

## Material Issues 5 Building an Ethical Society and Improving Resource Sustainability Together with Customers and Business Partners

### Approach to Material Issue

In the course of supplying a vast amount of products and services, Seven & i Holdings believes that the Group has an important role to play in providing socially and environmental responsible products and services, thereby helping to build an ethical\* society.

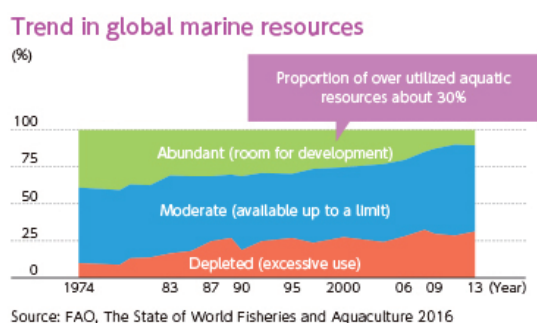
In every process from procuring raw materials for products to delivering products to customers, Seven & i Holdings believes that it must supply valuable products that not only comply with laws and regulations, but also show consideration for society and the environment. This will contribute to improving the sustainability of resources and is crucial to enhancing the strength of supply chains and ensuring business continuity. Moreover, awareness of ethical consumption has been increasing among customers in recent years. Addressing this awareness will also help to strengthen Seven & i Holdings' competitiveness. For these reasons, we will advance initiatives targeting the entire supply chain, including business partners.

\* The word "ethical," in addition to its conventional meaning, has been increasingly associated with environmental preservation and social contribution in recent years.

### Background to Material Issue

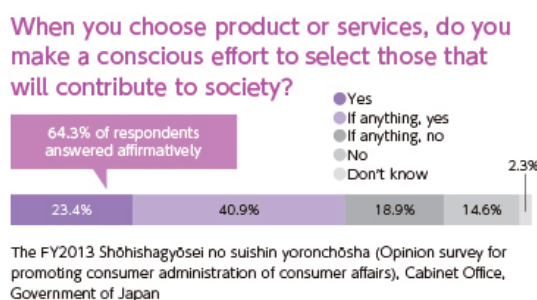
#### Decline and Depletion of Fisheries Resources

Amid increasing consumption of seafood in recent years, activities such as overfishing and environmentally destructive resource usage have taken place. As a result, sound marine resources have been steadily declining, while an increasing number of resources face the risk of depletion. Among familiar seafood items in Japan, Pacific Bluefin tuna and Japanese eel are endangered species in danger of extinction.



#### Heightened Interest in the Social and Environmental Impact of Supply Chains

Against the backdrop of a multitude of social issues around the world, an increasing number of consumers are seeking to purchase goods produced through fair business practices. With this heightened awareness of ethical consumption, it has become crucial to build sustainable business models across the entire supply chain.



## Promotional Framework for Material Issues

The entire Group is working to address this material issue, with specific measures being examined and formulated by the following committees and subcommittees. The CSR Management Committee, which is headed by the president, and its subordinate Consumer Affairs and Fair Business Practices Subcommittee, examine the themes of "Fair and impartial business practices" and "Addressing the social and environmental impacts of the supply chain." The Environment Subcommittee addresses themes related to product procurement and business partners, including the "Depletion of natural resources" and the "Loss of biodiversity." These activities are supervised by the Seven & i Holdings executive officer in charge of Corporate Communication.

## Contribution to SDGs

By addressing this material issue, Seven & i Holdings will achieve sustainable food production and consumption patterns through the entire supply chain, and will contribute to achieving Sustainable Development Goals 2, 4, 12 and 14.



## Seven & i Holdings' Initiatives

### Strengthening the Business Partner Action Guidelines

We are strengthening the implementation of the Business Partner Action Guidelines in order to provide customers with safe and reliable products and to fulfill our societal responsibilities in cooperation with our suppliers on matters such as human rights, labor issues, and the environment.

[> More](#)

### Sustainable Forest Conservation Activities

We are conducting the Seven Forest project to contribute to the prevention of global warming and conservation of biodiversity.

[> More](#)

### Sustainable Procurement of Raw Materials

We have formulated the Basic Policy on Sustainable Procurement to ensure sustainable use of natural resources for future generations and we are taking action in collaboration with various stakeholders.

[> More](#)

### Promotion of Ethical Consumption

It is vital for our business development to create business models that help to realize a sustainable society through the supply of products friendly to people, society, and the global environment. At the same time, we are taking steps to supply products and services that are in line with ethical consumption in response to a recent increase in public interest.

[> More](#)

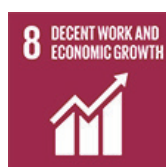
## Material Issues 5 Building an Ethical Society and Improving Resource Sustainability Together with Customers and Business Partners

### Strengthening Implementation of the Business Partner Action Guidelines

Seven & i Holdings is strengthening implementation of the Business Partner Action Guidelines to provide customers with safe, reliable products and fulfill its societal responsibilities in cooperation with business partners on matters such as human rights, labor issues and the environment.

### Ensure Implementation of Business Partner Action Guidelines

Seven & i Holdings formulated the Seven & i Holdings Business Partner Action Guidelines in 2007, and revised them in April 2017 to form the Seven & i Group Business Partner Action Guidelines (the “Guidelines”), which all business partners are requested to understand and observe. The Guidelines are designed to guarantee the safety and quality of the Group’s products and services and to promote consideration for legal and regulatory compliance, environmental conservation and labor conditions throughout the supply chain so that we can fulfil our corporate social responsibility together with our business partners. The Guidelines are communicated to business partners of Group companies through various meetings.



### Seven & i Group Business Partner Action Guidelines (Excerpt)

1. Legal Compliance
2. Respect for Human Rights
3. Human Resources and Workplace Environment
4. Preservation of Global Environment
5. Relationship with Local and International Communities
6. Information Management
7. Product Safety Assurance
8. Fair Business Practices
9. Protection of Intellectual Property
10. Management of Import and Export Transactions
11. Extension to Supply Chains
12. Monitoring



At a briefing for business partners on the Business Partner Action Guidelines

► Details of the Seven & i Group Business Partner Action Guidelines can be found [here](#)

## Compliance with the Guidelines through the Self Check Sheet

To ensure that business partners understand the Guidelines and to assist with effective CSR initiatives, the Seven & i Group administers a self-check sheet for business partners, explaining all of the specific requirements of the Guidelines.

In drafting the check sheet, we referred to sources such as the ISO 26000 standard, the Japanese Business Federation's Charter of Corporate Behavior, and the OECD Guidelines for Multinational Enterprises. Business partners asked to submit the check sheet annually include manufacturers of the Group's universal strategic private-brand products Seven Premium and 7-Eleven original daily product manufacturers, as well as distribution centers and IY's direct import suppliers overseas. We administer these check sheets to ascertain the status of our business partners' CSR activities.

In the check sheets, the respondents answer 61 questions, including whether there are any breaches in compliance, whether a consulting desk is available to plant workers, whether a business partner requests that its own suppliers comply with the Guidelines, and whether the formation of labor unions is permitted. The check sheet also asks business partners to confirm the CSR-related certifications (SA8000, BCSI, SMETA, ICS, ICTI, WRAP, EICC) that its factories have obtained.

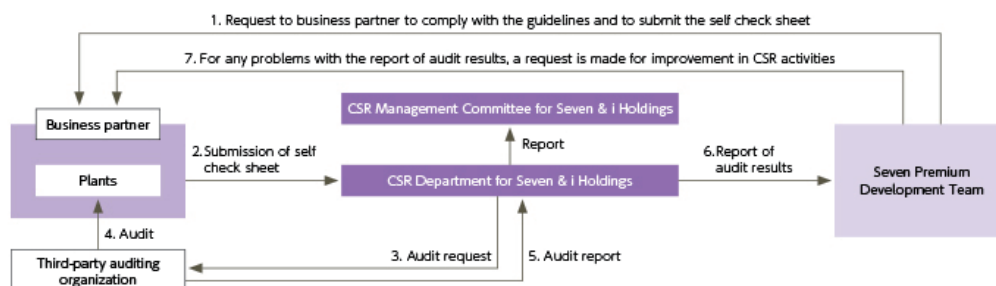
Responses to this check sheet are entered into a database, and buyers determine whether or not to continue doing business with a business partner based partly on the business partner's level of engagement in CSR, which is shown in the database.

### Self Check Sheet Items (Excerpt)

1. Legal Compliance
2. Respect for Human Rights and Dignity
3. Human Resources and Workplace Environment
4. Preservation of Global Environment
5. Relationship with Local and International Communities
6. Information Management
7. Product Safety Assurance
8. Fair Business Practices
9. Monitoring

(Questions about whether a business partner has prepared documentation and implementation records that prove compliance with the Guidelines.)

The Flow of Business Partner Action Guidelines: Seven Premium as an example



## Conducting Business Partners' CSR Audits

Since the fiscal year ended February 28, 2013, Seven & i Holdings has conducted CSR audits to determine the status of compliance with the Guidelines at a selection of factories of the business partners we have asked to submit self check sheets. The CSR audits are performed annually, mainly targeting factories of business partners producing private-brand products in developing countries.

The CSR audit is performed by an external third-party auditing organization based on our independently established CSR audit program (about 114 items in 16 categories.) The CSR audit items are based on the content of ISO 26000, and the audit examines whether a factory complies with the principles laid out in the Guidelines in the following 16 categories. These categories are aligned with the international labor standards established by the International Labour Organization (ILO).

### CSR Audit Category (16 Categories)

#### ■ 1. Implementation of Management System and Rules

- Organizations must implement and maintain a system in compliance with all items of the Seven & i Group Business Partner Action Guidelines
- To the extent feasible, organizations should extend the Guidelines to their own supply chains.
- Organizations must monitor and comply with the relevant laws and regulations, as well as international treaties and so forth.

#### ■ 2. Forced Labor

- There must be no forced, bonded or coerced prison labor.
- Employers must not force workers to make a financial deposit or submit their identification documents. After giving adequate notice, workers may resign freely as they wish.
- National and regional laws pertaining to forced labor are recognized.

#### ■ 3. Freedom of Association

- Workers have the right to establish or join labor unions of their own choosing without being subject to discrimination, and hold the right to collective bargaining.
- Local laws and workers' rights concerning freedom of association are recognized.

#### ■ 4. Health and Safety

- Safety protection measures must be applied to equipment and machinery and preventive maintenance must be undertaken.
- Chemicals must be handled and stored appropriately.
- All necessary protective equipment must be purchased and regularly replaced.

#### ■ 5. Child Labor and Young Underage Workers

- Children must not be put to work.
- Young workers under the age of 18 must not be put to work at night, or in a hazardous environment. This work includes tasks using chemical substances, work near such substances, or work where there is hazardous machinery, heavy labor, or excessive noise. Night shifts and work for long hours are also included.

#### ■ 6. Wages

- Overtime allowances must be paid at the required statutory ratio.
- All allowances and benefits must be provided to workers as required by law.

#### ■ 7. Working Time

- Workers must not be habitually required to work over 48 hours per week. On average, workers must be given a rest period of one day every 7 days. Overtime must be voluntary and must not exceed 12 hours per week. Overtime must not be habitually requested and additional fees must always be paid.

#### ■ 8. Discrimination

- Discrimination in the course of recruitment, remuneration, provision of training, pay raises, dismissal and retirement is prohibited with respect to race, class, nationality, religion, age, disability, gender, marital status, sexual orientation, union membership, or political party affiliation.

■ 9. Regular Employment

- To the extent possible, operations must be executed on the basis of generally accepted employment relationships based on national laws and regulations.

■ 10. Subcontracting Agreements, Domestic Industry, Outsourced Processing

- Subcontracting is not permitted without the prior consent of customers.

■ 11. Disciplinary Action

- Physical abuse or punishment, threats of physical abuse, sexual or other forms of harassment, or verbal abuse or threats, must be prohibited.
- Disciplinary methods must be fair and effective and must not be arbitrary.
- Employers must show respect for the mental, emotional and physical health of workers in connection with the necessary disciplinary action.

■ 12. Environment

- Organizations must pursue continuous improvement in their environmental performance and, at the very least, comply with local requirements and international laws and regulations.
- Chemical substances prohibited by international treaties, or laws and regulations, must not be used.

■ 13. Fair Business Practices

- Laws and regulations related to fair business practices must be understood and complied with.

■ 14. Ensuring Product Safety

- Products delivered to each Seven & i operating company must comply with the quality standards requested by each relevant operating company and comply with relevant legal standards established in Japan.

■ 15. Security Management

- Security systems must be in place to ensure protection from access with malicious intent.

■ 16. Interests of Local Communities

- Relationships with anti-social forces must be rejected.

Factories are given prior notice before being visited for audits, and compliance with CSR audit items is confirmed through interviews with managers and workers. If the audit finds items that do not comply with the audit program (unacceptable items), the external audit organization provides guidance to the business partner concerned. The business partners must submit a corrective action plan (CAP) to the auditing organization within 10 days of the audit being completed, and must take immediate action to improve the items. After receiving a report on the completion of improvements for the relevant items, the completion of improvements is confirmed based on the submission of photos showing the improvements, guarantee documents and other materials. However, in cases that exceed certain standards, such as when numerous serious unacceptable items are found, the resolution of issues is confirmed by revisiting the factory to perform a re-audit.

When the unacceptable items are remedied or the auditing organization and Seven & i Holdings judge that the content of the CAP to be satisfactory, a Compliance Certificate is issued to the relevant business partner.



Compliance certificate

## Audit Results for the Fiscal Year Ended February 28, 2017

In the fiscal year ended February 28, 2017, CSR audits were conducted at 270 factories in 13 countries, including China, Vietnam, Thailand, Indonesia, Cambodia and Myanmar. The average compliance rate across all audited factories was 90%, with re-audits at 28 factories. The majority of items for improvement were due to insufficient recognition or misinterpretation of items required under local laws and regulations, and mainly involved labor environment, safety and hygiene, and approvals and authorizations. After their audits, each factory provided a CAP, photos showing the improvements and guarantee documents, and re-audits were carried out, enabling us to confirm that improvements were successfully made.

## Examples of Cases Requiring Re-audits in the Fiscal Year Ended February 28, 2017

(All problem items have now been remedied)

- Non-notification of long work hours or hours in excess of legal limits
- Incorrect handling and storage of hazardous chemicals
- Operation and driving of machinery without a license
- Non-performance of environmental assessment
- Use of an unlicensed waste disposal contractor

	Number of factories for audit	Number audited	Re-audit rate	Number of factories for re-audit
FY2012	374	17	5.9%	1
FY2013		29	20.7%	6
FY2014		256	11.3%	29
FY2015	322	322	9.6%	31
FY2016	270	270	10.7%	29
FY2017 target	211	211	5.0%	10

## Material Issue 5 Building an Ethical Society and Improving Resource Sustainability Together with Customers and Business Partners

### Sustainable Forest Conservation Activities

Seven & i Holdings participates in Seven Forest creation activities to contribute to the prevention of global warming and conservation of biological diversity.



### Seven Forest Creation Activities

Seven & i Holdings participates in Seven Forest creation activities run by the Seven-Eleven Foundation at 17 locations across Japan to help prevent global warming and contribute to the maintenance and conservation of biodiversity.

The Seven Forest creation concept is a forest nurturing project that includes tree planting, undergrowth clearing, and forest thinning. Japan implements a cycle for planting, nurturing and harvesting trees and then replanting new ones. It takes decades to nurture a tree, during which time people systematically carry out forest conservation activities to protect forests. Trees create water that is rich in minerals and by releasing it into rivers and oceans, they protect biodiversity and help to prevent global warming.

Seven Forest creation activities are carried out by employee volunteers from 7-Eleven franchised stores and Group companies under collaboration agreements with forestry cooperatives, NPOs and others throughout Japan. In the fiscal year ended February 28, 2017, activities were held 23 times and a total of 1,571 people participated.

Another forestry issue in Japan is the need to encourage greater use of wood materials collected from forest thinning activities. Wood material collected from Seven Forest is used within the Group for store materials and office supplies, as well as commercialization to promote use of national resources.

▶ For details about Seven Forest (Japanese only)



Seven Forest

### Overview of Seven Forest Creation Activities



### Seven-Eleven Foundation

The Seven-Eleven Foundation was established in 1993 for 7-Eleven stores and the Head Office to work together as one on environmentally themed CSR activities. Using money collected from in-store donation boxes and donations from the Head Office, the foundation engages in projects related to environmental citizenship activity support, conservation, and disaster reconstruction assistance. In the fiscal year ended February 28, 2017, in-store donations totaled around ¥440 million and around ¥180 million was used to give grants to 304 environmental citizenship grant projects (including ongoing projects), which support environmental activities by local residents.

▶ Seven-Eleven Foundation website (Japanese only)



## Material Issue 5 Building an Ethical Society and Improving Resource Sustainability Together with Customers and Business Partners

### Sustainable Procurement of Raw Materials

To ensure sustainable use of natural resources across future generations, Seven & i Holdings formulated the Basic Policy on Sustainable Procurement and has been promoting initiatives in collaboration with various stakeholders.



### Products Certified by the Aquaculture Stewardship Council (ASC Certification)

Ito-Yokado has joined a project advanced by the Tokura Office of the Miyagi Prefecture Fisheries Cooperative's Shizugawa Branch to restore and achieve a sustainable marine industry in terms of economic and other aspects in tandem with protecting the bountiful marine environment. In October 2016, Ito-Yokado commenced the sale for the first time in Japan of farmed oysters that have obtained Aquaculture Stewardship Council (ASC) certification, an international certification system for environmentally and socially responsible aquaculture businesses. The farmed oysters were grown by the cooperative.



Farmed oysters with ASC certification

## Handling of Alaska Seafood Products

Seven & i Group stores sell Alaska Seafood products, which are sourced through environmentally friendly, sustainable fishing practices. In Alaska, the source region of the brand's all-natural marine products, Alaska Seafood carries out sustainable fishing by strictly managing resources and fisheries to ensure that the ecosystem that nurtures these natural marine resources is not impaired. In the fiscal year ended February 28, 2017, Seven-Eleven Japan launched POP displays for its Seven Premium private brand Benizake no Shioyake (salt-grilled sockeye salmon) in June to promote the features of Alaska Seafood, such as "natural" and "environmentally considerate" to customers. Meanwhile, in July 2016, Sogo & Seibu started holding Alaska Seafood introduction and sales events. Furthermore, at the Seven & i Group Head Office building, staff cafeteria operator Seven & i Food Systems is providing set meals using Alaska Seafood products. Employees distribute leaflets and set up POP displays and so forth to encourage Group employees to consider sustainable fisheries.



Seven Premium Benizake no Shioyaki

\* The main fisheries of Alaska are certified fisheries of the Alaska Responsible Fisheries Management Certification Program, the world's first program to be recognized by the Global Sustainable Seafood Initiative (GSSI) through an evaluation based on certain standards.

▶ [Alaska Seafood \(Alaska Seafood Marketing Institute\) website](#)

## Procurement of Organic Products

In response to rising consumer interest in product safety and reliability in recent years, Seven & i Holdings started selling 100% Organic Cotton Innerwear products for women under the Seven Premium private brand in December 2015. These products are sold at around 210 Ito-Yokado and York Benimaru stores throughout Japan and the Group's integrated portal website, omni 7. The cotton used as raw materials in these products is only organic cotton that meets Organic Content Standards (OCS). Apart from these products, Seven & i Group companies also sell items such as organic cotton towels and apparel, as well as organic coffee and loose leaf tea.

\* Organic Content Standards (OCS) is an organic certification body that evaluates and verifies organic material content claims on products based on the OE Blended Standard established by the Organic Exchange, a U.S.-based non-profit business organization.



Seven Premium 100% Organic Cotton Innerwear

## Handling of Low-Agrichemical Products

Ito-Yokado and York Benimaru sell private brand products that use fewer agrichemicals than the statutory limits. Examples include the Fresh Vegetables with Traceability and Fresh Fruits with Traceability private brand products sold at Ito-Yokado. Although these products are not completely organic, they are grown with fewer agrichemicals, and assure traceability of the growing region and growing history. Sales of these products in the fiscal year ended February 28, 2017 were approximately ¥22.2 billion.

The methods and frequency of use of agricultural chemicals vary by region and crop. The Fresh Vegetables with Traceability category and certain other products comprise foods grown with the goal of applying agrichemicals with half or lower of the usual frequency of each growing area (the average number of applications for each crop stipulated by local government organizations and other public bodies).

In addition, at our Seven Farms, which are engaged in agricultural operations, and under our Fresh Vegetables with Traceability and Fresh Fruits with Traceability brands, we aim to ensure safe agricultural produce, correct farm management, and so forth, and have acquired Japan Good Agricultural Practice (JGAP) certification. JGAP is an agricultural production management method recommended by the Ministry of Agriculture, Forestry and Fisheries of Japan. It provides a set of standards to be followed in daily farm management to increase food safety and ensure environmental conservation. Since JGAP includes standards relating to "food safety" and "environmentally sustainable agriculture," these products use the minimum necessary level of agricultural chemicals.



Fresh Vegetables with Traceability

## Five Promises of Fresh Vegetables with Traceability and Fresh Fruits with Traceability

1. Stores only stock domestically grown agricultural products.
2. Producers who properly grow vegetables on suitable land are carefully selected from all over Japan.
3. Products are delivered to customers under the name of each individual producer.
4. Discerning techniques and personalities are introduced on the website and on sales floors.
5. Agrichemical reduction targets are set and continuous checks are performed.

## JGAP Guidelines

### ■ Food Safety

- Management of soil, water and propagation materials
- Fertilizer management
- Agricultural management
- Hygiene management during harvesting and transport
- Produce handling

### ■ Environmentally Sustainable Agriculture

- Water conservation
- Soil conservation
- Consideration for surrounding lands
- Waste management, reduction and recycling
- Energy efficiency
- Environmental awareness and biodiversity

## Use of FSC-Certified Paper

Seven & i Holdings is promoting use of paper with FSC certification, an international certification system that promotes preservation of forest environments. In March 2017, we started using FSC-certified paper for paper board boxes in our Seven Premium private brand. As of July 31, 2017, FSC-certified paper is used for 44 items including ice cream containers. At Seven-Eleven Japan in the fiscal year ended February 28, 2017, we switched to FSC-certified paper for the display stands for selling SEVEN CAFÉ bakery items. Meanwhile, at Seven Bank, cash envelopes at ATMs and the Bonolon, Warrior of the Forest magazine are made using FSC-certified paper.

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### Promotion of Ethical Consumption

Seven & i Holdings will create a business model that contributes to the development of a sustainable society through the provision of products that are considerate of people, society, and the global environment. We consider this to be an essential aspect of business development. In particular, we will strive to provide products and services that are compatible with "ethical consumption," which has been drawing attention in recent years.

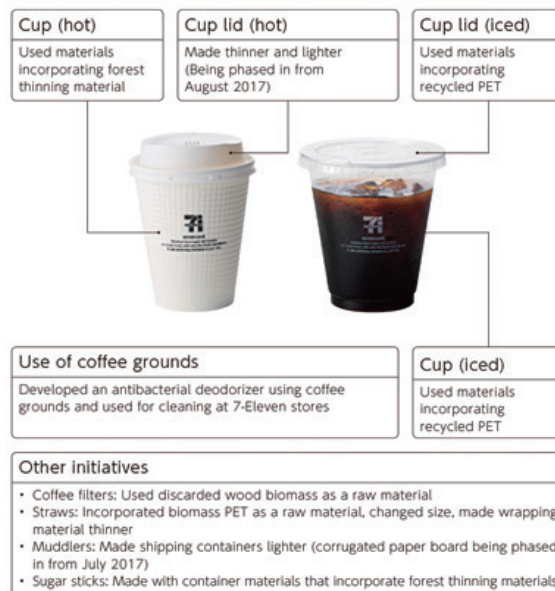


### Environmentally Friendly SEVEN CAFÉ

SEVEN CAFÉ brand products are sold at Seven & i Group stores, mainly 7-Eleven. In the fiscal year ending February 28, 2018, we expect to sell 1 billion beverages. Many customers support SEVEN CAFÉ, which is promoting environmental considerations in various ways. For example, forest thinning material is used for the outer sleeves for hot beverages. Cups for iced beverages use a compound material that includes recycled PET. We are also working to cut down our use of limited resources, for example by making cups lighter and thinner.

In the fiscal year ending February 28, 2018, we have developed an antibacterial deodorizer that uses recycled coffee grounds collected from some of our stores. The new product is being used for cleaning at 7-Eleven stores.

#### Overview of Initiative



#### Environmentally Friendly SEVEN CAFÉ

## Sales of Rice Cultivated while Protecting the Environment and Biodiversity

Ito-Yokado sells a rice series that not only uses fewer agrichemicals and chemical fertilizers, but also encourages “biodiversified farming,” in which rice fields also service as wildlife habitats. Part of the sales are donated for environmental improvements. In the fiscal year ended February 28, 2017, sales of Koshihikari Rice Nurturing White Storks provided approximately ¥60,000 for nurturing oriental white storks, while sales of Sado, Niigata Prefecture-Produced Koshihikari Rice Certified by the Creating Villages Coexisting with Crested Ibis Program provided approximately ¥160,000 to the Fund for the Improved Habitat for the Japanese Crested Ibis.



Rice cultivated while protecting the environment and biodiversity

## Green Wrapping

Sogo & Seibu is promoting the use of “green wrapping,” for customers when they order gifts. This involves the purchase of a wrapping ribbon with a leaf-shaped mascot for an additional price of ¥100, of which ¥50 is donated to tree planting and growing activities. In this way, the giver can also provide the recipient a chance to think about the environment. One tree is planted for every 80 ribbons sold. In addition, customers purchasing ochuugen and oseibo (summer and winter) gifts who agree to simple packaging also contribute to tree planting, with one tree planted for every 4,000 gifts that use the simple packaging option. (Between 2009 and February 28, 2017, 10,451 trees were planted).



Green Wrapping



Employees carefully plant seedlings provided by the kindness of customers

## Animal Testing and Welfare

Seven & i Holdings sells the Botanical Force series of skin care products jointly developed with FANCL CORPORATION under the Seven Lifestyle private brand of cosmetics at 7-Eleven, Sogo & Seibu (certain stores), and other outlets. These products have been developed without any use of animal testing—their safety has been confirmed by collecting information from raw material manufacturers and other documents and through safety checks made using cultured cells and human volunteers.



Botanical Force series

## Introducing Ethical Fashion

Sogo & Seibu held the ethical fashion event “Enjoy Ethical” at the Sogo Yokohama store in May 2017.

In addition, bags made by single mothers in Uganda, Africa using unique African print fabrics were sold at a limited time event at five Sogo & Seibu stores. The event provided customers an opportunity to encounter ethical fashion while enjoying fashion and contributing to society.



Sale of bags made by Ugandan women