

J. Front Retailing

Q & A summary at the 1st ESG presentation

Date and time: 16:00 – 17:30 on Friday, November 30, 2018

Q. To what extent do you think you will be able to be engaged with suppliers (scope 3), for example, by monitoring the reduction of CO2 emissions and the improvement of the work environment?

A. Firstly, we would like to formulate the transaction guidelines and present them to suppliers. It is the most important to make them fully understand what we think about environmental issues in the supply chain. More and more suppliers express their intention to actively work to improve the environment. We think we will be able to gain understanding of suppliers and change by showing our initiatives with consideration to environmental issues that attract the sympathy of customers and increase revenue. The same applies to the improvement of the work environment. Our principle is that once we decide to do something, we will get it all done. Therefore, we would like to work on this steadily.

Q. How do you assess Outside Directors? How will you select Outside Directors in the future?

A. When we started governance reform, we also started to evaluate the effectiveness of the Board of Directors. In addition to the evaluation of the effectiveness of the Board of Directors, a third-party organization conducts interviews with Inside and Outside Directors so that both Inside and Outside Directors can recognize their assessments and problems. With respect to the selection of the next Directors, we will set specific selection criteria including ability, skills and experience and a third-party organization will list the candidates. And finally, Directors will be selected at the Nomination Committee.

Q. I have an image that the companies that achieved innovation try something new even against internal opposition. How will you balance “discontinuous growth” and the “selection of managerial talent that secures objectivity and transparency”?

A. From the past experience, we fully understand drastic changes are required to realize discontinuous growth. In the meantime, we think that in managing a company, some should be changed and others including ethics and philosophy should not be changed. It is pointed out that speed and bold thinking are the challenges for internal efforts to change. We would like to change our business model more drastically with speed by getting input from outside the Company and heightening our perspectives.

Q. You set materiality target for 2050 and 2030. Diversity and work-life balance targets are set for 2025 as well. Their levels seem to differ from one another. What do you think about target setting?

A. We set targets for each materiality issue for 2030 and 2050. Since they are all important issues related to the realization of a sustainable society, we set the medium- to long-term targets, and at the same time, specific targets for 2025 and 2030 to the extent possible in anticipation of the medium- to long-term qualitative targets.

Q. How do you make known and share ESG initiatives in the Company?

A. ESG initiatives including the identification of materiality issues and target setting were determined after several discussions both at the executive meetings and the Board of Directors meetings and the

management team members of the holding company and operating companies grow understanding. The opinions of employees as well as customers and investors are reflected in the process of identifying materiality issues. Though they are yet to be made known to employees, we will drive the actions of operating companies so that our plan will make progress. In the next fiscal year, we will create the Sustainability Committee chaired by President for follow-up. In tackling ESG issues, matters about which management decision-making is difficult, including environmental improvement and the cost increase involved, will arise. Therefore, the management team will work together with frontline people instead of leaving entirely to them.

Q. You see ESG as risk and what do you think about ESG return from a CSV perspective?

A. We define risk as “uncertainty” and we think risk has both positive and negative sides. Also with regard to ESG, we think risk taking focused on positive sides as well as minimizing negative sides will help enhance corporate value.

Q. What do you think about priorities among five materiality issues?

A. They are all important and it is difficult to prioritize them. Until now, we gave high priority to governance reform. We recognize the failure to address the “E” (contribution to a low-carbon society) will lead to serious problems in the future. In Japan, this year saw natural disasters and abnormal weather on an unprecedented scale and what we can do is limited. Nevertheless, we think we need to give higher priority to it.

Q. What do you think are important as CEO requirements in a succession plan?

A. We share five required qualities including: (1) a strategic mindset; (2) tenacity to achieve results; (3) reform-oriented leadership; (4) human resource development strengths; and (5) organization management strengths inside and outside the Company. Managerial talent should have these qualities.

Q. Some investors are opposed to providing stock-based remuneration to Non-executive Directors. Why did you decide to provide such remuneration?

A. We know there are some negative opinions. However, we introduced this system because we thought it would be meaningful to strictly oversee business execution from a different standpoint from that of Executive Officers and from a shareholder’s perspective by designing the system not to be linked to performance.

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