

# Round Table Discussion With Outside Directors and Outside Corporate Auditors



Outside Director  
(Independent)\*

**Masao  
Kawabata**

Outside Director  
(Independent)\*

**Mami  
Taira**

Outside Member of the Audit and  
Supervisory Board (Full-Time)\*

**Maki  
Watanabe**

Outside Member of the Audit and  
Supervisory Board (Independent)\*

**Emi  
Torii**

Outside Member of the Audit and  
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**Takao  
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\* Outside independent director or member of the Audit and Supervisory Board who, according to the regulations of the Tokyo Stock Exchange, has no conflicts of interest or potential conflicts of interest with minority shareholders.

## Recommendations for AEON MALL Group Governance and Risk Management

AEON MALL asked two outside independent directors and three outside members of the Audit and Supervisory Board to offer their objective opinions about the current state of AEON MALL Group governance, public listing as a subsidiary, and risk management. At the same time, these individuals discussed their expectations and offered comments on the appointment of a new president.

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## Group Governance as a Publicly Listed Subsidiary

**Watanabe:** Over the past few years, we have seen more in the way of corporate governance reform. AEON MALL has worked on various initiatives, as well. In conjunction with the June 2019 cabinet decision on the government's Action Plan of the Growth Strategy, we have held more intense discussions regarding group governance and governance as a publicly listed subsidiary. The governance structure of a publicly listed subsidiary should be even better than that of other listed companies. Publicly listed subsidiaries must be independent from parent companies, usually the major shareholder, protecting general shareholders and engaging in independent decision-making. At the same time, experts have pointed out governance structure issues at publicly listed subsidiaries. These issues include fewer independent outside directors and members of the Audit and Supervisory Board when compared to publicly listed companies without a parent. At this point, I would like to hear your thoughts on this issue from the perspective of governance for publicly listed subsidiaries.

**Taira:** I was appointed an independent outside member of the Audit and Supervisory Board in 2011. With the 2015 establishment of the Corporate Governance Code, the role of independent outside directors has become more important. We have also seen more discussions about governance for publicly listed subsidiaries and the advisability of parent-subsidiary public listings. (As specific examples), questions arise as to whether brand royalty payments to AEON or lease payments received from AEON Group tenants (AEON Retail Co., Ltd.) are reasonable.

In the time since, AEON MALL has made significant progress, including rules and checklists for transactions with affiliated

companies. I have come to feel that the awareness of our directors encompasses not only the parent company, but has also shifted toward a certain level of consideration for minority shareholders and general shareholders. Going forward, I think it is important for independent outside directors to check whether AEON MALL management resources are being allocated in ways that increase company value. At the same time, I think it is also necessary to increase the ratio of independent outside directors to communicate that the company has a system in place to monitor the risk of conflicts of interest with the parent company.

**Watanabe:** As an aside, when a major new transaction is being considered between parent and subsidiary or between AEON Group



subsidiaries, the relevant department in AEON and the subsidiary confer with AEON finance and management departments. The details compiled by the subsidiary are examined by the parent company, which may seek the opinion of outside specialists in tax and accounting. As Director Taira said, there were certainly cases in the past in which sufficient documentation was not provided. However, AEON provides guidance and emphasizes objectivity in intra-group transactions, responding to the need for improved tax governance, as well as groupwide initiatives related to financial statement audits.

**Kawabata:** Following what Director Taira said about brands, I think the current AEON brand

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image campaign is interesting. The brand image is AEON, but it is also AEON MALL. It's good to see both parent and subsidiary working to improve brand image. Although AEON MALL alone has limited resources, the company has signed brand royalty agreements related to the AEON Group with the parent company. This allows AEON MALL to use the brands in a variety of brand activities, which shows the strength of the parent-subsidiary relationship. AEON MALL is able to leverage the AEON brand as a group member, while at the same time contributing to a stronger brand for AEON as a whole. This synergistic effect leads to very strong brand power.

On the other hand, the presence of AEON MALL as an independent company in the capital market is important. I hope AEON MALL continues to make strides in communicating its brand to the media and consumers. Being listed on the stock exchange provides social credibility. This credibility, in turn, attracts talented people. In fact, the better AEON MALL performs based on our efforts, the higher the bonuses available in comparison to other companies. This leads to increased employee motivation and a sense of responsibility to be a leader in value creation.

**Matsumura:** I think AEON MALL has established, and continues to improve, governance with respect to being a publicly listed subsidiary. In short, the problem of parent-subsidiary listings is a moral hazard issue. The purpose of corporate governance is to prevent moral hazards. As a result of pursuing economic rationality, the different standpoints of each company cause something of a crack or a split. This is the moral hazard in a wide sense, and when the goals of the *customer* and the *service provider* are mismatched, you see asymmetry between incompatible goals and information, which results in the moral hazard. This is the basic focus of the issue in parent-subsidiary public listings. This might sound blunt, but I think people outside the company such as us must monitor whether major company decisions are impacted by a hidden agenda.

However, I think AEON MALL does well in listening to outside voices. This is likely due to the fact that AEON MALL is a developer in the retail industry. Obviously, a retail business can't survive if it doesn't take customer feedback to heart. This culture of listening to the opinions of others developed through its business in retail is built in to the company's DNA. It's true that the issue of publicly listed subsidiaries has become a hot topic among global investors. I think there are positive aspects to parent-subsidiary listings as well.

**Torii:** I was appointed an independent outside member of the Audit and Supervisory Board in May 2019. I want to provide some of my impressions from that time. First, board meetings featured prior briefings to outside directors and auditors and exchanges of opinions with internal directors providing thorough checks of projects involving group companies and intra-group transactions. I also had the impression that internal directors were very receptive to our opinions. The company fostered a positive atmosphere, answering questions in good faith.

Most impressive to me was that AEON MALL was very conscious of governance as a publicly listed subsidiary. When I was interviewed as a candidate for independent outside member of the Audit and Supervisory Board, they asked directly about my thoughts on the issue of parent-subsidary listings, showing a keen awareness of the subject. I don't think parent-subsidary listings are bad in and of themselves. Ultimately, the goal is to maximize corporate value. It's a matter of the best way to achieve that goal. However, it is important to establish clear institutional guarantees. I think AEON MALL should increase the ratio of independent outside directors to at least one-third, if not one-half. Hopefully sooner, rather than later.

### Shifting From Risk Management to Crisis Management in the Wake of COVID-19

**Watanabe:** Changes in the business environment surrounding Japanese companies, including increasingly complex management issues and corporate governance reforms, have increased the importance of risk management. The recent outbreak of COVID-19 has had an impact on AEON MALL business in Japan and abroad. What is your assessment of the company's response to the pandemic from a risk management perspective?

**Taira:** When we checked, infectious disease on the scale of AEON MALL risk management was a relatively low risk level of 3. I would like to see the company reexamine this risk. But I believe the company responded appropriately, creating policies beginning in late February to suspend mall events and engage in other measures to prevent the spread of infection. I was pleased to see that AEON MALL created a flowchart to deal with any infections. In the future, I hope COVID-19 serves some good as an opportunity to reexamine efforts to prevent the spread of

infectious disease at meetings of the board of directors and Audit and Supervisory Board.

**Kawabata:** AEON MALL divides risks into three categories. The Risk Management Committee addresses management strategy risk, compliance risk, and accident/incident



risk. You mentioned the treatment of infectious disease as a relatively low risk. I think that if this risk is viewed as a management risk for the Management Council to address, rather than as infectious disease risk, then we will see more active discussions on the matter. Questions will always arise about a company's stance in response to something that has already happened. However, I believe the AEON MALL response in this case was very smart. The president himself communicated frequently with management in Wuhan to issue instructions and confirm safety. Human life comes first and we never want to allow anyone to become infected. In that sense, I think the company set a good example.

**Muramatsu:** Looking at the response to COVID-19 in Japan and overseas, it appears to be more a matter of crisis management than risk management. Risk management is about minimizing risk and taking steps beforehand. Crisis management in terms of this crisis is about how to minimize the damage and loss in response to the situation. In medicine, risk

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management entails preventive medicine, while crisis management is the domain of emergency medicine. In that sense, this situation is a bit different. I think we need to research and study our responses to emergencies in some more detail.

**Torii:** AEON MALL risk management consists of Rules to Manage Business Risk Management and Risk Management Rules. These extremely detailed rules include assigning departments in charge of each risk and other measures. AEON MALL recognizes that risk management is not only the domain of management, but also an issue for operating departments. The company reviews rules on a continual basis, conducting risk surveys, creating risk maps, and studying specific action plans. As you mentioned, however, issues such as COVID-19 must be approached with crisis management beyond risk management. In this case, the situation may not have been fully addressed in the beginning.

AEON MALL is expanding aggressively overseas to achieve its Vision for 2025. At the same time, the need for risk management is rising in importance. Risk literacy among middle management in particular is important from the perspective of risk management. Risk management won't function if the communication of information stops with middle management.



As the number of local employees increases overseas, the company will need to emphasize risk literacy.

**Watanabe:** The face of AEON presented to customers and tenants is unavoidably that of the AEON Group. In this context, AEON Mall represents the core of the AEON Group developer business, which demands the exercise of leadership. Because of this position, AEON MALL must keep records of experiences and conduct training to respond to situations at a moment's notice. In addition to disaster prevention and firefighting drills, AEON MALL should conduct crisis management drills. AEON MALL has its CSR Committee that discusses CSR matters, as well as groups that address ESG and the SDGs. I encourage the company to view these risk-related initiatives as part of corporate value. AEON MALL has had a system for coordination between the board of directors and the Audit and Supervisory Board in place for some time. The company also has a mechanism to provide feedback regarding management risk and other topics to the board and management. These structures and issues also relate to company independence, and I believe AEON MALL is on the right track in this respect.

### Expectations for a New President to Helm ESG-Based Management

**Watanabe:** In March of this year, AEON MALL appointed a new president and CEO. The company established the Nomination and Compensation Committee last fiscal year. What are your expectations and advice Mr. Iwamura as a new president?

**Taira:** The Nomination and Compensation Committee began activities in January 2019. Since that time, the committee has performed evaluations of director performance, engaged in succession planning, and provided reports related to elections of independent outside directors. Further, the committee

has conducted a wide range of discussions to strengthen the company's governance structure, including the makeup of the board of directors. At present, we cannot say for sure whether the committee has functioned completely independently. However, we have discussed various issues as we go through this trial-and-error process.

With regard to the replacement of the president, our discussions had focused on fostering candidates from the perspective of future AEON MALL succession. The announcement of the new president came a bit out of the blue for us. In the end, I believe the company selected the right person to take over as president in line with past committee deliberations into the qualifications, character, and other factors required of a successor. I urge the new president to achieve the company's Vision for 2025 and push forward through to the year 2030.

**Kawabata:** When we launched the committee, we discussed creating a clear skills matrix. While the same can be said for outside directors, the idea here was to ensure we fostered internal directors with experience from a variety of divisions, rather than persons specialized in one area of business. The new Nomination and Compensation Committee was already discussing the necessity of the election of a new president when then-president Yoshida was appointed executive vice president at AEON Co., Ltd.

The committee discussed the importance of appointing a president who could take responsibility to achieve the clearly defined AEON MALL Vision for 2025. The individual would also have to be young and energetic enough to formulate the next medium-term business plan carrying the company through to the year 2030. This led to the appointment of the new president. In light of what I said earlier, Mr. Iwamura has a proven track record as the head of development in Japan, as well



as the top post in Vietnam, the most important country in ASEAN. These experiences made him an ideal executive for the future of AEON MALL. At the time of his appointment, President Iwamura said, "We will engage strategically in ESG-based management." I believe this statement reflects the birth of a new type of leader. I will do my best to support President Iwamura in the future.

**Muramatsu:** I think President Iwamura was an extremely appropriate choice to succeed President Yoshida. I think the appointment was largely due to his experience in Vietnam, where he refined his foresight and management skills. I think the appointment of the president of the Vietnam operations as president of AEON MALL sent a strong message to the employees in Vietnam, to our business partners, to the markets, and to political leaders. AEON MALL made a clear statement about the importance of Vietnam to the company. I think the choice was timely, not to mention based on President Iwamura's personal qualities. When he returned from Vietnam, he felt that there was a gap between him and the head office. He had a sense of discomfort that the organization he had taken for granted until then was no longer in step with the times. I asked the president to engage in different initiatives to capitalize on this discomfort he felt.

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**Torii:** I want to address the merits of President Iwamura's appointment. One very important point refers to the topic brought up in this discussion: parent-subsidary public listings. I think this topic also leads to the issue of a conflict of interest between a parent and a subsidiary. In March 2019, former president Yoshida was called to serve concurrently as an executive vice president for AEON Co., Ltd. In this dual role, President Yoshida was very conscious of the issue of conflict of interest, and he engaged in management with the perspective of general shareholders in mind. The appearance, however, gave general shareholders significant concerns about the risk of conflicts of interest. In this regard, President Iwamura has never served as a director at any other group company. Appointing an individual with this high degree of independence brings a significant benefit in terms of parent-subsidary public listings.

The Japanese domestic market will no doubt shrink in the future; now is the time to re-examine the AEON MALL business model. In his inauguration speech and in a message for the employees, as well as at the first Nomination and Compensation Committee held after his appointment, President Iwamura expressed his intention to engage strategically in ESG-based management and to redefine the AEON MALL business domain, or in other words, the scope and fields of the AEON MALL business activities. He also stated that he planned to share his vision for the future goals and shape of the company with the employees. I received these speeches as very promising for the future.

### Aiming for Further Self-Transformation

**Watanabe:** Last, do you have any advice for points on which to focus in the future, initiatives related to evaluations of board of director

effectiveness, or other comments?

**Taira:** I have continued to say that AEON MALL can reinvent itself, can withstand change, can pivot with speed, and can correct its course while still forging ahead. For example, I think the company has true strengths in terms of governance and in establishing systems on the go for the ever-increasing number of overseas subsidiaries. I encourage the company to be bold in self-transformation in the future.

**Kawabata:** I also think AEON MALL has a need for self-transformation. President Iwamura was appointed at the right time, and he has been clear in his intent to redefine the company's business fields. In Japan, AEON MALL may be able to develop new properties, expand floor space, and otherwise remodel existing malls through the year 2025, even amid the sense of crisis that the country is gradually shrinking. However, what lies ahead of us will be difficult to overcome simply through multi-purpose developments. In the end, executing overseas strategy is important. We see Vietnam as the most important country, so we must increase the pace of local development there. AEON MALL has established a model for success that can be expanded horizontally. In addition, I think the company should consider strengthening operations in Cambodia and Indonesia, and even expansion into other ASEAN countries.

And the board of directors must function properly to develop medium- and long-term strategies in support of this expansion. Executive directors can offer strong positions on their respective fields of expertise. However, they may not always have a mindset for what is best or most advantageous for the company as a whole. Executive directors serve the same role as executive officers. They think about management, think about companywide strategies, and monitor the business in addition. I believe a board of directors must

consist of these types of individuals.

We must think about how to strike an ideal balance between monitoring and management in our board. Another pressing issue is how to create a board that consists of at least one-third independent outside directors. The AEON MALL board of directors functions properly and fosters a culture in which each director can discuss medium- to long-term strategy candidly. I intend to continue to offer advice and voice concerns and I encourage President Iwamura to exercise strong leadership in his position. Given the four years he was away from the head office, I think we are in for a refreshing change. I also encourage President Iwamura to evolve and adapt to change. At the same time, I hope to see the board of directors respond to these changes through self-transformation.

**Muramatsu:** Darwin said something to the effect that the only animals that survive are the ones who can change. Not the strongest. Not the most clever. Only the ones who can change. We have discussed management versus monitoring. In my opinion, AEON MALL tends to emphasize management over monitoring. This is probably unavoidable for a developer that makes such enormous investments. However, as the company grows and the organization grows, at some point the head office will become unable to make all of the decisions. There are misgivings that a failure to shift the center of gravity toward governance will result in the collapse of an organization. Of course, matters could evolve in this direction. From this perspective, I wonder whether the human resources system can remain as is or whether drastic changes must be adopted. I have seen and heard of situations in which individuals within the company possess outstanding knowledge, but that knowledge is not accumulated or used effectively. I feel sometimes that this knowledge is not made universal and converted into organizational knowledge. Moving forward, the board of

directors will be asked to operate from this perspective, ensuring knowledge is passed on and used by the organization. An executive officer system may be necessary in this respect.

**Torii:** I am very interested in the future of governance and the structure of the board of directors. I also understand that this is a challenge. I think that AEON MALL has adapted well through the management approach to date, but this approach will become more difficult over time as AEON MALL grows. I would like to see the Nomination and Compensation Committee discuss a transition to the monitoring approach more actively in the future. We will have even deeper discussions about governance for publicly listed subsidiaries and revisions to the Corporate Governance Code this year. I encourage us all to pay more attention to these areas in conjunction with the AEON MALL governance structure. Last, I want to say that cultivating human resources is an important issue as the company grows its business. In particular, AEON MALL needs to strengthen employee training related to overseas business, while also accelerating the advancement of risk management overseas.

**Watanabe:** It's important to confirm that the policies of the new leadership integrate well with the tangible and intangible assets built to date as we advance to the next stage. In addition, as a full-time member of the Audit and Supervisory Board, I will provide information to our independent outside directors and conduct audits of initiatives for improving board of director effectiveness as a publicly listed subsidiary, which has been the focus of this discussion. As well, we will audit whether PDCA is in place and working effectively to ensure risk management that anticipates change in the business environment.