

[Translation]

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To whom it may concern

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## Notice Regarding Revision of Officer Remuneration Policy

### 1. Purpose of Revision of Officer Remuneration Policy

J. FRONT RETAILING Co., Ltd. (the “Company”) established and published an Officer Remuneration Policy (hereinafter the “Policy”) in April 2017. At this juncture in time, in conjunction with the formulation of a new Medium-term Business Plan, the Company hereby announces that it decided to further revise the details of the Policy.

The Company has also designed officer remuneration to function as an incentive for achieving and promoting sustainability management.

After the 14th Annual Shareholders Meeting, to be held on May 27, 2021, the Company plans to once again deliberate and resolve the Policy’s revision at the Company’s Remuneration Committee and start its application.

### 2. Expanding the Scope of Stock-based Remuneration for Officers

The Company had included in the scope of recipients for stock-based remuneration, the officers of the Company and the officers of the Company’s main subsidiary Daimaru Matsuzakaya Department Stores Co. Ltd. However, as part of this revision of the Policy, the Company has decided to add the officers of PARCO Co., Ltd. to that scope.

As for changes to the aforementioned stock-based remuneration system, etc., the Company plans to once again deliberate and resolve such matters, including details of the system and timing for acquiring additional shares through the trust, at the Board of Directors meeting and the Remuneration Committee meeting scheduled to be held in June 2021 and announce the results.

### 3. Details of the Officer Remuneration Policy

#### (1) Promoting sustainability management

##### (i) Corporate Credo

The Company has established its corporate credo and Group mission statement as its unchanging values and purpose.

The corporate credo, “Service before profit” is a phrase taken 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.

These expressions 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.

#### (ii) Group Mission Statement

We aim at providing high quality products and services that meet the changing times and satisfying customers beyond their expectations.

We aim at developing the Group by contributing to society at large as a fair and reliable corporation.

#### (iii) Group Vision

The Company has adopted the Group Vision:

“Create and Bring to Life ‘New Happiness.’”

Now is the time when lifestyles are changing speedily. To meet these changes quickly, and what is more, to find budding needs are J. Front Retailing’s important missions.

More women’s social advancement. Changing lifestyles due to falling birthrate and aging population. Increasing globalization and digital consumption. Various factors bring you more new ways to enjoy your life as well as triggering concerns and stresses.

Seeing both these “positive and negative” factors, we will evolve into a group that can serve you in all aspects of life.

With regard to “enjoyment,” we will not only “sell goods” but create new events and experiences to excite you.

With regard to “concerns,” we will address areas of “dissatisfaction” such as “busyness,” “uneasiness” and “hassle” and create services to brighten your mood.

Our domain will expand beyond the framework of “retail.”

And there should be creative ideas, or the creation of “new happiness.”

Now is the time for J. Front Retailing to drastically change.

We promise to remain part of people’s lives not only for the next 10 years, but even for the next 100 years, all the while “changing with the times.”

#### (iv) JFR-Way

The JFR-Way is the ideas we value to realize the Vision.

“Create the future!”

We will create things that society and consumers have never before perceived as well as create new amazing and delightful things.

“Try without fear of failure!”

We will take action without fear of failure, and we will all learn from the challenges we have faced.

“Introduce new ideas!”

We will not succumb to an inward-looking approach, but instead will take a broader view developed by coming into contact with people, objects and events in the outside world.

“Act for yourself!”

We will think for ourselves when taking action without waiting to be told, and will enthusiastically accomplish our goals.

“Be sensible and honest!”

We will take action as members of society in a manner commensurate with a sense of social decency, while unwaveringly conducting ourselves with sincerity and honesty at all times.

(v) Commitments to stakeholders

- (Customers) We are committed to providing genuine satisfaction captivating customers by offering new value.
- (Shareholders) We are committed to increasing corporate value over the long term by practicing highly profitable and highly efficient management.
- (Business partners) We are committed to building the relations of trust through mutual endeavors, and to growing together.
- (Employees) We are committed to ensuring rewarding workplace environments where employees' performance and contributions are evaluated fairly and they can demonstrate their abilities, achieve growth, and have job satisfaction.
- (Communities) We are committed to contributing to the development of the communities as well as promoting environmentally friendly business activities as a good corporate citizen.

(vi) Sustainability Policy

In 2018, the Company established its Sustainability Policy:

With People, with Local Communities, with Environment  
To Realize New Happiness in Sustainable Society and Life.

Then, through repeated discussions at the Management Meetings and Board of Directors meetings based on the results of a questionnaire survey of 4,250 stakeholders, we finally identified five materiality issues to be addressed by the Company: "Contribution to a low-carbon society," "Management of the entire supply chain," "Coexistence with local communities," "Promotion of diversity," and "Realization of work-life balance."

In addition, we have now revised the number of materiality issues to seven, adding new issues: "Realization of healthy, secure, and safe lives of customers," and "Promotion of the circular economy."

We formulated the "Eco Vision" and "Social Vision" to clarify our stance and action policies for resolving environmental and social issues, set medium- and long-term targets for each materiality issue, and promote initiatives linked with our business strategy.

We created the Sustainability Committee to promote sustainability management in all companies in the Group in a cross-organizational manner and we formulate action plans for each JFR Group company and manage their progress.

Looking ahead, we will continue to contribute to the realization of "lives of well-being" for all stakeholders by promoting business activities based on the seven materiality issues, working with people, with the local community, and with the environment to realize new happiness in sustainable society and life.

(vii) Management direction looking ahead to 2030

(A) Corporate vision

**"A corporate group producing fulfilling lifestyles and unique urban development in coexistence with local communities"**

Over the long term, trends such as the declining birthrate and aging population, population decline, technology advancement, and maturation of consumption will continue. Moreover, the awareness and behavior of consumers has changed due to the COVID-19 pandemic, creating a new normal. We recognize that the environment for corporations will not return to its pre-COVID-19 state.

It is difficult to foresee the changes in society, economy, and lifestyle after the end of the COVID-19 pandemic. However, such times of great uncertainty provide a good opportunity for the Group to reexamine the values that it considers important and the significance of its existence for consumers

and for the era, and to create a vision for its future.

When we consider our future management direction, the Group's values to date will become even more important. These are "respect for human thought and individuality," "coexistence with local communities," and "continuing our traditional culture and communicating a cutting-edge culture."

The Group has developed business with the commercial field at its core, such the Department Store Business and Shopping Center Business (PARCO Business). Looking forward, we will expand our business portfolio beyond the commercial field into areas such as the Real Estate Business, and provide consumers with cultural and fulfilling lifestyles through the Group's distinctive unique urban development in coexistence with local communities.

## (B) Strategic direction

In realizing our corporate vision for 2030, we consider the following external environmental changes will have a significant impact on the Group: (i) The firm bottom of the urban commercial area amid a shrinking national population, (ii) the fusion of real and digital, in which information received through people and its reliability are reevaluated, and (iii) continued polarization of income and consumption.

Moreover, we recognize that the Group's four strengths are (i) store real estate assets in major Japanese cities such as Tokyo, Nagoya, Osaka, Fukuoka, and Sapporo, (ii) commercial production capabilities developed through store and urban development, (iii) partners such as suppliers and specialist stores with excellent content and original creators, and (iv) a high quality customer base that enjoys active lifestyles.

### (a) Three key strategies

#### **Shift to a developer strategy**

We will take these long-term environmental changes as an opportunity to carry out business structure reforms and create new businesses. We will reconfigure the Group's four strengths and concentrate on the Groups' three key strategies: "developer strategy," "real x digital strategy," and "prime life strategy," to make full use of them across the Group.

Among these, the "developer strategy" is positioned as a growth driver for the Group over the medium to long term, and we will concentrate our allocation of management resources in this area as our top priority strategy.

#### 1) Developer strategy

- Maximize the value of the Group's real estate assets. In complex redevelopment and so forth, adjust the scale of department stores and PARCO and make use of relaxed building volume restrictions. Increase the share of non-commercial applications to increase profitability.
- In the development of large-scale complexes in key areas, we will contribute to lively towns through attractive urban development that respects local individuality in terms of history and the environment, while increasing our share of consumer sentiment.
- We will diversify multiple revenue streams by acquiring and developing new real estate, organizing private subscription investment funds, and engaging in asset management. In addition, we will expand our development area to include suburban areas.

#### 2) Real x digital strategy

- We will convert physical stores into spaces not only for making purchases, but also for encountering attractive products and services, and enjoying high quality customer experiences.
- With use of digital technology inspired by stores, we will transform the business model into one that provides new experience value beyond time and space.
- We will increase the sophistication of customer data analysis and use of digital tools to deepen the relationships between sellers, gaisho, and buyers with customers.

- In addition to sales revenue, we will diversify multiple revenue streams, such as real estate-related revenue and commission revenue through the use of digital technology.
- 3) Prime life strategy
- We will further strengthen our proposals for consumers who value culture and the arts and enjoy fulfilling, sustainable lifestyles.
  - We will enhance our content by utilizing the Group's entertainment and arts, as well as developing new products and service that provide premium experiences through alliances with other companies.
  - We will promote the acquisition of customers beyond department store gaisho, such as new generation affluent class customers in Japan and wealthy classes overseas in Asia, including through alliances with other companies.
  - Using digital technologies to increase the sophistication of our customer management, we will maximize the lifetime value of high quality customers by capturing insight into our diversifying customers to strengthen our proposal capabilities.
  - We will expand our pool of loyal customers by offering new payment methods and developing high added value financial services through customer life planning.

(b) Area strategy bringing together the three key strategies

- In Shinsaibashi district, Osaka and Sakae district, Nagoya, in which our department stores and PARCO are adjacent, we will bring together the three key strategies to promote unique urban development in coexistence with local communities. We will promote efforts to develop new stores and attract non-commercial facilities by engaging in large-scale complex development using our real estate holdings.
- Our area customer strategy will be advanced by utilizing our Group integrated customer database, the "Lifetime Service HUB," across multiple businesses such as new commercial and non-commercial facilities, and by promoting links with JFR Card Co., Ltd. customer services.

(c) Policy on alliances, M&As, and wing expansion

- We will aggressively engage in alliances with other company and business acquisitions to create new businesses and develop our capabilities with a view to expanding the scale and increasing the speed of our three key strategies.

(C) Promotion framework

**Three Strategy Committees**

- The three key strategies shall each have a newly established committee comprising members from across the Group to guide the proposal and execution of plans from an optimal Group perspective.
- We will realize long-term, highly important Group strategies, such as alliances with other companies and business acquisitions.
- We will promote cross-Group utilization of management resources such as the Group's four strengths and accelerate management by maximizing Group synergies.

(D) Approach to long-term profit growth and business portfolio

**Target of consolidated operating profit of ¥80.0 billion, ROE of 10% in fiscal 2030**

- We will aim to achieve consolidated operating profit of ¥80.0 billion and ROE (profit/equity attributable to owners of parent) of 10% in fiscal 2030 through annualized profit growth of over 10% from fiscal 2024 onward.
- We will increase the share of consolidated operating profit of the Developer Business and Payment and Finance Business in the business portfolio in 2030 from 20% in fiscal 2019 to 40%.

- From fiscal 2021, the Group will have four business segments: the Department Store Business, the SC (Shopping Center) Business, the Developer Business, and the Payment and Finance Business.

(viii) FY 2021 to 2023 Medium-term Business Plan of the Group

In the FY 2021 to 2023 Medium-term Business Plan, we aim to achieve “complete recovery” from the COVID-19 pandemic by returning our financial figures to fiscal 2019 levels in the final fiscal year of the plan, while at the same time positioning this period as one for getting back on track for “regrowth” from fiscal 2024 onward. To quickly recover earnings, we will focus on the key strategies of “real x digital strategy,” and “prime life strategy,” and in the “developer strategy,” which is a medium- to long-term growth driver, we will increase our investment allocation in advance. At the same time, we will carry out “management structure reforms” as a key measure towards complete recovery, reducing fixed expenses and interest-bearing debt. Through carrying out the above initiatives, for fiscal 2023, we will aim to achieve operating profit of ¥40.3 billion, reduce interest-bearing debt to ¥260.0 billion and achieve ROE of 7%.

(2) Basic policies for officer remuneration

The Company’s Officer Remuneration System follows the basic approach below, aiming to achieve the objectives of realizing and promoting sustainability management (pay for purpose). Moreover, the JFR Group’s main subsidiary, Daimaru Matsuzakaya Department Stores Co. Ltd. has adopted the same basic policies. Moreover, the JFR Group’s main subsidiaries, Daimaru Matsuzakaya Department Stores Co. Ltd. and PARCO Co., Ltd. have adopted the same basic policies.

- (i) Contribute to the sustainable growth of the JFR Group and increase corporate value over the medium to long term, and be consistent with the corporate culture.
- (ii) Establish a remuneration system that facilitates the achievement of duties (mission) based on management strategies of professional corporate managers.
- (iii) Remuneration levels that can secure and retain personnel who have the desirable managerial talent qualities required by the Company.
- (iv) Increase shared awareness of profits with shareholders and awareness of shareholder-focused management.
- (v) Enhanced transparency and objectivity in the remuneration determining process.

(3) Approach to remuneration levels

To make quick responses to changes in the external environment and the market environment, the Company uses objective remuneration survey data (“Management Remuneration Survey” by Human Resources Governance Leaders Co., Ltd.), and so forth, from external specialist organizations, adopts officer remuneration levels of companies in the same industry (department store, retailer) and companies of a comparable size (selected based on market capitalization and consolidated operating profit) in other industries as a benchmark and compares the remuneration levels of its Executive Officers and Directors with the benchmark annually. In principle, the peer group should comprise 30 to 50 companies (including portions that are supermarkets and drugstores). The same treatment shall apply to the Directors and Executive Officers of Daimaru Matsuzakaya Department Stores and PARCO.

(4) Overview of remuneration composition

Executive Officer

Remuneration for Executive Officers shall comprise (i) basic remuneration (monetary remuneration) in accordance with mission grade, (ii) bonuses (monetary remuneration) based on individual evaluations conducted each business year, and (iii) performance shares (performance-linked stock-based remuneration,

which is trust-type stock based remuneration) linked to the consolidated performance achievement rate, etc. provided in the Medium-term Business Plan as a stock-based remuneration system.

In the Executive Officers' remuneration composition, the ratio of performance-linked remuneration and stock-based remuneration shall be set so as to function as a healthy incentive for sustainable growth.

Specifically, for the Company's President, the ratio of basic remuneration to bonuses to performance-linked stock-based remuneration is set at 10:6:10, to increase the correlation between remuneration and performance considering the importance of the President's duties (roles and responsibilities), while for Executive Officers excluding the President, the ratio for basic remuneration to bonuses to performance-linked stock-based remuneration is 10:6:6.

In the event that an officer is recruited from outside the Group, a remuneration plan different from that described above may be implemented after conducting deliberation at the Remuneration Committee, giving consideration to the role that such an officer would perform and characteristics of the duties expected of that officer.

Daimaru Matsuzakaya Department Stores and PARCO shall adopt the same remuneration composition for their Directors and Executive Officers. Meanwhile, for their performance shares (performance-linked stock-based remuneration), shares of the Company are issued.

Note: The "bonuses" and "performance shares (performance-linked stock-based remuneration)" fall under performance-linked remunerations under the Companies Act and "performance shares (performance-linked stock-based remuneration)" falls under non-monetary remunerations.

Type of remuneration	Payment basis			Payment method	Composition of remuneration		
					CEO	Officers other than CEO	
Basic remuneration (fixed)	Determined separately for each mission grade			Monthly payment in cash	38.5%	45.4%	
Bonuses (variable)	Base amount by mission grade × Rate of change <sup>*1</sup> <small>*1 The rate of change is based on a calculation of scores using the quantitative and qualitative evaluations below.</small>			Annual payment in cash	23.0%	27.3%	
	Details		Evaluation weights				
	Quantitative evaluation <70%>	Fiscal year's financial evaluation	Consolidated operating profit <sup>*2</sup>				70%
	Qualitative evaluation <30%>	Fiscal year's non-financial evaluation	Level of achievement of action plan for achieving fiscal year's financial evaluation Level of achievement of action plan for achieving non-financial targets in line with materiality issues				20% 10%
Performance-linked stockbased remuneration (variable)	[Short-term: 40%] Base amount by mission grade × Performance achievement factor <sup>*3</sup> <small>*3 Calculated based on the following measures of achievement<sup>*4</sup></small>			Annual payment in stocks <sup>*5</sup>	38.5%	27.3%	
	Details		Evaluation weights				
	Consolidated operating profit		100%				
	[Medium to long term: 60%] Base amount by mission grade × Performance achievement factor <sup>*3</sup> <small>*3 Calculated based on the following measures of achievement<sup>*4</sup></small>			At the expiration of the term of each Mediumterm Business Plan in stocks <sup>*5</sup>			
	Details		Evaluation weights				
	Financial indicators <80%>	Consolidated operating profit					40%
ROE		40%					
Non-financial indicators <20%>	Greenhouse gas reductions (Scope 1 & 2 emissions)		10%				
	Goal achievement for ratio of women in management positions		10%				

\*2 In principle, the target figures are based on consolidated financial indicators but if an officer is in charge of a certain business, target figures for that business are used.

\*4 The performance-linked factor for performance-linked stock-based remuneration is calculated by the following

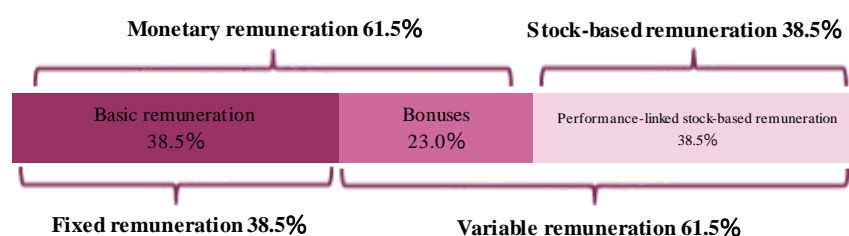
calculation method: The rate of change for ratio of women in management positions is evaluated using fiscal 2020 results as the reference. Actual results = Results - fiscal 2020 results, Target = 26% - fiscal 2020 results

Performance target achievement	Performance-linked factor
200% or more	2
0% or more, but less than 200%	Actual results ÷ Target
Less than 0%	0

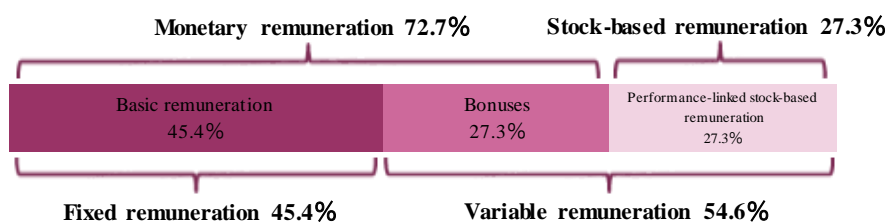
\*5 In principle, the equivalent of 50% of the Company's shares to be issued is converted and paid as cash to provide funds for payment of tax. However, in cases where there are undisclosed material facts in the Company, the Company's shares will not be converted.

### Proportions of remuneration by type for Executive Officers

#### President



#### Executive Officers excluding the President



Note: The above figure represents the case of a bonus for a standard ranking where the performance achievement rate for stock-based remuneration was 100%.

Note: The remuneration composition for Directors and Executive Officers at Daimaru Matsuzakaya Department Stores and PARCO is the same as that shown for "Executive Officers excluding the President" in the figure above.

#### Basic remuneration

Basic remuneration is positioned as a fixed remuneration, and is decided for each mission grade based on the size (weight) of the responsibility borne by each officer. Payments are made every month in the form of money.

#### Bonuses

Bonuses are paid as performance-linked remuneration to facilitate the achievement of goals set for each fiscal year as milestones for the Medium-term Business Plan, and evaluation for the bonuses is carried out using the fiscal year's financial indicators, serving as quantitative evaluation, and the fiscal year's non-financial indicators, which include qualitative evaluation. For the fiscal year's financial indicators, the Company evaluates the level of achievement against target figures set for consolidated financial indicators announced after resolution by the Board of Directors at the start of each fiscal year (where the officer is in charge of a certain businesses, the target figures for that business are used). For the fiscal year's non-financial indicators, the Company evaluates the level of achievement



of the action plan for achieving financial indicators for each fiscal year and the action plan for achieving non-financial targets in accordance with each officer's mission based on the Company's materiality issues.

Taking the weighting of the fiscal year's financial and non-financial indicators as 70:30, one-third of the fiscal year's non-financial indicators (10% of the total weight) is taken as the evaluation of the action plan for achieving the Company's materiality issues.

For the fiscal year's financial indicators, the evaluation is made based on the achievement level of the fiscal year's target, using the forecast figure of the consolidated operating profit announced at the start of the fiscal year (IFRS based). Where the officer is in charge of a certain business, the target figures for operating profit for that business decided by the Company's Board of Directors at the start of the fiscal year are used. The Company selected the indicators referred to above because they are linked to the respective indicators mentioned in the Medium-term Business Plan.

For the fiscal year's non-financial indicators, the President, who is the evaluator, conducts an interview with each Executive Officer (the Chairman of the Board of Directors conducts an interview with the President) at the start of the fiscal year to formulate an action plan based on each Executive Officer's mission.

The Remuneration Committee conducts initial and interim confirmations of the missions and action plans of the President and each Executive Officer for the fiscal year, and in principle, the final bonus payment amounts are decided at a meeting of the Remuneration Committee held in May of the following fiscal year, based on the evaluation results for the fiscal year's financial indicators and non-financial indicators for the previous fiscal year.

In certain cases, bonuses may not be paid by resolution of the Remuneration Committee. Usually, however, the amount of bonuses will be set variably between 0% and 200% depending on evaluation results of the fiscal year's financial indicators and non-financial indicators. If a significant change occurs in the management environment, the Remuneration Committee may add a judgement to the above evaluation results at its own discretion. Payments are made once a year in the form of money.

#### Performance Shares (Performance-Linked Stock-Based Remuneration)

Performance-linked stock-based remuneration is issues of the Company's shares linked to the consolidated performance achievement rate, etc. provided in the Medium-term Business Plan. The shares are designed to help the JFR Group achieve sustainable growth and increase corporate value over the medium to long term. When the shares are issued, in principle the equivalent of 50% of the Company's shares to be issued is converted and paid as cash to provide funds for payment of tax. However, in cases where there are undisclosed material facts in the Company, the Company's shares will not be converted.

Under this system, 60% of the entire amount of performance-linked stock-based remuneration will be issued in a single issuance at the end of the Medium-term Business Plan, with the remaining 40% to be issued each year in order to promote management from the shareholders' perspective.

Of the portion issued at the end of the Medium-term Business Plan, 80% is evaluated by financial indicators and is weighted so that 40% is evaluated based on consolidated operating profit and 40% on ROE, being the numerical targets of the Medium-term Business Plan (IFRS based) announced following a resolution of the Board of Directors. The remaining 20% is evaluated based on non-financial indicators. For non-financial targets, the system bases evaluation on a target of 10% for greenhouse gas reductions (scope 1 & 2 emissions)" and a weighting of 10% for raising the ratio of women in management positions.

Regarding the portion issued each year, the level of achievement with respect to figures announced in the initial forecast (IFRS based) following a resolution of the Board of Directors will be evaluated based only on consolidated operating profit.

The fluctuation range for remuneration in accordance with the performance achievement rate is

between 0% and 200%.

Administration of the trust-type stock-based remuneration system is contracted to a trust bank to ensure independence, objectivity, and fairness.

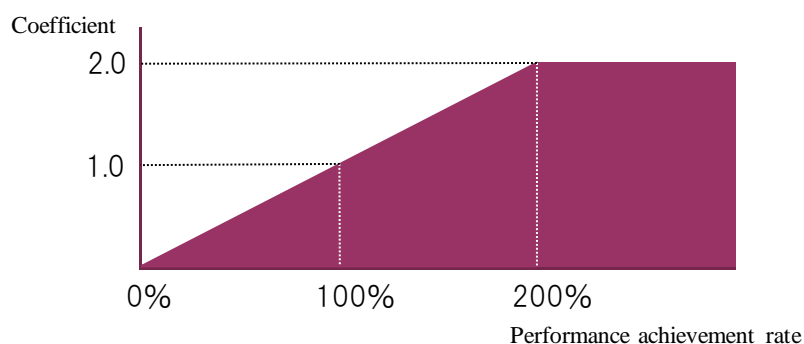
#### Target figures for performance-linked stock-based remuneration

KPI			Target figures for medium to long term
<b>Profitability</b>	(i)	Consolidated operating profit	¥40,300 million (fiscal 2023)
<b>Efficiency</b>	(ii)	ROE	7% (at the end of fiscal 2023)
<b>Non-financial</b>	(iii)	Greenhouse gas reductions (Scope 1 & 2 emissions)	-40% (compared with fiscal 2017)
	(iv)	Raise the ratio of women in management positions	26% (at the end of fiscal 2023)

Note: KPI stands for Key Performance Indicator.

Note: For the short term, only (i) consolidated operating profit is used. The target figure used is the forecast figure (IFRS based) for the fiscal year announced in the Company's financial reports each year in April.

#### Conceptual drawing of performance-linked coefficient fluctuation



Note: If the performance achievement rate is 0, the performance-linked coefficient is 0 (0%). If the performance achievement rate is 200% or higher, the performance-linked coefficient is 2.0 (200%).

#### Directors

Non-executive Directors' remuneration shall consist only of fixed remuneration, which shall be (i) basic remuneration (monetary remuneration) in accordance with responsibilities and (ii) restricted stock (non-performance-linked stock-based remuneration, which is trust-type stock-based remuneration), which is not linked to performance, as part of the stock-based remuneration system.

Type of remuneration	Payment basis	Payment method
Basic remuneration (fixed)	Determined separately for each rank (position)	Monthly payment in cash
Non-performance-linked stock-based remuneration (fixed)	Determined separately for each rank (position)	Retirement shares

Note: Non-executive Directors refer to Outside Directors as well as Audit Committee Members and other internal Non-executive Directors.

Note: "Restricted stock (non-performance-linked stock-based remuneration)" falls under non-monetary remunerations under the Companies Act.

## Basic remuneration

Basic remuneration is positioned as fixed remuneration and is decided based on a table according to the size (weight) of each officer's responsibility. Payments are made every month in the form of money.

## Restricted stock (non-performance-linked stock-based remuneration)

Non-performance-linked stock-based remuneration is a system for issuing the Company's shares in a way that it not linked to performance, with the objective of involving Non-executive Directors in management with a medium- to long-term view in order that they should strengthen proactive and defensive governance of the Company from a different standpoint to the executives as representatives of stakeholders. The shares are issued upon their retirement from office. When the shares are issued, in principle the equivalent of 50% of the Company's shares to be issued is converted and paid as cash to provide funds for payment of tax. However, in cases where there are undisclosed material facts in the Company, the Company's shares will not be converted. The Company will disclose the number of shares held as the number of dilutive potential shares until the shares are issued.

Administration of the trust-type stock-based remuneration system is contracted to a trust bank to ensure independence, objectivity, and fairness.

## (5) Remuneration governance

### (i) Remuneration determining process

To ensure the appropriateness of the level and amount of remuneration, and the transparency of decision-making processes, decisions are made by deliberation and resolution of a Remuneration Committee comprising <sup>\*1</sup> independent Outside Directors and a non-executive Chairman of the Board of Directors, and headed by an independent Outside Director. Since the members of the Company's Remuneration Committee and its Nomination Committee are the same, they can coordinate together in activities related to the areas of nomination and remuneration of management, including selection and evaluations, etc.

The Remuneration Committee decides on the policy for determining remuneration details for the individual officers (Directors and Executive Officers) of the Company, Daimaru Matsuzakaya Department Stores, and PARCO, and on the remuneration details for individual Directors and Executive Officers of the Company. Furthermore, the Committee also deliberates and determines internal regulations and other rules for remuneration of the Company's Directors and Executive Officers. The remuneration details for individual officers of Daimaru Matsuzakaya Department Stores and PARCO are deliberated by the nomination and remuneration committees (whose members include independent Outside Directors of the Company), which are established at the discretion of each company, and are decided by each company's Board of Directors, after being resolved by each company's Annual Shareholders Meeting if such approval is required.

Remuneration Committee meetings are to be held at least four times per year, and the review of the officer remuneration system will be conducted in accordance with each Medium-term Business Plan period. During the Medium-term Business Plan period, the level of basic remuneration will be reviewed if a drastic review becomes necessary due to dramatic changes in the external environment and so forth.

In addition, the Company appoints an external remuneration consultant (Human Resources Governance Leaders Co., Ltd.) with a view to introducing objective viewpoints from outside the Company and expertise on officer remuneration systems. With its support, the Company reviews its remuneration levels and remuneration system in light of external data, economic environment, industry trends, business conditions, and corporate culture, among others.

The Company's evaluation of the Board of Directors by a third-party organization includes an annual confirmation of the effectiveness of the Remuneration Committee's effectiveness, which is used to further increase the effectiveness of the Board of Directors.

#### Main agenda items of Remuneration Committee

- Discuss whether or not the Officer Remuneration Policy requires revision
- Decide on the level of officer remuneration for each individual (base amount by mission grade)
- Decide on performance targets and evaluation table for bonuses
- Decide on performance evaluation and individual payment amounts for bonuses for the previous fiscal year
- Report on performance evaluation and individual payment amounts for stock-based remuneration for the previous fiscal year
- Examine officer remuneration level, composition, KPIs and other aspects using external data, etc.
- Determine whether it is necessary to take measures regarding officer remuneration following significant changes to the management environment, etc.<sup>\*2</sup>

\*1 Conventionally, the President and Representative Executive Officer was included as a Remuneration Committee member. However, starting from the Remuneration Committee meeting following the Company's Annual Shareholders Meeting planned for May 2021, the Company plans to change to a structure comprising only non-executive Directors.

\*2 In fiscal 2020, the committee discussed reducing the amounts of basic remuneration and bonuses in the wake of the COVID-19 pandemic.

#### (ii) Forfeiture of remuneration (clawback and malus)

Regarding Executive Officers' bonuses and stock-based remuneration, the right to payment of bonuses and granting of stock-based remuneration may be forfeit or the Company may request the return of remuneration that has already been paid or granted in cases such as where the Board of Directors has resolved that the financial results are to be amended afterwards due to a serious accounting misstatement or fraud, or where there has been a serious infringement of the appointment contract, etc., between the Company and an officer, or when an officer has retired for their own reasons during their term of office against the will of the Company.

Furthermore, if a significant change occurs in the management environment, and so forth, the Remuneration Committee may deliberate reducing the amount of officer remuneration in cases where it receives a submission from Executive Officers and Directors volunteering to reduce their remuneration.

#### (iii) Policy for the acquisition and holding of shares

Any shares of the Company acquired by Executive Officers as stock-based remuneration shall continue to be held by respective Executive Officers at least for three years from the grant date of the shares (or at least for one year after they retire from the office of Executive Officer). The purpose of this requirement is to deepen the common interest of shareholders and officers. In particular, the purpose of granting shares of the Company to Executive Officers who are responsible for business execution as remuneration in the form of performance-linked stock-based remuneration is to provide additional incentive to them to work for the improvement of the financial performance and corporate value of the Company from the medium- to long-term perspective.

Directors and Executive Officers of Daimaru Matsuzakaya Department Stores and PARCO shall adopt the same policy for their acquisition and holding of the Company's shares.

#### (iv) Engagement policy

Details of the Company's officer remuneration system are disclosed swiftly to the Company's shareholders through the Annual Securities Report, Business Report, Corporate Governance Report, and the Integrated Report, which are prepared and disclosed in accordance with various laws and regulations, and the Company's website, among others.

To engage with institutional investors, the Company aims to hold over 100 meetings per year, mainly

with the President, Executive Officers, and Directors (including independent Outside Directors). The Company has positioned engagement with shareholders and investors who understand its values and vision as one of its core values, and opinions of shareholders and investors received through engagement are shared at the Board of Directors and other bodies, and used to realize and promote sustainability management. The Remuneration Committee decides on the payment amount of officer remuneration giving consideration to the amounts of employee salaries and dividends paid to shareholders, etc.

Regarding disclosure of the remuneration, etc., as the officers of the submitting company in the Annual Securities Report (in the case of remuneration, etc., as the officers of major consolidated subsidiaries, including this remuneration; hereinafter, “Consolidated Remuneration, etc.”), in principle the Company will disclose it without limiting disclosure to those whose Consolidated Remuneration, etc. is ¥100 million or more.

END