



**Q** How would you assess AEON MALL's performance in FY2017 (FY2/18)?

**We achieved a historical high in profits with higher revenues/ earnings on the back of improved profits overseas and the benefits of floor space expansions/ renewals in Japan.**

In FY2017 the AEON MALL was able to deliver an increase in both revenues and earnings, achieving a historical high in consolidated income from the operating level down. It was the third consecutive year of operating income growth and the eighth year of growth at the recurring level.

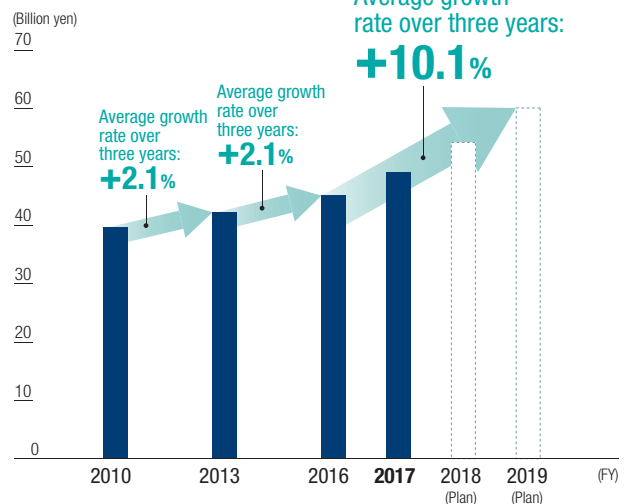
In the domestic business, we implemented our aggressive floor space expansion/renewal program at existing malls and opened seven new malls, including two OPA-format facilities (urban shopping centers). We also rolled out diverse sales events, including “AEON Black Friday”, which resulted in a year over year +2.2% increase in specialty store sales at our existing 72 domestic malls.

In the overseas business, the positive branding effect of our ongoing “dominant store opening” strategy in China and ASEAN has led to continued double-digit growth in specialty store sales. Whilst investing for growth in our areas of operation in China and the ASEAN has meant that initial development and structural costs have weighed on results, the rate of profit recovery accelerated in FY2017 with the OP line improving +JPY2.9 billion year-over-year (prior year was +JPY1.6 billion). The overseas business was in fact profitable for the three months of the fourth quarter, and we believe it will turn a profit for the full year in FY2018.

# Entering a new growth stage

**Akio Yoshida**  
President and CEO

Change in Operating Income



FY2017 was the first year of our three-year medium-term business plan and overall we believe we are off to a buoyant start. In FY2018 we will continue to pursue our objective of even greater profit growth with aggressive initiatives in both the domestic and overseas businesses.

## Q What sort of growth are you aiming for over the medium to long term?

### Making the most of the “strengths” we have cultivated in Japan, we aim to become a truly global commercial developer.

Before deciding on our three year medium-term business plan, we first went about setting our “Aspirations for 2025” to clarify our vision from a long-term perspective. The most important issue here is securing profit growth from the “building of a portfolio of multiple businesses” and not one dependent solely on the domestic mall business. Currently the major part of our operating income is generated by our domestic malls. But by 2025 we expect the proportion of overall operating profits from overseas to rise to 35%. We also envisage growth in urban shopping centers which would allow for a portfolio of several businesses. Through such business development, we aim in FY2025 to achieve “JPY 100 billion in consolidated operating income” and raise the level of business efficiency and safety to be on a par with those of leading global commercial developers.

To achieve this, we will focus our energy on implementing our “A-Mall (Dominant Area No. 1)” strategy for our domestic malls. Against the backdrop of falling birthrates, an aging society, changes in consumption

styles, the expansion of e-commerce et al, Japan’s shopping center (SC) market is likely to see long term contraction and concomitant consolidation as competition intensifies over a shrinking pie. As a look at events in the U.S. will reveal, the Japanese SC industry will likely polarize between those facilities that have the support of their customers and thrive, and those that do not. Amid this dramatic change in the operating environment, we will focus on mall renewals and floor space expansion at existing malls to ensure that over 70% of them become dominant area No. 1 malls (A-Malls) or malls with the most customer drawing power in any given region.

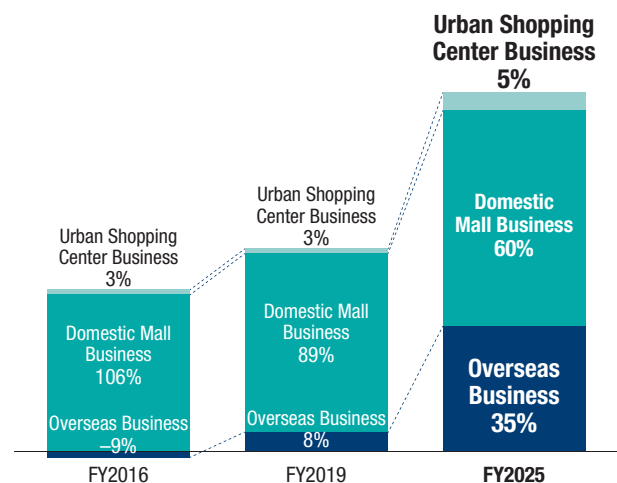
At the same time, our overseas business is the growth driver of the future. By 2025, we aim for them to have achieved levels of profitability and scale matching that of our directly operated domestic malls. Compared with the domestic market, there is plenty of room for growth overseas (China, the ASEAN). Our “Japanese-style” malls, crafted from the management and operational knowhow we have cultivated in Japan, are proving popular in the Chinese and ASEAN regions. They continue to post double-digit growth in retail sales. As we expand the scale of our overseas business, we will also work to enhance penetration of the AEON MALL brand in each area of operation and thereby achieve further revenue expansion.

In addition to the above, we aim to continue to proactively address the evolution of digital. Making the most of the knowhow we have cultivated over several decades in real (bricks and mortar) stores, we look to take up the challenge of creating an omni-channel business with a distinctively AEON MALL slant.

#### Aspirations for 2025 (Long-term Vision)

- 1** We aim to build a portfolio of multiple businesses not dependent on the single domestic mall business as a source of profit generation.
- 2** We will aim to take AEON MALL to the level of leading global commercial developers with consolidated operating income of more than ¥100 billion.
- 3** For domestic malls, we will be aggressively implementing floor expansions and renewal operations to create malls that are overwhelmingly No. 1 in their regions.
- 4** Overseas, we aim for operating profit of JPY35.0 billion (operating margin 20%) with 70 malls – the same level of efficiency and scale as our domestic operations.

#### Breakdown of 2025 Operating Profit



Three-Year Medium-Term Growth Program

<p><b>1</b> Capturing Asian Growth Opportunities</p>	<p>I. Reaping benefits of rising brand penetration (via area-dominant strategy)                  II. Development and management of superior malls                  III. Measures to increase operating revenues                  IV. Promotion of local management</p>
<p><b>2</b> Developing Latent Sources of Domestic Demand</p>	<p>I. Happiness Mall project                  II. Promotion of localization</p>
<p><b>3</b> Creating Malls that are Overwhelmingly No. 1 in their Regions</p>	<p>I. Advance effective floor expansion/ renewal measures.                  II. New mall openings in untapped territory                  III. Development of new formats                  IV. Improvement of ES for tenants</p>
<p><b>4</b> Capturing Urban Growth Opportunities</p>	<p>I. Establishment of branding for new OPA                  -Promotion of renewal of existing stores and strategic S&amp;B/refining                  -Development of new format in urban locations                  -Opening of New Stores in urban areas</p>
<p><b>5</b> Implementation of Financial Mix/ Management Structures to Support Growth</p>	<p>I. Financing to support growth business model                  II. Promotion of diversity management</p>

**Q** What concrete progress has there been in the three year medium-term growth strategy?

The overseas business is shifting from a period of initial investment to a period of harvest. We will fast-track our dominant strategy and work on growth in Asian markets.

To realize our “Aspirations for 2025”, we started a new “three-year medium-term plan” from FY2017 and are implementing measures in accordance with the plan’s growth program.

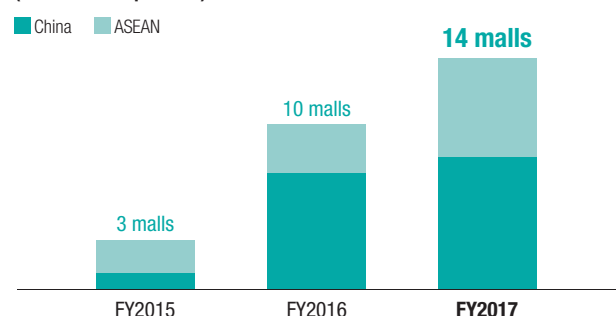
Firstly, overseas, eight out of thirteen of the existing malls that opened up through FY2016 in China and all six ASEAN malls have turned profitable. As such, the outlook is for overall profitability for the overseas business in FY2018. One could say the not insignificant risk associated with investments to secure large plots of land, build enormous car parks and open the largest of area malls with over 200 specialty stores, has started to pay off against a backdrop of strong market growth. Major contributing factors to this success are seen to be the “high endorsement of Japanese-style” malls by locals and the penetration of “branding based on our area dominant strategy.” The comfortable atmosphere of Aeon Malls with sanitary rest rooms, clean floors, considerate and polite attendants, and other elements that comprise a standard level of service in Japan, has been a widespread talking point for local media and on SNS that has led to attracting customers. Increased recognition of these elements has been heightened via our area dominant mall opening strategy. Moreover, AEON MALL’s reputation as a highly competitive mall brand is taking root not only among customers, but also among the tenant specialty store operators.

In China, we have been proceeding with our area dominant store openings in four main areas: Beijing/Tianjin,

Jiangsu/Zhejiang, Hubei and Guangdong. In the Jiangsu/Zhejiang and Hubei areas in particular, the benefits of a strong brand, besides the increased customer traffic, have allowed easier solicitation of top specialty stores and more favorable leasing terms. The opening of AEON MALL Wuhan Jinqiao (Wuhan City, Hubei Province), our third mall in the Hubei area, was a huge success that further enhanced the already strong AEON MALL brand established by malls one and two. Indeed, there were 750,000 visitors in the first week and admission, in fact, had to be restricted. Business at the mall is trending above plan and delivering the highest revenue ever amongst the malls we have opened in China. We note that our mall opening plans in this area is being executed as part of a larger town plan coordinated with the People’s Government of Wuhan Municipality. Going forward, we expect our cooperative relationship with said government to broaden.

In the ASEAN region, we are carrying out our dominant store opening strategy in the three countries of Vietnam, Cambodia and Indonesia. Business is trending well in all three countries. In Indonesia we opened our

Number of Overseas Malls Turning Profitable (store level profits)



second mall in the Jakarta area - AEON MALL Jakarta Garden City, in September 2017. Boasting the largest Ferris wheel in the country on its roof, it enjoys high appraisal as a full-fledged entertainment mall. In Vietnam, we are planning to open our second mall in Hanoi - AEON MALL Ha Dong, in 2019. It is being implemented in accordance with the “Comprehensive Memorandum of Understanding regarding Commercial Environmental Development in Hanoi City” that we signed with the Hanoi People’s Committee in June 2017. In Cambodia too, following the very good performance of our first mall (2014), we plan to open our second mall - “AEON MALL Sen Sok City” (Phnom Penh) during FY2018.

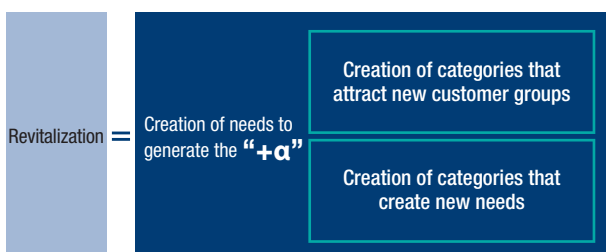
We also plan to put to use in our domestic business the knowhow we have garnered from business development overseas. Take architectural design; relative to Japan where restrictive regulations are numerous, there is quite a lot of freedom overseas. As such, the overseas business provides an opportunity to challenge the norm and come up with mall designs that have never been seen before. Indeed, there is much to be learned in the area of cutting edge architectural structures and space design among other things. Finally, we are beginning to invite to Japan some of the specialty stores with which we have formed new relationships in China and ASEAN.

**We regard the consolidation of commercial facilities in Japan as an opportunity for growth. We will press on with the development of “overwhelmingly dominant regional malls.”**

In Japan, we are making steady progress with our strategy of making our domestic malls “A-Malls,” or more specifically, “overwhelmingly dominant malls in their respective regions.” To this end, we have been focused on revitalization investment to expand floor space and implement mall renewals over the past two to three years. Indeed, where the aim is to increase customer drawing

**Approach to Revitalization**

The average age of AEON MALL structures is 10.9 years. Via revitalization, further enhancement of value.



power and customer satisfaction, mall renewals and floor expansion enables us to offer more precisely matched content than building a new mall from scratch. This is because existing malls have the benefit of cumulative data about the sort of merchandise and services customers seek. When floor expansion is implemented, demand for such latent needs can be met in one stroke. So the point of floor expansion is not about simply increasing the square meterage of a facility. Floor expansion is used as an opportunity to implement renewal of the entire mall such that as an image, we have a new larger mall where an older smaller mall once stood. In fact, adding extra floor space to two existing malls has the effect of increasing overall sales by as much as building a new mall. It is through such an approach that we aim to increase market share.

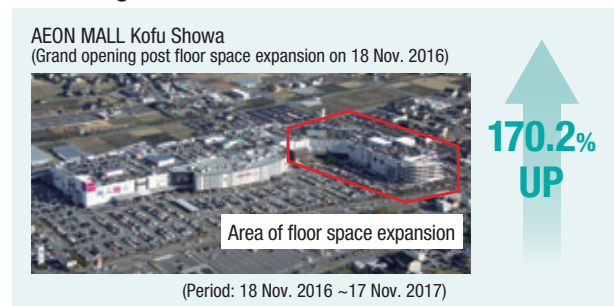
The positive effect of floor expansion and renewals is manifesting itself in our healthy results. In particular, those malls with increased floor space has experienced sales increases that outstrip the increases in GLA. In other words, extra floor space translates into dramatic increases in local market share as the malls become “overwhelmingly No. 1 in their regions.” Take AEON MALL Kofu Showa (Yamanashi Pref.); floor space was expanded in November 2017. By providing a full line-up of fast fashion brands that local shoppers desired, post-renewal sales increased at a significantly higher rate than the +45% increase in GLA. This trend has continued. Nationwide, we plan similar floor space expansion/ renewal from FY2018 onwards to revitalize existing malls.

On top of which, we are also promoting initiatives relating to our “Happiness Mall” concept in our domestic

**Three-Year Revitalization Plan**

	FY2017 (Actual)	FY2018 (Plan)	FY2019 (Plan)	3-year Total
Expansion of floor area	2 malls	2 malls	4 malls	8 malls
Renewal	12 malls	8 malls	10 malls	30 malls

**Sales at Specialty Stores Post Floor Space Expansion: YoY Change**



malls. The aim is to encourage local customers, regardless of age or sex, to be healthy in both “mind” and “body.” To this end, we aim to make our malls places to create happy memories through experiences and activities related to the four keywords of Health, Wellness (wonderment/ fulfillment), Community (region) & Opportunity (product/service and/or experience).

In April 2018 we also opened a new format facility called the “THE OUTLETS” in Hiroshima Prefecture. This project was designed to meet the revitalization needs of the local community and as such, represented a departure from our conventional formats. “THE OUTLETS” was developed with the concepts of outlet, entertainment, and interaction with the local community in mind. It targets not only customers from the local area, but also tourists from Japan and overseas.

Another area of focus is OPA, an operator of urban shopping centers (SC) that became a subsidiary in March 2016. We plan to steadily rebuild this business. In October 2017 we opened Takasaki OPA (Gunma Pref.). Going forward, we will be reviewing OPA store concepts on an SC by SC basis and carry out remodeling to trigger revitalization.

**Q What in your view are the most important issues for sustainable growth?**

**As a regional business, we must remind ourselves of our social values and help engender happiness in life, regional economies and the world.**

AEON MALL does not exist solely to provide local customers

with the merchandise and services they seek. Indeed, as it serves as a broadcaster of public services/ regional information, a place for community gatherings, a base for regional disaster prevention, and a central player in the revitalization of area communities, it begins to become an integral part of local infrastructure. This aspect is even more pronounced overseas, where the creation of towns and further commercial development are still in their infancy. In Cambodia, where we opened our first mall in 2014, the quality of service in our “Japanese-style” mall was an eye-opener. Our competitors followed our lead. In fact, we are said to have had such a major impact on local commercial practices and peoples’ lives that local newspapers coined the phrase “Before and After AEON” in reference to the significant change in peoples’ lifestyles. In recent years, there has been a tightening of environmental regulations in China. But we were building our Chinese malls consistent with Japanese environmental protection protocols well before such tightening. Such proactive action has led to renewed attention to how we go about building our malls. It is our firm belief, however, that it is precisely the activity of understanding and preempting the future needs of communities that ultimately wins over the trust of the local community.

In thinking about AEON MALL’s long-term sustainable growth, we think the single most important factor is focusing on our value to local communities, determining a growth strategy, and implementing such strategies in our day to day business activities. Consistent with this thinking, every month I chair a meeting of the CSR Council (see page 37 for details) in which Council members debate and build

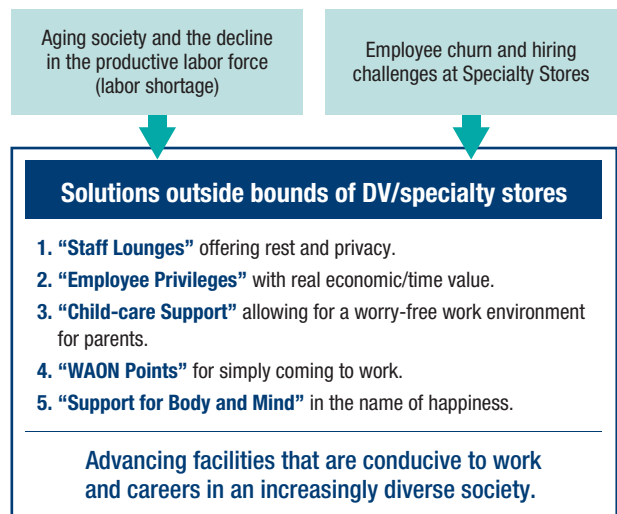
**Happiness Mall Initiatives**

**Toward “A Place for Customers to Create Happy Memories”**



**Initiatives to Enhance Employee Satisfaction**

**Creating Malls Specialty Store Operators will Embrace**





policy on a variety of themes relating to E (Environment), S (Society), G (Governance) and C (Communication). We systematically promote action as an integral part of the management process.

Also, when thinking from a medium to long-term perspective, the most important element is people (see pages 53-54). The proportionate size of our overseas business is growing larger and diversity management will become increasingly important over time. As well as the encouragement of women in the workplace, a major issue that will only grow larger is global management of human resources. Our workforce today is made up of increasingly diverse nationalities.

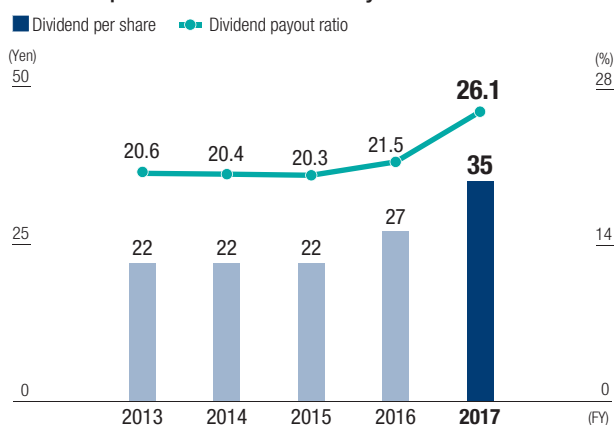
To this end, we promote those who excel to senior positions irrespective of their nationality. Already, at five of our malls in China, local staff have been appointed to the position of Mall General Manager. Going forward, we look to further advance localization via promotion of local staff to head up entire regions (president of subsidiaries). Nor is such nurturing of local staff and/or implementation of diverse work practices limited to Aeon Mall staff. We include here the staff of the tenant specialty stores working in our malls. To date, as the introduction of in-mall child-care facilities - "AEON Yumemirai Hoikuen" might demonstrate, we have always tried to be proactive in implementing initiatives aimed at those who work in our malls. But in FY2017, we took a further step with our Employee Satisfaction (ES) initiative. Each mall decided on an ES theme and from 100 case studies, the initiatives from two malls were recognized with the "Best Practice" award.

### Promote stronger overseas governance and establish a system by which diverse opinions can be reflected in policy.

We continue to further bolster our corporate governance. In particular, it is my thinking that a focus on overseas governance is required. In China, we have already started to introduce internal controls on a par with those we have in Japan. Going forward, we look to broaden the net to include the ASEAN countries. In the area of audits as well, we look to enhance internal controls by dispatching auditors overseas. We have our outside directors participate in overseas inspection visits once or twice a year. Having seen the actual state of play, they provide us with wide-ranging advice on issues such as staff training, overseas governance, rule making and actual case studies for reference.

Finally, it is the solid understanding by our outside directors of our business and related challenges that leads also to a more dynamic board of director meeting.

### Dividend per Share & Dividend Payout Ratio



## Q Finally, a message to your shareholders please.

### On top of increasing dividends owing to profit growth, we have raised our payout ratio to 25%.

As regards to distribution of profits, our basic policy has been to consider the balance between stable dividend and investment for growth, and a consolidated payout ratio greater than 20%. But because our overseas business has entered a stage where it can generate a positive cash flow, it was decided at a board meeting on 11 April 2018 to hike the payout ratio to 25%. At the same time, owing to the fact that net income attributable to owners of the parent in FY2017 exceeded targets, the initial FY2017 term-end dividend per share forecast of JPY16 (+JPY2.5) was raised to JPY19 (+JPY5.5). When combined with the interim dividend of JPY16, full-year dividends were JPY35 (+JPY8.0) and the consolidated payout ratio came to 26.1%.

For FY2018, we plan to raise the annual dividend by JPY3 to JPY38 (+JPY3) for an anticipated 27.0% consolidated payout ratio.

I would like to humbly thank all of our shareholders and investors for your continued support and understanding.

President and CEO