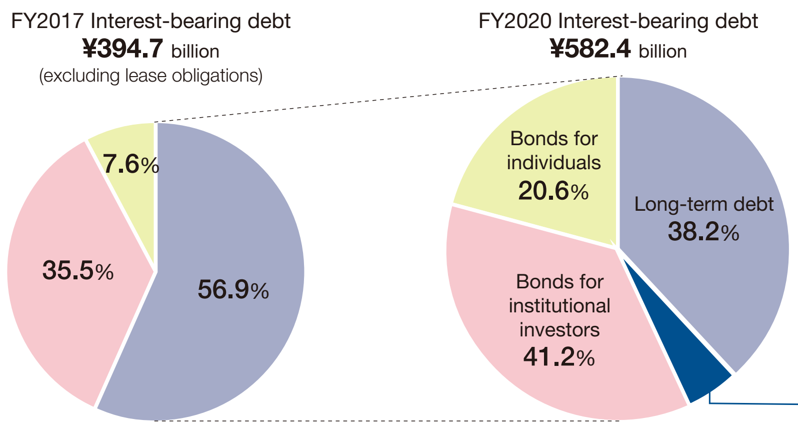
Promoting Finance Mix and Strengthening Governance Structure

Promote a finance mix that supports growth strategies and strengthen our governance to maintain financial soundness. In particular, we are working to diversify and sophisticate our fund procurement and optimize cash management with an awareness of investors growing interest in SDGs and ESG, as well as to strengthen our governance with an emphasis on the cost of capital.

Global Financing Mix

We are promoting a global finance mix by diversifying financing that combines indirect and direct financing and real estate securitization in Japan and overseas. Specifically, we are expanding our base of financial institution borrowing and continue regular issuance of domestic retail bonds. In anticipation of the full-scale arrival of the sustainable finance era, we issued a ¥30 billion sustainability bond in September 2020.

We will continue to use real estate securitization to generate funds for the development of new shopping malls, and we are also considering overseas financing.



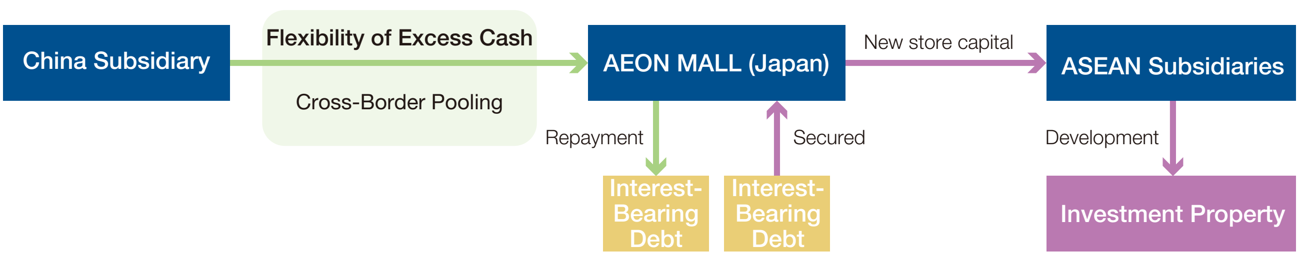
Sustainability Bonds

Bonds for which the use of proceeds is limited to green projects related to the global environment and social projects related to the resolution of social issues. The sustainability bonds issued in 2020 were used for COVID-19 countermeasures and reconstruction assistance for the Great East Japan Earthquake.

Optimizing Cash Management

As our businesses overseas grow and transition to a stage of profit generation, cash balances in certain areas have increased significantly. We will continue to optimize cash management by shifting cash from areas with excess funds to areas with stronger needs for cash.

An example of this is the cross-border pooling arrangement established in FY2020 between the China Subsidiary and AEON MALL (Japan), whereby excess cash from the China Subsidiary will be transferred to AEON MALL (Japan) from FY2021 and used to repay existing interest-bearing debt. The cash secured in Japan will be used to open new stores at our ASEAN subsidiaries.



Emphasis on the Cost of Capital

When investing in the development of shopping malls in Japan and overseas, we calculate the internal rate of return by discounting the future cash flow to the present value so that the total present value of the future cash flow generated by investment properties each year matches the investment amount. If the internal rate of return exceeds our base rate of investment returns, the investment is considered eligible.

Our base rate for investment returns is determined based on the cost of capital, which is the weighted average of the cost of debt and the cost of shareholders' equity calculated based on the Capital Asset Pricing Model (CAPM), weighted by interest-bearing debt and market capitalization. The cost of capital is determined by taking into account the country risk premium and market data of each country.