

Round Table Discussion With Outside Directors and Outside Corporate Auditors



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Meeting AEON MALL Challenges and Generating Future Growth Through the Prism of ESG

AEON MALL is pleased to have two outside directors and three outside members of the Audit and Supervisory Board as part of the company's oversight team. These individuals make significant contributions to corporate value growth at AEON MALL by lending their objectivity and expertise to our business. This year marks the fourth round table for our outside officers, who shared their insights related to ESG-based management, a topic of interest expressed by many long-term investors.

* Discussion held on March 8, 2019.

Sustainable Growth and Social Value Creation: The Social Significance of AEON MALL

Watanabe AEON MALL defined a long-term vision in *Vision for 2025*, aiming to implement our management philosophy more precisely and drive greater growth in the face of rapid changes in our business environment. At present, we are executing on the third year of a three-year business plan based on this long-term vision. Our outside officers provide their input about this plan and related policies at the company's Policy Meeting.

In today's round table discussion, we will address ESG-based management topics as they relate to the AEON MALL medium- and long-term strategies. I want to start with everyone's thoughts on the social significance of AEON MALL from the standpoints of sustainable growth and social value creation.

Taira One of our best-known initiatives is our Happiness Mall events and services that build on the important ties to the local community. We are creating community-based malls that serve as a center for encouraging interactions among people in the local community. People say that neighborhood relationships have become weaker in this age of the internet. Our initiatives to create stronger bonds within the community are perfectly in line with our business concept of building malls that grow together with the community.



AEON MALL sponsors events that provide an opportunity and space for the community to come together in love and support. In this way, we help the people of our communities live happier lives. Many of our tenants say that they want to participate, too. These events create more value around the AEON brand, which leads to more profits and so on in a virtuous cycle. Isn't this what we want when we talk about creating sustainable social value growth?

As one measure toward diversity, we offer AEON Yume-Mirai (Dreams for the Future) Nursery Schools. At present, the AEON Group operates 25 nursery schools, 18 of which are in AEON MALL facilities. The nursery school isn't just for working mothers. They are every bit as necessary for working fathers and every person who works in the mall, which is a wonderful support mechanism. The schools are open during mall hours, which lets employees work without worrying about the time. Not many other nursery schools can provide this benefit. In the future, I hope to see people from the local community taking advantage of our nursery schools as well.

Kawabata I want to address three topics related to the environment. First, I want to stress that AEON MALL makes good on our promises about the environment. The AEON Group business cards are printed with the slogan, "Planting



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Seeds of Growth.” This refers to our extensive tree planting activities. We have even declared that we manage our company based on principles of sustainability.

Prior to opening a new mall, we work with families in the community to plant trees in and around the area. This AEON Hometown Forestry Program has been a policy at AEON MALL for many years. In June 2018, nearly 700 people came to plant 7,000 trees at the AEON MALL Iwaki Onahama complex. More recently, we planted cherry trees in Vietnam, supporting the *Hanoi City 1 Million Tree Plan*. Japanese cherry trees don’t thrive in the Vietnamese climate, so we have planted a special variety for three years running. When these trees finally blossom, I think people will recognize the wonderful contribution we have made to the city and the country.

Second, we have launched several energy initiatives to prevent global warming. AEON MALL has set numerical goals for CO₂ emission reductions, aiming to halve our energy usage by 2020 as compared to 2010 levels. One specific tactic is the use of LED lights in the common areas of our malls. We have also noted the global growth of electric vehicles. Here, we have installed 1,829 electric vehicle chargers across 146 malls in Japan. In China, where EV is growing rapidly, we have already installed 503 chargers across 12 malls. I can say clearly that we are promoting environmental preservation within and through our business activities.

Third, we offer our communities an enjoyable, comfortable environment. Rather than environment per se, I should say that we are starting a revolution in hygienic environments. We are known in Asia, in particular, as having clean, easy-to-use bathrooms in our malls. When I visited Cambodia in January of this year, I was deeply impressed to hear the locals use the term “pre-AEON/post-AEON.” We aren’t just famous for our bathrooms, either. AEON MALL Sen Sok City, our second mall in Cambodia, features a brilliant combination of sports and entertainment facilities. Local citizens have never seen the likes of the

lifestyles encouraged by this advanced shopping complex. After opening our first location in Phnom Penh in 2014, more than ten other modern commercial facilities have been constructed. The local media is saying the city has gone through a complete change. The opening of an AEON MALL has raised the bar for hygiene and lifestyles in the local community. I have come to understand the important role AEON MALL’s business plays in the social infrastructure.

Watanabe I visited Cambodia in 2014, but the city was completely different when I went again last year. I truly experienced the meaning of pre-AEON/post-AEON. I gained a new appreciation for how important our contributions can be in a developing economy.



Ichige I want to talk about how the AEON MALL business model itself contributes to society. In the ASEAN countries, recent conflicts have meant that many in the working-age generation have lost their lives. Today, the average age in Vietnam is 30 years, while the average age in Cambodia is around 25. The populations of these countries skew very young. We expect the economies of these countries to develop in the future. At the same time, these countries have a deep desire for peace. They want happiness. They want to smile.

Our role in delivering value is as a Life Design

Developer creating the future of community living. I think there is no better place than these countries for us to do so. In Japan and overseas, we raise the quality of life for local communities, setting a higher standard for happiness. I believe our initiatives in pursuit of this vision line up perfectly with ESG-based management.

After becoming president, Mr. Yoshida invited a variety of opinions before announcing our Vision for 2025. I think it is excellent that we have attached numerical targets to each step along the path toward practical achievement of this vision. Of course, we are not simply forging ahead to achieve numbers. When we perform a rolling update to our medium-term plan, we must look back on the relationships to our philosophy and core values, focusing on what we can do as a Life Design Developer to reach our long-term vision.

Muramatsu Looking back over the past 10 years in Japan, we see that more companies are trying to figure out how to highlight their CSR activities. More companies are incorporating CSR into the mainstream of their corporate activities. Looking at AEON MALL CSR activities from this perspective, as Director Kawabata said, we have already been engaged in socially significant initiatives for quite some time. I think highlighting these activities will lead to improved recognition and approval of our brand.

I have experience working in several outlying regions in Japan, and I have felt personally the importance of AEON MALL to these communities. AEON MALL is more than just a shopping center. AEON MALL represents part of the surrounding social infrastructure, playing a role just as crucial as the public roads. Even more, AEON MALL serves as a focus for public activities, including blood drives, early voting, tax return filings, and more. Of particular note is the number of post offices located at AEON MALL facilities. These types of public services could be a key to our future growth.

Watanabe The company policy when I joined Jusco, the precursor to AEON Co., Ltd., was to *serve local*



communities through commerce. I think this fits with the S component of ESG. The AEON Group reinvented itself over a short span of time by responding to changes in society and always focusing on the customer first.

In fact, the AEON MALL basic philosophy now is *The Customer Comes First*. We have a mission to use the stage of our malls to share the best, most unforgettable experiences with our customers by working together with our tenants, who are members of AEON Store Association group. Our reward is the smiling faces and sincere words of gratitude from our customers.

I think respect for our customers, our partners, our vendors, our employees, and other stakeholders is the S in ESG; our contribution to society. Our mall business, with deep roots in retail, must always be a human- and peace-centric industry.

Next, I want to guide the discussion toward governance, which warrants a growth policy that capitalizes on the strengths of our business model. In that light, let's take a look back on fiscal 2018 and our assessment of the board of directors, areas of improvement, major discussions, and significant issues. Can you talk about contribution and controls related to the evaluations of the effectiveness of the board of directors last year? Also, please touch on the proceedings of the Management Council from the perspective of attending meetings as outside directors.

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A Governance Structure Ensuring Growth Policy That Leverages the Strengths of the AEON MALL Business Model

Ichige When we talk about G [Governance], we usually talk about complying with Japan's Corporate Governance Code. However, I wonder whether we are missing the point of governance in the first place. Some say governance is to prevent the all-too-frequent occurrences of corporate fraud and scandal. The preamble to the code says to "boost corporate profitability through aggressive governance." I think these are two sides of the same coin. We shouldn't forget that governance is to secure the effectiveness of corporate policies and growth strategy, while strengthening defenses at the same time.

Our Management Vision and Management Philosophy, serve as a foundation for growth strategy. From there, we must address how to implement board of director oversight and board member diversity with respect to our strategy. We must talk about what skills, experience, and character are required for the job. We established a Nomination and Compensation Committee in fiscal 2018. Here as well, it is important that we discuss the type of people needed to support growth, assuming our existing corporate growth strategies. Another issue with the Nomination and Compensation Committee is evaluating the performance

of those in charge of running the business. Our managers should be evaluated not only on current issues, but also on how well they perform their assigned mission in the context of growth and business strategies. Decisions about compensation and nomination (for board members) should be based on this evaluation.

President Yoshida was correct to outline our growth strategy as his first matter of business. The next step after growth strategy is to put together a governance structure ensuring the execution of this strategy. I think we are in this phase now.

At the same time, new areas of business and new business models entail risk. We must raise our level of internal controls and risk management to deal with these risks. I think the greatest legal risks when entering markets overseas are risks related to corruption and bribery. Last year we established a basic policy for preventing bribery. Now, we are conducting training based on this policy. Outsiders have commended us on our very detailed risk management structure and comprehensive rules. The next important item on our agenda is creating a mechanism for the board of directors to monitor our business.



Muramatsu In June 2018, the Tokyo Stock Exchange published its Revised Japan's Corporate Governance Code. The same month, the Financial Services Agency issued and enacted Guidelines for Investor and Company Engagement. These new rules gained considerable attention for the use of the phrase "cost of capital." AEON MALL is a business in which many investors and financial institutions entrust their capital, which we invest in significant amounts. Naturally, our minimum terms of investment require returns that exceed the cost of capital.

In Japan, soaring construction material costs have meant rising levels of investment per mall. While our businesses in Japan have been working to reduce mall operations costs, greater care in detailed profit and loss management at individual malls is necessary in an era where we can no longer expect rapidly rising growth rates.

At the same time, we are working in developing economies and countries with very strict government control over business. Here, one key to success is making investments that keep pace with the nation-building policies of the local government. Some business practices still reflect pre-modern customs, which can lead to corruption. If a fraudulent act is uncovered, it may not only affect a company's reputation, but also cause significant losses in a worst-case scenario. As we expand our presence overseas, the actions of our employees worldwide affect more than just their own personal lives. We must emphasize in the strongest terms, time and again, that the actions of employees can threaten the very existence of their employer.

Watanabe I see various on-site issues and problems when I go out and visit our operations. I understand it takes extra energy for employees overseas to hold to the Japanese sense of morals. Here, the company must provide proper support, rather than leaving such things to the individual alone. I think this point is reflected in President Yoshida's remark about emphasizing communication due to the distances involved.



Taira In addition to board of director meetings, I also attend the Management Council as part of my duties. I'm a bit concerned about how much time is spent in these meetings discussing operations. I think we should set more time aside to discuss important management issues and goals.

Our Corporate Governance Report includes a section titled, "Policy on Measures to Protect Minority Shareholders in Conducting Transactions With a Controlling Shareholder." This policy states, "[The Company] makes our own independent management decisions related to daily business operations...embracing a mutual respect for self-reliance and independence as we collectively strive for sustainable growth, development, and improved earnings. We believe that cooperating with group companies and maximizing synergies...will yield benefits to minority shareholder interests." In the discussion of the practices related to publicly traded subsidiaries, I think we should also address how to preserve unique identities while pursuing growth.

Today, four women serve as officers in AEON MALL. I was the first and only female officer for some time. We have certainly made progress in raising the number of female officers, but I still think there's room for more. Our Vision for 2025 defines a goal to bring our overseas business up to the same scale as our directly managed mall business in Japan. To achieve this goal, we have to consider adding more diversity to our board of directors, which means

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including non-Japanese members.

Kawabata I think creating the Nomination and Compensation Committee is one of the best things we have done for governance. Fiscal 2018 marked the second year we have conducted a survey of board effectiveness. Setting up a Nomination and Compensation Committee was the top priority discussed in the Corporate Governance Code.

Together with Ms. Taira, I also participate in the Management Council. In addition to the discussions there, we observe operations in Japan and overseas, as well as attend the Policy Meeting. These activities provide wonderful opportunities to meet with many outstanding members of our group. Seeing these energetic leaders gives me great hope about the individuals who will carry AEON MALL forward. The Nomination and Compensation Committee provides more clarity about fostering successors and training board members, and I am more committed than ever to fulfilling my role as an outside director.

We mentioned the composition of the board of

directors. I think the ideal situation will be when we no longer send Japanese to manage overseas operations, but rather foster talented local leaders who go on to become presidents and board members of our overseas entities. I have high expectations that the Nomination and Compensation Committee will function to make this happen.

Watanabe As a full-time outside member of the Audit and Supervisory Board, I attend meetings of the CSR Committee, the Risk Management Committee, and the Compliance Committee. The CSR Committee is chaired by President Yoshida. This committee was launched to promote ESG-based management and to discuss matters related to environmental preservation, social contribution, and internal audits. I feel that we should continue this monthly meeting for our managers to gather and talk about CSR and ESG in our business.

Last, I want to invite any comments about improving the effectiveness of the board of directors or any points to emphasize for future improvement.

Measures for Improving Board of Director Effectiveness

Taira When I had discussions with the coordinating office personnel, we talked about how well AEON MALL puts plans into action due to our background as a developer with deep roots in the retail industry. I think AEON MALL is skilled at responding flexibly to change. I would like us to continue analyzing what is required of our company and of our board of directors, responding to change head-on and without fear.

Kawabata What is important for the board of directors is to narrow the focus of our agenda and encourage more frank discussions. Mr. Muramatsu talked about the cost of capital earlier. AEON MALL invests in 20- and 30-billion yen projects on a frequent basis. I believe we should have in-depth discussions about investment returns from the

stance of capital efficiency.

Take overseas development projects, for example. We should not only discuss profit plans and investment returns, but also financing mechanisms, financial plans for local entities as a whole, changes in the environment, risks, and other matters. To date, we have secured financing from Japan. But, I believe we should look out over a longer span of time and engage in deeper discussions about how to finance our projects. After all, once we build a mall, we need to operate it effectively for 30 or 40 years.

Looking ahead to the year 2025, and even beyond, our overseas operations are going to grow and become an even larger part of our overall business. As this happens, I am sure we will have to reconsider our control structure, including the makeup and operating rules of the board of



directors. The Ministry of Economy, Trade and Industry is drawing up a policy for stronger corporate control over publicly listed subsidiaries. Apparently, the ministry is discussing a rule requiring one-third—or even a majority—of board directors to be outside members with no ties to the parent company. I think we at AEON MALL are already at a crossroads where we should consider the makeup and role of our board.

Ichige We need to move away from traditional business schemes, raising the value of our malls through digital technologies. To accomplish this will require decisive investment at some point. We cannot make this transition without committing people and capital. Historically, we have invested mainly in real estate, but I believe future discussions will have to include changes to our business model.

On March 1, 2019, President Yoshida was called to serve concurrently as an executive vice president for AEON Co., Ltd. Directors and members of the Audit and Supervisory Board must be even more aware of the views of AEON MALL shareholders in fulfilling our duties of external accountability. Some situations may seem a conflict of interest at first. However, I believe we can forge paths leading everyone in the same direction if we change our vector and make sufficient adjustments to reflect the opinions of those outside our organization. I want AEON MALL to take the lead in introducing best practices for the governance of publicly traded subsidiaries. I expect our efforts will be appreciated by our investors as well.

Muramatsu Of course, we must be aware of the cost of capital in the future. At the same time, we should do more research into ways of incorporating the cost of capital into our day-to-day management decisions. In Japan, we need to increase added value through our P/L as it relates to the cost of capital. To do this, our front lines must become more familiar with management accounting principles. We shoulder a heavier responsibility as our overseas business becomes a larger part of the company. We become more responsible for employees and tenants. Supply chain procurement risks become more complicated. We must exercise greater care to prevent human rights violations and the related negative impact.

Watanabe I have only been a full-time member of the Audit and Supervisory board for a little less than a year. But, during my time, I have come to feel that AEON MALL is a completely different company than the other members of the AEON Group. I mean this in a good way. Even if we all subscribe to the same basic principles, our management structure is different. We have grown through mergers, meaning our employees have developed different identities while also creating new synergies.

We must understand this about our company each year as we audit the process that takes us closer to our Vision for 2025. I hope to work closely with our outside directors to monitor AEON MALL through a corporate PDCA cycle that ensures effectiveness among our board in executing our medium-term management plan. In this way, I am convinced we will inspire greater confidence among our stakeholders.