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1st

# ESG Presentation

~ To Create a Sustainable Society ~

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November 30, 2018

J. Front Retailing Co., Ltd.

YAMAMOTO Ryoichi

Director, President and Representative Executive Officer

Create and Bring to Life "New Happiness."



# Origin of the Group

Create and Bring to Life "New Happiness."



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## Sustainable management



1717 Founded as a kimono fabric dealer

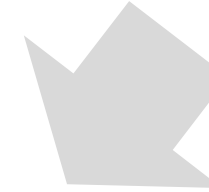


1611 Founded as a kimono fabric and  
fancy goods wholesaler

300+ years



Management integration  
September 2007



400+ years



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Put the "Mission Statement" at the core of management  
and integrated all management activities



## *Service before Profit*

Service before Profit — This phrase is from a passage from “Of Honor and Disgrace” written by Xunzi, a Chinese thinker in the Zhanguo period, “Those who give priority to service over profit will prosper.” The most important thing is to approach things with sincerity and good faith. “Do not sell any products that are of no benefit to customers.” “Do not rank customers.” “Honesty and loving-kindness come first.” “An unfaithful person is useless regardless of how gifted he/she may be.” Thus Daimaru has told its employees to keep a humble attitude to serve customers. At Matsuzakaya, the spirit of “Abjure all evil and practice all good” has been valued. They can be modernized as “Customer-first principle” and “Contribution to society.” Thinking of stakeholders thoroughly and acting accordingly will lead to business growth. We believe “Creating Shared Value (CSV)” to solve social issues through business activities is nothing less than practicing the Group’s corporate credo simply and honestly.



“Customer-first principle” “Contribution to society”  
in modern language



Consistent with CSV incorporating ESG issues



# History of Crisis and Innovation

## ► The Rebellion of Oshio Heihachiro

The “Rebellion of Oshio Heihachiro” broke out in 1837 and the warehouses of almost all wealthy merchants were burnt down. Oshio told his followers not to attack Daimaru because they are a philanthropic merchant and Daimaru escaped burning.

## ► Financial crisis at the end of Meiji period

Daimaru’s business performance gradually worsened affected by disorder at the end of the Edo period, the Meiji Restoration and economic crisis.

In 1907, Daimaru sold assets and cleared huge debts. They overcame financial crisis by innovating and modernizing the organization and operations.

## ► Conversion to department store operators

Matsuzakaya and Daimaru established stock companies in 1910 and 1920, respectively.

They displayed products including clothing, accessories and cosmetics instead of bringing products from a stockroom at customer’s request, which is a traditional way of selling called *zauri* that dates back to the Edo period.



Japanese traditional puppet show *bunraku* “Osaka Hanjoki,” featuring the story of the Oshio Rebellion



Shifted from *zauri* to display to become a department store (Matsuzakaya Ueno store)

Continuing to “respond to changes”  
by basing management activities on the Mission Statement

# Facing a Great “Turning Point”

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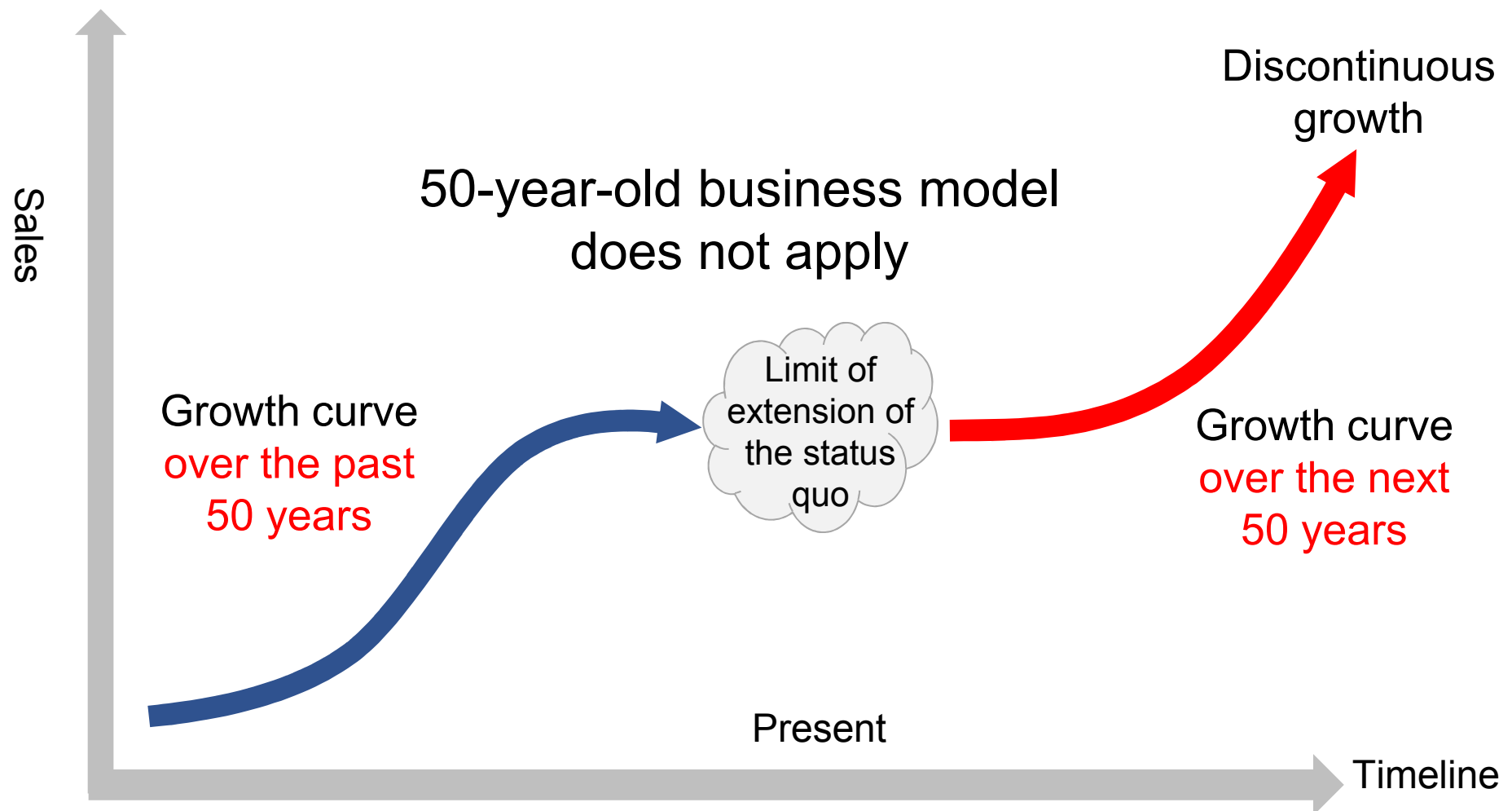


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Depopulation, aging,  
globalization, etc.



Evolution of digital  
technology





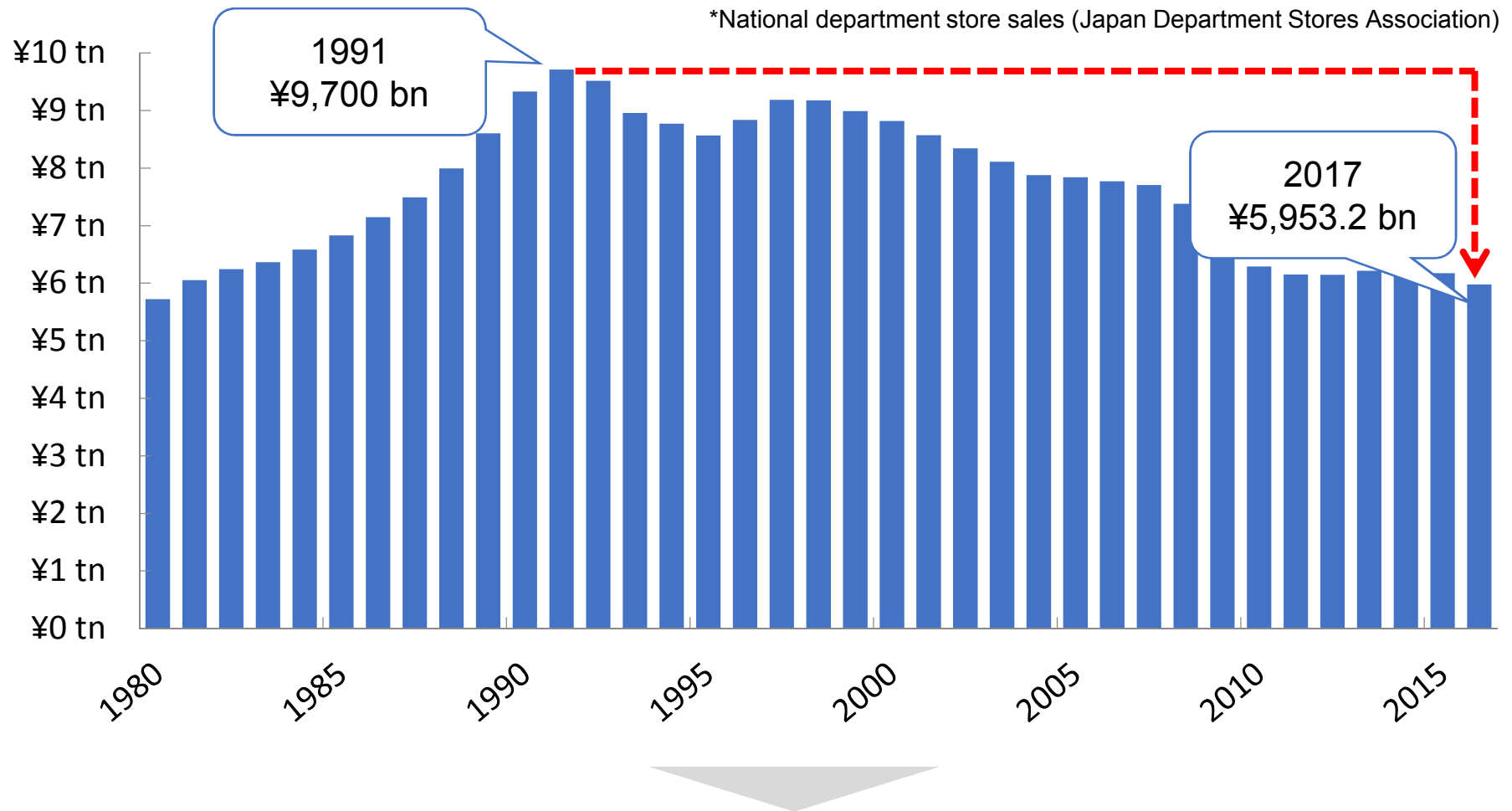
## Realization of governance reform



Deepening “constructive dialogue”  
to enhance corporate value  
over the medium to long term

# Environment Surrounding the Department Store Sector

► Last year national department store sales decreased to 60% of their peak in 1991



Conventional business model hit the wall



# Points to Address Sustainability

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- 1 . Building strong governance system to implement the Mission Statement and realize the Vision
- 2 . Picking out materiality issues based on the changes of the times and formulating a specific action plan with clear goals
- 3 . Dialogue with capital markets through active information disclosure



# Reform of the Board of Directors

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Reform based on third-party organization's evaluation of the effectiveness of the Board of Directors

Focused on strategic agenda and activated discussions


Matters to be reported  
【Reduced】

- Clarified the criteria for submitting agenda items (Reviewed qualitative/quantitative criteria)
- Transferred/shrank the matters to be executed by individual operating companies

Strategy-related agenda  
【Strengthened】

- Increased “discussions on the direction of management and strategies” including the Vision, the Medium-term Business Plans, finance strategy, M&A and corporate governance

Discussion time at the Board meetings increased

from 20%  to 60%

## Expanded Opportunities to Use Insights of Outside Directors



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With various efforts  
discussion time at the Board  
meetings increased



Governance agenda that  
requires in-depth discussion  
need to be discussed  
separately



Created the "Governance Committee"

Discussing governance issues freely and vigorously



Outside Director

President

Chairperson



Appointment/dismissal by the "Nomination Committee" through internal assessment + third-party assessment to secure objectivity

<People to be assessed>

Directors / Executive Officers including top management of JFR / major operating companies



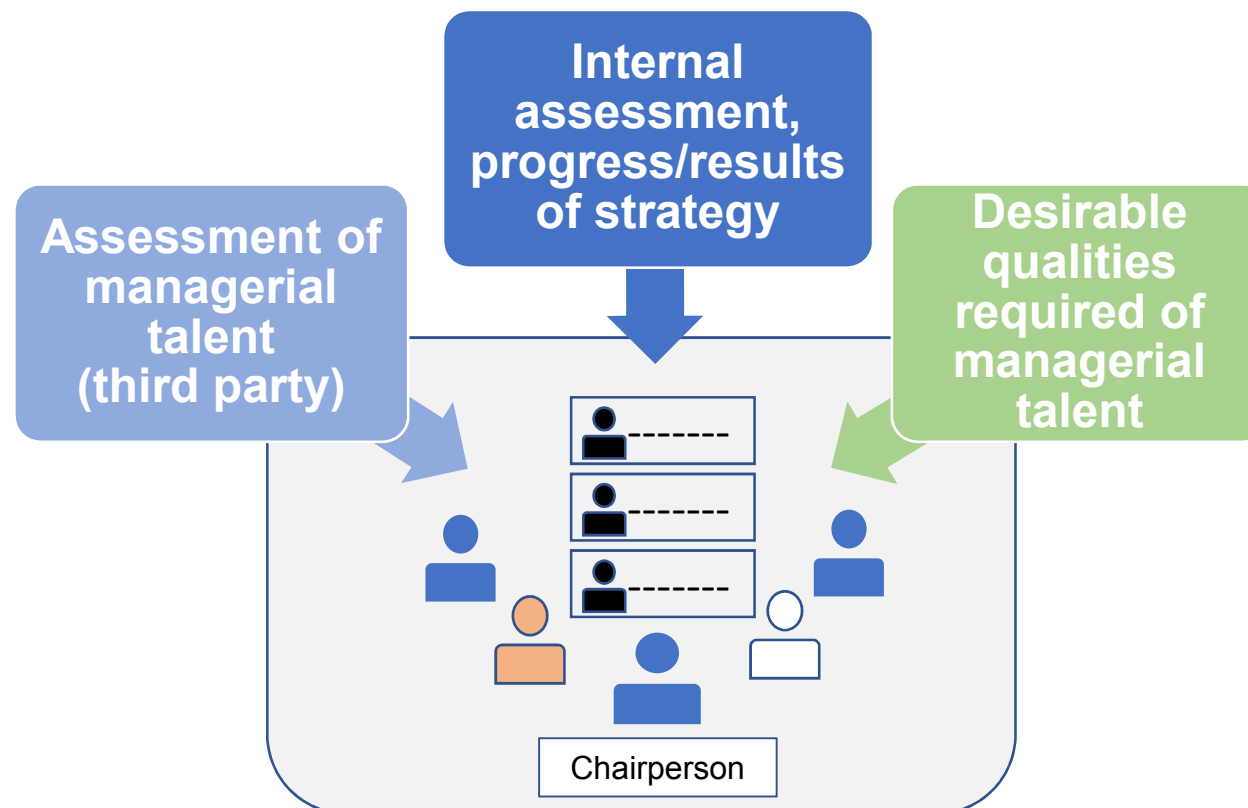
Not only the process of appointment but also judgment about appointment/dismissal is delegated to the Committee

# Strengthening of Managerial Talent and Succession Plan J. FRONT RETAILING

Succession plan for President is  
the most important “strategic decision-making”

Emergency plan assuming unforeseen circumstances  
+

Succession plan looking ahead five and ten years



# Review of Officer Remuneration System

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## <Basic policy on officer remuneration>

### Remuneration composition

Basic : Bonus : P S  
1 : 0.6 : 0.6

### Incentive

Short term: bonus  
Mid to long term: Stock

### Shareholding

Continuous  
shareholding  
for 3 years

\*Incentives are not provided to Non-executive Directors (Inside/Outside).

## 【Introduction of stock-based remuneration system】

Executive Officers of the Company  
and major operating companies

System linked to  
consolidated  
performance  
achievement rate

Non-executive Directors

Predetermined  
number of shares are  
issued

Steadily implementing and promoting the Medium-term Plan  
by sharing interests with shareholders



# Performance Share

## 〔Details of performance share〕

The Company's shares are issued linked to the consolidated performance achievement rate, etc. provided in the Medium-term Business Plan for the Group's sustainable growth and the medium- to long-term growth of corporate value.

Key Performance Indicator (KPI)			Short term	Mid to long term	Mid to long term PS	Method of use
Profitability	(1)	Consolidated operating profit	○	○	¥5.6 bn	Evaluation based on the achievement rate of targets (absolute value) Evaluations are weighted as 50% for each indicator
	(2)	Basic earnings per share	○	○	¥141.47	
	(3)	FCF	—	○	Actual value > 0	If targets are not achieved, the amount of stock-based remuneration is reduced by 50% (reduced by 25% if one target is not achieved)
Efficiency	(4)	ROE	—	○	8% or more	

Note: Short-term targets are the initial forecasts for the relevant fiscal year as announced in the Consolidated Financial Results each April (IFRS basis).

## Realization of governance reform

Strengthening the oversight function of management

Improving transparency/objectivity of management



Reducing investor risk

Reducing capital cost



Promoting dialogue with investors  
from a medium- to long-term perspective

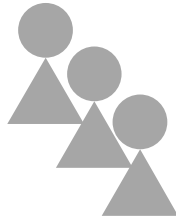
# Actual Dialogues in FY2017

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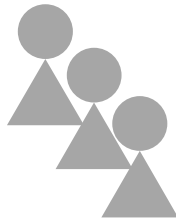


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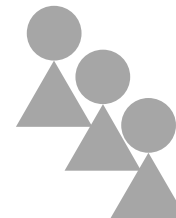
**Presentations /  
small meetings**



Interviews with  
investors based in  
**Japan**



Interviews with  
investors based  
**overseas**



**About 300**  
during the year

\*Top management had  
about 100 in-person dialogues



**Dialogue opportunities involving ESG issues increased**



# ESG Investment Trend Is Accelerating

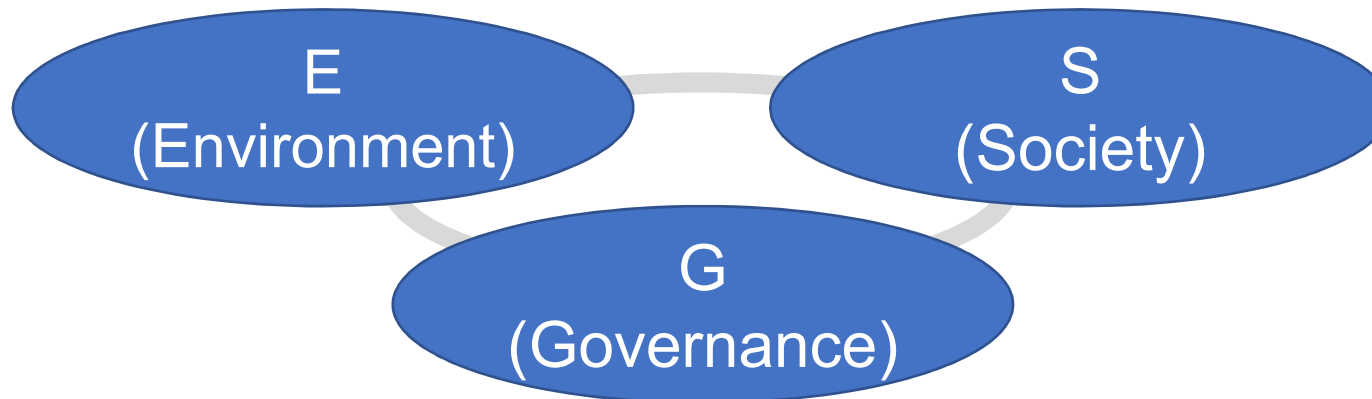
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- ▶ More than 2,000 institutional investors signed the UN Principles for Responsible Investment (PRI) with total assets of \$80 tn under management
- ▶ The world's largest pension fund GPIF signed the PRI in 2015, adopts three ESG indices since 2017, and adopts environmental carbon efficient indices since 2018
- ▶ Divestment trends are spreading worldwide

Medium- to long-term risk that seems to affect the sustainability and viability of companies



Company's risk "management capabilities" are called into question

"Dialogue" through active information disclosure is essential



**With People, with Local Communities,  
with Environment**

to Realize New Happiness in Sustainable Society and Life



Made it clear that we will create value for stakeholders and  
contribute to creating a sustainable society  
by resolving social issues through business activities

# Identification of Materiality Issues

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## <Standpoints for selecting materiality issues>

- 1) The issues we can tackle using our core businesses
- 2) The environmental/social issues that are meaningful for us to address, from which we can produce results




Picked out 25 candidate issues



Conducted a questionnaire survey of 4,250 stakeholders



Referred to major guidelines including the GRI Standards, ISO 26000 and SDGs



Developed a materiality map after discussions at the Management Meetings, etc. within the Company



Formally determined materiality priorities at the Board meeting

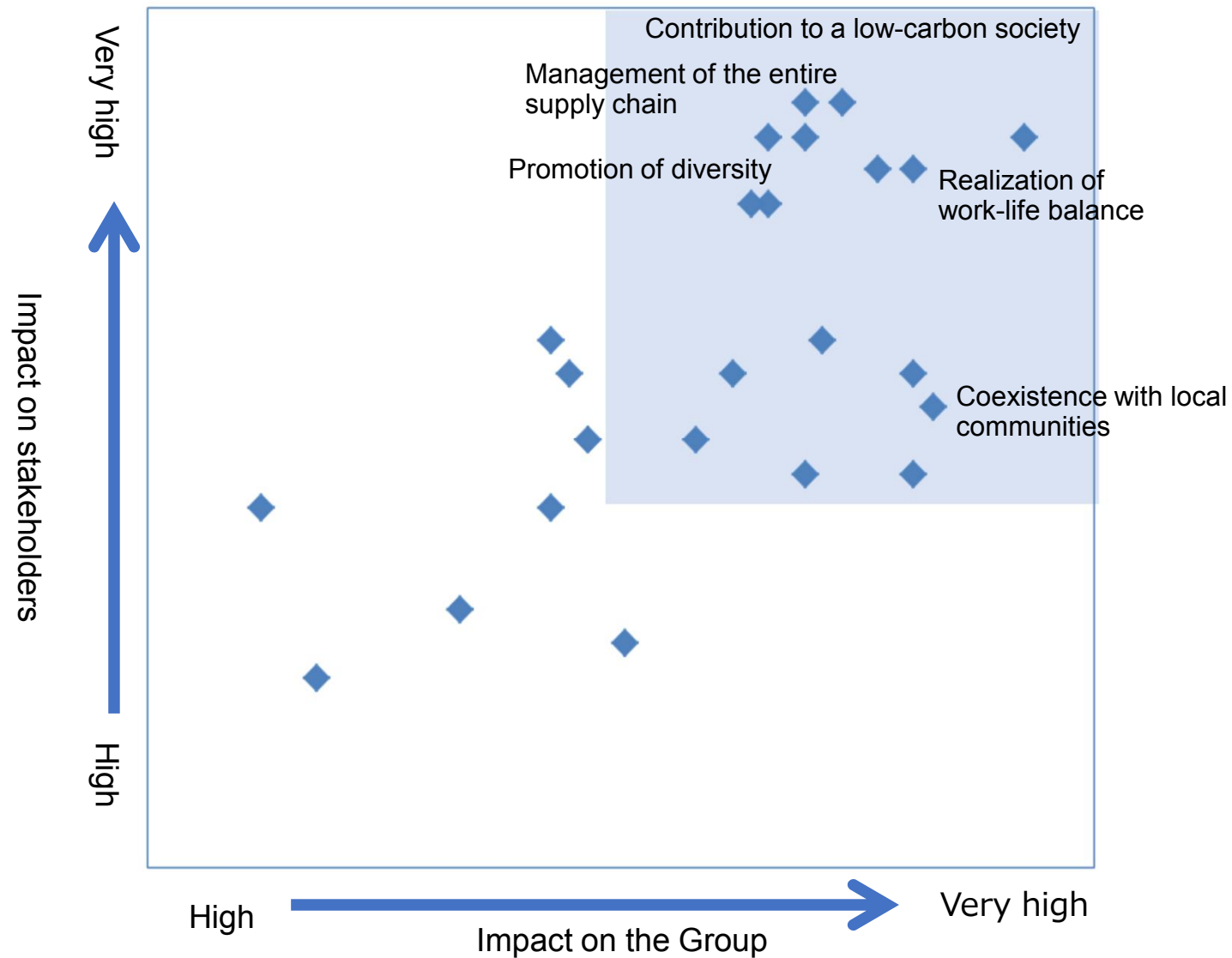
# Materiality Map

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<J. Front Retailing Materiality Map>



# 5 Materiality Issues and SDGs

<5 priority materiality issues to be addressed by the Group>



## SDGs (Sustainable Development Goals)

Global goals for the period from 2016 to 2030, which are included in the "2030 Agenda for Sustainable Development" adopted at the United Nations summit in September 2015. They contain 17 goals with 169 targets including "climate action," "good health and well-being," "gender equality" and "decent work and economic growth" and pledge to leave no one behind.



Environment

# Contribution to a Low-carbon Society

- Increasing global awareness of climate change
- Action on global warming cannot be overlooked as a member of society

Contribution to a low-carbon society is an urgent and the greatest issue and we will address it as a matter of top priority



**Developing a business model to resolve environmental issues and achieve sustainable corporate growth at the same time**





# Contribution to a Low-carbon Society

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## Target for 2050

Reducing CO2 emissions to achieve  
**zero** CO2 emissions in **2050** (scopes 1 and 2)

Reducing CO2 emissions by **40%** in **2030**  
(scopes 1 and 2)

\*Comparison to FY2017



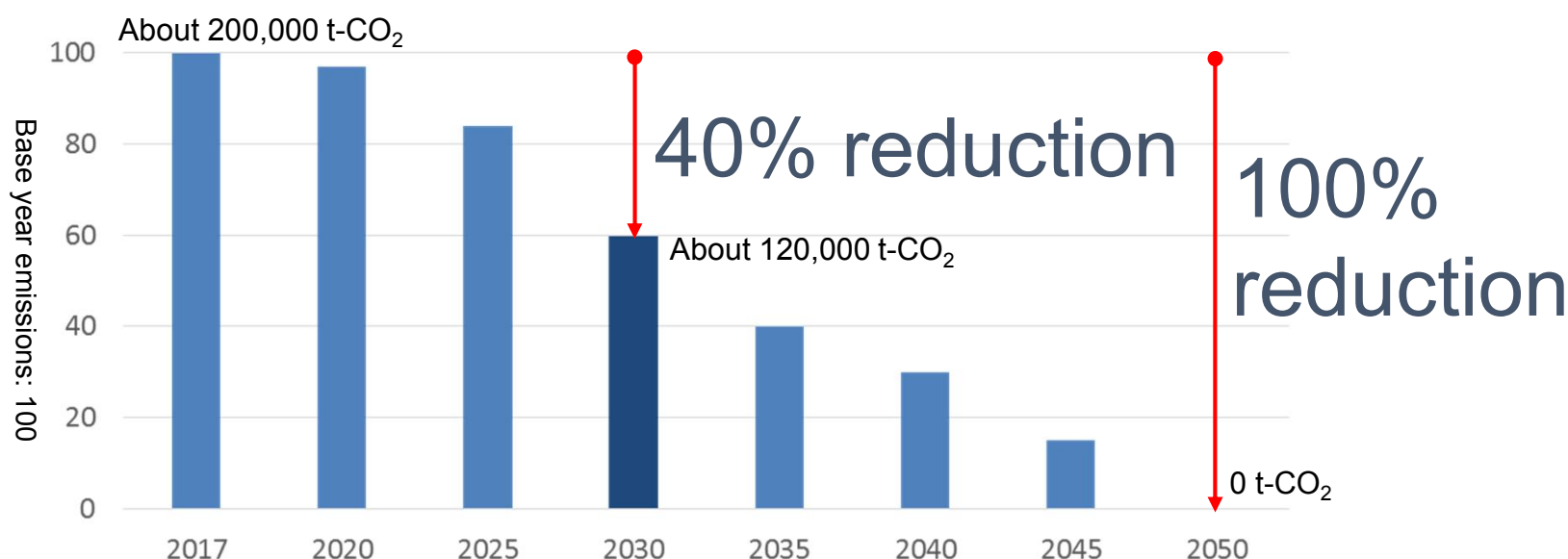
# Contribution to a Low-carbon Society

## Scopes 1 and 2 the Group emissions reduction target (comparison to FY2017)

**FY2030 40% reduction**

**FY2050**  
**Zero emissions (100% reduction)**

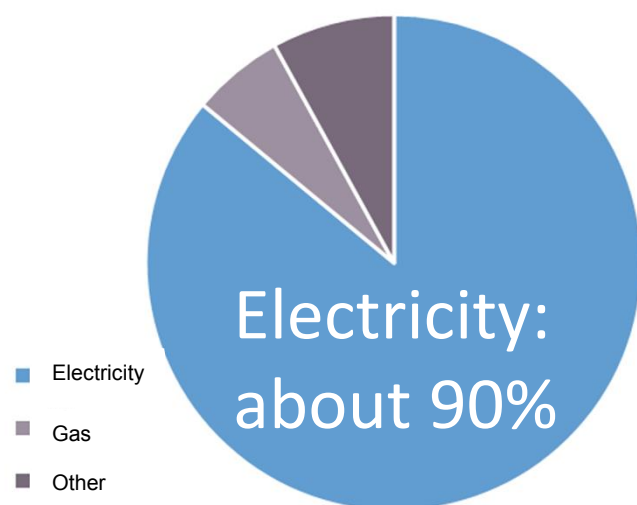
- Scope 3 emissions reduction target will be considered during the current fiscal year.
- We will apply for Science Based Targets (SBT) certification during the current fiscal year.



\*SBT:

Developed by Science Based Targets initiative (a joint initiative by WWF, CDP, the UN Global Compact and WRI). GHG emissions reduction targets consistent with the level of decarbonization required by science to limit global warming to less than 2°C

## The status quo of J. Front Retailing and relation to climate change



- The Group's GHG gas emissions are about 13% of department store sector\*
- The Group's businesses have a great impact on the emissions of supply chains through procurement, logistics, etc.
- **Action on climate change directly leads to business risk reduction and cost reduction in the future.**

<The Group breakdown of GHG gas emission sources>

**Emissions in 2017: about 200,000t**

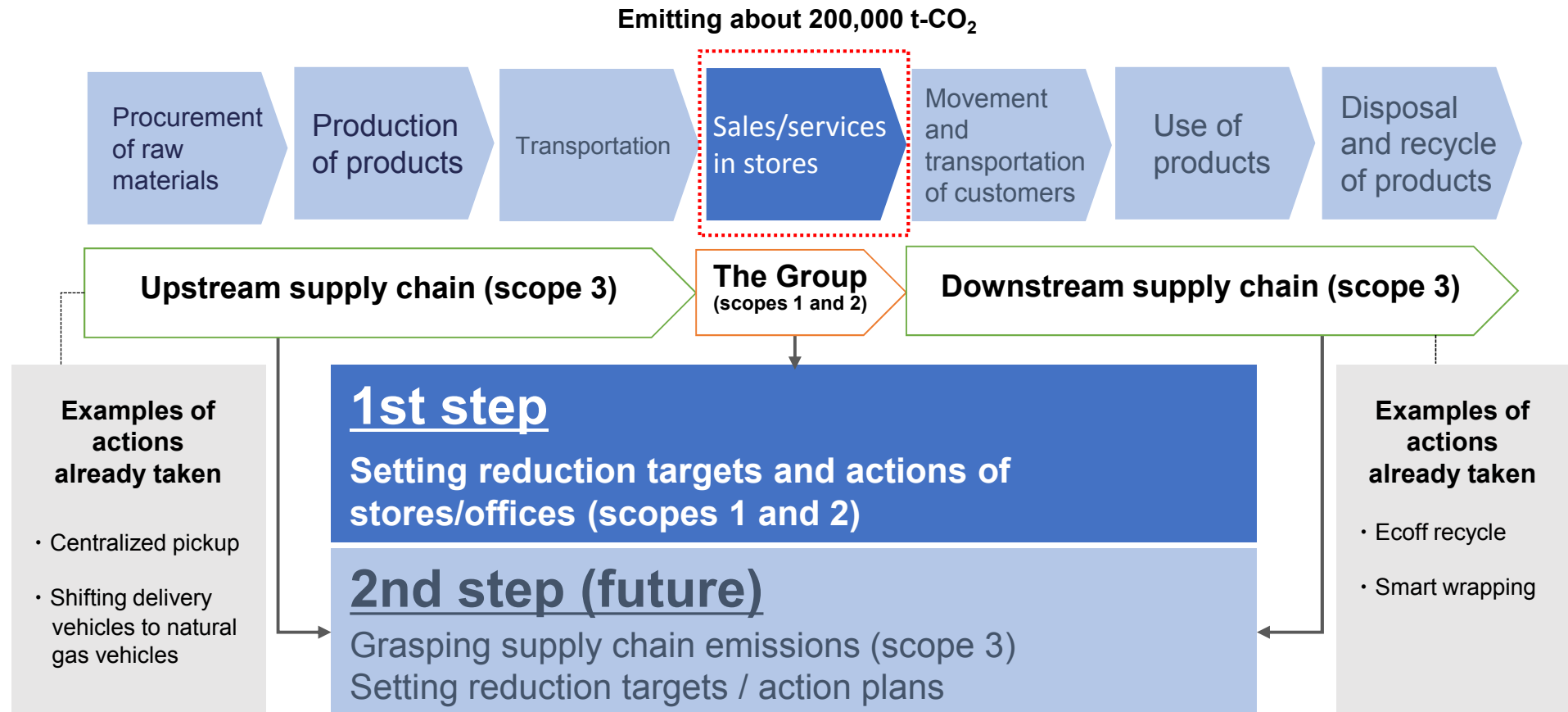
Other: Local cooling and heating (Umeda/Sapporo/Nagoya),  
use of heavy oil (Sapporo) and gasoline (company cars)

**Contribution to a low-carbon society (action on climate change) is  
an important task for the management of the Group**

\*Source: Department store sector action plan for a low-carbon society, 2017, Japan Department Stores Association

# Contribution to a Low-carbon Society

## The Group's supply chain





# Contribution to a Low-carbon Society

**Initiative for “zero CO2 emissions in stores” mainly by introducing renewable energy\*1 to power stores**

The Group breakdown of GHG gas emissions



■ Store    ■ Office    ■ Transportation (the Group)

•Store

Daimaru  
Matsuzakaya  
Department Stores  
Parco, etc.

•Office

Head office  
building  
Offices of  
associated  
companies, etc.

•Transportation (the Group)

Company cars  
*Gaisho* cars, etc.

CO2 emissions in stores account for about 90%  
of scope 1 and 2 emissions

CO2 emissions from electricity use account for  
about 90% of CO2 emissions in stores  
(The remaining about 10% is emissions from gas use)

## Major actions

- (1) Shift to low-carbon electricity and electricity derived from renewable energy
- (2) Continuing thorough energy saving
- (3) Shift to green supplies and paperless operations
- (4) Green Power Certificates and purchase of J-Credits

- **100% renewable energy in major stores**
- **Zero CO2 emissions from stores**

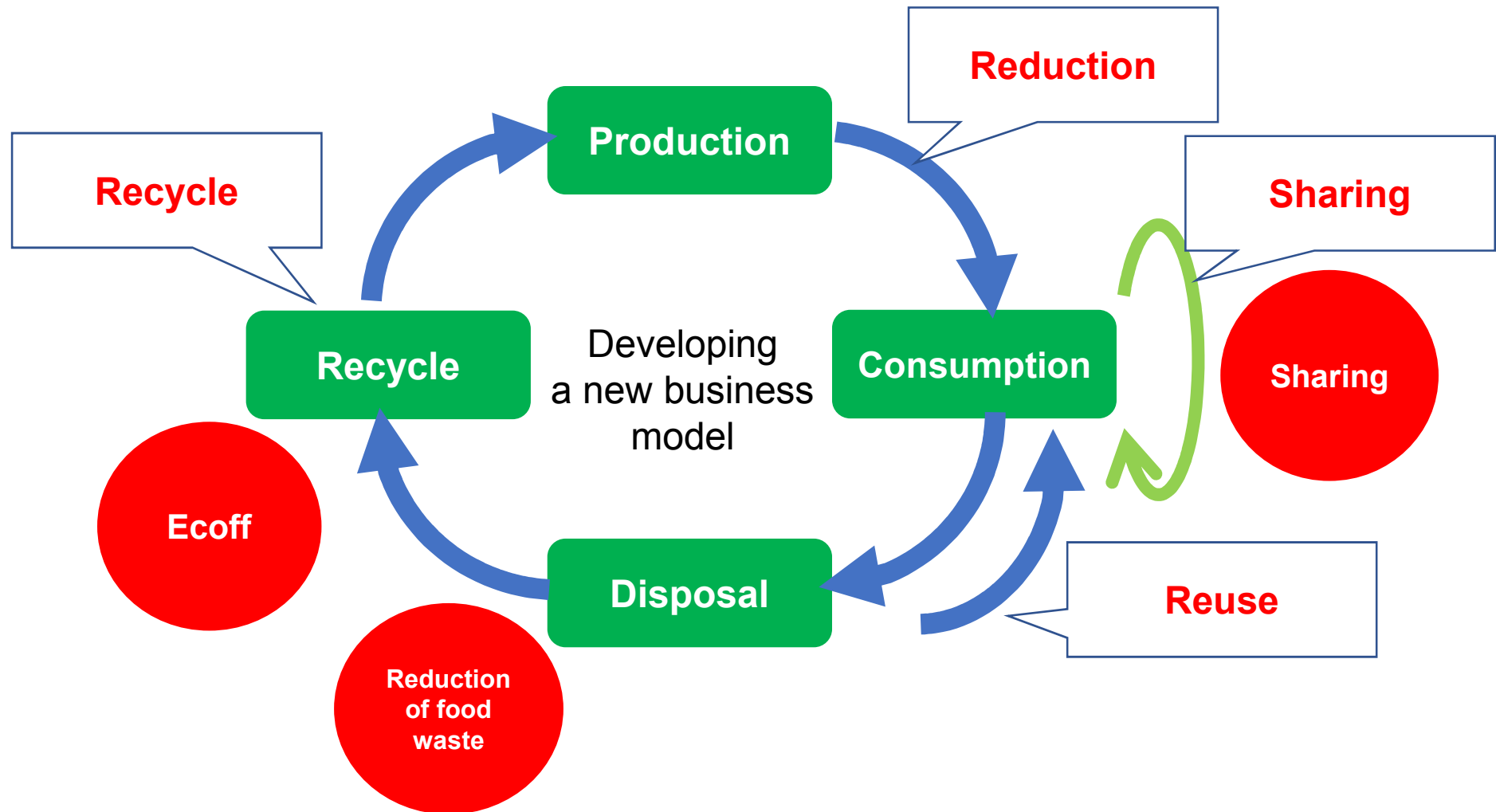
\*1 Energy such as sunlight, sun heat, water power, wind power, biomass and geothermal heat can be renewed in a relatively short time after use and will not be depleted.

# Management of the Entire Supply Chain

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# Management of the Entire Supply Chain

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## **Target for 2050**

We will address the environmental issues and social issues seriously and meet responsibilities to upstream supply chain with suppliers by resolving these issues. At the same time, we will provide safe and secure products to customers and work with customers to realize a recycling society.

## Targets to be achieved in 2030

**Scope 3 CO2 emissions reduction target**  
**2030 40% reduction**

**Target of awareness of supply chain policy**  
**2030 100%**





## Actions

### With suppliers

- Formulating a supply chain policy and making it known
- Finding green suppliers

### Actions to realize an environment-friendly society

- Scope 3 CO2 emissions reduction
- Shift to green supplies, paperless operations and tackling plastic issues

### Actions to realize a recycling society

- Expansion of Ecoff initiative

# Management of the Entire Supply Chain

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This year department store shopping bags were produced using FSC® (Forest Stewardship Council®)-certified paper



# Management of the Entire Supply Chain



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**Daimaru Matsuzakaya  
Department Stores  
Recycling purchase business "Ecoff"**

## ECOFF

ご来店

Customers visit the store



Clothing



Shoes



Bags



Bedding

分別

Segregation

Polyester



Pelletization

Cotton



Recycling as energy

Other materials



Recycling as car interior materials / industrial basic materials

Unreusable items



Recycling as energy

Reusable items



Reuse overseas



**Total number of collected articles:  
1,000,000 pieces**



## **Target for 2050**

Local communities, governments and retailers cooperate in urban development using the assets of the area, which is what we are good at, and at the same time, resolving environmental issues to realize sustainable and advanced urban development



## Actions

### **Promotion of urban development**

- New store planning of new Daimaru Shinsaibashi store and new Shibuya Parco, which will open in 2019
- Development by renovating local historic facilities

### **Expansion of local production for local consumption**

- Expansion of local production for local consumption using our nationwide store network
- Expansion of the lineup of the products unique to Japan

### **Development of reconstruction assistance measures as social responsibility**

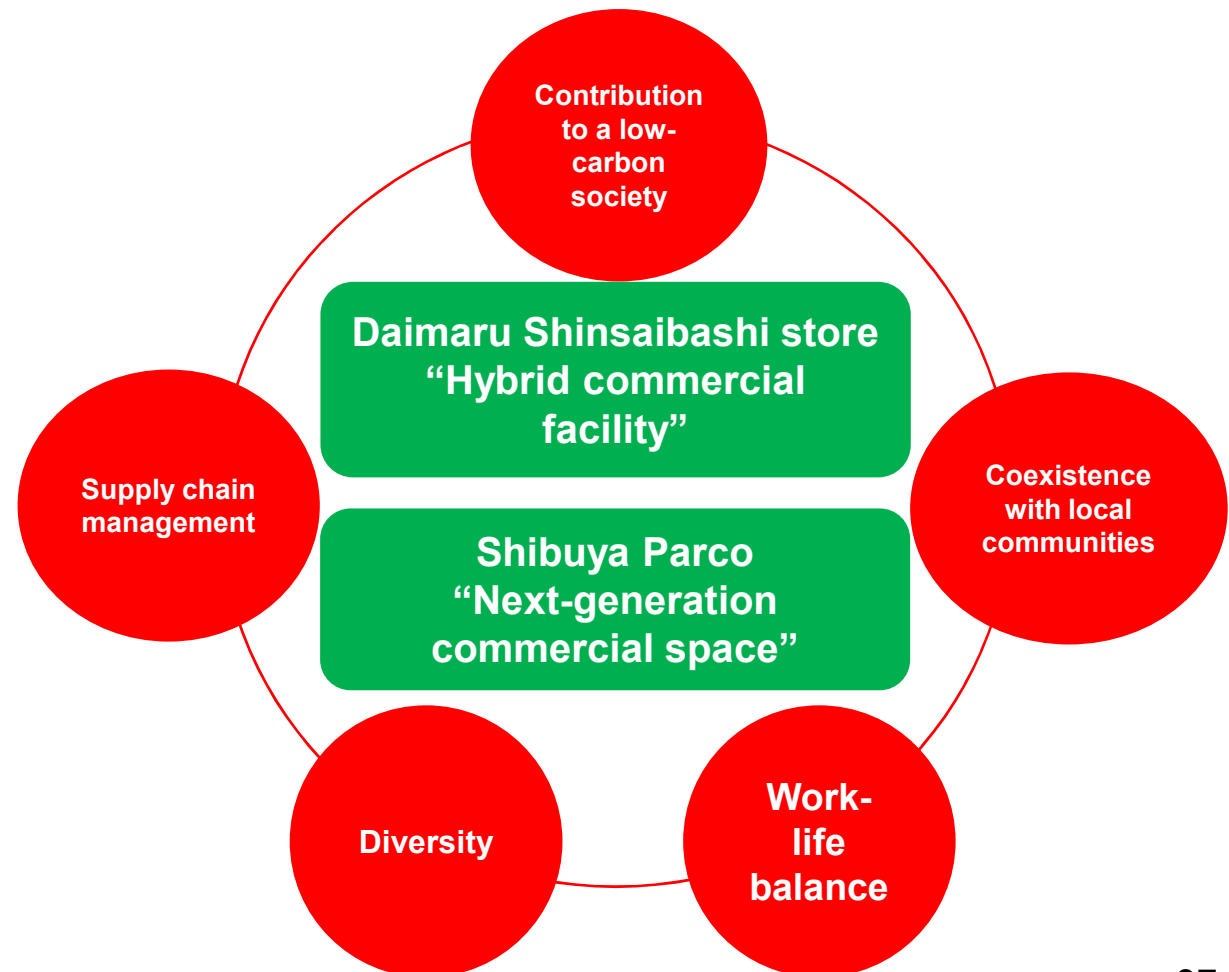
# Coexistence with Local Communities

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We will create “new main building of Daimaru Shinsaibashi store” and “new Shibuya Parco,” which will open in **fall 2019**, by adding materiality initiatives including actions on environmental issues

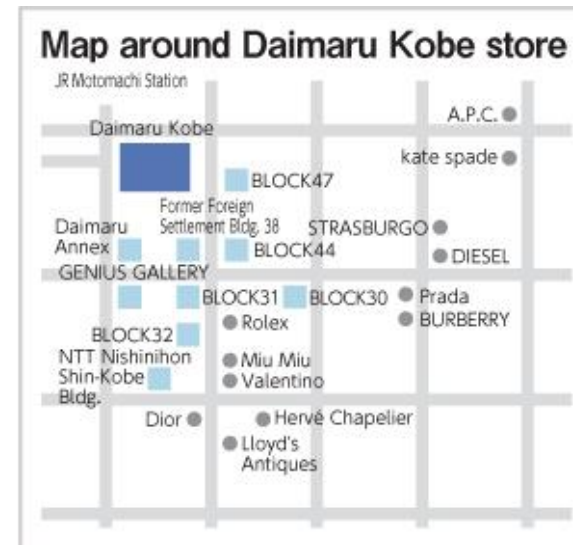




# Coexistence with Local Communities

## Development of historic facilities through renovation

### ■ Shop development around the Daimaru Kobe store

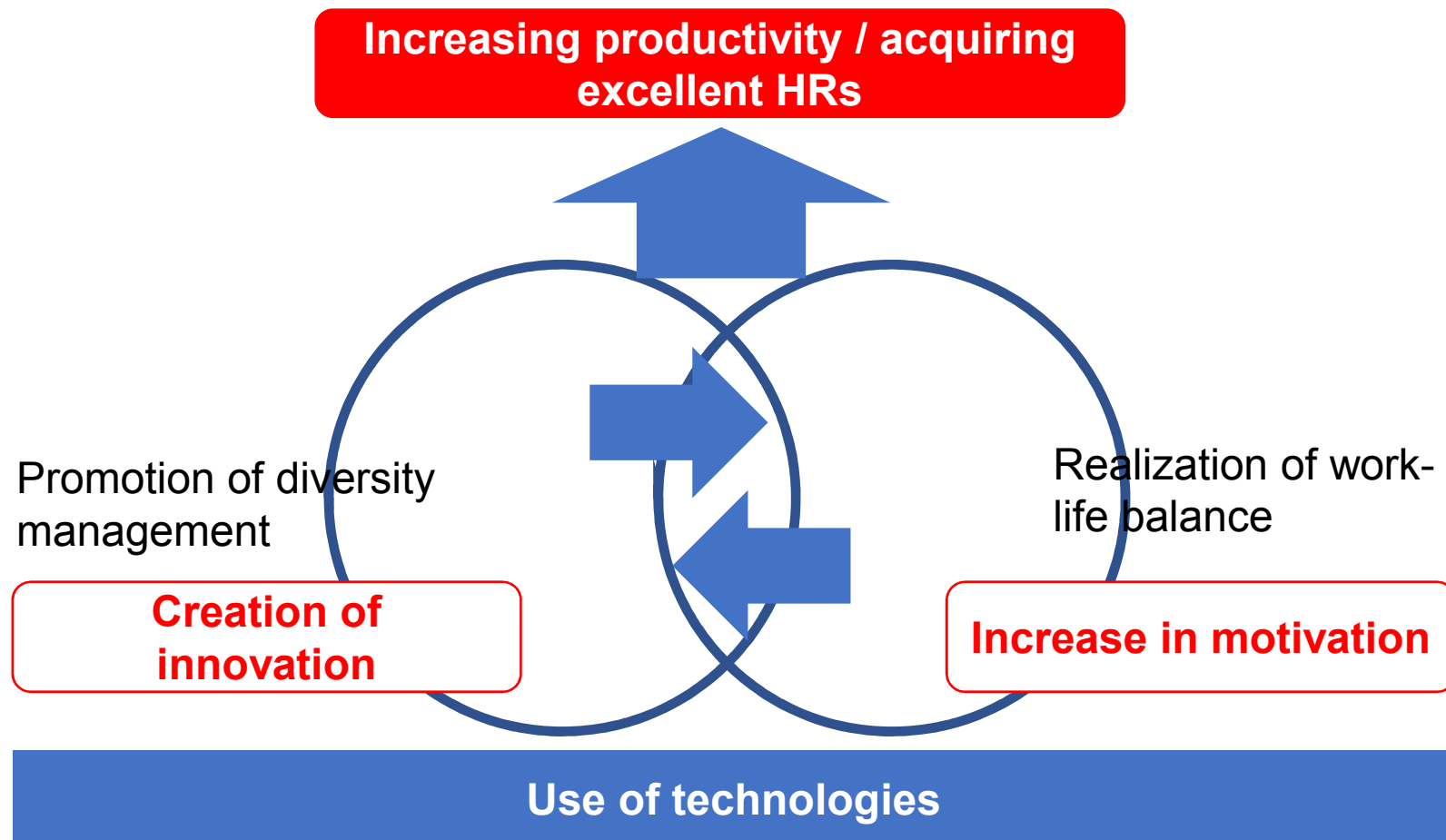


### ■ Kyoto Machiya project



Society







## **Target for 2050**

We will create the environments and systems in which all people working for the Group can show their originality to the fullest and perform well regardless of nationality, religion, gender, LGFT status, age and disability so that they can engage with all customers equally and realize their happiness.



# Promotion of Diversity Management

## Actions

### **Promotion of women's empowerment**

- Shortened working hours system for women coming back from child care and improvement of training and personal development during leave
- Women's school and expansion of Mother Recruitment program for the child-rearing generation

### **Promotion of elderly empowerment**

- Development of job categories / duties for employees aged 60 and older, optional working hours and lifting of the ban on second jobs and side jobs

### **Employment of disabled people**

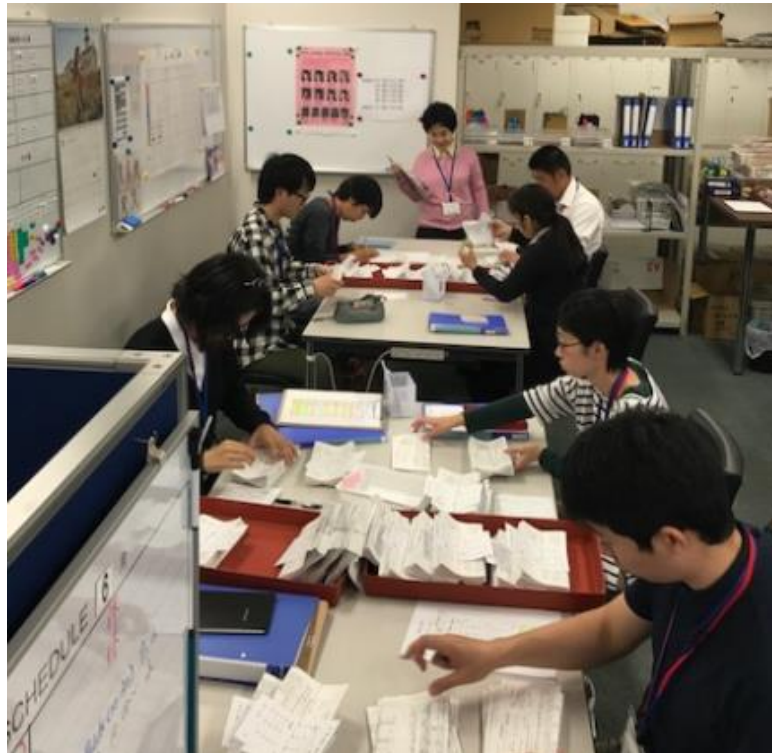
- Improvement of the work environments of operating companies in the Group
- Development of new business by a special subsidiary

# Promotion of Diversity Management

Create and Bring to Life "New Happiness."



JFR Create Co., Ltd. (special subsidiary in J. Front Retailing Group)



## Target to be achieved in 2030

### Proportion of women in management positions

2025 30%

2030 50%, same as the employee composition

### Mandatory retirement age

2030 70 years old

### Employment of disabled people

2030 3.0%



# Realization of Work-Life Balance

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## Target for 2050

Corporate culture and work options will be provided so that individual employees can achieve work-life balance according to their life stages to make themselves and their family happy.



# Realization of Work-Life Balance

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## Actions

### **Expansion of work systems**

- Homeworking, remote working (satellite offices), and minimization of transfer with or without family

### **Use of technologies**

- Streamlining of operations and shift to high-value-added operations using technologies including AI and RPA

### **Expansion of work systems and rules**

- Introduction of paid child care leave, improvement and expansion of nursing care leave, and child care facilities in offices



# Realization of Work-Life Balance

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## Target to be achieved in 2030

**Male employees taking child care leave**  
**2030 100%**

**Turnover due to child/family care**  
**2025 0%**



## Other ESG initiatives

- Creation of the Sustainability Committee
- Intention and preparation to address ESG issues

# Creation of the Sustainability Committee

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2018 ESG Promotion Division was created

**2019 Sustainability Committee will be created**

## ► Sustainability Committee

- Developing a policy and systems required to promote sustainability management
- Setting KGIs/KPIs
- Progress management of operating companies
- Report to the Board of Directors on a regular basis (twice a year)



## Intention and Preparation to Address ESG Issues

- ▶ Signed the "UN Global Compact" (October 17, 2018)
- ▶ Approved to participate in the "Japan Climate Initiative" (September 11, 2018)
- ▶ Approved to participate in the "Women's Empowerment Principles" (October 4, 2018)

**WE SUPPORT**



# ESG Initiatives as Management Strategy

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Changes in values of investors and other stakeholders drive changes in the businesses and consciousness of companies



Tackling ESG issues is crucial for the medium- to long-term growth of corporate value



Initiatives to resolve social issues through business activities by incorporating ESG into management strategy



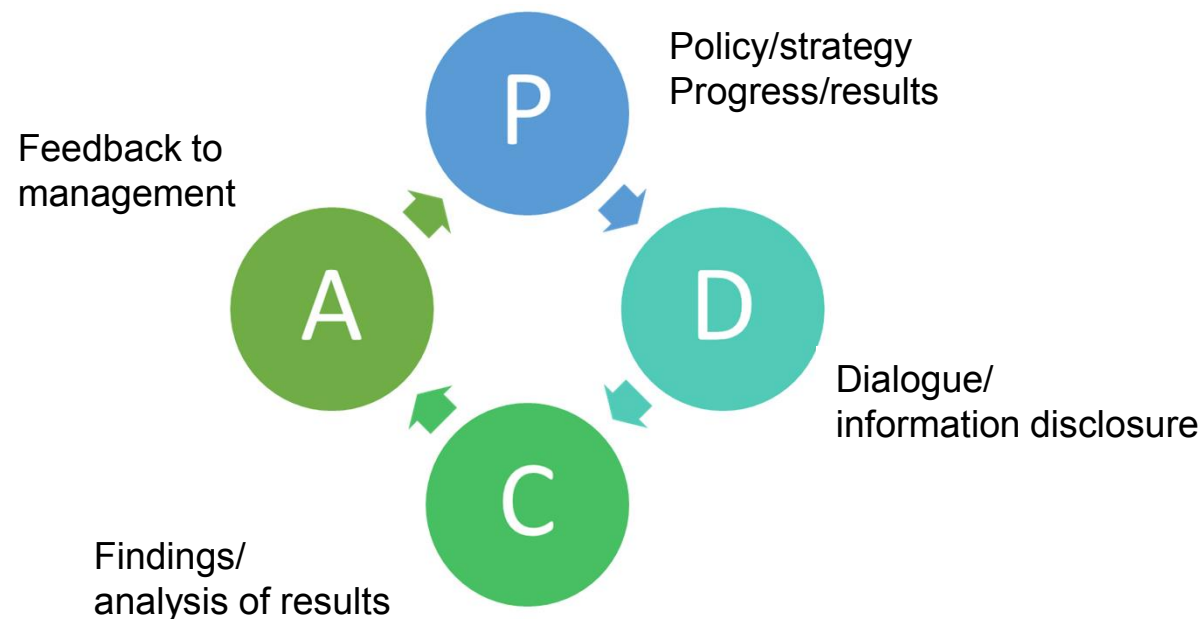
Foundation/responsibility as a “public entity of society”

# Promotion of Dialogue to Enhance Corporate Value J. FRONT RETAILING

Agreed purpose of dialogue between investors and companies is  
to “enhance corporate value”

Deepening dialogue through active information disclosure

Feeding back “what we found”  
by enhancing management sensitivity



Website

<http://www.j-front-retailing.com/english>

Integrated Report

<http://www.j-front-retailing.com/english/ir/library/annual.php>



New employees in FY2017

Forward-looking statements in this document represent our assumptions based on information currently available to us and inherently involve potential risks, uncertainties and other factors. Therefore, actual results may differ materially from the results anticipated herein due to changes in various factors.



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