AEON MALL REVIEW 2017

Financial Information

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ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
February 28, 2017

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 23)	¥ 69,593	¥ 53,652	$ 618,935
Time deposits (Note 13)	1,328	1,722	11,817
Receivables:			
Trade accounts (Notes 13 and 23)	5,850	5,713	52,036
Other (Notes 13 and 23)	27,335	25,901	243,116
Allowance for doubtful receivables (Note 13)	(23)	(33)	(208)
Deferred tax assets (Note 11)	1,565	1,830	13,918
Prepaid expenses and other	4,696	3,341	41,767
Total current assets	110,346	92,129	981,383
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 5 and 6)	201,052	212,423	1,788,088
Buildings and structures (Notes 4, 5, 6 and 8)	708,424	694,649	6,300,465
Machinery and equipment (Note 5)	4,654	4,081	41,393
Furniture and fixtures (Notes 4, 5 and 12)	34,998	31,001	311,264
Construction in progress (Note 5)	48,846	21,941	434,421
Other (Notes 4 and 12)	596		5,308
Total	998,573	964,097	8,880,941
Accumulated depreciation	(236,335)	(209,381)	(2,101,880)
Net property, plant, and equipment	762,237	754,716	6,779,061
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 2.x, 3 and 13)	2,186	2,331	19,450
Lease deposits to lessors (Note 13)	55,467	44,105	493,309
Long-term prepaid expenses (Notes 4 and 5)	67,893	68,813	603,823
Deferred tax assets (Note 11)	8,201	6,442	72,938
Other	6,424	6,431	57,139
Total investments and other assets	140,174	128,124	1,246,660
TOTAL	¥ 1,012,758	¥ 974,970	$ 9,007,105

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 13)		¥ 8,339	
Current portion of long-term debt (Notes 6 and 13)	¥ 52,563	38,585	$ 467,478
Current portion of corporate bonds (Notes 6 and 13)	10,000	200	88,936
Payables:			
Trade accounts (Note 13)	15,155	14,239	134,788
Construction (Note 13)	62,500	78,886	555,860
Other	4,827	3,213	42,936
Deposits received (Note 13)	42,688	40,135	379,659
Income taxes payable (Note 13)	7,897	10,556	70,234
Accrued expenses	3,816	3,101	33,944
Provision for store closing expenses	928	1,797	8,257
Current portion of lease deposits from lessees (Notes 6, 13 and 23)	555	526	4,943
Other	11,183	11,816	99,457
Total current liabilities	212,117	211,398	1,886,496
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	177,728	192,281	1,580,655
Corporate bonds (Notes 6 and 13)	120,000	95,000	1,067,235
Liability for retirement benefits (Note 7)	998	600	8,879
Provision for loss on guarantees (Note 18)		525	
Lease deposits from lessees (Notes 6, 13 and 23)	130,096	122,199	1,157,031
Asset retirement obligations (Note 8)	11,489	9,680	102,187
Deferred tax liabilities (Note 11)	271	113	2,418
Other	3,851	3,321	34,256
Total long-term liabilities	444,437	423,722	3,952,664
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12,14 and 18)			
EQUITY (Notes 9, 10 and 19):			
Common stock — authorized, 320,000,000 shares; issued, 227,414,699 shares in 2017 and 227,902,027 shares in 2016	42,256	42,217	375,817
Capital surplus	42,030	42,525	373,802
Stock acquisition rights	135	193	1,208
Retained earnings	257,643	235,826	2,291,390
Treasury stock - at cost, 366 shares in 2017 and 2,802,839 shares in 2016	(0)	(6,101)	(3)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,165	1,168	10,365
Foreign currency translation adjustments	7,858	18,213	69,886
Defined retirement benefit plans	(881)	(302)	(7,835)
Total	350,209	333,740	3,114,631
Non-controlling interests	5,994	6,108	53,312
Total equity	356,203	339,849	3,167,944
TOTAL	¥1,012,758	¥ 974,970	$ 9,007,105

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended February 28, 2017

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
OPERATING REVENUE (Note 23)	¥ 269,793	¥229,754	$ 2,399,444
OPERATING COSTS (Notes 7, 12, and 23)	199,456	163,436	1,773,893
Gross profit	70,336	66,317	625,551
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 7 and 12)	25,401	22,446	225,913
Operating income	44,935	43,870	399,637
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 23)	494	650	4,400
Foreign exchange gain	915	176	8,146
Interest expense	(2,491)	(2,570)	(22,154)
Gain on change in equity		438	
Loss on valuation of derivatives (Note 14)	(485)	(797)	(4,315)
Provision for loss on guarantees (Note 18)		(525)	
Gain on sales of property, plant, and equipment (Note 15)	10,680	1,862	94,992
Loss on sales of property, plant, and equipment (Note 16)	(6,752)	(6)	(60,056)
Loss on impairment of long-lived assets (Note 4)	(1,938)	(686)	(17,241)
Provision for store closing expenses	(391)	(1,152)	(3,478)
Provision for doubtful accounts (Note 17)	(675)		(6,003)
Subsidy income (Note 2.x)	1,434	240	12,759
Other - net	(560)	(462)	(4,985)
Other income (expenses) - net	231	(2,833)	2,062
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	45,167	41,037	401,700
INCOME TAXES (Note 11):			
Current	16,785	18,453	149,286
Deferred	(77)	(1,468)	(690)
Total income taxes	16,708	16,984	148,596
NET INCOME	28,459	24,053	253,104
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(68)	(586)	(611)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 28,527	¥ 24,639	$ 253,716

	Yen 2017	Yen 2016	U.S. Dollars 2017
PER SHARE OF COMMON STOCK (Notes 2 and 20):			
Basic net income	¥ 125.45	¥ 108.43	$ 1.12
Diluted net income	125.40	108.38	1.12
Cash dividends applicable to the year	27.00	22.00	0.24

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥ 28,459	¥ 24,053	$ 253,104
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19):			
Unrealized (loss) gain on available-for-sale securities	(2)	106	(23)
Foreign currency translation adjustments	(10,479)	(8,075)	(93,198)
Defined retirement benefit plans	(579)	(163)	(5,149)
Total other comprehensive loss	(11,060)	(8,131)	(98,371)
COMPREHENSIVE INCOME	¥ 17,398	¥ 15,921	$ 154,732
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥ 17,591	¥ 16,857	$ 156,449
Non-controlling interests	(193)	(936)	(1,717)

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

Year Ended February 28, 2017

	Thousands	Millions of Yen										
							Accumulated other comprehensive income					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non-controlling Interests	Total Equity
BALANCE, MARCH 1, 2015 (as previously reported)	227,851	¥ 42,207	¥ 42,516	¥ 169	¥ 216,223	¥ (99)	¥ 1,061	¥ 25,938	¥ (138)	¥ 327,878	¥ 4,658	¥ 332,536
Cumulative effect of accounting change					(23)					(23)		(23)
BALANCE, MARCH 1, 2015(as restated)	227,851	42,207	42,516	169	216,199	(99)	1,061	25,938	(138)	327,854	4,658	332,512
Net income attributable to owners of the parent					24,639					24,639		24,639
Exercise of stock options	11	9	9							19		19
Cash dividends, ¥22 per share					(5,012)					(5,012)		(5,012)
Purchase of treasury stock	(2,763)					(6,001)				(6,001)		(6,001)
Net change in the year				23			106	(7,725)	(163)	(7,758)	1,450	(6,307)
BALANCE, FEBRUARY 29, 2016	225,099	¥ 42,217	¥ 42,525	¥ 193	¥ 235,826	¥ (6,101)	¥ 1,168	¥ 18,213	¥ (302)	¥ 333,740	¥ 6,108	¥ 339,849
Net income attributable to owners of the parent					28,527					28,527		28,527
Exercise of stock options	46	39	39							79		79
Cash dividends, ¥24.5 per share					(5,546)					(5,546)		(5,546)
Purchase of treasury stock	(0)					(0)				(0)		(0)
Disposal of treasury stock					(1,164)	1,164						
Change in treasury shares of parent arising from transactions with non-controlling shareholders			(0)							(0)		(0)
Change by share exchange	2,268		(535)			4,937				4,401		4,401
Net change in the year				(57)			(2)	(10,354)	(579)	(10,994)	(113)	(11,108)
BALANCE, FEBRUARY 28, 2017	227,414	¥ 42,256	¥ 42,030	¥ 135	¥ 257,643	¥ (0)	¥ 1,165	¥ 7,858	¥ (881)	¥ 350,209	¥ 5,994	¥ 356,203

	Thousands of U.S. Dollars (Note 1)										
						Accumulated other comprehensive income					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Loss)	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non-controlling Interests	Total Equity
BALANCE, FEBRUARY 29, 2016	$ 375,463	$ 378,209	$ 1,722	$ 2,097,356	$ (54,264)	$ 10,389	$ 161,979	$ (2,686)	$ 2,968,169	$ 54,324	$ 3,022,494
Net income attributable to owners of the parent				253,716					253,716		253,716
Exercise of stock options	354	353							708		708
Cash dividends, $0.21 per share				(49,324)					(49,324)		(49,324)
Purchase of treasury stock					(4)				(4)		(4)
Disposal of treasury stock				(10,357)	10,357						
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(1)							(1)		(1)
Change by share exchange		(4,758)			43,908				39,149		39,149
Net change in the year			(514)			(23)	(92,092)	(5,149)	(97,780)	(1,012)	(98,792)
BALANCE, FEBRUARY 28, 2017	$ 375,817	$ 373,802	$ 1,208	$ 2,291,390	$ (3)	$ 10,365	$ 69,886	$ (7,835)	$ 3,114,631	$ 53,312	$ 3,167,944

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 45,167	¥ 41,037	$ 401,700
Adjustments for:			
Income taxes - paid	(19,845)	(17,278)	(176,500)
Gain on sales of property, plant, and equipment	(10,680)	(1,862)	(94,992)
Loss on sales of property, plant, and equipment	6,752	6	60,056
Gain on change in equity		(438)	
Depreciation and amortization	38,058	32,088	338,478
Loss on impairment of long-lived assets	1,938	686	17,241
Changes in assets and liabilities:			
Increase in receivables - trade accounts	(380)	(1,163)	(3,384)
Increase in payables - trade accounts	1,581	2,839	14,063
Increase (decrease) in deposits received	2,330	(14,018)	20,727
Increase in allowance for doubtful accounts	1,162	12	10,335
Decrease in liability for retirement benefits	(101)	(64)	(898)
Other – net	7,664	19,940	68,160
Total adjustments	28,479	20,748	253,287
Net cash provided by operating activities	73,646	61,785	654,988
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(160,697)	(194,315)	(1,429,181)
Proceeds from sales of property, plant, and equipment	100,413	55,442	893,037
Purchases of long-term prepaid expenses	(2,710)	(12,899)	(24,105)
Payments of lease deposits to lessors	(5,258)	(3,713)	(46,763)
Reimbursement of lease deposits to lessors	3,488	1,123	31,024
Repayments of lease deposits from lessees	(14,445)	(9,405)	(128,472)
Proceeds from lease deposits from lessees	15,153	13,616	134,771
Other	481	3,820	4,285
Net cash used in investing activities	(63,574)	(146,332)	(565,403)
FINANCING ACTIVITIES:			
Net decrease (increase) in short-term bank loans	(20,178)	8,440	(179,458)
Proceeds from long-term debt	36,962	74,679	328,729
Repayment of long-term debt	(37,411)	(31,025)	(332,725)
Proceeds from issuance of corporate bonds	35,000	30,000	311,277
Repayment of corporate bonds	(200)		(1,778)
Dividends paid	(5,546)	(5,012)	(49,324)
Proceeds from issuance of subsidiaries' stock to non-controlling shareholders		2,539	
Other	(313)	(6,174)	(2,787)
Net cash provided by financing activities	8,312	73,446	73,932

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(3,202)	(2,468)	(28,483)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,183	(13,569)	135,032
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	53,652	67,222	477,170
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES BY SHARE EXCHANGE (Note 22)	757		6,732
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 69,593	¥ 53,652	$ 618,935
MAJOR NON-CASH TRANSACTIONS:			
Asset retirement obligations recorded in the consolidated balance sheet	¥ 1,419	¥ 347	$ 12,626

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, 2017

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 2016 consolidated financial statements to conform to the classifications used in 2017.

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 ¥112.44 to $1, the approximate rate of exchange at February 28, 2017. 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, 2017, include the accounts of the Company and its 40 (34 in 2016) subsidiaries (collectively, the "Group"). From the consolidated fiscal year ended February 28, 2017, the Company exchanged shares to become the wholly owning parent company of shares and become OPA Co., Ltd. (OPA) a wholly owned subsidiary of share exchange. As a result, OPA and its subsidiary CANALCITY OPA Co., Ltd. are included in the scope of consolidation.
The following companies have been included in the consolidated financial statements as of and for the year ended February 28, 2017, since they were newly established during the year:

AEON MALL (YANTAI) BUSINESS MANAGEMENT CO., LTD.
AEON MALL KIDS DREAM LLC.
AEON MALL (NANTONG) BUSINESS MANAGEMENT CO., LTD.
AEON MALL (SHANDONG) BUSINESS MANAGEMENT CO., LTD.

Investments in two (two in 2016) associated companies are accounted for by the equity method.

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.

Change to accounting policy
In September 2013, the Accounting Standards Board of Japan (ASBJ) issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with non-controlling interest—A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of non-controlling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the non-controlling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "Non-controlling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income—In the consolidated statement of income, "net income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination—If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with non-controlling interests, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for annual periods beginning on or after April 1, 2015. Earlier application is permitted for annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with non-controlling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with non-controlling interests and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings in the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after annual periods beginning on or after April

1, 2015. Earlier application is permitted for a business combination which occurs on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with non-controlling interests, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective March 1, 2016, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after March 1, 2016. The revised accounting standards and guidance for (a) transactions with non-controlling interests and (e) acquisition-related costs were applied prospectively. The effect of the application of these accounting standards on the consolidated financial statements for the consolidated fiscal year under review is not significant.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements -*** In May 2006, the ASBJ issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that 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—"FASB ASC") 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, which has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; 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 at the cash pool account of 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 two to 39 years for buildings and structures, from three to 17 years for machinery and equipment and from two 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 the estimated useful lives.

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 two 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 Stock Options". Stock options 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. ***Provision for Loss on Guarantees***

To provide for loss guarantees, the Company makes an allowance for potential losses at the end of the fiscal year.

w. ***New Accounting Pronouncements***

The Company's foreign consolidated subsidiaries:

The new accounting standards and other pronouncements that have been issued which the Company's foreign consolidated subsidiaries have not yet adopted as of February 28, 2017, in 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 of the adoption of these standards will have on the consolidated financial statements is currently under evaluation.

x. ***Changes in Presentation***

(1) *Consolidated Balance Sheet*

Prior to March 1, 2016, "Investment in associated companies" was separately presented in the investment and other assets section of the consolidated balance sheet. During the fiscal year ended February 28, 2017, the amount decreased significantly, and the amount was reclassified to "Investment securities" in the investment and other assets section for the fiscal year ended February 28, 2017. The amount included in "Investment in associated companies" in the investment and other assets section for the fiscal year ended February 29, 2016, was ¥97 million.

(2) *Consolidated income statement*

Prior to March 1, 2016, "Subsidy 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, 2017, subsidy 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, 2017. The amount included in "Other-net" in the other income section for the fiscal year ended February 29, 2016, was ¥240 million.

3. INVESTMENT SECURITIES

Investment securities as of February 28, 2017, and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Investment securities:			
Marketable equity securities	¥ 2,140	¥ 2,188	$ 19,037
Other	46	143	412
Total	¥ 2,186	¥ 2,331	$ 19,450

The costs and aggregate fair values of investment securities as of February 28, 2017, and February 29, 2016, were as follows:

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

	Millions of Yen			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale - Equity securities	¥ 467	¥ 1,724	¥ (3)	¥ 2,188

	Thousands of U.S. Dollars			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale - Equity securities	$ 4,123	$ 14,917	$ (3)	$ 19,038

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:

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

There were no sales of the available-for-sales securities during the year ended February 29, 2016.

Available-for-sale securities whose fair values are not readily determinable as of February 28, 2017, and February 29, 2016, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Available for sale:			
Equity securities	¥ 46	¥ 143	$ 412

There were no impairment losses for the years ended February 28, 2017, and February 29, 2016.

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 28, 2017, and February 29, 2016. The Group recognized impairment losses on the following long-lived assets on February 28, 2017, and February 29, 2016:

Use	Type of Assets	Location	Millions of Yen 2017	Thousands of U.S. Dollars 2017
Shopping mall	Buildings and structures and others	Osaka	¥ 851	$ 7,569
Shopping mall	Buildings and structures and others	Kanagawa	393	3,502
Shopping mall	Buildings and structures and others	Oita	309	2,753
Shopping mall	Buildings and structures and others	Akita	2	20
Shopping mall	Long-term prepaid expenses and others	China	381	3,394
Total			¥ 1,938	$ 17,241

Use	Type of Assets	Location	Millions of Yen 2016
Shopping mall	Buildings and structures and others	Osaka	¥ 686
Total			¥ 686

The book values of the shopping malls (excluding Oita), which incurred continuous operating losses, were reduced to their recoverable amounts, and such reductions in the carrying value were recorded as an impairment loss 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 and in Osaka for the fiscal year ended February 29, 2016, 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 ¥37,614 million ($334,529 thousand) for the fiscal year ended February 28, 2017, and ¥33,532 million for the fiscal year ended February 29, 2016. Gain on sales of property, plant, and equipment was ¥10,680 million ($94,985 thousand) for the fiscal year ended February 28, 2017, and ¥1,862 million for the fiscal year ended February 29, 2016. Loss on sales of property was ¥6,733 million ($59,882 thousand) for the fiscal year ended February 28, 2017. Impairment loss was ¥686 million for the fiscal year ended February 29, 2016.

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

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

Millions of Yen			
Carrying Amount			Fair Value
March 1, 2015	Increase/(Decrease)	February 29, 2016	February 29, 2016
¥ 701,797	¥ 64,180	¥ 765,377	¥ 987,336

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
March 1, 2016	Increase/(Decrease)	February 28, 2017	February 28, 2017
$ 6,806,984	$ (119,984)	$ 6,687,000	$ 8,351,876

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, 2017, primarily represents the acquisition of certain properties of ¥129,225 million ($1,149,283 thousand), and the decrease primarily represents the recognition of selling and disposal properties of ¥99,223 million ($882,458 thousand), depreciation expense of ¥34,200 million ($304,164thousand) and foreign currency translation difference of ¥8,714 million ($ 77,506thousand).
Increase during the fiscal year ended February 29, 2016, primarily represents the acquisition of certain attributable to newly acquired properties of ¥152,907 million, and the decrease primarily represents the recognition of selling and disposal properties of ¥52,309 million, and depreciation expense of ¥28,599 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 bank loans at February 28, 2017, and February 29, 2016, consisted of the following.

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Short-term loans principally from banks, 0.52% to 5% (2016)		¥ 8,339	
Total		¥ 8,339	

Long-term debt at February 28, 2017 and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans from banks and insurance companies, due through 2030 with interest rates ranging from 0.07% to 3.40% (2017) and 0.15% to 5.10% (2016):			
Collateralized	¥ 28,436	¥ 30,352	$ 252,904
Unsecured	201,855	200,514	1,795,228
Total	230,292	230,867	2,048,133
Less current portion	(52,563)	(38,585)	(467,478)
Long-term debt, less current portion	¥177,728	¥192,281	$ 1,580,655

Annual maturities of long-term debt as of February 28, 2017, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 52,563	$ 467,478
2019	29,454	261,960
2020	23,379	207,932
2021	35,423	315,042
2022	28,505	253,513
2023 and thereafter	60,965	542,206
Total	¥230,292	$2,048,133

Corporate bonds as of February 28, 2017, and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Issued by the Company:			
Unsecured 0.50% yen corporate bond, due 2018	¥ 10,000	¥ 10,000	$ 88,936
Unsecured 0.80% yen corporate bond, due 2020	15,000	15,000	133,404
Unsecured 0.44% yen corporate bond, due 2022	15,000	15,000	133,404
Unsecured 0.90% yen corporate bond, due 2025	20,000	20,000	177,872
Unsecured 0.95% yen corporate bond, due 2027	5,000	5,000	44,468
Unsecured 0.57% yen corporate bond, due 2023	30,000	30,000	266,808
Unsecured 0.48% yen corporate bond, due 2023	25,000		222,340
Unsecured 1.10% yen corporate bond, due 2036	10,000		88,936
Issued by HIWADA SHOPPING MALL CO., LTD.:			
Unsecured 0.64% yen corporate bond, due 2017		200	
Total	130,000	95,200	1,156,172
Less current portion	(10,000)	(200)	(88,936)
Corporate bonds, less current portion	¥120,000	¥ 95,000	$ 1,067,235

Annual maturities of corporate bonds as of February 28, 2017, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 10,000	$ 88,936
2019		
2020	15,000	133,404
2021		
2022	15,000	133,404
2023 and thereafter	90,000	800,426
Total	¥130,000	$1,156,172

Collateralized long-term debt and other as of February 28, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt	¥ 1,043	$ 9,282
Current portion of lease deposits from lessees	75	670
Long-term debt	27,392	243,622
Lease deposits from lessees	1,131	10,063
Total	¥ 29,643	$ 263,637

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other as of February 28, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 7,453	$ 66,288
Buildings and structures - net of accumulated depreciation	46,843	416,607
Total	¥ 54,296	$ 482,895

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, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year (as restated)	¥ 2,192	¥ 1,780	$ 19,503
Increase by newly consolidated subsidiary	658		5,856
Current service cost	128	129	1,145
Interest cost	19	23	173
Actuarial losses	1,552	347	13,810
Benefits paid	(179)	(87)	(1,593)
Balance at end of year	¥ 4,373	¥ 2,192	$ 38,895

(2) The changes in plan assets for the years ended February 28, 2017, and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 1,591	¥ 1,365	$ 14,158
Increase by newly consolidated subsidiary	970		8,631
Expected return on plan assets	39	31	355
Actuarial losses	680	82	6,050
Contributions from the employer	271	221	2,414
Benefits paid	(179)	(87)	(1,593)
Others		(22)	
Balance at end of year	¥ 3,375	¥ 1,591	$ 30,016

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 4,373	¥ 2,192	$ 38,895
Plan assets	(3,375)	(1,591)	(30,016)
Net liability arising from defined benefit obligation	¥ 998	¥ 600	$ 8,879

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥ 998	¥ 600	$ 8,879
Asset for retirement benefits			
Net liability arising from defined benefit obligation	¥ 998	¥ 600	$ 8,879

(4) The components of net periodic benefit costs for the years ended February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 128	¥ 129	$ 1,142
Interest cost	19	23	173
Expected return on plan assets	(39)	(31)	(355)
Recognized actuarial losses	50	34	447
Net periodic benefit costs	¥ 158	¥ 155	$ 1,408

(5) Amounts recognized in other comprehensive income (before income tax effects) in respect of defined retirement benefit plans for the years ended February 28, 2017, and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Actuarial losses	¥ 822	¥ 230	$ 7,312

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2017, and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized actuarial losses	¥ 1,267	¥ 445	$ 11,272

(7) Plan assets

(1) Components of plan assets

Plan assets as of February 28, 2017, and February 29, 2016, consisted of the following:

	2017	2016
Debt investments	53.8%	55.5%
Equity investments	18.7	14.0
General account of life insurance	14.2	14.7
Others*	13.3	15.8
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 the 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, 2017 and February 29, 2016, are set forth as follows:

	2017	2016
Discount rate	0.8%	0.9%
Expected rate of return on plan assets	2.5	2.4

Defined contribution plan:
Contributions for defined contribution plan for the years ended February 28, 2017, and February 29, 2016, were ¥270 million ($2,404 thousand) and ¥198 million, respectively.

Advance payment plan:
Payments to the advance payment plan for the years ended February 28, 2017, and February 29, 2016, were ¥68 million ($608 thousand) and ¥55 million, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2017, and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 9,680	¥ 9,169	$ 86,095
Increase by share exchange	596		5,302
Additional provisions associated with the acquisitions of property, buildings, and equipment	1,419	347	12,626
Decrease associated with the sales of property, buildings, and equipment	(396)		(3,523)
Reconciliation associated with passage of time	189	163	1,686
Balance at end of year	¥ 11,489	¥ 9,680	$ 102,187

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, 2017, are 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

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

The stock option activity is as follows:

	2009 Stock Option (Shares)	2010 Stock Option (Shares)	2011 Stock Option (Shares)	2012 Stock Option (Shares)	2013 Stock Option (Shares)	2014 Stock Option (Shares)	2015 Stock Option (Shares)	2016 Stock Option (Shares)	2017 Stock Option (Shares)
Year Ended February 29, 2016									
Nonvested:									
February 28, 2015 – outstanding									
Granted								20,400	
Canceled									
Vested								(20,400)	
February 29, 2016 – outstanding									
Vested:									
February 28, 2015 – outstanding	4,950	12,980	15,290	13,530	20,570	10,230	17,300		
Vested								20,400	
Exercised		(770)	(2,310)	(1,210)	(4,180)	(1,210)		(1,600)	
Canceled									
February 29, 2016 – outstanding	4,950	12,210	12,980	12,320	16,390	9,020	17,300	18,800	
Year Ended February 28, 2017									
Nonvested:									
February 29, 2016 – outstanding									
Granted									16,600
Canceled									
Vested									(16,600)
February 28, 2017 – outstanding									
Vested:									
February 29, 2016 – outstanding	4,950	12,210	12,980	12,320	16,390	9,020	17,300	18,800	
Vested									16,600
Exercised	(880)	(4,730)	(5,060)	(7,150)	(5,390)	(2,420)	(6,000)	(6,000)	(9,100)
Canceled									
February 28, 2017 – outstanding	4,070	7,480	7,920	5,170	11,000	6,600	11,300	12,800	7,500
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise	¥1,470 ($13)	¥1,389 ($12)	¥1,388 ($12)	¥1,399 ($12)	¥1,467 ($13)	¥1,506 ($13)	¥1,380 ($12)	¥1,344 ($11)	¥1,407 ($12)
Fair value price at grant date	¥2,500 ($22)	¥1,089 ($9)	¥1,583 ($14)	¥1,609 ($14)	¥1,473 ($13)	¥2,763 ($24)	¥2,245 ($19)	¥2,116 ($18)	¥1,312 ($11)

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 2017 Stock Options:

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	38.09%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥22 per share
Risk-free interest rate:	-0.20%

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, 2017, and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Payables and accrued expenses	¥ 1,536	¥ 1,323	$ 13,662
Accrued enterprise tax	523	760	4,651
Property, plant, and equipment	6,383	4,833	56,773
Long-term prepaid expenses	2,088	1,023	18,570
Liability for retirement benefits	295	184	2,627
Asset retirement obligation	3,504	3,107	31,167
Long-term deferred revenue	602	685	5,360
Tax loss carryforwards of subsidiaries	2,446	1,932	21,754
Provision for loss on guarantees		168	
Write-down of assets under the reorganization proceedings	732		6,511
Other	2,526	1,398	22,470
Less valuation allowance	(6,897)	(3,651)	(61,339)
Total deferred tax assets	13,741	11,765	122,212
Deferred tax liabilities:			
Property revaluation	112	117	996
Lease deposits to lessors and long-term prepaid expenses	359	427	3,196
Deferred capital gains on property	330	193	2,935
Special depreciation on property	183	332	1,632
Asset retirement obligation removal expense	2,106	1,954	18,736
Unrealized gain on available-for-sale securities	511	552	4,548
Other	644	28	5,728
Total deferred tax liabilities	4,247	3,606	37,774
Net deferred tax assets	¥ 9,494	¥ 8,159	$ 84,437

Net tax deferred tax assets included in the consolidated balance sheets as of February 28, 2017, and February 29, 2016, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
CURRENT ASSETS - deferred tax assets	¥ 1,565	¥ 1,830	$ 13,918
INVESTMENT AND OTHER ASSETS - deferred tax assets	8,201	6,442	72,938
LONG-TERM LIABILITIES - deferred tax liabilities	(271)	(113)	(2,418)
Net deferred tax assets	¥ 9,494	¥ 8,159	$ 84,437

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, 2017 and February 29, 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	32.8%	35.4%
Expenses not deductible for income tax purposes	0.2	0.2
Per capita portion of inhabitant tax	0.3	0.2
Tax benefits not recognized on operating losses of subsidiaries	1.9	1.9
Change in valuation allowance	0.5	0.0
Tax effect related to consolidated adjustment	(0.2)	(0.2)
Lower income tax rates applicable to income in certain foreign countries	1.0	2.2
Special corporation tax credits	(1.6)	(1.3)
Effect of tax reduction	1.2	2.2
Other – net	0.9	0.8
Actual effective tax rate	37.0%	41.4%

The Diet passed the “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) on March 29, 2016. The Diet also passed the “Act for Partial Amendment of the Consumption Tax Act, etc. for the Drastic Reform of the Taxation System of Ensuring Stable Financial Resources for Social Security” (Act No. 85 of 2016) and the “Act for Partial Amendment of the Local Tax Act and Local Allocation Tax act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 86 of 2016) on November 18, 2016. As a result, the effective statutory tax rate used to calculate the Company’s deferred tax assets and liabilities was changed from 32.1% to 30.7% for the temporary differences expected to be realized or settled in the fiscal years beginning on March 1, 2017 and 2018, and to 30.5% for those expected to be realized or settled in the fiscal years beginning on March 1, 2019, and thereafter. As the result, deferred tax assets and deferred tax liabilities decreased by ¥540 million ($4,811 thousand) and ¥26 million ($238 thousand), respectively. Additionally, income taxes-deferred (debit), unrealized gain (loss) on available-for-sale securities (credit), and defined retirement benefit plans (debit) increased by ¥520 million ($4,630 thousand), ¥26 million ($238 thousand) and ¥20 million ($180 thousand), respectively.

At February 28, 2017, certain subsidiaries have tax loss carryforwards aggregating approximately ¥9,033 million ($80,338 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
2018	¥ 621	$ 5,523
2019	1,066	9,487
2020	1,400	12,458
2021	2,309	20,535
2022 and thereafter	3,635	32,332
Total	¥ 8,033	$ 80,338

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, 2017 and February 29, 2016, were ¥76,566 million ($680,954 thousand) and ¥59,289 million, respectively.

As discussed in Note 2, 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, 2017, and February 29, 2016, was as follows:

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

	Millions of Yen	
	2016	
	Furniture and Fixtures	Total
Acquisition cost	¥ 35	¥ 35
Accumulated depreciation	26	26
Net leased property	¥ 8	¥ 8

	Thousands of U.S. Dollars	
	2017	
	Furniture and Fixtures	Total
Acquisition cost	$ 315	$ 315
Accumulated depreciation	270	270
Net leased property	$ 44	$ 44

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥ 4	¥ 3	$ 35
Due after one year	1	5	15
Total	¥ 5	¥ 9	$ 51

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Depreciation expense	¥ 3	¥ 3	$ 31
Interest expense	0	0	2
Total	¥ 4	¥ 4	$ 33
Lease payments	¥ 4	¥ 4	$ 33

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, 2017, and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥ 56,318	¥ 47,106	$ 500,872
Due after one year	413,909	366,074	3,681,161
Total	¥ 470,227	¥ 413,180	$ 4,182,034

Note:
The total for the year ended February 28, 2017, includes the Group's land use rights in China, Vietnam, and Indonesia, amounting to ¥35,941 million ($319,652 thousand).
The total for the year ended February 29, 2016, includes the Group's land use rights in China and Vietnam, amounting to ¥38,269 million. The land use rights for the years ended February 28, 2017 and February 29, 2016 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, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥ 5,200	¥ 2,478	$ 46,253
Due after one year	29,077	19,876	258,600
Total	¥ 34,277	¥ 22,355	$ 304,854

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group policy for financial instruments*

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

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

Receivables, such as trade accounts receivables, are exposed to customers 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 payment, 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		
	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)		
	5,827	5,827	
Investment securities	2,140	2,140	
Lease deposits to lessors, including current portion	56,167	53,470	¥ (2,696)
Total	¥ 135,057	¥ 132,360	¥ (2,696)
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	130,652	130,851	199
Total	¥ 619,187	¥ 617,722	¥ (1,464)

	Millions of Yen		
	2016		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 53,652	¥ 53,652	
Time deposits	1,722	1,722	
Receivables—Trade accounts	5,713		
Allowance for doubtful receivables*	(33)		
	5,679	5,679	
Investment securities	2,188	2,188	
Lease deposits to lessors, including current portion	44,684	42,660	¥ (2,024)
Total	¥ 107,928	¥ 105,903	¥ (2,024)
Short-term bank loans	¥ 8,339	¥ 8,339	
Payables—Trade accounts	14,239	14,239	
Payables—Construction	78,886	78,886	
Deposits received	40,135	40,135	
Income taxes payable	10,556	10,556	
Long-term debt, including current portion	230,867	230,685	¥ (181)
Corporate bonds, including current portion	95,200	96,207	1,007
Lease deposits from lessees, including current portion	122,725	123,221	495
Total	¥ 600,950	¥ 602,271	¥ 1,320

	Thousands of U.S. Dollars		
	2017		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	$ 618,935	$ 618,935	
Time deposits	11,817	11,817	
Receivables—Trade accounts	52,036		
Allowance for doubtful receivables *	(208)		
	51,827	51,827	
Investment securities	19,038	19,038	
Lease deposits to lessors, including current portion	499,531	475,547	$ (23,983)
Total	$ 1,201,150	$ 1,177,167	$ (23,983)

Payables—Trade accounts	$ 134,788	$ 134,788	
Payables—Construction	555,860	555,860	
Deposits received	379,659	379,659	
Income taxes payable	70,234	70,234	
Long-term debt, including current portion	2,048,133	2,038,121	$ (10,011)
Corporate bonds, including current portion	1,156,172	1,151,387	(4,784)
Lease deposits from lessees, including current portion	1,161,974	1,163,745	1,771
Total	$ 5,506,823	$ 5,493,798	$ (13,024)

*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 bank loans, 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 value cannot be reliably determined.

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Investments in equity instruments that do not have a quoted market price in an active market	¥ 46	¥ 143	$ 409

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

	Millions of Yen			
	2017			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 69,593			
Time deposits	1,328			
Receivables—Trade accounts	5,850			
Lease deposits to lessors *	699	¥ 1,833	¥ 279	¥ 1
Long-term debt	52,563	116,763	57,020	3,944
Corporate bonds	10,000	30,000	80,000	10,000
Lease deposits from lessees	175	325		

	Thousands of U.S. Dollars			
	2017			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 618,935			
Time deposits	11,817			
Receivables—Trade accounts	52,036			
Lease deposits to lessors *	6,221	$ 16,305	$ 2,489	$ 17
Long-term debt	467,478	1,038,448	507,123	35,083
Corporate bonds	88,936	266,808	711,490	88,936
Lease deposits from lessees	1,558	2,898		

* Lease deposits to lessors with no defined redemption schedule of ¥53,352 million ($474,497 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 hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in 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 the authorization and credit limit amounts.

Derivative transactions to which hedge accounting is not applied

	Millions of Yen			
February 28, 2017	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)

	Millions of Yen			
February 29, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt U.S. dollar/Payment Yen	¥ 13,206	¥ 10,805	¥ (874)	¥ (874)
Receipt Yen/Payment Indonesia Rup	¥ 1,670		¥ 44	¥ 44

February 28, 2017	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	$96,097	$ 64,059	$ (6,681)	$ (6,681)
Receipt Yen/Payment Indonesia Rup	$48,255		$ (2,113)	$ (2,113)

*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

		Millions of Yen		
February 28, 2017	Hedged Item	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	*

		Millions of Yen		
February 29, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	¥ 46,307	¥ 36,079	*

		Thousands of U.S. Dollars		
February 28, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	$ 379,559	$ 349,559	*

*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, 2017, includes ¥10,677 million ($94,966 thousand) gain on the sale of seven commercial facilities to leasing companies, specific-purpose company, and other company. The figure for the year ended February 29, 2016, includes ¥1,862 million gain on the sale of two commercial facilities to Aeon REIT Invest Corporation.

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

The figure for the year ended February 28, 2017, includes ¥6,733 million ($59,882 thousand) of loss on the sale of one commercial facility to leasing company.

17. PROVISION FOR DOUBTFUL ACCOUNTS

The figure for the year ended February 28, 2017, is related to compensation claims against KANDU JAPAN INC. (changed the company name to SN Enterprise Co., Ltd. on June 30, 2016), an associated company.

18. CONTINGENT LIABILITIES

During the fiscal year ended February 29, 2016, KANDU JAPAN INC.(changed the company name to SN Enterprise Co., Ltd. on June 30, 2016) , an associated company, concluded an agreement to extend the borrowing period for debt due on February 29, 2016, with a financial institution. In association with the agreement, the Company introduced a credit enhancement, but the Company carried out warranty during the current consolidated fiscal year. As a result, the Company has acquired compensation claim.

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Credit enhancement		¥ 1,050	
Provision for loss on guarantees		525	
Net		¥ 525	

19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended February 28, 2017, and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized (loss) gain on available-for-sale securities:			
Gains arising during the year	¥ (38)	¥ 75	$ (339)
Reclassification adjustments to profit or loss	(5)		(46)
Amount before income tax effect	(43)	75	(386)
Income tax effect	40	31	362
Total	¥ (2)	¥ 106	$ (23)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (10,479)	¥ (7,792)	$ (93,198)
Reclassification adjustments to profit or loss		(282)	
Amount before income tax effect	(10,479)	(8,075)	(93,198)
Income tax effect			
Total	¥ (10,479)	¥ (8,075)	$ (93,198)
Defined retirement benefit plans			
Adjustments arising during the year	¥ (872)	¥ (265)	$ (7,760)
Reclassification adjustments to profit or loss	50	34	447
Amount before income tax effect	(822)	(230)	(7,312)
Income tax effect	243	67	2,163
Total	¥ (579)	¥ (163)	$ (5,149)
Total other comprehensive loss	¥ (11,060)	¥ (8,131)	$ (98,371)

20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted EPS for the years ended February 28, 2017, and February 29, 2016, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2017	Net Income	Weighted-Average Shares	EPS*	
Basic EPS - Net income available to common shareholders	¥ 28,527	227,395	¥ 125.45	$ 1.12
Effect of dilutive securities - Warrants		89		
Diluted EPS - Net income for computation	¥ 28,527	227,485	¥ 125.40	$1.12
Year Ended February 29, 2016				
Basic EPS - Net income available to common shareholders	¥ 24,639	227,230	¥ 108.43	
Effect of dilutive securities - Warrants		106		
Diluted EPS - Net income for computation	¥ 24,639	227,336	¥ 108.38	

21. BUSINESS COMBINATION

a. Overview of the business combination

(1) Name of acquired company and its business outline

Name of acquired company: OPA Co., Ltd.

Business outline: Operation, management, and development of shopping malls

(2) Date of business combination: March 1, 2016

(3) Legal form of business combination: A share exchange upon which the Company becomes a wholly owning parent company, and OPA becomes a wholly owned subsidiary

(4) Name of the company after the combination: No change

(5) Other matters related to overview of the business combination

OPA manages and operates nine fashion buildings located in the urban areas, and it also manages and operates fashion buildings, and the VIVRE FORUS business (other than the retail business) of AEON Retail Co., Ltd., which OPA succeeded upon the absorption-type demerger on March 1, 2016. Through the share exchange, these businesses have been integrated into the Company, and the business expertise of both companies has been combined which plays a core role in the ÆON group as a developer. The Company decided to conduct this share exchange in order to drive the development of attractive commercial facilities for customers by the expansion of new business bases and the renovation of existing facilities, as well as to strengthen its management foundations and to enhance its corporate value.

b. Overview of accounting treatment

For accounting purposes, the Company treats the share exchange as a transaction under common control in accordance with Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on September 13, 2013) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 issued on September 13, 2013).

c. Acquisition of shares in subsidiary

(1) Cost of acquisition of the acquired company and breakdown of consideration for acquisition

Acquisition cost: ¥4,937 million ($43,907 thousand)

Consideration for acquisition (treasury stock): ¥4,937 million ($43,907 thousand)

(2) Share exchange ratio by class of share, calculation method, and number of shares delivered

(i) Share exchange ratio by class

47.48 shares of the Company’s common stock for 1 share of OPA’s common stock

(ii) Method of share exchange ratio calculation

To ensure fairness and appropriateness in determining the share exchange ratio, the Company appointed PricewaterhouseCoopers Kyoto (“PwC Kyoto”) as a third-party institution to assess the share exchange ratio. Based on the assessment, both parties negotiated and consulted with each other carefully. and came to a conclusion that the share exchange rate was appropriate.

(iii) Number of shares delivered

2,268,879

22. SIGNIFICANT NONCASH TRANSACTIONS

The table below shows a breakdown of the assets and liabilities 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	($ 25,695 thousand)
Fixed assets	¥ 24,065 million	($ 214,031 thousand)
Total assets	¥ 26,954 million	($ 239,726 thousand)
Current liabilities	¥ 14,579 million	($ 129,664 thousand)
Long-term liabilities	¥ 7,953 million	($ 70,736 thousand)
Total liabilities	¥ 22,533 million	($ 200,401 thousand)

The current assets include cash and cash equivalents of ¥757 million ($6,732 thousand) at the beginning of consolidation, which is posted in the increase in cash and cash equivalents resulting from the share exchange.

23. RELATED-PARTY DISCLOSURES

Transactions with the parent company and its subsidiaries for the years ended February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deposits kept at the cash pool account of ÆON CO., LTD. (the parent company)	¥ 2,148	¥ 3,759	$ 19,107
Interest income from ÆON CO., LTD. (the parent company)	1	6	16
Revenues from leases of shopping malls to ÆON RETAIL CO., LTD. (the parent's subsidiary)	30,947	29,787	275,236
Credit fee paid to ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	4,592	4,393	40,847

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, 2017, and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Cash equivalents—deposits kept at the cash pool account of ÆON CO., LTD. (the parent company)	¥ 11,000		$ 97,829
Receivables—other from ÆON CO., LTD. (the parent company)	0	¥ 0	4
]Receivables—trade accounts from ÆON RETAIL CO., LTD. (the parent's subsidiary)	572	683	5,094
Lease deposits received from ÆON RETAIL CO., LTD. (the parent's subsidiary)	13,163	13,318	117,069
Receivables—other from ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	8,971	9,118	79,788

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

24. SEGMENT INFORMATION

(1) *Description of Reportable Segments*

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

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

	Millions of Yen					
	2016					
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 214,006	¥ 11,506	¥ 4,241	¥ 229,754		¥ 229,754
Intersegment revenues or transfers						
Total	¥ 214,006	¥ 11,506	¥ 4,241	¥ 229,754		¥ 229,754
Segment profit (loss)	¥ 49,322	¥ (4,448)	¥ (1,013)	¥ 43,859	¥ 11	¥ 43,870
Segment assets	703,222	160,195	109,493	972,912	2,058	974,970
Other:						
Depreciation	31,684	1,972	1,489	35,145	(11)	35,134
Impairment losses on assets	686			686		686
Increase in property, plant, and equipment and intangible assets	102,974	48,812	32,164	183,951	(288)	183,663

	Thousands of U.S. Dollars					
	2017					
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	$ 2,170,810	$ 168,256	$ 60,377	$ 2,399,444		$2,399,444
Intersegment revenues or transfers						
Total	$ 2,170,810	$ 168,256	$ 60,377	$ 2,399,444		$ 2,399,444
Segment profit (loss)	$ 433,264	$ (30,692)	$ (3,103)	$ 399,468	$ 168	$ 399,637
Segment assets	6,433,671	1,344,038	1,078,546	8,856,256	150,848	9,007,105
Other:						
Depreciation	312,656	42,721	24,443	379,821	(168)	379,652
Impairment losses on assets	13,846	3,394		17,241		17,241
Increase in property, plant and equipment and intangible assets	1,112,188	87,453	114,362	1,314,004		1,314,004

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 ($150,848 thousand) is the Group's assets of ¥ 15,607 million ($138,804 thousand), which are not included in the reportable segment and 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 the 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 29, 2016:

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 ¥2,058 million is the Group's assets of¥ 3,539 million, which are not included in the reportable segment and 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 the 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, 2017, and February 29, 2016, 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, 2017, and February 29, 2016, 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			
2017			
Japan	China	ASEAN	Total
¥ 622,097	¥ 53,824	¥ 86,315	¥ 762,237

Millions of Yen			
2016			
Japan	China	ASEAN	Total
¥ 620,676	¥ 56,319	¥ 77,720	¥ 754,716

Thousands of U.S. Dollars			
2017			
Japan	China	ASEAN	Total
$ 5,532,702	$ 478,697	$ 767,660	$ 6,779,061

(6) Information about major customers

Name of customers	2017 Millions of Yen Revenues		Related segment name
ÆON RETAIL CO., LTD.	¥	31,549	Japan

Name of customers	2016 Millions of Yen Revenues		Related segment name
ÆON RETAIL CO., LTD.	¥	29,812	Japan

Name of customers	2017 Thousands of U.S. Dollars Revenues		Related segment name
ÆON RETAIL CO., LTD.	$	280,592	Japan

25. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings at February 28, 2017, was approved at the Company's Board of Directors' meeting held on April 12, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥13.50 ($0.12) per share	¥3,070	$ 27,304

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of ÆON Mall Co., Ltd. and its subsidiaries as of February 28, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ÆON Mall Co., Ltd. and its subsidiaries as of February 28, 2017, 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, 2017

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 2016.