

## Special Feature ① Accelerating Overseas Development

# Advancing our “Dominance” strategy: Into a new growth stage

In accordance with our dominance strategy, AEON MALL is increasing the number of new malls in the expanding markets of China and the ASEAN region.

As a result of our burgeoning brand power in each area of operation, overseas mall sales and visitor numbers have continued to increase. Earnings have also increased meaning that overall overseas operational profitability is in sight.

Going forward, in tandem with accelerating the opening of new stores in existing areas, we plan to open malls in new areas for the next growth stage.

### China

Growing penetration of the AEON MALL brand in China's leading cities of growth



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### Indonesia

A touchstone in one of the world's most populous countries. Developing malls that become regional landmarks



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### Vietnam

Accelerating our area dominant strategy in the foremost ASEAN growth market



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Dominant Store Openings

China

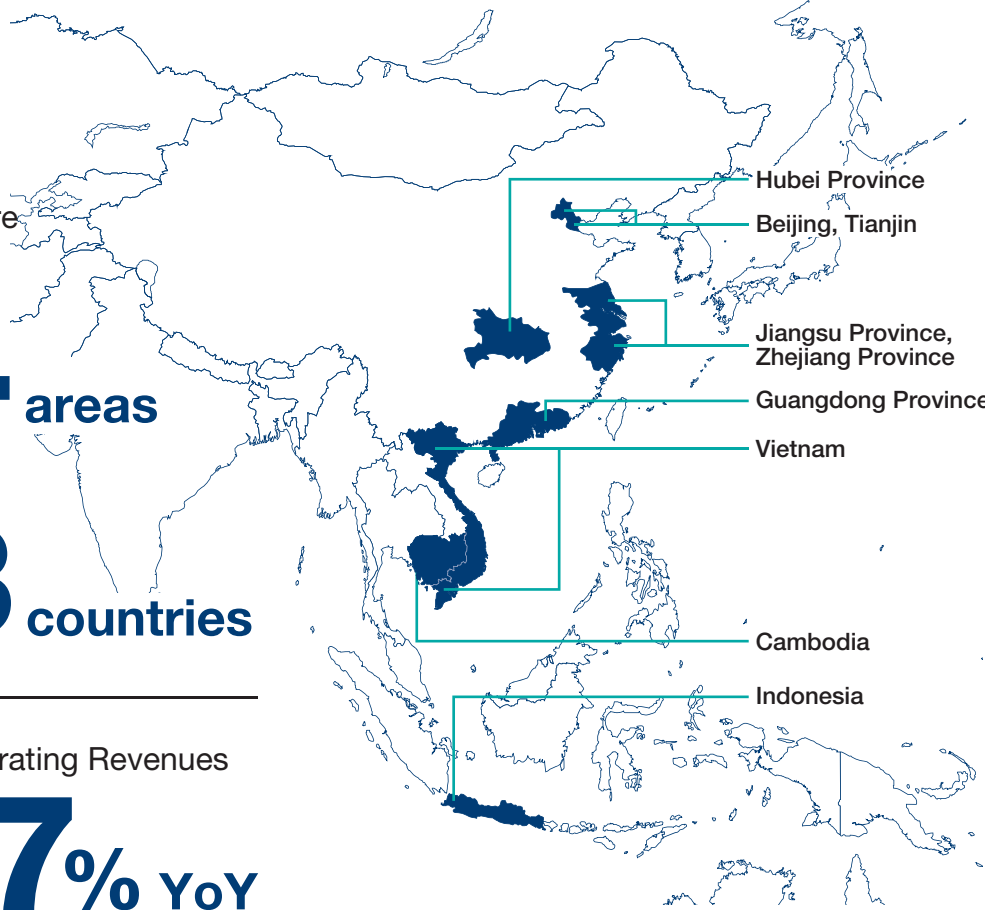
**4** areas

ASEAN

**3** countries

Overseas Operating Revenues

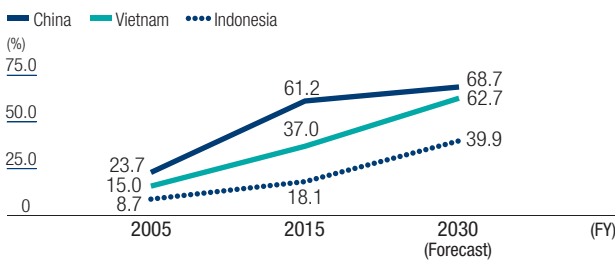
**+27%** YoY



## Market Expansion in tandem with middle-class growth

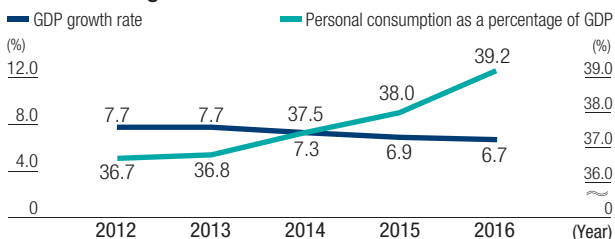
In China, individual consumption grew to 39% of GDP in 2016. In the future, it is expected to grow to be on a par with that of developed countries (Japan 60%, USA 70%). While there are fears that the economic growth rate of the ASEAN region will temporarily slow, it is noted that the average age of the ASEAN population is young (20s) suggesting expansion of the middle-income population going forward.

Ratio of the Middle-Income Earners to All Households



\* Low-income earners: Annual household disposable income is less than US\$5,000.  
 Middle-income earners: Annual household disposable income is at US\$5,000 or more but less than US\$35,000.  
 High-income earners: Annual household disposable income is US\$35,000 or more.  
 \* Source: IMF

GDP Growth Rate and Personal Consumption as a Percentage of GDP in China



## Expansion overseas via buoyant existing mall performance and accelerated store openings

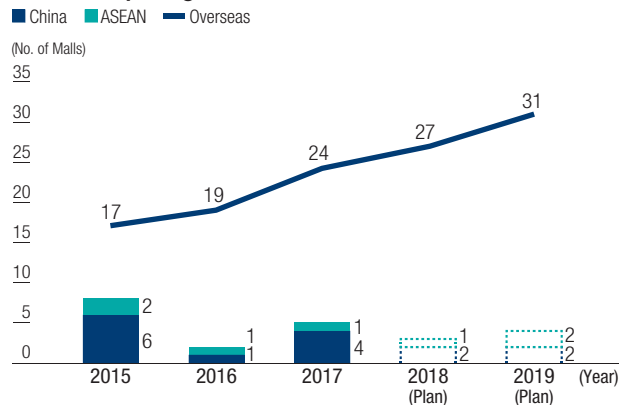
The abundance of AEON MALL's accumulated operational knowhow is a strength that feeds into creating attractive malls and increasing pulling power. The range of services and merchandise on offer has been very well received. This has translated into continued increases in the number of visitors and existing mall sales. We will continue to open new malls and accelerate earnings improvement in our overseas business, the growth driver of the future.

FY2017 Existing Mall YoY Trends

	China	Vietnam	Cambodia
Specialty store sales	+18.0%	+18.6%	+14.5%
Visitor numbers	+10.5%	+2.2%	+11.6%

\* The percentage for Indonesia has not been included because retail traditions in the country mean there are many specialty stores that do not report sales.

New Mall Openings: Results and Plans







AEON MALL Wuhan Jinqiao

## Special Feature ① Accelerating Overseas Development

# Growing penetration of the AEON MALL brand in China's leading cities of growth

The city of Wuhan in Hubei Province, with its 10 million citizens, possesses one of the highest growth potential among Chinese cities.

AEON MALL Wuhan Jinqiao, our 3rd mall in Wuhan, opened for business in December 2017. Benefiting from the tail-wind of a huge increase in brand recognition via our two existing malls, it has been breaking AEON MALL records in China with "historical highs" in visitor numbers and earnings. Today it continues to enjoy a popularity that could be called fanatical.





AEON MALL Wuhan Jinqiao

## Making use of area branding knowledge and experience, taking up the challenge of creating attractive malls in the highly competitive urban segment

The first AEON MALL store in Wuhan opened its doors in the city's New Town area in 2014, followed by the opening of a second mall in a suburban area of the city in 2015. Annual visitor numbers at both malls have been consistently buoyant trending at around 15 million. The combined success of these malls led to a meteoric rise in tenant applications and meant our third mall was fully occupied when it opened. Efforts to beef-up restaurants, kids & amusement offerings translated into the mall featuring numerous new formats and new-to-Wuhan tenants. Despite its highly competitive urban location, business has been so robust that from day 1 admission to the mall has had to be controlled.

We also renewed our promotion methods with the launch of our third mall. Eliminating pamphlets, we focused instead on SNS media and in-store digital signage which translated into greater customer pulling power. Other initiatives such as the introduction of mobile payments have given the mall an appeal that shines down to the last detail, something the competition cannot approach. We will roll out these initiatives throughout China to bolster the AEON MALL brand in all areas of operation.







# Indonesia

Special Feature ① Accelerating Overseas Development

A touchstone in one of the world's most populous countries. Developing malls that become regional landmarks

AEON MALL Jakarta Garden City, our second mall in Indonesia, which opened for business in September 2017. With a ferris wheel on its roof, the mall stands out in an area crammed full of numerous commercial facilities and is fast being regarded by many as a new regional landmark. And so begins the new challenge of developing this massive market of 260 million people with an average age of 29.





AEON MALL Jakarta Garden City

## Via differentiation through entertainment and food, enhancing recognition of the AEON MALL brand

AEON MALL Jakarta Garden City opened in an area advancing integrated development encompassing residential, commercial, public facilities, and other facilities in eastern Jakarta. The mall's most distinguishing feature is the way in which it is designed to promote entertainment and dining where most commercial facilities in Jakarta are about selling goods. This approach has successfully differentiated the mall from other commercial facilities in the surrounding area.

For Entertainment, the mall features a variety of attractions including one of the largest ice-rinks in the country, a 9 screen 2,000-seat cinema complex, and a FANPEKKA playground experience. For Dining, it features over 100 restaurants, including a 1,300-seat food court that is among the largest in the country and 25 eateries that are new to the region. The clarity of the mall's special character has expanded the understanding of what constitutes a Japanese mall that was established by our first mall in the country. It has also increased brand recognition and raised AEON MALL's presence in this, the largest ASEAN market.



"Gourmet Garden" Food Court



Ice Skating Rink





# Vietnam

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## Accelerating our area dominant strategy in the foremost ASEAN growth market

Vietnam, a young person's country with a total population of 95 million, 60% of whom are under 35 years of age. Since the 2014 opening of our first mall in this country of sustained 6% annual economic growth, we have pursued an area dominant strategy in the Northern and Southern regions where culture and lifestyles differ. Via clean, safe and secure facilities and/or Japanese "hospitality," we are steadily strengthening our brand power.

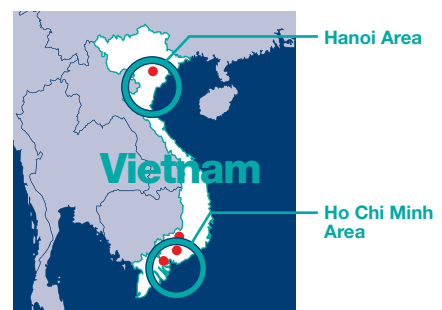


AEON MALL Long Bien

## Pressing on with dominant mall openings in the North and the South. Leveraging trust in Japanese brands to accelerate openings

We have opened 3 malls in South Vietnam (Ho Chi Minh area) since opening our first mall here in 2014. All three malls are already profitable. The lifestyle proposals and experiences offered by the new sensation entertainment mall concept AEON MALL Binh Tan, which opened in 2016 in Ho Chi Minh City, have proven particularly popular among data savvy young adults and families.

In North Vietnam (Hanoi area), where fewer foreign businesses have set up shop, we opened our first mall, AEON MALL Long Bien, in 2016 in Hanoi City. Turnover has been buoyant and the mall is already profitable. Most customers are drawn by the offer of Japanese quality merchandise & services and an opportunity to take time off from everyday life. Aeon Group has exchanged a "Comprehensive Memorandum of Understanding regarding Commercial Environmental Development in Hanoi City" with the Hanoi People's Committee. Going forward, we plan to accelerate mall openings in the Northern region starting with AEON MALL Ha Dong (Hanoi City) which we plan to open in 2019.



Map of Northern and Southern Mall Openings



AEON MALL Ha Dong



Senior Management Speaks

# Overseas Business: To Date and Beyond

## China Business

Refining our brand and management structures as we enter a phase of stable growth

**Hisayuki Sato** Director, General Manager, China Division



### As a pioneer in Japanese-style suburban Shopping Centers

AEON MALL's entry into China began with the opening of the AEON MALL Beijing International Mall in 2008. We initiated our area dominant store opening strategy in the Beijing/ Tianjin area with a format that did not exist in China at the time, namely "suburban malls equipped with large-scale parking lots." Subsequently, we added Jiangsu/ Zhejiang, Hubei and Guangdong to our strategic areas.

AEON MALL Suzhou Wuzhong (Suzhou City, Jiangsu) opened in 2014 and represented the first mall in a new geographic. At this mall, we stressed "Japanese Quality" which included general cleanliness, sanitation, safety & security, and the practice of hospitality. Highly rated by locals, the mall won the "Excellent Store Design Award" from the China Chain Store & Franchise Association. And having carried out full-fledged dominant store openings in our four strategic areas since 2015, the total number of AEON MALL malls in China has risen to 17.



AEON MALL Suzhou Wuzhong

### Leveraging enhanced "Brand Power" and "Management Prowess"

Although we failed to achieve our target of "overall profitability" in FY2107, our 10th year of doing business in China, revenue rose +20% year-on-year (YoY) and operating income improved by +2.3 billion yen. With revenue at almost all existing malls trending up between +15% to +30%YoY, overall profitability is within sight.

One factor in improving profits has been greater "brand power". With our area dominant store opening strategy, the AEON MALL brand, supported by "Japan Quality," has led to increasing brand recognition in each operating area. This, in turn, has led to increasing interest among potential tenants and rising rent. Today, we are

able to command rent that is 1.5x higher than when we first entered the market. Another factor is "Management Prowess". In such areas as administration of entire leasing blocks and mall operations management, we have improved the precision with which a variety of functions are implemented. Nurturing of local staff for local responsibilities all help to underpin the generation of profit.

### Further refining business and management structures for stable growth

We are focusing on the following three points to further strengthen business and management structures as we head towards operational profitability in China in FY2018.

#### 1. Enhance mall profitability

At the same time as reinvigorating existing malls in response to changes in their surrounding environments, we are also revising our rent conditions. And while working to reduce operational costs, we will also be looking to strengthen partnerships with specialty store operators.

#### 2. Strengthen new store development

Along with developing sites for malls three years out, we have reached a policy decision to enter new geographical areas beyond the existing four regions. We will be deliberating the medium to long-term growth prospects.

#### 3. Reinforce management structure and governance

We aim to enhance the overall strength of the organization via implementation of a new promotion examination system, the advancement of a fair and transparent recruitment process, and the application of clear incentives for transferees to facilitate intra-regional mobility. Additionally, as a measure to bolster corporate governance, we established a Risk Management Committee and a Compliance Division last year. The caliber of the former is such that it is J-SOX compliant. The latter retains lawyers to check for improper activity. By creating such third-party entities that are independent of the executive divisions, we aim to enhance our governance systems.

### Road Map of Business in China

	Medium Term Business Plan 2011 – 2013			Medium Term Business Plan 2014 – 2016			Medium Term Business Plan 2017 – 2019			2020	...	2025
	2011	2012	2013	2014	2015	2016	2017	2018	2019			
New Openings	0	1	1	2	6	1	4	2	2			
No. of Malls	2	3	4	6	12	13	17	19	21			
Operating Revenue (JPY, bn)	10	17	30	60	115	189	238	—	—			
Operating income (JPY, bn)	-8	-14	-23	-35	-44	-34	-11	—	—			





# ASEAN Business

Into a full-fledged growth phase on a foundation of high local popularity

**Mitsugu Tamai** Director, General Manager, ASEAN Division



## Creating a sure presence in the commercial scene of each country

The development of our ASEAN business began in 2014, when we opened our first and second malls in Vietnam and our first mall in Cambodia. The reaction to these malls, particularly in Cambodia where visitors in its first year exceeded the country's entire population of 15 million, was extraordinary. Such was the effect that on peoples' lives that the phrase "Before & After Aeon" was coined by local media.

In 2015 we opened our first Indonesian mall in the retail battlefields of the Jakarta suburbs. Tapping into one of our strengths - "development expertise from a retailer's perspective," we succeeded in building an attractive mall different from competing facilities that has allowed a gradual increase in brand penetration.

It is on the back of such success that we implement our area dominant store strategy in the four areas of Ho Chi Minh and Hanoi in Vietnam, Cambodia and Indonesia. We currently operate a total of seven malls in ASEAN.



AEON MALL Binh Tan

## Operating profitability has been attained. Look to further enhance management structures

In FY2017, we achieved our target of "overall operational profitability in the three ASEAN countries we operate." Although it was Cambodia that drove earnings, recognition of the AEON MALL brand in the other three areas is steadily rising. The virtuous circle of increased brand power → increased customer traffic → increased attractiveness to specialty stores → increased rent is apparent.

Ahead of full-fledged contribution to revenue and profit to the group, we have been advancing regional corporate governance. Specifically, we aim to advance

J-SOX compatible Japanese controls in all of ASEAN. Starting in Vietnam where the scale of our business is greatest, we are making preparations for full-fledged launch in FY2019. Similar initiatives will start in Indonesia in FY2018 and Cambodia in FY2019.

## Toward operational profitability & a self-contained organizational structure in each country

In FY2018 we aim to achieve "operational profitability" in the three countries where we have opened malls. To this end, the following four initiatives are key.

### 1. Generating profits and profitability enhancement at existing malls

We are working to further enhance brand power and profitability at all existing malls. In each country of operation, we aim to be No.1 in terms of GLA and customer traffic.

### 2. Building an organizational structure befitting ten malls in FY2019

We regard this to be the most important of this year's initiatives. Responding to differences in operating environments, we look to create country specific risk management committees as well as self-contained management structures for internal controls. As part of our efforts toward overwhelming differentiation, we will be introducing our Cambodian customer interaction role-playing competition to Vietnam and Indonesia. We look to implement a pan-Asia version in the future.

### 3. New mall success

In FY2018, we will be opening our second mall in high-flying Cambodia to further advance overwhelming brand power.

### 4. Reinforcing new site development

Concomitant with new site development in our current three countries of exposure, we consider advancing into Myanmar and Laos. We plan an expansion that calls for 10 ASEAN malls in FY2019 and still more by 2025.

## ASEAN Business Roadmap

	Medium Term Business Plan 2014 – 2016			Medium Term Business Plan 2017 – 2019			2020	...	2025
	2014	2015	2016	2017	2018	2019			
New Openings	3	2	1	1	1	2			
No. of Malls	3	5	6	7	8	10			
Operating Revenue (JPY, bn)	11	42	67	87	—	—			
Operating income (JPY, bn)	-9	-10	-3	2	—	—			

Rebuilding Existing SCs  
Mall Openings in New Regions