



Second Opinion

AEON Co., Ltd.

June 3, 2024

Sustainability-Linked Finance Framework

Sustainable Finance Division
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Rating and Investment Information, Inc. (R&I) has confirmed the alignment of the Sustainability-Linked Finance Framework of AEON Co., Ltd. (Aeon) revised in June 2024 with the following principles and guidelines:

Sustainability-Linked Bond Principles (2023, ICMA)
Sustainability-Linked Loan Principles (2023, LMA, etc.)
Sustainability-Linked Bond Guidelines (2022, Ministry of the Environment)
Sustainability-Linked Loan Guidelines (2022, Ministry of the Environment)

■ KPIs

KPI 1: Rate of reduction in CO₂ emissions

KPI 2: Rate of reduction in disposable plastics used (per 100 million yen in net sales)

KPI 3: Rate of reduction in food waste generated (per million yen in net sales)

KPI 4: CDP climate change score

■ SPTs

SPT 1: Switch 50% of electricity used in stores to renewable energy by 2030 (in Japan)

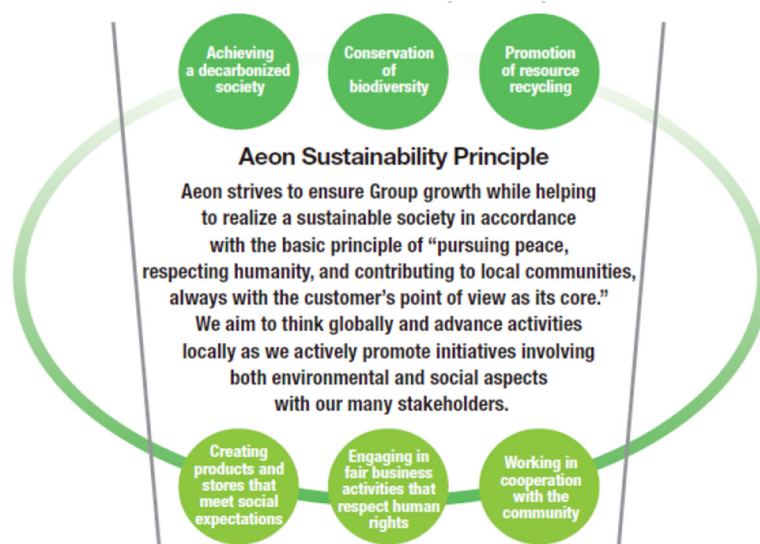
SPT 2: Reduce the use of disposable plastics by 50% compared with FY2018 by 2030

SPT 3: Reduce food waste emissions by 50% compared with FY2015 by 2025

SPT 4: Maintain the final CDP climate change score of A as of the date of determination of achievement

1. Outline of the Issuer/Borrower

- Aeon is a pure holding company of the Aeon Group, the largest retailer in Japan. The holding company specializes in group management functions and is responsible for strategic planning and the optimal allocation of management resources as the cornerstone for generating group synergies. Since its establishment in 1758, Aeon has engaged in a wide variety of retail businesses, revolving around GMS (general merchandise store) and SM (supermarket) businesses and also including specialty store business that focuses on specific domains such as health & wellness (drug stores). It also has a strong sales base in non-retail businesses such as SC (shopping center) development business and comprehensive financial service business. It has each business organically connected with each other and has established a business model in which the Group can exert synergy, giving it a significant presence in the distribution market in Japan.
- Aeon has pursued a framework for organizational sustainability activities since the latter half of the 1980s. A foundation leading to the current sustainability activities has been built, as suggested by the launch of tree planting activities around its stores under the Aeon Hometown Forests Program, the Bring Your Own Shopping Bag Campaign and the Collecting Recyclable Resources at Stores Campaign, the acquisition of ISO 14001 certification in 2000, the international standard for environmental management, and the start of the Aeon Happy Yellow Receipt Campaign in 2001, where a part of customers' purchase amounts is donated to local volunteer organizations. Progressive initiatives have subsequently ensued, such as the endorsement of the United Nations Global Compact and the establishment of a CO₂ emissions reduction target, the first such attempt among Japanese retailers.
- In 2011, Aeon formulated the Aeon Sustainability Basic Policy in order to practice sustainable management that balances the realization of a sustainable society and the growth of the Group. In both environmental and social aspects, vital challenges have been identified. Aeon will promote initiatives to solve environmental and social issues through its business activities in collaboration with diverse stakeholders.



[Source: Aeon Sustainability Data Book]

- The Finance Framework provides for a comprehensive financing framework based on the assumption that Aeon will engage in sustainability-linked finance on a continuing basis. As part of its sustainable management, Aeon set higher CO₂ emission reduction targets that are consistent with the Paris Agreement in 2021, showing its focus on decarbonization efforts. Aeon will accelerate its sustainability initiatives through sustainability-linked finance and strengthen its commitment to addressing the vital challenges of "achieving a decarbonized society" and "promotion of resource recycling."

2. Selection of KPIs

The KPIs are relevant, core and material to the issuer/borrower's overall business, and of high strategic significance. The selection of KPIs is appropriate.

(1) Overview of KPIs

- KPI 1 is the rate of reduction in CO₂ emissions, with the CO₂-free ratio (%) of electricity consumption at stores adopted as a concrete indicator.

<Definition>

It is defined as annual electricity consumption (kWh) that has been converted to CO₂-free electricity divided by annual electricity consumption (kWh), in percentage, with the measurement period starting from April 1 of each year and ending at the end of March of the following year. All stores in Japan operated by Aeon's consolidated subsidiaries will be covered.

- KPI 2 is the rate of reduction in disposable plastics used (% , compared with FY2018).

<Definition>

With the measurement period being each accounting year starting from March 1 of each year and ending at the end of February of the following year, it is defined as the rate of reduction in total weight of plastic containers and packaging¹ and PET bottles used (in kg) per 100 million yen in net sales, based on the usage of containers and packaging materials reported by the Group companies that are deemed the specified business operators under the Containers and Packaging Recycling Law for the purpose of periodic reporting pursuant to the said law. FY2018 results are used as the baseline in light of the government's Resource Circulation Strategy for Plastics².

- KPI 3 is the rate of reduction in food waste generated (% , compared with FY2015).

<Definition>

With the measurement period being each accounting year starting from March 1 of each year and ending at the end of February of the following year, it is defined as the rate of reduction in food waste emissions (in kg) per million yen in net sales³, calculated by the Group companies that are deemed the business operators generating a large amount of food waste under the Food Recycling Law for the purpose of capturing and reporting on the amount of food waste emissions reduced pursuant to the said law. FY2015 results are used as the baseline in light of the SDGs.

- KPI 4 is a CDP climate change score.

<Reference>

CDP is a U.K.-based international non-governmental environmental organization founded in 2000. It runs a global disclosure system for investors, companies and other entities to manage their environmental impacts. Besides climate change, survey programs cover water security and forests. Such entities are scored on a scale of A to D- based on the assessment of progress in their efforts, and the results are disclosed. The number of companies receiving CDP climate change scores is increasing year by year, with more than 23,000 companies around the world responding to CDP questionnaires in 2023. There were 362 companies on CDP's A List (those receiving the highest score), including 112 Japanese companies.

¹ Plastic containers and packaging (e.g., food trays) other than PET bottles are covered. Straws and cutleries regulated by the Act on Promotion of Resource Circulation for Plastics are managed separately and therefore outside the scope of KPI 2. In March 2022, the Group started to provide free cutleries (including straws) made from paper, wood, etc., instead of plastic products, at its main stores.

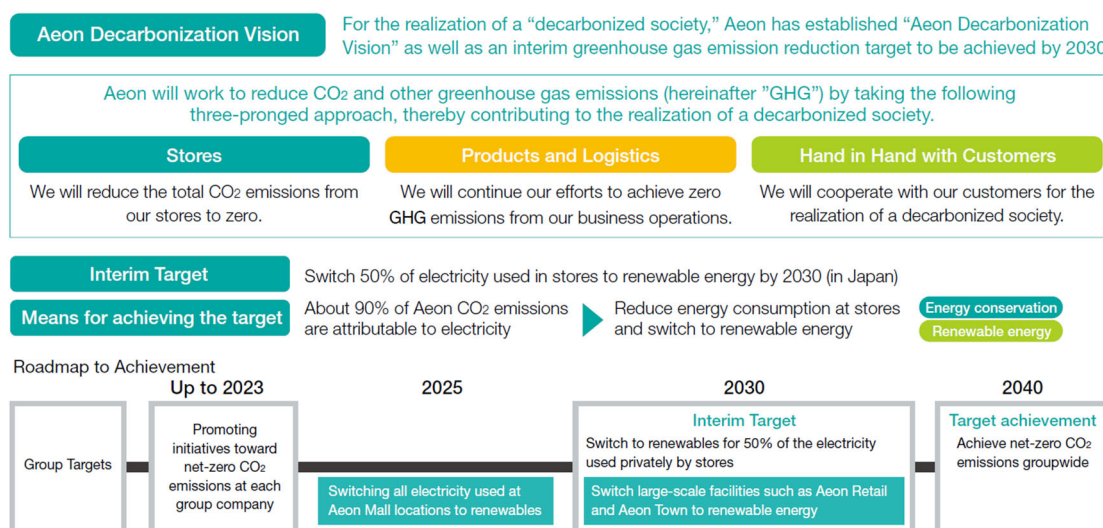
² Adopted in May 2019, the strategy has ambitious milestones such as 25% cumulative suppression of single-use plastics by 2030.

³ Net sales are the sum of net sales of the Group companies that are deemed the business operators generating a large amount of food waste under the Food Recycling Law. The law requires such business operators to report on the amount of food waste generated and the status of recycled use of food resources to the competent minister in each fiscal year.

(2) Materiality of KPIs

[KPI 1]

- KPI 1 addresses "achieving a decarbonized society" among Aeon's vital challenges. About 90% of Aeon's CO₂ emissions are attributable to electricity, which is equivalent to about 1.0% of Japan's total electricity consumption. Aeon has been promoting decarbonization initiatives that are consistent with the Paris Agreement based on the recognition that energy efficiency and a reduced environmental load are the most important issues of the Group. In 2018, it formulated the Aeon Decarbonization Vision 2050 and joined RE100⁴ with a target of reducing total CO₂ emissions from its stores to zero by 2050. In 2021, in addition to setting higher CO₂ emission reduction targets that continue to be certified as being SBT 1.5°C compliant, it revised the Decarbonization Vision based on the new CO₂ emission reduction targets and declared its ambition to achieve decarbonization at its stores in Japan by 2040, ahead of the original schedule. Aeon set the interim target of switching 50% of electricity used in stores to renewable energy by 2030 (in Japan) and established KPI 1 based on this interim target.



[Source: Aeon Report 2023]

[KPI 2]

- KPI 2 addresses "achieving a decarbonized society" and "promotion of resource recycling" among Aeon's vital challenges. In September 2020, Aeon announced the Aeon Plastic Usage Policy that calls for, by 2030, halving the amount of disposable plastics used compared with FY2018, changing the materials used in its private brand, Topvalu, to eco-friendly and socially considerate materials, and switching to 100% recycled or plant-derived materials for the PET bottles. KPI 2 has been set based on these targets.
- According to the United Nations Environment Programme (UNEP) report "Single-Use Plastics" released in June 2018, the packaging industry accounted for the largest portion of 36% of global production of plastic products in 2015, and packaging including containers/packaging and PET bottles also accounted for the largest portion of 47% in the amount of plastic waste. The report pointed out that Japan's per-capita plastic waste generation is the second largest in the world after the United States, when the amount of plastic containers/packaging waste in each country is compared. KPI 2 encourages producers and consumers to reduce the use of disposable plastics and shift to sustainable production and consumption through Aeon's retail business, and also helps solve social issues, such as greenhouse gas emissions from the production and disposal of plastics and marine pollution attributable to microplastic spills.

⁴ RE100, or 100% Renewable Energy, is a global initiative composed of member companies committed to relying solely on renewable energy for their electricity needs in business activities. RE100 is led by the Climate Group, an international NGO that drives energy, climate change adaptation and other initiatives to achieve the Paris Agreement.

[KPI 3]

- KPI 3 addresses "achieving a decarbonized society" and "promotion of resource recycling" among Aeon's vital challenges. In October 2017, Aeon established Aeon Group Food Waste Reduction Targets that declare its commitment to halving food waste emissions per net sales by 2025 (compared with FY2015) and to establishing a "food resource recycling model." Aeon has set KPI 3 based on these targets.
- The 2030 Agenda for Sustainable Development, which was adopted at the United Nations Summit in 2015, established as part of the Sustainable Development Goals (SDGs) "Target 12.3: By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses" and "Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse."
- The Special Report on Climate Change and Land published by the Intergovernmental Panel on Climate Change (IPCC⁵) in August 2019 suggests that food system policies that would reduce food losses and waste and promote changes in food consumption behavior can lead to low greenhouse gas emissions scenarios, etc. (high confidence) and that decreasing the use of land for food production will contribute to adapting to climate change (medium confidence). KPI 3 encourages producers and consumers to shift to sustainable food systems, and also helps reduce greenhouse gas emissions from food losses and waste as well as excessive food production.

[KPI 4]

- KPI 4 addresses "achieving a decarbonized society" among Aeon's vital challenges. Aeon is enhancing the disclosure of sustainability information based on its recognition of the importance of such disclosure, while addressing various environmental issues including climate change. The formulation of KPI 4 reflects Aeon's view that CDP scores, which are widely recognized around the world as part of the environmental information disclosure system for companies, constitute an appropriate indicator to explain its diverse climate actions with objectivity and transparency, including those related to governance, sustainability strategies and supplier engagement.
- The Decarbonization Vision envisages CO₂ emission reductions based on a three-pronged approach: "Stores," "Products and Logistics" and "Hand in Hand with Customers." As such, collaboration with business partners and customers is indispensable for decarbonization. KPI 4 is an important indicator, demanding innovative initiatives by Aeon itself in order to encourage stakeholders to change their behavior.

⁵ The IPCC was established by the UNEP and the World Meteorological Organization in 1988 to provide comprehensive assessments on the scientific, technical and socio-economic aspects of anthropogenic climate change, its impacts and options for adaptation and mitigation. In December 2018, it published a Special Report on Global Warming of 1.5°C, which calls for achieving net zero global CO₂ emissions by 2050 in order to limit warming to 1.5°C and meet the globally shared goal of the Paris Agreement. The report had a significant impact on governments' industrial and energy policies and corporate activities across the globe.

3. Calibration of SPTs

The SPTs are ambitious, and necessary information has been disclosed. The calibration of SPTs is appropriate.

(1) Overview of SPTs

- SPT 1 is to switch 50% of electricity used in stores to renewable energy by 2030 (in Japan).
- SPT 2 is to reduce the use of disposable plastics by 50% compared with FY2018 by 2030.
- SPT 3 is to reduce food waste emissions (per net sales) by 50% compared with FY2015 by 2025.
- SPT 4 is to maintain the final CDP climate change score of A as of the date of determination of achievement.

(2) Ambitiousness of SPTs

[SPT 1]

(i) Reference to the Issuer/Borrower's Own Performance over Time

- CO₂-free electricity accounted for 4.8% of the electricity used at Aeon's stores during the period from April 2022 to March 2023. Since April 2023, Aeon has been minimizing electricity consumption and expanding its on-site solar initiatives that use renewable energy generated by solar panels installed on store rooftops and parking lots, as well as off-site solar initiatives that use renewable energy generated by solar panels located off store premises. It has also actively worked to utilize surplus renewable energy that customers supply in exchange for WAON points, including solar power from "graduated feed-in tariff (FIT)" sources at home that have completed the national FIT period and solar power generated by home solar panels and discharged through electric vehicles. Thanks to these initiatives, coupled with efforts to define suitable energy procurement methods for each area and promote a transition to renewable energy, approximately 55% of Aeon's electricity consumption at its stores has been switched to renewable energy⁶. Aeon is expected to exceed the 50% target for 2030 at the end of March 2024. Ways to procure renewable energy could change in the future, as Aeon considers optimum methods for each area every fiscal year under the concept of local production for local consumption. To keep its business going while maintaining the ratio at the current level until 2030 amid the changing economic and social conditions, Aeon needs to continue to explore measures to achieve stable procurement, such as diversification of procurement channels.

(ii) Reference to Science or Country/Regional/International Targets

- SPT 1 is based on CO₂ emission reduction targets that have been certified as SBT 1.5°C compliant.
- SPT 1 is also consistent with the interim targets recommended by RE100. RE100 requires that electricity used for business activities be sourced from renewable energy for 100% by 2050 at the latest, and recommends interim targets of above 30% in 2020, 60% in 2030, and 90% in 2040. SPT 1 is synonymous with achieving CO₂-free electricity at the rate of approximately 5.0% per year with 2020 being the base year, which is consistent with the rate that would be required to achieve 90% or higher in 2040 with 2020 being the base year.

⁶ The 55% renewable energy procurement was achieved partly through non-fossil certificates with renewable energy designations.

(iii) Reference to the Issuer/Borrower's Peers

- Among Japanese retailers, 9 companies were RE100 members as of May 2024, and some of these companies have targets such as 30% or more renewable energy by 2030 and net-zero emissions from stores by 2050. Switching 50% of electricity used in stores to renewable energy by 2030, as stated in SPT 1, is consistent with the target of reducing total CO₂ emissions from its stores to zero by 2040 and considered to be ambitious in the industry.

[SPT 2]

(i) Reference to the Issuer/Borrower's Own Performance over Time

- Based on FY2022 results, it can be said that Aeon has been reducing the emissions at an annual average rate of about 1.9%. SPT 2 is equivalent to raising it to an annual average rate of about 5.3% by FY2030. SPT 2 is difficult to achieve with the pace of reduction so far and is at an ambitious level that will encourage the Group to make major behavioral changes.

(ii) Reference to Science or Country/Regional/International Targets

- SPT 2 is synonymous with reducing the emissions at the rate of about 4.2% per year by 2030, with FY2018 being the base year. This significantly exceeds benchmarks such as milestones in the Resource Circulation Strategy for Plastics and the Voluntary Action Plans to Promote the 3Rs established by the Plastic Packaging Recycling Council (see the table below).

	2018	2019	2020	2021	2022	2025	2030
SPT 2	-	-	-	-		-	50%
Results	-	0.5%	10.5%	8.5%	7.5%	-	-
Benchmark ^{Note 1} Resource Circulation Strategy for Plastics	-	-	-	-	-	-	25%
Benchmark ^{Note 2} PPRC Voluntary Action Plan 2025 (compared with FY2004)	-	-	-	-	-	22% or more Plastic containers & packaging 25% or more PET bottles	-

Note 1: The Resource Circulation Strategy for Plastics identifies 25% cumulative suppression of single-use plastics by 2030 as one of the ambitious milestones (no base year is set).

Note 2: This benchmark refers to the targets for FY2025 in the 4th Voluntary Action Plan (FY2021 to FY2025) formulated by the Plastic Packaging Recycling Council (PPRC). The Plan sets numerical targets for each of Reduce, Reuse and Recycle (3Rs) by material. The targets for Reduce are the reduction rate of 22% or more compared with FY2004 for plastic containers and packaging, and the reduction rate of 25% or more in terms of average weight per bottle or can compared with FY2004 for PET bottles.

[Source: Compiled by R&I based on Aeon Sustainability Data Book and information provided by Aeon]

[SPT 3]

(i) Reference to the Issuer/Borrower's Own Performance over Time

- Based on FY2022 results, it can be said that Aeon has been reducing the emissions at an annual average rate of about 4.7%. SPT 3 is equivalent to raising it to an annual average rate of about 5.6% by FY2025. SPT 3 is difficult to achieve with the pace of reduction so far and is at an ambitious level that will encourage the Group to make behavioral changes.

(ii) Reference to Science or Country/Regional/International Targets

- SPT 3 is synonymous with reducing the generation of food waste at the rate of about 5.0% per year by 2025, with FY2015 being the base year. This is equivalent to achieving Target 12.3 of the SDGs and industry-specific targets set by the government to curb the generation of food waste, at a significantly accelerated pace (see the table below).
- Aeon's food waste generation per net sales for FY2022 was 23.8 (kg/million yen), achieving the Reduce target of 44.9 (kg/million yen) for 2019 to 2023 set by the Ministry of Agriculture, Forestry and Fisheries (see the table below). SPT 3 is synonymous with reaching 17.8 (kg/million yen) by 2025 and encourages further efforts for improvement towards best practices, going beyond maintaining the status quo.

		2015	2019	2020	2021	2022	2023	2025	2030
Rate of reduction in food waste emissions (waste generation per net sales)	SPT 3	-	-	-	-	-	-	50%	-
	Aeon: Food waste generation per net sales (kg/million yen)	35.6	29.8	29.2	27.0	23.8	-	17.8	-
	Rate of reduction in the above (compared with FY2015)	0%	16%	18%	24%	33%	-	50%	-
	Benchmark (1) Ministry of Agriculture, Forestry and Fisheries: Food waste generation per net sales by food retailers (kg/million yen) ^{Note 1}	-	-	-	-	-	44.9	-	-
	Benchmark (2) Ministry of Agriculture, Forestry and Fisheries: Rate of reduction in business food losses (compared with FY2000) ^{Note 2}	-	-	-	-	-	-	-	50%
	Benchmark (3) SDGs Target 12.3 ^{Note 3}	-	-	-	-	-	-	-	50%

Note 1: The Ministry of Agriculture, Forestry and Fisheries has set industry-specific targets (for FY2019 to FY2023) for controlling waste generation, which is the highest priority under the Food Recycling Law. Aeon belongs to the food retail industry.

Note 2: Food losses refer to "food provided to the people that is wasted even though it is edible" (the Ministry of Agriculture, Forestry and Fisheries). Business food losses include unsold, non-standard, returned, and leftover food that is edible among business food waste (including valuable and non-edible portions). They are estimated by multiplying the annual amount of food waste generated by the ratio of edible portions as obtained from the questionnaire survey to the regular reporters under the Food Recycling Law. According to FY2020 estimates by the Ministry of Agriculture, Forestry and Fisheries, business food losses amount to 2.79 million tons. FY2000 is the year in which the Food Recycling Law was enacted.

Note 3: This benchmark refers to SDGs Target "12.3: By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses."

[Source: Compiled by R&I based on Aeon Sustainability Data Book and information provided by Aeon]

[SPT 4]

(i) Reference to the Issuer/Borrower's Own Performance over Time

- Aeon has received the highest CDP climate change score of A for 5 consecutive years. A or A- is a Leadership Level score awarded to companies implementing current best practices. CDP revises its

questions and scoring criteria based on social trends and progress in decarbonization. Maintaining a Leadership Level score is an ambitious target, as it is synonymous with continuing to proactively take climate actions that society demands of companies. The target set by Aeon is to maintain the higher of the two Leadership Level scores, which is even more difficult to achieve.

(ii) Reference to the Issuer/Borrower's Peers

- In 2023, CDP sent its climate change questionnaire to 1,834 companies listed on the Tokyo Stock Exchange's Prime market, and a score of A was awarded to 9% of the responding 1,182 companies, A- to 15% and B to 28%, which suggests that achieving Leadership Level scores is highly demanding in relative terms. Of those receiving Leadership Level scores, companies that meet additional requirements earn a position on the A List. Only 7 (5%) of 142 retailers, including Aeon, scored A.

(3) Means for Achieving SPTs

[SPT 1]

- Aeon will diversify the channels of renewable energy procurement and increase the volume of procurement by expanding initiatives such as on-site Power Purchase Agreement (PPA) schemes that use store rooftops and parking lots, including the installation of solar carports in the Aeon Group's outdoor parking lots, and off-site PPA schemes that use solar panels outside the Group's premises, while procuring electricity with non-fossil certificates. To mitigate the risk associated with renewable energy procurement, Aeon will work to reduce electricity consumption at each store on an ongoing basis.

[SPT 2]

- Aeon will step up its efforts to promote labelless private brand beverages, sell detergents by volume, introduce environmentally-friendly products such as those using biomass materials, and utilize the Loop retail store system⁷, to accelerate Reduce activities. Since the implementation of these initiatives requires collaboration with producers, consumers, employees, recycling business operators and others in the supply chain, Aeon will continue active engagement with stakeholders.

[SPT 3]

- Aeon will expand the use of AI⁸ and digital technologies to help prevent unsold products and excessive orders and reinforce Reduce activities, in addition to efforts such as making the size/volume of products smaller in the manufacturing and processing stages, extending the 'best-before' date by introducing new technologies, switching the 'best-before' display to the month and year format, and making the amount of waste at stores visualized. As there are variances in the progress among Group companies, it will also strategically raise the level of the entire Group.

[SPT 4]

- Since its CO₂ emissions are mostly attributable to electricity, Aeon will work to reduce electricity consumption at stores and switch to renewable energy in tandem under the Decarbonization Vision. For Scope 3, a particular focus will be on emission control and reduction in product





⁷ Loop is a new product supply system where disposable containers and packages conventionally used for detergents, shampoos and other consumables and foods are replaced with more durable alternatives, such as stainless steel and glass containers, so that they can be reused repeatedly. Joining Loop, a shopping platform for the reuse of containers for daily necessities and food products, Aeon started selling a total of 13 items made by 6 participating manufacturers in part of the Tokyo metropolitan area in 2021.

⁸ "AI Kakaku" is an AI-driven program that learns about environmental conditions, such as sales data, weather and the number of customers, and presents an appropriate discount rate just by using a product's barcode read in the delicatessen section and the number of products on the shelf that has been input. By July 2021, the program was deployed to almost all stores operated by Aeon Retail Co., Ltd., a Group company. Selling at data-based prices reduces unsold products and food losses, and stores are also expected to cut time for training staff in markdowns and sellout activities.

manufacturing processes, which account for a large portion of emissions. To promote the formulation of emission reduction plans and the implementation of decarbonization measures in the entire supply chain, intercompany collaboration is underway, including closer communication on climate actions between Aeon and contract manufacturers of Topvalu products.

<Contribution to the SDGs>

- Aeon's initiatives to achieve the SPTs will contribute to the following SDGs:

Goal	Target
	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
	12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

- In addition to the above SPT 1 to SPT 4, a milestone SPT during the period may be set depending on the tenor of a bond or loan to be executed under the Finance Framework. When establishing a milestone SPT, an additional assessment on alignment will be obtained from a third-party evaluation body, and it will be stipulated in statutory disclosure documents (such as amended shelf registration documents and supplemental shelf registration documents) for bonds or loan contract documents, etc. upon the execution of each financing.
- When executing a sustainability-linked loan under the Finance Framework, annual SPTs will also be set. The details of annual SPTs will be subject to the assessment on alignment by a third-party evaluation body, and be stipulated in contract documents, etc. at each loan execution.
- In the event that a significant change in the business portfolio, etc. leads to judgment that it is necessary to revise the SPTs defined in the Finance Framework, relevant parties will be consulted and a third-party evaluation body will be asked to assess the alignment with various principles again. However, even when such review is triggered, the existing SPTs established at the time of financing will continue to apply to the sustainability-linked finance already executed.

4. Bond/Loan Characteristics

The bond/loan terms are linked to the performance against the SPTs and incentivize the achievement of the SPTs. The bond/loan characteristics are appropriate.

- The Finance Framework is expected to be applied to bonds and loans, and donations will be required according to the status of achievement of SPTs.
- If an SPT is not met, an amount equivalent to a certain percentage of the proceeds determined based on the satisfaction of each SPT will be donated prior to bond redemption or loan repayment. The Environment and Social Contribution Department scrutinizes factors that are attributable to the failure in achieving SPTs, and selects appropriate recipients out of public interest corporations, public interest foundations, international organizations, NPOs approved by local governments, local governments or other similar organizations that are engaged in activities contributing to decarbonization. The AEON Environment Foundation⁹ is currently assumed as the candidate. Donations made under the Finance Framework will not have any impact on other donations to the same organizations.
- Each time sustainability-linked finance is executed, KPIs, SPTs, the reporting period of SPTs, the date of determination of SPT achievement, the method of determination and information on donations will be specified in the statutory disclosure documents (such as amended shelf registration documents and supplemental shelf registration documents) for bonds or loan contract documents, etc.

5. Reporting

Up-to-date information on the performance against the SPTs will be disclosed (reported). The reporting is appropriate.

- In the case of a bond, Aeon will disclose the latest KPI results and progress on the SPTs, as well as information on the latest sustainability strategy relating to the KPIs and SPTs, annually in the Aeon Report or on the website. When a donation is made, the recipient, amount and timing of the donation will also be disclosed.
- In the case of a loan, Aeon will report on the latest KPI results and progress on the SPTs, as well as information on the latest sustainability strategy relating to the KPIs and SPTs, annually to lenders (through an agent in the case of a syndicated loan). There will be no public disclosure for competition reasons, since the setting of annual SPTs, etc. will be involved. When making a donation, it will provide information on the recipient of the donation, etc. to lenders (through an agent in the case of a syndicated loan).
- If an event occurs that may have a significant impact on the business structure, such as M&A or a change in national regulations, giving rise to the need for change in the definition of KPIs or the setting of SPTs, it will disclose the change, including the reason for the change and the recalculation method.

⁹ The foundation conducts programs for the common good centered on grant/assistance, tree planting, award and environmental education programs (<https://www.aeon.info/ef/>). Based on the Aeon Foundational Ideals of pursuing peace, respecting humanity, and contributing to local communities, with the customer's point of view always as its core, the foundation was established in December 1990, with donations from Mr. Takuya Okada (Honorary Chairman and Advisor of AEON Co., Ltd. and Chairman of the AEON Environment Foundation) and other two persons comprising the foundation's basic assets.

6. Verification

The performance level against each SPT for each KPI will be verified by an independent, external reviewer. The verification is appropriate.

- In the case of a bond, the latest KPI results will be disclosed annually in the Aeon Report or on the website, after obtaining a verification report from an external body.
- In the case of a loan, a verification report on the latest KPI results will be obtained from an external body annually, which will be submitted to lenders (through an agent in the case of a syndicated loan).
- As regards the CDP climate change score in KPI 4, verification by a third party is not necessary because it is made publicly available on CDP's website and SPT achievement can be easily confirmed.

[Disclaimer]

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[Expertise and Third-Party Characteristics]

R&I launched the R&I Green Bond Assessment business in 2016, and since then, R&I has accumulated knowledge through numerous evaluations. Since 2017, R&I has been participating as an observer in the Green Bond Principles and Social Bond Principles, which have their own secretariat at the International Capital Market Association (ICMA). It also has been registered since 2018 as an Issuance Supporter (external review entity) of the Financial Support Programme for Green Bond Issuance, a project by the Ministry of the Environment. In 2022, R&I was designated as an external reviewer for transition finance in the global warming countermeasures promotion project of the Ministry of Economy, Trade and Industry.

The R&I assessment method and results are disclosed on the R&I website (at <https://www.r-i.co.jp/en/rating/esg/index.html>).

In December 2022, R&I expressed its support for the intent of and its endorsement of the "Code of Conduct for ESG Evaluation and Data Providers" (ESG Code of Conduct) published by the Financial Services Agency. Disclosures on R&I's compliance with the six Principles of the ESG Code of Conduct and the Guidelines for their implementation are available on the R&I website at <https://www.r-i.co.jp/en/rating/products/esg/index.html> (Disclosures on Compliance with the ESG Code of Conduct).

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