

Feature 1 Dialogue with Stakeholders

Aiming to be the Truly No. 1 Retailer in Asia

Aeon is continually striving to overcome challenges and practice CSR activities with unified management throughout the Group based on its basic principles. This dialogue brings together experts to discuss how to respond to the changing society and what direction should be taken in this aim of CSR.



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Societal Changes and Aeon CSR

As a Company Expanding Businesses Throughout Asia

Kanamaru:

We at Aeon are presently expanding our business with roughly 300 group companies in 13 countries by holding dear to our 'pursuing peace, respecting humanity and contributing to local communities' basic principle. We formulated the Aeon Sustainability Principle in 2011 for the purpose of realizing a sustainable society with our various stakeholders based on the much greater impact we have on the environment and society as our businesses expand globally. We have set four priority issues -- realizing a low-carbon society, conserving biodiversity, effectively using resources, and addressing social issues -- in order to achieve both the development of local communities and the growth of our business. We are also working with 10



actions set in the Big Challenge 2020 targets with the aim of integrated CSR and business management.

Tomita:

The various activities Aeon is conducting are fantastic. However, the initiatives also seem extremely broad. 2015 has been a year with great leaps forward in the field of sustainability with the adoption of Sustainable Development Goals (SDGs) by the United Nations and the Paris Agreement at the United Nations Framework Convention on Climate Change at the 21st Conference of the Parties (COP21). However, I think this has also been the first year for integration. Our generation has been one focused on activities since 2003, which is known as the first year of CSR, but management integrating both business and CSR will be of greater necessity in the future as the phase of CSR changes. Therefore, simply conducting a broad range of activities is not sufficient. First, social issues and environmental challenges directly confronted in business need to be identified, and then the company needs to select and deepen its perspective of priority issues for the organization. This could be referred to as the common global direction.

Kawaguchi:

Aeon has a bottom-up style of business. The impression I have of Big Challenge 2020 is as voluntary initiatives gathered on-site rather than policies formulated at the top applied on-site. A culture of voluntary initiatives set on the ground is excellent, but this makes the strategy of the Group as a whole difficult to see from outside of the company unfortunately.

Tomita:

I agree with this image for the General Merchandise Store Business, but what about the other businesses? Aeon

does have a wide range of businesses. New challenges are bound to be confronted as the number of Group companies increases. If we map topics for the environment, human rights, and society for each business, I think it would clarify the challenges and significance of initiatives Aeon should undertake and be easier to communicate to the stakeholders.

Kanamaru:

I agree. I believe the most important stakeholder as a retailer is definitely the customer in terms of communication. The activities Aeon has strived for up until now will always have the challenge of how to communicate those efforts to everyone in an easy-to-understand manner.

Kawaguchi:

Retails need to address Goal 12: Sustainable Consumption and Production that is outlined in the SDGs. I feel it would be easier to understand if initiatives were gathered for each stage of the value chain from stores and distribution to products in order to realize sustainable consumption and production. This would incorporate endeavors that include wood material initiatives, fair-trade and organic products.

Tomita:

Reviewing policies and strategies to match societal changes is a must. External environments change and so do the purchasing and business models of the business. For example, reviewing the direction of efforts once each year and the strategy of efforts once every five years is an important process.

Kawaguchi:

The 2015 Paris Agreement and SDGs are international frameworks to promote sustainability. U.K. and other European countries were the strongest promoters up until now, but the pace of European affairs may slow due

to Brexit (United Kingdom's withdrawal from the EU), refugee issues, and terrorism. On the other hand, Aeon has endorsed an Asian shift. Isn't this a chance for Aeon to be a world leader in sustainability activities on the Asian stage?

Tomita:

What if Aeon was able to bring out a model unique to Asia as an Asian company as CSR is a model that has been cultivated in U.K. and other European countries? Aeon would like to expand its initiatives with an original perception of Asia according to a principle of peace as the platform. I expect the enthusiasm would be at a level to create a standard as the No. 1 retailer.

Wako:

These are very valuable suggestions. In the same way as low carbon shifted to decarbonization at COP21, we have to work to address issues quickly as the world changes rapidly. We strive to comprehensively recognize the problems that come up in each of our businesses, but I once again feel the necessity for an even clearer understanding. I also think Aeon needs to propose a model unique to Asia. The problems faced by each country in Asia that we are expanding our businesses differ. The best way in which to conduct efforts in a constructive manner in-line with the situation in each country for issues such as the environment, resource recycling, additives, fair trade, and deforestation.



Core Fields of Big Challenge 2020

Define Long-term Targets Through Ideas Considering the Entire Supply Chain

Kanamaru:

We have been focusing on three items in our Big Challenge 2020 -- Aeon Eco Project, Next 10 Million Trees, and Zero Waste. Aeon Eco Project is an initiative formulated based on our experience after the Great East Japan Earthquake in energy policies toward 2020. This project aims to reduce the use of energy at stores 50% (compared to 2010 levels), create 200 thousand kW of renewable energy, and install disaster prevention facilities at 100 stores around Japan. Our renewable energy is currently generating 5.7 thousand kW through the installation of solar panels at more than 1,000 stores, but we hope to enhance this measure to achieve our targets for 2020. I also believe we need to set targets for 2030 and 2050 based on the modern trend for decarbonization.

Kawaguchi:

Solar power generation is realistic as an initiative in Japan for decarbonization. However, Aeon needs to think broadly about even purchasing rather than simply achieving independent power generation for all of the 200 thousand kW target of renewable energy. For example, local energy close to the local area is one active method, but linking to community power close to the local region is another. What about the use of biomass power generation as yet another? Biomass is difficult for reasons such as gathering the raw materials and the regions to expand to need to be chosen, but looking to diverse methods for power generation could be beneficial. Moreover, water is another issue as important as energy. Why not publicize the use of rainwater at stores even more?

Tomita:

A large objective for around 2050 is something all three

of these items have in common. This would increase the persuasive power for setting targets such as why Aeon is aiming to reduce the amount of energy in stores 50% by 2020. Quantification is also important. For example, 200 thousand kW, which is the target for generating renewable energy, is the capacity for equipment, but we are not sure how much of that renewable energy makes up the power actually used by Aeon. I would like this point visualized. The reduction of the amount of energy used is a basic initiative for climate change measures. However, another method would be to switch to even lower carbon energy. I would like to see the biomass power generation proposed by Mariko Kawaguchi to be considered rather than simply installing solar panels at stores. In this consideration, Aeon could turn to using the forests it has planted up until now. Trimmings generated in caring for the forests could be used as materials to bring new value to the tree planting activity.

Kanamaru:

Utilizing the potential of the forests. Aeon has been conducting tree-planting activities for over 20 years. We have succeeded in planting a total of 10 million trees as of 2013. In the Next 10 Million Tree initiative to plant another 10 million trees, we are expanding activities to growth and utilization as a company that has been engaged in planting initiatives for so many years. I hope we will work in ways to use wood materials at stores and products that are unique to a retailer. In addition, we must also respond to deforestation issues.

Tomita:

As a long-term target, Aeon could ultimately aim for complete recycling of wood. The paper industry is building a model to prevent new deforestation by planting an equivalent number of trees as the wood materials to use in their businesses. This is quite a difficult endeavor, but I think Aeon could also step up to this challenge. In this case, as quantification, Aeon needs to first measure the amount of wood materials necessary to construct a store. Then, understand how much wood would be taken from planted forests. By understanding this numerically, Aeon would understand the ratio of wood Aeon uses to the forests that are planted. This would generate a new visual image that



would illustrate the impact these 10 million trees could have.

Kawaguchi:

I agree. I am sure there are some strategies that would be difficult to illustrate numerically, but quantification is necessary to a certain degree in integrating CSR with the primary business of the company. The impact whether large or small on the business for the 10 million trees would be communicated more easily by indicating the percentage materials are incorporated into the primary business. This brings to mind the more than 100 Ministop stores that I have heard use FSC®-certified materials from Japan. Isn't there some way to make this accomplishment more appealing? Laws are being enacted to restrict the import of illegal wood materials. Pioneer examples for use of Japanese materials should be more highly praised because the import of wood materials from overseas is going to become more difficult in the future. In regards to deforestation, there are also problems related to palm oil used in a wide variety of food and everyday goods. Plantations after the consumer expansion of palm oil is related to the destruction of tropical rain forests. This has also garnered media attention in recent years. Awareness will possibly grow, eliminating complacency of deforestation between consumers.

Kanamaru:

Aeon has been participating in The Consumer Goods Forum, which is an international organization made up of retail and consumer goods manufacturer members. We agree with the targets to achieve zero net deforestation by 2020 laid out by this forum. We formulated the Sustainable Procurement Principle in 2014, and we are currently investigating specific initiatives in procurement policies for forest resources as well as products, materials, and architecture.

Another point of focus is zero emissions, we believe communication with our customers is important as something which can be done by a retailer. I also think it is necessary to consider the ideal form of shopping in the future together with our customers. For example, efforts to reduce waste is possible when customers choose items with a relatively short consumer period if we clearly know what food to have for the next day. Even in this case, the way in which to use the food waste which was not sold needs to be thought about collaboratively with our various stakeholders.

Tomita:

Where is the most waste produced in the supply chain? The present initiatives are generally focused on innovations at the store level, but isn't there a great deal of waste produced by consumers at their homes? It would be beneficial if Aeon could quantify the volume of waste produced by the consumer, even if only an estimate, as an approach to reducing waste. Consumers who feel they should always shop at Aeon because less garbage comes from goods bought at Aeon would be wonderful. In the generation of integration to come, ideas looking at the entire supply chain will be vital. Rather than doing what

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can be done, Aeon could see how measures would be able to quantify and bring shape to the truly ideal form Aeon is aiming. Aeon is already engaged in great initiatives, so I would like to see those initiatives expanded from this point of view.

Kawaguchi:

To touch on the subject of zero emissions, Europe is focusing on a circular economy. Japan also has something similar to a circular economy, but the motivation is different. The reduction of waste in Japan is for conserving resources and securing landfills even if costly through cooperation between the government and public. However, a circular economy is seen to generate new business and profit. While mining of underground resources is difficult with recarbonization and the depletion of resources, the idea is to mine above ground and more effectively use the resources already above ground.



Disaster Prevention and Local Ecosystems Located at Stores

Retailer to an Industry of Peace,

—Active relief efforts have been expanded even after the Kumamoto Earthquakes, but an important keyword for the Aeon Eco Project is disaster prevention.

Kawaguchi:

Aren't the current disaster prevention initiatives seen from a different perspective than a standpoint on climate change? The Aeon Eco Project itself can be seen as mitigation and adaption climate change measures. Reducing the amount of energy used at stores and generating renewable energy are mitigation measures while disaster prevention facilities at 100 locations could fall under adaption measures. Conventional initiatives at Japanese companies are founded on mitigation measures yet overseas companies put their effort behind adaption measures. For example, these adaption measures measure how much fuel and light expenses will raise due to the effects of global warming to use in store designs. Safeguards from procurement risks are also important aspects of adaption measures. For example, how does a company respond to risks like drought caused by climate change that affect the supply of products? Climate change is a business risk, but companies have a chance if they adapt.

Tomita:

I think the 100 prevention facilities is an excellent activity. Is this part of the local ecosystem initiative? Large facilities such as Aeon malls will fulfill various functions where stores are part of the town in the future. One of these many functions is disaster prevention. Or that is how I understand it.

Wako:

As Mr. Tomita said, disaster prevention is also one element of the local ecosystem. However, disaster prevention is advancing as a priority in each region as disaster prevention. Local ecosystems is an initiative that started in the spring of 2016. This initiative is not only an independent project of Aeon but is also moving forward with the cooperation



of local governments, universities, hospitals, companies, transportation agencies, financial organizations, and many other organizations. Stores are a physical facility for all of us. If the capabilities of organizations and people active as pillars of the community can effectively combined, the community would be a safer and more secure place with greater convenience.

Tomita:

Disaster prevention cannot be done by Aeon alone and requires the cooperation of municipals and community involvement. I believe this is a core element to create a local ecosystem. Aeon should probably further awareness of its presence with the local community by moving this initiative forward. This direction is extremely important from the perspective of integrating business and CSR. What will be brought about by further deepening this effort? We can expect further development.

Kawaguchi:

This would mean Aeon would quickly transition from a retailer. The company would stand as a type of local community manager. The impression would be totally different from a store lined with products for sale. Aeon would first be a place that brings people together. This would give the opposite impression of a place with stores selling daily necessities. Wouldn't this give birth to a new business model not in existence today?

Wako:

The insight I take away from what Ms. Kawaguchi said is changes to the word of retailer as an industry of peace, humanity and local communities which Aeon has stated in the principles for its business.

Expectations for Aeon

Building New Relationships with Customers

—Finally, I would like to ask for a comment about your expectations for Aeon in the future.

Kawaguchi:

Trees and fish are symbolic in the activities of Aeon. At the beginning of this discussion, I said retailers need both sustainable consumption and production, but there are a wide range of topics in this field of sustainable consumption and production. Trees and fish have been iconic among these topics and may need to be communicated both inside and outside of the company. Initiatives involving trees are expanding beyond tree planting activities to

include using Japanese materials and FSC-certified products at stores. I have heard the number of items for MSC-certified products even for fish are most numerous at Japanese retailers. ASC-certified products are said to be released first in Asia. In addition, Aeon is ahead of its competitors as a powerful leader in efforts such as selling fully cultured tuna not present in the wild. The issue of sustainability in the fishing industry is deeply intertwined with the food culture of Japan. I would like active publicity to develop initiatives as they are not very widely known.

Kanamaru:

I am worried about overfishing and the depletion of trees and fish. I am sincere in our efforts to protect resources and provide a stable supply of these commodities.

Kawaguchi:

Additionally, Aeon handles organic and fair trade products as a private brand. I was surprised I was already able to buy these products at a convenient store. I hope to promote expansion of these ethical products and examine the methods able to facilitate ethical consumption from purchase to disposal. I agree with Hidemi Tomita that we need to engage our customers in efforts to reduce waste.

As one additional point, I expect human resource initiatives. Big Challenge 2020 addresses the expansion of employment of non-Japanese employees as a response to social issues. However, is there any potential to employ the roughly 1,500,000 NEETS and people withdrawn from society throughout Japan? This initiative would be significant to society if Aeon was able to provide a workplace with employment training.

Tomita:

As I have said before, I would like activities to be further deepened after organizing the initiatives conducted up until now as well as setting and quantifying long-term targets. Moreover, as a comment from the perspective of one consumer who visits Aeon stores, I feel a great chance missed for the lack of communication with the customers on these sales floors. At the markets today, an increased amount of revenue is not guaranteed by simply offering the MSC certification for fish. The program will not grow without the enthusiasm for Aeon to create a generation MSC-certified fish is sold. I would really like to see the appeal for this program at stores enhanced. Aeon has stores used every day by consumers. A relationship of simply a seller and a buyer misses a great opportunity. Aeon should step up to a challenge that aims to build a new relationship with customers to truly create shared value (CSV).

Wako:

Thank you very much for all of your feedback. The Aeon Group has approximately 520,000 employees including part-time employees. The beliefs in our principles to be an industry of peace, humanity, and community are rooted in both our Group businesses and our employees. The perspective for contributions to realize a sustainable society in both Japan and Asia also need to be strengthened based on the globalization of our businesses in the future according to these shared principles. The problems directly

confronted by Aeon will most likely only get bigger with the growth of the Group. Can Aeon realize both the growth of the Group and development of society? I have come to understand this as the most important question to ask in terms of CSR. Therefore, we have to identify the problems directly confronted by Aeon and work to assign priorities to these issues.

Moreover, how does Aeon create a model for all of Asia? This is one of the major goals. The people who can see the objective as it approaches are limited, but large goals set for the future can be seen by many. I know we must seriously consider what major goals we should set for 2050. We will advance our initiatives using today's dialog as a reference. I look forward to your continued strict evaluation of Aeon. Thank you very much.

