

Financial Section

INDEX

- 1 Five-Year Financial Summary
- 2 Reference Information on the Financial Analysis of AEON MALL
- 3 Financial Review of the Fiscal Year ended February 29, 2016
- 7 Consolidated Balance Sheet
- 9 Consolidated Statement of Income
- 10 Consolidated Statement of Comprehensive Income
- 11 Consolidated Statement of Changes in Equity
- 12 Consolidated Statement of Cash Flows
- 14 Notes to Consolidated Financial Statements
- 52 Independent Auditor's Report

Five-Year Financial Summary

AEON MALL Co., Ltd. and its subsidiaries
Consolidated fiscal year ended February 29, 2016

	Millions of Yen				Thousands of U.S. Dollars (Note)	
	2011	2012	2013	2014	2015	2015
For the year:						
Operating revenue	¥ 150,886	¥ 161,427	¥ 176,931	¥ 203,902	¥ 229,754	\$ 2,021,777
Operating income	40,656	41,743	42,227	41,872	43,870	386,051
Net income	20,355	21,865	23,430	24,513	24,639	216,822
Capital expenditures	73,044	53,536	114,859	181,953	174,055	1,531,634
Depreciation and amortization	20,739	21,621	23,945	29,574	32,088	282,371
Operating cash flows	23,248	63,226	44,382	76,152	61,785	543,698
Investing cash flows	(68,323)	(69,751)	(47,143)	(127,505)	(146,332)	(1,287,688)
Financing cash flows	25,889	35,493	17,232	54,994	73,446	646,306
Free cash flows	(45,075)	(6,525)	(2,761)	(51,353)	(84,547)	(743,989)
Per share data (yen and U.S. dollars):						
Net income	¥ 112.37	¥ 109.73	¥ 106.96	¥ 107.58	¥ 108.43	\$ 0.95
Cash dividends	21.00	22.00	22.00	22.00	22.00	0.19
At year-end:						
Total assets	¥ 543,761	¥ 630,887	¥ 759,245	¥ 900,957	¥ 974,970	\$ 8,579,462
Total equity	194,474	217,776	298,526	332,536	339,849	2,990,577
Interest-bearing debt	179,911	220,146	190,366	253,798	334,406	2,942,682
Ratio:						
Equity ratio (%)	35.6	34.1	38.9	36.4	34.2	—
ROE (Return on equity) (%)	11.0	10.7	9.2	7.9	7.5	—
ROA (Ratio of net income to total assets) (%)	3.8	3.7	3.4	3.0	2.6	—
ROIC (Return on invested capital) (%)	—	—	—	4.9	4.5	—
Debt-equity ratio (times)	0.93	1.02	0.65	0.77	1.0	—
PER (times)	16.4	19.0	26.3	21.5	14.8	—
PBR (times)	1.7	1.9	2.2	1.6	1.1	—

Note: For the convenience of readers, the value in U.S. dollars is calculated with the estimated exchange rate as of February 29, 2016 at 113.64 yen to the dollar.

* Because of a revision to the accounting period, fiscal 2012 had a period of 12 months and eight days, specifically starting on February 21, 2012 and ending on February 28, 2013.

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

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

Accordingly, net income per share has been calculated on the assumption that the share split took place at the beginning of fiscal 2012.

Reference Information on the Financial Analysis of AEON MALL

Income and expenditure structure of the shopping mall business

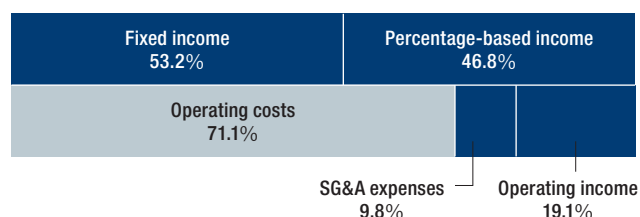
The revenue base of AEON MALL is rent income from tenants that open stores at its malls, which is a form of rent income from real estate. The rent income of real estate consists of fixed rent income that is immovable and percentage-based rent income that fluctuates in line with changes in sales of tenants.

In percentage-based rent income, the operating revenue of AEON MALL increases along with a rise in tenants' sales. In addition, because the company sets guaranteed minimum sales in many cases to hedge the risk when sales are sluggish, the impact of the decline in tenants' sales on operating revenue is limited.

AEON MALL has also adopted a system to receive the purchase prices of customers at tenant stores as their sales, and return the amount in installments to tenants after subtracting rent and expenses. With this system, AEON MALL avoids the risk that accounts receivable could become bad debts.

Operating costs include personnel expenses for employees stationed at malls on a permanent basis, facility maintenance costs, utilities expenses, rent payable to land and building owners, and the depreciation of mall facilities. Of these, the items that account for a large share of about 40% of operating revenue are rent payable, which is a real estate cost, and depreciation.

AEON MALL Earnings Structure (FY 2015)



Types of mall holdings and their impact on financial statements

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

■ (1) Leasing land and owning the building

The basic approach to developing a mall is to lease land from the land owner and build a building that AEON MALL will own. In this case, the majority of the investment amount is recorded as buildings and structures and furniture and fixtures on the balance sheet.

■ (2) Owning both land and the building

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

■ (3) Leasing both the land and building together

When AEON MALL leases the land and building together because the land owner effectively owns them for the purpose of using an old factory site or some other reason, the company pays a construction assistance fund to the owner for the structure that is held by the owner. The construction assistance fund are recorded as an asset as lease deposits paid together with lease deposits, and returned to the company in installments during the term of the lease.

When AEON MALL owns both the land and building in (2), the company actively promotes the securitization of real estate by transferring the land and building to a listed REIT or a private placement fund and leasing them back together. AEON MALL concludes a contract with the REIT, the owner of the land and buildings, to continue management and operation just as it did before the transfer and pays lease deposits. The lease deposits are recorded as lease deposits paid. While the REIT will earn stable income because the rent is fixed, AEON MALL will benefit from additional income generated by operation.

■ (4) Providing only property management

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

In the case of (1) through (3) above, AEON MALL receives lease deposits from tenants and records them as lease deposits from lessees in liabilities of the balance sheet. The lease deposits from lessees are based on six month's rent and the estimated amount of expenses to restore the property to its original state.

Types of mall holdings as of February 29, 2016

Type of mall holdings	Number of malls	Gross profit margin
Owning the land/owning the building	13	38.8%
Leasing the land/owning the building	24	31.9%
Leasing the land/leasing the building	33*	30.7%
Contracting PM	74	17.2%

* Includes 21 securitized properties

Financial Review of the Fiscal Year ended February 29, 2016

Content of Business and the Scope of Consolidation

AEON MALL Co., Ltd. ("the company") is a core company that engages in the developer business of the AEON Group, of which AEON Co., Ltd. is the parent company. The company is a commercial developer that comprehensively operates malls in all areas from the development and leasing of shopping malls to the management and operation after opening.

The AEON MALL Group ("the Group"), of which the company is the parent company, carries out the shopping mall business in Japan and overseas. It also rents out stores at its malls to general tenants and AEON Group companies.

In the consolidated settlement of accounts for the fiscal year ended February 29, 2016, the company and its 34 consolidated subsidiaries and two equity-method affiliates were included in the scope of consolidation.

Overview of Business Performance

■ Business environment

During the fiscal year under review, the Japanese economy showed some positive signs, such as improvements in corporate earnings and employment conditions. However, the future outlook remained uncertain, due in large part to concerns about the deceleration of the economy in China and other parts of the world. Although personal consumption has picked up in some areas, consumer spending on a whole has remained stagnant.

Meanwhile in China, personal consumption continued to exhibit double-digit growth, while GDP followed on a downward trend. The Chinese government also shifted to growth driven by domestic demand, launching a plan in November 2015 to double the national income from the 2010 level by the year 2020.

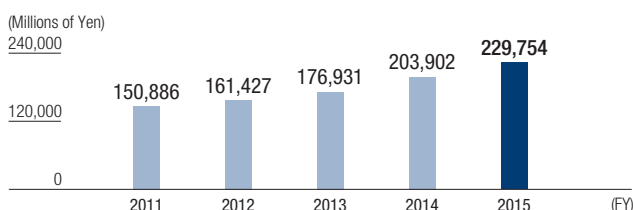
In this environment, the Group opened five new malls and renovated 12 existing malls in Japan by pushing forward with the development of concept malls in line with regional characteristics.

In China and the ASEAN region, the Group strived to further improve its ability to attract customers at existing malls. It also opened six new malls in China, one mall in Indonesia, and one mall in Vietnam.

■ Operating revenue and gross profit

Operating revenue increased 12.7% year on year, to ¥229,754 million. The strong performance of some of the existing malls overseas and the opening of 13 new malls in Japan and other countries contributed to the significant double-digit increase in revenue. Because operating costs increased 15.5% year on year in relation to the expansion of the business scale, gross profit rose 6.2% year on year, to ¥66,317 million. The gross profit margin was 28.9%.

Operating revenue

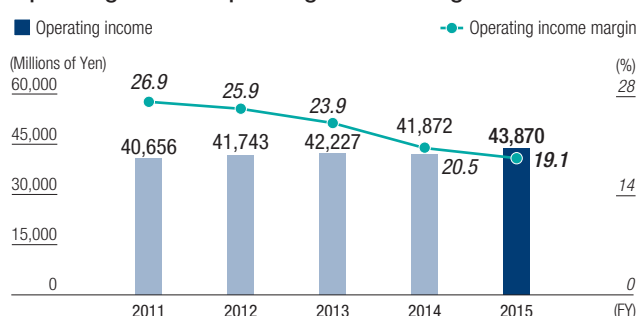


■ Operating income

As a result of a 9.1% year-on-year rise in selling, general and administrative expenses, operating income increased 4.8% year on year, to ¥43,870 million, recovering from the income decline in the previous fiscal year and hitting a record high. The operating income margin was 19.1%.

Growth in operating income has been slowing since the fiscal year ended February 28, 2013 because selling, general and administrative expenses continued to increase as prior costs associated with the promotion of growth measures. In the fiscal year under review, growth in selling, general and administrative was restrained because the strengthening of the organization in Japan and overseas had run its course. This in turn helped to boost income.

Operating income/Operating income margin

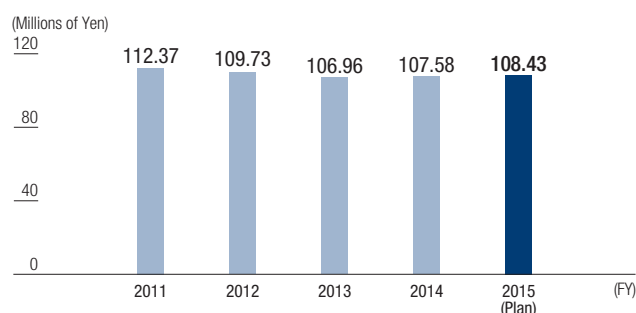


■ Profit before income taxes and net income

As a result of recording other income and expenses, such as interest expenses, gains on the sales of non-current assets due to the transfer of assets to REITs, losses on the retirement of non-current assets associated with the renovation of existing malls, and expenses related to the closure of AEON MALL Neyagawa (Osaka Prefecture) and AEON MALL Fujiidera (Osaka Prefecture) that are to be scrapped and built, profit before income taxes declined 3.1% year on year, to ¥41,037 million.

Net income after subtracting income taxes and minority interests in net income from profit before income taxes was ¥24,639 million, up 0.5% year on year, and net income per share was ¥108.43.

Net income per share



* AEON MALL issued 23,500 thousand new shares on June 19, 2013 and 2,500 thousand new shares on July 12, 2013. On August 1, 2013, AEON MALL executed a 1.1-for-1 split of common shares. As a result, the net income per share has been calculated on the assumption that the share split took place at the beginning of fiscal 2012.

Performance by Segment

■ Domestic Business

In the domestic business, operating revenue increased 8.8% year on year, to ¥214,006 million, and operating income rose 6.4%, to ¥49,322 million.

In Japan, we opened five new malls. All were concept malls developed based on unique ideas that took into account the location and characteristics of the market area.

Existing malls made efforts to increase their ability to attract customers by holding sales promotion projects in line with social events and holding their own events. In addition, 11 malls conducted renovations by replacing tenants, while AEON MALL Chikushino (Fukuoka Prefecture) conducted renovations that involved floor expansion. Chikushino also introduced new tenants and updated 182 stores, or 90% of all stores, through the relocation and remodeling of existing tenants. Sales increased significantly by 50% year on year, while the leasable area expanded 16%.

■ Overseas Business

The Group regards China and the ASEAN region as an area that will become a future growth driver, given expectations for the expansion of the suburban market associated with progress in motorization and an increase in middle-income earners. Although they are still in the stage of prior investment are not able to contribute to profits, both existing and new malls are making progress as planned towards getting on the path to growth.

China Business

The China business recorded operating revenue of ¥11,506 million, an increase of 89.7% year on year. However, it recorded an operating loss of ¥4,448 million, compared with an operating loss of ¥3,529 million in the previous fiscal year.

In the fiscal year under review, we opened six malls, including AEON MALL Suzhou Yuanqu Hudong and AEON MALL Wuhan Jingkai, flagship malls in the area for which the land and building are owned by the company, AEON MALL Guangzhou Panyu Square, the first mall in Guangdong Province, and AEON MALL Suzhou Xinqu, the third mall in Jiangsu Province, bringing the total number of malls in China to 12. All the new malls performed well, and sales at Suzhou Yuanqu Hudong, which opened May 2015, are showing a double-digit increase compared to that of the plan. At Wuhan Jingkai, which opened December 2015, sales during the period of the Lunar New Year were the highest of the China business.

ASEAN Business

In the ASEAN business, operating revenue increased 257.2% year on year, to ¥4,241 million, and an operating loss came to ¥1,013 million, compared with ¥944 million in the previous fiscal year.

In the fiscal year under review, we opened AEON MALL BSD CITY (Tangerang, Banten), the first mall in Indonesia, and AEON MALL Long Bien (Hanoi), the third mall in Vietnam and the first mall in the Hanoi area. This brought the total number of malls in the ASEAN region to five.

With the number of visitors to BSD CITY in the first 10 months after it opened reaching 10 million and those to Long Bien in its first six months reaching 5 million, both malls made a good start.

Operating revenue by segment

(Millions of yen)

	FY2/2015	FY2/2016
Consolidated	203,902	229,754
Domestic Business	196,650	214,006
China Business	6,065	11,506
ASEAN Business	1,187	4,241

Operating income (loss) by segment

(Millions of yen)

	FY2/2015	FY2/2016
Consolidated	41,872	43,870
Domestic Business	46,346	49,322
China Business	△3,529	△4,448
Consolidated	△944	△1,013

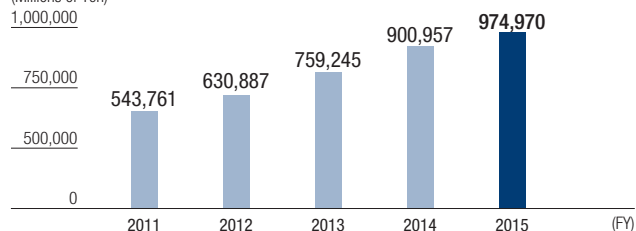
Analysis of Financial Position

■ Assets

Total assets stood at ¥974,970 million, up ¥74,012 million from the end of the previous fiscal year. This was chiefly attributable to an increase of ¥64,896 million in property, plant and equipment due to the opening of new malls and the prior acquisition of land for development in the future and an increase of ¥17,137 million in long-term prepaid expenses due to the acquisition of land-use rights in China.

Total assets

(Millions of Yen)



■ Liabilities

Total liabilities stood at ¥635,120 million, up ¥66,699 million from the end of the previous fiscal year. This was mainly due to a ¥42,268 million increase in long-term loans payable (including the current portion of long-term loans payable) and a ¥30,000 million increase in bonds (including the current portion of bonds).

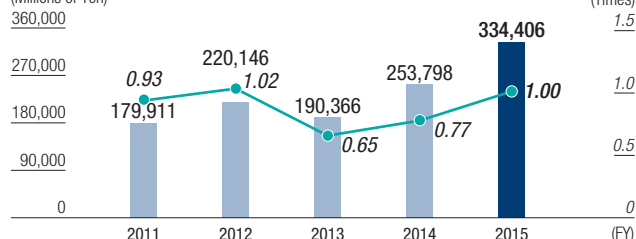
Interest-bearing debt increased ¥80,607 million from the end of the previous fiscal year, to ¥334,406 million. The debt-equity ratio was 1.0, staying at a level of 1 time or less, which the Group regards as a soundness indicator.

Interest-bearing debt/Debt-equity ratio

■ Interest-bearing debt

● Debt-equity ratio

(Millions of Yen)

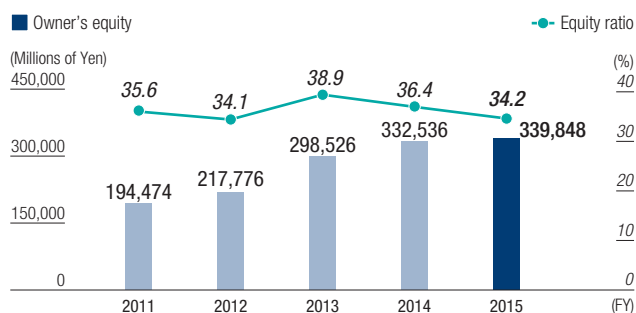


■ Net Assets

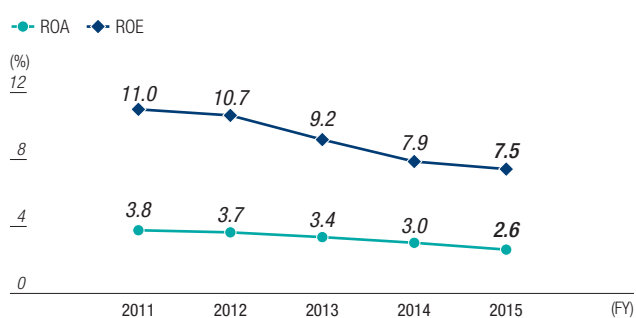
Net assets totaled ¥339,849 million, up ¥7,313 million from the end of the previous fiscal year. This was primarily attributable to an increase in retained earnings due to the recording of net income and a rise of ¥7,725 million in foreign currency translation adjustment.

The equity ratio was 34.2%, staying at 30% or more, which the Group regards as a soundness indicator.

Owner's equity/Equity ratio



ROA/ROE

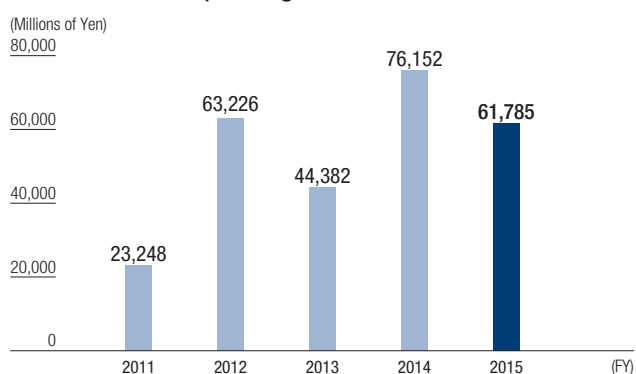


Analysis of Cash Flows

■ Cash flows from operating activities

Net cash provided by operating activities amounted to ¥61,785 million, declining ¥14,366 million from the previous fiscal year. The primary factor for this decline was a decrease in deposits received from specialty stores of ¥14,876 million due to the fact that the return of deposits received from specialty stores was postponed to the fiscal year under review because the last day of the previous fiscal year was a non-business day for banks. When this factor is excluded, the substantive cash flows from operating activities would have increased from the previous fiscal year.

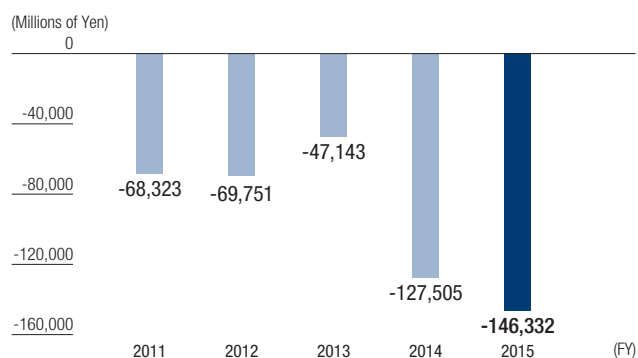
Cash flows from operating activities



■ Cash flows from investing activities

Net cash used in investing activities stood at ¥146,332 million, increasing ¥18,827 million from the previous fiscal year. The major factors for this increase were the proceeds from the sale of property, plant and equipment of ¥55,442 million due to transfer to REITs, the purchase of property, plant and equipment of ¥19,415 million due to payments for equipment at AEON MALL Kisarazu (Chiba Prefecture), AEON MALL Tamadaira Woods (Tokyo), and AEON MALL Okinawa Rycom (Okinawa Prefecture), and the purchase of long-term prepaid expenses of ¥12,899 million for land-use rights overseas.

Cash flows from investing activities

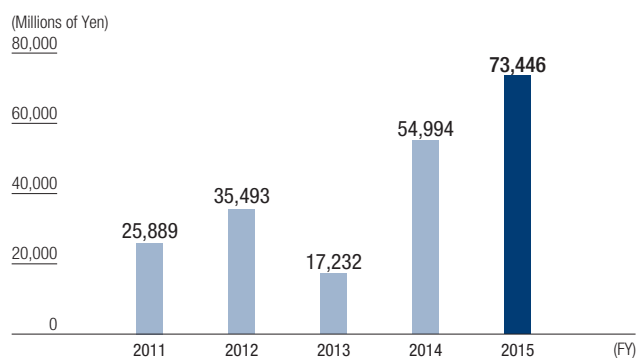


■ Cash flows from financing activities

Net cash provided by financing activities was ¥73,446 million, up ¥18,451 million from the previous fiscal year. This was chiefly attributable to proceeds from issuance of bonds of ¥30,000 million (net amount after offsetting redemption of bonds), short-term bank loans and commercial papers of ¥8,440 million, and the proceeds from long-term loans payable of ¥43,654 million (net amount after offsetting repayments of long-term loans payable).

As a result of taking into account the effect of exchange rate fluctuations and other factors, cash and cash equivalents as of February 29, 2016 amounted to ¥53,652 million, down ¥13,569 million from February 28, 2015.

Cash flows from financing activities



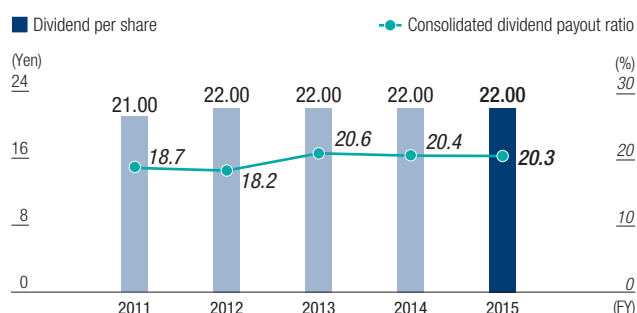
Basic Policy on Income Distribution and Dividends for Fiscal Years Ended February 29, 2016 and Ending February 28, 2017

AEON MALL considers the return of profits to shareholders through the expansion of its earnings power to be a key management priority. The company's basic policy on income distribution emphasizes the maintenance of steady dividend payments to shareholders, while the company determines dividends by considering the demand for the investment funds needed to enhance the business structure and strengthen the operating base.

Taking these factors into account, the company paid annual dividends of ¥22 per share (interim dividends of ¥11 and year-end dividends of ¥11). The consolidated dividend payout ratio will be 20.3%. The company plans to pay annual dividends of ¥27 per share for the fiscal year ending February 28, 2017, up ¥5 from the fiscal year under review. The consolidated dividend payout ratio is forecast to be 22.7%.

As for the consolidated financial results for the fiscal year ending February 28, 2017, we expect operating revenue to increase 21.9%, to ¥280 million, operating income to rise 6.0%, to ¥46.5 million, and net income attributable to owners of parent to climb 9.6%, to ¥27 million.

Dividend per share/Consolidated dividend payout ratio



Outlook for the Fiscal Year Ending February 28, 2017

Domestic Business

In the fiscal year ending February 28, 2017, we plan to open six malls, including AEON MALL Sakai Teppochō (Osaka Prefecture) that opened in March 2016. We will conduct large-scale renovations at 21 existing malls, and enhance our earnings power through measures such as by holding events in cooperation with companies and local governments and responding to inbound demand.

We will also work to expand earnings in the fashion buildings business of OPA Co., Ltd., which became a subsidiary on March 1, 2016. OPA manages and operates fashion buildings in midtown areas and has a complementary relationship in development and leasing with the company, which operates large shopping malls mainly in the suburbs. We will strengthen the development, management, and operation of urban stores as part of the shift to downtown areas, one of the Group strategies, by integrating the expertise of both companies.

Overseas Business

In the fiscal year ending February 28, 2017, we plan to promote the opening of dominant malls in each area, and put 10 of our 17 malls into the black by further improving the operation of malls, which is one of the strengths of the company.

China Business

Although we only plan to open one mall in the fiscal year ending February 28, 2017, we have already started to build seven malls and will work to develop properties in four main areas: Beijing and Tianjin, Jiangsu Province and Zhejiang Province, Hubei Province, and Guangdong Province. At the same time, we will strive to improve expertise in managing and operating the existing malls to expand earnings.

ASEAN Business

We will open AEON MALL Binh Tân (Ho Chi Minh City), the fourth AEON MALL in Vietnam and the third one in the Ho Chi Minh area. In Vietnam, Cambodia, and Indonesia, we will take steps to expand earnings at our existing malls and open new facilities.

Outlook for FY2/2017

	FY2/2016 Results	FY2/2017 Forecasts	Year-on-year (%)
Operating revenue (billion yen)	229.7	280.0	121.9
Operating income (billion yen)	43.8	46.5	106.0
Net income (billion yen)	24.6	27.0	109.6
Net income per share (yen)	108.43	119.94	—
Capital expenditures (billion yen)	187.3	150.0	80.1
Depreciation (billion yen)	32.0	40.0	125.0
Dividend per share (yen)	22.00	27.00	—
Consolidated dividend payout ratio (%)	20.3	22.7	—

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet **February 29, 2016**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2016	2015	2016
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 19)	¥ 53,652	¥ 67,222	\$ 472,131
Time deposits (Note 13)	1,722	5,118	15,157
Receivables:			
Trade accounts (Notes 13 and 19)	5,713	4,724	50,274
Other (Notes 13 and 19)	25,901	21,609	227,925
Allowance for doubtful receivables	(33)	(20)	(292)
Deferred tax assets (Note 11)	1,830	1,265	16,107
Prepaid expenses and other	3,341	3,651	29,407
Total current assets	92,129	103,572	810,710
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Notes 5 and 6)	212,423	196,690	1,869,264
Buildings and structures (Notes 4, 5, 6, and 8)	694,649	588,701	6,112,722
Machinery and equipment (Notes 4 and 5)	4,081	3,515	35,916
Furniture and fixtures (Notes 4 and 5)	31,001	26,213	272,804
Construction in progress (Note 5)	21,941	64,372	193,081
Total	964,097	879,493	8,483,789
Accumulated depreciation	(209,381)	(189,672)	(1,842,501)
Net property, plant, and equipment	754,716	689,820	6,641,288
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	2,234	2,159	19,661
Investments in associated companies	97	190	857
Lease deposits to lessors (Note 13)	44,105	40,407	388,112
Long-term prepaid expenses (Note 5)	68,813	51,676	605,541
Deferred tax assets (Note 11)	6,442	5,430	56,694
Other (Note 13)	6,431	7,700	56,596
Total investments and other assets	128,124	107,564	1,127,461
TOTAL	¥ 974,970	¥ 900,957	\$ 8,579,462

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2016	2015	2016
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 13)	¥ 8,339		\$ 73,383
Current portion of long-term debt (Notes 6 and 13)	38,585	¥ 24,709	339,544
Current portion of corporate bonds (Notes 6 and 13)	200		1,759
Payables:			
Trade accounts (Note 13)	14,239	11,848	125,304
Construction (Note 13)	78,886	95,845	694,183
Other	3,213	1,785	28,278
Deposits received (Note 13)	40,135	54,232	353,178
Income taxes payable (Note 13)	10,556	9,436	92,891
Accrued expenses	3,101	2,909	27,294
Provision for store closing expenses	1,797	645	15,813
Current portion of lease deposits from lessees (Notes 6, 13, and 19)	526	985	4,632
Other	11,816	7,063	103,979
Total current liabilities	211,398	209,461	1,860,243
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	192,281	163,889	1,692,021
Corporate bonds (Notes 6 and 13)	95,000	65,200	835,973
Liability for retirement benefits (Note 7)	600	400	5,288
Provision for loss on guarantees (Note 16)	525		4,619
Lease deposits from lessees (Notes 6, 13 and 19)	122,199	117,701	1,075,320
Asset retirement obligations (Note 8)	9,680	9,169	85,186
Deferred tax liabilities (Note 11)	113	92	1,002
Other	3,321	2,505	29,229
Total long-term liabilities	423,722	358,959	3,728,641
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12,14 and 16)			
EQUITY (Notes 9, 10, 18, and 21):			
Common stock — authorized, 320,000,000 shares; issued, 227,902,027 shares in 2016 and 227,890,747 shares in 2015	42,217	42,207	371,498
Capital surplus	42,525	42,516	374,215
Stock acquisition rights	193	169	1,704
Retained earnings	235,826	216,223	2,075,208
Treasury stock - at cost, 2,802,839 shares in 2016 and 38,939 shares in 2015	(6,101)	(99)	(53,691)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,168	1,061	10,279
Foreign currency translation adjustments	18,213	25,938	160,269
Defined retirement benefit plans	(302)	(138)	(2,657)
Total	333,740	327,878	2,936,826
Minority interests	6,108	4,658	53,751
Total equity	339,849	332,536	2,990,577
TOTAL	¥ 974,970	¥ 900,957	\$ 8,579,462

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income **Year Ended February 29, 2016**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING REVENUE (Note 19)	¥ 229,754	¥203,902	\$ 2,021,777
OPERATING COSTS (Notes 7, 12, and 19)	<u>163,436</u>	<u>141,464</u>	<u>1,438,199</u>
Gross profit	66,317	62,437	583,578
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 7 and 12)	<u>22,446</u>	<u>20,565</u>	<u>197,526</u>
Operating income	<u>43,870</u>	<u>41,872</u>	<u>386,051</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 19)	650	535	5,720
Gain on sales of investment securities		707	
Foreign exchange gains	176	510	1,556
Interest expense	(2,570)	(2,315)	(22,623)
Gain on change in equity	438		3,858
Loss on valuation of derivatives (Note 14)	(797)		(7,019)
Provision for loss on guarantees (Note 16)	(525)		(4,619)
Gain on sales of property, plant, and equipment (Note 15)	1,862	905	16,385
Loss on sales of property, plant, and equipment	(6)	(36)	(57)
Loss on impairment of long-lived assets (Note 4)	(686)		(6,039)
Provision for store closing expenses	(1,152)		(10,137)
Other - net	<u>(222)</u>	<u>181</u>	<u>(1,955)</u>
Other (expenses) income - net	<u>(2,833)</u>	<u>489</u>	<u>(24,929)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>41,037</u>	<u>42,361</u>	<u>361,122</u>
INCOME TAXES (Note 11):			
Current	18,453	17,692	162,382
Deferred	<u>(1,468)</u>	<u>321</u>	<u>(12,919)</u>
Total income taxes	<u>16,984</u>	<u>18,013</u>	<u>149,462</u>
NET INCOME BEFORE MINORITY INTERESTS	24,053	24,348	211,659
MINORITY INTERESTS IN NET LOSS	<u>(586)</u>	<u>(164)</u>	<u>(5,162)</u>
NET INCOME	<u>¥ 24,639</u>	<u>¥ 24,513</u>	<u>\$ 216,822</u>
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2 and 18):			
Basic net income	¥ 108.43	¥ 107.58	\$ 0.95
Diluted net income	108.38	107.53	0.95
Cash dividends applicable to the year	22.00	22.00	0.19

See notes to consolidated financial statements.

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2016</u>	<u>2015</u>	<u>2016</u>
NET INCOME BEFORE MINORITY INTERESTS	¥ 24,053	¥ 24,348	\$ 211,659
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain on available-for-sale securities	106	632	940
Foreign currency translation adjustments	(8,075)	12,950	(71,058)
Defined retirement benefit plan(s)	<u>(163)</u>	<u> </u>	<u>(1,435)</u>
Total other comprehensive (loss) income	<u>(8,131)</u>	<u>13,582</u>	<u>(71,554)</u>
COMPREHENSIVE INCOME	<u>¥ 15,921</u>	<u>¥ 37,931</u>	<u>\$ 140,105</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 16,857	¥ 37,719	\$ 148,344
Minority interests	(936)	211	(8,238)

See notes to consolidated financial statements.

AEON Mall Co., Ltd. and Consolidated Subsidiaries
Consolidated Statement of Changes in Equity
Year Ended February 29, 2016

	Thousands	Millions of Yen										
	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 Plan(s)	Total	Minority Interests	Total Equity (Deficit)
BALANCE, FEBRUARY 28, 2014	227,841	¥ 42,195	¥42,504	¥ 164	¥ 196,722	¥ (92)	¥ 429	¥ 13,364		¥ 295,289	¥ 3,237	¥ 298,526
Net income					24,513					24,513		24,513
Exercise of stock options	14	11	11							23		23
Cash dividends, ¥22 per share					(5,012)					(5,012)		(5,012)
Purchase of treasury stock	(3)					(7)				(7)		(7)
Net change in the year				4			632	12,574	(138)	13,072	1,420	14,493
BALANCE, FEBRUARY 28, 2015	227,851	¥ 42,207	¥ 42,516	¥ 169	¥ 216,223	¥ (99)	¥ 1,061	¥ 25,938	¥ (138)	¥ 327,878	¥ 4,658	¥ 332,536
BALANCE, FEBRUARY 28, 2015 (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, FEBRUARY 28, 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					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

	Thousands of U.S. Dollars (Note 1)											
	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 Plan(s)	Total	Minority Interests	Total Equity (Deficit)	
BALANCE, FEBRUARY 28, 2015 (MARCH 1, 2015, as previously reported)	\$ 371,413	\$ 374,130	\$1,494	\$ 1,902,702	\$ (876)	\$ 9,338	\$ 228,252	\$ (1,221)	\$ 2,885,234	\$ 40,989	\$ 2,926,223	
Cumulative effect of accounting change				(204)					(204)		(204)	
BALANCE, FEBRUARY 28, 2015 (as restated)	371,413	374,130	1,494	1,902,497	(876)	9,338	228,252	(1,221)	2,885,029	40,989	2,926,018	
Net income				216,822					216,822		216,822	
Exercise of stock options	85	85							170		170	
Cash dividends, \$0.19 per share				(44,111)					(44,111)		(44,111)	
Purchase of treasury stock					(52,815)				(52,815)		(52,815)	
Net change in the year			209		(52,815)	940	(67,983)	(1,435)	(68,268)	12,761	(55,506)	
BALANCE, FEBRUARY 29, 2016	\$ 371,498	\$ 374,215	\$1,704	\$ 2,075,208	\$(53,691)	\$ 10,279	\$ 160,269	\$ (2,657)	\$ 2,936,826	\$ 53,751	\$ 2,990,577	

See notes to consolidated financial statements.

AEON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 41,037	¥ 42,361	\$ 361,122
Adjustments for:			
Income taxes - paid	(17,278)	(25,877)	(152,047)
Gain on sales of property, plant, and equipment	(1,862)	(905)	(16,385)
Loss on sales of property, plant, and equipment	6	36	57
Gain on charge in equity	(438)		(3,858)
Depreciation and amortization	32,088	29,574	282,371
Loss on impairment of long-lived assets	686		6,039
Changes in assets and liabilities:			
Increase in receivables - trade accounts	(1,163)	(1,552)	(10,241)
Increase in payables - trade accounts	2,839	200	24,987
Decrease (increase) in deposits received	(14,018)	22,292	(123,360)
Increase (decrease) in allowance for doubtful accounts	12	(32)	113
Decrease in liability for retirement benefits	(64)	(13)	(571)
Other – net	19,940	10,069	175,473
Total adjustments	20,748	33,790	182,576
Net cash provided by operating activities	61,785	76,152	543,698
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(194,315)	(180,863)	(1,709,925)
Proceeds from sales of property, plant, and equipment	55,442	34,013	487,874
Purchases of long-term prepaid expenses	(12,899)	(1,089)	(113,515)
Payments of lease deposits to lessors	(3,713)	(2,176)	(32,679)
Reimbursement of lease deposits to lessors	1,123	5,712	9,886
Proceeds from sales of guarantee deposits		8,077	
Repayments of lease deposits from lessees	(9,405)	(7,987)	(82,766)
Proceeds from lease deposits from lessees	13,616	16,088	119,818
Other	3,820	719	33,618
Net cash used in investing activities	(146,332)	(127,505)	(1,287,688)
FINANCING ACTIVITIES:			
Net increase in short-term borrowings	8,440		74,274
Proceeds from long-term debt	74,679	52,707	657,161
Repayment of long-term debt	(31,025)	(10,566)	(273,017)
Proceeds from issuance of corporate bonds	30,000	40,000	263,991
Repayment of corporate bonds		(23,000)	
Dividends paid	(5,012)	(5,012)	(44,111)
Proceeds from issuance of subsidiaries' stock to minority shareholders	2,539	1,215	22,343
Other	(6,174)	(348)	(54,337)
Net cash provided by financing activities	73,446	54,994	646,306

ÆON Mall Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2016</u>	<u>2015</u>	<u>2016</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>(2,468)</u>	<u>4,484</u>	<u>(21,725)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(13,569)</u>	<u>8,126</u>	<u>(119,408)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>67,222</u>	<u>59,096</u>	<u>591,540</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 53,652</u>	<u>¥ 67,222</u>	<u>\$472,131</u>
MAJOR NONCASH TRANSACTIONS:			
Asset retirement obligations recorded in the consolidated balance sheet	¥ 347	¥ 1,293	\$ 3,053

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 29, 2016

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 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥113.64 to \$1, the approximate rate of exchange at February 29, 2016. 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.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. 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. 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 ¥113.64 to \$1, the approximate rate of exchange at February 29, 2016. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation** - The consolidated financial statements as of February 29, 2016, include the accounts of the Company and its 34 (31 in 2015) subsidiaries (collectively, the "Group"). The following companies have been included in the consolidated financial statements as of and for the year ended February 29, 2016, since they were newly established during the year:

AEON MALL DIANYA (TIANJIN) BUSINESS MANAGEMENT CO., LTD.
YANTAI MALL REAL ESTATE DEVELOPMENT CO., LTD.
AEON MALL (SANHE) BUSINESS MANAGEMENT CO., LTD.

Investments in two (two in 2015) 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.

- b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** - In May 2006, the Accounting Standards Board of Japan (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." 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 the accounting principles generally accepted in the United States of America may be used tentatively 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; (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; and (e) exclusion of minority interests from net income, if contained in net income.

- 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 become 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 3 to 39 years for buildings and structures and from 2 to 20 years for furniture and fixtures.
- g. **Intangible Assets** - Depreciation of software is computed by the straight-line method based on five years of 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 4 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. **Lease Deposits to Lessors and Lease Deposits from Lessees** - Certain shopping malls operated by the Group are leased under 20-year lease agreements. The lease agreements require that the Group make a lease deposit to the lessor.

The Group receives lease deposits from tenants (lessees) of shopping malls generally under 20-year lease agreements.

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

m. Retirement and Pension Plans - The Company has a defined benefit plan, defined contribution pension plan and advance payment plan. Liability for employees' retirement benefits is accounted for based on the projected benefit obligations and plan assets at the consolidated balance sheet date. A certain domestic consolidated subsidiary has joined the Smaller Enterprise Retirement Allowance Mutual Aid System. In addition, certain foreign subsidiaries have lump-sum payment plans.

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.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits, which had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

- (a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or an asset (asset for retirement benefits).
- (b) The revised accounting standard does not change the method to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income (loss), and actuarial gains and losses and past service costs that were recognized in other comprehensive income (loss) in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note17).
- (c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above effective February 28, 2015, and for (c) above effective March 1, 2015.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of March 1, 2015, in retained earnings. As a result, liability for retirement benefits as of March 1, 2015, increased by 36 million (\$317 thousand) and retained earnings as of March 1, 2015, decreased by 23 million (\$204 thousand), and the effect on operating income, ordinary income and income before income taxes

and minority interests for the year ended February 29, 2016, is immaterial. There is also no material impact on per share information.

- n. *Asset Retirement Obligations*** - In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed by either law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

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

- o. *Stock Options*** – In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance that are applicable to stock options granted on or after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for 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 standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

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

Lessee

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

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

All other leases are accounted for as operating leases.

Lessor

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the notes to the lessor's financial statements. The revised accounting standard requires that all finance leases that are deemed to

transfer ownership of the leased property to the lessee be recognized as lease receivables and that all finance leases that are not deemed to transfer ownership of the leased property to the lessee be recognized as investments in leases.

All other leases are accounted for as operating leases.

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

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

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

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

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

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

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

- w. 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.

- x. **Accounting Changes and Error Corrections** - In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) *Changes in Accounting Policies*

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) *Changes in Presentation*

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) *Changes in Accounting Estimates*

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) *Corrections of Prior-Period Errors*

When an error in prior-period consolidated financial statements is discovered, those consolidated statements are restated.

y. **New Accounting Pronouncements**

The Company and its domestic consolidated subsidiaries:

The new accounting standards and other pronouncements that have been issued, which the Company and its domestic consolidated subsidiaries have not yet adopted as of February 29, 2016, are as follows:

- Accounting Standard for Business Combinations (ASBJ Statement No. 21, revised on September 13, 2013)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on September 13, 2013)
- Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on September 13, 2013)
- Accounting Standard for Earnings per Share (ASBJ Statement No. 2, revised on September 13, 2013)
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, revised on September 13, 2013)
- Guidance on Accounting Standard for Earnings per Share (ASBJ Guidance No. 4, revised on September 13, 2013)

The changes in these accounting standard, and other pronouncements mainly focus on (a) accounting for the changes in a parent's ownership interest in its subsidiary due to a parent's additional purchase of ownership interests in its subsidiary or other cases, while the parent retains its controlling interest in its subsidiary, (b) accounting for acquisition-related costs, (c) accounting for finalization of the provisional purchase price allocation, and (d) presentation of net income and the name change from "minority interests" to "noncontrolling interests." The Company and its consolidated subsidiaries will adopt the revised standards at the beginning of the fiscal year commencing on March 1, 2016, except for accounting for finalization of the provisional purchase price allocation that will be applied to business combinations to be completed on or after March 1, 2016. The effect that the adoption of these standards will have on the consolidated financial statements is currently under evaluation.

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 29, 2016, 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, in principle. 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 that the adoption of these standards will have on the consolidated financial statements is currently under evaluation.

3. INVESTMENT SECURITIES

Investment securities as of February 29, 2016, and February 28, 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Investment securities:			
Marketable equity securities	¥ 2,188	¥ 2,112	\$ 19,256
Other	46	46	404
Total	<u>¥ 2,234</u>	<u>¥ 2,159</u>	<u>\$ 19,661</u>

The costs and aggregate fair values of investment securities as of February 29, 2016, and February 28, 2015, were as follows:

	Millions of Yen			
	2016			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale - Equity securities	¥ 467	¥1,724	¥(3)	¥2,188
	Millions of Yen			
	2015			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale - Equity securities	¥ 467	¥1,645	¥(0)	¥2,112
	Thousands of U.S. Dollars			
	2016			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale - Equity securities	\$ 4,117	\$15,171	¥ (32)	\$19,256

There were no sales of the available-for-sales securities during the year ended February 29, 2016. The proceeds, realized gains, and realized losses of the available-for-sale securities that were sold during the year ended February 28, 2015, were as follows:

February 28, 2015	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 847	¥ 707	

Available-for-sale securities whose fair values are not readily determinable as of February 29, 2016 and February 28, 2015, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Available-for-sale:			
Equity securities	¥ 46	¥ 46	\$ 404

There were no impairment losses for the years ended February 29, 2016, and February 28, 2015.

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 29, 2016 and February 28, 2015. No impairment loss was recognized on February 28, 2015 and the Group recognized impairment loss on the following long-lived assets on February 29, 2016:

Use	Type of Assets	Location	Millions of Yen	Thousands of U.S. Dollars
			2016	2016
Shopping mall	Buildings and structures and others	Osaka	¥ 686	\$ 6,039
Total			¥ 686	\$ 6,039

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

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

5. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures" and ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures."

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 ¥33,532 million (\$295,075 thousand) for the fiscal year ended February 29, 2016, and ¥32,904 million for the fiscal year ended February 28, 2015. Gain on sales of property, plant, and equipment was ¥1,862

million (\$16,385 thousand) for the fiscal year ended February 29, 2016, and ¥897 million for the fiscal year ended February 28, 2015. Impairment loss was ¥686 million (\$6,039 thousand) 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, 2015	Increase/Decrease	February 29, 2016	February 29, 2016
¥ 701,197	¥ 64,180	¥ 765,377	¥ 987,336

Millions of Yen			
Carrying Amount		Fair Value	
March 1, 2014	Increase/Decrease	February 28, 2015	February 28, 2015
¥ 537,866	¥ 163,331	¥ 701,197	¥ 927,843

Thousands of U.S. Dollars			
Carrying Amount		Fair Value	
March 1, 2015	Increase/Decrease	February 29, 2016	February 29, 2016
\$ 6,170,338	\$ 564,766	\$ 6,735,105	\$ 8,688,283

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 29, 2016, was primarily attributable to newly acquired properties of ¥152,907 million (\$1,345,544 thousand), which were partially offset by selling and disposal properties of ¥52,309 million (\$460,304 thousand), and depreciation expense of ¥28,599 million (\$251,667 thousand).
Increase during the fiscal year ended February 28, 2015, was primarily attributable to newly acquired properties of ¥177,915 million, which were partially offset by selling and disposal properties of ¥33,110 million, and depreciation expense of ¥24,441 million.
- 3) Fair value of properties is mainly measured based on real estate appraisal value.

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

Short-term bank loans at February 29, 2016, and February 28, 2015, consisted of the following.

	Millions of Yen		Thousands of
	2016	2015	U.S. Dollars
			2016
Short-term loans principally from banks, 0.52% to 5% (2016)	¥ 8,339		\$ 73,383
Total	8,339		73,383

Long-term debt and corporate bonds as of February 29, 2016 and February 28, 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loans from banks and insurance companies, due through 2030 with interest rates ranging from 0.15% to 5.10% (2016) and 0.35% to 6.78% (2015):			
Collateralized	¥ 30,352	¥ 10,122	\$ 267,094
Unsecured	200,514	178,476	1,764,471
Total	230,867	188,598	2,031,565
Less current portion	(38,585)	(24,709)	(339,544)
Long-term debt, less current portion	¥192,281	¥163,889	\$1,692,021

Annual maturities of long-term debt as of February 29, 2016, were as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 38,585	\$ 339,544
2018	52,589	462,770
2019	29,533	259,886
2020	23,393	205,860
2021	21,494	189,147
2022 and thereafter	65,269	574,356
Total	¥230,867	\$2,031,565

Corporate bonds as of February 29, 2016 and February 28, 2015 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Issued by the Company:			
Unsecured 0.50% yen corporate bond, due 2018	¥ 10,000	¥ 10,000	\$ 87,997
Unsecured 0.80% yen corporate bond, due 2020	15,000	15,000	131,995
Unsecured 0.44% yen corporate bond, due 2022	15,000	15,000	131,995
Unsecured 0.90% yen corporate bond, due 2025	20,000	20,000	175,994
Unsecured 0.95% yen corporate bond, due 2027	5,000	5,000	43,998
Unsecured 0.57% yen corporate bond, due 2023	30,000		263,991
Issued by HIWADA SHOPPING MALL CO., LTD.:			
Unsecured 0.64% yen corporate bond, due 2017	200	200	1,759
Total	95,200	65,200	837,733
Less current portion	(200)		(1,759)
Corporate bonds, less current portion	¥ 95,000	¥ 65,200	\$ 835,973

Annual maturities of corporate bonds as of February 28, 2016, were as follows:

<u>Years Ending February 28 or 29</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2017	¥ 200	\$ 1,759
2018	10,000	87,997
2019		
2020	15,000	131,995
2021		
2022 and thereafter	70,000	615,980
Total	<u>¥ 95,200</u>	<u>\$ 837,733</u>

Collateralized long-term debt and other as of February 29, 2016, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Current portion of long-term debt	¥ 1,657	\$ 14,588
Current portion of lease deposits from lessees	75	662
Long-term debt	28,694	252,506
Lease deposits from lessees	<u>1,206</u>	<u>10,619</u>
Total	<u>¥ 31,634</u>	<u>\$ 278,377</u>

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt and other as of February 29, 2016, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Land	¥ 17,416	\$ 153,256
Buildings and structures - net of accumulated depreciation	<u>60,007</u>	<u>528,046</u>
Total	<u>¥ 77,423</u>	<u>\$ 681,303</u>

7. RETIREMENT AND PENSION PLANS

The Company has severance payment plans for employees. The Company has a defined benefit pension plan, advance payment plan, and defined contribution pension plan covering substantially all employees. A certain domestic consolidated subsidiary has 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 a lump-sum severance payment from the Company. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

- (1) The changes in defined benefit obligation for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 1,766	¥ 1,553	\$ 15,545
Cumulative effect of accounting change	13		123
Balance at beginning of year (as restated)	1,780	1,553	15,668
Current service cost	129	76	1,141
Interest cost	23	29	203
Actuarial losses	347	177	3,057
Benefits paid	(87)	(69)	(773)
Balance at end of year	¥ 2,192	¥ 1,766	\$ 19,297

- (2) The changes in plan assets for the years ended February 29, 2016, and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 1,365	¥ 1,249	\$ 12,019
Expected return on plan assets	31	19	280
Actuarial losses	82	33	725
Contributions from the employer	221	133	1,951
Benefits paid	(87)	(69)	(773)
Others	(22)		(194)
Balance at end of year	¥ 1,591	¥ 1,365	\$ 14,008

- (3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of February 29, 2016 and February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Funded defined benefit obligation	¥ 2,192	¥ 1,766	\$ 19,297
Plan assets	(1,591)	(1,365)	(14,008)
Net liability arising from defined benefit obligation	¥ 600	¥ 400	\$ 5,288

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥ 600	¥ 400	\$ 5,288
Asset for retirement benefits			
Net liability arising from defined benefit obligation	¥ 600	¥ 400	\$ 5,288

- (4) The components of net periodic benefit costs for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 129	¥ 76	\$ 1,141
Interest cost	23	29	203
Expected return on plan assets	(31)	(19)	(280)
Recognized actuarial losses	34	33	306
Net periodic benefit costs	¥ 155	¥ 119	\$ 1,371

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 29, 2016 and February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Actuarial losses	¥ 230		\$ 2,025
Total	¥ 230		\$ 2,025

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 29, 2016 and February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized actuarial losses	¥ 445	215	\$ 3,919
Total	¥ 445	215	\$ 3,919

- (7) Plan assets

(1) *Components of plan assets*

Plan assets as of February 29, 2016 and February 28, 2015, consisted of the following:

	2016	2015
Debt investments	55.5%	58.5%
Equity investments	14.0	14.6
General account of life insurance	14.7	11.5
Others*1	15.8	15.4
Total	100.0%	100.0%

*1 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.

(8) Assumptions used for the years ended February 29, 2016 and February 28, 2015, are set forth as follows:

	2016	2015
Discount rate	0.9%	1.3%
Expected rate of return on plan assets	2.4	1.6

Defined contribution plan:

Contributions for advance payment plan for the years ended February 29, 2016 and February 28, 2015 were ¥198 million (\$1,747thousand) and ¥134 million, respectively.

Advance payment plan:

Payments for advance payment plan for the years ended February 29, 2016 and February 28, 2015 were ¥55 million (\$491thousand) and ¥44 million, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 29, 2016 and February 28, 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 9,169	¥ 7,704	\$ 80,692
Additional provisions associated with the acquisitions of property, buildings, and equipment	347	1,293	3,053
Reconciliation associated with passage of time	163	158	1,440
Others		13	
Balance at end of year	<u>¥ 9,680</u>	<u>¥ 9,169</u>	<u>\$ 85,186</u>

9. EQUITY

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

a. Dividends

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

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock options outstanding as of February 29, 2016, 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

*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)
<u>Year Ended February 28, 2015</u>								
Nonvested:								
February 28, 2014 – outstanding								
Granted							18,400	
Canceled								
Vested							(18,400)	
February 28, 2015 – outstanding								
Vested:								
February 28, 2014 – outstanding	7,810	19,250	20,570	19,580	20,570	10,890		
Vested							18,400	
Exercised	(1,430)	(4,180)	(3,080)	(3,630)		(660)	(1,100)	
Canceled	(1,430)	(2,090)	(2,200)	(2,420)				
February 28, 2015 – outstanding	4,950	12,980	15,290	13,530	20,570	10,230	17,300	
<u>Year Ended February 29, 2016</u>								
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
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise		¥2,163	¥1,893	¥2,141	¥1,883	¥1,890		¥2,202
		(\$19)	(\$16)	(\$18)	(\$16)	(\$16)		(\$19)
Fair value price at grant date	¥2,500	¥1,089	¥1,583	¥1,609	¥1,473	¥2,763	¥2,245	¥2,116
	(\$21)	(\$9)	(\$14)	(\$14)	(\$12)	(\$24)	(\$19)	(\$18)

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 2016 Stock Options:

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	41.61%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥22 per share
Risk-free interest rate:	0.29%

11. INCOME TAXES

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at February 29, 2016 and February 28, 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Deferred tax assets:			
Payables and accrued expenses	¥ 1,323	¥ 979	\$ 11,642
Accrued enterprise tax	760	659	6,691
Property, plant, and equipment	4,833	4,994	42,533
Long-term prepaid expenses	1,023	885	9,008
Liability for retirement benefits	184	67	1,622
Asset retirement obligation	3,107	3,255	27,344
Long-term deferred revenue	685	546	6,029
Tax loss carryforwards of subsidiaries	1,932	1,763	17,008
Provision for loss on guarantees	168		1,482
Other	1,398	1,004	12,303
Less valuation allowance	<u>(3,651)</u>	<u>(3,415)</u>	<u>(32,131)</u>
Total deferred tax assets	<u>11,765</u>	<u>10,739</u>	<u>103,533</u>
Deferred tax liabilities:			
Property revaluation	117	126	1,038
Lease deposits to lessors and long-term prepaid expenses	427	521	3,758
Deferred capital gains on property	193	220	1,704
Special depreciation on property	332	545	2,924
Asset retirement obligation removal expense	1,954	2,138	17,195
Unrealized gain on available-for-sale securities	552	584	4,859
Other	<u>28</u>	<u></u>	<u>251</u>
Total deferred tax liabilities	<u>3,606</u>	<u>4,136</u>	<u>31,732</u>
Net deferred tax assets	<u>¥ 8,159</u>	<u>¥ 6,603</u>	<u>\$ 71,801</u>

Net tax deferred tax assets were included in the consolidated balance sheets as of February 29, 2016 and February 28, 2015, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
CURRENT ASSETS - deferred tax assets	¥ 1,830	¥ 1,265	\$ 16,107
INVESTMENT AND OTHER ASSETS - deferred tax assets	6,442	5,430	56,694
LONG-TERM LIABILITIES - deferred tax liabilities	<u>(113)</u>	<u>(92)</u>	<u>(1,002)</u>
Net deferred tax assets	<u>¥ 8,159</u>	<u>¥ 6,603</u>	<u>\$ 71,801</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended February 29, 2016 and February 28, 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Normal effective statutory tax rate	35.4%	37.9%
Expenses not deductible for income tax purposes	0.2	0.1
Per capita portion of inhabitant tax	0.2	0.2
Tax benefits not recognized on operating losses of subsidiaries	1.9	1.3
Change in valuation allowance	0.0	1.0
Tax effect related to consolidated adjustment	(0.2)	(0.3)
Lower income tax rates applicable to income in certain foreign countries	2.2	2.0
Special credit of corporation tax	(1.3)	(0.5)
Effect of tax reduction	2.2	0.2
Other – net	<u>0.8</u>	<u>0.6</u>
Actual effective tax rate	<u>41.4%</u>	<u>42.5%</u>

“Special credit of corporation tax,” which was included in “Other-net” for the year ended February 28, 2015, is presented as an independent item from the fiscal year under review in consideration of its ratio to the normal effective statutory tax rate. To reflect this change in presentation, the note for the year ended February 28, 2015 is restated.

In the previous fiscal year’s report, “Other-net” for the year ended February 28, 2015 was 0.1%. In this report, “Other-net” is broken down into “special credit of corporation tax,”-0.5%, and “Other-net,” 0.6%.

The Ministry of Finance in Japan enacted the “Act on Partial Amendment to the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act on Partial Amendment to the Local Tax Act, etc.” (Act No. 2 of 2015) on March 31, 2015, to reduce the corporation tax rate and to gradually reduce the business tax, effective from fiscal years beginning on or after April 1, 2015. As a result, the effective statutory tax rate for calculating deferred tax assets and liabilities has been reduced from 35.4% to 32.8% for temporary differences that are expected to be realized during the fiscal year beginning on March 1, 2016, and from 35.4% to 32.1% for temporary differences that are expected to be realized during the fiscal years beginning on or after March 1, 2017. As a result, deferred tax assets and deferred tax liabilities decreased by ¥865 million (\$7,614 thousand) and ¥4 million (\$37 thousand), respectively. Additionally, income taxes deferred (debit), unrealized gain (loss) on available-for-sale securities (credit), and defined retirement benefit plans (debit) increased by ¥903 million (\$7,947 thousand), ¥56 million (\$499 thousand), and ¥14 million (\$129 thousand), respectively.

The Ministry of Finance in Japan enacted the “Act on Partial Amendment to the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act on Partial Amendment to the Local Tax Act, etc.” (Act No. 13 of 2016) on March 31, 2016, to reduce the corporation tax rate and to gradually reduce the business tax, effective from fiscal years beginning on or after April 1, 2016. As a result, the effective statutory tax rate for calculating deferred tax assets and liabilities will be reduced from 32.1% to 30.7% for temporary differences that are expected to be realized during the fiscal year beginning on March 1, 2017, and from 32.1% to 30.5% for temporary differences that are expected to be realized during the fiscal years beginning on or after March 1, 2019. If the new effective statutory tax rate had been applied in the fiscal year ended February 29, 2016, deferred tax assets and deferred tax liabilities would have decreased by ¥355 million (\$3,125 thousand) and ¥5 million (\$49 thousand), respectively. Additionally, income taxes deferred (debit), unrealized gain (loss) on available-for-sale securities (credit), and defined retirement benefit plans (debit) would have increased by ¥369 million (\$3,255 thousand), ¥27 million (\$242 thousand) and ¥7 million (\$62 thousand), respectively.

At February 29, 2016, certain subsidiaries have tax loss carryforwards aggregating approximately ¥9,450 million (\$83,164 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
2017	¥ 692	\$ 6,089
2018	801	7,053
2019	1,444	12,713
2020	3,119	27,452
2021 and thereafter	3,392	29,854
Total	¥ 9,450	\$ 83,164

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 29, 2016 and February 28, 2015, were ¥59,289 million (\$521,730 thousand) and ¥50,781 million, respectively.

As discussed in Note 2.p, 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 29, 2016 and February 28, 2015, was as follows:

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

	Millions of Yen	
	2015	
	Furniture and Fixtures	Total
Acquisition cost	¥ 35	¥ 35
Accumulated depreciation	<u>23</u>	<u>23</u>
Net leased property	<u>¥ 12</u>	<u>¥ 12</u>

	Thousands of U.S. Dollars	
	2016	
	Furniture and Fixtures	Total
Acquisition cost	\$ 312	\$ 312
Accumulated depreciation	<u>236</u>	<u>236</u>
Net leased property	<u>\$ 75</u>	<u>\$ 75</u>

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 3	¥ 3	\$ 34
Due after one year	<u>4</u>	<u>9</u>	<u>35</u>
Total	<u>¥ 7</u>	<u>¥ 13</u>	<u>\$ 69</u>

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Depreciation expense	¥ 3	¥ 3	\$ 31
Interest expense	<u>0</u>	<u>0</u>	<u>3</u>
Total	<u>¥ 3</u>	<u>¥ 4</u>	<u>\$ 34</u>
Lease payments	<u>¥ 4</u>	<u>¥ 4</u>	<u>\$ 36</u>

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

The minimum rental commitments under noncancelable operating leases at February 29, 2016 and February 28, 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Due within one year	¥ 47,106	¥ 41,265	\$ 414,523
Due after one year	<u>366,074</u>	<u>251,610</u>	<u>3,221,352</u>
Total	<u>¥ 413,180</u>	<u>¥ 292,876</u>	<u>\$ 3,635,876</u>

Note:

The total for the year ended February 29, 2016, includes the Group's land use rights in China, Vietnam, and Indonesia, amounting to ¥38,269 million (\$336,760 thousand). The land use rights are fully paid out and are disclosed as "Long-term prepaid expenses" on the consolidated balance sheet. The total for the year ended February 28, 2015, includes the Group's land use rights in China and Vietnam, amounting to ¥29,924 million. The land use rights are fully paid out 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 29, 2016 and February 28, 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Due within one year	¥ 2,478	¥ 723	\$ 21,810
Due after one year	<u>19,876</u>	<u>5,827</u>	<u>174,911</u>
Total	<u>¥ 22,355</u>	<u>¥ 6,550</u>	<u>\$ 196,721</u>

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group policy for financial instruments*

The Group operates shopping mall businesses as its core business. The Group rents retail facilities in shopping malls to tenants, AEON Retail Co., Ltd. (the “parent’s subsidiary”), operating general merchandise stores, and other AEON group companies. The Group uses financial instruments, mainly long-term debt, including bank loans and corporate bonds, 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, 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 lessor’s credit risk.

Payment terms of payables, such as trade accounts, 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 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 quarterly the fair values of equity securities 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		
	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	5,713	
Long-term loans, including current portion	295	294	¥ (1)
Investment securities	2,188	2,188	
Lease deposits to lessors, including current portion	44,684	42,660	(2,024)
Total	¥ 108,257	¥ 106,231	¥ (2,025)
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

	Millions of Yen		
	2015		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 67,222	¥ 67,222	
Time deposits	5,118	5,118	
Receivables—Trade accounts	4,724	4,724	
Long-term loans, including current portion	314	314	¥ (0)
Investment securities	2,112	2,112	
Lease deposits to lessors, including current portion	<u>41,225</u>	<u>37,964</u>	<u>(3,260)</u>
Total	<u>¥ 120,718</u>	<u>¥ 117,457</u>	<u>¥ (3,261)</u>
Payables—Trade accounts	¥ 11,848	¥ 11,848	
Payables—Construction	95,845	95,845	
Deposits received	54,232	54,232	
Income taxes payable	9,436	9,436	
Long-term debt, including current portion	188,598	189,480	¥ 881
Corporate bonds	65,200	65,846	646
Lease deposits from lessees, including current portion	<u>118,686</u>	<u>118,481</u>	<u>(204)</u>
Total	<u>¥ 543,848</u>	<u>¥ 545,172</u>	<u>¥ 1,323</u>

	Thousands of U.S. Dollars		
	2016		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	\$ 472,131	\$ 472,131	
Time deposits	15,157	15,157	
Receivables—Trade accounts	50,274	50,274	
Long-term loans, including current portion	2,602	2,592	\$ (10)
Investment securities	19,254	19,254	
Lease deposits to lessors, including current portion	<u>393,214</u>	<u>375,396</u>	<u>(17,818)</u>
Total	<u>\$ 952,634</u>	<u>\$ 934,806</u>	<u>\$ (17,828)</u>
Short-term bank loans	\$ 73,383	\$ 73,383	
Payables—Trade accounts	125,304	125,304	
Payables—Construction	694,183	694,183	
Deposits received	353,178	353,178	
Income taxes payable	92,891	92,891	
Long-term debt, including current portion	2,031,565	2,029,966	\$ (1,599)
Corporate bonds, including current portion	837,733	846,598	8,865
Lease deposits from lessees, including current portion	<u>1,079,953</u>	<u>1,084,311</u>	<u>4,358</u>
Total	<u>\$ 5,288,193</u>	<u>\$ 5,299,817</u>	<u>\$ 11,624</u>

(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.

Long-term loans, including the current portion, and Lease deposits to lessors, including the current portion

The fair values of long-term loans, including the current portion, and 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
	2016	2015	2016
Investments in equity instruments that do not have a quoted market price in an active market	¥ 143	¥ 236	\$ 1,264

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

	Millions of Yen			
	2016			
	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	¥ 53,652			
Time deposits	1,722			
Receivables—Trade accounts	5,713			
Long-term loans, including current portion	82	¥ 181	¥ 30	¥ 0
Lease deposits to lessors *1	579	2,013	451	2
Short-term bank loans	8,339			
Corporate bonds	200	25,000	65,000	5,000
Long-term debt	38,585	127,011	61,320	3,948
Lease deposits from lessees	175	501		

	Thousands of U.S. Dollars			
	2016			
	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	\$ 472,131			
Time deposits	15,157			
Receivables—Trade accounts	50,274			
Long-term loans, including current portion	728	\$ 1,601	\$ 268	\$ 5
Lease deposits to lessors *1	5,101	17,716	3,973	19
Short-term bank loans	73,383			
Corporate bonds	1,759	219,992	571,981	43,998
Long-term debt	339,544	1,117,664	539,607	34,749
Lease deposits from lessees	1,541	4,409		

*1 Lease deposits to lessors with no defined redemption schedule of ¥41,638 million (\$366,402 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 amount.

Derivative transactions to which hedge accounting is not applied

February 29, 2016	Millions of Yen			
	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 29, 2016	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value *	Unrealized (Loss) Gain
Currency swaps				
Receipt U.S.dollar/Payment Yen	\$116,209	\$ 95,082	\$ (7,698)	\$ (7,698)
Receipt Yen/Payment Indonesia Rup	\$14,699		\$ 392	\$ 392

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

The contract or notional amounts of derivatives which 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

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

<u>February 28, 2015</u>	<u>Hedged Item</u>	Millions of Yen		
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	¥ 48,509	¥ 38,509	*

<u>February 29, 2016</u>	<u>Hedged Item</u>	Thousands of U.S. Dollars		
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	\$ 407,493	\$ 317,493	*

*The above 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. 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 figures for the years ended February 29, 2016 and February 28, 2015, include ¥1,861 million (\$16,379 thousand) and ¥897 million, respectively, of gain on the sale of two commercial facilities and one commercial facility to Aeon REIT Invest Corporation.

16. CONTINGENT LIABILITIES

KANDU JAPAN INC., 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. Details are as shown below.

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Credit enhancement	¥ 1,050		\$ 9,239
Provision for loss on guarantees	525		4,619
Net	¥ 525		\$ 4,619

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥75	¥1,687	\$660
Reclassification adjustments to profit or loss		(707)	
Amount before income tax effect	75	979	660
Income tax effect	31	(347)	280
Total	¥106	¥ 632	\$940
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (7,792)	¥12,950	\$(68,568)
Reclassification adjustments to profit or loss	(282)		(2,490)
Amount before income tax effect	(8,075)	12,950	(71,058)
Income tax effect			
Total	¥ (8,075)	¥ 12,950	\$(71,058)
Defined retirement benefit plan(s)			
Adjustments arising during the year	¥ (265)		\$(2,332)
Reclassification adjustments to profit or loss	34		306
Amount before income tax effect	(230)		(2,205)
Income tax effect	67		589
Total	¥ (163)		\$(1,435)
Total other comprehensive (loss) income	¥ (8,131)	¥13,582	\$(71,554)

18. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted EPS for the years ended February 29, 2016 and February 28, 2015, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
<u>Year Ended February 29, 2016</u>	<u>Net Income</u>	<u>Weighted-Average Shares</u>		<u>EPS*</u>
Basic EPS - Net income available to common shareholders	¥ 24,639	227,230	<u>¥ 108.43</u>	<u>\$ 0.95</u>
Effect of dilutive securities - Warrants		<u>106</u>		
Diluted EPS - Net income for computation	<u>¥ 24,639</u>	<u>227,336</u>	<u>¥ 108.38</u>	<u>\$ 0.95</u>
<u>Year Ended February 28, 2015</u>				
Basic EPS - Net income available to common shareholders	¥ 24,513	227,849	<u>¥ 107.58</u>	
Effect of dilutive securities - Warrants		<u>97</u>		
Diluted EPS - Net income for computation	<u>¥ 24,513</u>	<u>227,947</u>	<u>¥ 107.53</u>	

19. RELATED-PARTY DISCLOSURES

Transactions with the parent company and its subsidiaries for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Deposits kept at the cash pool account of AEON CO., LTD. (the parent company)	¥ 3,759	¥ 13,067	\$ 33,083
Interest income from AEON CO., LTD. (the parent company)	6	27	57
Revenues from leases of shopping malls to AEON RETAIL CO., LTD. (the parent's subsidiary)	29,787	27,397	262,125
Credit fee paid to AEON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	4,393	4,116	38,663

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

The balances due to/from the parent company and its subsidiaries at February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Cash equivalents—deposits kept at the cash pool account of ÆON CO., LTD. (the parent company)		¥ 5,000	
Receivables—trade accounts from ÆON RETAIL CO., LTD. (the parent's subsidiary)	¥ 683	744	\$ 6,015
Lease deposits received from ÆON RETAIL CO., LTD. (the parent's subsidiary)	13,318	13,783	117,201
Receivables—other from ÆON CREDIT SERVICE CO., LTD. (the parent's subsidiary)	9,118	8,407	80,244

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

20. 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 only a shopping mall business 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) *Changes in Reportable Segments*

While the Group has operated solely within the shopping mall business, the segmentation method has been revised due to the increased importance of overseas business, and as a result, the reporting segments have been changed from the conventional single segment to the Japan, China, and ASEAN segments starting in the current fiscal year.

Segment information for the previous fiscal year is prepared according to the revised segments and is presented in (4) Information about Revenues, Profit (Loss), Assets, Liabilities and Other Items of each reporting segment (for the year ended February 28, 2015).

(3) *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."

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

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 of assets	686			686		686
Increase in property, plant and equipment and intangible assets	102,974	48,812	32,164	183,951	(288)	183,663

Millions of Yen						
2015						
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	¥ 196,650	¥ 6,065	¥ 1,187	¥ 203,902		¥ 203,902
Intersegment revenues or transfers						
Total	¥ 196,650	¥ 6,065	¥ 1,187	¥ 203,902		¥ 203,902
Segment profit (loss)	¥ 46,346	¥ (3,529)	¥ (944)	¥ 41,872		¥ 41,872
Segment assets	695,938	106,098	86,826	888,862	¥ 12,094	900,957
Other:						
Depreciation	29,578	1,065	361	31,004		31,004
Impairment losses of assets						
Increase in property, plant and equipment and intangible assets	149,021	20,930	21,270	191,223	(389)	190,833

Thousands of U.S. Dollars						
2016						
	Reportable Segment			Total	Reconciliations	Consolidated
	Japan	China	ASEAN			
Revenues:						
Revenues to external customers	\$ 1,883,198	\$ 101,257	\$ 37,321	\$ 2,021,777		\$ 2,021,777
Intersegment revenues or transfers						
Total	\$ 1,883,198	\$ 101,257	\$ 37,321	\$ 2,021,777		\$ 2,021,777
Segment profit (loss)	\$ 434,024	\$ (39,149)	\$ (8,921)	\$ 385,954	\$ 97	\$ 386,051
Segment assets	6,188,163	1,409,672	963,515	8,561,352	18,110	8,579,462
Other:						
Depreciation	278,811	17,356	13,103	309,270	(97)	309,173
Impairment losses of assets	6,039			6,039		6,039
Increase in property, plant and equipment and intangible assets	906,150	429,534	283,038	1,618,723	(2,536)	1,616,187

Notes for the year ended February 29, 2016:

1. Adjustments are as follows:

- (1) The reconciliation in segment profit or loss is the reconciliation of unrealized gain on intersegment trades.
- (2) The reconciliation in segment assets of ¥ 2,058 million (\$18,110) is the Group's assets of ¥ 3,539 million (\$31,148), which are not included in the reportable segment and the result of the elimination of intersegment trades.
- (3) The reconciliation in depreciation is the reconciliation of unrealized gain on fixed assets.
- (4) The reconciliation in 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.

Notes for the year ended February 28, 2015:

1. Adjustments are as follows:

- (1) The reconciliation in segment assets of ¥ 12,094 million is the Group's assets of ¥ 13,785 million, which are not included in the reportable segment and the result of the elimination of intersegment trades.
- (2) The reconciliation in 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 matches 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.

(5) Information about Products and Services

Information about products and services for the years ended February 29, 2016, and February 28, 2015, has been omitted because revenues in the shopping mall business accounted for more than 90% of consolidated net revenues of the Group

(6) Information about Geographical Areas

(a) Revenues

Information about geographical areas for the years ended February 29, 2016 and February 28, 2015 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			
2016			
Japan	China	ASEAN	Total
¥ 620,676	¥ 56,319	¥ 77,720	¥ 754,716

Millions of Yen			
2015			
Japan	China	ASEAN	Total
¥ 603,704	¥ 28,446	¥ 57,669	¥ 689,820

Thousands of U.S. Dollars			
2016			
Japan	China	ASEAN	Total
\$ 5,461,776	\$ 495,592	\$ 683,919	\$ 6,641,288

(7) Information about major customers

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

Name of customers	2015	
	Millions of Yen	
	Revenues	Related segment name
ÆON RETAIL CO.,LTD	¥ 27,422	Japan

Name of customers	2016	
	Thousands of U.S. Dollars	
	Revenues	Related segment name
ÆON RETAIL CO.,LTD	\$ 262,344	Japan

21. SUBSEQUENT EVENTS

a. OPA Co., Ltd. has become a wholly-owned subsidiary upon a share exchange

Following a resolution at a meeting of the Board of Directors held on November 17, 2015, the Company implemented a share exchange (effective on March 1, 2016, and hereinafter referred to as the “Share Exchange”) upon which the Company became a wholly owning parent company, and OPA Co., Ltd. (hereinafter referred to as “OPA”) became a wholly owned subsidiary. On March 1, 2016, OPA succeeded the VIVRE FORUS business of AEON Retail Co., Ltd. (hereinafter referred to as “AEON Retail”) upon the absorption-type company demerger and AEON Co., Ltd. (hereinafter referred to as “AEON”) acquired all the shares of OPA from The Daiei, Inc., and the Company made OPA a wholly owned subsidiary through a short-form share exchange.

(1) Purpose of the Share Exchange

The Company, which has become the wholly owning parent company, manages 144 domestic large-scale shopping malls under guidelines stating that it should contribute to improving people’s lifestyles and developing local communities through the development of distinctive malls that are unique to each area based on the perspective of localization in Japan and overseas.

Meanwhile, OPA, which has become the wholly owned subsidiary, manages and operates nine fashion buildings located in the urban area, and it also manages and operates fashion buildings in the VIVRE FORUS business (other than the retail business) of AEON Retail, which OPA succeeded upon the absorption-type demerger on March 1, 2016.

Through the Share Exchange, these businesses have been integrated into the Company, which plays a core role in the AEON Group as a developer; and the business expertise of both companies has been combined. The Company decided to conduct this Share Exchange in order to drive the development of attractive commercial facilities for customers by expansion of new business bases and renovation of existing facilities, as well as to strengthen its management foundations and to enhance its corporate value.

(2) Effective date of the Share Exchange

March 1, 2016

(3) Details of the allotment upon the Share Exchange

	The Company (Wholly owning parent company)	OPA (Wholly owned subsidiary)
Share exchange ratio	1	47.48

(Notes) 1. Share exchange ratio for the Share Exchange

For each common share of OPA, 47.48 common shares of the Company were allotted and delivered.

2. Number of shares delivered in the Share Exchange

Number of common shares of the Company delivered in the Share Exchange: 2,268,879.

All the common shares of the Company that were delivered were shares of the Company’s treasury stock.

3. Basis for the share exchange ratio

In the Share Exchange, the Company allotted and delivered the common shares of the Company to the shareholders of OPA who were stated or recorded in OPA’s shareholder registry at the time immediately before the Company’s acquisition of all the issued shares of OPA in the Share Exchange. The number of shares allotted and delivered in exchange for OPA’s common shares was calculated by multiplying the number of OPA’s common shares by the share exchange ratio

based on the following formula (hereinafter referred to as the “Variable Share Exchange Ratio Method”).

Share exchange ratio = 98,900 (*) / the average stock price of the Company’s common shares

*The appraised value per common share of OPA determined by the Company

In the formula described above, the “average stock price of the Company’s common shares” shall mean the average price of the weighted average price per common share of the Company (calculated to the first decimal place and rounded off to whole numbers) for 30 trading days (other than the days when trading is not conducted) from December 1, 2015 inclusive to January 15, 2016 inclusive on the first section of the Tokyo Stock Exchange. The share exchange ratio was rounded off to the second decimal place.

Calculation result

Average stock price of the Company’s common shares = ¥2,083

Share exchange ratio = ¥98,900/¥2,083 = 47.479 \div 47.48

(4) Calculation basis, etc. for allotment upon the Share Exchange

In consideration of the share exchange ratio used for the Share Exchange, the Company decided to appoint PricewaterhouseCoopers Kyoto (PwC Kyoto), as an independent third-party institution, for evaluation of the stock value of OPA, in order to ensure fairness and appropriateness.

PwC Kyoto analyzed the stock value of OPA’s common shares using the discounted cash flow (DCF) method to reflect the future business activities on the valuation, considering the fact that OPA is a private company. In addition, OPA planned to succeed the VIVRE FORUS business (other than the retail business) of AEON Retail Co., Ltd. upon the absorption-type company demerger, and thus the stock value analysis was based on the business forecasts after the succession.

The results of the appraisal of the stock value per common share of OPA by PwC Kyoto based on the DCF method are as follows.

	Results of appraisal (yen per share)
DCF method	¥79,356 to ¥167,262

The exchange ratio shall be calculated according to the Variable Share Exchange Ratio Method.

(5) 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 September 13, 2013) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 issued September 13, 2013).

b. Kumamoto Earthquakes

The Company’s malls in Kumamoto Prefecture were damaged by the Kumamoto earthquakes that occurred on April 14, 2016. The Company is assessing the damage. The malls are master-leased properties, and the effect of the damage is estimated to be minor.

At this point, it is difficult to reasonably estimate the effect of the damage done by the earthquakes on the financial position and operating results in the next consolidated fiscal year.

c. Appropriation of Retained Earnings

The following appropriation of retained earnings at February 29, 2016, was approved at the Company's Board of Directors' meeting held on April 13, 2016.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥11.00 (\$0.09) per share	¥ 2,476	\$ 21,788



Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3, Konan
Minato-ku, Tokyo 108-6221
Japan
Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of AEON Mall Co., Ltd. and its subsidiaries as of February 29, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AEON Mall Co., Ltd. and its subsidiaries as of February 29, 2016, 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, 2016

Member of
Deloitte Touche Tohmatsu Limited

ÆON MALL CO., LTD.

1-5-1 Nakase, Mihama-ku, Chiba-shi, Chiba 261-8539, Japan

TEL: 81-(43)-212-6733 FAX: 81-(43)-212-6779

<http://www.aeonmall.com/en>

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.