

A securities analyst and an AEON MALL outside director conducted an interview-style discussion regarding the current status and issues in the AEON MALL management structure and strategy.



Expectations, Evaluations, and Issues Related to AEON MALL Governance and New Medium-Term Management Plan From the Perspective of an Outside Director

AEON MALL Co., Ltd. Outside Director
Nomination and Compensation Committee Chair

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Activities of the Nomination and Compensation Committee

Yoshihiro Hashimoto: The markets expect outside directors to play a role in supervising Company management. Director Koshizuka, how are you involved in management oversight at AEON MALL, and what is your opinion of the management team? Please begin by describing the activities of the Nomination and Compensation Committee, which you chair.

Kunihiro Koshizuka: Under the rules of the Nomination and Compensation Committee, five outside directors provide independent assessments of the appropriateness of performance-based remuneration for the president and each director in light of individual tasks and KPIs established at the beginning of the fiscal year. Then, we compare the results of each outside director's assessments.

In our experience, the assessments are often in agreement. We submit a final report to the board of directors after a last discussion with the president, but the draft advisory report respects the assessments of the outside directors.

In this time of VUCA, we conduct rigorous assessments based on a comparison of targets and results in the event of a miscalculation of a business environment that is far beyond the scope of an individual's capacity. In light of the purpose of a compensation plan to motivate employees, we consider whether the system is fair and accurate, and a reflection of the shareholder perspective. We also want to continue discussions on whether to separate evaluation periods into much shorter time frames to account for unforeseen circumstances.

Apart from these assessments, the Nomination and Compensation Committee discusses succession plans and policies for developing candidates for director positions. We also meet directly with candidates to provide advice that enhances their perspective. Until last year, the Nomination and Compensation Committee had served as an advisory body to the president. Beginning this fiscal year, the committee is now an advisory body to the board of directors. The substance of our activities has not changed, but the structure has improved in terms of transparency, fairness, and rationality.

Assessing President Iwamura

Hashimoto: As an outside director, I assume you participate in AEON MALL meetings. What is your opinion of President Iwamura?

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Koshizuka: The reality is that the Company's performance has been at the mercy of COVID-19 for around two years. In fiscal 2022, we finally saw signs of recovery in operating income at +15% year on year. I think the real test for the president will be fiscal 2023.

At the same time, I appreciate the fact that AEON MALL—both domestically and internationally—is working in the direction of co-creation with communities, and the president is leading the way. From this perspective of community co-creation, I think fiscal 2023 will be a year of real value in terms of concreteness and narrowed focus. I can say without reservation that as a manager, President Iwamura is a rare combination of both future-oriented visionary and clear-eyed realist. Looking at his abilities, I understand why AEON MALL chose someone as president who is neither native to the Company nor from an AEON Group background. There have been many situations where we experienced his excellent business sense as a developer. At the same time, being responsible for the overseas business at the same time is too great a workload. I think the situation should be resolved as quickly as possible so the president can shift focus on reforming the Company as a whole.

The Meaning of an Executive Officer System

Hashimoto: AEON MALL adopted an executive officer system in May 2023.



Koshizuka: The main objective of the executive officer system is to speed up decision-making and develop candidates for executive positions. Another important purpose is to ensure the achievement of medium- to long-term strategies. In terms of the Company as a whole, there seems to be a lack of balance between the search for knowledge as compared to deepening knowledge. When evaluating the effectiveness of the board of directors, we reconsidered the need for more time devoted to discussions of medium- and long-term strategies. In fiscal 2022, we set aside several opportunities to discuss medium- and long-term strategies in Management Strategy Advisory Committee meetings.

For AEON MALL, rather than the so-called competency trap, where the focus is on the familiar rather than new businesses that tend to be inefficient, I think the new executive officer system was driven more by the fact that the director and executive levels were just too busy with current operations to devote much time to medium- and long-term initiatives. The executive officer system, combined with a delegation of authority, is intended to emphasize the director's role on the board in forming medium- to long-term strategies, focusing less on day-to-day business execution. Of course, an executive officer system has advantages and disadvantages. But we were looking for the aforementioned advantages, even if we had to swallow the complications of adding more management layers.

Role Awareness and AEON MALL Challenges

Hashimoto: As you serve as an outside director, what issues do you feel AEON MALL has in terms of management oversight?

Koshizuka: We understand that the role of outside directors, or the board of directors, is to enhance corporate value and support sustainable growth. There is a defensive aspect and an offensive aspect here. In other words, there are two aspects to governance. There's the so-called defense-oriented governance, which oversees management through a PDCA cycle to ensure fairness, transparency, and rationality and to ensure business performance and targets are achieved. And then there's offense-oriented governance, which seizes on changes in the business environment as opportunities to take on challenges and create an atmosphere encouraging corporate reform, or risk-taking. You might call it a form of risk-taking governance. Naturally, both defense and offense are important. However, in this age of VUCA, we believe that the latter approach plays an important role. As I mentioned earlier when talking about the executive officer system, I believe this idea of taking on challenges and reforming is the most important issue for AEON MALL.

I think we saw signs of momentum for corporate reform in fiscal 2022 after discussions in the Management Strategy Advisory Committee and the opportunity to consider the next medium-term management plan. Securing competitive advantage in this next era and establishing a concrete CSV story will be important to settle as quickly as possible.

Once we see progress in issues, then other issues that concern shareholders and investors should take care of themselves. For example, the issue of corporate value, including PBR of less than 1.0 times, ROIC and other efficiencies, etc. These are baseline matters that the Company must accomplish.

The second issue is communication. AEON MALL is an ethical and well-meaning Company with a very diverse range of initiatives in malls across Japan. These initiatives address everything from decarbonization and the circular economy to biodiversity.

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However, I don't feel that the Company has communicated very well to this point. Stronger communication is a key factor in sustainable progress for environmental and social initiatives, since communication is the only way to tell stakeholders about activities, gain support, and conduct marketing to create fans.

The AEON MALL Medium- to Long-Term Strategy

Hashimoto: How does the board of directors discuss AEON MALL strategy from a medium- to long-term perspective among the management team? Are these discussions in response to the activities of the Management Strategy Advisory Committee? And how do you make recommendations on business strategy, especially from your expert perspective of DX?

Koshizuka: The Management Strategy Advisory Committee and the board of directors have been discussing medium- to long-term strategy since fiscal 2022. Outside directors and members of the Audit & Supervisory Board provide advice from different perspectives, and the bodies I just mentioned deliberate from a viewpoint somewhat distant from the management team.

As an example, I was a specialist in DX and technology at my previous job. I provide this experience and expertise by speaking at meetings of the Management Strategy Advisory Committee and board of directors. I also engage in dialogue directly with the younger leaders of the departments for which I am responsible. I train newly appointed executive officers and share ideas as a person with experience from a different background. AEON MALL is in a position fighting as Japan's champion in mega-competition with renowned global companies. To trigger innovation and secure competitive advantage will require the Company to truly raise its sights, backcast from observations about the future, and continue to evolve its vision.

The AEON MALL Governance Structure: Protecting the Interests of Minority Shareholders

Hashimoto: As an outside director, what is your opinion of AEON MALL governance from the perspective of protecting minority shareholder interests in a publicly listed subsidiary?

Koshizuka: We are aware that certain aspects of corporate governance do not meet the formal standards of what one might think of as the pinnacle of corporate governance. For example, despite being in a publicly listed parent-subsidary relationship, the board consists of a minority of outside directors.

We would like to discuss this and other issues in the future. Having said that, the Company established a Governance Committee, a Nomination and Compensation Committee, and a Management Strategy Advisory Committee in quick succession over the past several years. In fiscal 2022, the Governance Committee met nine times, the Nomination and Compensation Committee met six times, and the Management Strategy Advisory Committee met twelve times, all conducted with rigorous formality. We are proud that AEON MALL has strengthened its substantive governance structure in terms of fairness, transparency, and rationality in recent years. Of course, formal standards are important, but I am confident that the Company has ensured fairness and reasonableness in substantive terms. The organization moves at a speed appropriate to one of its size, as changes would be meaningless if the Company jumped from one step to the next, creating form without substance.

Transactions With AEON Group Companies

Hashimoto: What is your view as an outside director on the advantages and disadvantages of intra-group transactions? This question includes the fact that AEON Group general merchandise companies are anchor tenants. Do you think the Group enjoys synergistic relationships?

Koshizuka: There are advantages and disadvantages. The first advantage is AEON Group general merchandise companies and other group subsidiaries such as AEON Card, WAON, and private brands increase the potential for one-stop services for AEON MALL as a stand-alone publicly listed company. In particular, the general merchandise companies are important strategic partners in that they create a significant incentive for weekday trips to the mall and drive customer traffic.



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Value Creation Strategy

The Group relationship also facilitates speedy decision-making and scalability, fostering social contributions that include making malls disaster relief facilities in the event of an emergency, venues for vaccinations, and early voting poll stations. To go further, the AEON Group name is what generates brand power overseas.

Conversely, we can say the same for the presence of AEON MALL in each AEON Group company. Although part of a larger group, each company is independent to ensure transparency, rationality, and fairness for group development and mutual growth. I understand that AEON MALL offers tremendous value as both a subsidiary and an independent operator.

In this era of global war among corporate giants, companies will survive or fail depending on how they use data and AI. The conglomerate advantage of the AEON Economic Bloc is a significant weapon for competing in Asia and globally. Data is the Company's lifeline, and AEON MALL must leverage data even further while using the Group's comprehensive strengths to generate new customer value, digital innovation, and other tangible competitive advantages.

One disadvantage is the energy required to provide detailed explanations and maintain transparency, fairness, and rationality on behalf of customers, tenants, shareholders, and other interested parties. We are not aware of any unfair favoritism or pressure on or from AEON Group companies. But constant vigilance and supervision will continue to be necessary, even if the majority of board members consists of outside directors.

Future Outlook

Hashimoto: Various issues emerged during the COVID-19 pandemic. Now that the pandemic is winding down, customer lifestyles are returning to normal, including fewer customers wearing masks, even in Japan. It seems that many reasons are returning that will make AEON MALL a good investment from the investor's point of view. What is your future outlook?

Koshizuka: Speed is the key to overseas business. While we must account for the situation in each country, there appears to be room for growth through increased profits. AEON MALL covers Japan to a certain extent, but the Company believes in the need for more market share in its market areas, adding greater depth of value, attracting the support of greater numbers of customers and becoming the overwhelmingly dominant mall in each region. We also recognize that customer needs are changing. We must discuss medium- to long-term strategy in the context of whether the winning formula of expansion via new suburban malls will remain relevant.

In pursuit of the 2030 Vision of co-creating with our communities, AEON MALL desires to contribute to communities as a central hub. The Company must become a Life Design Developer that provides well-being for local customers beyond the so-called commercial agglomeration functions. So it is important to look beyond the shopping mall itself, viewing the mall from a higher perspective as a community hub offering services truly needed by customers, supporting local production for local consumption, providing renewable energy, education, and jobs, and even disaster relief. AEON MALL must always consider the value it can provide to address the concerns and issues faced by its communities. The idea underlying the 2030 Vision is to rethink AEON MALL in the context of local communities. AEON MALL management will grow the Company overseas at a higher speed to generate profits. In Japan, we will see the Company establish an overwhelmingly dominant presence in every region. Demonstrating this aggressive stance in concrete terms and making the Company more attractive as an investment will lead to share price recovery and, by extension, higher levels of corporate value.

Hashimoto: Thank you for your time today.

Koshizuka: Thank you for the opportunity.

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