As a matter of course, full recovery is not our goal. What we aim for is medium- to long-term enhancement of corporate value through sustainable growth from 2024 onward. To this end, we need to change our portfolio to a highly resilient one that expands the Group’s strength. We will try to achieve an operating profit of ¥80.0 billion and an ROE of 10% by 2030, and furthermore, to achieve net zero by 2050 to realize a decarbonized society. In this increasingly uncertain era, it is only “people” that will open the way to the future. We will stick to sustainability management based on the values of our Corporate Credo and create true value through the practice of CSV.

The Group faced an unprecedented crisis of losing sales of as much as ¥370.0 billion due to the COVID-19 pandemic. On the other hand, it gave an opportunity to reaffirm what is really important. Full recovery is our solid intention to return both PL and BS to pre-COVID-19 levels in fiscal 2023. As its symbol, we aim to achieve an operating profit of ¥40.3 billion, above the operating profit of ¥40.2 billion in fiscal 2019. However, its structure must be dramatically different from the past. After two years of the COVID-19 pandemic, we can clearly see what will return and what will not return. Waiting will not return anything. No change, no full recovery. We will step up a gear to change in 2022.

\[ 40.3 \]

Acceleration of business model conversion

\[ 80.0 \]

Business portfolio transformation

Investment for the future
Editorial policy

J. Front Retailing Group (the “Group”) issued this integrated report in order to provide a deeper understanding of what actions it takes to change its business portfolio for sustainable growth of corporate value. The report explains at the beginning the values, vision, value creation process and business model of J. Front Retailing (the “Company”) and it contains non-financial information including the Group’s involvement in society and the environment through business activities and governance system that helps enhance corporate value in addition to financial information based on specific management strategy. We have referred to the “International Integrated Reporting Framework” established by the International Integrated Reporting Council (IIRC) and the “Guidance for Collaborative Value Creation” established by the Ministry of Economy, Trade and Industry to create this report.

Timeframe

This report mainly reviews the fiscal year 2021 (March 1, 2021 through February 28, 2022) but it also contains the latest information available at the time of issue to the extent possible.

Scope

J. Front Retailing Co., Ltd. and its consolidated subsidiaries

Forward-looking statements

Forward-looking statements in this integrated report 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.

Gear Change
for Full Recovery and Regrowth
Create and Bring to Life “New Happiness.”

Our Vision

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 as a fair and reliable corporation.

Basic 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 as a fair and reliable corporation.

Group Vision

Create and Bring to Life “New Happiness.”

Our Values

- **Create the Future!**
  - Create amazing and pleasing new things of which society and consumers are not yet aware.

- **Try without fear of failure!**
  - Act without fear of result.
  - And learn from what we tried together.

- **Introduce new ideas!**
  - Do not look inward but expand your ideas by contacting people, tangible goods, and intangible goods in the outside world.

- **Act for yourself!**
  - Do not wait to be told but think and act for yourself.
  - And carry through to the end with enthusiasm.

- **Be sensible and honest!**
  - Act according to common sense as a member of society.
  - Be always honest and sincere.

JFR WAY

- Ideas we value to realize the Vision

VALUES AND VISION

**OUR VALUES**

Service before Profit – This phrase is 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.

With increasingly diversified lifestyles, customer needs are seen not just on festive occasions but also widely in daily life. Many restrictions including voluntary ban on leaving home and restrictions on travel were placed due to the recent spread of COVID-19 and people were forced to live with concerns and frustrations they had never experienced before. This is one of symbolic events.

By relieving customers of “concerns” and “frustrations” in daily life so that they can live more conveniently and more comfortably, we hope many customers will be able to spare more time for festive occasions. We think that is the social role we will have to fill, that is to say, the cause.

Another recent big trend is heightened awareness of social contribution as well as a shift to consumption of intangible goods due to diversified means of seeking enjoyment. The Group has to be able to propose something more enjoyable and more exciting in response to such diversification of the means of seeking enjoyment.

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.
History Is a Series of Responses to Changes —

Daimaru and Matsuzakaya that were founded as a kimono fabric store and a kimono fabric and fancy goods wholesale store, respectively. The long paths of their 300 and 400 years of histories were uneven. They converted to department store operators 100 years ago after overcoming a number of crises and expanding their stores.

By having consistent values and continuing to respond to the changing times, they embody “sustainability.”

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1611

Ito Genzaemon Sukemichi opened a kimono fabric and fancy goods wholesale store in Honmachi, Nagoya.

1700s

1726

Opened Osaka store “Matsuya” in Shinsaibashisuji. Daimaru began cash sales at fixed prices (present location of Shinsaibashi store).

1728

Opened Nagoya store at Honmachi 4-chome, Nagoya and named it “Daimaru” for the first time (closed in 1933).

1737

Shimomura Hikeman Shokei opened a kimono fabric store “Daimonjiya” in Fushimi, Kyoto (foundation of Daimaru).

1740

Became a kimono fabric purveyor to the Owari imperial army during the Ueno war.

1743

Opened Edo store at Gionmachi 3-chome, Edo (closed in 1933).

1757

Built Kita Villa near Hanei Bridge at Kita 4-chome, Fukuwara. Edo and set up a store in front of the property (still present on the premises of Daimaru Core Building). Edo store achieved the highest sales in Japan as a kimono/fabric dealer.

1800s

1813

The Oshio Rebellion broke out. Daimaru escaped burning at the hands of mobs due to its reputation recognizing it as a philanthropic merchant.

1853


1868

Ueno store was used as the headquarters of imperial army during the Ueno war.

1900s

1907

Acquired Matsuzakaya in Ueno, renamed it “Ito Matsuzakaya” and entered into Edo.

1908

Newly built and opened Osaka branch at Motomachi 4-chome, Kobe.

1912

Opened new three-story RC/wooden Kyoto store on Shijodori Street (present location) as a department store.

1913

Established “Kabushiki Kaisha Daimaru Gofukuten” with a capital of ¥12 mn.

1922

Completed the new Kyoto wooden store on Shijodori Street (present location).

1927

First implemented a weekly holiday system in the department store industry.

1936

Changed the trade to a silk and cotton kimono fabric wholesaler.

1940

Became a kawara fabric purveyor to the Owari Tokugawa clan.

1945

Distributed to all stores the hanging scrolls with the store creed of “Service before Profit” on it.

1953

“Acty Osaka.” Adopted a new CI and created a new logo.

1957

Signed an exclusive contract with Givenchy.

1964

Completed the new main building of Ueno store.

1969


1972

Nagoya store built a south wing and became the largest department store in Japan.

1975

Opened Osaka store (Nipponbashisuji) (relocated to Tenmabashi in 1966 and closed in 2004).

1981

Opened the first “Dyeing Laboratory & Hygienic Laboratory” (present Consumer End-Use Research In Institute) in the department store industry.

1991

Established “Kabushiki Kaisha Ito Gofukuten.”

1995

Kobe store (hit by the Great Hanshinkansen Earthquake in 1995) was restored and made its grand opening.

1999

Fully launched management reform (store-based labor reform and back-office reforms). Next year, HR reform and back-office reforms were launched.

2003

Started store opened.

2006

Established a holding company “Matsuzakaya Holdings Co., Ltd.”

2008

Nagoya store built a north wing.

2012

Signed an exclusive contract with Givenchy.

Nagoya store built a south wing and opened “Matsuzakaya Museum.”

2013

Completed the new main building of Ueno store.

2014

Completed the new main building of Nakano store.

2017

Designated cattleya as a symbol flower.

2020

Established “Kabushiki Kaisha Daimaru Gofukuten.”

2022

Established “Kabushiki Goshi Kaisha Daimaru Gofukuten.”

2023

Completed the new main building of Komazawa store.

2026

Completed the new main building of Nakano store.

1907

Established “Kabushiki Goji Kaisha Daimaru Gofukuten” with a capital of ¥13 mn.

1908

Newly built and opened Osaka branch at Motomachi 4-chome, Kobe.

1928

Established “Kabushiki Kaisha Daimaru Gofukuten.”

1953

1954

Established a holding company “Matsuzakaya Holdings Co., Ltd.”

1961

Established a holding company “Matsuzakaya Holdings Co., Ltd.”

1983

opened new three-story RC/wooden Kyoto store on Shijodori Street (present location) as a department store.

1991

Nagoya store built a south wing and opened “Matsuzakaya Museum.”

2003

Nagoya store built a north wing.

2006

Established a holding company “Matsuzakaya Holdings Co., Ltd.”

Holdings Co., Ltd.”

2009

Completed the new main building of Nakano store.

2012

Completed the new main building of Komazawa store.

2017

Completed the new main building of Komazawa store.

History of Changes and Years Ahead

INTEGRATED REPORT 2022

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VALUES AND VISION
Changes in the times are more and more accelerated. The landscape rapidly changed when the bubble economy burst in the 1990s and there was an urgent need for industry reorganization. In such a situation, Daimaru and Matsuzakaya Holdings integrated management to expand each other’s strength and achieve regrowth. Furthermore, we converted Parco into a consolidated subsidiary in 2012 to expand our retail wing, and in 2020, converted it into a wholly owned subsidiary. Now the Group has entered a new stage through cross-industrial mergers.

**2007**

The Daimaru, Inc. and Matsuzakaya Holdings Co., Ltd. integrated management and established J. Front Retailing Co., Ltd.

**2008**

Daimaru Credit Service, Inc. was renamed JFR Card Co., Ltd. Daimaru Design & Engineering Co., Ltd., Daimaru Mokko Co., Ltd., Matsuzakaya Seiko Co., Ltd. and Reflex Japan, Inc. merged into J. Front Design & Construction Co., Ltd. Dimples’ Co., Ltd. absorbed Daimaru Sales Associates Co., Ltd. Integrated the information systems of The Daimaru, Inc. and Matsuzakaya Co., Ltd.

**2009**

Restaurant Peacock Co., Ltd. absorbed Shoii Foods Co., Ltd. to form J. Front Foods Co., Ltd. Matsuzaka Service Co., Ltd. was renamed JFR Service Co., Ltd. The north wing of Daimaru Shinsaibashi store opened. JFR Service Co., Ltd. absorbed Daimaru Lease & Service Co., Ltd.

**2010**

The Daimaru, Inc. and Matsuzakaya Co., Ltd. merged into Daimaru Matsuzakaya Department Stores Co., Ltd. J. Front Design & Construction Co., Ltd. absorbed DHI Co., Ltd. The Daimaru Tomonoki, Inc. absorbed Matsuzakaya Tomonoki Co., Ltd. to form Daimaru Matsuzakaya Tomonoki Co., Ltd.

**2011**

“Keicho Kosode” from the Matsuzakaya Collection was designated as a national important cultural property. Daimaru Umeda store reopened with increased floor space.

**2012**

*Acquired a 33.2% stake in Parco Co., Ltd. and converted it into an equity method associate.*

Reached a basic agreement with Shanghai Xin Nan Dong Project Management Co., Ltd. and Shanghai New World Co., Ltd. to provide technical support and cooperation in opening and operating a new department store in Huangpu District, China. Jointly established JFR Plaza Inc. with StylingLife Holdings Inc. Increased a stake in Parco Co., Ltd. to 66% through TOB and converted it into a consolidated subsidiary. Dimples’ Co., Ltd. spun off Daimaru Matsuzakaya Sales Associates Co., Ltd. Daimaru Tokyo store completed phase 2 of expansion.

**2013**

Sold all shares of Peacock Store Ltd., which operated a supermarket business, to Aeon Co., Ltd. Acquired a 70.52% stake in Forest Co., Ltd. and converted it into a consolidated subsidiary.

**2014**

Became affiliated with Rakuten R-Point Card service. Fukusak PARCO opened a new building. Involves in Cool Japan Fund.

**2015**

Increased floor space of the main building of Fukusak PARCO. Acquired a 22.6% stake in Senshukai Co., Ltd. and converted it into an equity method associate. Shanghai New World Daimaru Department Store opened. Decided to rebuild the main building of Daimaru Shinsaibashi store. Decided to rebuild Shibuya PARCO. Invested in Scrum Ventures.

**2016**

Matsuzakaya Nagoya store completed phase 3 of renovation and made its grand opening. Sendai PARCO 2 opened.

**2017**

Voluntarily applied the International Financial Reporting Standards (IFRS). Transferred the business of JFR Online Co., Ltd. GINZA SIX opened. Transitioned to a Company with Three Committees (Nomination, Audit and Remuneration Committees). Transferred shares of Forest Co., Ltd. Ueno PARCO ya opened. Ueno Frontier Tower opened. JFR Plaza Inc. was dissolved and liquidated.

**2018**

Accepted purchase of own shares by Senshukai Co., Ltd.

**2019**

Kichidai PARCO opened (Mar). SAN-A Urasoe West Coast PARCO CITY opened (Jun). The new main building of Daimaru Shinsaibashi store opened (Sep). New Shibuya PARCO opened (Nov). Commenced TOB to convert Parco Co., Ltd. into a wholly owned subsidiary (Dec).

**2020**

Daimaru Matsuzakaya Department Stores Co., Ltd. absorbed The Shimonskei Daimaru, Inc. and converted it into a store directly managed by the company (Mar). Converted Parco Co., Ltd. into a wholly owned subsidiary (Mar). Canceled the Medium-term Business Plan and began to formulate a new Medium-term Business Plan. Transferred the Real Estate Business of Daimaru Matsuzakaya Department Stores Co., Ltd. to Parco Co., Ltd. (Sep). Shinsaibashi PARCO opened in the north wing of Shinsaibashi store (Nov).

**2021**


**2022**

Partially transferred shares of a consolidated subsidiary Dimples’ Co., Ltd.

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**VALUES AND VISION**

History of Changes and Years Ahead

**Phase of business integration and reorganization**

**Phase of building foundations**

**Phase of changing the business structure**

**Phase of promoting the portfolio transformation**

**2022**

INTEGRATED REPORT 2022
Create and Bring to Life “New Happiness.”

Creating Shared Value Sustainability Management —

The Group has encountered a number of crises over its 300 and 400 years of history. Every time we have faced these situations, we have returned to our Corporate Credo “Service before Profit” and carried out business activities honestly while responding to changes in customers and society quickly. We firmly believe this is what has led us to our current management. Companies cannot develop and carry out business activities honestly while responding to changes in customers and society quickly. We firmly believe this is what has led us to our current management. Companies cannot develop

Based on the Corporate Credo and with sustainability at the core of management, we will strive to of these issues into our corporate strategies and business strategies.

As a result of considering environmental issues, changes in the external environment due to COVID-19 and other reasons, the balance between existing materialities, and furthermore, contribution to SDGs, we newly added “promotion of circular economy” and “realization of customers’ healthy/safe/secure life.”

With regard to existing materialities, in response to the growing awareness of decarbonization in Japan and abroad, we revised "contribution to a low-carbon society" to “realization of decarbonized society.” In addition, in consideration of the social background, we also revised “promotion of diversity” to “promotion of diversity & inclusion” and “realization of work-life balance” to “realization of work-life integration.”

Going forward, by clarifying both risks and opportunities with respect to the seven materialities, we will create business opportunities in each materiality, while responding to risks, and aim to realize social value and economic value simultaneously based on the concept of CSV (Creating Shared Value).

Process for identifying materialities

1. Front Retailing Group materiality map

2021 Added 2 materialities
- “Realization of decarbonized society”
- “Promotion of circular economy”

2018 Selected 5 materialities
- “Contribution to a low-carbon society”
- “Management of the entire supply chain”
- “Conformity with local communities”
- “Realization of work-life balance”

Selected 35 items based on the Group’s initiatives, CSV guidelines, laws/standards, corporate social responsibility, human rights, labor practices, environment, and business practices, among others.

Reviewed from the perspectives of changes in the external environment surrounding environmental issues, changes due to COVID-19 and the Group’s materialities.

Discussed at the Management Meeting of the Board of Directors.

Discussed at the Management Meeting of the Board of Directors.

"Conformity with local communities”

"Realization of work-life integration”

"Realization of customers’ healthy/safe/secure life”
VALUE CREATION
Top Message

From Defense to Offense
Step Up a Gear to Change with an Eye to the Future

YOSHIMOTO Tatsuya
Director, President and Representative Executive Officer
J. Front Retailing Co., Ltd

Conviction obtained from the COVID-19 pandemic

In fiscal 2021, the Group started a new Medium-term Business Plan that aims at full recovery from the COVID-19 crisis and regrowth. In fiscal 2021, which is its first year, we pursued initiatives with a greater focus on “defense” than “offense,” including a restraint on investment and acceleration of management restructuring, because the impact of COVID-19 was more prolonged than expected. In the first half of the year, we were requested to suspend business. We faced such a severe situation again. After that, infections spread and settled down alternately and we were forced to press the accelerator a little and brake alternately. We had to conduct economic activities in such an environment.

In the current fiscal year, infections are finally starting to show signs of settling down but remain high. I think we should assume that there is a high possibility of a resurgence of infections. What is expected of us is readiness for change with a view to the era of living with COVID-19, instead of simply waiting for the post-COVID-19 era. On the other hand, new uncertainties about the future such as increasing geopolitical risks and concern about rapid global inflation were added and we cannot be optimistic about our business environment. Seeing our retail sites, I feel that consumption is further polarized and that customers’ values and behavior are greatly changing. I may say that we can clearly see “what will return” and “what will not return.” On the other hand, individual financial assets in Japan as a whole exceed ¥2,000 trillion and so-called “COVID-19 savings,” the money saved instead of being spent due to the COVID-19 pandemic, total as much as ¥50 trillion. We need to consider how consumption will recover in the future based on the assumption that it will not return by following the same path as in the past. Rapid environmental changes have also greatly changed consumer mind. I think COVID-19 has changed the quality of consumption rather than quantity.

The first year of the medium-term plan is summed up that the year convinced us that we will not return by doing the same as before. I cannot deny that the Group’s core Department Store and Shopping Center (SC) businesses lag behind other retail formats. Departure from the business structure overly dependent on the business of physical stores is the major theme of the current Medium-term Business Plan. Our future will not be on the same path as in the past that relies on successful experience. I could be prepared to change my mindset and go forward boldly. In that respect, I think the year has great meaning.

Accelerate for “full recovery”

I think it is extremely important to decide to shift to offense and make sure its timing is right in order to achieve “full recovery,” and furthermore, turn it into regrowth promised on living with COVID-19. Where are the seeds for growth? Where will we seek medium- to long-term return? Proper preparation based on clear strategies is essential to build a solid foundation for discontinuous and dramatic growth. We have to make such decisions timely and properly.

In light of the above, I think the current fiscal year, which is the second year of the Medium-term Business Plan, is positioned as a year for “shifting gears.” We will change our mindset to offense from a focus on defense to respond to the COVID-19 crisis and turn it into concrete actions and achievements to build a solid business foundation that enables sustainable growth. First, for full recovery, we will strive to accelerate business model conversion in the core Department Store and SC businesses, which have been particularly hard hit by the COVID-19 pandemic. We will strive to overwhelmingly increase added value that is unique to conduct economic activities in such an environment.
VALUE CREATION
Top Message

physical stores and cannot be realized online while merging the real and digital worlds to depart from the vulnerability exposed by COVID-19, that is, the business structure overly dependent on physical stores. To this end, we will aggressively invest in increasing the attractiveness of physical stores and strengthening digitization.

For example, use of app as customer touch points is progressing rapidly. The Department Store positions it as a centerpiece for changing its business model. In fiscal 2021, sales from app users were ¥187.7 billion, increasing to as much as 38.8% of total department store sales. In order to pursue that, it will accelerate its efforts to have its private label card holders sign up for an app and acquire new app users. I believe that it is moving forward steadily to change from the business model constrained by time and place. By doing this, I think it will also be able to sophisticate CRM through regression analysis, etc. Also in Parco, use of its smartphone app POCKET

PARCO is progressing so that it can provide the most relevant information for each occasion such as before visiting a store, in a store, and after leaving a store. It also provides an incentive to entice customers to shop around in a store. If a customer makes a purchase, data obtained at the time of purchase such as app’s QR code payment may be used to recommend him/her to shop around in the store.

Add more value to physical stores

It is only by making physical stores attractive that we can benefit from such advanced digital touch points. The expansion of the luxury floor of the Daimaru Kobe store led to great results and its sales already exceeded the fiscal 2019 level before COVID-19. Ginza SIX, a luxury mall, is undergoing a large-scale renovation in phases from spring last year. And it achieved record sales in December last year through inbound sales, which had represented 30% of total sales, almost disappeared. What particularly stands out recently is brisk spending by young affluent people. We can say high value-added categories including luxury, contemporary art, and high-end watches are moving better than we can imagine. This fiscal year, we reduced fixed costs by approximately ¥4.3 billion, which is a larger reduction than planned. In the current Medium-term Business Plan, we would like to implement a little

COVID-19 to the extent possible with due considerations to safety and security. At the same time, we will steadily promote management restructuring to strengthen our ability to respond to rapid environmental changes. First, we will tackle workforce restructuring and cost restructuring based on business model conversion and reduce fixed costs by ¥10.0 billion or more in the current Medium-term Business Plan to lower the break-even point. Last fiscal year, we reduced fixed costs by approximately ¥4.3 billion, which is a larger reduction than planned. In addition, we will continue to improve our balance sheet by assessing the Group businesses and selling assets.

Strength systems for portfolio transformation

The current core Department Store and Parco will be able to grow reasonably by converting their business models and developing content. However, we need to change the balance of the pre-COVID-19 structure in which the Department Store and Parco account for 80% of total profit in terms of resilience against rapid environmental changes. I think portfolio transformation is required for the Group’s dramatic growth for which we aim.

In order to accelerate this initiative, we have newly established three divisions including the Business Portfolio Transformation Promotion Division, the CRE Planning Division, and the Digital Promotion Division in the holding company in March this year to strengthen our promotion system. We would like to actively appoint people from Parco and outside the Group to key positions to bring out unprecedented ideas using diversity and achieve discontinuous growth.

The Developer Business is one of those that have the key to portfolio transformation. The Group operates flagship stores in major cities across Japan and many of them also hold lands. It is no doubt our strength. COVID-19 made some people skeptical about the sustainability of value in urban areas. Actually, however, redevelopment projects in major cities are already recovering momentum. However, physical places are definitely expected to provide more special and premium experience value than ever and I am prepared to act with a sense of crisis that we will lose our existence value unless we can meet such expectation.

If we have our sights set on residence, offices, hotels, etc. in the future while operating commerce such as the Department Store and Parco as our core business, we can create new social value as well as maximizing real estate value to suit the area. We will develop as not a “dot” but an “area.” I think it is one of the important directions of contribution that the Group can make in order to coexist with local communities.

In the Payment and Finance Business, operating profit is likely to recover to the level of ¥3.0 billion in the current Medium-term Business Plan due to card renewal in January last year. The purpose of card renewal is to increase the attractiveness of cards by giving new points and expanding perks. The conversion of cards carries a certain degree of defection risk but customer defection could be kept lower than expected. In consideration of these circumstances, the Payment and Finance Business revised up its operating profit goal in the Medium-term Business Plan from the original plan.

However, the Payment and Finance Business aims to grow as a business that contributes to portfolio transformation. Therefore, first of all, its operating profit should exceed the level of ¥5.0 billion early. To this end, it needs to further expand its customer base in collaboration with the Department Store which is recovering customer traffic to physical stores, and at the same time, to expand its finance area through alliance and other means. After such process, we would like to further grow the business as one of the Group’s core businesses in the long term.

Take an R&D perspective also in retail

From the holding company’s long-term perspective of 10 years and 20 years, I keenly feel that we need to implement initiatives like R&D, which manufacturers do as a matter of course, including the innovation of existing businesses and the development of new businesses in order to strengthen the competitiveness of the Group. We cannot deny that the Group sought investment returns mainly from tangible assets partly because a physical store business is at its core, in the current Medium-term Business Plan, we would like to implement a little

Seriously aim for medium- to long-term growth.
Diversity and future-oriented thinking are essential for portfolio transformation.
VALUE CREATION

Top Message

far-sighted initiative using alliances, M&As, CVCs, and content management funds within the strategic investment limit of ¥150.0 billion.
They will center on customers and sustainability. For example, speaking of the Department Store, gaisho provides products and services to affluent people, but from a customer perspective, we cannot deny that it is only a small portion of lifetime value. Obviously, we have an ample chance to increase its share. Given changes in customers’ values, the elements of sustainability are very important. Particularly, young people including Millennial Generation and Generation Z have such tendency as revealed by various surveys. I think we need to be aware of this. Considering the desirable shape of the Group, we would like to expand and improve value to be provided to customers.

In terms of innovation, I think we as a holding company should be serious about aggressive digitization. This is why we strengthened our systems by creating the Group Digital Unit. As this area evolves particularly rapidly, on-time efforts are required. An investor said to me, “I feel metaverse has the possibility to innovate retail, which can be called retail 3.0.” The Department Store and Parco have already conducted trials and we as a company should be serious about aggressive digitization.

Looking ahead to future value creation
Furthermore, in order to enhance true competitiveness for medium- to long-term value creation, I think we have to seriously invest in human capital. Particularly important is to build a pool of human resources who assume the next generation management. We will create career development programs (CDPs) for individual employees and give them tough assignments, assign them to projects, and send them for external training to facilitate their growth.

One of its concrete examples is the Group’s Desirable Shape for 2030 Project launched in November last year. Concerning the Group’s corporate vision for 2030, young employees mainly in their 20s and 30s are currently working to clarify the Group’s desirable shape and the value to be provided using their unique ideas.

For example, in order to revitalize young people, I think the holding company should aggressively provide them with opportunities to more actively indicate their intentions instead of taking a passive stance. That is to say, it is important to give them more and more opportunities to study and various experiences. We in the management team would like to continue to provide as many opportunities as possible to exchange frank opinions through interactive dialogue and match our vector with theirs instead of just saying that we cannot understand what young people are thinking these days.

In addition, we will create training systems for reskilling and upskilling. We will develop training programs and examine the effect of training investment while working on “visualizing skills” to respond to expected changes in our business model and portfolio.

Furthermore, we will strengthen the recruitment of people who have professional careers from the perspective of professional talents. We will increase the share of human resources with diverse experiences and values such as professionals who have experience in other industries. Particularly, I expect that the holding company will increase the share of mid-career employees to 50%. I think what is important in the process of this initiative is inclusion. Even if we have diverse human resources, their abilities will only disperse unless they have the same vectors. It is important to accept each other’s individuality, values, and thoughts and unite efforts to create new value.

Innovation is essential to carve out a path to such a complicated era. And it is only “people” that can do it.

To be sustainable
It is also true that the COVID-19 pandemic has reinforced our determination to implement sustainability.

The Group’s Scope 1 and 2 CO2 emissions represent 5% of total emissions and 95% are so-called Scope 3 upstream and downstream emissions in our supply chain. Therefore, we have to collaborate with suppliers. To this end, we held a briefing session for suppliers in April this year and approximately 250 companies attended it. And we shared the importance of collaboration to reduce CO2 emissions with them.

We received various opinions from suppliers including: “We have to review sales promotion, etc. because CO2 reduction causes cost increase” and “It is difficult for some smaller businesses to measure CO2 emissions.” Valuing these opinions, we will move forward together with suppliers.

And last year, we assessed 7,415 companies concerning the dissemination of the Principles of Action for Suppliers formulated by the Company and received responses from 3,012 companies. More than 80% of them are aware of or support international human rights frameworks and we could reaffirm their high level of interest. On the other hand, it was only a little more than a half of them that formulated their own human rights policies and guidelines and we would like to continue to encourage suppliers to improve.

In order for the Group to be sustainable, I think we need to realize ESG management by achieving both social value and economic value, that is to say, to further stick with value creation. Another, an address, a fashion subscription business newly launched with a young employee’s idea in spring last year, attracts more customers than expected because the sustainable idea behind the business as well as its attractive products draw sympathy. We expect we will be able to monetize it in a few years. I think we need to incorporate more of such perspective in our business activities.

Needless to say, what we should stick with is value creation. We would like to make an investment in not only tangible assets but also intangible assets, particularly an investment in human resources and a strategic investment for the future more aggressively than ever before and turn them into the Group’s unique value creation.
VALUE CREATION
Value Creation Process

J. Front Retailing
Value Creation Process

Under the Basic Mission Statement and the Group Vision, J. Front Retailing, together with stakeholders, is committed to creating high quality, fresh, hospitable, and fulfilling life adapted to the changing times. The business activity of J. Front Retailing is to constantly seek to create rich markets that grow with local communities, which is led by the Department Store and Parco. It is nothing less than to create, as a public entity of society, new value with which it various stakeholders emphasize. Circulating the Group’s business model and creating new value using the six capitals of J. Front Retailing effectively and efficiently are the process to create the brand value of J. Front Retailing, which will result in the creation of new value with which society emphasizes. Through this initiative, we will aim to realize CSV management that achieves social value and economic value at the same time, contribute to society at large, and develop the Group.
Daimaru and Matsuzakaya, which operate in the department store format, have kept their 300 and 400 years of histories responding to the changing times and have embodied sustainable management. They have strived to propose new lifestyles that make customers’ lives more fulfilling all through the ages. Above all, they have an advantage in producing a luxury world view, having an overwhelming assortment of cosmetics and other beauty items, and attracting crowds to their department store (department store basement food floor) that provides a wide variety of food. They also succeeded in developing a luxury mall GINZA SIX by selecting the drastic option “not to operate a department store.”

GINZA SIX is positioned as the next generation symbolic is unique Shibuya PARCO, which opened in 1963 and rebuilt and reopened in 2019, and it is easy for the Group to create synergy in these locations. As in Shinsaibashi, Osaka, Daimaru, which was rebuit and reopened in 2010, and PARCO, which was newly opened in 2020, are operated as one in connected buildings, many customers shop in both stores and they have become a symbol of the Group’s synergy creation. By placing disparate things side by side, unprecedented new value was created.

The Group can provide various values only through co-creation with its partners. Currently the Group has approximately as many as 3,500 partners with whom it works to create value. The Department Store found many foreign brands and concluded exclusive agreements with some of them in the past. Though times have changed, it is still discerning. So it has found pure internet players and D2C brands.

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Driving Force for Value Creation Leading to the Future

The source of business competitiveness is shifting from hardware to software, so-called “intangible assets.” Important management assets that are invisible but fundamental and affect medium- to long-term corporate value other than financial performance are “human capital.”

The COVID-19 pandemic accelerated changes and what is happening now is a “game change.” It can also be said it is natural that investment targets will shift from tangible assets to intangible assets. And it is important to be aware that intangible assets have a long-term effect. Investment in human capital is the important process to maximize the value of human resources as “capital.”

The Group, which implements sustainability management, considers the ability to perform duties, which directly leads to results and contributions, and the ability to create new value as “human resource value” and adopts a personnel system “based on human resource capabilities” with human resource value at its core from 2020. We believe it will lead to sustainable corporate growth and medium- to long-term value creation.

“Human resource capabilities” are the total power of actions that lead to the realization of results, highly specialized knowledge and skills, underlying ability to perform duties, energy and learning to promote changes, and underlying character and spirit.

Needless to say, it is only “people” that will open the way to the future by achieving discontinuous growth instead of remaining on the current path in the highly uncertain environment. Therefore, we will focus on investment in human capital with an eye to the medium to long term.

“Desirable shape” created by young employees

One of its specific examples is the Group’s Desirable Shape for 2030 Project, which was launched in November last year. One of triggers to organize this project is dialogue conducted between the Company’s management and an investor when the FY2021-FY2023 Medium-term Business Plan was released in April last year.

“The Medium-term Business Plan you released this time shows your long-term direction until 2030. However, how much the opinions of young and middle level employees who will be responsible for the management of each company in the Group are reflected? I am so concerned if only the opinions of the top management and Outside Directors are reflected. I think it is important to reflect the voices of employees who will actually lead the next generations.”

In the current Medium-term Business Plan, we set a corporate vision that aims to become “a corporate group producing fulfilling lifestyles and creating unique communities to coexist with local communities.” It clearly describes our strategic policy to change portfolio while expanding existing strengths. On the other hand, we cannot deny it lacked the perspectives of future consumers and young employees who will be responsible for the Company in 2030 and the perspective of internal dissemination.

Therefore, the management team took actions to create dynamism using more of young employees. They organized a cross-Group project directly under the President, which is mainly composed of young employees, to formulate a message and an action plan to encourage employees to change their mindset and behavior with future consumers and changes in society as a starting point. It consists of ten diverse members including four men and six women and two Generation Zers.

The second half of fiscal 2021, which is a planning phase, was allotted for research to extract the desirable shape and the project members conducted depth interviews with a total of more than 50 people including real consumers mainly in their 20s and experts inside and outside the Group to collect insights on changes in values and society in the future. Workshops were also held 25 times in total (two hours each).

Based on the hypotheses obtained from this process, the project will develop some concrete plans that allow all the Group’s employees to participate and help change their mindset and behavior.

Direct communication between the President and employees

The President provides as many opportunities as possible to have direct communication with not only the management team but also more extensively the Group’s employees. As part of this, meetings with the President titled “Catch Ball Meeting!” were held online from late April to early May this year. Motivated employees voluntarily attended the meetings. In the first half of the meeting, the President told in his own words what he expects of employees concerning the Group strategy for fiscal 2022, and in the second half, they had a question and answer session. The President and the Group’s employees bounced thoughts off each other as referred to in the title. A total of 1,062 employees attended the meetings and they had unprecedentedly hot communication. It is largely because of work style reform through the promotion of digitization that it could be realized on a larger scale than imagined. We believe such flat and interactive communication regardless of rank will help nurture the will of employees and improve employee engagement.
In order to realize the desirable shape for 2030, human resources who will lead this initiative are expected to keep a firm axis even in the unpredictable and greatly changing business environment. The axis is formed by “spontaneous motivation” and “life purpose” based on it. The Company launched a new selective training program “T3 program,” in April 2022 to develop human resources who work vigorously to achieve their “life purposes” and lead the transformation of organizations, and then, companies and the entire Group through their jobs as a place for practice. Seventeen men and women in their mid-30s to early 40s were selected from each company in the Group as the first trainees. In the first half of the program, they intensively studied liberal arts including history, philosophy, religion, natural science, and politics and economics. And in the second half during which they will mainly work in groups, they will be exposed to different perspectives and values of participants from outside the Group and look deep inwardly. Concerning the questions that have no correct answers, how do they perceive, what do they feel, and how do they change behavior? We will continue to develop human resources who can think through themselves and accomplish their tasks with resolution based on their spontaneous motivation. We will increase the number of employees with the same views to ensure the growth of the entire Group.

* T3: Transition To Transformation (Individual mindset changes lead to organizational change.)

**Accelerate the development of “human resource capabilities”**

Promised on the idea that people grow through jobs, we will develop human resources who can grow through their jobs as a place for practice. doubling the budget for education and recruitment, which was stagnated due to the COVID-19 pandemic, from the previous fiscal year, we will accelerate investment in human resources to build a diverse and autonomous human resource base.

With regard to training programs, while uniform training by rank is provided using video conference systems, etc. to increase attendance and operate efficiently, for selective training such as the JFR Schools that aim to develop the next managerial talents, we introduced recommendations from each division and voluntary participation by trainees as well as traditional selection by human resources division to find new human resources. Particularly, we strive to speed up the appointment of young employees through tough assignments and human resources exchanges.

We will consider and implement the measures for recurrent education and reskilling so that existing employees can respond to expected changes in business models and business portfolio.

Furthermore, from the perspective of providing opportunities to meet the intention and willingness to learn independently and achieve results and raising the level of human resource capabilities, we will establish the JFR College that focuses on digital thinking and literacy education to make its attendants acquire versatile and highly applicable skills and knowledge regardless of business area.

**Active recruitment of professional talent**

We will establish a closer linkage between the business strategy and the human resources strategy and secure necessary human resources to optimize human resource allocation in order to respond to changes in our business structure.

Specifically, we will actively recruit mid-career professional talents who have professional skills, experiences, and knowledge necessary for new growth areas such as digitization and development and can be immediately useful. In fiscal 2021, we recruited a total of 130 mid-career workers (49 people in the previous year) throughout the Group, including the holding company, the digital division of the Department Store, and the Payment and Finance Business.

We also continue the Mother Recruitment program for women who left their jobs for child care but aim to advance their career by exercising their ability to the fullest and hired six women in fiscal 2021, including four who joined the Group in fiscal 2022, under this program. Particularly, the holding company is expected to increase the share of employees recruited from outside to 50%.

**Respect for diverse values**

We will create innovation and increase productivity by realizing diversity & inclusion and work-life integration. By doing so, we will create value and create new business opportunities. The Group utilizes human resources on the basis of individual ability, aptitude, willingness, etc. regardless of gender. We are aware that the diversity of human resources is the source of corporate competitiveness and that it is important to create new value by combining different elements through constructive discussions between diverse human resources who respect each other.

In particular, we promote system development and education to create an environment in which women are able to exercise their ability. We have systems in place to support women who are raising children, providing an environment in which they can work continuously, unaffected by changes in their life stages. As for education, we provide training, including training for managers and the JFR Women’s School primarily for short-time workers who keep working while raising children. We have a total of three female Directors including one Inside Director and two Outside Directors, making the ratio of female Directors 30%.

The Group is strengthening its support for LGBT people in order to create a work environment in which diverse employees are empowered. As for systems, we newly established the Same-Sex Partnership Rules and a gender change support leave system. We also set up an LGBT Consultation Desk in each operating company, putting in place a system where LGBT employees are able to have consultations anonymously. In addition, we are also actively making efforts to promote understanding of all employees and create a new corporate culture, for example, by providing training for employees in management positions and e-learning courses for all employees and raising awareness through the LGBT site on the company intranet.

**Women’s Empowerment Promotion Project**

In April 2022, we set up the Women’s Empowerment Promotion Project directly under the President and Representative Executive Officer. The members selected from each operating company (men and women mainly in their 20s to 40s) extract the Group’s common challenges in promoting women’s empowerment and discuss the change of the environment in which women can exercise their individuality and abilities to the fullest. The project will make recommendations to the President and Representative Executive Officer to lead them to the top commitment.

The Group would like to foster corporate and organizational cultures in which diverse employees are empowered through this project.

Human resources are the capital whose value will be increased through investment. With this awareness in mind, we will accelerate the review of human resource allocation, which will enable business portfolio transformation.
In the Web 3.0 Era, Make Retail a New Experience

Enterprise

Ten years ago, in 2012, when I worked in the Management Planning Division of Parco, the management raised an issue. Parco had been good at communicating with customers through mass media and it had been Parco’s strong area. However, was the way to communicate with customers changing? Immediately we formed a project team of young employees and discussed. A key phrase for such discussion was “smartphone penetration.” As everyone uses a smartphone and connects to the Internet anywhere and anytime for 24 hours a day, we needed to be highly aware of designing the method of communicating with customers through smartphones. Like responding to this change, particularly the retail industry including Parco had to be aware of omnichannel as a new keyword. COVID-19 made more apparent such change in customers, which is important for the Group. The physical stores of the Department Store and Parco are the main places in which we deliver value to customers and customers shop. However, when we had to suspend business due to the COVID-19 pandemic, they could not serve these functions. Therefore, we needed to address online services directly to communicate with customers and provide them with shopping experiences and services. I think these two years were very challenging for both the Department Store and Parco.

I feel the underlying thinking of responding to the post-digital era or using digital technologies in response to the era of living with COVID-19 are actually common to Parco and the Department Store. In addition to the desire of employees and suppliers in stores, and in Parco stores, sales staff of tenants to provide their products and services to customers, their customer service skills should be expanded also using digital technologies. People are present in the Group’s value delivery to customers ahead of digital technologies. We will create value available only here and deliver it to customers. By doing so, customers will welcome us with a smile. Whether we can provide or communicate such situation to customers using digital technologies as well is the basis of the Group’s use of digital technologies. And in strategy terms, it is the Real×Digital Strategy.

Shift to customer data-driven management

The enhancement of value of the real world and the advancement of the use of digital tools through the implementation of the Real×Digital Strategy will result in obtaining data on customer behavior. By accumulating these data on ICDP, a platform created by using former LTS-Hub, we would like to understand and realize the products and services customers potentially want. Data are used to further enhance the value of the real world and the quality of value delivery. In real world is improved. The value is delivered to customers not only physically but also digitally and returned as data. I think this is the essence of the Real×Digital Strategy.

Data obtained through the touch points of the Department Store, Parco, and JFR Card are centralized on ICDP to understand how customers use the services of the Department Store, Parco, and JFR Card. And by doing so, they can provide better services to customers. In addition, they will be able to find the products and services that the customers who use either services of the Department Store or Parco may like and create the opportunities for them to use the services of both. In terms of the uniqueness of the Group, I would like to more deeply pursue this point. Both the Department Store and Parco have thought what products and services customers will like, smile, and feel their lives fulfilling. I believe the Group will deliver value that pleases customers more by creating new value and improving it using data obtained from customers.

I am sure that this initiative will also be useful for the Developer Strategy and the Prime Life Strategy as well as the Real×Digital Strategy. All the three strategies will be connected by duly using data obtained through the Real×Digital Strategy and this will become a driving force for each strategy. I think this is the implementation of customer data-driven management.

Challenge to the metaverse field

Currently it is shifting to the Web 3.0 era. In terms of the environment, smartphones are becoming increasingly sophisticated. At some point in the near future, smart glasses will come out as a next generation device and the blockchain and cloud AI will be used. In fact, it is predicted that one fourth of the world population will live in the metaverse for one hour a day in 2026. Dojima Matsuzakaya Department Stores opened a store in a virtual market and Parco opened a virtual museum. The virtual museum can not only make a physical exhibition virtual but also expand it, that is to say, a world different from the real one can be added to it. I think it is the time to try many and various services. I think it is important how we can provide operating companies with an environment for such trials.

Recently, I participated in an event: NFT NYC with people from startups. It was held around Times Square in New York. By holding a smartphone over Times Square, we could see Japanese pop culture filling the space. It was created using their platform. Both the Department Store and Parco are originally a place that many people visit to enjoy unusual experiences. However, the creation of physical extraordinary experiences costs much and it is not sustainable. Holding a smartphone to see something shown virtually in existing physical space may be transitional. When smart glasses prevail, I think customers will expect the commercial space of the Department Store and Parco to become very interesting.

The future commercial space must be both physical and virtual. To this end, I think it is important to address the metaverse field from now. In the metaverse, space is augmented. Therefore, in a sense, it may be said it is a return to reality. What kind of enjoyment can we provide not on a computer or smartphone screen but in space regardless of physical or virtual? Providing new experiences to customers by combining the real world and the virtual world through people or communities. Those that can do this best will attract customers. In this sense, I think the Group has much potential.
Question the “Evolution” of 100-Year-Old Department Store

Meaning of Y1.2 trillion lost by the department store industry due to COVID-19

National department store sales continue on a downward trend after peaking at ¥9.7 trillion in 1991. And it is also said that 10-year changes have come all at once with the COVID-19 pandemic and sales of ¥1.2 trillion disappeared in a year in 2020. The shrinkage of department store market is macroscopically attributable to external factors such as the collapse of the middle class due to increasingly declining and polarized population, and furthermore, fierce competition beyond industry boundaries mainly caused by rapidly growing e-commerce. However, the essential problem is the obsolescence of the business model, which fails to respond to changes in customers and rapid environmental changes. The stagnation of the business model that overly depends on foot traffic or physical stores was revealed due to behavior changes caused by COVID-19, not only in foot traffic due to stay-at-home advisories but also the advancing shift to online operation in every situation such as spending and business. It can also be said that the very existence value of department store is questioned. Taking this crisis as an “opportunity to change,” we think we have to accelerate the change of business model.

The current COVID-19 pandemic has made it most apparent how much the business centered on physical stores is constrained by “time and place.” It is needless to say that digital response is vital to overcome that.

The other is to build a “hybrid model” that combines real estate rental with kaitori and shoka shiire under the “department store brand.” Its typical example is GINZA SIX, a luxury mall which was created in 2017 by developing the two blocks including the former site of the Matsuzakaya Ginza store as one. The third is called kaitori in Japanese. But in the 1980s, a new form of transaction without inventory called shoka shiire expanded to around 80%. In shoka shiire, purchase is recorded when the product is sold to a customer and the product is not recorded as department store inventory. And the focus of the business shifted from merchandising to marketing or brand assortment. At the same time, department stores overly depended on clothing, particularly women’s clothing, against the backdrop of the DC brand boom, instead of carrying a full line of products, which is the origin of the Japanese word hyakkakaten for a department store (literally, a store selling hundreds of products). It was then that department store sales peaked.

On the other hand, according to the Family Income and Expenditure Survey by the Ministry of Internal Affairs and Communication, the percentage of expenditure on clothing and footwear decreased to 3.1% in 2021, less than half of 7.3% in 1991. However, department stores could hardly get out of past successes that they grew with apparel and continued to allot too much space to women’s clothing. It widened the gap with customers’ tastes and buying behavior. This was further accelerated due to COVID-19 and the content of department stores and the way of providing it, that is to say, the business model became outdated and they are in urgent need of drastic structural changes.

The advantage of shoka shiire is that we can seek greater personalization in the way of selling, and in the future, we can provide a world of infinite possibilities without limiting it to physical stores. By creating a world view based on content and our own curation, we will further improve physical stores and merge them with digital technologies. We will try to build our own media centered on people and overcome time and place constraints. And we will provide the content that creates new experience value through the media and develop into media commerce that diversifies revenue streams.

It is important to find the optimal balance for each store considering its customer target, the characteristics of the area and the building form.

Innovation of customer experience through the digitization of touch points

The current COVID-19 pandemic has made it most apparent how much the business centered on physical stores is constrained by “time and place.” It is needless to say that digital response is vital to overcome that.

Its “centerpiece” is “app,” which is a digital touch point with customers. App provides 24/7 connectivity to customers. It will facilitate deeper communication with customers and dramatically improve the accuracy of buying forecast. As a result, CRM will be sophisticated. In 2022, we also launched OKMO websites for cosmetics and art, in which the Department Store can make a strong showing.

The advantage of shoka shiire is that we can seek greater return through sales growth. On the other hand, the advantages of fixed-term lease are not only to realize stable revenue and the reduction of operation costs but also to increase the variety of tenants to strengthen the response to service consumption and experience-based consumption, which makes the store look fresher. Furthermore, last year we developed new content named “assumise” based on commission income with the concept of “a store that does not sell.”

Business Model Conversion

Content will evolve with business model conversion

First, we took two directions to build a new department store business model.

One is an option “not to operate a department store.” That is to say, we converted some stores to a 100% real estate business without adopting department store’s traditional transaction formats of kaitori and shoka shiire. Its typical example is GINZA SIX, a luxury mall which was created in 2017 by developing the two blocks including the former site of the Matsuzakaya Ginza store as one.

The other is to build a “hybrid model” that combines real estate rental with kaitori and shoka shiire under the “department store brand.” Its typical example of a large-scale flagship store is the new main building of the Daimaru Shinsaibashi store, which opened in 2019. Some undersized stores also attract new crowd through business model conversion. For example, the Daimaru Suma store introduced a library in 2020 and the Matsuzakaya Shizuoka store installed an aquarium in 2022.

The high point of our activity in 2022 is the new main building of the Daimaru Shinsaibashi store, which opened in 2019. Some undersized stores also attract new crowd through business model conversion. For example, the Daimaru Suma store introduced a library in 2020 and the Matsuzakaya Shizuoka store installed an aquarium in 2022.

Not to operate a department store

Hybrid model

Kaitori

Faux-term lease

Shoka shiire

Shoka shiire

Kaitori

Shoka shiire

Faux-term lease

Kaitori

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It is important to find the optimal balance for each store considering its customer target, the characteristics of the area and the building form.
Risk Is the Starting Point of Strategy

The Group defines risk as “uncertainties that have both positive and negative sides that could have an impact on the achievement of business goals.” And we position risk management as “an activity that increases corporate value by managing risks by reasonable and optimal methods from a company-wide perspective” to achieve sustainable corporate growth by addressing the positive side and the negative side of risk properly.

The Risk Management Committee discusses important matters, including risk extraction and evaluation and determination of risks to be reflected in strategies, and utilizes risk management for management decision-making. The committee reports details of its deliberations to the Board of Directors in a timely manner.

The committee has established a secretariat headed by an officer in charge of risk management. The secretariat shares important decisions of the committee with operating subsidiaries and promotes enterprise risk management (ERM). Moreover, we position risk as the starting point of strategy and link risk to strategy so that risk management will enhance corporate value.

In order to effectively perform risk management, we have established three lines as indicated in the diagram below.

Risk management workflow diagram

- Risk Management Committee
- The Group Medium-term Business Plan
- Annual action plan
- Corporate risks
- IFR Group Risk List
- Risk map
- Interview with management
- Identification/evaluation of risks
- Monitoring/reporting
- Response to risks

List of the "corporate risks"*

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<td>Decreased stability of the entire Group due to weak large-scale store retail business</td>
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<td>Increasing importance of information security</td>
<td>Severe</td>
<td>Personal information leakage, leakage of claims for damages, loss of social credibility</td>
<td>Stable information systems and systems</td>
<td>Stabilizing information systems and systems</td>
<td>Implementing new security measures that prioritize &quot;information security</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Increasing importance of financial management</td>
<td>Severe</td>
<td>Funding cost remaining high</td>
<td>Reduction of funding cost</td>
<td>Supporting business strategies</td>
<td>Raising cash on hand and business resources</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Decline in profitability and reduction of investment</td>
<td>Very severe</td>
<td>Decline in profitability</td>
<td>Business portfolio transformation</td>
<td>Business portfolio transformation</td>
<td>Cost reduction of business model reform, office reorganization, review of workforce composition, improvement of business strategies</td>
<td></td>
</tr>
</tbody>
</table>

*Risk changes during the term of the Medium-term Business Plan that were not considered at the time of the Group's approval, etc.

The priority risks that have an extremely severe impact

- Advanced sustainability management
- Decline of existing business models
- Response to the accelerated digitalization
- Changes in consumer behavior after COVID-19
- Urban decentralization (Rebalancing between urban and rural areas)
- Accelerated income polarization
- Changes in customers, particularly in fertility / longevity
- Uncertainty about non-Japanese market
- Accelerated business models and M&A among leading industry enterprises
- Work styles in new normal era, progress of HR management reforms
- Frequent natural disasters / epidemics
- Increasing importance of information security
- Increasing importance of financial management
- Decline in profitability and reduction of investment

- Strategy risk
- Fiscal risk

INTEGRATED REPORT 2022
MANAGEMENT STRATEGY

Review of the Previous Medium-term Business Plan and the Current Medium-term Business Plan

From “Full Recovery” to “Regrowth”

Medium-term Business Plan (FY2021-FY2023)

Review of the previous Medium-term Business Plan (FY2017-FY2021)

The previous Medium-term Business Plan, which started in fiscal 2017, was positioned as the phase of change to develop our business portfolio and to achieve steady progress in expanding business domains, converting the business models of existing businesses, and, furthermore, strengthening ESG initiatives.

However, our business environment has changed drastically due to COVID-19, which started to spread in early 2020. Therefore, we decided to suspend the Medium-term Business Plan a year earlier (fiscal 2020) though it was only half done.

Major achievements
- Convening of Price Setting Council, which is a voluntaryaysia
- Growth of Digital Business
- Improved the Real/Digital Business by operating GINZA 6IX (April 2017) and Heart Porter Tower (November 2017).
- Developed the Specialty Store Business and Parco into a wholly-owned subsidiary (December 2017).
- Improved the Departmental Store Business with Key initiatives, such as expanding the area of Bailey’s and Parco, and opening the Daimaru Shinsaibashi Store with a hybrid format (September 2019).
- Stabilization of the group management and financial structure by implementing cloud systems and establishing an environment that ensures remote work.
- Strengthen of defense of FT.
- Formulated the Global Expert, Social responsibility, which is an environment that addresses climate change and natural disasters.
- Stabilization of the governance system.

Medium-term Business Plan (FY2021-FY2023)

Overview of FY2021-FY2023 Medium-term Business Plan

Key performance indicator targets

Long-term mega trends

<table>
<thead>
<tr>
<th>Extera world</th>
<th>Japan specific</th>
</tr>
</thead>
</table>
| - Environmental Food problems  
- Natural disasters/opposites becoming common  
- Realization of sustainable society  
- Technology progress (AI, 5G, IoT, etc.)  
- Increasing urbanization  
- Increasing globalization  
- Widening income gap (Income polarization) | - Accelerated depopulation/aging  
- Lack of labor force population  
- Rebuilding of social security system  
- Renewal of urban infrastructure/transition to a smart city  
- Marketing consumption |

Short-term outlooks for changes (main impact of COVID-19)

<table>
<thead>
<tr>
<th>Politics/economy</th>
<th>Society/individual</th>
</tr>
</thead>
</table>
| - Concern about prolongation of economic stagnation  
- Increasing demand for focus on sustainability  
- Accelerated technology evolution  
- Changes in urbanization (Flexibility of decentralization)  
- Paradigm shift in work style | - Increasing awareness of sustainability  
- Shift to open areas with sparse population, retail to rural areas and nature  
- Expansion of virtual communication  
- Increasing importance of human connection |

In this situation, in order to achieve early earnings recovery, we will address the renovation of flagship stores and digital investment in one of the key strategies, the Real×Digital Strategy, and we will focus on the strengthening of customer base based on department store and online in the Prime Life Strategy. And in the Developer Strategy, we will increase investment in one of the key strategies, the Real×Digital Strategy, we will increase investment allocation up to 30% of the group’s total investment. And in the Urban Development Strategy, we will address the renovation of flagship stores and digital investment in one of the key strategies, the Real×Digital Strategy, we will increase investment allocation up to 30% of the group’s total investment.

We will continue to live with COVID-19 for the time being and earnings including inbound sales will not return to the 2019 level until FY2023 or later.

Important changes in the external environment

- Steady urban commercial areas
- Merger of digital and real
- Polarization of income/consumption

We will continue to live with COVID-19 for the time being and earnings including inbound sales will not return to the 2019 level until FY2023 or later.
MANAGEMENT STRATEGY

Review of the Previous Medium-term Business Plan and the Current Medium-term Business Plan

Overall composition of the current Medium-term Business Plan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Department Store: Making stores attractive and transition to media commerce with a focus on grocery/convenience</td>
<td>• Development of new solution services that realize high quality customer experience</td>
<td>• Mixed use not limited to commercial use</td>
</tr>
<tr>
<td>• Parco: Rebuilding store-based value and seeking offline OC &amp; online content from a CSV perspective</td>
<td>• Evolution of online-gate-to-communication</td>
<td>• Launching a circular investment scheme</td>
</tr>
<tr>
<td>• Parco: Rebuilding store-based value and seeking offline OC &amp; online content from a CSV perspective</td>
<td>• Evolution of online-gate-to-communication</td>
<td>• Entry into semi-urban areas</td>
</tr>
</tbody>
</table>

3 strategies for earnings recovery and regrowth

Promotion of strategies across the Group by committee for regrowth

Digital Strategy Committee
- Cost reduction through business model reform
- Cost reduction through business model reform
- Narrowing down of a business base

Prime Life Strategy Committee
- Tax policy
- Tax policy
- Renewal of management

Developer Strategy Committee
- Completion of the Group workforce restructuring
- Realization of diversity and work-life balance
- Human resource management for regrowth
- Strengthening of the Group IT talent system

Management base function strategy

Three strategies

The Group’s strengths are “commercial production capability,” “good customer base,” “partners including suppliers and creators” and “real estate assets in major cities.” Considering these strengths and medium- to long-term environmental changes, we have decided to focus our initiatives for growth on “three key strategies” in the current Medium-term Business Plan.

1. Real-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 technologies based on stores, we will transform the business model into one that provides new experience value beyond time and space.
- We will sophisticate customer data analysis and the use of digital tools for individual sales staff, gaisho staff, and buyers to deepen the relationship with customers.
- In addition to sales revenue, we will diversify revenue streams, such as real estate-related revenue and commission revenue through the use of digital technologies.

2. Prime Life Strategy

- We will further strengthen our proposals for consumers who value culture and art and enjoy fulfilling, sustainable lifestyles.
- We will enhance our content by utilizing the Group’s entertainment and art, as well as developing new products and services that provide premium experiences through alliances with other companies.
- We will promote the acquisition of customers beyond department store gaisho, such as the new rich in Japan and affluent people in Asia, for example, through alliances with other companies.
- Using digital technologies to sophisticate our customer management, we will maximize the lifetime value of good 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.

3. Developer Strategy

- We will maximize the value of the Group’s real estate assets. In complex redevelopment and so forth, we will rightsign the Department Store and PARCO and make use of relaxed building volume restrictions. We will increase the share of non-commercial applications to increase profitability.
- In the development of large-scale complexes in key areas, we will contribute to attracting crowds to the areas by making them attractive in a way that respects local individuality in terms of history and the environment to increase consumer mindshare.
- We will diversify revenue streams by acquiring and developing new real estate, organizing private placement funds, and engaging in asset management. In addition, we will expand our development area to include semi-urban areas.

Management restructuring

- We will reduce fixed costs by ¥10.0 billion compared with fiscal 2019 and lower our breakeven point through organization/force restructuring and cost restructuring.
- We will increase efficiency by narrowing down the Group businesses based on the future and growth potential of each business and identifying idle and low-yield assets.

The Group human resource strategy

- Human resource management for regrowth:
  - To secure human resources that will carry out the key strategies, we will strengthen employee skills development and the recruitment of professional talent from outside the Group, while working to establish frameworks and systems that enable their maximum utilization throughout the Group.

Policy on alliances, M&As, and wing expansion

- We will aggressively engage in alliances with other companies and business acquisitions to create new businesses and expand our capabilities, which will contribute to expanding the scale and accelerating the speed of our three key strategies.

Cash flow allocation

<table>
<thead>
<tr>
<th>Operating CF</th>
<th>Investing CF</th>
<th>FCF</th>
<th>Growth investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥190.0 bn</td>
<td>¥90.0 bn</td>
<td>¥100.0 bn</td>
<td>M&amp;A, alliances</td>
</tr>
</tbody>
</table>

Portfolio reform

The share of retail business including the Department Store and Parco is expected to remain 80% or more when we achieve full recovery in fiscal 2023. However, we will reduce the share to around 60% in fiscal 2030. On the other hand, we would like to increase the share of other businesses including the Developer, the Payment and Finance, and new businesses to around 40%. Through these initiatives, we will change our portfolio to a highly resilient one.

<Promotion of diversity & inclusion, realization of work-life integration>

- We will conduct various measures based on materialities, such as assignment and development aimed at women’s empowerment, work style reforms, employment of people with disabilities, and LGBT-related initiatives, to enable individual employees to demonstrate their individuality and abilities to the fullest.

*CF numbers are total for the three-year period from FY2021 to FY2023. Operating CF relates to right-use assets is included.
MANAGEMENT STRATEGY

Finance Strategy

**Promote Capital Cost-Conscious ROIC Management**

**Exceeding capital cost is a must**

We promote capital cost (WACC)-conscious management, and in the current Medium-term Business Plan, we aim to achieve consolidated operating profit of ¥493.3 billion, ROE of 7% and ROIC of 5% in fiscal 2023, which is the final year of the plan. The cost of capital refers to the level of return expected on the company by the funders that invest in it, including financial institutions, investors, and shareholders. From the perspective of fund management, it is investment return, and from the perspective of the company that receives funding, it should be recognized as the cost of financing.

We recognize that the level of the cost of shareholders’ equity (shareholders expected return) is around 6% to 7% in the medium to long term. We set the target of ROE above the cost of shareholders’ equity to meet the expectations of shareholders. Specifically, our target ROE for fiscal 2030 is 10%, and as its milestone, we plan to achieve 7% in fiscal 2023.

The cost of capital is affected by market interest rate trends and the company’s total interest-bearing liabilities and market capitalization. We recognize the level of our capital cost is around 4% to 4.5% in the medium term. Therefore, we also set the target level of ROIC, which we adopted as a management indicator of capital profitability beginning from the current Medium-term Business Plan, for fiscal 2023 to be 5%, which is above the cost of capital.

**ROIC target**

- Introduced ROIC by business as KPI to realize growth accompanied by revenue
- Set ROIC by business above WACC by business

<table>
<thead>
<tr>
<th>Business</th>
<th>FY2023 ROIC target</th>
<th>FY2023 WACC target</th>
<th>FY2030 ROIC target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Store</td>
<td>6%</td>
<td>5%</td>
<td>6-7%</td>
</tr>
<tr>
<td>SC</td>
<td>5%</td>
<td>4.5%</td>
<td>5-6%</td>
</tr>
<tr>
<td>Developer</td>
<td>4%</td>
<td>4%</td>
<td>4-5%</td>
</tr>
<tr>
<td>Payment and Finance</td>
<td>3%</td>
<td>3%</td>
<td>3-5%</td>
</tr>
<tr>
<td>New business</td>
<td>10%</td>
<td>WACC of new business (around 4-5%)</td>
<td>10%</td>
</tr>
<tr>
<td>Consolidated</td>
<td>5%</td>
<td>4-4.5%</td>
<td>5% or more</td>
</tr>
</tbody>
</table>

*WACC = Business profit after tax + Invested capital: Interest-bearing liabilities excluding lease liabilities + Shareholders’ equity

**Introduced ROIC by business**

Funds invested in businesses include funds procured from financial institutions and others as well as shareholders’ equity. It is important to manage our businesses from the perspective of how efficiently we will use these funds. The theme of our business portfolio transformation is shift to the Developer Business and the Payment and Finance Business and its point is the use of interest-bearing liabilities. Therefore, we introduced ROIC by business segment to implement management with a focus on the profitability of “Invested capital,” which is the total of shareholders’ equity and interest-bearing liabilities, as well as the growth potential and profitability of businesses.

Each operating company focused on R&D to use their assets efficiently in the past, but by introducing ROIC, they will evolve their business management. Another point is that an ROIC tree will break down the connection between the improvement of business profit ratio and the efforts of employees into easy-to-understand indicators, and the holding company will focus the investment of management resources on the core businesses, implement the withdrawal and sale of non-core businesses, and add new businesses to increase capital profitability (increase the ROIC spread) and thereby maximize corporate value. We think the dissemination of the importance of capital profitability in the Group will result in the achievement of business portfolio transformation and the improvement of ROE.

**Illustrated BS by business (FY2030)**

- Estimated future BS by business that reflects business characteristics
- Developer and Payment and Finance control interest-bearing liabilities with D/E ratio

**Sophistication of investment management**

- Ensure that planned ROIC is above WACC when making an investment decision
- Manage ROIC as well as PL figures when monitoring

**Investment decision (analysis of plan)**

- NPV
- IRR
- Payback period
- Hurdle ratio

**Monitor (analysis of results)**

- Prevent BS from becoming excessive with growth by using ROIC as monitoring KPI as well as PL indicators
- Set appropriate shareholders’ equity by business

**Future efforts**

- Analyze business profitability of past investment projects using ROIC as KPI
- Analyze factors in underachievement of each KPI including ROIC and also determine future actions
**Use the Market Hypothesis for Change**

**SAWADA Taro**  
President and Representative Director  
Department Stores Co. Ltd.

**Digitization of touch points**

Department stores are pressed to change. I think one of the important themes for this purpose is the digitization of customer touch points centering on app. Before COVID-19, we can say we had customer touch points almost only in physical stores. However, by digitizing touch points, we certainly started to see positive results during the past one year. By digitizing touch points, we can obtain data on online customer behavior such as, for example, how many minutes or seconds customers view our owned media and whether they click links. We did not have such an approach in the past. We did not know whether customers read our letters. We had only customer purchase data obtained when customers visit our stores and buy products. By digitizing touch points, the precision of the data we can obtain will dramatically improve. We can obtain pre-purchase data and predict potential customer needs such as what tangible/intangible goods a customer is likely to be interested in.

I think online players are doing this as a matter of course. However, through the digital shift of our touch points, it came in sight at last. I think this is something revolutionary. We conducted CRM using only POS data for 20 and some years. It may have helped develop customers but did not help deeply cultivate markets. It is not only the level that it is good to connect with customers 24/7, I think we will have to make more use of them.

**Dramatically advanced gaisho activities**

The digitization of touch points has produced an effect in the closed website for gaisho customers “connaissigne.” Though we have already known the potential of connaissigne, it is far beyond our imagination. For example, even if we find very valuable products in a market, they may be available in only limited quantities. However, currently, when we find valuable content, we can post it on connaissigne promptly. People who want it can order it. If the number of orders exceeds the limited number available, we will sell it by lot. Such sales activities, which took several weeks in an analog way, are completed in about one whole day and night using this process.

We aim to grow gaisho sales to the level of ¥200.0 billion in the near future. To this end, we did not begin with discussing what organization structure we will create but we are carefully building based on the market ideas of “to whom,” “what,” and “how” we will sell. Customer statuses are classified into eight, and gaisho customers into two, from customer data. We set a goal for each category such as luxury and art. Touch points include human ones including physical stores and gaisho staff and online ones.

I think our job is “matching between value and customers,” that is to say, to offer valuable content to organized customers. Its platforms or channels include physical stores, gaisho, and online ones.

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**Content first**

When online channels are in place and customer database has evolved, it is content that makes a difference. I feel we can work well if we have absolutely outstanding procurement or development capability in the industry. Currently I think we are establishing a new concept particularly in the world of “art.” Its sales level is still around ¥10.0 billion. However, as it is obvious that its market will further expand, we would like to gain top share while we can. Contemporary art is sometimes critically said to be like a bubble. However, the more mature the country is, the bigger cultural investment and markets become. So it is not so much concerned about it.

This year, we launched an OMO website ARTtoVILLA. And recently, we held an industry’s first event D-art, ART in collaboration with Art Fair Tokyo. We also sold art works displayed in Parco’s exhibition to Daimaru and Matsuzakaya’s gaisho customers. In terms of recruitment, I realize our unique art initiatives are one of the motivations for applying for our company. If we do something remarkably interesting, we can attract people. If excellent people get together, we can do something more interesting and attract more people. And customers get involved. I feel such a positive cycle is being created.

The Department Store can still leverage its strength in some categories. For art, it has an ability to develop products and it also has new media ARTtoVILLA and customers are being properly organized. ARTtoVILLA was launched by a young employee in his mid-30s and he says he would like to pursue scalability. I think a professional team is being created centered on content.

**Embody the market hypothesis in Nagoya**

Currently I feel strongly that we need to face markets more squarely and create a hypothesis properly. Now is the time for all stores and the entire company to more confront markets considering what will happen to them and also their regional characteristics. The “mass market” and the “middle class” are often discussed as similar things. However, I think they are a little different. If we focus on the areas in which department stores have an advantage, the share of premium categories such as luxury will increase. In fact, the middle-class customers also buy them. Hokkaido fair, basement food floors called depachika, and cosmetics gain strong popularity among them. In these areas, young customers are also increasing. The problem is that it was revealed that the middle-class women stopped buying clothing in department stores. All the middle-class customers do not say there is nothing to buy in department stores.

It is obvious that the women’s clothing market is segmented. If our company has some fashion connaisseurs and we can communicate our thoughts to suppliers and take the lead in inviting rare brands, I think currently struggling women’s clothing is quite likely to gain momentum in proper dimensions. I actually feel a hypothesis for our desirable shape is created by facing market changes seriously.

In the Matsuzakaya Nagoya store project, we will conduct a large-scale renovation of its multiple floors based on the hypothesis. Starting with the Nagoya store, I think we will be able to give a concrete shape to what we think fashion is like. Luxury zones are planned to open successively, starting in late 2023. And in 2024 and beyond, we will finally begin to do what we did not do because we did not know their markets to give a concrete shape to our thought. By making three touch points including physical stores, gaisho, and online perform well, we would like to create new department stores that lead to a better future.
**Spearhead the Group’s Innovative Movement**

**Parco’s DNA is “Innovation”**

When we opened Shibuya PARCO, we invited Nintendo TOKYO as a physical shop. It is the first shop directly managed by Nintendo in Japan. This was realized because our staff have worked with the company. I felt Nissin Food Products Co., Ltd. is close to Parco in terms of innovative ideas. I was impressed by their seriousness about researching and developing the products that respond to health consciousness. I think Nissin Food Products could get to where it is now because it has continued to innovate.

Parco’s DNA is “innovation” because the thoughts of the employees who have Parco’s DNA are consistent. I would like to win the hearts of our business partners using Parco’s DNA while we work for Parco. I would like to work with all at Parco to pursue the results that create genuine articles with stories.

**Digital technologies to keep the real world alive**

Parco holds a digital art contest NEW VIEW as one of the uses of digital technologies. People who won excellence prizes there have grown so that their works are sold at amazing high prices. I think Parco’s uniqueness in digital terms is in focusing on the incubation of artists and creators. In Shibuya PARCO, which is our image core, a cross-border order for the only product of its kind available only there is becoming commonplace. The use of digital technologies not to activate EC but to deliver products to people who should experience them here and now or crave for them is progressing.

A bigger point then is that our primary focus in our digital strategy is to create factors to inevitably entice customers to visit physical stores. For example, we are creating a new business scheme that pop-up boutiques of luxury brands operate using digital technologies while we affiliate with them through EC sales. We are also working to make Shibuya PARCO a so-called “sacred place” as a location business.

I think the Real×Digital Strategy to be addressed by the J. Front Retailing Group is how we will use physical stores from the perspective of going beyond time and space rather than how we will promote EC business.

Furthermore, more and more people will enjoy being served. I think not a few people realize how much fulfilling talking with others, waiving, and selecting a product are. They must have thought anew that they wanted to buy from that person or that they wanted to talk with that person. Going forward, couple consumption will emerge. I call it “human consumption.” I think digital technologies to activate “human consumption” are most integral to the Real×Digital Strategy.

To become a unique developer

In September 2020, we took over the real estate business from Daimaru Matsuzakaya Department Stores and we have worked with the members from the Department Store to give a concrete shape to the Shinonoboshi project (tentative name) and the Nagoya Nishi 3-chome District 25 project (tentative name). For both, leasing is going well. And the exterior design of the buildings, the establishment of good relationships with respective local communities, and negotiations with the government are progressing at an accelerated pace.

The J. Front Retailing Group has mainly operated department stores and shopping centers. I am excited about what commercial facilities will be created inspired by the combination of the specialty shop business and the department store business. We anticipate complexes will dominate in the future and I would like to strongly demonstrate that we will be able to apply the sense and design of the operator of commercial buildings to the entire complex building.

We also entered a residence business. I think we will be able to create something a little different from the past. For example, for the project in Nagoya, Parco’s design team oversees the common space of the residence. Co-working space and a lounge will also be created. Parco’s employees who live away from home or live in condominiums think co-working space will be useful when they are with their families in this era because they can work away from their families in the same building.

We suggested this idea to our business partners and they accepted it.

At present our development projects involve a lot of changes in what commercial facilities will be. We are also working to make Shibuya PARCO, which is our image core, a cross-border order for the only product of its kind available only there.

**Value creation leading to Well-Being Life**

Though our story has changed a little due to prolonged COVID-19, my current awareness is that Parco’s achievement of the medium-term plan is coming in sight unless the status of COVID-19 gets worse.

Parco’s role in following the Group’s sustainability management is becoming commonplace. The use of digital technologies to activate EC but to deliver products to people who should experience them here and now or crave for them is progressing.

If so, I do hope you will look forward to it. I would like to strongly demonstrate that we will be able to apply the sense and design of the operator of commercial buildings to the entire complex building.

I think digital technologies to activate “human consumption” are most integral to the Real×Digital Strategy.

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

I think our corporate tradition is because it has continued to innovate. Products could get to where it is now due to prolonged COVID-19, my current awareness is that Parco’s achievement of the medium-term plan is coming in sight unless the status of COVID-19 gets worse.
Rebuild the Value of the Real World

Sales floor portfolio conversion

In response to this situation, the Department Store is trying to change its sales floor portfolio to focus on key categories, and this year, we will accelerate this initiative at once. In the Daimaru Kobe store, sales recovery is progressing earlier than other stores and sales of the entire store already exceeded the fiscal 2019 level. The causes behind its strong performance include the selection of luxury brands that can respond to customer needs as well as its solid customer base including gaisho customers. In March 2022, we opened the West Japan flagship store of Louis Vuitton near the store to further improve its range of products. The boutique will attract customers from a wide area with the flagship’s distinctive attractiveness to help activate the entire store.

The Matsuzakaya Nagoya store conducted a large-scale renovation of its watch and jewelry department on the 5th floor of the north wing for the first time in 14 years and the new watch and jewelry department GENTA the Watch with doubled floor space will make its grand opening in fall 2022. The floor space of Rolex shop tripled and thus its merchandise mix was dramatically improved. We aim to make it the “Japan’s number one watch department” by strengthening online services and installing a repair factory with an entertainment element.

Identify markets

Lifestyles and consumption styles have rapidly changed due to the COVID-19 pandemic and the markets that will not return and the markets are becoming fairly apparent. In this situation, we focus investment on key categories that are expected to produce results early and certainly on physical sales floors.

We understand that customer needs for department stores are changing in response to changes in life and consumption trends such as low birthrate and longevity, consumption polarization, and widespread remote working.

On the other hand, prime categories such as luxury brands, art, and watches continue to grow steadily even amid the COVID-19 pandemic. Their sales already exceeded the fiscal 2019 levels before COVID-19 partly due to increased purchase by young affluent customers.

In December 2021, GINZA SIX, which is symbolic as Japan’s first luxury mall, recorded the highest sales since opening. Duty-free sales accounted for 30% before COVID-19, but currently, purchase by young affluent people boosts sales.

Department store that does not sell

We have reviewed the functions expected of physical stores and worked to diversify their sales floor models. In the showcasing space for DCC brands “asumise,” which opened in the Daimaru Tokyo store in October last year using the strength of the Department Store that has physical stores, customers can hold up and look at the DCC brand products sold directly through EC sites and hear stories about the products and brands from the staff members of Daimaru Matsuzaikaya Department Stores (= ambassadors) who are knowledgeable about the product backgronds. Based on the concept of a place that creates new possibilities from the “cycle of encounter,” products are shown for a limited time and replaced successively. We will seek the ways of alliance and aim to operate it in multiple locations in the future.

New models to activate rural stores

In response to rapid changes in the external environment, rural stores have worked to change their merchandise categories and business models at a faster pace than urban stores. As consumption beyond time and space became possible due to the progress of digitization, rural stores had to work early to create motivation to visit them.

The Matsuzakaya Shizuoka store introduced SMART AQUARIUM SHIZUOKA in April 2022 as a new trial. We carefully and repeatedly consider what is necessary for a department store to contribute to the local community for the future and aimed to create the core content in front of the station by not only selling products but also creating space that delivers experience value. The Shizuoka store already renovated 55% of the total sales floor area including this initiative. It realized a drastic category conversion by reducing the apparel floor area to rightsize it while strengthening luxury items, cosmetics, and food.

Review of terminal stores

The Daimaru Tokyo store and the Daimaru Umeda store are located in front of the Tokyo Station and the Osaka Station, which are two biggest terminals, respectively, and they have been buoyed by a lot of traffic. On the other hand, the two stores were most affected by COVID-19 such as a significant decrease in interregional travel for the past two years.

Therefore, they fell behind other stores, but currently, they are recovering rapidly. The large-scale development of the areas around both the Tokyo and Osaka stores is steadily progressing. And in the medium to long term, the population around the stores is expected to increase and we can have enough hope for their regrowth. Amid environmental changes such as remote working that has become widespread due to COVID-19, we need to consider new existence value of the stores.

In fiscal 2022, both the Daimaru Tokyo and Umeda stores will invest in renovation to improve the offering of high-end watches. And at the end of 2022, Nintendo OSAKA, an official shop directly managed by Nintendo Co., Ltd., will open in the Daimaru Umeda store. It is Japan’s second shop following Nintendo TOKYO in Shibuya PARCO. Using the location characteristic of the terminal stores that can attract customers from a wide area, we will strive to provide attractive content that entices a wide range of customers in Japan and abroad to visit them.

The environment around each store is rapidly changing. While valuing the history of each store, we will sincerely face customers and continue to respond to changes to make the stores more attractive.

Identify markets

Department Store Business 01 Real × Digital Strategy

MANAGEMENT STRATEGY

INTEGRATED REPORT 2022

INTEGRATED REPORT 2022
App is the centerpiece of digital strategy

Post-digital world – The smartphone penetration in Japan has already exceeded 90% and customer touch points are increasingly shifting to digital ones. We think online and offline are no longer separate from each other and will be further merged centering on customer experience. It can be said that the use of smartphones is essential to expand customer touch points and further deepen communication.

To this end, Daimaru Matsuzakaya Department Stores issued “Daimaru Matsuzakaya app,” which is a service that combines the functions of physical stores, e-commerce, and owned media. Though it is e-commerce, customers can consult and receive good service from its staff like in physical stores. It is media commerce like a physical cosmetics counter.

The editors of DEPACO and the beauty advisers of cosmetics brands deliver approximately 100 or more original articles and information on department store cosmetics every month. Its lineup ranges from popular brands in e-commerce to the brands not available in physical stores. In response to the needs to “consult across brands,” online counseling by DEPACO’s dedicated beauty advisers in the categories including skin care and makeup using the strength of the Department Store is becoming available in phases, starting with the item groups that are high in demand.

Two unique OMO websites were launched

In the current situation in which people are expected to keep their distance from others and their lifestyles are changing, Daimaru Matsuzakaya Department Stores strives to create new experience value by realizing OMO that centers on physical stores and merges them with digital technologies. We will overcome time and place constraints and expand “human” power, which is the strength of the Department Store, using digital technologies.

DEPACO

DEPACO

In March 2022, our department store cosmetics information media DEPACO, which had already been popular, was renewed as “media commerce” that operates cosmetics information media and an online store. It was reborn as an attractive website that combines the functions of physical stores, e-commerce, and owned media. Though it is e-commerce, customers can consult and receive good service from its staff like in physical stores. It is media commerce like a physical cosmetics counter.

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ARTeVILLA

ARTeVILLA

The art market in Japan exceeded ¥250.0 billion and department stores are its second largest sales channel behind art dealers (approximately 20% in 2019). Particularly, the contemporary art market is expanding and contemporary art is popular among young collectors in particular. This trend is expected to continue in the future. In this situation, ARTeVILLA, our first art media that communicates the appeal of art and buying art, was launched in January 2022.

ARTeVILLA is a project in collaboration with people from #DOORS who opened the doors of art in their individual ways of living and are active in cultural occasions. Its concept is to let people who create art and people who receive art work together to increase the perspectives of enjoying art. It provides content that lowers the hurdles to owning art online and in physical stores and delivers experience until owning art. People who “view” art are increasing but still a few people “buy (own)” art. Given this current situation, we would like to normalize buying art using unique approaches linked to daily life and make a fulfilling life with art possible for all.

Subscription is growing

AnotherADress, a fashion subscription business which we newly entered in March 2021, has gained popularity from more customers than expected and performs well.

It is a service to respect the intrinsic value of fashion and sustainable initiatives and aim to shift to a socially and environmentally sustainable business model based on the belief that clothes are not disposable. We would like to create fashion subscription experiences with a sophisticated brand lineup and the freedom for customers to choose what they want to wear now and build a new market which is not present in existing businesses.

Department store operators and other retailers have grown with the trends around the fashion industry such as mass production and mass consumption. However, environmental issues behind them including mass disposal have a very great impact on society and the earth. We think it is the Group’s great responsibility to face these issues seriously and change the whole business model to a more sustainable one.

Currently it handles ladies’ fashion but we would like to expand the subscription market in the future with a view to “lateral expansion” using this business as a platform.
High Quality Content and Service

Affluent market is expanding

Recently, with share prices rising due to monetary easing, net financial asset holdings in Japan go on increasing. Not only the asset holdings of existing affluent people are increasing but more and more households including entrepreneurs in their 20s to 40s are becoming affluent partly due to an increase in the value of their asset holdings. The upper class including young dual-income households that manage their financial assets is also expanding.

These affluent young people have preferences and values different from existing affluent people for contemporary art, etc. They are also well versed in information collection and communication using digital technologies. With this in the backdrop, the number of customers who spend much money other than gaisho customers is increasing.

In response to the expansion and diversification of affluent customers, the Department Store is promoting the Prime Life Strategy, which significantly expands the traditional framework of gaisho, and steadily accumulating results.

Develop new good customers

The first pillar of the strategy is to expand and deepen our customer base using digital technologies. Currently, the number of gaisho customers is approximately 320,000 people and we strive to further increase the numbers of accounts and customers by implementing an online sign-up system since fiscal 2021 and encouraging the customers of our alliance partners to sign up. It has become possible to approach the customers who are highly motivated to buy by offering rare content through contemporary art-specific open media ARTiVILLA and others and the content drives the development of new customers. Through these initiatives, average spend per customer of newly acquired accounts in the first year exceeds ¥1.40 million.

We are also fostering customers centering on the Department Store app. It has become possible to learn from data on the use of app that sales from the customers who spend ¥1 million or more a year other than gaisho customers are increasing. We encourage these customers who spend much money other than gaisho customers is increasing.

In response to the expansion and diversification of affluent customers, the Department Store is promoting the Prime Life Strategy, which significantly expands the traditional framework of gaisho, and steadily accumulating results.

Expansion and improvement of prime content

The second pillar of the strategy is to improve valuable content, which motivates customers to buy. As for luxury items and high-end watches, which are our key categories, we focus investment on flagship stores to expand sales floors and introduce new brands. With respect to art, we are working to create the Group synergy by holding large-scale events such as D-art, ART, an art fair touring around department stores across Japan, introducing Parco’s art events, and actively conduct pricelo. Furthermore, we expand the offering of content not limited to department store products such as condominiums and premium cars through alliance with companies outside the Group.

Progress of the use of data

Amid the diversification of the needs and buying characteristics of gaisho customers against the backdrop of an increasing number of affluent young people, we are working to build a gaisho organization that provides optimal information and services. We strive to improve the system group staff who conduct sales activities by emails and phone calls, mainly transferring customers to stores and attending customers in stores, as well as the dedicated staff who conduct finely tuned sales activities on a one-to-one basis. The full use of the system increased more than fivefold the number of accounts that can be managed by one staff compared to dedicated staff.

Dramatically advanced use of data also greatly contributes to improving sales activities. We create prediction models based on the online behavior data obtained from apps, websites, and email viewing. In addition, by combining them with information on approach to each customer by gaisho staff, we will make a list of non-buying potential customers. We already identified categories such as high-end jewelry and it leads to highly efficient sales in flagship stores.

It is existing store staff who are experienced in sales and customer service that support the improvement of the gaisho organization. By reskilling them concerning the transaction of high-priced and rare products and attending customers, we are expanding new stages for them.

“Matching” between customers and content

The third pillar of the strategy is to connect customers with content offline and online. We installed customer lounges in flagship stores to create special hospitable space. Customers not only relax there but also as galleries, artists visit them and a tasting of rare western liquor is held. Thus, we provide the customers who use them with special opportunities to further strengthen the connection between customers and stores/content. The building of relationships online is steadily progressing through digitization. Our closed website for gaisho customers “connaissligne” plays an important role as a customer touch point with rich content that meets the demand for intangible goods such as VIP seats to enjoy festivals as well as rare products such as luxury items.
Polish Up Physical Stores through “Production by Parco”

Potential of Shibuya PARCO / Shinsaibashi PARCO

In Shibuya PARCO, unique limited-time shops and exhibitions have achieved success. In 2022, it actively opened unique limited-time shops including “Jiyu na Sebiro [literally free suit jackets]” jointly organized by United Arrows, Comme des Garçons, and New Balance. When an exhibition Mickey Mouse Now and Future was held, its pop-up truck toured around PARCO and Daimaru stores throughout Japan to contribute to “making content attractive” at the Group level.

In addition, in September 2019, capturing the growth of the outdoor market with changes in lifestyles, about a half of the 5th floor of Shibuya PARCO was renewed as PARCO OUTDOOR PARK. With a wide selection of items that can be used outdoors and in towns, it proposes urban outdoor styles that travel between streets and fields.

By continuing to evolve as one and only commercial space, it will enhance the ability to communicate Parco brand. Shinsaibashi PARCO is connected to its adjacent Daimaru Shinsaibashi store with access ways and they create synergy as unified commercial facilities. According to our buying data analysis, more customers buy in both stores than expected. Cards and points can be used or earned in both Parco and Daimaru/Matsuzakaya stores and joint events are held. And Parco finds and produces attractive content and proposes it to Daimaru/Matsuzakaya gataisho customers.

In order to make stores/content attractive, Parco entered a new business of developing and operating medical malls, and in November 2021, it opened the first site of a medical mall Welpa, which seamlessly provides healthcare, products, and services, on the 10th floor of Shinsaibashi PARCO. Its seven tenants including a gynecological clinic and a femtech shop, and a lounge and a gallery provide a wide variety of products and services that are useful for daily self-care, ranging from healthcare to food.

We will develop new markets in the Shinsaibashi area to contribute to attracting crowds to and revitalizing the area while creating the Group synergy.

Renew mainly major stores in fiscal 2022

In fiscal 2022, we are working on large-scale renovation in response to changing times in major stores including Ikebukuro PARCO and Nagoya PARCO.

In Ikebukuro PARCO, we introduced new shops with the themes of “athleisure,” “skincare / inner beauty,” “food,” and “culture” and completely renewed in April 2022. We strengthened pandemics and ageless offerings by renovating the entire ground floor for the first time in about 16 years and renewing the lower floors of the main building on which mainly ladies fashion items had been provided for a long time. At the same time, shops in the game and animation culture fields were introduced on the 5th floor of the main building to contribute to making the area more attractive and attracting new crowds to the area.

In Nagoya PARCO, we conducted large-scale renovation of 13,000 square meter area, which is approximately one third of the total floor area, in the three buildings including the west building, the east building, and the south building by May 2022. First, the west building was upgraded to provide high-quality products and space focused on fashion, culture, and beauty. The east building evolved into an entertainment-specific building and new zones for events and live performance were newly created to attract crowds. And in the south building, we are working to provide unique floor layout and item selection by operating a grouping store of a leading apparel company Baycrew’s on four floors. We will strive to further polish up our physical stores to make them a “place in which customers can encounter attractive products and services and gain high quality experience.”

Real×Digital Strategy of SC Business

The greatest focus of Parco (SC Business) in “making stores/content attractive,” which is the axis of the Real×Digital Strategy, is on creating the irresistible value that makes even people who are used to using online services including e-commerce “want to visit physical stores right now.”

Shibuya PARCO reopened in November 2019 after being rebuilt and Shinsaibashi PARCO opened on the site of the former north wing of the Daimaru Shinsaibashi store in November 2020 by changing its business format to PARCO. Though both stores started full operation or opened amid the COVID-19 pandemic, they perform steadily even in the circumstances of living with COVID-19. Given this situation, it can also be said that they do not realize their inherent potential yet and further development in the future is expected.

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We will develop new markets in the Shinsaibashi area to contribute to attracting crowds to and revitalizing the area while creating the Group synergy.
The Heat Plays on Your Heart Strings

Greater role of entertainment
Parco that operates the entertainment business in the Group has actively introduced new cultural offerings in the fields of theater, music, and art, since its establishment. Entertainment is one of the important factors that amplify the value of the real world. For example, it can be said that a sense of reconciling between players and audience in performing arts is powerful in only the real world.

In this business, we produce varied, highly appealing content in the fields of theater, music, movies, and publishing. We also produce multimedia across field boundaries by creating DVD and book versions of the content and organizing collaborations to offer entertainment with real emotion and discovery. These initiatives not only attract customers to and promote sales in each PARCO but also contribute to branding and differentiation at the Group level.

Culture ahead of the times
Parco’s entertainment business always creates and provides new content by connecting to creators and artists on our own sites such as PARCO Theater and CLUB QUATTRO and bringing together industry’s information there. Recently, we have worked on the projects linked across genres including movies, publishing, and exhibitions and selling art works to the customers of Daimaru/Matsuzakaya in the Group to expand value offerings.

Furthermore, by incorporating digital technologies, we strive to communicate information on trends and create added value. The theater division streams each performance for a price and its digest for free on social media. The music division streams original content such as talk programs featuring artists. Thus, we provide experience beyond boundaries between online and offline.

We think Parco’s strength is the ability to find materials with potential, combine them with optimal infrastructure, and edit and produce unique projects. Going forward, we will further improve this strength and aim to enhance exclusive experience value while staying ahead of changing times.

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<thead>
<tr>
<th>Entertainment business site</th>
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<tbody>
<tr>
<td>Theater</td>
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<tr>
<td>3 sites (Shibuya)</td>
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<tr>
<td>Music</td>
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<tr>
<td>5 sites (Shibuya/Nagoya/Hiroshima/Umeda)</td>
</tr>
</tbody>
</table>

Movies
2 sites (Shibuya)

Gallery/café
7 sites (Shibuya/Reibukun/Nagoya/Shinsaibashi/Hiroshima/Fukuoka)

Café
4 sites (Shibuya/Reibukun/Nagoya/Shinsaibashi)

Other: Tour around PARCO stores, etc.

Theater business site

Musical drama “Neptune” staged at PARCO Theater
“Neptune” was a musical drama written by TERAYAMA Shuji before he co-founded the Tenjō Sajiki theater troupes in 1963. It had never been staged until it was performed at PARCO Theater. Terayama had strong ties with PARCO, writing plays such as “The Minazoroz Mandarini” (1977) and “Bluebeard’s Castle” (1979) for PARCO Theater and staging them there. In recent years as well, the theater has put on numerous Terayama plays produced by PARCO. “Neptune” featured popular producer and actors, which received great publicity. MANABE Takashi directed it and won the Best Director award at the 29th Yomiuri Theater Awards, which honored outstanding plays and people involved in the theater in 2021.

Held an art poster fair PARCO PRINT CENTER
An art market event entitled PARCO PRINT CENTER was held on the 1st underground floor of Shibuya PARCO in February 2022 to produce and sell art posters. PARCO curated a select group of 14 artists working in various mediums. With the excitement of being able to print on the spot, participants explored possibilities in expressive art prints, from layout and design to paper and printing. Along with sales of numbered, limited-edition posters enclosed in specially made white boxes, the event included ART BOOK MARCHE, music, and talks.

Provide personal fulfillment to customers
We were deprived of normal life due to the COVID-19 pandemic and experienced unspeakable anxiety and inconvenience. Therefore, it can also be said that consumption and experience that provide excitement to daily life are expected more than ever in today’s society. Parco has worked to propose fulfilling lifestyles by introducing culture and it fits the current situation. Only because we are in the Group that has continued to look at the “present” and the “future” while catering to customers, we would like to enrich customers’ lives by introducing culture to help create Well-Being Life.
Grow with Local Communities by Creating New Value

Have the key to portfolio transformation

The Developer Business in the Group consists of the real estate rental business that develops properties and the design and construction contracting business that undertakes interior construction work in commercial facilities, hotels, etc. It is promoting a business strategy in domestic real estate development with the aim of being an "urban lifestyle developer" that delivers diverse proposals for urban living and helps create highly attractive urban districts. We are also taking on the challenge of redeveloping large-scale complexes in the Group's strategic priority areas including the Sakae area in Nagoya and the Shinsaibashi area in Osaka in which the Group's department stores and Parco stores are located as the cores of the areas, tasking diverse applications not limited to retail, and using development mechanisms like fund and asset management business schemes to create new formats and categories.

For the growth of the Group in the future, the Developer Business will promote large-scale complex development in the prime locations in which the Group's stores are located and also develop diverse applications including non-commercial ones such as residence, hotels, and hotels as well as its strong commercial ones.

In order to strongly promote them, the CRE Planning Division was created in the holding company. It will strive to maximize the value of real estate holdings by developing CRE strategies concerning the real estate development and real estate holdings of the entire Group and strengthening collaboration with Parco's real estate-related division. Thereby we will promote the CRE strategy by reviewing property portfolio, develop plans concerning the acquisition, disposal, and sale of the real estate held by each company in the Group, and build and promote new property development schemes to realize the developer strategy. At the same time, it will play a role in leading the Developer Strategy Committee.

For the dramatic growth of the Group for fiscal 2024 and beyond, the Developer Business was positioned as one of the key businesses and ¥310 billion investment will be made in it during the term of the current Medium-term Business Plan. Parco and the CRE Planning Division will work together to promote the strategy.

ZERO GATE

ZERO GATE is a format that specifically focuses on low- and medium-rise commercial complexes in prime locations with one or a small number of tenants. Going forward, it will utilize these prime locations to introduce a high-rise category linked to diverse sectors not limited to retail and to create new business schemes that draw on high visibility levels and DX technologies. Parco has long produced urban lifestyles based on various themes like fashion and culture, and the name ZERO GATE signals Parco’s desire to return to a “zero point,” a “new beginning,” to propose new value through the “gate,” the “entrance,” to the district at large.

BINO

BINO consists of low- and medium-rise commercial facilities transferred to Parco from Daimaru Matsuzakaya Department Store Co., Ltd. in September 2020. Its main focus is on "beauty and health" and it aims to provide support for beauty "from inside and outside." The name BINO is an acronym of the phrase “Beauty Inside and Out.”

Announced "(tentative name) Shinsaibashi project" with completion scheduled for 2026

The "(tentative name) Shinsaibashi project" is promoted by four companies including Hulic Co., Ltd., Takenaka Corporation, JR West Real Estate & Development Company, and Parco Co., Ltd. It is located in a highly visible place at the intersection of Midosuji, which is the main street of Osaka, and Nagahori-dori in Shinsaibashi. By rebuiding Shinsaibashi Plaza Building and Shinsaibashi Fuji Building, which have long helped attract crowds to the Shinsaibashi area, we will develop a complex with stores, a hotel, and offices as a new landmark.

We are planning to invite luxury brands to open (two- to three-floor) duplex boutiques on its lower floors facing the streets of Midosuji and Nagahori-dori. By merging diverse applications including stores, a hotel, and offices, we aim to attract more crowds to it and further revitalize its surrounding area.

Condominium development projects are also in progress

With respect to the development of real estate applications not limited to commercial ones, in April 2022, we entered the residence business and announced the plans to develop condominiums for lease and sale in Nagoya, Yokohama, and other cities.
Expand Financial Service Offerings Centering on Payment

Environment around the Payment and Finance Business

The environment around the Payment and Finance Business is rapidly changing due to the COVID-19 pandemic, such as changes in consumption behavior, expansion of e-commerce, the progress of cashless payments, advanced communication through smartphones (app), and the emergence of new technology players. In this situation, in the Medium-term Business Plan, the Group aims to increase customers in local areas under the Developer Strategy, increase customer touch points under the Real-Digital Strategy, and acquire new affluent customers under the Prime Life Strategy. We believe we will be able to greatly grow the Payment and Finance Business by building relations with customers through payment and provide financial services using customer data.

Issued new cards

In January 2021, Daimaru Matsuzaika Card was completely renewed. We introduced a new point program QIRA Point in addition to existing Daimaru and Matsuzaika points. It allows the cardholders to earn points not only in Daimaru and Matsuzaika stores but also through all credit card payments and to exchange earned points for various affiliated points, products, and special experiences as well as Daimaru and Matsuzaika points. We also changed their design and adopted a portrait style for the first time in the industry. They are also equipped with Visa’s touch payment function to improve customer convenience.

The share of the customers aged 49 or under whom we account also increased by 5.4% compared to fiscal 2019 before COVID-19 (fiscal 2021 basis). Going forward, we will strive to increase utilization rate and transaction volume by raising awareness, understanding, and value of QIRA Point.

Promotion of merchant acquiring business

JFR Card concluded license agreements with VISA and Mastercard in July 2020 and started to provide merchant acquiring services in February 2021. Currently, we are working to bring together the merchant acquiring services of the Group’s facilities including Daimaru Matsuzaika Department Stores, PARCO, and GINZA SIX. We are also actively working to acquire merchants outside the Group in the areas in which the Group’s stores operate. For merchants, we will deliver value such as sales increase, the acquisition of new customers, and the transfer of the Group’s customers. For customers, we will gain recognition as the provider of the “best payment and financial services in the area.” By doing so, we will aim to build an economic zone that connects the Group’s customers and merchants in the area.

Expansion of finance business

We will provide various financial services using payment data by building relations with customers centering on payment. Particularly, we will focus on financing and insurance, which have a high affinity for the Group’s customers and business models and are highly profitable.

For medium-term growth

The Payment and Finance Business recovered operating profit to ¥1.9 billion in fiscal 2021 and sees a prospect of increasing operating profit to the level of ¥3.0 billion in the current Medium-term Business Plan. Going forward, we will build a system that can greatly contribute to the growth and revenue of the Group by strengthening the Group’s customer base, expanding our merchant network mainly in the Group’s key areas, and developing and expanding financial services using data.
Sustainability

Sustainability

Amid increasingly uncertainty about the future due to aggravated global environmental problems such as global warming and ocean pollution, human rights issues in supply chains, prolonged COVID-19, and increasing geopolitical risks, social structure and consumption behavior are greatly changing. In these circumstances, companies are expected to implement sustainability management that solves social issues and achieves business growth at the same time. The Group will promote sustainability management and realize Well-Being Life for all its stakeholders, such as customers, employees, and suppliers, through CSV (Creating Shared Value) initiatives.

Realization of Well-Being Life

The Group articulated its intention to realize Well-Being Life for its stakeholders in the Medium-term Business Plan launched in fiscal 2021. The Group thinks of Well-Being Life as “both mentally and physically fulfilling life” that realizes spiritual wealth (intelectual and cultural wealth), physical wealth and social wealth as well as conventional material wealth and economic wealth and welfare for the environment surrounding them. While valuing the places in which we communicate with stakeholders, we are striving to realize Well-Being Life.

Sustainability promotion system

The Group discusses and makes decisions on specific initiative policies related to social issues including the environment and human rights in the Group Management Meeting, which is the highest decision-making body in business execution. The matters discussed and decided in the Group Management Meeting are shared with all operating companies in the Sustainability Committee, which is an advisory body to the President and Representative Executive Officer and the committee monitors the progress of the action plans formulated by each company. In addition, the Board of Directors receives the reports on the content of discussions and decisions made in the Group Management Meeting and the Sustainability Committee meetings and discusses and oversees them.

Major agenda items in the Sustainability Committee meetings

FY2021
April - Efforts made with suppliers to reduce Scope 3 emissions
- Overview of supplier assessment including human rights
- Progress of the entire Group in FY2021
Sep - Lectures by an external instructor “Importance of ESG information generation”
- Implementation of supplier assessment including human rights
- Progress of the entire Group in FY2021
May - Lectures by an external instructor “Ethics and sustainability management”
- Action plan for FY2022
- How to address the Women’s Empowerment Promotion Project
- Explanation about the results of supplier assessment (including human rights)
- Progress of the entire Group in FY2021
- Lectures by an external instructor “Diversity as a management strategy”

FY2022
April - Lectures by an external instructor “ESG sustainability management”
- Active plan for FY2022
- How to address the Women’s Empowerment Promotion Project
- Explanation about the results of supplier assessment (including human rights)
- Progress of the entire Group in FY2021
- Lectures by an external instructor “Diversity as a management strategy”

List of long-term targets for 7 materialities

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<th>Risk and opportunity</th>
<th>Status</th>
<th>FY2023 results and major efforts</th>
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<tbody>
<tr>
<td>Environment</td>
<td>Risk</td>
<td>Rise in frequency of key environmental regulations due to climate change and health issues</td>
<td>FY2023 goal</td>
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<tr>
<td></td>
<td>Opportunity</td>
<td>Action plan for FY2022</td>
<td>2023 target</td>
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<tr>
<td>Social Impact</td>
<td>Risk</td>
<td>Risks in supply chains and community relationships</td>
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<tr>
<td>Community Development</td>
<td>Risk</td>
<td>Risk of negative business impact on local communities</td>
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Linkage with the OfficerRemuneration Policy

The Group revised its Officer Remuneration Policy when formulating the Medium-term Business Plan launched in April 2021 and established the following two items as non-financial indicators for determining performance-linked remuneration.

- 40% reduction in Scope 1 and 2 GHG emissions (compared to fiscal 2017)
- 26% increase in the share of women in management positions (both (1) and (2) are at the end of fiscal 2023)
Environmental Initiatives

Recently escalating global warming causes large-scale climate change and human beings including ourselves in the current generation as well as the future generation are put at risk. In this situation, the Group recognizes that the risks and opportunities associated with climate change will exert a huge influence on its business strategy. With the “realization of decarbonized society” and the “promotion of circular economy” identified as our materialities, we strive to reduce environmental risk and capture new business opportunities.

Transition to net zero*1 by fiscal 2050

The Intergovernmental Panel on Climate Change (IPCC) provided a scientific indicator in its “1.5°C special report” in 2018, which states that the need to reach net zero emissions by around 2050 in order to achieve the 1.5°C target. Meanwhile, in 2021 the Science Based Targets initiative (SBTi)** announced a new Corporate Net-Zero Standard based on scientific knowledge. Thus, companies are unable to overlook the need to reach net zero.

In 2021, the Group lifted its target for reducing Scope 1 and 2 GHG emissions from the previous 40% reduction to a 60% reduction (compared with the SBT base year, fiscal 2017) and it was approved again as the “1.5°C target” that is the new standard set by the SBTi.

Furthermore, based on the Corporate Net-Zero Standard set by the SBTi, we formulated the JFR Group FY2020 Net Zero Transition Plan to achieve FY2025 Net Zero within the range of Scope 1, 2, and 3 GHG emissions. From short-, medium- and long-term perspectives, in our business strategy, we will formulate appropriate strategies to avoid negative risks, while for positive opportunities, we will aim to capture new growth opportunities by responding proactively to market changes and other means.

Reduction in Scope 1 and 2 emissions by use of renewable energy

The Group is working to switch to renewable energy and LED lighting and electrify corporate fleet in stores and head offices to reduce Scope 1 and 2 emissions. Particularly, we believe a switch to renewable energy in stores will result in not only emission reduction but also the improvement of the store’s environmental value, which will attract environment-conscious customers and suppliers.

Thanks to our effort to switch to renewable energy, renewable energy rate is 20.3% at the end of February 2022.

Going forward, we will consider energy creation measures such as the onsite consumption of renewable energy and strive to strengthen resilience by diversifying energy sources.

JFR Group FY2020 Net Zero Transition Plan

<table>
<thead>
<tr>
<th>FY2020 Scope 1 &amp; 2 Net zero targets and results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net zero</strong> reduction (compared with the SBT base year)</td>
</tr>
<tr>
<td><strong>Emissions</strong> (t-CO2)</td>
</tr>
<tr>
<td>FY2021</td>
</tr>
<tr>
<td>Scope 1</td>
</tr>
<tr>
<td>Scope 2</td>
</tr>
</tbody>
</table>

*Received third-party assurance from LRQA Limited

Resources recycling and the development of circular business models

In the current situation in which the mass production and mass disposal of products pose a serious social problem, there is an increasing importance of a circular economy, which maximizes the efficiency of use of natural resources and products and minimizes waste generation and the Group is evolving its initiatives.

Daimaru Matsuzakaya Department Stores has implemented 3Rs* such as ECOPF, an initiative of collecting disused clothing, shoes and bags from customers and recycling and reusing them as new materials or products and has gained support from stakeholders. In addition, it launched a subscription-based fashion rental service AnotherADdress in 2021 as a sustainable initiative.

Going forward, we will evolve and expand 3Rs centering on “resources recycling initiatives” and the “development of circular business models” to reduce environmental burdens and capture new business opportunities at the same time.

Diagram of the circular economy the Group aims for

*The plan is current as of the end of May 2022, and may be revised depending on business strategies going forward.
Response to Climate Change and Information Disclosure in Line with TCFD Recommendations

The Group expressed support for the TCFD recommendations in fiscal 2019. We use the TCFD recommendations as guidelines for verifying the appropriateness of the Group’s response to climate change. We disclose information effectively in accordance with the four recommended items of “governance,” “risk management,” “strategy,” and “metrics and targets.”

Governance over environmental issues
In order to promote sustainability management in all the Group companies in a cross-sectional manner, the Group Management Meeting, which is the highest decision-making body in business execution, discusses and decides regarding specific initiatives and measures associated with environmental issues. At a semiannual meeting of the Sustainability Committee, we share policies and other matters on our response to environmental issues discussed and decided by the Group Management Meeting, and draw up execution plans concerning the Group’s environmental issues as well as monitoring progress in their implementation.

Meanwhile, the Board of Directors discusses and supervises the Group’s policies on response to environmental issues, policy execution plans and the like, acting on reports over discussions and decisions at the Group Management Meeting and the Sustainability Committee.

The President and Representative Executive Officer chairs the Group Management Meeting as well as the Risk Management Committee and the Sustainability Committee, both advisory panels under his direct control. He thus bears final responsibility for management judgments associated with environmental issues. Details of matters discussed and decided by the Group Management Meeting and the Sustainability Committee are eventually reported to the Board of Directors.

Risk management
The Group, positioning risk as a starting point for strategy, formulates its strategies and responds to them by back casting with an eye to fiscal 2050, by which we will realize net zero.

The Group has set two goals for managing climate-related risks and opportunities: Scope 1, 2 and 3 GHG emissions and the renewable energy rate in total electricity used in business activities.

Furthermore, in the Officer Remuneration Policy revised in April 2021, Scope 1 and 2 GHG emissions reduction targets were set as indicators for determining performance-linked remuneration, to clarify executive officers’ responsibility with regard to the issue of climate change.

Metrics and targets
The Group has established two metrics for managing climate-related risks and opportunities: Scope 1, 2 and 3 GHG emissions and the renewable energy rate in total electricity used in business activities.

For the FY2050 Net Zero Transition Plan, see page 58.

For Scope 1, 2, and 3 emissions results in fiscal 2021, see page 59.

For the FY2030 Net Zero Transition Plan, see page 58.

For FY2030 Net Zero Transition Plan, see page 58.

For GHG emissions in fiscal 2030, see page 58.

For the FY2030 Net Zero Transition Plan, see page 58.

For Scope 1, 2, and 3 emissions results in fiscal 2021, see page 59.

For Scope 1, 2, and 3 emissions results in fiscal 2021, see page 59.

For Scope 1, 2, and 3 emissions results in fiscal 2021, see page 59.

For Scope 1, 2, and 3 emissions results in fiscal 2021, see page 59.
**Social Initiatives**

The environment around companies is changing, as seen in prolonged COVID-19 and human rights issues in supply chains. Social structure and consumption behavior have greatly changed due to its impact and it also has a great impact on corporate business activities. The Group aims to create a sustainable supply chain by sharing its views of sustainability with suppliers and fulfilling social responsibilities with suppliers. And we will work with suppliers to create a work environment in which the human rights of the people working in the supply chain will be protected and they will be able to continue to work in good health.

### Human rights due diligence

There is increasing concern about human rights issues in Japan and abroad, such as forced labor and discrimination in supply chains and companies are expected to conduct business activities that respect human rights.

The Group follows the PDCA cycle of human rights due diligence in accordance with the UN Guiding Principles on Business and Human Rights established by the United Nations and bases all its business activities on respect for human rights. By doing so, we will realize the business activities that respect the human rights of consumers, suppliers, and employees and contribute to realizing Well-Being Life for stakeholders.

**Human rights assessment**

From October to December 2021, we assessed 7,415 suppliers to see the dissemination status of the JFR Principles of Action for Suppliers. As for human rights, we checked their efforts in accordance with the “human rights policy” included in the Principles of Action. We received responses from 3,012 suppliers, and as a result, they were found to generally comply with the human rights policy and we saw no human rights risks to which we should pay close attention in this assessment.

On the other hand, as some suppliers had not yet in place human rights policies or guidelines, we will share the importance of human rights efforts through dialogue to encourage them to make improvements.

**Identification of human rights efforts**

In 2022, the Group identified anticipated human rights risks considering its business characteristics. And as subjects for considering their impacts on human rights, we identified “employees,” “suppliers (primary suppliers),” and “consumers (customers).”

**References**


#### Human rights risks

<table>
<thead>
<tr>
<th>Employees</th>
<th>Suppliers (Primary suppliers)</th>
<th>Consumers (Customers)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY2022</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- All forms of discrimination and harassment</td>
<td>- Occupational health and safety</td>
<td>- Lack of safety in products and services due to insufficient quality checks and illegal inspections</td>
</tr>
<tr>
<td>- Excessive and unreasonable working hours</td>
<td>- Unfair dismissal of regular workers due to a decrease in demand due to COVID-19</td>
<td>- Accidents caused by improper use of products</td>
</tr>
<tr>
<td>- Occupational health and safety</td>
<td>- Indirect involvement in human rights risks in supply chains due to geopolitical disputes, etc.</td>
<td>- Health damages caused by alcohol, processed food, etc.</td>
</tr>
<tr>
<td>- Social security and labor rights</td>
<td>- Rights of foreign labor</td>
<td>- Personal information leakage and privacy violation</td>
</tr>
</tbody>
</table>

**Assessment concerning the JFR Principles of Action for Suppliers**

From October to December 2021, we assessed the suppliers who have supported the JFR Principles of Action for Suppliers for the first time to see the status of understanding of and compliance with the Principles of Action.

**Overview**

- Head office of J. Front Retailing, Daimaru Matsuzakaya Department Stores, 7 associated companies

**Scope**

- 7,415 suppliers (primary suppliers) with whom the JFR Principles of Action for Suppliers are shared

**Assessment criteria**

- Suppliers who answered “Yes” to 80% or more of total questions (16 or more of 19 questions) are deemed to comply with the Principles of Action.
- Suppliers who answered “Yes” to less than 30% of total questions (5 questions or less) are candidates for dialogue, which is the next step.

**Action after assessment**

When some problems are found in disseminating the Principles of Action, the Group provides a venue for dialogue with relevant suppliers as necessary. We will share the results of assessment with suppliers and make them understand our view of supply chain management and the importance of complying with the Principles of Action through dialogue while grasping the situation of suppliers and encouraging them to make improvements.

Going forward, the Group will strive to make suppliers understand and support the importance of complying with the Principles of Action and respecting human rights. We will work to further disseminate the Principles of Action by holding explanatory meetings for suppliers and other means to create a sustainable supply chain.
To Realize Well-Being Life for Customers

The Group thinks of Well-Being Life as both mentally and physically, socially and environmentally fulfilling life as well as material and economic wealth. We are working with suppliers to create new customer experience and bustling communities centering on our stores using our commercial production capability and real estate assets to realize Well-Being Life for customers.

Sustainability

Sustainability

To Realize Well-Being Life for Customers

The Group thinks of Well-Being Life as both mentally and physically, socially and environmentally fulfilling life as well as material and economic wealth. We are working with suppliers to create new customer experience and bustling communities centering on our stores using our commercial production capability and real estate assets to realize Well-Being Life for customers.

 Provision of excitement to daily life and creation of bustling communities

The Group is working with local communities and partners to create new collaboration with local communities and draw crowds to them through the development of local areas centering on its stores and their revitalization by chisan-chisho to realize Well-Being Life for stakeholders.

 We are also working with local business operators to revitalize local communities by merging with online centering on the areas in which our stores are located.

 Creation of store environment that is strong in disaster and epidemic prevention and reassures customers

The Group is working in an organized way to thoroughly prevent infection by verifying the measures we have taken so far and compiling the JFR New Infectious Disease Response Manual. The stores of Daimaru Matsuzakaya Department Stores and Parco periodically provide disaster training and BCP training and take safety and management measures, such as creating an environment that does not have the three Cs and strengthening air conditioning in buildings, to prevent the COVID-19 infection.

Daimaru Matsuzakaya Department Stores

Project for coexistence with local communities

Think LOCAL

Think LOCAL is a project to consider local problems and support the area. The company operates the Bousai of Japan Delivered to Your Door from Local Food Mart, which sold recommended delicacies online mainly from the areas in which its stores are located. While the company strengthens online sales, each of its stores strives to coexist with a local community.

Parco

Crowdfunding

BOOSTER

Parco is working its initiatives for local revitalization using crowdfunding BOOSTER, which is jointly operated by Parco and Campfire, Inc. The Shizuoka MIRUI Project that helps businesses in Shizuoka try something new and solve problems was launched through collaboration between Shizuoka PARCO, the Matsuzakaya Shizuoka store, Shizuoka Shinkin, and Shizuoka Broadcasting System. And in 2021, the Mikki KYOTO project that helps sell new products and communicate the appeal of Kyoto by displaying them in the store was launched through collaboration between the Daimaru Kyoto store and The Kyoto Shinkin Bank.

Hakata Daimaru

Kyushu Tankentai

Under the Kyushu Tankentai (literally Kyushu expedition team) project, the department store employees visit cities in Kyushu and cooperate with the government in collecting information on, finding, and offering a broad introduction of excellent food, crafts, culture-based experience, which are not yet widely known, to promote chisho-chisho and revitalize Kyushu as a whole. The Kyushu Tankentai visited 89 cities by June 2022 and was certified as an information communication ambassador by each city.

Daimaru Suma store

Public library

Kobe City

Myodi Library

The Daimaru Suma store invited Koba City Myodi Library in March 2021 when the store was renewed. It is the first public library in a department store in Japan. A lot of wood from Rochester is used for benches in the library. We created a relaxing space in which local people get together while enjoying shopping in the department store.

Acquisition of third-party assurance

The fiscal 2021 data shown on the right have received independent third-party assurance from LRQA Limited to ensure reliability.

Sustainability bond (9th unsecured bond) reporting

The Company issued sustainability bonds of ¥15.0 billion to contribute to resolving both environmental and social issues through business activities.

<table>
<thead>
<tr>
<th>Project category</th>
<th>Output</th>
<th>Outcome</th>
<th>Impact</th>
<th>Use and amount of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable energy</td>
<td>分享 of renewable energy-sourced electricity in total electricity consumption: 20.3%, up 10.3% YoY</td>
<td>Leading a decarbonized society and creating a global environment for future generations</td>
<td>Amount allocated already ¥5 million</td>
<td></td>
</tr>
<tr>
<td>Green procurement</td>
<td>Reduction of CO2 emissions byshortening corporate fleet Approximately 390 vehicles is a year Calculated by comparing with the emissions of the same type of gasoline vehicles</td>
<td></td>
<td>Amount allocated already ¥100 million</td>
<td></td>
</tr>
<tr>
<td>Green efficiency</td>
<td>Reduction of CO2 emissions by switching to LED lighting: Approximately 1,200,000 kg/yr.</td>
<td></td>
<td>Amount allocated already ¥300 million</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scope 1 emissions</th>
<th>Scope 2 emissions</th>
<th>Scope 3 emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>108,808 t-CO2</td>
<td>2,420,492 t-CO2</td>
<td>2,829,299 MWh</td>
</tr>
<tr>
<td>Faecal waste generation volume: 2,831 t.</td>
<td>Faecal waste generation volume: 2,831 t.</td>
<td></td>
</tr>
</tbody>
</table>
Corporate Governance

J. Front Retailing, which is a holding company, ensures the transparency, soundness, and legal compliance of the management of the entire Group, acting as the central focus of governance for the Group, to realize the Group Mission Statement. We strive to build trusting relationships with stakeholders (customers, shareholders, business partners, employees, and local communities) by means including strengthening of information disclosure. And indicating the overall direction that the Group management is to take and building and developing internal control systems, and strengthening corporate governance by overseeing the operational status of such systems are placed at the top of the management agenda.

We have adopted a “Company with Three Committees (Nomination, Audit and Remuneration Committees)” system to further strengthen corporate governance by:

(i) Strengthening the management oversight function by separating oversight from execution;
(ii) Clarifying authorities and responsibilities in business execution and promoting flexible management;
(iii) Improving the transparency and objectivity of management; and
(iv) Building a globally applicable governance system.

With the aim of further strengthening the oversight function by separating it from business execution, we amended the Articles of Incorporation to reduce the number of Directors from "15 or fewer" to "11 or fewer" to optimize the number of Directors at the Annual Shareholders Meeting held in May 2022.

Overview of corporate governance system

We are a holding company, and in order to speed up management decisions and clarify management responsibilities, the authority for execution of business operations of operating subsidiaries is delegated to respective operating subsidiaries except for matters that affect the Group’s management.

In selecting candidates for Director, the Board of Directors shall consider of personnel with experience and knowledge necessary to appropriately oversee the promotion of sustainability management (execution of business strategies aimed at resolving the seven materialities) in order for the Board of Directors to effectively fulfill its roles and responsibilities.

Board of Directors

(1) Roles and responsibilities of the Board of Directors

Directors are appointed and entrusted by our shareholders to manage the Company and therefore owe fiduciary responsibilities and accountability to the shareholders. Keeping this in mind and aiming to realize the Group Vision, the Board of Directors performs the following roles and responsibilities:

- To indicate the overall direction that the Group management is to take, by engaging in constructive discussions with respect to the Group Vision, the Sustainability Policy, the Group Medium-term Business Plan, the Group Management Policy for the fiscal year, and other fundamental management policies and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;
- To appropriately make decisions in terms of overall policy and plans pertaining to the Group management based on the direction noted above and to oversee the progress and results of the plans;
- To develop an environment conducive to encouraging offense-oriented management geared to achieving discontinuous growth;
- To take steps to build and develop internal control systems of the Group overall and to oversee the operational status of such systems;
- To oversee conflicts of interest between related parties; and
- Based on summary reports furnished by the Nomination Committee, to oversee the progress of the President and Representative Executive Officer succession planning, personnel assignment plans pertaining to managerial talent, and Executive Officer training, about which the Nomination Committee was consulted.

(2) Composition of the Board of Directors

In selecting candidates for Director, the Board of Directors shall consist of personnel with experience and knowledge necessary to appropriately oversee the promotion of sustainability management (execution of business strategies aimed at resolving the seven materialities) in order for the Board of Directors to effectively fulfill its roles and responsibilities.
and other fields, a marketing perspective, and extensive experience related to finance and accounting. With regard to candidates for non-executive Inside Director, the Company has selected a person responsible for its financial division whose high level of knowledge will facilitate the execution of the strategic finance policies demanded by shareholders and investors, as well as by the President and Executive Representative Officer.

GOVERNANCE
Corporate Governance

Major agenda items
- Actions to take considering the status of COVID-19
- Important management social risks
- Review of strategies for the promotion of the Medium-term (FY2023–2025) Business Plan
- Payment and Finance Business in the Medium-term Business Plan
- Progress of initiatives for three strategies in the Medium-term Business Plan (Developer, Prime Life, and Real-Digital)
- ESG initiatives in the Medium-term Business Plan
- The Group Management Policy for FY2022
- Amendment of the Corporate Governance Guidelines
- Report on management of the Group
- Results of evaluation of the effectiveness of the Board of Directors
- Amendment of the Basic Policy to Build Internal Control System
- Validation of ratios for cross-shareholdings
- Matters related to financial results
- Sale of shares of Dimples Co., Ltd.

Nomination Committee, Audit Committee, and Remuneration Committee

Nomination Committee
The Nomination Committee determines the content of proposals on the nomination and dismissal of Directors submitted to shareholders meetings and reports to the Board of Directors regarding the nomination and dismissal of Executive Officers, as well as the chairpersons and members of three statutory committees, and other matters related to consultation by the Board of Directors.

Major agenda items
- Confirmation of the full-term validity of the Company’s Articles of Incorporation and the appointment of 12 candidates for Director of the Company
- Nomination of candidates for Executive Officer and Representative Executive Officer and appointment of Directors to be proposed to be re-elected as Directors of the Company
- Nomination of candidates for the Chairperson of the Board of Directors and the chairpersons and members of each committee to be proposed to the Board of Directors
- Nomination of candidates for the Chairperson of the Board of Directors and the chairpersons and members of each committee to be proposed to the Board of Directors
- Actions taken on issues in evaluation of the effectiveness of the Board of Directors
- How the Nomination Committee adhered to J. Front Retailing Co., Ltd. should be involved in appointment of the president of major operating companies

Audit Committee
The Audit Committee effectively audits whether Executive Officers and Directors execute their duties efficiently in compliance with the laws and the Articles of Incorporation and in accordance with the Basic Mission Statement of the Company and the Group Vision and makes necessary advice and recommendations. It also conducts audits on the construction and operation of internal control and prepares audit reports. To ensure the reliability of accounting information, the Audit Committee also oversees the Accounting Auditor and determines the Executive Officer and appointment of Directors to be proposed to the Board of Directors for the appointment of the Basic Policy to Build Internal Control System and the results of evaluation of internal control over financial reporting.

Remuneration Committee
The Remuneration Committee determines the policy on deciding details of the remuneration of individual Directors and Executive Officers of the Company and officers of the Group’s major operating subsidiaries (directors, executive officers, and audit & supervisory board members) and details of the remuneration of individual Directors and Executive Officers of the Company.

Remuneration Committee

Major agenda items
- Results of the performance assessment sheet, total amount of officer bonuses, amount of individual officer bonuses, individual remuneration amount
- Review of the Officer Remuneration Policy, revisions of the officer remuneration system
- The performance-linked coefficient and the number of points provided for a stock-based remuneration system (performance share)
- Review of the Officer Remuneration Policy and establishment of the officer remuneration rules
- Review of the trust agreement for trust-type stock-based remuneration (overseas), review of the sharing ratio related to the stock-based remuneration system (overseas)
- Disclosures documents on the introduction of a new stock-based remuneration system, disclosure documents on disposal of treasury shares by means of third-party allotment in connection with the introduction of a new stock-based remuneration system
- Grading results of mission grades and verification of the process
- Verification of the level and composition for officer remuneration using internal data
- Revisions of the officer remuneration system of the Group’s major subsidiaries
- Mission grades and individual remuneration amount

Activities of Outside Directors

Name | Activities, Statements, etc. of the Board of Directors and other Board members
---|---
**YAGI Noboru**<br>Executive Director & General Manager of the System Engineering Division<br>Past President of Level-5 Inc.<br>Past President of Level-5 Corp.<br>Past President of NTT Docomo Inc.<br>Past President of KDDI Corp.<br>Past President of J.J. Group<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.
**NAGASAWA Jun**<br>Executive Director & General Manager of the System Engineering Division<br>Past President of Level-5 Inc.<br>Past President of Level-5 Corp.<br>Past President of NTT Docomo Inc.<br>Past President of KDDI Corp.<br>Past President of J.J. Group<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.
**UENO Yasuhiro**<br>Executive Director & General Manager of the System Engineering Division<br>Past President of Level-5 Inc.<br>Past President of Level-5 Corp.<br>Past President of NTT Docomo Inc.<br>Past President of KDDI Corp.<br>Past President of J.J. Group<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.
**SHIBUYA Takashi**<br>Executive Director & General Manager of the System Engineering Division<br>Past President of Level-5 Inc.<br>Past President of Level-5 Corp.<br>Past President of NTT Docomo Inc.<br>Past President of KDDI Corp.<br>Past President of J.J. Group<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.
**KAWABAYASHI Hisahide**<br>Executive Director & General Manager of the System Engineering Division<br>Past President of Level-5 Inc.<br>Past President of Level-5 Corp.<br>Past President of NTT Docomo Inc.<br>Past President of KDDI Corp.<br>Past President of J.J. Group<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.<br>Past President of J.J. Group Co., Ltd.

**Summary**
In fiscal 2021, in consideration of the status of COVID-19 and the first year of operation of FY2023 Medium-term Business Plan, the Board of Directors placed the following items on the agenda and discussed them.

1. Major matters discussed at the Board meetings and efforts to solve issues
   - Actions to take considering the status of COVID-19
   - Important management social risks
   - Review of strategies for the promotion of the Medium-term (FY2023–2025) Business Plan
   - Payment and Finance Business in the Medium-term Business Plan
   - Progress of initiatives for three strategies in the Medium-term Business Plan (Developer, Prime Life, and Real-Digital)
   - ESG initiatives in the Medium-term Business Plan
   - The Group Management Policy for FY2022
   - Amendment of the Corporate Governance Guidelines
   - Report on management of the Group
   - Results of evaluation of the effectiveness of the Board of Directors
   - Amendment of the Basic Policy to Build Internal Control System
   - Validation of ratios for cross-shareholdings
   - Matters related to financial results
   - Sale of shares of Dimples Co., Ltd.
Executive session
Executive sessions are exclusive meetings of independent Outside Directors for free exchange of opinions and sharing of information. Participants discuss matters that require the attention of supervision, such as issues in the Board meeting or problems to be addressed in order to improve the effectiveness of the Board of Directors. Lead director is Ms. SATO Rieko, an independent Outside Director. At the request of the lead director, the President and Representative Executive Officer and the Chairperson of Board of Directors also participate in discussions.

Succession planning
[Selection of the President and Representative Executive Officer] Selection of the President and Representative Executive Officer is a critical aspect of strategic decision-making, and accordingly the Company regards drawing up and implementation of succession plans as matters of particular importance in terms of management strategy. The Company seeks to ensure clarity, transparency, and objectivity in the process of selecting successor candidates through repeated deliberations conducted by the Nomination Committee, which consists of three independent Outside Directors and the Chairperson of Board of Directors, who is a non-executive Director elected from inside the Company.

The Board of Directors focuses on realizing the Basic Mission Statement and the Group Vision, selects the President and Representative Executive Officer, and plays a supervisory role on proposals received from the Nomination Committee.

[Dismissal of the President and Representative Executive Officer] A proposal for dismissal of the President and Representative Executive Officer is discussed and determined by the Board of Directors after being discussed and resolved by the Nomination Committee based on the goals set, expected and actual results (e.g. annual performance and strategic execution status), and the status of performance of duties achieved by successor candidates who are selected under the succession plan resolved by the Nomination Committee.

The Nomination Committee will have discussions on succession planning in a planned and consistent manner in view of changes in environments and situations surrounding the Company, the progress of strategies formulated, etc. Election and dismissal of Executive Officers are deliberated by the Nomination Committee and its proposals are deliberated and determined by the Board of Directors, as in the case of the President and Representative Officer.

Evaluation of the effectiveness of the Board of Directors
The Board of Directors conducts an evaluation of the effectiveness of the Board of Directors by a third-party organization has been conducted annually since 2013. In the seventh evaluation of the effectiveness of the Board of Directors, conducted between June and October 2021, it was reported that the function of the Board of Directors has been strengthened since 2015 through such aspects as organizational structure change, an increase in the ratio of Outside Directors, reinforcement of agenda setting, and enforcement of deliberations and that many of the issues for fiscal 2020 were improved. On the other hand, it was evaluated that, of the issues for fiscal 2020, “redefining the roles of the Board of Directors” still remains unsolved. At the same time, issues were recognized and the actions to be taken were confirmed as shown on page 70.

Officer remuneration system
In April 2017, we formulated and announced an Officer Remuneration Policy, which includes a stock-based remuneration system for officers in order to steadily implement the Medium-term Business Plan and to maintain good relations with the Group. Upon formulating the new Medium-term Business Plan, we reviewed the content and revised it in April 2021.

In conjunction with the revision of the policy, the scope of stock-based remuneration has been expanded to include the Executive Officers of Parco and the Representative Directors of JFR Card and J. Front Design & Construction as well as the Directors and Executive Officers of the Company and the Directors and Executive Officers of Daimaru Matsuzakaya Department Stores, a major subsidiary of the Company.

Beginning in fiscal 2020, the Company discloses the amount of each officer’s remuneration (including the amount received as remuneration, etc. for an officer of a major consolidated subsidiary, if any) in the Annual Securities Reports regardless of whether or not his/her total consolidated remuneration, etc. exceeds ¥100 million.

(1) Basic policy on officer remuneration
Our officer remuneration system is based on the following basic policy, aiming to realize and promote sustainability management (pay for purpose). Furthermore, the same basic policy shall apply to the Directors and Executive Officers of Daimaru Matsuzakaya Department Stores and Parco, which are major subsidiaries in the Group, and the Representative Directors of JFR Card and J. Front Design & Construction.

• To contribute to the sustainable growth of the Group and the medium to long-term improvement of corporate value and be consistent with our corporate culture;
• A compensation system that encourages professional managers to carry out their roles (missions) based on the management strategy;
• Remuneration levels that enable the Company to secure and retain human resources who have “the desirable managerial talent qualities” required by the Company;
• To increase awareness of profits shared with shareholders and awareness of shareholder-focused management; and
• Enhanced transparency and objectivity in the remuneration decision process.

(2) Process for determining remuneration
In order to ensure the appropriateness of the level and amount of remuneration and the transparency of the decision-making process, the specific remuneration amount is decided by resolution of the Remuneration Committee, which consists of independent Outside Directors and the Chairperson of Board of Directors. The resolution will be made and is carried out by an Independent Outside Director. Revisions to the officer remuneration system will be implemented in accordance with the period of the Medium-term Business Plan. However, the level of basic remuneration will be reviewed if a drastic change in the external environment, etc. requires a significant revision during the Medium-term Business Plan period.

(3) Remuneration composition for Executive Officers and non-executive Directors
The remuneration for Executive Officers consists of (a) “basic remuneration” (monetary remuneration) in accordance with the mission grade, (b) “bonus” (monetary remuneration) based on the individual evaluation, etc. for each fiscal year, and (c) “performance share (performance-linked stock-based remuneration)” (trust-type stock-based remuneration) linked to the achievement rate of consolidated performance, etc. as set forth in the Medium-term Business Plan. The remuneration for non-executive Directors consists of only fixed remuneration (a) “basic remuneration” (monetary remuneration) based on job responsibilities and (b) “restricted stock” (trust-type stock-based remuneration) that is not linked to performance as a stock-based remuneration system.

Executive Officers

<table>
<thead>
<tr>
<th>Remuneration, etc. for Executive Officers of each rank [President]</th>
</tr>
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<tbody>
<tr>
<td>Basic remuneration</td>
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<tr>
<td>45.4%</td>
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</tbody>
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<table>
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<tr>
<th>Remuneration, etc. for Executive Officers [Executive Officers excluding President]</th>
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<tbody>
<tr>
<td>Basic remuneration</td>
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<tr>
<td>45.4%</td>
</tr>
</tbody>
</table>

Proportion of remuneration by type for Executive Officers of each rank

<table>
<thead>
<tr>
<th>Basic remuneration</th>
<th>Bonus</th>
<th>Performance shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>45.4%</td>
<td>27.3%</td>
<td>37.3%</td>
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Note: The above table represents the case of a basic remuneration for a standard ranking where the following assumption is made:
The Company’s Executive Officers of Daimaru Matsuzakaya Department Stores and Parco are all ranked to “Executive Officers excluding President” and Executive Officers of J. Front Design & Construction shall have the same remuneration composition as “Executive Officers excluding President” in the above table.
The Company issues its shares to Executive Officers in Non-executive Directors. The performance-linked remuneration is calculated using the "fiscal year's financial indicators," serving as quantitative evaluation, and the "fiscal year's non-financial indicators," which include qualitative evaluation. Performance share (performance-linked stock-based remuneration) The Company issues its shares to Executive Officers in conjunction with the consolidated performance achievement rate set forth in the Medium-term Business Plan in order to achieve sustainable growth of the Group and increase corporate value over the medium to long term. Sixty percent of the total performance-linked stock-based remuneration is to be issued in a single issuance at the end of the Medium-term Business Plan and the remaining 40% is to be issued annually in order to promote management from the shareholders' perspective.

(a) Basic remuneration (monetary remuneration)
Basic remuneration is positioned as fixed remuneration and is determined by mission grade for Executive Officers and by the table for non-executive Directors in accordance with the size (weight) of each officer's responsibilities.

(b) Bonuses (monetary remuneration)
The bonus paid to Executive Officers is performance-linked stock-based remuneration that helps them to achieve the goals for each fiscal year, which are milestones in the Medium-term Business Plan. The performance-linked remuneration is evaluated using the "fiscal year's financial indicators," serving as quantitative evaluation, and the "fiscal year's non-financial indicators," which include qualitative evaluation.

(c) Performance share (performance-linked stock-based remuneration)

GOVERNANCE
Corporate Governance

Changes in the number of issues of cross-shareholdings (listed shares excluding deemed holdings)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of shares issued</th>
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<tbody>
<tr>
<td>2017</td>
<td>48</td>
</tr>
<tr>
<td>2018</td>
<td>47</td>
</tr>
<tr>
<td>2019</td>
<td>27</td>
</tr>
<tr>
<td>2020</td>
<td>31</td>
</tr>
<tr>
<td>2021</td>
<td>33</td>
</tr>
</tbody>
</table>

Investment purposes. However, this does not apply to shares where it has been recognized that they are necessary for the promotion of the Group's business strategies and that the holding of such shares will contribute to the increase of corporate value in the medium to long term through the validation of rationale for holding them. For example, in the case where we were requested to hold shares for the purpose of local revitalization, from the perspectives of initiatives for "coexistence with local communities," which is one of our materialities for the promotion of sustainability management, we would consider holding such shares upon sufficient evaluation of the suitability of holding them by the executive team and might hold them. Among the shares already held by the Company, for listed shares (including retirement benefit trust shares) for which there is judged to be no rationale for holding upon validation, we will negotiate with corporate customers and business partners and appropriately reduce them upon reaching a consensus regarding sale method, period, etc.

For unlisted shares, the executive team discussed whether or not to continue holding them with a view to selling and reducing holdings. Since fiscal 2023, we have confirmed the suitability of holding all shares in the same way as listed shares from both quantitative and qualitative perspectives and strengthened our efforts to reduce holdings.

(2) Validation of rationale for holding
Every year, the Board of Directors validates the rationale for holding individual issues from both quantitative and qualitative perspectives. The qualitative perspective relates to business strategies such as maintaining harmonious and favorable business relationships with corporate customers and business partners and securing supply chains. The quantitative perspective relates to whether revenue from holding shares, including related trading profits and dividends, exceeds capital costs, etc.

Policy on exercising voting rights
We determine whether to exercise our voting rights considering whether both such exercise will contribute to the sustainable growth and the medium- to long-term enhancement of corporate value of the company whose shares we hold and whether such exercise will contribute to the sustainable growth and the medium- to long-term enhancement of corporate value of the Group. Particularly, in regard to proposals that we consider to be of high priority with respect to strengthening corporate governance, such as proposals relating to the corporate governance system (selection of officers), proposals relating to shareholder return (appropriation of surplus), and proposals that have an impact on shareholder value (undertaking of takeover defense measures), we will establish policies upon which to base judgment of our exercise of voting rights, and acting as the Group as a whole, we will respond to them in line with such policies. We will engage in dialogue with companies whose shares we hold if necessary.

Improvement of shareholders meetings
To have a constructive dialogue with our shareholders, we send out the Notice of Convocation of Shareholders Meeting early (at least three weeks prior to the day of the meeting) and post the content of the Notice of Convocation on the websites of the financial instruments exchanges and the Company as soon as practically possible prior to the date of sending the Notice of Convocation. This will provide enough time for shareholders to consider as to the exercise of their voting rights. The Notice of Convocation of the
15th Shareholders Meeting was disclosed on the websites of the financial instruments exchanges and the Company four weeks prior to the day of the meeting, before sending the Notice of Convocation in written form. For the convenience of shareholders, including domestic and international institutional investors, in exercising their voting rights, we have introduced an online voting system and used an electronic voting platform. Furthermore, we have the Notice of Convocation of Shareholders Meeting translated into English and disclose the translation on our website and the electronic voting platform so that international shareholders will be able to properly exercise their voting rights.

In fiscal 2021, we further encouraged online voting in order to minimize the risk of the spread of COVID-19 infection which may occur if shareholders visit the venue of the Shareholders Meeting in person. We also live-streamed the sections of the Shareholders Meeting of explaining about “progress and results” and “issues to be addressed” as well as its Q&A session for shareholders who could not come to the meeting.

Disclosure and IR activities
Based on the Basic Mission Statement that we aim at developing the Group by contributing to society at large as a fair and reliable corporation, we seek to maintain and advance trustworthy relationships with shareholders, investors, and other stakeholders. To this end, we disclose important information relevant to the Company in an accurate, clear, fair, timely, and appropriate manner in order to raise management transparency and deepen trust in the Group by contributing to society at large as a fair and reliable corporation.

We organize a range of briefings and meetings and respond to inquiries from shareholders and investors on a daily basis, seeking to enhance communication with them.

Opinions and requests from shareholders and investors are shared widely among the Company and relevant companies in the Group and used for reference in management decision-making toward increasing corporate value.

External recognition for IR activities
The Company was awarded the IR Grand Prix at the 2021 IR Award (organized by the Japan Investor Relations Association). It was the first time that we received the Grand Prix.

Risk management
The Group defines risk as “uncertainties that have both potential positive and negative sides that could have an impact on the achievement of targets by a company.” We have positioned risk management as the “activity that increases corporate value by managing risks by reasonable and optimal methods from a company-wide perspective” to achieve sustainable corporate growth by addressing the positive side and the negative side of risk property.

The Company has established the Risk Management Committee as an advisory body to the President and Representative Executive Officer. The committee discusses important matters, including risk identification and evaluation and determination of risks to be reflected in strategies, and utilizes risk management for management decision-making.

The committee also reports details of its deliberations to the Board of Directors in a timely manner. Furthermore, in order to effectively perform risk management, we have established the following three lines.

(i) First line: Business execution divisions such as operating subsidiaries. These divisions identify risks and take the necessary measures on their own.

(ii) Second line: The holding company’s divisions. Each division provides support, guidance, and monitoring regarding risk management from a perspective which is independent of the business execution divisions.

(iii) Third line: The Internal Audit Division. This division oversees the validity of the risk management functions and the internal control system from a perspective which is independent of the business execution divisions and each division of the holding company.

While identifying “corporate risks” (see page 30), which are used as starting points for the FY2021 to FY2023 Group Medium-term Business Plan, the risks for the fiscal year identified from “corporate risks” are summarized in the JFR Group Risk List.

Compliance
We have a Compliance Committee (whose members include a corporate lawyer) to ensure proper handling of issues on the Group’s compliance management. The committee is chaired by the President and Representative Executive Officers. Working closely with the divisions in charge of promotion of compliance, the committee builds the foundation of the compliance structure and oversees the status of operation on a continuous basis, and promotes compliance with laws, the corporate ethics, and other rules. In case of any material breach of compliance rules, the committee acts a policy on how to respond to such breach. Any and all matters discussed by the committee are reported to the Audit Committee on a regular and timely basis.

JFR Group Compliance Hotline
We have a whistleblowing system that enables all officers and employees of the Group and all individuals working for the Group (including part-time workers and temporary staff from suppliers) to notify the Compliance Committee directly of any compliance issues and seek corrective action. We have points of contact for whistleblowers both inside and outside (a corporate lawyer) the Company. Regarding this whistleblowing system, the Group’s internal company rules include rigorous provisions ensuring the protection of the whistleblower’s privacy and prohibiting disadvantageous treatment of the whistleblowers.

Types of reports

<table>
<thead>
<tr>
<th>Types of reports</th>
<th>(No. of reports)</th>
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<tbody>
<tr>
<td>Breach of rules</td>
<td>6</td>
</tr>
<tr>
<td>Harassment</td>
<td>14</td>
</tr>
<tr>
<td>Labor affairs</td>
<td>18</td>
</tr>
<tr>
<td>2017</td>
<td>21</td>
</tr>
<tr>
<td>2018</td>
<td>19</td>
</tr>
<tr>
<td>2019</td>
<td>9</td>
</tr>
<tr>
<td>2020</td>
<td>9</td>
</tr>
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<td>2021</td>
<td>22</td>
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Risk management and compliance system diagram

Risk management and compliance system diagram

JFR Group Risk List

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<tr>
<td>Japanese security environment destabilized due to tension between US and China</td>
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<td>Flaw in compliance system, including deterioration of ethics and business management (including non-Japanese and disabled employees)</td>
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<tr>
<td>Aggravation of operation retirement benefits and pension systems</td>
</tr>
<tr>
<td>Connection with antisocial forces</td>
</tr>
<tr>
<td>Lapses in internal controls and operations in non-compliance with laws and regulations such as the Subcontract Act and the Anti-Monopoly Act</td>
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<tr>
<td>Flaw in anti-corruption controls and enforcement</td>
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Further Deepen Discussions for Value Creation over the Medium to Long Term

Governance of the Company

Seki: The Company transitioned to a Company with Three Committees (Nomination, Audit, and Remuneration Committees) in 2017. Making various improvement efforts every year after that, they raised the ratio of Outside Directors to more than 50% this fiscal year. Such efforts to improve the organizational structure and meet formal requirements are important. Essentially, however, I think it is much more important in terms of governance whether the Board of Directors actually functions or the three committees of the Company with Three Committees (Nomination, Audit, and Remuneration Committees) function.

Koide: As for governance, I think how strongly and seriously the top management is committed to it will make a difference. In general terms, as the Board members have different notions, I think it is quite difficult to close the gap between them. In the Company, however, I feel the leadership of the top management makes all follow the same track.

Seki: I serve on the Audit Committee. The Company holds the Audit Committee Member meetings as well as the Audit Committee meetings. In the Audit Committee Member meetings, we more freely discuss current issues as well as auditing execution of duties of the President and Representative Executive Officers and other Executive Officers and the presidents of operating companies.

Koide: I serve on the Nomination Committee and the Remuneration Committee. Both meet at least once a month, 12 times a year, and more if necessary, though not so frequently as the Audit Committee. I feel the members’ intention to not formally but really improve substance from discussions in the committee meetings.

With respect to outcome, for example, the top priority issue of the Nomination Committee is the management succession planning and the process from a medium- to long-term perspective has already started. With the help of external professionals, we are evaluating managerial talent and interviewing candidates in various forms to understand their personality and way of thinking. By doing so, we are advancing it.

As for the Remuneration Committee, I think it has taken some shape by reviewing the Officer Remuneration Policy when the Medium-term Business Plan was launched last year. And we are discussing to further improve its effectiveness by reviewing it toward the next medium-term plan. I think it has been said for the past year that our great challenge is to integrate Parco in a real sense. In reorganization including personnel merger, we should also overhaul our remuneration system. I feel we can have such fulfilling discussions by exchanging frank views.

Seki: As for governance, the top management’s stance would be important. I feel the top management is thinking about how they will use Outside Directors in the right way. In short, they are not just a token or a form. I think it is the biggest point.

Koide: I hear there are actually some companies whose board members feel like being asked not to say too much in the Board meetings. The Company’s Board of Directors discusses with a positive desire to contribute to enhancing corporate value. I think governance in that sense functions in a very healthy form. Of course, when looking at details, there are various issues that should be or are being addressed. However, I think their way of creating systems and stance to strengthen governance are excellent.

Effectiveness of the Board of Directors

Seki: Every year an external evaluation organization evaluates the effectiveness of the Board of Directors. I recognize that effectiveness evaluation is the process in which all Inside and Outside Directors exchange opinions and share each other’s issue identification. Major issues raised last year are the “clarification of the roles of the holding company” and the “clarification of the roles of the Board of Directors.” I think both Outside Directors and Inside Directors’ stance to resolve issues through repeated open discussions and its process are very important and beneficial.

I think effective evaluation is a tool essential to the process in which Inside Directors and Outside Directors do not just say their opinions one-sidedly but repeatedly discuss so that they can rely on each other to resolve issues. Also, concerning response to evaluation results, we can clearly see that the executive side is very seriously trying to act based on the results. Annual effective evaluation seems to help improve the effectiveness of the Board of Directors.

Koide: I think major issues identified by all Outside Directors are the failure to compartmentalize between the holding company and operating companies and the failure to integrate Parco. However, I think it was excellent to change the organization with great courage this fiscal year. I think it caused various frictions to so greatly change the systems and appoint many people from Parco to the holding company. However, we can see a form of organization that leads to success. This seems doable but can hardly be done.

Recently, I have had more opportunities to talk with people who were transferred to the holding company from Parco. They are changing to having a company-wide perspective instead of Parco’s perspective. I hear some of them say that they began to see a lot of things to do. It is wonderful for them to realize they have a different perspective while using their past experience. I think it is a big achievement that the holding company changed its organization and could show it in a visible manner. I think it was very good because based on effectiveness evaluation, the opinions of all Directors were reflected and the company I would like to expect for the recent organizational change conducted with great courage as a holding company
GOVERNANCE
Special Report: Dialogue between Outside Directors

It is difficult to develop the currently expected creativity unless it is an organization with diversity.

Seki: In a sense, the Board of Directors can increase the number of female members by inviting some from outside. However, we cannot say the Company really utilizes women unless the female employees are promoted from inside. In this aspect, I still feel incompleteness. Though there may be a certain number of women in middle management positions, I am very concerned about the fact that Executive Officers are all men.

Seki: Creativity is very much expected of the current Company, which is working to change itself. It is difficult to develop such creativity unless the Company is an organization with diversity.

Koide: Development will be limited if all think the same thing. As diversity also means that different values collide with each other, it is not so easy, and in fact, it is accompanied by pain. They need to think it is all right to collide with each other. They cannot utilize diversity if they think it is troublesome to disagree with each other. It is important that all of them think it is troublesome to disagree with each other. It is important that all of them are willing and prepared to duly accept it.

Seki: You mean inclusion, right?

Koide: Exactly. There is no sense of increasing the number of women and foreign people simply for form’s sake without including diverse people. If people with various mindsets, at various ages, and with various backgrounds such as a Japanese individual who grew up overseas attend a meeting and many of them give ideas I would never come up with, I think new ideas will be triggered by collision between them.

When I worked for a company in the United States, I directly felt that cross-border diversity activates discussion. It may be difficult to expect such breadth in Japan. However, also in this sense, I feel it will be difficult for the Company to grow for the future unless it really intentionally employs different types of people.

The role of the holding company is to create the future. They may also have to think of age diversity such as appointing more young people.

Progress of the medium-term plan

Seki: I understand well that the Company steadily addresses the plan centered on three strategies including the Real× Digital Strategy, the Prime Life Strategies and the Developer Strategy in spite of the tough situation of COVID-19. However, what is more important is to change the business portfolio. Specifically, the Company wants to decrease the revenue share of the Department Store Business and the SC Business to around 60% by 2030 from 80% and increase that of the Developer Business, the Payment and Finance Business, and Other to 40%. Despite this, honestly, I cannot see enough growth they are geared up for it.

The Developer Business explained its due medium-term strategy but the Payment and Finance Business has not shown its future to us yet. Furthermore, I wonder whether having only these two businesses is enough. We discussed the expansion of the Group’s wings several times in the past, but concerning new businesses, I am afraid there are extremely few proposals made.

Koide: The main focus of the current medium-term plan is to return to the profit level before COVID-19. Though the Company absolutely needs to achieve it, I think the medium-term plan they should really think of is rather what to do after that.

When someone mentioned the business portfolio transformation last year, there was a saying that they would study it in the next medium-term plan. I think it is very dangerous. If they start to consider a strategy for change after finishing the three-year medium plan, it will take another three years before they can implement it. Recovery may be possible if they work hard in the scope of the current business model, but beyond that, it is evident that the Company will not grow unless they do something that was not done in the past, including new businesses.

We cannot yet see what the Company wants to be five or ten years after. The Company name contains the word “retailing.” But I think there are many ideas and they should clarify it: whether they will continue to operate only a retail business, innovate the retail business, expand into different businesses, develop local areas, or also undertake manufacturing.

Seki: As for the business portfolio transformation, I think the Company has limitations with only current four business segments. I feel it is difficult to dramatically grow though it may maintain a certain level of growth. We have discussed but specific measures such as increasing new businesses have not been presented.

In my former position, I had the opposite experience. Proposals were made one after another so that I had to ask them not to invest any more. Compared to it, the Company is quite quiet.

The newly established Business Portfolio Transformation Promotion Division is not expected to just switch the business portfolio because the word "transformation" is used in its name. As the name shows, I would like them to make revolutionary proposals.

In that sense, the Company should have more outside contacts. They do not necessarily have to find new buds and conduct M&A, but how about studying new initiatives with partners? Particularly, it is important for corporate divisions to coordinate internally but they should not struggle to do that. I think their important roles are to have outside connections and keep their antenna high.

Koide: As you said, the perspectives of stakeholders such as shareholders and investors is important. I think another key role is to repeatedly ask with a fresh eye in a sense whether matters taken for granted in the company are really OK. In terms of my expertise, the perspective of customers/consumers who are valued stakeholders is also important. I do not yet know what the Company will be like five or ten years after. As a company with retail at its core, it cannot do business without a consumer perspective.

In thinking of the future of the Department Store and Parco or new businesses, returning to young generation’s thoughts about tangible and intangible goods and buying behavior, I think we need to continue to think of what will be demanded and what value we will be able to provide. I think it will be good if we can provide advice from the consumer perspective so that logic on the company’s side and the store’s side will not take too much priority.

implemented after sharing common awareness of issues.

Seki: I very much expect them to embody the primary role of the holding company here.

Koide: In the recent organizational reform, some young employees assumed higher positions. So I think it was also good in terms of age diversity. There are many companies that are stuck in a seniority system. Given this situation in Japan, I think it was meaningful that quite young employees took the top positions of divisions.

Seki: The Company should not stick to conventional business models in this rapidly changing society. In order to change it, it should be a company in which young people and women are more empowered. This is because more than half of the customers of the Department Store and Parco are women.

Koide: Formerly I served as CFO for about six years and also was responsible for IR. During my former tenure, I was trained by institutional investors in Japan and overseas and self-side and buy-side analysts. They always have a shareholder’s perspective, which means thinking of what to do to improve the company, that is, to enhance corporate value. They gave honest opinions from the perspective of not damaging the value of the company. When I was told what I did not want to hear during dialogue, I always fed it back to the management meetings and the board meetings. Such experience is still ingrained in myself. When considering various proposals given from the outside, I try to see things from the perspective of what the capital market thinks of this. I think I as an Outside Director act on this.

What we as Outside Directors focus on

Seki: As you said, the perspectives of stakeholders such as shareholders and investors is important. I think another
FINANCIAL INFORMATION

At a Glance

Revenue Structure of the Group

FY2021 Revenue

¥331.4 billion

(Gross sales ¥675.2 billion)

Department Store Business 57.4%

Developer Business 12.3%

Payment and Finance Business 2.2%

Other 12.6%

SC Business 15.6%

Payment and Finance Business

In March 2021, the Company partially changed its reportable segments. In the above graphs, figures for fiscal 2020 were retroactively adjusted because Daimaru Matsuzakaya Sales Associates was merged into Daimaru Matsuzakaya Department Stores.

Department Store Business

Operates 15 department stores under the names of Daimaru and Matsuzakaya in major cities throughout Japan and a luxury mall GINZA SIX. Recently, also handles financial products such as insurance.

SC Business

Operates 18 shopping complexes PARCO in major cities throughout Japan. Also operates the entertainment business that produces movies, theaters, etc.

Developer Business

Includes the development of leasehold properties and the building and interior work business. Large-scale development projects are in progress in the Nagoya Sakae area and the Osaka Shinsaibashi area.

Payment and Finance Business

Issues Daimaru Matsuzakaya Card, Daimaru Matsuzakaya Otokuisama Gold Card, etc. Recently, also handles financial products such as insurance.

Other

Composed of a wholesaler Daimaru Kogyo and the Group’s shared service companies.

Breakdown of employees by segment

Department Store Business 49.7%

Developer Business 15.8%

Payment and Finance Business 2.9%

Other 24.3%

*As of end of February 2022. Includes regular employees, dedicated employees, and fixed-term employees.

**Ueno Frontier Tower (lease) up to February 2021 includes real estate lease revenue from Parco Co., Ltd. on Parco’s own name. *Shows the scope of the former Parco Business.

Changes in and Forecasts of Segment Operating Profit

Changes in reportable segments

In March 2021, the Company partially changed its reportable segments. In the above graphs, figures for fiscal 2020 were retroactively adjusted because Daimaru Matsuzakaya Sales Associates was merged into Daimaru Matsuzakaya Department Stores.
Financial/Non-financial Highlights

**ROE**

- $7.5, 6.8, 5.4, 5.2$ (FY2017-2020)

**EPS**

- $109.8, 109.65, 81.19, 16.50$ (FY2017-2020)

**Capital expenditures/ Depreciation**

- $29,021, 39,873, 48,632, 50,953, 50,381, 49,628$ (FY2017-2020)

**Interest-bearing liabilities and D/E ratio**

- $144,202, 134,378, 478,373, 562,615$ (FY2017-2020)

**Consolidated number of employees**

- $10,429, 10,276, 9,844, 9,638, 8,148$ (FY2017-2020)

**Year-end number of issues of cross-shareholdings**

- $48, 41, 26, 23, 25$ (FY2017-2020)

**Number of Directors/ Outside Directors and ratio of Outside Directors**

- $13, 13, 13, 13, 13$ (FY2017-2020)

*The Company has adopted the International Financial Reporting Standards (IFRS) since FY2017.*

*The Company has adopted IFRS 16 since FY2019. Accordingly, operating leases are recognized as right-of-use assets and lease liabilities, which caused significant changes in capital expenditures, depreciation, interest-bearing liabilities, etc.

*The Urawa store closed on July 31, 2017.

*The Yamashina store closed on March 31, 2019.

*The Shimonoseki store was placed under the direct management of Daimaru Matsuzakaya Department Stores Co. Ltd. in March 2020. (The Shimonoseki Daimaru, Inc. was merged into Daimaru Matsuzakaya Department Stores Co. Ltd.)*

*The Toyota store closed on September 30, 2021.*

*Data have been compiled and disclosed on a consolidated basis since FY2017. They have received an independent assurance statement from LRQA Limited.*

*The Yamahide store closed on March 31, 2019.*

*The Shimonoseki store was placed under the direct management of Daimaru Matsuzakaya Department Stores Co. Ltd. in March 2020. (The Shimonoseki Daimaru, Inc. was merged into Daimaru Matsuzakaya Department Stores Co. Ltd.)*

*The Toyota store closed on September 30, 2021.*
## 10-Year Data (Financial/Non-financial)

### Financial Data

<table>
<thead>
<tr>
<th>Financial data</th>
<th>IFRS</th>
<th>JGAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,092,756</td>
<td>1,146,319</td>
<td>1,149,529</td>
</tr>
<tr>
<td>1,092,756</td>
<td>1,146,319</td>
<td>1,149,529</td>
</tr>
</tbody>
</table>

#### Ratios


### Non-financial Data

- **Net sales/Revenue:** 3,800,000 (2012), 3,100,000 (2013), 2,800,000 (2014), 2,500,000 (2015), 2,200,000 (2016), 2,000,000 (2017), 1,800,000 (2018), 1,600,000 (2019), 1,400,000 (2020)

### Notes

- *5 Number of male employees who took childcare leave during the fiscal year/Number of male employees whose children were born during the fiscal year × 100 (%)
- *6 Received third-party assurance from LRQA Limited.
- *7 Revised the method for calculating Category 1 emissions and received third-party assurance again.
- *8 Revised the method for calculating Category 1 emissions and received third-party assurance from LRQA Limited.
Financial Position and Operating Results

Overview of operating results

In the current fiscal year (fiscal year ended February 28, 2022), the Japanese economy encountered ongoing instability, which was partly attributable to a situation where the worldwide spread of COVID-19 persisted since last year significantly affecting remote services and activities in Japan and overseas, and also attributable to rapidly mounting geopolitical risks in the latter half of the fiscal year. Despite policymakers having exhibited signs of recovery beginning in October last year amid a decreasing number of COVID-19 cases and the progress made with respect to vaccinations, challenging circumstances have persisted amid a resurgence of deteriorating consumer sentiment caused by factors that include rapid proliferation of infections involving COVID-19 variants at the end of the fiscal year and the imposition of strict infection control measures.

The Company has embarked on the FY2021 to FY2023 Medium-term Business Plan, which features sustainability at the core of management and sets its sights on the corporate vision for 2030, amidst the unprecedented crises of the COVID-19 pandemic. Under the Medium-term Business Plan, (1) we aim to achieve "full recovery" in terms of ensuring that our performance indicators return to the levels of fiscal 2019 prior to the COVID-19 pandemic and (2) we have positioned the period covered by the plan to be one of poised for ourselves for "regrowth" beginning in fiscal 2024.

During the current fiscal year, which constituted the initial year of the Medium-term Business Plan, the outlook remained uncertain due to COVID-19 with the infection having spread intermittently throughout the year. Amid those circumstances, we strove to manage operations in a manner that involves addressing persistently changing circumstances across our respective businesses, with our top priority placed on ensuring the safety and security of our customers and employees and achieving a better business environment as well as improving organizational and employee productivity.

As a result of the above, along with a rebound from suspension of store operations, among other factors, revenue was ¥331,484 million, up 3.9% year on year. As a result of the above, along with factors that include rent concessions associated with business suspension, a backlash effect with respect to prior special demand for building and interior works, and reconsideration of postponed work order schedules, revenue was ¥350,633 million, down 5.5% year on year. However, operating profit was ¥4,111 million, up 137.1% year on year, partly as a result of recording gain on sale of fixed assets.

Payment and Finance Business:

In the payment business, we worked to maintain and expand the customer base through initiatives that included updating cards in the previous fiscal year and introducing a new points program (QIRA Point). We also achieved geographic expansion with respect to the merchant network and initiated operations such as those involving mutual transfer of customers among the Group stores.

In the finance business, we integrated the insurance agency business within the Group and started offering family trust services in a bid to expand into new financial product lines.

As a result of the above, revenue was ¥11,037 million, up 22.2% year on year primarily due to recovery in transaction volume handled by the Department Store and increased annual fee income associated with updating cards. Meanwhile, operating profit was ¥1,970 million, up 367.8% year on year.

Other:

In the electronic devices division and automotive components division of Daimaru Kiyoe, Ltd., which is engaged in the wholesale business, revenue decreased amid tight supply of semiconductors. Meanwhile, Dimples' staffing service business achieved an increase in revenue in part due to recovery of business involving its client businesses.

As a result of the above, revenue was ¥61,755 million, down 1.3% year on year, and operating profit was ¥1,199 million, down 30.5% year on year. Meanwhile, Dimples' "Omo" initiatives entailed launching the new ARToVILLA media service for conveying the appeal of art in both physical stores and online.

Basic profit distribution policy and dividends

The Company believes that any increase in free cash flow and improvement in ROE should help to ensure its sustainable growth and increase corporate value over the medium to long term. To such ends, the Company promotes a capital policy that takes a balanced approach to "undertaking strategic investment," "enhancing shareholder returns," and "expanding net worth being" after taking into consideration the business environment and risk readiness.

Moreover, our basic policy is to procure funds through interest-bearing liabilities by taking into account the ability to generate free cash flow and the balance of the interest-bearing liabilities and we aim to achieve an optimal structure of debt to equity in a manner cognizant of our funding efficiency and cost of capital.

Regarding dividends, the Company has decided to pay an annual dividend of ¥29 per share (¥17 in the previous fiscal year), up ¥2 compared to the previous fiscal year. In view of the balance of the interim dividend and year-end dividend, we have decided to pay an interim dividend of ¥14 per share, up ¥5 from the previous fiscal year (¥9 in the previous fiscal year) and a year-end dividend of ¥15 per share, down ¥3 from the previous fiscal year.

As a result of the above, revenue from store operations increased, but revenue overall decreased by 5.2% year on year to ¥52,556 million due to transfer of all shares of Neuve A Co., Ltd. in the specialty store business in June. Operating profit increased substantially to ¥2,055 million (operating loss of ¥6,968 million in the previous fiscal year) partly due to a rebound with respect to store closure-related expenses incurred in the previous fiscal year.

Developer Business:

We promoted use of our existing properties on the basis of the Real Estate Business having been consolidated into Parco in the previous fiscal year. This involved opening a commercial facility at the former site of a Matsuzakaya distribution center in March while also engaging in non-commercial multi-purpose development, and furthermore selling off non-business assets. In July, we decided to open stores in a new building (formerly Kumamoto PARCO) in central Kumamoto.

Meanwhile, our efforts to develop the Nagoya Sakae area to make it more appealing involved promoting the development of Nishi-3 chome District 25, slated for completion and opening in 2026.

As a result of the above, along with factors that include rent concessions associated with business suspension, a backlash effect with respect to prior special demand for building and interior works, and reconsideration of postponed work order schedules, revenue was ¥50,633 million, down 5.5% year on year. However, operating profit was ¥4,111 million, up 137.1% year on year, partly as a result of recording gain on sale of fixed assets.

Payment and Finance Business:

In the payment business, we worked to maintain and expand the customer base through initiatives that included updating cards in the previous fiscal year and introducing a new points program (QIRA Point). We also achieved geographic expansion with respect to the merchant network and initiated operations such as those involving mutual transfer of customers among the Group stores.

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## Consolidated Statement of Financial Position

J. Front Retailing Co., Ltd. and its consolidated subsidiaries

As of February 29, 2020, February 28, 2021 and February 28, 2022

<table>
<thead>
<tr>
<th>FY2020</th>
<th>FY2021</th>
<th>FY2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>34,633</td>
<td>128,925</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>144,244</td>
<td>113,414</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>5,095</td>
<td>5,841</td>
</tr>
<tr>
<td>Inventories</td>
<td>19,169</td>
<td>20,684</td>
</tr>
<tr>
<td>Other current assets</td>
<td>5,281</td>
<td>4,739</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>208,424</td>
<td>273,605</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>473,167</td>
<td>493,644</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>179,632</td>
<td>157,819</td>
</tr>
<tr>
<td>Goodwill</td>
<td>523</td>
<td>523</td>
</tr>
<tr>
<td>Investment property</td>
<td>219,354</td>
<td>188,879</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>5,662</td>
<td>5,752</td>
</tr>
<tr>
<td>Investments accounted for using equity method</td>
<td>37,439</td>
<td>37,815</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>91,379</td>
<td>86,870</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>9,988</td>
<td>6,751</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>14,734</td>
<td>12,061</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>1,031,883</td>
<td>990,116</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,240,308</td>
<td>1,263,722</td>
</tr>
</tbody>
</table>

| **Liabilities and equity** | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Bonds and borrowings | 108,400 | 145,151 | 108,152 |
| Trade and other payables | 144,020 | 121,937 | 116,107 |
| Lease liabilities | 29,493 | 29,799 | 28,554 |
| Other financial liabilities | 30,199 | 30,211 | 29,915 |
| Income taxes payable | 4,349 | 1,957 | 4,485 |
| Provisions | 999 | 914 | 954 |
| **Total current liabilities** | 373,889 | 389,926 | 347,413 |
| Non-current liabilities | | | |
| Bonds and borrowings | 149,876 | 214,799 | 201,562 |
| Lease liabilities | 191,003 | 173,085 | 155,839 |
| Other financial liabilities | 41,087 | 39,237 | 36,741 |
| Retirement benefit liability | 20,175 | 19,781 | 19,416 |
| Provisions | 4,909 | 10,534 | 9,053 |
| Deferred tax liabilities | 58,829 | 51,305 | 51,697 |
| Other non-current liabilities | 855 | 731 | 663 |
| **Total non-current liabilities** | 375,989 | 395,506 | 374,913 |
| **Total liabilities** | 759,878 | 785,432 | 722,326 |

| Equity | | | |
| Share capital | 31,974 | 31,974 | 31,974 |
| Capital surplus | 189,340 | 188,542 | 188,894 |
| Treasury shares | (14,974) | (14,830) | (14,780) |
| Other components of equity | 11,641 | 9,578 | 9,578 |
| Retained earnings | 169,206 | 156,906 | 134,795 |
| **Total equity attributable to owners of parent** | 387,188 | 382,171 | 350,268 |
| Non-controlling interests | 12,493 | 12,171 | 11,751 |
| **Total equity** | 399,681 | 394,342 | 361,519 |
| **Total liabilities and equity** | 1,240,308 | 1,263,722 | 1,192,907 |

## Consolidated Statement of Profit or Loss

J. Front Retailing Co., Ltd. and its consolidated subsidiaries

Consolidated financial years ended February 28, 2021 and February 28, 2022

<table>
<thead>
<tr>
<th>FY2021</th>
<th>FY2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>319,079</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(184,711)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>134,368</td>
</tr>
<tr>
<td><strong>SGA</strong></td>
<td>(132,001)</td>
</tr>
<tr>
<td><strong>Other operating income</strong></td>
<td>5,711</td>
</tr>
<tr>
<td><strong>Other operating expenses</strong></td>
<td>(32,343)</td>
</tr>
<tr>
<td><strong>Operating profit (loss)</strong></td>
<td>(24,265)</td>
</tr>
<tr>
<td><strong>Finance income</strong></td>
<td>962</td>
</tr>
<tr>
<td><strong>Finance costs</strong></td>
<td>(6,086)</td>
</tr>
<tr>
<td><strong>Share of profit (loss) of investments accounted for using equity method</strong></td>
<td>717</td>
</tr>
<tr>
<td><strong>Profit (loss) before tax</strong></td>
<td>(28,812)</td>
</tr>
<tr>
<td><strong>Income tax expenses</strong></td>
<td>2,251</td>
</tr>
<tr>
<td><strong>Profit (loss)</strong></td>
<td>(26,421)</td>
</tr>
</tbody>
</table>

**Earnings (loss) per share**

- **Basic earnings (loss) per share (Yen)**: (100.03) 16.50
- **Diluted earnings (loss) per share (Yen)**: (100.03) 16.50

## Consolidated Statement of Comprehensive Income

J. Front Retailing Co., Ltd. and its consolidated subsidiaries

Consolidated financial years ended February 28, 2021 and February 28, 2022

<table>
<thead>
<tr>
<th>FY2021</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit (loss)</strong></td>
<td>(26,421)</td>
</tr>
</tbody>
</table>

**Other comprehensive income**

- **Items that will not be reclassified to profit or loss**
  - Financial assets measured at fair value through other comprehensive income | (2,106) | (52) |
  - Remeasurements of defined benefit plans | 1,107 | 1,632 |
  - Share of other comprehensive income of investments accounted for using equity method | (94) | 136 |
  - **Total of items that will not be reclassified to profit or loss** | (1,093) | 1,716 |
- **Items that may be reclassified to profit or loss**
  - Cash flow hedges | 13 | (13) |
  - Exchange differences on translation of foreign operations | (90) | 151 |
  - Share of other comprehensive income of investments accounted for using equity method | 3 | (0) |
  - **Total of items that may be reclassified to profit or loss** | (9) | 136 |
  - **Total of items that may be reclassified to profit or loss** | (9) | 136 |

**Comprehensive income**

- **Comprehensive income attributable to:**
  - Owners of parent | (27,292) | 3,253 |
  - Non-controlling interests | (226) | (355) |
  - **Comprehensive income** | (27,518) | 2,898 |

**Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income**

(Millions of yen)

<table>
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**Earnings (loss) per share**

- **Basic earnings (loss) per share (Yen)**: (100.03) 16.50
- **Diluted earnings (loss) per share (Yen)**: (100.03) 16.50

**Comprehensive income**

- **Comprehensive income attributable to:**
  - Owners of parent | (27,292) | 3,253 |
  - Non-controlling interests | (226) | (355) |
  - **Comprehensive income** | (27,518) | 2,898 |
## Consolidated Statement of Changes in Equity

### J. Front Retailing Co., Ltd. and its consolidated subsidiaries

**Consolidated financial years ended February 28, 2021 and February 28, 2022**

**Consolidated financial years ended February 28, 2021 and February 28, 2022**

<table>
<thead>
<tr>
<th>Equity attributable to owners of parent</th>
<th>(Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Share capital</strong></td>
<td></td>
</tr>
<tr>
<td>Balance at March 1, 2020</td>
<td>31,974</td>
</tr>
<tr>
<td>Profit (loss)</td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td></td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury shares</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
</tr>
<tr>
<td>Share-based payment transactions</td>
<td></td>
</tr>
<tr>
<td>Transfer from other components of equity to retained earnings</td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td></td>
</tr>
<tr>
<td>Balance at February 28, 2021</td>
<td>31,974</td>
</tr>
<tr>
<td><strong>Other components of equity</strong></td>
<td></td>
</tr>
<tr>
<td>Balance at March 1, 2020</td>
<td>31,974</td>
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<td>Profit (loss)</td>
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</tr>
<tr>
<td>Balance at February 28, 2021</td>
<td>31,974</td>
</tr>
</tbody>
</table>

### Consolidated Statement of Cash Flows

### J. Front Retailing Co., Ltd. and its consolidated subsidiaries

**Consolidated financial years ended February 28, 2021 and February 28, 2022**

**Cash flows from operating activities**

<table>
<thead>
<tr>
<th>FY2021</th>
<th>FY2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss) before tax</td>
<td>(28,672)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>50,361</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>14,122</td>
</tr>
<tr>
<td>Finance income</td>
<td>(962)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>6,086</td>
</tr>
<tr>
<td>Share of loss (profit) of investments accounted for using equity method</td>
<td>(737)</td>
</tr>
<tr>
<td>Loss (gain) on sale of fixed assets</td>
<td>0</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>1,260</td>
</tr>
<tr>
<td>Gain on sale of shares of subsidiaries</td>
<td>—</td>
</tr>
<tr>
<td>Loss on sale of shares of subsidiaries</td>
<td>—</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>(5,52)</td>
</tr>
<tr>
<td>Decrease (increase) in trade and other receivables</td>
<td>(26,608)</td>
</tr>
<tr>
<td>Increase (decrease) in trade and other payables</td>
<td>(12,720)</td>
</tr>
<tr>
<td>Decrease (increase) in retirement benefit liability</td>
<td>(267)</td>
</tr>
<tr>
<td>Decrease (increase) in retirement benefit asset</td>
<td>2,988</td>
</tr>
<tr>
<td>Other</td>
<td>5,666</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>62,232</td>
</tr>
<tr>
<td>Interest received</td>
<td>130</td>
</tr>
<tr>
<td>Dividends received</td>
<td>232</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(6,039)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(6,251)</td>
</tr>
<tr>
<td>Income taxes refund</td>
<td>6,106</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by operating activities</strong></td>
<td>54,000</td>
</tr>
</tbody>
</table>

**Cash flows from investing activities**

<table>
<thead>
<tr>
<th>FY2021</th>
<th>FY2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(14,729)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment</td>
<td>7</td>
</tr>
<tr>
<td>Purchase of investment property</td>
<td>(3,831)</td>
</tr>
<tr>
<td>Proceeds from sale of investment property</td>
<td>7,072</td>
</tr>
<tr>
<td>Purchase of investment securities</td>
<td>(1,401)</td>
</tr>
<tr>
<td>Proceeds from sale of investment securities</td>
<td>1,480</td>
</tr>
<tr>
<td>Proceeds from sale of shares of subsidiaries resulting in changes in scope of consolidation</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>(2,560)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) in investing activities</strong></td>
<td>(20,870)</td>
</tr>
</tbody>
</table>

**Cash flows from financing activities**

<table>
<thead>
<tr>
<th>FY2021</th>
<th>FY2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase (decrease) in short-term borrowings</td>
<td>(13,000)</td>
</tr>
<tr>
<td>Net increase (decrease) in commercial papers</td>
<td>66,001</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>82,000</td>
</tr>
<tr>
<td>Repayments of long-term borrowings</td>
<td>(23,450)</td>
</tr>
<tr>
<td>Proceeds from issuance of bonds</td>
<td>29,866</td>
</tr>
<tr>
<td>Redemption of bonds</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Repayments of lease liabilities</td>
<td>(29,254)</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>(3)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(7,066)</td>
</tr>
<tr>
<td>Dividends paid to non–controlling interests</td>
<td>(94)</td>
</tr>
<tr>
<td>Purchase of shares of subsidiaries not resulting in change in scope of consolidation</td>
<td>(6,471)</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by financing activities</strong></td>
<td>56,272</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>94,328</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>34,633</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(87)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>129,925</td>
</tr>
</tbody>
</table>
Group Companies (As of June 30, 2022)

Department Store Business

Daimaru Matsuzakaya Department Stores Co., Ltd.
Location: 10-11, Naka 2-chome, Kita-ku, Osaka 556-0042
Capital: ¥100 million Investment ratio: 100%
http://www.daimaru-matsuzakaya.com

Daimaru Osaka Shinbashishi Store
Location: 1-3, Shinbashishi-cho, Chuo-ku, Osaka 540-8501
Phone: +81-6-6710-1111 Opened: November 1938

Daimaru Osaka Umeda Store
Location: 1-1, Umeda 3-chome, Kita-ku, Osaka 530-8502
Phone: +81-6-6492-1111 Opened: April 1963

Daimaru Tokyo Store
Location: 9-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-0006
Phone: +81-3-4210-1111 Opened: October 1894

Daimaru Kyoto Store
Location: 29, Nishihama-cho, Nishi-ku, Kyotogyo-ku, Kyoto 605-0811
Phone: +81-75-211-1111 Opened: October 2012

Daimaru Kobe Store
Location: 16-1, Naka-ku, Kobe, Hyogo 650-0011
Phone: +81-6-321-1111 Opened: April 1963

Daimaru Nagoya Store
Location: 10, Takemachicho, Naka-ku, Nagoya, Aichi 460-0011
Phone: +81-52-646-1111 Opened: March 2014

Daimaru Sapporo Store
Location: 10-1, Sapporo-cho, Chuo-ku, Sapporo, Hokkaido 060-0005
Phone: +81-11-254-1111 Opened: March 2012

Daimaru Ueno Store
Location: 29, Yoko, Ueno 3-chome, Taito-ku, Tokyo 110-0003
Phone: +81-3-451-1111 Opened: March 1963

The Hakata Daimaru, Inc.
Location: 4-1, Tenjin 1-chome, Higashi-ku, Fukuoka 812-8117
Phone: +81-92-712-1811 Capital: ¥120 million Investment ratio: 93.5%
http://www.daimaru.co.jp/hakata/index.html

Daimaru Suma Store
Location: 2-4, Takachiyama 2-chome, Suma-ku, Kobe, Hyogo 654-0054
Phone: +81-6-761-1111 Opened: March 1990

Daimaru Ashiya Store
Location: 3-15, Parkasato-cho, Ashiya, Hyogo 658-0013
Phone: +81-6-877-1111 Opened: October 1948

Daimaru Shinkonosato Store
Location: 4-33, Takakura-cho, Shinkonosato, Yamanashi 500-0005
Phone: +81-55-212-1111

Matsuzakaya Shinsaibashi Store
Location: 17, Miyakojima, Higashi-Ku, Osaka 550-0011
Phone: +81-6-204-1111 Opened: November 2012

Matsuzakaya Takatsuki Store
Location: 2-1, Takatsuki-cho, Takatsuki, Osaka 588-0012
Phone: +81-6-245-1111 Opened: November 1989

Corporate Sales Division
Location: 8F, Shinsaibashi Annex, Matsuzakaya Ueno Store, 18-6, Ueno 3-chome, Taito-ku, Tokyo 110-0005
Phone: +81-3-3841-1431

Kochi Daimaru Co., Ltd.
Location: 8-12, Takamatsu, Naka-ku, Kochi, Kochi 780-0036
Phone: +81-88-822-1111 Capital: ¥300 million Investment ratio: 100%
http://www.kochi-daimaru.co.jp/

Parco Co., Ltd. (Shopping center business)
Location: 10-3, Shinbashishi-cho, Chuo-ku, Tokyo 105-0045
Capital: ¥34.8 billion Investment ratio: 100%
http://www.parco.co.jp/

Parco (Singapore) Pte Ltd (Shopping center business)
Location: 2-1, Konyamachi, Takatsuki, Osaka 569-8522
Capital: ¥10 billion Investment ratio: 100%

SC Business

Parco Digital Marketing Co., Ltd. (Internet-related business)
Location: 10-3, Shinbashishi-cho, Chuo-ku, Tokyo 105-0045
Capital: ¥10 billion Investment ratio: 100%
http://www.parco-digitalmarketing.com/

Developer Business

Parco Co., Ltd. (Developer business)
Location: 10-3, Shinbashishi-cho, Chuo-ku, Tokyo 105-0045
Capital: ¥34.8 billion Investment ratio: 100%

Parco Space Systems Co., Ltd.
Location: 10-3, Shinbashishi-cho, Chuo-ku, Tokyo 105-0045
Capital: ¥492 million Investment ratio: 100%

Parco Digital Marketing Co., Ltd. (Internet-related business)
Location: 1-3, Shinbashishi-cho, Chuo-ku, Tokyo 105-0045
Capital: ¥10 billion Investment ratio: 100%
http://www.parco-digitalmarketing.com/

J. Front Design & Construction Co., Ltd.
Location: 10-3, Shinbashishi-cho, Chuo-ku, Tokyo 105-0045
Capital: ¥492 million Investment ratio: 100%
http://www.jfr-design.com/

Payment and Finance Business

JFR Card Co., Ltd. (Credit and finance business)
Location: 3-1, Komatsugawa, Takatsuki, Osaka 569-8522
Capital: ¥1 billion Investment ratio: 100%
http://www.jfr-card.co.jp/

JFR Service Co. Ltd.
Location: 2-1, Komatsugawa, Takatsuki, Osaka 569-8522
Capital: ¥100 million Investment ratio: 100%
http://www.jfr-service.com/

JFR Information Center Co., Ltd. (Information service)
Location: 3-4, Osaka 5-chome, Tennoji-ku, Osaka 543-0012
Capital: ¥100 million Investment ratio: 100%
http://www.jfr-i.com/

Daimaru Matsuzakaya Tomonokai Co., Ltd.
Location: 2-1, Konyamachi, Takatsuki, Osaka 569-8522
Capital: ¥50 million Investment ratio: 100%
http://www.dmtomonokai.co.jp/

JFR Payment and Finance Business

JFR Payment and Finance Business

JFR Payment and Finance Business

Other

Daimaru Kogyo, Ltd. (Wholesale business)
Location: Yushibutsu Sento, Kita-ku, Osaka, Osaka 543-0012
Capital: ¥1 billion Investment ratio: 100%
http://www.daimaru-kogyo.co.jp/

Daimaru Kogyo International Trading (Shanghai) Co., Ltd.
Location: 6th Fl., Hong Kong Bank Tower, 1001 Laoyuzai Ring Rd., Pudong New Area, Shanghai, China
Capital: ¥100 million Investment ratio: 100%

Daimaru Kogyo (Thailand) Co., Ltd.
Location: Unit 1002, 19th Fl., Sathorn Square Office Building, 38 North Sathorn, Kwaeng Silom, Khet Bangrak, Bangkok 10500, Thailand
Capital: ¥80 million Investment ratio: 100%

Taiwan Daimaru Kogyo, Ltd.
Location: Room 709, No. 142, Sec. 3, Min Chuan East Road, Taipei 10642, Taiwan, R.O.C.
Capital: ¥80 million Investment ratio: 100%
http://www.dmtomonokai.co.jp/

Consumer Product End-Use Research Institute Co., Ltd.
Location: 10-4, Shinbashishi-cho, Chuo-ku, Tokyo 105-0045
Capital: ¥100 million Investment ratio: 100%
http://www.chosakaken.co.jp/
J. Front Retailing Group operates stores in major cities across Japan, from Sapporo, Hokkaido in the north to Hakata, Kyushu in the south. The Department Store Business operates 15 Daimaru and Matsuzakaya stores. The SC Business operates 18 PARCO shopping complexes. We also operate GINZA SIX, ZERO GATE stores, which are urban-style low- to medium-rise shopping complexes, and BINO stores, which are based on the concept of beauty and health. The Group will make the best use of the well-balanced network of store assets in major cities throughout Japan and accelerate new store opening and development strategies for further growth.

<table>
<thead>
<tr>
<th>Store Type</th>
<th>Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daimaru</td>
<td></td>
</tr>
<tr>
<td>Matsuzakaya</td>
<td></td>
</tr>
<tr>
<td>PARCO</td>
<td></td>
</tr>
<tr>
<td>ZERO GATE</td>
<td></td>
</tr>
<tr>
<td>BINO</td>
<td></td>
</tr>
</tbody>
</table>

As of June 30, 2022

The Group will make the best use of the well-balanced network of store assets in major cities throughout Japan and accelerate new store opening and development strategies for further growth.

Daimaru, Matsuzakaya and PARCO Cover Major Big Cities across Japan

**DATA**

Stores (Map)
### Share Information/Corporate Information (As of February 28, 2022)

#### Status of shares

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares authorized</td>
<td>1,000,000,000 shares</td>
</tr>
<tr>
<td>Number of shares issued</td>
<td>270,565,764 shares</td>
</tr>
<tr>
<td>Stock code</td>
<td>3086</td>
</tr>
<tr>
<td>Stock exchange listings</td>
<td>Tokyo and Nagoya</td>
</tr>
<tr>
<td>Transfer agent</td>
<td>Mitsubishi UFJ Trust and Banking Corporation</td>
</tr>
<tr>
<td>Number of shareholders</td>
<td>155,375</td>
</tr>
</tbody>
</table>

#### Distribution by shareholder type

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of shareholders (People)</th>
<th>Number of shares (1,000 shares)</th>
<th>Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government and local public entities</td>
<td>57</td>
<td>96,725</td>
<td>35.75</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>44</td>
<td>14,912</td>
<td>5.51</td>
</tr>
<tr>
<td>Financial instruments firms</td>
<td>1,026</td>
<td>16,920</td>
<td>6.25</td>
</tr>
<tr>
<td>Other companies</td>
<td>492</td>
<td>55,934</td>
<td>20.67</td>
</tr>
<tr>
<td>Individuals and others</td>
<td>155,755</td>
<td>79,808</td>
<td>29.50</td>
</tr>
<tr>
<td>Treasury stock</td>
<td>1</td>
<td>6,264</td>
<td>2.32</td>
</tr>
</tbody>
</table>

#### Share Information

- **Company name**: J. Front Retailing Co., Ltd.
- **Main store**: 10-1, Ginza 6-chome, Chuo-ku, Tokyo
- **Office**: Shinagawa Season Terrace, 2-16, Kominato 1-chome, Minato-ku, Tokyo (Relocated on August 29, 2022)
- **Established**: September 3, 2007
- **Capital**: ¥31,974 million
- **The Group's business lines**: Department store operation; retail; restaurants; wholesale; import and export; design, supervision and contracting of construction works; direct marketing; credit cards; labor dispatch service; merchandise inspection and consulting; and others
- **Number of employees (consolidated)**: 5,589 (as of February 28, 2022)
- **URL**: [https://www.j-front-retailing.com/english/](https://www.j-front-retailing.com/english/)

- **Note**: In addition to the above, there are 2,559 dedicated employees and fixed-term employees.

#### Shareholding Information

<table>
<thead>
<tr>
<th>Name of shareholder</th>
<th>Number of shares held (1,000 shares)</th>
<th>Shareholding ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>43,781</td>
<td>16.56</td>
</tr>
<tr>
<td>Custody Bank of Japan, Ltd. (Trust Account)</td>
<td>15,163</td>
<td>5.73</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>3,828</td>
<td>1.41</td>
</tr>
<tr>
<td>J. Front Retailing Kyooz Supplier Shareholding Association</td>
<td>6,344</td>
<td>2.40</td>
</tr>
<tr>
<td>GOMM CM SINGAPORE LTD.— Nominee ROBERT LUKE COLCLOK</td>
<td>5,439</td>
<td>2.05</td>
</tr>
<tr>
<td>The Dai-ichi Mutual Life Insurance Company</td>
<td>5,158</td>
<td>1.95</td>
</tr>
<tr>
<td>AINMA AS AGT/CLTS NORTRETY JASDEC</td>
<td>4,383</td>
<td>1.62</td>
</tr>
<tr>
<td>JP MORGAN CHASE BANK 385781</td>
<td>3,207</td>
<td>1.21</td>
</tr>
<tr>
<td>SMBC TRUST BANK LTD. (SUMITOMO MITSUI BANKING CORPORATION RETIREMENT BENEFIT TRUST ACCOUNT)</td>
<td>3,204</td>
<td>1.21</td>
</tr>
<tr>
<td>JP Morgan Securities Japan Co., Ltd.</td>
<td>2,909</td>
<td>1.10</td>
</tr>
</tbody>
</table>

*Shareholding ratio is calculated by deducting treasury stock (6,264,000 shares). The said treasury stock does not include the Company's shares held by the BIP Trust.*