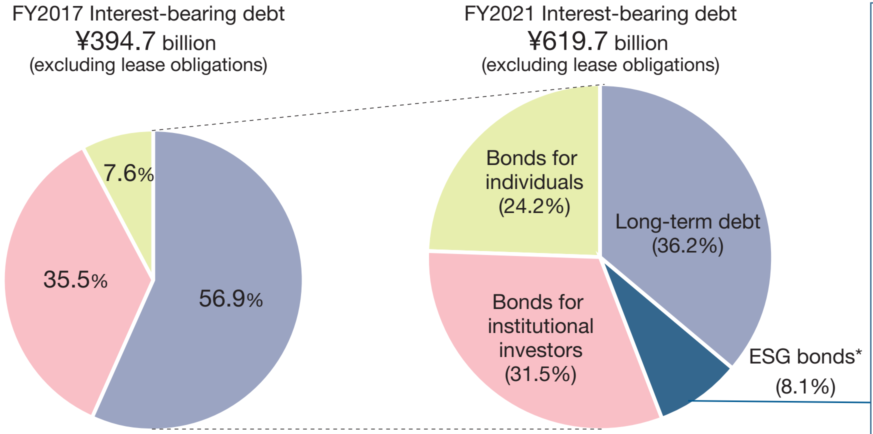
Financial Strategy

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 continuing the 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. In November 2021, we issued our first Sustainability Linked Bonds in the amount of ¥20 billion. In April 2022, we issued our first sustainability linked bonds for individual investors in Japan of ¥40 billion. These issuances are aimed at addressing social issues and environmental considerations. 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.



***ESG bonds**

(Sustainability-Linked Bond)

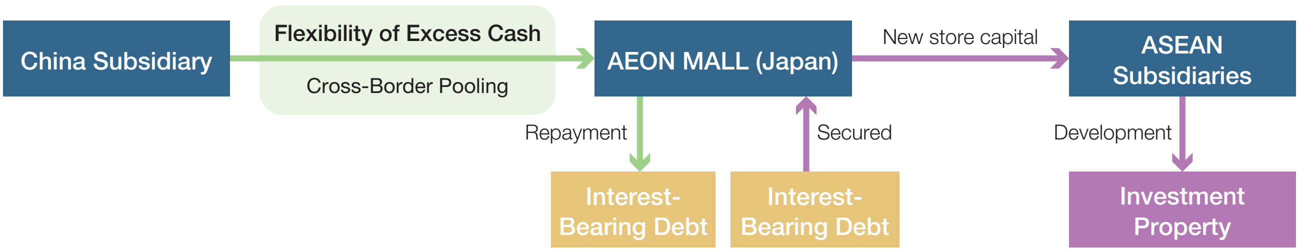
The terms and conditions of the bonds vary, depending on whether the issuer achieves certain sustainability targets. We issued the FY2021 bonds for the purpose of converting electricity used at all AEON MALL facilities in Japan to CO_2-free sources by the end of FY2025. We will use the funds raised to contribute to the creation of more sustainable societies.

(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 FY2020 were used for COVID-19 countermeasures and reconstruction assistance for the Great East Japan Earthquake.

Optimizing Cash Management

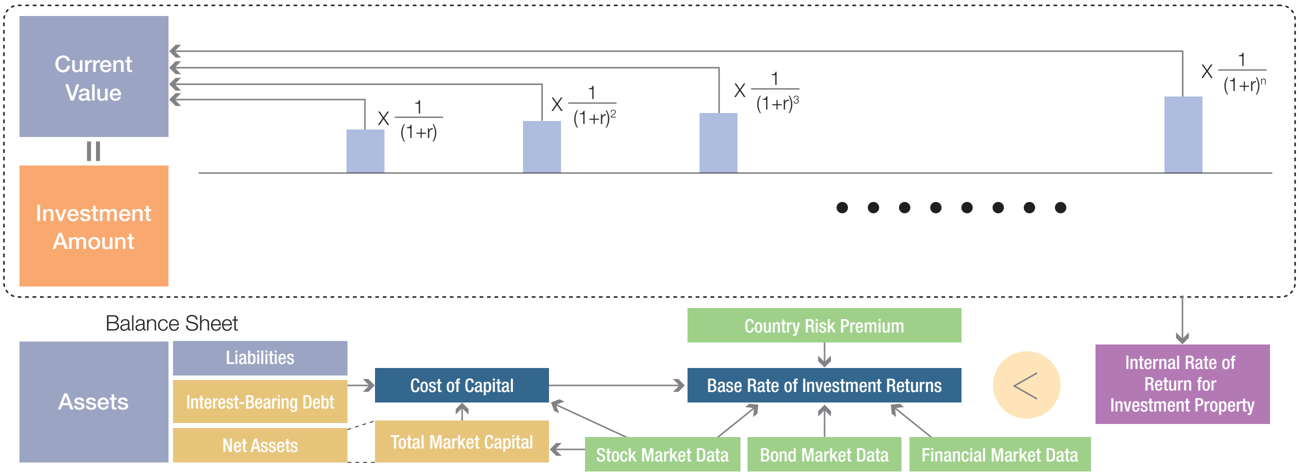
As our businesses overseas grow and transition to a stage of profit generation, cash balances in certain areas have increased significantly. We will continue to optimize cash management by shifting cash from areas with excess funds to areas with stronger needs for cash. An example of this is the cross-border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

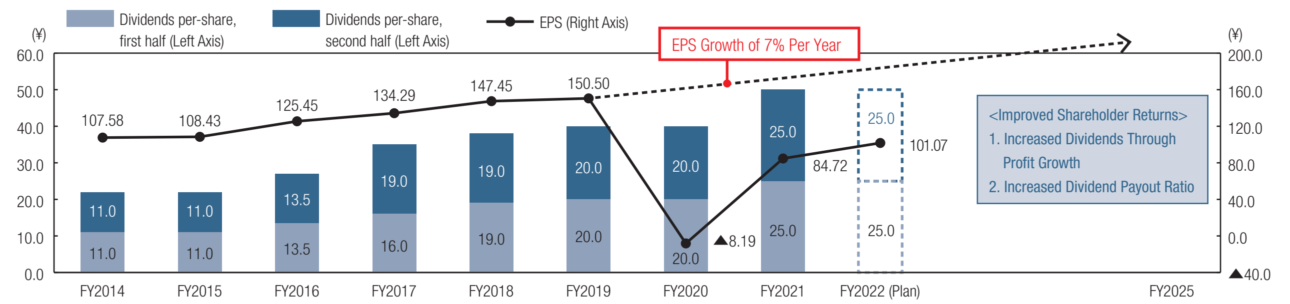
Our base rate for investment returns is determined based on the cost of capital, which is the weighted average of the cost of debt and the cost of shareholders' equity calculated based on the Capital Asset Pricing Model (CAPM), weighted by interest-bearing debt and market capitalization. The cost of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



Shareholder Return Policy

AEON MALL recognizes that returning profits to shareholders through improving earnings power is a key management priority. Our basic policy on income distribution emphasizes steady dividend payments to shareholders, while using internal reserves to invest in structural business improvements, including investments in growth businesses, new businesses, and other areas that strengthen our operating foundation.

Aiming to achieve our Vision for 2025, we set a target of 7% annual growth for earnings per share. We revised our consolidated payout ratio target from 25% to 30% or more beginning FY2021. This change reflects the fact that our overseas business has entered a profit expansion stage and we expect to achieve our sustainable growth plan in the future. We will continue to aim for long-term and continued dividend increases in line with our stage of growth.



Increased Dividends Through Profit Growth
We have set annual 7% target for EPS growth toward achieving our Vision for 2025

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Increased Dividend Payout Ratio
We raised the consolidated dividend payout ratio to 30% or more beginning FY2021 to reflect the fact that our overseas business has entered the profit expansion stage and we expect to achieve our sustainable growth plan in the future