

Identifying Material Issues

Seven & i Holdings has conducted dialogs with many stakeholders and identified material issues that should be addressed so that the entire Group can respond to the expectations and demands of stakeholders. We will introduce the identification process here.

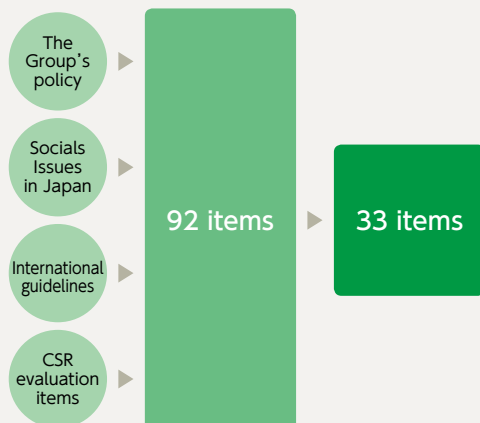
● Material Issues identification process

Step 1

Selection of social issues that should be considered

In order to identify material issues, social issues that should be considered were selected. In addition to the Group's Corporate Action Guidelines, global frameworks such as GRI Guidelines G4, ISO26000, and Millennium Development Goals; issues facing Japan such as those debated by the Japanese government; and survey items of CSR rating agencies were also taken into consideration to summarize 92 social issues. The relationship with the Group's business was evaluated and 33 social issues that should be considered were selected.

● Selection method



Step 2

Interviews with stakeholders

An interview survey in a questionnaire format was conducted with customers, business partners, shareholders and investors, and employees in order to understand the future expectations and demands of all stakeholders towards the Group for the 33 social issues that were selected. A qualitative assessment was made of how much of a priority the Group should place on each issues. In addition, comments were received concerning the expectations of the Group and the reason for these expectations.

● Stakeholders interviewed and their expectations

	Scope of interviews	Expectations of stakeholders (examples)
Customers	Customers of major operating companies	<ul style="list-style-type: none"> Improving product safety Securely protecting personal information, etc.
Business partners	Main business partners of major operating companies	<ul style="list-style-type: none"> Further improvement of reliability throughout the entire value chain through shopping assistance for people who feel inconvenient for shopping Continuing support for disaster areas, etc.
Shareholders and investors	Retail industry analysts	<ul style="list-style-type: none"> Responding to disposal loss Supporting the needs of elderly people
Employees	Executives and employees of major Group companies	<ul style="list-style-type: none"> Responding to population aging throughout the entire Group Pursuing further quality and safety, etc.

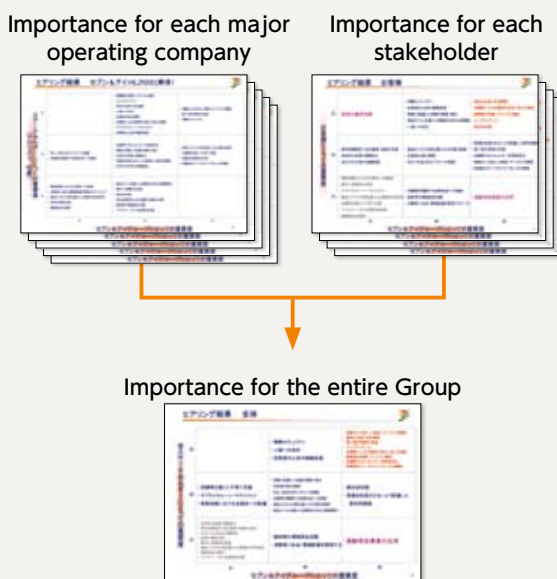
Purpose of material issues identification

- Concentrate on key issues that should be focused on and respond appropriately as the scope of Seven & i Holdings' business expands and related social issues and social demands become more diverse.
- Clarify the direction towards CSR for the entire Group and maximize Group synergies.
- Implement CSR management and information disclosure in line with global standards.

Step 3

Preparation of material issues candidates based on the interview results

Based on the expectations of each stakeholder, the importance of the 33 social issues was evaluated based on the two axes of the importance to each stakeholder and the importance to each major operating company. Then, after consolidating each level of importance to evaluate the overall level of importance, material issues candidates for the entire Group were prepared.



Step 4

Dialogs with stakeholders

Based on the interview results and the material issues candidates that were prepared, dialogs were conducted with experts in order to discuss what issues Seven & i Holdings should focus on. These dialogs were participated in by members of the management of Seven & i Holdings and major operating companies including the President and Chief Operating Officer. Opportunities were established to discuss the entire Group and each business area as opinions were exchanged with experts.

● Overview of dialogs held



Overall dialogs

Experts were invited to discuss with the management Seven & i Holdings material issues that should be addressed by entire Group.

Details on P.11



Dialogs for each major operating company

Experts were invited to discuss with the representatives of the major operating companies (Seven-Eleven Japan, Ito-Yokado, and Sogo & Seibu) the materialities for each operating company.

Details on P.15

Stakeholder Dialog No.1



As the social issues surrounding companies continue to accumulate and we expand the scope of business at Seven & i Holdings, we are facing more diverse social issues and social demands. In response to this situation, dialogs were held between experts and our management team in order to identify which material issues should be focused on.

Experts

Toshihiko Goto

Representative Director, Sustainability Forum Japan (non-profit organization)

Hideto Kawakita

CEO, IIHOE (International Institute for Human, Organization and the Earth)

Scott Davis

Professor, Rikkyo University
Outside Director, Seven & i Holdings



Seven & i Holdings

Noritoshi Murata

President and Chief Operating Officer (COO)

Katsuhiro Goto

Managing Executive Officer and
Chief Administrative Officer (CAO)

Junro Ito

Director and Senior Officer of CSR Department

ESG—A Shift to Management with an Awareness of the Triple Bottom Line

Toshihiko Goto: Recently, there has been much talk of the word ESG (environment, social, and governance) in the world of finance. How do companies approach ESG? In other words, how companies respond to various environmental issues, how companies address social issues such as human rights and contributions to local communities, and how governance is formed to address these issues has come to influence the long-term success of companies.

Since the release of the Principles for Responsible Investment by the United Nations in 2006, the ratio of SRI investments that incorporate investment behavior in consideration of ESG and ethical considerations in addition to profits has rapidly expanded in Europe and North America, growing to almost half of all investments. Meanwhile, while this figure is still 0.2% in Japan, the Financial Services Agency released the Japan's Stewardship Code (Principles for Responsible Institutional Investors) in February 2014. This code stipulates the need for institutional investors to conduct dialogs with companies invested from a long-term perspective, contribute to the sustainable growth of companies invested in, and explain this information to customers. It will perhaps become more likely for Japanese financial institutions to request to have dialogs with companies like your company in the future. For this reason, management based on the triple bottom line that incorporates environmental and social aspects in addition to economic aspects will become increasingly important. I would also like to introduce another important development in Europe. In April 2014 the European Parliament passed a law obligating large companies to create a policy for diversity for the board of directors and to disclose this policy. The idea is that governance without diversity will not create innovation and this will impede corporate development, and by extension the development of Europe overall. While it will probably take two to three years for each country to actual establish domestic legislation, I believe that this development is indicative of global trends.



Noritoshi Murata

Seven & i Holdings



Toshihiko Goto

Sustainability Forum Japan
(non-profit organization)

Hideto Kawakita: This law also obligates companies with over 500 employees to disclose information related to ESG, further reflecting the increasing importance of the perspective of sustainable management.

Noritoshi Murata: We are constantly aware of these issues in our work. These types of issues have grown in importance ever since the Lehman Shock in 2008.

Toshihiko Goto: Some people say that the reason why ESG is becoming increasingly focused on is that currently the majority, or 80%, of corporate value is accounted for by intangible assets. The idea is that strengthening ESG causes intangible assets to increase and corporate value to grow.

Scott Davis: Because retail differs from industries such as the finance and automotive industries in which relationships with customers are decided on for many years at the time of purchase or contract signing, in the case of a retail business like Seven & i Holdings we have to take particular care to keep constant good relations while coming in contact with customers every day. I believe that the social capital that is established through these relationships is also an important intangible asset.

Noritoshi Murata: The Group has worked to establish the relationship we currently have with stakeholders since its foundation based on the principles of trust and sincerity. This has been enabled not by management of the corporate organization by top management, but rather by the strengthening of organizational strength that allows employees working within the Group to form teams and take action. Creating frameworks for governance among the so-called the rank and file of the organization is important for management. It will also be important to create frameworks that allow all members of the Group to participate in management in order to respond to this new era for the retail industry through means such as omni-channel retailing.

Establishing a Business Model that Anticipates Society Twenty Years from Now

Hideto Kawakita: In addition to current value, shareholders and other external stakeholders are currently also interested in how companies will increase future value. It is becoming necessary to faithfully present and implement not only short-term financial indicators, but also medium to long-term non-financial indicators. In that case, it is necessary to directly look at not only the future vision for your own company, but also Japan as a whole. For example, one pressing issue is the rapidly aging society. While households composed of only the old elderly with an age of 75 or above was 4% in 2000, it is now 7%, and is expected to be 10% or higher in 2020. If that is the case, there may be plans for elderly people to live together to some extent and provide each other mutual support.

This could cause your company's business to change in some ways. While you may currently be giving some consideration to delivering products to the residences of elderly people, it may become necessary to provide support in terms of actual places to live in addition to this.

Katsuhiro Goto: There are still areas where we have not really given full consideration to the idea of future value. Going forward we may need to incorporate into management the concept of back-casting, in other words considering what we need to do now in response to how the future is likely to develop in ten or twenty years from now.

Hideto Kawakita: For this reason, the issue of resource depletion is also an important issue. There have also been global movements calling for the procurement of forest resources and marine resources that is both ethical and sustainable.

Toshihiko Goto: I feel that there is still a lack of awareness in Japan regarding these issues, particularly global procurement. This issue has gained a lot of attention recently, as European NGOs have conducted detailed



Hideto Kawakita

IIHOE
(International Institute for Human,
Organization and the Earth)

surveys on environmental issues and human rights issues in the supply chains of Asian companies.

Because it is extremely difficult to directly improve these issues in the field, companies like your company that serve as purchasers are being called on to make improvements. In situations like these, it is not enough to say things like "our company only buys the products."

Hideto Kawakita: Furthermore, promoting the active participation of women and the employment of young people are also extremely important issues in consideration of future value. In consideration of relationships with stakeholders, your company should value how employees working at your company feel joy and share the future, and how to make employees feel proud about working at your company.

Scott Davis: At the same time, the active participation of elderly employees is also an issue. While elderly employees have a wealth of experience and skills, the timing at which they require breaks differs from young employees. By ensuring that elderly employees have an ideal working environment, it will advance human rights efforts for the workplace overall. Furthermore, creating an environment that will allow both elderly people and younger people to work towards the same goal in the same manner as in society as a whole will be mutually satisfying and create a rich, human quality at the workplace.

Noritoshi Murata: We believe that it is necessary to improve our domestic business even more going forward. In order to do so, it will be necessary to respond to the issues of supporting elderly people, employing young people, and allowing the active participation of women as has been pointed out, and I would like to address these issues immediately.



Katsuhiro Goto

Seven & i Holdings

Creating Value Through Products and Services

Scott Davis: Hideto Kawakita talked about the aging society previously. I would like to say that I don't view the aging society as an issue. As longevity is something that humans have longed for since the ancient past, we should be overjoyed if this is something that we have achieved. In other words, the problem is not the aging society, but rather the state of living that our society has created for elderly people. We need to put ourselves in the shoes of elderly people and think about what we can do so that they can feel happy and positive towards living every day.

In the relationship I have had with your company up until now, I have gotten the impression that thinking of the perspective of the other party is rooted in your DNA. CSR is something that should be possible to achieve if contributions are made to society through the implementation of the core business, and I believe that your company has made efforts to create social value without specifically identifying these types of activities as CSR. I think you should communicate why you think that has been possible. At the same time, as the entire Group continues to grow and new companies continue to be added to the Group, I think you should consider what kind of initiatives should be implemented to ensure communication throughout the entire Group.

Noritoshi Murata: I mentioned previously that governance among the rank and file of the organization is important, and an example of this is when we lowered the walls between companies following the adoption of a holding company structure in September 2005 and decided to grow while taking advantage of the business infrastructure and human infrastructure of each of these companies. A concrete form of this process was the creating of our private brand. Rather than simply placing an order with manufacturers, every member of the Group formed a team with the cooperation of partner companies and generated synergies to create something that live up to the expectations of customers. The private brand Select Premium was created through this process.



Junro Ito

Seven & i Holdings



Scott Davis

Rikkyo University

Toshihiko Goto: Private brand development is a classic case of stakeholder engagement. By removing the walls within the Group and conducting engagement, synergies are created.

Scott Davis: Many companies have now released private brands through various processes. In general, these products seem to have been made possible by consumers willing to compromise on quality in order to get low prices. However, in contrast to this, your company's private brand was developed through plans refined based on repeated dialogs with many stakeholders as products based on an awareness of value from the customer's point of view.

You persuaded customers to buy based on a deep level of trust rather than due to low prices. I think that you can say that this kind of private brand development has produced not only physical synergies, but also psychological synergies.

Junro Ito: In addition to value to customers, I feel that synergies have also been produced from the point of view of environmental considerations. Thanks to efforts to make the product development team aware of environmental issues, there have been more ideas concerning environmental considerations in products in recent years. As members of the team, I believe it is important for us to provide input like this on social issues.

Katsuhiro Goto: In reviewing various issues in order to decide on material issues, I believe that we have become aware of several new things. I believe that one of the Group's strengths is promptly putting initiatives based on these forms of new awareness into practice, and I feel that it is necessary to conduct these systematic reviews of issues in an ongoing manner.

Stakeholder Dialog No.2

The theme of Stakeholder Dialog No.2 is material issues for each operating company. Dialogs were conducted and opinions were exchanged between two experts and the top management of each major operating company as to what form of social responsibility should be fulfilled in consideration of characteristics each operating company.

Experts



Mariko Kawaguchi

Chief Researcher of the Research Division,
Daiwa Institute of Research

Yukiko Furuya

Executive Director,
Nippon Association of Consumer Specialists



Ryuichi Isaka

Director and President,
Seven-Eleven Japan Co., Ltd.



Kazuhisa Toi

Director and President,
Ito-Yokado Co., Ltd.



Takashi Matsumoto

Director and President,
Sogo & Seibu Co., Ltd.





Creating a sustainable value chain

Ryuichi Isaka: One issue that we would like to focus on is supply chain management. Up until now, we have conducted make-to-stock production based on demand forecasts and spent advertising expenses to sell these products. However, we would like to eliminate wastes at every stage and establish an efficient supply chain through means such as gaining an accurate understanding of customer demand at each store and having factories conduct production to order based on this.

Yukiko Furuya: Implementing these types of measures is also important from the perspective of reducing food loss. While relaxation of the so called one-third rule is a current topic, most consumers don't even know about this rule. Assuming this, I think that it is important to provide information including the state of rules to consumers so they can make their own judgments.

Ryuichi Isaka: We also believe that these issues are important and we are participating in demonstration experiments aimed at improving rules. We would like to deploy the lessons that we learn in these experiments throughout all stores.

Mariko Kawaguchi: I believe that the primary values that convenience stores are being called on to fulfill are the demands of customers, and I believe that a certain number of consumers who use convenience store see value as consisting of elements such as ethics and sustainability. While it may be impossible to do things like this for all products, it could be possible to increase the number of organic products and ethical products, for example for only the ingredients or seasonings contained in cup noodles.

An issue that I think is particularly important now is marine resources conservation efforts. You could consider developing products such as onigiri rice balls using salmon for which Marine Stewardship Council (MSC) certification has been acquired for to promote a sustainable fishing industry.



Aiming to be a center for community living

Ryuichi Isaka: Living centers such as government and bank offices have been on the decline in recent years, particularly in local communities. Meanwhile, with the advance of population aging the number of mobility-impaired persons that have difficulty visiting far locations is on the rise. Under these circumstances, I believe that there is more that we can do to demonstrate our value as a convenience store.

For example, because convenience stores are open 24 hours a day, people can use the ATMs of financial institutions at any time. In addition, government administrative costs could be reduced if convenience stores provided some government administrative services such as the issuing of residence certificate on the government's behalf. Another option could be establishing childcare or day care centers on the second floor of our stores, which would allow parents to do their shopping when they come to pick up their children. I believe that we can help to make living in local communities more rich and rewarding by collaborating with various other industries in this manner. In addition, considering the advance of population aging, I believe that visiting customers on regular routes could become an important form of distribution going forward.

Mariko Kawaguchi: It is important to identify these issues in local communities and address them going forward.

Yukiko Furuya: I think that convenience stores play an extremely important role in local communities. For example, consumer damage as a result of door-to-door sales and mail-order sales to elderly people has become an extremely big social issue. When convenience stores deliver products that have been ordered by customers when visiting customers on regular routes as mentioned earlier, it might be possible to reduce this type of damage if information about these issues is delivered at the same time.

Ryuichi Isaka: I also feel that there are high expectations from society for issues such as employment in local communities. While some say that convenience stores are becoming over-saturated, I don't think that is the case at all. I strongly believe that there are still many places that need convenience stores and that we have an important role to fulfill. Going forward I would like to make further contributions to local communities through the implementation of omni-channel retailing.

* Distribution level commercial practice of dividing the period from the production date to the best before date for processed foods into three thirds and setting delivery deadlines and sales deadlines.

Ito-Yokado Co., Ltd.



Sustainable procurement activities in cooperation with production areas

Kazuhiya Toi: One initiative that we are actively pursuing is food loss reduction. It makes no sense to return or dispose products when it is still possible to sell them, and if losses can be reduced, manufacturers and wholesalers will also benefit as a result. In addition to measures to review delivery dates for processed foods and other foods, by working to reduce losses for all kinds of products including clothing, we have achieved benefits including a reduction in the total amount of waste.

Yukiko Furuya: Initiatives like these in cooperation with manufacturers and distributors are important. It would also be beneficial to educate consumers concerning these issues. I think that the stance of thinking about society and the environment together going forward is important.

Mariko Kawaguchi: On the other hand, when I looked at your store I was concerned that messages such as products being organic or environmentally-friendly did not really seem to come across. It seemed as if your store didn't really handle these types of products.

Kazuhiya Toi: At fresh produce sale points we offer the Foods with Traceability brand for which traceability is 100% ensured from production to sales, and we also focus on the advance of recycling-oriented agriculture. These products are not 100% organic and we have mainly focused on products that prioritize safety. We would like to focus more on communicating to customers our commitment to these products.

Yukiko Furuya: Listening to this, my impression is that while sufficient efforts are being made in sustainable agriculture and fishing, this isn't being sufficiently communicated to consumers.



Mariko Kawaguchi: While we did mention recycling-oriented agriculture, my impression is that in modern Japan environmental consideration tends to be equated with energy issues. But the fact is that we also need to look at the bigger issue of recycling resources. I hope that your company continues communicating the message of the importance of not wasting resources and not producing needless garbage.

Aiming to provide service in consideration of diversity

Kazuhiya Toi: Another thing we have focused on recently in store management is providing services that match various targets. For example, when providing service for students the customer may prefer a staff member of the same age level to address them in a casual and friendly manner, when making product proposals to housewives it is important to take into consideration a woman's sensibility, and when providing service to elderly people it is preferable for an older employee to handle them in a polite manner. There are also some stores that are opening PC classrooms for elderly people as part as efforts to promote the use of the Net Supermarket service.

Mariko Kawaguchi: From the perspective of diversity, it is also important to put more effort into supporting men that are raising children. As women are participating more actively in society now, men need to change in adaptation to this. Occasionally one hears stories of fathers taking their children to the park and feeling lonely because they are the only man there. I think your company can play a role in supporting men responsible for housework and childcare, for example by installing baby seats in the men's restroom.

Kazuhiya Toi: I see what you mean. I agree that this type of support is important. We also need to consider services that can support men with children in addition to women.

Another issue that stores are actively involved in is communicating the good qualities of good things. For really good products such as those that are made in Japan that emphasize Japanese traditional technologies, we would like to improve forms of presentation and serving customers so that we can faithfully communicate the good qualities of these products through means such as having customers actually touch products, actually experience products, and enjoy products visually.

Management from a women's perspective

Takashi Matsumoto: We have always particularly emphasized supporting the active participation of women, and at the Seibu Tokorozawa store we have adopted a new initiative of assigning women to half the full-time operations positions. As women tend to develop flat human relationships, I feel that this has led to a reduction in waste as a result.

Mariko Kawaguchi: The same holds true for groups of mothers that are raising children. There are no hierarchical relationships. As I have always believed that if women work they will work in a rational manner, I am extremely moved by the results of your company's initiatives.

Takashi Matsumoto: Women also actively communicate across organizational boundaries, are quick to consult with people and take action if they think of something, and like to take on new challenges and try to learn from them. They are also very aware of time management. On the hand, when straight results are required, in some cases they feel some distress or discomfort as a result. Because working under this type of demanding environment encourages the growth of each individual employee, I would like to consider measures such as creating assignment rotations for set periods of time.

Serving as a center for communicating value

Mariko Kawaguchi: One thing that I felt after looking at some stores is that while there are many products with a story such as being organic or ethical, these products become overwhelmed by other products at times. If you don't do something to make people focus on these products, people potentially interested in them won't be able to notice them.

Takashi Matsumoto: As you mention, not being able to fully communicate our commitment to certain concepts in products is a major issue for us. It will not be enough to simply put out big signs or point of purchase advertising displays. This is particularly true for the concept of ethical products, as I believe this could be one of our focus areas going forward, so this is an extremely important issue. We don't leave it up to other people to select products for us, we make sure to go out into the field and select products that we feel comfortable recommending. In addition, we do not hold half-hearted



events. We only hold events that we can steadily continue holding.

Mariko Kawaguchi: In addition to providing ethical products, I believe that department stores have a responsibility to communicate with customers and send message through products, such as products that communicate the traditional way of Japanese living, original local products that will contribute to the revitalization of the local economy, and products that will make the lives of elderly people easier.

Yukiko Furuya: Based on this perspective, while your company's Pre-Mama Stations are constantly staffed by midwives to provide free consultations about child raising, in addition to this it could use these locations as a forum for disseminating information on product safety, as there have been many accidents as of late involving baby slings.

Takashi Matsumoto: That is a very good point. We could consider holding seminars on how to safely select and use products. I think that this could also contribute to local communities.

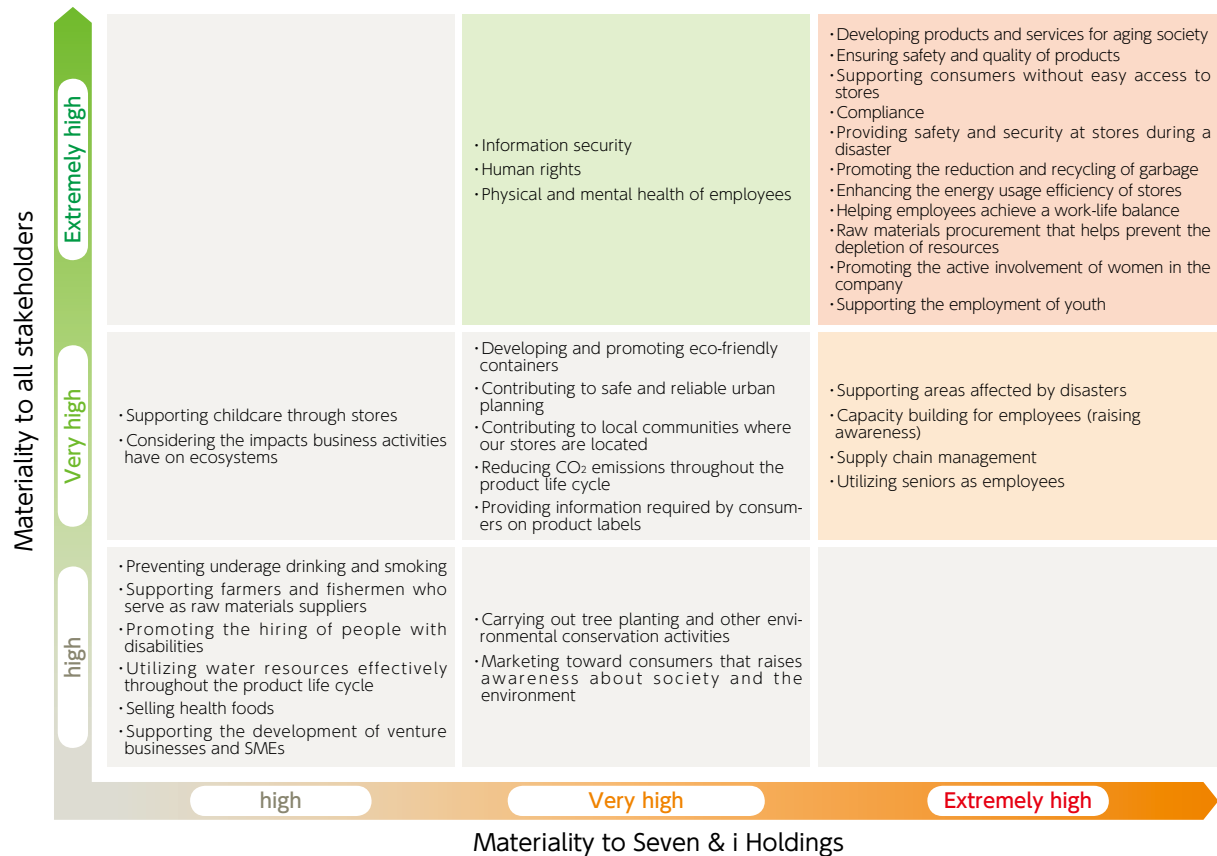
I have given constant consideration to the role of department stores within the Group, and I believe that the role of communicating and achieving these types of values is extremely important. I would like to implement whatever we can put into practice based on the dialog we have held today.

Material Issues Facing Seven & i Holdings

We identified the issues that Seven & i Holdings should address for the realization of a sustainable society through dialogue with a wide range of stakeholders. Moving forward, we will work together as a group of companies to carry out initiatives for these themes.

Organization of Material Issues

Based on the results of our stakeholder dialogue session, we reviewed the importance of each individual candidate for material issues and organized these once again according to the following format.



Material Issues Identified

Based on the candidates for material issues organized by level of importance, we considered the relevance of the most important matters for stakeholders and Group businesses, integrating these as follows into the Material issues facing the Seven & i Holdings Group.

*Compliance matters will be addressed separately from material issues.

Material Issues Providing social infrastructure for an aging society and declining population

Material Issues Providing safety and reliability through products and stores

Material Issues Non-wasteful usage of products, ingredients and energy

Material Issues Supporting the active role of women, youth and seniors across the Group and in society

Material Issues Building an ethical society and improving resource sustainability together with customers and business partners

Seven & i Holdings' philosophy toward each important challenge and specific solutions being carried out by the Group are introduced in the following pages.

Material Issues **Providing Social Infrastructure for an Aging Society and Declining Population** ▶P.21



The number of people, especially seniors, who feel inconvenienced or troubled by daily shopping and meals is on the rise in Japan as the number of retail stores and lifestyle hubs declines. We are working to create new shopping support services by utilizing our built-up store network as well as distribution and information system networks to help resolve this social issue.

Material Issues **Providing Safety and Reliability through Products and Stores** ▶P.27



Consumers are aware more than ever before about food safety issues, such as food additives and residual pesticides. As damage from earthquakes, floods and other natural disasters is on the rise in recent years, consumers are also well aware of the need to prepare for future disasters. Given this, we are working to provide safety and security through our products and stores.

Material Issues **Non-wasteful Usage of Products, Ingredients and Energy** ▶P.37



We recognize conserving the earth's environment and passing down a vibrant and beautiful natural environment is a common goal of humankind. We also believe this is our mission to society. Therefore, we are working to be more considerate of the environment in our businesses as well as cooperate with customers, business partners and local communities to use resources fully and without waste.

Material Issues **Supporting the Active Role of Women, Youth and Seniors across the Group and in Society** ▶P.45



Securing an adequate workforce is now a major issue facing corporate Japan and for that reason human resources will serve as our competitive strength for the future. We are building appealing and motivating workplaces for employees where each and every one can thrive at their fullest regardless of their life stage or personal attributes. We are also supporting women through our products and services to help ensure they can achieve a balance between their family and professional lives.

Material Issues **Building an Ethical Society and Improving Resource Sustainability together with Customers and Business Partners** ▶P.55



Consumer styles, which conventionally focused on product and service value or cost performance, have undergone a change as more and more consumers engage in ethical consumption that is considerate of people, society and the environment. We are working hard to help create a more ethical society together with our customers and business partners through our various products and services.