ÆON Mall Co., Ltd.
and Subsidiaries

Financial Information 2023

Consolidated Financial Statements as of and for the
Year Ended February 28, 2023

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ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Balance Sheet
February 28, 2023

ASSETS	Millions of Yen 2023	Millions of Yen 2022	Thousands of U.S. Dollars (Note 1) 2023
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 101,101	¥ 82,973	$ 741,536
Time deposits (Note 14)	16,582	13,175	121,625
Receivables:			
Trade accounts (Note 14)	14,689	8,308	107,745
Other	40,082	35,617	293,988
Allowance for doubtful receivables (Note 14)	(760)	(373)	(5,580)
Prepaid expenses and other	12,764	11,009	93,621
Total current assets	184,459	150,711	1,352,937
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 6 and 7)	364,533	341,296	2,673,705
Buildings and structures (Notes 5, 6, 7, and 9)	1,110,611	1,033,311	8,145,895
Machinery and equipment (Notes 5 and 6)	6,175	5,965	45,294
Furniture and fixtures (Notes 5 and 6)	49,624	46,477	363,978
Right-of-use assets (Notes 5, 6, and 21)	234,070	215,268	1,716,817
Construction in progress (Note 6)	41,788	28,940	306,501
Other (Note 5)	115	124	848
Total	1,806,919	1,671,385	13,253,042
Accumulated depreciation	(550,156)	(480,156)	(4,035,179)
Net property, plant, and equipment (Note 3)	1,256,763	1,191,229	9,217,863
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	2,129	1,991	15,616
Lease deposits to lessors (Note 14)	51,095	51,922	374,761
Long-term prepaid expenses (Notes 3, 5 and 6)	41,260	43,956	302,630
Deferred tax assets (Note 12)	19,927	19,496	146,161
Intangible assets (Note 3)	3,456	3,456	25,351
Other	501	491	3,674
Total investments and other assets	118,369	121,315	868,196
TOTAL	¥ 1,559,592	¥ 1,463,256	$ 11,438,996

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2023	Millions of Yen 2022	Thousands of U.S. Dollars (Note 1) 2023
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 7 and 14)	¥ 39,365	¥ 46,093	$ 288,730
Current portion of corporate bonds (Notes 7 and 14)	70,000	40,000	513,422
Current portion of long-term lease obligations (Notes 14 and 21)	22,406	19,555	164,345
Payables:			
Trade accounts (Note 14)	12,655	9,919	92,823
Construction (Note 14)	41,259	24,055	302,623
Other	4,449	4,303	32,635
Deposits received (Note 14)	56,093	45,260	411,421
Income taxes payable (Note 14)	5,787	6,830	42,450
Accrued expenses	4,768	4,782	34,974
Provision for store closing expenses	—	733	—
Current portion of lease deposits from lessees (Notes 7 and 14)	7	7	58
Other	13,452	11,191	98,668
Total current liabilities	270,246	212,734	1,982,154
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	194,463	178,704	1,426,310
Corporate bonds (Notes 7 and 14)	365,000	355,000	2,677,130
Long-term lease obligations (Notes 14 and 21)	102,963	118,239	755,196
Liability for retirement benefits (Note 8)	305	647	2,242
Lease deposits from lessees (Notes 7 and 14)	148,267	146,198	1,087,486
Asset retirement obligations (Note 9)	20,038	19,843	146,974
Deferred tax liabilities (Note 12)	545	628	4,002
Provision for loss on store closing	2,017	—	14,800
Other	4,032	4,329	29,573
Total long-term liabilities	837,634	823,590	6,143,719
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 15)			
EQUITY (Notes 10, 11 and 19):			
Common stock — authorized, 320,000,000 shares; issued, 227,559,339 shares in 2023 and 227,548,939 shares in 2022	42,381	42,374	310,853
Capital surplus	40,700	40,693	298,523
Stock acquisition rights	27	33	202
Retained earnings	317,279	316,829	2,327,116
Treasury stock — at cost, 4,270 shares in 2023 and 3,997 shares in 2022	(7)	(7)	(56)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,120	1,059	8,219
Foreign currency translation adjustments	39,474	16,158	289,530
Defined retirement benefit plans	(453)	(652)	(3,327)
Total	440,523	416,489	3,231,062
Noncontrolling interests	11,187	10,441	82,059
Total equity	451,711	426,931	3,313,122
TOTAL	¥1,559,592	¥1,463,256	$ 11,438,996

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Income
Year Ended February 28, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
OPERATING REVENUE (Note 24)	¥ 398,244	¥316,813	$ 2,920,964
OPERATING COSTS (Notes 8 and 13)	322,829	248,884	2,367,828
Gross profit	75,414	67,928	553,136
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 8 and 13)	31,434	29,700	230,561
Operating income	43,979	38,228	322,574
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,928	1,584	14,147
Foreign exchange (loss) gain	(723)	(1,319)	(5,309)
Interest expense	(11,684)	(10,871)	(85,701)
Insurance income	1,472	373	10,798
Gain on valuation of derivatives (Note 15)	993	1,325	7,286
Gain on sales of property, plant, and equipment (Note 16)	3	4	24
Loss on sales of property, plant, and equipment	(1)	(1)	(8)
Loss on impairment of long-lived assets (Note 3 and 5)	(4,461)	(3,302)	(32,723)
Subsidy income (Note 18)	639	4,164	4,693
Provision for loss on store closings	(2,017)	—	(14,800)
Loss due to COVID-19 (Note 17)	(3,037)	(4,075)	(22,276)
Loss on disaster	(1,189)	(223)	(8,722)
Other — net	(1,309)	262	(9,607)
Other expenses — net	(19,387)	(12,079)	(142,199)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	24,592	26,149	180,374
INCOME TAXES (Note 12):			
Current	(11,421)	(11,218)	(83,775)
Deferred	(88)	4,280	(652)
Total income taxes	(11,510)	(6,937)	(84,427)
NET INCOME (LOSS)	13,081	19,211	95,946
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(86)	66	(636)
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 12,994	¥ 19,278	$ 95,309
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.u and 20):			
Basic net income	¥ 57.10	¥ 84.72	$ 0.42
Diluted net income	57.10	84.71	0.42
Cash dividends applicable to the year	50.00	45.00	0.37

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended February 28, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
NET INCOME (LOSS)	¥ 13,081	¥ 19,211	$ 95,946
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19):			
Unrealized gain on available-for-sale securities	61	29	448
Foreign currency translation adjustments	24,019	30,476	176,176
Defined retirement benefit plans	198	37	1,458
Total other comprehensive income (loss)	24,279	30,543	178,083
COMPREHENSIVE INCOME (LOSS)	¥ 37,361	¥ 49,755	$ 274,030
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥ 36,570	¥ 49,373	$ 268,232
Noncontrolling interests	790	381	5,798

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended February 28, 2023

	Thousands	Millions of Yen										
							Accumulated Other Comprehensive Income (Loss)					
	Outstanding Number of Shares of Common Stock	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 28, 2021	227,542	¥ 42,372	¥ 40,691	¥ 23	¥ 307,790	¥ (6)	¥ 1,029	¥ (13,868)	¥ (690)	¥ 377,342	¥ 10,143	¥ 387,486
Cumulative effect of change in accounting policy										-		-
BALANCE, FEBRUARY 28, 2021 (as restated)	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
Cumulative effect of change in accounting policy					(1,167)					(1,167)		(1,167)
BALANCE, FEBRUARY 28, 2022 (as restated)	227,544	42,374	40,693	33	315,661	(7)	1,059	16,158	(652)	415,321	10,441	425,763
Net income attributable to owners of the parent					12,994					12,994		12,994
Exercise of stock options	10	7	7							14		14
Cash dividends, ¥50 per share					(11,377)					(11,377)		(11,377)
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				(6)			61	23,316	198	23,570	746	24,316
BALANCE, FEBRUARY 28, 2023	227,555	¥ 42,381	¥ 40,700	¥ 27	¥ 317,279	¥ (7)	¥ 1,120	¥ 39,474	¥ (453)	¥ 440,523	¥ 11,187	¥ 451,711

	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, 2022	$ 310,799	$ 298,469	$ 247	$ 2,323,822	$ (53)	$ 7,771	$ 118,515	$ (4,786)	$ 3,054,785	$ 76,587	$ 3,131,372
Cumulative effect of change in accounting policy				(8,566)					(8,566)		(8,566)
BALANCE, FEBRUARY 28, 2022 (as restated)	310,799	298,469	247	2,315,255	(53)	7,771	118,515	(4,786)	3,046,218	76,587	3,122,805
Net income attributable to owners of the parent				95,309					95,309		95,309
Exercise of stock options	54	54							108		108
Cash dividends, $0.37 per share				(83,449)					(83,449)		(83,449)
Purchase of treasury stock					(3)				(3)		(3)
Change in ownership interest of parent due to transactions with noncontrolling interests											
Net change in the year			(44)			448	171,015	1,458	172,877	5,472	178,350
BALANCE, FEBRUARY 28, 2023	$ 310,853	$ 298,523	$ 202	$ 2,327,116	$ (56)	$ 8,219	$ 289,530	$ (3,327)	$ 3,231,062	$ 82,059	$ 3,313,122

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 28, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
OPERATING ACTIVITIES:			
Income before income taxes and noncontrolling interests	¥ 24,592	¥ 26,149	$ 180,374
Adjustments for:			
Income taxes – paid	(12,456)	(11,403)	(91,362)
Gain on sales of property, plant, and equipment	(3)	(4)	(24)
Loss on sales of property, plant, and equipment	1	1	8
Depreciation and amortization	70,422	63,735	516,518
Loss on impairment of long-lived assets	4,461	3,302	32,723
Changes in assets and liabilities:			
Increase (decrease) in receivables – trade accounts	(5,806)	382	(42,585)
Increase in payables – trade accounts	2,524	1,314	18,517
Increase (decrease) in deposits received	8,010	(22,122)	58,752
Increase in allowance for doubtful accounts	410	201	3,012
Increase in liability for retirement benefits	46	23	341
Increase in provision for loss on store closing	1,284	-	9,419
Other – net	8,002	(89)	58,693
Total adjustments	76,897	35,342	564,015
Net cash provided by operating activities	101,490	61,492	744,390
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(99,670)	(117,864)	(731,040)
Proceeds from sales of property, plant, and equipment	5	6	37
Purchases of long-term prepaid expenses	(2,627)	(4,379)	(19,271)
Payments of lease deposits to lessors	(874)	(2,771)	(6,411)
Reimbursement of lease deposits to lessors	2,062	1,078	15,124
Repayments of lease deposits from lessees	(9,496)	(8,259)	(69,652)
Proceeds from lease deposits from lessees	10,297	15,594	75,526
Other	(2,972)	(5,787)	(21,803)
Net cash used in investing activities	(103,276)	(122,382)	(757,490)
FINANCING ACTIVITIES:			
Repayment of lease obligations	(18,925)	(16,384)	(138,811)
Proceeds from long-term debt	51,053	34,026	374,459
Repayment of long-term debt	(46,670)	(33,644)	(342,311)
Proceeds from issuance of corporate bonds	80,000	65,000	586,768
Repayment of corporate bonds	(40,000)	(30,000)	(293,384)
Dividends paid	(11,377)	(10,239)	(83,449)
Other	(564)	(532)	(4,138)
Net cash provided by financing activities	13,515	8,225	99,133

ÆON Mall Co., Ltd. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 28, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	6,397	11,558	46,924
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,127	(41,106)	132,958
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	82,973	124,080	608,578
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 101,101	¥ 82,973	$ 741,536

See Note 21 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 2022 consolidated financial statements to conform to the classifications used in 2023.

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 amount into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥136.34 to $1, the approximate rate of exchange on February 28, 2023. 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, 2023, include the accounts of the Company and its 53 (51 in 2022) 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, 2023:

AEON MALL (WUHANJIANGXIA) BUSINESS MANAGEMENT CO., LTD.、
AEON MALL HANGDONG (HANGZHOU) BUSINESS MANAGEMENT CO., LTD.

Under the control and influence concept, the Company fully consolidates those companies in which the Company exercises control, directly or indirectly, over operations.

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) may be used provisionally 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 such items are immaterial: (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 (f) recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument for which a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in said 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 through 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 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. An impairment loss is 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 certain domestic subsidiaries offer a defined benefit pension plan, defined contribution pension plans, and advance payment plans. Liability for employee 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 offer 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 is 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 granted on or after May 1, 2006, is based on the fair value at the date of grant and over the vesting period and reflects the receipt of 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 exposure 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) when derivatives are used for hedging purposes and such derivatives qualify for hedge accounting due to the 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. ***Basis for recognition of significant revenues and expenses -*** The following is a description of the major performance obligations in AEON MALL Group principal businesses related to revenues arising from contracts with customers and the usual timing at which such performance is satisfied (usual timing for revenue recognition). For major Group transactions involving performance obligations related to real estate lease transactions based on mall-opening contracts with customers, the Group recognizes revenue in accordance with *"Accounting Standard for Lease Transactions"* (ASBJ Statement No. 13, March 30, 2007)

<u>Common area expense income based on store-opening contracts, etc.</u>
As the manager of commercial facilities operated by the AEON MALL Group and based on store-opening contracts with customers, we are obligated to provide security, cleaning, greenery management and other facilities management services, and maintenance and management services related to electricity, water, and other facilities. We are also obligated to provide effective sales promotion activities for the benefit of tenants. As these services are provided to tenants in satisfaction of these performance obligations, the Company recognizes revenues over the contract period with tenants, primarily based on the passage of time.

In addition, a variable income component is included for maintenance and management obligations related to facilities such as electricity and water on a pay-as-incurred basis. The terms of this variable income are related to the actual use of electricity, water, etc., by tenants, and the variable income is allocated to the performance obligation related to the variable income in its entirety after considering the performance obligation and payment terms in the contract.
Payments from tenants are usually received prior to the satisfaction of performance obligations or are generally collected within approximately one month from the time the performance obligations are satisfied and does not include a significant financial component.

<u>Property Management Contract Fees</u>
Under management contract agreements with customers, the AEON MALL Group is obligated to perform all services related to the operation of commercial facilities, including the creation of operating policies, facility management services such as security and cleaning, and tenant leasing services. As these services are provided to customers in satisfaction of performance obligations, the Company recognizes revenues over the contract period with tenants, primarily based on the passage of time.

In addition, management contract agreements include a variable income component based on the operating performance of the commercial facilities in question as an incentive fee. The terms of this variable income are related to the actual commercial facilities management results, and the variable income is allocated to the performance obligation related to the variable income in its entirety after considering the entirety of the performance obligation and payment terms in the contract.

Payments from customers are usually received within one month of the satisfaction of the performance obligation and do not include a significant financial component. If multiple performance obligations are included in a single contract agreement, the AEON MALL Group estimates the sales price.

w. Changes in accounting policies

1.Adoption of accounting standard for revenue recognition

The Company adopted Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) as of the beginning of the consolidated fiscal year. Accordingly, the Company now recognizes revenue at the time control of the promised goods or services are transferred to the customer at the amount expected to be received in exchange for such goods or services. The main impact of this change is that the Company previously recognized a portion of overhead expenses received from tenants as a net amount within operating costs. We will now recognize the total consideration received as operating revenue after determining whether the role (as principal or agent) served in the provision of goods or services to customers qualifies the Company as a principal. In addition, the Company changed the method of recognizing contributions received from tenants for interior decoration construction of common areas of commercial facilities. Previously, the Company recognized contributions as a lump-sum net amount within operating costs. Now, the Company will recognize the total amount as operating revenues over a certain period of time, as these transactions are deemed to be the fulfillment of performance obligations over a certain period of time and to fall under transactions in the role of a principal.

In accordance with the transitional treatment prescribed in the provisos of Paragraph 84 of Accounting Standard for Revenue Recognition, the cumulative effect of retrospective application of the new accounting policy prior to the beginning of the current consolidated fiscal year should be added to or deducted from retained earnings at the beginning of the first quarter of the current consolidated fiscal year, and the new accounting policy is then applied from the revised beginning balance.

As a result, operating revenue, operating costs, and selling, general and administrative expenses for the current consolidated fiscal year rose ¥48,890 million ($358,594 thousand), ¥48,514 million ($355,832 thousand), and ¥41 million ($302 thousand), respectively. In addition, the balance of retained earnings at the beginning of the period decreased ¥1,167 million ($8,566 thousand).

In accordance with the transitional treatment prescribed in the provision of Paragraph 89-3 of Accounting Standard for Revenue Recognition, the notes about Revenue Recognition in the previous consolidated fiscal year are not described in this report.

2.Adoption of accounting standard for fair value measurement

The Company adopted Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) as of the beginning of the current consolidated fiscal year. In accordance with the transitional treatment prescribed in Paragraph 19 of Accounting Standard for Fair Value Measurement and Paragraph 44-2 of Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), we will apply the new accounting policy prescribed under Accounting Standard for Fair Value Measurement prospectively. This change in accounting policy has no effect on consolidated financial statements.

The group added notes regarding the details of the fair value of financial instruments by level under *Securities*. However, information of the fiscal year ended February 28, 2022 is omitted in accordance with the transitional treatment prescribed in the provisos of Paragraph 7-4 of Guidance on Disclosures about Fair Value of Financial Instruments, ASBJ Guidance No.19 issued July 4th, 2019.

x. Change in presentation-The disaster loss included in *extraordinary loss other* in the previous consolidated fiscal year is described separately from the current consolidated fiscal year due to an increase in monetary importance. The financial statement in the previous consolidated fiscal year is reclassified to reflect the change. Therefore, the extraordinary loss other, 223 million yen is reclassified to disaster loss in the previous fiscal year financial statement.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Impairment loss on long-lived assets

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended February 28, 2023.

	Millions of Yen	Thousands of U.S. Dollars
	2023	2023
Property, plant, and equipment	¥1,256,763	$9,217,863
Intangible assets	3,456	25,351
Long-term prepaid expenses	41,260	302,630
Loss on impairment of long-lived assets	4,461	32,723

(2) Information on significant accounting estimates

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 in 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 the higher of the CGU 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 period of the business plan based on market growth rates. Operating revenue is composed of fixed leasing fees, non-fixed leasing fees, and other revenues from tenants, and is constantly updated to business plans in consideration of possible fluctuations in the future. The discount rate used to calculate an estimation of the value in use is based on available external data and, if necessary, supported by specialists in 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, 2023

The key assumptions for estimating future cash flows from CGU are projections of market growth rates, including projections of the end of the COVID-19 pandemic, changes in the progress of urban development around shopping malls, the effect of shopping mall renovations, new tenants, promotion activities, and fluctuations in customer traffic and leasing fees from tenants. The projections of market growth rates and changes in progress of urban development are estimated based on external data and public information. The effect of shopping mall renovations, new tenants, and promotion activities is estimated based on management decisions or contracts with the tenants. The fluctuations of customer traffic and leasing fees from the tenants are estimated based on the historical performance of other comparable shopping malls. Utility costs are estimated based on the latest utility cost rates.

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

Recognition and measurements of impairment loss on long-lived assets are estimated based on the assumptions above. If the deterioration in income or the cost increase in each shopping mall due to tenant withdrawals, weakening consumer spending, price fluctuations, or interest rate fluctuations that increase discount rates, the Company may need to recognize impairment loss in the following consolidated fiscal year.

4. INVESTMENT SECURITIES

Investment securities as of February 28, 2023, and February 28, 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Investment securities:			
Marketable equity securities	¥ 2,073	¥ 1,985	$ 15,205
Other	55	6	410
Total	¥ 2,129	¥ 1,991	$ 15,616

The costs and aggregate fair values of investment securities as of February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen			
	2023			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale equity securities	¥ 460	¥ 1,613	¥ (1)	¥ 2,073

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

	Thousands of U.S. Dollars			
	2023			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale equity securities	$ 3,378	$11,835	$ (8)	$ 15,205

Available-for-sale securities whose fair values are not readily determinable as of February 28, 2023, and February 28, 2022, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Available-for-sale equity securities	¥ 55	¥ 6	$ 410

5. LONG-LIVED ASSETS

The Group reviewed long-lived assets for impairment as of February 28, 2023, and February 28, 2022. The Group recognized impairment losses on the following long-lived assets on February 28, 2023:

Use	Type of Assets	Location	Millions of Yen	Thousands of U.S. Dollars
			2023	2023
Shopping mall	Buildings and structures, and others	Fukushima	1,731	12,702
Shopping mall	Right-of-use assets, and others	Overseas (China)	2,729	20,021
Total			¥ 4,461	$ 32,723

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 written down to recoverable amounts, resulting in an impairment loss under other expenses due to a significant decline in profitability and the changes causing significant decline of recoverable amount. The recoverable amount of the CGU in Japan is the higher of CGU's net disposal value or its value in use. In contrast, the recoverable amount of the CGU in foreign countries is the higher of CGU fair value less costs of disposal or its value in use. We used a discount rate of 4.02% to calculate the future cash flows of value in use for locations in Japan and 12.72% to calculate the future cash flows of value in use for overseas (China) locations. 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 and other factors.

The Group recognized impairment losses on the following long-lived assets on February 28, 2022:

Use	Type of Assets	Location	Millions of Yen
			2022
Shopping mall	Buildings and structures, and others	Akita	¥ 7
Shopping mall	Buildings and structures, and others	Ibaraki	4
Shopping mall	Buildings and structures, and others	Gunma	49
Shopping mall	Buildings and structures, and others	Chiba	78
Shopping mall	Buildings and structures, and others	Tokyo	33
Development property	Construction in progress	Tokyo	534
Shopping mall	Buildings and structures, and others	Kanagawa	81
Shopping mall	Buildings and structures, and others	Kyoto	27
Shopping mall	Buildings and structures, and others	Osaka	32
Shopping mall	Land, buildings and structures, and others	Oita	80
Shopping mall	Buildings and structures, and others	Okinawa	6
Shopping mall	Right-of-use assets, and others	Overseas (China)	2,325
Shopping mall	Land, buildings and structures, and others	Overseas (Indonesia)	38
Total			¥ 3,302

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 written down to recoverable amounts, resulting in an impairment loss under other expenses due to a significant decline in profitability and the changes causing significant decline of recoverable amount. The recoverable amount of the CGU in Japan is the higher of CGU's net disposal value or its value in use. In contrast, the recoverable amount of the CGU in foreign countries is the higher of CGU fair value less costs of disposal or its value in use. The Group evaluated the value in use of certain shopping malls as zero, since 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 real estate appraisal values, and other factors.

6. INVESTMENT PROPERTY

The Group owns certain rental properties, such as shopping malls, throughout Japan, in China, and in the Association of Southeast Asian Nations (ASEAN). The net of rental income and operating expenses for those rental properties was ¥47,886 million ($351,227 thousand) for the fiscal year ended February 28, 2023, and ¥41,709 million for the fiscal year ended February 28, 2022. Loss on disposal of fixed assets amounted to ¥2,389 million ($17,529 thousand) for the fiscal year ended February 28, 2023, and ¥246 million for the fiscal year ended February 28, 2022. Impairment loss was ¥4,122 million ($30,238 thousand) for the fiscal year ended February 28, 2022, and ¥2,984 million for the fiscal year ended February 28, 2022.

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

Millions of Yen			
Carrying Amount			Fair Value
March 1, 2022	Decrease	February 28, 2023	February 28, 2023
¥ 1,175,882	¥ 63,028	¥ 1,238,911	¥ 1,564,362

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

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
March 1, 2022	Decrease	February 28, 2023	February 28, 2023
$ 8,624,633	$ 462,291	$ 9,086,925	$ 11,473,980

Notes:
1) The carrying amount recognized in the consolidated balance sheet is the net of accumulated depreciation and accumulated impairment losses, if any.
2) The increase during the fiscal year ended February 28, 2022, primarily represents the acquisition of certain properties of ¥123,591 million and foreign currency translation difference of ¥(41,335) million. The decrease primarily represents the recognition of selling and disposal properties of ¥245 million, impairment losses of ¥2,984 million, and depreciation expense of ¥68,546 million.
Increase during the fiscal year ended February 28, 2023, primarily represents the acquisition of certain properties of ¥108,611 million ($796,624 thousand) and foreign currency translation difference of ¥(31,292) million ($(229,519) thousand). The decrease primarily represents the recognition of selling and disposal properties of ¥763 million ($5,598 thousand), impairment losses of ¥4,122 million ($30,238 thousand), depreciation expense of ¥70,099 million ($514,151 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, 2023, and February 28, 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Loans from banks and insurance companies, due through 2032 with interest rates ranging from 0.02% to 5.71% (2023) and 0.12% to 4.17% (2022):			
Collateralized	¥ 21,809	¥ 23,785	$ 159,964
Unsecured	212,019	201,012	1,555,077
Total	233,828	224,798	1,715,041
Less current portion	(39,365)	(46,093)	(288,730)
Long-term debt, less current portion	¥ 194,463	¥ 178,704	$ 1,426,310

Annual maturities of long-term debt as of February 28, 2023, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 39,365	$ 288,730
2025	57,774	423,755
2026	31,230	229,066
2027	32,504	238,405
2028	22,612	165,855
2029 and thereafter	50,340	369,228
Total	¥233,828	$1,715,041

Corporate bonds as of February 28, 2023, and February 28, 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Issued by the Company:			
Unsecured 0.90% yen corporate bond, due 2024	¥ 20,000	¥ 20,000	$ 146,692
Unsecured 0.95% yen corporate bond, due 2026	5,000	5,000	36,673
Unsecured 0.57% yen corporate bond, due 2022	—	30,000	—
Unsecured 0.48% yen corporate bond, due 2023	25,000	25,000	183,365
Unsecured 1.10% yen corporate bond, due 2036	10,000	10,000	73,346
Unsecured 0.36% yen corporate bond, due 2023	15,000	15,000	110,019
Unsecured 0.60% yen corporate bond, due 2027	20,000	20,000	146,692
Unsecured 0.39% yen corporate bond, due 2023	30,000	30,000	220,038
Unsecured 0.37% yen corporate bond, due 2025	10,000	10,000	73,346
Unsecured 0.50% yen corporate bond, due 2028	20,000	20,000	146,692
Unsecured 1.05% yen corporate bond, due 2038	5,000	5,000	36,673
Unsecured 0.30% yen corporate bond, due 2024	30,000	30,000	220,038
Unsecured 0.05% yen corporate bond, due 2022	—	10,000	—
Unsecured 0.29% yen corporate bond, due 2026	10,000	10,000	73,346
Unsecured 0.40% yen corporate bond, due 2029	20,000	20,000	146,692
Unsecured 0.90% yen corporate bond, due 2039	10,000	10,000	73,346
Unsecured 0.33% yen corporate bond, due 2025	30,000	30,000	220,038
Unsecured 0.22% yen corporate bond, due 2025	20,000	20,000	146,692
Unsecured 0.47% yen corporate bond, due 2027	10,000	10,000	73,346
Unsecured 0.39% yen corporate bond, due 2026	30,000	30,000	220,038

Unsecured 0.16% yen corporate bond, due 2026	20,000	20,000	146,692
Unsecured 0.47% yen corporate bond, due 2031	15,000	15,000	110,019
Unsecured 0.49% yen corporate bond, due 2027	40,000	—	293,384
Unsecured 0.34% yen corporate bond, due 2025	3,000	—	22,003
Unsecured 0.58% yen corporate bond, due 2027	23,000	—	168,695
Unsecured 0.72% yen corporate bond, due 2029	6,000	—	44,007
Unsecured 0.92% yen corporate bond, due 2032	8,000	—	58,676
Total	435,000	395,000	3,190,553
Less current portion	(70,000)	(40,000)	(513,422)
Corporate bonds, less current portion	¥ 365,000	¥ 355,000	$ 2,677,130

Annual maturities of corporate bonds as of February 28, 2023, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 70,000	$ 513,422
2025	50,000	366,730
2026	63,000	462,080
2027	65,000	476,749
2028	93,000	682,118
2029 and thereafter	94,000	689,452
Total	¥435,000	$ 3,190,553

Collateralized long-term debt and other as of February 28, 2023, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt	¥ 1,976	$ 14,494
Long-term debt	19,833	145,469
Total	¥ 21,809	$ 159,964

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other as of February 28, 2023, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 2,456	$ 18,016
Buildings and structures – net of accumulated depreciation	25,014	183,474
Total	¥ 27,471	$ 201,491

8. RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries offer severance payment plans for employees. The Company and certain domestic subsidiaries offer 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 offer lump-sum payment plans.

Under most circumstances, employees terminating their employment are entitled to retirement benefits 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, due to retirement at the mandatory retirement age, death, or 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, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year (as restated)	¥ 5,245	¥ 5,124	$ 38,470
Current service cost	275	265	2,018
Interest cost	44	43	329
Actuarial losses	(370)	35	(2,718)
Benefits paid	(232)	(223)	(1,704)
Balance at end of year	¥ 4,962	¥ 5,245	$ 36,395

(2) The changes in plan assets for the years ended February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 4,597	¥ 4,286	$ 33,723
Expected return on plan assets	231	137	1,699
Actuarial losses	(290)	18	(2,133)
Contributions from the employer	345	370	2,537
Benefits paid	(228)	(215)	(1,673)
Balance at end of year	¥ 4,656	¥ 4,597	$ 34,153

(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
	2023	2022	2023
Funded defined benefit obligation	¥ 4,864	¥ 5,165	$ 35,681
Plan assets	(4,656)	(4,597)	(34,153)
Total	208	567	1,528
Unfunded defined benefit obligation	¥ 97	¥ 79	$ 714
Net liability arising from defined benefit obligation	¥ 305	¥ 647	$ 2,242

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Liability for retirement benefits/ Asset for retirement benefits	¥ 305	¥ 647	$ 2,242

(4) The components of net periodic benefit costs for the years ended February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Service cost	¥ 275	¥ 265	$ 2,018
Interest cost	44	43	329
Expected return on plan assets	(231)	(137)	(1,699)
Recognized actuarial losses	166	180	1,220
Net periodic benefit costs	¥ 254	¥ 351	$ 1,868

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Actuarial losses	¥ (245)	¥ (175)	$ (1,803)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrecognized actuarial losses	¥ 609	¥ 824	$ 4,473

(7) Plan assets

(1) Components of plan assets

Plan assets as of February 28, 2023, and February 28, 2022, consisted of the following:

	2023	2022
Debt investments	39.6%	40.3%
Equity investments	32.7	29.8
General account of life insurance	9.3	11.1
Others*	18.4	18.8
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 projected currently and in the future based on various components of the plan assets. We also assumed salary increase rates by age calculated on a base date of March 31, 2021.

(8) Assumptions used for the fiscal years ended February 28, 2023, and February 28, 2022, are set forth as follows:

	2023	2022
Discount rate	1.4%	0.8%
Expected rate of return on plan assets	5.0%	3.2%

Defined contribution plan:
Contributions for defined contribution plan for the fiscal years ended February 28, 2023, and February 28, 2022, were ¥376 million ($2,764 thousand) and ¥375 million, respectively.

Advance payment plan:
Payments to the advance payment plan for the fiscal years ended February 28, 2023, and February 28, 2022, were ¥51 million ($374 thousand) and ¥54 million, respectively.

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the fiscal years ended February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 19,843	¥ 18,679	$ 145,541
Additional provisions associated with the acquisitions of property, buildings, and equipment	378	962	2,775
Reconciliation associated with passage of time	210	200	1,547
Reduction due to performance	—	—	—
Increase due to changes in estimates	(179)	—	(1,317)
Others	(214)	—	(1,572)
Balance at end of year	¥ 20,038	¥ 19,843	$ 146,974

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 a resolution of 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 a resolution of 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; however, the amount of net assets after dividends must remain 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 or additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital or 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 a 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 a resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders as 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, 2023, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2019 Stock Option	10 directors	17,800 shares	2019.5.10	¥1 ($0.01)	From June 10, 2019, to June 9, 2034
2020 Stock Option	11 directors	21,500 shares	2020.5.10	¥1 ($0.01)	From June 10, 2020, to June 9, 2035
2021 Stock Option	10 directors	9,500 shares	2021.5.10	¥1 ($0.01)	From June 10, 2021, to June 9, 2036
2022 Stock Option	7 directors	7,100 shares	2022.5.10	¥1 ($0.01)	From June 10, 2022, to June 9, 2037

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)	2023 Stock Option (Shares)
Year Ended February 28, 2022						
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	
Year Ended February 28, 2023						
Nonvested:						
February 28, 2022 – outstanding						
Granted						7,100
Canceled						
Vested						(7,100)
February 28, 2023 – outstanding						
Vested:						
February 28, 2022 – outstanding	1,100	1,100	3,800	11,400	7,500	
Vested						7,100
Exercised	(1,100)	(1,100)	(1,100)	(1,600)	(2,200)	(3,300)
Canceled						
February 28, 2023 – outstanding	—	—	2,700	9,800	5,300	3,800
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise	¥1,630 ($11)	¥1,630 ($11)	¥1,630 ($11)	¥1,630 ($11)	¥1,672 ($12)	¥1,652 ($12)
Fair value price at grant date	¥1,848 ($13)	¥1,912 ($14)	¥1,408 ($10)	¥1,154 ($8)	¥1,476 ($10)	¥1,427 ($8)

The Assumptions Used to Measure Fair Value of 2022 Stock Options:

Estimation method:	Black-Scholes option-pricing model
Volatility of stock price:	29.76%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥50 per share
Risk-free interest rate:	0.2%

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
	2023	2022	2023
Deferred tax assets:			
Accrued enterprise tax	¥ 344	¥ 401	$ 2,524
Lease obligations	29,364	32,628	215,379
Property, plant, and equipment	13,836	12,765	101,484
Long-term prepaid expenses	1,723	1,684	12,643
Liability for retirement benefits	64	149	471
Asset retirement obligation	6,155	6,096	45,151
Long-term deferred revenue	805	862	5,905
Tax loss carryforwards of subsidiaries *1)	5,008	4,064	36,737
Write-down of assets under the reorganization proceedings	355	355	2,605
Property revaluation	386	411	2,836
Other	5,723	4,710	41,981
Total of tax loss carryforwards and temporary differences	63,769	64,130	467,721
Valuation allowance for tax loss carryforwards *1)	(5,008)	(4,064)	(36,737)
Valuation allowance for total deductible temporary differences	(13,043)	(11,251)	(95,665)
Less valuation allowance *2)	(18,051)	(15,316)	(132,402)
Total deferred tax assets	45,717	48,813	335,318
Deferred tax liabilities:			
Right-of-use assets	(19,544)	(23,175)	(143,350)
Property revaluation	—	(98)	—
Lease deposits to lessors and long-term prepaid expenses	(2)	(14)	(18)
Deferred capital gains on property	(174)	(177)	(1,281)
Asset retirement obligation removal expense	(3,699)	(3,816)	(27,131)
Unrealized gain on available-for-sale securities	(491)	(464)	(3,607)
Other	(2,422)	(2,197)	(17,770)
Total deferred tax liabilities	(26,335)	(29,945)	(193,159)
Net deferred tax assets	¥19,381	¥18,868	$142,158

Net deferred tax assets included in the consolidated balance sheets as of February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
INVESTMENT AND OTHER ASSETS – deferred tax assets	¥ 19,927	¥19,496	$146,161
LONG-TERM LIABILITIES – deferred tax liabilities	(545)	(628)	(4,002)
Net deferred tax assets	¥ 19,381	¥ 18,868	$142,158

*1) Tax loss carryforwards and related deferred tax assets by expiration period

*2) The valuation allowance increased by ¥2,735 million ($20,062 thousand). This increase is mainly due to fixed asset impairment and the recognition of valuation allowances for tax loss carryforwards.

Current fiscal year (February 28, 2023)

	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	387	567	1,077	1,116	1,643	216	¥ 5,008 million
Valuation allowance	(387)	(567)	(1,077)	(1,116)	(1,643)	(216)	(5,008)
Deferred tax assets	—	—	—	—	—	—	—

Previous 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	—	—	—	—	—	—	—

Current fiscal year (February 28, 2023)

	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	2,838	4,160	7,904	8,189	12,055	1,587	$ 36,737 thousand
Valuation allowance	(2,838)	(4,160)	(7,904)	(8,189)	(12,055)	(1,587)	(36,737)
Deferred tax assets	—	—	—	—	—	—	—

The following provides 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, 2023, and February 28, 2022:

	2023	2022
Normal effective statutory tax rate	30.5%	30.5%
Expenses not deductible for income tax purposes	1.5	0.8
Per capita portion of inhabitant tax	0.5	0.5
Tax benefits not recognized on operating losses of subsidiaries	3.8	(0.4)
Change in valuation allowance	7.3	(7.1)
Tax effect related to consolidated adjustment	3.4	0.7
Lower income tax rates applicable to income in certain foreign countries	3.3	2.3
Special corporation tax credits	(1.2)	(0.3)
Dividends received deduction	(2.2)	(0.8)
Other–net	(0.1)	0.3
Actual effective tax rate	46.8	26.5

Dividends received deduction included in other-net in the previous consolidated fiscal year is presented separately beginning this fiscal year due to an increase in monetary importance. Also, corporate taxes presented separately in past years are included in Other–net beginning this fiscal year due to an decrease in monetary importance. The notes in the previous fiscal year have been adjusted to reflect the changes.
Therefore, corporate taxes (1.4%) and other–net (△1.9%) in the previous fiscal year have been reclassified as dividends received deduction (△0.8%) and other–net (0.3%).

13. LEASES

a. Lessee

The minimum rental commitments under noncancelable operating leases as of February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Due within one year	¥ 55,602	¥ 65,285	$ 407,820
Due after one year	267,803	354,274	1,964,233
Total	¥ 323,405	¥ 419,560	$ 2,372,054

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, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Due within one year	¥ 4,259	¥ 5,696	$ 31,242
Due after one year	12,020	13,793	88,164
Total	¥ 16,279	¥ 19,490	$ 119,406

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group policy for financial instruments*

The Group operates shopping mall businesses as a core business. The Group rents retail facilities in shopping malls to tenants, ÆON Retail Co., Ltd. (the "parent's subsidiary"), which operates general merchandise stores, and other ÆON group companies. The Group uses financial instruments, mainly long-term debt, including bank loans and corporate bonds, commercial paper, and the securitization of receivables, based on a capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets, such as deposits in banks and with 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 paper, long-term debt, and bonds are used for financing, mainly for operating transactions and property investments. Liquidity risk, which consists of the risk that the Group cannot meet its contractual obligations in full on their maturity dates, is managed by staggering due dates or maturity dates. Although certain bank loans are exposed to market risks from changes in variable interest rates, we mitigate the risks of new bank loans through 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 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 portions 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 related to loans payable.

The 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 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*

Amounts on the consolidated balance sheet, fair values, and the differences are as presented below. Stocks with no market values are not included in the table*1. Also, the accounts listed below are not included in the table, because said accounts can be categorized as cash, and the fair values of said accounts approximate book value due to the short-term nature of settlement.

Account titles in question:

Cash and deposits; operating accounts receivable; deposit paid in subsidiaries and affiliates; accounts payable; accrued corporate tax; deposits from specialty stores; deposits; equipment-related notes payable; equipment-related electronically recorded obligations; equipment-related accounts payable

(a) Fair values of financial instruments were as follows:

	Millions of Yen		
	2023		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Investment securities	¥ 2,073	¥ 2,073	
Lease deposits to lessors, including current portion	51,161	46,502	¥ (4,658)
Total	¥ 53,234	¥ 48,576	¥ (4,658)
Long-term debt, including current portion	¥ (233,828)	¥ (232,311)	¥ 1,517
Corporate bonds, including current portion	(435,000)	(420,424)	14,575
Lease obligations, including current portion	(125,370)	(122,249)	3,120
Lease deposits from lessees, including current portion	(148,275)	(146,858)	1,417
Total	¥ (942,475)	¥ (921,844)	¥ 20,630

	Millions of Yen		
	2022		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Investment securities	¥ 1,985	¥ 1,985	—
Lease deposits to lessors, including current portion	51,991	49,389	¥ (2,602)
Total	¥ 53,976	¥ 51,374	¥ (2,602)
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	¥ (903,799)	¥ (899,983)	¥ 3,816

	Thousands of U.S. Dollars		
	2023		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Investment securities	$ 15,205	$ 15,205	
Lease deposits to lessors, including current portion	375,251	341,080	$ (34,171)
Total	$ 390,457	$ 356,285	$ (34,171)
Long-term debt, including current portion	$ (1,715,041)	$ (1,703,912)	$ 11,128
Corporate bonds, including current portion	(3,190,553)	(3,083,647)	106,905
Lease obligations, including current portion	(919,542)	(896,652)	22,890
Lease deposits from lessees, including current portion	(1,087,545)	(1,077,151)	10,394
Total	$ (6,912,682)	$ (6,761,364)	$ 151,318

*Allowance for doubtful receivables taken for receivables is deducted.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Investments in equity instruments that do not have a quoted market price in an active market	¥ 58	¥ 8	$ 431

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

	Millions of Yen			
	2023			
	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	¥ 101,101	—	—	—
Time deposits	16,582	—	—	—
Receivables—Trade accounts	14,689	—	—	—
Lease deposits to lessors *	66	¥ 51	—	¥ 185
Long-term debt	39,365	144,122	¥ 50,340	—
Corporate bonds	70,000	271,000	69,000	25,000
Lease obligations	22,406	74,110	26,823	2,029
Lease deposits from lessees	7	—	—	—

Thousands of U.S. Dollars			
2023			
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	$ 741,536	—	—	—
Time deposits	121,625	—	—	—
Receivables—Trade accounts	107,745	—	—	—
Lease deposits to lessors *	490	$ 374	—	$ 1,363
Long-term debt	288,730	1,057,082	$369,228	—
Corporate bonds	513,422	1,987,677	506,087	183,365
Lease obligations	164,345	543,573	196,736	14,887
Lease deposits from lessees	58	—	—	—

* Lease deposits to lessors with no defined redemption schedule of ¥50,857 million ($373,023 thousand) are not included in the above table.

(d) The detail of the fair value of financial instruments by level

The fair value of financial instruments is categorized to 3 levels by observability and materiality of inputs used to calculate fair value.
Level 1 fair value: Fair value measured using observable inputs, of which quoted market prices in active markets for assets or liabilities that are the subject of the measurement.
Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.
Level 3 fair value: Fair value measured using unobservable inputs.
If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in the level of the lowest level input among the level to which each of the inputs belongs.

a. Financial instruments measured at fair value on the consolidated balance sheet

	Market value (millions of yen)			
February 28, 2023	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities	¥ 2,073	—	—	¥ 2,073
Derivatives trading				
Currency-related	—	¥ 1,894	—	1,894
Total assets	¥ 2,073	¥ 1,894	—	¥ 3,967

	Thousands of U.S. Dollars			
February 28, 2023	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities	$ 15,205	—	—	$ 15,205
Derivatives trading				
Currency-related	—	$ 13,892	—	13,892
Total assets	$ 15,205	$ 13,892	—	$ 29,097

b. Financial instruments other than those measured at fair value on the consolidated balance sheet

	Millions of Yen			
February 28, 2023	Level 1	Level 2	Level 3	Total
Lease deposits to lessors, including current portion	—	¥ 46,502	—	¥ 46,502
Total assets	—	¥ 46,502	—	¥ 46,502
Corporate bonds, including current portion	—	¥ 420,424	—	¥ 420,424
Long-term debt, including current portion	—	232,311	—	232,311
Lease obligations, including current portion	—	122,249	—	122,249
Lease deposits from lessees, including current portion	—	146,858	—	146,858
Total debts	—	¥ 921,844	—	¥ 921,844

	Thousands of U.S. Dollars			
February 28, 2023	Level 1	Level 2	Level 3	Total
Lease deposits to lessors, including current portion	—	$ 341,080	—	$ 341,080
Total assets	—	$ 341,080	—	$ 341,080
Corporate bonds, including current portion	—	$3,083,647	—	$ 3,083,647
Long-term debt, including current portion	—	1,703,912	—	1,703,912
Lease obligations, including current portion	—	896,652	—	896,652
Lease deposits from lessees, including current portion	—	1,077,151	—	1,077,151
Total debts	—	$6,761,364	—	$ 6,761,364

Explanation of evaluation methods and inputs to calculate fair value

Assets

Investment securities
Listed stocks traded in active market are calculated as level 1 fair value.

Deposit Compensation
Future cash flow based on reasonably estimated maturity date is calculated by discounting at the risk-free rate and categorized as level 2 fair value.

Derivatives trading
No published market price exists. The fair value of derivatives is calculated based on the offer price from the financial institution. Therefore, derivatives are categorized as level 2 fair value.

Liabilities

Corporate bonds, including current portion
The fair value of bonds payable the Group issues are calculated based on market value. The fair value is

categorized as level 2 fair value as these bonds have market value, but the market is not active.

<u>Long-term debt, including current portion and lease obligations, including current portion</u>
The fair value of borrowings and lease obligations are measured using the discounted cash flow method based on the sum of principal and interest, remaining period, and an interest rate reflecting credit risk. These items are classified as Level 2 fair value.

<u>Lease deposits from lessees, including current portion</u>
Future cash flows based on reasonably estimated maturity date are calculated by discount at the risk-free rate and categorized as level 2 fair value.

15. DERIVATIVES

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

All derivative transactions entered into are for the purpose of hedging interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk for these derivatives is essentially offset by opposite movements in the value of the hedged liabilities.

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

Derivative transactions entered into by the Company have been made in accordance with internal policies that regulate authorization and credit limit amounts.

Derivative transactions to which hedge accounting is not applied.

	Millions of Yen			
February 28, 2023	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt in Chinese yuan/payment in yen	¥ 8,267	¥ 5,867	¥ 1,430	¥ 1,430
Foreign currency forward contracts				
Receipt in yen/payment in Chinese yuan	¥ 19,606	—	¥ 463	¥ 463

	Millions of Yen			
February 28, 2022	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt in Chinese yuan/payment in yen	¥ 8,267	¥ 8,267	¥ 868	¥ 868
Foreign currency forward contracts				
Receipt in Chinese yuan/payment in yen	¥ 6,767	—	¥ 324	¥ 324

	Thousands of U.S. Dollars			
February 28, 2023	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt in Chinese yuan/payment in yen	$ 60,635	$ 43,032	$ 10,492	$ 10,492
Foreign currency forward contracts				
Receipt in yen/payment in Chinese yuan	$ 143,802	$ —	$ 3,399	$ 3,399

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.

		Millions of Yen		
February 28, 2023	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	¥ 33,043	¥ 27,817	*

		Millions of Yen		
February 28, 2022	Hedged Item	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	*

		Thousands of U.S. Dollars		
February 28, 2023	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	$ 242,363	$ 204,026	*

*The above interest rate swaps that qualify for hedge accounting, meet specific matching criteria, and 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 the hedged item (i.e., long-term debt).

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

The figure for the year ended February 28, 2023, mainly includes a gain of ¥3 million ($24 thousand) on the sale of machinery and equipment to an external company.
The figure for the year ended February 28, 2022, mainly includes a gain of ¥4 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 and depreciation and amortization during the closing period of shopping malls.

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, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 87	¥ 43	$ 645
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	87	43	645
Income tax effect	(26)	(13)	(196)
Total	¥ 61	¥ 29	$ 448
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 24,019	¥ 30,476	$ 176,176
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	24,019	30,476	176,176
Income tax effect	—	—	—
Total	¥ 24,019	¥ 30,476	$ 176,176
Defined retirement benefit plans			
Adjustments arising during the year	¥ 79	¥ (4)	$ 583
Reclassification adjustments to profit or loss	166	180	1,220
Amount before income tax effect	245	175	1,803
Income tax effect	(47)	(138)	(345)
Total	¥ 198	¥ 37	$ 1,458
Total other comprehensive income (loss)	¥ 24,279	¥ 30,543	$ 178,083

20. EPS

A reconciliation of the differences between basic and diluted EPS for the years ended February 28, 2023, and February 28, 2022, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2023	Net Income	Weighted-Average Shares	EPS	
Basic EPS — Net income available to common shareholders	¥ 12,994	227,551	¥ 57.10	$ 0.42
Effect of dilutive securities — Warrants	—	—	—	—
Diluted EPS — Net income for computation	—	—	¥ 57.10	$ 0.42
Year Ended February 28, 2022				
Basic EPS — Net income available to common shareholders	¥ 19,278	227,544	¥ 84.72	
Effect of dilutive securities — Warrants	—	- —	—	
Diluted EPS — Net income for computation	—	—	¥ 84.71	

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. 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
	2023	2022	2023
Right-of-use assets	¥ 84	¥ 24,280	$ 616
Lease obligations	1,238	21,685	9,087

b. Asset retirement obligations recorded in the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Asset retirement obligations	¥ 378	¥ 962	$ 2,775

22. RELATED-PARTY DISCLOSURES

Transactions with the parent company and its subsidiaries for the years ended February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Deposits kept in the cash pool account of ÆON CO., LTD. (the parent company)	¥ 23,115	¥ 10,057	$ 169,539
Interest income from ÆON CO., LTD. (the parent company)	15	7	110
Revenues from leases of shopping malls to the parent's subsidiary	37,723	32,410	276,684
Credit fee paid to ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	6,167	5,346	45,236

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 on February 28, 2023, and February 28, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Cash equivalents - eposits kept in the cash pool account of ÆON CO., LTD. (the parent company)	¥ 25,000	¥ 9,000	$ 183,365
Receivables - other from ÆON CO., LTD. (the parent company)	1	1	13
Receivables - trade accounts from the parent's subsidiary	1,218	505	8,937
Lease deposits received from the parent's subsidiary	10,127	10,196	74,279
Receivables - other from ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	12,698	10,209	93,135

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 other long-term liabilities.

23. REVENUE RECOGNITION

(1) Detail of revenue from the contracts with customers

	Millions of Yen						
	February 28, 2023						
	Japan	China	Vietnam	Cambodia	Indonesia	Others *1)	Total
Incidental income (*2)	¥ 107,779	¥ 18,630	¥ 3,740	¥ 1,544	¥ 2,400	—	¥ 134,094
Other income (*3)	7,066	—	372	—	—	—	7,438
Revenue from contracts with customers	114,845	18,630	4,112	1,544	2,400	—	141,533
Other income (*4)	206,006	33,908	9,171	4,128	3,497	—	256,711
Operating revenue from	320,852	52,538	13,283	5,672	5,897	—	398,244

external customers

	Thousands of U.S. Dollars						
	February 28, 2023						
	Japan	China	Vietnam	Cambodia	Indonesia	Others *1)	Total
Incidental income *2)	$ 790,516	$136,646	$ 27,434	$ 11,324	$ 17,603	—	$ 983,527
Other income *3)	51,829	—	2,731	—	—	—	54,561
Revenue from contracts with customers	842,346	136,646	30,166	11,324	17,603	—	1,038,088
Other income *4)	1,510,977	248,702	67,265	30,279	25,649	—	1,882,875
Operating revenue from external customers	2,353,324	385,349	97,432	41,603	43,253	—	2,920,964

*1) Others includes Myanmar
*2) The majority of incidental income is income by common service fee based branching contract with tenants
*3) The majority of other income is property management consignment fee
*4) The majority of other income is real estate rental income based on the branching contract with tenants, accounted for following *Accounting Standard for Lease Transactions* (ASBJ Statement No. 13, March 30, 2007)

(2) Basic information to understand company revenue

Basic information to understand company revenue is described in SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (2.v Basis for recognition of significant revenues and expenses)

(3) Information to understand company earnings in this the current consolidated fiscal year and the next consolidated fiscal year

(1) Ending balance of contract assets and contract liabilities

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Accounts receivable obtained from contracts with customers	¥ 11,784	¥ 8,876	$ 86,433
Contract assets	—	—	—
Contract liabilities	5,082	5,307	37,280

The contract liabilities are advance payment received from customers, and the payment is a part of the common service fee based on the contracts with the tenants. The liabilities will be reversed upon recognition of revenue.
We recognized 4,169 million ($30,581 thousand) yen as revenue in this consolidated fiscal year, which is included in the contract liabilities balance at the beginning of this year. Also, contract liabilities increased this fiscal year by ¥3,945 million ($28,935 thousand) related to the opening of Aeon Mall Toki and THE OUTLETS KITAKYUSHU. No revenue has been recognized this fiscal year related to contract obligations fulfilled in the previous fiscal year.

(2) Transaction price allocated to remaining contract obligation

Contract obligations are income from common service fees based on the store branching contract with tenants. The total transaction price allocated to the remaining contract obligation and the revenue expected period are as below.

Contract Obligation	Millions of Yen 2023	Thousands of U.S. Dollars 2023	Expected Obligation Fulfillment Period
Income from common service fees based on the store branching contract	¥ 152,021	$ 1,115,014	Revenue to be recognized evenly from fiscal year 2023 to 2025.

The group adopts practical expedient to the notes for transaction price allocated to the remaining contract obligation. The variable consideration allocated to the contracts shorter than 1 year and the unfulfilled obligations at all are not included in the notes.
Variable consideration not included in the notes are as below.
The maintenance obligation related to utilities is classified as pay-per-use variable consideration as it is based on the actual utility use by tenants. The variability is concluded the utility statement is finalized. Also, the incentive fee based on management consignment contracts with customers is applicable to variable consideration as is relates to the mall revenues. The variability is concluded when mall revenue is finalized. The obligations of these variable considerations are recognized as revenue within three years.

24. SEGMENT INFORMATION

(1) *Description of Reportable Segments*

The Group's reportable segments are units of the Group whose financial information is available separately and are reviewed regularly for determining the distribution of management resources and the evaluation of business performance.

The Group operates solely in the shopping mall business in Japan and overseas. The Group develops comprehensive strategies and conducts operations according to the characteristics of different regions.

As described in the AEON MALL Vision for 2025, we aim to capture overseas growth markets, establish a 50-mall overseas business network, and achieve high profit growth overseas. To achieve these goals, we began implementing organizational reforms on April 1, 2022. In light of the increasing importance of overseas countries to our business, we have changed our reportable segments from three reportable segments (Japan, China, and ASEAN) to six reportable segments (Japan, China, Vietnam, Cambodia, Indonesia, and Other (Overseas)) beginning with the current consolidated fiscal year. Segment information for the previous consolidated fiscal year is disclosed based on the reportable segment classifications for the current consolidated fiscal year.

As described under Changes in accounting policies, the Company adopted the Accounting Standard for Revenue Recognition and other accounting standards as of the beginning of the current consolidated fiscal year. As we have changed our accounting method for revenue recognition, we have modified the calculation method of income or loss for reportable segments in the same manner. The effect of this change on Japan segment income was immaterial.

(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

2023

	Reportable Segments						Total	Reconciliations	Consolidated
	Japan	China	Vietnam	Cambodia	Indonesia	others			
Revenues:									
Revenues from external customers	¥ 320,852	¥ 52,538	¥ 13,283	¥ 5,672	¥ 5,897	—	¥ 398,244	¥ —	¥ 398,244
Intersegment revenues or transfers	848	—	—	—	—	—	848	(848)	—
Total	¥ 321,700	¥ 52,538	¥ 13,283	¥ 5,672	¥ 5,897	—	¥ 399,092	¥ (848)	¥ 398,244
Segment profit	¥ 34,114	¥ 6,634	¥ 3,063	¥ 1,145	¥ (987)	¥ (15)	¥ 43,954	¥ 25	¥ 43,979
Segment assets	978,102	254,683	90,162	100,660	86,997	3,562	1,514,168	45,423	1,559,592
Other:									
Depreciation	43,078	24,195	4,656	2,138	3,262	0	77,330	(25)	77,305
Loss on impairment of long-lived assets	1,731	2,729	—	—	—	—	4,461	—	4,461
Increase in property, plant, and equipment and intangible assets	68,836	14,296	8,789	19,429	6,095	4	117,452	—	117,452

Millions of Yen

2022

	Reportable Segments						Total	Reconciliations	Consolidated
	Japan	China	Vietnam	Cambodia	Indonesia	others			
Revenues:									
Revenues to external customers	¥ 261,214	¥ 43,139	¥ 5,925	¥ 3,001	¥ 3,532	—	¥ 316,813	¥ —	¥ 316,813
Intersegment revenues or transfers	—	—	—	—	—	—	—	—	—
Total	¥ 261,214	¥ 43,139	¥ 5,925	¥ 3,001	¥ 3,532	—	¥ 316,813	¥ —	¥ 316,813
Segment profit	¥ 31,945	¥ 6,958	¥ (83)	¥ 491	¥ (1,084)	¥ (24)	¥ 38,203	¥ 25	¥ 38,228
Segment assets	950,037	269,989	72,455	71,091	80,393	3,094	1,447,062	16,194	1,463,256
Other:									
Depreciation	41,072	22,582	2,919	1,345	2,325	0	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	2,241	8,459	11,747	65	129,308	—	129,308

Thousands of U.S. Dollars

2023

	Reportable Segments						Total	Reconciliations	Consolidated
	Japan	China	Vietnam	Cambodia	Indonesia	others			
Revenues:									
Revenues to external customers	$2,353,324	$ 385,349	$ 97,432	$ 41,603	$ 43,253	—	$2,920,964	—	$ 2,920,964
Intersegment revenues or transfers	6,221	—	—	—	—	—	6,221	$ (6,221)	—
Total	$2,359,545	$ 385,349	$ 97,432	$ 41,603	$ 43,253	—	$2,927,185	$(6,221)	$ 2,920,964
Segment profit	$ 250,218	$ 48,660	$ 22,468	$ 8,399	$ (7,241)	$ (116)	$322,389	$ 184	$ 322,574
Segment assets	7,173,994	1,868,003	661,306	738,302	638,095	26,127	11,105,830	333,165	11,438,996
Other:									
Depreciation	315,967	177,464	34,151	15,681	23,925	1	567,192	(184)	567,007
Loss on impairment of long-lived assets	12,702	20,021	—	—	—	—	32,723	—	32,723
Increase in property, plant, and equipment and intangible assets	504,888	104,862	64,471	142,508	44,707	29	861,467	—	861,467

Notes for the year ended February 28, 2023:

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 ¥45,423 million ($333,165 thousand) is the reconciliation of Group assets of ¥45,413 million ($333,087 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 gains on fixed assets.
2. The calculation of segment profit or loss is based on the operating income in the consolidated statement of income.
3. Depreciation and the increase in property, plant, and equipment and intangible assets include long-term prepaid expense and related depreciation.

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 is the reconciliation of Group assets of ¥16,470 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 gains on fixed assets.
2. The calculation of segment profit or loss is based on the operating income in the consolidated statement of income.
3. Depreciation and the increase in property, plant, and equipment and intangible assets include long-term prepaid expense and related 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 as revenues in the shopping mall business accounted for more than 90% of consolidated net revenues for the Group.

(5) *Information about Geographical Areas*

(a) Revenues
Information about geographical areas for the year ended February 28, 2023 and February 28, 2022, has been omitted as the same information is disclosed in segment information.

(b) Property, plant, and equipment

Millions of Yen						
2023						
Japan	China	Vietnam	Cambodia	Indonesia	Others	Total
¥ 850,143	¥ 177,264	¥ 65,556	¥ 85,436	¥ 75,041	¥ 3,320	¥ 1,256,763

Millions of Yen						
2022						
Japan	China	Vietnam	Cambodia	Indonesia	Others	Total
¥ 825,428	¥ 179,461	¥ 54,876	¥ 59,493	¥ 69,093	¥ 2,874	¥ 1,191,229

Thousands of U.S. Dollars						
2023						
Japan	China	Vietnam	Cambodia	Indonesia	Others	Total
$ 6,235,464	$ 1,300,167	$ 480,831	$ 626,643	$ 550,399	$ 24,356	$ 9,217,863

(6) Information about major customers

	2023	
	Millions of Yen	
Name	Revenues	Related segment name
ÆON RETAIL CO., LTD.	¥ 38,007	Japan

	2022	
	Millions of Yen	
Name	Revenues	Related segment name
ÆON RETAIL CO., LTD.	¥ 32,653	Japan

	2023	
	Thousands of U.S. Dollars	
Name	Revenues	Related segment name
ÆON RETAIL CO., LTD.	$ 278,767	Japan

25. SUBSEQUENT EVENTS

(a) Appropriation of Retained Earnings

The following appropriation of retained earnings on February 28, 2023, was approved at the Company's Board of Directors meeting held on April 11, 2023:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.00 ($0.18) per share	¥ 5,688	$ 41,719

(b) Bond Issuance

The Company issued bonds on April 28, 2023, based on the approval of the Board of Directors on April 13, 2023.
(1) Name of bonds: ÆON Mall Co., Ltd. Unsecured Bonds (with special pari passu conditions among bonds) Series 35.
(2) Total amount of bonds: ¥40,000 million ($293,384 thousand).
(3) Issue price ¥100 (US$0.73) per face value of ¥100(US$0.73).
(4) Interest rate: 0.76%.
(5) Date of issuance: April 28, 2023.
(6) Date of maturity: April 28, 2028.
(7) Collateral: The bonds are not secured or guaranteed. No assets are reserved for the bonds.
(8) Use of funds: The funds obtained by issuance of corporate bonds will be appropriated to the part of bond redemption and loan repayment

ÆON Mall Co., Ltd.
and Subsidiaries

Consolidated Financial Statements as of and for the Year Ended February 28, 2023,