

Pursuing ESG-Based Management

Round Table Discussion With Outside Directors and Outside Corporate Auditors



Outside Directors
(Independent)*
Masao Kawabata

Outside Audit & Supervisory
Board Members
(Independent)*
Emi Torii

Outside Audit & Supervisory
Board Members
(Full-Time)
Maki Watanabe

Outside Directors
(Independent)*
Yasuko Yamashita

Outside Audit & Supervisory
Board Members
(Independent)*
Takao Muramatsu

Outside Directors
(Independent)*
Kunihiro Koshizuka

* 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.

* Outside director Masao Kawabata retired as of May 20, 2021.

Recommendations for AEON MALL's Future Management Policy and Strengthening of Our Governance Structure

Three of our outside directors and three of our outside corporate auditors were asked to provide their objective perspectives on the evaluation of our current situation and the issues we face, based on the following themes. 1. Review of fiscal 2020 and future management policies, 2. Medium- to long-term issues facing AEON MALL, and the evaluation and issues related to management policies for our Vision for 2025, 3. Strengthening governance system to achieve sustainable growth and enhance corporate value.

This roundtable discussion was held at AEON MALL Ageo (Saitama Prefecture) on April 9, 2021, with measures taken to prevent COVID-19 infection. This mall is the first commercial facility in Japan to receive the *WELL Health-Safety Rating**, a global evaluation measure for COVID-19.

* *WELL Health-Safety Rating* was established by The International WELL Building Institute in June 2020 based on the findings of public health and other experts. This is a global standard assessment regarding COVID-19. A third-party verification organization audits facilities to ensure they are managed and operated in consideration of the health and safety of visitors and employees.

Review of Fiscal 2020 and Future Management Policies in Response to COVID-19

Watanabe: The global spread of COVID-19 infections in FY2020 has had a significant impact on society. Our domestic and overseas malls also shortened their opening hours or closed temporarily. Even after resuming operation, the fiscal year was marked by

difficulties in dealing with the second and third waves of COVID-19. Despite these circumstances, we were able to open AEON MALL Ageo, the venue for today's event. We are providing a safe and secure shopping environment through preventative measures based on our COVID-19 Prevention Protocol. Based on our business model, please give us your opinion regarding our customers, employees (including tenant employees), and local stakeholders.



Kawabata: The AEON Group has implemented solid preventative measures. 2020 was a year in which the company steadily implemented measures to ensure safety and security by putting

customers first, as seen in the efforts to strengthen ventilation at AEON MALL Ageo (Saitama Prefecture). I think this was a year in which AEON MALL, given its mission of being able to maintain the function of social infrastructure was able to provide safety and security as well as cleanliness to customers in Japan and overseas. The new normal indicates that the company can provide a place where customers can shop with peace of mind, enjoy their visit, and ensure their safety and security. And under the leadership of President Iwamura, I realized that all employees share this policy in our efforts to build malls.

Koshizuka: We have implemented rent reductions and exemptions to accommodate the shortened and closed hours of tenant companies, our important business partners. The negative impact of this measure on our business performance is not small. Do we really need a business partner who won't help us in times of need? Can the partnership be sustained when times return to normal? When I think about it, I believe that this business decision was the right one, even though our company was also in a difficult situation.

Yamashita: I became an outside director in May 2020, just as the COVID-19 pandemic was unfolding. I was impressed by the quick response based on the management philosophy of *the customer comes first* and contribution to the community, the cooperative system with tenant companies, and the preventative measures for employees. I witnessed how employees responded to these issues even before receiving instructions from head office. I was also impressed by the company's ability to educate employees daily and to carry out crisis response in an organized manner.

Muramatsu: This is what I felt before I was appointed as auditor of AEON MALL Kochi (Kochi Prefecture). This place is truly functioning as a living infrastructure, and I realized firsthand that AEON MALL is necessary for the community. For AEON MALL, I believe that the

S (Society) in ESG has become even more emphasized and clearer in 2020. Going forward, we will take safety and security one step further in the midst of this global COVID-19 pandemic. In this way, I believe that the key words cleanliness and distribution will become more important in the way employees work and the malls operate.

Torii: From a risk management perspective, we are considering adding new business risks in light of the current new normal, risks associated with environmental changes, digital-related risks, and business model related risks. I believe that this was a year that can be evaluated as us taking the COVID-19 pandemic as an opportunity for us to move toward further strengthening our risk management. In the future, I expect that the Board of Directors will further discuss management strategy risks in light of changes to lifestyles and business transformations.

Medium and Long-Term Issues, Evaluation and Issues Regarding Management Policies Toward AEON MALL's Vision for 2025

Watanabe: Thinking about with-COVID-19 and post-COVID-19, what are your thoughts on the issues facing AEON MALL from a medium- to long-term perspective, as well as your assessment of the management policies toward Vision for 2025 and its challenges?

Kawabata: President Iwamura's vision for the company is to promote ESG management. I believe that this is the key to achieving sustainable growth and corporate sustainability. President Iwamura then spoke of the concept of CSV as AEON MALL becoming a company that is aware



of its responsibility as an important part of society's infrastructure, rather than a company that simply grows its business and generates profits. In particular, how will the new normal affect AEON MALL after the COVID-19? We will incorporate areas such as offices, medical care, and education. We will also develop urban businesses taking mixed-use development into consideration for

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people of all ages. I appreciate the fact that these discussions were conducted in the Policy Council as well.

Koshizuka: What AEON MALL is aiming for is the evolution of a business model with a customer experience solution-based platform. This means that both the customers who visit the mall and the tenant companies that open stores are considered as customers of AEON MALL. The idea is that we will be the place where both parties meet. In other words, we will be the platform provider. This model has the



potential to attract an overwhelming number of customers, and it has the potential to expand its domain beyond shopping to include green deal-like businesses

such as matching and sharing. However, management must make sure that this vision is fully shared by the employees so that it can permeate the organization. I believe this is our biggest challenge.

Yamashita: In fiscal 2020, especially given the COVID-19 pandemic, it was a year of constant change. In this context, we held policy meetings for 2021 to share information on a case-by-case basis. I felt that this way of working through a great deal of information to discuss was very successful. Going forward, the Board of Directors will set aside sufficient time to create a solid vision for the major directions of how AEON MALL will respond to and grow from changes in the external business environment.

Muramatsu: While maintaining consistency of the idea that a mall is an integral part of the community and remaining keenly aware of the significance of our business, I believe that the future of AEON MALL will require a flexible response that meets the individual needs of the community, regional characteristics, and the needs of the time. And people are the key to achieving all of this. I think it is important for employees to implement and customize our management philosophies as a way of life, and this way of thinking will determine the success of the company.

Torii: I believe that strengthening our compliance system will be extremely important in implementing our future growth initiatives. Overseas, we frequently open AEON MALLs in areas that are about to undergo development. In opening a store, we will work with the government and local administration to understand the city's development plans and local information to promote development. In doing so this will also increase transactions with local companies. To ensure implementation of growth measures in such environments, I feel it is extremely important to consciously strengthen our compliance system and encourage all employees to raise their awareness of compliance, especially for our overseas business development.



Strengthening Governance System to Achieve Sustainable Growth and Enhance Corporate Value

Watanabe: Next, under the theme of strengthening governance system to achieve sustainable growth and enhance corporate value, please tell us about the efforts the Board of Directors have taken to establish and operate an effective corporate governance system and how you would evaluate it.

Kawabata: It has been six years since I was appointed as a director and I believe the important thing I have done during this time is establishing the Nomination and Compensation Advisory Committee. We began our activities at the beginning of 2019 and have been involved in the election of directors and other matters. We recently conducted a year-end evaluation of the executive directors for 2020. As members of the Nomination and Compensation Advisory Committee, the independent directors have been able to evaluate the activities of each executive director. In doing so, we have been able to carry out performance evaluations which I believe to be a very significant achievement.

Koshizuka: I believe that the evaluation of the

effectiveness of our Board of Directors is working to a certain extent. However, one thing I would like to point out is the concept of an advisory board, which is more of an executive board, and a monitoring board, which emphasizes supervision. Currently there is a tendency to emphasize monitoring boards. The reason for this is that there is a growing view that the Board of Directors needs to focus more on corporate value and medium- to long-term growth potential as its function, while transferring some of its authority to the executive. Management issues need to be addressed from the perspectives of both short and long term, urgent and important, defensive and offensive. The perspective of long-term growth is a very significant role for the Board of Directors. So, when it comes to the discussion of evaluating the Board's effectiveness, it is a matter of what they choose for the board meeting agenda. Understanding what the important issues are that need to be decided is the key to making the Board of Directors more effective.

Yamashita: I think it is important to explain board meeting proposals to external directors and corporate auditors in advance. I feel it's also useful if we consider it to be an environment that supports appropriate risk-taking by senior management. On the other hand, if the role of the Board of Directors is to determine major directions of corporate strategy and to provide highly effective supervision of management from an independent and objective standpoint, then advance detailed explanation should be avoided because that tends to lead to discussions that are in line with the company's intentions. Going forward we need to keep this in consideration.

Muramatsu: In terms of investment profitability criteria, as each mall requires a large amount of capital investment, we use investment payback period, EBITDA, IRR, and other criteria to make investment decisions. Each indicator has its advantages and disadvantages, and that is why we need to consider them from multiple perspectives. In our

company, various departments, including development, leasing, sales, and finance, work together to promote projects.

However, along with evolving changes to the business environment, such as changes in the market and consumer needs, I think we should set simpler criteria for investment profitability. For example, "If we invest 10 billion yen, how much will we get back?" This is a standard that the staff on the work site can feel and understand in raw numbers.

Torii: I believe that it will be very important in the future to understand how to make internal control and governance work for the entire group, including domestic and overseas subsidiaries. For overseas operations, each country has its own internal control system in place. However, as the number of malls increases in the future, further improvement is necessary. In President Iwamura's policy announcement, he mentioned promoting the localization of mall management. However, Group governance will become increasingly important, including the strengthening of human resources and employee training. Also, to implement the internal control system PDCA cycle, the way employees working in the field perform their daily tasks is of utmost importance, and I believe that the need for education for local employees will increase.

Watanabe: What I felt from listening to the opinions on this policy was that the ultimate goal is that the customer comes first, and that goal is global. We all need to think about why we operate malls for the benefit of our customers and local communities. I think that by doing so, we will be able to see what we need to work on in the future. I felt the most important thing was making our stores more accessible, convenient, and a place of relaxation for our customers by using advanced tools such as digital technology. I believe that we need to innovate to become a platform where we fulfil the role of bringing customers and tenants together. I was also reminded that the most important factor in achieving sustainable growth and increasing corporate value is undoubtedly people. Thank you very much for your time today.

