

Special Feature

Stronger Global Governance for Long-Term Value Creation

AEON MALL continues to enhance corporate global governance to steadily capture growth opportunities in Asia as we pursue our management vision to become a company that touches the hearts of the 5 billion people throughout Asia.

The Role of Asia in the AEON MALL Business Strategy

The AEON MALL Group has identified expansion in the markets of Asia as a growth driver for sustainable growth over the medium and long term.

We have been active in opening new locations in China and ASEAN in particular, where the middle-class segment continues to spread. To date, we have opened 27 malls in this region of the world. Through malls that meet active consumer demand and as a partner supporting community building and development, we work with local governments and businesses in the pursuit of value, serving as a flag-bearer for regional

activation and raising our profile in the communities we serve.

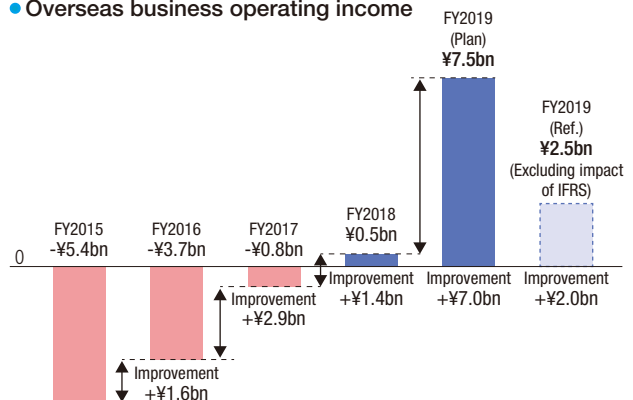
In FY2018, we generated further branding advantages through area-dominant store openings, while our Overseas business achieved net positive operating income.

Our Overseas business is poised to enter a new stage of profit expansion as a growth driver for the company, in response to new store openings, renovations for new tenants in existing malls, and initiatives to improve our level of operations.

● New store openings overseas

| | FY2017 | FY2018 | FY2019 (Plan) | Total |
|----------|--------|--------|---------------|-------|
| Overseas | 5 | 3 | 4 | 12 |
| China | 4 | 2 | 2 | 8 |
| ASEAN | 1 | 1 | 2 | 4 |

● Overseas business operating income



| | | |
|---|--|---|
| Capture Growth Opportunities in Asia | <ul style="list-style-type: none"> ● Reap the benefits of rising brand penetration (via area-dominant strategy) ● Develop and manage superior malls | <ul style="list-style-type: none"> ● Implement measures to increase operating revenues ● Promote local management |
| Identified Growth Targets in Asia | <ul style="list-style-type: none"> ● Areas with likely economic growth and mall business viability. ● Areas of expanding middle-class segment ● Areas with growing motorization | <ul style="list-style-type: none"> ● Areas of community-building in suburbs ● Areas lacking competing retail facilities |

Overseas Business Investment Strategies

Two major factors that contribute to our success in Asia are the high regard for Japanese-style malls and the impact of area branding through our strategy to dominate selected regions. We are beginning to see the results of our efforts. These successes reflect our securing expansive land for facilities, building enormous parking lots, and creating the largest malls in selected areas that offer more than 200 stores in one location. At the same time, we have been rewarded for

taking risks in making up-front investments for malls in high-growth markets.

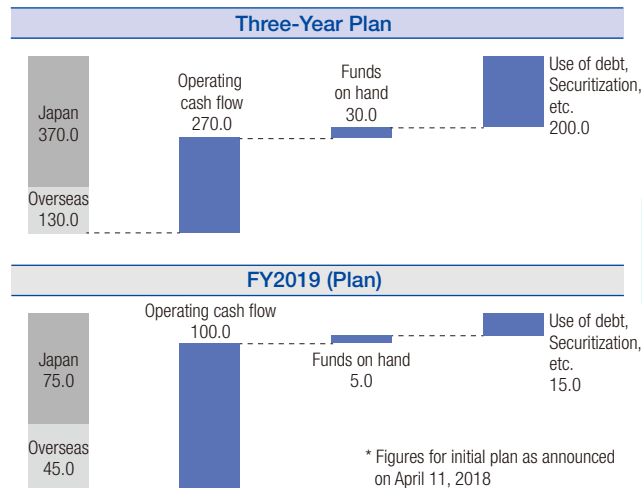
At present, we operate mainly through master lease arrangements in China, which requires limited initial investment. In ASEAN, we have a growing number of self-managed malls. However, we intend to use external capital and vary our mall formats to reduce the burden of investments required.

Our three-year plan covering FY2017 through FY2019

calls for a total of ¥575.0 billion in capital investment. We plan to provide a total of ¥285.0 billion via ¥270.0 billion through operating cash flows and ¥15.0 billion through cash on hand. We intend to finance the remaining ¥290.0 billion through the use of debt and REITs. Our goal through this financing plan is to maintain a net debt-equity ratio of 1.0 times.

● Financing plan (¥ billion)

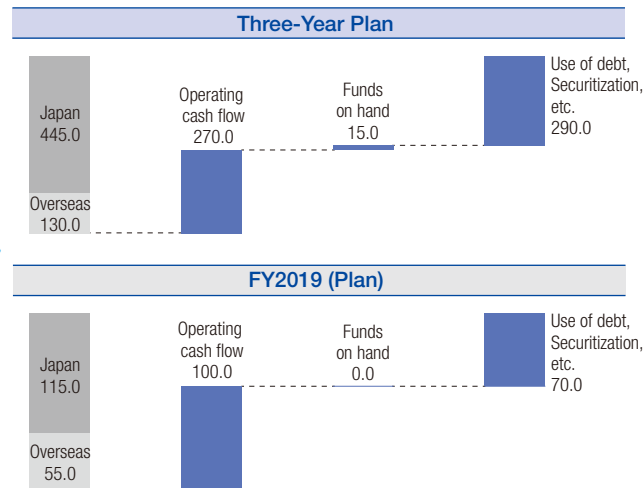
Initial Plan



● Overseas business capital investment (¥ billion)

| | FY2017 | FY2018 | FY2019 (Plan) |
|----------|--------|--------|---------------|
| Overseas | 35.0 | 40.0 | 55.0 |
| China | 15.0 | 10.0 | 5.0 |
| ASEAN | 20.0 | 30.0 | 50.0 |

Revised Plan



Encouraging Localized Management

AEON MALL employs a number of local attorneys to reduce risk related to laws and government administrations overseas.

Further, our basic policy is to engage in management tied to local communities by hiring local staff overseas who have a deep understanding of the AEON MALL philosophy. We promote individuals who generate results to management positions, regardless of nationality. In China today, locally hired individuals serve as general managers at seven malls. As well, we are making progress in ASEAN to promote local staff to senior management positions. Moving forward, we will take further steps toward local management, including selecting

locally hired individuals to serve as presidents of local entities responsible for area management.

● No. of Local Staff Overseas

| | FY2016 | FY2017 | FY2018 |
|----------|--------|--------|--------|
| Overseas | 956 | 1,113 | 1,227 |
| China | 564 | 655 | 737 |
| ASEAN | 392 | 458 | 490 |

Building a Stronger Global Management Structure

The AEON MALL Group strives toward stronger global governance in our business. In China during FY2018, we adopted a system of internal controls on par with our system in Japan and established a Risk Management Committee and a Compliance Department. The Management Auditing Department in China works with our Japanese Management Auditing Department to strengthen this internal control system. In FY2018, we began conducting risk evaluations in ASEAN through a Risk Management Committee. During FY2019, we

plan to begin structuring an internal controls system for the region. Further, we conduct overseas visits for our outside directors once or twice annually. This provides an opportunity for directors to observe and offer advice across a wide range of topics, including the state of employee training, overseas governance, and rule-making.

To these and other initiatives, we strive to strengthen our stance toward respect for human rights and compliance.

Special
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Long-Term Value Creation

■ Chinese Business

Bridging Current and Future
Lifestyles for Local Communities

Hisayuki Sato

Managing Director, General Manager of China Division

**Chinese Business as the Leading Driver of Growth**

Our first-ever mall in China was the 2008 opening of AEON MALL Beijing International Mall. Since that time, we have pursued a strategy of area-dominant store openings for community building, expanding to our present operations in the four regions of Beijing/Tianjin/Shandong, Jiangsu/Zhejiang, Hubei, and Guangdong. To thrive in a new region with a different culture, language, and environment requires an attitude of acceptance and willingness to learn. Establishing friendly relationships with local authorities is also very important. Over the past several years in China, we have raised the value of the AEON MALL brand, winning greater recognition among customers and tenants. I feel we have made progress in establishing systems to achieve our Vision for 2025 (long-term vision).

Anticipating the Expectations of Chinese Society Through ESG

One of our greatest strengths in China is our support of motorization via large-scale parking facilities. The size of a parking lot has a significant influence on customer traffic in the Chinese suburbs, where we see greater progress in community building. In addition, we conduct market research into future trends and incorporate the customer traffic generation expertise developed in Japan to create malls that anticipate constantly changing customer needs. Our efforts here have led directly to increased tenant revenues. In particular, the Chinese shift in consumer behavior from goods toward services has been even faster than in Japan. We are responding by combining our knowledge and experience from Japan with merchandising tailored to local markets. As an example, we are bolstering our entertainment functions, including expanded dining and food sales zones, the most feature-rich kids zones in the area, and sports zones. Further, large-scale spaces bigger than those in Japan allow us to offer amusement facilities and other features unique to brick-and-mortar malls in a market where e-commerce is even more popular than Japan.

In this increasingly strict time of environmental regulations, we are setting environmental standards even higher than Japan for our mall development activities. In addition to our response to environmental regulations, we

established stronger risk management and compliance systems during FY2018. We also launched localized education activities in cooperation with AEON Group headquarters to encourage a greater acceptance of our corporate philosophy. Another new program we introduced for employees was a promotion test system to encourage staff training. As we pursue fair and highly transparent hiring and promotion systems, we also offer incentives for staff reassignments, making it easier for personnel to move to different areas. These and other new systems designed to shore up our organization have led to increased retention of talented local employees. As result of our efforts to date, seven of our 19 malls across China are headed by locally hired general managers.

Governance will play an even bigger role in ensuring policies that support future growth. For example, the viewpoints of local staff are invaluable in conducting risk assessment. This is one other reason why we must transition to more localized management.

The Advantages of Japan Quality in Building Deeper Community Infrastructure

Our customers in China sincerely appreciate Japanese quality in terms of cleanliness, service, safety, confidence, and high-quality goods and services. I believe this is a persistent competitive advantage we have in China. We must understand that the presence of an AEON MALL itself is part of a community's infrastructure and that we are a leader in community building. I am convinced that this mindset ties directly to creating malls that contribute to improved lifestyle quality for local citizens. And in return, we receive the support of our local customers. We will continue to introduce measures leading to greater advancements in Japanese quality in the future.

Despite concerns of slowing economic growth, one must remember that even at a slower growth rate, the GDP of Guangdong is equal to that of Canada. Compared to most of the rest of the world, the Chinese market is orders of magnitude larger. We intend to seize on the opportunities presented by accelerating urbanization in China, positioning our business as a principal driver of AEON MALL growth in the future.

■ ASEAN Business

Japanese-Style Malls Contribute to the Development of Three ASEAN Countries

Mitsugu Tamai

Managing Director, General Manager of ASEAN Division



Opening Malls in Vietnam, Cambodia, and Indonesia

Our ASEAN business began in 2014 with the openings of our first and second malls in Vietnam and one mall in Cambodia. Our Japanese-style mall caused quite a stir in Cambodia, where first-year customer traffic outpaced the entire 15-million-person population of the country. Local media have come to use the term “pre-AEON/post-AEON,” reflecting the impact we have had on the country. We opened our first mall in Indonesia in 2015, selecting the suburbs of Jakarta for our location. AEON has enjoyed high name recognition, differentiating ourselves from other facilities by creating attractive malls that highlight our strengths as a developer with a background in retail.

At present, we have eight malls across three countries in ASEAN. We aim to grow in ASEAN by offering not only goods and services, but also vital social infrastructure functions.

Localized Business Models and Governance

Each country in ASEAN has its own language, culture, political system, economic situation, and market environment. Accordingly, needs vary country to country. In Vietnam, where the history of national development mirrors that of Japan, we have incorporated our Japanese-style expertise without reservation. In Cambodia, we have chosen to focus on metropolitan areas, rather than our Japanese strategy of expansion in the suburbs. Here, we are growing in popularity among the wealthy class by offering products in Phnom Penh that were only available in Thailand or Singapore in the past. Zones housing on-site passport centers, driver license renewal offices, financial institutions, and other public functions are being used by customers as an alternative to government offices. As in the pre-AEON/post-AEON turn of phrase I just mentioned, AEON MALLs in Cambodia are viewed as national projects, receiving the strong support of local governments.

We are shifting toward greater delegation of authority to local management, while at the same time building a governance structure sensitive to the unique risks among ASEAN countries. Our governance structure includes adopting the minimum required in internal controls at our ASEAN head office.

Adopting Japanese Best Practices in ASEAN

We expect ASEAN economic growth to continue for the time being. In particular, the region is still developing in terms of retail and shopping malls. Here, we are adopting the business model we developed in Japan to grow together with our tenants in win-win relationships. This is a strength we have as a developer with roots in retail that doesn't exist among other property developers.

One program we sponsor together with tenants is our customer service role-playing contests. Staff from tenant stores representing a wide range of goods and services bring their customer-service skills to the competition. The shared experiences and expertise help raise the level of all stores within the mall. Prior to AEON MALL, Cambodia had no real concept of customer service. Accordingly, we introduced customer-service contests in 2016 to encourage a better understanding and practice of customer service among local employees. As result, customer service is now becoming a more integrated part of the social norm. We rolled this contest out in Vietnam and Indonesia in 2018.

In addition to these soft skills, we also introduced best practices from Japan in terms of hard skills. One example is our clean, easy-to-use bathrooms and powder rooms. The average age in ASEAN is comparatively young, and these countries have many families with small children that make frequent use of public bathrooms and powder rooms. Through social media and other word of mouth, AEON MALLs have become known widely for having clean, accessible bathrooms and powder rooms. As more local customers become familiar with and appreciative of Japanese-style malls, our intermediate goal is to grow our mall business into an integral part of local society.