

Message from the President and CEO



Q In what important ways does the AEON MALL management philosophy reflect corporate value?

AEON MALL is a *Life Design Developer*, creating the future of community living. This is our management philosophy. We began as a developer specializing in shopping mall development, management, and operations. We incorporate community design into the development of our shopping malls, and we have continued to grow by creating new residential areas in outlying suburbs, contributing to regional reactivation. Over the years, declining birth rates, aging demographics, e-commerce, and more have changed the social environment. In response, we have shifted to incorporate the idea of Life Design in helping customers create their own lifestyles. We have evolved with the times. Although our Basic Principle that the *Customer Comes First* will never change, the concept of helping our customers discover new lifestyles has become another part of our philosophy.

AEON MALL engages in business from the perspective of a retailer, which means we listen to customer feedback to learn about their lives. Beyond that, we want to provide other suggestions and insights about living. We want to be a consultative company that creates spaces attractive to customers. This concept is always at the forefront of my thinking.

This approach of proposing new ideas is particularly important overseas, where we compete against home-grown companies. As emerging countries ride a wave of economic development to catch up to the advanced nations, we must create shopping malls tailored to the local community, while offering all the benefits of the Japanese-style shopping experience. We must create facilities that are attractive to the people of these nations. We want to create value by incorporating our unique character and expertise.

Reaching toward higher levels of corporate value.

Akio Yoshida
President and CEO

Q Tell us more about the story of your management vision to be *a company that touches the hearts of the 5 billion people throughout Asia*.

Managing and operating more than 150 malls in Japan at this point, we have accumulated a wealth of expertise in shopping mall management. We hope to leverage this expertise in China and the various ASEAN countries, which are expected to see growth of the type that Japan experienced in the past. In Vietnam, for example, we see the same trends developing that we saw when we began opening malls in suburban Japan. We see the rise of young families, the accompanying needs for motorization, and growing demand for family entertainment. The Vietnam of today is seeking facilities that offer safety, security, cleanliness, and space for everyday enjoyment. Our strategy to leverage our track record in Japan in our overseas business is a tremendous strength here.

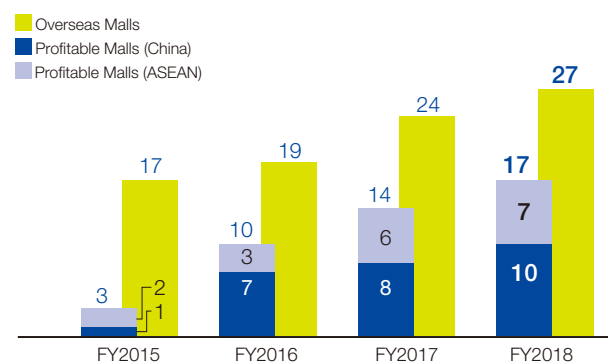
Now is the perfect time to entrench deeply in the markets of Asia. It will be too late to wait until after the markets mature. However, the speed of change in Asia is incredibly fast, which means instead of adopting the Japanese model as-is, we must always look one step ahead. We need to use our successes from Japan as a base upon which we add new concepts for these markets.

In Cambodia, many consumers want to purchase physical goods. However, our second mall in Cambodia, AEON MALL Sen Sok City, opened in 2018, offers many intangibles beyond merchandise. More specifically, the facility is home to a water park, an indoor amusement park, a TV studio and broadcast center, and many other amusement and entertainment options. This was the first time that the local community had seen such a facility. Perhaps this leading-edge concept was slightly ahead of its time for the region, but this is our key to beating the competition. At the same time, we are adapting knowledge learned from challenges overseas to use in our new malls in Japan. Integrating our overseas business and domestic

business is sure to become a significant strength for AEON MALL.

However, it takes several years for malls overseas to become profitable. We must exercise patience as we wait for returns on our advance investments. Once we train local staff and foster local talent to become mall general managers, then we will have created a completely localized structure for mall management. Having exercised patience in seeing a return on our investments in development and training, we were proud to announce that our overseas business as a whole reported profit for fiscal 2018. I believe we can expect steady profit growth from here on out.

● Overseas Malls/Profitable Malls



Message from the President and CEO



Q What is AEON MALL doing to instill its management philosophy, management vision, and values throughout your company?

If we are to instill our management philosophy throughout the company, each employee must develop an attitude of ownership. For example, when we think about localization, we must create a mechanism by which local staff take ownership in planning and communicating with the local community. Further, to engage in ESG-based management, we must undertake initiatives to teach each employee exactly what this means. At present, we announce policies, hold regular morning meetings, and sponsor conferences to this end. Employees participate in activities that contribute to the environment, which include tree planting, afforestation, and cleaning activities. Through these activities, employees take ownership of the *E* aspect of ESG.

A company must also define concrete targets based on philosophies and visions, using quantifiable numbers to measure progress toward goals. As departments conduct their business in the pursuit of their own goals, these departments must also consider specific ways to achieve profits and our management philosophy.

Basic Principle

The Customer Comes First

Management Philosophy

AEON MALL is a Life Design Developer, creating the future of community living

Life Design extends beyond the framework of the shopping mall. Life Design addresses functions associated with different customer life stages, including not only shopping, but also interaction with other people, cultural development, and other features contributing to future lifestyles.

Management Vision

Become a company that touches the hearts of the 5 billion people throughout Asia

Q What measures are you taking in your medium-term management plan to achieve your Vision for 2025?

Our *Vision for 2025* is a long-term vision consisting of four major goals. Our medium-term management plan is a three-year plan we developed through backcasting to achieve our long-term vision. It's important to focus on the job in front of you. At the same time, however, we must manage our business looking ahead to medium- and long-term targets, rather than just short-term ones.

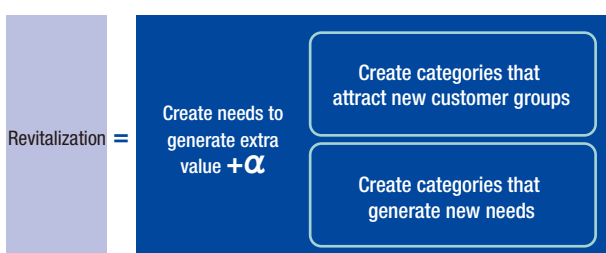
The first step in our long-term vision is to build a

portfolio of multiple business models. This means that we respond to the risk of market contraction in Japan due to the declining and aging population via a multiple number of business models. First, we must secure our format overseas, rather than placing all our weight on the back foot in Japan. And in Japan, we think we can build a third pillar by establishing a new urban-style format in addition to our suburban business.

Second, we have set a goal to generate consolidated operating income of ¥100 billion. This goal will put us among the top class of global commercial developers. Overseas, major companies in America generate profits in this range.

Third, we will strengthen our shopping mall business at home. We intend to become the overwhelmingly dominant mall in each area in Japan. This means opening new malls and renovating and expanding existing malls to generate greater activity and excitement. The declining and aging population, as well as the advance of e-commerce, have produced challenges to our business and increased competition within our areas of operations. We believe that, in the future, people will gather together in spaces that offer the most outstanding services and the most outstanding content. This is why we continue to expand and renovate existing malls to outclass any other competitor, even for our malls that are already the most popular in their market area. Of course, our malls will offer shopping. But, beyond that, we are creating facilities that offer entertainment, dining options, health clinics, rest areas, and other services that meet the needs of our customers. Please don't misinterpret what I say to mean that we are expanding blindly. We understand how important it is to deliver content that matches the characteristics of a local community. We also understand how important it is to respond to the changing times with flexibility and speed, which is why we continuously review and revise the makeup of our tenants within our malls.

● Approach to Revitalization



Fourth, we have set a goal for overseas operating income of ¥35 billion. At this level, our overseas business will be operating at the same level of efficiency and scale as our business in Japan. Our regional focus is on Asia. At present, we operate malls overseas in Vietnam, Cambodia, and Indonesia. We are conducting feasibility studies^{*1} as we look into new markets as well.

The AEON MALL three-year plan for accomplishing our long-term vision consists of five main pillars: (1) Capture growth opportunities in Asia; (2) Develop latent sources of domestic demand; (3) Become the overwhelmingly dominant mall in each region; (4) Capture urban growth opportunities; and (5) Implement an optimal financing mix and build organizational structures that support growth.

Among these pillars, our top priority is on investment overseas. Timing is important when investing in rapidly growing markets. Once a market matures, land prices begin to rise, as do construction costs. More competitors enter the picture as well. We believe we must exercise foresight and make the first preemptive move.

Fiscal 2019 is the final year of our current medium-term plan and an extremely important year for us to achieve our intermediate goals on the way to our long-term targets in the year 2025.

^{*1} An examination conducted when planning a new business to determine the likelihood of success.

Vision for 2025

- (1) Build a portfolio of multiple business models, rather than rely on domestic malls as a single source of profit generation.
- (2) Make AEON MALL a leading global commercial developer with consolidated operating income of ¥100 billion.
- (3) Conduct floor space expansions and renovations in Japan to become the dominant mall in each area.
- (4) Target overseas operating income of ¥35 billion (operating margin 20%) across 70 malls, operating at the same level of efficiency and scale as our domestic operations.

Message from the President and CEO

How does the AEON MALL business model address social value creation?

I think you can say our business model is social infrastructure. Our *Happiness Mall* initiatives are built first on the principle of *Health*. Next is *Wellness*, followed by *Community*, and then *Opportunity*. These are all principles deeply desired in Japanese society. Even in today's information society, people want physical and mental health. They want easy access to the arts and culture. They want more opportunities to interact with others. Our Happiness Malls provide spaces that satisfy these wants. We offer safe indoor AEON MALL Walking available regardless of weather, yoga classes, Opera de AEON MALL, and so much more. AEON MALL facilities create social value for customers through spaces that fulfill their desires and contribute solutions to many other issues.

Last year, Japan experienced a number of natural disasters. In times of earthquake, typhoons, heavy rains, landslides, intense heat, or other extreme conditions, communities and local citizens want somewhere to find relief. For example, western Japan experienced disastrous heavy rains in July 2018. Although we had closed our malls in the area, we opened up the rooftop parking area and let in nearly 2,300 cars, allowing people to spend the night. At present, we have signed general cooperative agreements and disaster response agreements with most local governments where AEON MALLs are located. This is true overseas, as well. During the heavy rains in Vietnam, 200 people or so evacuated to the local AEON MALL. Serving as a refuge in times of disaster like this is another important role we provide as social infrastructure. Providing infrastructure in the format of a shopping mall is something that fulfills the needs of society and is something that we want to do to an even greater degree.

What are the strengths that make AEON MALL the preferred choice of customers?

The sheer scale of the 150 malls we manage and operate throughout Japan serves as an enormous foundation. Beyond that, we engage in business activities at our locations that are rooted in the local communities. We also develop friendly, cooperative relationships with local governments and organizations. These local relationships are another significant strength.

Another strength is our ability to attract customers. On an annual basis, we welcome 1.2 billion customers to our nearly 150 locations across Japan. A business environment allowing a company to interact with 1.2 billion customers throughout the year is extremely rare. So, how does one make the most of this strength? We develop numerous ideas tailored for the changing times. Designing mechanisms to communicate with 1.2 billion people and encourage them to remain loyal customers is another factor that leads directly to greater strengths. Another strength of ours is the business relationships we have established with the 30,000 tenants—representing nearly 8,000 companies—in our malls.

Our people represent another important strength. We make diversity work for us. Our employee distribution shows a significant number of younger employees, as well as many female and non-Japanese employees. We intend to focus even more on the effective use of human resources and diversity as we increase our global presence.

What challenges do you see on the way to achieving your long-term vision?

As we grow, one challenge will be how to foster the next generation of leaders capable of guiding this expanding entity. The larger a company becomes, the greater the risk associated with the time required to respond to changes in the external environment. We must develop an organizational structure capable of responding to changes in the environment.

Another issue for the company such as ours, which has done business in the “real” world historically, is how we integrate digital technologies. E-commerce and cashless systems are becoming more prevalent. We must adapt



and develop business models tailored to this era to offer customers the most convenient mix of online and offline shopping. We are also thinking of ways to create a stress-free environment in our malls through the use of digital technology. One example is developing AI-embedded information boards that provide instant access to real-time information about the mall. We also believe that work-style reform in both front-line and back office functions can be accomplished through digital technology.

Q How would you score your progress toward your medium-term management plan?

We are progressing generally in line with plan. Although many seem to be concerned about the impact of slowing in the Chinese economy, we haven't suffered any damage to date. Our mall renovations and other projects we conduct on three-year cycles have been successful so far. In Japan, activities to establish ourselves as the overwhelmingly dominant mall in each region secured customer traffic at the same level as the prior fiscal year. Further, our Happiness Mall initiatives have been well-received in all corners.

Q What measures are you taking toward ESGs and the Sustainable Development Goals of the United Nations (SDGs)?

More recently, the social spotlight has focused on ESG, but these are really matters that the AEON Group has exercised as part of our corporate culture for a long time. AEON MALL has established policies for corporate activities related to society, the environment, and ethics. The AEON MALL Corporate Social Responsibility Council meets on a monthly basis to manage the implementation of these policies and make timely decisions in managing the progress of, and solving issues related to, our CSR activities. For example, we are installing charging stations for electric vehicles at our malls and we were the first Japanese company to declare participation in EV100². These are just a few instances of how we embody the *E* in ESG. In fact, we have installed 2,332 electric vehicle chargers across 158 malls in and outside of Japan. We were recognized for the fourth consecutive year as a Green Star company under the GRESB³ real estate benchmark.

For many years, the AEON Group has fostered the *S* of ESG (Social) deep in the roots of our organization. Our business features both aspects of BtoC and BtoBtoC. BtoC is where customers come to our malls. BtoBtoC is the point at which we interact with customers through our tenants.

Without communities and a customer-first approach, we wouldn't be in business at all. It's only natural that we value our communities. For example, we have signed disaster prevention agreements with many local governments. For the 2018 House of Representatives

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election, we provided 31 polling stations across Japan for early voting. In the April 2019 nationwide local elections, we similarly provided 44 polling stations.

We have opened 25 AEON Yume-Mirai Nursery Schools at malls throughout Japan, available to both AEON employees and employees of our tenants. For the third consecutive year, we were selected as a *Nadeshiko Brand*, an honor which recognizes publicly traded companies that encourage the participation of women in the workplace. We are the only company in the real estate sector to be so honored in three consecutive years.

As much as possible, we rely on our local operations to provide employee training, which helps instill a value for customer first and an appreciation for the community. Training extends beyond classroom learning. We try to let our young employees take responsibility for projects as much as possible. As they meet and overcome obstacles, they build a portfolio of success, which helps them develop as professionals.

Finally, we practice corporate ethics that emphasize the importance of governance and compliance in our work—the G of ESG—from the standpoint of a retail business. We continue to strengthen our other group governance functions, including our overseas subsidiaries. More specifically, we are building up our audit and management division functions to collect information from local operations with greater speed.

Engaging in serious ESG management leads naturally to the SDGs. ESG will be an integral part of our entire business, as long as senior management promotes policies and consistently practices every aspect. At the same time, it is crucial that we clearly prioritize our ESG initiatives.


*2 An international business initiative for corporate promotion of electric vehicles and environmental improvement.

*3 An international benchmark measuring the performance of real estate portfolios and infrastructure assets in terms of environmental, social, and governance considerations.

Q What can you tell us about the AEON MALL fiscal 2019 policies and the outlook for future growth beyond fiscal 2019?

Fiscal 2019 will be a very important year for us. Profit growth slowed during our fiscal 2011 to 2013 and fiscal 2014 to 2016 medium-term plans. However, profit growth ratios are rising under our current three-year plan (launched in fiscal 2017) as compared to the two fiscal years prior, periods in which we incurred advance costs toward future growth. This next fiscal year will be a crucial concluding chapter of this installment. Our overseas business has turned a profit, and now we are entering a stage in which we will recover our investment. And, fiscal 2019 should bring a significant increase in profits. This is a year in which we are focused on executing our plan toward

● Social Functions of AEON MALLs

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|---|---|---|--|---|
| 1. Sales activities | 2. Job creation | 3. Public functions | 4. Regional development | 5. Coexistence with the environment |
| · Post offices · Clinics · Libraries · Government office branches · Polling for early voting · Event halls · Tax filing | | | | |
| Expand Public Functions |  |  |  |  |
| | Centrai x Tokoname City Free Shuttle Bus | Disaster Prevention Caravan | Proof-of-Concept Testing | |
| Work With Local Government Agencies |  |  |  |  |
| | | | Self-Driving Vehicles | Bicycle Sharing |
| Facilities Relied on as an Essential Part of the Community | | | | |



greater growth in the future. Just now, our second growth engine—our overseas business—has begun to run on all cylinders and start keeping pace with Japan. This is what we look forward to in fiscal 2019.

AEON MALL conducts business with an eye toward the medium and long term. At the same time, we will see short-term factors during fiscal 2019, including a new imperial era and revised consumption taxes in Japan. We will do everything in our power to identify signs of change in the external environment and in customer behavior, responding with agility and expending every effort to grow AEON MALL profits.

Q Last, do you have a special message for AEON MALL stakeholders?

I want our investors to know that we will meet the results to which we have committed. We will deliver profits and provide returns via dividends that reflect our growth.

I want the communities we serve to know that we will meet their expectations, accomplishing our role in providing social infrastructure. AEON MALL will respond quickly to changes in the environment, hedging risks and continuing to provide value for society as we strive to lift our corporate value to greater heights.

I ask all stakeholders for their continued support and patronage of AEON MALL.

● Operating Income

