

Property Replacement Strategy with an Aim to Increase Investor Value

(Supplementary information for the release
“Notice of Sale and Purchase of Domestic Properties” dated today)



Overview of Property Replacement Strategy with an Aim to Increase Investor Value

With strong intent to increase investment unit prices, implement a combination of property sale and purchase, which will be a first for the Investment Corporation.

- Pursuit of optimal financial technique: Avoid increasing LTV through borrowing and dilution with capital increase, and acquire profitable properties through property replacement.
- Growth of post-depreciation profit that becomes dividend funds: Dispose property with NOI yield after depreciation of 2.5% and purchase property with the yield of 4.1%.
- Elimination of unrealized loss on Kumamoto property: Unrealized loss of 1.8 billion yen eliminated by selling property for higher price than appraised value.

Increase in "Portfolio Quality"

Disposition

RSC-14

Aeon Mall Kumamoto



Planned Disposition Price	¥14.5 billion
Book Value	¥14.3 billion
Appraised Value	¥12.5 billion
NOI Yield	5.7%
NOI yield after depreciation	2.5%

Improve earning power

Asset replacement

Eliminate unrealized loss of ¥1.8 billion

Purchase

RSC-31

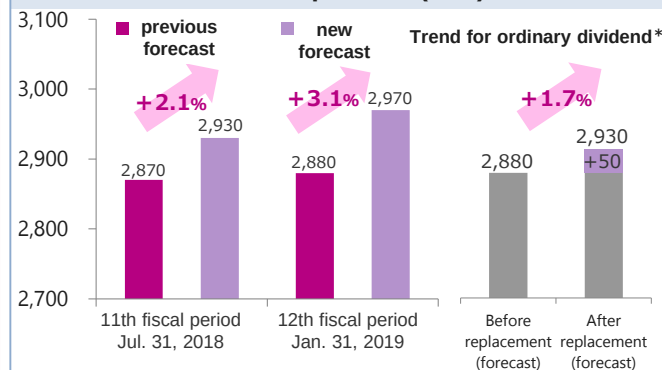
Aeon Mall Kyoto Gojo



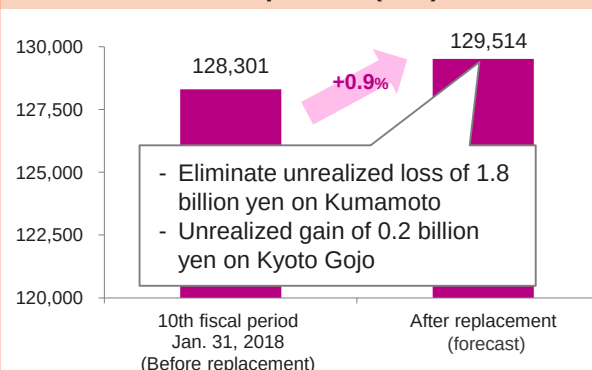
Planned Purchase Price	¥13.3 billion
Appraised Value	¥13.6 billion
Appraised NOI Yield	5.4%
NOI yield after depreciation	4.1%

Increase dividends and NAV

Dividend per Unit (Yen)

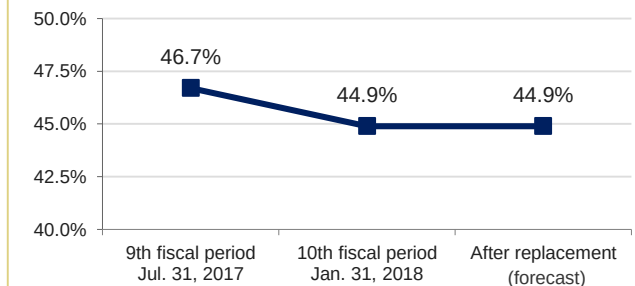


NAV per Unit (Yen)



LTV (Loan to Value)

Borrowing capacity up to 50% LTV: approx. ¥37.0 billion



* Ordinary dividend: dividend excluding or added with special factors such as investment unit issuance expenses due to capital increase and deferral effects of fixed asset tax, etc. during a property purchase period

Purchase of New Property (Aeon Mall Kyoto Gojo)

Purchase of one of the few large commercial facilities in the Kyoto area with a sizable local population

Property Characteristics

- Acquisition of complete ownership of land in Kyoto, where land is scarce
- “Ukyo’s kitchen” is located in a populated housing area in Kyoto City
- Large commercial facilities serving not only the fertile neighborhood market area, but also long- and medium-distance market areas

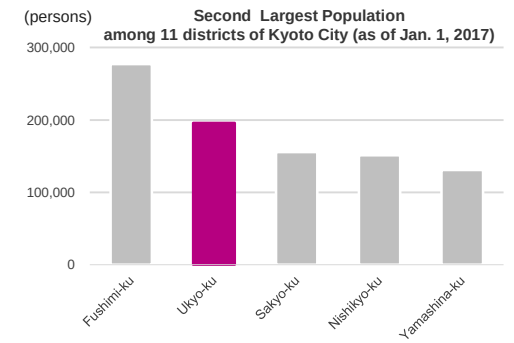
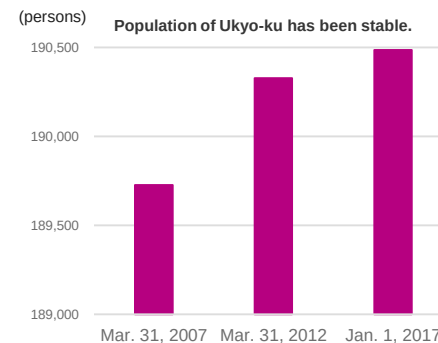


Planned Purchase Price		¥13.3 billion
Appraised Value		¥13.5 billion
Location		Ukyo-ku, Kyoto
Site Area		46,973 m²
Total Floor Area		86,984 m²
Date of Completion		Jan. 21, 2004
Car Parking Capacity		1,723 units
Bicycle Parking Capacity		1,992 units
Trading Area	3-km area	Approx. 340,000
Population	5-km area	Approx. 740,000
	10-km area	Approx. 1,100,000

Strengths of Location and Property

- The population of Ukyo-ku, where the property is located, is approx. 190,000 the second largest residential area among 11 districts of Kyoto City. The population of its trading area is approx. 340,000 in the 3-kilometer area with a high market density.
- The building was renewed in April 2016, which is a neighborhood-based commercial facility with an improved food sales area, Kyo-Deli, that takes into account the characteristics of the trading area, parking lots for approx. 2,000 bicycles, and other features that increase the convenience of neighboring shoppers particularly buying food and commodities.
- It is located along Gojo-dori with heavy traffic, and has the largest store area in Ukyo-ku, parking lots for 1,700 cars, many tenants in the business of experiential consumption, and also covers long- and medium-distance trading areas.

Population of Fertile Neighborhood Market Area



Source: Local Administration Bureau, Ministry of Internal Affairs and Communications “Population, Demography and Number of Households Based on the Basic Resident Registers.”

Neighborhood-based Commercial Facilities



Food sales area, Kyo-Deli, selling fresh food provided by local companies

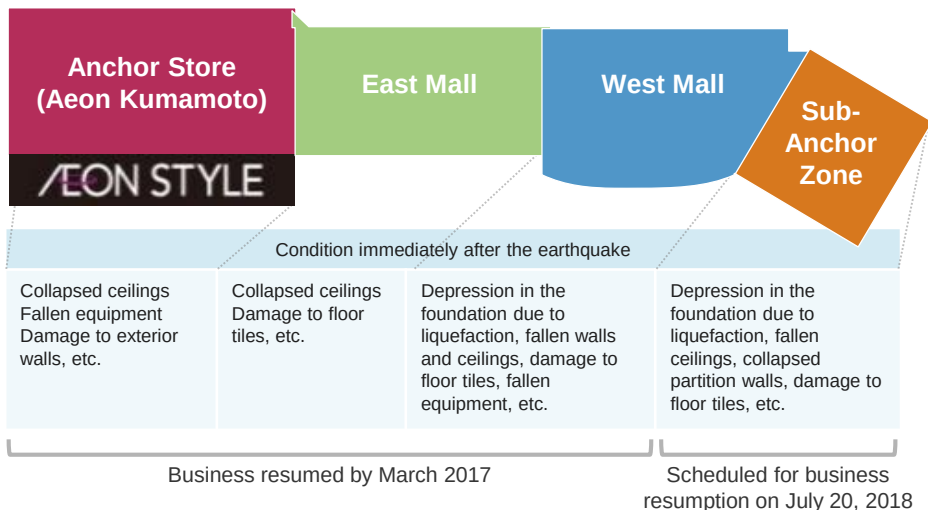


Parking lots for approx. 2,000 bicycles for the large local population

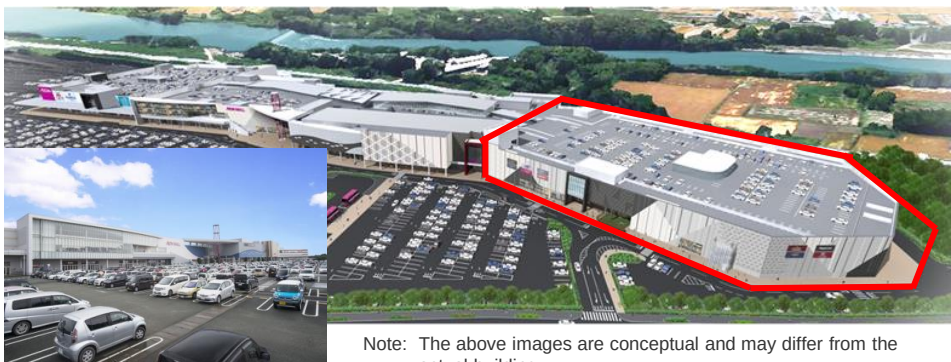
Disposition of Asset (Aeon Mall Kumamoto) 1

Restoration in cooperation with Aeon Group from the Kumamoto Earthquake damage to become able to receive re-appraisal

Earthquake Damage Caused to Aeon Mall Kumamoto



Restoration of Anchor Store, East Mall, and West Mall completed.
Sub-Anchor Zone was demolished and is being reconstructed by AEON MALL Co., Ltd.



Note: The above images are conceptual and may differ from the actual building.

Aeon Mall Kumamoto's Road to Recovery after the Earthquake

Apr. 14, 2016:	Kumamoto Earthquake (foreshock) struck [max. seismic intensity of 7]
Apr. 16	Kumamoto Earthquake (main shock) struck [max. seismic intensity of 7]
Appraisal became difficult to obtain due to earthquake damage.	
Apr. 20	Business resumed on the 1st floor of Anchor Store. Anchor Store was made into Kyushu's first "Aeon Style".
July	Business resumed on the 2nd floor of Anchor Store. East Mall business resumed.
Mar. 2017	West Mall business resumed.

Restoration completed excluding Sub-Anchor Zone.

Obtained appraisal as of Jul. 31, 2017 (excluding Sub-Anchor Zone)

July	Demolition of Sub-Anchor Zone completed.
October	Reconstruction of Sub-Anchor Zone started with new extension.
Jul. 2018	Reconstruction of Sub-Anchor Zone scheduled to be completed.

Status of Aeon Mall Kumamoto as a Property Held by the Investment Corporation

- Book value increased due to capital expenditure invested in the various measures for recovery from the earthquake and resumption of operation.
 - ➔ Occurred an unrealized loss in comparison to the appraised value
- Leasable area and master lease fees decreased due to the demolition of the former Sub-Anchor Zone.
 - ➔ Invest yield fell due to the decrease in rent income.

Process of considering the disposition of Aeon Mall Kumamoto

Condition of Aeon Mall Kumamoto

- Occurred unrealized loss in comparison to the appraised value
- Investment yield fell due to a decrease in rent income
- Sub-Anchor Zone is scheduled to be completed in July 2018

Scenario A Additionally acquire Sub-Anchor Zone and operate with existing buildings

- **Rent income will increase** through acquisition of Sub-Anchor Zone.
- △ While the appraised value is expected to increase due to the unified operation of Sub-Anchor Zone, **the unrealized loss is likely to remain.**
- △ The percentage of existing buildings owned (Anchor Store, East Mall, and West Mall), of which the yield after depreciation declined, is large, and the yield of the entire property will not improve. **There will be limited contribution to the increase in dividends.**

Scenario B Dispose existing buildings without additionally acquiring Sub-Anchor Zone

- Completion of the restoration of the existing buildings owned allows for the acquisition of re-appraisal and examination of disposition of the existing buildings owned.
- **If the property can be sold for more than the appraisal value and the purchase price could eliminate the unrealized loss, the unrealized loss 1.8 billion yen will be eliminated.**
- Purchase of a new property of the same size and with a high investment yield after depreciation at the same timing with sale, will **enable an increase in dividends.**
- △ Disposing the existing buildings alone would **reduce the asset size and rent income.**

Decision to sell existing buildings owned

Elimination of unrealized loss
¥1.8 billion

Increase in NAV*
¥128,301 => ¥129,514
(+ ¥1,213)

Increase in ordinary dividend*
¥2,880 => ¥2,930
(+ ¥50)

* Each number is forecast.

Strategy for Further Pursuit of Investor Value

Further pursue the growth of investor value by implementing strategies that take into account market trends and the level of investment unit prices

Steady Growth after Stock Listing

Asset Size	¥158.3 billion	→	¥355.1 billion
Unrealized Gain	¥8.5 billion	→	¥35.8 billion
Dividend per Unit	¥686	→	¥3,029
NAV per Unit	¥110,456	→	¥128,301

Jan. 31, 2014
(end of 2nd fiscal period)

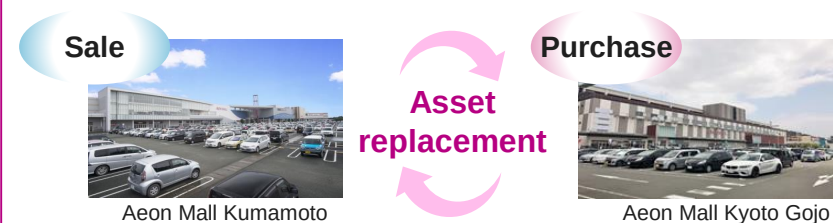
Jan. 31, 2018
(end of 10th fiscal period)

Trend of Investment Unit Price of Aeon REIT Investment Corporation after Stock Listing

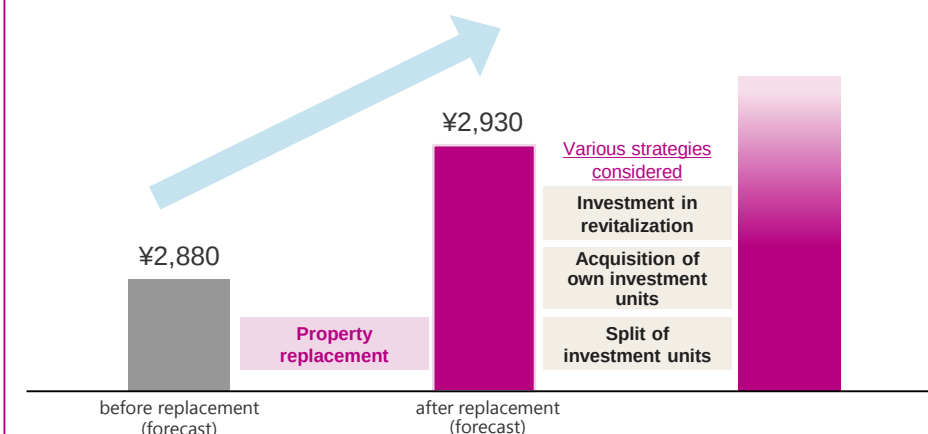


Effect of Property Replacement (forecast)

	effect of replacement	after replacement
Asset Size	¥0.1 billion	¥355.3 billion
Unrealized Gain	¥2.1 billion	38 billion
Ordinary Dividend per Unit (forecast)	¥50	¥2,930
NAV per Unit	¥1,213	¥129,514



Sustainable Growth of Ordinary Dividend



Notes

1. The planned disposition price of Aeon Mall Kumamoto does not include sale-related expenses.
2. The book value of Aeon Mall Kumamoto is the value as of May 31, 2018.
3. The unrealized loss on Aeon Mall Kumamoto is the value after subtracting the book value as of May 31, 2018 from the appraised value as of June 1, 2018.
4. The NOI of Aeon Mall Kumamoto is the value after annualizing the result for the 10th fiscal period (ended January 31, 2018).
5. The NOI yield of Aeon Mall Kumamoto presented in this document is the value after dividing the NOI calculated in the above 4 by the acquisition price.
6. The NOI after depreciation of Aeon Mall Kumamoto is the value after subtracting the annualized depreciation expenses for the 10th fiscal period from the NOI calculated in the above 4.
7. The NOI yield after amortization of Aeon Mall Kumamoto presented in this document is the value after dividing the NOI after depreciation calculated in the above 6 by the acquisition price.
8. The appraised NOI of Aeon Mall Kyoto Gojo is the annual net operating income that becomes the assumption for the earnings through the direct capitalization method presented in the appraisal document.
9. The appraised NOI yield of Aeon Mall Kyoto Gojo presented in this document is the value after dividing the appraised NOI calculated in the above 8 by the planned acquisition price.
10. The NOI after depreciation of Aeon Mall Kyoto Gojo is the value after subtracting the annual depreciation estimated by the Investment Corporation based on the property's useful life from the appraised NOI calculated in the above 8.
11. The NOI yield after depreciation of Aeon Mall Kyoto Gojo presented in this document is the value after dividing the appraised NOI yield after depreciation calculated in the above 10 by the planned acquisition price.
12. The dividend per unit (yen) and NAV per unit (yen) have been estimated by the Investment Corporation.
13. "NAV per unit as of the end of the 10th fiscal period (ending January 31, 2018)" has been calculated using the following formula. NAV per unit = NAV as of the end of the 10th fiscal period (ended January 31, 2018) (*1) divided by the number of investment units issued (1,777,347) as of the end of the 10th fiscal period (ended January 31, 2018)
 "NAV as of the end of the 10th fiscal period (ended January 31, 2018) "= total unitholders' capital as of the end of the 10th fiscal period (ended January 31, 2018) added with unrealized profit or loss on portfolio as of the end of the 10th fiscal period (ended January 31, 2018)
14. The ordinary dividend has been calculated based on the dividend forecast for the 12th fiscal period and on the assumption that taxes and public dues such as fixed asset tax and city planning tax will be charged to Aeon Mall Kyoto Gojo from the 12th fiscal period.
15. The LTV after property replacement has been calculated by dividing the amount of interest-bearing debt balance as of the date of this document added with security and guarantee deposits by the amount of total assets as of the end of the 10th fiscal period.
16. The market area population and strengths of the location and property of Aeon Mall Kyoto Gojo have been presented after partially revising the expressions used in the market report.
17. Associated with the transfer, a gain on transfer of approx. ¥31 million yen is expected to be posted in the fiscal period ending July 31, 2018. The gain on transfer is to be internally reserved to the extent to which income taxes will not be imposed, with the aim of medium- to long-term growth and stable performance and distributions in the future.
18. Number of days in the 2nd period is 71 days from November 22, 2013 to January 31, 2014.
19. This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

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Asset Manager: AEON Reit Management Co., Ltd.

(Registration of financial instruments business: Kanto Local Finance Bureau, Director-General (Financial Instruments), No. 2668)

Contact Information

Please contact us if any questions:

Finance and Planning Department

AEON Reit Management Co., Ltd.

TEL: 03-5283-6361