Isetan Mitsukoshi Holdings' Sustainability Briefing for Fiscal Year Ended in March 2022
Summary of Question & Answer Session
10:30 a.m.–12:00 p.m., December 3, 2021 (Friday)

Company presenters:
Toshiyuki Hosoya, Director, President and CEO (Representative Executive Officer)
Michiko Kuboyama, External Director, Chairperson of Board of Directors
Shigeru Nishiyama, Managing Executive Officer, CFO, CRO and CAO
Yumi Toritani, Store Planning Division, MD Administration Department

Assistance with answers
Akira Kimbara, Managing Executive Officer, General Manager of General AffairsDepartment

Q. This is a question for External Director Kuboyama. Do you think Isetan Mitsukoshi HDS openly discloses information to external directors?

The Company has an extremely open stance, and discloses information if asked for it. However, initially when I was appointed, information that was tacitly understood internally was not adequately explained, and in general, information was not provided if I didn't ask. I think this changed as the organizational design was adjusted and we really discussed these issues in earnest. [End of Ms. Kuboyama's answer]

Q. This is a question for CAO Nishiyama. It was mentioned that questionnaires and briefings on policies were given to business partners. Could you describe the response after it was implemented? What do you think are the issues going forward?

We received responses from about 300 companies that represent high transaction amounts for us. We realized from this that there were cases in the environment, human rights, and other areas in which the necessary guidelines and policies were inadequate. However, we also learned that business partners are doing enough in the area of quality management. Given this, we will give a questionnaire on the environment and human rights next year as well, and work together while sharing information with business partners. We recognize that we need to consider the supply chain overall and grapple with issues as an industry. I hope that we can take a leadership role in working on this. [End of Mr. Nishiyama's answer]
Supplemental answer
I think that we have to resolve extremely difficult issues when it comes to business and human rights. The most important issues are to ensure that the Company's employees, and especially the product supervisors, see issues as their own problem to resolve, and encourage business partners themselves. For example, if we look at the breakdown

of figures in Scope 3, purchased products and services account for 80% and upstream and downstream distribution and logistics for about 10%, so it is clear that the products procured from business partners account for the majority. We need to improve efficiency in the supply chain overall. I hope to reform awareness toward a greater scope of projects. [End of Mr. Kimbara's answer]

Q. This is a question for President Hosoya. When grappling with sustainability, are there any issues that you picked up on? Also, are there any points that you think the Company should really focus on?

Sustainability initiatives have been weak thus far. In conversations with managers, I realized that many employees are highly interested in sustainability, which I'm very proud of.
Department stores are responsible for the final step in the supply chain. It is important to consider how we involve business partners. By holding repeated dialogues with top management at the companies we conduct business with and holding dialogues internally on sustainability, I hope we can become a top runner in widening this scope. [End of President Hosoya's answer]

Q. This is a question for President Hosoya and External Director Kuboyama. Can you tell us about the context for the change in the organizational design to a company with a nominating committee, etc. and the resulting changes last fiscal year?

As for the context, we felt that there was a greater need to face changes in the environment. With the scope of themes addressed by the Board of Directors widening at the same time, we considered what we should do to ensure operations through real debate. This led to the change in structure. What changed was the quality of discussion. I felt that not only did the directors change, but also the managing directors and related staff. [End of Ms. Kuboyama's answer]

Q. I have a follow-up question for Ms. Kuboyama. This is not restricted to Isetan Mitsukoshi HDS, but many department stores have long histories and have been in business for a long time. Do you think the Company and employees have an inward-looking stance?

No, I don't think that's the case. The Company is extremely openminded. The department store business itself has actually changed significantly, if you think about it. Customers have gradually changed and the excitement over shopping has also changed. I think the changes are also due in part to the impact of COVID-19, so the Company takes a forward-looking stance on change. [End of Ms. Kuboyama's answer]

I'd like to talk about the differences with four years ago, when I was head of the Corporate Planning Division. Four years ago, the internal directors were pitted against the external directors in the Board of Directors. I think this was due to the amount of information disclosed and the quality of the debate until we decided to make the change. When I was appointed, I was told by the external directors that I needed to resolve the sense of frustration they were feeling before the information reached the Board of Directors and Executive Board. By disclosing all operations,

confrontational discussions are instead discussions between one team, and debate has deepened. This has taken shape as the medium-term management plan. Discussions with external parties over a very long period have resulted in a completely different medium-term management plan. [End of President Hosoya's answer]

Q. This is a question for Ms. Toritani. How was the medium-term management plan received by the employees themselves? Also, were there any changes by making this a medium-term management plan that takes sustainability into account?

I joined the Company in the year that Mitsukoshi and Isetan merged, as part of the first class in this new company, and this marks my eleventh year. Looking back, it is clear that we went through a time of dramatic change for department stores. Over the past few years, major changes were demanded, and employees waited impatiently for the medium-term management plan. Employees were particularly focused on issues for which internal expectations were high, particularly sustainability, the business model, and topline growth. I am really looking forward to the changes that all of you will drive. [End of Ms. Toritani's answer]

Q. The concept of sustainability has spread and we are seeing changes in the consumer lifestyle that has until now focused on buying new products. Retail has an image of just emphasizing topline profits; how will you enroot a new way of thinking on site?

Success really comes down to whether expanding topline profit can coexist with the sustainability concept. Our idea is that we will motivate customers' complicated desire to both buy something new but also be aware of the resource cycle. We cannot ignore topline profit and just address the resource cycle. Instead, we want to add new value and design so that we can give new life to what was not used up until now and sell these products. So we're not simply changing everything. We are figuring out how we can generate profits while giving back to society with a good balance. [End of President Hosoya's answer]

I would like to add some information about what I realized during the i'm green project. Customers have not had a place they could entrust with all those things they no longer need that were taking up space in their homes and cabinets. They also really wanted to return the things they had bought at Isetan to Isetan. At the higher end, there were cases in which we bought more than 300 items from a single customer for a purchase price of over 1 million yen. Many of the people concerned shopped at the store while we worked on the assessment, so I realized that getting rid of items that had accumulated actually leads to new consumption. Operating in a way that still allows for profits is a very interesting issue that we should explore further. [End of Mr. Kimbara's answer]

Q. This is a question for President Hosoya and External Director Kuboyama. I would like to ask about how the numerical targets are calculated. Are these top-down targets or targets that use an incremental approach? What kind of discussions were held by the Board of Directors?

In terms of the numbers, it differs depending on the item. I think these figures were set in solid discussion at Board of Directors meetings. [End of President Hosoya's answer]

In the Board of Directors meetings, external members shared their external knowledge, which provided very good insights. We talked a lot about how setting the targets is not the important part, and instead, being able to implement this process carefully is what matters. It was a really good experience. [End of Ms. Kuboyama's answer]

Q. What is the current introduction rate for renewable energy and how many properties does the Company have?

We have not really introduced renewable energy at this point. All but eight of the domestic department stores are owned by the Company.
The Urawa store will be the first to introduce renewable energy next year, and we have set a goal of a renewable energy introduction rate of 60% for the Group overall in 2030. [End of Mr. Nishiyama's answer]

We weigh renewable energy against its costs, so we have addressed this issue cautiously.
The Urawa store will switch to renewable energy and green power sent directly by the energy utility to the end user, as the store's contract was up for renewal anyway and compared to existing businesses, we were able to keep the unit price down.
We plan to switch the Company's properties over gradually. In the case of rental properties, property owners are less enthusiastic about renewable energy than we are. We will have to align our goals and take an active role in pushing for the introduction of renewable energy. [End of Mr. Kimbara's answer]

Q. This is a question for Ms. Kuboyama. In the previous fiscal year, the Company made the transition to a company with a nominating committee, etc. As an External Director, how will you communicate going forward, and supervise and put restraints on execution?

That is a very important point. By changing the design, we are able to take on new challenges to a surprising degree. Internal and external directors tended to have different ways of thinking about the information needed and the necessary conditions for discussion. As we filled the gaps in the Board of Directors, the organizational design also changed. As a result, operations and structure naturally changed, but the members' ways of thinking, approaches to explanations, and the scope of discussions also changed significantly.
With this change, we were able to have full-fledged debates and really took on a cutting-edge, advanced structure for a company in Japan, while also increasing transparency. I expect that changing governance will also change the Company's ability to operate and move forward as well as its management, and will also lead to further changes in terms of ease of working inside the Company, motivation levels, and sheer fun. [End of Ms. Kuboyama's answer]

Q. I have a question for President Hosoya. Regarding female managers, what is the current percentage of

female managers, and what specific measures will be taken to raise the percentage to the target of 38%? What are your thoughts on this?

The current percentage of female managers is 30.8% and we will raise it to 38%.
Currently, we are seeing a trend in which more women are hired than men and more women are promoted to assistant manager positions. The percentage of women is gradually rising, so as a result, the percentage of female managers will also naturally increase.
That said, we also plan to put energy into HR measures (HR assignments and education) to further raise the level of our female employees. We are also thinking about preparing and introducing a lifetime career development plan (CDP) to lay out what kind of work can be assigned to individual employees and how best to boost their levels. [End of President Hosoya's answer].

Q. What are your thoughts on the effects and significance of increasing the number of women among your managers and directors?

Over 60% of department store sales are from female customers. If we do not understand what women want, we cannot run department stores. Until now, it has been primarily men who have been in charge of operations, but we cannot become a diverse department store with this model. I think we definitely need the strengths of women. The 38% target is aggressive. [End of President Hosoya's answer]

Q. There are many companies handling secondhand products, so how do you plan to make "i'm green" stand out? What are the strengths of department stores?

Most of the products that customers bring to us were bought at Isetan Mitsukoshi. In the case of our best customers, we often come to their homes for purchases and they sometimes talk to us about their memories associated with the goods. This has a secondary impact of raising trust, and as a result the repeat rate is 30%. Our difference with other companies and other sectors is that, resting on this previous trust, new transactions can take place. I think this could be our own unique model. [End of Mr. Kimbara's answer]