

Guiding Aeon to become a smarter company through contributions to the sustainable growth of local communities

Part I Aeon's CSR Activities Pursuing "peace" through CSR

Kanamaru:
At Aeon, we have promoted CSR activities under a wide variety of themes based on the Aeon Basic Principles ever since environmental preservation and international people-to-people exchange programs were initiated with the launch of the Aeon 1% Club established in 1989 (see p.4). In 2011, our business activities expanded globally to China and ASEAN, which meant that the impacts the Aeon Group has on the environment and society increased markedly as well. For this reason, the Aeon Sustainability Principle was drawn up based on international initiatives and guidelines on CSR, stakeholder opinions, as well as the business characteristics and growth strategy of the Aeon Group. This basic policy set forth the four key pillars of "realization of a low-carbon society," "conservation of biodiversity," "better use of resources," and "addressing social issues." KPI have been set for each individual initiative so that CSR activities

are integrated with corporate management.

Sueyoshi:
Incorporating the key words "peace," "people," and "community" into a basic policy is very Aeon-like. I strongly commend this because "peace," in particular, is a word that we really don't hear very often in business. This demonstrates Aeon's strong commitment to sustainability because without peace there would be no retail.

Edahiro:
I felt the same way. Yet, at the same time, I also felt that Aeon should make its awareness of global and society issues, which form the basis for the four pillars, more visible to all. That is, what are today's and tomorrow's issues of a globalized society and how is Aeon involved with these? What will it do to address them? I know the four pillars were decided on after various forms of dialogue with stakeholders, but I feel, as a multinational corporation, Aeon needs to share with us why it selected these four pillars. By talking about the future of society and the environment, Aeon will be able to gain the understanding of more

stakeholders, and its principle of "pursuing peace" will come alive.

Oishi:
I'm viewing company initiatives from the perspective of consumers, and I feel that the retail industry plays the largest role in educating consumers as to why CSR activities are important and why they are being carried out. Consumers shop at stores on a daily basis. If Aeon can convey social issues and its initiatives simply and concisely, so as to help consumers select certain products, it can change consumption patterns and change lifestyles. This is the kind of huge potential the retail industry has.

Sueyoshi:
Every day, millions of consumers are buying millions of things. When it come to food, for example, it is very important to inform consumers about today's problems facing the earth, which provides us with sustenance through nature. At the same time, such efforts should also be important for Aeon's approach to business sustainability as a retailer. Earlier we heard how Aeon intends to integrate CSR activities with corporate management. A story is a key in this instance, such as Aeon is carrying out these activities because its own business model would not survive without a sustainable society.

Yamanashi:
Thank you for pointing that out. Decisions are made based on various discussions and debate that take place within Aeon. When we share things with people outside the company, we tend to say things like "We will do this," or "We did that." I think we get a little weak in the knees if someone questions whether our activities really incorporate holistic medium- to long-term perspectives on environmental and social issues. We'll reflect this in our future information sharing.

–Having talked about awareness of the issues somewhat, can you now introduce the Big Challenge 2020 campaign that was newly launched in 2014?

Part II Big Challenge 2020 Identifying important initiatives for growth strategy execution

Kanamaru:
Aeon is aiming to become Asia's pre-eminent retailer. Toward that end, we are implementing the Medium-term Management Plan, which focuses on the '4 Shifts (see p. 2)' strategy in response to megatrends in global markets and revamping our TOPVALU brand with product-oriented reforms. In March 2014, we discussed a variety of topics, including the four pillars, with emphasis given to the future, from the standpoint of what responsibilities Aeon should fulfill in the implementation of its growth strategy and how could Aeon contribute to solving social issues through its businesses. The results found 10 actions that were included



in KPI up to 2020 and a plan known as "Big Challenge 2020" (see p.10). This includes actions for which efforts will be bolstered in the future and actions we have not been able to focus on, despite their importance. Of these, we selected the Aeon Eco Project, sustainable procurement, Letting Forests Grow, and zero waste as actions on which to concentrate our efforts.

Yamanashi:
I believe that Aeon's CSR activities, having passed through the phase of individual initiatives for each issue following the Aeon Basic Principles and Aeon Sustainability Principle, are currently in the phase where solutions to environmental and social issues are beginning to be incorporated into core business processes or the phase where certain initiatives are beginning to be utilized as the core of a differentiation strategy. To further accelerate this trend, Aeon has decided to tackle the challenge of integrating CSR activities with corporate management as it heads toward 2020.

–Can everyone share their views about approaches to and initiatives within these four main fields?

Part III Aeon Eco Project Stores that save energy, generate electricity, and have disaster-prevention facilities

Kanamaru:
Given rising demand recently for conserving electricity and energy and the experience of the Great East Japan Earthquake, the Aeon Eco Project (see p.39) seeks to reduce energy usage and generate renewable energy for the betterment of the environment, while also protecting the community during emergencies with disaster-prevention facilities. In other words, it seeks to provide lifelines for living.

Sueyoshi:
Conserving energy and generating energy are actions



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that the entire world should be taking, not only Aeon. The unique aspect of Aeon's efforts is its ability to use its stores as disaster-prevention facilities.

Edahiro:

I believe it's a great, Aeon-like initiative, but I feel having the role of disaster-prevention facilities included within the realm of "eco" seems a bit out of place.

Kanamaru:

We were also concerned about how this would fit, so we set up the framework called Smart Aeon to introduce our efforts.

Edahiro:

I have a proposal. I've recently spoken a lot about resilience as an initiative to defeat global warming and mitigate natural disasters. Aeon should organize activities around this key word as it develops the ability to flexibly overcome any situation in each community.

Sueyoshi:

Disaster-prevention facilities originated from the Great East Japan Earthquake when Aeon stores were made available to the public as evacuation shelters, a gesture much appreciated by local communities. From my perspective as an outside director, the Aeon Eco Project is a condition for being competitive. As Aeon competes with other stores in each community, what kind of competitive advantages can Aeon leverage? Traditionally, this has taken the form of prices, taste, and design, but now Aeon is marketing its value in terms of the environment and disaster mitigation. Aeon will truly achieve its goal of CSR activities integrated with corporate management when this value is recognized by consumers and translates into improved business performance.

Oishi:

I'd like to change the subject. Of the 10 actions, the one



about installing natural refrigerant-based refrigerators and freezers caught my attention. The other day, I attended a meeting on the revised Freon Act, where I heard that little progress has been made in introducing this equipment because the cost is too high. This is why I would like Aeon to take the lead and show others it's possible.

Kanamaru:

Thank you. We announced the Aeon Natural Refrigerants Declaration (see p.42) in November 2011. It states that we will use natural refrigerants in every new stores to open from FY 2015 onward and steadily changeover to natural refrigerants at our existing stores. Currently, there are very few manufacturers that offer this equipment, which has contributed to the problem of high costs, but the Ministry of the Environment has a subsidy program in place that we will utilize.

Edahiro:

I'd like Aeon to help lobby other manufacturers to begin using this technology.

Part IV Sustainable Procurement

Formulating policy based on both business and the environment

–Next, let's look at the theme of sustainable procurement. In 2014, Aeon announced the Aeon Sustainable Procurement Principles and Aeon Sustainable Seafood Procurement Policy.

Kanamaru:

A little earlier Mr. Sueyoshi pointed out that the loss of nature's bounty is a serious issue for Aeon. This is the truth, and using the example of seafood, today the stock of many fish species is faced with the threat of depletion. As a result, we drew up the Aeon Sustainable Seafood Procurement Policy in order to preserve sustainability and biodiversity of seafood while fulfilling our responsibility to provide a stable supply. In 2006, we began carrying MSC-certified (see p.50) seafood products with the Marine Eco-Label seal of approval. Today, our lineup includes 23 products across 13 species, which is the largest in Japan.

Sueyoshi:

Many people consider biodiversity to be the act of protecting living things or endangered species. Although this is not incorrect, I feel that biodiversity needs to be viewed from a business perspective in the case of company initiatives. In this regard, I can commend initiatives that consider both business, such as stable supply, and the environment, such as biodiversity.

Oishi:

As has been shown with the issue of tuna and eel, it is important to more thoroughly share with consumers the reality we face in terms of marine resource depletion. I believe that many consumers don't actually know about the reality behind MSC certification.

Sueyoshi:

In Europe and North America, high-end grocery stores carry a large number of eco-friendly product and consumers, too, know a lot about these issues, which has formed a consumer trend. In contrast, I feel that Japanese retailers tend to place low-priced items in highly visible places. Placing MSC-certified items in highly visible locations is something positive for both raising consumer awareness and increasing revenues over the medium to long term.

Yamanashi:

That certainly seems like the case. The retail industry is a world where you can tell whether you win or lose against the competition in a matter of hours. This tends to focus your attention only on what's in front of you, such as the inclination to compete on prices. Therefore, I believe a great challenge for the retail industry to overcome is how we can surmount the dilemma presented by the gap between eternal principles and day-to-day reality.

Edahiro:

Given this dilemma, Aeon has been working on carrying certified products since back in 2006. This is something I



can commend and I really hope that other retailers will mimic Aeon's approach. At the same time, I want to know just how much the sales of certified seafood products contribute to reducing resource depletion and the extent to which we rely on marine

resources considered to face depletion. I believe Aeon can gain further trust if it issued a report detailing its activities because of our dependence on marine resources and the impacts of certified products as well as the achievements made to date.

Kanamaru:

Thank you. We will continue to expand the number of certified products going forward and try our best to report on the impacts of these efforts. I feel that sharing information on dependence and impacts needs to be utilized in other initiatives, too.

Part V Letting Forests Grow

Activities that demonstrate Aeon's roots

–Moving on, let's examine the topic of Letting Forests Grow. Since planting its 10 millionth tree in 2013, Aeon has been bolstering its efforts to develop and utilize these resources.

Kanamaru:

Yes, there are many locations where the trees planted



around a store some 20 years ago when we began this initiative have matured into a forest and in the cases of reforested areas we have had to carry out thinning to some extent. This is why we have begun developing products from this thinned wood and have worked with NPOs on a trial basis to develop successors for the forestry business (see p.52). As part of our use of forest resources, we are building stores for Ministop using FSC-certified materials sourced from responsibly managed forests, with more than 100 stores built to date.

Sueyoshi:

I'd like more people to know about this initiative. What if you made it possible for customers to see the inside structure of a store?

Edahiro:

That would help to raise awareness and serve as environmental education. Incidentally, about how much CO₂ does one tree absorb? I'd like to know just how positive the effects of 10 million trees over 20 years can have on biodiversity.

Kanamaru:

We ask a third-party to calculate this and regularly report the results. Aeon's trees are intended to help fulfill our basic principles by sharing the importance of nature and peace in society with the local community, instead of just reducing CO₂. This is why we haven't really emphasize the numbers overall.

Sueyoshi:

After becoming an outside director I found out that the roots of Aeon's tree planting efforts could be traced back to the 1980s when honorary Chairman Okada was scared by the prospect of losing the natural environment.

Oishi:

That was before it was widely known that the loss of tropical rainforest was linked to global warming and natural disasters.

Sueyoshi:

This threat has continued for 20 years. It can easily be said that this now forms a part of Aeon's DNA. Therefore, if there was a new meaning from our efforts for the next 10 million trees, it would not be for biodiversity or preventing global warming, but rather for our roots of sharing the importance of nature with people in the community and creating opportunities for people to come together through trees.

Yamanashi:

Sharing Aeon's roots, including its basic principles, is becoming even more important as the company expands globally. I, too, would like to use these efforts as a point of reference.

Part VI Zero Waste

Promoting initiatives across the supply chain

–We also heard that Aeon will be stepping up its zero emission efforts in terms of the lifecycle of resources.

Kanamaru:

Aeon has continually worked to reduce the use of plastic bags from the standpoint of reducing fossil fuel usage, and we have actively utilized plant-derived containers and packaging, having gained considerable recognition. Going forward, there are still many initiatives that need to be strengthened from the standpoint of the total lifecycle. Therefore, we will now carry out further efforts to reduce the amount of resources used and waste generated in each phase, from manufacturing and processing to distribution. As part of this, currently we are carrying out a recycling loop (see p.58) where food residue from Aeon stores is made into fertilizer. In turn, we will now step up efforts to utilize this fertilizer to cultivate agricultural produce and raise livestock.

Oishi:

Aeon certainly is making progress with utilizing resources more effectively and reducing waste through its reduction of plastic bags and collection of recyclables. Of more importance, I believe, is educating consumers about resource and waste issues, while continuing with these efforts. It would be helpful to show the significance for society and also show in an easy-to-understand way where this waste ends up.

Edahiro:

I, too, find Aeon's zero waste challenge to be a great initiative. Because this is such a great initiative, I would like Aeon to share its definition of waste, the extent to which its activities cover the supply chain, and what is the overall progress that has been made, which I touched upon earlier.

Oishi:

I would also like Aeon to be more consumer-centric, such as providing clear information to distinguish the difference between the use-by date and the best-before date. Although different from zero waste, how is Aeon addressing the issue of food waste?

Sueyoshi:

Every year Japan produces about 17 million tons of food waste. Of this, approximately 6 million tons is food that is still edible and could have been eaten.

Kanamaru:

We are involved in the Business Practice Review Team (for reducing food waste) organized by the Ministry of Agriculture, Forestry and Fisheries, since product return rules between manufacturer, distributor and retailer and other issues are difficult to solve by one company alone. Some of our stores also work with the local food bank.

Part VII Towards the Future

Stepping up initiatives as a key piece of social infrastructure in the local community

–In closing, what were your thoughts about today's discussions? Also, please share any recommendations you may have for Aeon in the future.

Yamanashi:

The Smart Aeon concept with disaster-prevention facilities was recognized for its community contributions. Aeon very much emphasizes what it can do for communities, as evidenced by its principles. I believe our existential value can be defined in the degree to which we contribute to people in the community together with suppliers in the community, local governments, NPOs, and NGOs by providing products, information and venues. At this year's annual shareholders' meeting, President Okada used the key word "ecosystem" about future growth. This also means an economic ecosystem in the sense of business, but we view ecosystem in a broader sense where we work closely with community stakeholders to grow together. Therefore, listening to all of you today, we further enhance our commitment to serve as a company closely rooted in the community.

Sueyoshi:

Smart Aeon is a word to describe Aeon's next-generation of stores. After listening to today's discussion, I felt this



word also describes the Aeon Group's nature. Stores serve to conserve energy, generate energy and provide disaster-prevention facilities for the community, while products are of high quality and safety rooted in sustainability and the lifestyle of the community. Human resource development and governance provide something else. In this manner, each of Aeon's efforts can be categorized.

Edahiro:

I agree with the view that Aeon overall is getting smarter. Earlier I spoke about resilience and the power to overcome challenges in a flexible manner. Resilience in terms of the tangible and intangible. As Mr. Yamanashi spoke about connections with stakeholders, I would like Aeon to further emphasize its relationships with people in the community. I hope Smart Aeon, with its tangible and intangible forms of resilience, can become a resilience center for communities in the future.

Oishi:

Japan as a whole, and especially its rural areas, is heading into a time period of declining population where certain sectors will not be able to succeed business-wise. Therefore, I thought it was rather compelling to hear the words "emphasize the community." Of course, this is more difficult to achieve than the words indicate. Nevertheless, I would like Aeon to give its best for the community because it plays such a large role as a form of social infrastructure.

Yamanashi:

Today we heard about the perspective of why we do something and why we share the results, the perspective of providing information to consumers, and the perspective that Aeon should get smarter and become a resilience center. Based on these views, I hope to help Aeon move closer to realizing its vision of an ecosystem. Thank you very much for taking the time to join us today.

Response to Dialogue with Stakeholders

“Aeon is committed to becoming a smarter company in terms of understanding the consumer patterns and lifestyles of each local community and making full use of its global supply chain.”



Hirokazu Yamanashi
Vice President, Chief Corporate Planning Officer, Aeon Co., Ltd.

The views shared by the experts here today on Aeon's CSR activities all were very meaningful for our examination of future CSR activities. During this dialogue, experts shared their expectations and honest doubts about Aeon, and I believe these are inextricably linked together. As it grows, Aeon will have increasing effects on people, society and the environment. As a retailer with close interaction with consumers in the themes of environmental preservation, biodiversity, waste, and community revitalization and as a company with a global supply chain, if Aeon can present issues to stakeholders in an easy-to-understand manner and show solutions to these issues, Aeon will be able to change people's

consumption and lifestyles, and its supply chain, in a sustainable manner. On the other hand, stakeholder trust cannot be gained through conventional approaches alone, such as company activities that ignore the sustainability of energy and resources, and only offer uniform nationwide product lineups and price competition. This indicates we are in a time where the survival of companies is in peril. This awareness and threat can be found in Big Challenge 2020, which seeks to link Aeon value enhancement with stakeholder value enhancement. Aeon will continue to work on CSR activities integrated with its corporate management over the medium to long term and with a global perspective.

Materiality Identification Process

