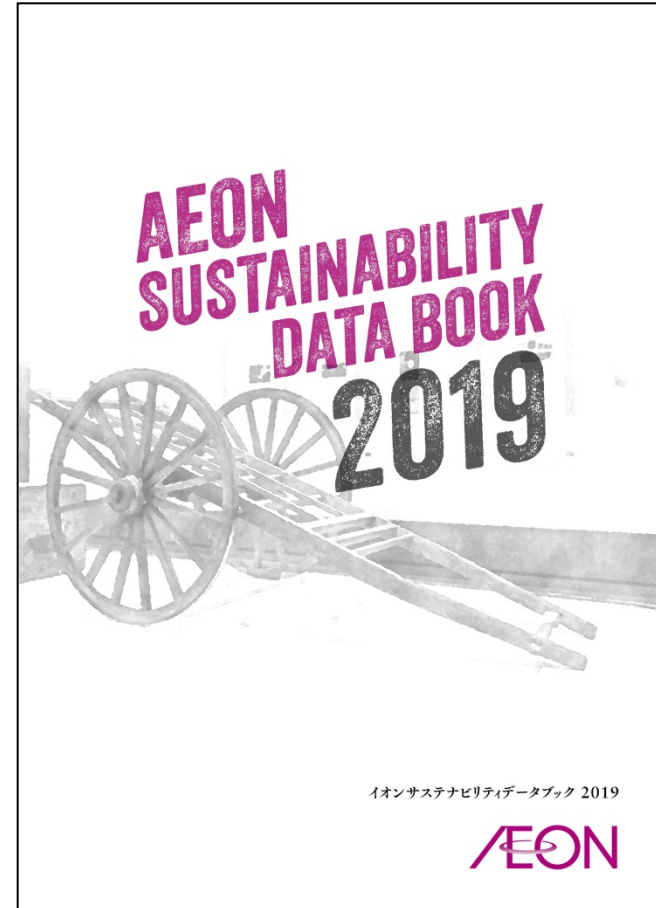


FY2019 Sustainable Management Briefing

December 11, 2019
Aeon Co., Ltd.

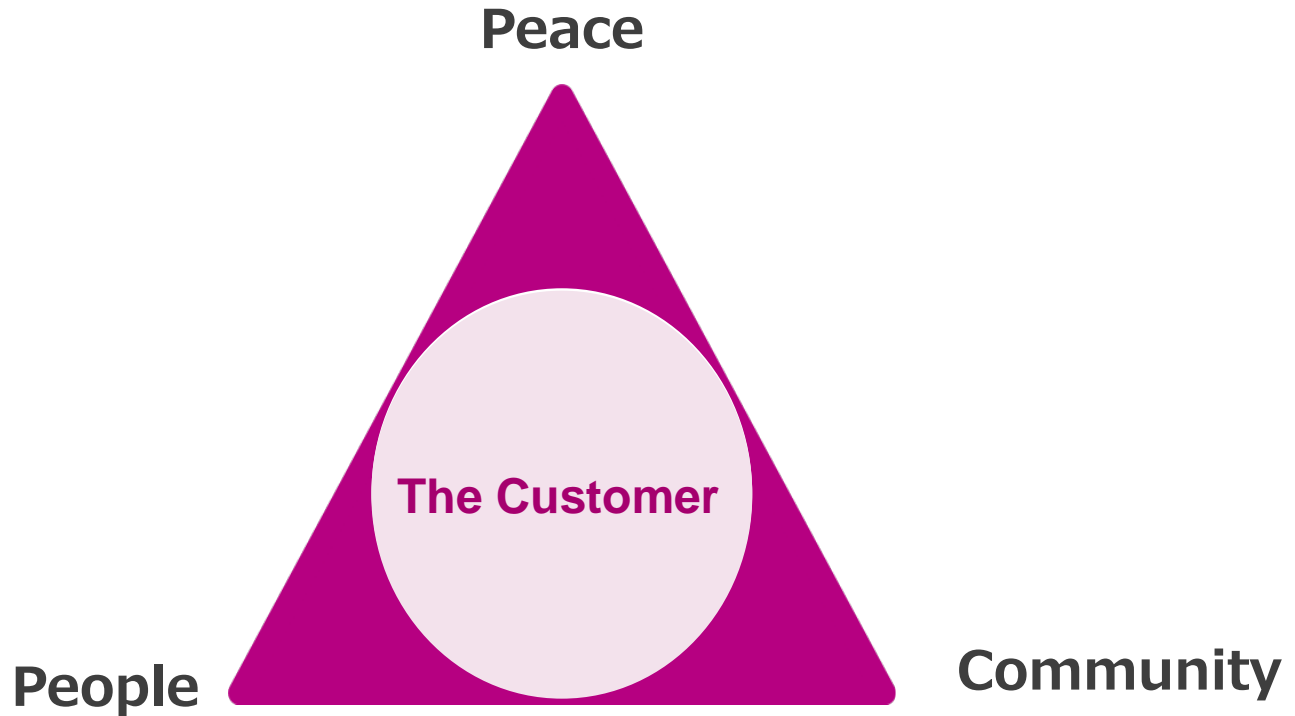


<https://www.aeon.info/en/ir/library/aeon-report/>

ESG Management

December 11, 2019
Aeon Co., Ltd.

Pursuing peace, respecting humanity, and contributing to local communities, always with the customer's point of view as its core



On the basis of the Aeon Basic Principles, Aeon practices its “Customer-First” philosophy with its everlasting innovative spirit

Aeon Sustainability Principle

Based on the Aeon Basic Principles of “pursuing peace, respecting humanity, and contributing to local communities, always with the customer’s point of view as its core,” we aim to both grow our Group businesses and help realize a sustainable society.

We will adopt a global approach to both environmental and social issues and actively advance our community-based activities together with our many stakeholders. (revised September 2018)

Key environmental issues

- Realization of a Decarbonized Society
- Conservation of Biodiversity
- Promoting the Recycling of Resources

Key social issues

- Creating Products and Stores that meet Society’s Expectations
- Implementing Fair Business Practices based on Respect for Human Rights
- Collaborating with Communities

Establishment of disaster prevention sites

Providing sites for disaster recovery teams (power companies, SDF)



Providing relief supplies during disasters based on comprehensive partnership agreements with local governments



Deploying mobile sales vans and mobile ATMs



Dispatching disaster recovery volunteers



FY2018 Aeon Group extraordinary losses from disasters:
¥7.2 billion

Damages owed mainly to earthquakes in Osaka and Hokkaido,
torrential rain in western Japan, and multiple typhoons



Disaster-related losses in FY2019

Three typhoons and torrential rain in Chiba...

Damages to buildings and goods, opportunity losses from suspended
business operations, and higher insurance premiums, etc.

Natural disasters are occurring more often and
posing greater threats

1: Long-term goal setting (statement of approach)



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Scientific targets

RE

100

Disclosure of initiatives

**We announced the AEON Decarbonization Vision 2050
implemented in 2018**

2: Incorporation of climate change measures into management plans



TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

Leveraging scenario analyses to gauge
business risks and opportunities, and
financial impacts

We plan to carry out the following:

2019: Publish policies and scenario analyses in our integrated report

2020: Incorporate them into medium-term management plans

Aeon Decarbonization Vision 2050

We will work to reduce greenhouse gas (“GHG”) emissions by employing a three-pronged approach, thereby contributing to the realization of a decarbonized society.

Stores

Reduce total GHG emissions from our stores to zero by 2050.

Products & Logistics

Continue making every effort to achieve zero GHG emissions from our business processes.

Together with Customers

Work together with our customers to help achieve a decarbonized society.

Step 1 Develop a governance structure

Step 2 Identify risk items and assess materiality

Two priority areas (store operations and product procurement) and six key risk items

Step 3 Examine scenarios

Global average temperature increase of 2°C and 4°C

Step 4 Assess financial impacts

Quantitative assessments (more detailed evaluations planned in 2020) and qualitative assessments

Step 5 Consider countermeasures

Incorporation into medium-term management plans (2020)

Step 6 Documentation and information disclosure

Identification of climate risk items related to our business activities

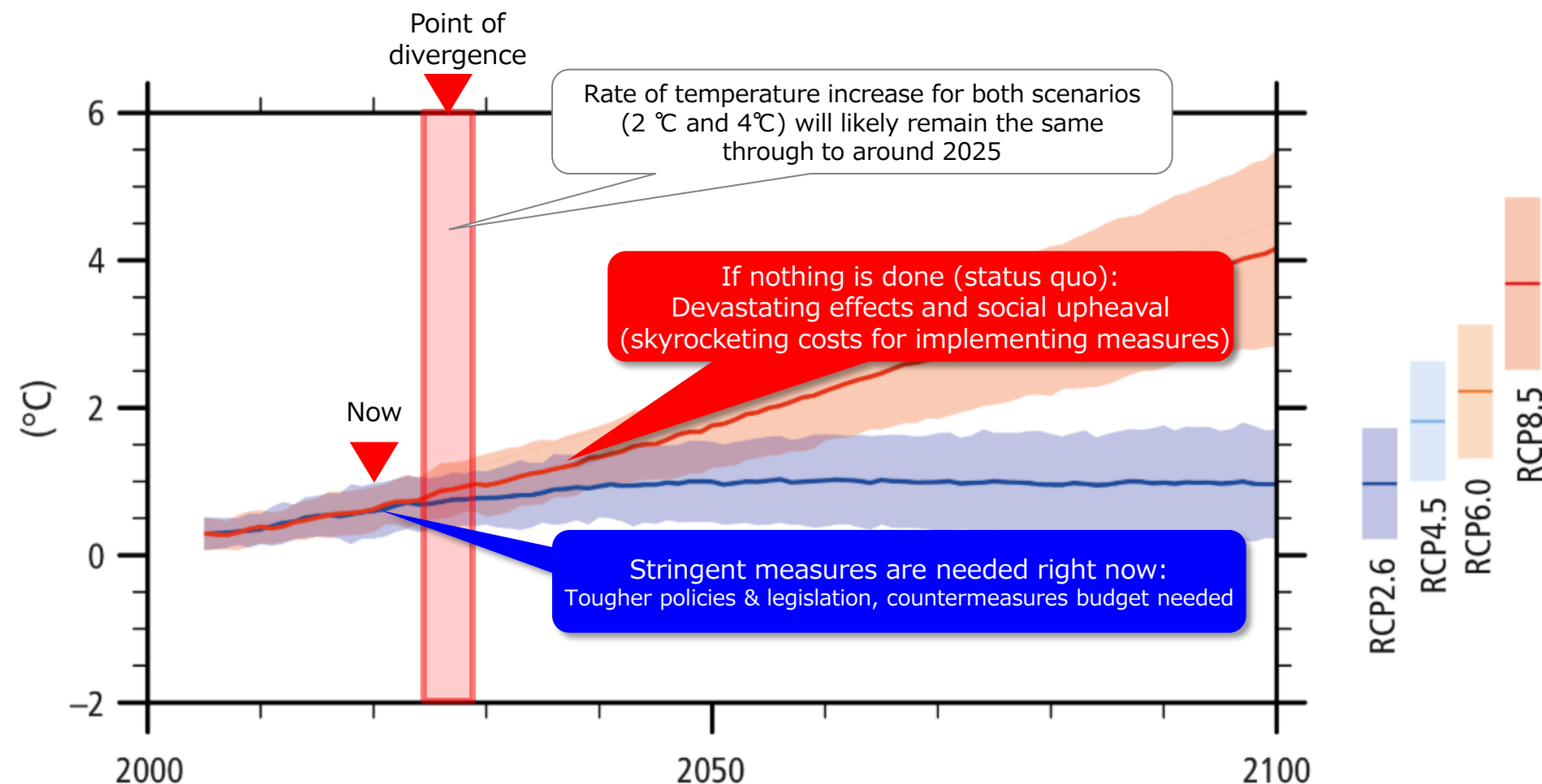
Risk type		Areas related to Aeon	Examples of data analyzed to identify climate risk items
Transition risks	Policies & Legislation	Government & Policies	<ul style="list-style-type: none"> Country-specific GHG reduction targets Carbon tax and emissions trading around the world Basic energy plans Nuclear power plant restarts / CCS & CCU, development of hydrogen technology CFC regulations / energy-saving regulations
	Technology	Energy & Facility Suppliers	<ul style="list-style-type: none"> Crude oil & natural gas prices 2030 outlook for renewable energy prices Trends in energy demand (developed & emerging markets) ZEB technology and advancements in disaster prevention technology (new stores) Uptake of appliances using eco-friendly refrigerants / spread of electric vehicles and related infrastructure
	Markets	Food & Daily Necessities Suppliers	<ul style="list-style-type: none"> Water risks in countries where major offices are located Population growth rate / global area-specific (country-specific) outlook for food supply and demand Changes in yields for Japanese agricultural and fisheries produce due to global warming Changes in raw material procurement regions Global average yields for major crops
	Reputation	Customers & NGOs	<ul style="list-style-type: none"> Changes in consumption behavior due to continued global warming Changes in consumption behavior due to economic growth in emerging countries Trends in sharing economy / health hazards Trends in ethical consumption / NGO trends
Physical risks	Acute	Stores	<ul style="list-style-type: none"> Temperature trends over time associated with rise in concentration of CO₂ in air Sea level trends over time associated with rise in concentration of CO₂ in air Changes in rainfall and precipitation patterns Trends in disaster severity, areas, and frequency Physical damage from meteorological disasters
	Chronic		

Six key risk items for Aeon were identified from the previous list. Degree of importance for each risk from the perspectives of store operations and product procurement were also identified.

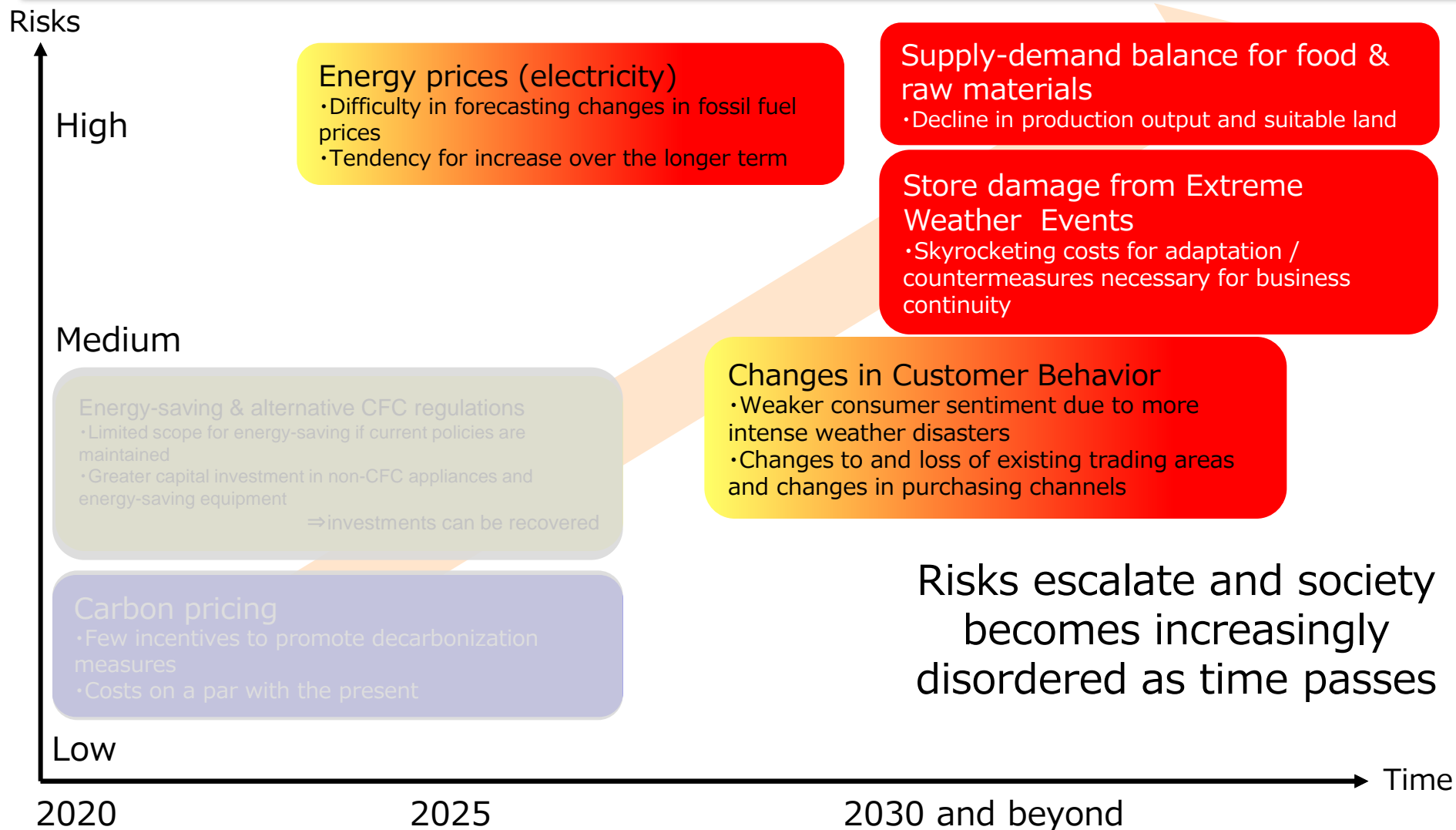
Six risk items for Aeon			Impact Assessment		Degree of Importance
Types of Risks (Opportunities)		Ultimate Items Identified	Store Operations	Product Procurement	
Transition risk	Policies & Legislation	Carbon Pricing	○	○	Medium
	Policies & Legislation	Energy-Saving & Alternative CFC Regulations	○		Medium
	Markets	Energy Prices (Electricity)	○	○	Medium
	Markets & Technology	Supply-Demand Balance for Food & Raw Materials		○	High
	Markets & Reputation	Changes in Customer Behavior	○	○	High
Physical risk	Acute	Damage from Extreme Weather Events	○	○	High
	Chronic		○	○	High

Changing course toward a decarbonized society is required as soon as possible. Measures taken after temperatures start rising will fail to halt temperature increases.

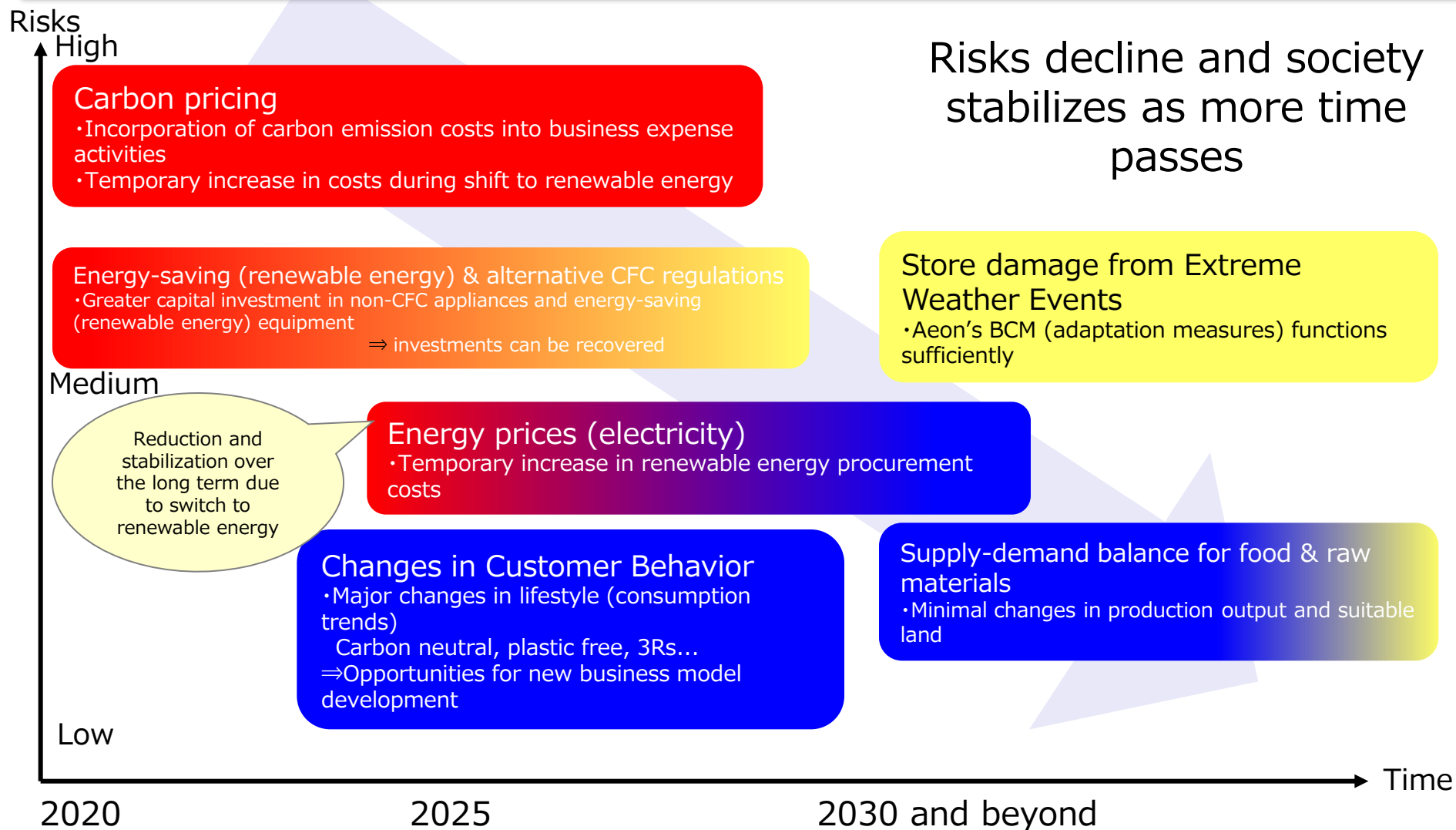
*Differences in the rate of temperature increase and subsequent impacts (disaster severity) are expected to emerge by around 2025.



4°C warmer world view – a scenario that entails greater physical risks as an extension of present situation
Little impact of regulatory risks (medium to high transition risk) / significant impact of physical risks



2°C warmer world view - a scenario that entails the early implementation of decarbonization measures
Significant impact of regulatory and transition risks (opportunities) /
low to medium impact of physical risks



FY2019: Carrying out qualitative impact assessments and examining measures.
From FY2020: Perform assessments with the addition of quantitative data and implement measures.

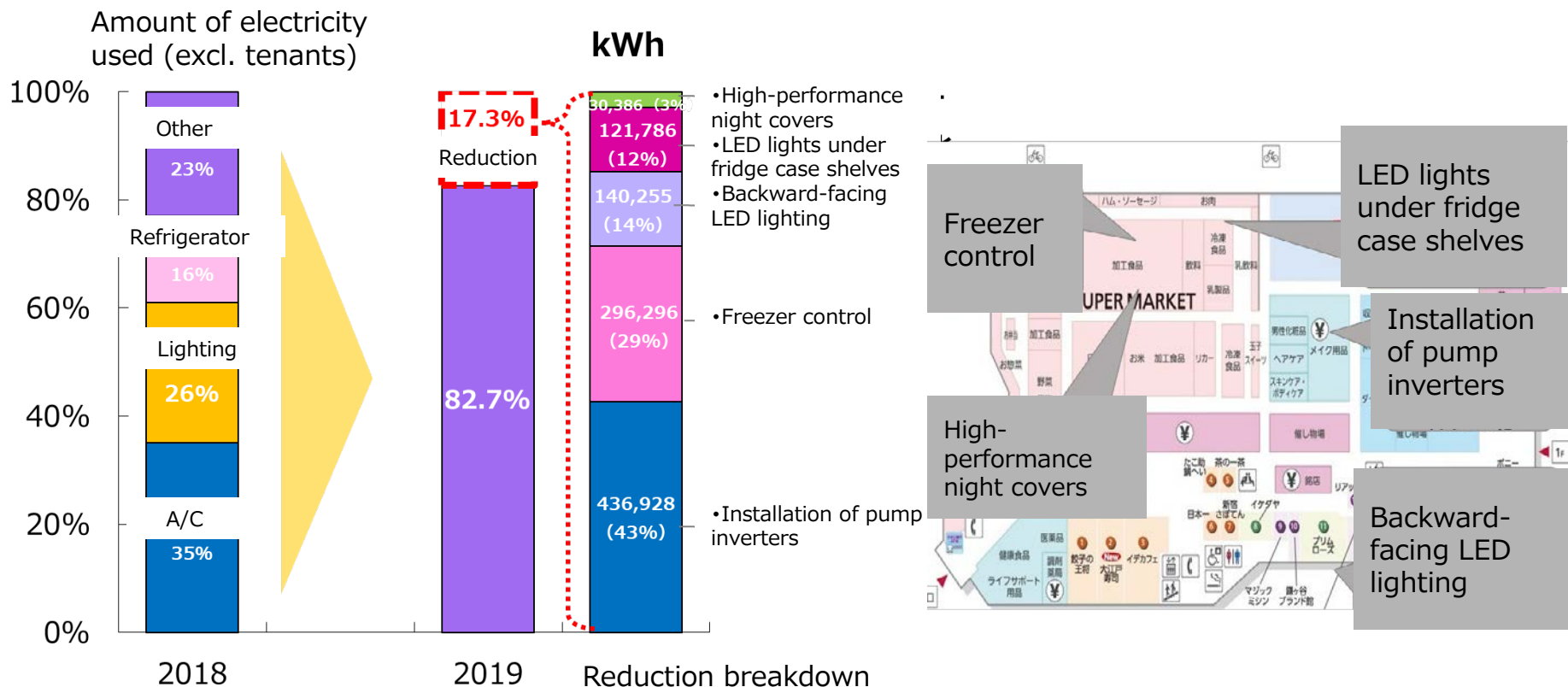
Risk Items	Store Operations	Product Procurement	Impact	Measures (risk response and securing opportunities)
Carbon Pricing	○	○	2°C: major 4°C: minimal	<ul style="list-style-type: none"> Implementing the most efficient decarbonization measures for each country and business Carbon tax measures...stronger supply chain collaboration Emissions trading measures...switching to purchases of low-emissions electricity
Energy-Saving & Alternative CFC Regulations	○		2°C: major 4°C: medium	<ul style="list-style-type: none"> Promotion of energy-saving equipment at existing stores Establishment of Smart Aeon (development of energy-efficient stores and introduction of eco-friendly refrigerants) Promotion of energy management between stores
Energy Prices (Electricity)	○	○	2°C: minimal 4°C: major	<ul style="list-style-type: none"> Promotion of measures and collaboration for procuring renewable energy-based electricity Promotion of electrification of heat sources Modal shift and active introduction of next-generation delivery vehicles
Supply-Demand Balance for Food & Raw Materials		○	2°C: minimal to medium 4°C: major	<ul style="list-style-type: none"> Responding to changes in production areas and yields through vertical integration of food procurement departments Transformation of demand with new product development / periodic reviews of production areas and business partners Reduction of food waste across entire supply chains
Changes in Customer Behavior	○	○	2°C: minimal 4°C: major	<ul style="list-style-type: none"> New lifestyle proposals to customers (constructing models for effective use and recycling of resources, developing new businesses, etc.) Promotion of customer awareness activities (dialogue with mainly customers, NGOs, etc.)
Damage from Extreme Weather Events	○	○	2°C: minimal to medium 4°C: major	<ul style="list-style-type: none"> Promotion of business continuity plan (BCP) and business continuity management (BCM) Stronger measures to keep facilities running during torrential rain or when suffering from water damage Stronger public functions during disasters (collaboration with administrative bodies)

FY2019: Measures to address the climate crisis

- Energy (energy saving & renewable energy)
- Product procurement (supply chains)
- Stores (business continuity)
- Customer lifestyle changes (circular economy)

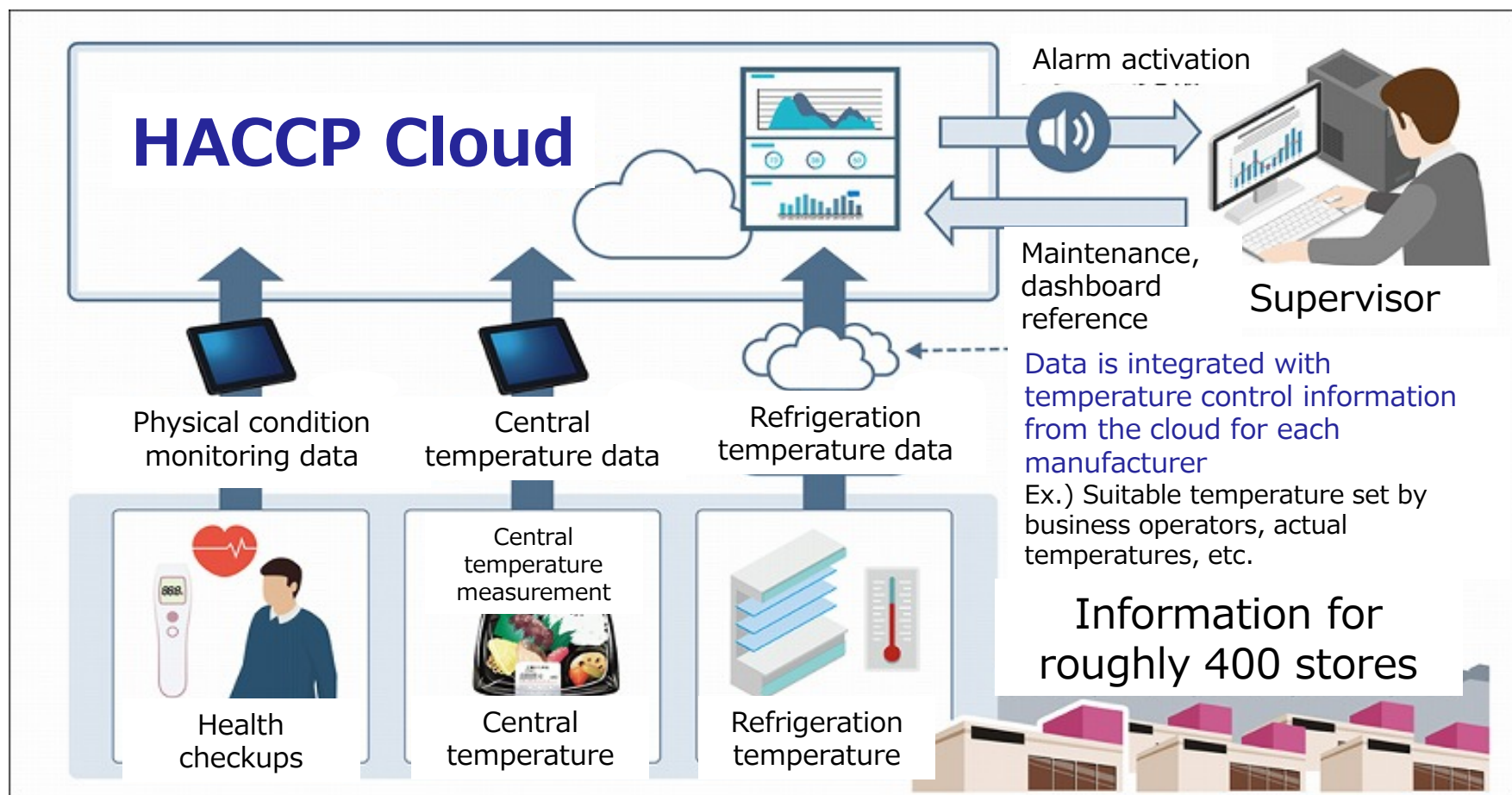
We stepped up our planned investments in energy saving at stores that are 10–15 years old mainly by upgrading the air conditioners, lighting, and fridge/freezer cases that account for roughly 80% of the electricity used. We expect this will lower annual energy consumption by around 15%.

Conceptual image of reduced energy use at general merchandise stores and supermarkets



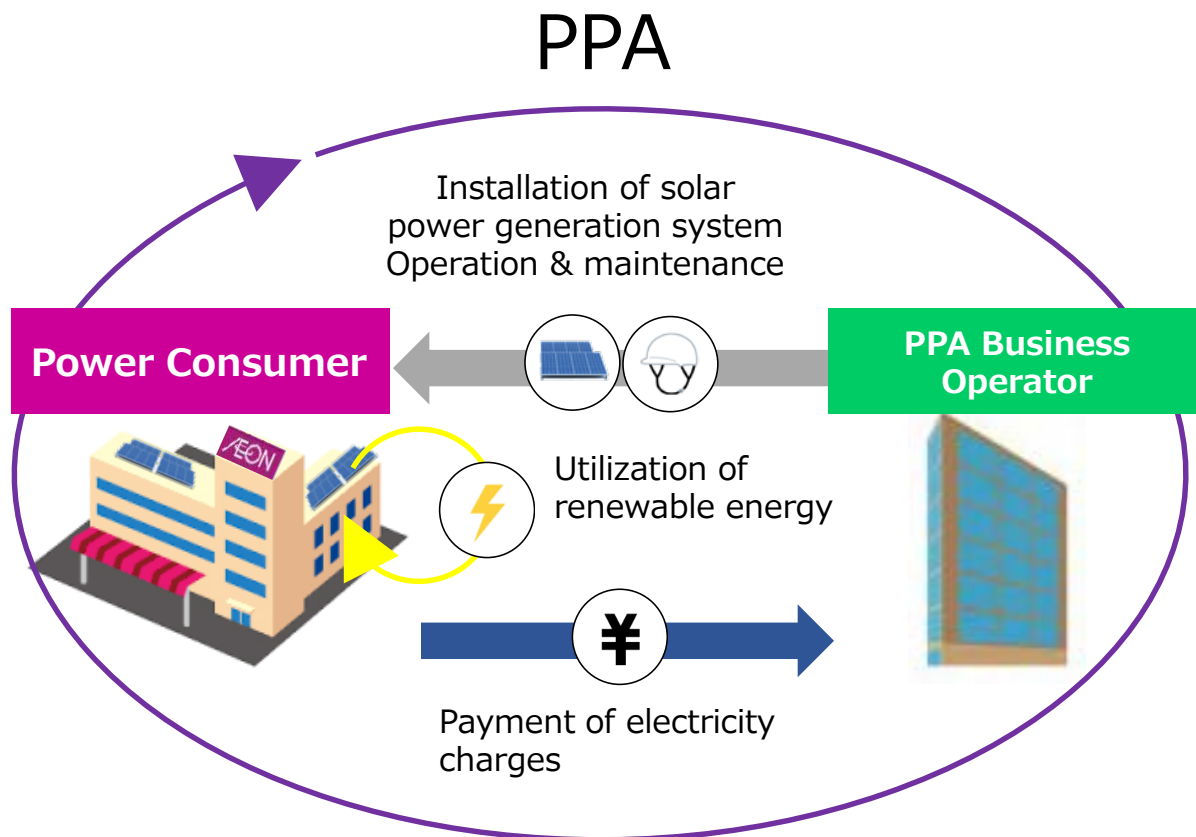
We have rolled out a cloud-based system that complies with the HACCP method of food sanitation management. The automation of temperature control in fridge/freezer cases reduces the amount of electricity used.

The automation of temperature control also means we can now visualize the temperature of fridge/freezer cases in one-hour units. Adjusting the set temperature for fridge/freezer cases—prone to excessive cooling in the past—allows us to reduce the amount of electricity used.



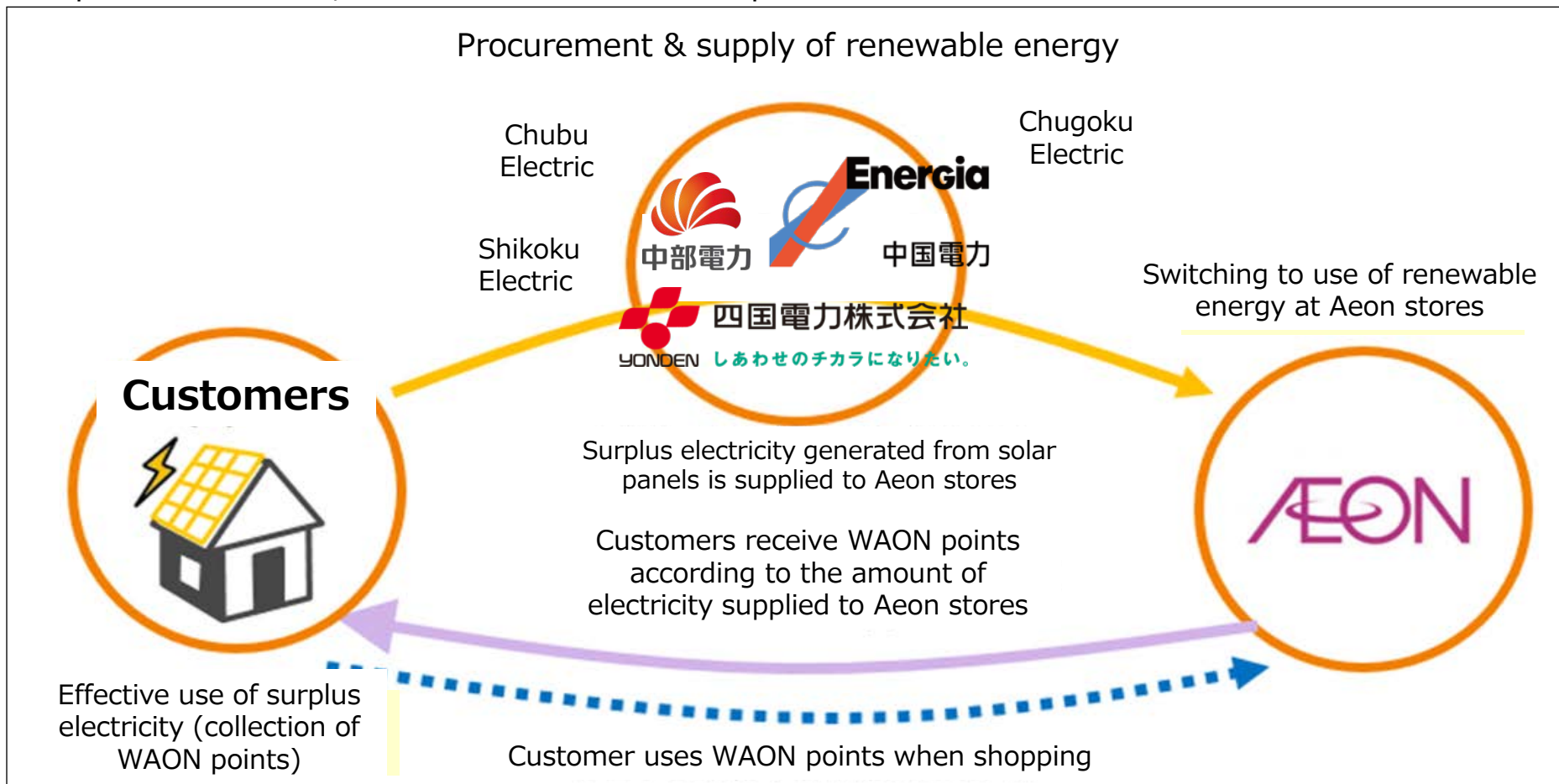
We introduced a new PPA for solar power generation with the aim of procuring renewable energy. In FY2019 supply of power to Aeon Town Konan and Aeon Fujiidera Shopping Center commenced.

Power Purchase Agreement (PPA) model: A power producer uses space on the premises (including roof space) of a power consumer to install a solar power generation system. The electricity generated is then sold to the power consumer.



We kicked off a new post-FIT service to harness the solar power generated by customers. In FY2019 we commenced transactions with three power companies: Chubu Electric, Chugoku Electric, and Shikoku Electric.

Under this scheme, surplus electricity generated by the solar panels of customers following the end (November 2019) of the feed-in tariff (FIT) period is supplied to Aeon stores via electric power companies. In return, customers receive WAON points from Aeon.



Supply chain due diligence

FY2020: The process we implemented to identify human rights issues will also be used as a measure to address climate change.

Tertiary suppliers

Secondary suppliers

Primary suppliers

Retail

Customers

Self assessment

- ✓ Identification of issues for each interested party
- ✓ Assessment of impacts from business relationships

Risk identification

- ✓ Indications and advice from experts
- ✓ Identification of key issues

Examination of measures & plans

- ✓ Formulation of plan through 2030

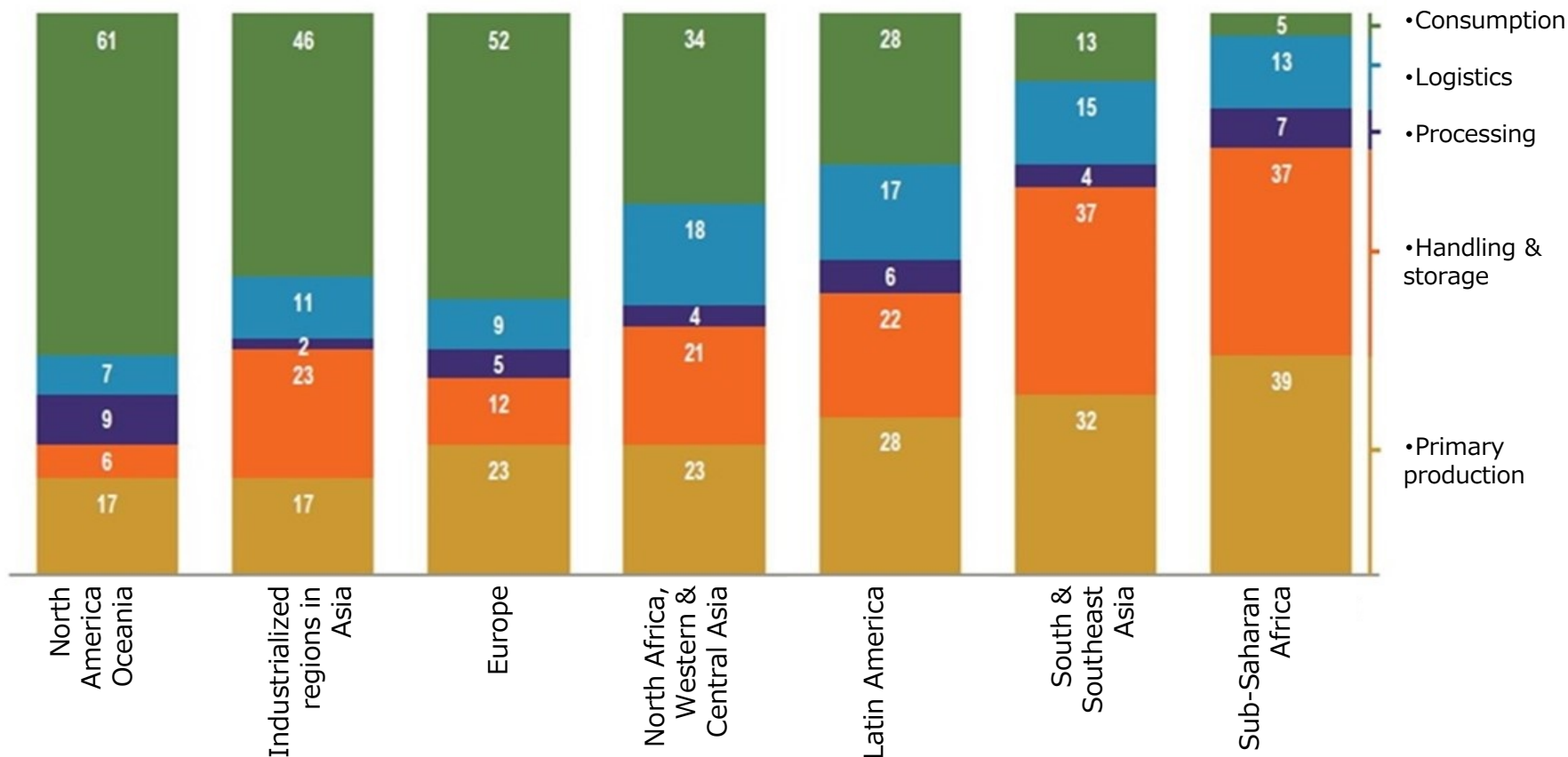
Implementation of measures

- ✓ Sharing of issues with food-related business partners
- ✓ Sharing of issues with producers of raw materials

Type	Item	Country/ region of origin	Human rights issues	Country + product	Check	Primary assessment
Farm produce	Bananas	A, B	Child labor	×	×	×
	Onions	C	—	○	×	△
	Garlic Pumpkins	D, E	Working hours Forced labor	×	×	×
	Enoki mushrooms	F	Working hours technical interns, etc.	×	×	×
Livestock	Beef	C	—	○	×	△
	Pork	F	Working hours technical interns, etc.	×	×	×
	Chicken	F	Working hours technical interns, etc.	×	×	×
	Beef	F	Working hours technical interns, etc.	×	×	×
Seafood	Tuna (wild)	G, D, H, F	Child labor Forced labor, etc.	×	×	×
	Salmon (wild)	I	Forced labor Child labor, etc.	×	×	×
	Mackerel (wild)	J	—	○	×	△
		F	Forced labor Child labor, etc.	×	×	×

Aiming to halve food loss and waste across entire supply chains by participating in the 10x20x30 initiative.

10x20x30 food loss and waste initiative: In response to calls from the World Resources Institute (WRI), a US think tank engaged in policy research and technological development regarding the global environment and development, 10 of the world's largest retailers have committed to engaging with 20 of their top suppliers in an effort to halve food loss and waste by the year 2030.



We are building a framework to constantly examine natural disaster risks at our stores, taking into account comprehensive partnership agreements with local governments and hazard maps.

We are advancing BCM in five areas: (1) information systems; (2) facilities; (3) products & logistics; (4) drills; and (5) external partnerships.

Strengthening of external partnerships and systematization

Implementing disaster-prevention measures in collaboration with mainly administrative bodies, hospitals, universities, and private sector firms.



•Collaboration with Ground Self-Defense Force



•Collaboration with Japan Airlines

Drills aimed at improving business continuity capabilities

Organizing drills at stores and offices. Protecting our customers and employees from risks.

Aeon Group's BCM (Business Continuity Management)



External partnerships



Drills



Group earthquake disaster prevention drill

Aeon's BCP (Business Continuity Plan)



Products & logistics

Strengthening of supply chains



Information systems

Development of information infrastructure

Developing information infrastructure for all 328 Aeon Group companies and further strengthening collaboration.

Strengthening of safety and security measures at facilities

Preparing 100 stores and facilities nationwide to serve as disaster-prevention sites by 2020.



Facilities



•Deployment of a "balloon shelter"—a large emergency evacuation tent

Information on products and logistics is managed centrally within the Group. Relief supplies can be delivered swiftly and efficiently.

From April 2020 customers at all our stores will be required to pay for plastic bags. *Other clothing, household & recreational merchandise, and specialty stores will gradually adopt this change by July.

Number of stores that no longer provide free plastic bags:

2,054

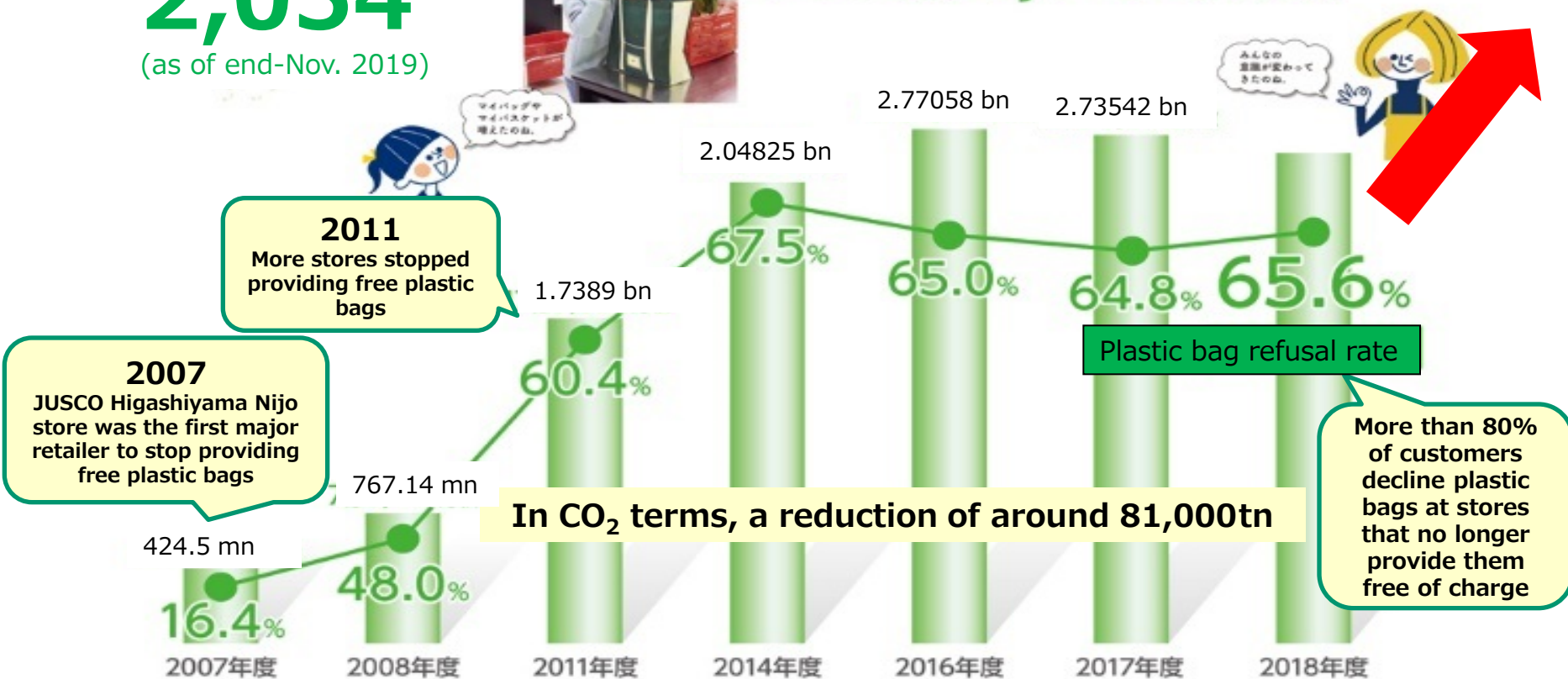
(as of end-Nov. 2019)



Number of plastic bags saved:

2.647bn

We aim to have more than 80% of customers decline plastic bags



Our paid plastic bags contain plant-based biomass material (LL50% and L30%) and the proceeds from sales are donated to global environmental protection activities (by way of local governments, etc.).

Please help us reduce plastic waste by bringing your own shopping bags.

Plastic bags made from biomass material are available for ¥5 each.

All proceeds from the sale of plastic bags will be donated to regional environmental conservation and social contribution activities.



Contains 50% plant-based materials

UL+SGS plant-based material certification program

Biomass certification mark

Cumulative proceeds from sale of plastic bags from 2007 through February 2019:

¥701.61mn

All proceeds are donated to regional environmental conservation activities through local governments.

*Proceeds from sale of plastic bags: Sale price less consumption tax and purchasing cost

In 2000 we launched the nationwide “My Basket” initiative using baskets made from biomass material. More than 250,000 are sold every year. Sales are currently brisk, up 150% YoY since their redesign in June this year.



How to shop with your basket



TOPVALU currently sells reusable shopping bags made from recycled material. Sales are brisk, with roughly 300,000 units sold since June this year.

Made from 80% recycled material



October 2019 design

Made from 50% recycled material



December 2019 design

— 1 —

1. An assortment of plastic waste is sent to the factory.



— 2 —

2. The plastic waste is then washed and shredded.



— 3 —

3. The shredded plastic is pressurized at high temperature and turned into pellets.

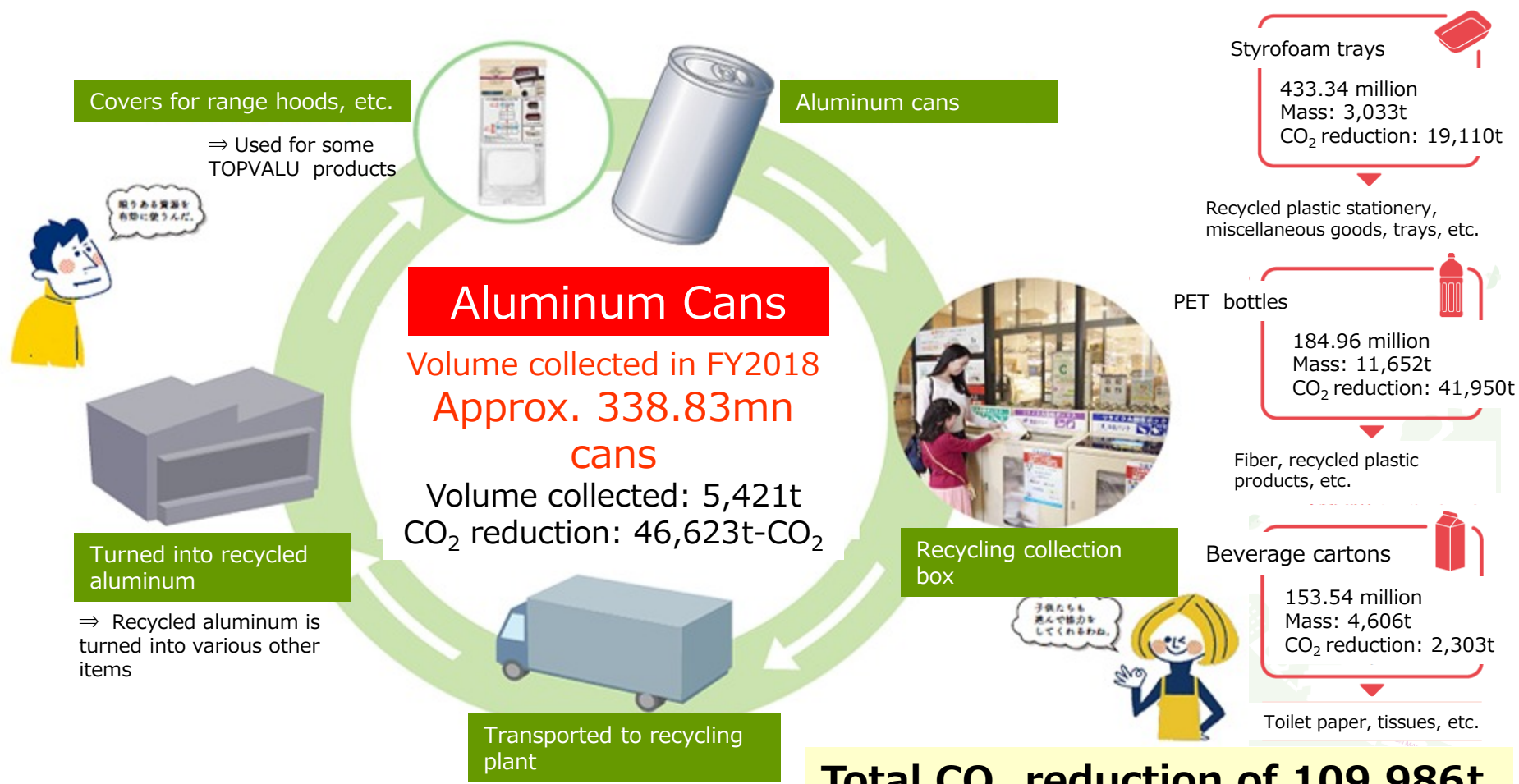


— 4 —

4. Finally, the pellets are formed into reusable shopping bags.



Since 1991 we have placed recycling collection boxes at store entrances for mainly styrofoam trays, beverage cartons, and aluminum cans in order to contribute to the creation of a circular economy. The cartons and aluminum cans are recycled and used as raw material for some TOPVALU products.



In December 2019 we announced our participation in Loop, a new resources recycling model. From autumn 2020 our Tokyo stores are scheduled to start offering a service that uses reusable containers.



In December 2019 we announced our participation in LOOP, a new resources recycling model. The model proposes that, instead of using disposable containers, the same containers be used over and over again across the supply chain.



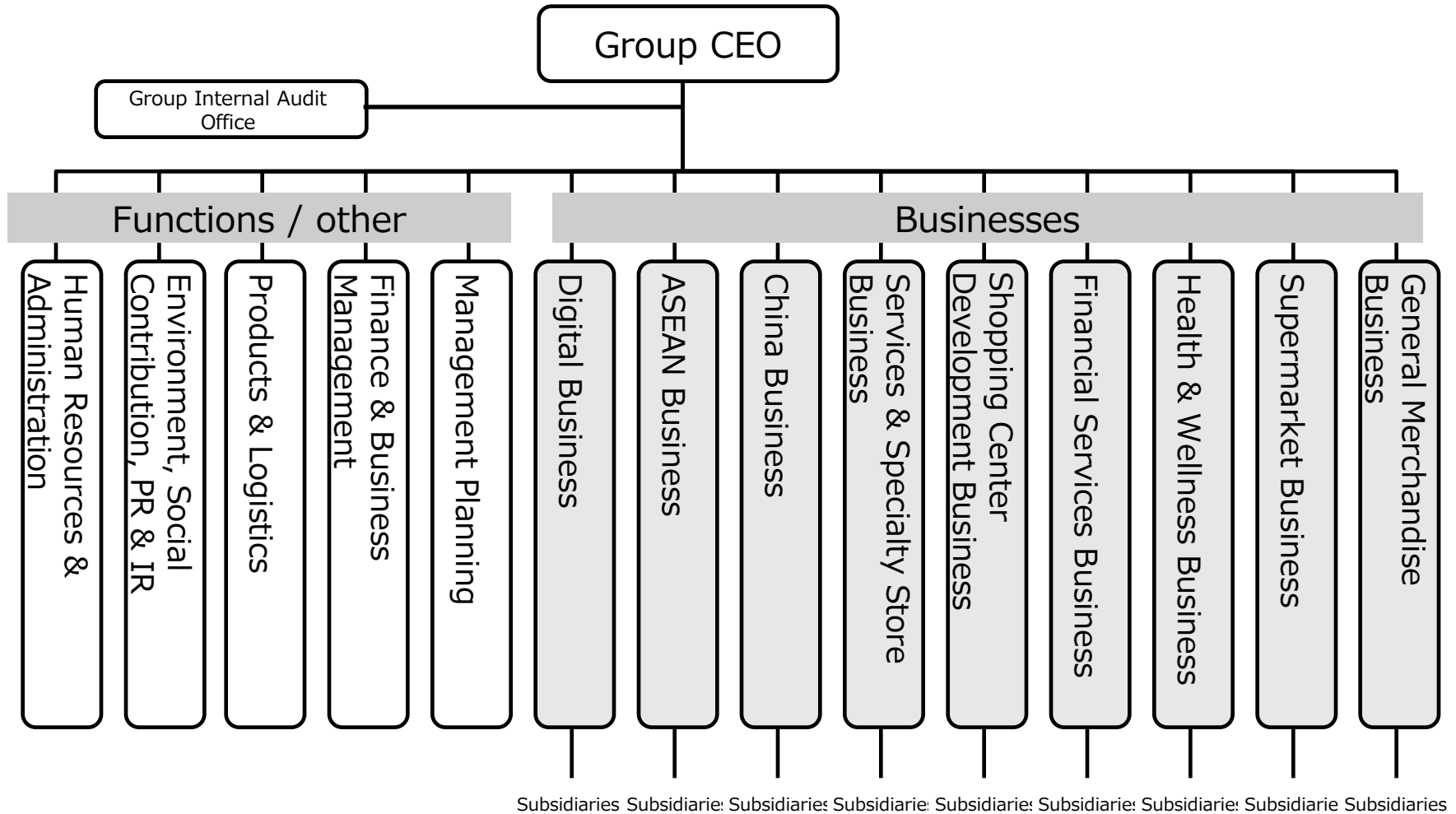
Group Governance

December 11, 2019

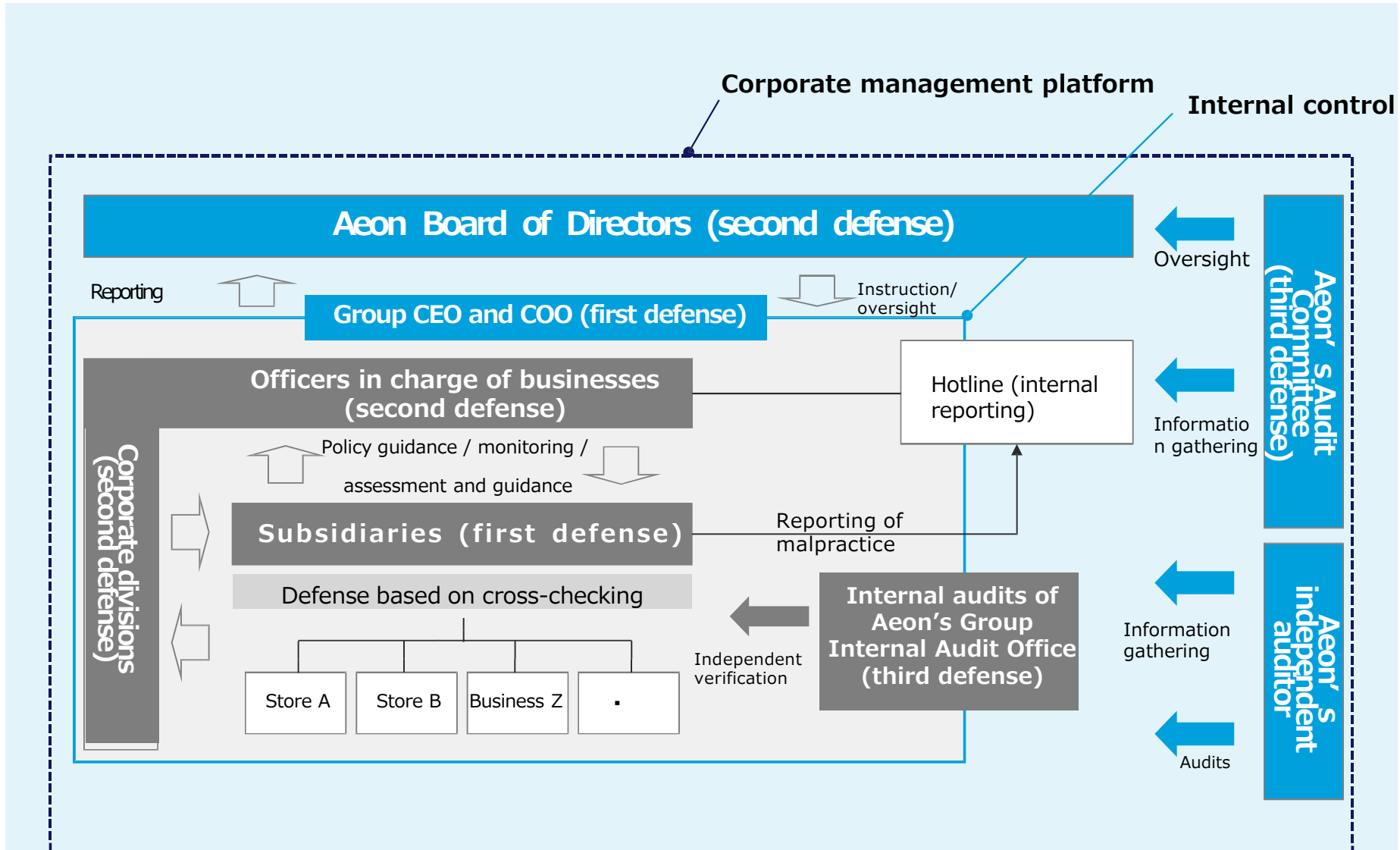
Aeon Co., Ltd.

Group companies	323 (1 pure holding company, 293 consolidated subsidiaries, 29 equity-method affiliates)
Listed subsidiaries and affiliates	23 (18 domestic, 5 overseas) *at present
Employees	Approx. 580,000
Stores	21,996
Countries	14
Operating revenue	¥8.5182 trillion
Operating profit	¥212.2 billion
Total assets	¥10.0496 trillion
Net assets	¥1.8753 trillion

Figures are as of February 2019



Three lines of defense



Late March

Aeon Delight confirmed irregular accounting practices at subsidiary Kajitaku and subsequently launched an internal investigation

April 5

Public announcement of accounting fraud

April 22

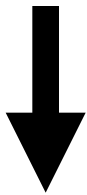
Aeon put together a special investigation committee to start investigating the matter

August 22

Measures (stronger subsidiary management and governance) for preventing a reoccurrence were submitted to the Aeon MC

August 30

A subcommittee tasked with preventing a reoccurrence was established under the Risk Management Committee



■ Causes of accounting fraud

Kajitaku	Aeon Delight
<ul style="list-style-type: none"> •Lack of compliance awareness among managers •Inadequate internal control functions 	<ul style="list-style-type: none"> •Inadequate subsidiary management system

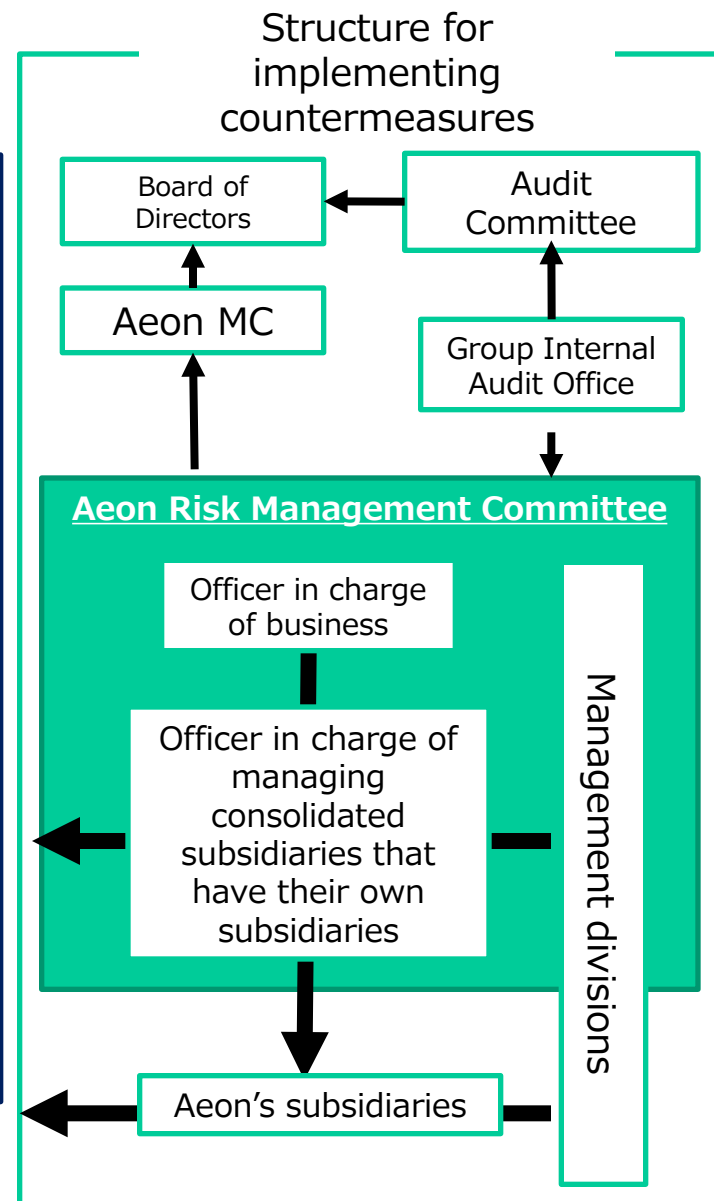


Inadequate functioning of Board of Directors at both companies

■ Measures to prevent reoccurrence

- ◆ Establish subsidiary management system under control of officers in charge of business
- ◆ Strengthen effectiveness of Board of Directors at subsidiaries
- ◆ Review criteria for dispatching/placing directors and corporate auditors
- ◆ Strengthen compliance systems (internal reporting)
- ◆ Establish a structure to prevent accounting fraud
- ◆ Review M&A decision-making processes and monitoring
- ◆ Monitor measures aimed at preventing reoccurrence

*Companies subject to these measures include 81 consolidated subsidiaries of Aeon. Subsidiaries have been instructed to manage their own subsidiaries under the same standards.



Aeon Group's
internal controls

Self-direction
Independence
Autonomy

ONE AEON

Addressing problems as a Group based on the premise that each company is autonomous and independent (autonomous).

Self-direction
Independence
Autonomy

Effective operation of **Board of Directors**

Three-party audit coordination and
cooperation

Development and consolidation of **three
lines of defense**

We will continue to pursue measures that strengthen our Group
governance and internal controls

AEON 4. Initiatives: Process for selecting and nurturing managers

Supplementary Principle 4.1.3

Succession planning for CEO and others in key positions

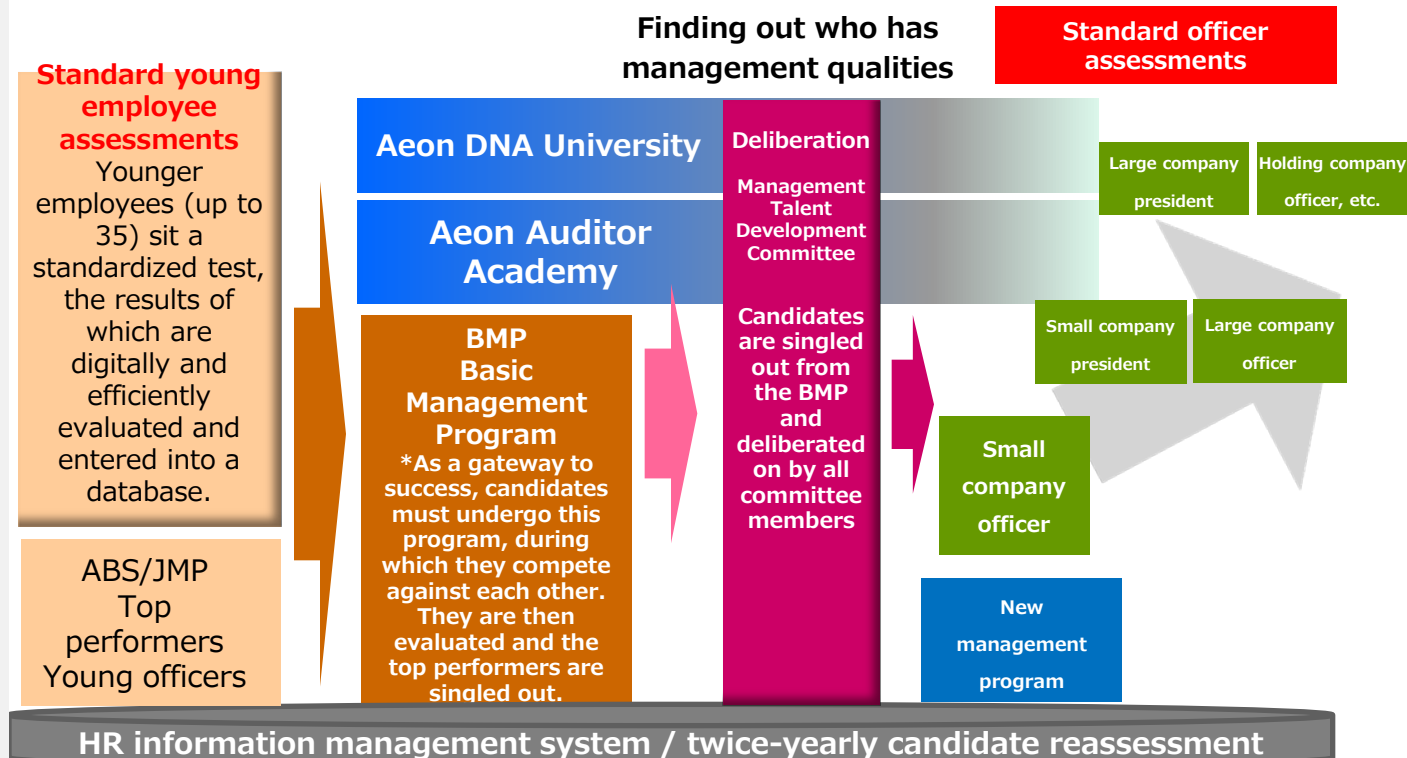
Based on the company objectives (business principles, etc.) and specific business strategies, the board should **proactively engage in the establishment and implementation of a succession plan** for the CEO and other top executives and appropriately oversee **the systematic development of succession candidates, deploying sufficient time and resources.**

Appropriate succession planning

1	The Board of Directors discusses and specifically clarifies the ideal CEO, mainly in terms of qualities, abilities, and experience.
2	Potential candidates are selected.
3	For each candidate, a concrete development plan is formulated in order to improve the qualities, abilities, and experience expected of a CEO. This might include personnel treatment, development of guidance, and training sessions.
4	The development plan is implemented and its progress monitored and managed. The results are assessed so that improvements can be made (PDCA cycle).

■ Since 2000, the Management Talent Development Committee has deliberated on and selected personnel, formulated development plans, and monitored the progress of those plans.

■ A process for selection and development is set out, young employees compete each against each other, their performances are evaluated, and the stand-out employees are selected and deliberated on by the Management Talent Development Committee.



● Aiming to establish a pool of 5,000 managers by 2025

Placement in necessary positions

Pool of employees ready to assume a management position

500

- Management Talent Development Committee (deliberation on manager candidates)
 - Character evaluation and distinguishing of suitability as an officer
 - Considering positions and deciding on development approach

Pool from which the next group of personnel are discovered and nurtured

Next pool of employees subject to deliberation

Management Talent Development Committee

1,500

- Development interviews
 - In principle, managers no older than 50
 - Group company presidents act as interviewers

Pool from which future personnel are discovered and nurtured

Future personnel Interviews and preparation of individual CDPs

Development Interviews

5,000

35 years

Career development support exams

Young employees of Aeon Group companies

Purpose of establishment

- ◆To hand down to the next generation Aeon's universal ideas and values (Aeon's DNA) cultivated since the Company's founding, to shoulder the development of Aeon in the future, and to nurture human resources that create new value.
- ◆During the program, President Okada, the current management team responsible for establishing Aeon's foundation, and former managers, all serve as lecturers. They engage in dialogue and discussion with the participants in an effort to nurture would-be entrepreneurs and arm them with both leadership and ownership capabilities.

Selection of participants

- ◆Young employees that aspire to be part of the next-generation management team can apply internally. Participants are then chosen following an interview with the president and Company officers.

Total number of graduates: 232 (as of end-Nov 2019)

Positions	No. of graduates
President	43
Director / Executive officer	24
Executive officer	13
Other	152



Building a systematic and planned system to nurture corporate auditors

(1) Establishment of Aeon Corporate Auditor Academy (2014)

- ◆ Established within the Group as a body to train corporate auditors and managers

- Corporate auditor training with an emphasis on corporate governance
- Nurturing future managers with a balance between execution and oversight
 - Next-generation executive managers acquire knowledge in the Academy before being appointed as corporate auditors
 - They work as corporate auditors or managers of Group companies

- ◆ High-quality candidates are selected from across the Group and undergo training for one year

- 21 of the 43 participants that have completed the program over four terms have assumed corporate auditor positions (10 full-time, 11 part-time)

(2) Establishment of Aeon Corporate Auditor Council (2010)

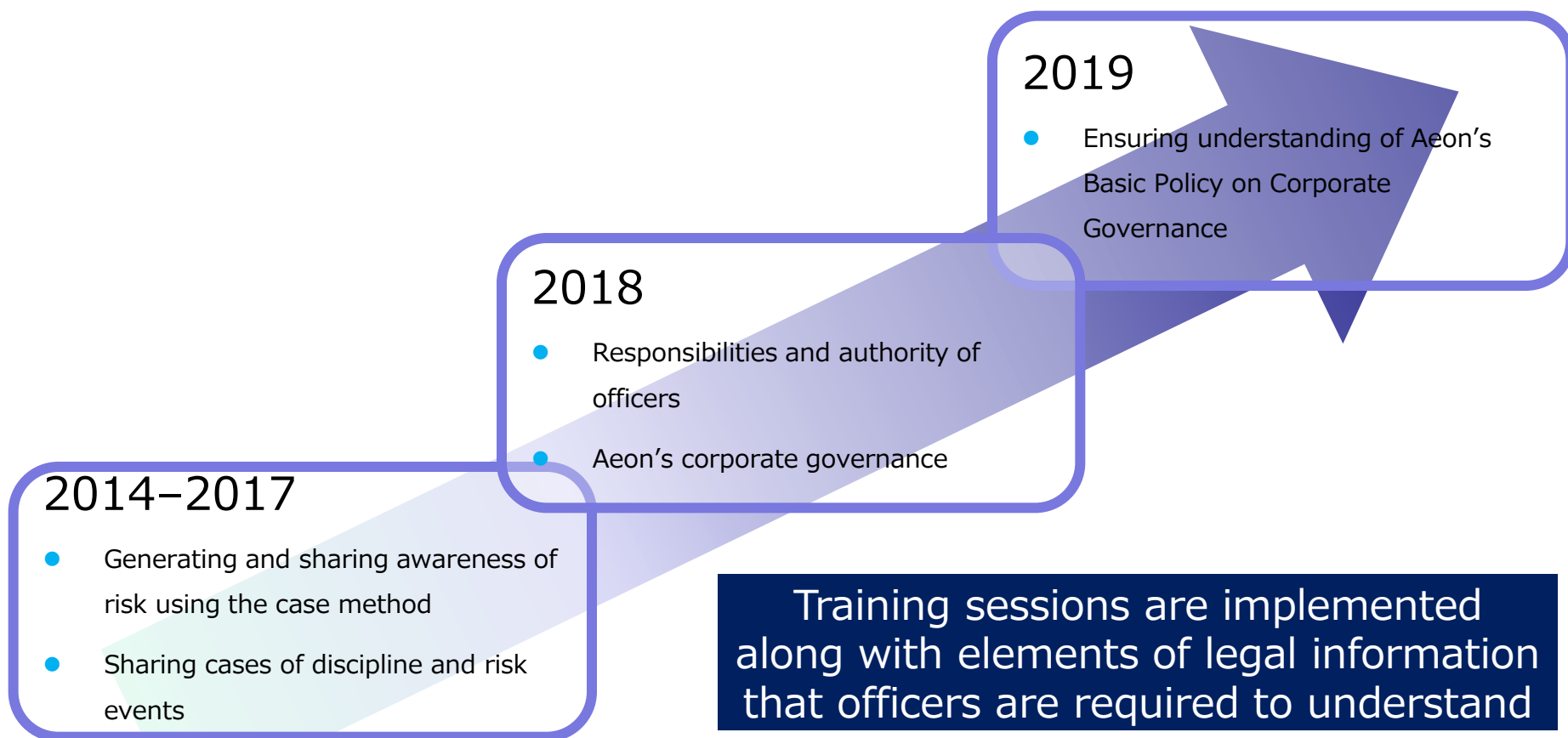
- Study group for Group company full-time corporate auditors
- Opportunities to exchange information, gather information about the latest internal and external information, and further one's learning

(3) Training of current corporate auditors

- Training sessions for dispatched directors and corporate auditors
- Opportunities to gain a correct understanding of one's responsibilities and enhance knowledge and skills

■ Compliance training for officers (from 2014 onward)

Roughly 1,000 officers from Aeon and its Group companies in Japan and overseas undergo compliance training every year



Basic Stance on Corporate Governance (excerpt)

Pursuit of transparent, disciplined management

Aeon strives for transparent and disciplined management by seeking proactive dialogue with customers and other stakeholders, taking their evaluation seriously, and being self-disciplined at all times.

