Latest Trends in Japan

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GENERAL MANAGER
AEON RETAIL CO., LTD.
FOOD MERCHANDISING PLANNING DIV.
GROUP PERISHABLES PROCUREMENT DIV.
AGENDA

1. About AEON
2. Changes occurring in Japan
3. Latest trends in Japanese consumer market
4. Recent conditions in the fishing industry and current practices by AEON
Striving to be the best retailer in Asia

<table>
<thead>
<tr>
<th>Unit Million $</th>
<th>Operating Revenue Ending Feb 2015</th>
<th>Year-on-year</th>
<th>Operating Profit Ending Feb 2015</th>
<th>The previous fiscal year difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMS Business</td>
<td>27,962</td>
<td>109.9%</td>
<td>-13</td>
<td>-305</td>
</tr>
<tr>
<td>SM DS Business</td>
<td>18,016</td>
<td>109.8%</td>
<td>70</td>
<td>-77</td>
</tr>
<tr>
<td>Financial Services Business</td>
<td>2,747</td>
<td>115.4%</td>
<td>441</td>
<td>101</td>
</tr>
<tr>
<td>SC Development Business</td>
<td>2,080</td>
<td>113.6%</td>
<td>360</td>
<td>-1</td>
</tr>
<tr>
<td>Service and Specialty Store Business</td>
<td>5,874</td>
<td>102.0%</td>
<td>204</td>
<td>10</td>
</tr>
<tr>
<td>ASEAN Business</td>
<td>1,743</td>
<td>115.2%</td>
<td>50</td>
<td>-3</td>
</tr>
<tr>
<td>CHINA Business</td>
<td>1,403</td>
<td>115.8%</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Drag pharmacy Business</td>
<td>2,130</td>
<td>163.8%</td>
<td>58</td>
<td>38</td>
</tr>
<tr>
<td>Total</td>
<td>61,950</td>
<td>110.7%</td>
<td>1165</td>
<td>-230</td>
</tr>
</tbody>
</table>

The number of stores in China and ASEAN countries (excluding convenience stores)

<table>
<thead>
<tr>
<th>TOTAL</th>
<th>China</th>
<th>Hong Kong</th>
<th>Malaysia</th>
<th>Thailand</th>
<th>Vietnam</th>
<th>Cambodia</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>242</td>
<td>50</td>
<td>13</td>
<td>59</td>
<td>73</td>
<td>45</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
CSR Activities

1. We are reducing the greenhouse gas emissions produced by our business for a low-carbon society
2. We conduct our business activities with consideration for the conservation of biodiversity
   1) We focus on developing and procuring products whilst thoroughly considering sustainability and the control of resources
   2) We try to reduce emissions by controlling the whole supply chain
3. We save and circulate resources for better and more sustainable usage
4. We comply with environmental laws and regulations for preventing contamination
5. We encourage our partners, including our customers, to participate in our social activities
ROLE OF OUR DIVISION

Own buying power generates

1. Cost reduction
2. Quality improvement
3. Better productivity

Then distribute to:
- Supermarkets
- Hyper markets
- GMS
- Drugstores & Pharmacies
- Food services
- China/ASEAN businesses

AEON procured 400,000 US Lobsters for the 2014 Holiday season

12% share of Japanese imports

Consistent supply of high quality Japanese products and services at competitive price
Changes occurring in Japan
Changes in population

Aging society and population decrease

Japan

MEN

USA

WOMEN

130 million in 2000

120 million in 2020

90 million in 2050
## Bi-polarization and Multi-polarization

<table>
<thead>
<tr>
<th>5 patterns of Bi-polarization</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bi-polarization in consumer segmentations</td>
<td>Income inequality creates social divide and even divide within common segments</td>
</tr>
<tr>
<td>Bi-polarization in consumer behavior</td>
<td>Mixed purchase of luxury goods and consumer goods</td>
</tr>
<tr>
<td>Bi-polarization in sales performances</td>
<td>Bigger gap between best performer and worst; More intensified to particular goods or stores</td>
</tr>
<tr>
<td>Bi-polarization in areas</td>
<td>Typical increase of store format between areas: Luxury stores in metropolitan areas/Discount stores in rural areas</td>
</tr>
</tbody>
</table>
| Bi-polarization in generations | The “haves”: retired  
The “have-nots”: some younger families |

Now escalates from Bi-polar to Multipolar
### Performance transition in retail sales

**Japanese consumer market remains almost flat**

<table>
<thead>
<tr>
<th></th>
<th>Peak in sales</th>
<th>2013</th>
<th>Difference From its peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Store</td>
<td>1991 100,000</td>
<td>50,000</td>
<td>▲50,000</td>
</tr>
<tr>
<td>GMS</td>
<td>1995 91,600</td>
<td>58,000</td>
<td>▲33,600</td>
</tr>
<tr>
<td>SM</td>
<td>1998 183,000</td>
<td>140,000</td>
<td>▲43,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▲126,600</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>Difference From 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience Store</td>
<td>75,000</td>
<td>+25,000</td>
</tr>
<tr>
<td>Drug store</td>
<td>50,000</td>
<td>+25,000</td>
</tr>
<tr>
<td>E-Commerce</td>
<td>83,000</td>
<td>+75,000</td>
</tr>
</tbody>
</table>

**Rapid oligopolization occurs in retail market**

**Birth and growth of new store format**

**Sales tax increase/Bi-polarization**
Huge Breakthrough of E-Commerce

E-commerce market in Japan is expected to reach JPY 20 trillion by 2020.
Increasing visitors from abroad

Number of visitors to Japan/Expenditure during the stay

Number of visitors to Japan

Expenditure during the stay

Ten thousand people

20 Billion Dollar

7 Billion Dollar

20 Billion Dollar

2 Billion Dollar

1 Billion Dollar

0.5 Billion Dollar

0.0 Billion Dollar

2010 11 12 13 14

Japan government travel, travel survey
Latest trends in the Japanese consumer market
Trends in US reach Japan

Joy of eating
Meal solution
World dining
Local food
Organic & Natural

Live good and beautiful life

Health & Wellness
Enjoy your own time

Save time & money

Japanese market trend

Ahold USA
Walgreens
Whole Foods
Kroger

JOY
Healthy
Always active
Own world
Cultural ecology
Save
Introducing typical life-style with all of food, apparel, health beauty care and household goods.

**Social**
- ORGANIC & NATURAL
  - ORGANIC FOOD
    - Certified organic food
  - NATURAL PRODUCTS
    - FOOD: Our own Tasmania beef
      - Specially cultivated produce & fishery
    - OTHER: Paper, cosmetics, etc.
  - Production, procurement
    - Sustainable • Ethical • Ecology
      - (FAIR TRADE • MSC • ASC • FSC • RAIN FOREST • ANIMAL WELFARE)
- ORGANIC APPAREL/ORGANIC HOUSEHOLD GOODS

**Environmental**
- Personal (physically/mentally)
  - PERSONAL HEALTH & WELLNESS
    - Foods for:
      - Supplemental - purpose
        - (Vitamin, Fiber, Mineral, etc.)
      - Reduction-purpose
        - (Calorie, sodium, fatty acids, etc.)
    - Food for Specific Health Uses
      - Free-from
      - Super Foods
      - Consumer electronics
    - Sports solution

**Japanese market trend**

- AEON

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READY TO EAT【Delicatessen】

Focusing on easy, convenient and delicious

My Select Deli/Grill Stage
Japanese market trend

READY TO EAT 【 Delicatessen 】

Focusing on easy, convenient and delicious

Pizzeria/Donut Stand
Development of ready to eat, ready to heat "Fast-Fish" (Frozen seafood meals, ready to heat)
Recent conditions in the fishing industry and AEON's Approach
Changes of seafood eating

Changes of seafood and meat intake of Japanese people

Rising price of seafood

Growing market of Food service

Changes of fish intake by age
Launched in 2013 by both government and people

AEON’s initiatives

Measures for expanding consumption of fish

Project “Happiness of Living in a fish-rich country”
Future seafood buying needs to be more conscious of exhausting resources.
AEON will actively strive to preserve fishery resources

**AEON’S INITIATIVES**

**AEON SEAFOOD BUYING POLICY**

From the viewpoint of preserving exhaustion of resources and preserving biodiversity, we will regularly carry out risk assessment. Also, we will consider possible measures to lower risks and strive for sustainable seafood buying.

**SUSTAINABLE BUYING POLICY OF AEON**

1. We will exclude illegal dealing, harvesting and catching of natural resources.
2. From the viewpoint of preserving biodiversity and preventing exhaustion of resources, we will establish and apply AEON standards.
3. We will minimize the use of nonrenewable resources.
4. We will establish traceability regime including agriculture farm and fishery, as well as fishing methods.
5. Regarding forest products, we will prevent high conservation value forests from being destroyed.

AEON will actively strive to preserve fishery resources
We will actively take measures to preserve resources.
Released on June 5th
AEON's initiatives

Approach to MSC・ASC

Started selling MSC certified products in 2006 such as Alaskan “Sockeye salmon” and “Soy sauced salmon roe”

AEON has increased MSC as well as ASC products, and handling largest volume in Japan
The status of Alaska seafood sales in AEON group (Group supply basis)

<table>
<thead>
<tr>
<th>Product name</th>
<th>Amount/year (U$)</th>
<th>quantity/year (t)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>snow crab (cooked·raw)</td>
<td>460,000</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>king crab (cooked·raw)</td>
<td>110,000</td>
<td>30</td>
<td>catch from new harvest</td>
</tr>
<tr>
<td>Pollock</td>
<td>240,000</td>
<td>300</td>
<td>sold after salted</td>
</tr>
<tr>
<td>Alaska Pollock roe (salted roe/mentaiko)</td>
<td>1,300,000</td>
<td>600</td>
<td>sold as Top Valu</td>
</tr>
<tr>
<td>Herring roe (salted, flavored)</td>
<td>520,000</td>
<td>200</td>
<td>sold as Top Valu</td>
</tr>
<tr>
<td>Sockeye salmon roe (soy sauced)</td>
<td>280,000</td>
<td>70</td>
<td>sold as Top Valu</td>
</tr>
<tr>
<td>trout roe (soy sauced)</td>
<td>80,000</td>
<td>16</td>
<td>sold as Top Valu</td>
</tr>
<tr>
<td>arrow toothed halibut (seasoned eith mirin)</td>
<td>70,000</td>
<td>80</td>
<td>sold as Top Valu</td>
</tr>
<tr>
<td>Atka mackerel (seasoned eith mirin)</td>
<td>20,000</td>
<td>12</td>
<td>sold as Top Valu</td>
</tr>
<tr>
<td>red rockfish (seasoned with sake lees)</td>
<td>20,000</td>
<td>10</td>
<td>sold as Top Valu</td>
</tr>
<tr>
<td>dressed Sockeye salmon</td>
<td>24,000</td>
<td>20</td>
<td>Sold at American Fair Festival</td>
</tr>
<tr>
<td>salted sockeye salmon</td>
<td>36,000</td>
<td>30</td>
<td>Sold at American Fair Festival</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,160,000</strong></td>
<td><strong>1,568</strong></td>
<td></td>
</tr>
</tbody>
</table>

These products are fully traceable. We would like to embark on an annual sales promotion together with the entire AEON Group.
American Fair Festival

Sockeye salmon was sliced thick so that customers could fully enjoy the taste.

Processed products such as flavored fish and minced salmon cutlet are also sold.
Our Request to ASMI

ASC • MSC
EU Standard

RFM
Standard

Harmonization

Conclusion