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By having outside directors participate in discussions that form decision-making and by having them present proposals leveraging their independent status, we aim for enhanced management checks and the development of a corporate culture where open and diverse discussions can be realized.

We are now into the third year since reforms to Japanese governance codes were introduced. What is being demanded is a transition from “the letter of the law” to “the spirit of the law.” At Aeon Mall, two Outside Directors and three Outside Audit & Supervisory Board Members constitute our board of outside directors. Given the trends, the expected role of outside directors, such as enhancement of checking functions, is likely to become ever more important. In a continuation of what we began last year, we again decided to host an outside director discussion panel to exchange views on prior year activities, the appraisal on the effectiveness of our board meetings, proposals for the new mid-term plan (which begins this year), and the role of outside directors.

A Review of the Past Year

We sense that management has been sincere and quick in implementing ideas and proposals from the outside directors

SUZUKI: As outside directors last year, besides the monthly board meetings, we were able to have regular meetings with the President and CEO – Mr. Akio Yoshida, for exchange of opinions. At pre-resolution briefings held before board meetings, we had the opportunity to make a variety of proposals. We also had separate monthly meetings for the outside directors where amongst other things, active information sharing was made possible. And today, as we review the activities of the past year as outside directors, I ask you to present your views on such things as the level of collaboration you received from the CEO and the quality of board meetings.

TAIRA: My impression is that beginning with the CEO, all of the executive directors, as a company stance, have made great efforts to listen to the opinions of outside directors. As an example, to date, I have emphasized the importance of a business strategy from a longer-term perspective. And indeed, with the new medium-term plan that began this year, it was explained to me that from the very start, the plan was developed with a view on what the company aspires to look like in 2025. This formed the starting point for each of the business targets in the plan. I got the strong sense that at initiatives were being carefully chosen based on what was and was not necessary for the company. I believe that between the executive side and us outside directors, a new level of trust is being created.

SUZUKI: Given our activities over the past year, I sense the executive directors’ appreciation of “one of the important roles of outside directors is scrutinizing the decision making process,” has deepened.

ICHIGE: On the role and positioning of outside directors, I believe the key here is how the CEO, the leader, understands the situation and how well those views are shared by the ranks of executive directors. The year before last, immediately after the arrival of CEO Yoshida, there was a meeting between him and the outside directors. At that meeting, and this made a lasting impression on me, CEO Yoshida articulated five tasks that he expected of the outside directors and proceeded to explain in clear detail



what exactly he meant. As outside directors, we tend to make comments with the knowledge that some executives will dismiss our opinions as “coming from people who don’t know the business.” But at Aeon Mall, starting with CEO Yoshida, the executive directors take notes and listen attentively creating an easy atmosphere for comments. This, I believe, is fabulous. The effort to bring in diverse opinions, or put another way, the effort to realize “inclusion” is in my opinion very proactive.

KAWABATA: For me, the past year represented a year in which I was able to confirm CEO Yoshida’s speed and expeditiousness. Relative to our opinions, he would listen attentively and say “interesting … I hadn’t thought of that.” Impressively, if he liked what he heard, he would take immediate action. In particular, the past year saw the efforts to improve the Board of Directors via implementation of the “Appraisal of the Effectiveness of the Board of Directors” which had been categorized as an “Explain” item. This past March, the company wrote-up and implemented the “Related-Party Transaction Management Rules.” Finally, the company conducted a risk survey to identify risks associated with business strategy. Such initiatives makes one believe the company’s efforts to improve itself are true. In another example, I put forth the issue of nurturing and grooming future leadership as a business risk item. The issue was actually brought up in discussion meetings and that is something worthy of praise.



Footnotes

1. The five tasks that CEO Yoshida expected of the outside directors are as follows:

- (1) Ascertain whether “corporate normal” is not in fact “societal abnormal” and vice versa.
- (2) Ascertain whether daily business execution is in-line with long-term corporate objectives.
- (3) Ascertain the rationality / suitability of judgement that lead to final decision-making.
- (4) Check for signs of bureaucratic thinking, organizational silos, and risk aversion tendencies common to large companies.
- (5) Leverage your unique career experiences and make advice from diverse vantage points (especially those from women).

2. Risk Survey: Conducted a review of risk in line with “Risk Management Rules.”

SUZUKI: As regards to the “Appraisal of the Effectiveness of the Board of Directors,” the results of a survey of all directors were reviewed by the outside directors. Currently, the executive directors are conducting a review. Public disclosure via a report on corporate governance is expected during the first half of the fiscal year. As regards to the “Related-Party Transaction Management Rules,” there does not yet exist any transaction that relates to the newly established management rules. Going forward, however, in the event a relevant transaction is proposed by the executive side, the board aims to ensure strict observance on an “arm’s length” basis. It is easy to make rules, but in actual practice the observance and rational execution of such rules can be difficult. Regarding the risk survey, it is very important to decide who manages what type of risk. As such, as outside directors, we aim to ensure that the manner in which risk management is being executed is efficient.

Appraisal of the Effectiveness of the Board of Directors

Cultivation of a Deliberative Culture and the Importance of Balancing Acceleration and Braking

SUZUKI: Whilst all of us outside directors believe that the executive directors are responsive and expeditious relative to our proposals, there still remains challenges pertaining to furthering corporate value. For the next topic, I would like your opinions on what areas need strengthening as the company moves to enhance the role of governance and the supervisory function.

ICHIGE: Before we get into the Appraisal of the Effectiveness of the Board of Directors, I took the liberty of presenting problems relating to the appraisal assumptions for “The Monitoring Function of the Board of Directors.” Specifically, I questioned the issue of the type of board the company wishes us to aspire to. As outside directors, do we look to the western model where monitoring is the primary function or do we look to some hybrid model where the Board of Directors serves as both a decision making body as well as a monitoring body. The point that I wanted to make is that it is only after the company reaches some common ground here



that we as outside directors are able to begin the appraisal process. In answer to this, CEO Yoshida explained to us his personal views on the role of the Board of Directors. The fact that we were able to take the survey with this knowledge was to me a very good development. My personal view on the basic role of the Board of Directors is that it monitor and make comment on progress on how the CEO and other executive directors fulfill their responsibilities over the medium-term, long-term and even 10-years into the future. As such, deeper discussions here are probably needed.

KAWABATA: I too am of the view that we as a company have arrived at that point where we need to review the issue of the role of the Board of Directors. In particular, regarding the survey result, the point worth noting is that each of the directors senses “a need for more discussions.” Directors having responsibilities in specific management areas are strong when it comes to discussions covering their own specialties. But when it comes to issues encompassing the company as a whole, I sense there is still quite a bit of weakness. For real activation of the Board of Directors, I think it is key to create a culture of deliberation. As a company, we have a medium-term plan and a clear vision of the company for the year 2025. If we are able to further discussions on how one executes business to reach those goals, not only in terms of numbers, but in a qualitative way, that would be good.

SUZUKI: Yes, regarding the issue of the board of directors and their monitoring of executive directors in their performance, a similar issue arose in last year’s discussion table. Specifically, it had to do with a tendency to not speak up when it came to issues outside one’s immediate area of responsibility. On this though, what sort of advice do you think we as outside directors should provide?

KAWABATA: Mr. Muramatsu (Outside Audit & Supervisory Board Member) had the idea of adding a new subject category called “Deliberations” to complement “Resolutions” and “Briefings” in board meetings. This could be important to help create a regular venue for all directors to deliberate issues which ultimately serves to create a culture of deliberations.

MURAMATSU: I made a point of noting to CEO Yoshida that for us outside directors, there was little opportunity to hear the arguments and/or the background leading up to key decisions, such as large investments, before being presented



to the board. As a solution, the company now has briefings of the major arguments of management discussions which makes for what I feel have been highly comprehensible and open board meeting. As one example, there is the issue of significant increase in risk associated with greater investment overseas. As one remedy, I would suggest the strengthening of internal checking functions to measure investment returns. The formation of a new committee for such a purpose could help. Of course, past investments have been implemented only after thorough review. But given that overseas investments will accelerate, there is the risk that “the law of inertia” will take hold and braking mechanisms may not work even where an investment may be dangerous. It is probably best to think of a management structure where for any given project, both a business promotion and a business braking unit exist. From the very early stages, the two units could actively deliberate and determine business policy.

SUZUKI: The creation and necessity of a unit devoted to braking functions is easy to comprehend, but more difficult when it comes to actual implementation. It will probably be necessary for the outside directors to formulate a concrete plan.

ICHIGE: For Japanese companies going forward, it will not likely be possible to draw-up a growth strategy without a strong dose of innovation. Put another way, business models adhering to simple extrapolation of past practice and/or remaining over-dependent on past successes will likely find themselves in trouble. Key here is the degree of innovation and/or the dynamism of the business portfolio. This is the type of change that is being demanded today. In pressing areas like e-commerce and overseas expansion, there is the need to move quickly in the face of competition. There are times when speed is everything. On the other hand, one can say that it is precisely because one moves fast that one also requires appropriate braking power. It is my view that this balanced relationship between acceleration and braking is extremely important and it is this mechanism that is being demanded to today’s corporate governance.

MURAMATSU: It is entirely probable that whilst the quantitative analysis suggests applying the brakes, management decision based on a broader comprehensive view and other qualitative factors may still give a project a go ahead. In fact, it is important to be able to rationally proceed with a project despite the risks if they are understood. What

is frightening is going ahead without knowledge of the risks. **SUZUKI:** Another point of issue has to do with insufficient information channels to outside directors regarding changes to large investments that have already been approved.

Specifically, there are instances where the business environment for a new mall changes significantly from the point in time when an investment decision was made, and the time of mall opening. This would likely necessitate changes to the original plans. To correct this issue and to ensure outside directors are fully able to carry out their responsibilities, the company now has its executive directors report to the outside directors on such changes. I am reminded that for Aeon Mall, mall investments amount to the single largest category of investment. Given the above, the outside directors should now be able to actively express their opinions on changes as part of their overall monitoring activities. The effort to reduce losses from risk factors by even a little is deemed to be a necessary task.

Toward Realization of the Medium-Term Plan
The Danger of Corporate-wide Management Issues Falling through the Cracks in a Sea of Unit Business Strategies

SUZUKI: What are your views with respect to the Medium-term Plan, management challenges that the company should actively address, business strategy, and/or your level of participation in the formulation of the medium-term plan?

KAWABATA: In view of the risk survey and as it relates to corporate strategy, the big risk item I perceive lies in leadership succession, or more precisely the issue of nurturing next generation executives. In particular, we as a company are approaching that point in time when the overseas operations are beginning to generate profits. As they become pillars of growth, the issue of nurturing, not only Japanese, but local executives becomes in my view an urgent strategic matter.

SUZUKI: Yes, I agree that to secure medium to long-term growth, the issue of nurturing executives and promoting diversity are highly important. From a diversity angle, whilst the percentage of women executives has been rising, if we think about the speed of overseas expansion, the company will probably require a concrete roadmap of sorts for higher participation of foreign managers.





MURAMATSU: When it comes to hands-on, in-the-field strategic issues viewed from the angle of marketing, customer relations, competition, etc., we as outside directors are not really in a position to make comment. On the other hand, when it comes to wholistic corporate strategy viewed from the angle of markets, industry, socio-economic factors, etc., we as outside directors can be said to have the responsibility to check, using a variety of analytical tools, that decision making is proper. We take again the example of “the Law of Inertia.” For any given project, we need to actively determine whether brakes should be applied in cases where something is moving along simply on inertia and the inability of the company to actively stop it.

TAIRA: In looking at Aeon Mall’s business both domestically and overseas, success has been a function of sustained and steady efforts in laying the groundwork. I recall that not too long ago, a business publication ranked Aeon Mall within the top 10 in the area of CSR-related activities. It occurred to me that like HR and diversity, it might make sense to promote, at the mall level, more aggressively the non-financial information included in the CSR. Of course the issue of profit is an important one, but by sustaining CSR-type growth, support from customers, local communities, and the specialty stores, can be had. Yes, I would like to see Aeon Mall become a mall that garners support naturally.

SUZUKI: Since Mr. Yoshida became CEO, he has frequently used the work “localization” to describe a situation where it is not HQ that thinks about ideas to attract customers, but the employees of each of the malls that do so. It is up to each of the malls to determine what is demanded from their respective communities and what services the malls can offer to the communities they serve. It is through such an approach that CEO Yoshida aims to become the No. 1 mall in any given area. We can take the example of EV charging stations that are installed at all our malls. A new approach in the way they are advertised or some help from public relations could lead to a situation where they take a life of their own.

ICHIGE: When it comes to creating strategies for the medium-term plan, it is most certainly the executive side that emerges as the professional. But I think one way in which we as outside directors can contribute is to present the simple question of “why not” for those things the company has never tried. In my case, there are two things I have tried to bring up at board meetings. One is to question if the level of IT spending might not be too low. It is said that there is correlation between a company’s IT investment ratio and

its business performance, but inclusive of Aeon Mall, the Aeon Group as a whole has lots in the way of Big Data. It is my view that the leveraging of such data in IT technology, including AI, would seem to be quite important. The second point has to do with a company’s brand strategy. Specifically, think about to whom you are selling and what are you selling. Aeon Mall’s motto of “a developer designing lifestyles” is probably directed to the end-consumer. But as a developer Aeon Mall’s source of revenues is the leasing income it derives from tenants. Relative to those tenants, who are the direct source of Aeon Mall’s revenues, how is the company’s brand value recognized? I’ve not heard much at board meetings on this issue. Brand value is about customer drawing power. Whilst it is quite apparent that the Aeon Group’s brand value relative to the consumer is quite high, what of Aeon Mall’s brand value relative to tenants? It is on this issue that I have made comment as to whether or not we as a company should have more discussions.

SUZUKI: Directors who also have executive duties tend to be highly knowledgeable about their areas of responsibility. But when it comes to fundamental issues such as nurturing of human resources, diversity, IT, and brand strategy, responsibilities and clear lines of management are often obscure. Addressing this issue and corrective measures are perhaps areas where we as outside directors should be making proposals. Already, we have been made aware of the company’s overall IT investment plans via discussions with the CEO. But there remains the possibility that execution will fall behind plans unless we consistently check on progress say once every quarter. The Aeon Group operates a retail businesses (GMS operations being the core), a comprehensive financial services business, and a real estate developer business amongst others. As such, the issue of how Aeon Group’s customer data and the large amounts of mall operation data can be effectively utilized becomes quite important.

ICHIGE: One other point worth noting is that Aeon Mall is listed subsidiary which is to say there are general shareholders as well as a parent shareholder. This issue is also something that is actually not often discussed at board meetings. From a corporate governance code perspective, there is a conflict of interest and outside directors in such case are required to speak on behalf of general shareholders. In the case of Aeon Mall, however, where it comes to the goal of “enhancing corporate value,” the interests of the controlling shareholder – the parent, and general shareholders are not in conflict, but very much in synch. So whilst we outside directors have a tendency to make comment solely as representatives of the general shareholder, it would perhaps be better if communication with the parent were strengthened to allow for confirmation of the company’s position as part of the parent’s and the whole of the group’s business strategy.

The Functional Roles Expected of Outside Directors and Future Initiatives

Leveraging our Outside Status to Avoid the Ill Effects of Internal “Law of Inertia” and Further Enhancement of Checking Functions

SUZUKI: I would like to ask how each of you, as outside directors, see your expected functional roles and what future

initiatives you have in mind.

MURAMATSU: To the extent the company has highlighted “Appropriateness of Investment Decision-making” as one of the most important issues in the medium-term plan, I would like to investigate the possibilities here in terms of minimization of risk. I myself will be required to study up here, but would look forward to sharing any gained wisdom.

TAIRA: I believe the company needs to conduct an important review regarding the issue of conflict of interests. With enforcement of the Related-Party Transaction Management Rules, I would like to ensure the company has proper implementation and execution.

ICHIGE: I believe my first and foremost responsibility is to point out to the board those opinions and thoughts held by internal staff that are difficult to mention precisely because they are insiders. CEO Yoshida has demonstrated his eagerness to listen and so going forward, I would like to continue to convey those issues not recognized by management. At the same time, I plan to dutifully exercise my checking responsibilities.

KAWABATA: To date I have been able to participate in audit committee meetings as an observer. In small settings I have been able to listen to the gut views of the executive side and deliberate variety of issues with them. It would be good if the “culture of deliberation” takes a firm cultural foothold in the company. Separately, we outside directors were given the opportunity to visit the company’s malls in China and Vietnam. We also visited potential sites for new malls. To think that in the vastness of open land, a new Aeon Mall would emerge, along with condominiums, a hospital, and a university, put simply new a city, was startling. The sheer magnitude of it all was overwhelming. Having seen first-hand the sites where the company would be making enormous investments, I was able to gain a deeper understanding of the role of Aeon Mall in community building. Going forward, in my capacity as an outside director, I would like to ascertain, with my own eyes, the implementation of these large investments as well as providing a check on the appropriateness of the investment decision-making process itself.



SUZUKI: The role of corporate auditors, who do not have executive powers, is to provide advice to the executive directors from the perspective of rationality and suitability. Indeed, a challenge facing the company is the issue of how one builds a proper management structure as the company grows to over 200 malls (including overseas) in several years time. Currently, if one were to ask whether decisions made at the HQ and/or business divisional head level would be relayed accurately to the mall general manager the following day, the answer would be that there is still some work to be done. One could argue also that work needs to be done in clarifying who reports to which executive regarding feedback from the field. Currently, one senses that too often, the communication line between management and the field is a one-way street from the former to the latter. There is therefore the need to determine whether Aeon Mall’s organizational structures are allowing for problems in the field to be conveyed properly in efficient and effective ways, to management. Corporate auditors could play a role here. I plan on making such a proposal.

Thank you all very much for your participation today.

