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* An Independent Officer is an outside director or outside Audit & Supervisory Board member who poses no risk of a conflict of interest with minority shareholders in accordance with the Securities Listing Regulations of the Tokyo Stock Exchange.

Round-Table Discussion with Outside Officers

Toward a Global Company comprising a work force and value-set rich in diversity that creates 'Future Living' in Japan and Asia

Two outside directors and three outside auditors are enrolled at AEON MALL. They apply an objective perspective and specialist knowledge to check management of the company and thereby help raise corporate value. For the third consecutive year, we invited them to a round-table talk to review activities over the past year and to share their views and suggestions on company policies for FY2018 and other issues such as corporate governance.

* This round-table talk was held on March 2, 2018.

A Look Back at the Past Year

The outside directors participated in drawing-up the long-term vision to 2025

Suzuki: Let us begin this, the third outside director round-table talk, by looking back at the activities of the past year and how various issues panned out. Please also give your thoughts on, and impressions of, the domestic and overseas mall inspection visits in which you participated last year.

Taira: It was about three years ago that I asked President Yoshida about AEON MALL's medium to long-term targets. I get the feeling that during the period since, the Company's medium to long-term strategy has evolved significantly. A long-term vision for the Company, "AEON MALL in 2025" has been laid out, and a new medium-term management plan was launched in FY2017. I think the fact that we outside directors were given the opportunity to express our views and participate in the process of drafting both items was in itself significant progress. Since FY2016 we have also been participants in the Aeon Shop Association "Diversity Promotion Group" where we submitted various proposals. It was out of such activities that, employing Aeon Retail's logistics network, the shopping service for specialty store employees was born. Just one example of progress over the past year in the areas of effective use of Group resources as well.

Suzuki: This is an extremely interesting initiative from the perspective of elevating mall employee satisfaction (ES) that includes tenant specialty store staff. Further developing such ideas to build a sort of Group-internal ecosystem with malls at its center would, I believe, bring an even stronger sense of unity to those who work within their walls.

Taira: There was also a lot to be discovered by actually



going to inspect malls – things not communicable in meetings alone. My feeling was that I'd very much like to see the "Happiness Mall" initiative rolled out in every mall.

Kawabata: As Ms. Taira said, last year was one in which we were able to confirm the AEON MALL growth story. President Yoshida has articulated the shape the business is to take in 2025, and the growth initiatives to make that reality have been making steady progress. One extremely important milestone was the real prospect of operating profits being posted in the overseas business, the largest driver of medium to long-term growth.

Suzuki: I think in last year's round-table talk, you pointed out the importance of nurturing overseas staff.

Kawabata: Visiting malls in China, Indonesia and Vietnam reminded me how important that is. There are extremely talented people, both Japanese and local, working at the malls. I sense that furthering greater depth in such personnel will be key to invigorate AEON MALL on the path to 2025.

Ichige: It is likely that AEON MALL's operating environment will undergo considerable change going forward. There can be no doubt that the positioning of the overseas business within the overall growth strategy will be of ever greater importance against the backdrop of a shrinking domestic market. It is also vital that the company responds in a manner apposite to technological advances in logistics, marketing and the like. The fact that today there exists a future vision taking such environmental changes into consideration is, therefore, a significant achievement.

Suzuki: Ms. Ichige, I think you have continuously stressed the importance of bolstering risk management.

Ichige: Yes, because when implementing an offensive strategy, it becomes more important than ever to fully recognise where the risks lie. In this regard, the fact that the Company implemented two years ago, a company-wide risk survey and developed a risk map was

enormous prospect I would think. Further, on the operational side of risk management, I felt I was also able to confirm PDCA functionality last year when doubts I voiced over a certain survey triggered an immediate additional survey that ultimately resulted in improvements being made.

Muramatsu: AEON MALL's business model is unique in that it provides a platform to the retail industry and is therefore neither simply a retailer nor a developer. This presents an issue when deciding which indicator to use to measure the profitability of investment projects. This is something I have been considering since my appointment to the Audit and Supervisory Board. Indicators such as ROE, ROA and ROIC are extremely important, but because they are expressed as a percentage or a multiple, conditions can mean they do not reflect management's sense of the qualitative state of affairs. I think it is worth considering the use of an absolute sum indicator like EVA (Economic Value Added) as well.

Suzuki: This year, you visited a good number of malls. What was your impression?

Muramatsu: Regarding domestic malls, I felt that with regional economies in stagnation, greater acceleration in regional shift is required. Whilst from the malls in China and the ASEAN region, I felt the raw power associated with areas that continue to economic expansion. Talking to local employees I had a sense of sympathy or serendipity that "along with these individuals, AEON MALL will also grow."

Kawabata: When we build a mall overseas on vast unoccupied land in particular, we can see the development of entirely new communities as new residence, schools, hospitals et al are built in surrounding areas. In short, the development of a mall is triggering the development of multi-faceted communities.

Muramatsu: There is a widening view recently that when assessing corporate value, ESG performance should be



taken in consideration besides financial performance. Viewed from the perspective of "enriching lives in local communities", AEON MALL's overseas investments can be viewed as ESG investment itself. As such, I believe, Aeon Mall's efforts have great future prospects.

Suzuki: What you describe, Mr. Muramatsu, is in fact AEON's corporate philosophy in a nutshell. AEON's guiding principles are to serve the "customer first", to pursue "peace", to respect "individuals", and to contribute to the "local community". I think the company's business in Asia, on the threshold of dynamic development, is an extremely easy to understand embodiment of these principles.

Muramatsu: Going forward, I think there needs to be greater personnel exchange among local employees overseas and employees in Japan. Through such exchanges, I would like local employees to share and understand AEON MALL's values and principles. In turn, I would like young Japanese employees to travel to overseas malls and feel for themselves the passion and the power that is inherent in developing communities.

Suzuki: An issue that I have sensed over the past year, one that I spoke about last year, is "management in keeping with a growing organisation". In the course of visiting several malls, I actually found cases where instructions and other output from senior management meetings were not being adequately communicated to the shop floor. I got the feeling that more thorough application of policy, stronger communication between HQ and field staff, and application of PDCA was required. In short, a stronger organization capable of solving problems is required.

In the Aftermath of the Announcement of the FY2018 Plans

Making effective use of digitalization whilst successfully responding to e-commerce and its expansion

Suzuki: In the wake of the FY2018 Management Plan and the various divisional business guidelines, I would like to ask for your impressions, assessment and any thoughts on potential issues.

Kawabata: Since last fiscal year we have been involved in the management plan drafting process. This year, we outside directors were given the opportunity to participate and voice our opinions at preliminary discussions when plans were still only being considered. This allowed me to gain an extremely good understanding of the thinking behind AEON MALL's plans through 2025. Various



initiatives were discussed, and I noticed that people from all divisions spoke most passionately was the “Happiness Mall” initiative. Indeed, from a health and wellness perspective, there is an effort by the staff of the Aeon Shop Association’s specialty stores and tenants, together with the Company, to make Aeon Malls still more attractive. When such efforts succeed and take concrete form, it would constitute something beneficial that can only be offered by, and experienced in, a physical store that online shopping cannot offer.

Ichige: AEON MALL’s business model is neither B2B nor B2C, but what might appropriately be called a unique B2B2C. What makes the company special is that it does not only provides tenants, its direct clients, with a platform, but also offers a variety of services designed from the customer’s point of view. Indeed, looking at this year’s plans, I felt it was the result of approaching issues from the perspective of both tenants and customers. Take what has been factored into the digitalization initiative as an example: as well as targeting cost reduction via efficient operations and labor-saving measures, initiatives also include enhancing customer convenience, growing customer traffic and increasing sales.

Suzuki: That shows, I think, that AEON MALL continues to carry its retail DNA roots. Firmly rooted within Aeon Mall is the notion that a mall is not just a business that is OK attracting specialty store tenants – a mall requires placing utmost importance on attracting more customers and ensuring their satisfaction. That this comes naturally to the company is one of its strengths, but it is an area for which more awareness initiatives will be needed going forward as domestic and overseas business growth.

Muramatsu: I have for some time thought that “how the company conveys the AEON MALL brand image” could be an issue. With the announcement of the management plan, as I listened to explanations of the “Happiness Mall” and/or overseas businesses, I thought about the possibility of a

corporate image that might convey messages as “doing something fun” or “creating new towns in Asia” ... images providing people hope for the future.

Kawabata: With the wide penetration of the name and image of “Aeon,” it is not uncommon for our malls to be introduced as “Aeon’s Shopping Mall”. I get the feeling that whilst AEON MALL is known throughout Japan, what AEON MALL Co., Ltd as a company does is actually not so well known. If social areas in which the company is deeply involved are highlighted and properly communicated as Mr. Muramatsu proposes, I believe AEON MALL’s presence as a company will benefit and its appeal to young people will grow.

Taira: Within the new management plan, initiatives relating to digitalization was one area I sensed potential issue. How the Company responds to the expanding e-commerce challenge should certainly become an important management issue going forward.

Suzuki: Whilst I felt there was good recognition of such issues, awareness of risk, as well as a sense of enthusiasm in the presentation of the plans, and whilst it included several concrete measures, the challenges of how to quickly put ideas into practice and develop them over the medium-term are, I think, likely to become major issues.

Taira: I think AEON MALL’s biggest strength has to be its ability to draw customers in. The company is currently making the most of offline geographical advantages to increase this drawing power, but going forward. I feel thought needs to be given to how to cleverly add digital technology into the mix and turn drawing power into earnings. Whilst the mandate is a difficult one that requires new innovative thinking, this past March the Digital Promotions Division was established with a female general manager at the helm. I look forward to coming developments.

Suzuki: The newly created Digital Promotions Division



goes beyond current organizational frameworks and has been tasked with building an omni-channel business model that makes use of the company's offline strengths, beefing-up customer services, and generating profits from online business. I think that in addition to this sort of cross-organizational structure, more effective use of external resources could be an important factor in AEON MALL expediting its digitalization roll out. In recent years manufacturers have been focusing on developing new products and businesses through open innovation. Perhaps the Aeon Mall should also take up the challenge of creating new business through collaboration with not only IT, but with a variety of other industry players.

Towards Stronger Corporate Governance

Maintaining governance effectiveness, whilst pursuing Board of Director diversity

Suzuki: The Corporate Governance Code will be revised this year to include items such as "Establishment of Board of Director Diversity". Given such moves, I invite your opinions on AEON MALL's corporate governance and the role of the Board of Directors.

Ichige: Last year we carried out an assessment of the Board of Directors' effectiveness. Looking at the results, I think that when it comes to monitoring of current business performance, the effectiveness of the Board is solid. That said, an issue that will need addressing going forward is the monitoring of medium to long-term business strategies. For long-term shareholders, it is not only the current state of the business that is important, but also how that business can be expected to grow in the future. To demonstrate this there is a need for monitoring of policy initiatives, such as personnel training and organizational reform in accordance with medium to



long-term strategy. Going forward, I think there is need for discussion as to how this can be realized as a function of the Board.

Muramatsu: Of utmost importance when bolstering governance is the creation of a stage that enables governance to properly function. For example, a Board of Director management model requires outside directors who understand the specifics of an industry. Similarly, a monitoring model requires individuals who are expert in areas such as data analysis and risk management.

Taira: As you say, I think appropriate ongoing deliberation is required for issues such as the composition of the Board that includes Outside Directors, or criteria for Director remuneration. For Aeon Mall to increase its corporate value over the long term, the issue of what constitutes an optimal governance structure needs to be viewed from the same perspective as its shareholders.

Kawabata: I think the search for the proper form of governance will probably translate into improving "Diversity in the Board of Directors" over the medium to long term. A key acronym when looking at diversity is "GEG". The first G stands for Gender (social and/or cultural sexuality) diversity and refers to how important it is that women be encouraged in their work, and that those with talent be appointed to the Board. The E stands for Ethnicity and refers to the appointment of an ethnically diverse range of people. If the company's long-term vision is made reality, 35% of profits will be generated by overseas business in 2025. As the importance of overseas business grows, it follows that a seat on the Board will be occupied by someone from overseas. The final letter G stands for Generation and refers to the utilization of young personnel.

Suzuki: There is a possibility, for example, that a Board that drafted a 10-year long-term plan will lack any of the Board members that voted on it ten years hence. Thus,



from the perspective of responsible decision-making, from the perspective of securing diverse opinions, it would seem extremely important to have young persons participate in management.

Kawabata: Earlier we touched on the probability that digitalization will become ever more important. In order to harness and make effective use of new developments in IT such as AI and IoT, the strength of young persons well-versed in these technologies will likely be needed. I would hope that as such employees develop and participate in management, AEON MALL will turn to be the sort of company that can get ahead of the curve and create new businesses.

Outlook for FY2018

Reinforcement of internal control monitoring with overseas business expansion

Suzuki: Finally, please let us know which activity you, as an outside director, are looking to focus on going forward.

Muramatsu: Last year I was given the opportunity to inspect a large number of malls and learned a great deal in the process. Going forward, I hope I will be able to give useful advice not only from a numbers angle, but from real personal experience of the various management issues facing the Company.

Taira: I understand that both the Chinese and ASEAN businesses are expected to turn in an operating profit this year. It will be epoch-making for a Japanese retail

company to make a profit overseas and I certainly plan to be around to welcome the event.

Kawabata: To date, through the Supervisory Board and other activities, I have had many opportunities to talk with executives and managers. I have also been able to meet with younger employees at home and abroad, through visits to malls. Going forward, I hope to have proactive dialogue with AEON MALL employees and be involved in the process of finding and developing the managers of the future.

Ichige: As an auditor, I am most interested in whether internal controls are functioning properly. Going forward I intend to remain in close communication with the Internal Audit Division. Also, in the name of making effective use of group resources, I am thinking that it might be a good idea to create opportunities for information/ opinion exchange amongst the group companies.

Suzuki: There are several companies in the Group with outside directors. It might, in fact, be interesting to organize meetings amongst group outside directors for information and opinion sharing. Like Ms. Ichige, I think I will be focusing my efforts on internal controls. In particular, it is vital that controls are reinforced when businesses make the transition from establishment to growth as is the case with the overseas subsidiaries. Internal controls need to match expanding business. To prevent situations where internal control rules requiring revisions are left to ad hoc operational responses and/or situations where there is inconsistency between parent and subsidiary, I plan to conduct my monitoring responsibilities as a high priority issue. Thank you all for today.

