



It is really during those good times that it becomes critical, with a view to the next 5 to 10-years, to adopt a sense of urgency and initiate the next strategic step.

President and CEO
Akio Yoshida

“In management, I place emphasis on definitively delivering on numerical targets promised to shareholders, thereby maintaining our credibility. Of importance too is the ability to articulate in clear and understandable terms, the direction, roadmap, and future vision of the company.”

FY02/17 was another successful year with both revenues and profits hitting record highs. Overseas, as recently as 3-years ago, we were still trying to find our way. But in 2Q last year, we bottomed, and are now solidly in a loss-shrinkage/ profit expansion phase which has set the stage for real nominal profit generation.

On the domestic side, we are faced with demographic challenges relating to falling births and population aging. We are also faced with expansion in single households and a mature retail store market. And to top it off, brick-and-mortar retail stores increasingly need to contend with secular growth in e-commerce. Despite it all, we at Aeon Mall expect to continue to be able to grow our business. We note that when business weakens, it becomes more difficult to implement those things we need to do in the way of investments and revitalization of existing malls. It is because of this that it is paramount to not become complacent, adopt a sense of urgency, and with a view on the next 5-10 years, initiate the next strategic step for growth precisely when things are going well.

In management, I place emphasis on definitively delivering on numerical targets promised to shareholders and thereby maintain our credibility. Of importance to me too is the ability to articulate in clear and understandable terms, the direction, roadmap, and future vision of the company to our shareholders and each and every one of our staff members.

Our new 3-year medium-term plan is based on the long-term 10-year vision of the company. The plan represents the roadmap that addresses the essential things that must be done over this 3-year period to allow for the realization of that vision.

A long-term vision of the company shared by all staff is important as it also forms the framework that allows business segments and departments to understand what must be done. This allows them to constitute instructions readily understandable to staff which leads to enhanced staff performance and ultimately superior quantifiable business results. As noted, I place emphasis on hitting our targets. This is so because it is only through consistent performance can we expect to be appraised as a solid and credible company from our shareholders.

Q: What kind of intrinsic corporate value do you think exists at Aeon Mall?

“The company’s value from a societal angle is that ‘Aeon Malls are already well on their way to becoming integral parts of social infrastructure.’”

We break down corporate value into the two aspects of social value and economic value. Of the former, our social value lies in the fact that Aeon Malls are already well on their way to becoming integral parts of social infrastructure. At its extreme, Aeon Mall becomes perceived as the “if you have a problem, Aeon Mall will have the answer” –type of place. But given the changing demographics and the increase in single households, we would be quite satisfied with becoming perceived as not just a community center, but a place where customers can find peace of mind. We are furthering our mall’s social importance within the community via the addition of such services as post services (post offices) and municipal administration. The inclusion of such services ranking high in their public aspects allows for one-stop convenience that addresses not only shopping needs but all other aspects of daily living. This is particularly important for senior citizens who may be restricted in their mobility. In fact, this past July, under the “Basic Law for Disaster Prevention,” Aeon Mall was designated as a “Disaster Prevention Facility” furthering the company’s role in social infrastructure.

Since current FY02/18, the company has been reinforcing its efforts in special events and cultural festivities as part of its “Health & Wellness” program. By enhancing the quality of mall operations as they

relate to such “soft” aspects, the company endeavors to promote people’s livelihood. The mall becomes a place not just for shopping, but a place for meeting people as well as a place for nurturing cultural awareness.

As regards to economic value, the company looks for sustained improvement with an emphasis on measures that include the equity ratio, net-debt-equity (DE) ratio, and return on invested capital (ROIC).

As a long-term outlook, I imagine a situation where in 2025, 40% of the company’s profits will be generated overseas. The relative importance of the domestic business will fall, but this should not, in any way, be construed to mean a shrinkage here. Indeed, we expect the domestic business to continue to grow not only on the mall business, but also on the OPA urban fashion-building business. It is just that the growth in the overseas business will likely outpace that of the domestic business. Ultimately, we anticipate this will result in a better balanced portfolio consisting of several business lines.

On business returns, we anticipate with confidence that we will be able to attain an ROIC target of 6% (FY02/17 actual was 4.4%) given expansion in profitability overseas. The company’s equity and DE ratios stand at 30% and 1x, respectively. These are levels the company has established as its basic standards and through 2025, we anticipate similar levels to continue. As regards to funding requirements, we aim to avoid excessive leveraging via the use of operating cash flows, retained earnings, and a focus on leasing arrangements.



Q: Please explain Aeon Mall’s business model, the source of intrinsic value that allows the company to increase profits, and its competitive strengths. Please answer as they relate to Aeon Mall’s corporate philosophy.

“Ultimately, the company’s most powerful source of strength comes from both its belief in and rigorous implementation of a ‘customer first’ policy that extends all the way to the minutest of operational detail.”

We have a management philosophy that states “We are a life design developer creating ‘the future of living’ in tandem with the community.” This is to say we go beyond the simple developer role of securing revenues via tenant store contracts. We implement a business that goes deeper, to those customers and local residents downstream of the tenants.

As such, we conduct business as a member of the retailing community. Leveraging our unique position as Japan’s oldest commercial mall developer, we conduct rigorous research of mall sites, development highly integrated with the community, optimal leasing, organization of Doyutenkai¹ (and the strong ties it affords), and efficient mall management and administration. It is with adept coordination of these various activities that Aeon Mall conducts business both in Japan and the fast growing markets of China and ASEAN. And it is this business model that affords the company a formidable differentiating factor that ultimately is the source of Aeon Mall’s intrinsic value. And in fact, there is yet another rather less apparent factor relating to the company’s corporate culture that has been a big factor supporting growth.

We would note that whilst Aeon Mall is categorized as a real estate/ developer company, it carries with it DNA from Aeon Retail. As such, our vantage point has and always will be with the end-customer who are downstream of our tenants. This has helped create a corporate culture highly sensitized and responsive to customer lifestyle preferences. We think this has contributed greatly to customer attentiveness and the development of our cumulative expertise in building malls people want to visit. This has manifested itself in the way of our mall’s customer drawing power.

Indeed, whilst the size of retail facilities and the types of tenants are important, differentiation at Aeon Mall is not just about the “hard” aspects of mall development, but also about the pursuit of “soft” aspects or operational aspects that relate to customer convenience and comfort. We can take the simple example of our parking spaces which are designed and operated to make life easier for people not particularly adept at driving. Or we might look overseas where over SNS, our malls have received such praise as “restrooms clean!”, “wow, powder-rooms!”, and “spotless floors … no problem with young children crawling over them!” In our view, these “soft” aspects are significant in contributing to customer drawing power.

Our rigorous efforts in implementing and maintaining what we term “Japan Quality” has become a brand in and of itself that has allowed Aeon Mall to distinctly differentiate itself from competitors.

Ultimately, the company’s most powerful source of strength comes from both its belief in and rigorous implementation of a ‘customer first’ policy that extends all the way to the minutest of operational detail



Aeon Mall Binh Tan (Ho Chi Minh City)



Footnote: ¹ Tenant store association comprised of approximately 8,000 members with stores in Aeon Group’s malls and shopping centers.

Q: As one thinks about the longer-term, what challenges do you foresee?

It is the nature of our business model that we are able to recover invested capital, in the form of leasing revenues, only over extended periods of time. It is a business model that requires large up-front investments, long lead-times (development and construction), and quick-footed management essential to addressing fickle shopper preferences even after mall launch. As such, it becomes imperative that we formulate views on future trends and that we remain highly nimble in the face of shifting societal trends. We are thus necessarily forced to think about the long-term future and to recognize the business challenges that they pose.

“The inevitable consolidation of Japan’s brick-and-mortar retail store market should be viewed as a large business opportunity.”

Domestically, times in which the building of more shopping centers equated to automatic growth, periods in which the industry enjoyed ever-rising sales, have come to an end. Today, we face a mature market where signs of market saturation have begun to appear.

Thus, in managing the domestic business, one needs to consider a variety of factors including declining births, aging of the population, population shrinkage, as well as an increase in active seniors. We need to consider demographic and household compositional changes including the increase in single households and nuclear families. Finally, we need to consider consumption patterns as well as the impact of changes in the information environment.

“Happiness Mall Project”

Health Wellness
Community Opportunity

**The Happiness Mall Project is a project aimed at realizing the concept of “Health & Wellness” being advanced by Aeon Mall. Specifically, the idea is for members of the local community to achieve “wellness life” or health in both body and soul regardless of one’s age or gender.*

We are also faced with advancing consolidation in the real brick-and-mortar retail space with advances in e-commerce (EC). The size of the EC market in 2016 was roughly JPY15 trillion, growing nearly 10% YoY. Market penetration is expanding with EC securing a 5.4% share overall and 10.9% share within the apparel sector.

From a global perspective, the EC market in 2015 grew to roughly JPY180 trillion. In particular, we have seen sharp growth in China where the EC market has come to represent some one-third of global transactions or over JPY60 trillion. In advanced shopping center countries such as the U.S., we are witnessing accelerated consolidation of real-store retailers against this EC backdrop.

It is probably safe to say that the domestic Japanese market will face similar headwinds at some point in the future. But one should view such consolidation as a significant business opportunity for Aeon Mall.

We should note that shoppers tend to adjust their purchasing methods, between EC and real stores, depending on the particular circumstance. This is to say that we believe there will be continued need for both EC and as well as real-store channels. As a leading entity in the real-store front, Aeon Mall needs to ensure that it is continuously able to efficiently satisfy the demands of the customer and build the “contents” aspect of the mall so that certain experiences can only be had by “physically going to Aeon Mall.”

It is our belief that Aeon Mall will not only survive industry consolidation, but by being the most popular mall in any given area, that it will be able to secure a market position commanding greater customer traffic versus today.



Aeon Mall Okayama(Okayama Prefecture)

“At a time when the ASEAN consumer markets are expanding at rates likely to make them greater than that of Japan, it becomes essential that we not miss the boat.”

In developing the overseas business, Aeon Mall needs to ensure successful capture of the growing wave of demand that looks set to exceed that of Japan by 2025. In the ASEAN region, between the years 2000 and 2010, we have seen Malaysia, Thailand, the Philippines, and Indonesia see rapid economic growth. Trailing by perhaps 10-years, rapid economic growth is now expected to shift to such ASEAN late-bloomers such as Vietnam, Laos,

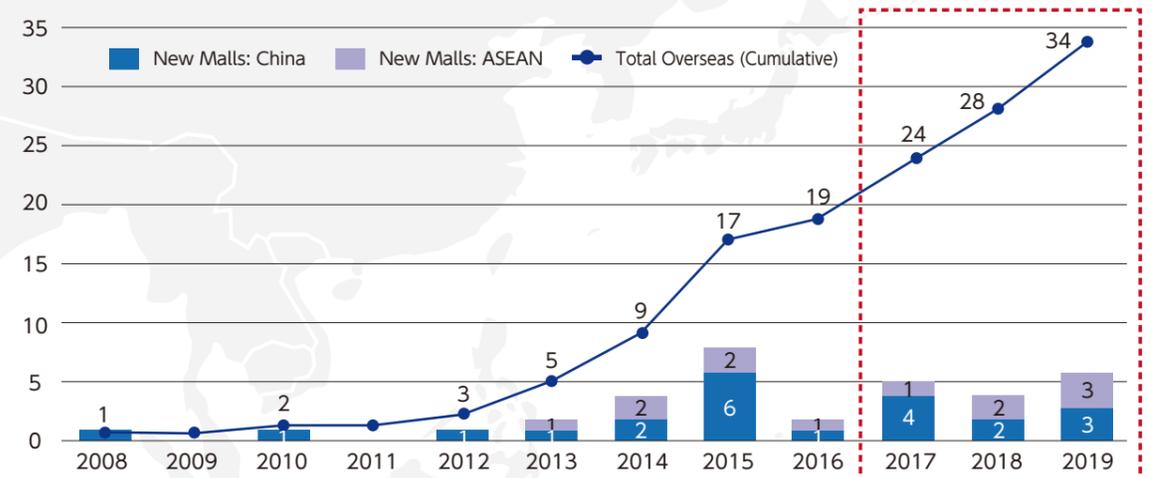
Myanmar, and Cambodia. It is thought that the relative weight of retail consumption versus GDP will be particularly high in Vietnam, Cambodia, and Laos.

It is understood that in many of these ASEAN countries, local conglomerates have already launched multi-faceted retail facilities and/or control the most attractive real estate for business.

As such, as Aeon Mall looks to advance into new regions, we will be particularly interested and see as business opportunities those areas where commercial development has not kept up with growth in consumption. Where potential for large expansion in consumption exists and where competition has been slow to react, the company would see this as an opportunity and move to capitalize. We do keep in mind also, that being early in a particular area will also have the effect of thwarting the entry of new competition.

3-Year Medium-term Plans for New Malls

	FY2/17	3-Year Plan			Total 3-Yrs	FY2/20 Total
		FY2/18	FY2/19	FY2/20		
Overseas	19	5	4	6	15	34
China	13	4	2	3	9	22
ASEAN	6	1	2	3	6	12



Over the 3-year medium-term plan, planned new malls are 9 in China, 6 in ASEAN, for a total of 15.

Q: Assuming sustained growth, please describe your efforts in the areas of environmental, social, and corporate governance (ESG) issues.

“Initiatives in sustainability are in fact naturally built-into our business processes.”

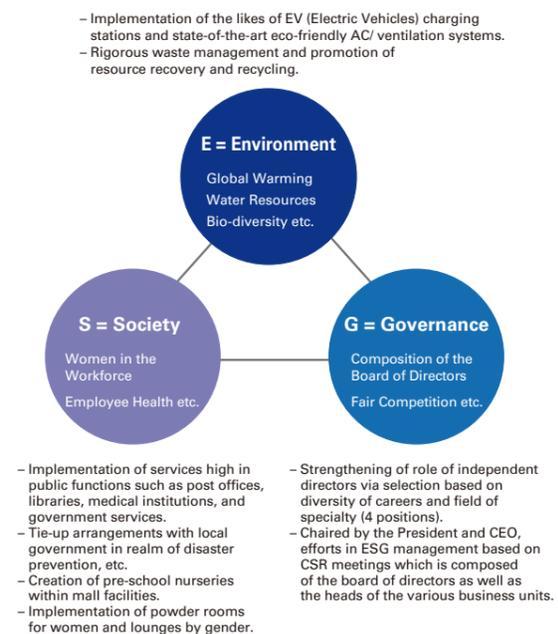
In our business, it is essential that we keep alert of social and environmental issues that may have an effect on people’s livelihood. This is so not only at the local level, but at the global level as well. It is this discipline that we believe initiatives in sustainability are naturally built-into our business processes.

On the environmental front, Aeon Mall implements a policy aimed at constructing the most environmentally friendly of retail facilities. In fact, this effort forms one of the company’s major business pillars. For example, in implementing new malls in China, Aeon Mall secures a “Green Building Evaluation Standard” approval designation awarded by Chinese authorities to recognize such efforts. In addition, the company and its employees host, with the cooperation of local residents, what has become a customary tree planting ceremony before the opening of all new malls. Noteworthy is that in China, it appears to be the case that it is quite rare for a non-public entity to secure the Green Building recognition in the first place. But at Aeon Mall, this represents simply the faithful execution of our corporate policy. Fortuitously, however, this has resulted in us being positioned at the very forefront of more recent and rapidly rising Chinese consciousness of the environment.

Aeon Mall is also actively involved in advancing human resource development and diversity. Domestically, the company has been awarded the “Kurumin Mark” by the Ministry of Health, Labour & Welfare for its achievements in child-rearing support. Based on the “Act on Promotion of Women’s Participation and Advancement in the Workplace,” the company in 2016 was awarded the “Eruboshi Certification” program’s highest rating. Further, the Tokyo Stock Exchange awarded the company its “Nadeshiko Stock” designation in recognition of the company’s superior programs as they relate to working women. As such designations would indicate, Aeon Mall has been actively pushing for women in the workplace. As regards to overseas operations, the company has been rigorously implementing training programs as well as advancing locals to management posts so as to allow locally led business operations.

In our overseas business, we think the use of local staff well versed in Aeon Mall’s ways and who by definition are most knowledgeable of the region in which they serve, is the best strategy to create a stable and sustainable mall operation that is able to increase profitability. In China, there are already five malls that are operated entirely by local Chinese staff. Going forward, we aim to develop clear career paths for local staff which should help in retaining skilled human resources.

As regards to corporate governance, management effort to meet and communicate regularly with its independent outside directors and auditors. It is through such venues that the company receives much in the way of valued third-party opinions. To help this process, the company arranges to have its independent directors tour the company’s malls both domestically and overseas. This, in fact, has led to an enormous deepening of discussions at board meetings. Essentially, independent directors who view facilities in the flesh are able to generate more opinions which are key for further mall enhancement. We think this system has become very much entrenched at Aeon Mall. Going forward, as a new undertaking, we aim to create new venues to allow for discussions on business strategy.



Finally, please provide a word to the shareholder community.

“The decision to raise dividends is based on factors that include the probability the company will hit its numerical targets and future funding needs, but always under the assumption that it will be able to make good on commitments made to its shareholders.”

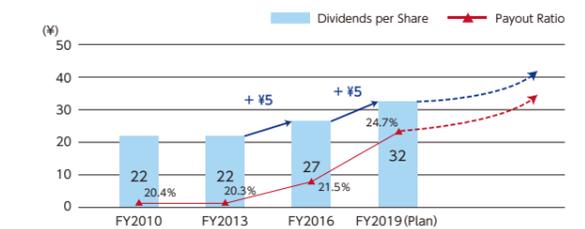
The dividends we pay to our shareholders are based on a policy assessment of revenue and profit and what the company believes to be an appropriate shareholder return.

In FY02/17, we increased the per share dividend by ¥5. In increasing the dividend, we considered the probability of the company meeting stated targets as stipulated in the medium-term plan and future cash funding needs. There was, in other words, the underlying assumption that we will be able to meet our commitments to our shareholders. For FY02/18, we plan another per share increase in the dividend of ¥5 which brings up our payout ratio closer to 25%.

Separately, we noted a substantial increase in the number of retail investors amongst our shareholder base (customer-shareholders) in FY02/17. Whilst the importance of institutional investors cannot be overstated, the increase in retail investors is flattering as they not only see things from a retail perspective, but are actual parties to the retailing experience. Going forward, we hope to be able to continue to deliver on our stated goals.

To all of our investors, we hope you will remain supporters of our business over the long haul as we embark upon efforts to realize further growth.

Shareholder Returns



On top of dividend increases owing to increased earnings, we aim over the medium-term to achieve a payout ratio of over 25%.

Medium-term Plan (FY2017~2019)

- Growth Initiatives**
1. Capturing Asian Growth Opportunities
 2. Development of Latent Sources of Domestic Demand
 3. Becoming the Overwhelmingly Dominant Mall in Each Region
 4. Capturing Urban Growth Opportunities
 5. Development of Optimal Financing / Organizational Structures to Support Growth

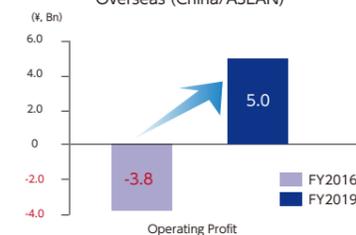
Consolidated Business Performance

	FY2016 (FY02/17)	FY2019 (FY02/20)	3-year Average Growth
Revenues	¥269.7 Bn	¥44.9 Bn	+8.0%
Operating Profit	¥340.0 Bn	¥60.0 Bn	+10.1%

Operating Profit Trends

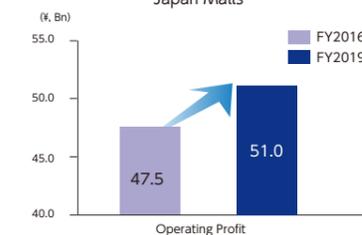


Overseas (China/ASEAN)



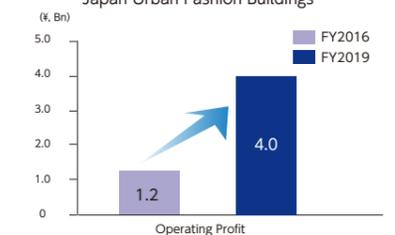
- 15 new malls planned over 3-year mid-term plan
- transition to profitability forecast for FY2/18

Japan Malls



- 11 new malls planned over 3-year mid-term plan/
8 malls to undergo floor expansion
- Over 30 malls planned to undergo renewal operations

Japan Urban Fashion Buildings



- 4 new facilities, 1 scrap & build planned over 3-year mid-term plan