

Financial Section

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Five-Year Financial Summary

AEON MALL Co., Ltd. and its subsidiaries
Consolidated fiscal year ended February 28, 2018

	Millions of yen				Thousands of U.S. Dollars (Note)	
	2013	2014	2015	2016	2017	2017
For the year:						
Operating revenue	¥ 176,931	¥ 203,902	¥ 229,754	¥ 269,793	¥ 288,111	\$ 2,683,098
Operating income	42,227	41,872	43,870	44,935	49,211	458,288
Operating income + depreciation and amortization (CF)	66,173	71,447	75,959	82,993	87,654	816,304
Net Income Attributable to Owners of the Parent	23,430	24,513	24,639	28,527	30,542	284,435
Capital expenditures	114,859	181,953	207,215	163,407	190,100	1,770,357
Depreciation and amortization	23,945	29,574	32,088	38,058	38,443	358,015
Operating cash flows	44,382	76,152	61,785	73,646	80,616	750,756
Investing cash flows	(47,143)	(127,505)	(146,332)	(63,574)	(142,009)	(1,322,495)
Financing cash flows	17,232	54,994	73,446	8,312	44,841	417,596
Free cash flows	(2,761)	(51,353)	(84,547)	10,072	(61,393)	571,738
Per share data (yen and U.S. dollars):						
Net income	¥ 106.96	¥ 107.58	¥ 108.43	¥ 125.45	¥ 134.29	\$ 1.25
Net assets	1,295.30	1,438.25	1,481.77	1,539.36	1,642.59	15.29
Cash dividends	22.00	22.00	22.00	27.00	35.00	0.32
At year-end:						
Total assets	¥ 759,245	¥ 900,957	¥ 974,970	¥ 1,012,758	¥ 1,123,781	\$ 10,465,460
Net assets	298,526	332,536	339,849	356,203	385,561	3,590,625
Equity	295,124	327,708	333,547	350,073	373,572	3,479,002
Interest-bearing debt	190,366	253,798	334,406	360,292	405,749	3,778,631
Ratio:						
Equity ratio (%)	38.9	36.4	34.2	34.6	33.2	—
ROE (Return on equity) (%)	9.2	7.9	7.5	8.3	8.4	—
ROA (Ratio of net income to total assets) (%)	3.4	3.0	2.6	2.9	2.9	—
ROIC (Return on invested capital) (%)	—	4.9	4.5	4.4	4.6	—
Debt-equity ratio (times)	0.6	0.8	1.0	1.0	1.1	—
Net D/E ratio	0.5	0.6	0.8	0.9	0.9	—
PER (times)	26.3	21.5	14.8	13.8	16.7	—
PBR (times)	2.2	1.6	1.1	1.1	1.4	—

Note: For the convenience of readers, the value in U.S. dollars is calculated with the estimated exchange rate as of 28 February 2018 at 107.38 yen to the dollar.

* AEON MALL issued 23,500,000 new shares on June 19, 2013 and 2,500,000 new shares on July 12, 2013.

On August 1, 2013, AEON MALL executed a 1.1-for-1 split of common shares.

Financial Review of the Fiscal Year-ended February 2018

Content of Business and the Scope of Consolidation

The AEON MALL Group (hereafter, the Group) is comprised of AEON MALL Co., Ltd. (hereafter, the Company), whose parent company is AEON Co., Ltd., and 41 other consolidated subsidiaries [OPA Co., Ltd. and four other Japanese subsidiaries; AEONMALL (CHINA) BUSINESS MANAGEMENT CO., LTD. and 28 other Chinese subsidiaries; two subsidiaries in Cambodia; two in Vietnam; and three in Indonesia]. The Company is engaged in the shopping mall business. Among the consolidated subsidiaries, OPA is engaged in the urban shopping center business, and the other 40 in shopping mall and other businesses.

The Company, as a core member of the AEON Group responsible for its property development business, leases retail space in its malls not only to third-party tenants, but also to AEON Retail, which operates general merchandising stores, and to various other members of the AEON Group.

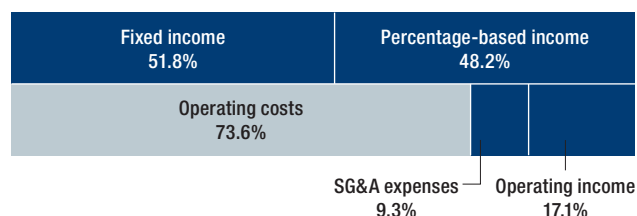
Income and Expenditure Structure of the Shopping Mall Business

Income and Expenditure Structure

AEON MALL's revenue base is derived from leasing income from store tenants within its malls, or in other words "rental income from real estate". This leasing income is comprised of a static "fixed-lease income" component and a "percentage-based lease income" component that varies with tenant sales.

Looking at expenditures, over 70% is taken up by operating costs. Operating costs are comprised of such items as personnel expenses for employees stationed at malls, mall facility/equipment maintenance costs, mall utilities expenses, lease expense payable to mall land and building owners, and depreciation of facilities. Among these, lease payments to property owners and depreciation, which are real estate-related costs, account for the greatest proportion of operating revenue.

The Structure of Operating Revenue and Operating Costs (Fiscal Year-ended February 2018, actual)



Types of Mall Holdings and Their Impact on Financial Statements

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

(1) Lease of Land, Ownership of Building

The basic approach to developing a mall is to lease land from

the land owner and build a building that AEON MALL will own. In this case, the majority of the investment amount is recorded as buildings and structures and furniture and fixtures under assets on the balance sheet. In addition, security deposits accepted from tenants are recorded as lease deposits from lessees under liabilities on the balance sheet.

(2) Ownership of both Land and Building

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

(3) Lease of both Land and Building

Based on the aims of the Company's financial strategy, real estate securitization is actively pursued, whereby the land and building owned by the Company is sold to a listed REIT or a private fund and then leased back as a package. An agreement is reached between the acquiring REIT and AEON MALL that leaves management and operation of the mall unchanged after transfer of ownership, and a sum is deposited as security. This security deposit is recorded as an asset under lease deposits to lessors. Rent is fixed, with the REIT receiving stable revenue, and profits at AEON MALL being boosted by operations.

Additionally, in instances where AEON MALL leases both the land and the building, where the property owner's aim is to make effective use of assets that may have once been used as factory plants, the Company will make payment via a construction assistance fund to the owner for the skeletal portion of the structure to be constructed. The construction assistance fund is recorded as an asset as lease deposits along with the security deposit and returned to the Company in installments during the term of the lease.

(4) Property Management Services Only

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




Long-term Vision and Medium-term Management Plan

To step up the pursuit of business growth in response to recent changes in the business environment, the Group has formulated a long-term vision of how it expects to look in the fiscal year-ending February 2026. It includes numerical targets of ¥500 billion in operating revenue and ¥100 billion in operating income. Towards this end, the Company established a three-year Medium-term Management Plan starting in the fiscal year under review. The aim is to achieve operating revenue of ¥340 billion and operating income of ¥60 billion in the Plan's final year (ending February 2020) as the Group strives to create a robust corporate structure that combines sustained growth with high profitability.

Results for Fiscal Year-ended February 2018

Overview

(Millions of yen)

	FY2/2017	FY2/2018	Year-on-year % change
Operating revenue	269,793	288,111	+6.8% 
Operating income	44,935	49,211	+9.5% 
Net Income Attributable to Owners of the Parent	28,527	30,542	+7.1% 

In the fiscal year under review, operating revenue, operating income, and net income attributable to owners of the parent all rose, recording new highs. One year into the Medium-term Management Plan, we believe ourselves to be off to a smooth start.

■ Operating Revenue

Operating revenue rose 6.8% year-on-year to ¥288.1 billion. There was a sharp year-on-year rise of 26.9% in revenues in the overseas business and, in the domestic business, sales at specialty stores expanded thanks to the effect of revitalization of existing malls via such measures as renewals and floor space expansion.

■ Operating Income

Although operating costs rose 6.3% year-on-year and SG&A expenses 5.7% year-on-year mainly on expansion in the scale of business, operating income rose for the third consecutive year, rising 9.5% year-on-year to ¥49.2 billion. While the overseas business (China, ASEAN) recorded an ¥0.8 billion operating loss, this represents a significant improvement of ¥2.9 billion from the ¥3.7 billion loss in the previous year. In the domestic business, operating income rose 2.8% year-on-year, mainly thanks to strength in the core shopping mall business.

■ Performance by Segment

Operating Revenue by Segment

(Millions of yen)

	FY2/2017	FY2/2018	Change	% change
Overseas business	25,707	32,611	6,904	+26.9%
China	18,918	23,896	4,977	+26.3%
ASEAN	6,788	8,715	1,926	+28.4%
Domestic business	244,085	255,499	11,413	+4.7%
Shopping mall business	219,745	231,896	12,150	+5.5%
Urban shopping center business	24,340	23,603	(737)	-3.0%

Operating Income (Loss) by Segment

*Simple sum of segmental income (loss)

(Millions of yen)

	FY2/2017	FY2/2018	Change	% change
Overseas business	(3,799)	(884)	2,915	+26.9%
China	(3,451)	(1,132)	2,318	—
ASEAN	(348)	248	597	—
Domestic business	48,716	50,074	1,358	+2.8%
Shopping mall business	47,504	49,731	2,226	+4.7%
Urban shopping center business	1,211	342	(868)	-71.7%

China business

The China business recorded operating revenue of ¥23.8 billion, an increase of 26.3% year-on-year, and an operating loss of ¥1.1 billion, which was a ¥2.3 billion improvement on the ¥3.4 billion loss of the previous fiscal year.

In the fiscal year under review, eight of the 13 malls that were operational by the previous year recorded profits. The strategy of creating chains of malls that are overwhelmingly no. 1 in their regions, with openings concentrated in the four areas of Beijing/Tianjin, Jiangsu/Zhejiang, Hubei, and Guangdong, raised brand awareness, improving the Company's ability to attract both customers and leading specialty store tenants, and allowing leasing contracts with advantageous conditions. Four malls were opened in the fiscal year under review, all in areas with existing Group malls, and all made a good start thanks to the effect of improved recognition resulting from the regional domination strategy.

ASEAN business

The ASEAN business saw operating revenue increase 28.4% year-on-year to ¥8.7 billion and moved into profit at the operating level, booking operating income of ¥0.2 billion (against a loss of ¥0.3 billion in the previous fiscal year). All six existing malls (four in Vietnam, one in Indonesia, and one in Cambodia) moved into profit.

In the ASEAN business too, the group is pursuing a strategy of creating chains of malls that are overwhelmingly no. 1 in Vietnam, Indonesia, and Cambodia. As part of this, in the fiscal year under review, the second mall in Indonesia was opened, AEON MALL Jakarta Garden City (East Jakarta).

Domestic business

In the domestic business, operating revenue increased 4.7% year-on-year to ¥255.4 billion, and operating income rose 2.8% to ¥50.0 billion. The core shopping mall business performed favorably.

• Shopping mall business

Operating revenue increased 5.5% year-on-year to ¥231.8 billion, and operating income 4.7% to ¥49.7 billion. Revitalization of existing malls was aggressively pursued via renewals and floor space expansion. In the fiscal year under review, two existing malls increased their floor space, and 12 underwent renewals. Specialty store sales were firm in the 33 malls that benefited from renewal operations and/or floor space expansion in the fiscal year under review or the previous year, rising 4.5% year-on-year. In addition to renewals and floor space expansions, customer drawing power was further enhanced by such initiatives as "AEON MALL Black Friday" and "Happiness Mall" to spark consumer demand. As a result, specialty store sales at the 72 existing malls rose 2.2% year-on-year.

• Urban shopping center business

Operating revenue fell 3% year-on-year to ¥23.6 billion, and operating income was ¥0.8 billion lower, at ¥0.3 billion. There were two new openings, and initiatives to improve profitability at existing centers were pursued, including phased renewals.

■ Net Income Attributable to Owners of the Parent

After accounting for other revenues (expenses) such as profit on sale of fixed assets, impairment losses, and losses on sale of fixed assets, net income before taxes and other adjustments fell 0.2% year-on-year to ¥45.0 billion. EBITDA* rose 5.6% year-on-year to ¥87.6 billion.

After deduction of corporate income tax and other adjustments, net income attributable to owners of the parent came in higher than initially targeted, rising 7.1% year-on-year to ¥30.5 billion. This was partly as a result of the 2016 tax reform and a reduction in corporate taxes that had the effect of lowering effective tax rates.

* Operating income + depreciation and amortization

Analysis of Financial Position

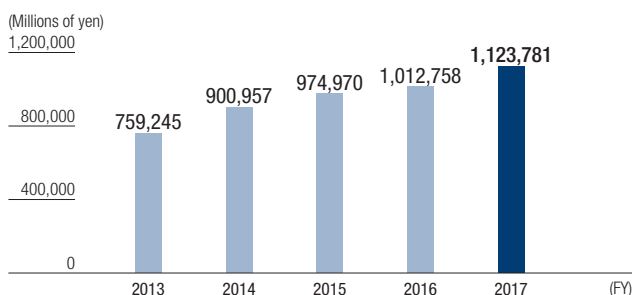
Assets/Liabilities/Net assets

	FY2/2017	FY2/2018	Change
Total assets	1,012,758	1,123,781	111,022
Current assets	110,346	101,590	(8,756)
Fixed assets	902,412	1,022,190	119,778
Liabilities	656,555	738,219	81,664
Current liabilities	212,117	220,661	8,543
Long-term liabilities	444,437	517,558	73,120
Net Assets	356,203	385,561	29,357

■ Assets

Total assets at the end of the fiscal year under review were ¥111.0 billion higher than at the end of the previous fiscal year, at ¥1,123.7 billion. This is largely attributable to a ¥112.0 billion increase in tangible fixed assets mainly as a result of the opening of new malls and the purchase of land for future development.

Total assets



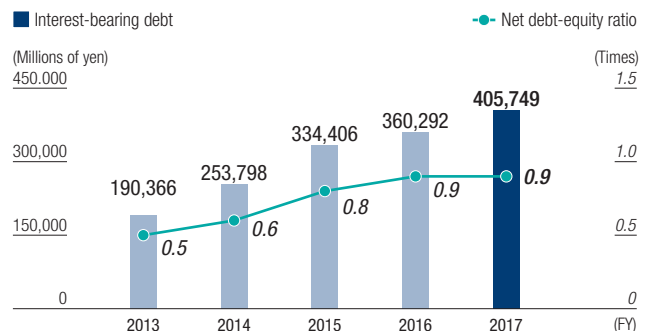
■ Liabilities

Liabilities at the end of the fiscal year under review were ¥81.6 billion higher than the end of the previous fiscal year, at ¥738.2 billion. This was mainly attributable to an increase of ¥40.0 billion (net value) in corporate bonds (including those maturing within 12 months), an increase of ¥23.8 billion in accounts payable related to new mall capital expenditures, and an increase of ¥11.0 billion in commercial paper. Interest-bearing debt increased ¥45.4 billion to ¥405.7 billion.

The net debt-equity ratio* was 0.9 times. The Company deems a net debt-equity ratio of around 1.0 times to be an indicator of health. However, for the duration of the Medium-term Management Plan, management has sought and allowed for increased leverage. As such, the ratio is expected to be roughly 1.2 times in the fiscal year ending February 2020. That said, the intention is not to depart from financial discipline. The policy is to operate at 1.0 times leverage for the medium- to long-term going into fiscal year-ending February 2026.

* [(Interest-bearing debt minus cash & deposits) / equity]

Interest-bearing debt/net debt-equity ratio



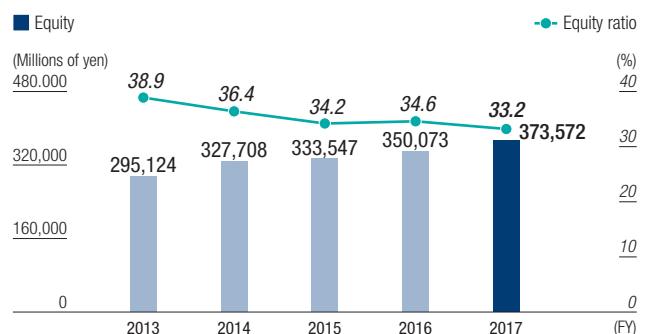
Breakdown of interest-bearing debt

	FY2/2017	FY2/2018	Change
Commercial paper	—	11,000	11,000
Corporate bonds maturing within 12 months	10,000	—	(10,000)
Long-term borrowings redeemable within 12 months	52,563	29,746	(22,816)
Corporate bonds	120,000	170,000	50,000
Long-term borrowings	177,728	195,002	17,273
Total	360,292	405,749	45,457

■ Net assets

Net assets at the end of the fiscal year, at ¥385.5 billion, were ¥29.3 billion higher than at the end of the previous fiscal year. This is largely due to an increase in retained earnings resulting from the posting of net income attributable to owners of the parent. The equity ratio, at 33.2%, remained above 30%, the Group's indicator of health.

Equity/equity ratio



Cash Flows

	FY2/2017	FY2/2018	Change
Cash flows from operating activities	73,646	80,616	6,969
Cash flows from investing activities	(63,574)	(142,009)	(78,435)
Free cash flow	10,072	(61,393)	(71,466)
Cash flows from financing activities	8,312	44,841	36,528
Cash and cash equivalents as of February 28, 2018	69,593	54,223	(15,369)

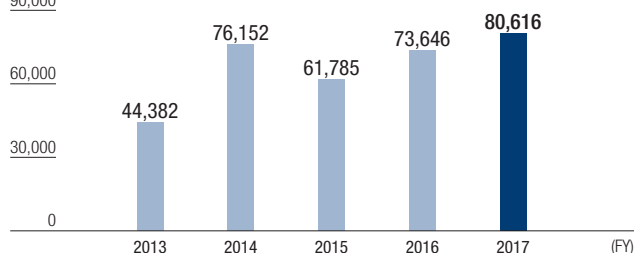
(Millions of yen)

■ Cash Flows from Operating Activities

Net cash from operating activities came to ¥80.6 billion, a ¥6.9 billion increase on the previous fiscal year. Net profits before corporate tax and other adjustments were ¥45.0 billion, depreciation and amortization were ¥38.4 billion, and lease deposits from lessees (specialty store tenants) grew ¥3.0 billion. At the same time, a total of ¥15.9 billion in corporate income and other taxes were paid, against ¥19.8 billion in the previous fiscal year.

Cash Flows from Operating Activities

(Millions of yen)
90,000



■ Cash Flows from Investing Activities

Net cash used in investing activities came to ¥142.0 billion, a ¥78.4 billion increase on the previous fiscal year. There was inflow of ¥40.2 billion on the sale of tangible fixed assets and ¥13.9 billion on the receipt of security deposits. On the other hand, there was outflow of ¥186.5 billion on the acquisition of tangible fixed assets and ¥3.5 billion on the acquisition of long-term prepaid expenses.

■ Cash Flows from Financing Activities

Net cash from financing activities was ¥44.8 billion, a ¥36.5 billion increase on the previous fiscal year. There were outflows from payment of dividends, redemption of long-term borrowings, and maturation of corporate bonds. On the other hand, funds were procured through new long-term borrowings and issuance of corporate bonds.

As a result of the above, the balance of cash & cash equivalents at the end of the fiscal year under review was ¥54.2 billion, ¥15.3 billion lower than at the end of the previous fiscal year. Furthermore, there was negative free cash flow of ¥61.3 billion.

The Group has incurred advance costs relating to efforts to create a solid foundation for expanding and improving domestic outlets and to develop business in the new growth markets of China and the ASEAN area. In the fiscal term prior

to that under review, however, the overseas business entered a new stage of generating positive cash flows. Going forward, the Company anticipates further improvement to free cash flows.

Capital Expenditure and Fund Procurement

■ Capital expenditure in the Medium-term Management Plan

	FY2/2018 (actual)	FY2/2019 (forecast)	FY2/2020 (forecast)	Three-year total (forecast)
Capital expenditure	190.0	190.0	120.0	500.0
Domestic business	155.0	140.0	75.0	370.0
Opening of new malls	80.0	90.0	30.0	200.0
Revitalization of existing malls	70.0	30.0	40.0	140.0
Urban shopping centers	5.0	20.0	5.0	30.0
Overseas business	35.0	50.0	45.0	130.0
China	15.0	10.0	5.0	30.0
ASEAN	20.0	40.0	40.0	100.0

(Billion yen)

In the Medium-term Management Plan, capital expenditure of ¥500.0 billion is planned. In the domestic business, over the three-year period, 10 new mall openings, eight mall floor space expansions, and 30 mall renewals are scheduled. With investment in new outlets strictly focused on areas currently without malls, management resources are being directed to renewals and floor space expansions. However, in the overseas business, active new investment will continue. Over the three-year period, there are plans to open a total of 12 new malls, eight in China and four in the ASEAN region. Separately, in the urban shopping center business, there are plans to open five new centers.

■ Fund Procurement in the Medium-Term Management Plan

	FY2/2018 (actual)	FY2/2019 (forecast)	FY2/2020 (forecast)	Three-year total (forecast)
Capital expenditure total	190.0	190.0	120.0	500.0
Cash flow from operating activities	80.0	90.0	100.0	270.0
Cash reserves	25.0	0	5.0	30.0
Utilization of debt or REITs	85.0	1,00.0	15.0	200.0

(Billion yen)

In the fiscal year under review, ¥80.0 billion in funding was procured from cash flow from operating activities, ¥25.0 billion from cash reserves, and ¥85.0 billion from borrowings and/or real estate securitization. The ¥500.0 billion total for investment over the three years of the Medium-term Management Plan is due to be funded by ¥270.0 billion in cash flow from operating activities, ¥30.0 billion from cash reserves, and ¥200.0 billion from borrowings and/or real estate securitization.

Earnings Outlook for Fiscal Years Ending February 2019 and 2020

	(Billion yen)		
	FY2/2018 (result)	FY2/2019 (forecast)	FY2/2020 (forecast)
Operating revenue	288.1	320.0	340.0
Operating income	49.2	53.5	60.0
China, ASEAN	(0.8)	1.0	5.0
Japan	50.0	52.5	55.0
Shopping mall business	49.7	51.7	53.0
Urban shopping center business	0.3	0.8	2.0

For fiscal year-ending February 2019, operating revenue of ¥320.0 billion, operating income of ¥53.5 billion and net income attributable to owners of the parent of ¥32.0 billion are forecast. For fiscal year-ending February 2020, the final year of the Medium-term Management Plan, operating revenue of ¥340.0 billion and operating income of ¥60.0 billion are forecast. The Group's Long-term Vision aims for stability of cash flow and higher corporate value in the future via steady realization of the Medium-term Management Plan ending in February 2020.

China, ASEAN

These businesses were profitable at the operating level in the fourth quarter (three months) of the fiscal year under review. They are now set to see profits expand. For the fiscal year-ending February 2019, a move into profitability on a full-year basis is targeted, with operating income of ¥1.0 billion forecast. Operating income is forecast to rise to ¥5.0 billion in the fiscal year-ending February 2020.

Japan

Operating income of ¥52.5 billion is targeted for the fiscal year-ending February 2019 and ¥55.0 billion for the fiscal year-ending February 2020. In the shopping mall business, besides revitalization of existing malls through active renewal and floor space expansion initiatives, efforts to lower costs are also being pursued. These include measures to improve efficiency of operations and reduction in electricity costs through the installation of energy-saving equipment. In the urban shopping center business, besides the opening of new centers, radical renewal operations including complete change of business formats is ongoing at existing centers to expand earnings.

Income Distribution

	FY2/2017 (actual)	FY2/2018 (forecast)	FY2/2019 (forecast)
		Initial target	
Dividend per share	¥27.0	¥35.0	¥38.0
Dividend payout ratio	21.5%	26.1%	27.0%

Basic Policy

The Company recognizes the importance as a management strategy of rewarding shareholders by raising profitability. The basic policy regarding profit distribution is maintenance of stable dividends as well as investment of retained earnings in growing businesses, new businesses, and in the improvement of management structures to strengthen the business foundations.

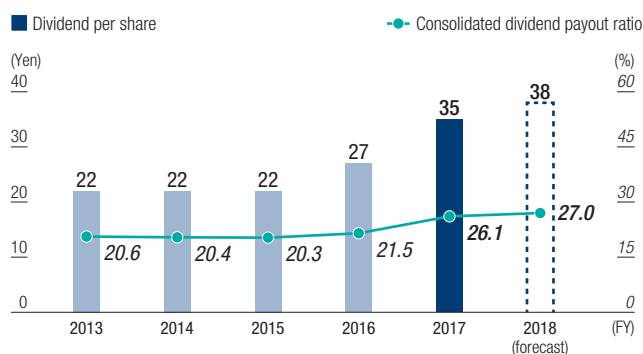
Dividends for Fiscal Years Ended February 2018 and 2019

As the overseas business is now at the stage of generating cash flow, the indicated consolidated dividend payout ratio has been raised from 20% or over to 25% or over. In addition, reflecting the fact that net income attributable to owners of the parent was higher than targeted, annual dividend per share in the fiscal year under review has been raised by ¥3 against target to ¥35 (interim ¥16, year-end ¥19). This represents a consolidated payout ratio of 26.1%.

For fiscal year-ending February 2019, on the assumption of net income attributable to owners of the parent hitting ¥32.0 billion, consolidated dividend payout is forecast at 27.0% with annual dividend per share of ¥38 (interim ¥19, year-end ¥19).

With free cash flow set to improve, the current Medium-term Management Plan calls for an expansion in cash flow from operating activities and effective investment of cash. As such, it is the aim of the Company to further enhance shareholder returns including higher dividends.

Dividend per share/consolidated dividend payout ratio



ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet **February 28, 2018**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
<u>ASSETS</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 20)	¥ 54,223	¥ 69,593	\$ 504,967
Time deposits (Note 13)	992	1,328	9,246
Receivables:			
Trade accounts (Notes 13 and 20)	6,801	5,850	63,341
Other (Notes 13 and 20)	30,750	27,335	286,366
Allowance for doubtful receivables (Note 13)	(23)	(23)	(220)
Deferred tax assets (Note 11)	1,501	1,565	13,980
Prepaid expenses and other	7,345	4,696	68,403
Total current assets	<u>101,590</u>	<u>110,346</u>	<u>946,086</u>
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 5 and 6)	237,897	201,052	2,215,474
Buildings and structures (Notes 4, 5, 6, and 8)	783,236	708,424	7,294,059
Machinery and equipment (Note 5)	5,248	4,654	48,876
Furniture and fixtures (Notes 4, 5, and 12)	37,481	34,998	349,057
Construction in progress (Note 5)	69,936	48,846	651,303
Other (Notes 4 and 12)	520	596	4,851
Total	<u>1,134,321</u>	<u>998,573</u>	<u>10,563,622</u>
Accumulated depreciation	<u>(260,054)</u>	<u>(236,335)</u>	<u>(2,421,816)</u>
Net property, plant, and equipment	<u>874,267</u>	<u>762,237</u>	<u>8,141,806</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	2,567	2,186	23,914
Lease deposits to lessors (Note 13)	53,334	55,467	496,685
Long-term prepaid expenses (Notes 4 and 5)	77,065	67,893	717,691
Deferred tax assets (Note 11)	10,226	8,201	95,240
Other	4,728	6,424	44,035
Total investments and other assets	<u>147,923</u>	<u>140,174</u>	<u>1,377,567</u>
TOTAL	<u><u>¥ 1,123,781</u></u>	<u><u>¥ 1,012,758</u></u>	<u><u>\$ 10,465,460</u></u>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 13)	¥ 11,000		\$ 102,439
Current portion of long-term debt (Notes 6 and 13)	29,746	¥ 52,563	277,024
Current portion of corporate bonds (Notes 6 and 13)		10,000	
Payables:			
Trade accounts (Note 13)	17,859	15,155	166,319
Construction (Note 13)	86,369	62,500	804,333
Other	5,695	4,827	53,038
Deposits received (Note 13)	45,456	42,688	423,319
Income taxes payable (Note 13)	8,677	7,897	80,809
Accrued expenses	4,211	3,816	39,219
Provision for store closing expenses	1,054	928	9,815
Current portion of lease deposits from lessees (Notes 6, 13, and 20)	429	555	3,995
Other	10,162	11,183	94,643
Total current liabilities	220,661	212,117	2,054,959
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	195,002	177,728	1,816,004
Corporate bonds (Notes 6 and 13)	170,000	120,000	1,583,162
Liability for retirement benefits (Note 7)	1,046	998	9,742
Lease deposits from lessees (Notes 6, 13, and 20)	134,766	130,096	1,255,038
Asset retirement obligations (Note 8)	11,814	11,489	110,024
Deferred tax liabilities (Note 11)	448	271	4,179
Other	4,480	3,851	41,722
Total long-term liabilities	517,558	444,437	4,819,874
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)			
EQUITY (Notes 9, 10, and 18):			
Common stock — authorized, 320,000,000 shares; issued, 227,430,089 shares in 2018 and 227,414,699 shares in 2017	42,271	42,256	393,663
Capital surplus	40,555	42,030	377,684
Stock acquisition rights	141	135	1,316
Retained earnings	281,477	257,643	2,621,323
Treasury stock — at cost, 1,721 shares in 2018 and 366 shares in 2017	(2)	(0)	(23)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,452	1,165	13,527
Foreign currency translation adjustments	8,727	7,858	81,273
Defined retirement benefit plans	(909)	(881)	(8,468)
Total	373,714	350,209	3,480,296
Non-controlling interests	11,847	5,994	110,328
Total equity	385,561	356,203	3,590,625
TOTAL	¥1,123,781	¥1,012,758	\$ 10,465,460

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income **Year Ended February 28, 2018**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING REVENUE (Note 20)	¥ 288,111	¥269,793	\$ 2,683,098
OPERATING COSTS (Notes 7, 12, and 20)	<u>212,042</u>	<u>199,456</u>	<u>1,974,695</u>
Gross profit	76,068	70,336	708,402
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 7 and 12)	<u>26,857</u>	<u>25,401</u>	<u>250,113</u>
Operating income	<u>49,211</u>	<u>44,935</u>	<u>458,288</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 20)	704	494	6,556
Foreign exchange (gain)losses	(154)	915	(1,438)
Interest expense	(2,641)	(2,491)	(24,596)
Insurance income (Note 2.w)	402	48	3,751
Loss on valuation of derivatives (Note 14)	(184)	(485)	(1,713)
Gain on sales of property, plant, and equipment (Note 15)	7,133	10,680	66,434
Loss on sales of property, plant, and equipment (Note 16)	(3,255)	(6,752)	(30,321)
Loss on impairment of long-lived assets (Note 4)	(5,639)	(1,938)	(52,517)
Provision for store closing expenses	(442)	(391)	(4,116)
Loss on cancellation of lease contract	(948)		(8,834)
Provision for doubtful accounts (Note 17)		(675)	
Subsidy income (Note 2.w)	1,256	1,434	11,697
Other — net	<u>(380)</u>	<u>(608)</u>	<u>(3,547)</u>
Other income (expenses) — net	<u>(4,149)</u>	<u>231</u>	<u>(38,645)</u>
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	<u>45,061</u>	<u>45,167</u>	<u>419,643</u>
INCOME TAXES (Note 11):			
Current	16,700	16,785	155,522
Deferred	<u>(1,899)</u>	<u>(77)</u>	<u>(17,689)</u>
Total income taxes	<u>14,800</u>	<u>16,708</u>	<u>137,832</u>
NET INCOME	30,260	28,459	281,810
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	<u>(281)</u>	<u>(68)</u>	<u>(2,625)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 30,542</u>	<u>¥ 28,527</u>	<u>\$ 284,435</u>
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.u and 19):			
Basic net income	¥ 134.29	¥ 125.45	\$ 1.25
Diluted net income	134.25	125.40	1.25
Cash dividends applicable to the year	35.00	27.00	0.33
See notes to consolidated financial statements.			

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended February 28, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2018</u>	<u>2017</u>	<u>2018</u>
NET INCOME	¥ 30,260	¥ 28,459	\$ 281,810
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Unrealized gain (loss) on available-for-sale securities	287	(2)	2,673
Foreign currency translation adjustments	480	(10,479)	4,474
Defined retirement benefit plans	<u>(28)</u>	<u>(579)</u>	<u>(263)</u>
Total other comprehensive loss	<u>739</u>	<u>(11,060)</u>	<u>6,884</u>
COMPREHENSIVE INCOME	<u>¥ 31,000</u>	<u>¥ 17,398</u>	<u>\$ 288,694</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥ 31,455	¥ 17,591	\$ 292,938
Non-controlling interests	(455)	(193)	(4,243)

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity Year Ended February 28, 2018

	Thousands						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock	Unrealized Gain on Available- for-Sale Securities
BALANCE, MARCH 1, 2016	225,099	¥ 42,217	¥ 42,525	¥ 193	¥ 235,826	¥ (6,101)	¥ 1,168
Net income attributable to owners of the parent					28,527		
Exercise of stock options	46	39	39				
Cash dividends, ¥24.5 per share					(5,546)		
Purchase of treasury stock	(0)					(0)	
Disposal of treasury stock					(1,164)	1,164	
Change in treasury shares of parent arising from transactions with non-controlling shareholders			(0)				
Change by share exchange	2,268		(535)			4,937	
Net change in the year				(57)			(2)
BALANCE, FEBRUARY 28, 2017	227,414	¥ 42,256	¥ 42,030	¥ 135	¥ 257,643	¥ (0)	¥ 1,165
Net income attributable to owners of the parent					30,542		
Exercise of stock options	15	14	14				
Cash dividends, ¥29.5 per share					(6,708)		
Purchase of treasury stock	(1)					(2)	
Disposal of treasury stock							
Change in treasury shares of parent arising from transactions with non-controlling shareholders			(1,489)				
Change by share exchange				5			
Net change in the year							287
BALANCE, FEBRUARY 28, 2018	<u>227,428</u>	<u>¥ 42,271</u>	<u>¥ 40,555</u>	<u>¥ 141</u>	<u>¥ 281,477</u>	<u>¥ (2)</u>	<u>¥ 1,452</u>

	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock
BALANCE, FEBRUARY 28, 2017	\$ 393,527	\$ 391,416	\$ 1,265	\$ 2,399,365	\$ (3)
Net income attributable to owners of the parent				284,435	
Exercise of stock options		136	136		
Cash dividends, \$0.27 per share				(62,478)	
Purchase of treasury stock					(20)
Disposal of treasury stock					
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(13,868)			
Change by share exchange					
Net change in the year			50		
BALANCE, FEBRUARY 28, 2018	<u>\$ 393,663</u>	<u>\$ 377,684</u>	<u>\$ 1,316</u>	<u>\$ 2,621,323</u>	<u>\$ (23)</u>

See notes to consolidated financial statements.

Millions of Yen

Accumulated Other Comprehensive Income				
Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non-Controlling Interests	Total Equity
¥ 18,213	¥ (302)	¥ 333,740	¥ 6,108	¥ 339,849
		28,527		28,527
		79		79
		(5,546)		(5,546)
		(0)		(0)
		(0)		(0)
		4,401		4,401
(10,354)	(579)	(10,994)	(113)	(11,108)
¥ 7,858	¥ (881)	¥ 350,209	¥ 5,994	¥ 356,203
		30,542		30,542
		29		29
		(6,708)		(6,708)
		(2)		(2)
		(1,489)		(1,489)
869	(28)	1,133	5,852	6,986
¥ 8,727	¥ (909)	¥ 373,714	¥ 11,847	¥ 385,561

Thousands of U.S. Dollars (Note 1)

Accumulated Other Comprehensive Income					
Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non-Controlling Interests	Total Equity
\$ 10,854	\$ 73,180	\$ (8,204)	\$ 3,261,400	\$ 55,824	\$ 3,317,225
			284,435		284,435
			272		272
			(62,478)		(62,478)
			(20)		(20)
			(13,868)		(13,868)
2,673	8,093	(263)	10,554	54,504	65,058
\$ 13,527	\$ 81,273	\$ (8,468)	\$ 3,480,296	\$ 110,328	\$ 3,590,625

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows **Year Ended February 28, 2018**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 45,061	¥ 45,167	\$ 419,643
Adjustments for:			
Income taxes – paid	(15,956)	(19,845)	(148,598)
Gain on sales of property, plant, and equipment	(7,133)	(10,680)	(66,434)
Loss on sales of property, plant, and equipment	3,255	6,752	30,321
Depreciation and amortization	38,443	38,058	358,015
Loss on impairment of long-lived assets	5,639	1,938	52,517
Changes in assets and liabilities:			
Increase in receivables – trade accounts	(766)	(380)	(7,136)
Increase in payables – trade accounts	2,264	1,581	21,092
Increase in deposits received	2,681	2,330	24,976
(Increase) decrease in allowance for doubtful accounts	(1,190)	1,162	(11,082)
Decrease in liability for retirement benefits	(13)	(101)	(126)
Other – net	8,329	7,664	77,568
Total adjustments	35,554	28,479	331,113
Net cash provided by operating activities	80,616	73,646	750,756
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(186,525)	(160,697)	(1,737,061)
Proceeds from sales of property, plant, and equipment	40,293	100,413	375,238
Purchases of long-term prepaid expenses	(3,575)	(2,710)	(33,295)
Payments of lease deposits to lessors	(1,830)	(5,258)	(17,045)
Reimbursement of lease deposits to lessors	5,429	3,488	50,562
Repayments of lease deposits from lessees	(9,558)	(14,445)	(89,011)
Proceeds from lease deposits from lessees	13,975	15,153	130,150
Other	(218)	481	(2,031)
Net cash used in investing activities	(142,009)	(63,574)	(1,322,495)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term bank loans	11,000	(20,178)	102,439
Proceeds from long-term debt	48,290	36,962	449,719
Repayment of long-term debt	(52,563)	(37,411)	(489,506)
Proceeds from issuance of corporate bonds	50,000	35,000	465,636
Repayment of corporate bonds	(10,000)	(200)	(93,127)
Dividends paid	(6,708)	(5,546)	(62,478)
Proceeds from issuance of subsidiaries' stock to non-controlling shareholders	5,039		46,936
Other	(217)	(313)	(2,023)
Net cash provided by financing activities	44,841	8,312	417,596

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended February 28, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2018</u>	<u>2017</u>	<u>2018</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>1,182</u>	<u>(3,202)</u>	<u>11,008</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(15,369)	15,183	(143,134)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	69,593	53,652	648,101
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES BY SHARE EXCHANGE (Note 20)	<u> </u>	<u>757</u>	<u> </u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 54,223</u>	<u>¥ 69,593</u>	<u>\$ 504,967</u>
MAJOR NON-CASH TRANSACTIONS:			
Asset retirement obligations recorded in the consolidated balance sheet	¥ 1,187	¥ 1,419	\$ 11,060

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

As of and for the Year Ended February 28, 2018

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.

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 2017 consolidated financial statements to conform to the classifications used in 2018.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ÆON Mall Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107.38 to \$1, the approximate rate of exchange at February 28, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation* - The consolidated financial statements as of February 28, 2018, include the accounts of the Company and its 41 (40 in 2017) subsidiaries (collectively, the "Group"). The following company has been included in the consolidated financial statements as of and for the year ended February 28, 2018, since it was newly established during the year:

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

No (two in 2017) associated company is accounted for by the equity method.

SN Enterprise Co., Ltd. was excluded from the scope of associated companies due to liquidation during the current consolidated fiscal year, in addition to and also LA.Style Co., Ltd. due to a sale of its shares.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

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 International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board

Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

- c. **Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and deposits kept in the cash pool account of AEON Mall Co., Ltd., the parent company, both of which mature or are due within three months of the date of acquisition.
- d. **Investment Securities** - Investment securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

- e. **Allowance for Doubtful Accounts** - The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- f. **Property, Plant, and Equipment** - Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Group is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 2 to 39 years for buildings and structures, from 3 to 17 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures.
- g. **Intangible Assets** - Depreciation of software is computed by the straight-line method based on five years of estimated useful life.
- h. **Long-Lived Assets** - The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- i. **Long-Term Prepaid Expenses** - Depreciation of long-term prepaid expenses is computed by the straight-line method over the life of the contract, which is principally from 2 to 50 years based on the contract terms.
- j. **Provision for Store Closing Expenses** - A provision for store closing expenses, including rental agreement cancellation penalties, is recognized when a decision to close a store is made by management and such expenses may be reasonably estimated.
- k. **Bond Issue Costs** - Bond issue costs are charged to income as incurred.
- l. **Retirement and Pension Plans** - The Company and certain domestic consolidated subsidiaries have a defined benefit pension plan, defined contribution pension plans, and advance payment plans. Liability for employees' retirement benefits is accounted for based on the projected benefit obligations and plan assets at the consolidated balance sheet date. Other domestic consolidated subsidiaries have joined the Smaller Enterprise Retirement Allowance Mutual Aid System. In addition, certain foreign subsidiaries have lump-sum payment plans.

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

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

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

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

- n. **Stock Options*** – Compensation expense for employee stock options that were granted on or after May 1, 2006 based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment". Stock options are granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights and as a separate component of equity until exercised. The accounting standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.
- o. **Leases*** - In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Lessee

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

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

All other leases are accounted for as operating leases.

Lessor

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

All other leases are accounted for as operating leases.

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

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

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

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

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

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

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

v. New Accounting Pronouncements

The Company's foreign consolidated subsidiaries:

The new accounting standards and other pronouncements that have been issued that the Company's foreign consolidated subsidiaries have not yet adopted as of February 28, 2018, are as follows;

- Revenue from Contracts with Customers (IFRS No. 15)
- Leases (IFRS No. 16)

The changes in these standards mainly focus on (a) accounting for revenue recognition and (b) recognizing assets and liabilities on all lessor lease transactions. The Company's foreign consolidated subsidiaries will adopt the revised IFRS No. 15 in the fiscal year commencing on March 1, 2018, and IFRS No. 16 in the fiscal year commencing on March 1, 2019. The effect the adoption of these standards will have on the consolidated financial statements is currently under evaluation.

w. Changes in Presentation

Consolidated income statement

Prior to March 1, 2017, "insurance income" was included in "Other-net" in the other income (expenses) section of the consolidated statement of income. During the fiscal year ended February 28, 2018, insurance income increased significantly, and the amount was disclosed separately in the other income (expenses) section of the consolidated statement of income for the fiscal year ended February 28, 2018. The amount included in "Other – net" in the other income section for the fiscal year ended February 28, 2017, was ¥48 million.

x. Additional information

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective March 1, 2017.

3. INVESTMENT SECURITIES

Investment securities as of February 28, 2018, and February 28, 2017, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Investment securities:			
Marketable equity securities	¥ 2,553	¥ 2,140	\$ 23,781
Other	<u>14</u>	<u>46</u>	<u>133</u>
Total	<u>¥ 2,567</u>	<u>¥ 2,186</u>	<u>\$ 23,914</u>

The costs and aggregate fair values of investment securities as of February 28, 2018, and February 28, 2017, were as follows:

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

	<u>Millions of Yen</u>			
	<u>2017</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Available for sale - Equity securities	¥ 463	¥1,677	¥ (0)	¥ 2,140

	<u>Thousands of U.S. Dollars</u>			
	<u>2018</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Available for sale - Equity securities	\$ 4,317	\$ 19,472	\$ (8)	\$ 23,781

There were no sales of available-for-sale securities during the year ended February 28, 2018.

The proceeds, realized gains, and realized losses of the available-for-sale securities that were sold during the year ended February 28, 2017, were as follows:

February 28, 2017	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available for sale:			
Equity securities	¥ 9	¥ 5	

Available-for-sale securities whose fair values are not readily determinable as of February 28, 2018, and February 28, 2017, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Available for sale:			
Equity securities	¥ 14	¥ 46	\$ 133

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 28, 2018, and February 28, 2017. The Group recognized impairment losses on the following long-lived assets on February 28, 2018:

Use	Type of Assets	Location	Millions of Yen	Thousands of U.S. Dollars
			2018	2018
Shopping mall	Buildings and structures and others	Hokkaido	¥ 1,462	\$ 13,621
Shopping mall	Buildings and structures and others	Ibaraki	884	8,241
Shopping mall	Buildings and structures and others	Tokyo	41	387
Shopping mall	Buildings and structures and others	Kanagawa	962	8,959
Shopping mall	Buildings and structures and others	Kyoto	402	3,752
Shopping mall	Buildings and structures and others	Osaka	320	2,989
Shopping mall	Buildings and structures and others	Hyogo	1,564	14,566
Total			¥ 5,639	\$ 52,517

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

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

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

The Group recognized impairment losses on the following long-lived assets on February 28, 2017:

Use	Type of Assets	Location	Millions of Yen 2017
Shopping mall	Buildings and structures and others	Osaka	¥ 851
Shopping mall	Buildings and structures and others	Kanagawa	393
Shopping mall	Buildings and structures and others	Oita	309
Shopping mall	Buildings and structures and others	Akita	2
Shopping mall	Long-term prepaid expenses and others	China	381
Total			<u>¥ 1,938</u>

The book values of the shopping malls (excluding Oita) which incurred continuous operating losses were reduced to their recoverable amounts, and such reductions in carrying values were recorded as loss on impairment of long-lived assets in other expenses. The recoverable amounts were measured at their value in use, and the discount rates used for the computation of the present value of future cash flows were 3.9% for Japan and 8.1% for China.

Based on the decision to scrap and build a shopping mall in Oita for the fiscal year ended February 28, 2017, the entire book value of the shopping mall was reduced to zero and related dismantling costs were recorded as provision for store closing expenses.

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

5. INVESTMENT PROPERTY

The Group holds some rental properties, such as shopping malls, throughout Japan, in China and in the Association of Southeast Asian Nations (ASEAN) area. The net of rental income and operating expenses for those rental properties were ¥38,189 million (\$355,647 thousand) for the fiscal year ended February 28, 2018, and ¥37,614 million for the fiscal year ended February 28, 2017. Gain on sales of property, plant, and equipment was ¥7,125 million (\$66,359 thousand) for the fiscal year ended February 28, 2018, and ¥10,680 million for the fiscal year ended February 28, 2017. Loss on sales of property was ¥3,251 million (\$30,276 thousand) for the fiscal year ended February 28, 2018 and ¥6,733 million for the fiscal year ended February 28, 2017.

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

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

Millions of Yen			
Carrying Amount			Fair Value
March 1, 2016	Increase/(Decrease)	February 28, 2017	February 28, 2017
¥ 765,377	¥ (13,491)	¥ 751,886	¥ 939,085

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
March 1, 2017	Increase/(Decrease)	February 28, 2018	February 28, 2018
\$ 7,002,107	\$ 1,063,045	\$ 8,065,152	\$ 9,978,522

Notes:

1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.

2) Increase during the fiscal year ended February 28, 2018, primarily represents the acquisition of certain properties of ¥181,732 million (\$1,692,423 thousand), and the decrease primarily represents the recognition of selling and disposal properties of ¥30,943 million (\$288,172 thousand), depreciation expense of ¥33,703 million (\$313,873 thousand), and foreign currency translation difference of ¥503 million (\$ 4,689 thousand).

Increase during the fiscal year ended February 28, 2017, primarily represents acquisition attributable to newly acquired properties of ¥129,225 million, and the decrease primarily represents the recognition of selling and disposal properties of ¥99,223 million, and depreciation expense of ¥34,200 million, and foreign currency translation difference of ¥8,714 million.

3) Fair value of properties is mainly measured based on real estate appraisal values.

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

Short-term borrowings at February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Commercial paper, 0.0% (2018)	¥ 11,000		\$ 102,439
Total	¥ 11,000		\$ 102,439

Long-term debt at February 28, 2018 and February 28, 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loans from banks and insurance companies, due through 2030 with interest rates ranging from 0.07% to 3.40% (2018) and 0.15% to 5.10% (2017):			
Collateralized	¥ 27,392	¥ 28,436	\$ 255,102
Unsecured	197,356	201,855	1,837,927
Total	224,749	230,292	2,093,029
Less current portion	(29,746)	(52,563)	(277,024)
Long-term debt, less current portion	¥195,002	¥177,728	\$ 1,816,004

Annual maturities of long-term debt as of February 28, 2018, were as follows:

<u>Years Ending February 28 or 29</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2019	¥ 29,746	\$ 277,024
2020	23,944	222,990
2021	35,554	331,113
2022	33,652	313,397
2023	39,388	366,815
2024 and thereafter	62,461	581,686
Total	<u>¥224,749</u>	<u>\$2,093,029</u>

Corporate bonds as of February 28, 2018 and February 28, 2017, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Issued by the Company:			
Unsecured 0.50% yen corporate bond, due 2018		¥ 10,000	
Unsecured 0.80% yen corporate bond, due 2020	¥ 15,000	15,000	\$ 139,690
Unsecured 0.44% yen corporate bond, due 2022	15,000	15,000	139,690
Unsecured 0.90% yen corporate bond, due 2025	20,000	20,000	186,254
Unsecured 0.95% yen corporate bond, due 2027	5,000	5,000	46,563
Unsecured 0.57% yen corporate bond, due 2023	30,000	30,000	279,381
Unsecured 0.48% yen corporate bond, due 2024	25,000	25,000	232,818
Unsecured 1.10% yen corporate bond, due 2037	10,000	10,000	93,127
Unsecured 0.10% yen corporate bond, due 2021	15,000		139,690
Unsecured 0.36% yen corporate bond, due 2024	15,000		139,690
Unsecured 0.60% yen corporate bond, due 2028	20,000		186,254
Total	<u>170,000</u>	<u>130,000</u>	<u>1,583,162</u>
Less current portion		<u>(10,000)</u>	
Corporate bonds, less current portion	<u>¥170,000</u>	<u>¥ 120,000</u>	<u>\$ 1,583,162</u>

Annual maturities of corporate bonds as of February 28, 2018, were as follows:

<u>Years Ending February 28 or 29</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2019		
2020	¥ 15,000	\$ 139,690
2021	15,000	139,690
2022	15,000	139,690
2023	30,000	279,381
2024 and thereafter	95,000	884,708
Total	<u>¥170,000</u>	<u>\$1,583,162</u>

Collateralized long-term debt and other as of February 28, 2018, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Current portion of long-term debt	¥ 957	\$ 8,913
Current portion of lease deposits from lessees	75	701
Long-term debt	26,435	246,188
Lease deposits from lessees	<u>1,056</u>	<u>9,835</u>
Total	<u>¥ 28,524</u>	<u>\$ 265,639</u>

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other as of February 28, 2018, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Land	¥ 2,418	\$ 22,524
Buildings and structures – net of accumulated depreciation	<u>38,721</u>	<u>360,607</u>
Total	<u>¥ 41,140</u>	<u>\$ 383,131</u>

7. RETIREMENT AND PENSION PLANS

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

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

- (1) The changes in defined benefit obligation for the years ended February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year (as restated)	¥ 4,373	¥ 2,192	\$ 40,725
Increase by newly consolidated subsidiary		658	
Current service cost	206	128	1,920
Interest cost	34	19	323
Actuarial losses	301	1,552	2,811
Benefits paid	(177)	(179)	(1,655)
Balance at end of year	¥ 4,738	¥ 4,373	\$ 44,126

- (2) The changes in plan assets for the years ended February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 3,375	¥ 1,591	\$ 31,430
Increase by newly consolidated subsidiary		970	
Expected return on plan assets	90	39	839
Actuarial losses	119	680	1,116
Contributions from the employer	284	271	2,652
Benefits paid	(177)	(179)	(1,655)
Balance at end of year	¥ 3,692	¥ 3,375	\$ 34,383

- (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
	2018	2017	2018
Funded defined benefit obligation	¥ 4,738	¥ 4,373	\$ 44,126
Plan assets	(3,692)	(3,375)	(34,383)
Net liability arising from defined benefit obligation	¥ 1,046	¥ 998	\$ 9,742

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥ 1,046	¥ 998	\$ 9,742
Asset for retirement benefits			
Net liability arising from defined benefit obligation	¥ 1,046	¥ 998	\$ 9,742

- (4) The components of net periodic benefit costs for the years ended February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 206	¥ 128	\$ 1,920
Interest cost	34	19	323
Expected return on plan assets	(90)	(39)	(839)
Recognized actuarial losses	141	50	1,315
Net periodic benefit costs	¥ 292	¥ 158	\$ 2,720

- (5) Amounts recognized in other comprehensive income (before income tax effects) in respect of defined retirement benefit plans for the years ended February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Actuarial losses	¥ 40	¥ 822	\$ 381

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial losses	¥ 1,308	¥ 1,267	\$ 12,184

- (7) Plan assets

(1) Components of plan assets

Plan assets as of February 28, 2018 and February 28, 2017, consisted of the following:

	2018	2017
Debt investments	53.1%	53.8%
Equity investments	21.1	18.7
General account of life insurance	13.2	14.2
Others*	12.6	13.3
Total	100.0%	100.0%

*Mainly includes alternative investments

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

The expected rate of return on plan assets is determined considering the long-term rates of return, which are expected currently and in the future from various components of the plan assets. In addition, salary increase rate by age calculated as at the base date of March 31, 2016, was used as an assumption.

- (8) Assumptions used for the years ended February 28, 2018 and February 28, 2017, are set forth as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	0.7%	0.8%
Expected rate of return on plan assets	2.7	2.5

Defined contribution plan:

Contributions for defined contribution plan for the years ended February 28, 2018 and February 28, 2017, were ¥288 million (\$2,690 thousand) and ¥270 million, respectively.

Advance payment plan:

Payments to the advance payment plan for the years ended February 28, 2018 and February 28, 2017, were ¥69 million (\$645 thousand) and ¥68 million, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2018 and February 28, 2017, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Balance at beginning of year	¥ 11,489	¥ 9,680	\$ 107,003
Increase by share exchange		596	
Additional provisions associated with the acquisitions of property, buildings, and equipment	1,187	1,419	11,060
Decrease associated with the sales of property, buildings, and equipment	(123)	(396)	(1,151)
Reconciliation associated with passage of time	187	189	1,741
Reduction due to performance	(95)		(887)
Increase due to changes in estimates	(733)		(6,833)
Other increase and decrease	91		854
Balance at end of year	<u>¥ 12,003</u>	<u>¥ 11,489</u>	<u>\$ 111,787</u>

9. EQUITY

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

a. Dividends

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

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders

subject to certain limitations and additional requirements.

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

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

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

c. *Treasury Stock and Treasury Stock Acquisition Rights*

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

10. STOCK OPTIONS

The stock options outstanding as of February 28, 2018, were as follows:

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

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

The stock option activity is as follows:

	2009 Stock Option (Shares)	2010 Stock Option (Shares)	2011 Stock Option (Shares)	2012 Stock Option (Shares)
<u>Year Ended February 28, 2017</u>				
Nonvested:				
February 29, 2016 – outstanding				
Granted				
Canceled				
Vested				
February 28, 2017 – outstanding				
Vested:				
February 29, 2016 – outstanding	4,950	12,210	12,980	12,320
Vested				
Exercised	(880)	(4,730)	(5,060)	(7,150)
Canceled				
February 28, 2017 – outstanding	4,070	7,480	7,920	5,170
<u>Year Ended February 28, 2018</u>				
Nonvested:				
February 28, 2017 – outstanding				
Granted				
Canceled				
Vested				
February 28, 2018 – outstanding				
Vested:				
February 28, 2017 – outstanding	4,070	7,480	7,920	5,170
Vested				
Exercised				
Canceled				
February 28, 2018 – outstanding	4,070	7,480	7,920	5,170
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise				
Fair value price at grant date	¥2,500 (\$22)	¥1,089 (\$9)	¥1,583 (\$14)	¥1,609 (\$14)

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

The number of shares is retroactively adjusted for the stock split.

The Assumptions Used to Measure Fair Value of 2018 Stock Options:

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	32.66%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥27 per share
Risk-free interest rate:	-0.06%

2013 Stock Option (Shares)	2014 Stock Option (Shares)	2015 Stock Option (Shares)	2016 Stock Option (Shares)	2017 Stock Option (Shares)	2018 Stock Option (Shares)
				16,600	
				(16,600)	
16,390	9,020	17,300	18,800		
(5,390)	(2,420)	(6,000)	(6,000)	16,600 (9,100)	
11,000	6,600	11,300	12,800	7,500	
					18,800
					(18,800)
11,000	6,600	11,300	12,800	7,500	
(1,760)	(3,630)	(1,100)		(4,200)	18,800 (4,700)
9,240	2,970	10,200	12,800	3,300	14,100
¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
¥2,027 (\$18)	¥2,027 (\$18)	¥2,408 (\$22)		¥2,148 (\$20)	¥2,121 (\$19)
¥1,473 (\$13)	¥2,763 (\$24)	¥2,245 (\$19)	¥2,116 (\$18)	¥1,312 (\$11)	¥1,848 (\$17)

11. INCOME TAXES

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Payables and accrued expenses	¥ 1,896	¥ 1,536	\$ 17,656
Accrued enterprise tax	395	523	3,682
Property, plant, and equipment	8,074	6,383	75,197
Long-term prepaid expenses	2,104	2,088	19,600
Liability for retirement benefits	304	295	2,836
Asset retirement obligation	3,603	3,504	33,557
Long-term deferred revenue	731	602	6,816
Tax loss carryforwards of subsidiaries	2,279	2,446	21,227
Write-down of assets under the reorganization proceedings	732	732	6,818
Other	2,859	2,526	26,625
Less valuation allowance	(7,436)	(6,897)	(69,256)
Total deferred tax assets	15,544	13,741	144,762
Deferred tax liabilities:			
Property revaluation	108	112	1,013
Lease deposits to lessors and long-term prepaid expenses	137	359	1,283
Deferred capital gains on property	206	330	1,919
Special depreciation on property	95	183	887
Asset retirement obligation removal expense	2,178	2,106	20,283
Unrealized gain on available-for-sale securities	637	511	5,936
Other	901	644	8,396
Total deferred tax liabilities	4,265	4,247	39,720
Net deferred tax assets	¥11,279	¥ 9,494	\$105,041

Net deferred tax assets included in the consolidated balance sheets as of February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
CURRENT ASSETS – deferred tax assets	¥ 1,501	¥ 1,565	\$ 13,980
INVESTMENT AND OTHER ASSETS – deferred tax assets	10,226	8,201	95,240
LONG-TERM LIABILITIES – deferred tax liabilities	(448)	(271)	(4,179)
Net deferred tax assets	¥ 11,279	¥ 9,494	\$105,041

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended February 28, 2018 and February 28, 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Normal effective statutory tax rate	30.7%	32.8%
Expenses not deductible for income tax purposes	0.6	0.2
Per capita portion of inhabitant tax	0.3	0.3
Tax benefits not recognized on operating losses of subsidiaries	0.9	1.9
Change in valuation allowance	0.4	0.5
Tax effect related to consolidated adjustment	0.7	(0.2)
Lower income tax rates applicable to income in certain foreign countries	1.0	1.0
Special corporation tax credits	(1.5)	(1.6)
Effect of tax reduction		1.2
Other – net	<u>(0.3)</u>	<u>0.9</u>
Actual effective tax rate	<u><u>32.8%</u></u>	<u><u>37.0%</u></u>

At February 28, 2018, certain subsidiaries have tax loss carryforwards aggregating approximately ¥8,282 million (\$77,135 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 976	\$ 9,096
2020	1,161	10,817
2021	1,634	15,225
2022	2,570	23,936
2023 and thereafter	<u>1,939</u>	<u>18,058</u>
Total	<u>¥ 8,282</u>	<u>\$ 77,135</u>

12. LEASES

a. Lessee

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

Total rental expenses, including lease payments under finance leases for the years ended February 28, 2018 and February 28, 2017, were ¥84,503 million (\$786,955 thousand) and ¥76,566 million, respectively.

As discussed in Note 2.o, the Group accounts for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date on an “as if capitalized” basis for the years ended February 28, 2018, and February 28, 2017, was as follows:

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

	Millions of Yen	
	2017	
	Furniture and Fixtures	Total
Acquisition cost	¥ 35	¥ 35
Accumulated depreciation	<u>30</u>	<u>30</u>
Net leased property	<u>¥ 5</u>	<u>¥ 5</u>

	Thousands of U.S. Dollars	
	2018	
	Furniture and Fixtures	Total
Acquisition cost	\$ 330	\$ 330
Accumulated depreciation	<u>316</u>	<u>316</u>
Net leased property	<u>\$ 13</u>	<u>\$ 13</u>

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥ 1	¥ 4	\$ 16
Due after one year	<u> </u>	<u>1</u>	<u> </u>
Total	<u>¥ 1</u>	<u>¥ 5</u>	<u>\$ 16</u>

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

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Depreciation expense	¥ 3	¥ 3	\$ 33
Interest expense	<u>0</u>	<u>0</u>	<u>1</u>
Total	<u>¥ 3</u>	<u>¥ 4</u>	<u>\$ 34</u>
Lease payments	<u>¥ 4</u>	<u>¥ 4</u>	<u>\$ 38</u>

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

The minimum rental commitments under noncancelable operating leases at February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Due within one year	¥ 64,768	¥ 56,318	\$ 603,169
Due after one year	<u>492,228</u>	<u>413,909</u>	<u>4,583,988</u>
Total	<u>¥ 556,997</u>	<u>¥ 470,227</u>	<u>\$ 5,187,158</u>

Note:

The total for the year ended February 28, 2018, includes the Group's land use rights in China, Vietnam, and Indonesia, amounting to ¥33,554 million (\$312,484 thousand).

The total for the year ended February 28, 2017, includes the Group's land use rights in China and Vietnam, amounting to ¥35,941 million. The land use rights for the years ended February 28, 2018 and February 28, 2017, are fully prepaid in advance and are disclosed as "Long-term prepaid expenses" on the consolidated balance sheet.

b. Lessor

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

Future rental revenues from subleases under finance leases for the years ended February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Due within one year	¥ 5,201	¥ 5,200	\$ 48,439
Due after one year	<u>27,043</u>	<u>29,077</u>	<u>251,844</u>
Total	<u>¥ 32,244</u>	<u>¥ 34,277</u>	<u>\$ 300,283</u>

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group policy for financial instruments*

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

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

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

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

Loans are exposed to credit risk due to breach of contract.

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

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

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

Please refer to Note 14 for more details about derivatives.

(3) *Risk management for financial instruments*

Credit risk management

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

Regarding investment securities, the Group assesses the fair values of equity securities quarterly and regularly monitors the issuer’s financial position for equity securities without market values.

The Group manages its credit risk from loans by monitoring payment terms and balances by each business administration department to identify the default risk of the counterparties at an early stage.

Certain parts of lease deposits from lessees are covered by mortgages and right of pledges.

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

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

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

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

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

Liquidity risk management

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

(4) *Fair values of financial instruments*

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

Fair values of financial instruments are as follows:

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

	Millions of Yen		
	2017		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 69,593	¥ 69,593	
Time deposits	1,328	1,328	
Receivables—Trade accounts	5,850		
Allowance for doubtful receivables*	(23)		
	<u>5,827</u>	<u>5,827</u>	
Investment securities	2,140	2,140	
Lease deposits to lessors, including current portion	<u>56,167</u>	<u>53,470</u>	¥ (2,696)
Total	<u>¥ 135,057</u>	<u>¥ 132,360</u>	<u>¥ (2,696)</u>
Payables—Trade accounts	¥ 15,155	¥ 15,155	
Payables—Construction	62,500	62,500	
Deposits received	42,688	42,688	
Income taxes payable	7,897	7,897	
Long-term debt, including current portion	230,292	229,166	¥ (1,125)
Corporate bonds, including current portion	130,000	129,462	(537)
Lease deposits from lessees, including current portion	<u>130,652</u>	<u>130,851</u>	<u>199</u>
Total	<u>¥ 619,187</u>	<u>¥ 617,722</u>	<u>¥ (1,464)</u>

	Thousands of U.S. Dollars		
	2018		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 504,967	\$ 504,967	
Time deposits	9,246	9,246	
Receivables—Trade accounts	63,341		
Allowance for doubtful receivables *	(220)		
	<u>63,121</u>	<u>63,121</u>	
Investment securities	23,781	23,781	
Lease deposits to lessors, including current portion	<u>503,023</u>	<u>472,578</u>	\$ (30,445)
Total	<u>\$ 1,104,139</u>	<u>\$ 1,073,694</u>	<u>\$ (30,445)</u>

Short-term borrowings	\$ 102,439	\$ 102,439	
Payables—Trade accounts	166,319	166,319	
Payables—Construction	804,333	804,333	
Deposits received	423,319	423,319	
Income taxes payable	80,809	80,809	
Long-term debt, including current portion	2,093,029	2,081,209	\$ (11,819)
Corporate bonds, including current portion	1,583,162	1,586,917	3,755
Lease deposits from lessees, including current portion	<u>1,259,034</u>	<u>1,256,380</u>	<u>(2,654)</u>
Total	<u>\$ 6,512,448</u>	<u>\$ 6,501,730</u>	<u>\$ (10,718)</u>

*Allowance for doubtful receivables taken for receivables is deducted.

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

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

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

Investment securities

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

Lease deposits to lessors, including the current portion

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

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

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

Corporate bonds, including the current portion

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

Long-term debt, including the current portion

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

Lease deposits from lessees, including the current portion

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

Derivatives

Fair value information for derivatives is included in Note 14.

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

	Carrying Amount			
	Millions of Yen		Thousands of U.S. Dollars	
	2018	2017	2018	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 16	¥ 46	\$ 156	

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

	Millions of Yen			
	2018			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after 10 Years
Cash and cash equivalents	¥ 54,223			
Time deposits	992			
Receivables—Trade accounts	6,801			
Lease deposits to lessors *	680	¥ 1,274	¥ 187	¥ 18
Short-term borrowings	11,000			
Long-term debt	29,746	132,541	59,520	2,940
Corporate bonds		75,000	85,000	10,000
Lease deposits from lessees	175	150		

	Thousands of U.S. Dollars			
	2018			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after 10 Years
Cash and cash equivalents	\$ 504,967			
Time deposits	9,246			
Receivables—Trade accounts	63,341			
Lease deposits to lessors *	6,337	\$ 11,866	\$ 1,748	\$ 170
Short-term borrowings	102,439			
Long-term debt	277,024	1,234,317	554,301	27,384
Corporate bonds		698,454	791,581	93,127
Lease deposits from lessees	1,631	1,403		

* Lease deposits to lessors with no defined redemption schedule of ¥51,853 million (\$482,899 thousand) are not included in the above table.

14. DERIVATIVES

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

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk for these derivatives is basically offset by opposite movements in the value of hedged liabilities.

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

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

Derivative transactions to which hedge accounting is not applied

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

February 28, 2017	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss)
Currency swaps				
Receipt U.S. dollar/Payment Yen	¥ 10,805	¥ 7,202	¥ (751)	¥ (751)
Receipt Yen/Payment Indonesia Rup	¥ 5,425		¥ (237)	¥ (237)

February 28, 2018	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss)
Currency swaps				
Receipt U.S. dollar/Payment Yen	\$ 67,077	\$ 22,365	\$ (7,625)	\$ (7,625)
Receipt Yen/Payment Indonesia Rup	\$ 5,635		\$ (14)	\$ (14)

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

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

Derivative transactions to which hedge accounting is applied

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

February 28, 2017	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	¥ 42,677	¥ 39,304	*

February 28, 2018	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	\$ 373,779	\$ 299,879	*

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

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

The figure for the year ended February 28, 2018, includes a gain of ¥7,125 million (\$66,359 thousand) on the sale of one commercial facility to a specific-purpose company.

The figure for the year ended February 28, 2017, includes a gain of ¥10,677 million on the sale of seven commercial facilities to leasing companies, a specific-purpose company, and other companies.

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

The figure for the year ended February 28, 2018, includes a loss of ¥3,240 million (\$30,173 thousand) on the sale of two commercial facilities to a specific-purpose company.

The figure for the year ended February 28, 2017, includes a loss of ¥6,733 million on the sale of one commercial facility to a leasing company.

17. PROVISION FOR DOUBTFUL ACCOUNTS

The figure for the year ended February 28, 2017, is related to compensation claims against SN Enterprise Co., Ltd. (liquidation in May 2017), an associated company.

18. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
Gains (loss) arising during the year	¥ 413	¥ (38)	\$ 3,846
Reclassification adjustments to profit or loss		(5)	
Amount before income tax effect	413	(43)	3,846
Income tax effect	(125)	40	(1,173)
Total	¥ 287	¥ (2)	\$ 2,673
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 480	¥ (10,479)	\$ 4,474
Reclassification adjustments to profit or loss			
Amount before income tax effect	¥ 480	(10,479)	\$ 4,474
Income tax effect			
Total	¥ 480	¥ (10,479)	\$ 4,474
Defined retirement benefit plans			
Adjustments arising during the year	¥ (182)	¥ (872)	\$ (1,697)
Reclassification adjustments to profit or loss	141	50	1,318
Amount before income tax effect	(40)	(822)	(379)
Income tax effect	12	243	115
Total	¥ (28)	¥ (579)	\$ (263)
Total other comprehensive loss	¥ 739	¥ (11,060)	\$ 6,884

19. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted EPS for the years ended February 28, 2018 and February 28, 2017, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares		EPS*
<u>Year Ended February 28, 2018</u>				
Basic EPS — Net income available to common shareholders	¥ 30,542	227,421	<u>¥ 134.29</u>	<u>\$ 1.25</u>
Effect of dilutive securities — Warrants	_____	<u>80</u>		
Diluted EPS — Net income for computation	<u>¥ 30,542</u>	<u>227,502</u>	<u>¥ 134.25</u>	<u>\$ 1.25</u>
 <u>Year Ended February 28, 2017</u>				
Basic EPS — Net income available to common shareholders	¥ 28,527	227,395	<u>¥ 125.45</u>	
Effect of dilutive securities — Warrants	_____	<u>89</u>		
Diluted EPS — Net income for computation	<u>¥ 28,527</u>	<u>227,485</u>	<u>¥ 125.40</u>	

20. SIGNIFICANT NONCASH TRANSACTIONS

The table below shows a breakdown of the assets and liabilities during the year ended February 28, 2017, of OPA (after its succession to the VIVRE FORUS business (other than the retail business) of AEON Retail Co., Ltd.), which has become a consolidated subsidiary through a share exchange, and Canal City OPA Co., Ltd. at the time of their consolidation.

Current assets	¥ 2,889 million
Fixed assets	¥ <u>24,065 million</u>
Total assets	¥ <u>26,954 million</u>
Current liabilities	¥ 14,579 million
Long-term liabilities	¥ <u>7,953 million</u>
Total liabilities	¥ <u>22,533 million</u>

The current assets include cash and cash equivalents of ¥757 million at the beginning of consolidation, which is posted in the increase in cash and cash equivalents resulting from the share exchange.

21. RELATED-PARTY DISCLOSURES

Transactions with the parent company and its subsidiaries for the years ended February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Deposits kept in the cash pool account of AEON CO., LTD. (the parent company)	¥ 10,878	¥ 2,148	\$ 101,307
Interest income from AEON CO., LTD. (the parent company)	6	1	59
Revenues from leases of shopping malls to AEON RETAIL CO., LTD. (the parent company's subsidiary)	32,466	30,947	302,354
Credit fee paid to AEON CREDIT SERVICE CO., LTD. (the parent company's subsidiary)	4,796	4,592	44,665

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

The balances due to/from the parent company and its subsidiaries at February 28, 2018 and February 28, 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Cash equivalents—deposits kept in the cash pool account of AEON CO., LTD. (the parent company)	¥ 630	¥ 11,000	\$ 5,867
Receivables—other from AEON CO., LTD. (the parent company)	1	0	10
Receivables—trade accounts from AEON RETAIL CO., LTD. (the parent company's subsidiary)	590	572	5,499
Lease deposits received from AEON RETAIL CO., LTD. (the parent company's subsidiary)	12,947	13,163	120,571
Receivables—other from AEON CREDIT SERVICE CO., LTD. (the parent company's subsidiary)	8,569	8,971	79,805

Note: Lease deposits received are at stated amounts. Lease deposits include the current portion of lease deposits from lessees.

22. SEGMENT INFORMATION

(1) *Description of Reportable Segments*

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

The Group has been operating shopping mall businesses in Japan and overseas. The Group develops comprehensive strategies in accordance with the characteristics of different regions and develops operations accordingly.

The Group therefore consists of three geographical reporting segments: Japan, China, and ASEAN.

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

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

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

Millions of Yen						
2018						
	Reportable Segments			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 255,499	¥ 23,896	¥ 8,715	¥ 288,111		¥ 288,111
Intersegment revenues or transfers						
Total	¥ 255,499	¥ 23,896	¥ 8,715	¥ 288,111		¥ 288,111
Segment profit (loss)	¥ 50,074	¥ (1,132)	¥ 248	¥ 49,190	¥ 20	¥ 49,211
Segment assets	831,635	157,296	132,545	1,121,477	2,303	1,123,781
Other:						
Depreciation	35,540	5,330	3,008	43,878	(20)	43,858
Impairment losses on assets	5,639			5,639		5,639
Increase in property, plant, and equipment and intangible assets	172,090	16,016	20,586	208,693	(242)	208,451
Millions of Yen						
2017						
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 244,085	¥ 18,918	¥ 6,788	¥ 269,793		¥ 269,793
Intersegment revenues or transfers						
Total	¥ 244,085	¥ 18,918	¥ 6,788	¥ 269,793		¥ 269,793
Segment profit (loss)	¥ 48,716	¥ (3,451)	¥ (348)	¥ 44,916	¥ 18	¥ 44,935
Segment assets	723,401	151,123	121,271	995,797	16,961	1,012,758
Other:						
Depreciation	35,155	4,803	2,748	42,707	(18)	42,688
Impairment losses on assets	1,556	381		1,938		1,938

Increase in property, plant, and equipment and intangible assets	125,054	9,833	12,858	147,746	147,746
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	Thousands of U.S. Dollars				
	2018				
	Reportable Segment			Total	Reconciliations
	Japan	China	ASEAN		
Revenues:					
Revenues to external customers	\$ 2,379,392	\$ 222,539	\$ 81,165	\$ 2,683,098	\$2,683,098
Intersegment revenues or transfers					
Total	\$ 2,379,392	\$ 222,539	\$ 81,165	\$ 2,683,098	\$2,683,098
Segment profit (loss)	\$ 466,330	\$ (10,547)	\$ 2,314	\$ 458,097	\$ 191
Segment assets	7,744,791	1,464,859	1,234,355	10,444,005	21,454
Other:					
Depreciation	330,976	49,638	28,018	408,632	(191)
Impairment losses on assets	52,517			52,517	
Increase in property, plant and equipment and intangible assets	1,602,634	149,153	191,718	1,943,506	(2,258)

Notes for the year ended February 28, 2018:

1. Adjustments are as follows:

- (1) The reconciliation of segment profit or loss is the reconciliation of unrealized gains on intersegment trades.
 - (2) The reconciliation of segment assets of ¥ 2,303 million (\$21,454 thousand) is the reconciliation of the Group's assets of ¥3,716 million (\$34,609 thousand), which are not included in the reportable segment and are the result of the elimination of intersegment trades.
 - (3) The reconciliation of depreciation is the reconciliation of unrealized gain on fixed assets.
2. The calculation of segment profit or loss is based on the operating income in the consolidated statement of income.
3. The depreciation and the increase in property, plant, and equipment and intangible assets include long-term prepaid expense and its depreciation.

Notes for the year ended February 28, 2017:

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 ¥16,961 million is the reconciliation of the Group's assets of

¥ 15,607 million, which are not included in the reportable segment and are the result of the elimination of intersegment trades.

- (3) The reconciliation of depreciation is the reconciliation of unrealized gain on fixed assets.
- (4) The reconciliation of the increase in property, plant and equipment and intangible assets is the reconciliation of unrealized gain on fixed assets.
2. The calculation of segment profit or loss is based on the operating income in the consolidated statement of income.
3. The depreciation and the increase in property, plant and equipment and intangible assets include long-term prepaid expense and its depreciation.

(4) Information about Products and Services

Information about products and services for the years ended February 28, 2018, and February 28, 2017, has been omitted because revenues in the shopping mall business accounted for more than 90% of consolidated net revenues of the Group.

(5) Information about Geographical Areas

(a) Revenues

Information about geographical areas for the years ended February 28, 2018, and February 28, 2017, has been omitted because revenues in Japan accounted for more than 90% of consolidated net revenues of the Group.

(b) Property, plant, and equipment

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

Millions of Yen			
2017			
Japan	China	ASEAN	Total
¥ 622,097	¥ 53,824	¥ 86,315	¥ 762,237

Thousands of U.S. Dollars			
2018			
Japan	China	ASEAN	Total
\$ 6,662,720	\$ 540,033	\$ 939,052	\$ 8,141,806

(6) Information about major customers

2018		
Name of customers	Millions of Yen	Related segment name
	Revenues	
ÆON RETAIL CO., LTD.	¥ 33,116	Japan
2017		
Name of customers	Millions of Yen	Related segment name
	Revenues	
ÆON RETAIL CO., LTD.	¥ 31,549	Japan
2018		
Name of customers	Thousands of U.S. Dollars	Related segment name
	Revenues	
ÆON RETAIL CO., LTD.	\$ 308,404	Japan

23. SUBSEQUENT EVENTS

(a) Appropriation of Retained Earnings

The following appropriation of retained earnings at February 28, 2018, was approved at the Company's Board of Directors' meeting held on April 11, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19.00 (\$0.18) per share	¥4,321	\$ 40,241

(b) Bond Issuance

The Company issued bonds on March 7, 2018 based on the approval of the Board of Directors on January 15, 2018.

- (1) Name of bonds: ÆON Mall Co., Ltd. unsecured bonds (with special pari passu conditions among bonds) Series14.
- (2) Total amount of bonds: ¥30,000 million (\$279,381 thousand).
- (3) Issue price ¥100 (US\$0.93) per face value of ¥100(US\$0.93).
- (4) Interest rate: 0.39%.
- (5) Date of issuance: March 7, 2018.
- (6) Date of maturity: March 7, 2023.
- (7) Collateral: The bonds are not secured or guaranteed. No assets are reserved for the bonds.
- (8) Use of funds: Repayment of Commercial paper and borrowings.



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of AEON Mall Co., Ltd. and its subsidiaries as of February 28, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AEON Mall Co., Ltd. and its subsidiaries as of February 28, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

May 16, 2018

Member of
Deloitte Touche Tohmatsu Limited

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Forward-Looking Statements

This annual report contains forward-looking statements such as the future business performance of AEON MALL. As these statements are based on the currently available information at the time of the creation of the annual report, the actual results may differ materially due to various factors. Earnings forecasts and other projections in this annual report were formulated and announced as of August 2018.