Annual Report

Year ended February 20, 2010

2010

Planting Seeds of Growth
We are ÆON

ÆON MALL CO., LTD.

ÆON Mall–A One-stop Solution for Customers

SHOPPING

ENTERTAINMENT

ÆON MALL'S STRENGTHS

COMMUNITY

ECOLOGY

SHOPPING

We respond to the diversifying lifestyle needs of our customers by offering a carefully calibrated mix of tenants.

ENTERTAINMENT

Our malls provide entertainment services that enable our customers to enjoy the experience of the mall itself.

ECOLOGY

We encourage recycling, the use of solar and wind power, and other efforts to reduce our impact on the natural environment.

COMMUNITY

Malls are designed with a full lineup of public services, including banks, post offices and medical clinics.

CONTENTS

(Caution regarding forward-looking statements)

This annual report contains forward-looking statements concerning the Company and its subsidiaries. These statements are not statements of past facts, and contain predictions relating to the Company and its subsidiaries that are based on assumptions, forecasts, and plans determined from information available at the time of writing. As such, readers should be aware that risks and uncertainties relating to the operating environment of the Company and its subsidiaries, and to market trends and exchange rate movements, and other factors, could cause actual results to differ from forecasts in this annual report.

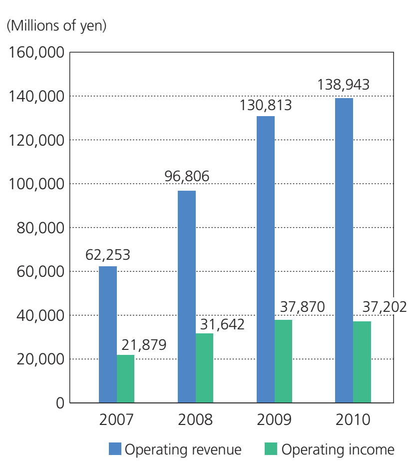
Consolidated Financial Highlights

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20

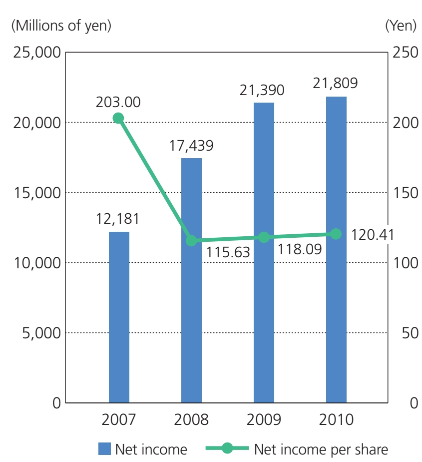
	Millions of Yen (except per share data)				Thousands of U.S. Dollars (except per share data)
	2007	2008	2009	2010	2010
For the year:					
Operating revenue	¥ 62,253	¥ 96,806	¥ 130,813	¥ 138,943	$ 1,513,045
Operating income	21,879	31,642	37,870	37,202	405,115
Net income	12,181	17,439	21,390	21,809	237,496
Capital expenditures	44,548	37,564	71,378	73,507	800,474
Depreciation and amortization	8,611	10,933	14,586	18,469	201,123
Operating cash flows	21,150	27,169	26,656	72,001	784,074
Investing cash flows	(40,664)	(8,748)	(63,908)	(75,878)	(826,287)
Financing cash flows	13,225	(20,441)	38,181	37,688	410,408
Free cash flows	(19,514)	18,421	(37,252)	(3,877)	(42,213)
Per share data (yen and U.S. dollars):					
Net income	¥ 203.00	¥ 115.63	¥ 118.09	¥ 120.41	$ 1.31
Cash dividends	30.00	17.50	20.00	20.00	0.22
At year-end:					
Total assets	¥ 233,057	¥ 377,661	¥ 466,719	¥ 503,547	$ 5,483,467
Total equity	60,034	122,734	140,504	158,816	1,729,458
Interest-bearing debt	79,859	84,242	126,060	167,377	1,822,680
Ratio (%):					
Equity ratio	25.6	32.4	30.0	31.4	–
ROE	22.4	19.2	16.3	14.6	–
ROA (Ratio of ordinary income to total assets)	9.6	10.0	8.8	7.5	–

Notes: 1. On August 21, 2007, ÆON Mall Co., Ltd. merged with Diamond City Co., Ltd.
2. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥91.83=U.S. $1, the exchange rate prevailing on February 20, 2010.
3. ÆON Mall carried out a 2-for-1 stock split on February 21, 2007. Net income per share for the fiscal year ended February 28, 2007 would have been ¥101.50 if this stock split had taken place prior to the start of the period.
4. ÆON Mall applies Ordinary Income as its management benchmark under Japanese accounting standards It is the total of operating income and non-operating income; parts of other income are classified as non-operating income (such as interest and dividend income, interest expense and equity in earnings of an associated company, and extraordinary income from penalties from tenants leaving due to contract cancellation).

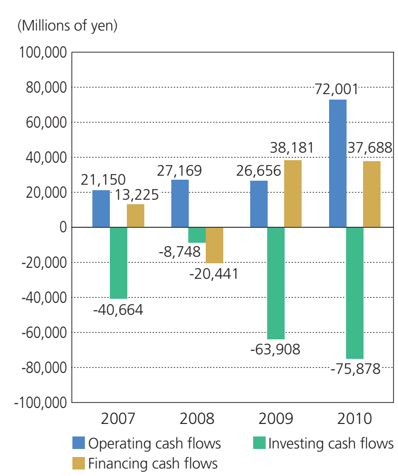
Operating revenue and Operating income



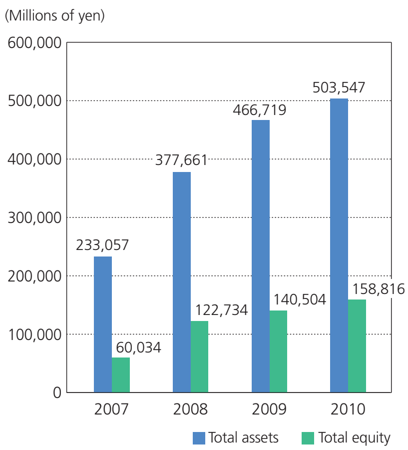
Net income and Net income per share



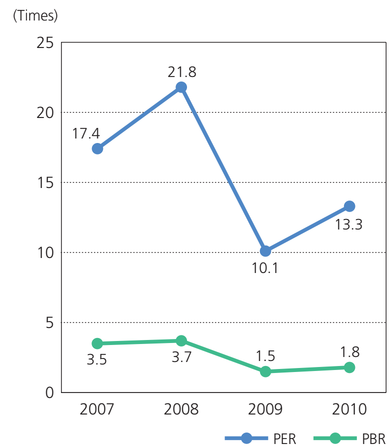
Cash flows



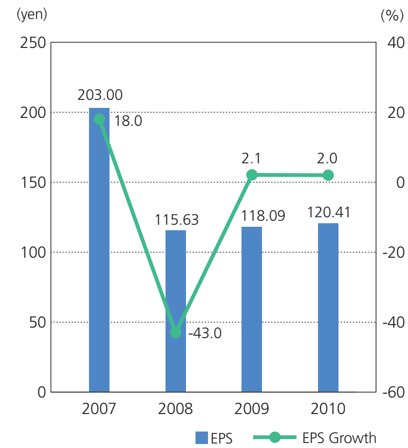
Total assets and Total equity



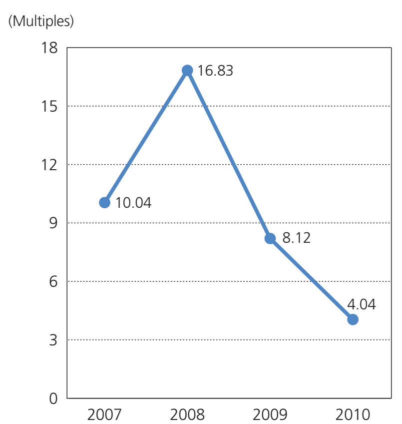
PER and PBR



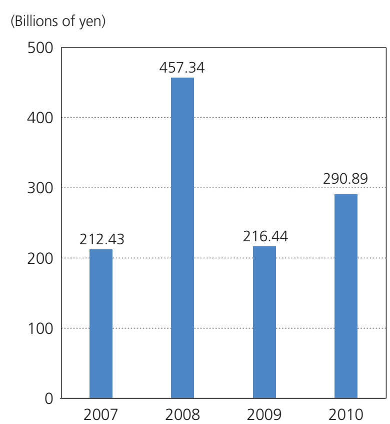
EPS and EPS Growth



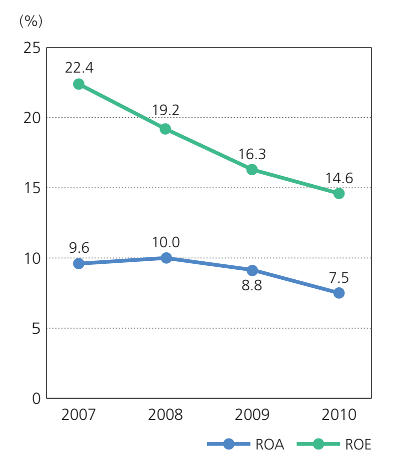
Share price to cash flow ratio



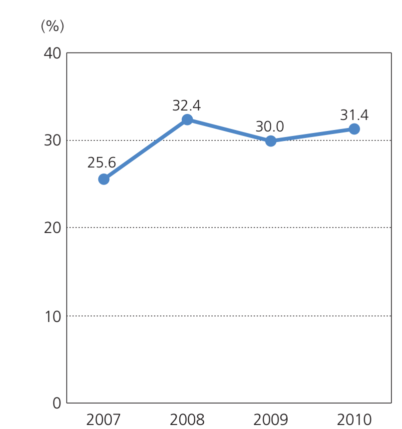
Market capitalization



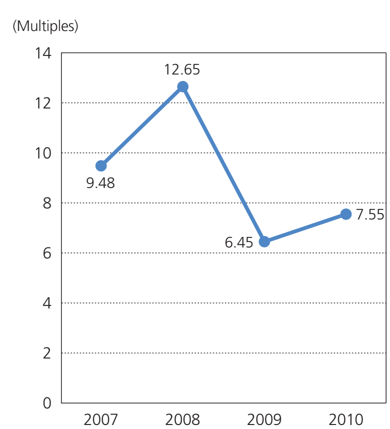
ROA / ROE



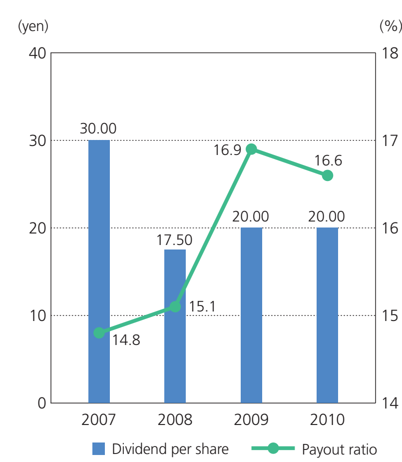
Shareholders' equity ratio



EBITDA multiple



Dividend per share and payout ratio



ÆON Mall's Business Model

ÆON Mall is Japan's sole specialist shopping mall developer, handling all aspects from planning and development to operation and management.

ÆON Mall is the only specialist shopping mall developer in Japan that deals comprehensively with all related operations from design, development and planning, to construction, tenant leasing, and operation and management.

We started our journey in shopping mall development in 1970, correctly anticipating the arrival of the shopping mall age amid the growing diversification of needs and lifestyles and ongoing structural changes in an increasingly automobile-oriented society. Since then we have continued to develop new sites, creating multifunctional shopping malls to meet the needs of the times.

We have expanded our business through a combination of opening new shopping malls in the suburbs of major cities and regional centers, and revitalizing our existing shopping malls. As of June 2010 we are the largest operator in Japan by commercial floor space, with 55 shopping malls nationwide, representing 3 million square meters of commercial floor space under our operation and management.

Going forward we will continue to grow our business steadily by opening new shopping malls and improving the profitability of existing ones. In addition we will expand our business base by leveraging our accumulated expertise through our property management (PM) business to increase our facilities in Japan, and actively working to develop our shopping mall business in China.

Operation and Management

Shopping Mall Development

Using a basic format honed through our experience as a specialist in shopping mall development, ÆON Mall creates facilities that are individually tailored to the features of the host location.

In developing a shopping mall ÆON Mall strives to achieve a one-stop solution for the four functions of shopping, entertainment, community and ecology. This basic concept guides us in our effort to create the most competitive shopping malls in every region.

Our large scale multi-function shopping malls usually feature two anchor stores and a mall, and most are located in suburbs of major cities or regional centers. In development we often open our malls in areas where local government bodies are creating urban infrastructure and undertaking other local development, including old factory sites or industrial blocks, as well as in land readjustment zones.

In developing these sites, ÆON Mall proposes functions and roles for the shopping mall within the region and works together with local government and residents to develop it.

The opening of a shopping mall typically boosts local employment and tax revenues, creates business opportunities for local businesses and changes the region so that it becomes a net receiver of consumption cash flow, rather than a net spender. These economic benefits have earned ÆON Mall high marks as a core business for developing regional communities and investing in regional infrastructure.

In addition to developing suburban shopping malls, ÆON Mall is also actively working to develop urban facilities and its PM business for facilities in front of major urban railway terminals, as sites and models for new shopping mall development continue to diversify.

1. "Two Anchors with a Mall" Building Style

Our basic building style we call "two anchors with a mall." Essentially, two or more anchor stores (usually Japanese-style GMS*, department stores, or other large scale specialty stores) are placed in a two- to three-floor building and connected by a mall of specialty stores. Positioning popular anchor stores at either end of the mall encourages customers to roam the entire mall and eliminates dead corners in tenant placement, thereby boosting specialty store sales.

*A combination of supermarket and U.S.-style general merchandise store under one roof

2. Trade Area Population of 400,000 within 30-Minute Driving Distance

We assume that customers will access our malls primarily by car. As a rule, the upper boundary of the trade area is thought to be 30 minutes by car, with a trade area population of 400,000 people or more. These conditions are the reason for selecting suburban areas for mall development.

3. Basic floor area for a commercial facility of 70,000 to 80,000m^2

The basic floor area required for a commercial facility is 70,000 to 80,000 square meters. This area is sufficient to develop a space that will attract customers with a full complement of shopping, entertainment, community and ecology functions.

4. Parking Area for Over 3,500 cars

A major point for drawing in customers is enabling easy access by car. This means ensuring that a large parking area that can handle more than 3,500 cars is available.

5. Secure a Site Large Enough for Planned Future Expansion of Floor Space

At the development stage ÆON Mall plans for the space needed for future floor expansion to continuously enhance the mall's revenues, then takes steps to secure a site expansive enough to accommodate this plan.

6. Maintain ratio of EBITDA to Total Investment at 13%

In order to maximize our cash flow in development of shopping malls, we generally prefer a model of leasing the site and owning the building. Our revenue from rents is approximately 13.0% of retail sales for the mall. We aim to achieve an operating margin of at least 30%, and our standard for investment profitability is a ratio of EBITDA to total investment of 13%. Investment performance for fiscal 2009 was an average 12.8% over 25 shopping malls, excluding securitized assets, make almost no investment.

Leasing

We use the excellent capacity of our malls to draw in customers together with the extensive support we provide, as inducements for local and seasonal specialty stores to achieve a precisely engineered mix of tenants at our shopping malls.

Still the Shopping Malls of Choice for Specialty Stores

An appealing lineup of specialty stores is extremely important for improving the ability to attract customers. To continue to be the shopping malls of choice for customers, our malls must also be the top choice for specialty store tenants.

ÆON Mall is the core company responsible for the developer business of the ÆON Group, with a wealth of experience and knowledge of the retail industry. Leveraging this expertise, we provide specialty stores with the range of in-depth support described below.

■ Marketing

We perform market analyses from a variety of angles, then plan and sponsor sales promotion programs and events that help stores attract more customers.

■ Consulting

ÆON Mall offers advice and training to stores on how to develop their sales floor and draw in more customers. Store manager meetings and retail category-specific meetings are held frequently, providing opportunities to share the latest information and exchange opinions.

■ Hospitality

At ÆON Mall, we take special care concerning the working environment for specialty store employees. Reflecting input from employees, our malls feature employee-only break rooms, convenience stores, and other amenities designed to improve employee satisfaction.

Precision-engineered Tenant Mix Tailored to the Trade Area

We devise an optimal tenant mix specifically tailored to the needs of local customers, the unique features of the development site, and the design concept and theme of the shopping mall. As a rule, specialty stores at our malls are equally divided between national chain stores, local specialty stores, and newcomer specialty stores from outside the region.

■ Recruitment of Local Specialty Stores

ÆON Mall actively recruits locally based specialty stores, to bring a sense of familiarity to its malls for customers and create towns and neighborhoods with strong ties with the community.

■ Attracting Seasonal Specialty Stores

To keep our malls dynamic and to retain their competitive edge against other shopping centers, we actively recruit seasonal specialty stores with proven popularity among customers.

In recent years, more specialty stores from outside Japan have begun to consider ÆON Mall shopping malls for their first foray into the Japanese market.

Fixed and Variable Percentages of Operating Revenue

ÆON Mall's operating revenue consists largely of "income from real estate lease" received from specialty stores and "common service fees."

The majority of "income from real estate lease" comes from "income from fixed rent" and "income from percentage rent," the latter being determined in accordance with sales achieved by mall tenants.

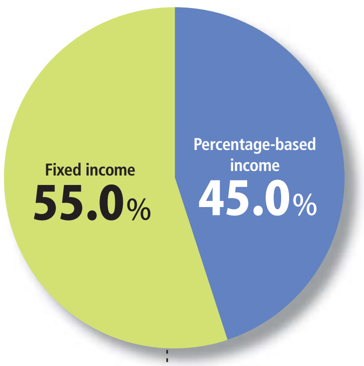
Rent percentages are determined based on criteria such as tenant business category, profitability and market rates for setting up shops. The percentages are typically set at 8% to 15% for merchandising businesses, and 10% to 20% for tenants providing food, beverages and services.

In many cases, ÆON Mall sets the minimum sales for each tenant on a monthly or yearly basis; therefore, despite their designation, percentage rents comprise an extra fixed rent component.

For this reason, growth in specialty store sales leads to an increase in percentage rents, while the established set of minimal sales guarantees also provides a hedge against a decline in specialty store sales.

Shopping mall sales account for roughly 13% of operating revenue.

Composition Ratio of Fixed and Variable Income

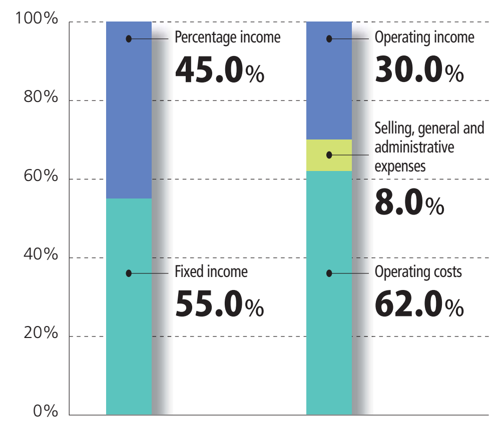


Operating Costs, SG&A Expenses, and Percentage of Operating Income

Operating costs are costs directly related to mall management, comprised of personnel costs for employees stationed onsite for mall management and operating expenses related to mall facilities. Operating expenses are mainly comprised of facility maintenance expenses, water, lighting and heating expenses, rents paid to owners of mall land and buildings, and depreciation of mall facilities.

ÆON Mall takes steps to reduce the largest cost items, namely rents paid to owners and maintenance expenses. Of the Company's operating costs, rents paid and depreciation account for around 40% of earnings.

Earnings Structure Image



Operation and Management

ÆON Mall incorporates four key functions in its malls and conducts meticulous mall operation and management to ensure that its facilities continue to be the leading choice among customers and specialty store tenants.

The mission of ÆON Mall is to continually improve revenues after a shopping mall opens and raise its value. The key to raising the earnings of our malls lies in their ability to draw customers. To be a customer's shopping mall of choice, a facility must be able to realize functions that meet the changing needs of customers and answer the latent needs of the region.

Meeting the changing needs of customers and continually motivating them to visit stores are the essential conditions for appealing shopping malls that customers will prefer. At ÆON Mall, our idea of an attractive shopping mall is one that offers one-stop solutions by incorporating the four functions of shopping, entertainment, community and ecology. In short, the mall should meet the needs of the community by fulfilling some of the functions of an urban center.

As a shopping mall developer we have the expertise to provide support for tenants that forms the basis for close partnerships. We are working with tenants to develop a range of initiatives to attract customers, and to improve customer satisfaction by creating safe and comfortable shopping malls. We will continue to enhance our initiatives with tenants and customers in our commitment to creating shopping malls that are the facilities of choice for both customers and specialty store tenants.

Shopping

From the latest in fast fashion to general merchandise and seasonal restaurants, we create a precisely engineered tenant mix calculated to answer a variety of customer lifestyle needs.

All Mall Campaigns

Three special sales campaigns from the ÆON Group—"5 Days of Snap Discounts" (December 2009), "5 Days Only Sale" (March 2010), and "5 Days of Discounts for Everyone" (June 2010) took place at all ÆON Mall shopping malls. All three campaigns won strong approval from most specialty stores as measures to increase customer traffic and improve sales. ÆON Mall will actively plan and sponsor more campaigns and events of this kind in the future.

Entertainment

With cinema complexes and other amusement facilities, ÆON Mall delivers not only shopping, but also leisure services including dining and events that make our malls fun places for everyone to spend time.

Leisure Services

Cinema complex equipped with 3D and other state of the art facilities.


Indoor playgrounds offer safe play space for children to enjoy.


ÆON Mall also holds seasonal events for the enjoyment of the local community.

Community

ÆON Mall shopping malls feature a number of high-demand public facilities, such as bank and post office branches, as well as physicians' offices and branch offices for government agencies. Meanwhile "ÆON Hall," a multipurpose event hall in our shopping malls, in addition to hosting local events, is seeing increasing use as a venue for various government-related events, such as coming-of-age ceremonies, tax return filing centers, and early voting sites. These broad uses for the hall are giving rise to synergies by generating new revenue streams while bringing in more customers.

Building Ties with Community within the Mall


Government agency services are available even on holidays.


ÆON Hall hosts memorable events such as coming-of-age ceremonies.


A shopping mall car park is a perfect site for a local festival.

Ecology

Barrier-free and universal design has been adopted at our shopping malls to enable safe, secure and comfortable access for all customers. We also seek to create shopping malls that coexist with the environment by incorporating solar power generation and large-scale ice thermal storage systems. Other efforts include recycling of all waste emissions to promote "zero-emission shopping malls" that protect local ecosystems.

Initiatives to Reduce Greenhouse Gases


Electricity generated from solar power and reductions in carbon emissions are displayed on boards within the shopping mall.

High efficiency energy-saving LEDs are used for signboards and lighting within our shopping malls.


Introduction of a measuring system that collates data on waste amounts by item and feeds the information back to specialty store tenants.

To Our Shareholders and Investors

ÆON Mall posted record-high net income for the fiscal year ended February 20, 2010. This accomplishment, however, was marred by lower year-on-year performance in operating income. Recognizing the seriousness of this result, we will channel tremendous energy into attracting more customers, among other initiatives. Our operating results of late have been robust, and there is a strong sense that the "one-stop solution" shopping malls that only ÆON Mall can deliver have enjoyed wide support from customers.

Treating fiscal 2009's serious results as a springboard for growth

During fiscal 2009, ended February 20, 2010, we fell short of our stated numerical targets for the year. Operating revenue rose 6.2% from the previous fiscal year to ¥138.9 billion, operating income fell 1.8% to ¥37.2 billion, and net income rose 2.0% to ¥21.8 billion for the year. The decline in operating income, while slight, was highly regrettable and cast an unwelcome shadow over growth in operating revenue and record-high net income.

The operating environment since the Lehman Shock has been marked by weak consumer spending and falling prices. This adverse environment persisted during fiscal 2009. Recognizing the seriousness of our results this term, we are determined to turn this disappointment into a springboard for dramatic growth in the coming fiscal year and beyond.

Aggressive action to pave the way for the development of new shopping mall locations.

We opened three new shopping malls in fiscal 2009—mozo wondercity (Aichi Prefecture), ÆON Mall Hiroshima Gion (Hiroshima Prefecture), and Perch Tsuchiura (Ibaraki Prefecture). Counting the opening of three other new malls between March and June 2010, we currently operate a total of 55 shopping malls in Japan and one mall overseas. ÆON Mall has established an unassailable position as an exclusive developer of the largest and best-performing shopping centers in Japan.

Turning to existing malls, we moved to revitalize six malls during the year, taking particularly robust action at ÆON Mall Musashimurayama mu in Tokyo, and ÆON Mall Natori AIRY in Miyagi Prefecture. The departure of department store tenants at these malls had raised concerns about the continued viability of both facilities.

Viewing these vacancies as opportunities, we renovated both locations by introducing large-scale specialty stores, enacting a change that many customers had requested. As a result, both shopping malls posted operating performance that far surpassed that of the previous fiscal year.

Meanwhile in China, ÆON Beijing International Mall Shopping Center continues to record brisk performance. Our second shopping mall in Tianjin, China is scheduled to open in the fall of 2010.

Aiming for further growth, by strengthening our commitment to putting customers first.

Looking back over fiscal 2009, there is a palpable sense that the mindset among customers is on the cusp of a radical change. A new era is dawning, in which customers will view the shopping malls they choose with a much more critical eye, asking a tough question: Is this mall essential to my life, or can I live without it? At ÆON Mall, we follow a basic philosophy of putting customers first. The situation today has made us keenly aware again of the importance of our approach to customers in the work that we do. It is clear that we must always take them seriously, whenever and wherever we encounter them.

For ÆON Mall, we have positioned fiscal 2010, the year ending February 20, 2011, as a year to transform ourselves in preparation for an unprecedented and dramatic leap forward in growth. Keeping our most recent performance firmly in mind, we intend to move resolutely toward the completion of our Medium-Term Management Plan, and will strive for new growth with the goal of becoming a world-class corporation.

With these objectives in place, we ask for the continued support and guidance of our shareholders and investors as we approach our task.

June 2010
President and CEO

村上教行

Noriyuki Murakami

The creation of shopping malls closely embedded in the life of the region is winning approval from communities everywhere.
At ÆON Mall, we are confident that we still have significant potential for growth.

Developing New Shopping Mall Locations

Creating malls that appeal to both communities and specialty stores

One thing that has struck me about the shopping mall industry in recent years is how vividly clear the line between successful and unsuccessful developers has become. Protracted weakness in consumer spending, coupled with more stringent lending practices on the part of financial institutions has made many specialty store companies more selective about where they open new stores. Consequently, a widening quality gap is beginning to emerge between shopping malls. In a parallel trend, shopping mall development is headed toward an eventual saturation point, prompting concerns among some that the growth of the industry itself is in decline.

I don't believe this applies to ÆON Mall at all. We are quite sure that there is still ample room for further growth. In fact, we are now in talks with many local governments across Japan that are looking to attract our shopping malls. Similarly, a good number of specialty store companies rate our malls as top locations for opening new stores.

When we create shopping malls at ÆON Mall, we don't just build a commercial facility and then leave, as might happen in a simple real estate business. Instead, we incorporate four key functions into our facilities—shopping, community, entertainment and ecology—and actively conduct floor space expansions, renovations, and other ongoing revitalization while paying close attention to customer needs. This kind of "town" or "neighborhood creation" deeply embedded in the life of the region is attracting attention, since it enhances the ability of shopping malls to attract customers.

Looking ahead as Japan's largest exclusive developer of shopping malls

The other day, I paid a visit to ÆON Mall Hinode (Tokyo). Several ÆON Mall staff noted that recently a growing number of customers in business suits have been visiting and observing the mall.

Since opening in 2007, this mall has contributed to the community not only by delivering the four functions I mentioned before, but through bringing greater employment opportunities and increased tax revenue, specifically taxes on fixed assets and consumption tax. As a result, the town itself has undergone substantial development, including growth in housing projects that have sprung up around the mall. And ÆON Mall Hinode is not an exception—I hear of the same pattern repeating itself at other ÆON Mall facilities.

Today, ÆON Mall operates 55 shopping malls in 27 prefectures across Japan (as of the end of June 2010). That figure still represents only about half of Japan's 47 prefectures. I dream one day of opening ÆON Mall shopping centers in every prefecture. In actuality, this is not just a dream but a real possibility, one that I firmly believe ÆON Mall has more than sufficient growth potential to realize.

Developing new mall locations is critical to achieving sustainable growth for ÆON Mall. The three new malls opened in fiscal 2010 are important litmus tests in this sense.

Tackling the challenge of developing community-based and urban malls as new locations

ÆON Mall Aratamabashi (Aichi Prefecture), which opened in March 2010, was developed as a small-scale urban shopping mall, and represents a departure from our basic format of two anchor stores per mall for large shopping malls. Access by road to the site is not easy, a point that in the past might have disqualified it as a development location out of hand. However, the location has an untapped commercial area in the form of nearby residential districts. Within walking distance of three train stations, the site also offers an outstanding level of convenience, another feature that caught our attention and prompted development.

One additional, and important, feature of this shopping center is that it is closely embedded in the local community. We took the time to address and resolve each issue that arose in frequent conversations with local residents prior to development. These talks led to the creation of new walking paths and a park on the south side of the area. But they also resulted, for example, in the installation of rainwater cisterns on the mall grounds to counter repeated flood damage after heavy rain, a problem residents had mentioned experiencing in the past. In short, we are working as one with the community to create a town.

Evolution of suburban shopping malls

We also opened ÆON Mall Yamatokoriyama (Nara Prefecture) in March 2010. Concerns about traffic became an important issue in developing this mall. Accordingly, we consulted with local authorities about putting a street network in place around the site, and also collaborated with local bus companies to create new bus routes to and from the mall from nearby train stations. These steps have ensured a transportation network that allows customers easy access by train or bus, as well as by car.

In Nara Prefecture expectations are high that the mall will deliver a host of benefits, including growth in consumption, increased tax revenues and greater employment opportunities. The opening ceremony was even attended by the prefectural governor, who praised the development for its contribution to the region.

Some 2,800 people from communities around Nara Prefecture are employed at ÆON Mall Yamatokoriyama. ÆON Mall also operates two other shopping malls in Nara Prefecture, with all three facilities collectively creating employment for over 2% of the prefecture's workforce.

A shopping mall in front of a major urban rail terminal

At ÆON Mall KYOTO, a facility opened in June 2010 in Kyoto Prefecture, we developed a shopping mall on a site with features distinctly different from those of the other two new mall sites. ÆON Mall KYOTO was built directly in front of the city's central train station, in this case near the Hachijo Exit of Kyoto Station. It is also the largest shopping mall in Kyoto Prefecture by floor area. ÆON Mall has also won a contract to manage this mall in its PM business, making ÆON Mall KYOTO a significant test case for this new line of business.

These three new shopping malls have been developed on sites with completely different features: one located near a residential district, one in a suburban setting, and one in front of a major urban rail terminal. As such, they are essentially test cases for the viability of developing new types of locations in the future. Incidentally, recent operating results show that all three new malls are performing well.

We are aggressively pursuing our overseas strategy, with a view to further growth in the future.
We plan to open our second new shopping mall in China in the fall of 2010.

Steady Growth in Mall Operations in China

ÆON Beijing International Mall Shopping Center—Changing the face of shopping in China

Our strategy in markets overseas is a vital component of our quest to develop new mall locations.

In mall operations in China, ÆON Beijing International Mall Shopping Center, which opened in November 2008, continues to perform well. A new cinema complex that opened at the mall in September 2009 has recorded steady growth in box-office receipts. In fact, despite being just one of the 76 movie theaters in Beijing, the new cinema complex appears to be on track to end 2010 as one of the top 10 revenue-making theaters in the city area.

We think the reason that this cinema complex has performed so well despite opening only recently lies in the growing name recognition of the shopping mall itself. The facility is gaining a strong reputation among customers, particularly for its one-stop shopping convenience. This is an important point considering that many of those surveyed have cited traffic bottlenecks in Beijing as the reason they no longer care to shop in the city.

In addition to the cinema complex, the shopping center also offers a free parking lot and direct subway access, features not seen at any other commercial facility in China. My sense is that these three key features will likely become a core strategic element in our future development of shopping malls across China.

Recently, many academic commentators and others in the shopping mall development industry have suggested that ÆON Beijing International Mall Shopping Center represents the kind of commercial complex that China should have in the future. Comments like this have triggered a surge in interest in the large-scale mall-style shopping centers in suburban settings that ÆON Mall develops.

Opening of New Shopping Malls in Northern China and the Shandong Area

Also in China, we signed a master lease contract with a local developer ahead of the scheduled opening of ÆON Tianjin TEDA Shopping Center in the fall of this year.

This new facility is also capturing much attention after the success of ÆON Beijing International Mall Shopping Center. Over 300 companies attended an explanatory meeting held for interested specialty store tenants–twice the number of planned commercial spaces actually available.

Furthermore, ÆON Mall has the consensus of other ÆON companies to undertake the developer business for large-scale shopping malls in China.

We are also conducting feasibility studies in Vietnam, another market with projected growth right behind that of China, and will continue to aggressively promote other aspects of our overseas strategy in the coming years with a view to achieving further growth.

Beyond cost reductions through synergies, there is a feeling that real benefits from the merger with Diamond City have begun to emerge, including new possibilities in mall development and operations, and in new businesses.

Benefits from the Merger take Shape

The end of the fiscal year under review marks roughly two and a half years since the merger with Diamond City in August 2007. There is now a strong feeling that benefits from the merger have emerged.

The clearest of these so far is probably cost reductions. We have started to see the full effects of synergies from integrating our shopping mall operations, achieving a hefty ¥2.7 billion reduction in costs. This is well in excess of our initial estimate of ¥1.0 billion.

These effects are also visible in our newest shopping malls. Before the merger, ÆON Mall possessed advantages in the development of shopping malls near regional cities, while Diamond City specialized in developing malls in the suburbs of major cities. As I mentioned earlier, the three new shopping malls opened in fiscal 2010 all have distinct locational characteristics, with one situated near a residential district, another in the suburbs, and the third in front of a major urban rail terminal. Our ability to develop and manage these diverse sites can be viewed as a merger benefit–one that leverages the original strengths of both companies. Another example is our PM business at ÆON Mall KYOTO, where we are transforming know-how accumulated by Diamond City into a full scale business that represents a source of new revenues.

The integration of our two corporate cultures has also progressed smoothly, as we continue to foster an atmosphere of hard work and mutual learning from one another inside the Company. Fiscal 2010 will see the full completion of the merger process as we finish up several remaining projects, putting a firm corporate groundwork in place for a dramatic leap in growth.

I have always believed that the primary duty of any mall developer is to improve a facility's ability to attract customers.
Enhancing the earnings power of existing malls is a highly important theme for ÆON Mall.

Initiatives for Fiscal 2010/Outlook for the Medium-Term Management Plan

Large-Scale Revitalization of 12 Existing Shopping Malls

Looking at initiatives for fiscal 2010, as I discussed earlier, we plan to open three new malls in Japan and one in China–a total of four for the year. We also intend to channel more energy into another key growth factor: enhancing the earnings power of existing malls. I have always believed that the primary duty of any mall developer is to improve a facility's ability to attract customers. We will work to achieve this by responding quickly to customer needs, and by actively recruiting, discovering and nurturing seasonal specialty stores, as well as locally based specialty stores with a loyal following in the region.

Last December, the ÆON Group sponsored a special sales campaign called "5 Days of Snap Discounts" that won strong approval from many specialty store companies. The campaign was repeated again in March and June 2010, and has successfully attracted more customers to our malls. Turning specifically to the revitalization of existing shopping malls, we intend to renovate a total of 12 malls during the year, including 7 for which contracts with major tenants (specialty stores) are set to expire. Along with a review of mall zoning and the recruitment of fast fashion and department store brands, we will bring in over 300 new specialty stores and relocate and refurbish 350 existing specialty stores. These actions are part of a large-scale revitalization project designed to increase the number of store visitors and store sales. We will also proactively replace specialty stores at our other facilities beyond these 12 malls.

In terms of vacant floor space, while our malls had an average rate of over 2.0% during fiscal 2009, this has now improved to 0.8%. Our target for fiscal 2010 is 0.5%. As for cost structure reform, we expect to follow reforms in fiscal 2009 with a further ¥1.7 billion in cost reductions in fiscal 2010.

From these initiatives, we are targeting operating revenue of ¥147.0 billion in fiscal 2010, up 5.8% year on year, along with operating income of ¥40.0 billion, up 7.5%, ordinary income of ¥38.0 billion, up 5.0% and net income of ¥22.0 billion, up 0.9% from fiscal 2009.

Eyeing Annual Growth of 5% or More Under the Medium-Term Management Plan

Next I would like to discuss the three-year Medium-Term Management Plan that we launched in fiscal 2010. First, the plan calls for the opening of 11 new shopping malls–7 in Japan and 4 in China. It also calls for the revitalization of 60% of our existing shopping malls, which will see the refurbishment or expansion of a total of 31 facilities.

Another major theme is identifying new core businesses. One of these is the PM business, which we will strive to expand by aiming for a PM contract target of two malls per year. Elsewhere, we will work actively to develop our steadily growing mall operations in China. We plan to open four shopping malls in the space of three years, and will set about identifying other projects with future growth potential, aiming to open two to three malls annually from fiscal 2013.

As a mode for development in China we are thinking of a master lease scheme from the site developer covering both land and structures. Our intended business model in China requires an investment per mall of around ¥2.0 billion, and is expected to generate rental income of around 10% on shopping mall retail sales of ¥9.0 billion to ¥10.0 billion, thus enabling a return on investment in less than five years on a cash basis.

For fiscal 2012, the final year of our Medium-Term Management Plan, we are targeting ¥165.0 billion in operating revenue, ¥45.0 billion in ordinary income. and an annual growth rate of 5% or more.

The entire staff of ÆON Mall has renewed their focus on reforms for our next phase of growth in order to meet the expectations of our shareholders and investors.

A Year of Transformation for a New Leap Forward

In closing, we turn briefly to the payment of cash dividends to our shareholders. Based on our policy of stable and consistent dividends, we declared a total annual dividend of ¥20 per share, consisting of year-end and interim dividends of ¥10 per share respectively for fiscal 2009. We propose the same annual dividend for fiscal 2010, aiming for the same annual payout ratio of 15%.

ÆON Mall is an exclusive developer of shopping malls in the ÆON Group, and is committed to striving for further growth going forward as we fulfill this role.

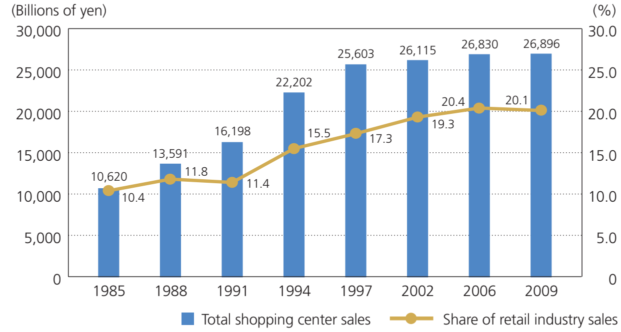
As I noted at the beginning, although we posted record-high net income for fiscal 2009, operating income were both slightly lower for the year. For this reason, we have positioned fiscal 2010 as a year to transform ourselves ahead of an unprecedented and dramatic leap forward in growth. The entire staff of ÆON Mall is focused with renewed vigor on our next phase of growth in order to meet the expectations of our shareholders and investors.

Market Environment Data

Retail Industry Sales in Japan and Shopping Center Share

Total shopping center sales in Japan in 2009 were \26,896.1 billion. In 1985, shopping centers including large-format stores accounted for 10.4% of total retail sales. In 2009, this share had grown to 20.1%.

Total Shopping Center Sales and Share of Retail Industry Sales

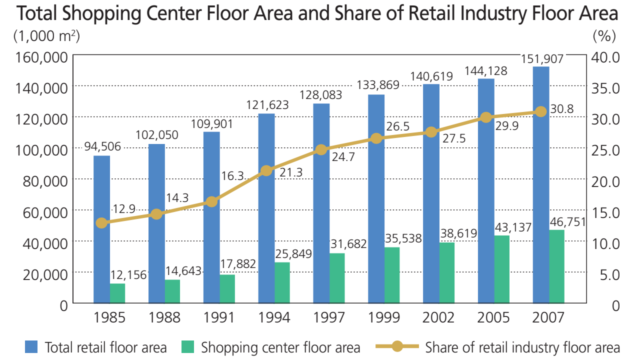


Source: METI "Retail Statistics;" "Basic Statistics of Shopping Centers in Japan" Japan Shopping Center Association

Retail Industry Floor Area in Japan and Shopping Center Share

Total floor area of shopping centers in Japan in 2007 was 46.75 million square meters. This accounted for 30.8% of total floor area for the retail industry (151.91 million square meters). Shopping centers thus account for about a third of retail space and represent a major location choice for tenant companies.

Total Shopping Center Floor Area and Share of Retail Industry Floor Area

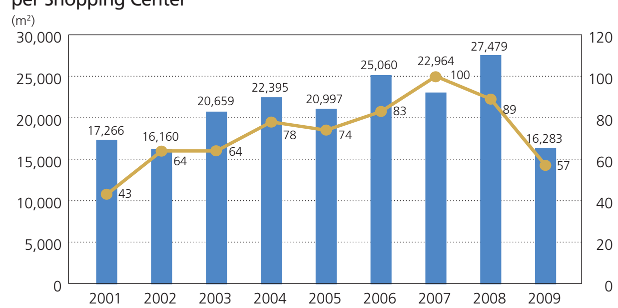


Source: METI "Retail Statistics;" "Basic Statistics of Shopping Centers in Japan" Japan Shopping Center Association

Number of New Shopping Centers in Japan

In 2009, 57 new shopping centers were built in Japan, a significant decline from 89 in 2008. The size of shopping centers also declined. These declines were due to the sharp economic downturn and new regulations on locations for opening large-scale commercial facilities. A key point in achieving excellence as a developer going forward will be the number of shopping centers managed and operated.

Annual New Shopping Center Openings and Average Floor Space per Shopping Center

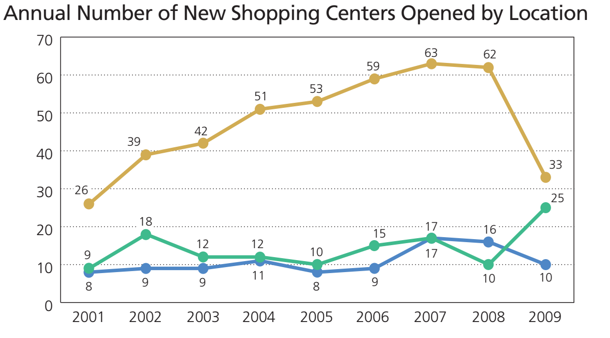


Source: Japan Shopping Center Association

Number of New Shopping Centers Opened in Japan by Location

In 2009, the number of new shopping centers opened in suburban areas in Japan declined significantly. This was largely due to the revised City Planning Act which aims to curtail large-format store openings in suburban areas and promote use of central commercial districts. However, the number of new facilities opening in central commercial districts has not increased, mainly due to development costs and difficulties negotiating with landholders.

Annual Number of New Shopping Centers Opened by Location

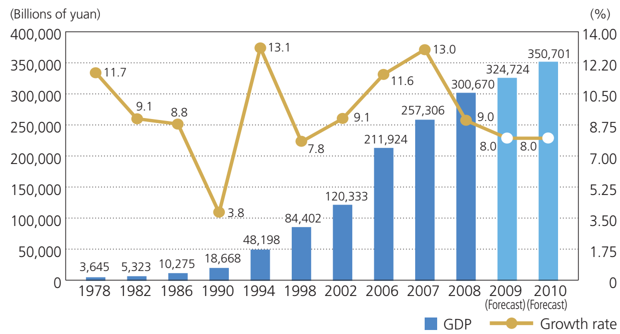


Source: Japan Shopping Center Association

Economic Growth Rate in China and Forecast

China's GDP growth rate dipped to 9.0% in the wake of the Lehman Shock in the fall of 2008. From 1979 to 2007, however, Chinese GDP had been growing at around 10% annually. The National Bureau of Statistics forecasts a GDP growth of 8% for China from 2011 to 2015, with domestic investment allocated to roads and infrastructure development for agricultural communities.

China Economic Growth Forecast

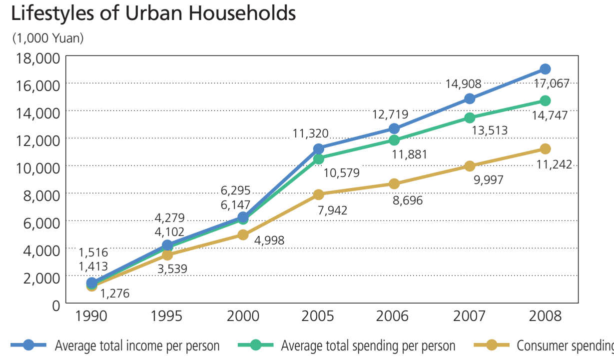


Source: National Bureau of Statistics of China

Consumer Spending in China

In 2008, consumption per person in urban areas grew 12.5% year on year to 11,242.9 yuan. Spending has tracked rising incomes, growing at an average annual rate of 14.4% since 2002. Meanwhile, average incomes in urban areas are currently about three times higher than those in rural areas, but the government is rolling out policies for increasing spending in rural areas, and accelerating investment focused on interior China. These measures are expected to stimulate economic development in rural areas, too.

Lifestyles of Urban Households

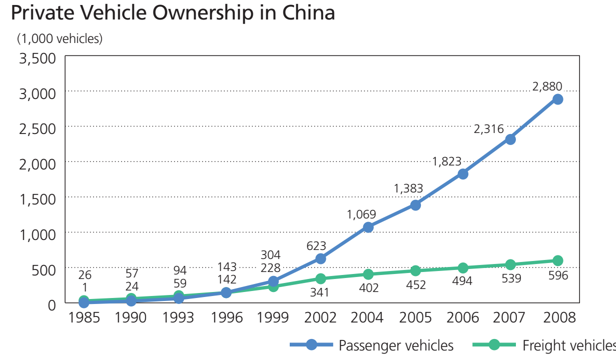


Source: National Bureau of Statistics of China

Spread of Private Vehicle Ownership in China

Ownership of private vehicles in urban areas in China increased about 18-fold between 2000 and 2008, when it stood at 8.8 vehicles per 100 households. Ownership is increasingly found among middle-income earners in addition to high-income earners. As residential housing development progresses in outlying areas, some rural areas now have higher rates of ownership than urban areas, and cities in China are expected to become increasingly suburbanized.

Private Vehicle Ownership in China



Source: National Bureau of Statistics of China

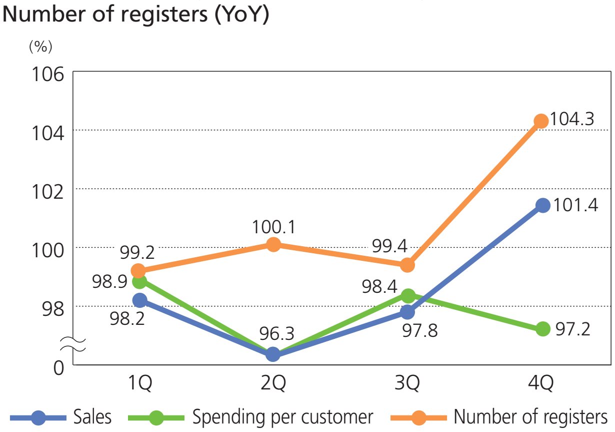
Shopping Mall Business in Japan

Market Environment and Business Results

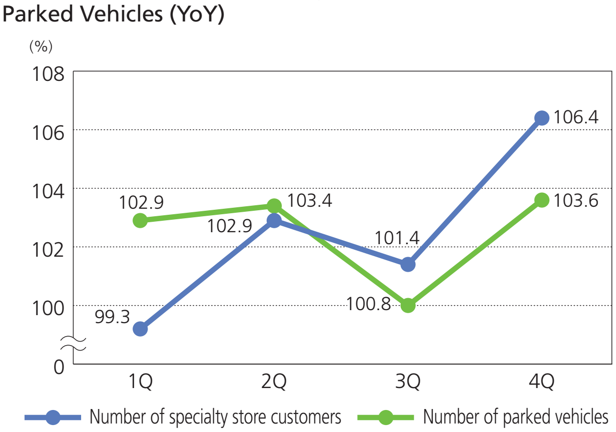
In fiscal 2009, the fiscal year ended February 20, 2010, the severe operating environment that emerged in the wake of the September 2008 Lehman Shock persisted. While demand in some consumer goods sectors showed signs of recovery, uncertainty continued to loom over consumer spending, reflecting a worsening environment for employment and personal income, growing deflation, and other factors.

Despite this climate, we saw year-on-year growth in operating revenue for fiscal 2009, reflecting contributions of new facilities opened in fiscal 2008 and fiscal 2009. On the other hand, operating and ordinary income were lower compared to the previous fiscal year, as earnings at 45 existing shopping malls fell short of initial projections due to the considerable impact of an adverse operating environment during the first half of the year. The effects of harsh economic conditions ultimately outweighed a raft of countermeasures enacted in the second half of the year, including special sales promotions, additional cost reductions, and the elimination of vacant floor space. Turning to costs, we achieved reductions of ¥2.7 billion, far in excess of our initial targets, due largely to benefits from a review of shopping mall operations and other cost reductions. As a result, together with the posting of extraordinary gains, specifically an increase in compensation paid to the

Fiscal 2009 Specialty Store Sales/Spending per Customer/
Number of registers (YoY)



Fiscal 2009 Number of Specialty Store Customers/
Parked Vehicles (YoY)



Company by departing specialty stores along with compensation received from departing department stores, we posted record net income of ¥21,809 million.

New Shopping Mall Openings in Fiscal 2009

Fiscal 2009 witnessed the opening of three new shopping centers—mozo wondercity (Aichi Prefecture) and ÆON Mall Hiroshima Gion (Hiroshima Prefecture) in April, and Perch Tsuchiura (Ibaraki Prefecture) in July.

mozo wondercity came from the scrap and build reopening of Nagoya wondercity, which opened in 1994. Mitsubishi Corporation owns the land and buildings at the site, while ÆON Mall is responsible for property management. To develop independently, this project would have required an investment of tens of billions of yen. Undertaking it as a collaborative scrap-and-build project, however, meant that we were able to earn steady revenues as consideration for our role in planning the mall and attracting tenants, as well as for ongoing management after opening, without any investment burden.

Since opening, sales at mozo wondercity are nearly 10% above projections, and the facility is poised to become one of the Company's top performers in annual sales.

ÆON Mall Hiroshima Gion was developed at the invitation of the local community, with the express purpose of enhancing convenience, increasing employment opportunities, and revitalizing the economy for area residents. The development is an effective reutilization of a former business site: the shuttered Hiroshima Works of Mitsubishi Heavy Industries, Ltd. With local support, it has enjoyed steady sales.

Perch Tsuchiura, a joint project with East Japan Railway Company (JR East), opened as a full-scale renovation of JR East's Tsuchiura Station Terminal Building. ÆON Mall received a contract for the project under its PM business and is bringing its expertise in mall operations to bear in its first operation and management of a train station building.

Malls Renovated in Fiscal 2009

With respect to existing malls, we moved during fiscal 2009 to revitalize a total of six shopping malls, completing three in the first half of the year and three more in the second.

At two malls revitalized in the second half—ÆON Mall Musashimurayama mu (Tokyo) and ÆON Mall Natori AIRY (Miyagi Prefecture)—our efforts focused on renovating areas vacated by department stores into specialty store zones, in step with long-standing requests from customers to introduce large specialty stores. While the departure of the department stores from the malls was a major issue, both facilities saw a significant net increase in the number of visitors, as well as year-on-year growth in sales after their renewal. This trend was especially evident at ÆON Mall Musashimurayama mu, the first mall in Japan to feature the world's top three apparel brands—H&M, ZARA and GAP—where performance was strong atop double-digit sales growth versus the previous fiscal year.

Initiatives for Fiscal 2010

As part of initiatives for fiscal 2010, the Company in March 2010 opened ÆON Mall Aratamabashi (Aichi Prefecture) and ÆON Mall Yamatokoriyama (Nara Prefecture), followed in June by the opening of ÆON Mall KYOTO (Kyoto). Meanwhile, in mall operations in China we are scheduled to open ÆON Mall Tianjin TEDA Shopping Center (Tianjin) in the fall of 2010, making a total of four new shopping malls to be opened in 2010.

We plan to revitalize a total of 12 existing shopping malls during the year, double the number revitalized in the previous year. These activities will include introducing specialty bridal stores along with our first wedding center at ÆON Mall Higashiura (Aichi Prefecture), and renovating an area vacated by a home center at ÆON Mall Ota (Gunma Prefecture) to create a specialty store zone.

In our consolidated business outlook for the year, we are projecting operating revenue of ¥147.0 billion (up 5.8% year on year), operating income of ¥40.0 billion (up 7.5%), ordinary income of 38.0 billion (up to 5.0%) and net income of ¥22.0 billion (up 0.9%).

We plan to invest ¥65.0 billion in fiscal 2010 on a cash flow basis. This investment will be funded in part by ¥45.0 billion from operating cash flow and ¥2.5 billion in deposits received. We plan to raise funds to make up the shortfall. We expect our debt-equity ratio to be around our target of 1.0.

New Shopping Mall Openings in Fiscal 2009

4.21
OPEN

mozo wondercity (Nagoya, Aichi Prefecture) *PM project

ÆON Mall has operated this shopping mall since 1994. In response to residential developments in the surrounding area and other changes in land utilization, and from a desire to more robustly meet diversifying consumer needs, we scrapped and rebuilt the mall. We reopened the new facility with twice the commercial area of its predecessor and approximately three times the number of specialty stores. 62 of the 230 specialty stores opened for the first time in Nagoya. This created one of the largest store selections in the area.

●Site area: around 107,000 m² ●Number of employees: around 3,500
●Total leased area: around 85,000 m² ●Tenants: 230
●Parking: around 5,000 cars
●Trade area population: around 1.3 million people (around 550,000 households)

*Area figures listed do not include the existing wondercity cinema wing

4.29
OPEN

ÆON Mall Hiroshima Gion (Hiroshima, Hiroshima Prefecture)

Located in the largest commuter belt around Hiroshima City, the site for ÆON Mall Hiroshima Gion was selected with the expectation of attracting customers thanks to its excellent accessibility by both public and private transport. Approximately 130 specialty stores cater to a wide range of needs from daily shopping to providing the latest information on urban lifestyle trends. The opening is only the first stage, and we are following up with plans to increase the floor area going forward.

●Site area: around 135,000 m² ●Number of employees: around 2,500
●Commercial area: around 57,000 m² ●Tenants: 130
●Parking: around 2,800 cars
●Trade area population: around 480,000 people (around 206,000 households)

7.24
OPEN

Perch Tsuchiura (Tsuchiura, Ibaraki Prefecture) *PM project

Newly opened Perch Tsuchiura was designed around the concept of proposing convenience and comfort to customers using Tsuchiura Station. This concept underpins the facility's lineup of specialty stores. With a full-scale food court providing quick service and a free powder and fitting room for the convenience of female patrons, the station has been reborn as a commercial space embraced by local residents, and also serves as a waiting area necessary for a station.

●Building floor area: around 17,400 m² ●Tenants: 60
●Retail area: around 7,600 m²
●Location features: Tsuchiura population of around 140,000, average train passengers at station of around 35,000 per day

Shopping Malls Renovated in Fiscal 2009

Strengthening the Earning Power of Existing Shopping Malls

ÆON Mall Natori AIRY

ÆON Mall Tsugaru Kashiwa (Tsugaru, Aomori Prefecture)

4.24 OPEN

In renovating ÆON Mall Tsugaru Kashiwa, we paid special attention to the customer feedback regarding amenities and equipment. We worked to create a facility that allowed a safer and more comfortable shopping experience. We renovated the entire facility, including all the extensions that have been added since it opened in November 1992, to create a mall in the latest style.

ÆON Mall Akita (Akita, Akita Prefecture)

4.24 OPEN

We renovated a space vacated by a department store in October 2008 to create a specialty store zone called "West Mall." Several popular stores have been introduced, including the first new format "Gap Japan" store in the country. We also listened to customer requests regarding the food court and car park. We repositioned and expanded the food court to feature 8 shops and seating for 650 people, making it the largest in the region, while adding a further 700 car parking spaces.

ÆON Mall Sankoh (Nakatsu, Oita Prefecture)

4.24 OPEN

Renovations here focused mainly on repositioning and refitting existing specialty stores. One result is the Daiso store, which has a refurbished retail floor and one of the largest product lineups in the prefecture. We also worked to improve convenience by making the car park more spacious, renovating the children's playground and installing the latest bathroom fittings and interior signage.

ÆON Mall Hamamatsu Shitoro (Hamamatsu, Shizuoka Prefecture)

9.18 OPEN

Space partially vacated by a general merchandise store (GMS) was renovated as a specialty store zone. Eight new specialty stores targeting the family segment have been introduced, including one of the largest "UNIQLO" stores in the prefecture, to provide even more ways for families to enjoy time together at the mall.

ÆON Mall Musashimurayama mu (Musashimurayama, Tokyo)

9.18 OPEN

Following the exit of department stores from the mall, we carried out a large-scale revitalization, including introducing large specialty stores in response to strong requests from customers. In April 2010, H&M opened, making this shopping mall the first in Japan to have the world's top three fast fashion names—GAP, ZARA and H&M—all under one roof.

ÆON Mall Natori AIRY (Natori, Miyagi Prefecture)

11.13 OPEN

Following the exit of department stores from the mall, we carried out a large-scale revitalization that included the existing specialty store zone. We answered long-standing customer requests by introducing large-scale specialty stores such as a home appliance mass retailer and specialists in children's products, to increase convenience as a "one-stop shopping" site. Proposing better-quality lifestyles was another theme of the renovation.

New Shopping Mall Openings in Fiscal 2010

3.9
OPEN

ÆON Mall Aratamabashi (Nagoya, Aichi Prefecture)

Situated only 400 meters from 3 stations, including the Meitetsu Main Line, ÆON Mall Aratamabashi is an urban shopping mall offering excellent access by public transport on a site surrounded by high-density residential areas. With a lineup of around 130 specialty stores, the facility is intended to serve as a high-grade daily urban shopping center offering new value that is of a better quality than usual, and as a space where all visitors can relax and spending time in comfort.

●Site area: around 53,000 m² ●Number of employees: around 1,500
●Commercial area: around 24,000 m²
●Tenants: 130 ●Parking: around 1,600 cars
●Trade area population: 15-min. drive radius, around 350,000 people (around 150,000 households)

3.25
OPEN

ÆON Mall Yamatokoriyama (Yamatokoriyama, Nara Prefecture)

Located on the main prefectural traffic artery of National Route 24, and within 5 kilometers of the Keinawa and Nishi-Meihan expressways, ÆON Mall Yamatokoriyama is easily accessible from a wide area. The entire facility borrows from traditional Japanese aesthetics both for the exterior and the interior to create a shopping mall that harmonizes with the history and culture of Nara. Approximately 170 specialty stores cater to a wide range of needs from daily shopping to providing the latest information and proposals for urban lifestyle trends.

●Building floor area: around 166,000 m²
●Number of employees: around 2,800
●Commercial area: around 74,000 m²
●Tenants: around 170 ●Parking: around 4,200 cars
●Trade area population: 30-min. drive radius, around 560,000 people (around 210,000 households)

6.4
OPEN

ÆON Mall KYOTO (Kyoto, Kyoto Prefecture) *PM project

Located near the Hachijo exit of Kyoto Station, this shopping mall forms the heart of a private-sector urban revitalization project to develop the southern side of the station. We received a property management contract from Shimizu Corporation in November 2009 and opened the mall in June 2010. In our first shopping mall located in front of a major urban train station, we are striving to provide a comfortable shopping environment not only for local residents, but also for visitors to Kyoto from around Japan and overseas. The mall is to be the region's first one-stop solution, not only for shopping, but also as a hub for the area around Kyoto Station.

●Site area: around 30,100 m² ●Number of employees: around 2,500
●Commercial area: around 51,000 m²
●Tenants: around 130 ●Parking: around 1,125 cars
●Trade area population: 5-km radius, around 640,000 people (around 300,000 households)

Planned Shopping Mall Renovation for Fiscal 2010

One of our key measures for improving the earning potential of existing shopping malls is to revitalize them by extending the floor areas and renovating them.

An efficient approach to revitalizing shopping malls is to undertake a large-scale renewal at the expiry of the six-year fixed-lease contracts with specialty stores (contracts). We will review mall zoning and actively recruit fast fashion and department store brands to widen our target customer band.

We have 7 malls for which contracts with major tenants are set to expire, and these will be included in the 12 malls we intend to renovate during the year, split evenly between the first and second halves.

We will invest around ¥10.0 billion to revitalize existing shopping malls in fiscal 2010–including approximately ¥5.0 billion for extending the floor area of one mall and about ¥0.3 to ¥0.6 billion per shopping mall for large-scale renewals not involving additional floor area.

First half

ÆON Mall Ota

ÆON Mall Kashihara ARURU (Kashihara, Nara Prefecture) 3.12 OPEN

Following the expiry of specialty store lease contracts, we renewed this mall, mainly by introducing 19 new specialty stores, and repositioning and refurbishing 23 existing specialty stores.

ÆON Mall Higashiura (Higashiura, Chita-Gun. Aichi Prefecture) 3.14 OPEN

In a first for ÆON Mall, this renovated shopping mall reopened on March 14, 2010 with bridal-related specialty stores complementing an onsite wedding center, which also features a wedding chapel and wedding party facilities.

ÆON Mall Kyoto Hana (Kyoto, Kyoto Prefecture) 3.19 OPEN

Following the expiry of specialty store lease contracts, we renewed this mall, mainly by introducing 34 new specialty stores, and repositioning and refurbishing 62 existing specialty stores.

ÆON Mall Hiroshima Fuchu SOLEIL (Fuchu, Aki County, Hiroshima Prefecture) 3.19 OPEN

This facility was revitalized in 2010 to coincide with the expiration of specialty store lease contracts. Among the changes were the introduction of 35 specialty stores, including popular overseas specialty stores and new specialty stores from companies who perform well in department stores or fashion plazas. Other changes included repositioning and refurbishing 40 existing specialty stores. Approximately 40% of the 191 specialty stores were renovated, revitalizing the entire shopping mall. We also introduced a new restaurant, the first of a joint brand between two prominent restaurant companies.

ÆON Mall Ota (Ota, Gunma Prefecture) 4.23 OPEN

Following the withdrawal of a home center in December 2009, around 10,000m² of vacated space has been redesigned as a specialty store zone with 14 shops, including children and family apparel brands, to extend the facility as a specialty shop mall. We introduced 26 new specialty stores, and repositioned and refurbished 23 existing specialty stores.

ÆON Mall Kusatsu (Kusatsu, Shiga Prefecture) 4.28 OPEN

On April 28, 2010 we opened a spa facility in the sports and leisure wing.

Second half

ÆON Mall Niihama (Niihama, Ehime Prefecture)

A wing of newly expanded floor space will open in fall 2010, followed by the scheduled reopening of the entire renovated facility in spring 2011.

ÆON Mall Neyagawa Green City (Neyagawa, Osaka Prefecture)

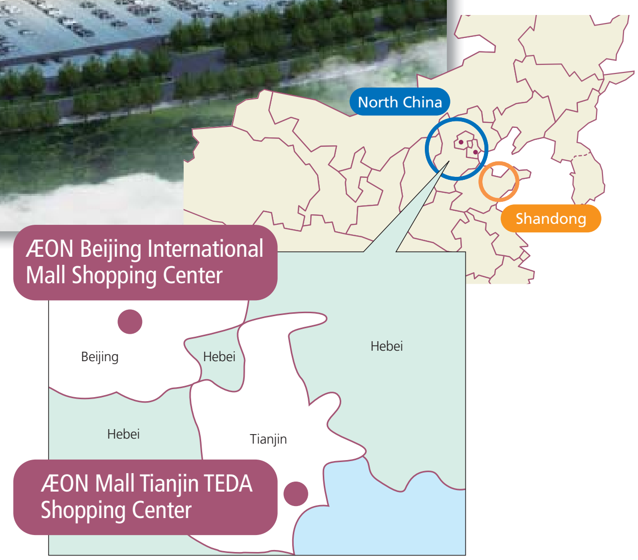
This shopping mall first opened in 1978. In the second half of fiscal 2010 we will revitalize it into a new urban shopping mall along the lines of ÆON Mall Aratamabashi, which opened in March 2010.

Mall Operations in China

Market Environment and Business Results (ÆON Beijing International Mall Shopping Center)

In operations in China, business remains brisk at the ÆON Beijing International Mall Shopping Center, which opened in November 2008. During the week-long Lunar New Year celebration from February 8 to 14, 2010, the center recorded sales and foot traffic equivalent to that of the entire month of December 2009, which had been the largest annual peak. In September 2009, a cinema complex opened at the center, marking a first among the 28 large-scale stores (including 7 shopping malls as of the end of June 2010) developed by the ÆON Group in China. Beijing has 76 movie theaters, and the cinema at the center ranked 38th in terms of box-office receipts in 2009. We expect to move up in these rankings with the first full year of operations in 2010. The center also enjoys steady media exposure as a unique type of suburban shopping facility in China. Development around the center is proceeding with a new station being built in front for a subway link with central Beijing which is scheduled to open this year, and residential development in the surrounding area. We therefore expect the center to see even more customers in the near future.

Mall Operations in China (Opening of new SC in Fiscal 2010)



ÆON Mall Tianjin TEDA Shopping Center

(Scheduled opening in fall 2010)

- Location: Tianjin Binhai New Area
- Management and operation: ÆON Mall Co., Ltd.
- Site area: around 98,000m^2
- Gross floor area: around 110,000m^2
- Commercial area: around 75,000m^2
- Parking: around 2,500 cars

In our business in China, we plan to open ÆON Mall Tianjin TEDA Shopping Center in fall 2010. The shopping center will open in the Tianjin Economic-Technological Development Area (TEDA), part of the Tianjin Binhai New Area, an international port city 57km from central Tianjin. There are many advanced manufacturing and R&D bases in the area. The shopping center is to be built in front of the south side station of TEDA, in the neighborhood of an international convention center, hotels, apartment buildings, a soccer stadium and other facilities, an area that is expected to continue overall development going forward. The shopping center will be able to open with an almost complete lineup of facilities, including a cinema and over 80% of the floor area dedicated to specialty stores. We will make full use of the expertise gained from our first Chinese shopping mall, ÆON Beijing International Mall Shopping Center, as we continue to lay the foundations for our business development in China.

ÆON Mall Tianjin TEDA Shopping Center will be opened under a master lease contract covering the land and buildings with a local developer.

Corporate Social Responsibility (CSR) Activities

We are a company that proposes new lifestyles brimming with appeal, aiming to create "Towns with Vitality" shaped to be full of "surprises, excitement and fun." To foster the attractiveness of each local area, promote the development of a warm-spirited culture, and maintain our recognition earned from society, we are proactively implementing CSR activities.

For the Promotion of CSR Activities

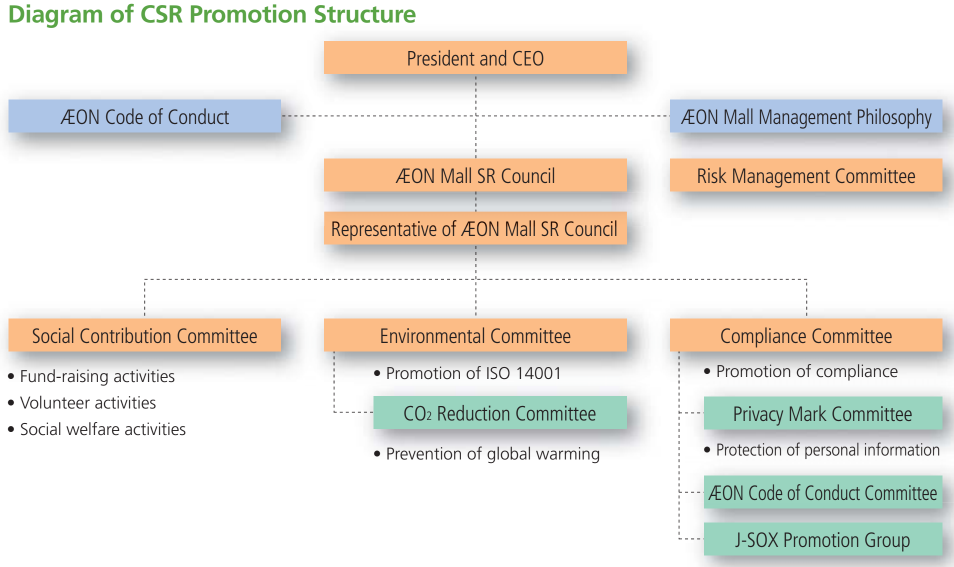
We develop, manage and operate large-scale mall complexes for wide trading areas as a specialist shopping mall developer, and are well aware that the opening of our malls can greatly influence the economy, society and the environment of host communities. The growth and development of malls are of importance not only to customers who shop there but also to the range of those who work at these facilities, including ÆON Mall and tenant store employees, cleaning and security staff, and maintenance personnel. Similarly, the malls we develop are equally vital to specialty store companies as well as local economies. To bring smiles and satisfaction to our customers and people in host communities, we will strive to build a relationship of prosperous coexistence between us and all stakeholders with the aim of creating shopping malls that develop in tandem with the local communities, while seeking to balance the economy, society and the environment.

CSR Promotion Structure

As a way to promote company-wide CSR activities, we hold a monthly meeting of the ÆON Mall SR (Social Responsibility) Council, chaired by the President, with directors and managers responsible for every division also sitting as council members, to address topics related to the environment, social contributions and compliance. The aim of this meeting is to share goals and issues for the promotion of CSR activities, and to take swift action on these. Going forward, we will record steady progress in such areas as promotion of energy-saving initiatives, safe and comfortable shopping mall operations, robust activities in collaboration with tenants, and responses to the Japanese version of the Sarbanes-Oxley Act (J-SOX). For details, please refer to the ÆON Mall sustainability report "The 2010 Report for the Future" on our website.

http://www.aeonmall.com.envivonment/sr.html

Diagram of CSR Promotion Structure



CSR Activities Targeted at Each Stakeholder

●Customers

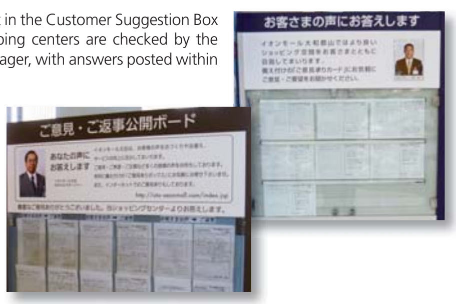
At ÆON, our actions are guided by a fundamental commitment to do everything for the sake of our customers. To ensure that this commitment translates into practice, ÆON Mall strives as a member of the ÆON Group to ingrain the ÆON Code of Conduct in each employee, and to see that our basic philosophy of "Customers First" is reflected in our actions, and those of the employees of specialty store companies that open shops in our malls. We have also set up a Customer Suggestion Box at each mall, as part of a system we are developing to take in customer opinions and actively reflect customer needs.

On any given day, many different customers will visit a mall. Having the right facilities and staff on hand are thus critical to ensuring that customers safely enjoy their time there. In addition to installing all equipment mandated by building codes, fire codes, and other regulations, we give extensive guidance to specialty

An AED installed in one of our malls. Procedures for handling the device during emergencies have also been simplified.

This sign is clearly visible even at a distance.

Information boards located on each floor allow customers to easily determine their current location.



Opinions left in the Customer Suggestion Box in our shopping centers are checked by the general manager, with answers posted within the mall.

store employees on matters of public safety. Automated External Defibrillators (AEDs) are located throughout our malls, and ÆON Mall and tenant employees receive regular training in the use of these devices so that they will be able to help if someone in the mall should suffer a ventricular fibrillation. In an effort to enhance safety and security, we recruit people with police and firefighter training to head up security and serve as liaisons with local police and fire departments. These staff members give full attention to ensuring the safety of operations and providing related instruction at our malls.

ÆON Mall has a significant responsibility to create malls that are comfortable and accessible for all customers, which is why we actively incorporate universal design into every one of our shopping centers. In our spacious shopping centers, signs that direct visitors to essential facilities are extremely important. For this reason, we consult with specialists on ways to make these and other elements more visible and intuitive, so that even first-time visitors can find their way around easily. Restrooms at our malls, for example, emphasize comfort and ease of use. Facilities typically include not only multifunctional restrooms for convenient use by elderly and disabled customers, ostomate-compatible restrooms, and restrooms for children, but also powder rooms, nursing rooms, and baby changing beds.

●Employees

ÆON Mall takes vigorous steps to promote a good work-life balance among employees that emphasizes the importance of both work and home life. To support childrearing, we have drafted an action plan based on Japan's Act on Advancement of Measures to Support Raising Next-Generation Children, and have been certified by the Chiba Labor Bureau as a business committed to the development of the next generation of children. Moving beyond mechanisms alone to develop a corporate culture supportive of a good work-life balance, we have established several systems to offer working styles that can be tailored to specific family circumstances, including waiving periodic worksite transfers for employees responsible for nursing care.

From the standpoint of employee growth, we have put training systems in place and made our goal setting and evaluation rationale more transparent. This change enables employees to better identify ways to progress following their career plans. Each year, ÆON Mall offers recruitment placement tests as a mechanism that opens the door to upper-level qualifications for employees. In fiscal 2009, the pass rate for the test was roughly 25%, with around 100 people taking part in job rank-specific training. Additionally, we offered entry- and intermediate-level legal training seminars as an avenue for hedging risks, and plan to offer a new entry-level course in facilities training in fiscal 2010.

子育てサポートしています
2007年認定事業主

ÆON Mall has created its own guidebook on childrearing to support employees in this activity. The book is packed with vital knowledge and procedures on everything from pregnancy to a child's early developmental stages, and also has easy-to-understand guides to the various government documents that new parents must fill out and submit. In 2007, our efforts were recognized by the Chiba Labor Bureau, which certified ÆON Mall as a business committed to the development of the next generation of children.

A variety of training programs foster the specialization and skills employees need to perform their jobs.

●Shareholders and Investors

We believe that information disclosure to and communication with shareholders and investors forms an important part of business management. Regarding information disclosure, we regularly disclose present information on the current status and future outlook of our business, such as the CSR activities targeted at each stakeholder, qualitative financial information, etc., in a timely manner through annual reports and periodical reports to shareholders, as well as via the website message board, "To Our Shareholders." As part of communication activities, along with press conferences for the mass media designed to widely convey information pertaining to ÆON Mall, we hold individual meetings with domestic and overseas institutional investors and also organize on-site tours of malls. Moreover, explanatory meetings for individual investors are held at halls and other spaces in shopping malls.

Individual investors meetings are held in shopping malls.

Meetings for institutional investors and analysts are held four times yearly at the announcement of quarterly financial statements. <Events held during fiscal year ended February 20, 2010>

Tools for individual investors.

●Specialty Stores

ÆON Mall is determined to make its shopping malls the top choice for malls in which people want to work. Approximately 110,000 employees, including those of tenants, work at our malls across Japan, and one large-scale shopping mall can employ over 3,000 people. We are keenly aware that these employees play a key role in supporting ÆON Mall facilities and the growth of ÆON Mall. We therefore consider it our responsibility to create a comfortable environment for the employees of our tenants to work in, and we

Spacious relaxation area for employees and employee-only convenience store.

A multifunctional restroom has also been installed for employees.

provide a relaxation space specifically for store employees at each of our shopping malls. We are also adding tenant employee-only convenience stores to more of our shopping malls. The break room at ÆON Mall shopping centers commonly serves as a place for specialty store employees to get to know each other and exchange information. To advance concerted measures throughout the mall, we hold regular meetings of the Tenant Store Council, a body consisting of specialty store companies, as an opportunity to share information.

For specialty store employees, who come into direct daily contact with customers, ÆON Mall seeks to improve safety consciousness and has measures in place to achieve this. For example, specialty store employees take part in disaster response drills at the mall, and gain firsthand experience in leading a safety evacuation and in extinguishing fires. In addition, we require employees to submit a health condition checklist to combat the spread of influenza, and we also require employees of restaurant and drinking establishment tenants to submit to regular stool tests.

●Local Communities

The opening of a shopping mall can bring a host of benefits to a community, including expanding the scope of activity and living patterns in new and exciting ways. At the same time, a mall can also raise concerns about the impact that changes in traffic volume and mall development will have on the natural environment. Driven by a management philosophy committed to creating more vibrant communities, ÆON Mall strives in mall development and planning to maximize the value that its malls deliver to communities, and to minimize any impact on a community that might be associated with the new facility.

Furthermore, the opening of a new shopping center is expected to attract customers from a wider region, leading to greater consumption, sparking new employment opportunities, and other features that lead to economic revitalization. The development of a shopping mall in the region can also add significantly to local tax revenues. We are starting to see contributions of this kind translate into improved social welfare services from local governments in some areas.

ÆON Mall is entering into cooperative disaster response agreements with local governments and other entities in the regions where it develops. In conjunction with these partners, ÆON Mall is not only utilizing malls for disaster prevention drills, but is also putting large-sized tents (balloon shelters) in place at malls to serve as evacuation sites for victims of earthquakes and similar catastrophes.

Disaster prevention drills held on shopping mall grounds.

The balloon shelter serves as an evacuation site during emergencies.

●Protection of the Global Environment

In step with the merger with Diamond City, ÆON Mall integrated and obtained certification of the ISO 14001 environmental management systems of both companies in November 2007. Since March 2005, we have operated a Social Responsibility (SR) System, for reporting on CSR activities at all shopping malls and divisions in Japan and promoting efficient management of CSR targets. The system, which tracks progress on targets in areas such as energy, industrial waste, and resources, also enables us to compile and manage data on charitable donations and social contribution activities. By fiscal 2009, this system had been adopted at all ÆON Mall facilities.

When preparing to develop shopping malls, we conduct preliminary site surveys at the development site selection stage to avoid any negative impact on local ecosystems or biodiversity. During the design phase, we give attention to creating shopping malls with a minimal environmental footprint, including installation of energy-efficient equipment, use of natural energy sources, and use of recycled materials. Furthermore, in the revitalizing of existing shopping malls we have a strong policy of installing equipment and facilities that create a smaller environmental load.

Ice thermal storage systems use off-peak power to accumulate ice in the thermal storage layer that is used for cooling during the day.

In addition to placing windows near ceilings to allow in sunlight, we are reducing power consumption by converting to LED lighting.

Each shopping mall has an "Eco Station" and "Eco Bench" that provide environmental data to customers.

Major CSR Topics

ÆON Mall Kusatsu First Commercial Facility to Receive Sustainable Building Award

ÆON Mall Kusatsu (Shiga Prefecture), a facility that earned the highest ranking of "S" from CASBEE (the Comprehensive Assessment System for Building Environmental Efficiency), has received the "Sustainable Building Award", presented by Japan's Institute for Building Environment and Energy Conservation. The award recognizes notable achievements in reducing environmental load and energy conservation, with the buildings chosen expected to become templates for similar developments in the future. It also marks the first time that a commercial facility has received this honor.

ÆON Mall Kusatsu

Support for Construction of Schools in Asia

The ÆON Group, through the "ÆON 1% Club," provides support in partnership with UNICEF Japan for the construction of schools across Asia, where educational facilities are still needed in some areas. Over the past seven years, more than 300 schools have opened in Cambodia, Nepal, and Laos under this program. ÆON Mall contributes 1% of its pre-tax income to the "ÆON 1% Club" and conducts ongoing donation drives at each shopping mall, providing assistance for this important work with the substantial cooperation of customers and specialty store employees at its malls.

Opening ceremony for a school in Bansai, Laos (March 2010)

Directors and Corporate Auditors (As of May 12, 2010)

Chairman
Masaaki Toyoshima
Vice President
ÆON Co., Ltd.
CEO,Shopping Center Development Business

President and CEO
Noriyuki Murakami

Senior Managing Director
Chitoshi Yamanaka
General Manager, Sales Division

Senior Managing Director
Hidehiro Hirabayashi
General Manager, Administration Division

Managing Director
Yukio Konishi
General Manager, New Business Promotion Division

Managing Director
Kaoru Iwamoto
General Manager, Development Division


Director and Advisor
Motoya Okada
President
ÆON Co., Ltd.


Director
Fujio Takahashi
General Manager,
West Japan Business Department


Director
Yoichi Terazawa
General Manager,
Kanto & Tohoku Business Department


Director
Masaru Soma
General Manager,
Shopping Mall Support Department


Director
Hiroshi Iwamoto
General Manager,
Leasing Management Department


Director
Masato Murai
General Manager, Revitalization
Promotion Management Department


Director
Kenji Kawahara
General Manager, Finance &
Accounting Management Department


Director
Yuzo Fujiwara
General Manager,
Chubu & Kinki Business Department


Full-time Corporate Auditor
Masaru Yokoi


Corporate Auditor
Aritsune Hayashi


Corporate Auditor
Takao Okazaki


Corporate Auditor
Seiichi Chiba
Vice President, CFO
ÆON Co., Ltd.

Corporate Governance

Basic Approach to Corporate Governance, Basic Governance Structure, Corporate Attributes and Other Basic Information

●Basic Approach

Following our basic philosophy of "Customers First," we aim to boost our participation in community life. Through our lifestyle centers in which we create "surprises, excitement and fun," we aim to create "Towns with Vitality" that offer new lifestyles brimming with appeal.

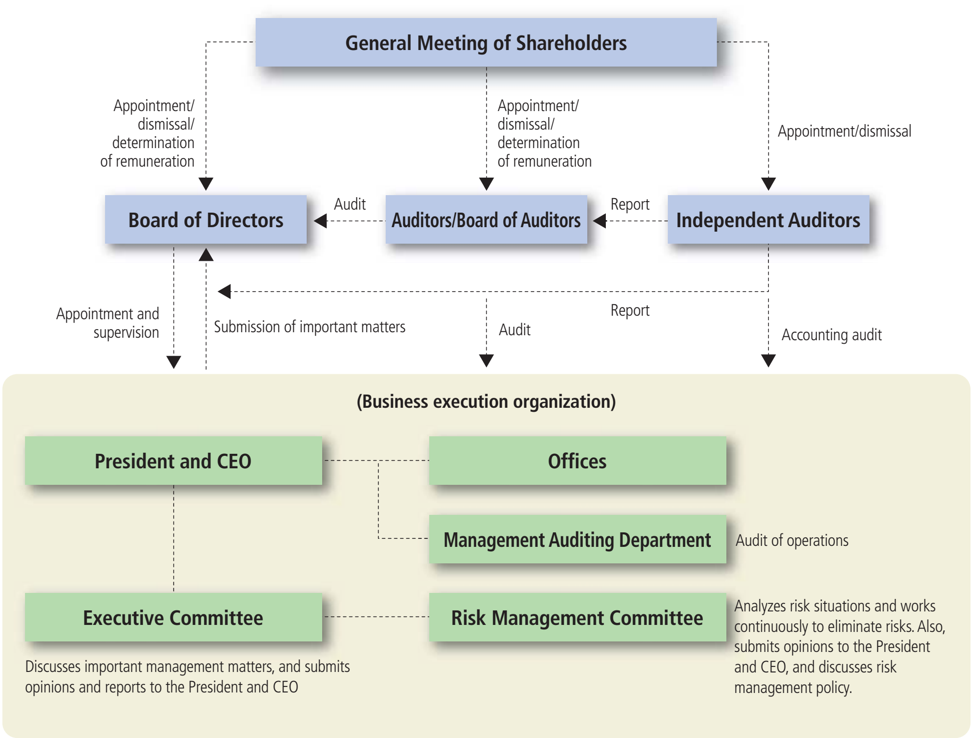
Our partners in creating these vital towns include the local residents, administrations, commercial corporations and specialty store companies. We are committed to continuing to work with them to help realize rich and stimulating lifestyles for local residents.

Following this basic policy, we shall contribute to the growth of local economies and culture and create shopping malls that serve as essential community centers for the local communities.

We believe that fulfilling our responsibilities to stakeholders including shareholders and customers as well as business partners, local communities and employees through corporate activities guided by these management policies will lead to long-term and stable enhancement of corporate value. To realize that goal, we strive to boost our competitiveness by upgrading the function of corporate governance and achieve prompt decision-making.

We are also working to further enhance our strength as a dedicated mall developer with roots in the retail business through corporate management led by directors with thorough knowledge of the retail business, and to maintain and reinforce sound management through the adoption of an auditing system. Under this organizational setup, we will move forward to enhance the transparency and efficiency of management, upgrade compliance and risk management, and thereby further improve the corporate governance system.

Corporate Governance Structure



Other Special Information That Could Significantly Impact Corporate Governance

On August 21, 2008, ÆON Co., Ltd., the parent company of ÆON Mall, became a pure holding company. In line with this change, the holding company manages the Group's 11 main operations, including GMS and other retail store operations, specialty store operations, shopping center development operations, and general financing operations. ÆON Mall is considered the core company responsible for the Group's shopping center development business. ÆON Co., Ltd., either on its own or via affiliated companies, holds 57.43% of the voting rights in ÆON Mall (55.84% direct ownership). However, decisions with respect to the terms and conditions of trade with ÆON Co., Ltd. or its affiliated companies are decided based on economic terms and other factors in the same manner as with ordinary transactions, and require the same approval procedures, including approval of the Board of Directors. ÆON Mall, as a member of the ÆON Group, is subject to policies stipulated for the entire Group, but makes its own management decisions and maintains a certain degree of autonomy. The business activities of ÆON Mall are not hindered by its relationship with ÆON Co., Ltd. or companies within the ÆON Group.

Management and Administrative Organization for Management Decision-making, Execution and Oversight and Other Corporate Governance Structures

1. Matters regarding composition of internal bodies and organizational operations

●Matters regarding directors

ÆON Mall has a corporate auditor system with 13 directors as of February 20, 2010. The Board of Directors is comprised of directors who have a thorough knowledge of the Company's business and who strive to maintain and improve management efficiency. At the same time, the system also provides full auditing functions. The combination of these elements ensures that sound management is maintained and enhanced.

Although ÆON Mall does not have an outside director at present, it is considering the adoption of such directors, should candidates with backgrounds appropriate for this position emerge. At present, ÆON Mall has three corporate auditors from outside the Company who are responsible for monitoring management from an objective viewpoint. Where decision-making pertaining to management and business execution are concerned, monitoring respect to transparency, legality and other issues is achieved through deliberation by the Board of Directors and Executive Committee.

●Matters regarding auditors

ÆON Mall has established a Board of Auditors consisting of four corporate auditors, three of whom are outside corporate auditors (as of February 20, 2010). The Board of Auditors works closely with the independent auditors, mutually exchanging information and opinions as needed, in an effort to enhance both audit efficacy and efficiency.

As the internal audit division, we have established the Management Auditing Section, which is independent from all business-related executive divisions. Six full-time officials work in close cooperation with the heads of other divisions, and examine and evaluate the effectiveness and efficiency of internal control over a range of business operations to ensure the smooth management and control of business operations. The corporate auditors cooperate with the Management Auditing Section through mutual exchanges of information and opinions as necessary.

●Regarding incentives

For directors, we have introduced a performance-based remuneration system and stock options. In terms of director remuneration, the Company has, for the monetary portion of remuneration, increased the percentage linked to performance, including executive bonuses. At the same time, the 96th Ordinary General Meeting of Shareholders (May 17, 2007) abolished the payment of retirement bonuses to directors, and introduced a system of remuneration-type stock options. The total remuneration paid to directors is limited to ¥700 million for each fiscal year. Of this amount, monetary remuneration, including the conventional payment of bonuses to the directors, is held to within \600 million, with the portion accounted for by remuneration-type stock options at fair market value held to within ¥100 million on an annual basis. Although both executive directors and outside directors are eligible for stock options, the Company at present has elected no outside directors. If outside directors are elected in the future, the limit for remuneration-type stock options will remain at ¥100 million.

2. Matters Regarding Business Execution, Audit and Supervision, Nomination, Compensation Setting and Other Functions

An Executive Committee has been established under the Board of Directors. The Executive Committee, which normally meets twice a month, is made up of the President and senior management including the corporate officers of the respective business divisions, and the managers for finance, general affairs and legal affairs for each section. The Executive Committee enhances our management strategy functions and promotes efficient decision-making processes. By holding the Board of Directors meeting, chaired by the President, at least once a month, we aim to strengthen the supervisory role of management. In addition to this, we strive to carry out our business activities efficiently by ensuring information is adequately shared by holding conferences attended by the President, all general managers and senior managers.

Basic Approach and Status Regarding the Internal Control System

1. Basic approach and status regarding the internal control system

●System for Maintenance and Management of Information Concerning Performance of Duties of Directors

As regards records of directors' decision-making, under the internal rules of ÆON Mall, directors or employees create and appropriately maintain records relating to the execution of their duties, including approval documentation, minutes of meetings and other information that the internal rules stipulate. Moreover, in managing these records the department that is responsible under our rules takes the necessary measures to prevent leakage of such information to third parties.

●Regulations and Other Systems Concerning Risk of Loss

To address business risks such as those related to disaster or loss, the environment, or compliance, we have established a risk management committee, as an organization subordinate to the Executive Committee, to serve as the company-wide risk management entity. The committee identifies risks throughout the company, collects information and prepares policies for formulating responsive measures.

The various departments prescribed as responsible by our rules for the division of duties, use these policies to create regulations and handling procedures etc., and periodically conduct a review of existing regulations and procedures.

To ensure the above regulations and handling procedures are made known throughout the Company, we take thorough measures to communicate necessary information to all employees such as through periodic internal company training and electronic bulletin boards. If imminent and serious risk of loss becomes apparent, we shall appropriately transmit information and carry out approval based on our Management Crisis Management Regulations and take appropriate responsive action such as by making efforts to minimize damage.

●System for Ensuring Efficiency in Execution of Duties of Directors

We hold meetings of the Board of Directors once a month and additional board meetings in a timely manner as necessary. For approval matters that involve material risk requiring approval by the President or higher authority, we established the Executive Committee, which mainly comprises directors of managing director rank or higher and full-time auditors, as an advisory body for the President, enabling joint discussion of the matters from a wide range of viewpoints before the President makes approval or the Board of Directors pass a resolution.

For execution of duties we have established "rules for job position management," "rules for the division of duties," "rules for authority," and "rules for asking approval," that govern allocation of necessary authority for execution and clarify management responsibility as well as setting out details of responsibilities and execution procedures.

●System for Ensuring That Execution of Duties by Directors and Employees Conforms to Laws, Regulations and Articles of Incorporation

We put great importance on management in compliance with the ÆON Code of Conduct to build better relations with local communities and fulfill our social responsibility as a good corporate citizen. In our internal reporting system, we have established a Compliance Committee as an organization subordinate to the Executive Committee, and have set up Helpline ÆON Mall "Employee's 110 hotline." A similar hotline has also been established for our labor union: "Union 110." In the event that a person uses the hotline to report information that they have received, the Compliance Committee examines the details and, if an infringement is recognized, takes required measures as prescribed by internal rules. The Compliance Committee also formulates measures to prevent a reoccurrence of the infringement and the relevant departments then implement these measures company-wide. The Compliance Committee reports material matters to the Board of Auditors.

●System for Ensuring Appropriate Business Operations by the Corporate Group Comprising the Company, its Parent Company and Subsidiaries

When there is any possibility of the interests of the parent company and the Company coming into conflict over a transaction with the parent company or over carrying out business in competition with the parent company, the details of such matters are reviewed and referred to the Board of Directors for approval before proceeding.

The Company, moreover, manages subsidiaries based on the "rules for managing affiliate companies" and establishes a system of cooperation to ensure appropriate operations of subsidiaries. Transactions between Group companies are conducted according to appropriate conditions based on market prices. When it is possible to obtain an objective valuation based on values set by a third-party valuation, the Group companies will endeavor to obtain such a valuation.

●System for Ensuring the Effectiveness of the Audit by Auditors, Including Mutual Cooperation Between the Internal Audit, Audit by Auditors and Independent Audit, and Independence of the Audit Staff

For the internal audit we have established the Management Auditing Department, a body of six members under the direct management of the President. The Management Auditing Department undertakes an operating audit of every department in the Company. It thus helps to ensure that internal controls are functioning properly and to verify their efficacy. The Management Auditing Department reports results of these operating audits to the President each time, and makes regular reports to the Executive Committee and to the auditors.

The Company does not appoint any of its employees as staff members to assist in the operation of auditors. Full-time auditors directly undertake auditing operations, including formulation of an audit plan and audit budget as well as actual auditing, and strive to ensure the effectiveness of auditing operations by regularly receiving and reviewing reports on internal auditing as well as reports from independent audits carried out by the Management Auditing Department.

If auditors request the assignment of employees to assist them in the execution of their operations in the future, the Board of Directors will select and assign a necessary number of employees upon consultations with the Board of Auditors.

The Management Auditing Department's auditing role is to closely cooperate with the Board of Auditors and help the auditors conduct efficient audits such as by discussing with them the content of internal auditing on a timely basis.

When there are assistant employees provided who have received instructions necessary to execute the auditing operations from auditors, these employees shall not accept instructions from any other director or employee regarding the auditing instructions. When an assistant employee is assigned, performance evaluation of this assistant employee is conducted through discussions by the Board of Auditors, and the prior consent of the Board of Auditors is to be obtained regarding transfers or disciplinary actions in regard to such employees.

Directors are also obliged to report to the Board of Auditors without delay matters that could have an influence on the Company's business and/or earnings performance, violations of law, and other compliance-related problems when such matters involve the discovery of facts that potentially pose material risk of loss to the Company. Furthermore, when directors or employees are requested by the auditors to submit reports concerning execution of duties, such requests must be given precedence over other matters and promptly and honestly responded to.

2. Measures to eliminate antisocial forces

●Fundamental Policies

Based on our commitment to thorough compliance management and from the viewpoint of defending our company, we hold no relationships with antisocial forces. We recognize that it is our social responsibility as a corporation to eliminate antisocial forces by responding resolutely against any unjust demands.

●Measures Regarding Antisocial Forces

In the event that we receive unjust demands from antisocial forces, the Company's response will not be made through an individual; rather, the response will be an organizational one structured on close cooperation with outside specialists and investigative bodies, including a legal response based on both civil law and criminal law.

The Company is a member of the Bouryokudan Tsuihou Chiba Kenminkaigi (Chiba Prefectural Citizen Committee Against Organized Crime Groups) and works closely with the police and anti-crime groups to collect information regarding antisocial forces. We centrally manage company-wide information including that of each of our business offices by forwarding the information to the responsible department in order to maintain awareness throughout the company of such matters.

●Matters Regarding Other Corporate Governance Structures

We have established the ÆON Mall Social Responsibility (SR) Council to promote policies for corporate activities from social, environmental and ethical aspects. We also formulated codes of conduct and standards for environmental protection and contributions to society in addition to legal compliance, and we work to make sure that the rules relating to these codes and standards are known and observed in every part of our organization.

Corporate Governance Data

Information concerning directors and auditors (the fiscal year ended February 20, 2010)

	Persons (outside persons)	Term of service (years)	Remuneration (millions of yen)	Maximum amount of remuneration (millions of yen)
Directors	13 (–)	1	314	600
Auditors	4 (3)	4	21	50

Information concerning independent auditors (the fiscal year ended February 20, 2010)

Name of independent auditors	Deloitte Touche Tohmatsu LCC
Remuneration related to the current business year*1	49 million yen
Total remuneration payable by the Company to independent auditors*2	57 million yen

*1 Total remuneration related to auditing duties as provided by the Companies Act and the Financial Instruments and Exchange Act.
*2 Total cash and other financial benefits payable by the Company and its subsidiaries etc.

Shares of the Company held by directors and auditors

	February 20, 2010	February 20, 2009
President	7,500	4,500
Other directors (average)	5,800	6,000
Auditors (average)	4,525	4,400

Meetings held of Board of Directors, Board of Auditors and Executive Committee (the fiscal year ended February 20, 2010)

Board of Directors	Meetings held (times)	Members/Participants
Board of Directors	13	Directors and Auditors
Board of Auditors	13	Auditors
Executive Committee	33	President and Directors

Status of systems or regulations

Item	Status	Explanation
Existence of mechanism for deciding remuneration of directors	Yes	Remuneration is based on a performance-based system.
Existence of Stock Option System	Yes	
Existence of agreements limiting liability with outside directors and auditors	Yes	
Existence of agreements limiting liability with independent auditors	No	
Existence of defensive measures against hostile takeover	No	
Existence of risk management regulations	Yes	Such matters fall under the Management Crisis Management Regulations.
Existence of internal reporting system	Yes	Such matters fall under the “Employee’s 110 hotline,” established by the Compliance Committee.
Existence of Corporate Ethics Regulations	Yes	Such matters fall under the ÆON Code of Conduct.

Financial Section

Four-Year Financial Summary

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20

	Millions of Yen (except per share data)				Thousands of U.S. Dollars (except per share data)
	2007	2008	2009	**2010**	**2010**
For the year:					
Operating revenue	¥ 62,253	¥ 96,806	¥130,813	**¥138,943**	**$1,513,045**
Operating income	21,879	31,642	37,870	**37,202**	**405,115**
Net income	12,181	17,439	21,390	**21,809**	**237,496**
Capital expenditures	44,548	37,564	71,378	**73,507**	**800,474**
Depreciation and amortization	8,611	10,933	14,586	**18,469**	**201,123**
Operating cash flows	21,150	27,169	26,656	**72,001**	**784,074**
Investing cash flows	(40,664)	(8,748)	(63,908)	**(75,878)**	**(826,287)**
Financing cash flows	13,225	(20,441)	38,181	**37,688**	**410,408**
Free cash flows	(19,514)	18,421	(37,252)	**(3,877)**	**(42,213)**
Per share data (yen and U.S. dollars):					
Net income	¥ 203.00	¥ 115.63	¥ 118.09	**¥ 120.41**	**$ 1.31**
Cash dividends	30.00	17.50	20.00	**20.00**	**0.22**
At year-end:					
Total assets	¥233,057	¥377,661	¥466,719	**¥503,547**	**$5,483,467**
Total equity	60,034	122,734	140,504	**158,816**	**1,729,458**
Interest-bearing debt	79,859	84,242	126,060	**163,377**	**1,822,680**
Ratio (%):					
Equity ratio	25.6	32.4	30.0	**31.4**	—
ROE	22.4	19.2	16.3	**14.6**	—
ROA (Ratio of ordinary income to total assets)	9.6	10.0	8.8	**7.5**	—

Notes: 1. On August 21, 2007, ÆON Mall Co., Ltd. merged with Diamond City Co., Ltd.
2. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥91.83=U.S. $1, the exchange rate prevailing on February 20, 2010.
3. ÆON Mall carried out a 2-for-1 stock split on February 21, 2007. Net income per share for the fiscal year ended February 28, 2007 would have been ¥101.50 if this stock split had taken place prior to the start of the period.
4. ÆON Mall applies Ordinary Income as its management benchmark under Japanese accounting standards. It is the total of operating income and non-operating income; parts of other income are classified as non-operating income (such as interest and dividend income, interest expense and equity in earnings of an associated company, and extraordinary income from penalties from tenants leaving due to contract cancellation).

Financial Analysis

1 Reference Information on Financial Analysis of ÆON Mall

Impact of Development Investment on Financial Statements

ÆON Mall Co., Ltd.'s basic approach to mall development is to lease land from landowners and then construct and retain ownership of buildings. In this case, most of the total investment made is recorded on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures."

Depending on the course of negotiations, ÆON Mall may also acquire land from landowners and then construct buildings on purchased land for its own possession. In this case, the total amount of investment by ÆON Mall tends to be the largest, with the risk of land prices falling in the future. Thus, ÆON Mall takes proactive steps to promote the securitization of real estate it owns.

In the process of the real estate securitization, ÆON Mall vends lands and buildings it owns to exchange-listed real estate investment trusts (REITs) and private funds, and then leases back land and buildings sold in blocks. In this case, ÆON Mall places security deposits with the owners and records them on the asset side of the balance sheet as "lease deposits to lessors." ÆON Mall may also acquire part of auxiliary facilities, other than main buildings, and record them on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures."

For example, a landlord seeking efficient use of land, such as an old factory site, may retain ownership of the land and buildings erected upon it, which ÆON Mall leases in a package. In this case, ÆON Mall acquires part of the auxiliary facilities, other than main buildings, and records them on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures." For the purpose of contributing to the construction of the main buildings to be owned by the landlord, ÆON Mall puts up construction cooperation funds to help the landlord and records these funds on the asset side of the balance sheets as "fixed leasehold deposits to lessors," together with security deposits. The construction cooperation funds are fully repaid by the landlord in installments over the lease period.

There is also the case of property management, where the landlord owns land and buildings and ÆON Mall provides mall management expertise. In this case, ÆON Mall obtains management fees with no asset-holding or business risks.

In summary, there are four patterns of mall ownership for ÆON Mall: (1) lease land and own buildings; (2) own both land and buildings; (3) lease both land and buildings; and (4) provide only management expertise (property management).

Meanwhile, ÆON Mall receives security deposits from specialty stores and tenants in the above-mentioned cases (1), (2) and (3), and these deposits are recorded on the liability side of the balance sheets as "lease deposits from lessees." Standard security deposits are six months' rent plus the estimated cost of restoration.

Operating Revenue and Operating Costs of ÆON Mall

Operating Revenue

ÆON Mall's operating revenue from operations comprises mainly "income from real estate lease" and "common service fees."

Most "income from real estate lease" comes from "income from fixed rent" and "income from percentage rent," which are determined in accordance with sales achieved by mall tenants.

Rent percentages are determined in consideration of such matters as business categories of tenants, their profitability and market rates for setting up shops. They are typically set at 8% to 15% for merchandising businesses and 10% to 20% for tenants providing food and beverages and services. In many cases, ÆON Mall sets the minimum sales for each tenant on a monthly or yearly basis; therefore, "income from percentage rent" is essentially percentage rents with added fixed rents.

Most tenant sales are tallied and managed by ÆON Mall, which reimburses them to tenants on a half-monthly basis after deducting rent and various expenses.

Operating Costs

Operating costs are costs directly related to mall management, consisting of personnel costs for employees stationed for mall management and operations and expenses related to mall facilities. Expenses mainly comprise facility maintenance expenses, water, lighting and heating expenses, rents paid to owners of mall land and buildings, and depreciation for mall facilities.

2 Management's Discussion and Analysis

Current Status of the Corporate Group

The ÆON Mall Group (ÆON Mall and consolidated subsidiaries) consists of ÆON Mall Co., Ltd., whose parent company is ÆON Co., Ltd., two consolidated subsidiaries (Shimoda Town Co., Ltd. and ÆON Mall (China) Business Management Co., Ltd.) and one affiliate under the equity method (ÆON Insurance Service Co., Ltd.). ÆON Mall and its subsidiaries Shimoda Town Co., Ltd. and ÆON Mall (China) Business Management Co., Ltd. undertake mall business.

ÆON Mall, the core operator of the ÆON Group's developer business, leases mall store buildings and facilities to ÆON Retail Co., Ltd., a general merchandiser, and ÆON Group companies as well as tenants at large.

Overview of Business Operations

Business Environment

During fiscal 2009, ended February 20, 2010, the Japanese economy confronted uncertainty with respect to consumer spending, marked by a deteriorating environment around employment and income conditions and ongoing deflation. These factors overshadowed signs of recovery that emerged in certain consumer goods sectors.

In the retail industry, competition across retail categories intensified. Against this backdrop, for the shopping center industry, the dividing line between successful and unsuccessful developers became more pronounced as variation in the performance of individual shopping complexes widened. Specialty store retailers grew even more selective about where to open new stores, reflecting lackluster consumer spending and a tighter lending among financial institutions.

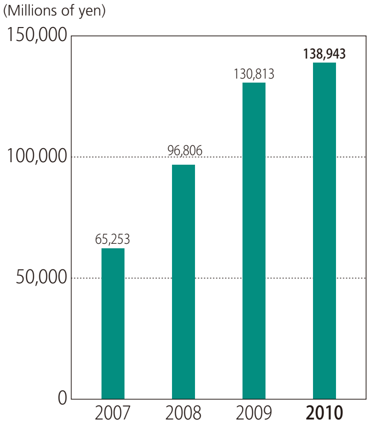
In this climate, the ÆON Mall Group reviewed its approach to management resource allocation, and pressed ahead in creating shopping malls that answer customer needs and are the most competitive in their respective regions. This effort included the new opening of two carefully screened shopping malls (compared to four in fiscal 2008, ended February 20, 2009), and the revitalization of six existing complexes. We concentrated as well on initiatives designed to establish new earnings streams.

In new shopping malls, April 2009 saw the opening of mozo wondercity (Aichi Prefecture, Japan) and ÆON Mall Hiroshima Gion (Hiroshima Prefecture). We also made preparations for the opening of two facilities in March 2010.

We also undertook projects to revitalize existing malls. ÆON Mall Tsugaru Kashiwa (Aomori Prefecture), ÆON Mall Akita (Akita Prefecture) and ÆON Mall Sankoh (Oita Prefecture) were reopened in March after renovation projects. Renovation work was also carried out at ÆON Mall Hamamatsu Shitoro (Shizuoka Prefecture), which

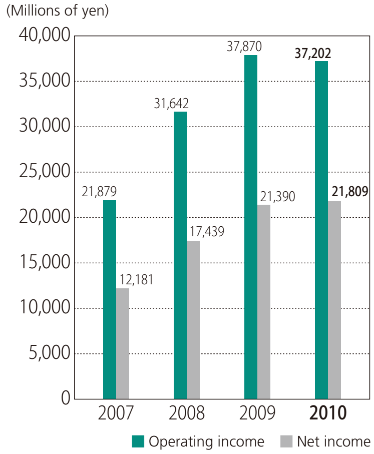
Operating revenue

(Millions of yen)



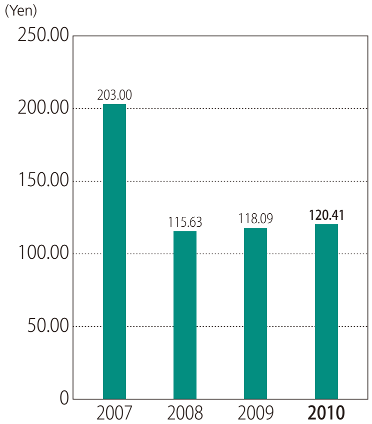
Operating income and net income

(Millions of yen)



Net income per share

(Yen)



Note: ÆON Mall carried out a 2-for-1 stock split on February 21, 2007 reopened in September. In November, areas vacated by department stores at ÆON Mall Musashimurayama mu (Tokyo) and ÆON Mall Natori AIRY (Miyagi Prefecture) were reopened after renovation and conversion into specialty store zones.

Consequently, while cumulative consolidated sales from specialty stores through the first nine months of fiscal 2009 at the Company's 45 existing shopping malls were 2.6% lower year on year, sales in the fourth quarter were up 1.4% versus the fourth quarter of the previous fiscal year. As a result, specialty store sales ended 1.5% lower for fiscal 2009. Visitor numbers rose 2.6% year on year, with vehicle numbers up 2.7% for the same period. Moreover, after revising our revitalization program for existing shopping malls in fiscal 2010, the year ending February 20, 2011, we opted to renovate and reopen 12 malls, double the number initially planned.

As medium-term initiatives, ÆON Mall is taking steps to develop a property management (PM) business, encompassing concept planning of commercial facilities, recruitment of specialty store tenants, and after opening, facility operation and management. We also plan to develop mall operations in China.

In the PM business, we opened Perch Tsuchiura (Ibaraki Prefecture) under contract from East Japan Railway Company in July 2009. The following November, we won a contract in PM operations for a major commercial facility under construction by Shimizu Corporation in front of Kyoto Station. The grand opening of this facility took place in June 2010.

In mall operations in China, September 2009 saw the opening of a cinema complex at ÆON Beijing International Mall Shopping Center, which opened in Beijing, China in November 2008. Sales have increased and remain brisk as the mall gains greater name recognition. Where new shopping center developments in China are concerned, we are making swift progress toward the opening of ÆON Mall Tianjin TEDA Shopping Center (Tianjin, China) in the fall of 2010. We are also working to develop new projects.

For fiscal 2009, the ÆON Mall Group counted a total of 53 commercial facilities under operation, including 52 in Japan (51 shopping malls and 1 train-station building) and one shopping mall in China.

Overview of Earnings

For fiscal 2009, operating revenue was ¥138,943 million, up 6.2% from the previous fiscal year. In addition to income from real estate lease of ¥124,413 million (down 1.4% year on year) based on 45 existing shopping malls, this figure included ¥14,529 million in income from real estate lease primarily due to the opening of new shopping malls (four in the previous fiscal year, compared to two in fiscal 2009).

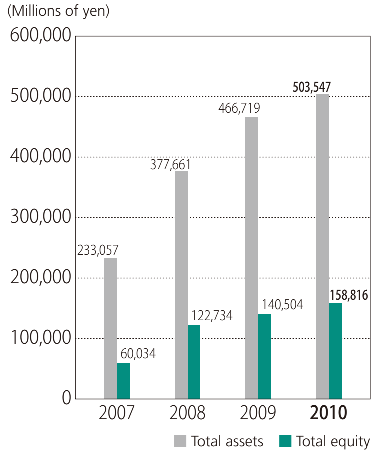
Gross operating profit was ¥47,253 million, down 2.4% year on year, as lower operating revenue from existing malls and sales opportunity losses mainly associated with construction for mall renovations outweighed increased profits from the opening of new shopping malls. Operating income declined 1.8% to ¥37,202 million, with further declines prevented by efforts to promote greater operational efficiency and operating expense restructuring initiatives that reduced selling, general and administrative (SG&A) expenses.

In other income (expenses), the Company posted interest expense of ¥3,056 million, loss on disposal of property, plant and equipment of ¥1,247 million following revitalization of existing shopping malls, and loss on impairment of long-lived assets of ¥663 million. These losses were offset, however, by income from penalties from tenants leaving of ¥3,756 million, so that income for fiscal 2009 increased ¥2,314 million from the previous fiscal year.

As a result of the above, net income was ¥21,809 million, up 2.0% from the previous fiscal year.

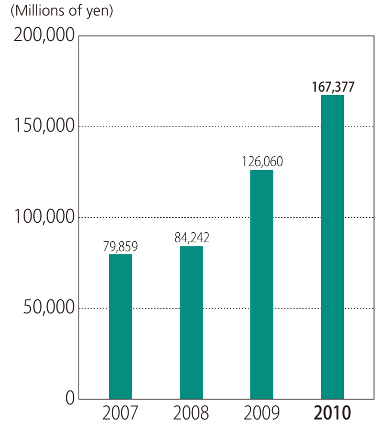
Total assets and total equity

(Millions of yen)



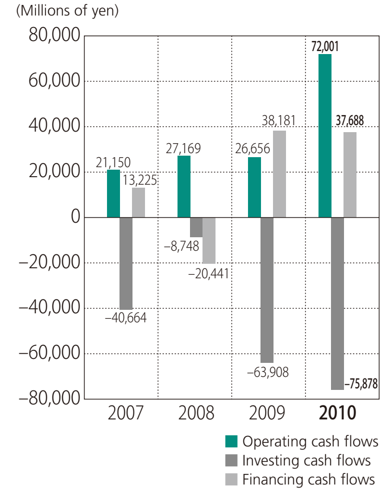
Interest-bearing debt

(Millions of yen)



Cash flows

(Millions of yen)



Financial Conditions

Assets, Liabilities and Total Equity

As of February 20, 2010, the fiscal year-end, total assets stood at ¥503,547 million, an increase of ¥36,828 million compared to the previous fiscal year-end. Depreciation of ¥18,039 million on property, plant and equipment was ultimately offset by an increase of ¥30,000 million in cash deposited with associated companies, and ¥28,041 million in property, plant and equipment acquired for the opening of new shopping malls, the renovation of existing malls, and the planned opening of future shopping centers.

Total liabilities at February 20, 2010 amounted to ¥344,731 million, up ¥18,516 million from the previous fiscal year-end. Declines stemmed mainly from ¥40,341 million in notes payable for construction associated with the opening of new shopping malls and the expansion of existing shopping malls in the previous fiscal year, coupled with the repayment of ¥18,000 million in short-term borrowings and commercial paper, and ¥25,583 million in long-term debt. Offsetting this was funds raised from ¥61,900 million in long-term debt and ¥23,000 million from the issuance of bonds, and an increase of ¥16,255 million in deposits received. Growth in the latter came as the deadline for the repayment of specialty store deposits, the fiscal year-end, coincided with a bank holiday in Japan during the fiscal year under review.

Consolidated total equity at February 20, 2010 was ¥158,816 million, up ¥18,312 million year on year. This outcome largely reflected an increase in retained earnings due to the posting of ¥21,809 million in net income for the year.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities for fiscal 2009 came to ¥72,001 million, compared with ¥26,656 million in the previous fiscal year. In addition to ¥37,268 million in income before income taxes and minority interests (¥35,623 million the previous fiscal year), and depreciation and amortization expenses of ¥18,469 million (¥14,586 million the previous fiscal year), the Company recorded an increase of ¥16,255 million in deposits received (¥4,443 million in the previous fiscal year). Growth in the latter came as the deadline for repayment of specialty store deposits, the fiscal year-end, coincided with a bank holiday in Japan during the fiscal year under review, so that repayment was not made until the following business day. The main use of cash was ¥11,842 million in income taxes—paid, compared to ¥18,497 million in the previous fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities for fiscal 2009 came to ¥75,878 million, compared with ¥63,908 million in net cash used the previous fiscal year. Cash was mainly used for the opening of four shopping malls and the expansion of two others in the previous fiscal year, and for the opening of ÆON Mall Hiroshima Gion. Payments for the acquisition of property, plant and equipment associated with these activities came to ¥73,507 million this year, compared to ¥71,378 million similarly used in the previous fiscal year.

Cash Flows from Financing Activities

Net cash provided by financing activities for fiscal 2009 came to ¥37,688 million, compared with ¥38,181 million in net cash provided in the fiscal year ended February 20, 2009—the previous fiscal year. Cash inflows included ¥61,900 million of long-term debt (versus ¥32,800 million in the previous fiscal year), and ¥23,000 million from the issuance of bonds (¥10,000 million a year earlier). Outflows included ¥25,583 million for the repayment of long-term debt (¥12,482 million in the previous fiscal year), and a net decrease in short-term borrowings (including commercial paper) of ¥18,000 million, compared to a net increase of ¥11,500 million for the previous fiscal year. The Company also recorded ¥3,622 million in dividends—paid, the same figure as a year earlier.

As a result, cash and cash equivalents amounted to ¥37,898 million at the end of fiscal 2009, an increase of ¥33,805 million from the previous fiscal year.

Dividend Policy

ÆON Mall regards the expansion of its earning power in order to increase returns to shareholders as a key management priority. Our basic policy on profit distribution emphasizes the maintenance of reliable dividend payments to shareholders, combined with the effective use of retained earnings to strengthen our business base and financial structure, especially through investment in growth areas and new businesses.

Outlook for the Coming Year

The outlook for the Japanese economy will remain uncertain for the time being, reflecting rising concerns about employment and the persistence of lackluster consumer spending. The ÆON Mall Group will continue to review its cost structure while striving to build a robust and profitable business structure by developing shopping malls with even greater potential to attract customers.

In fiscal 2010, we opened new shopping malls ÆON Mall Aratamabashi (Aichi Prefecture) and ÆON Mall Yamatokoriyama (Nara Prefecture) in March 2010. We also plan to revitalize 12 existing facilities during the year, 6 in the first half and 6 in the second. These include ÆON Mall Ota (Gunma Prefecture) and ÆON Mall Hiroshima Fuchu SOLEIL (Hiroshima Prefecture), both of which reopened in April 2010.

In the property management business, the year will see the opening of ÆON Mall KYOTO (Kyoto Prefecture), as well as the opening of ÆON Mall Tianjin TEDA Shopping Center (Tianjin, China) as part of our shopping mall business in China.

For fiscal 2010, ÆON Mall is projecting consolidated operating revenue of ¥147,000 million (a 5.8% increase versus fiscal 2009), operating income of ¥40,000 million (a 7.5% increase), ordinary income of ¥38,000 million (a 5.0% increase) and net income of ¥22,000 million (a 0.9% increase).

3 ÆON Mall Shopping Centers at a Glance

Shopping malls (Japan)

	Shopping malls	Commercial area (m^2)	Parking	Tenants	Land and building owned	Land leased, building owned	Land and building leased
1	ÆON Mall Tsugaru Kashiwa	42,000	2,600	100	◎		
2	ÆON Mall Shimoda	53,000	4,000	118	◎		
3	ÆON Mall Akita	67,000	3,800	171	◎		
4	ÆON Mall Morioka	44,000	2,800	117	◎		
5	ÆON Mall Natori AIRY	75,000 *1	3,900	170		◎	
6	ÆON Mall Ota	62,000	4,200	170			◎
7	ÆON Mall Takasaki	60,000	3,700	168		◎	
8	ÆON Mall Mito Uchihara	71,000	4,000	185		◎	
9	ÆON Mall Kawaguchi Green City	32,000 *1	1,300	101			◎
10	ÆON Mall Kawaguchi carat	66,000 *1	2,400	177			◎
11	ÆON Mall Hanyu	88,000	5,000	210		◎	
12	ÆON LakeTown kaze	80,000	2,300	216			◎
13	ÆON Mall Musashimurayama mu	84,000 *1	4,000	180			☆
14	ÆON Mall Hinode	73,000	3,600	159		◎	
15	ÆON Mall Yamato	33,000	1,900	103			☆
16	ÆON Mall Futtsu	33,000	1,800	94	◎		
17	ÆON Mall Narita	71,000	4,000	170	◎		
18	ÆON Mall Chiba NEW TOWN	83,000	4,000	146			☆
19	ÆON Mall Takaoka	64,000	3,600	152		◎	
20	ÆON Mall Hamamatsu Shitoro	65,000	3,500	156			☆
21	ÆON Mall Okazaki	95,000	4,300	178		◎	
22	ÆON Mall Higashiura	56,000	5,000	107			☆
23	ÆON Mall Kisogawa KiRiO	69,000 *1	4,400	173			◎
24	mozo wondercity	85,000 *1	5,000	230		Outsources PM	
25	ÆON Mall Aratamabashi	24,000 *2	1,600	130	◎		
26	ÆON Mall Suzuka BELLCITY	66,000	4,200	168	◎		
27	ÆON Mall Kusatsu	86,000	4,300	183		◎	
28	ÆON Mall Kyoto Hana	40,000 *1	1,600	143			◎
29	Kyoto Family	24,000 *1	700	69		Outsources PM	
30	ÆON Mall KYOTO	51,000 *1	1,125	130		Outsources PM	
31	ÆON Mall Kashihara ARURU	84,000 *1	5,000	243		◎	
32	ÆON Mall Yamatokoriyama	74,000	4,200	170		◎	
33	Nara Family	81,000 *1	2,000	156		Outsources PM	
34	ÆON Mall Fujiidera	20,000 *1	600	78	◎		
35	ÆON Mall Neyagawa Green City	29,000 *1	700	57	◎		
36	ÆON Mall Sakaikitahanada prou	71,000 *1	2,800	171			☆
37	ÆON Mall Rinku Sennan	77,000	4,300	173		◎	
38	ÆON Mall Tsurumi Leafa	54,000 *1	2,100	172			☆
39	ÆON Mall Itami Terrace	57,000 *1	2,600	143			☆
40	ÆON Mall Kobe Kita	60,000	4,000	166			☆
41	ÆON Mall Kurashiki	72,000	4,500	145	◎		
42	ÆON Mall Hiroshima Fuchu SOLEIL	81,000 *1	4,300	191			◎
43	ÆON Mall Hiroshima Gion	57,000	2,800	130		◎	
44	ÆON Mall Niihama	50,000	3,500	108		◎	
45	ÆON Mall Kochi	59,000	3,100	133			◎
46	ÆON Mall Fukuoka LUCLE	74,000 *1	5,200	216			☆
47	ÆON Mall Nogata	62,000	3,400	140			◎
48	ÆON Mall Chikushino	76,000	3,600	180		◎	
49	ÆON Mall Sankoh	36,000	2,500	70	◎		
50	Otsu Shopping Plaza	7,000	600	25	◎		
51	ÆON Mall Kumamoto CLAIR	71,000 *1	4,500	174		◎	
52	ÆON Mall Uki VALUE	70,000 *1	3,300	114			☆
53	ÆON Mall Miyazaki	77,000	4,000	170		◎	
54	ÆON Mall MiELL Miyakonojo-Ekimae	33,000	1,700	101	◎		

*1: Site area *2: Store area ☆: Securitized assets

Shopping malls (Overseas)

	Shopping malls	Commercial area (m^2)	Parking	Tenants	Land and building owned	Land leased, building owned	Land and building leased
55	ÆON Beijing International Mall Shopping Center	91,000	3,000	104		Outsources PM	
56	ÆON Mall Tianjin TEDA Shopping Center *Planned opening in fall of 2010	75,000	2,500	To be announced			◎

Station Building (Commercial Building, Japan)

	Facility name	Retail area (m^2)	Parking	Tenants	Land and building owned	Land leased, building owned	Land and building leased
57	Perch Tsuchiura	7,600	—	60		Outsources PM	

4 Risk Factors

In this section, we describe several important matters related to our business operations and financial conditions, which, in our view, might have a significant impact on judgments and decisions by investors. However, we should note that risks and uncertainties surrounding our future earnings and financial conditions are not limited to those described here. References to future prospects made in this section reflect our judgment as of May 12, 2010, when the annual securities report was submitted.

1. Relationship with ÆON Co., Ltd. and Its Affiliates (Hereinafter Referred to as "the ÆON Group Companies")

(1) Risk Involved in Earnings Dependence on ÆON and ÆON Group Companies

Operating revenue from business with ÆON Retail Co., Ltd. accounted for 12.2% of ÆON Mall's operating revenue in the fiscal year ended February 20, 2010, while the ratio of operating revenue from the ÆON Group companies other than ÆON Retail stood at 13.3%.

In the development of malls, the presence of anchor tenants that can pull in many customers is extremely important. Capitalizing on the close ties with ÆON, ÆON Mall has JUSCO stores operated by ÆON Retail and SATY stores operated by Mycal Corp. as anchor tenants at its malls. We expect JUSCO and SATY stores to be our key tenants at new malls planned for the future.

Thus, the relationship between ÆON Mall, ÆON and all ÆON Group companies provides a great advantage in drawing anchor tenants in a stable manner in our mall projects. Because of such close ties, however, ÆON Mall's earnings performance may become vulnerable to business results of ÆON and other ÆON Group companies, and their policies regarding the opening of new stores and shutdown of existing stores.

(2) Risk That Business Growth May Be Constrained by Recruitment

As of February 20, 2010, ÆON Mall's payroll of 646 employees includes 9 on loan from ÆON Retail and ÆON Group companies; all of them commit themselves full-time to ÆON Mall's day-to-day business operations, causing no disruption in the stable execution of business.

The mall development and management that are our core business tend to require the multifaceted expertise accumulated by particular individuals. At present, ÆON Mall depends on experienced individuals on loan from ÆON Retail to a greater extent.

We are working to secure qualified people by fostering human resources in-house and also by strengthening recruitment and job-training activities on our own. In the immediate future, however, we expect our dependence on people on loan from ÆON Retail may continue, and the growth of our mall business may be affected by the personnel policy of ÆON.

2. Regulatory Restrictions

(1) Regulations under the City Planning Law and the Large-Scale Retail Stores Location Law (Hereinafter Referred to as "Large Stores Location Law")

ÆON Mall's mall development and management operations are regulated by the Large Stores Location Law and other laws. Under the Large Stores Location Law, the opening of new stores or store expansions with a retail floor space of over 1,000 square meters are subject to regulations by local governments in terms of city planning, public transportation and preservation of the community environment. In addition, from November 2007, the revised City Planning Law restricts areas where large-scale stores with a floor space of over 10,000 square meters can be established to three use zones, including the commercial zone, prescribed by the City Planning Law. Thus, ÆON Mall's future store opening plans may be affected by these regulations.

(2) Changes in Real Estate-Related Taxes

Changes in real estate-related tax systems, if any, may push up the costs of holding, acquiring and disposing of real estate assets, affecting the ÆON Mall Group's earnings performance.

3. Operational Matters

(1) Periods Required for Mall Development

The development of a mall requires a long period of time as it involves a series of steps, ranging from market research, site selection and negotiations with land owners to acquire land to various legal procedures, store designs and recruitment of tenants. As such, if development projects do not proceed as planned or are suspended, ÆON Mall's earnings performance may be affected.

(2) Risk of Buildings Being Damaged, Destroyed or Degraded

ÆON Mall's mall operations may be disrupted if buildings and facilities are damaged, destroyed or otherwise degraded by fire, earthquakes or any other unforeseen events. All malls currently operated by ÆON Mall are covered by fire insurance and loss of profit insurance, which compensates for the loss of rent, among others, in the event of fire, flood or other large-scale disasters causing substantial damage. However, as malls are large-scale facilities, there are currently no insurance companies willing to underwrite earthquake insurance policies with economically reasonable terms. Thus, our insurance coverage falls short of compensating a full amount of physical damage caused by earthquakes. Under these circumstances, the ÆON Mall Group's earnings performance may be greatly affected in the event of mall structures being damaged, burned down or otherwise degraded in earthquakes.

(3) Environmental Contamination of Development Areas

ÆON Mall occasionally develops malls on land where industrial plants were previously located. When contaminants are found in an environmental survey, under contract, the cost of removing contaminants is borne by the seller of contaminated land in the case where ÆON Mall purchased the land, and by the landlord in the case where ÆON Mall leases the land. However, if any contaminant is found after the completion of the survey, it would certainly slow down the mall development project there, with the likelihood of an impact on ÆON Mall's earnings.

(4) Risk of Declining Availability of Development Sites

The growth of ÆON Mall's business depends on our ability to continue developing new malls. If the supply of large-scale sites suitable for mall development declines significantly, it may slow down the pace of our mall development activities.

(5) Management of Personal Information

ÆON Mall is striving to ensure the proper management of customers' personal information through such measures as strict compliance based on in-house regulations and the Information Management Manual, in addition to education of employees. Should the leakage of personal information occur in accidents or under other unforeseeable circumstances, however, it could damage the reputation of and confidence in the ÆON Mall Group, eventually affecting its earnings performance.

(6) Overseas Business Development

ÆON Mall is seeking to undertake mall development business in China and other overseas markets as part of its broad business strategy. Overseas business operations may affect our earnings performance because of possible changes in legal regulations related to investment, trade, competition, taxation and foreign exchange, differences in business practices, labor relations, and other political and social factors, on top of overall economic trends and exchange rate fluctuations.

(7) Risk from Competition with Rival Companies

Competition from other real estate developers and general merchandisers is intensifying, a trend that may adversely affect ÆON Mall's business operations, financial conditions and earnings performance.

(8) Risk Associated with Economic Conditions

Tenants at malls owned and operated by ÆON Mall are mostly retailers and service providers, and demand for their products and services is susceptible to trends in the overall economy and personal consumption in particular. If economic conditions in Japan deteriorate in the future, our business operations may be adversely affected, with the risk of falling values of assets we hold.

4. Financial Matters

(1) Possible Earnings Fluctuations Due to Interest Rate Changes

ÆON Mall has been placing emphasis on borrowings at fixed interest rates in the procurement of necessary funds from various financial institutions. As of February 20, 2010, the balance of borrowings including bonds stood at ¥167,377 million on a consolidated basis, of which ¥151,996 million, or 90.8%, were borrowings at fixed interest rates. Should interest rates rise, it would push up interest paid on floating-rate borrowings as well as costs of refinancing and fundraising for new projects, with a likely adverse impact on the Company's earnings performance.

(2) Fund-Raising Operations

ÆON Mall occasionally takes on additional debt or increases equity capital for the development of new malls based on its growth strategy. However, we may not be able to raise necessary funds with ideal financing terms in a timely manner, due to the overall business and economic downturn, or a possible decline of our credit standing and deteriorating business prospects, among other factors. Furthermore, the possibility cannot be entirely ruled out of ÆON Mall being unable to raise funds at all.

(3) Risk Associated with the Impact of the Impairment Accounting Standard

Based on the "Accounting Standard Regarding Impairment Loss on Fixed Assets" (hereinafter referred to as "the impairment accounting standard"), announced in August 2002, ÆON Mall applies the impairment accounting standard to its accounting of business operations. If individual business establishments incur operating losses, market prices of land held fall sharply, mall facilities become idle due to the withdrawal of tenants, or the business environment deteriorates considerably, the resulting impairment losses may adversely affect ÆON Mall's financial conditions and earnings performance.

Consolidated Balance Sheets

ÆON Mall Co., Ltd. and Subsidiaries
February 20, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2010**	2009	**2010**
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	**¥ 37,898**	¥ 4,093	**$ 412,698**
Receivables:			
Trade accounts (Note 14)	**2,827**	4,401	**30,789**
Associated company	**2**	5	**25**
Other	**9,061**	12,881	**98,673**
Allowance for doubtful accounts	**(28)**	(80)	**(307)**
Deferred tax assets (Note 10)	**797**	735	**8,676**
Prepaid expenses and other	**3,817**	2,464	**41,562**
Total current assets	**54,374**	24,499	**592,116**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 4 and 6)	**95,094**	92,843	**1,035,540**
Buildings and structures (Notes 4 and 6)	**348,204**	335,390	**3,791,829**
Machinery and equipment	**1,115**	1,156	**12,142**
Furniture and fixtures	**17,356**	16,855	**189,004**
Construction in progress	**12,687**	7,791	**138,155**
Total	**474,456**	454,035	**5,166,670**
Accumulated depreciation	**(108,843)**	(95,531)	**(1,185,265)**
Net property, plant and equipment	**365,613**	358,504	**3,981,405**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**723**	672	**7,874**
Investment in an associated company	**1,094**	883	**11,912**
Lease deposits paid (Notes 2.h and 5)	**61,752**	59,951	**672,462**
Long-term prepaid expenses (Note 2.h)	**12,741**	12,836	**138,746**
Deferred tax assets (Note 10)	**2,552**	4,625	**27,795**
Other	**4,698**	4,749	**51,157**
Total investments and other assets	**83,560**	83,716	**909,946**
TOTAL	**¥ 503,547**	¥466,719	**$ 5,483,467**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2010	2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	**¥ 4,955**	¥ 22,955	**$ 53,958**
Current portion of long-term debt (Note 6)	**22,950**	22,739	**249,918**
Payables:			
Trade accounts (Note 14)	**5,462**	6,767	**59,481**
Other	**8,610**	52,976	**93,760**
Deposits received	**43,637**	23,077	**475,190**
Income taxes payable	**6,785**	5,234	**73,884**
Accrued expenses	**1,807**	1,483	**19,679**
Current portion of lease deposits from lessees (Notes 2.h, 6 and 14)	**1,439**	1,169	**15,673**
Other	**5,085**	2,780	**55,375**
Total current liabilities	**100,730**	139,180	**1,096,918**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**106,472**	70,366	**1,159,444**
Corporate bonds (Note 6)	**33,000**	10,000	**359,360**
Liability for retirement benefits (Note 7)	**65**	240	**708**
Lease deposits from lessees (Notes 2.h, 6 and 14)	**103,975**	105,639	**1,132,259**
Other	**489**	790	**5,320**
Total long-term liabilities	**244,001**	187,035	**2,657,091**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5, 11, 12 and 15)			
EQUITY (Notes 8 and 15):			
Common stock—authorized, 320,000,000 shares in 2010 and 2009; issued, 181,130,207 shares in 2010 and 181,127,507 shares in 2009	**16,667**	16,663	**181,495**
Capital surplus	**16,975**	16,972	**184,857**
Stock acquisition rights	**84**	56	**907**
Retained earnings	**124,421**	106,234	**1,354,904**
Net unrealized gain on available-for-sale securities	**196**	166	**2,139**
Foreign currency translation adjustments	**(34)**	(25)	**(366)**
Treasury stock—at cost, 8,210 shares in 2010 and 7,715 shares in 2009	**(23)**	(23)	**(253)**
Total	**158,286**	140,043	**1,723,683**
Minority interests	**530**	461	**5,775**
Total equity	**158,816**	140,504	**1,729,458**
TOTAL	**¥ 503,547**	¥466,719	**$ 5,483,467**

Consolidated Statements of Income

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	**2010**
OPERATING REVENUE (Note 14)	**¥138,943**	¥130,813	**$1,513,045**
OPERATING COSTS	**91,690**	82,416	**998,471**
Gross profit	**47,253**	48,397	**514,574**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**10,051**	10,527	**109,459**
Operating income	**37,202**	37,870	**405,115**
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 14)	**666**	606	**7,248**
Interest expense	**(3,056)**	(1,860)	**(33,276)**
Loss on disposal of property, plant and equipment	**(1,247)**	(1,320)	**(13,583)**
Loss on impairment of long-lived assets (Note 4)	**(663)**	(1,312)	**(7,216)**
Gain on change in interest in an associated company		448	
Equity in earnings of an associated company	**394**	318	**4,293**
Penalty income from leaving tenants	**3,756**	596	**40,901**
Other—net	**216**	277	**2,356**
Other income (expenses)—net	**66**	(2,247)	**723**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**37,268**	35,623	**405,838**
INCOME TAXES (Note 10):			
Current	**13,393**	13,556	**145,851**
Deferred	**1,990**	605	**21,670**
Total income taxes	**15,383**	14,161	**167,521**
MINORITY INTERESTS IN NET INCOME	**76**	72	**821**
NET INCOME	**¥ 21,809**	¥ 21,390	**$ 237,496**

	Yen		U.S. Dollars
	2010	2009	**2010**
PER SHARE OF COMMON STOCK (Notes 2.r and 13):			
Basic net income	**¥ 120.41**	¥ 118.09	**$ 1.31**
Diluted net income	**120.38**	118.08	**1.31**
Cash dividends applicable to the year	**20.00**	20.00	**0.22**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20, 2010 and 2009

	Thousands	Millions of Yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 20, 2008	181,123	¥16,663	¥16,972		¥ 88,466	¥252		¥(14)	¥122,339	¥395	¥122,734
Net income					21,390				21,390		21,390
Cash dividends, ¥20.0 per share					(3,622)				(3,622)		(3,622)
Purchase of treasury stock	(3)							(9)	(9)		(9)
Net change in the year				¥56		(86)	¥(25)		(55)	66	11
BALANCE, FEBRUARY 20, 2009	181,120	16,663	16,972	56	106,234	166	(25)	(23)	140,043	461	140,504
Net income					**21,809**				**21,809**		**21,809**
Exercise of stock options	**3**	**4**	**3**						**7**		**7**
Cash dividends, ¥20.0 per share					**(3,622)**				**(3,622)**		**(3,622)**
Purchase of treasury stock	**(1)**										
Net change in the year				**28**		**30**	**(9)**		**49**	**69**	**118**
BALANCE, FEBRUARY 20, 2010	**181,122**	**¥16,667**	**¥16,975**	**¥84**	**¥124,421**	**¥196**	**¥(34)**	**¥(23)**	**¥158,286**	**¥530**	**¥158,816**

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 20, 2009	$181,454	$184,817	$605	$1,156,855	$1,811	$(271)	$(244)	$1,525,027	$5,018	$1,530,045
Net income				**237,496**				**237,496**		**237,496**
Exercise of stock options	**41**	**40**						**81**		**81**
Cash dividends, $0.22 per share				**(39,447)**				**(39,447)**		**(39,447)**
Purchase of treasury stock							**(9)**	**(9)**		**(9)**
Net change in the year			**302**		**328**	**(95)**		**535**	**757**	**1,292**
BALANCE, FEBRUARY 20, 2010	**$181,495**	**$184,857**	**$907**	**$1,354,904**	**$2,139**	**$(366)**	**$(253)**	**$1,723,683**	**$5,775**	**$1,729,458**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	**2010**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 37,268**	¥ 35,623	**$ 405,838**
Adjustments for:			
Income taxes—paid	**(11,842)**	(18,497)	**(128,951)**
Depreciation and amortization	**18,469**	14,586	**201,123**
Loss on impairment of long-lived assets	**663**	1,312	**7,216**
Gains on change in interest in an associated company		(448)	
Equity in earnings of an associated company	**(394)**	(318)	**(4,292)**
Changes in assets and liabilities:			
(Increase) decrease in receivables—trade accounts	**1,578**	(295)	**17,177**
Increase (decrease) in payables—trade accounts	**(1,305)**	1,381	**(14,210)**
Increase in deposits received	**20,560**	4,444	**223,893**
Increase in allowance for doubtful accounts	**93**	79	**1,016**
Increase (decrease) in liability for retirement benefits	**(175)**	42	**(1,905)**
Other—net	**7,086**	(11,253)	**77,169**
Total adjustments	**34,733**	(8,967)	**378,236**
Net cash provided by operating activities	**72,001**	26,656	**784,074**
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	**(73,507)**	(71,378)	**(800,474)**
Proceeds from sales of property, plant and equipment	**1,813**	615	**19,740**
Payment of lease deposits to lessors	**(852)**	(1,973)	**(9,276)**
Reimbursement of lease deposits to lessors	**1,397**	1,755	**15,217**
Repayment of lease deposits from lessees	**(8,497)**	(6,289)	**(92,525)**
Proceeds from lease deposits from lessees	**4,537**	12,096	**49,404**
Other	**(769)**	1,266	**(8,373)**
Net cash used in investing activities	**(75,878)**	(63,908)	**(826,287)**
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	**(18,000)**	11,500	**(196,014)**
Proceeds from long-term debt	**61,900**	32,800	**674,071**
Repayment of long-term debt	**(25,583)**	(12,482)	**(278,592)**
Proceeds from issuance of corporate bonds	**23,000**	10,000	**250,463**
Dividends paid	**(3,622)**	(3,622)	**(39,447)**
Other	**(7)**	(15)	**(73)**
Net cash provided by financing activities	**37,688**	38,181	**410,408**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	**2010**
CASH AND CASH EQUIVALENTS DECREASED BY DEMERGER		(23)	
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(6)**	(12)	**(67)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**33,805**	894	**368,128**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**4,093**	3,199	**44,570**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 37,898**	¥ 4,093	**$ 412,698**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ÆON Mall Co., Ltd. and Subsidiaries
Years Ended February 20, 2010 and 2009

1 BASIS OF PRESENTING 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 conformity with accounting principles generally accepted in Japan, which are different in certain respects as to 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 2009 consolidated financial statements to conform to the classifications used in 2010.

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 ¥91.83 to $1, the approximate rate of exchange at February 20, 2010. 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 20, 2010 include the accounts of the Company and its two subsidiaries (together, the "Group").

Under the control or influence concept, 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.

An associated company is accounted for by the equity method.

The Company was included in the scope of equity method in the prior year due to the Company's acquisition of 48% of the total number of issued shares with voting rights of ÆON Insurance Service Co., Ltd. on February 21, 2008.

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 (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes: (1) 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, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008. The Company applied this accounting standard effective February 21, 2009. The effect of this change was nil on the consolidated statement of income for the year ended February 20, 2010.

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 ÆON Co., Ltd. (the parent company), both of which mature or become due within three months of the date of acquisition.

d. Marketable and Investment Securities—
Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported

at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable 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. 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 would be 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.

h. Lease Deposits to Lessors and Lease Deposits from Lessees—
Certain shopping centers operated by the Company are generally leased under 20-year lease agreements. The lease agreements require that the Company make a lease deposit to the lessor.

The Company receives lease deposits from tenants (lessees) of the shopping centers generally under 20-year lease agreements.

i. Bond Issue Costs—
Bond issue costs are charged to income as incurred.

j. Retirement and Pension Plans—
The Company has a defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees.

Liability for employees' retirement benefits is accounted for based on the projected benefit obligations and plan assets at the balance sheet date.

k. Stock Options—
The ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance which is applicable to stock options granted on 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 non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right 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.

The Company has applied this accounting standard for stock options to those granted on and after May 1, 2006.

l. 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 issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

Lessee
Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be 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 shall be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial statements.

The Company applied the revised accounting standard effective February 20, 2010. In addition, the Company accounted for leases which existed at the transition date and did not transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change was nil on the consolidated statement of income for the year ended February 20, 2010.

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

The Company applied the revised accounting standard effective February 20, 2010. The effect of this change was nil on the consolidated statement of income for the year ended February 20, 2010.

All other leases are accounted for as operating leases.

m. Bonuses to Directors and Corporate Auditors—
Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

n. Income Taxes—
The provision for income taxes is computed based on the pretax income included in the consolidated statements 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 laws to the temporary differences.

o. 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 statements of income to the extent that they are not hedged by forward exchange contracts.

p. 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" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

q. Derivatives and Hedging Activities—
The Company uses interest rate swaps to manage its exposures to fluctuations in interest rates. They are utilized by the Company to reduce interest rate risk. 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 statements of income and (b) for derivatives used for hedging purposes, if 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 which 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 expenses or income.

r. Per Share Information—
Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, retroactively adjusted for stock splits.

s. New Accounting Pronouncements
Asset Retirement Obligations—
On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, 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 either by law or contract that results from the acquisition, construction, development and the 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 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 each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Accounting Changes and Error Corrections—
In December 4, 2009, 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 with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations
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 financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3 INVESTMENT SECURITIES

Investment securities as of February 20, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Investment securities:			
Marketable equity securities	**¥677**	¥626	**$7,373**
Other	**46**	46	**501**
Total	**¥723**	¥672	**$7,874**

The carrying amounts and aggregate fair values of investment securities at February 20, 2010 and 2009 were as follows:

	Millions of Yen			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	**¥346**	**¥358**	**¥(27)**	**¥677**

	Millions of Yen			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	¥346	¥301	¥(21)	¥626

	Thousands of U.S. Dollars			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	**$3,772**	**$3,895**	**$(294)**	**$7,373**

Available-for-sale securities whose fair value is not readily determinable as of February 20, 2010 and 2009 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Available-for-sale:			
Equity securities	**¥46**	¥46	**$501**

Proceeds and gross realized gains on sales of available-for-sale securities for the years ended February 20, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Proceeds		¥575	
Gross realized gains		75	

4 LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 20, 2010 and 2009. As a result, the Group recognized impairment losses of ¥663 million ($7,216 thousand) and ¥1,312 million, respectively, on the following long-lived assets in February 20, 2010 and 2009.

Use	Type of Assets	Location	Millions of Yen		Thousands of U.S. Dollars
			2010	2009	**2010**
Shopping center	Buildings and structures and others	Saitama	**¥353**		**$3,840**
Shopping center	Land, buildings and structures	Miyazaki	**310**	¥1,312	**3,376**
Total			**¥663**	¥1,312	**$7,216**

The Group mainly categorizes shopping centers as a standard unit, which is the minimum cash-generating unit, and idle assets as individual independent units. The book values of the shopping centers which incurred or are expected to incur continuous operating losses and idle assets which are not scheduled to be used were reduced to recoverable amounts, and such deducted amounts were recorded as impairment losses as other expenses. The recoverable amount of the asset groups is measured as the net selling price.

The breakdown of impairment losses for the years ended February 20, 2010 and 2009 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Land	**¥310**	¥ 896	**$3,376**
Buildings and structures	**333**	416	**3,623**
Other	**20**		**217**
Total	**¥663**	¥1,312	**$7,216**

5 FIXED LEASEHOLD DEPOSITS TO LESSORS

The Company has securitized certain amounts of fixed leasehold deposits to lessors by transferring these deposits to an unconsolidated special purpose entity (the "SPE"), J-one Assets Corporation. The aggregate amounts of securitized deposits as of February 20, 2010 and 2009 were ¥801 million ($8,726 thousand) and ¥1,202 million, respectively. This SPE has options to sell the transferred deposits back to ÆON Retail Co., Ltd., the parent company's subsidiary, in certain cases including lessors' insolvency. In that case, ÆON Retail Co., Ltd. has its option to sell it to the Company.

When the SPE exercises its put options, it also cancels interest rate swap agreements, which it entered into with financial institutions for hedging interest exposures, incorporated in these transactions and as such the cancellation gains or losses are borne by ÆON Retail Co., Ltd. When ÆON Retail Co., Ltd. uses the option, such cancellation gains or losses are borne by the Company. The unrealized loss on these interest rate swap agreements as of February 20, 2010 and 2009 was ¥62 million ($672 thousand) and ¥86 million, respectively.

6 SHORT-TERM BORROWINGS, LONG-TERM DEBT AND CORPORATE BONDS

Short-term borrowings at February 20, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Short-term loans principally from banks, 0.80% to 1.05% (2010) and 0.94% to 1.70% (2009)	**¥4,955**	¥12,955	**$53,958**
Commercial paper, 1.305% (2009)		10,000	
Total	**¥4,955**	¥22,955	**$53,958**

Long-term debt at February 20, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Loans from banks and insurance companies, due through 2019 with interest rates ranging from 0.27% to 6.00% (2010) and from 0.73% to 6.00% (2009)			
Collateralized	**¥ 36,280**	¥ 52,375	**$ 395,081**
Unsecured	**93,142**	40,730	**1,014,281**
Total	**129,422**	93,105	**1,409,362**
Less current portion	**(22,950)**	(22,739)	**(249,918)**
Long-term debt, less current portion	**¥106,472**	¥ 70,366	**$1,159,444**

Corporate bonds at February 20, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Unsecured 1.60% yen corporate bond, due 2013	**¥10,000**	¥10,000	**$108,897**
Unsecured 1.54% yen corporate bond, due 2014	**23,000**		**250,463**
Total	**¥33,000**	¥10,000	**$359,360**

Annual maturities of long-term debt as of February 20, 2010 were as follows:

Year Ending February 20	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 22,950	$ 249,918
2012	19,785	215,456
2013	24,915	271,316
2014	28,014	305,065
2015	7,961	86,688
2016 and thereafter	25,797	280,919
Total	¥129,422	$1,409,362

Annual maturities of corporate bonds as of February 20, 2010 were as follows:

Year Ending February 20	Millions of Yen	Thousands of U.S. Dollars
2013	¥10,000	$108,897
2014	23,000	250,463
Total	¥33,000	$359,360

The carrying amounts of assets pledged as collateral for short-term bank loans, the above collateralized long-term debt and other at February 20, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	**¥ 38,405**	**$ 418,221**
Buildings and structures—net of accumulated depreciation	**90,017**	**980,259**
Total	**¥128,422**	**$1,398,480**

Collateralized short-term bank loans, long-term debt and other at February 20, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term bank loans	**¥ 3,655**	**$ 39,802**
Current portion of long-term debt	**9,027**	**98,307**
Current portion of lease from lessees	**856**	**9,323**
Long-term debt	**27,253**	**296,774**
Lease deposits from lessees	**13,318**	**145,025**
Total	**¥54,109**	**$589,231**

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.

The Company amended its defined benefit pension plan on January 15, 2010 and implemented the new pension plan which features cash balance plans from April 1, 2010. Under the cash balance plans, the amount of pension pensioners receive fluctuates based on the market interest rates. The Company recognized all prior service costs arising from the amendment of the defined benefit pension plan in the year ended February 20, 2010. The effect of the amendment was to record reversal of liability for retirement benefits of ¥240 million ($2,613 thousand) in other income in the consolidated statements of operations for the year ended February 20, 2010.

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.

The liability for employees' retirement benefits at February 20, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Projected benefit obligation	**¥(1,236)**	¥(1,435)	**$(13,466)**
Fair value of plan assets	**937**	828	**10,205**
Unrecognized actuarial gain	**234**	367	**2,553**
Net liability	**¥ (65)**	¥ (240)	**$ (708)**

The components of net periodic retirement benefit costs for the years ended February 20, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Service cost	**¥ 52**	¥ 32	**$ 561**
Interest cost	**34**	38	**370**
Expected return on plan assets	**(11)**	(20)	**(117)**
Recognized actuarial gain	**76**	74	**831**
Other (Note)	**96**	89	**1,043**
Total	**247**	213	**2,688**
Reversal of liability for retirement benefits	**(240)**		**(2,613)**
Net periodic costs	**¥ 7**	¥213	**$ 75**

Note: "Other" includes payments to the advance payment plan and contributions to the defined contribution pension plan.

Assumptions used for the years ended February 20, 2010 and 2009 are set forth as follows:

	2010	2009
Discount rate	**2.4%**	2.4%
Expected rate of return on plan assets	**1.30%**	2.05%
Recognition period of actuarial gain/loss	**10 years**	10 years

8 EQUITY

Since May 1, 2006, Japanese companies have been 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 such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the 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 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.

9 STOCK OPTIONS

The stock options outstanding as of February 20, 2010 are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2007 Stock Option	17 directors	20,200 shares	2008.4.21	¥1 ($0.01)	From May 21, 2008 to May 20, 2023
2008 Stock Option	16 directors	29,400 shares	2009.4.21	¥1 ($0.01)	From May 21, 2009 to May 20, 2024

The stock option activity is as follows:

	2007 Stock Option (Shares)	2008 Stock Option (Shares)
For the Year Ended February 20, 2009		
Non-vested:		
February 20, 2008—outstanding		
Granted	20,200	
Canceled		
Vested	(20,200)	
February 20, 2009—outstanding		
Vested:		
February 20, 2008—outstanding		
Vested	20,200	
Exercised		
Canceled		
February 20, 2009—outstanding	20,200	
For the Year Ended February 20, 2010		
Non-vested:		
February 20, 2009—outstanding		
Granted		29,400
Canceled		
Vested		(29,400)
February 20, 2010—outstanding		
Vested:		
February 20, 2009—outstanding	20,200	
Vested		29,400
Exercised	(2,700)	
Canceled		
February 20, 2010—outstanding	17,500	29,400
Exercise price	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise	¥1,633 ($18)	
Fair value price at grant date	¥2,750 ($30)	¥1,197 ($13)

The Assumptions Used to Measure Fair Value of 2008 Stock Options

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	46.14%
Estimated remaining outstanding period:	Seven and a half years
Estimated dividend:	¥20 per share
Interest rate with risk free:	1.16%

10 INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the years ended February 20, 2010 and 2009.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at February 20, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Current:			
Deferred tax assets:			
Accrued enterprise tax	**¥ 515**	¥ 483	**$ 5,604**
Other	**282**	252	**3,072**
Deferred tax assets	**¥ 797**	¥ 735	**$ 8,676**
Non-current:			
Deferred tax assets:			
Property, plant and equipment	**¥3,591**	¥5,121	**$39,109**
Long-term prepaid expenses	**299**	254	**3,256**
Liability for retirement benefits	**26**	97	**287**
Other	**258**	331	**2,811**
Deferred tax assets	**4,174**	5,803	**45,463**
Deferred tax liabilities:			
Lease deposits to lessors and long-term prepaid expenses	**401**	128	**4,374**
Deferred capital gains on property	**236**	360	**2,569**
Special depreciation on property	**851**	577	**9,263**
Unrealized gain on available-for-sale securities	**134**	113	**1,462**
Deferred tax liabilities	**1,622**	1,178	**17,668**
Net deferred tax assets	**¥2,552**	¥4,625	**$27,795**

The difference between the statutory tax rate and the effective tax rate for the years ended February 20, 2010 and 2009 is less than 5%, so the reconciliation difference is omitted.

11 LEASES

a. Lessee

The Group leases certain machinery and equipment, and other assets.

Total rental expenses including lease payments under finance leases for the years ended February 20, 2010 and 2009 were ¥36,262 million ($394,885 thousand) and ¥34,867 million, respectively.

As discussed in note 2.l, the Company accounts for leases which 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 exiting at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense and other information, on a "as if capitalized" basis for the years ended February 20, 2010 and 2009 was as follows:

	Millions of Yen		
	2010		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥100**	**¥1,461**	**¥1,561**
Accumulated depreciation	**83**	**716**	**799**
Net leased property	**¥ 17**	**¥ 745**	**¥ 762**

	Millions of Yen		
	2009		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥104	¥1,781	¥1,885
Accumulated depreciation	76	702	778
Net leased property	¥ 28	¥1,079	¥1,107

	Thousands of U.S. Dollars		
	2010		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**$1,086**	**$15,914**	**$17,000**
Accumulated depreciation	**907**	**7,797**	**8,704**
Net leased property	**$ 179**	**$ 8,117**	**$ 8,296**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Due within one year	**¥291**	¥ 317	**$3,168**
Due after one year	**497**	776	**5,409**
Total	**¥788**	¥1,093	**$8,577**

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

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Depreciation expense	**¥318**	¥418	**$3,459**
Interest expense	**29**	25	**314**
Total	**¥347**	¥443	**$3,773**
Lease payments	**¥344**	¥473	**$3,751**

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

The minimum rental commitments under noncancelable operating leases at February 20, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Due within one year	**¥ 22,758**	¥ 22,207	**$ 247,822**
Due after one year	**176,762**	181,268	**1,924,884**
Total	**¥199,520**	¥203,475	**$2,172,706**

b. Lessor

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

Future rental revenues from subleases under finance leases for the years ended February 20, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Due within one year	**¥ 75**	¥ 5,981	**$ 814**
Due after one year	**117**	35,500	**1,281**
Total	**¥192**	¥41,481	**$2,095**

12 DERIVATIVES

The Company enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest 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.

The interest rate swap contracts which are qualified for hedge accounting and are reflected on the consolidated balance sheet at year end are not subject to the disclosure of market value information.

13 NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 20, 2010 and 2009 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 20, 2010	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥21,809**	**181,121**	**¥120.41**	**$1.31**
Effect of Dilutive Securities—Warrants		**43**		
Diluted EPS—Net income for computation	**¥21,809**	**181,164**	**¥120.38**	**$1.31**
Year Ended February 20, 2009				
Basic EPS—Net income available to common shareholders	¥21,390	181,121	¥118.09	
Effect of Dilutive Securities—Warrants		17		
Diluted EPS—Net income for computation	¥21,390	181,138	¥118.08	

14 RELATED PARTY DISCLOSURES

The Company adopted "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11 issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13 issued on October 17, 2006) for the year ended February 20, 2010. There was no amendment to the scope of disclosures for the year ended February 20, 2010 as a result of the adoption of this accounting standard and its guidance.

Transactions with the parent company and its subsidiary for the years ended February 20, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Deposits kept at the cash pool account of ÆON Co., Ltd. (the parent company)	**¥30,000**		**$326,690**
Interest income from ÆON Co., Ltd.	**18**		**204**
Revenue from leases of shopping centers to ÆON Retail Co., Ltd. (the parent's subsidiary)	**17,015**	¥ 9,129	**185,289**
Pledge of collateral for ÆON Retail Co., Ltd.	**11,254**	12,219	**122,557**

Notes: *i.* These transactions are on an arm's length basis and in the normal course of business.
ii. ÆON Retail Co., Ltd. (the parent's subsidiary) succeeded ÆON Co., Ltd.'s retail and other operating divisions as a result of the demerger as of August 21, 2008.
These transactions for the year ended February 20, 2009 are the amounts from August 21, 2008 to February 20, 2009.
Revenue from leases of shopping centers to ÆON Co., Ltd. (the parent company) was ¥9,102 million for the year ended February 20, 2009.

The balances due to or from the parent company and its subsidiary at February 20, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Cash equivalents—Deposits kept at the cash pool account of ÆON Co., Ltd. (the parent company)	**¥30,000**		**$326,690**
Receivables—Trade accounts from ÆON Retail Co., Ltd. (the parent's subsidiary)	**1,023**	¥ 1,159	**11,139**
Lease deposits received from ÆON Retail Co., Ltd.	**17,163**	15,746	**186,902**

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

15 SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at February 20, 2010 was approved at the Company's Board of Directors meeting held on April 6, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.00 ($0.11) per share	¥1,811	$19,724

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of ÆON Mall Co., Ltd. and subsidiaries (the "Company") as of February 20, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of February 20, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu LLC

May 6, 2010

Member of
Deloitte Touche Tohmatsu

ÆON Mall History

ÆON Mall History

1911	November	The Company was founded
1973	August	Started non-life insurance agency business in partnership with five non-life insurance companies
1974	December	Started life insurance agency business as an agent for American Family Life Assurance Company of Columbus Japan Branch
1979	May	Increased capital to ¥98 million by a paid-in capital increase through a rights offering
1989	September	Increased capital to ¥4,000 million
	October	Changed the corporate name from JUSCO Kosan Co., Ltd. to ÆON Kosan Co., Ltd. and began developing and managing large-scale shopping malls
1993	February	Established Shimoda Town Co., Ltd. (to develop ÆON Mall Shimoda)
1997	July	Increased capital to ¥4,650 million
2001	June	Changed name to ÆON Mall Co., Ltd.
2002	July	Listed on the First Section of the Tokyo Stock Exchange and increased capital to ¥6,065 million
2003	April	Conducted stock split (1:1.2)
	August	Increased capital to ¥7,796 million
2005	April	Conducted stock split (1:2)
2007	February	Conducted stock split (1:2)

Former Diamond City History

1969	March	Company founded. Capital ¥50 million (Joint investment by JUSCO Kosan Co., Ltd. (now ÆON Co., Ltd.) and Mitsubishi Corporation)
1970	December	Established Diamond Family Co., Ltd. as a joint investment with Kintetsu Corporation
1989	October	Stocks listed on the second section of the Osaka Stock Exchange (Capital ¥3,695 million)
1990	November	Established CITY PEC Co., Ltd.
2002	November	Stocks listed on the second section of the Tokyo Stock Exchange (Capital ¥4,975 million)
2003	February	Listings changed to first sections of Tokyo Stock Exchange and Osaka Stock Exchange
	February	Wound up subsidiary CITY PEC Co., Ltd.
2005	February	Moved head office from Osaka to Tokyo
2006	March	Merged with affiliate company Diamond Family Co., Ltd.
2007	February	Conducted stock split (1:2)

2007 August ÆON Mall merged with Diamond City

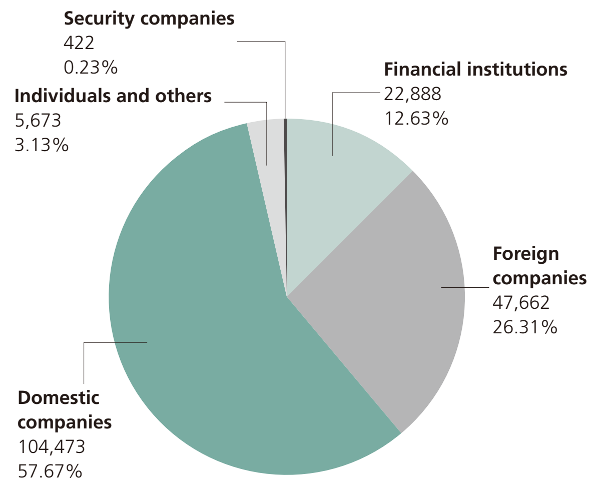
2007	September	All shopping mall names changed to ÆON Mall
2008	February	Spun off the insurance agency business

Investor Information (As of February 20, 2010)

Shares

Number of Shares Authorized	320,000,000
Number of Shares Outstanding	181,130,207
Number of Shareholders	10,770

Distribution of Shares (Thousands of shares)



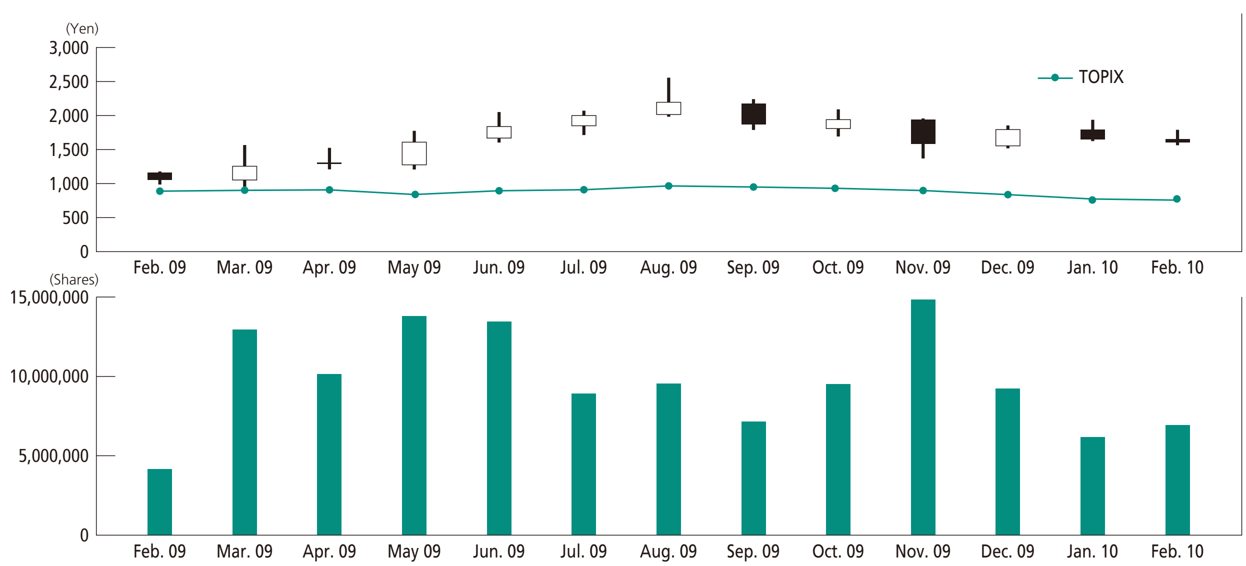
Note: Share, held by the Japan Securities Depository Center, Inc. and share held by ÆON Mall are omitted.

Major Shareholders

	Number of shares (Thousands)	Percentage of voting rights (%)
ÆON Co., Ltd.	101,057	55.79
The Chase Manhattan Bank. N.A. London Secs Lending Omnibus Account	3,677	2.03
Japan Trustee Services Bank Ltd. (Trust Account)	2,999	1.65
Mellon Bank NA as Agent for its Client Mellon OMNIBUS US Pension	2,878	1.58
Japan Master Trust Bank of Japan, Ltd. (Trust Account)	2,172	1.19
Bank of New York Tax Treaty JASDEC OMNIBUS TWO	1,905	1.05
SAJAP	1,799	0.99
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,683	0.92
State Street Bank and Trust Company	1,545	0.85
Mizuho Trust & Banking Co., Ltd.	1,439	0.79
Japan Trustee Services Bank Ltd. (CMTB Equity Investments Co., Ltd. Trust account re-entrusted by Chuo Mitsui Asset Trust and Banking Company Limited)	1,439	0.79

Notes: 1. Shareholdings are rounded down to the nearest 1,000 shares.
2. Percentages of voting rights are calculated after deducting treasury stock of 8,210 shares, and rounded down to 2 decimal places.

Share Prices / Trading Value



Corporate Data (As of February 20, 2010)

Company Name	ÆON Mall Co., Ltd.
Date Established	November 12, 1911
Capital Stock	¥16,667 million
Headquarters	1-5-1, Nakase, Mihama-ku, Chiba 261-8539, Japan Tel: 81-(43)-212-6450 Fax: 81-(43)-212-6737
Offices (As of July 31, 2010)	
Osaka Office	Kurabo Annex Building 12F, 2-4-11, Kyutaromachi, Chuo-ku, Osaka 541-0056, Japan
Fukuoka Office	Sankyo Fukuoka Building 3F, 2-9-11, Hakataekiminami, Hakata-ku, Fukuoka 812-0016, Japan
Beijing Office	Room 1110 East Ocean Center, No. 24A Jian Guo Men Wai Avenue, Chaoyang District, Beijing 100004, People's Republic of China
Number of Shopping Malls	53 (Japan: 52, Overseas: 1)
Business Activities	Development of large-scale shopping malls, tenant leasing, operation/management, dealing in real estate, leasing, and services (registered under Certification Number 7682 with the Japanese Ministry of Land, Infrastructure and Transportation)
Number of Employees	646
Stock Listing	Tokyo Stock Exchange, First Section
Transfer Agent	Mizuho Trust and Banking Co., Ltd. 2-1, Yaesu 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan
Independent Auditors	Deloitte Touche Tohmatsu 13-23, Shibaura 4-chome, Minato-ku, Tokyo 108-8530, Japan

For further information, please contact the Investor Relations section of the Management Planning Department at the ÆON Mall Co., Ltd. Head Office.
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