ESG Briefing Session

June 27, 2022

Shimamura Group

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1. Basic policy for ESG activities

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(1) Sustainable ESG activities

Management Mission

The Shimamura Group will build a “good company” for employees, customers, business partners, shareholders, and society.

The Shimamura Group will promote sustainable “ESG response by Shimamura” through our main businesses.

(2) Economic rationality and “a good company”

What are “sustainable initiatives through our main businesses”?

■ “Economically rational” initiatives (which can be completed by ourselves)

Examples:

- To reduce power consumption (CO_2 emissions) by adopting LED lighting ⇒ **Cost reduction**
- To provide suppliers with hangers produced from recycled materials at low cost ⇒ **Curtailment of procurement costs**
- To sell sustainable products as consumers became more aware of SDGs ⇒ **Sales growth**

■ Initiatives for building “a good company”

Examples:

- To develop an environment in which female and people with disabilities can work comfortably ⇒ **“A good company” for employees**
- To prohibit the infringement on human rights in the supply chain ⇒ **“A good company” for business partners**
- To achieve zero product disposal, and recycle delivery materials ⇒ **“A good company” for society**

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3. Initiatives for the environment and society

2. Strengthening of governance

(1) Initiatives until FY 2019

- **Disclosure of the English versions of convocation notices for general meetings of shareholders (since FY 2017)**

  In response to the rise in the ratio of non-Japanese investors, we started disclosing the English versions.

- **Start of evaluation of the effectiveness of the Board of Directors (since FY 2018)**

  Started conducting a questionnaire survey targeted at directors and audit & supervisory board members once a year.

- **Disclosure of CSR activities in our corporate website (since FY 2018)**

  Set the “Policy for CSR activities” and disclosed major activities in our corporate website.

2. Strengthening of governance

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(1) Problems until FY 2019

- **Efforts for corporate governance were not enough.**

  The President made most decisions about management plans, nomination and remuneration of executives, etc. in a top-down fashion, and discussions in the Board of Directors were insufficient.

- **Company-wide or cross-sectoral ESG efforts were not enough.**

  Respective divisions engaged in ESG activities independently from one another. The systems for cross-sectoral cooperation and company-wide efforts were insufficient.

- **Volume and contents of disclosed information on investor relations (IR) and shareholder relations (SR) were not enough.**

  Employees took daily ESG activities for granted, but lacked efforts to communicate them to the outside of our company.

Since FY 2020, we have engaged in ESG initiatives, mainly the **strengthening of governance**.

2. Strengthening of governance

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(2) Changes in the governance system

President Suzuki appointed

New medium-term management plan "Reborn" started

Initiatives \ FY		2017	2018	2019	2020	2021	2022
Board of Directors	Ratio of outside directors	1/3 (4 inside directors and 2 outside directors)		Less than 1/3 (5 inside directors and 2 outside directors)		1/3 (4 inside directors and 2 outside directors)	Over 1/3 (5 inside directors and 3 outside directors)
	Effectiveness evaluation		Start of effectiveness evaluation			Disclosed evaluation results and measures in our website	
	Term of office	2 years					Shortened to 1 year
	Skills					Disclosure of the skill matrix	
Nomination and remuneration	Nomination & Remuneration Committee				・Establishment of a subcommittee ・Started reviewing the nomination and remuneration systems	•Establishment of the Nomination & Remuneration Committee •Revised regulations for nomination and remuneration, and adopted transfer-restricted shares for executive officers •Abolished the posts of senior managing directors and managing directors, and established the posts of senior executive officers	
	Ratio of outside directors				1/2 (2 inside directors and 2 outside directors)		Majority (2 inside directors and 3 outside directors)
Management strategy	Management Plan Formulation Committee				・Establishment of a subcommittee ・Start of deliberations on a medium-term management plan	•Establishment of the Management Plan Formulation Committee •Disclosure of the medium-term management plan Management strategy and capital policy	Start of deliberations on a long-term management plan
	ESG-related policy and promotion system					•Set the sustainability policy •Formed 3 ESG teams	•Revised the compliance regulations •Set the human rights policy •Increased the number of ESG teams to 4
IR and SR	Disclosure of ESG activities		Disclosed as CSR activities			•Fully updated our website Significantly updated ESG activities Disclosed more English documents •Set an IR policy •Adopted the electronic exercise of voting rights	•Increased the items to be disclosed in our website Disclosed the videos of our ESG activities •Video streaming for general meetings of shareholders

2. Strengthening of governance

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(3) Initiatives since FY 2020 (a)

President Suzuki appointed

New medium-term management plan “Reborn” started

Initiatives \ FY	2017	2018	2019	2020	2021	2022
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Board of Directors — Skills					Disclosure of the skill matrix	
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2. Strengthening of governance

Shimamura Group

(3) Initiatives since FY 2020 (b)

President Suzuki appointed

New medium-term management plan "Reborn" started

Initiatives \ FY		2017	2018	2019	2020	2021	2022
Board of Directors	Ratio of outside directors	1/3 (4 inside directors and 2 outside directors)		Less than 1/3 (5 inside directors and 2 outside directors)		1/3 (4 inside directors and 2 outside directors)	Over 1/3 (5 inside directors and 3 outside directors)
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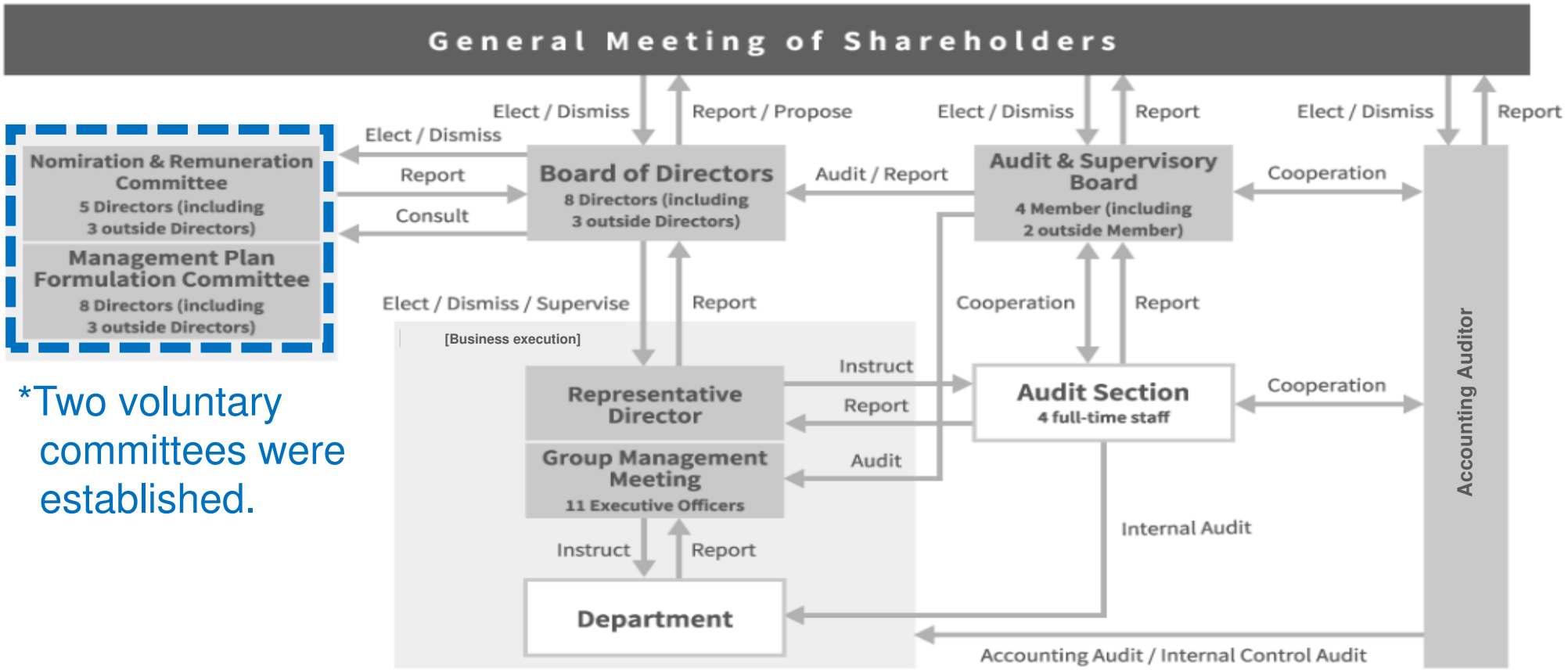
(3) Initiatives since FY 2020 (b)

Establishment of voluntary committees

In FY 2020, a subcommittee of the Board of Directors was established.
In FY 2021, a committee was established.



*Two voluntary committees were established.

(3) Initiatives since FY 2020 (b)

Before the establishment of the committees (until FY 2019)

The President made most decisions about management plans, nomination and remuneration of executives, etc. in a top-down fashion, and discussions in the Board of Directors were insufficient.

After the establishment of the committees (from FY 2020)

・Nomination and remuneration of executives: “Nomination & Remuneration Committee”

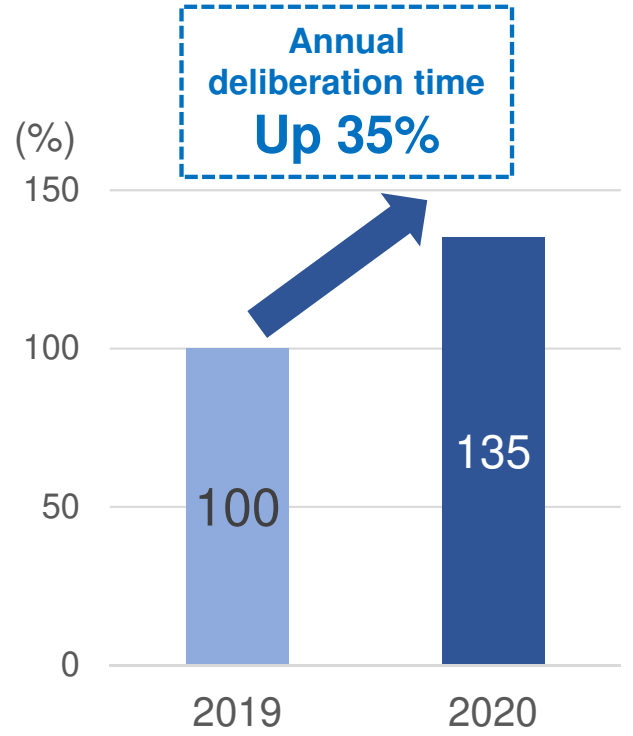
・Medium/long-term growth strategy: “Management Plan Formulation Committee”

⇒ **The committees deliberate items that would cost a lot of time to discuss to a sufficient degree.**

⇒ **Increase of time of deliberation by the Board of Directors**

Conventional meetings of the Board of Directors: Two items, “resolutions” and “reports”

After the establishment of the committees: Three items, as “**deliberation**” was added



*Sum of deliberation hours of the Board of Directors and the committees

(3) Initiatives since FY 2020 (b)

Review of the system for executives (directors)

In FY 2020, the senior adviser Fujiwara was appointed as **director/senior advisor**, **to lead the company together with President Suzuki**.

・In order to recover our business performance and expand the scale of our company, **we will improve the level and speed of business administration**, by utilizing the knowledge and experience of the senior adviser. **In FY 2021, sales and profit hit a record high**.

・By appointing him as a director, **we clarified the duties and authority of the senior adviser**.

President and CEO

⇒ To execute all kinds of management and tighten governance

Director/Senior Advisor

⇒ To give advice about the development and construction of stores, etc. by utilizing its plentiful experience

⇒ To educate executives and general manager about the basics, fundamentals and principles of management, and give advice to them

⇒ To actively express its opinions about the strengthening of governance at the meetings of the Board of Directors and the committees

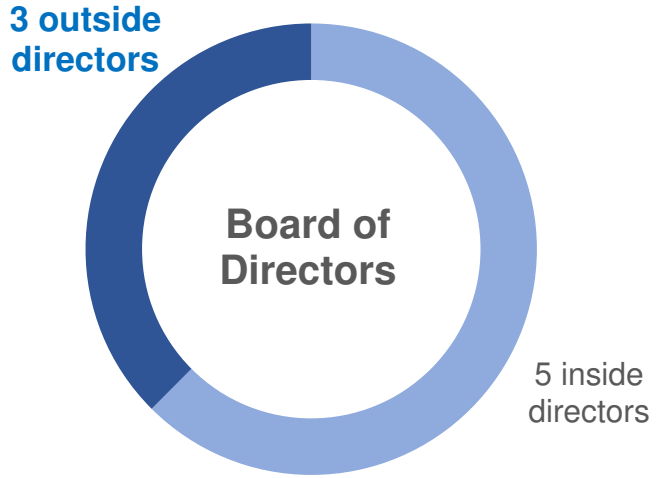
(3) Initiatives since FY 2020 (b)

Review of the system for executives (directors)

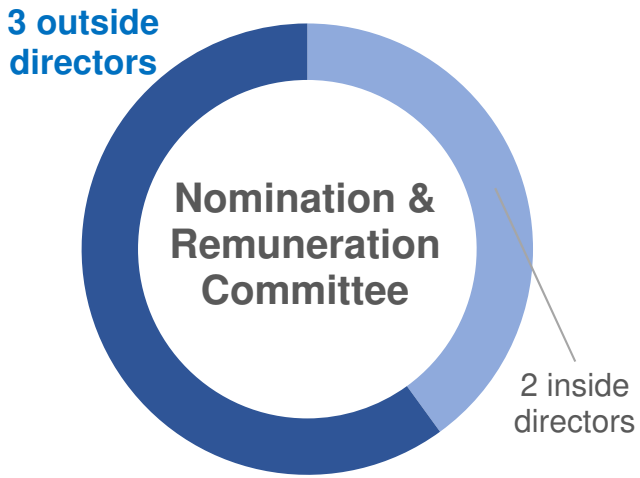
Strengthening of the roles of outside directors

- FY 2020: Outside directors joined subcommittees (committees from the following fiscal year).
- FY 2022: The number of outside directors increased from 2 to 3.

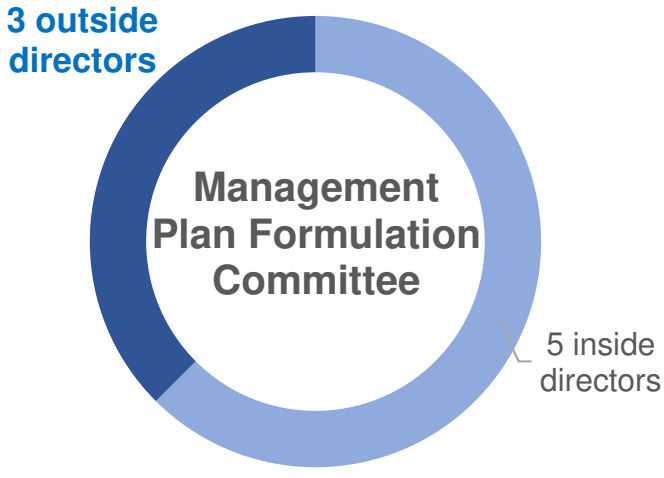
[Ratio of inside and outside directors of the Board of Directors and the committees]



Ratio of outside directors: 37.5%



Ratio of outside directors: 60.0%



Ratio of outside directors: 37.5%

(3) Initiatives since FY 2020 (b)

Review of the system for executives (executive officers)

・Delegation of responsibilities and authority to executive officers

Previously: The president's top-down decision making affected on-site activities.

After delegation: Improvement in speed and judgment

⇒ The bottom-up approach is improving business operations.

・Appointed based on performance
(executives in charge of the Merchandise Department are becoming younger.)

[Variations in ages of executive officers in charge of the Merchandise Department]

[Unit: years old]

	FY 2019	FY 2022
Shimamura Merchandise Department	49	47
Avail Merchandise Department	59	51
Birthday Merchandise Department	63	50
Chambre Merchandise Department	65	51
Average age	**59**	**50**

Average age
Down 9 years

(3) Initiatives since FY 2020 (b)

Review of the system for officer remuneration (since FY 2020)

- **Adopted the stock compensation system (using transfer-restricted shares) for executive officers in FY 2021.**
  *In principle, inside directors concurrently serve as executive officers, except director/senior advisor.
- **The bonus for executive officers varies considerably according to the performance of their sections.**

[Composition of remuneration for directors concurrently serving as executive officers]

		FY 2019	FY 2021
Basic remuneration (fixed)		88%	81%
Incentive (fluctuating)	Bonus	12%	13%
	Stock compensation	-	6%

Ratio of fixed remuneration
Down 7 points

Securing the objectivity and transparency of evaluation of executives

Previously

The President designed plans, and the Board of Directors made a decision.

From FY 2020

- After the deliberation by the Nomination & Remuneration Committee, the Board of Directors makes a decision.
- Outside directors comprise a majority of committee members (from FY 2022).

2. Strengthening of governance

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(3) Initiatives since FY 2020 (c)

President Suzuki appointed

New medium-term management plan "Reborn" started

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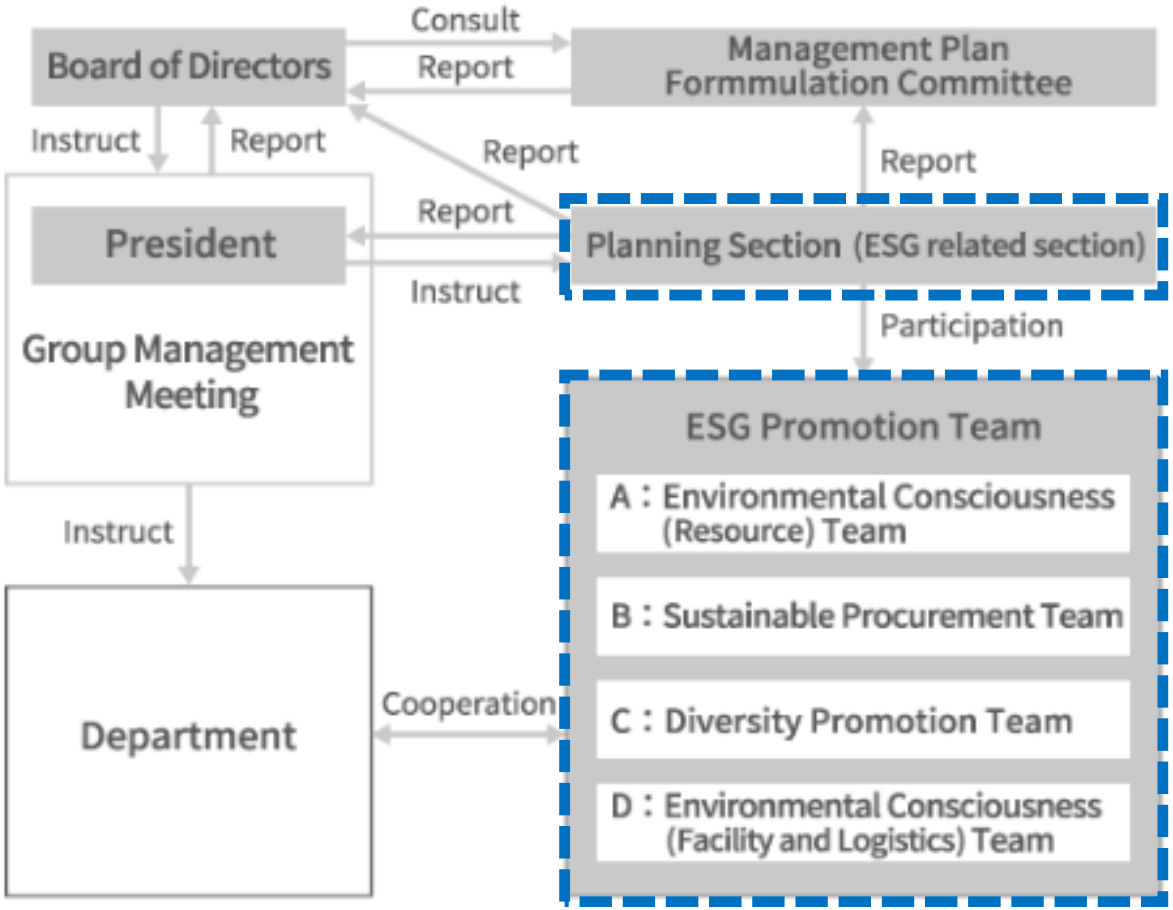
(3) Initiatives since FY 2020 (c)

- Establishment of ESG Promotion Teams (3 teams in FY 2021 and 4 teams this term)



*The Planning Section manages the overall progress.

*Teams A to C: Established in FY 2021
Team D: Established in FY 2022

*The heads of relevant departments and executive officers join these teams.

2. Strengthening of governance

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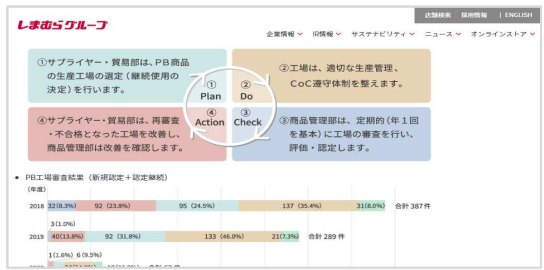
(3) Initiatives since FY 2020 (c)

- Disclosure of more ESG information (our website was redesigned in FY 2021.)

[Before redesign]

[After redesign]



*Contents enhanced considerably, while we focused on sustainability instead of CSR activities.

Our medium-term management plan was disclosed for the first time.

(3) Initiatives since FY 2020 (d)

Outcome of strengthening of governance

■ **The deliberations in the Board of Directors and the committees became lively.**
⇒ Leading to various management decisions

Major items discussed in FY 2020

- **Enhancement of efforts to comply with the Corporate Governance Code**
  ⇒ In FY 2021, we followed all principles. In FY 2022, we failed to follow only one principle (for TCFD).
- **The medium-term management plan for the term ending February 2024** ⇒ Disclosed in April 2021.
- **Nomination and remuneration**
  ⇒ Reshuffling of executives in FY 2021 and start of operation of a new remuneration system.
- **Review of the Shimamura Shanghai Co., Ltd.**
  ⇒ Decided to withdraw this business in 2Q of FY 2020, and closed all stores in 4Q.
- **Review of the Divalo Business** ⇒ Restart of the business in FY 2021 (started dealing in clothes, etc.).

Major items discussed in FY 2021

- **Long-term management plan and capital policy ⇒** Planning for the term ending February 2030 (underway).
- **Composition and skill matrix of the Board of Directors**
  ⇒ Disclosure of the skill matrix in FY 2021 and reshuffling of executives in FY 2022 (increase of outside directors).

(4) Issues to be addressed

Deliberation on growth strategy, capital policy, and ESG activities

- Deliberation on medium/long-term management plans (continued)
- Deliberation on investment for growth, liquidity on hand, shareholder return, etc. (continued)

To deal with future risks

- Directors and executive officers share information on risks.
- To grasp and deal with future risks when designing medium/long-term management plans

Diversity and skill balance of the Board of Directors

- To reconsider the ratio and diversity of outside directors when necessary
- Appropriate skills for exerting the functions of the Board of Directors

Development of candidates for the next President and executives

- To secure objectivity and transparency (continued)
- To discuss succession plans

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2. Strengthening of governance

3. Initiatives for the environment and society

(1) Business models and ESG activities

(2) Initiatives we have continued so far

(3) Initiatives for the environment

(4) Initiatives for society

(5) Conclusion

(1) Business models and ESG activities

Our business model = **“Low-cost operation”**

To pursue the streamlining and optimization of business operations based on **“economic rationality”**

As a result,

Environment-conscious business operation **= “A good company” for the environment**

Society-conscious business operation **= “A good company” for society**

What we have continued as routine led to **“sustainable activities.”**

(2) Initiatives we have continued so far (a): Environment

Increasing the efficiency of logistics

- To open stores through a dominant strategy
- Group-operated transfer centers
- In-house joint delivery
- Nighttime delivery
- Direct logistics
- Modal shift, etc.

[Economic rationality]

- Reduction of logistics costs of our company and suppliers
- Improvement in delivery speed

"A good company" for the environment

- Reduction of CO_2 emissions

3. Initiatives for the environment and society

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(2) Initiatives we have continued so far (b): Environment

Increasing the efficiency of store operation

- To adopt energy-saving air-conditioners
- To achieve zero product disposal
- Switch to LED lighting
- To recycle delivery materials, etc.

[Economic rationality]

- To reduce utility costs
- To reduce costs for return and disposal
- To reduce costs for delivery materials

"A good company" for the environment

- Reduction of CO_2 emissions
- Reduction of wastes

(2) Initiatives we have continued so far (c): Society

Female's participation

Recruitment of talented female in each region
= Development of a comfortable working environment for female

- Shifts with which employees can balance family and work (shortened working hours, closing stores at 19:00)
- To enable new employees to deal with actual tasks immediately (by simplifying, standardizing, and systematizing business operations)
- To recruit and retain talented employees (high hourly wages in each region, continuous employment, welfare, and promotion to full-time employees)

[Pursuit of rationality]

- **Recruitment of talented personnel around Japan**
- **A comfortable working environment for female**

"A good company" for society

- **Creation of jobs in each region**
- **Female's participation**

(3) Initiatives for the environment (a): Medium-term plan (for FY 2/2024)

Setting and disclosure of goals

[To reduce waste]

- Product disposal Zero (continued)
- Complete recycling ratio of hangers: **60%**

[Environment-conscious product procurement]

- Ratio of environment-friendly products: **20%** (Ratio of them to private-brand products)
- Ratio of environment-friendly auxiliary materials: **100%** (The same as above)

(3) Initiatives for the environment (a): Major initiatives for the medium-term plan

[Reduction of plastic waste]

Increasing the complete recycling ratio of hangers

・Increased the number of stores that collect hangers
⇒ Hangers are collected at all stores, excluding those in Okinawa and remote islands.

・To systematize recycling processes
⇒ Pelletized in Japan and then molded into hangers overseas.

・Increased the complete recycling volume by unifying the colors of hangers in all businesses
⇒ Results in FY 2021: Up 238% year on year

*Complete recycling: System for converting materials to those to be used again in our company
= “Circular economy”

[Sustainable product procurement]

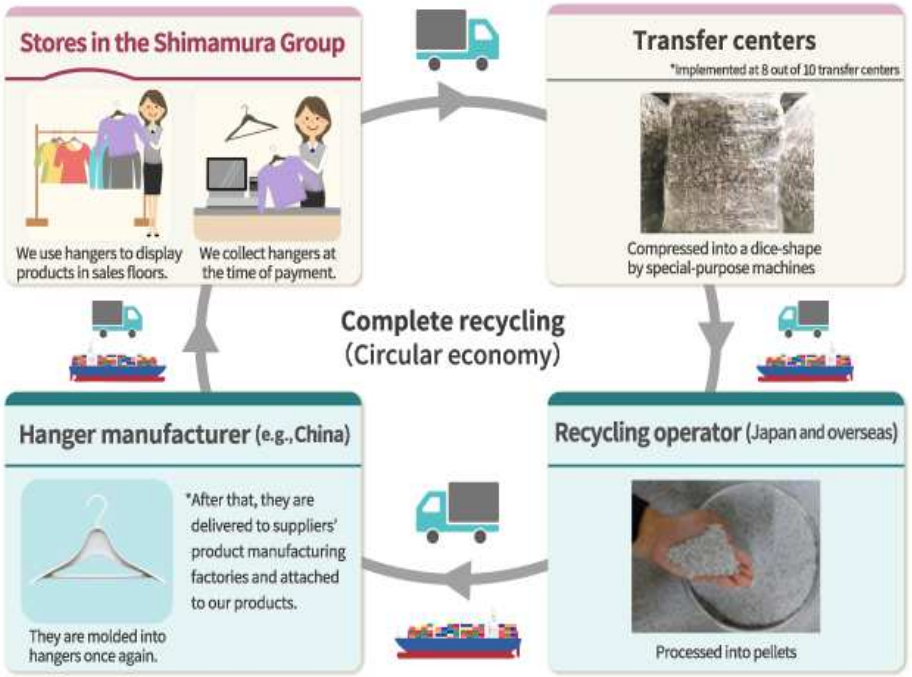
Increasing environment-friendly products and auxiliary materials

・To produce in-house manuals regarding the definition and handling of environment-friendly products and auxiliary materials

(3) Initiatives for the environment (b): Reduction of plastic waste

To recycle used delivery materials, and reuse them in our company

[Hanger]



[Plastic bag]

*The complete recycling ratio of hangers: 35.6% (FY 2021)

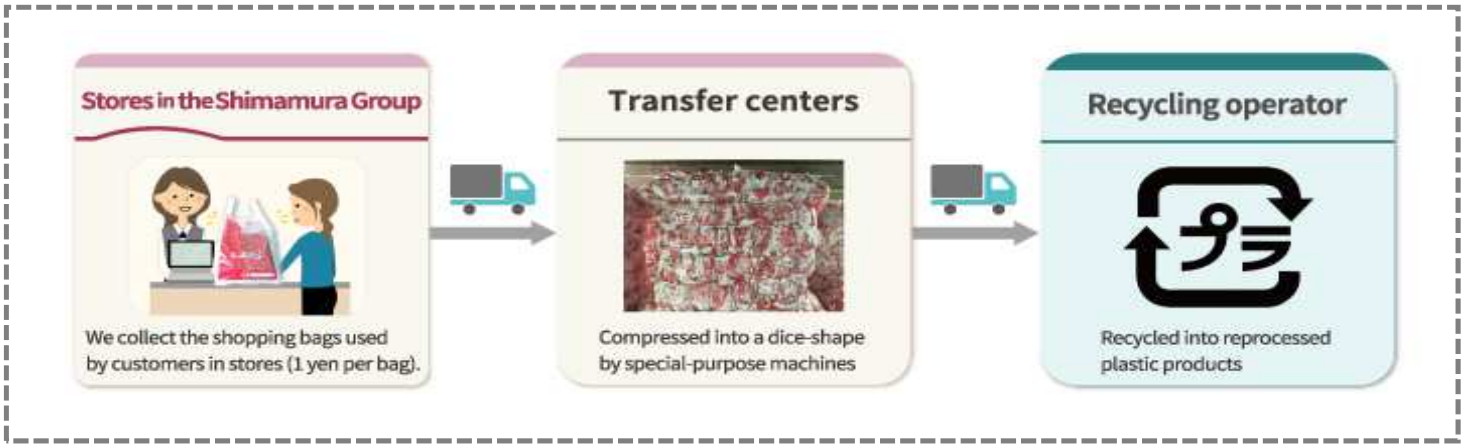
(3) Initiatives for the environment (b): Reduction of plastic waste

Collection of shopping bags and adoption of environment-friendly materials

From FY 2007

・We collect shopping bags used by customers in stores by paying 1 yen per bag.
(Results in FY 2021: About 65 tons)

・We recycle the collected shopping bags into reprocessed plastic products.



From FY 2020

・Replaced conventional plastic shopping bags with “shopping bags including bio-plastics” and “shopping bags made of paper” (which can be provided free of charge).

⇒ To reduce the consumption of plastics by 20%. We are still providing them free of charge.

(3) Initiatives for the environment (c): Sustainable product procurement

Development and promotion of environment-friendly products

Environment-friendly products are made from organic cotton, recycled fibers, etc.

Results in FY 2021: 24.1% (Ratio of them to private-brand products)

COTTON FROM USA
(Organic cotton)

ORGANIC COTTON+
(Organic cotton)

Suhada Suzuyaka Pants
(Including no harmful substances)

LINEN+
(Recyclable polyester)

Kokochi Labo
(Organic cotton)

REECOTTE
(Reuse of cut scraps)

(3) Initiatives for the environment (d): Reduction of GHG emissions

Initiatives for coping with climate change

(disclosure based on TCFD Recommendations)

To take measures against climate change based on economic rationality, including energy saving and streamlining of logistics

[GHG (greenhouse gas) emissions]

	FY 2013	FY 2020
Scope 1	2,899 t-CO_2	561 t-CO_2
Scope 2	193,601 t-CO_2	105,305 t-CO_2

To reduce GHG emissions by 46% for Scopes 1 and 2

Switch to LED lighting

Introducing EV trucks

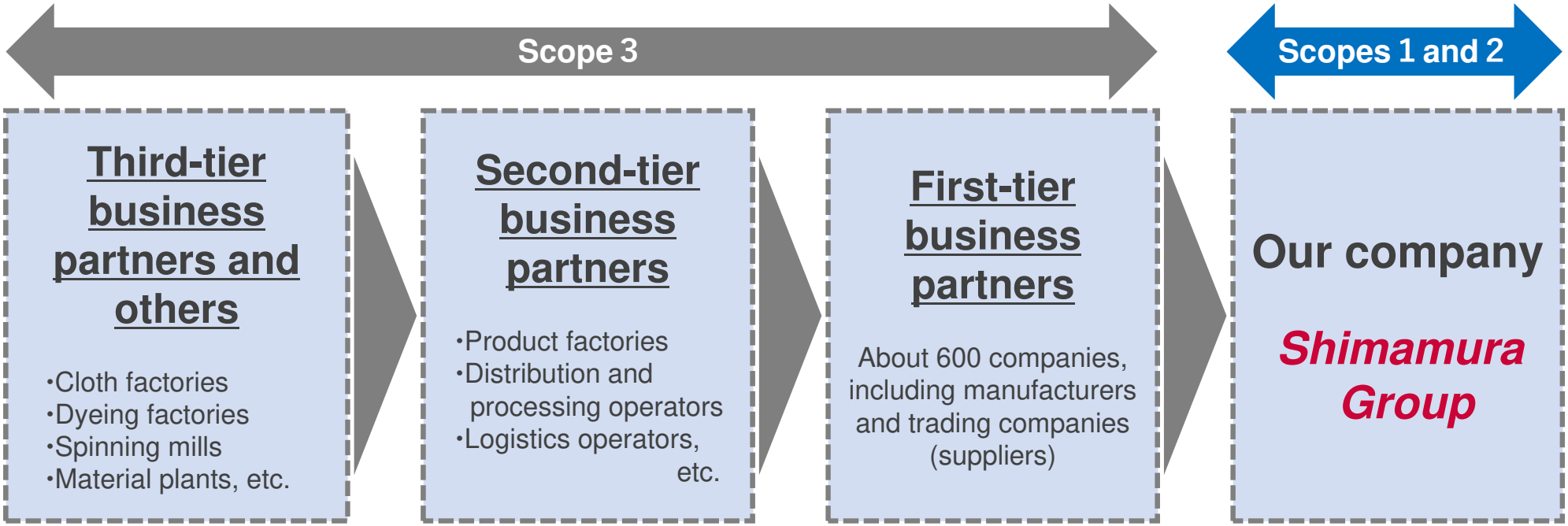
(3) Initiatives for the environment (d): Reduction of GHG emissions

To reduce GHG emissions in supply chains

・Since we procure products from suppliers, it is difficult to grasp and reduce GHG emissions in all supply chains.

*We procure products from about 600 suppliers, such as manufacturers and trading companies.

・Scope 3 is to be discussed. Firstly, we will concentrate on the reduction of **Scopes 1 and 2**, because they are feasible.



(3) Initiatives for the environment (e): Issues to be addressed

Reduction of plastic waste

- To engage in complete recycling of plastic bags in addition to hangers (continued)
- To increase recycling centers and partner companies inside and outside Japan (continued)
- To develop recyclable delivery materials (continued)
- To develop consumables while reducing the use of plastics (continued)

Increase of environment-friendly products and auxiliary materials

- To brush up the environment-consciousness standards and operation methods (continued)
- To promote environment-friendly products in our company (diffusing them among employees and suppliers)
- To improve the sales of environment-friendly products (product brand development, sales promotion, and sales corners creation)

Consideration of the environment in the supply chain

- To reduce GHG emissions at stores and transfer centers (continued)
- To reduce CO_2 emissions (Scope 3) and water consumption (research)
- To achieve zero product disposal (continued). The system of recycling products (research)

(4) Initiatives for society (a): Medium-term plan (for FY 2/2024)

Setting and disclosure of goals

Ratio of female managers: **20%**

*Management position: Senior class and above

Employment ratio of people with disabilities: **5%**

3. Initiatives for the environment and society

Shimamura Group

(4) Initiatives for society (a): Major initiatives for the medium-term plan

Increase of female managers (stores)

- Revised educational curricula for candidates for store managers and block managers
  (The number of attendees of the study session in FY 2021: Up 370% from the previous year)
- To hold briefing sessions for regular employees (part-time) who have willingness to get promoted to store manager or interest in it around Japan
- To educate regular employees (part-time) by using posters and our in-house newsletter

Increase of female managers (head office)

- To hold “Work-Life-Balance Promotion Meetings” in which we discuss workstyles at the head office
- To reduce overtime work (monthly reporting of the results of overtime work to executives and general managers, and announcing the end of business hours by in-house broadcasting)

Increase of employment for people with disabilities

- To encourage the acquisition of a license as professional life counsellor for people with disabilities
  (107 employees have this license as of June 2022.)
- To enhance the cooperation with regional support centers for people with disabilities
- To revise the in-house manual regarding employment for people with disabilities

(4) Initiatives for society (b): Diversity

Promotion of female's participation

・Utilization of regular employees (part-time) at stores.
Among them, personnel who have skills and motivation are promoted to store managers.

・As of February 2022, female employees account for **75.4% of chiefs**, including store managers, and **13.8% of management positions**.

[Ratio of female in each post] *Head office, stores, and transfer centers	Feb. 2021	Feb. 2022
General managers	**3.4%**	**1.7%**
Senior class (block managers and others)	**13.5%**	**14.9%**
Chiefs (store managers and others)	74.9%	75.4%
Full-time employees (all staff)	**65.2%**	**65.4%**

Female managers: 13.8%

About two thirds of full-time employees are female.
Many female employees are flourishing.

(4) Initiatives for society (b): Diversity

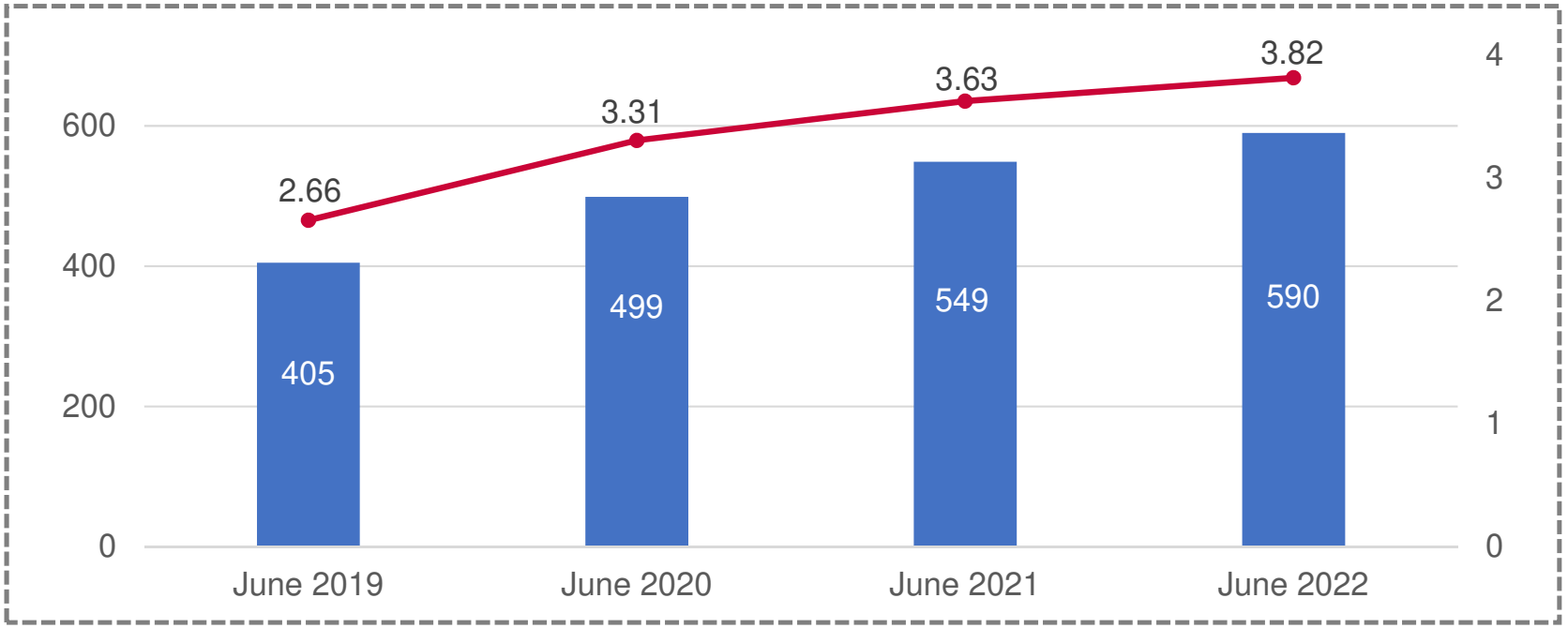
Employment for people with disabilities

Pursuit of a comfortable working environment for female
= To realize "a comfortable working environment also for people with disabilities"

・Basically, we employ one or more people with disabilities in each block (5-6 stores).

・**Ratio of employees with disabilities: 3.82%; Number of employees with disabilities: 590** (June 2022)
*Statutory ratio of employees with disabilities: 2.30%

[Number and ratio of employees with disabilities]



(4) Initiatives for society (c): Respect for human rights

Respect for human rights of employees in the supply chain

2018

・It was found that a logistics service provider entrusted by a supplier committed an illegal act toward non-Japanese technical interns.
⇒ We started full-scale efforts to deal with the problem of human rights in the supply chain.

2019

・Produced the “Shimamura Supplier Code of Conduct (CoC).”

・Received a “Declaration of compliance with CoC” from all suppliers.

2022

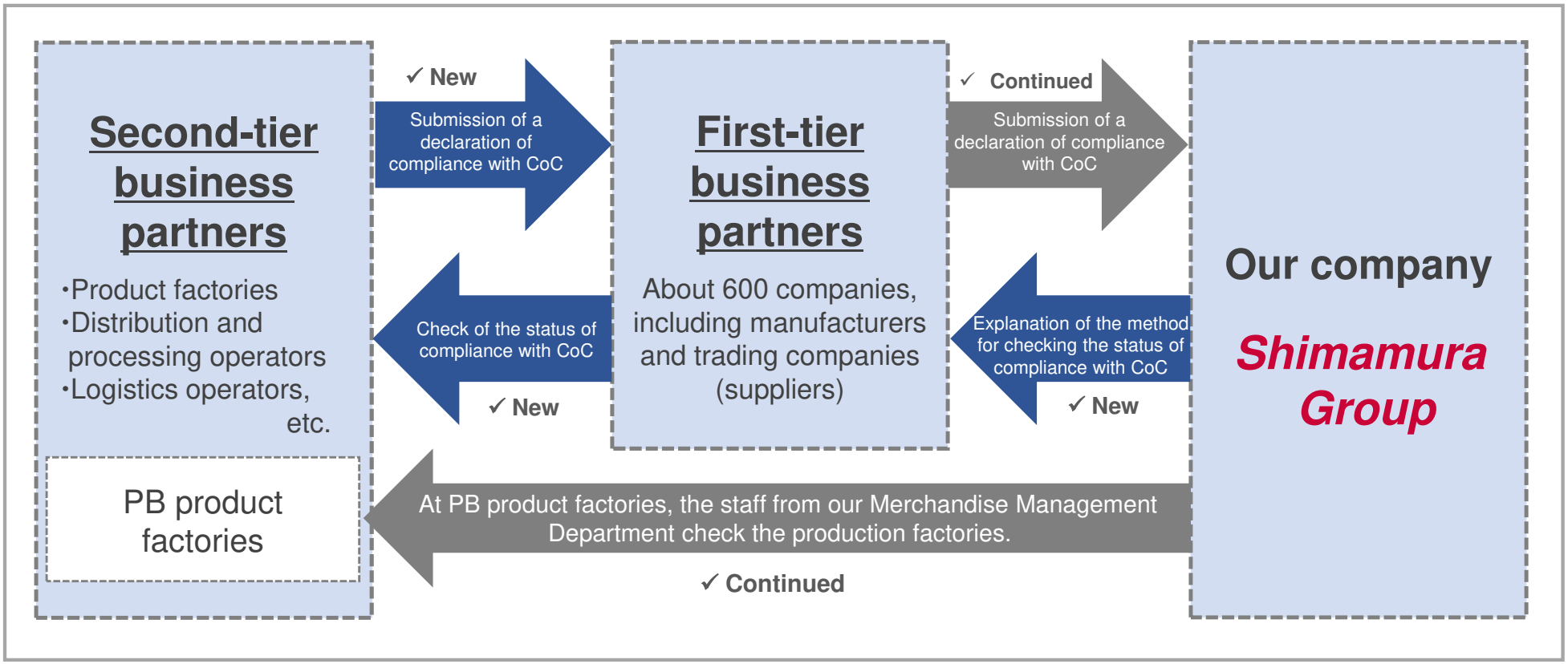
・Revised the “Shimamura Supplier Code of Conduct (CoC).”
Held a briefing session for suppliers (attended by about 500 companies), introducing our efforts to respect human rights.

・Requested suppliers to check whether they and their (sub)contractors follow the Code of Conduct.
Received a “Declaration of compliance with CoC” from all suppliers.

(4) Initiatives for society (c): Respect for human rights

Respect for human rights of employees in the supply chain

In cooperation with suppliers, we check whether human rights are respected in the supply chain and correct the situation.



✓ New: Initiatives started in FY 2022 ✓ Continued: Initiatives continued since before 2021

(4) Initiatives for society (d): Regional clothing infrastructure

To contribute to society as regional clothing infrastructure

With low-cost operations, we can conduct business even in small commercial areas.
= "Opening stores even in sparsely populated regions"

- Roles as social infrastructure in clothing sales (to open stores easily accessible by car or bicycle)
- Contribution to the creation of jobs in each region (number of stores: About 2,200)

(4) Initiatives for society (d): Regional clothing infrastructure

Sale at long-term care facilities (trial operation)

・To start the sale at long-term care facilities for elderly people who have difficulty visiting our stores

・Conducted it four times from FY 2021, accumulating operation know-how.

(4) Initiatives for society (e): Issues to be addressed

Increase of female manager

・To collect data on the careers, skills, and engagement levels of employees (visualization)
To visualize the ratio of female employees in each section, so that all executives can grasp the current situation

・To develop employees who have resumed work after childcare leave as role models
To improve the systems for personnel and labor affairs and the working environment

・To reduce overtime work by streamlining business operations, etc. (continued)
To eradicate harassment (continued)

Increase of employment for people with disabilities

・To hold regular training for employees in charge of the employment for people with disabilities (continued)

・To encourage the acquisition of a license as professional life counsellor for people with disabilities (continued)

・To enhance the cooperation with support centers for people with disabilities (continued)

Respect for human rights in the supply chain

・To notify suppliers of our initiatives for respecting human rights, and hold a briefing session regularly (continued)

・To develop a system for checking second-tier and third-tier business partners (overseas) in cooperation with suppliers (continued)

(5) Conclusion: Education of employees

Promotion of “ESG response by Shimamura”

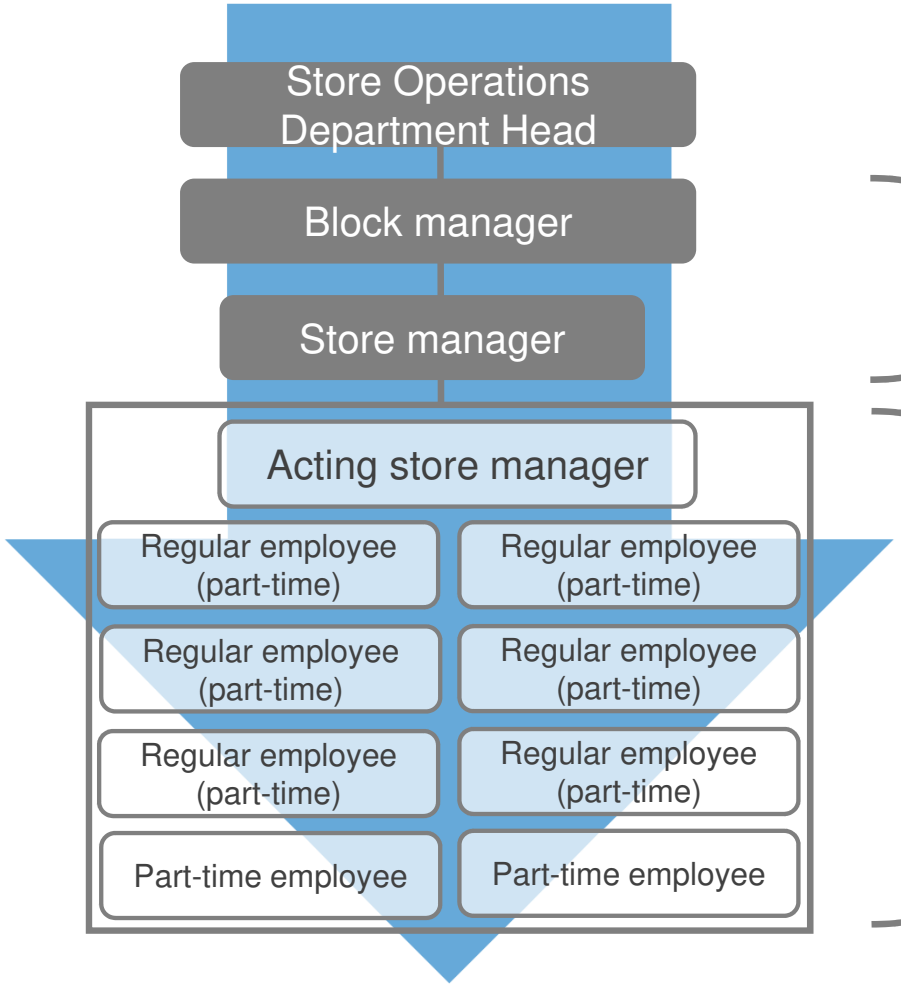
It is important for all employees to engage as their own matters.

Example: ESG education in the Store Operations Department

Employment status	Job category	STEP 1	STEP 2	STEP 3	STEP 4
Full-time employee	Block manager	To watch ESG videos ・ To read ESG manuals	ESG training (Off-the-job training)	The concept of ESG is explained at the meeting of store managers.	Tour of transfer centers
	Store manager				
Regular employee (part-time)	Acting store manager				
	Regular employee (part-time)				

(5) Conclusion: Education of employees

Example: ESG education in the Store Operations Department



[Full-time employees]

They understand the details of the initiatives and have their own meanings and opinions.

Understanding ⇒ Sympathy

[Regular employees (part-time) and part-time employees]

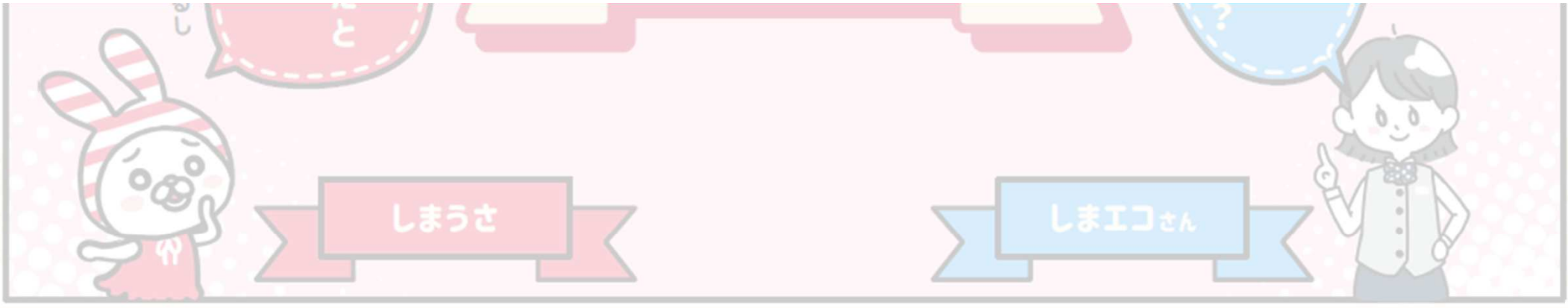
They know and understand the details of the initiatives.

Recognition ⇒ Understanding

(5) Conclusion: Summary

Our business model = “Low-cost operation”

To pursue the streamlining and optimization of business operations based on “economic rationality”



Today's material (to be uploaded to our corporate website)

- ESG briefing session (with comments) : Monday, June 27
- ESG briefing session (summary of Q&A): Tuesday, June 28
- ESG briefing session (English version) : Tuesday, July 12

*The details of our activities for sustainability are available also in our corporate website. https://www.shimamura.gr.jp/en/sustainability/

Notes regarding the description, etc. related to the future

The future outlook, including the earnings forecast, mentioned in this material is based on currently available information, and includes many uncertainties. Actual performance, etc. may be different from the forecast, due to the changes in the business situation.