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AEON CO., LTD.
AEON TOPVALU CO., LTD.

In order to meet customer needs that changes with the times Aeon to Restructure the Topvalu Brand in its 40th Year

Aeon is constantly reforming the Topvalu items based on our customer feedbacks and opinions

During this year when Aeon's Topvalu marks its 40th anniversary, Aeon will restructure and redesign its private brand, as part of efforts for meeting constantly changing needs of customers along with the times.

The Japanese society has been undergoing major changes in demographics and family structure, such as the falling birth rate and aging population as well as the expansion of the single-person household and double-income household.

The recent structural transformation relates to the emerging consumption trend, a diversification in value sought by consumers that reflects lifestyle type, which is partially driven by spending willingness of the increasing "grand generation" population, or people in their mid-50s or older who lead a relatively wealthy, leisurely and active lifestyle. Considerably led by these changes, a growing number of consumers are shaping purchase policies and preferences that meet each lifestyle, based on which value they prioritize over other factors, among quality and functionality, safety/health and convenience, price, as well as social cause (ethical purchase intended for environmental and social contribution). At the same time, consumers are becoming budget-conscious in the face of the consumption tax hike program to be launched in the coming April as well as the rising consumer prices of major manufacturers' national brand products that reflect the higher materials prices. Identifying these trends from customer feedbacks, Aeon has started working to redesign its product strategies with a focus on quality and pricing in response to the changes.

One key initiative implemented as part of these efforts is restructuring the Topvalu brand, focusing on the following four areas:

- (1) Reorganizing the current eight sub-brands into four, deepening the three-tier structure scheme
- (2) Strengthening product development in order to effectively offer value sought by customers
- (3) Redesigning labeling and packaging for enhanced communication of product information
- (4) Enhancing the product improvement system for increased customer satisfaction

(1) Reorganizing the current eight sub-brands into four, deepening the three-tier structure scheme

The Topvalu brand has undergone overall reform in terms of concept building and categorization. The current eight sub-brands established to represent a range of offered values, from convenience, health, to eco-friendliness, will be consolidated into four that embrace more comprehensively new and enhanced value to be delivered under the brand.



The new system deepens the current three-tier structure consisting of Topvalu Select, Topvalu, and Topvalu Best Price. This system will be beefed up by enhancing value offered under each of the sub-brands: Topvalu Select focusing on high quality and performance in terms of materials, function, and production location and process; Topvalu for providing a wide range of food and household goods of reassuring quality for reasonable prices; and Topvalu Best Price focusing on budget prices set for daily necessities of reasonable quality. In addition, efforts will be stepped up to boost the growth of Topvalu Gurinai for food, both processed and non-processed, produced with reduced use of chemicals (pesticides, fertilizers, antibiotics, additives).

(2) Strengthening product development in order to effectively offer value sought by customers

Expanding product lineups to cater to strong preferences and budget-consciousness

The lineups provided under Topvalu Select and Topvalu Best Price will be expanded to cater to both consumers who are budget-conscious and who have strong preferences or interest in lifestyle planning.

Safe, healthy, sustainable

In order to address the recently rising consumer consciousness of food safety and healthy diet, offerings under Topvalu Gurinai will be bolstered with a focus on organic products. Also, we will boost support to sustainable consumption by expanding the lineup of fair trade products, which have already been introduced to the Topvalu brands in response to increasing consumer interest in social contribution through ethical purchase, and by boosting offering of MSC eco-labeled seafood products.

Beauty and health care

The beauty and health care range will be bolstered by adding new categories, including beauty care products developed based on organic materials, intending to attract a wide range of age groups who seek after effective items for maintaining beauty and health.



Image

Comfortable clothing

Topvalu Peace Fit, a new sub-brand introduced in the bedding and clothing category, focuses on comfort to users in addition to functions. The lineup is built for a broad range of fabric items, from functional innerwear and shirts to bedclothes and bed pads, that are developed to achieve a particularly nice feel on the skin.

One key feature of the Topvalu Peace Fit apparel is linen items, mainly offered in blouse, vest and trouser categories that are made of selected soft, fine European materials to deliver a nice feel and elegant style alike.

Meal solutions

For fresh, frozen and refrigerated food categories, the cook-ready meal lineup will be broadened as a measure to support customers facing difficulty with setting aside enough time for preparing decent meals or those wishing to shorten cooking time to spend as much time as possible on eating as a family at home. These products are designed to help those busy customers prepare decent, healthy meals by simply adding a finishing hand.

Simple and stylish household lineup

The simple-design Topvalu home appliances with functions reduced to minimal essentials, thereby achieving reasonable prices and greater ease to use, have been favorably received by a lot of customers since its launch last year. The lineup will be expanded, aiming at increased sales.

The lineup of furniture, electronics and interior items will be enhanced with a focus on style and quality, chiefly by introducing high-class, stylish sofa and other articles developed employing authentic European leather manufacturing technologies, with an intention to offer pieces for comprehensive interior planning.



Image

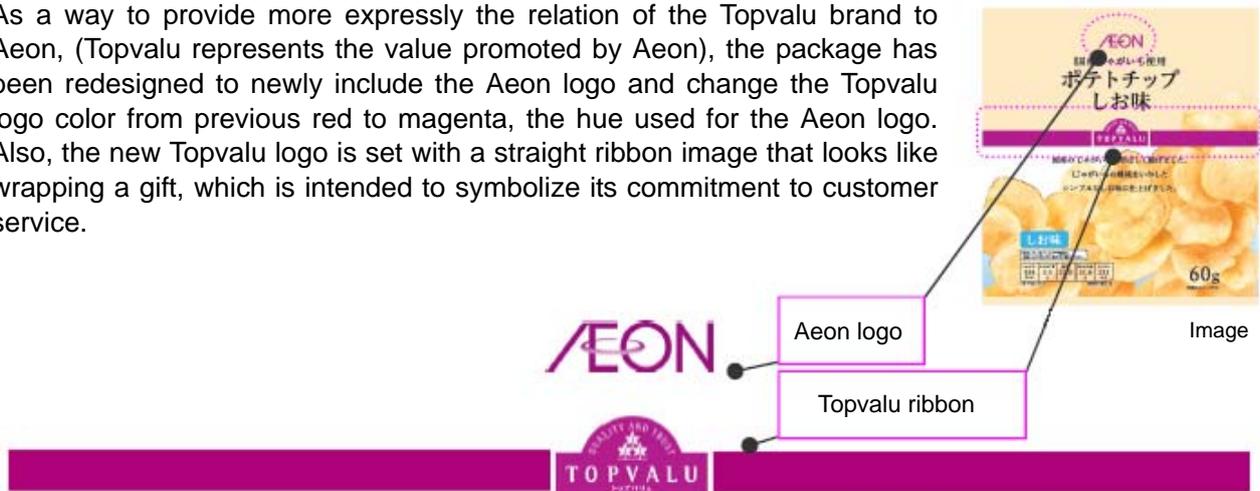
Industry-academia collaboration, seeking novelty

Topvalu started collaboration with local universities, inviting students to participate in product planning and development, expecting that their novel ideas and different perspectives, combined with specialist knowledge, will help Topvalu create new, unique value. Major achievements include fair trade chocolate products and box lunch created under the supervision of Kagawa Education Institute of Nutrition. Following these, Aeon will step up the collaboration projects for a wide range of food and clothing categories.

(3) Redesigning labeling and packaging for enhanced communication of product information

Redesigning package: Aeon logo and Topvalu ribbon

As a way to provide more expressly the relation of the Topvalu brand to Aeon, (Topvalu represents the value promoted by Aeon), the package has been redesigned to newly include the Aeon logo and change the Topvalu logo color from previous red to magenta, the hue used for the Aeon logo. Also, the new Topvalu logo is set with a straight ribbon image that looks like wrapping a gift, which is intended to symbolize its commitment to customer service.



Description of “product story”

Intending to effectively communicate the value of each product, the background information is summarized as a “product story” and printed on the package.

Indication of allergens and nutrients: unified icons

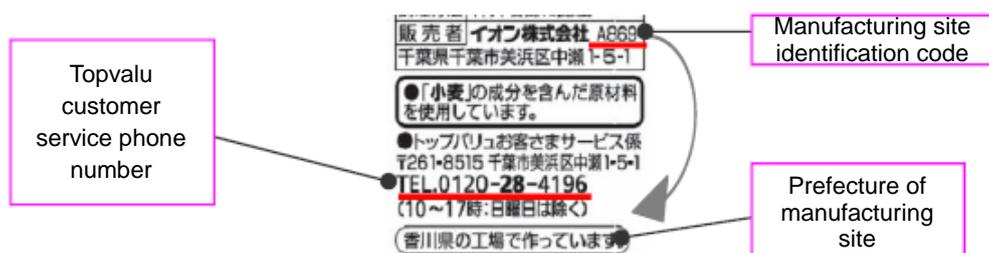
As a measure that helps customers understand more easily the information of allergens and nutrients contained in each product, relevant icons will be unified across the entire food product range to be indicated on the package.



Indication of production location: prefecture indication

In order to help easy understanding of the shipping location of products, meaning the place of production or final processing, the location indication will voluntarily include the prefecture where the registered address of the relevant factory belongs, in addition to the mandate manufacturing site identification code.

Note: The prefecture indication is not offered for some products, including milk products, box lunch and *onigiri* whose manufacturer is indicated or fresh food that does not involve a manufacturing process.



(4) Enhancing the product improvement system for increased customer satisfaction

Cooperation and support from customers has played an essential role in developing the Topvalu brand throughout the history. In particular, customer feedbacks and evaluations are a key guide for planning and developing products. To collect effective information from customers, a number of activities have been conducted, including food sampling surveys for new products involving store visitors and picking out relevant information from communications received by the Topvalu customer service, whose contact number is indicated on the product package across the entire Topvalu range, and also from requests and messages posted to the Group stores.

The activities for collecting customer evaluations have been enhanced, as part of the brand redesigning efforts. The survey target has been expanded to include existing products for improvement in addition to new launches. Also, a new survey has been launched to obtain customer evaluation on products under development for trial use at home. Obtained results, combined with in-store sampling survey results, are compiled to build a database as a tool for efficient product improvement activities. Last year, a rough total of 100,000 customers participated in the project for at-home trial use of a total of more than 2,000 Topvalu items.

Aeon will start a full operation of the product database system as a key function for long-term use in product development and improvement, as an approach to continual enhancement of customer satisfaction in cooperation with customers. .



For reference

Overview of the upheaval 40 year history of Topvalu, Japan's leading private brand

The origin of the Topvalu brand dates back to 1974 when the Japanese economy faced violently souring prices, exemplified by an annual 23% growth recorded for consumer prices that year, which is attributable to an impact of the oil crisis that started in the previous year. Against this background, major national brand manufacturers began to raise retail prices, passing an increase in material prices on to consumers. As a counteraction against this move, Aeon worked to reduce price hike to a minimum level, aiming to fulfill a retailer's mission of acting on behalf of customers to support their daily life. Aeon's cost reduction efforts resulted in the launch of the reasonably low-priced J-Cup cup noodle, Aeon's first private brand product.



J-cup, Aeon's first PB product, launched in 1974

Over 40 years since then, Topvalu has grown to become Japan's largest private brand in the general household retail sector, through offering unique value that only Topvalu can by incorporating customers' ideas and expectations in product development. In the course of the four decade development, the brand structure has expanded gradually, adding a number of sub-brands (Topvalu Ready Meal, Topvalu Healthy Ai, Topvalu Kyokan Sengen) as necessary to promote new value to offer, specifically, "simple" "healthy" and "eco-friendly."

As a recent move, Aeon has stepped up efforts to address the theme of product safety, of which public awareness has been increasing particularly since the occurrence of the nuclear accident triggered by the Great East Japan Earthquake in 2011. In response to the mounting consumer concern over food safety, Research Institute for Quality Living Co., Ltd. (RIQL), the Group's arm engaged in quality assurance management, established the Research Center in 2013 to perform food testing for radioactive contamination in addition to screening for genes, microbes and allergens. Since then, while undertaking food safety inspection, the Research Center has also supported the planning and development of Topvalu products by providing scientific advice.

The Topvalu brand has seeking an additional growth in line with the shift to Asian markets, one of the Group's common strategies. Aeon has created and launched local versions of the brand, starting in China in 2012, followed by Malaysia in 2013. In Malaysia, Topvalu became Japan's first major retail brand to obtain Halal certification for food products to launch in the local Muslim market.

Building on the achievements over the past 40 years, the redesigned Topvalu brand will continue working to achieve further growth offering new value through products developed in cooperation with its customers.



Aeon fully liable for Topvalu productions

In Europe and the U.S., where the private brand business has a longer history than Japan, it is generally accepted that private brand projects are undertaken with full liability held by retailers. In comparison, Japan lacks adequate understanding of this concept of the private brand business model, mistakenly mixed with the double brand model (joint production by the manufacturer and retailer). The global standard dictates that the two models should be separate.

Topvalu is Aeon's private brand created to realize the concept of developing products based on customer feedbacks, and Aeon is fully liable for the production. This ownership liability is publicized in the form of indication of the project owner information on the product package, specifically, "Produced by Aeon Co., Ltd." and "Topvalu Customer Service Phone Number."

Topvalu products are manufactured in factories rigorously selected from around the world by Aeon Topvalu Co., Ltd. according to its original specifications created for each product in term of each production stage spanning from concept planning and development (function, taste, appearance, etc.) to the entire manufacturing process ranging from material procurement to processing. Finished products are shipped by those manufacturers, received by the company and subjected to quality inspection before reaching store shelves. In addition, RIQL, Aeon's quality assurance arm performs surveys on the quality control system of each consigned factory in order to ensure the safety of products. In this way, the entire process involving Topvalu productions is under the control of Aeon, a justification for the package indication of "Produced by Aeon Co., Ltd."

Note: The indication may change for some products, including milk products, box lunch and *onigiri*, for which the manufacturer is indicated in place of the producer.

On the Topvalu product package, alongside the producer name, the Topvalu customer service phone number is indicated, so that customers will reach Aeon's call center for inquiries and requests about Topvalu products, which are handled by Aeon employees. To satisfy many different inquiries and requests about the products, it is indispensable to have detailed and organized information on each production, ranging from location and time to materials used and processing methods, which is only possible by a full-scale producer. This customer communication handling is also beneficial, by providing opportunities for improvement and ideas for new product development.