

J. Front Retailing
Q & A summary at the 2nd ESG presentation
Date and time: 15:00 – 16:40 on Tuesday, November 19, 2019

Q. What do you think after identifying five materiality issues and addressing them for one year? I ask for Mr. Yamamoto's honest review. I would like to know the achievements and problems of each materiality issue.

A. With respect to “contribution to a low-carbon society,” I recognize optimism is not allowed. What we as one company can do may be limited. But the situation will definitely get worse if we do nothing. I have addressed with such thought. I shared my thought with Inside and Outside Directors and gave a clear explanation to store managers and other employees. Maybe unless we did this, we would not have come up with the idea that we would use 100% renewable energy to power the Shinsaibashi store. And I would have thought when planning the store that it would be more economical and profitable to continue to use conventional energy. In order to use EVs as company cars, we should know where charging posts are. Therefore, they are sometimes inconvenient for *gaisho* staff. However, all of us at the Company could share the fact that global warming is increasing even to the extent we should overcome these problems to address it. It was our achievement. I recognize it is a very big challenge to continue our business in the future even if we cannot reduce CO₂ emissions so much. I would like to spread this to each store. On the other hand, it is not good just to increase costs. Therefore, we have to continue to exercise wisdom and devise ways of not decreasing profit.

With respect to “management of the entire supply chain” (Scope 3), I think it is a very difficult challenge. However, unless we address it in a tangible manner, suppliers cannot take action. In October this year, we held a presentation for department store suppliers. I was uncertain that suppliers would listen to us seriously. However, about 600 companies attended it and I actually felt that more and more companies are interested. After the meeting, three or four companies asked some questions, which were right to the point. They said, “Costs will increase but can you really continue to do it? We also recognize that, but in fact, it will cost much.” And I explained, “We will do it even if it costs much. At the same time, we will reduce costs. Otherwise, we will not be able to move forward.” Then suppliers understood and one of them asked, “We are bothered by stock increasing every year. We can neither discount nor dispose of them because we should protect our brand image. What shall we do?” I referred the supplier to a manufacturer that recycles the products collected in our Ecoff activity. I heard they are trying to recycle their products. Suppliers are also worrying. We could know them because we had a presentation for suppliers. And we took one step forward. I think it is also one of the achievements.

“Coexistence with local communities” cannot be easily expressed by numbers. However, growing with local communities is the very strategy of ours and we will continue to focus on it. Concerning the “extension of the retirement age” of “promotion of diversity,” the present 60-year-olds are still young and can work pretty well. I think it is important that they exercise their abilities and have job satisfaction in our companies. And we have decided to extend the retirement age to 65. The labor union has agreed on this.

I recognize we made reasonable progress for one year.

Q. You said earlier, “Various reforms were implemented concerning the Board of Directors but have hit a plateau.” I would like to know what is behind that. As Ms. Fukushima said earlier, I think your Board of Directors has fairly in-depth discussions. On top of that, the Management Advisory Board was added. How do you allocate roles and what impact on the Board do you expect from them?

A. We have evaluated the effectiveness of the Board of Directors every year, four times until now, and at first, there were many formal problems such as the appropriateness of agenda and whether the Board of Directors meetings are long or short. We also found problems such as “lack of prior explanation,” “too many items on agenda” and “irrelevant agenda.” By solving these formal problems, we saw visible improvements.

While continuously solving problems, many new problems were raised. For example, there is a gap in the speed of execution between the execution side and the level expected by outside members. They aim at the same goal but differently look at the process to reach the goal. So I feel they have “hit a plateau.” Outside members give fairly hard words and I provide honest opinions. I think these discussions will lead to successful results.

Q. I would like to ask Ms. Fukushima. From your abundant experience, what do you think about the level of the Board of Directors of J. Front Retailing? Is it high or average in terms of transparency, fairness, liveliness, etc.? Let me know to the extent possible. And I would like to know what kind of human resources who you think will make better the Board of Directors of J. Front Retailing, if any.

A. From my experience in various companies, I think a big difference is in “preparedness of executive members.” As Mr. Yamamoto said earlier, the “gap in the expected level” is fairly big and I do not mince words. As for whether they respond to it really sincerely, I think the Company is at a high level. Outside Directors are all really strict, and particularly in executive sessions where only Outside Directors discuss, a sense of crisis is extremely heightened. Severe opinions are given and some executive members may seethe with rage but curb their anger and try to find some solutions. If such stance is considered as an evaluation scale, the Company’s level is high. However, there are various scales and it is said on the street that scandals happen though they have outside directors or that their performance is not improved though they have outside directors. Therefore, we cannot flatly say what is good.

Currently it is transitioning from “form” to “effectiveness.” Does it really bear fruit? Is it ROE or share price? I think there are various indicators and I cannot compare easily.

Concerning “human resources” in your second question, I think the Company is more open compared to other companies. In this rapidly changing environment, a business model, which cannot be implemented only within the Company to make progress on business reform, is in place. I hear some companies hesitate even to accept people from outside. But the Company actively accepts human resources from outside. I think the future challenge is how they will make effective use of thus accepted human resources.

Q. I would like to ask Mr. Yamamoto. Compliance-related misconduct has recurred for the last one or two years. Does it mean problems from the past have arisen? I would like to know what is behind that.

A. I am extremely sorry about that. A person who took over a long-standing business conducts the business in a customary manner without awareness of problems and sometimes that may conflict with laws. We have educated on compliance based on fairly specific cases. In such a situation, however, misconduct has occurred.

The stance we take in order to prevent such misconduct from recurring is to consider whether the businesses we have conducted in a customary manner will be really necessary in the future and decide to exit the businesses that should be exited. Of course, we will continue to provide compliance training but I think it is also necessary that the top management decides to quit the businesses that may cause such a problem.

Q. I would like to ask Ms. Fukushima. As the Chairperson of the Nomination Committee, how many people do you list as Mr. Yamamoto's successor candidates? We understand Mr. Yamamoto provide strong leadership in various reforms. However, I do not think he will remain in the position of top management over the next 10 to 20 years ahead. So I would like to know at what speed you develop successors.

A. I cannot say specifically, but we have discussed a succession plan for the top management in a systematic manner since before changing our organizational structure. We are examining the plan for multiple layers including the next generation and the generation after the next. In that sense, I have the impression that it is becoming specific. As you may know, however, I cannot say anything until we make an official decision and announcement.

In my personal opinion, from my management experience in human resource business, I recognize "the right person in the right place" is very important. Particularly, in the current era, business models are rapidly changing and I think it is important to appoint the most important person from inside and outside a company in each case. From inside a company, a very young person may be appointed. That is, someone may be appointed from executive officers who are not directors. Some Japanese companies already have presidents promoted "several steps at a time." For example, Shiseido and Takeda Pharmaceutical Company appointed their presidents from outside. In that sense, I think a succession plan to put "the right person in the right place" is the most important.

Q. You said the Nomination Committee is also involved in development and training and what do you focus on?

A. We train managerial talents in multiple layers. The most important is successors to President. The Nomination Committee shares a common view of their performance, behavior, etc.

How we develop the next Board members is also important. I think investors and shareholders are looking at whether we have a pool of people who are to be managerial talents 10 years from now as well as our strategy. I think the key is how wide variety of the Board members and executive members we have.

The "Business Management School" is provided for employees in their 40s to early 50s before becoming the Board members or Executive Officers. I as a school head provide training with a consultant for 10 months. I provide not only classroom lectures but also ask individual participants to present what strategy they would develop if they were the President of JFR. I give advice from various angles and ask them to actually carry out the plan they developed to see their ability to get things done. It is designed so that they can get more strategic ideas. I give up four Saturdays and Sundays a year to attend it. During the program I can see their personality and ability to let their voices be heard as well as their ability to form strategies.

The next layer is for Managers and General Managers. It is called the "Management School," a ten-month training program. In the layer under it, the "Leader School" is provided for Manager candidates. Only selected employees can attend these schools and we invest money in human resources really needed in the future. We can identify useful people when they are young. From them, we appoint store managers and other important posts to train

them through positions. By continuing this, I think we will be able to develop future Board members. (Mr. Yamamoto)

A. The Nomination Committee was told what Mr. Yamamoto said now. These training programs are selective and participants are changed during the programs and we were also told the reason for that. Particularly, the Business Management School provides outside evaluation and inside evaluation and we discuss referring to such evaluation. Other information is also provided to the Committee. As I said earlier, plenty of information is provided. This system went into action very systematically and the PDCA cycle is being followed. I think it is important to continue. (Ms. Fukushima)

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