

Message from the President and CEO



President and CEO
Yasutsugu Iwamura

Redefining the mall business through digital transformation (DX) and creating new businesses in the era of the new normal.

AEON MALL will become a platform to offer solutions to local communities and solve social issues.

Fiscal 2020 Review

COVID-19 and a Year of Challenges

My Second Year in Office

When I began serving as president on March 1, 2020, we were already in the middle of the COVID-19 pandemic. My first mission was to ensure a correct response. The spread of COVID-19 in many countries caused enormous changes in our environment. These changes included upheaval in lifestyles and limitations on the scope of activities among all stakeholders, including consumers and communities. Other changes included a return of consumers to rural regions of the country and a decrease in inbound demand. This was a fiscal year in which we responded to these environmental changes, executing a variety of measures in full consideration of short-, medium-, and long-term risks. We also learned much about the issues within our businesses. Responding to an extraordinary, unprecedented event, we engaged in much trial and error in terms of changing work styles and even changes in everyday private lives, such as voluntarily limiting time spent outside of the home, etc. Even in 2021, the spread of COVID-19 continues to one degree or another in every country. These countries are seeing second and third waves with no predictable end to the pandemic. For this reason, we have prepared

and rededicated ourselves to confronting this pandemic throughout fiscal 2021.

Fiscal 2020 Consolidated Income

Looking back on our earnings performance for fiscal 2020, we understand how the global outbreak of COVID-19 had a significant negative impact on operating revenue. The pandemic caused us to close malls and shorten business hours temporarily in every country where we operate, we missed many business opportunities, and customer traffic fell as consumers refrained from travel outside the home. In particular, the spring 2020 declaration of a state of emergency in Japan had a profoundly negative impact, as our tenants closed and we reduced or exempted rents during the period of closures. As a result, not only did we record lower revenue and income, but net loss attributable to owners of parent amounted to ¥1,860 million, our first net loss since our initial public offering in 2002.

In offering tenants rent reductions and exemptions, we understood that our business is supported by each of the partners in our store association. We provided these reduction and exemptions knowing that these relationships are extremely important to us. I am convinced that this was the right decision for us to make as a management team from a medium- and long-term perspective. In the future, we must deepen ties with our partners even more to create new value together under the AEON MALL banner.

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Long-Term Vision and Medium-Term Management Plan Progress

Becoming a Solutions Company That Addresses Local Community Issues in Earnest

Doing Business Under the New Normal

When discussing our Long-Term Vision and future plans, we must first establish a firm grasp of the important changes in the current environment. We must accept that COVID-19 has become a critical management issue. In the past, natural disasters and other events have forced us to close certain malls on a temporary basis. But in a global crisis of the scope of COVID-19, our malls in Japan and overseas faced closures entailing real threats to business survival. We realized that this was not a crisis of a prolonged COVID-19 pandemic, but rather an incident calling for crisis management in response to the spread of a serious infectious disease. We came to understand the need for business continuity planning in preparation for emerging crises. In other words, we are a corporate entity that operates large-scale facilities

designed to attract customers. To this end, we must permanently engage in measures to prevent the spread of infectious diseases, even after the end of the COVID-19 pandemic.

Some people believe that COVID-19 spurred approaches to the *new normal*. But the concept of the new normal was already well known back in 2013, when discussions of Industry 4.0—or the fourth industrial revolution—began in earnest. We should keep in mind that many companies have been making serious efforts as early as 2014 to shift business structures in advance of the coming era of the new normal. We can think of the changing environment in terms of pre-COVID-19 and post-COVID-19. But we have already seen major shifts in consumer purchasing behavior, including the rise of e-commerce, a shift from the consumption of goods to the consumption of services and experiences, and a rise in health consciousness. Efforts to commercialize solutions to community issues and contributions to regional revitalization were already underway prior to the COVID-19 pandemic. Lifestyles have changed at unimagined speeds with the adoption of remote



work and other measures to meet the rising importance of fighting the spread of infection. But we should understand that many of these changes existed already. COVID-19 merely accelerated some of these changes. It is true that COVID-19 caused rapid changes in our environment. Companies which deliver results even under such circumstances are those that have responded the most quickly to social change. We must recognize the remarkable difference between these companies and those that have been slow to respond.

Vision for 2025

We defined our Long-Term Vision through the fiscal year ending February 2026 (FY2025). Under this vision, we will pursue our management philosophy and achieve further business growth. We will achieve our vision through transparency and accountability regarding large-scale investments and related risks. In this way, we will create social value and economic value, achieving sustainable growth in partnership with our local communities. Our target financial indicators leading to fiscal 2025 will be EPS growth of 7% (annualized growth between fiscal 2019 and fiscal 2025), net interest-bearing debt to EBITDA ratio of 4.5 times or less, and return on invested capital of at least 5%.

Redefining the Mall Business

Customer behavior has changed in the wake of the COVID-19 pandemic. In response, we must expand the relationships between the AEON MALL businesses and the lives of our customers. Leveraging our strengths as a real-world location, we intend to establish new business models and create new businesses with our partners, not only acting as a land leasing business, but leveraging the AEON MALL asset value to the greatest extent possible. Our goal is to make AEON MALL a solutions-oriented business, creating central community facilities and securing a position as part of the social infrastructure. To make our

presence an indispensable part of daily life, we must make our malls more functional and provide higher levels of added value for customers and the community. What is important here is that we act not only as a mall developer and operator, but also as a solutions company that goes beyond the framework of the shopping mall, responding to the issues faced by our communities.

To offer solutions for communities, we intend to create facilities social infrastructure that provide public functions as well as social services, including education, medical care, and social welfare. Next, we will establish our malls as multifunction complexes. Rather than acting solely as a conventional property leasing business, we intend to transform our malls into facilities with functions across a wide range of business models, business formats, and service functions. Here, we will work with different partners who can extend the breadth of our services in creating new malls and new businesses. For example, we will suggest new lifestyles via editorial-model stores that portray concepts and ideas clearly. We will offer comprehensive health services through zoned concepts, combining drug stores, sports gyms, general hospital satellite clinics, and more. We will leverage the ICT environment to create new types of future entertainment, while also updating and upgrading other services. This transition of malls into multifunction platforms will happen not only in Japan, but in all countries in which we operate malls.

Ultimately, we intend to expand our business domains from inside the mall to outside the mall, working with new business partners to build mall lifestyle zones and AEON lifestyle zones as we solve social issues.

We will support national and local government policies through our own business expertise, regardless of the involvement of AEON MALL facility functions. We will work in urban and regional revitalization projects, and engage in public-private partnerships to commercialize

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businesses offering new value to our communities.

Three Initiatives for Achieving Digital Transformation

I have a strong sense of urgency that relying on the traditional business of attracting customers, expanding sales, and raising sales commission rates will not be sustainable in the future.

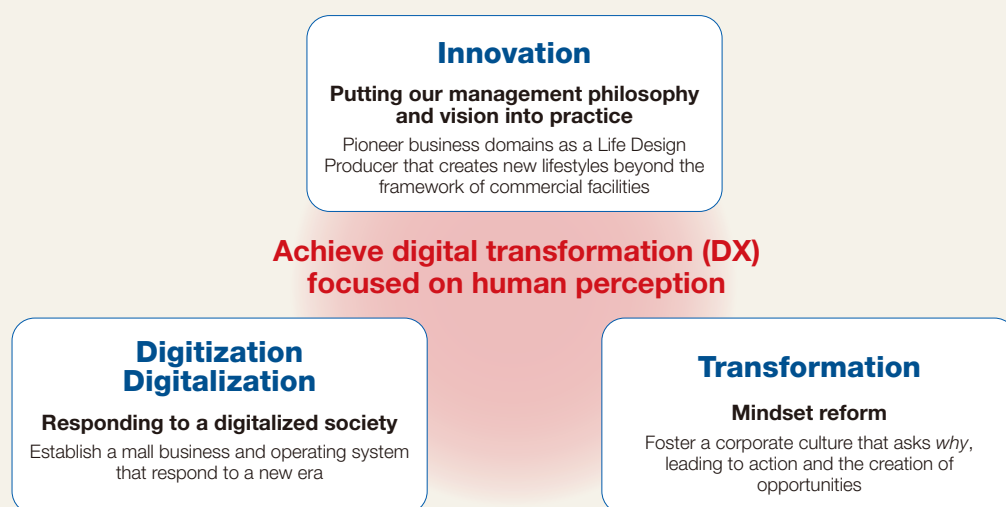
Even large-scale facility industries such as ours can be affected severely in a short period of time—even a few months—if we cannot respond to social paradigm shifts. In this environment, we cannot survive without practicing nimble change-responsive management. Digital influences are expanding in our daily lives in more ways than we could have imagined. Customer consumption and purchasing trends are changing, specialty store corporate strategies are changing, and the boundaries between industries and business models, between online and offline, and between countries are becoming weaker throughout the world as competition rises dramatically. In the midst of these drastic changes, we must make the most of the physical and human assets in which we have invested to date, and continue to create and offer new value to the communities, partners, and customers AEON MALL serves. We must

deepen relationships in the communities we serve, aiming to improve corporate value.

I believe that digital transformation (DX) is not about the pursuit of tangible goals. Digital transformation is the act of achieving the ideal of what we should be through people-centered DX. We will work on three measures to this end.

The first is to put our management philosophy and vision into practice. We must define clearly the ideal state we wish to achieve through digital technology, establishing a deep understanding within our organization and taking action. The second is to respond to a digitalized society. To grow our businesses in the future, it will be important for us to create new opportunities by collecting, processing, and analyzing the data assets we collect via big data. Therefore, we must integrate our data collection systems, adopt new systems, and launch new business processes. On this path, we will consider what to outsource and what to produce in-house, establishing corporate operating systems capable of responding to changing times over the long term. Third, and most important, is mindset reform. Even with a clear shared management vision and outstanding operating systems, we cannot achieve true transformation if the mindset of our employees is

- Three initiatives to realize a digital transformation (DX)



inflexible. The most important thing now is for us to become an organization in which each individual thinks about the “why” as a starting point and then acts with a sense of urgency.

Pursuing ESG Management

ESG Management is Focusing on a Future Ideal, While Contributing to Society and Engaging in Profit-Generating Activities

ESG-Based Management

The definitions and details of the SDGs are not what is most important when thinking of sustainable growth and corporate value improvement. Rather, it is more important that a company defines the future it wants to achieve as a corporate entity, given this social context. The essence of corporate activities is to generate profit by contributing to society in collaboration with stakeholders, using the company’s physical and human resources. This is the AEON Philosophy, and engaging in corporate activities based on this idea will accomplish the objectives of ESG and the SDGs. In return, society will recognize AEON MALL as a sustainable company. In the future, social demands on companies to address ESG issues will only increase and only accelerate. In response to these trends, we intend to make strategic efforts to strengthen our ESG management and enhance corporate value.

To pursue ESG management requires more than an awareness among managers. ESG management must be understood by and foremost in the minds of all employees. To this end, we believe that corporate branding is

extremely important. We are striving to strengthen not only external communications, but also inner branding among our employees. Under our management philosophy of being a *Life Design Developer*, we have coined the phrase “Heartful and Sustainable” for our activities as a corporate citizen that contribute to the development and revitalization of communities and society. We are involved in many initiatives that help create sustainable societies. AEON MALL facilities host events and projects that embody our philosophy of being a Life Design Developer. We have coined and branded the phrase *Happiness Mall*, engaging in a variety of activities that offer unique value to communities available only through real-world malls, aiming to create spaces for the happiness of our customers and local communities.

Measures Addressing Materiality

Among the many social issues we face, we have selected materialities from among those issues that are of particularly high importance to us and our stakeholders and that are closely related to our daily corporate activities in the context of Heartful and Sustainable. We strive to improve and resolve the social issues related to these materialities. In particular, we have identified measures to combat climate change on a global scale and the problem of marine plastic waste as major issues that must be resolved in global society. Marine plastics pollute the ocean and affect marine ecosystems. Microplastics have become an issue that affects human health. Rising sea levels caused by global warming result in coastal flooding around the world. The linear precipitation belt, which caused last year’s torrential rains in Kumamoto, has been



We call our initiatives to contribute to and revitalize communities and society, *Heartful and Sustainable*. We pursue these initiatives to offer sustainable societal development as a good corporate citizen under our management philosophy as a Life Design Developer. We strive to create a better society, not only on our own, but also in partnership with our customers, communities, companies, shareholders, and investors.

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affected greatly by global warming.

At the same time, we see efforts around the world to achieve low-carbon societies and curb greenhouse gas emissions that lead to global warming. Japan has declared a specific target to reduce greenhouse gas emissions to zero by 2050, and has set a specific goal to achieve 100% electrification for all new passenger cars by the year 2035. This fiscal year, we established KPIs, or key performance indicators, for materialities to help accelerate our efforts in addressing these issues. Around 20 individuals are participating in this project. These people range from young employees in Japan and overseas to managers in administration and sales. The project team discusses interim targets to achieve by 2030, guiding employee-wide policy according to projections of likely conditions and with an awareness of the indicators for achieving our key targets for reaching an ideal society by the year 2050.

Corporate Governance

We have built upon our strengths as a retail business developer, at the same time striving to localize our malls to the characteristics of each community we serve in Japan and overseas. Moving forward, we intend to stretch beyond the traditional framework of a commercial developer, contributing to better lifestyles and community growth in terms of economy and culture. We are also working to strengthen and raise the level of our corporate governance, which will be critical to putting this approach into practice on a global scale.

Over the past fiscal year, we strengthened our governance structure to advance our growth initiatives. Our aims here were to enhance the monitoring function of the board of directors and to expand the discretion of executive departments to improve risk-taking capabilities. As part of these efforts, we reviewed the roles and responsibilities of directors. As a result, we consolidated the

structure of division oversight from seven divisions to five per director. This change has created a structure that allows the board of directors to discuss the direction of corporate strategy and engage in more effective supervision. In addition, we delegated executive authority to general managers to speed business decision-making and develop successors. Further, AEON MALL intends to increase the number of independent outside directors who bring diverse perspectives, knowledge, experience, and skills. In so doing, we plan to pursue measures to address issues and growth initiatives.

To Our Stakeholders

Striving to be a Life Design Developer That Creates the Future of Community Living

Our management philosophy states that AEON MALL is a Life Design Developer that works with communities and produces ways of living for the future. Here, 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. How should AEON MALL



achieve our vision? I believe we must act from two perspectives: (1) How to provide new value to the markets and continue to create customer value and (2) How to increase not only economic value, but also social value. To put this approach into practice, we launched a new working group called studio LIFE DESIGN. studio LIFE DESIGN will create the future for customers and society, defining the future vision for AEON MALL. This working group will examine perspectives and concepts for the year 2030, not only for AEON MALL facilities, but also regarding the presence and positioning of our company itself in our communities and in society. This working group will provide a basis as we look toward society in the year 2040 and 2050. In the future, we will expand beyond the framework of shopping malls, embodying the essence of being a solutions company that responds to the challenges faced by our communities and society. To this end, we will anticipate social changes and adopt a backcasting framework that addresses business risks and opportunities from a longer-term perspective.

We must become a company that is in the business of providing solutions to society and to our local communities. We have aimed to become part of the community social infrastructure, offering an open platform. In this capacity we have become rooted deeply in our communities and have been involved closely in the lives of our customers. However, the outbreak of COVID-19 has accelerated and changed the environment in which we operate. The pandemic will continue to have a significant impact on the shopping center industry. We are a company that has created deep roots in our communities under this kind of environment. It is because of these relationships that our communities will expect us to offer even more solutions to social issues. The reason for our existence as a company is to work diligently in solving these problems head on. I ask for the understanding and support of you, our stakeholders, as we move forward.

