

AEON Mall Co., Ltd. and Subsidiaries

Financial Information 2022

Consolidated Financial Statements as of and for the
Year Ended February 28, 2022,
and Independent Auditor's Report

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ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Balance Sheet **February 28, 2022**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2022	2021	2022
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 82,973	¥ 124,080	\$ 717,826
Time deposits (Note 14)	13,175	7,362	113,983
Receivables:			
Trade accounts (Note 14)	8,308	7,661	71,880
Other	35,617	32,024	308,140
Allowance for doubtful receivables (Note 14)	(373)	(133)	(3,227)
Prepaid expenses and other	11,009	8,431	95,242
Total current assets	150,711	179,427	1,303,847
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 6 and 7)	341,296	310,198	2,952,649
Buildings and structures (Notes 5, 6, 7, and 9)	1,033,311	964,301	8,939,453
Machinery and equipment (Notes 5 and 6)	5,965	5,826	51,605
Furniture and fixtures (Notes 5 and 6)	46,477	43,591	402,089
Right-of-use assets (Notes 5, 6, and 22)	215,268	167,879	1,862,346
Construction in progress (Note 6)	28,940	16,685	250,373
Other (Note 5)	124	188	1,081
Total	1,671,385	1,508,671	14,459,599
Accumulated depreciation	(480,156)	(408,586)	(4,153,958)
Net property, plant, and equipment (Note 3)	1,191,229	1,100,085	10,305,641
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	1,991	1,948	17,225
Lease deposits to lessors (Note 14)	51,922	50,926	449,196
Long-term prepaid expenses (Notes 3, 5 and 6)	43,956	42,533	380,283
Deferred tax assets (Note 12)	19,496	14,940	168,671
Intangible assets (Note 3)	3,456	3,350	29,903
Other	491	988	4,254
Total investments and other assets	121,315	114,686	1,049,535
TOTAL	¥ 1,463,256	¥ 1,394,199	\$ 12,659,023

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2022	2021	2022
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 7 and 14)	¥ 46,093	¥ 33,629	\$ 398,770
Current portion of corporate bonds (Notes 7 and 14)	40,000	30,000	346,050
Current portion of long-term lease obligations (Notes 14 and 22)	19,555	14,955	169,179
Payables:			
Trade accounts (Note 14)	9,919	8,606	85,818
Construction (Note 14)	24,055	29,369	208,111
Other	4,303	5,204	37,232
Deposits received (Note 14)	45,260	68,518	391,560
Income taxes payable (Note 14)	6,830	7,024	59,093
Accrued expenses	4,782	4,932	41,372
Provision for store closing expenses	733	733	6,346
Current portion of lease deposits from lessees (Notes 7 and 14)	7	7	69
Other	11,191	10,956	96,817
Total current liabilities	212,734	213,938	1,840,424
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	178,704	188,794	1,546,018
Corporate bonds (Notes 7 and 14)	355,000	330,000	3,071,199
Long-term lease obligations (Notes 14 and 22)	118,239	112,279	1,022,921
Liability for retirement benefits (Note 8)	647	837	5,599
Lease deposits from lessees (Notes 7 and 14)	146,198	137,778	1,264,803
Asset retirement obligations (Note 9)	19,843	18,679	171,668
Deferred tax liabilities (Note 12)	628	594	5,435
Other	4,329	3,809	37,455
Total long-term liabilities	823,590	792,774	7,125,101
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 15)			
EQUITY (Notes 10, 11 and 19):			
Common stock — authorized, 320,000,000 shares; issued, 227,548,939 shares in 2022 and 227,545,839 shares in 2021	42,374	42,372	366,592
Capital surplus	40,693	40,691	352,048
Stock acquisition rights	33	23	291
Retained earnings	316,829	307,790	2,740,980
Treasury stock — at cost, 3,997 shares in 2022 and 3,265 shares in 2021	(7)	(6)	(63)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,059	1,029	9,166
Foreign currency translation adjustments	16,158	(13,868)	139,790
Defined retirement benefit plans	(652)	(690)	(5,645)
Total	416,489	377,342	3,603,161
Noncontrolling interests	10,441	10,143	90,335
Total equity	426,931	387,486	3,693,497
TOTAL	¥1,463,256	¥1,394,199	\$ 12,659,023

ÆON Mall Co., Ltd. and Subsidiaries
**Consolidated Statement of Income
Year Ended February 28, 2022**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING REVENUE (Note 24)	¥ 316,813	¥ 280,688	\$ 2,740,836
OPERATING COSTS (Notes 8 and 13)	248,884	218,926	2,153,165
Gross profit	67,928	61,761	587,670
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 8 and 13)	29,700	27,367	256,945
Operating income	38,228	34,394	330,725
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,584	1,300	13,707
Foreign exchange (loss) gain	(1,319)	66	(11,418)
Interest expense	(10,871)	(9,762)	(94,052)
Insurance income	373	95	3,228
Gain on valuation of derivatives (Note 15)	1,325	323	11,469
Gain on sales of property, plant, and equipment (Note 16)	4	749	36
Loss on sales of property, plant, and equipment	(1)	(1)	(11)
Loss on impairment of long-lived assets (Note 3 and 5)	(3,302)	(7,288)	(28,570)
Subsidy income (Note 18)	4,164	709	36,030
Gain on sales of investment securities	—	5	—
Loss due to COVID-19 (Note 17)	(4,075)	(16,572)	(35,260)
Other — net	39	248	338
Other expenses — net	(12,079)	(30,125)	(104,500)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	26,149	4,268	226,224
INCOME TAXES (Note 12):			
Current	(11,218)	(7,223)	(97,052)
Deferred	4,280	922	37,033
Total income taxes	(6,937)	(6,301)	(60,019)
NET INCOME (LOSS)	19,211	(2,032)	166,205
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	66	168	579
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 19,278	¥ (1,864)	\$ 166,784
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.u and 20):			
Basic net income	¥ 84.72	¥ (8.19)	\$ 0.73
Diluted net income	84.71	-	0.73
Cash dividends applicable to the year	45.00	40.00	0.39
See notes to consolidated financial statements.			

ÆON Mall Co., Ltd. and Subsidiaries
**Consolidated Statement of Comprehensive Income
Year Ended February 28, 2022**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET INCOME (LOSS)	¥ 19,211	¥ (2,032)	\$ 166,205
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19):			
Unrealized gain on available-for-sale securities	29	109	259
Foreign currency translation adjustments	30,476	(7,002)	263,657
Defined retirement benefit plans	37	313	325
Total other comprehensive income (loss)	30,543	(6,578)	264,241
COMPREHENSIVE INCOME (LOSS)	¥ 49,755	¥ (8,611)	\$ 430,446
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥ 49,373	¥ (7,477)	\$ 427,142
Noncontrolling interests	381	(1,134)	3,303

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries

**Consolidated Statement of Changes in Equity
Year Ended February 28, 2022**

	Thousands	Millions of Yen											
	Outstanding Number of Shares of Common Stock	Accumulated Other Comprehensive Income (Loss)											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Losses)	Treasury Stock	Unrealized Gain (Loss) on Available- for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity	
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	
Net income attributable to owners of the parent					(1,864)					(1,864)		(1,864)	
Exercise of stock options	30	24	24							48		48	
Cash dividends, ¥40 per share					(9,100)					(9,100)		(9,100)	
Purchase of treasury stock	(0)					(0)				(0)		(0)	
Change in ownership interest of parent due to transactions with noncontrolling interests													
Net change in the year				(23)			109	(6,036)	313	(5,636)	(481)	(6,118)	
BALANCE, FEBRUARY 28, 2021	227,542	¥ 42,372	¥ 40,691	¥ 23	¥ 307,790	¥ (6)	¥ 1,029	¥ (13,868)	¥ (690)	¥ 377,342	¥ 10,143	¥ 387,486	
Net income attributable to owners of the parent					19,278					19,278		19,278	
Exercise of stock options	3	2	2							4		4	
Cash dividends, ¥45 per share					(10,239)					(10,239)		(10,239)	
Purchase of treasury stock	(0)					(1)				(1)		(1)	
Change in ownership interest of parent due to transactions with noncontrolling interests													
Net change in the year				9			29	30,027	37	30,104	298	30,402	
BALANCE, FEBRUARY 28, 2022	227,544	¥ 42,374	¥ 40,693	¥ 33	¥ 316,829	¥ (7)	¥ 1,059	¥ 16,158	¥ (652)	¥ 416,489	¥ 10,441	¥ 426,931	

	Thousands of U.S. Dollars (Note 1)										
	Accumulated Other Comprehensive Income (Loss)										
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Losses)	Treasury Stock	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non- controlling Interests	Total Equity
BALANCE, FEBRUARY 28, 2021	\$ 366,573	\$ 352,030	\$ 206	\$ 2,662,780	\$ (52)	\$ 8,907	\$ (119,983)	\$ (5,970)	\$ 3,264,492	\$ 87,756	\$ 3,352,248
Net income attributable to owners of the parent				166,784					166,784		166,784
Exercise of stock options	18	18							36		36
Cash dividends, \$0.39 per share				(88,584)					(88,584)		(88,584)
Purchase of treasury stock					(10)				(10)		(10)
Change in ownership interest of parent due to transactions with noncontrolling interests											
Net change in the year			84			259	259,773	325	260,442	2,579	263,022
BALANCE, FEBRUARY 28, 2022	<u>\$ 366,592</u>	<u>\$ 352,048</u>	<u>\$ 291</u>	<u>\$ 2,740,980</u>	<u>\$ (63)</u>	<u>\$ 9,166</u>	<u>\$ 139,790</u>	<u>\$ (5,645)</u>	<u>\$ 3,603,161</u>	<u>\$ 90,335</u>	<u>\$ 3,693,497</u>

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended February 28, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income before income taxes and noncontrolling interests	¥ 26,149	¥ 4,268	\$ 226,224
Adjustments for:			
Income taxes – paid	(11,403)	(11,528)	(98,650)
Gain on sales of property, plant, and equipment	(4)	(749)	(36)
Loss on sales of property, plant, and equipment	1	1	11
Depreciation and amortization	63,735	58,586	551,396
Loss on impairment of long-lived assets	3,302	7,288	28,570
Changes in assets and liabilities:			
Decrease in receivables – trade accounts	382	97	3,312
Increase in payables – trade accounts	1,314	113	11,376
Decrease in deposits received	(22,122)	(5,548)	(191,390)
Increase in allowance for doubtful accounts	201	81	1,745
Increase in liability for retirement benefits	23	31	200
Other – net	(89)	8,980	(773)
Total adjustments	35,342	57,353	305,759
Net cash provided by operating activities	61,492	61,621	531,983
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(117,864)	(57,535)	(1,019,676)
Proceeds from sales of property, plant, and equipment	6	760	51
Purchases of long-term prepaid expenses	(4,379)	(2,202)	(37,886)
Payments of lease deposits to lessors	(2,771)	(1,762)	(23,975)
Reimbursement of lease deposits to lessors	1,078	308	9,328
Repayments of lease deposits from lessees	(8,259)	(11,170)	(71,452)
Proceeds from lease deposits from lessees	15,594	8,618	134,911
Other	(5,787)	(1,459)	(50,066)
Net cash used in investing activities	(122,382)	(64,444)	(1,058,764)
FINANCING ACTIVITIES:			
Repayment of lease obligations	(16,384)	(11,727)	(141,750)
Proceeds from long-term debt	34,026	23,734	294,368
Repayment of long-term debt	(33,644)	(35,774)	(291,063)
Proceeds from issuance of corporate bonds	65,000	60,000	562,332
Repayment of corporate bonds	(30,000)	(15,000)	(259,538)
Dividends paid	(10,239)	(9,100)	(88,584)
Proceeds from share issuance to noncontrolling shareholders	-	718	-
Other	(532)	(606)	(4,605)
Net cash provided by financing activities	8,225	12,244	71,157

ÆON Mall Co., Ltd. and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended February 28, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	11,558	290	99,995
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(41,106)	9,711	(355,627)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	124,080	114,368	1,073,454
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 82,973	¥ 124,080	\$ 717,826

See Note 22 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 2021 consolidated financial statements to conform to the classifications used in 2022.

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 ¥115.59 to \$1, the approximate rate of exchange at February 28, 2022. 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 consolidated financial statements do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation** - The consolidated financial statements as of February 28, 2022, include the accounts of the Company and its 51 (47 in 2021) subsidiaries (collectively, the "Group"). The statements include the operating results of the international business for January through December. The following companies have been included in the consolidated financial statements as of and for the year ended February 28, 2022:

Changsha Mall Investment Limited
CHANGSHA MALL COMMERCIAL DEVELOPMENT CO., LTD.
HANGZHOU HANGDONG MALL REAL ESTATE DEVELOPMENT CO, LTD.
AEON MALL (CAMBODIA) LOGI PLUS CO., LTD.

CHANGSHA MALL COMMERCIAL DEVELOPMENT CO., LTD. changed its name from
CHANGSHA MALLREAL ESTATE DEVELOPMENT CO., LTD. on December 31, 2021.

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 accounting principles generally accepted in the

United States of America (Financial Accounting Standards Board Accounting Standards Codification) 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 research and development; (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; (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

- c. Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and deposits kept in the cash pool account of the Company, the parent company, both of which mature or are due within three months of the date of acquisition.
- d. Investment Securities** - Investment securities are classified and accounted for, depending on management's intent, as follows:
Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.
Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.
For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.
- e. Allowance for Doubtful Accounts** - The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- f. Property, Plant, and Equipment** - Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Group is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 2 to 39 years for buildings and structures, from 3 to 17 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures.
- g. Intangible Assets** - Depreciation of software is computed by the straight-line method based on five years of estimated useful life.
- h. Right-of-use Assets** - Depreciation of right-of-use assets is computed by the straight-line method.
- 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 expensed 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 consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis.

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 is considered 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. Bonuses to Directors and Employees** - Bonuses to directors and employees are accrued at the year-end to which such bonuses are attributable.
- q. Income Taxes** - The provision for income taxes is computed based on pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax rates to the temporary differences.
- r. Foreign Currency Transactions** - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- s. Foreign Currency Financial Statements** - The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- t. Derivatives and Hedging Activities** - The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Interest rate swaps and currency swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

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

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

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

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

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

v. New Accounting Pronouncements

1. 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

- (1) Scheduled date of adoption
To be adopted at the beginning of the fiscal year ending February 28, 2023.
- (2) Impact of the adoption of this accounting standard
The Company estimates that Retained Earnings balance at the beginning of the fiscal year ending February 28, 2023 will be decreased by ¥1,167 million (\$10,104 thousand), due to the cumulative effect by adopting "Accounting Standard for Revenue Recognition," etc.

2. Accounting Standard for Fair Value Measurement

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

To improve comparability with other GAAPs, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" have been developed, and they define the guideline of how to measure fair value. The standard and guidance are adopted to the items below.

- Financial instruments which are defined in Accounting Standard for Financial Instruments

- Inventories for trading which are defined in Accounting Standard for Measurement of Inventories

Also, “Guidance on Disclosures about Fair Value of Financial Instruments” has been modified and several notes have been added to the guidance. For example, it is required to explain the fair value calculation of financial instruments by input information level for the calculation.

(2) Scheduled date of adoption

To be adopted at the beginning of the fiscal year ending February 28, 2023.

(3) Impact of the adoption of this accounting standard

The Company is assessing the impact of adoption of this accounting standard and guidance as of the time of preparation of these consolidated financial statements.

w. **Change in presentation**

Adoption of Accounting Standard for Disclosure of Accounting Estimates

The Group adopted Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No.31, March 31, 2020) in the consolidated financial statements for the fiscal year ended February 28, 2022 and the notes about significant accounting estimates are added in the consolidated financial statements.

However, in the notes, any explanations related to the previous fiscal year are not described by following the description about transitional handling of item 11 in the Accounting Standard.

3. SIGNIFICANT ACCOUNTING ESTIMATE

Impairment loss on long-lived assets

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended February 28, 2022.

	Millions of Yen	Thousands of U.S. Dollars
	2022	2022
Property, plant, and equipment	¥1,191,229	\$10,305,641
Intangible assets	3,456	29,903
Long-term prepaid expenses	43,956	380,283
Loss on impairment of long-lived assets	3,302	28,570

(2) Information on the significant accounting estimate

1) Method of calculating the amount recorded in the consolidated financial statements for the fiscal year ended February 28, 2022

The Group principally identifies each shopping mall as an individual cash generating unit ("CGU"). As for the long-lived assets in Japan, the Group recognizes impairment loss by following Japanese accounting standards (Accounting Standard for Impairment of Fixed Assets). If there is any indication of impairment for the long-lived assets and the total undiscounted future cash flows from the CGU is less than its carrying amount, the Group recognizes impairment loss and reduces the carrying amount to the recoverable amount. The recoverable amount of the CGU is higher of CGU's net disposal value and its value in use.

As for long-lived assets in foreign countries, the Group recognizes impairment loss in accordance with IFRS as described in NOTE 2.b. If there is any indication of impairment for the long-lived assets and the total discounted future cash flows from the CGU are less than its carrying amount, the Group recognizes impairment loss and reduces the carrying amount to the recoverable amount. The recoverable amount of the CGU is higher of CGU's fair value less costs of disposal and its value in use.

In order to recognize and measure impairment loss, the Group estimates future cash flows based on the most recent individual shopping mall's business plans approved by management and future cash flows over the business plans' periods based on the market growth rates. Operating revenue composed of fixed leasing fee, non-fixed leasing fee, and other revenues from the tenants, and is constantly updated to the business plans with considering the possible fluctuation in the future. The discount rate which is used to calculate estimation of the value in use is calculated based on acquirable external data and, if necessary, supports by the specialists for corporate valuation. The discount rates used for each segment are described in NOTE.5. The net disposal price for domestic CGU and the fair value less costs of disposal for the overseas CGU are calculated based on the real estate appraisal values, among others.

2) Assumptions for calculating the amount recorded in the consolidated financial statements for the

fiscal year ended February 28, 2022

The key assumptions for estimating future cash flows from CGU are projections of market growth rates, including projections of the convergence of the COVID-19 pandemic, changes in progress of city developments around the shopping malls, effect of shopping mall renovations, new tenants, and promotion activities, and fluctuations of customer traffic and leasing fees from the tenants. The projections of market growth rates and changes in progress of city developments are estimated based on external data and public information. The effect of shopping mall renovations, new tenants, and promotion activities is estimated based on the management's decisions or contracts with the tenants. The fluctuations of customer traffic and leasing fees from the tenants are estimated based on the other comparable shopping malls' historical performance. As for the projections of the convergence of the COVID-19 pandemic, the Group assumes that consumer behavior would be recovered to the same status with before the COVID-19 pandemic and operation revenue in the fiscal year ending February 28, 2023 would be recovered to the same level with the fiscal year ended February 29, 2020.

3) Impact on the consolidated financial statements in the following fiscal year

Recognition and measurement of impairment loss on the long-lived assets are estimated based on the assumptions above. If the performance in each shopping mall is worse than estimations due to tenant retreats, flagging consumer spending, and decrease in rent fee, among others, which could have a risk of recognizing impairment loss in the following consolidated fiscal year.

4. INVESTMENT SECURITIES

Investment securities as of February 28, 2022, and February 28, 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Investment securities:			
Marketable equity securities	¥ 1,985	¥ 1,942	\$ 17,173
Other	6	6	51
Total	¥ 1,991	¥ 1,948	\$ 17,225

The costs and aggregate fair values of investment securities as of February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen			
	2022			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale equity securities	¥ 460	¥ 1,528	¥ (4)	¥ 1,985

	Millions of Yen			
	2021			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale equity securities	¥ 460	¥ 1,486	¥ (4)	¥ 1,942

	Thousands of U.S. Dollars			
	2022			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale equity securities	\$ 3,984	\$13,223	\$ (34)	\$ 17,173

Available-for-sale securities whose fair values are not readily determinable as of February 28, 2022, and February 28, 2021, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Available-for-sale equity securities	¥ 6	¥ 6	\$ 51

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 28, 2022, and February 28, 2021. The Group recognized impairment losses on the following long-lived assets on February 28, 2022:

Use	Type of Assets	Location	Millions of Yen	Thousands of U.S. Dollars
			2022	2022
Shopping mall	Buildings and structures, and others	Akita	¥ 7	\$ 68
Shopping mall	Buildings and structures, and others	Ibaraki	4	39
Shopping mall	Buildings and structures, and others	Gunma	49	429
Shopping mall	Buildings and structures, and others	Chiba	78	681
Shopping mall	Buildings and structures, and others	Tokyo	33	293
Development property	Construction in progress	Tokyo	534	4,625
Shopping mall	Buildings and structures, and others	Kanagawa	81	705
Shopping mall	Buildings and structures, and others	Kyoto	27	235
Shopping mall	Buildings and structures, and others	Osaka	32	277
Shopping mall	Land, buildings and structures, and others	Oita	80	696
Shopping mall	Buildings and structures, and others	Okinawa	6	60
Shopping mall	Right-of-use assets, and others	Overseas (China)	2,325	20,122
Shopping mall	Land, buildings and structures, and others	Overseas (Indonesia)	38	333
Total			<u>¥ 3,302</u>	<u>\$ 28,570</u>

The Group principally identifies each shopping mall as an individual cash generating unit ("CGU"). The Group also considers an idle asset as an individual CGU. The book value of the above-mentioned CGUs has been devaluated to the recoverable amount, resulting in an impairment loss under other expenses because of a significant decline in profitability and the changes causing significant decline of recoverable amount. The recoverable amount of the CGU in Japan is higher of CGU's net disposal value and its value in use. Whereas the recoverable amount of the CGU in foreign countries is higher of CGU's fair value less costs of disposal and its value in use. Regarding some shopping malls, the Group evaluated the value in use as zero as no future cash flows are expected. The discount rate used to calculate estimation of the value in use of the shopping malls in China is 9.14%. The net disposal price for domestic CGU and the fair value less costs of disposal for the overseas CGU is calculated based on the real estate appraisal values, among others.

The Group recognized impairment losses on the following long-lived assets on February 28, 2021:

Use	Type of Assets	Location	Millions of Yen
			2021
Shopping mall	Land, buildings and structures, and others	Aomori	¥ 1,254
Shopping mall	Buildings and structures, and others	Akita	240
Shopping mall	Buildings and structures, and others	Ibaraki	29
Shopping mall	Buildings and structures, and others	Gunma	102
Shopping mall	Buildings and structures, and others	Chiba	558
Shopping mall	Intangible fixed assets (goodwill)	Chiba	340
Corporate assets	Furniture and fixtures, and others	Chiba	61
Shopping mall	Buildings and structures, and others	Tokyo	138
Shopping mall	Buildings and structures, and others	Kanagawa	53
Shopping mall	Construction in progress	Mie	5
Shopping mall	Buildings and structures, and others	Kyoto	200
Shopping mall	Buildings and structures, and others	Osaka	761
Development property	Construction in progress	Okayama	1
Development property	Construction in progress	Nagasaki	50
Shopping mall	Land, buildings and structures, and others	Oita	1,321
Shopping mall	Buildings and structures, and others	Okinawa	13
Shopping mall	Right-of-use assets, and others	Overseas (China)	2,155
Total			<u>¥ 7,288</u>

The Group principally identifies each shopping mall as an individual cash generating unit ("CGU"). The Group also considers an idle asset as an individual CGU. Furthermore, the common-use asset is grouped in a larger CGU contributing to the generation of the future cash flows. The book value of the above-mentioned CGUs has been devaluated to the recoverable amount, resulting in an impairment loss under other expenses because of significant decline of profitability and the changes causing significant decline of recoverable amount. The recoverable amount of the CGU is higher of CGU's net disposal value and its value in use. The discount rate used to calculate estimation of the value in use of the shopping malls in Japan is 3.55%, and also in China is 8.84%.

Regarding some shopping malls and Common-use assets, the Group evaluated the value in use as zero as no future cash flows are expected. The net disposal price for domestic CGU is calculated based on the real estate appraisal values, among others.

Furthermore, the Group reduced the entire amount of goodwill of a certain domestic subsidiary as it is no longer expected to earn the revenue planned at the time of acquisition. The Group recorded the amount of the reduction as an impairment loss under other expenses.

6. 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 was ¥41,709 million (\$360,838 thousand) for the fiscal year ended February 28, 2022, and ¥34,247 million for the fiscal year ended February 28, 2021. Gain on sales of property, plant, and equipment was ¥746 million for the fiscal year ended February 28, 2021. Loss on disposal of fixed assets amounted to ¥246 million (\$2,136 thousand) for the fiscal year ended February 28, 2022, and ¥674 million for the fiscal year ended February 28, 2021. Impairment loss was ¥2,984 million (\$25,821 thousand) for the fiscal year ended February 28, 2022, and ¥4,162 million for the fiscal year ended February 28, 2021.

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, 2021	Decrease	February 28, 2022	February 28, 2022
¥ 1,082,591	¥ 93,290	¥ 1,175,882	¥ 1,491,911

Millions of Yen			
	Carrying Amount		Fair Value
March 1, 2020	Decrease	February 28, 2021	February 28, 2021
¥1,090,837	¥ (8,246)	¥ 1,082,591	¥ 1,333,547

Thousands of U.S. Dollars

	Carrying Amount		Fair Value
March 1, 2021	Decrease	February 28, 2022	February 28, 2022
\$ 9,365,789	\$ 807,085	\$ 10,172,874	\$ 12,906,924

Notes:

- 1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
- 2) Increase during the fiscal year ended February 28, 2021, primarily represents the acquisition of certain properties of ¥61,199 million, and decrease primarily represents the recognition of selling and disposal properties of ¥522 million, impairment losses of ¥4,162 million, depreciation expense of ¥58,586 million, and foreign currency translation difference of ¥(6,299) million. Increase during the fiscal year ended February 28, 2022, primarily represents the acquisition of certain properties of ¥123,591 million (\$1,069,226 thousand) and foreign currency translation difference of ¥(41,335) million (\$357,606 thousand), and decrease primarily represents the recognition of selling and disposal properties of ¥245 million (\$2,120 thousand), impairment losses of ¥2,984 million (\$25,821 thousand), depreciation expense of ¥68,546 million (\$593,016 thousand).
- 3) Fair value of properties is mainly measured based on real estate appraisal values.

7. LONG-TERM DEBT AND CORPORATE BONDS

Long-term debt as of February 28, 2022, and February 28, 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Loans from banks and insurance companies, due through 2032 with interest rates ranging from 0.12% to 4.17% (2022) and 0.07% to 4.17% (2021):			
Collateralized	¥ 23,785	¥ 25,761	\$ 205,776

Unsecured	201,012	196,662	1,739,012
Total	224,798	222,424	1,944,789
Less current portion	(46,093)	(33,629)	(398,770)
Long-term debt, less current portion	¥178,704	¥188,794	\$ 1,546,018

Annual maturities of long-term debt as of February 28, 2022, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2023	¥ 46,093	\$ 398,770
2024	37,332	322,969
2025	55,907	483,668
2026	30,815	266,597
2027	27,004	233,620
2028 and thereafter	27,644	239,162
Total	¥224,798	\$1,944,789

Corporate bonds as of February 28, 2022, and February 28, 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Issued by the Company:			
Unsecured 0.90% yen corporate bond, due 2024	¥ 20,000	¥ 20,000	\$ 173,025
Unsecured 0.44% yen corporate bond, due 2021	—	15,000	—
Unsecured 0.95% yen corporate bond, due 2026	5,000	5,000	43,256
Unsecured 0.57% yen corporate bond, due 2022	30,000	30,000	259,538
Unsecured 0.48% yen corporate bond, due 2023	25,000	25,000	216,281
Unsecured 1.10% yen corporate bond, due 2036	10,000	10,000	86,512
Unsecured 0.36% yen corporate bond, due 2023	15,000	15,000	129,769
Unsecured 0.60% yen corporate bond, due 2027	20,000	20,000	173,025
Unsecured 0.39% yen corporate bond, due 2023	30,000	30,000	259,538
Unsecured 0.03% yen corporate bond, due 2021	—	15,000	—
Unsecured 0.37% yen corporate bond, due 2025	10,000	10,000	86,512
Unsecured 0.50% yen corporate bond, due 2028	20,000	20,000	173,025
Unsecured 1.05% yen corporate bond, due 2038	5,000	5,000	43,256
Unsecured 0.30% yen corporate bond, due 2024	30,000	30,000	259,538
Unsecured 0.05% yen corporate bond, due 2022	10,000	10,000	86,512
Unsecured 0.29% yen corporate bond, due 2026	10,000	10,000	86,512
Unsecured 0.40% yen corporate bond, due 2029	20,000	20,000	173,025
Unsecured 0.90% yen corporate bond, due 2039	10,000	10,000	86,512
Unsecured 0.33% yen corporate bond, due 2025	30,000	30,000	259,538
Unsecured 0.22% yen corporate bond, due 2025	20,000	20,000	173,025
Unsecured 0.47% yen corporate bond, due 2027	10,000	10,000	86,512
Unsecured 0.39% yen corporate bond, due 2026	30,000	—	259,538
Unsecured 0.16% yen corporate bond, due 2026	20,000	—	173,025
Unsecured 0.47% yen corporate bond, due 2031	15,000	—	129,769
Total	395,000	360,000	3,417,250
Less current portion	(40,000)	(30,000)	(346,050)
Corporate bonds, less current portion	¥ 355,000	¥ 330,000	\$ 3,071,199

Annual maturities of corporate bonds as of February 28, 2022, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2023	¥ 40,000	\$ 346,050
2024	70,000	605,588
2025	50,000	432,563
2026	60,000	519,076
2027	65,000	562,332
2028 and thereafter	110,000	951,639
Total	<u>¥395,000</u>	<u>\$ 3,417,250</u>

Collateralized long-term debt and other as of February 28, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt	¥ 1,976	\$ 17,096
Long-term debt	<u>21,809</u>	<u>188,679</u>
Total	<u>¥ 23,785</u>	<u>\$ 205,776</u>

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other as of February 28, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 2,456	\$ 21,250
Buildings and structures – net of accumulated depreciation	<u>26,562</u>	<u>229,798</u>
Total	<u>¥ 29,018</u>	<u>\$ 251,049</u>

8. 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 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year (as restated)	¥ 5,124	¥ 5,097	\$ 44,329
Current service cost	265	266	2,294

Interest cost	43	23	378
Actuarial losses	35	(54)	307
Benefits paid	(223)	(209)	(1,933)
Balance at end of year	<u>¥ 5,245</u>	<u>¥ 5,124</u>	<u>\$ 45,376</u>

- (2) The changes in plan assets for the years ended February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥ 4,286	¥ 3,819	\$ 37,085
Expected return on plan assets	137	137	1,190
Actuarial losses	18	190	158
Contributions from the employer	370	339	3,203
Benefits paid	(215)	(200)	(1,860)
Balance at end of year	<u>¥ 4,597</u>	<u>¥ 4,286</u>	<u>\$ 39,776</u>

- (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
	2022	2021	2022
Funded defined benefit obligation	¥ 5,165	¥ 5,041	\$ 44,686
Plan assets	<u>(4,597)</u>	<u>(4,286)</u>	<u>(39,776)</u>
Total	567	755	4,909
Unfunded defined benefit obligation	¥ 79	¥ 82	\$ 689
Net liability arising from defined benefit obligation	<u>¥ 647</u>	<u>¥ 837</u>	<u>\$ 5,599</u>

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Liability for retirement benefits/ Asset for retirement benefits	<u>¥ 647</u>	<u>¥ 837</u>	<u>\$ 5,599</u>

- (4) The components of net periodic benefit costs for the years ended February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Service cost	¥ 265	¥ 266	\$ 2,294
Interest cost	43	23	378
Expected return on plan assets	(137)	(137)	(1,190)
Recognized actuarial losses	180	209	1,559
Net periodic benefit costs	<u>¥ 351</u>	<u>¥ 362</u>	<u>\$ 3,041</u>

- (5) Amounts recognized in other comprehensive income (before income tax effects) in respect of defined retirement benefit plans for the years ended February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Actuarial losses	¥ (175)	¥ (455)	\$ (1,522)

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrecognized actuarial losses	¥ 824	¥ 1,018	\$ 7,136

- (7) Plan assets

(1) Components of plan assets

Plan assets as of February 28, 2022, and February 28, 2021, consisted of the following:

	2022	2021
Debt investments	40.3%	40.7%
Equity investments	29.8	29.9
General account of life insurance	11.1	11.6
Others*	18.8	17.8
Total	100.0%	100.0%

*Mainly includes cash and 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, 2021, was used as an assumption.

- (8) Assumptions used for the fiscal years ended February 28, 2022, and February 28, 2021, are set forth as follows:

	2022	2021
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	3.2%	3.6%

Defined contribution plan:

Contributions for defined contribution plan for the fiscal years ended February 28, 2022, and February 28, 2021, were ¥375 million (\$3,252 thousand) and ¥364 million, respectively.

Advance payment plan:

Payments to the advance payment plan for the fiscal years ended February 28, 2022, and February 28, 2021, were ¥54 million (\$467 thousand) and ¥59 million, respectively.

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the fiscal years ended February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥ 18,679	¥ 16,713	\$ 161,604
Additional provisions associated with the acquisitions of property, buildings, and equipment	962	632	8,325
Reconciliation associated with passage of time	200	197	1,737
Reduction due to performance	—	(137)	—
Increase due to changes in estimates	—	1,274	—
Balance at end of year	<u>¥ 19,843</u>	<u>¥ 18,679</u>	<u>\$ 171,668</u>

10. 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 aggregate amount of 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.

11. STOCK OPTIONS

The stock options outstanding as of February 28, 2022, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
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
2021 Stock Option	11 directors	21,500 shares	2020.5.10	¥1 (\$0.01)	From June 10, 2020, to June 9, 2035
2022 Stock Option	10 directors	9,500 shares	2021.5.10	¥1 (\$0.01)	From June 10, 2021, to June 9, 2036

The stock option activity is as follows:

	2018 Stock Option (Shares)	2019 Stock Option (Shares)	2020 Stock Option (Shares)	2021 Stock Option (Shares)	2022 Stock Option (Shares)
<u>Year Ended February 28, 2021</u>					
Nonvested:					
February 29, 2020 – outstanding					
Granted				21,500	
Canceled					
Vested				(21,500)	
February 28, 2021 – outstanding					
Vested:					
February 29, 2020 – outstanding	3,700	7,500	6,000		
Vested				21,500	
Exercised	(2,600)	(6,400)	(2,200)	(9,000)	
Canceled					
February 28, 2021 – outstanding	1,100	1,100	3,800	12,500	
<u>Year Ended February 28, 2022</u>					
Nonvested:					
February 28, 2021 – outstanding					
Granted					9,500
Canceled					
Vested					(9,500)
February 28, 2022 – outstanding					
Vested:					
February 28, 2021 – outstanding	1,100	1,100	3,800	12,500	
Vested					9,500
Exercised				(1,100)	(2,000)
Canceled					
February 28, 2022 – outstanding	1,100	1,100	3,800	11,400	7,500
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	—	—	—	¥1,689	¥1,715
	(\$0)	(\$0)	(\$0)	(\$14)	(\$14)
Fair value price at grant date	¥1,848 (\$15)	¥1,912 (\$16)	¥1,408 (\$12)	¥1,154 (\$9)	¥1,476 (\$12)

The Assumptions Used to Measure Fair Value of 2021 Stock Options:

Estimation method:	Black-Scholes option-pricing model
Volatility of stock price:	31.67%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥40 per share
Risk-free interest rate:	-0.03%

12. INCOME TAXES

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets:			
Accrued enterprise tax	¥ 401	¥ 428	\$ 3,474
Lease obligations	32,628	28,638	282,282
Property, plant, and equipment	12,765	12,591	110,433
Long-term prepaid expenses	1,684	1,640	14,575
Liability for retirement benefits	149	239	1,292
Asset retirement obligation	6,096	5,728	52,739
Long-term deferred revenue	862	874	7,462
Tax loss carryforwards of subsidiaries *2)	4,064	4,210	35,162
Write-down of assets under the reorganization proceedings	355	322	3,073
Property revaluation	411	436	3,561
Other	4,710	3,994	40,751
Total of tax loss carryforwards and temporary differences	64,130	59,104	554,808
Valuation allowance for tax loss carryforwards *2)	(4,064)	(4,170)	(35,162)
Valuation allowance for total deductible temporary differences	(11,251)	(13,112)	(97,343)
Less valuation allowance *1)	(15,316)	(17,282)	(132,506)
Total deferred tax assets	48,813	41,822	422,302
Deferred tax liabilities:			
Right-of-use assets	(23,175)	(21,239)	(200,499)
Property revaluation	(98)	(100)	(853)
Lease deposits to lessors and long-term prepaid expenses	(14)	(44)	(125)
Deferred capital gains on property	(177)	(181)	(1,538)
Asset retirement obligation removal expense	(3,816)	(3,691)	(33,018)
Unrealized gain on available-for-sale securities	(464)	(451)	(4,022)
Other	(2,197)	(1,766)	(19,007)
Total deferred tax liabilities	(29,945)	(27,476)	(259,065)
Net deferred tax assets	¥18,868	¥14,346	\$163,236

Net deferred tax assets included in the consolidated balance sheets as of February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
INVESTMENT AND OTHER ASSETS – deferred tax assets	¥ 19,496	¥ 14,940	\$168,671
LONG-TERM LIABILITIES – deferred tax liabilities	(628)	(594)	(5,435)
Net deferred tax assets	¥ 18,868	¥ 14,346	\$163,236

*1) The valuation allowance increased by ¥1,966 million (\$17,008 thousand). 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 28, 2022)							
	Due within 1 year	Due after more than 1 year 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 carryforwards	501	367	438	1,015	1,524	217	¥ 4,064 million
Valuation allowance	(501)	(367)	(438)	(1,015)	(1,524)	(217)	(4,064)
Deferred tax assets	—	—	—	—	—	—	—

Previous fiscal year (February 28, 2021)							
	Due within 1 year	Due after more than 1 year 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 carryforwards	548	405	348	405	945	1,556	¥ 4,210 million
Valuation allowance	(548)	(405)	(327)	(405)	(945)	(1,536)	(4,170)
Deferred tax assets	—	—	20	—	—	19	40

Current fiscal year (February 28, 2022)							
	Due within 1 year	Due after more than 1 year 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 carryforwards	4,336	3,176	3,795	8,783	13,189	1,882	\$ 35,162 thousand
Valuation allowance	(4,336)	(3,176)	(3,795)	(8,783)	(13,189)	(1,882)	(35,162)
Deferred tax assets	—	—	—	—	—	—	—

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 28, 2022, and February 28, 2021, was as follows:

	<u>2022</u>	<u>2021</u>
Normal effective statutory tax rate	30.5%	30.5%
Expenses not deductible for income tax purposes	0.8	5.3
Per capita portion of inhabitant tax	0.5	3.1
Tax benefits not recognized on operating losses of subsidiaries	(0.4)	48.5
Change in valuation allowance	(7.1)	37.2
Tax effect related to consolidated adjustment	0.7	12.4
Lower income tax rates applicable to income in certain foreign countries	2.3	8.9
Past year corporate taxes	1.4	(0.1)
Special corporation tax credits	(0.3)	(0.5)
Other – net	(1.9)	2.3
Actual effective tax rate	<u>26.5</u>	<u>147.6</u>

13. LEASES

a. Lessee

The minimum rental commitments under noncancelable operating leases as of February 28, 2022, and February 28, 2021, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Due within one year	¥ 65,285	¥ 55,692	\$ 564,802
Due after one year	<u>354,274</u>	<u>324,050</u>	<u>3,064,924</u>
Total	<u>¥ 419,560</u>	<u>¥ 379,742</u>	<u>\$ 3,629,726</u>

b. Lessor

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

Future rental revenues from subleases under finance leases for the years ended February 28, 2022, and February 28, 2021, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Due within one year	¥ 5,696	¥ 5,264	\$ 49,282
Due after one year	<u>13,793</u>	<u>16,097</u>	<u>119,332</u>
Total	¥ 19,490	¥ 21,361	\$ 168,614

14. 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, AEON Retail Co., Ltd. (the “parent’s subsidiary”), operating general merchandise stores, and other AEON 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 15 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 were as follows:

	Millions of Yen		
	2022		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 82,973	¥ 82,973	
Time deposits	13,175	13,175	
Receivables—Trade accounts	8,308		
Allowance for doubtful receivables*	(373)		
	7,935	7,935	
Investment securities	1,985	1,985	
Lease deposits to lessors, including current portion	51,991	49,389	¥ (2,602)
Total	¥ 158,061	¥ 155,459	¥ (2,602)
Short-term borrowings			
Payables—Trade accounts	¥ (9,919)	¥ (9,919)	
Payables—Construction	(24,055)	(24,055)	
Deposits received	(45,260)	(45,260)	
Income taxes payable	(6,830)	(6,830)	
Long-term debt, including current portion	(224,798)	(224,809)	¥ (11)
Corporate bonds, including current portion	(395,000)	(392,715)	2,284
Lease obligations, including current portion	(137,794)	(136,715)	1,079
Lease deposits from lessees, including current portion	(146,206)	(145,742)	463
Total	¥ (989,866)	¥ (986,050)	¥ 3,816

	Millions of Yen		
	2021		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 124,080	¥ 124,080	
Time deposits	7,362	7,362	
Receivables—Trade accounts	7,661		
Allowance for doubtful receivables*	(133)		
	7,528	7,528	
Investment securities	1,942	1,942	
Lease deposits to lessors, including current portion	51,055	49,219	¥ (1,835)
Total	¥ 191,968	¥ 190,132	¥ (1,835)
Short-term borrowings			
Payables—Trade accounts	¥ (8,606)	¥ (8,606)	
Payables—Construction	(29,369)	(29,369)	
Deposits received	(68,518)	(68,518)	
Income taxes payable	(7,024)	(7,024)	
Long-term debt, including current portion	(222,424)	(221,825)	¥ (599)
Corporate bonds, including current portion	(360,000)	(358,024)	(1,975)
Lease obligations, including current portion	(127,234)	(127,576)	341
Lease deposits from lessees, including current portion	(137,786)	(137,540)	(246)
Total	¥ (960,963)	¥ (958,484)	¥ (2,479)
	Thousands of U.S. Dollars		
	2022		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 717,826	\$ 717,826	
Time deposits	113,983	113,983	
Receivables—Trade accounts	71,880		
Allowance for doubtful receivables *	(3,227)		
	68,652	68,652	
Investment securities	17,173	17,173	
Lease deposits to lessors, including current portion	449,795	427,284	\$ (22,510)
Total	\$ 1,367,432	\$ 1,344,922	\$ (22,510)
Short-term borrowings			
Payables—Trade accounts	\$ 85,818	\$ 85,818	
Payables—Construction	208,111	208,111	
Deposits received	391,560	391,560	
Income taxes payable	59,093	59,093	
Long-term debt, including current portion	1,944,789	1,944,886	\$ (97)

Corporate bonds, including current portion	3,417,250	3,397,489	19,761
Lease obligations, including current portion	1,192,101	1,182,763	9,338
Lease deposits from lessees, including current portion	<u>1,264,873</u>	<u>1,260,859</u>	<u>4,013</u>
Total	<u>\$ 8,563,598</u>	<u>\$ 8,530,582</u>	<u>\$ 33,015</u>

*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 carrying amounts 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 15.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Investments in equity instruments that do not have a quoted market price in an active market	¥ 8	¥ 8	\$ 76

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

	Millions of Yen			
	2022			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 82,973	—	—	—
Time deposits	13,175	—	—	—
Receivables—Trade accounts	8,308	—	—	—
Lease deposits to lessors *	69	¥ 116	—	¥ 185
Long-term debt	46,093	151,059	¥ 27,644	—
Corporate bonds	40,000	245,000	85,000	25,000
Lease obligations	19,555	76,634	41,604	—
Lease deposits from lessees	7	—	—	—

	Thousands of U.S. Dollars			
	2022			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	\$ 717,826	—	—	—
Time deposits	113,983	—	—	—
Receivables—Trade accounts	71,880	—	—	—
Lease deposits to lessors *	598	\$ 1,008	—	\$ 1,602
Long-term debt	398,770	1,306,855	\$239,162	—
Corporate bonds	346,050	2,119,560	735,357	216,281
Lease obligations	169,179	662,986	359,934	—
Lease deposits from lessees	69	—	—	—

* Lease deposits to lessors with no defined redemption schedule of ¥51,620 million (\$446,586 thousand) are not included in the above table.

15. 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 the Group’s 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

February 28, 2022	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt Chinese Yuan /Payment Yen	¥ 8,267	¥ 8,267	¥ 868	¥ 868
Foreign currency forward contracts				
Receipt Yen /Payment Chinese Yuan	¥ 6,767	—	¥ 324	¥ 324
February 28, 2021	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt Chinese Yuan /Payment Yen	¥ 8,267	¥ 8,267	¥ (91)	¥ (91)
Foreign currency forward contracts				
Receipt Chinese Yuan /Payment Yen	¥ 2,897	—	¥ 179	¥ 179

February 28, 2022	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt Chinese Yuan /Payment Yen	\$ 71,520	\$ 71,520	\$ 7,509	\$ 7,509
Foreign currency forward contracts				
Receipt Yen /Payment Chinese Yuan	\$ 58,551	\$ —	\$ 2,807	\$ 2,807

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

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

Derivative transactions to which hedge accounting is applied

February 28, 2022	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	¥ 33,325	¥ 31,591	*
February 28, 2021	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	¥ 31,468	¥ 31,468	*
February 28, 2022	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	\$ 288,304	\$ 273,304	*

*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).

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

The figure for the year ended February 28, 2022, mainly includes a gain of ¥4 million (\$36 thousand) on the sale of one commercial facility to an external company.

The figure for the year ended February 28, 2021, mainly includes a gain of ¥746 million on the sale of one commercial facility to an external company.

17. LOSS DUE TO COVID-19

Loss due to COVID-19 mainly includes fixed cost of rent expense, depreciation and amortization during the closing period of shopping malls and support for the tenants by rent reduction.

18. SUBSIDY INCOME

Subsidy income consists mainly of subsidies provided by local governments for shortened mall operating hours and temporary mall closures due to the spread of COVID-19 infections.

19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of
	2022	2021	U.S. Dollars
Unrealized gain (loss) on available-for-sale securities:			2022
Gains(losses) arising during the year	¥ 43	¥ 163	\$ 372
Reclassification adjustments to profit or loss	—	(5)	—
Amount before income tax effect	43	157	372
Income tax effect	(13)	(48)	(113)
Total	¥ 29	¥ 109	\$ 259
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 30,476	¥ (7,002)	\$ 263,657
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	¥ 30,476	¥ (7,002)	\$ 263,657
Income tax effect	—	—	—
Total	¥ 30,476	¥ (7,002)	\$ 263,657

Defined retirement benefit plans

Adjustments arising during the year	¥ (4)	¥ 245	\$ (36)
Reclassification adjustments to profit or loss	180	209	1,559
Amount before income tax effect	175	455	1,522
Income tax effect	(138)	(141)	(1,197)
Total	¥ 37	¥ 313	\$ 325
Total other comprehensive income(loss)	¥ 30,543	¥ (6,578)	\$ 264,241

20. EPS

A reconciliation of the differences between basic and diluted EPS for the years ended February 28, 2022, and February 28, 2021, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2022	Net Income	Weighted-Average Shares	EPS	
Basic EPS — Net income available to common shareholders	¥ 19,278	227,544	¥ 84.72	\$ 0.73
Effect of dilutive securities — Warrants	—	—	—	—
Diluted EPS — Net income for computation	¥ —	—	¥ 84.71	\$ 0.73
Year Ended February 28, 2021				
Basic EPS — Net income available to common shareholders	¥ (1,864)	227,533	¥ (8.19)	
Effect of dilutive securities — Warrants	—	—	—	—
Diluted EPS — Net income for computation	¥ —	—	¥ —	

Diluted EPS for the previous consolidated fiscal year is not shown, despite the existence of dilutive shares, as the Company posted a net loss per share.

21. BUSINESS COMBINATIONS

Year Ended February 28, 2021 (March 1, 2020, to February 28, 2021)
Not applicable.

Year Ended February 28, 2022 (March 1, 2021, to February 28, 2022)
At meeting held on December 1, 2020, the Board of directors of AEON MALL Co., Ltd. and wholly owned subsidiary OPA Co., Ltd. as then constituted (“OPA”) resolved to split off (via incorporation-type company split) a wholly owned subsidiary (“New OPA”) to be established by OPA, with New OPA becoming the successor company. The board also resolved to merge with the split company (OPA) in an absorption-type merger, subject to a condition precedent that the company split in question take effect. The transaction in question took place on March 1, 2021.

1.Transaction overview

A. Split company

- i. Company name and business lines at the time of combination
Name of company subject to combination: OPA Co., Ltd.
Business lines: Management, operations, and development of commercial facilities
- ii. Date of combination March 1, 2021
- iii. Legal form of business combination
OPA will become the split company with newly formed New OPA established via incorporation-type company split.
- iv. Name of company after combination OPA Co., Ltd.

B. Absorption-type merger

- i. Company name and business lines at the time of combination
Name of company subject to combination: OPA Co., Ltd.
Business lines: Management, operations, and development of commercial facilities
- ii. Date of combination March 1, 2021
- iii. Legal form of business combination
The merger will be an absorption-type merger, with AEON MALL as the surviving company and OPA as the absorbed company.
- iv. Name of company after combination AEON MALL Co., Ltd.

C. Other matters related to the transaction

On March 1, 2016, AEON MALL made fashion building business operator OPA a wholly owned subsidiary, entering the urban shopping center business. AEON MALL has reorganized its Urban Shopping Center business for the purpose of strengthening initiatives to respond to changes in consumer behavior in the with-COVID-19 era of the new normal.

New OPA will specialize in the management and operations of urban facilities, mainly located in transportation terminals, creating new value through a concentration of management resources. AEON MALL will absorb certain community-based facilities and urban shopping centers owned by OPA, transforming these assets into facilities that meet daily needs and engaging in the redevelopment of certain properties to increase property values.

By pivoting to the business structure as described, AEON MALL intends to pursue initiatives tailored to the characteristics of each location and to improve the profitability and efficiency of the facilities in question.

2.Overview of accounting treatment

We adopted a treatment reflecting a transaction under common control based on Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued January 16, 2019) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued January 16, 2019).

22. 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
	2022	2021	2022
Right-of-use assets	¥ 24,280	¥ 27,161	\$ 210,055
Lease obligations	21,685	22,041	187,604

Note: Right-of-use asset of ¥92,007 million and Lease obligations of ¥115,939 million 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
	2022	2021	2022
Asset retirement obligations	¥ 962	¥ 1,907	\$ 8,325

23. RELATED-PARTY DISCLOSURES

Transactions with the parent company and its subsidiaries for the years ended February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deposits kept in the cash pool account of AEON CO., LTD. (the parent company)	¥ 10,057	¥ 26,731	\$ 87,010
Interest income from AEON CO., LTD. (the parent company)	7	19	63
Revenues from leases of shopping malls to the parent’s subsidiary	32,410	32,649	280,396
Credit fee paid to AEON CREDIT SERVICE CO., LTD. (the parent company’s subsidiary)	5,346	4,630	46,256

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

The balances due to/from the parent company and its subsidiaries at February 28, 2022, and February 28, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Cash equivalents—deposits kept in the cash pool account of ÆON CO., LTD. (the parent company)	¥ 9,000	—	\$ 77,861
Receivables—other from ÆON CO., LTD. (the parent company)	1	¥ 9	12
Receivables—trade accounts from the parent's subsidiary	505	697	4,375
Lease deposits received from the parent's subsidiary	10,196	11,597	88,214
Receivables—other from ÆON CREDIT SERVICE CO., LTD. (the parent company's subsidiary)	10,209	10,581	88,321

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."

24. 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					
	2022					
	Reportable Segments			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 261,214	¥ 43,139	¥ 12,459	¥ 316,813	—	¥ 316,813
Intersegment revenues or transfers	—	—	—	—	—	—

Total	¥ 261,214	¥ 43,139	¥ 12,459	¥ 316,813	—	¥ 316,813
Segment profit	¥ 31,945	¥ 6,958	¥ (701)	¥ 38,203	¥ 25	¥ 38,228
Segment assets	950,037	269,989	227,035	1,447,062	16,194	1,463,256
Other:						
Depreciation	41,072	22,582	6,589	70,244	(25)	70,219
Loss on impairment of long-lived assets	937	2,325	38	3,302	—	3,302
Increase in property, plant, and equipment and intangible assets	69,105	37,688	22,514	129,308	—	129,308

	Millions of Yen					
	2021					
	Reportable Segments			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 237,093	¥ 31,353	¥ 12,241	¥ 280,688	—	¥ 280,688
Intersegment revenues or transfers	—	—	—	—	—	—
Total	¥ 237,093	¥ 31,353	¥ 12,241	¥ 280,688	—	¥ 280,688
Segment profit	¥ 30,597	¥ 2,296	¥ 1,474	¥ 34,369	¥ 25	¥ 34,394
Segment assets	923,327	219,777	188,828	1,331,932	62,266	1,394,199
Other:						
Depreciation	37,459	18,406	4,870	60,736	(25)	60,711
Loss on impairment of long-lived assets	5,132	2,155	—	7,288	—	7,288
Increase in property, plant, and equipment and intangible assets	41,691	12,777	30,827	85,296	—	85,296

	Thousands of U.S. Dollars					
	2022					
	Reportable Segments			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	\$ 2,259,838	\$ 373,211	\$ 107,786	\$ 2,740,836	—	\$ 2,740,836

Intersegment revenues or transfers	—	—	—	—	—	—
Total	<u>\$ 2,259,838</u>	<u>\$ 373,211</u>	<u>\$ 107,786</u>	<u>\$ 2,740,836</u>	<u>—</u>	<u>\$ 2,740,836</u>
Segment profit	\$ 276,368	\$ 60,203	\$ (6,065)	\$ 330,506	\$ 218	\$ 330,725
Segment assets	8,219,025	2,335,750	1,964,147	12,518,923	140,099	12,659,023
Other:						
Depreciation	355,328	195,365	57,010	607,704	(218)	607,486
Loss on impairment of long-lived assets	8,113	20,122	333	28,570	—	28,570
Increase in property, plant, and equipment and intangible assets	597,850	326,050	194,778	1,118,679	—	1,118,679

Notes for the year ended February 28, 2022:

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 ¥16,194 million (\$140,099 thousand) is the reconciliation of the Group's assets of ¥16,470 million (\$142,493 thousand), which are not included in the reportable segment and are the result of the elimination of intersegment trades.
- (3) The reconciliation of depreciation is the reconciliation of unrealized gain on fixed assets.
2. The calculation of segment profit or loss is based on the operating income in the consolidated statement of income.
3. The depreciation and the increase in property, plant, and equipment and intangible assets include long-term prepaid expense and its depreciation.

Notes for the year ended February 28, 2021:

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 ¥62,266 million is the reconciliation of the Group's assets of ¥62,154 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 28, 2022, and February 28, 2021, has been omitted because revenues in the shopping mall business accounted for more than 90% of consolidated net revenues of the Group.

(5) Information about Geographical Areas

(a) Revenues

Information about geographical areas for the year ended February 28, 2022, and February 28, 2021, has been omitted because the same information has been disclosed in segment information.

(b) Property, plant, and equipment

Millions of Yen			
2022			
Japan	China	ASEAN	Total
¥ 825,428	¥ 179,461	¥ 186,339	¥ 1,191,229

Millions of Yen			
2021			
Japan	China	ASEAN	Total
¥ 800,711	¥ 144,608	¥ 154,764	¥ 1,100,085

Thousands of U.S. Dollars			
2022			
Japan	China	ASEAN	Total
\$ 7,141,002	\$ 1,552,569	\$ 1,612,069	\$ 10,305,641

(6) Information about major customers

Name of customers	2022	
	Millions of Yen	Related segment name
Revenues		
ÆON RETAIL CO., LTD.	¥ 32,653	Japan
Name of customers	2021	
	Millions of Yen	Related segment name
Revenues		
ÆON RETAIL CO., LTD.	¥ 32,734	Japan
Name of customers	2022	
	Thousands of U.S. Dollars	Related segment name
Revenues		
ÆON RETAIL CO., LTD.	\$ 282,493	Japan

25. SUBSEQUENT EVENTS

(a) Appropriation of Retained Earnings

The following appropriation of retained earnings at February 28, 2022, was approved at the Company's Board of Directors' meeting held on April 7, 2022:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.00 (\$0.22) per share	¥ 5,688	\$ 49,208

(b) Bond Issuance

The Company issued bonds on April 28, 2022, based on the approval of the Board of Directors on February 16, 2022.

(1) Name of bonds: AEON Mall Co., Ltd. Unsecured Bonds (with special pari passu conditions among bonds) Series 30.

(2) Total amount of bonds: ¥40,000 million (\$346,050 thousand).

(3) Issue price ¥100 (US\$0.87) per face value of ¥100(US\$0.87).

(4) Interest rate: 0.49%.

(5) Date of issuance: April 28, 2022.

(6) Date of maturity: April 28, 2027.

(7) Collateral: The bonds are not secured or guaranteed. No assets are reserved for the bonds.

(8) Use of funds: Repayment of corporate bonds.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of AEON Mall Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of February 28, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of February 28, 2022, and its consolidated financial performance and its consolidated 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Recognition and measurement of the impairment loss on long-lived assets

Key Audit Matter Description

The Group manages and operates malls and urban shopping centers ("Stores") in Japan, China and ASEAN. As disclosed in the consolidated balance sheet as of February 28, 2022, the Group recorded JPY 1,191,229 million of Net property, plant and equipment, JPY 3,456 million of Intangible assets and JPY 43,956 million of Long-term prepaid expenses, respectively, and those assets represented 84.6% of the Group's total assets.

In addition, as disclosed in Note 5, "LONG-LIVED ASSETS," to the consolidated financial statements, JPY 3,302 million of Loss on impairment of long-lived assets was recognized due to, among others, significant decline in profitability of some of the long-lived assets in Japan, China and Indonesia.

As disclosed in Note 3, "SIGNIFICANT ACCOUNTING ESTIMATE," to the consolidated financial statements, the Group principally identifies each Store as an individual cash-generating unit ("CGU"). Accordingly, the Group identifies impairment indications and recognizes impairment loss per Store. When the carrying amount of a CGU exceeds its recoverable amount, the carrying amount of the CGU is reduced to its recoverable amount, and such reduction is recognized as an impairment loss.

The recoverable amount of the CGUs for recognition and measurement of the impairment loss is higher of CGUs fair value less costs of disposal and its value in use. In this regard, the processes of calculating the recoverable amounts include the following factors:

(1) Future cash flows

In order to calculate the value in use, the Group estimates future cash flows based on the most-recent-individual-Store's business plans approved by management and future cash flows over the business plans periods based on the market growth rates. These estimates contain the following significant assumptions:

- (a) projections of market growth rates, including projections of the convergence of the COVID-19 pandemic;
- (b) changes in progress of city developments around the Stores;
- (c) effect of Store renovations, new tenants, and promotion activities;
- (d) fluctuations of customer traffic and leasing fees from the tenants.

(2) Discount rates

Calculation of the value in use requires discount rates unique to countries or regions where the Stores operate.

(3) Real estate appraisal values

Net disposal price or fair value less costs of disposals is estimated based on the real estate appraisal values.

Particularly, due to the nature of the Group's business, the Group is generally required to estimate long-term future cash flows. Therefore, the significant assumptions involve a high degree of uncertainties and management's judgment, which require the involvement of the Group's specialists for evaluating the discount rates calculation and real estate appraisal values due to its complexity.

We identified the recognition and measurement of impairment loss on the long-lived assets as a key audit matter given the factors above.

How the Key Audit Matter Was Addressed in the Audit

Our procedures related to the Group's recognition and measurement of impairment loss on the long-lived assets included the following, among others:

(Evaluation of relevant internal controls)

We obtained an understanding of and evaluated the design and operating effectiveness of internal controls over impairment loss on the long-lived assets. We particularly evaluated whether future cash flows based on the Stores' business plans and estimated cash flows over the business plans periods were developed to reflect historical financial performance of the Stores and their external business environment.

(Assessment of appropriateness of recognition and measurement of impairment loss)

Our audit procedures related to the Group's recognition and measurement of impairment loss on the long-lived assets included the following, among others. Regarding overseas Stores, we instructed component auditors to perform the following procedures to assist us and evaluated the feasibility of the overseas Stores' business plans:

- (i) We inquired with management of the assessment of the current external business environment, the Group business strategy and business plans. We examined the consistency between the business plans approved by management and those for the respective Stores used in the impairment accounting by inspecting minutes of the board of directors and other meetings.
- (ii) We evaluated the extent of reliability and uncertainty as to management's estimates by comparing the estimates of future cash flows used in the recognition and measurement of impairment loss in the prior year with the actual performance during the current year.
- (iii) Our audit procedures related to the reasonableness of significant assumptions listed in (1)(a) to (d) above, respectively, included the following, among others:
 - (a) We evaluated the reasonableness of the assumptions by inspecting available information from independent sources of the Group, trend analyses of historical market growth rates and other related documents.
 - (b) We evaluated the consistency between the assumptions and available public sources regarding city development plans around the Stores.
 - (c) We examined management's decisions, the status of the lease agreements with the tenants and promotion activities.
 - (d) We analyzed the Stores' customer traffic and assumption related to leasing fees by referring to those of the other comparable Stores' historical performance.

With regards to the Stores' future cash flows that were subject to management's estimates that involve a high degree of uncertainties, we evaluated whether the future fluctuation risks in significant assumptions were considered by obtaining probable risk scenarios used in sensitivity analyses performed by management.

We evaluated management specialists' competence, capabilities and objectivity to examine the discount rates and the real estate appraisal values. Furthermore, with the assistance of our specialists, we understood the work of management specialists and evaluated its appropriateness as audit evidence.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

May 19, 2022

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