I am Suzuki, president of SHIMAMURA.

Thank you very much for taking time out of your busy schedule to attend our ESG briefing session today.

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Today, I would like to begin by explaining “our basic policy for ESG activities” and “the strengthening of governance”.

After that, Mr. Oota of the Planning Section, which is the department handling ESG, will explain “our initiatives for the environment and society”.

1. Basic policy for ESG activities

Shimamura Group

(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.

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First, let me explain our policy to ESG activities.

Our management mission is "to build a good company for all stakeholders.“

And to achieve this, our basic policy is to promote sustainable “ESG response by Shimamura” through our main businesses.

1. Basic policy for ESG activities

Shimamura Group

(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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Thus, I will now explain “sustainable initiatives through our main businesses“.

First, it must be an economically rational initiatives that is effective in improving sales and reducing costs. And to this end, we believe that the basic is to accumulate what we can do step by step.

Furthermore, we are committed to building a good company for our stakeholders.

With these two basic principles, our ESG activities are sustainable initiatives over the long term.

We are fully aware that addressing various ESG issues in the world will have an impact on corporate sustainability. We will proactively work to resolve any ESG issues that apply to our initiatives over the long term, taking social conditions into consideration.

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Next, I will explain how we have been working to “Strengthening of governance“, an area in which we have put as much effort as we have in recovering business performance.

2. Strengthening of governance

Shimamura Group

(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.

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First, here is the status of our efforts prior to FY2019.

The Company was gradually making improvements, such as disclosing convocation notices in English, evaluating the effectiveness of its Board of Directors, and disclosing CSR activities on its corporate website. However, its governance efforts were not yet sufficient.

2. Strengthening of governance

Shimamura Group

(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**.

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One specific problem was that many decisions were made top-down by the President in the formulation of management plans and the nomination and remuneration of executives, which are the cornerstones of governance, and there was not enough discussion at the Board of Directors' meetings.

In addition, in ESG activities including governance, there was a lack of company-wide efforts across the Company and a lack in the amount of information disclosed.

Therefore, when I took office as president in FY2020, I declared at a Board of Directors' meeting that we would work to strengthen governance, and since then we have been working to resolve various governance issues.

2. Strengthening of governance

Shimamura Group

(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

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The table here shows the evolution of our governance system.

Since assuming office as president in FY2020, as indicated by the red dotted line, we have been working to strengthen governance in all areas, including the Board of Directors, executive nominations and remuneration, corporate strategy, and investor relations and shareholder relations.

The following section describes each of the initiatives listed in this table.

2. Strengthening of governance

Shimamura Group

(3) Initiatives since FY 2020 (a)

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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First, let me explain the system of the Board of Directors. See inside the blue box.

At the general meeting of shareholders in May of this year, we increased the number of internal directors by one and outside directors by one, bringing the ratio of outside directors on the Board of Directors to more than one-third.

In addition, by shortening the term of office of directors from two years to one year, we have clarified the management responsibilities of directors and created a management system that can respond more quickly to changes in the business environment.

In addition, since last year, we have also been enhancing our information disclosure, such as our Board of Directors' effectiveness evaluation and skills matrix disclosure.

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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Next, I will explain the establishment of a voluntary committee. See inside the blue box.

Two committees, the Nomination & Remuneration Committee and the Management Plan Formulation Committee, were first started as subcommittees of the Board of Directors in FY2020, soon after I took office as the president.

After a year of activities, we have determined that the committee is sufficiently effective to serve as an advisory body to the Board of Directors, so we established it as an official committee in FY2021.

Major initiatives of the Nomination & Remuneration Committee include a review of the nomination and remuneration system for executives, the introduction of a stock compensation system, raising the ratio of outside directors, and reviewing the positions of executive officers.

In addition, the main initiatives of the Management Plan Formulation Committee include deliberation and disclosure of the medium-term management plan, deliberation and disclosure of capital policy, and deliberation of the long-term management plan.

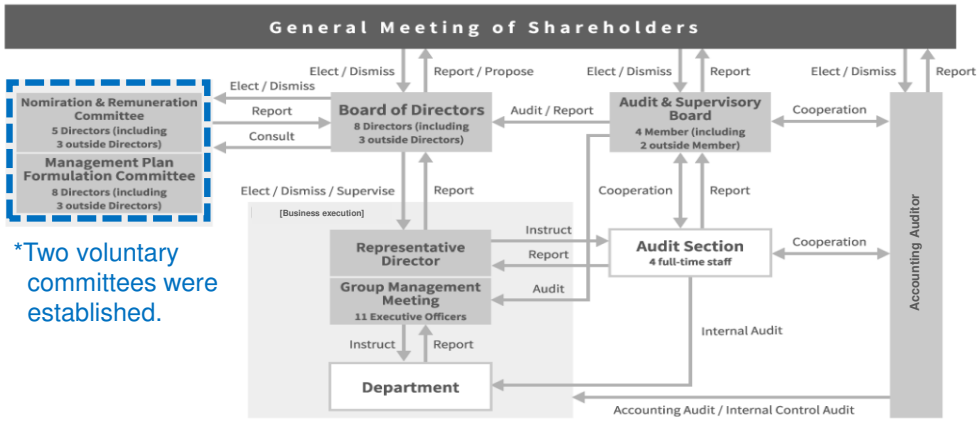
2. Strengthening of governance

Shimamura Group

(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.

Here is a chart showing the relationship between each committee and the Board of Directors.

Various committees have been established as shown in the figure, each of which is advisory to the Board of Directors, as indicated in the blue box.

2. Strengthening of governance

Shimamura Group

(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"

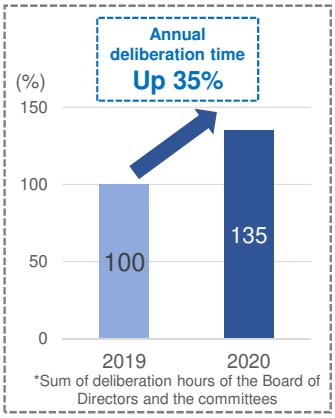
・Medium/long-term growth strategy: "Management Plan Formulation Committee"

⇒ **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



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With the establishment of the committee, we have become able to fully discuss the nomination and remuneration of officers, medium- to long-term growth strategies, and capital policies. These discussions were lacking at the Board of Directors.

In addition, by deliberation of these agenda items by the committee, we were able to extend the deliberation time of the Board of Directors.

Comparing before and after the establishment of committees, the combined annual deliberation time of the Board of Directors and committees has increased by 35%, allowing the Board of Directors to have a fuller discussion on evaluating its effectiveness and strengthening corporate governance.

2. Strengthening of governance

Shimamura Group

(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

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Next, I will explain the review of the Board of Directors' system.

The first is the appointment of Fujiwara as an advisor to the Board of Directors in FY2020.

Previously, to cope with the expansion of the Company's scale, we had a two-top management system of president and chairman. However, upon the retirement of the Chairman in FY2020, Fujiwara, who also has experience as president, was appointed as director and senior advisor, with his responsibilities and authority clarified.

Subsequently, the Company raised the level and speed of management to recover its performance, which enabled it to achieve record performance in FY2021.

The roles of the president and the advisors are clearly separated, with the advisors providing advice on store development and management, based on abundant knowledge and experience, to executives and general managers. The Board of Directors and the committee are also proactive in strengthening governance.

2. Strengthening of governance

Shimamura Group

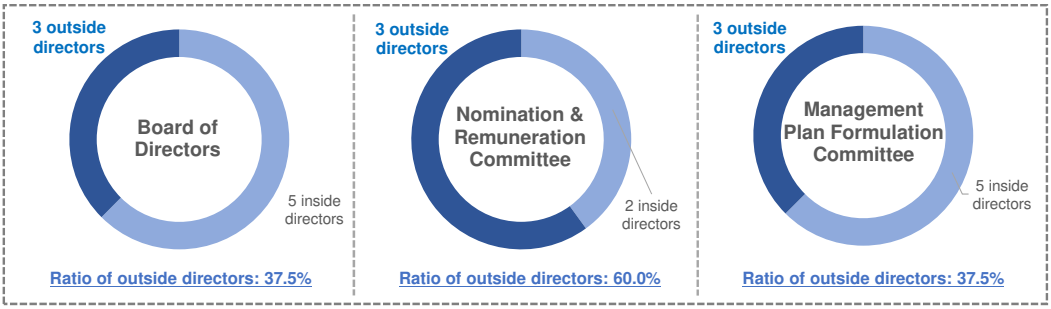
(3) Initiatives since FY 2020 (b)

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]



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Next, I will explain how to strengthen the role of outside directors.

As shown in the graph, since FY2020 we have increased the ratio of outside directors at the Board of Directors and at each committee, which also meets the criteria of the TSE Prime Market.

Our outside directors actively provide a variety of advice and recommendations at board and committee meetings, drawing on their wealth of experience and in-depth knowledge.

The medium-term management plan, capital policy, revision of the remuneration system for executives, and withdrawal from the China business, all of which were disclosed last year, were fully based on the opinions of outside directors.

The outside directors also place importance on initiatives and human resource development at the frontlines, which include stores and Merchandise Departments, and we actively receive their opinions. We have built a good atmosphere in which both the Board of Directors and the committees can speak freely, allowing for effective and lively discussions.

In addition, we received a variety of opinions in the board effectiveness questionnaire, which led to improvements in the operation of the Board of Directors.

2. Strengthening of governance

Shimamura Group

(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

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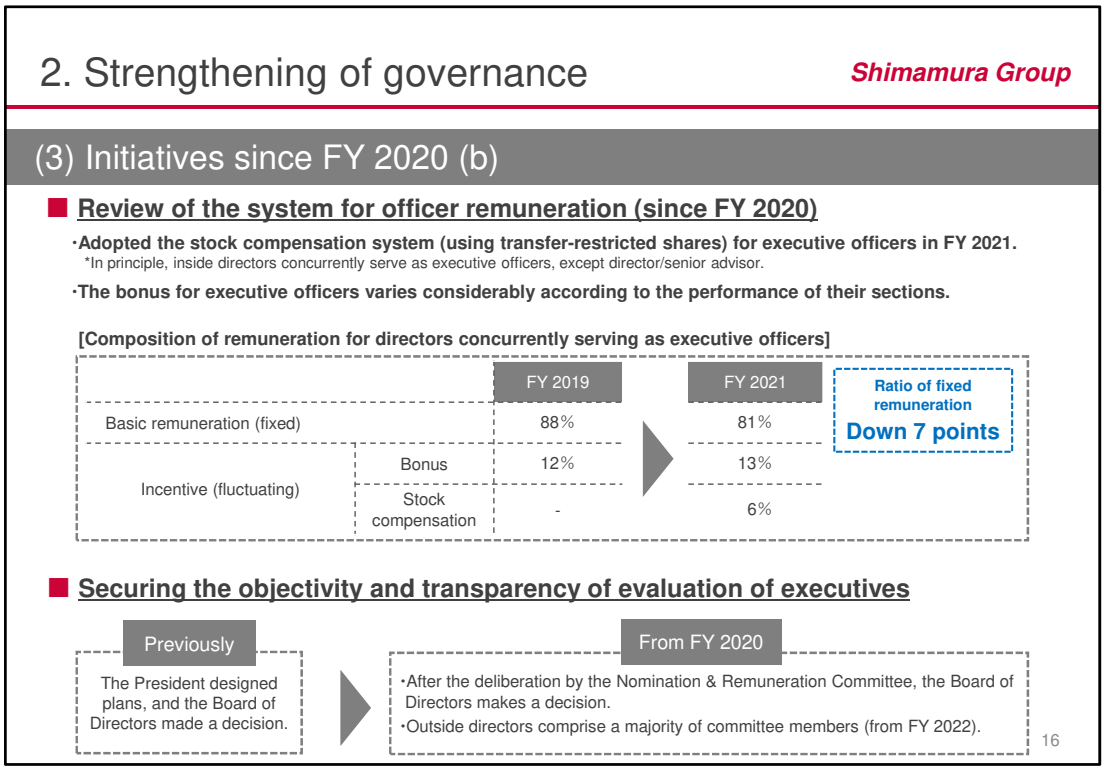
Next, I would like to explain the review of the executive officer system.

The executive officers are in charge of their respective divisions. However, in the past, the President's top-down decision-making sometimes affected the initiatives of their divisions.

Therefore, after my appointment as president, I delegated responsibilities and authority to the executive officers, interfering as little as possible with the scope of their authority. This has resulted in increased speed of business execution and improved decision-making.

We have also worked to ensure that executive officers are competent. We have promoted some executive officers to directors, while we demoted other executive officers to general manager positions. In addition, the average age of the relevant executive officers was lowered by nine years as a result of the need for new and flexible ideas for the executive officers in charge of purchasing products.

These efforts have resulted in the expansion of digital sales promotions and the use of character and influencer projects in the Merchandise Department, leading to improved performance.



Next, I will explain the review of the system for officer remuneration.

First, we introduced a stock compensation system for executive officers in FY2021. The objective is to increase corporate value over the medium to long term by promoting further value sharing with shareholders through the linkage of directors' compensation and share value. All the Company's internal directors, except advisors, also serve as executive officers, so in effect, the internal directors are subject to the stock compensation plan.

As a result of this revision of the remuneration system, the compensation composition of internal directors has dropped from nearly 90% fixed remuneration until FY2019 to approximately 80% in FY2021. In addition, for executive officer bonuses, the Company increased the difference in the amount of compensation at the time of evaluation.

With regard to the evaluation method for executive officers, previously the Board of Directors approved evaluations drawn up by the President, but with the establishment of the Nomination & Remuneration Committee, the committee now fully deliberates on the details of the evaluation, thereby improving objectivity and transparency.

2. Strengthening of governance

Shimamura Group

(3) Initiatives since FY 2020 (c)

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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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

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Next, I will explain ESG activities in general. See inside the blue box.

First, with regard to ESG policies, we have newly established a Sustainability Policy, Compliance Regulations, and Human Rights Policy. As for the ESG promotion system, three promotion teams were established in FY2021 and expanded to four teams this fiscal year.

In the area of ESG information disclosure, we have completely renewed our corporate website and greatly expanded the volume of information on all ESG activities. In addition, English-language disclosure materials for foreign investors have been greatly expanded.

2. Strengthening of governance

Shimamura Group

(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.

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Next, I will explain our ESG promotion system.

In the past, each department conducted CSR activities individually, and there were few opportunities for reporting and deliberation by the Board of Directors or the Management Committee.

However, from FY2020 onward, ESG issues are considered one of the most important management issues and are now deliberated mainly by the Management Plan Formulation Committee.

First, the committee formulates a medium-term ESG plan, which is then approved by the Board of Directors, and each department within the Company works to achieve the plan.

In addition, since there has been little information sharing on ESG within the Company to date and sufficient results have not been achieved, an ESG promotion team was established in FY2021 to facilitate cross-functional collaboration among the various departments within the Company. Executive officers also participate in each team, and the overall progress is controlled by the Planning Section, which reports directly to the President. Thus, we can work with speed and effectiveness.

2. Strengthening of governance

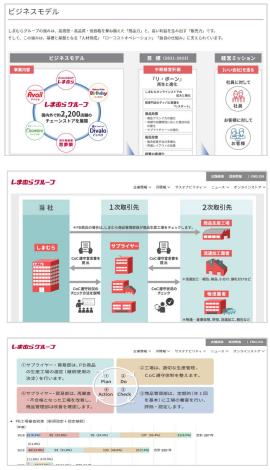
Shimamura Group

(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.

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Next, I will explain disclosure of ESG activities.

In FY2018, we began disclosing our CSR activities on our corporate website. At the time, both quality and volume were still insufficient.

The corporate website was extensively redesigned in FY2021, with enhanced content, particularly on the sustainability page. We also disclosed our medium-term management plan for the first time and made significant improvements, including explaining our management philosophy and business model in an easy-to-understand manner.

In April and May of this year, we updated each of our sustainability pages to further enhance their content.

2. Strengthening of governance

Shimamura Group

(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).

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Next, I will explain the outcome of strengthening of governance.

As you can see, during the past two years, the Board of Directors and its committees have enhanced their deliberations on governance-related issues such as compliance with the Corporate Governance Code and officer remuneration, and deepened discussions on important items such as management plans and review of unprofitable businesses.

As a result, the Company was able to quickly make various management decisions, such as transferring directors, changing the remuneration system, withdrawing from unprofitable businesses, and changing businesses. The results of deliberations on medium- and long-term management policies can now also be disclosed to investors in a timely manner.

2. Strengthening of governance

Shimamura Group

(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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The last part of the Strengthening of governance section describes the Issues to be addressed.

As you can see, we believe that further deliberations are needed on growth strategies and addressing future risks. The Board of Directors and the Management Plan Formulation Committee will continue to deepen deliberations on this matter.

In addition, the Nomination & Remuneration Committee intends to deepen its deliberations on matters related to the nomination of officers, such as the composition of the Board of Directors and the Succession Plan.

We believe that strengthening governance is essential to enhancing corporate value, and we intend to continue these efforts in the future.

That's all from me on governance. Thank you very much.

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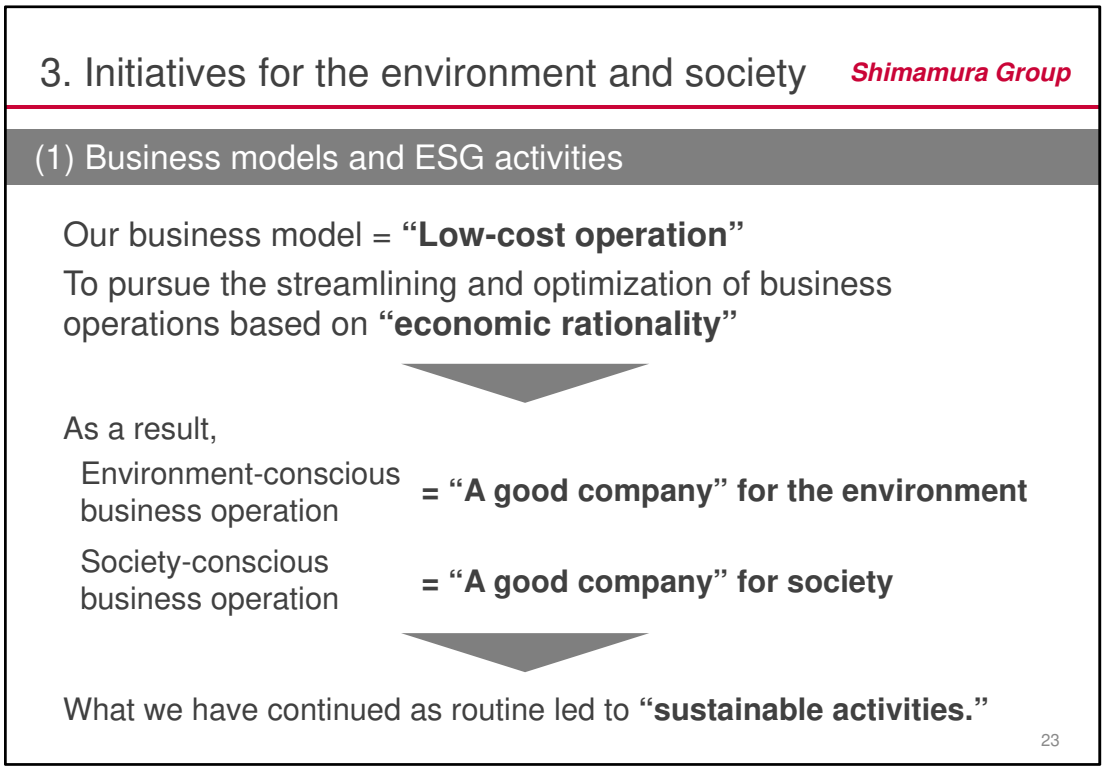
(3) Initiatives for the environment

(4) Initiatives for society

(5) Conclusion

I am Oota, the head of the Planning Section.

From here, I will explain the five items regarding our initiatives for the environment and society.



First, let me explain the relationship between our business model and ESG activities.

Since our small business scale, we have pursued low-cost operations and have promoted operational efficiency and optimization based on the existence of economic rationality.

This was a natural approach for us, and it resulted in business operations that are environmentally and socially conscious. In other words, these initiatives led to us being the "good company" set forth in the management mission.

We believe that it is precisely because we have been thinking about what we can do and have pursued step by step that we have been able to continue these efforts until now.

Therefore, from the following pages, we will explain the sustainable efforts that we have continued to make.

The first is increasing the efficiency of logistics.

We have been pursuing logistics efficiency for some time, as our 10 in-house transfer centers in Japan deliver products daily to approximately 2,200 stores throughout the country.

For example, one mechanism to make logistics more efficient is in-house joint delivery. Under this system, approximately 600 suppliers deliver their products to the transfer center in batches rather than to individual stores, and we handle the delivery to each store in batches, leading to cost reductions for the suppliers.

As you can see, we are also engaged in a variety of other efforts to increase logistics efficiency. The fact that these efforts are economically rational and sustainable, such as reducing logistics costs for both our company and our suppliers and improving delivery speed, has resulted in the reduction of CO_2 emissions, or in other words, the realization of a "good company" for the environment.

The second is increasing the efficiency of store operations.

The stores and transfer centers are making energy-saving improvements to reduce utility costs. In particular, the installation of LED lighting has been completed in all stores as of FY2018, and we are currently in the process of sequentially replacing the lighting with the latest LEDs.

In addition, we have been working since FY2007 to recycle delivery materials such as cardboard boxes, plastic hangers, and plastic bags, and have continued to achieve zero product disposal.

This has led to an increase in our profits from the sale of resources to recyclers and a reduction in the cost of delivered materials on the supplier side using recycled materials.

As a result of these efforts, we have become a "good company" for the environment by reducing CO_2 emissions and waste.

The third is female's participation.

To open and efficiently operate our stores nationwide, we have long actively promoted talented female in each region as regular employees working part-time. And to this end, we have also developed a work environment that is easy for housewives with families to work in.

For example, the work shift is based on a combination of three eight-hour days and two shorter four-hour days out of a five-day week, and therefore, with the exception of some stores, the closing time is set at 7:00 PM.

In addition, to have them become competitive within a short period of time after joining the Company, we simplified, standardized, and systematized the tasks, and even created manuals for them.

Furthermore, to recruit and retain the best employees, we are working to offer the highest relative hourly wage in the area, extend employment to age 70, and provide a full range of benefits.

In addition, we have been actively promoting regular employees working part-time to full-time store managers and block managers, which are positions above store managers.

The utilization of talented human resources supports the Company's growth, and furthermore, leads to the realization of a "good company" for society in terms of regional job creation and participation of female.

3. Initiatives for the environment and society

Shimamura Group

(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)

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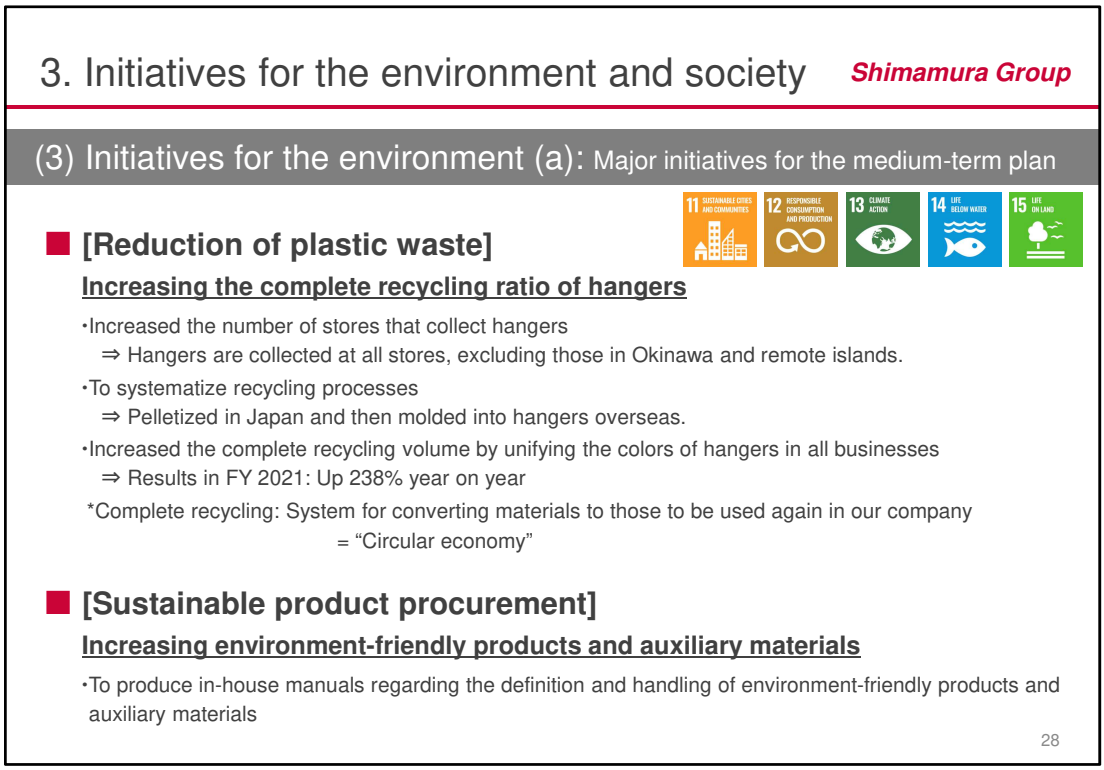
From here, I will explain our initiatives to the mid-term plan.

First, the ESG mid-term plan was discussed by the Management Plan Formulation Committee in FY2020, and the policy was disclosed in FY2021.

Numerical targets have also been set for waste reduction and environmentally friendly product procurement.

Since we have continued to eliminate product disposal as a matter of course for some time, I will explain other initiatives today.



First, reduction of plastic waste, we are working on the complete recycling of hangers.

Complete recycling is a system in which recycled materials are used again by our company, an approach that is not only environmentally friendly but also leads to cost reduction of materials.

Currently, we are focusing on recycling plastic hangers used for deliveries and are expanding the amount of recycling by developing recycling routes and unifying the colors of hangers within the group.

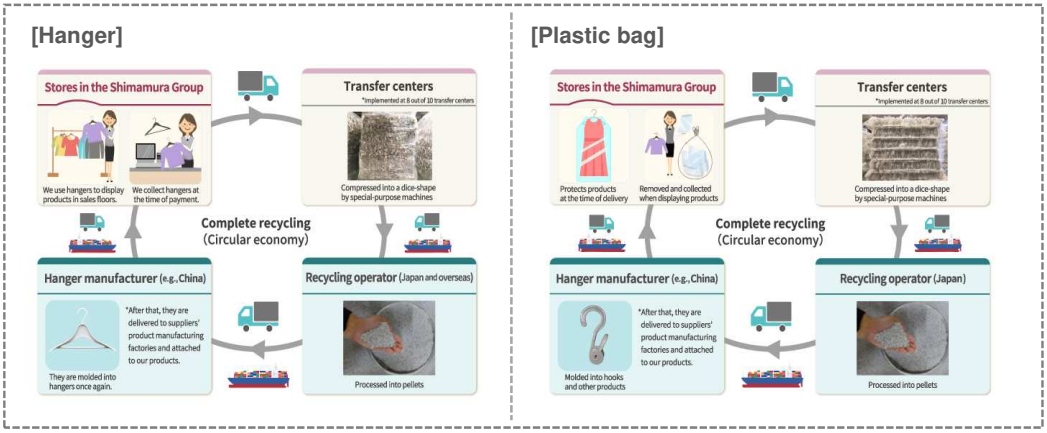
We are also expanding our use of environment-friendly products and auxiliary materials for sustainable product procurement.

The following pages describe specific initiatives.

3. Initiatives for the environment and society *Shimamura Group*

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

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



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

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Our main efforts to reduce plastic waste include recycling hangers and plastic bags used as delivery materials.

The figure on the left shows how hangers are recycled, and the figure on the right shows how plastic bags are recycled.

We began recycling delivery materials in FY2007, but at first the system was limited to gathering collected resources at a transfer center and then selling them to recycling companies.

However, starting in FY2019, we have taken our recycling system to the next level and started reusing recycled hangers in-house as part of our circular economy. Furthermore, since FY2020, we have been recycling plastic bags into hooks and other auxiliary materials for our own reuse.

Thus, the reuse of resources in the circular economy, in which we have pursued economic rationality and created our own unique system, has helped us to reduce costs amid soaring crude oil prices.

3. Initiatives for the environment and society *Shimamura Group*

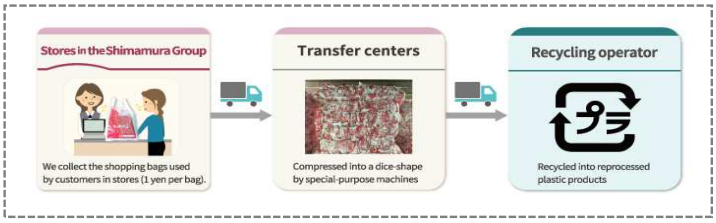
(3) Initiatives for the environment (b): Reduction of plastic waste

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.

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To reduce plastic waste, we have been collecting used plastic shopping bags for 1 yen each from FY2007 and are recycling and reusing them.

Furthermore, in FY2020, we switched to shopping bags made of environmentally friendly plant-derived materials. Since these shopping bags are materials that are not subject to a fee, the Company continues to provide free shopping bags for its customers.

In the development of environment-friendly products, we are introducing products that use materials with properly controlled chemical substances, such as organic cotton, and materials that conserve resources, such as recycled fibers. We do this to reduce the environmental impact of product procurement.

REECOTTE, which was launched in FY2021, is made of fabric recycled from cutting scraps produced during the production of goods and was made possible through the cooperation of suppliers and factories.

In addition, we are expanding our range of environment-friendly products, mainly PB products, such as products made from recycled polyester. In FY2021, these products accounted for 24.1% of PB products.

We will continue to develop and expand these products in light of consumers' growing environmental awareness.

3. Initiatives for the environment and society

Shimamura Group

(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

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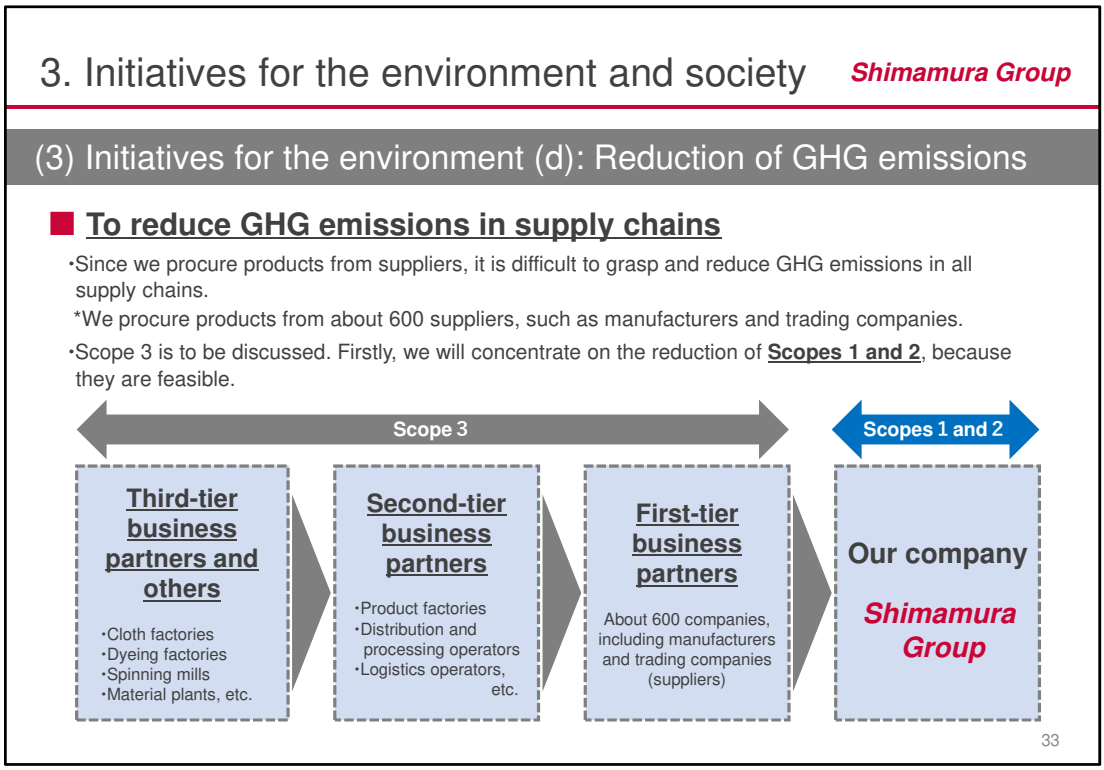
Next, I will explain the reduction of GHG emissions.

Regarding GHG emissions, in addition to SCOPE 2, which had been disclosed on our corporate website, we also disclosed SCOPE 1 in May of this year, in line with the framework based on TCFD recommendations.

In FY2021, SCOPE 1 and SCOPE 2 together achieved a 46% reduction compared to FY2013. This was mainly due to the energy-saving effects of switching to LED lighting in stores and transfer centers. Although we have achieved significant reductions to date as a result of promoting energy conservation with economic rationality in mind, we will continue to take action within reasonable limits.



Next, I will explain how to respond to SCOPE 3.

First, our product procurement is based on purchasing. We purchase products from manufacturers and trading companies that are our primary suppliers, on the basis that it is the supplier's responsibility to manage the production plants that are our secondary business partners.

In addition, our suppliers are extremely diverse, numbering approximately 600 companies. If we trace the production process upstream, the number of suppliers is quite large. We also believe that it would be very difficult for us to directly instruct our production plants to reduce their GHG emissions.

Currently, the TCFD proposal calls for the disclosure of SCOPE 3, but for the above reasons, we will continue to work on SCOPE 3 as an issue to be considered for the time being.

Finally, I will explain issues to be addressed.

First, to reduce plastic waste, in addition to hangers, which have already been systematized, we are promoting the complete recycling of plastic bags, and we will continue to expand recycling bases in Japan and overseas and develop delivery materials that are easy to recycle.

As we have established standards and operational procedures for environment-friendly products and subsidiary materials, we will continue to operate them and revise the contents as necessary. Even environment-friendly products must sell well to continue, so we will promote inner branding to employees and suppliers, product branding, sales promotion, and the creation of sales corners.

Finally, in terms of environmental considerations in the supply chain, we will continue to reduce GHG emissions in our stores and transfer centers, as well as achieve zero product disposal.

We are still in the process of studying ways to reduce CO_2 emissions and water consumption in our supply chain, so we will continue our efforts within reasonable limits while conducting research.

3. Initiatives for the environment and society

Shimamura Group

(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%**

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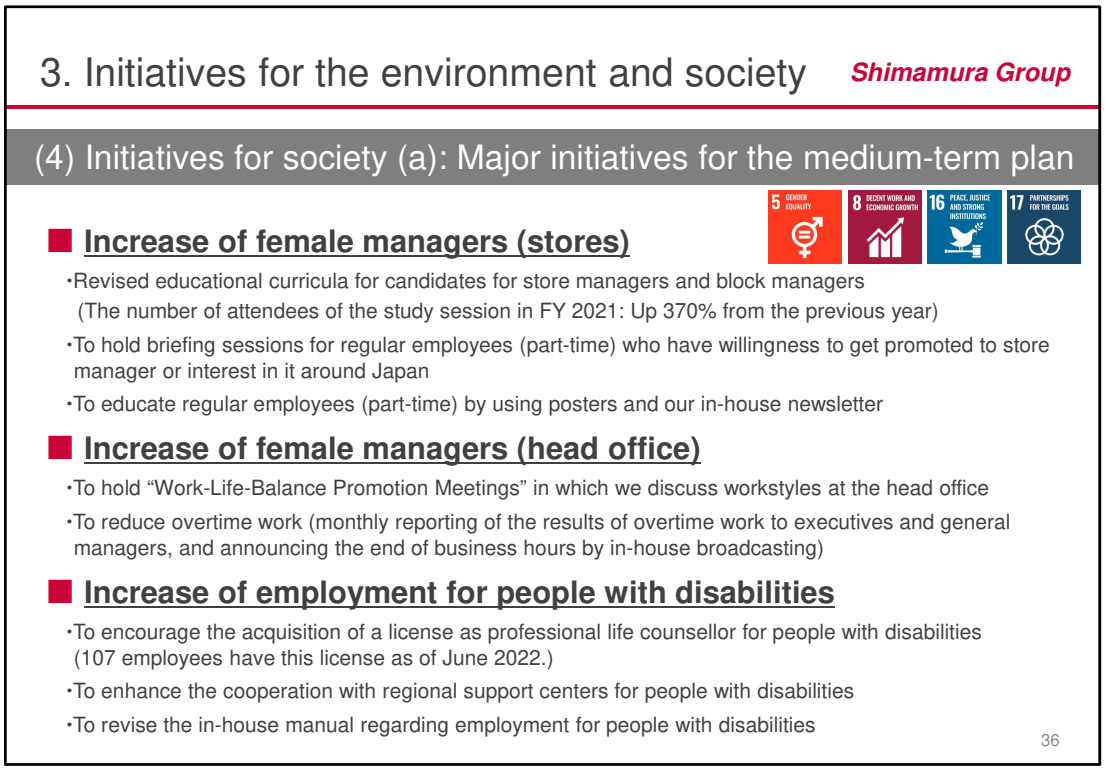
Next, I will explain the initiatives of the mid-term plan for society.

The numerical targets are the ratio of female managers and the employment ratio of people with disabilities.



Next, I will explain our major initiatives for the mid-term plan.

We have a large number of female employees, both full-time and part-time, and we are working to increase the percentage of female managers.

To increase the number of female in so-called section manager-level block manager positions at stores, we are working to train store managers, and hold briefings to promote regular employees working part-time to store manager positions.

Since the ratio of male employees is still high at the head office, efforts are being made to create an environment where female can work comfortably. In FY2021, we will hold Work-Life Balance Promotion Meetings to discuss work styles at the head office and address issues identified at the meeting, such as reducing overtime hours, with the aim of creating a comfortable work environment regardless of gender.

Regarding the employment of people with disabilities, we have made it a basic policy to employ at least one person with disabilities per block consisting of five to six stores. Then, to ensure that block managers in charge of recruiting at stores could recruit without difficulty, we compiled a manual on the procedure and held study sessions. On top of that, we are also strengthening cooperation with support centers for people with disabilities throughout Japan and actively recruiting.

3. Initiatives for the environment and society *Shimamura Group*

(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.

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Next, the results of the various initiatives are described.

First, regarding the ratio of female managers, we have a large number of female regular employees working part-time as well as female store managers who were promoted from part-time positions. Approximately two-thirds of our full-time employees are female. However, the percentage of female managers at the so-called section manager level and above is not that high, at 13.8%.

We do not force female into management positions by giving priority only to numerical results. Instead, we emphasize the abilities and attitudes of each employee.

However, from the perspective of diversity, we recognize that it is an important issue to create a working environment and personnel system that is comfortable for everyone to work in, regardless of gender. As a result, we would like to further increase the percentage of female managers as we work to improve working styles.

3. Initiatives for the environment and society

Shimamura Group

(4) Initiatives for society (b): Diversity

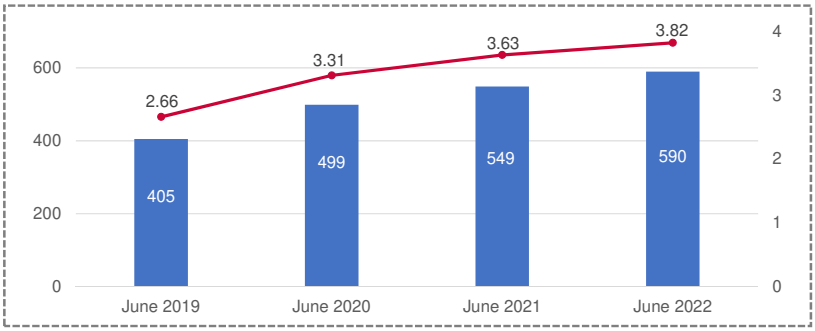
Employment for people with disabilities

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]



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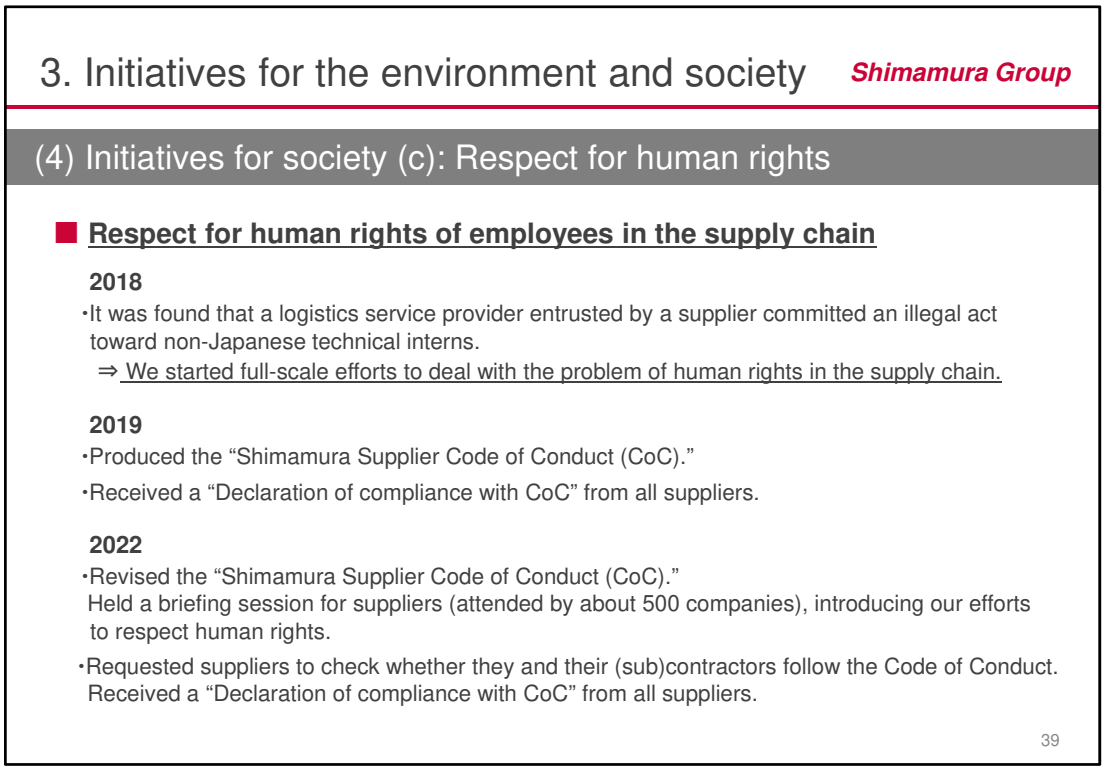
Next, I will explain employment of people with disabilities.

We have been simplifying and standardizing our operations to encourage talented female in each region to work as regular employees working part-time and store managers, and this has also resulted in the creation of a comfortable work environment for people with disabilities.

As you can see, we now have approximately 600 employees with disabilities working in our stores nationwide, with an employment rate of 3.8%, well above the legally mandated employment rate.



Next, I will explain how to address respect for human rights in the supply chain.

Since our product procurement is based on purchasing, suppliers are basically responsible for managing their production plants. However, to provide safe and secure products to our customers, we believe that respect for human rights in the supply chain is an important issue, and we have been working with our suppliers to address this issue.

Since FY2018, our employees have visited about 450 production plants for our PB products and regularly audit them to confirm the appropriateness of the working environment and the protection of employee human rights. Then, utilizing the know-how gained through this process, we held a briefing session for suppliers in January 2022 to inform them of our approach to protect human rights and how we are approaching this issue.

We have also revised our Action Guidelines for Protecting Human Rights, and we ask our suppliers to submit a declaration of compliance after checking the compliance status of the partner factories.

We will continue our efforts to prevent human rights violations and other problems from occurring in our supply chain.

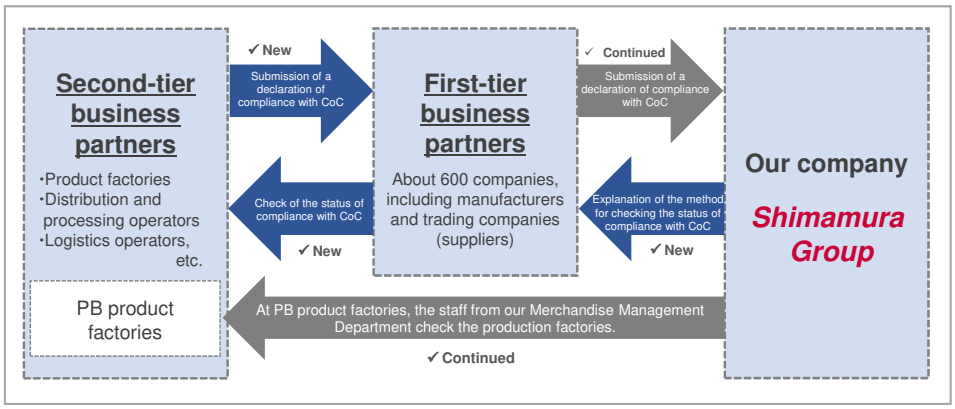
3. Initiatives for the environment and society

Shimamura Group

(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

40

The check system for respecting human rights in the supply chain is shown in the figure.

Declaration of compliance with CoC are exchanged between us and our suppliers, as well as between suppliers and production plants. The supplier checks the compliance status.

The management of tertiary business partners, such as raw material factories, dyeing factories, and spinning mills located upstream in the supply chain, will be an issue to be addressed in the future. We will work with our suppliers to study the establishment of an inspection system for this purpose.

3. Initiatives for the environment and society *Shimamura Group*

(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)

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Next, I will explain its role as social infrastructure in clothing sales.

Our pursuit of low-cost operations and streamlining our operations so that we can generate profits even in small commercial areas has enabled us to continue to open new stores in less populated areas of the country.

As a result, we recognize that we are contributing to society in terms of serving as a part of social infrastructure in clothing sales, and creating jobs in communities.

We will continue to pursue store opening and product policies to ensure that we can fulfill this role.

3. Initiatives for the environment and society

Shimamura Group

(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.

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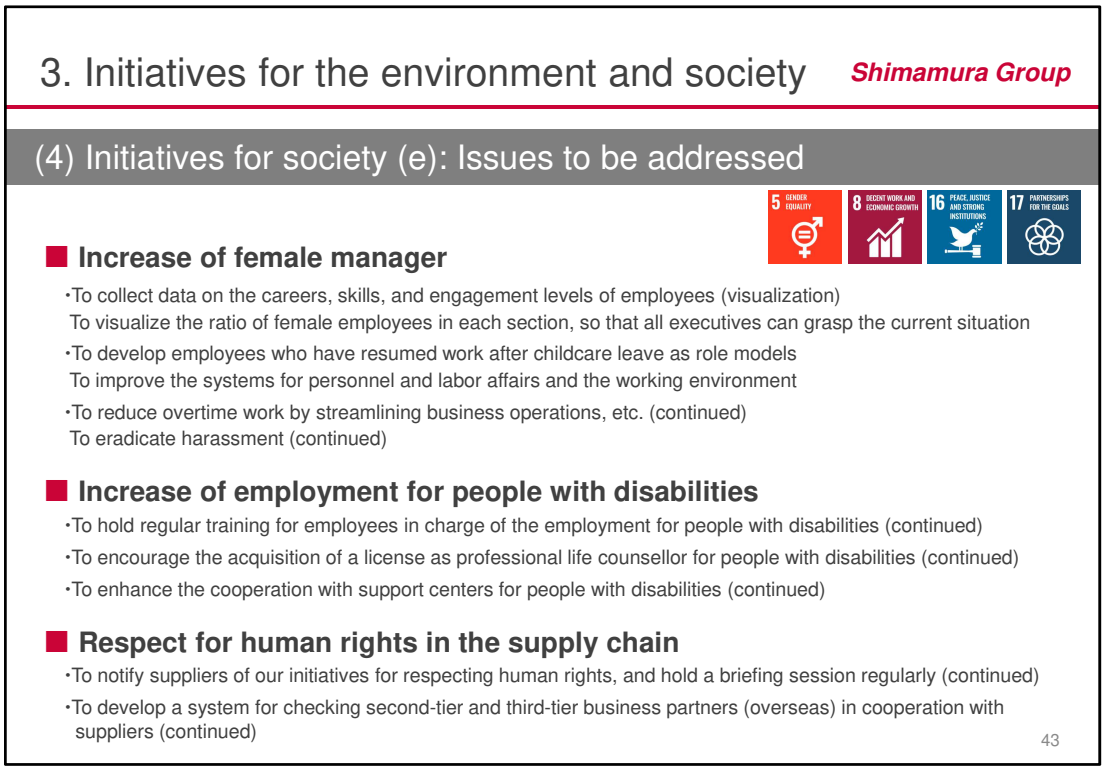
It also describes new initiatives for the community.

We operate approximately 2,200 stores nationwide to serve more customers. The increasing amount of elderly who experience difficulties going shopping has become a social issue. We have received comments from elderly customers who have difficulty visiting our stores now, while they used to shop at Shimamura in the past.

Therefore, in FY2021, we began experimental door-to-door sales to long-term care facilities.

We have already conducted the program four times and are feeling the positive effects of the program, so we will continue to accumulate operational know-how and conduct research on a system that can both economically rationalize and contribute to society.



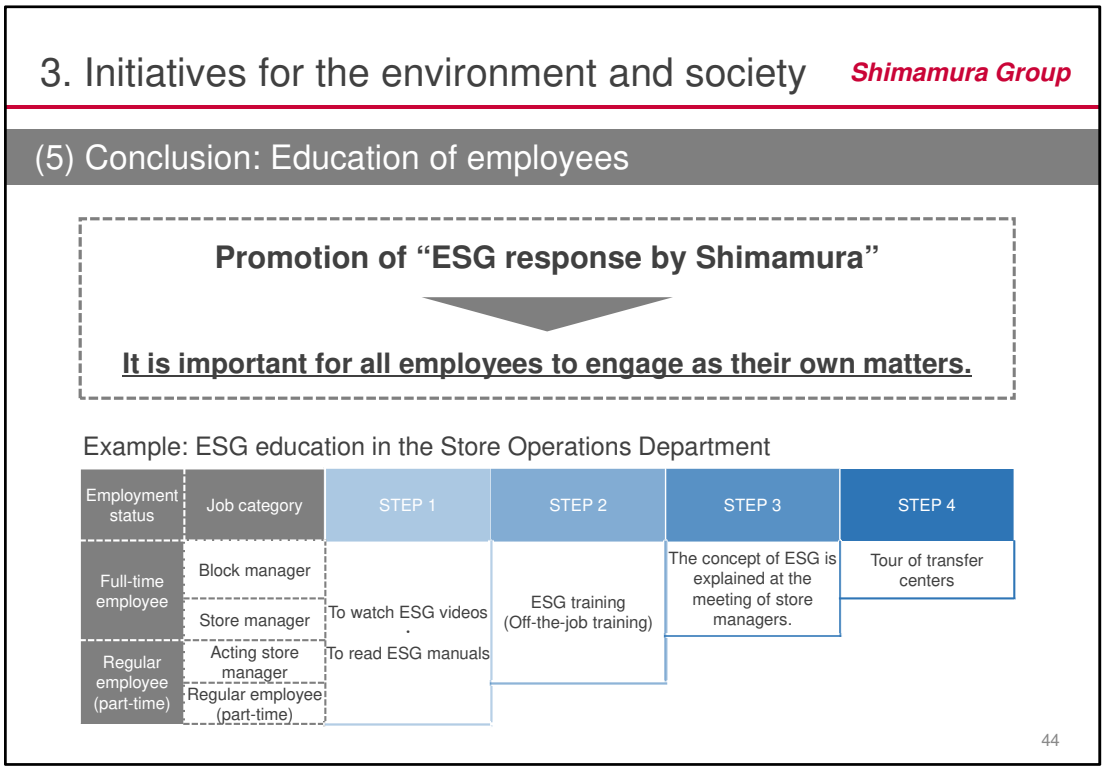
Next, I will explain future issues related to social initiatives.

First, in expanding the number of female managers, we are able to visualize the careers and skills of employees and their employee engagement levels, conducting research to understand the situation of each employee and how to respond individually accordingly.

At the head office, where the percentage of female employees is still low, employees who have completed their maternity leave will be used as role models to improve the personnel and labor systems to make it easier to balance work and childcare.

With regard to the expansion of employment of people with disabilities, the measures taken up to the last fiscal year have steadily produced results. We will continue to educate block managers in charge of employees with disabilities and continue to develop a workplace environment where people with disabilities can work without worries and concerns.

With respect to human rights protection in the supply chain, we will further develop an inspection system in our overseas supply chain, while continuing to inform our suppliers of our response towards human rights.



Finally, I will explain employee education on ESG activities.

In promoting ESG activities, we believe that good results are achieved when employees stand behind ESG activities due to personal motivation and identification with the cause.

Therefore, in FY2021, we spent a year educating store employees, who are often involved in ESG activities in their daily work, on topics such as hanger recycling.

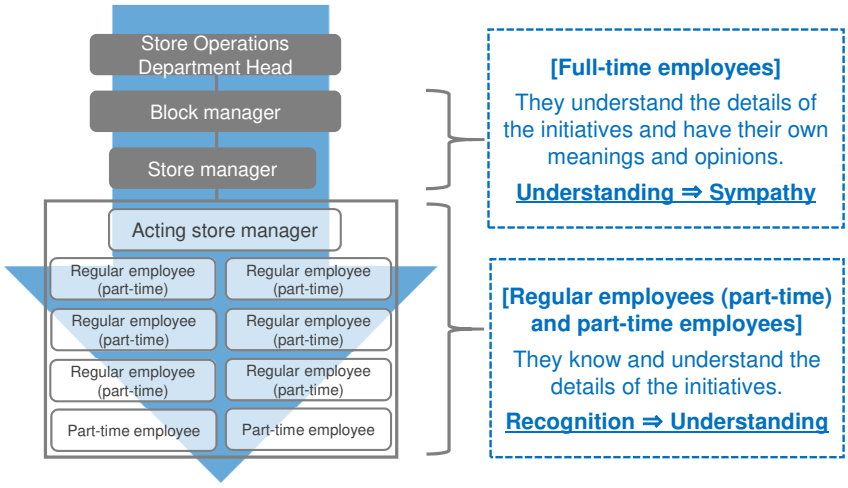
As you can see, the training included a tour of the transfer centers for block managers, which helped them understand how hangers and plastic bags collected at stores are shipped to recycling companies.

This has helped store employees truly understand that accurate sorting in the stores is very important in recycling. As a result, the accuracy of sorting hangers and plastic bags in the stores has improved.

3. Initiatives for the environment and society *Shimamura Group*

(5) Conclusion: Education of employees

Example: ESG education in the Store Operations Department



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By providing such employee training, the store's regular employees working part-time started by learning about ESG activities and were able to understand the content within a year.

In addition, block managers and store managers have come to not only understand but also developed their own opinions on ESG activities.

Although it will take some time before all employees understand and empathize with ESG activities, we will continue to educate our employees so that they will learn to stand behind ESG activities due to personal motivation and identification with the cause.

3. Initiatives for the environment and society

Shimamura Group

(5) Conclusion: Summary

Our business model = “Low-cost operation”

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

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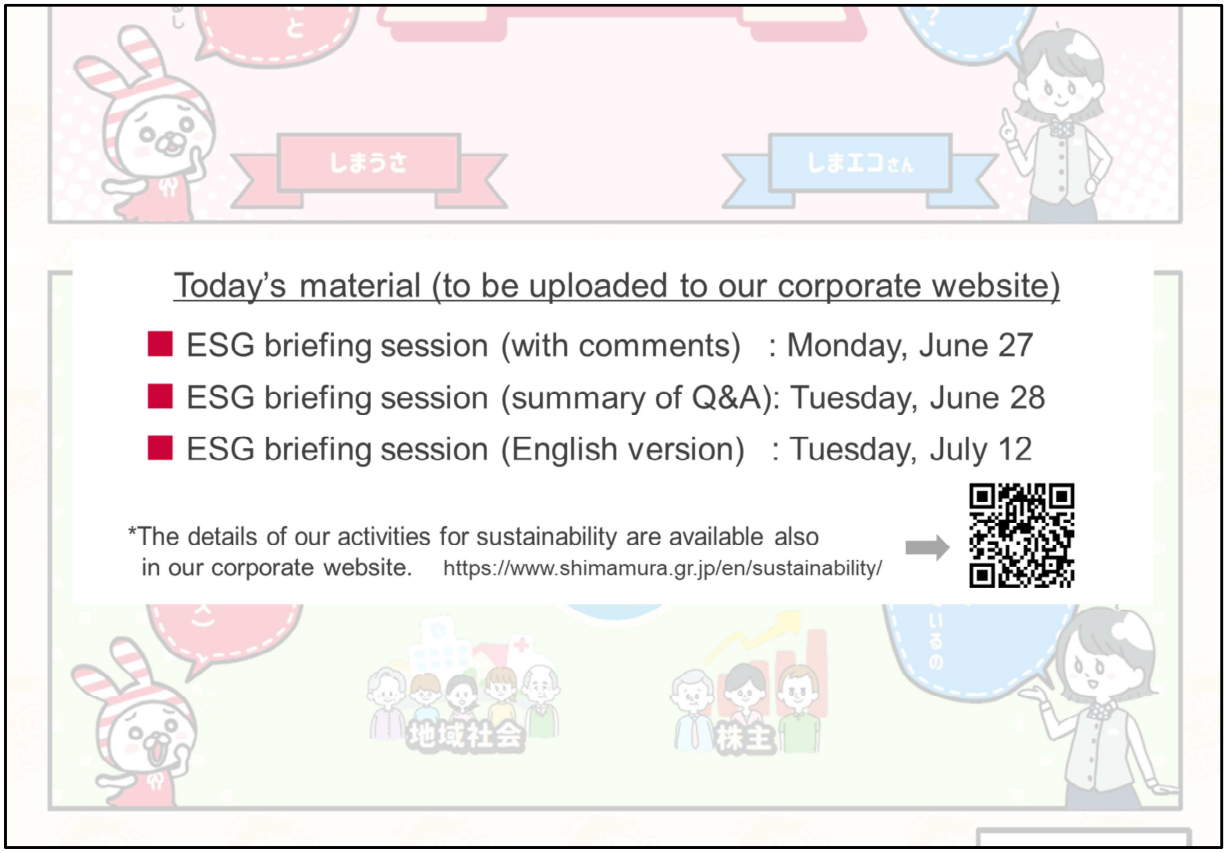
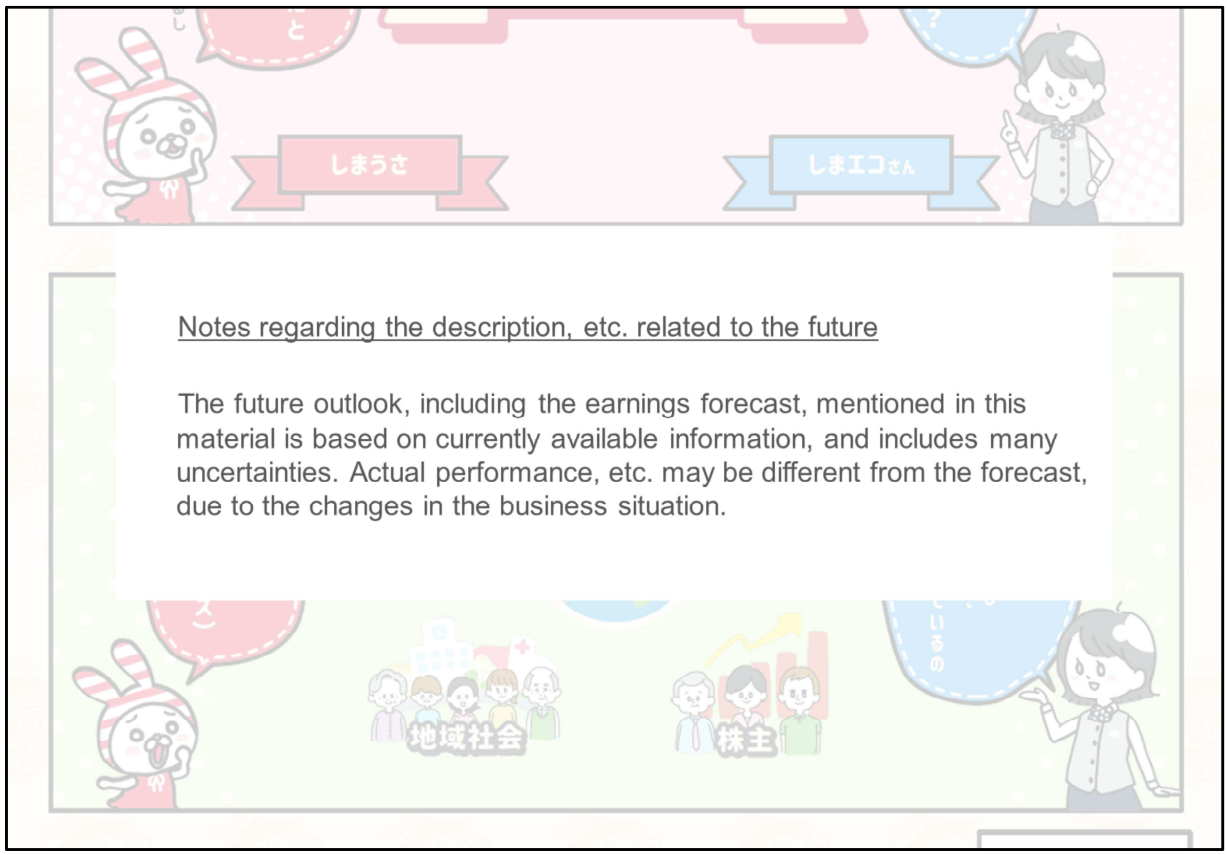
Last but not least, as I explained today, our longstanding pursuit of low-cost operations, which is the basis of our business model, has resulted in sustainable initiatives for the environment and society.

We will continue to promote sustainable “ESG response by Shimamura” through our main businesses based on being rational and proactive. We aim to be a “good company” for all stakeholders.



The materials used in today's briefing will be posted on the corporate website according to the schedule shown.

This concludes the explanation. Thank you for your attention.



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.