japan

22. SUBSEQUENT EVENTS

(a) Appropriation of Retained Earnings

The following appropriation of retained earnings at February 29, 2020, was approved at the Company's Board of Directors’ meeting held on April 9, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20.00 ($0.18) per share	¥4,550	$ 41,571

(b) Bond Issuance

The Company issued bonds on March 31, 2020 based on the approval of the Board of Directors on February 20, 2020.

(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 ($274,097 thousand).
(3) Issue price ¥100 (US$0.90) per face value of ¥100(US$0.90).
(4) Interest rate: 0.33%.
(5) Date of issuance: March 31, 2020.
(6) Date of maturity: March 31, 2025.
(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.

(c) Temporary Close and Tenant Rent Exemption of Certain Stores in Japan and Overseas Stores.

In accordance with a state of emergency declared in Japan due to global pandemic of COVID 19, stores and malls operating in 7 prefectures have been temporarily closed from April 8, 2020 and 142 shopping malls and 22 malls in urban areas in Japan including consignment malls of AEON RETAIL Co., Ltd. have been temporarily closed from April 18, 2020.

Considering the situation of COVID 19 as well as lifting of state of emergency by the government for certain prefectures, AEON Malls started opening gradually from May 13, 2020 and the malls in urban areas started opening gradually from May 11, 2020.

In order to open malls, the Company will take necessary measures to prevent the spread of infection and maintain safety.

Some of the overseas stores also have been temporarily closed since January 24, 2020 in China and March 28, 2020 in ASEAN, but all stores in China have been opened from April 1,2020 and in ASEAN stores started opening gradually from April 24, 2020.

Given the current operational restrictions imposed on tenant stores in our facility because of school closures and stay-home order caused by the COVID 19 epidemic, the Company provided rental exemption and so on for our tenants.

In such business circumstances, operating income is expected to decrease in the following consolidated fiscal year and this could result in operating loss due to fixed costs incurred during the store closures.

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 29, 2020, 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 29, 2020, 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 19, 2020

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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Deloitte Touche Tohmatsu LLC

May 19, 2020

ÆON MALL CO., LTD.

1-5-1 Nakase, Mihama-ku, Chiba-shi, Chiba 261-8539, Japan
TEL:+81-(43)-212-6733 FAX:+81-(43)-212-6779
https://www.aeonmall.com/en