Corporate Governance Report

Last Update: November, 4, 2016

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The corporate governance of J. FRONT RETAILING Co., Ltd. (the "Company") is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

Update

The Company has established Corporate Governance Guidelines (the "Guidelines") that set out the role of corporate governance in the Company and its subsidiaries (the "JFR Group"). The aims of the Guidelines are to realize our best possible corporate governance practices in order to ensure the sustainable growth of the JFR Group and increase corporate value over the medium to long term.

For "Basic Ideas on Corporate Governance," please refer to "Chapter 1. General Provisions" of the Guidelines appended at the end of this report.

For information regarding the major changes, please refer to "List of Updates in the Corporate Governance Report" in the report.

The Guidelines remain unchanged from those of the last update of this report (May 27, 2016).

In order to heighten the effectiveness of its corporate governance, the Company has decided a policy of transitioning from the current company with Audit & Supervisory Board to a company with three committees (nomination, audit and remuneration committees) following resolution at the Annual Shareholders Meeting scheduled for May 2017. In so doing, the Company is aiming to strengthen the management oversight function by separating oversight from execution, to better clarify authority and responsibility in business execution and promote agile management, to improve the transparency and objectivity of management, and to establish an organizational structure that can be easily understand

globally. Based on previous discussions by the Board of Directors and the Governance Committee regarding the form the Company's organizational structure should take, the policy was decided by resolution of the Board of Directors meeting held in October 2016, and the Company is currently reviewing the details in preparation for a formal decision to be made at the Annual Shareholders Meeting scheduled for May 2017.

In addition, the Company resolved a new Group Vision to be implemented from FY2017 and a resolution was passed to that effect at the Board of Directors meeting held in September 2016. The Company aims to increase its corporate value over the medium to long term by shifting from the previous department store-oriented vision to construct a Groupwide vision targeting discontinuous growth, and making this the guiding principle of our next Medium-term Business Plan starting in March 2017. Furthermore, the Company combined its existing Business Operation Policy and Our Principles of Action to set forth the new JFR Way. To ensure smooth implementation of the new Group Vision and the JFR Way from FY2017, the Company is currently working to promote understanding and awareness of the underlying approaches among all the companies in the JFR Group.

Our new approach

- Group Vision: Create and Bring "New Happiness" to Your Life
  - JFR Way: The ideas that motivate us:

    "Create the future" "Act on courage not fear" "Embrace new ideas"

    "Think for yourself when taking action" "Act sensibly and honestly"

[Reasons for Non-compliance with the Principles of the Corporate Governance Code] Update

Recognizing the need to carry out all of each principle of the Corporate Governance Code in order to achieve the sustainable growth of the JFR Group and increase corporate value over the medium to long term, the Company has begun taking initiatives to implement all of each principle.

Based on the "comply or explain" rule, the Code requiring disclosure in this column, "Reasons for Non-compliance with the Principles of the Corporate Governance Code," and the next column, "Disclosure Based on the Principles of the Corporate Governance Code," is limited to the following:

- Any principles that are currently not implemented
- The 11 principles that require disclosure as stipulated by financial instruments exchanges

The Company, however, discloses the following matters in recognition that the disclosure ("comply and explain") leads to promoting constructive dialogue with shareholders and investors.

- Principles that are currently implemented but for which the Company only recently began the initiatives for the implementation.
- Principles for which policies, ideas, etc. have been in place by convention but have not been explicitly stated or announced.

・ Principles that have been implemented conventionally but for which the Company considers further enhancement of substance is necessary.

・ Current status of the Company's efforts regarding corporate governance

【Principle 2-3, Supplementary Principle 2-3-1】 Sustainability

With the aim of ensuring sustainable growth of the JFR Group and increasing corporate value over the medium to long term, the JFR Group makes efforts to build and deepen relationships of trust with all stakeholders (customers, shareholders, business partners, employees, local communities, etc.) through various corporate activities based on the Group Philosophy and takes proactive steps in dealing with social and environmental issues and challenging issues relating to sustainability.

In order to further contribute to the development of local communities as a good corporate citizen, the JFR Group will formulate policies on sustainability by about FY2017 centered on providing safe and secure products and services and promoting to create a safe and secure store environment, contributing to the development of a recycling-oriented society and pursuing activities that support the next generation and women. After formulating these policies, we will take initiatives to tackle these issues based on our policies.

【Principles 3-1(iii), 4-2, Supplementary Principle 4-2-1】 Policy and Procedures for Determining Remuneration for Directors, Audit & Supervisory Board Members and Executive Officers

The policy for determining remuneration for Directors, Audit & Supervisory Board Members and Executive Officers has been revised as follows beginning from the payment of June 2016, as resolved by a meeting of the Board of Directors, and on the basis of details reported by the Human Resources and Remuneration Committee in April 2016.

Remuneration of Internal Directors

・ The Company has increased the proportion of bonuses for Directors and Audit & Supervisory Board Members (performance-based remuneration) in terms of total remuneration, with monthly compensation at 60% and bonuses for Directors and Audit & Supervisory Board Members at 40% (standard ranking), in order to provide incentives both for accomplishing objectives set under management strategies and business plans, and for achieving targets with respect to corporate performance.

Remuneration of Outside Directors and Audit & Supervisory Board Members (both internal and outside)

・ The Company will discontinue bonuses for Directors and Audit & Supervisory Board Members and provide monthly compensation only.

In conjunction with that, with the aim of ensuring that the Group achieves sustainable growth and increases corporate value over the medium to long term, the Company aims to introduce remuneration for Internal Directors linked to their medium- to long-term performance (stock-based remuneration, etc.) beginning in FY2017, and will forge ahead in reviewing such options.

【Principle 4-6】 Use of Directors Who Do Not Execute Business

We reviewed options for making use of Internal Directors who do not execute business during the discussions regarding new systems after the transition to a company with three committees (nomination, audit and remuneration committees). We are now continually reviewing these options in order to help the JFR Group achieve sustainable growth while increasing corporate value over the medium to long term.

【Principle 4-14, Supplementary Principles 4-14-1, 4-14-2】 Training

We continuously provide opportunities to Directors, Audit & Supervisory Board Members and Executive Officers to acquire and update knowledge they need to fulfill their roles and responsibilities with respect to oversight, auditing, business execution and other tasks. In addition to participating, as required, in the training and lectures provided by Japan Audit & Supervisory Board Members Association, in FY2016 we started making use of seminars offered by the Japan Association of Corporate Directors, which we recently joined, as required. We provide Internal Directors, Internal Audit & Supervisory Board Members, and Executive Officers with useful information regarding corporate governance, compliance and Group management. Furthermore, we establish and implement training plans tailored to individuals, taking into account results of managerial talent evaluations performed by a third-party organization. We are currently implementing individual executive coaching for the management team to develop leadership.

We arrange briefings for Outside Directors and Outside Audit & Supervisory Board Members, when they are appointed as well as on a continuous and regular basis, providing details on the Group Philosophy, Vision, management strategies and business plans, and also featuring content that includes details of JFR Group operations, its performance, financial standing and operational status.

[Disclosure Based on the Principles of the Corporate Governance Code] Update

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・ Principles that have been implemented conventionally but for which the Company considers further enhancement of substance is necessary.

・ Current status of the Company's efforts regarding corporate governance

【Supplementary Principle 1-1-1】 Analysis of Voting Results

For the analysis of voting results, please refer to "1. Shareholders Meetings, (3) Analysis of Voting Results" in "Chapter 2. Relationships with Shareholders" of the Guidelines.

With respect to voting on proposals put forward at the 9th Annual Shareholders Meeting (Year Ended February 29, 2016) held on May 26, 2016, between 96.56% and 97.48% of the votes submitted were cast in favor of the first proposal (election of Directors), and 95.14% of votes submitted were cast in favor of the second proposal (payment of fiscal year bonuses to Directors and Audit & Supervisory Board Members).

【Supplementary Principle 1-2-1】 Content of Convocation Notices

For the policy on the content of convocation notices for shareholders meeting, please refer to "1. Shareholders Meetings, (2) Developing an Environment Appropriate for Exercising Voting Rights and Other Rights of Shareholders, (iii)" in "Chapter 2. Relationships with Shareholders" of the Guidelines.

The Notice of Convocation of the 9th Annual Shareholders Meeting (Business Report and Reference Materials for Shareholders Meeting) covers statutory matters, and has also been upgraded as follows.

・To deepen shareholder understanding of the JFR Group, explanations outlined in the section "issues to be addressed" focused on various initiatives geared to achieving to the JFR Group's vision of securing a position as a leading retail company (subsections include details on "dramatically strengthening competitiveness and profitability as a multifaceted retailer operating multiple businesses," "promoting omni-channel retailing," "constructing a business model for growth along with regions in which it operates with its stores at the core of such growth (strategy of urban market dominance)," "enhancing the financial strategy," and "strengthening corporate governance").

・To ensure that shareholders are able to make appropriate decisions when exercising their voting rights, the convocation notice contained details regarding "basic ideas on corporate governance," "policy for nominating and appointing Directors," and "criteria for determining independence of Outside Directors and Outside Audit & Supervisory Board Members." It also contained details on the Director candidates that include "reasons for nomination as candidate for Director," "number of Board of Directors meetings attended," and "tenure as Director."

【Supplementary Principle 1-2-5】 Participation of Beneficial Shareholders in Shareholders Meetings

For the policy on participation of beneficial shareholders in shareholders meetings, please refer to "1. Shareholders Meetings, (2) Developing an Environment Appropriate for Exercising Voting Rights and Other Rights of Shareholders, (v)" in "Chapter 2. Relationships with Shareholders" of the Guidelines.

There were no special requests filed by beneficial shareholders at the 9th Annual Shareholders Meeting.

【Principles 1-3, 5-2】 Basic Capital Policy

For the capital policy, please refer to "2. Capital Policy" in "Chapter 2. Relationships with Shareholders" of the Guidelines. In the first half of FY2016, the Company implemented the following measures in accordance with the aforementioned policy and it expects ROE for FY2016 full year declining by 0.4 percentage points year on year to 6.5%.

・ Undertaking strategic investment

In the first half of FY2016, the Company made total capital investment of approximately 20,400 million yen (down 3.7% year on year). The amount consists of recurring capital investment underpinned by the basic approach of keeping such investment within the scope of depreciation, along with proactive implementation of strategic investment in projects that included rebuilding the South Wing of the Matsuzakaya Ueno store, rebuilding the Main Building of the Daimaru Shinsaibashi store, the Ginza 6-chome District 10 Urban Redevelopment Project, newly constructing Sendai PARCO 2, and redevelopment of Shibuya PARCO with the aims of strengthening core business, achieving expansion in current fields of business, and actively developing new business. The Company plans to carry out capital investment of 45,400 million yen (up 22.3% year on year) for the full year.

Moreover, the Company has developed a framework that it is making use of to carry out financial strategy with the aim of heightening profitability of invested capital. Accordingly, for new investment projects entailing funds beyond a certain amount, the Company has established the Investment Plan Review Committee which scrutinizes profit and loss targets and performs verification from a financial perspective encompassing assessment of suitability in terms of qualitative aspects of investment plans. For all existing businesses, the Company has established the Revitalization Plan Review Committee which draws up plans for revitalizing poorly performing businesses and withdrawing from such operations, upon performing verification of financial aspects from the perspective of investment recovery.

・ Enhancing shareholder returns

Largely with the aims of enhancing shareholder returns and improving capital efficiency, from April to May 2015, the Company purchased approximately 2,480,000 shares of treasury stock valued at roughly 5,000 million yen (0.9% of the total number of shares issued, excluding treasury stock), and provided annual dividend from surplus of 27 yen per share (after conversion taking into account the consolidation of shares), for an increase of 2 yen per share year on year. In the second quarter of

FY2016 the Company set an interim dividend of 14 yen per share, unchanged from the previous year-end dividend, marking an increase of 1 yen per share year on year.

・ Expanding net worth

In August 2015, the Company issued bonds amounting to 15,000 million yen, but in November 2015 redeemed 12,000 million yen in bonds issued upon their maturity, thereby bringing the balance of interest-bearing debt to approximately 183,600 million yen as of August 31, 2016, for an increase of roughly 2,700 million yen compared to February 29, 2016. As a result, the interest-bearing debt to equity ratio was 0.47 times, and the equity ratio was 38.2% for an increase of 0.6 percentage points compared to February 29, 2016.

【Principle 1-4】 Cross-shareholdings

For the policy on cross-shareholdings, please refer to "3. Cross-shareholdings" in "Chapter 2. Relationships with Shareholders" of the Guidelines. Due to progress achieved in reducing cross-shareholdings in accordance with the aforementioned policy, cross-shareholdings in 12 companies were sold in FY2015 (proceeds from the sales amounted to approximately 2,613 million yen). At the Board of Directors meeting held in August 2016, the Directors again verified the status of cross-shareholdings maintained by the Company and their rationale, and resolved a plan to sell further cross-shareholdings. As of August 31, 2016, the JFR Group maintained cross-shareholdings in 64 companies (approximately 11,606 million yen recorded on the balance sheet).

【Principle 1-7】 Related Party Transactions

For the procedure, etc. for related party transactions, please refer to "4. Related Party Transactions" in "Chapter 2. Relationships with Shareholders" of the Guidelines.

【Principle 3-1(i)】 Group Philosophy, etc.

For the Group Philosophy, etc. of the JFR Group, please refer to the following pages of the Company's website.

・ Group Philosophy
(http://www.j-front-retailing.com/english/company/philosophy.php)
・ Management Policy
(http://www.j-front-retailing.com/english/ir/policy/index.php)
・ Medium-term Business Plan
(http://www.j-front-retailing.com/english/ir/mid_plan.php)
・ Strategies
(http://www.j-front-retailing.com/english/ir/po/po01.php)

【Principle 3-1(ii)】 Basic Views and Policies on Corporate Governance

For basic views on corporate governance, please refer to "Chapter 1. General Provisions," and for basic policies on corporate governance, please refer to "Chapter 2. Relationships with Shareholders," "Chapter 3. Information Disclosure" and "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the policies.

【Principle 3-1(iii)】 Procedures for Determining Remuneration for Directors, Audit & Supervisory Board Members and Executive Officers

For the procedures for determining remuneration for Directors, Audit & Supervisory Board Members and Executive Officers, please refer to "5. Human Resources and Remuneration and Other Matters Involving Directors, Audit & Supervisory Board Members and Executive Officers, (3) Procedures for Determining Remuneration for Directors, Audit & Supervisory Board Members and Executive Officers" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

【Principles 3-1(iv), 4-3, Supplementary Principle 4-3-1】 Policy and Procedures for Nominating and Appointing Candidates for Directors and Audit & Supervisory Board Members

For the policy for nominating and appointing candidates for Directors and Executive Officers, please refer to "3. Directors and Executive Officers, (2) Policy on Nominating and Appointing Directors and Executive Officers" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines. For the policy for nominating Audit & Supervisory Board Members, please refer to "4. Audit & Supervisory Board and Audit & Supervisory Board Members, (3) Policy for Nominating Audit & Supervisory Board Members" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines. For the procedures therefor, please refer to "5. Human Resources and Remuneration and Other Matters Involving Directors, Audit & Supervisory Board Members and Executive Officers, (1) Procedures for Nominating and Appointing Directors, Audit & Supervisory Board Members and Executive Officers, and Disclosure in That Regard" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

【Principle 3-1(v)】 Reasons for the Nominations of Candidates for Directors

For reasons for the nomination of candidates for Directors, please refer to the Notice of Convocation of Shareholders Meeting (Reference Materials for Shareholders Meeting).

- Notice of Convocation of the 9th Annual Shareholders Meeting (Year Ended February 29, 2016)
  (http://www.j-front-retailing.com/english/ir/stock/pdf/160428_jfr_e.pdf)

【Supplementary Principle 3-2-1】 Policy for Decisions of the Audit & Supervisory Board on Proposals for Election, Dismissal and Non-reappointment of the Accounting Auditor

For the policy for decisions of the Audit & Supervisory Board on proposals for election, dismissal and non-reappointment of the Accounting Auditor, please refer to "7. Accounting Auditor, (1) Policy for Decisions of the Audit & Supervisory Board on Proposals for Election, Dismissal and Non-reappointment of the

Accounting Auditor" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

In accordance with the aforementioned policy, the Audit & Supervisory Board has drawn up the Company's criteria for selecting and evaluating the Accounting Auditor, which are based on the "Practical Guidelines for Audit & Supervisory Board Members, etc. on Evaluating Accounting Auditors and Drafting Selection Criteria" of the Japan Audit & Supervisory Board Members Association (JASBA), and has accordingly made the decision to reappoint the Accounting Auditor in view of the Company's criteria.

【Principle 4-1】 Roles and Responsibilities of the Board of Directors

For major roles and responsibilities of the Board of Directors of the Company, which is a pure holding company, please refer to "2. Basic Ideas on Corporate Governance, (4) Roles and Responsibilities of the Board of Directors, etc." in "Chapter 1. General Provisions" of the Guidelines.

In accordance with the aforementioned policy, the Company has been endeavoring to improve profitability and capital efficiency by engaging in constructive discussions with respect to the Group Vision and Business Operation Policy which are now undergoing review for revision, other elements of basic management policy and management strategy proposals. In addition, the Board of Directors engages in deliberations not only during the final decision-making phase, but also from the direction phase, in order to carry out multifaceted and objective deliberations encompassing evaluation of risks with respect to the aforementioned.

【Supplementary Principle 4-1-1】 Scope of the Matters Delegated to the Management Team

For the policy on the scope of the matters delegated to the management team, please refer to "1. Approach to Allocating Authority" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

The aforementioned policy takes into account results and issues with respect to evaluations of the Board of Directors conducted from June to September 2015. Accordingly, the Company has developed a framework that enables more focused deliberations by the Board of Directors on management strategy agendas. This has entailed partially revising the Rules of the Board of Directors in February 2016, endeavoring to clarify agenda proposals, and moving forward in delegating authority to management teams by raising benchmarks on agenda proposals (monetary benchmarks).

【Supplementary Principle 4-1-3】Succession Planning

Selection of the Chief Executive Officer is a critical aspect of strategic decision making, and accordingly the Company regards drawing up and implementation of plans regarding successors (next senior management team) as matters of particular importance in terms of management strategy.

The Company ensures clarity and transparency in the process of selecting successor candidates through repeated reviews of successor candidates' individual evaluations based on assessments made by a third-party organization using internal data. The deliberations are conducted by the Human Resources and Remuneration Committee, in which Outside Directors and Outside Audit & Supervisory Board Members comprise a

majority.

In the process of deciding a successor, the Board of Directors plays a supervisory role focused on realizing the Group Philosophy, based on the proposals received from the Human Resources and Remuneration Committee.

With regard to the qualities required of successors, the Company clearly defines the necessary values, capabilities, and behavioral traits in the form of the five qualities required of a corporate officer listed in the Guidelines under "Desirable qualities required of JFR Group managerial talent." These are a strategic mindset, reform-oriented leadership, tenacity for achieving results, organization development strengths, and human resource development strengths. The Company endeavors to ensure impartial cultivation and selection of successors by sharing these qualities among all members of the Human Resources and Remuneration Committee to make them all aware of the measures used in cultivating and assessing successors.

【Principles 4-7, 4-10, Supplementary Principle 4-10-1】 Optional Advisory Committees

For the advisory committees of the Board of Directors that the Company has established, please refer to "2. Board of Directors, (2) Advisory Committees of the Board of Directors" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

The Human Resources and Remuneration Committee deliberates and makes decisions with respect to human resource matters involving Directors, Audit & Supervisory Board Members and Executive Officers of the Company and its major business subsidiaries, on the basis of previously determined policy for nominations and appointments and in accordance with results of managerial talent evaluations performed by a third-party organization, and then accordingly furnishes human resource proposals to the Board of Directors. Moreover in April 2016, with the aims of achieving sustainable growth of the JFR Group and increasing corporate value over the medium to long term, the committee deliberated and made decisions with respect to partially revising the policy for determining remuneration for Directors, Audit & Supervisory Board Members and Executive Officers (effective from payments made in June 2016), and accordingly reported such details to the Board of Directors. The committee is currently reviewing options with regard to introducing remuneration linked to medium- to long-term performance (stock-based remuneration, etc.) beginning in FY2017. It also deliberated and made decisions with respect to Executive Officer candidates, furnishing proposals to the Board of Directors in April and July 2016.

The Governance Committee engages in constructive discussion and exchanges of views with respect to matters such as addressing issues to make meetings of the Board of Directors more effective in view of results from evaluations of the Board of Directors, and considering options with respect to the Company's organizational structure. At the Board of Directors meeting held in October 2016 the committee furnished a proposal regarding the transition to a company with three committees (nomination, audit and remuneration committees) planned for FY2017. It is currently continuously reviewing the details of the new corporate structure in preparation for submitting a proposal to the Annual Shareholders Meeting scheduled for May 2017.

【Principle 4-9】 Criteria for Determining Independence of Outside Directors and Outside Audit & Supervisory Board Members

For the criteria for determining independence of Outside Directors and Outside Audit & Supervisory Board Members, please refer to "6. Criteria for Determining Independence of Outside Directors and Outside Audit & Supervisory Board Members" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

The Company has registered two Outside Directors and three Outside Audit & Supervisory Board Members, a total of five persons, as independent officers as stipulated by the financial instruments exchanges.

【Principle 4-11, Supplementary Principle 4-11-1】 Composition of the Board of Directors and the Audit & Supervisory Board

For the policy on the composition of the Board of Directors, please refer to "2. Board of Directors, (1) Composition of the Board of Directors" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines. For the policy on the composition of the Audit & Supervisory Board, please refer to "4. Audit & Supervisory Board and Audit & Supervisory Board Members, (1) Composition of the Audit & Supervisory Board" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

【Supplementary Principle 4-11-2】 Concurrent Holding of Positions

For concurrent holding of officers positions at other listed companies by Directors and Audit & Supervisory Board Members of the Company, please refer to the Notice of Convocation of Shareholders Meeting (Business Report, Reference Materials for Shareholders Meeting).

- Notice of Convocation of the 9th Annual Shareholders Meeting (Year Ended February 29, 2016) (http://www.j-front-retailing.com/english/ir/stock/pdf/160428_jfr_e.pdf)

【Supplementary Principle 4-11-3】 Evaluation of the Board of Directors

Continued from last year, the Company performed the second evaluation by third-party organization of the Board of Directors from August to September 2016.

In light of the roles and responsibilities of the Board of Directors, an analysis/evaluation was performed for each of the items for evaluation, including the Board of Directors' composition and its operational status, agenda items, and materials for deliberations.

The evaluation was performed using a methodology whereby the third-party organization prepared a report containing summaries and analyses of the results of "individual interviews" and "direct observation of the Board of Directors" (see Note) and the Board of Directors carried out deliberations on the evaluation based on the report.

(Note) "individual interviews"

The third-party organization conducted individual interviews in which all Directors and Audi &

Supervisory Board Members (both Internal and Outside) were inquired about their views and awareness of issues in response to various questions concerning the Board of Directors.

"direct observation of the Board of Directors"

The third-party organization was present at the meetings of the Board of Directors and directly observed the actual discussions held.

Based on the results of the evaluation of the previous year's survey, the Company has taken initiatives, including revising the Rules of the Board of Directors to clarify agenda proposals and benchmarks on agenda proposals, securing time for discussions by ensuring to provide prior explanations and reducing explanations on proposals at meetings of the Board of Directors, and improving materials on proposals, and it works to secure the effectiveness of the Board of Directors on the whole.

As a result of these efforts, the evaluations of the Board of Directors conducted from August to September 2016 identified significant improvements with regard to the Board's focus on management strategy agendas and setting up mechanisms to ensure effective discussions, such as prior explanations for Outside Directors and Outside Audit & Supervisory Board Members, and holding off-site trips for Directors and Audit & Supervisory Board Members. In addition, the evaluation concluded that the supervisory function is steadily improving as a result of changes to the decision-making process, such as submitting important matters for consideration to the Board of Directors at an early stage. On the other hand, the evaluations also established that more is still expected in terms of reforming the Board of Directors, and problems still remain with regard to improving implementation (i.e., speed of execution) in order to swiftly execute strategic planning for the Group. In light of these results, we will resume our efforts to make improvements, working to secure the effectiveness of the Board of Directors on the whole.

【Principle 5-1】 Policy on Constructive Dialogue with Shareholders

For the policy on constructive dialogue with shareholders and other policies on information disclosure, please refer to "Chapter 3. Information Disclosure" of the Guidelines.

For financial results briefings for the year ended February 29, 2016, the Company has prepared a Fact Book to act as supplementary meeting material containing tables and graphs depicting secular trends with respect to major financial indicators and other management benchmarks, and has otherwise taken steps to further enhance communications with shareholders and other investors.

In addition, the Company has reinforced its provision of non-financial information with a view to releasing an integrated report in future. To this end, it included details of its value creation process at the beginning of the FY2016 annual report. This process is the means by which the Company aims to make effective and efficient use of its "six capitals" (financial capital, manufactured capital, intellectual capital, human capital. social and relationship capital, and natural capital) to circulate the Group's business model. In so doing, it aims to create, as a public entity of society, new values with which its various stakeholders empathize.

2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%

[Status of Major Shareholders] Update

Name / Company Name	Number of Shares Owned (Thousand Shares)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,367	6.25
Japan Trustee Services Bank, Ltd. (Trust Account)	12,695	4.85
Nippon Life Insurance Company	9,828	3.75
J. Front Retailing Kyoei Supplier Shareholding Association	6,502	2.48
Trust & Custody Services Bank, Ltd. (Investment Trust Collateral Account)	6,310	2.41
The Dai-ichi Life Insurance Company, Limited	5,732	2.19
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,624	2.15
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,670	1.78
Japan Trustee Services Bank, Ltd. (Trust Account 7)	3,381	1.29
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	3,204	1.22

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation

[1] The shareholding ratios of major shareholders are calculated after excluding shares of treasury stock (6,569,780 shares).
[2] As of September 1, 2014, the Company conducted a consolidation of common shares at a rate of one share for every two shares.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange and Nagoya Stock Exchange First Section
Fiscal Year-End	February
Type of Business	Retail Trade
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than ¥1 trillion

Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

Views on Independence of Listed Subsidiary

The Company has a listed subsidiary, PARCO Co., Ltd. (listed on the first section of the Tokyo Stock Exchange; Code No. 8251) and has concluded a capital and business alliance agreement with the subsidiary.

The purpose of the capital and business alliance agreement is to mutually increase the corporate value of both companies by effectively utilizing stores and customer bases of the Company and PARCO Co., Ltd., which are both engaged in high-quality, high-value-added retail business activities.

In the capital and business alliance, the Company understands that the source from which corporate value of PARCO Co., Ltd. is created is inseparable from the autonomy of that company's management, and from the autonomy and creativity of its officers and employees, who underpin that management, and the Company respects the autonomy of that company's management, accordingly.

It has been confirmed under the capital and business alliance agreement that PARCO Co., Ltd.'s organizational structure shall be a company with three committees (nomination, audit and remuneration committees) with the aim of establishing a highly transparent corporate governance system within the entity and that a majority of the its directors shall be independent outside directors in order to secure management objectivity.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	1 year

Chairperson of the Board	President
Number of Directors	9
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
TACHIBANA FUKUSHIMA Sakie	From another company											
OTA Yoshikatsu	From another company											

* Categories for "Relationship with the Company"
* "○" when the director presently falls or has recently fallen under the category;
"-" when the director fell under the category in the past
* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2) Update

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
TACHIBANA FUKUSHIMA Sakie	○	President and Representative Director of G&S Global Advisors Inc.; Outside Director of	TACHIBANA FUKUSHIMA Sakie has in-depth understanding regarding globally-minded human resources and abundant knowledge and experience as

		Bridgestone Corporation; Outside Director of Ajinomoto Co., Inc.; Outside Director of USHIO INC.	an international corporate manager. Based on that, she has contributed to ensuring more effective meetings of the Board of Directors since being appointed as Outside Director of the Company in 2012, by adequately providing advice and oversight with respect to the direction of overall management and other such matters, from the independent and objective viewpoint of a member of a management team that engages in business execution. In light of her track record, the Company has judged that in acting as an Outside Director she is likely to contribute greatly to management of the Company from the perspective of enhancing corporate governance.
OTA Yoshikatsu	○	Special Advisor of KONICA MINOLTA, INC.	OTA Yoshikatsu has extensive experience and abundant insight acting as a manager of a company that, like this Company, is a holding company. In that capacity, he promoted the corporate merger between Minolta Co., Ltd. and Konica Corporation, and has served as a chairman of the board of directors of a company with committees (currently a company with three committees {nomination, audit and remuneration committees}). Accordingly, since being appointed as Outside Director of the Company in May 2015, he has contributed to ensuring more effective meetings of the Board of Directors by adequately providing advice and oversight with respect to promoting Group management and other such

			matters, from the independent and objective viewpoint of a member of a management team that engages in business execution. In light of his track record, the Company has judged that in acting as an Outside Director he is likely to contribute greatly to management of the Company from the perspective of enhancing corporate governance.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Human Resources and Remuneration Committee	Human Resources and Remuneration Committee
All Committee Members	4 members	4 members
Full-time Members	0	0
Internal Directors	1	1
Outside Directors	2	2
Outside Experts	1	1
Other	0	0
Chairperson	Outside Director	Outside Director

Supplementary Explanation

(Note) One (1) "Outside Expert" above in each column is an Outside Audit & Supervisory Board Member.

(1) Procedures for Nominating and Appointing Directors, Audit & Supervisory Board Members and Executive Officers, and Disclosure in That Regard

Matters involving human resources with respect to Directors, Audit & Supervisory Board Members and Executive Officers of the Company and its major business subsidiaries are carried out on the basis of the aforementioned policy for nominations and appointments, and such decisions are made in accordance with results of managerial talent evaluations performed by a third-party organization. To ensure transparency and objectivity in the decision-making process, a majority of the Human Resources and Remuneration Committee members are Outside Directors and Outside Audit & Supervisory Board Members, and the committee is chaired by an Outside Director. The committee is tasked with deliberating on such matters and making

decisions in that regard, and then reporting such details to the Board of Directors upon gaining consent of the Audit & Supervisory Board with respect to Audit & Supervisory Board Member candidates.

(2) Procedures for Determining Remuneration for Directors, Audit & Supervisory Board Members and Executive Officers

The total monthly remuneration amount for the Company's Directors and Audit & Supervisory Board Members is limited to that set upon passage of a resolution of a Shareholders Meeting, and the total amount of bonuses to officers for the fiscal year is that set upon passage of a resolution of an Annual Shareholders Meeting held every fiscal year.

The specific amounts of remuneration paid to respective Directors and Executive Officers are set based on standards for officer remuneration that are determined beforehand, and are determined on the basis of respective performance evaluations conducted each fiscal year. Such amounts are deliberated on and decided by the Human Resources and Remuneration Committee, a majority of which are Outside Directors and Outside Audit & Supervisory Board Members and which is chaired by an Outside Director. The committee then reports such details to the Board of Directors.

The amount of remuneration paid to respective Audit & Supervisory Board Members is also deliberated on by the Human Resources and Remuneration Committee, and such details are then reported to all Audit & Supervisory Board Members.

[Audit & Supervisory Board]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Members	5

Cooperation among ,Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Departments

The Audit & Supervisory Board comprises a total of five Audit & Supervisory Board Members including three Outside Audit & Supervisory Board Members. It determines its audit policy and approach as well as discusses and resolves important audit-related matters reported.

In order to support the soundness of management functions, an Audit & Supervisory Board meeting is held every month and Audit & Supervisory Board Members audit business executions by Directors while having a system that enables their opinions concerning important matters to be reflected to the Board of Directors.

In accordance with the auditing standards established by the Audit & Supervisory Board, audit policies for the period under review, and the division of duties and others, each of Audit & Supervisory Board Members works to communicate with Directors, the internal audit departments and other employees in collecting information and improving the audit environment. In addition, each of Audit & Supervisory Board Members

attends the Board of Directors' meeting and other important meetings, receives reports from Directors, Executive Officers, employees and others on their performance of duties, seeks explanations as necessary, reviews important decision-making documents, investigates the business and asset conditions, and monitors and verifies the condition of internal control systems. The Audit & Supervisory Board Members also work to communicate and exchange information with the Directors and the Audit & Supervisory Board Members of subsidiaries, receive reports on business activities from subsidiaries as necessary, and visit the subsidiaries to investigate business and asset conditions.

In addition, the Audit & Supervisory Board Members receive audit plans and quarterly financial review results and other reports from the Accounting Auditor, make efforts to reinforce collaboration by exchanging opinions as necessary and seek explanations to confirm the system to ensure that the duties of the Accounting Auditor are carried out appropriately.

Furthermore, Audit & Supervisory Board Members promote coordination with the Internal Audit Division through receiving internal audit plans and audit reports from the Internal Audit Division as well as by holding a regular meeting on a monthly basis as a general rule, exchanging information on the condition of internal controls over financial reporting and business executions of each group company and taking other steps.

In regard to the relationship with the Internal Control Division, the Audit & Supervisory Board Members monitor and verify the condition of establishment and operation of the internal control systems and provide advice and guidance to the Internal Control Division as necessary. The Internal Audit Division evaluates the effectiveness of internal control systems and reports the evaluation results to the Internal Control Division.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	3
Number of Independent Audit & Supervisory Board Members	3

Outside Audit & Supervisory Board Members' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
TSURUTA Rokurou	Lawyer													
ISHII Yasuo	From another company													
NISHIKAWA Koichiro	From another company													

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"-" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. Audit & Supervisory Board Members of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board Member
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)
k. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Members are mutually appointed (the Audit & Supervisory Board Member himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)
m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2)

Name	Designation as Independent Audit & Supervisory Board Members	Supplementary Explanation of the Relationship	Reasons of Appointment
TSURUTA Rokurou	○	Attorney at law; Outside Director of TPR Co., Ltd.; Outside Audit & Supervisory Board Member of Sumitomo Mitsui Financial Group, Inc. Outside Director, KYB Corporation	TSURUTA Rokurou possesses in-depth understanding as a person from legal circles. Taking the viewpoint of strengthening corporate governance as well as the viewpoint of strengthening the compliance and risk management system, the Company has judged he can contribute greatly to the management of the Company as an Outside Audit & Supervisory Board Member through conducting objective and fair audits and offering advice to the Board of Directors especially from a legal standpoint. In addition, he does not fall under any of the categories provided in the guidelines on independent officers set out by the Tokyo Stock Exchange and is in a highly independent position.

ISHII Yasuo	○	Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co., Ltd.	ISHII Yasuo possesses abundant experience and insight as a manager of a corporation such as long-standing work experience in Europe and special familiarity with business development in overseas countries. In addition, he does not fall under any of the categories provided in the guidelines on independent officers set out by the Tokyo Stock Exchange and is in an objective position independent from the management team that executes business operations. Accordingly, taking the viewpoint of strengthening corporate governance, the Company has judged he can contribute greatly to the management of the Company as an Outside Audit & Supervisory Board Member.
NISHIKAWA Koichiro	○	Outside Director of Kyowa Hakko Kirin Co., Ltd.; Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co., Ltd.	NISHIKAWA Koichiro possesses appropriate insight, primarily based on his involvement business partnerships, M&As, management reform and other such activities, and also with respect to the financial realm developed through his involvement in many key international negotiations. In addition, he does not fall under any of the categories provided in the guidelines on independent officers set out by the Tokyo Stock Exchange and is in an objective position independent from the management team that executes business operations. Accordingly, taking the viewpoint of strengthening corporate governance, the Company has judged he can contribute greatly to the management of the Company as an

			Outside Audit & Supervisory Board Member.

[Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members	5

Matters relating to Independent Directors/Audit & Supervisory Board Members

The Company designates all Outside Directors and Outside Audit & Supervisory Board Members who fulfill the qualifications of an Independent Director as Independent Directors.

[Incentives]

Incentive Policies for Directors	None

Supplementary Explanation

In conjunction with that, with the aim of ensuring that the Group achieves sustainable growth and increases corporate value over the medium to long term, the Company aims to introduce remuneration for Internal Directors linked to their medium- to long-term performance (stock-based remuneration, etc.) beginning in FY2017, and will forge ahead in reviewing such options.

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure

Supplementary Explanation

Individual Directors' remuneration is not disclosed since there is no person for whom the total amount of consolidated remuneration, etc. is 100 million yen or more.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Policy on Determining Remuneration for Directors, Audit & Supervisory Board Members and Executive Officers

Currently, remuneration of the Company's Directors, Audit & Supervisory Board Members and Executive Officers is monetary-based and consists of monthly compensation and executive bonuses which is tied to results and success in accordance with each year's business performance.

The policy on determining remuneration for Directors, Audit & Supervisory Board Members and Executive Officers has been revised as follows beginning from the payment of June 2016, as resolved by a meeting of

the Board of Directors, and on the basis of details reported by the Human Resources and Remuneration Committee in April 2016.

Remuneration of Internal Directors

・ The Company has increased the proportion of bonuses for Directors and Audit & Supervisory Board Members (performance-based remuneration) in terms of total remuneration, with monthly compensation at 60% and bonuses for Directors and Audit & Supervisory Board Members at 40% (standard ranking), in order to provide incentives both for accomplishing objectives set under management strategies and business plans, and for achieving targets with respect to corporate performance.

Remuneration of Outside Directors and Audit & Supervisory Board Members (both internal and outside)

・ The Company will discontinue bonuses for Directors and Audit & Supervisory Board Members and provide monthly compensation only.

In conjunction with that, with the aim of ensuring that the Group achieves sustainable growth and increases corporate value over the medium to long term, the Company aims to introduce remuneration for Internal Directors linked to their medium- to long-term performance (stock-based remuneration, etc.) beginning in FY2017, and will forge ahead in reviewing such options.

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

Board of Directors and Audit & Supervisory Board Support Structure

To ensure effectiveness of the Board of Directors and the Audit & Supervisory Board, the Company has established the Board of Directors Secretariat (a position in charge of Corporate Governance Promotion) and the Audit & Supervisory Board Secretariat, and develops a support structure which handles the following:

(i) Making decisions on plans of holding meetings of the Board of Directors, Audit & Supervisory Board, advisory committees and other such bodies;

(ii) Making decisions on agenda items of the respective meeting structures and plans for annual deliberations;

(iii) Arranging to provide briefings beforehand to the Outside Directors and Outside Audit & Supervisory Board Members, and coordinating other information;

(iv) Providing in-house feedback with respect to questions, opinions and other communications from the Outside Directors and Outside Audit & Supervisory Board Members provided during prior briefings and other forums;

(v) Making adjustments to materials for deliberations; and

(vi) Preparing meeting minutes.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

[1] Overview of Corporate Governance System

The Company is a pure holding company and, with the exception of authority for important matters relating to business of the JFR Group, it accordingly delegates authority to its respective business subsidiaries with respect to matters involving business execution by the business subsidiaries, in order to speed up business decisions and to make managerial responsibilities clear.

The roles and responsibilities of the Company, as a pure holding company, are as described below. Accordingly, the Company:

(i) Establishes corporate governance practices for the entire JFR Group;

(ii) Plans and formulates the Group Vision, Group management strategies and Group business plans, and tracks the progress and results thereof;

(iii) Optimally allocates the JFR Group's management resources;

(iv) Ensures Group-wide compliance and is involved in internal controls, risk management and internal audits; and

(v) Makes decisions on important matters of business execution relating to management of the JFR Group.

The Company has four supervisory units (Management Strategy Unit, Affiliated Business Unit, Financial Strategy Unit and Administration Unit) as management bodies of the Company to clarify each unit's roles, responsibilities and authorities, thereby reinforcing the supervisory function and improving the internal control systems of the entire JFR Group. In addition, an executive officer system is in place to facilitate expeditious decision-making and implementation of matters of business execution.

[2] Board of Directors

Directors and Audit & Supervisory Board Members, who are appointed by the shareholders and are entrusted with management of the Company, are to carry out the roles and responsibilities in the Board of Directors as listed below. They are to do so in accordance with of their fiduciary responsibility and accountability to shareholders, and with the aim of realizing the ideals of the Group Philosophy. Accordingly, these roles and responsibilities include:

(i) Indicating the overall direction that Group management is to take, by engaging in constructive discussions with respect to the vision, management strategies, business plans and other fundamental management policies, and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;

(ii) Making swift and resolute decisions regarding important matters of business execution involving Group management on the basis of the direction noted above, while ensuring that the decision-making process is transparent, fair and rational;

(iii) Tracking progress of management strategies and business plans, and also determining matters of staffing and remuneration involving the management team on the basis of assessing the aforementioned;

(iv) Taking steps to build and develop internal control systems of the JFR Group overall, and otherwise

overseeing the operational status of such systems;

(v) Overseeing conflicts of interest between related parties; and

(vi) Drawing up plans regarding successors (next senior management team) and overseeing progress made in that regard.

The Board of Directors of the Company is to be composed of an appropriate number of Directors (currently nine (9) Directors (including two (2) Outside Directors, one (1) of whom is a female Director), but no more than 12, as stipulated in the Articles of Incorporation (one-year terms of office). The membership is to include Representative Directors, managing officers of the Company as a holding company, and managers of the major business subsidiaries. The membership is also to include multiple Outside Directors who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's shareholders, in order to improve the oversight function of the Board of Directors and ensure its effectiveness.

We take steps to ensure diversity when nominating candidates for positions of Director and Audit & Supervisory Board Member, upon giving consideration to bringing about a balance of knowledge, experience and abilities within the Board of Directors as a whole.

[3] Audit & Supervisory Board

The Company's Audit & Supervisory Board is to consist of an appropriate number of Audit & Supervisory Board Members (currently five (5) members (including three (3) Outside Audit & Supervisory Board Members), but no more than five, as stipulated in the Articles of Incorporation (four-year terms of office). The membership is to include full-time Audit & Supervisory Board Members appointed pursuant to provisions of the Companies Act of Japan, while a majority of the members must be Outside Audit & Supervisory Board Members who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's shareholders. In addition, at least one of the Audit & Supervisory Board Members must have appropriate knowledge of finance and accounting.

The Audit & Supervisory Board Members shall cooperate with the Board of Directors and play a part in the oversight functions of the Company and the JFR Group to help the JFR Group achieve sustainable growth while increasing corporate value over the medium to long term through not only auditing the execution of duties by the Directors, but also investigating the status of business and assets, and expressing opinions such as advice and recommendations to the Board of Directors.

[4] Accounting Auditor

The Company has concluded an audit agreement with Ernst & Young ShinNihon LLC. The Accounting Auditor performs accounting audits in accordance with respective legal provisions. The Accounting Auditor adopts measures to prevent engagement partners from being involved in the accounting audits of the Company for longer than certain periods.

To provide support for enabling effective audits performed by the Accounting Auditor, the Company

develops structures for:

(i) Ensuring that content of audit plans proposed by the Accounting Auditor is respected and allowing sufficient time to perform the audit, in order to enable high-quality audits;

(ii) Arranging discussions between the Accounting Auditor and Representative Directors, relevant Directors and relevant Executive Officers on a regular basis (about two times per year);

(iii) Arranging meetings between the Accounting Auditor and Audit & Supervisory Board Members and internal audit departments for the purpose of sharing information and exchanging views on a regular basis (about six times per year); and

(vi) Enabling the Audit & Supervisory Board to perform necessary investigations upon receiving a report from the Accounting Auditor detailing instances of material improprieties and illegal acts related to the Directors' execution of their duties; and enabling the Audit & Supervisory Board to take necessary measures in that regard, that include reporting, furnishing advice and providing recommendations to the Board of Directors.

[5] Optional Advisory Committees (Human Resources and Remuneration Committee, Governance Committee)

The Company supplements the functions of the Board of Directors under the Audit & Supervisory Board organizational structure. In particular, the company has established the advisory committees listed below, in order to ensure effectiveness of the oversight function.

(i) Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee is tasked with deliberating on matters and making decisions with respect to human resources and remuneration involving Directors, Audit & Supervisory Board Members, and Executive Officers of the Company and its major business subsidiaries, and reporting such details to the Board of Directors. To ensure transparency and objectivity in the decision making process, a majority of the Human Resources and Remuneration Committee members are Outside Directors and Outside Audit & Supervisory Board Members, and the committee is chaired by an Outside Director.

(ii) Governance Committee

We have established the Governance Committee whose membership consists of all of the Company's Representative Directors, Outside Directors and Outside Audit & Supervisory Board Members. The committee engages in free, open and constructive discussion and exchanges of views regarding issues of corporate governance and business management overall (this includes views with respect to the Company's organizational structure and reforming the Board of Directors on the basis of evaluations thereof). Moreover, the committee endeavors to facilitate information sharing and collaboration among the Outside Directors and Outside Audit & Supervisory Board Members.

[6] Limited Liability Agreement

The Company concludes a limited liability agreement with each Outside Director and Audit & Supervisory Board Member pursuant to the provisions of Paragraph 1, Article 427 of the Companies Act so that Outside

Directors and Audit & Supervisory Board Members can adequately fulfill their expected roles. The limited liability agreement stipulates that the maximum amount of liability for damages due to negligence of duties by an Outside Director or Audit & Supervisory Board Member shall be the higher of twelve million (12,000,000) yen or the amount fixed by laws and regulations; however the limitation of liability is applicable only when the duties that caused the liability were executed by the Outside Director or Audit & Supervisory Board Member in good faith and without gross negligence.

[7] Compliance and Risk Management Committee, JFR Group Compliance Hotline

The Company has established the Compliance and Risk Management Committee, whose membership includes corporate lawyers, for the purpose of addressing issues of JFR Group compliance management practices and appropriately managing risk involved in business operations and evaluating practices. The Compliance and Risk Management Committee draws up policy for addressing matters involving serious compliance-related violations and risk management. In addition, the committee also works to develop the foundations of compliance and risk management (such as establishing internal company rules, operation management manuals and management systems) for departments in charge of promoting compliance and risk management, and also provides guidance and education geared toward ensuring that respective departments comply with laws and regulations, corporate ethics and other such standards. The committee also reports details of its deliberations to the Board of Directors regularly (about two times per year) and in a timely manner.

The Company has established a whistleblowing system that enables all JFR Group officers and employees as well as all individuals working at the JFR Group (including part-timers and employees seconded from business partners) to notify the Compliance and Risk Management Committee directly with respect to compliance-related issues, and to seek corrective action. The company has set up points of contact for whistleblowers both internally and outside the Company (corporate lawyers). The JFR Group's internal company rules rigorously provide for the whistleblowing system in terms of protecting the confidentiality of whistleblowers and prohibiting disadvantageous treatment thereof.

3. Reasons for Adoption of Current Corporate Governance System

The Company has recently adopted the company with an Audit & Supervisory Board organizational structure. Rationale used in adopting this structure is as described below.

(i) Under the structure, responsible persons who execute business of respective JFR Group businesses ensure that tasks are executed in a cohesive and ongoing manner by taking part in meetings of the Board of Directors where those involved deliberate and make decisions on important matters relating to business of the Group.

(ii) The structure provides a rational means of carrying out audits for the purpose of ensuring legal compliance of Group management. Accordingly, Audit & Supervisory Board Members whose independence and autonomy are legally ensured perform highly objective audits, and full-time Audit &

Supervisory Board Members perform extremely precise audits drawing on sophisticated capabilities to gather information.

Moreover, under the company with an Audit & Supervisory Board structure, multiple independent Outside Directors are appointed to supplement functions of the Board of Directors, particularly with the aim of ensuring the effectiveness of the oversight function. Meanwhile, we take initiatives to enhance functions of the Board of Directors by establishing the Human Resources and Remuneration Committee and the Governance Committee to act as advisory committees of the Board of Directors.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	We ensure that there is adequate time for our shareholders to consider matters with respect to which they will exercise their voting rights. To that end, we send convocation notices as early as possible (with the aim of doing so at least three weeks prior to the date on which a Shareholders Meeting is to be held) and at the same time we submit such content to financial instruments exchanges and post it to the Company's website as early as practicably possible before sending out convocation notices. The Notice of Convocation of the 9th Annual Shareholders Meeting was provided to financial instruments exchanges and made available on the Company's website before delivery of the printed version and four weeks prior to the date of the Shareholders Meeting.
Scheduling AGMs Avoiding the Peak Day	We give consideration to ensuring time for audits in the course of setting dates on which Shareholders Meetings are to be held and schedules otherwise in relation to Shareholders Meetings.
Allowing Electronic Exercise of Voting Rights	Shareholders may exercise their voting rights by accessing the Internet voting website (http://www.evote.jp/) operated by Mitsubishi UFJ Trust and Banking Corporation via a PC, smartphone or cell phone.
Participation in Electronic Voting Platform	We give consideration to ensuring that our shareholders are able to conveniently exercise their voting rights, including domestic and overseas institutional investors. To that end, we have adopted online and other means of exercising voting rights and otherwise use an electronic platform for exercising voting rights.
Providing Convocation Notice in English	We also prepare English translations of our convocation notices and make them available so that our overseas investors are able to properly exercise their voting rights.
Other	We publish the Notice of Convocation of the Annual Shareholders

	Meeting, Reference Materials for Shareholders Meeting and attachments to the Notice of Convocation on the Company's website (http://www.j-front-retailing.com/english/ir/stock/meeting.php).

2. IR Activities Update

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	IR Policy Under the Group Philosophy that "we aim at developing the Group by making a broad contribution to society as a fair and trusted business entity," the Company promotes IR activities for the purpose of maintaining and developing relations of trust with stakeholders including shareholders and investors. By accurately and plainly disclosing important information about the Company in a fair, timely and appropriate manner, we aim to improve management transparency and help stakeholders better understand the Company. Information Disclosure Standards The Company discloses important information of the JFR Group in a timely and appropriate manner, in accordance with Japan's Financial Instruments and Exchange Act and other such laws and regulations, as well as in accordance with rules for timely disclosure stipulated by financial instruments exchanges on which the Company's shares are listed. Even in cases where such laws, regulations and the timely disclosure rules do not apply, the Company recognizes information deemed useful to shareholders, investors and other stakeholders as important with respect to its corporate activities as called for by society. As such, the Company proactively discloses such information in an impartial and swift manner using appropriate means, and with the added aim of facilitating more extensive understanding regarding the JFR Group. Information Disclosure Method The Company discloses important company information to which the timely disclosure rules apply through the TDnet (Timely Disclosure Network) system provided by the Tokyo Stock Exchange, while posting the same information on the Company's website, etc. as quickly as possible. With respect to any information that is deemed to help stakeholders better

	understand the Company, even where the timely disclosure rules do not apply to it, the Company works to publicize such information on its website as well as by using SNS and publishing annual reports. The Company releases information in a timely and appropriate manner by making use of the TDnet and EDINET platforms, the Company's website and other means in line with the attributes of the information being disclosed. Moreover, to ensure that we disclose information in an impartial manner, we prepare and release English translations of our convocation notices for Shareholders Meetings, annual reports, timely disclosure information, financial information and the Company website. Improvement of Communication The Company's efforts to improve communication include timely disclosure and information transmission on its website in combination with various briefings and meetings and responses to inquiries from shareholders and investors on a daily basis. The comments and requests received from shareholders and investors are widely shared among the Company and related companies of the Group, and we refer to them in company management to increase corporate value. Quiet Period In order to prevent the leakage of financial information and ensure fairness, the Company refrains from answering any questions concerning financial results during the quiet period from the day following the closing date of each quarter until the release of financial results. However, the Company will disclose information in a timely and appropriate manner if a significant amendment to business performance is necessary, even during the quiet period. Forward-looking Statements Forward-looking statements including future plans, prospects and strategies as disclosed by the Company are prepared based on certain assumptions the Company deems reasonable at the time of disclosure and include certain risks and uncertainties. Therefore, actual results may differ from forecasts and prospects due to future changes in economic and business environment surrounding the Company.
Regular Investor Briefings for Individual Investors	Regular investor briefings for individual investors were held in July (Fukuoka, Osaka and Tokyo), November (Sapporo) and February (Nagoya,

	Tokyo and Osaka) in FY2015. The briefings were held in June (Tokyo), July (Sapporo) and August (Kobe) in the first half of FY2016, and are planned to be held in November (Nagoya and Osaka), January (Tokyo) and February (Osaka) in the second half.
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds briefings for analysts twice a year after the release of financial results (interim, year-end).
Regular Investor Briefings for Overseas Investors	In FY2015, the Company held individual meetings with overseas investors in June (Europe) and November (U.S.A.) and participated in conferences for overseas investors held in Japan in March, September and December. In FY2016, in addition to the achievements in the previous year above, the Company plans to join in a conference for Asian investors in Hong Kong in November.
Posting of IR Materials on Website	The above briefings may be viewed on video online. The Company also publishes its quarterly financial results and materials for investor briefings, monthly consolidated business reports, timely disclosure materials and other IR information on its website (http://www.j-front-retailing.com/english/ir/).
Establishment of Department and/or Manager in Charge of IR	Manager of Corporate Governance Promotion, Management Strategy Unit The Company works to further improve communications with its stakeholders, and has accordingly established a position in charge of Corporate Governance Promotion as a department that integrates the three functions of investor relations (IR), shareholder relations (SR) and public relations (PR).
Other	Promoting Constructive Dialogue If a shareholder or investor makes a request to engage in constructive dialogue with the Company, either the President or another Director (including Outside Directors), or the manager in the position in charge of Corporate Governance Promotion will properly respond, upon taking into consideration the intent and aims of the request.

3. Measures to Ensure Due Respect for Stakeholders Update

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The JFR Group Philosophy defines the basic stance toward all stakeholders, which consists of “basic philosophy,” “business operation policy,” “commitments to stakeholders” and “our principles of action.” All officers and employees of all companies of the Group deeply understand

	this philosophy and act positively toward the further development of the Group. Basic Philosophy We aim at providing high quality products and services that meet the changing times and satisfying customers beyond their expectations. We aim at developing the Group by making a broad contribution to society as a fair and trusted business entity. This basic philosophy represents the elements of the "customer-first principle" and the "contribution to society" that are common to the corporate philosophies and traditional spirit of Daimaru ("Service before profit" (Those who place service before profit will prosper)) and Matsuzakaya ("Abjure all evil; pursue all good" and "In doing good to others, we do good to ourselves"). Group Vision We will establish a status as a leading Japanese retail company both in terms of quality and quantity with the department store business as our core. Business Operation Policy Realizing high quality management that provides the highest customer satisfaction at the lowest cost Thoroughly pursuing high quality, freshness and hospitality This business operation policy was established as the standard by which the JFR Group and its companies operate businesses under the basic philosophy. Commitments to Stakeholders (Customers) We are committed to providing genuine satisfaction captivating customers by offering new value. (Shareholders) We are committed to increasing corporate value over the long term by practicing highly profitable and highly efficient management. (Business partners) We are committed to building the relations of trust by working hard together and aim to grow together. (Employees) We are committed to ensuring rewarding

	workplace environments where employees' performance and contributions are evaluated fairly and they can demonstrate their abilities, achieve growth, and have job satisfaction. (Communities) We are committed to contributing to the development of the communities as well as promoting environmentally friendly business activities as a good corporate citizen. The above are JFR Group's and its companies' commitments to their stakeholders. Our Principles of Action (Customer perspective) We always think and act from the customer's point of view. (Challenge to innovation) We try possibilities all the time and strive to produce greater results. (Speed and thorough implementation) We act speedily and carry things through to the end without giving up. (Communication) We share information and exchange opinions freely and vigorously to realize strong teamwork. (Respect for diverse individuality) We create a lively organizational climate in which each of us can maximize his/her abilities. (Ethics and fairness) We comply with laws and regulations in accordance with social conscience and rules. The above are the principles of action that every person working for the JFR Group and its companies should try to follow under the basic philosophy.
Implementation of Environmental Activities, CSR Activities etc.	JFR Group Environmental Policy Recognizing our roles and responsibilities to hand down the irreplaceable global environment to the next generation, we at the JFR Group proactively promote "environment-friendly corporate management" toward "the realization of a sustainable society" with customers, business partners and community members. [1] Recognizing environmental impacts and their causes, we will establish structures and systems to promote environmental conservation activities

	through the business activities of the companies of the Group and strive for continuous improvement to reduce environmental load. (1) Offering environment-friendly products, services and information (2) Effective use of resources and energy (3) Reduction of CO2 emissions (4) Waste reduction and recycling (5) Promotion of environmental conservation activities and social contribution activities with customers, business partners and community members [2] We will comply with the requirements of environmental laws, regulations and agreements and strive to prevent contamination. [3] We will raise awareness of environmental conservation through educational and awareness activities to strengthen the foundation on which each worker of the Group will tackle environmental tasks voluntarily. [4] We will make this environmental policy known to all workers of the companies of the Group and make the policy available to the public. The Group's environmental conservation activities and CSR activities are available in detail in the Company's website: (http://www.j-front-retailing.com/english/csr/index.php)
Development of Policies on Information Provision to Stakeholders	We believe that promoting constructive dialogue with our shareholders and investors helps the JFR Group achieve sustainable growth while increasing corporate value over the medium to long term. The Company is committed to timely and appropriate disclosure of information premised on constructive dialogue, and through such initiatives maintains and develops trusting relations with its stakeholders. The Company discloses important information of the JFR Group in a timely and appropriate manner, in accordance with Japan's Financial Instruments and Exchange Act and other such laws and regulations, as well as in accordance with rules for timely disclosure stipulated by financial instruments exchanges on which the Company's shares are listed. Even in cases where such laws, regulations and the timely disclosure rules do not apply, the Company recognizes information deemed useful to shareholders, investors and other stakeholders as important with respect to its corporate activities as called for by society. As such, the Company proactively

	discloses such information in an impartial and swift manner using appropriate means, and with the added aim of facilitating more extensive understanding regarding the JFR Group. Formulating and Disclosing the Vision, Management Strategies and Business Plans The Company draws up business model, medium- to long-term strategy story that the JFR Group pursues, as well as the Group Vision, Group management strategies and Group business plans which indicate management benchmarks and other objectives, with the aim of realizing the Group Philosophy. We release those documents in order to share such details with our shareholders, investors and other stakeholders. Methods of Information Disclosure The Company releases information in a timely and appropriate manner by making use of the TDnet and EDINET platforms, the Company's website and other means in line with attributes of the information being disclosed. Moreover, to ensure that we disclose information in an impartial manner, we prepare and release English translations of our convocation notices for Shareholders Meetings, annual reports, timely disclosure information, financial information, and the Company website.
Other	JFR Group Compliance and Risk Management Principles of Action With the purpose of realizing compliance management and promoting risk management as part of CSR management, we have developed the JFR Group Compliance and Risk Management Principles of Action that define perspectives to be followed by all officers and employees of the JFR Group (persons having employment relations with JFR Group companies (including contract employees, part-timers and other workers) and employees seconded from business partners) and we make these principles known throughout the Group. [1] Principle of Action on "always put customers first" We will always put the realization of customer satisfaction first and gain trust and support from customers through faithful actions in compliance with laws and regulations, the Company's regulations and other rules such as the fulfillment of promises with customers, the development and provision of socially useful and safe products and services and the ensuring

	of fair labeling. [2] Principle of Action on “promoting high quality management for sound growth and development” With the aim of becoming an open corporation that communicates with society at large, we will promote high quality management for sound growth and development by conducting fair, transparent and proper corporate activities, while maintaining fair relations with business partners whereby both grow together. [3] Principle of Action on “creating a fair and vibrant organization where individuality and ability are respected” With respect for each individual’s basic human rights, we will form a vibrant organization where workers can be motivated to use their abilities by creating a safe and secure work environment in compliance with labor-related laws and treating them based on a fair and equal evaluation. [4] Principle of Action on “contribution to society (good corporate citizen living in harmony with society)” As a good corporate citizen living in harmony with society, we will actively conduct creative business activities that contribute to society at large including contributions to communities and environmental initiatives to achieve sustainable growth. Approach to human resources diversity and inclusion The Company recognizes that workforce diversity is a source of competitive strength, and accordingly promotes initiatives for determining employee assignments and drawing on employee talent on the basis of their individual abilities, performance, aptitudes and motivation, regardless of gender. Reference: Female employees of Daimaru Matsuzakaya Department Stores in leadership positions (as of September 2016) Number of female general managers: 12 (11.3% of 106 general managers in total) Number of women in other leadership positions: 197 (32.6% of the 605 employees in other leadership positions in total) Total: 209 (29.4% of the combined total of 711 general managers and

	employees in other leadership positions) * The figures above include workers temporarily transferred to the Company and Daimaru Matsuzakaya Sales Associates. * Women in other leadership positions include those acting as managers, submanagers, buyers (including developers and editors), and team leaders (including supervisors and section leaders from Daimaru Matsuzakaya Sales Associates). * Daimaru Matsuzakaya Department Stores has three female executive officers.

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

I. System to ensure that execution of duties by Directors, etc., and employees of all Group companies complies with laws and regulations and the Articles of Incorporation

(Item 6, Paragraph 4, Article 362 of the Companies Act and Item 4 and Item 5 (d), Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(1) Corporate governance

(i) Final decision making on important matters relating to management and supervision of execution of duties by Directors shall be in compliance with the "Rules of the Board of Directors" and shall be carried out at meetings of the Board of Directors held at least once every month.

(ii) For decision making, monitoring action and the like by the Board of Directors, highly independent Outside Directors able to make judgments with independence from top management and to make appropriate decisions shall be appointed.

(iii) Audit & Supervisory Board Members shall carry out auditing of execution of duties by Directors and Executive Officers in compliance with the "Rules of the Audit & Supervisory Board" and the "Audit & Supervisory Board Members' Audit Standard."

(iv) The Company shall bring in Outside Audit & Supervisory Board Members with knowledge and experience to monitor the management of the Company from an objective standpoint and shall strengthen its auditing function.

(v) Other than the Board of Directors and the Audit & Supervisory Board, the Company shall operate the following meeting structures.

Group Management Meeting

(This meeting shall be composed of Internal Directors and attendance by Full-time Audit & Supervisory Board Members shall be required. It shall deliberate over and determine important policies and measures with respect to overall group management.)

Group Strategy Meeting

(This meeting shall be composed of Internal Directors. It shall carry out debates on important

issues with respect to group management and shape approaches to such issues.)

Group Results and Strategy Examination Meeting

(This meeting shall be composed of Internal Directors, etc. Its activities shall include carrying out debates on group results and related important issues and following them up.)

Group Liaison Meeting

(This meeting shall be composed of Internal Directors, etc. Its activities shall include sharing information on important matters among all Group companies.)

Affiliated Business Presidents Meeting, SS Business Presidents Meeting

(These meetings shall confirm progress of results, confirm issues and exchange information at all Group companies excluding department stores.)

(vi) The Company shall establish the Management Strategy Unit, the Affiliated Business Unit, Financial Strategy Unit and the Administration Unit and clarify the roles, responsibilities and authorities of organizations, and shall introduce an Executive Officer system and work to separate management decision making from the execution of business.

(2) Compliance and risk management

(i) The Company shall ensure that all officers and employees of all Group companies are thoroughly familiarized with the "JFR Group Mission Statement" and the "JFR Group Compliance and Risk Management Manual."

(ii) The Company shall establish the Compliance and Risk Management Committee. The President shall be the chairperson and the members of the committee shall be corporate lawyers and Directors, Audit & Supervisory Board Members and others selected by the chairperson.

(iii) An officer shall be put in charge of compliance and risk management in order to promote the operation of compliance and risk management.

(iv) At each Group company, departments and responsible persons shall be put in charge of promotion of compliance and risk management, and shall carry out daily supervision and direction of business operations that are in accordance with laws and regulations and internal company rules.

(v) The Compliance and Risk Management Committee shall work to develop the foundations of compliance and risk management such as internal company rules, operation management manuals and formulation of management systems. In addition, the committee shall strengthen systems that are in compliance with laws and regulations and internal company rules at all Group companies by periodically carrying out work rank-tailored compliance and risk management training through departments in charge of promotion of compliance and risk management at each company. Internal company rules, manuals and the like shall be made available for inspection and verification by all officers and employees at any time by posting them on the intranet.

(vi) The Compliance and Risk Management Committee shall periodically request reports from persons in charge of promotion of compliance and risk management at each Group company regarding the status of compliance and risk management in their respective areas of responsibility, and take proper rectification measures. In addition, the committee shall formulate guidelines and measures to prevent

recurrence to be followed and taken by the Group as a whole, and implement the said guidelines and measures.

(vii) The Company shall establish the "JFR Group Compliance Hotline" as the whistle-blowing system of the JFR Group that also extends beyond companies (to a corporate lawyer), which may be used by all persons working at all Group companies.

(viii) The Company shall establish the Internal Audit Division, which shall audit the operations of all Group companies or which shall properly report the results of audits of operations, examine the properness and effectiveness of the processes for these operations, and provide guidance and education to all departments at the Company and all Group companies. Important matters shall be properly reported to the Board of Directors and the Audit & Supervisory Board.

(3) System to secure appropriateness of financial reporting

The Company shall be in compliance with accounting standards and various associated laws and regulations, and shall construct an internal company system to secure the legality and appropriateness of its financial reporting. In addition, all Group companies shall also construct the same system.

II. Rules concerning management of risk of losses of all Group companies and other systems
(Item 2 and Item 5 (b), Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) For risks involved in business operations, the Compliance and Risk Management Committee shall carry out evaluations and management, and for important risks, the committee shall periodically report on the risk management status to the Board of Directors.

(ii) Of the risks involved in business operations that are identified, for particularly serious items, the Compliance and Risk Management Committee shall deliberate over and determine a policy in response, and shall prevent them from occurring by having each of the responsible departments of all Group companies execute the said policy.

(iii) For crisis events such as large-scale earthquakes, fires and accidents, crisis management shall be controlled by the "Emergency Response Headquarters" headed by the President.

III. System for storage and management of information regarding execution of duties by Directors
(Item 1, Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) For the below-mentioned documents relating to the execution of duties by Directors, in accordance with the rules on document management, each responsible department shall carry out document storage and management during the stipulated period and shall develop a system to enable inspections of such documents at any time.

1) Minutes of shareholders meetings and related documents
2) Minutes of Board of Directors meetings and related documents
3) Circular approval memos, applications, and reports
4) Documents relating to financial reporting

(ii) For minutes and related documents regarding meetings chaired by Directors and other important

documents relating to the execution of duties by Directors, each responsible department shall carry out document storage and management and shall develop a system to enable inspections of such documents at any time.

IV. System to ensure efficient execution of duties by Directors, etc. of all Group companies
(Item 3 and Item 5 (c), Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) The Company shall have the Management Strategy Unit, the Affiliated Business Unit, the Financial Strategy Unit and the Administration Unit as management bodies of the Company, and Directors shall be, in principle, appointed as the heads of the units. Under this structure, communication of decision-making matters at the Board of Directors to the Executive Officers shall be facilitated and business shall be executed expeditiously.

(ii) The President and the unit heads of the Company shall work to achieve management targets and medium- and long-term plans based on their respective roles, responsibilities and authorities by thoroughly making them known to all officers and employees of all Group companies, and giving execution instructions and carrying out monitoring of efficient execution of business. Regarding progress in achieving targets at each department based on the management targets and medium- and long-term plans, they shall also demand reports at the Group Results and Strategy Examination Meeting and the like, and manage such progress accordingly.

(iii) For deliberation and determination of company-wide important matters, the Group Management Meeting, the Group Strategy Meeting and others shall be used effectively to contribute to decision making by the Board of Directors.

(iv) The Company shall plan and formulate the Group's business strategies, optimally allocate the Group's management resources, and track the progress and results of the Group's strategies. Moreover, the Company shall provide to Group companies various types of services, such as necessary and appropriate guidance and management, etc. for management operations, based on the contracts with each Group company to increase the business value of the entire Group.

(v) The Company shall construct systems to raise overall efficiency of the Group such as the introduction of the Group's common accounting system in principle and promotion of centralized management of Group funds.

V. System for reporting to the Company on matters involving execution of duties by Directors, etc. of all Group companies
(Item 5 (a), Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) The President and the unit heads of the Company shall provide guidance to all Group companies for the development of a proper internal control system regarding operations deemed necessary.

(ii) The President and the unit heads of the Company shall require all Group companies to make reports on their businesses through bodies such as the Group Results and Strategy Examination Meeting, the Affiliated Business Presidents Meeting and the SS Business Presidents Meeting, and shall supervise the

proper execution of business.

(iii) The Internal Audit Division shall carry out internal audits of everyday operations at all Group companies or which shall properly report the results of audits of operations, examine the properness and effectiveness of the processes for these operations, and provide guidance and education to all departments at the Company and all Group companies. Important matters shall be properly reported to the Board of Directors and the Audit & Supervisory Board.

(iv) The Compliance and Risk Management Committee shall control the departments and persons in charge of promotion of compliance and risk management at each Group company and promote compliance and risk management operations at all Group companies through use of the meeting bodies.

(v) In cases where the Company's business management or the contents of its management guidance is in violation of laws and regulations or other problems in terms of compliance and risk management are recognized, Group companies shall report the matter to the Audit & Supervisory Board Members and the Compliance and Risk Management Committee of the Company. If this occurs, the Audit & Supervisory Board Members and the Compliance and Risk Management Committee of the Company may state an opinion to the Board of Directors and request the formulation of an improvement plan.

(vi) Group companies shall report to the Company with respect to matters involving business operational risk and situations involving any occurrence of a crisis event such as a large-scale earthquake, fire or accident.

VI. Matters regarding employees who assist Audit & Supervisory Board Members in their duties when Audit & Supervisory Board Members request assignment of such employees, and the independence of such employees from Directors, and ensuring that effective instructions are provided to such employees from Audit & Supervisory Board Members

(Items 1, 2 and 3, Paragraph 3, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) Dedicated staff assigned to Audit & Supervisory Board Members shall be in charge of assistance for Audit & Supervisory Board Members in their duties.

(ii) Appointments and transfers of staff assigned to Audit & Supervisory Board Members shall be carried out with the consent of Internal Audit & Supervisory Board Members.

(iii) Personnel evaluations of staff assigned to Audit & Supervisory Board Members shall be carried out with the consent of Internal Audit & Supervisory Board Members.

(iv) The authority to give directions and commands to staff assigned to Audit & Supervisory Board Members shall reside with the Audit & Supervisory Board Members.

VII. System for reporting by Directors, etc., and employees of all Group companies to Audit & Supervisory Board Members and other systems to ensure effective execution of audits by Audit & Supervisory Board Members

(Item 4 (a), (b) and Item 7, Paragraph 3, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) If there is an event or risk of event that is significantly damaging to all Group companies, if

unlawful or wrongful conduct by a Director, etc. or an employee of all Group companies is discovered, or if any other event stipulated by the Audit & Supervisory Board as a matter to be reported occurs, Directors, and employees of the Company shall report such fact to the Audit & Supervisory Board. Furthermore, notwithstanding the foregoing, an Audit & Supervisory Board Member may at any time request a report from a Director, etc. or an employee of all Group companies as necessary.

(ii) In order to enable Audit & Supervisory Board Members to grasp important decision-making processes and the status of execution of duties, Audit & Supervisory Board Members may attend important meetings and committees such as meetings of the Board of Directors and the Group Management Meeting. In addition, they may inspect important documents associated with the execution of duties, such as circular approval memos, and request explanations of the said documents from officers and employees of all Group companies where necessary.

(iii) Audit & Supervisory Board Members of subsidiaries and the Internal Audit Division and the Internal Audit Departments of all Group companies shall carry out necessary audits, submissions of audit reports and other duties if requested or demanded to do so by an Audit & Supervisory Board Member.

(iv) The Audit & Supervisory Board shall be in compliance with the "Rules of the Audit & Supervisory Board" and shall have periodic meetings and the like with the Representative Directors in order to develop the environment for auditing by Audit & Supervisory Board Members, strengthen the relationship between them and the Representative Directors, and provide feedback to management based on their auditing.

(iv) The Audit & Supervisory Board shall be in compliance with the "Rules of the Audit & Supervisory Board" and shall have periodic meetings and the like with the Representative Directors in order to develop the environment for auditing by Audit & Supervisory Board Members, strengthen the relationship between them and the Representative Directors, and provide feedback to management based on their auditing.

(v) The head of the secretariat of the Compliance and Risk Management Committee shall swiftly report to the Compliance and Risk Management Committee and the Audit & Supervisory Board Members on the details of matters (excluding immaterial matters) reported to the "JFR Group Compliance Hotline."

(vi) Audit & Supervisory Board Members of subsidiaries and the Internal Audit Division and Internal Audit Departments of all Group companies shall swiftly report to the Audit & Supervisory Board Members of the Company on the results of internal audits and when unlawful or wrongful conducts are discovered.

(vii) The department managing the Group companies, such as the Affiliated Business Unit shall swiftly report to the Audit & Supervisory Board Members of the Company on unlawful or wrongful conduct from each of the Group companies.

(viii) Audit & Supervisory Board Members of the Company shall have periodic meetings and the like with the Audit & Supervisory Board Members of subsidiaries to enhance and strengthen the auditing of the entire Group.

VIII. System to ensure that persons who report the matters of VII above do not receive disadvantageous treatment for making such reporting

(Item 5, Paragraph 3, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) No Group company shall subject a person who made a report to disadvantageous treatment for the reason that the person made the report.

(ii) If it is reported that a person who made a report is receiving disadvantageous treatment, then the head of the secretariat of the Compliance and Risk Management Committee shall instruct the relevant Group company to carry out investigation of the facts.

IX. Matters related to policy on the processing of costs, etc. incurred by Audit & Supervisory Board Members as part of their execution of duties

(Item 6, Paragraph 3, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) Budgets shall be provided for in the annual budget plan for miscellaneous costs relating to audits.

(ii) When an invoice is received for miscellaneous costs relating to audits, the payment procedures shall, in principle, be carried out swiftly based on the aforementioned invoice.

(iii) Even when there are miscellaneous costs expended by the Audit & Supervisory Board Member in extraordinary cases or in times of emergency not included in the budget, the payment procedures shall, in principle, be carried out swiftly based on the aforementioned invoice.

2. Basic Views on Eliminating Anti-Social Forces

The Company aims to develop the Group by making a broad contribution to society as a fair and trusted business entity as defined in its Basic Philosophy of the JFR Group Philosophy and commits to ensuring CSR-oriented management. Further, in regard to severance of relations with antisocial forces, the Company, in the JFR Group Compliance and Risk Management Principles of Action, defines as follows.

Severance of relations with antisocial forces

[1] Elimination of Unfair intervention

The Company will take a resolute attitude against contact and claims made by antisocial forces and groups that pose a threat to the order and safety of civil society and will not resolve the situation by offering money, etc.

[2] Prohibition of Transactions with Antisocial Forces, etc.

The Company will not enter into any transaction whatsoever with antisocial forces or any party or organization that has relations with antisocial forces.

Based on the above principles, the Company and its Group companies will firmly stand against antisocial forces that pose a threat to order and safety of society.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

Basic policy regarding control of the Company

I. Contents of basic policy

The Company believes it is necessary for the party controlling the Company's financial and business policy decisions to be a party who sufficiently understands the financial and business details of the Group and the sources of the Group's corporate value, continuously and sustainably ensures that the corporate value of the Group and, by extension, the common interests of shareholders are served, and enables further improvement in this area.

As the Company is a listed enterprise, the Company's policy regarding its shareholders is that, in general, they are determined through free market transactions on the financial instruments market. Furthermore, even in the case of a purchase of shares of the Company above a certain scale by specific shareholders or specific groups (hereinafter "Large-Scale Purchase"), if this Large-Scale Purchase will contribute to the corporate value of the Group and, by extension, the common interests of its shareholders, the Company believes that this should not be rejected outright and that, ultimately, the decision on whether to accept or reject it should be left to the discretion of the Company's shareholders.

Nevertheless, a Large-Scale Purchase that involves a serious risk of causing damage to the corporate value of the Group may be envisaged. This may include a Large-Scale Purchase that, in view of its purpose and other factors, would demonstrably harm the Group's corporate value; one with the potential to involve substantial coercion of shareholders to sell shares of the Company; or one that would not provide sufficient time and information for the Company's Board of Directors and shareholders to consider factors such as the details of the large-scale purchaser's proposal, or for the Company's Board of Directors to make an alternative proposal.

A party attempting this kind of Large-Scale Purchase, which would not contribute to the corporate value of the Group and, by extension, the common interests of its shareholders (hereinafter, the "Large-Scale Purchaser"), would not be appropriate as a party controlling the Company's financial and business policy decisions. Accordingly, the Company believes that it is the duty of the Company's Board of Directors, which is entrusted by the shareholders to manage the Company, to respond to this kind of Large-Scale Purchase by ensuring that processes such as provision of information by the Large-Scale Purchaser and considerations and evaluations by the Company's Board of Directors are carried out, and securing sufficient time for the

Company's Board of Directors and shareholders to consider the details of the Large-Scale Purchaser's proposal in order to prevent damage to the corporate value of the Group and, by extension, the common interests of its shareholders.

II. Frameworks contributing to realization of basic policy

Since the foundation of Daimaru and Matsuzakaya, the Group has been engaged in businesses of kimono fabric stores and department stores for many years based on the corporate philosophies and traditional spirits of these businesses, which are: "Service before profit (those who place service before profit will prosper)," "Abjure all evil; pursue all good" and "In doing good to others, we do good to ourselves."

The Company believes that the sources of the Group's corporate value are the relationships of trust it has established with customers and with society, which have been refined on the basis of these philosophies and spirits.

Accordingly, in order to exemplify the principles of "customer-first principle" and "contribution to society," which are in common with these philosophies and spirits, the Company has established the following basic philosophies of the Group: "to aim at providing high quality products and services that meet the changing times and satisfying customers beyond their expectations" and "to aim at developing the Group by making a broad contribution to society as a fair and trusted business entity." Based on these basic philosophies, the Company implements a wide range of measures with the aim of realizing the Group's vision, which is to secure a position as a leading Japanese retail company both in terms of quality and quantity, with the Department Store Business at its core, in order to make a contribution to securing and enhancing the corporate value of the Group and, by extension, the common interests of shareholders.

III. Framework to prevent parties deemed inappropriate in light of basic policy from controlling the financial and business policy decisions of the Company

At present, the Company has not specifically stipulated a concrete framework for a case in which a Large-Scale Purchaser appears, commonly known as takeover defense measures.

Nevertheless, the Company believes that, in order to prevent damage to the Group's corporate value if a Large-Scale Purchaser appears, it is necessary to carefully examine the impact a Large-Scale Purchase would have on the Group's corporate value after ascertaining certain information about the Large-Scale Purchaser. Such information would include the nature of the Large-Scale Purchaser, the purpose of the Large-Scale Purchase, the Large-Scale Purchaser's proposed financial and business policies and their policy for handling shareholders, the Group's customers, business partners, employees, the communities that surround the Group and other stakeholders.

Accordingly, if this occurs, the Company will establish an independent committee composed of Outside Directors, Outside Audit & Supervisory Board Members and experts with viewpoints that are independent from the Company's Internal Directors. If the Company judges that the said Large-Scale Purchaser is inappropriate in light of the aforementioned basic policy after considering advice and opinions from the committee, the Company will act to secure the Group's corporate value and, by extension, the common

interests of shareholders by taking necessary and appropriate measures.

IV. Judgment of the Company's Board of Directors regarding concrete framework and reasons for such judgment

Various measures formulated by the Group are formulated based on the Group's basic philosophy, and are intended to further build up the relationships of trust with customers and with society, which are the sources of the Group's corporate value. Therefore, the Company believes that these measures are in line with the contents of the basic policy and contribute to securing and enhancing the corporate value of the Group and, by extension, the common interests of shareholders.

Furthermore, if the Company takes necessary and appropriate measures against a Large-Scale Purchaser judged to be inappropriate in light of the basic policy, the fairness, neutrality and rationality of this judgment will be ensured by making it in consideration of advice and opinions from an independent committee whose independence from the Internal Directors of the Company is assured. Accordingly, the Company believes that these measures would not damage the corporate value of the Group or the common interests of shareholders, and that they are not intended to maintain the positions of the officers of the Company.

2. Other Matters Concerning to Corporate Governance System

Overview of Timely Disclosure Structure

[1] Identification and Management of Company Information

(1) System to grasp information concerning management's decision-making

Under the structure that clarifies the roles and responsibilities of each supervisory unit (Management Strategy Unit, Affiliated Business Unit, Financial Strategy Unit and Administration Unit), the Company has a system in place that allows Directors and Executive Officers to grasp information on the respective supervisory unit and Group company that they are in charge of. Proposals on matters to be addressed at the meeting of the Board of Directors (held at least once a month) in which the final decisions on important matters relating to management are made are submitted by each supervisory unit, and these proposals are, as a general rule, presented in advance at the Group Management Meeting and the Group Strategy Meeting. Furthermore, we operate the Group Results and Strategy Examination Meeting, Group Liaison Meeting, Affiliated Business Presidents Meeting, SS Business President Meeting and other meeting bodies to grasp and share information on the Company and Group companies.

(2) System to grasp information from the Audit & Supervisory Board, Internal Audit Division, Compliance and Risk Management Committee, etc.

In order to grasp important decision-making processes and the status of execution of duties, Audit & Supervisory Board Members not only attend important meetings and committees such as meetings of the Board of Directors and the Group Management Meeting, they also peruse important documents relating to the execution of business such as approval circulars. In addition, the Company has a system in place where if

there is an event or risk of event that is significantly damaging to the Company, Directors and employees report such fact to the Audit & Supervisory Board.

The Company adopts a system where the Internal Audit Division carries out internal audits of daily operations of the Company and its Group companies and appropriately reports important matters to the Board of Directors and the Audit & Supervisory Board.

The Company also has established the "JFR Group Compliance Hotline" as the whistle-blowing system of the Group to collect information on compliance issues, and the Compliance and Risk Management Committee appropriately reports these issues to the Board of Directors.

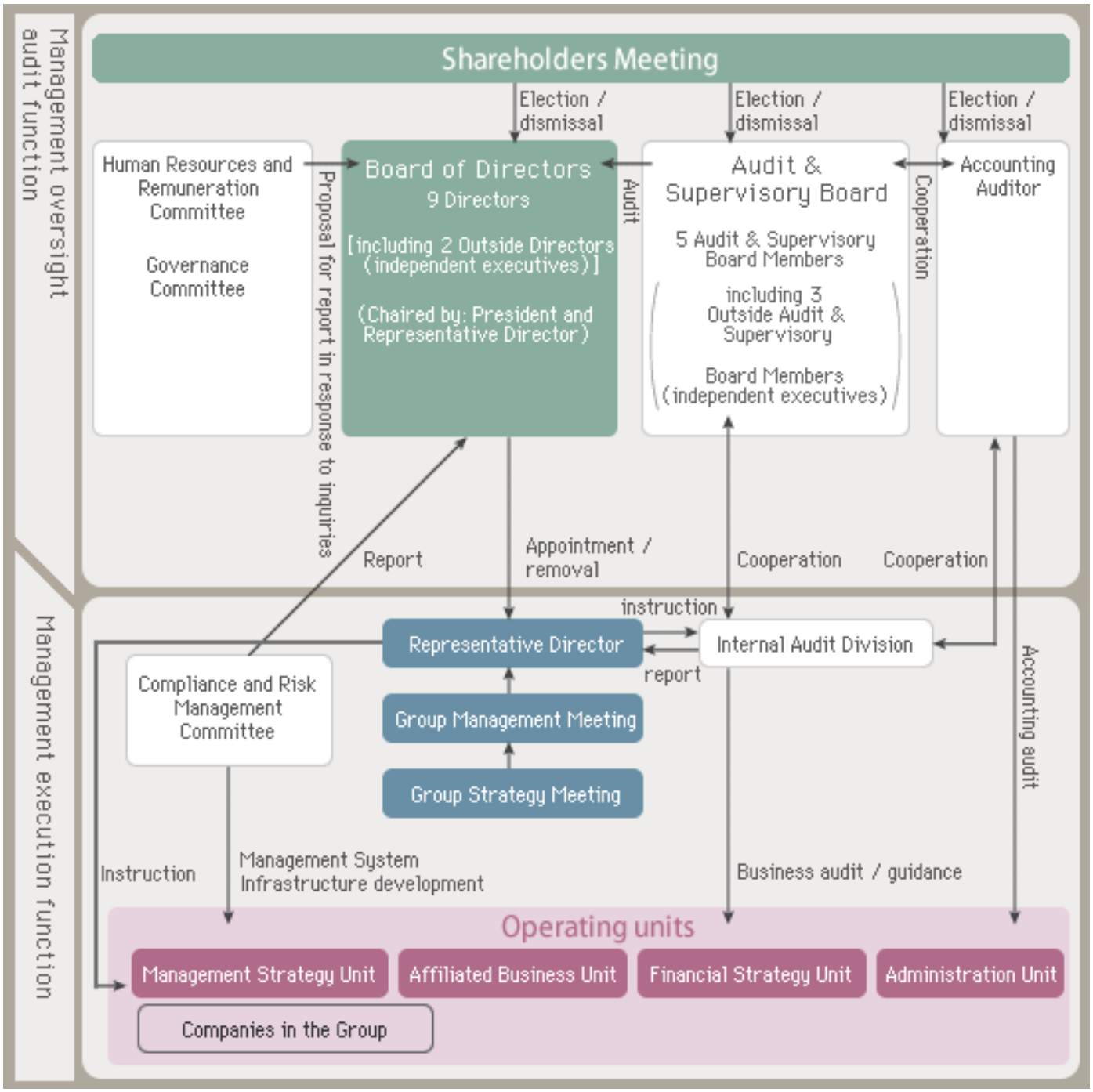
(3) System to manage company information

With respect to company information, particularly significant event having an effect on investment decisions of investors, and information that is subject to timely disclosure requirements as stipulated by financial instruments exchanges, we develop structures for appropriately managing it by stipulating the Rules for Preventing Insider Trading that includes procedures for handling and managing such information, and responsible managers.

Moreover, in order to prevent the leakage of financial information and ensure fairness, the Company refrains from answering any questions concerning financial results during the quiet period from the day following the closing date of each quarter until the release of financial results. However, the Company will disclose information in a timely and appropriate manner if a significant amendment to business performance is necessary, even during the quiet period.

[2] System for Timely Disclosure of Company Information

Matters regarding important company information are presented for discussion at the Group Strategy Meeting, regardless of whether or not such information is to be disclosed. Matters involving such company information are presented for discussion at the Group Management Meeting and/or a meeting of the Board of Directors depending on the level of importance thereof, and disclosed in a timely and appropriate manner upon determining at such meetings the necessity of its disclosure. Meanwhile, upon any emergence of urgent company information that would not accord with the aforementioned procedures, that information is to be promptly disclosed after passing through the requisite organizational decision. The Administration Division, a position in charge of Finance and Accounting and a position in charge of Corporate Governance Promotion handle the task of summarizing specifics of disclosure information, and the Administration Division or the position in charge of Finance and Accounting handles clerical procedures of disclosure. Furthermore, the position in charge of Corporate Governance Promotion responds to inquiries and other communications related to disclosure.


Management oversight audit function
Management execution function
Shareholders Meeting
Election / dismissal
Election / dismissal
Election / dismissal
Human Resources and Remuneration Committee
Governance Committee
Board of Directors
9 Directors
[including 2 Outside Directors (independent executives)]
(Chaired by: President and Representative Director)
Audit & Supervisory Board
5 Audit & Supervisory Board Members
including 3 Outside Audit & Supervisory Board Members (independent executives)
Accounting Auditor
Proposal for report in response to inquiries
Audit
Cooperation
Report
Appointment / removal
Cooperation
Cooperation
instruction
Representative Director
Internal Audit Division
report
Compliance and Risk Management Committee
Group Management Meeting
Group Strategy Meeting
Accounting audit
Instruction
Management System Infrastructure development
Business audit / guidance
Operating units
Management Strategy Unit
Affiliated Business Unit
Financial Strategy Unit
Administration Unit
Companies in the Group

■List of Updates in the Corporate Governance Report of J. FRONT RETAILING Co., Ltd.

Date	Major updates	Location of description in the report
November 4, 2016	Disclosed the decision on the policy to transition to a company with three committees (nomination, audit and remuneration committees) after the resolution of the Annual Shareholders Meeting scheduled to be held in May 2017.	I-1. Basic Views
	Disclosed the changes in the Group Vision for FY2017 onward and partial changes in the system and contents of the Group Philosophy.	I-1. Basic Views
	Updated the description of efforts to use Directors who do not execute business.	I-1. [Reasons for Non-compliance with the Principles of the Corporate Governance Code] 【Principle 4-6】
	Updated the description of the implementation status of the training for the management team.	I-1. [Reasons for Non-compliance with the Principles of the Corporate Governance Code] 【Principle 4-14, Supplementary Principles 4-14-1, 4-14-2】
	Updated the description of the details of implementation based on the Basic Capital Policy and updated the results to the data current as of August 31, 2016.	I-1. [Disclosure Based on the Principles of the Corporate Governance Code] 【Principles 1-3, 5-2】
	Updated the description of the status of cross-shareholdings to the data current as of August 31, 2016.	I-1. [Disclosure Based on the Principles of the Corporate Governance Code] 【Principle 1-4】
	Updated the description of the development of succession planning.	I-1. [Disclosure Based on the Principles of the Corporate Governance Code] 【Supplementary Principle 4-1-3】
	Updated the description of the activity of the Optional Advisory Committees.	I-1. [Disclosure Based on the Principles of the Corporate Governance Code] 【Principles 4-7, 4-10, Supplementary Principle 4-10-1】
	Updated the description of the evaluation of the Board of Directors based on the FY2016 results.	I-1. [Disclosure Based on the Principles of the Corporate Governance Code] 【Supplementary Principle 4-11-3】
	Updated the description of the policy on constructive dialogue with shareholders.	I-1. [Disclosure Based on the Principles of the Corporate Governance Code] 【Principle 5-1】
	Updated the description of the status of major shareholders to the data current as of August 31, 2016.	I-2. Capital Structure [Status of Major Shareholders]
	Updated the description of the status of concurrent holding of positions by Outside Directors.	II-1. Organizational Composition and Operation
	Updated the description of the IR activities.	III-2. IR Activities
	Updated the description of the status of female employees of Daimaru Matsuzakaya Department Stores in leadership positions to the data current as of September 2016.	III-3. Measures to Ensure Due Respect for Stakeholders

End of the Document

[Attachment]

Corporate Governance Guidelines

Foreword

J. FRONT RETAILING Co., Ltd. (the "Company") has established these Guidelines with the aims of ensuring sustainable growth of the overall corporate group which consists of the Company and its subsidiaries (the "JFR Group"), increasing corporate value over the medium to long term, and bringing about the best possible corporate governance practices with respect to the JFR Group.

These Guidelines are positioned as high-order regulations concerning corporate governance of the JFR Group, second only to the Companies Act of Japan, other applicable laws and regulations, and the Articles of Incorporation. Accordingly, the applicability of these Guidelines takes precedence over other JFR Group regulations.

These Guidelines have been established to set out the role of corporate governance of the JFR Group as of the date of their release, and as resolved by a meeting of the Company's Board of Directors. However, we will maintain efforts to revise content of these Guidelines on a continual basis, with the aims of ensuring sustainable growth of the JFR Group, increasing corporate value over the medium to long term, and bringing about the best possible corporate governance practices with respect to the JFR Group.

We will disclose these Guidelines to society at large, and continue to engage in sincere and constructive dialogue with all JFR Group stakeholders in order to ensure sustainable growth of the JFR Group and increase corporate value over the medium to long term.

Version of December 25, 2015

Chapter 1. General Provisions

1. Group Philosophy

(1) Basic Philosophy

We aim at providing high quality products and services that meet the changing times and satisfying customers beyond their expectations.

We aim at developing the Group by making a broad contribution to society as a fair and trusted business entity.

(2) Group Vision*

We will establish a status as a leading Japanese retail company both in terms of quality and quantity with the department store business as our core.

(3) Business Operation Policy*

Realizing high quality management that provides the highest customer satisfaction at the lowest cost

Thoroughly pursuing high quality, freshness and hospitality

(4) Commitments to Stakeholders

(Customers)	We are committed to providing genuine satisfaction captivating customers by offering new value.
(Shareholders)	We are committed to increasing corporate value over the long term by practicing highly profitable and highly efficient management.
(Business partners)	We are committed to building the relations of trust by working hard together and aim to grow together.
(Employees)	We are committed to ensuring rewarding workplace environments where employees' performance and contributions are evaluated fairly and they can demonstrate their abilities, achieve growth, and have job satisfaction.
(Communities)	We are committed to contributing to the development of the communities as well as promoting environmentally friendly business activities as a good corporate citizen.

(5) Our Principles of Action

(Customer perspective)	We always think and act from the customer's point of view.
(Challenge to innovation)	We try possibilities all the time and strive to produce greater results.
(Speed and thorough implementation)	We act speedily and carry things through to the end without giving up.

* We are currently reviewing the possibility of revising the Group Vision and Business Operation Policy, which are both elements of the Group Philosophy.

(Communication)	We share information and exchange opinions freely and vigorously to realize strong teamwork.
(Respect for diverse individuality)	We create a lively organizational climate in which each of us can maximize his/her abilities.
(Ethics and fairness)	We comply with laws and regulations in accordance with social conscience and rules.

2. Basic Ideas on Corporate Governance

(1) Role of Corporate Governance

We believe that ensuring sustainable growth of the JFR Group and increasing corporate value over the medium to long term is paramount to realizing ideals of the Group Philosophy. Accordingly, the role of corporate governance in the JFR Group must be to help enable us to realize the ideals of the Group Philosophy.

The Company assumes responsibility as a pure holding company for ensuring managerial transparency, soundness and compliance centered on corporate governance of the JFR Group, with the aim of realizing the ideals of the Group Philosophy.

(2) Relationship with Shareholders

Our shareholders are the providers of the Company's capital and act as the main source of the JFR Group's corporate governance. Accordingly, the Company respects shareholder rights to the maximum extent (including those of minority shareholders and foreign shareholders), and substantively ensures their rights.

The Company treats its shareholders equitably and impartially, in accordance with types and numbers of shares held by shareholders. Moreover, neither the Company nor the JFR Group provides property benefits to any person, such that relate to the exercise of the rights of specific shareholders.

(3) Information Disclosure

We believe that promoting constructive dialogue with our shareholders and investors helps the JFR Group achieve sustainable growth while increasing corporate value over the medium to long term. The Company is committed to timely and appropriate disclosure of information premised on constructive dialogue, and through such initiatives maintains and develops trusting relations with its stakeholders.

The Company discloses important information of the JFR Group in a timely and appropriate manner, in accordance with Japan's Financial Instruments and Exchange Act and other such laws and regulations, as well as in accordance with rules for timely disclosure stipulated by financial instruments exchanges on which the Company's shares are listed. Even in cases where such laws, regulations and the timely disclosure rules do not apply, the Company recognizes information deemed useful to shareholders, investors and other stakeholders as important with respect to its corporate activities as called for by society. As such, the Company proactively discloses such information in an impartial and swift manner using appropriate means, and with the added aim of facilitating more extensive understanding regarding the JFR Group.

(4) Roles and Responsibilities of the Board of Directors, etc.

Directors and Audit & Supervisory Board Members, who are appointed by the shareholders and are entrusted with management of the Company, are to carry out the roles and responsibilities in the Board of Directors as listed below. They are to do so in accordance with of their fiduciary responsibility and accountability to shareholders, and with the aim of realizing the ideals of the Group Philosophy. Accordingly, these roles and responsibilities include:

(i) Indicating the overall direction that Group management is to take, by engaging in constructive discussions with respect to the vision, management strategies, business plans and other fundamental management policies, and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;

(ii) Making swift and resolute decisions regarding important matters of business execution involving Group management on the basis of the direction noted above, while ensuring that the decision-making process is transparent, fair and rational;

(iii) Tracking progress of management strategies and business plans, and also determining matters of staffing and remuneration involving the management team on the basis of assessing the aforementioned;

(iv) Taking steps to build and develop internal control systems of the JFR Group overall, and otherwise overseeing the operational status of such systems;

(v) Overseeing conflicts of interest between related parties; and

(vi) Drawing up plans regarding successors (next senior management team) and overseeing progress made in that regard.

The Company has recently adopted the company with an Audit & Supervisory Board organizational structure*. Rationale used in adopting this structure is as described below.

(i) Under the structure, responsible persons who execute business of respective JFR Group businesses ensure that tasks are executed in a cohesive and ongoing manner by taking part in meetings of the Board of Directors where those involved deliberate and make decisions on important matters relating to business of the Group.

(ii) The structure provides a rational means of carrying out audits for the purpose of ensuring legal compliance of Group management. Accordingly, Audit & Supervisory Board Members whose independence and autonomy are legally ensured perform highly objective audits, and full-time Audit & Supervisory Board Members perform extremely precise audits drawing on sophisticated capabilities to gather information.

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* We continually review options for adopting optimal systems with respect to the Company's organizational structure (involves selecting a corporate governance structure among options that include the company with an Audit & Supervisory Board, company with supervisory committee, and company with three committees {nomination, audit and remuneration committees} structures) and with respect to making use of Internal Directors who do not execute business, in order to further heighten the effectiveness of our corporate governance, and to help the JFR Group achieve sustainable growth while increasing corporate value over the medium to long term.

Moreover, under the company with an Audit & Supervisory Board structure, multiple independent Outside Directors are appointed to supplement functions of the Board of Directors, particularly with the aim of ensuring the effectiveness of the oversight function. Meanwhile, we take initiatives to enhance functions of the Board of Directors by establishing the Human Resources and Remuneration Committee and the Governance Committee to act as advisory committees of the Board of Directors.

Chapter 2. Relationships with Shareholders

1. Shareholders Meetings

(1) Positioning of Shareholders Meetings

The Company regards the Shareholders Meeting as its highest decision-making body, and at the same time views the Shareholders Meeting as an important opportunity to engage in constructive dialogue with its shareholders.

(2) Developing an Environment Appropriate for Exercising Voting Rights and Other Rights of Shareholders

The Company endeavors to develop an environment at its Shareholders Meetings, which is its highest decision-making body and enables its shareholders to appropriately exercise their voting rights and other rights of shareholders, as described below.

(i) We give consideration to ensuring time for audits in the course of setting dates on which Shareholders Meetings are to be held and schedules otherwise in relation to Shareholders Meetings.

(ii) We ensure that there is adequate time for our shareholders to consider matters with respect to which they will exercise their voting rights. To that end, we send convocation notices as early as possible (with the aim of doing so at least three weeks prior to the date on which a Shareholders Meeting is to be held) and at the same time we submit such content to financial instruments exchanges and post it to the Company's website as early as practicably possible before sending out convocation notices.

(iii) We upgrade the content of our convocation notices (containing sections that include the business report, financial statements, and reference materials for Shareholders Meeting) in a manner that provides our shareholders with a deeper understanding of the JFR Group and enables them to make appropriate decisions when exercising their voting rights. We also prepare English translations of our convocation notices and make them available so that our overseas investors are able to properly exercise their voting rights.

(iv) We give consideration to ensuring that our shareholders are able to conveniently exercise their voting rights, including domestic and overseas institutional investors. To that end, we have adopted online and other means of exercising voting rights and otherwise use an electronic platform for exercising voting rights.

(v) We act appropriately with respect to substantively ensuring that shareholders are able to exercise their rights to make proposals and other minority shareholder rights. Moreover, when a beneficial shareholder has filed to exercise rights as a shareholder beforehand, we take steps to ensure that such rights may be exercised upon consulting with relevant parties including the trust bank acting as nominal shareholder and the Company's share transfer agent.

(3) Analysis of Voting Results

The Company will analyze causes of opposition in situations where substantial numbers of voting rights have been exercised in opposition to a Shareholders Meeting proposal made by the Company, taking into consideration factors such as the content of the proposal, resolution

requirements, the proposal in comparison with similar proposals made in the past, and the percentage of voting rights exercised. Upon so doing, the Company will then respond by engaging in dialogue with shareholders and otherwise taking action deemed necessary, and will otherwise act on its findings by reviewing content of the subsequent fiscal year Shareholders Meeting proposal.

2. Capital Policy

(1) Basic Capital Policy

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

Moreover, in procuring funds through interest-bearing debt we aim to achieve an optimal structure of debt to equity in a manner cognizant of our funding efficiency and cost of capital, carried out on the basis of having taken into consideration our capacity for generating free cash flows and our balance of interest-bearing debt.

A business strategy where higher sales are accompanied by profits and a financial strategy (encompassing the capital policy) that heightens profitability of invested capital are essential elements with respect to improving free cash flows and ROE. In addition, we believe it is crucial that we maximize our operating income and continually improve our operating margin by strengthening our core businesses and concentrating management resources on initiatives such as business field expansion and active development of new businesses.

(2) Shareholder Return Policy

The Company's basic policy is to appropriately return profits. Hence, while maintaining and enhancing its sound financial standing, the Company strives to provide stable dividends and target a consolidated dividend payout ratio of no less than 30%, taking profit levels, future capital investment, free cash flow trends and other such factors into consideration. The Company also gives consideration to the option of purchasing its own shares as appropriate, in accordance with aims that include improving capital efficiency and implementing a flexible capital policy.

(3) Respecting Rights of Shareholders In Cases Where Implementing Capital Policy Could Potentially Harm Shareholder Interests

The Company will take steps to ensure that interests of its existing shareholders are not unduly harmed should it engage in a management buyout or a large capital increase by means of third-party allotment of shares or should it otherwise implement capital policy that will bring about a change of controlling interests or a substantial dilution of shares. Accordingly, the Company will carefully consider the necessity and rationality of any such initiative at a meeting of the Board of Directors whose attendance shall include its Outside Directors and Outside Audit & Supervisory Board Members who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's

shareholders. Furthermore, the Company will fully explain such matters to the shareholders and will otherwise ensure that all necessary and proper procedures are followed.

(4) Basic Policy Regarding Control of the Company

The Company believes it is necessary for parties controlling the Company's financial and business policy decisions to be parties who sufficiently understand financial and business specifics of the JFR Group and the JFR Group's corporate value, and who furthermore continuously and sustainably ensure the JFR Group's corporate value while enabling further improvement thereof.

The Company has not specifically stipulated so-called takeover defense measures involving concrete initiatives to be taken should a party attempt to acquire a large volume of the Company's shares and thereby damage the JFR Group's corporate value. However, the Company will act to prevent damage caused to the JFR Group's corporate value in the event that such a party attempting a large-scale acquisition emerges. Under any such scenario the Company will accordingly establish an independent committee whose membership is composed of its Outside Directors and Outside Audit & Supervisory Board Members as well as experts who maintain viewpoints that are independent of the Company's Internal Directors. The Company will then consider advice and opinions of the committee as it acts to secure the JFR Group's corporate value by taking necessary and appropriate measures.

3. Cross-shareholdings

(1) Policy on Cross-shareholdings

The JFR Group reduces its cross-shareholdings as appropriate considering the market environment, share price trends and other such factors (cross-shareholdings are holdings of listed shares other than those of subsidiaries and associates which are not held for pure investment purposes). However, this does not apply to shares with respect to which rationale for such holdings has been verified by means of validation as described below.

(2) Validation of Rationale for Cross-shareholdings

The Board of Directors validates the rationale for the JFR Group to maintain its major cross-shareholdings on a yearly basis from both qualitative and quantitative perspectives. From a qualitative perspective, the Board of Directors considers such business strategies as maintaining harmonious and favorable business relationships with corporate customers and business partners and securing supply chains, and from a quantitative perspective, it considers dividend income and other economic rationale.

(3) Policy on Exercising Voting Rights Regarding Cross-shareholdings

Decisions with respect to voting on matters regarding cross-shareholdings are made from both of the following two perspectives: (1) we consider whether cross-shareholdings contribute to improving the sustainable growth and the corporate value over the medium to long term of the company whose shares are held; (2) we consider whether the cross-shareholdings contribute to improving the JFR Group's sustainable growth and corporate value over the medium to long term. When necessary, we also consider the possibility of engaging in dialogue

with companies whose shares are held when exercising voting rights.

4. Related Party Transactions

When engaging in transactions with Directors, the Company gains approval beforehand and reports afterwards pursuant to the provisions of Japan's Companies Act and the Rules of the Board of Directors. Moreover, we regularly verify whether or not there have been transactions between our officers and the JFR Group.

When conducting intra-group transactions involving listed subsidiaries and listed associates, we strive to ensure that no damage is incurred with respect to interests of any such company's minority shareholders. Accordingly, such transactions are generally to be carried out on the basis of business terms and conditions on par with those applicable to transactions conducted between independent parties.

Chapter 3. Information Disclosure

1. Constructive Dialogue with Shareholders and Investors

(1) Promoting Constructive Dialogue

If a shareholder or investor makes a request to engage in constructive dialogue with the Company, either the President or another Director (including Outside Directors), or the manager in the position in charge of Corporate Governance Promotion will properly respond, upon taking into consideration the intent and aims of the request.

(2) Sharing Information Laterally Across Departments That Support Constructive Dialogue

The Company develops structures for supporting constructive dialogue. Initiatives in that regard include engaging in organic collaboration among respective departments and sharing information among respective supervisory units of the Company and respective JFR Group companies, in the Group Strategy Meeting, the Group Management Meeting and other such forums.

(3) Improving Communications

The Company endeavors to improve communications by achieving timely disclosure and disseminating information via its website, while also pursuing initiatives that include holding financial results briefings, one-on-one meetings, briefing sessions for individual investors, meetings for overseas institutional investors and other such forums, and replying to daily inquiries made by shareholders and investors. Moreover, we conduct what is referred to as shareholder identification surveys to identify the Company's shareholder ownership structure, thereby putting that information to use toward improving communications with our beneficial shareholders. The comments and requests received from shareholders and investors are shared widely among those in the Company and related JFR Group companies, and we draw on such feedback in the course of managing the Company with the aim of increasing our corporate value.

The Company works to further improve communications with its stakeholders, and has accordingly established a position in charge of Corporate Governance Promotion as a department that integrates the three functions of investor relations (IR), shareholder relations (SR) and public relations (PR).

2. Appropriate Disclosure of Company Information

(1) Formulating and Disclosing the Vision, Management Strategies and Business Plans

The Company draws up business model, medium- to long-term strategy story that the JFR Group pursues, as well as the Group Vision, Group management strategies and Group business plans which indicate management benchmarks and other objectives, with the aim of realizing the Group Philosophy. We release those documents in order to share such details with our shareholders, investors and other stakeholders.

(2) Methods of Information Disclosure

The Company releases information in a timely and appropriate manner by making use of the TDnet and EDINET platforms, the Company's website and other means in line with attributes of the information being disclosed. Moreover, to ensure that we disclose information in an impartial manner, we prepare and release English translations of our convocation notices for Shareholders Meetings, annual reports, timely disclosure information, financial information, and the Company website.

(3) Structures for Information Disclosure

Matters regarding important company information are presented for discussion at the Group Strategy Meeting, regardless of whether or not such information is to be disclosed. Matters involving such company information are presented for discussion at the Group Management Meeting and/or a meeting of the Board of Directors depending on the level of importance thereof, and disclosed in a timely and appropriate manner upon determining at such meetings the necessity of its disclosure. Meanwhile, upon any emergence of urgent company information that would not accord with the aforementioned procedures, that information is to be promptly disclosed after passing through the requisite organizational decision.

The Administration Division, Finance Division and a position in charge of Corporate Governance Promotion handle the task of summarizing specifics of disclosure information, and the Administration Division or the Finance Division handles clerical procedures of disclosure. Furthermore, the position in charge of Corporate Governance Promotion responds to inquiries and other communications related to disclosure.

(4) Appropriately Managing Insider Information

With respect to company information, particularly significant event having an effect on investment decisions of investors, and information that is subject to timely disclosure requirements as stipulated by financial instruments exchanges, we develop structures for appropriately managing it by stipulating the Rules for Preventing Insider Trading that includes procedures for handling and managing such information, and responsible managers.

Moreover, in order to prevent the leakage of financial information and ensure fairness, the Company refrains from answering any questions concerning financial results during the quiet period from the day following the closing date of each quarter until the release of financial results. However, the Company will disclose information in a timely and appropriate manner if a significant amendment to business performance is necessary, even during the quiet period.

Chapter 4. Roles and Responsibilities of the Board of Directors, etc.

1. Approach to Allocating Authority

(1) Allocating Authority With Respect to Shareholders Meetings and the Board of Directors

The Shareholders Meetings are held for the purpose of deliberating on and resolving matters that include the election and dismissal of Directors, Audit & Supervisory Board Members and others, amendments to the Articles of Incorporation, and other matters as prescribed in the Companies Act of Japan and/or the Articles of Incorporation.

Of the matters that may be delegated to the Board of Directors under the Companies Act of Japan, the Board of Directors is to undertake the task of making decisions with respect to paying out dividends of surplus, making purchases of the Company's own shares and other matters where there is a need to ensure agile and professional business judgement.

(2) Allocating Authority With Respect to the Board of Directors and the Management Team

The Board of Directors deliberates on and resolves matters defined in the Companies Act of Japan and/or the Articles of Incorporation, as well as management strategies, business plans and other fundamental management policies, Group budgets, Group financing plans, M&As, and other important matters relating to management of the JFR Group. Moreover, the Rules of the Board of Directors stipulates that the Board of Directors is to set its meeting agenda and determine matters to be reported before such meetings are held.

In order to speed up the decision-making and execution process, the task of determining matters of business execution other than the above is delegated to the management teams, with the exception of important matters relating to Group management.

(3) Allocating Authority With Respect to the Holding Company and Business Subsidiaries

The Company is a pure holding company and, with the exception of authority for important matters relating to business of the JFR Group, it accordingly delegates authority to its respective business subsidiaries with respect to matters involving business execution by the business subsidiaries, in order to speed up business decisions and to make managerial responsibilities clear.

The roles and responsibilities of the Company, as a pure holding company, are as described below. Accordingly, the Company:

(i) Establishes corporate governance practices for the entire JFR Group;
(ii) Plans and formulates the Group Vision, Group management strategies and Group business plans, and tracks the progress and results thereof;
(iii) Optimally allocates the JFR Group's management resources;
(iv) Ensures Group-wide compliance and is involved in internal controls, risk management and internal audits; and
(v) Makes decisions on important matters of business execution relating to management of the JFR Group.

2. Board of Directors

(1) Composition of the Board of Directors

The Board of Directors of the Company is to be composed of an appropriate number of Directors, but no more than 12, as stipulated in the Articles of Incorporation (one-year terms of office). The membership is to include Representative Directors, managing officers of the Company as a holding company, and managers of the major business subsidiaries. The membership is also to include multiple Outside Directors who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's shareholders, in order to improve the oversight function of the Board of Directors and ensure its effectiveness.

We take steps to ensure diversity when nominating candidates for positions of Director and Audit & Supervisory Board Member, upon giving consideration to bringing about a balance of knowledge, experience and abilities within the Board of Directors as a whole.

(2) Advisory Committees of the Board of Directors

The Company supplements the functions of the Board of Directors under the Audit & Supervisory Board organizational structure. In particular, the company has established the advisory committees listed below, in order to ensure effectiveness of the oversight function.

(i) Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee is tasked with deliberating on matters and making decisions with respect to human resources and remuneration involving Directors, Audit & Supervisory Board Members, and Executive Officers of the Company and its major business subsidiaries, and reporting such details to the Board of Directors. To ensure transparency and objectivity in the decision making process, a majority of the Human Resources and Remuneration Committee members are Outside Directors and Outside Audit & Supervisory Board Members, and the committee is chaired by an Outside Director.

(ii) Governance Committee

We have established the Governance Committee whose membership consists of all of the Company's Representative Directors, Outside Directors and Outside Audit & Supervisory Board Members. The committee engages in free, open and constructive discussion and exchanges of views regarding issues of corporate governance and business management overall (this includes views with respect to the Company's organizational structure and reforming the Board of Directors on the basis of evaluations thereof). Moreover, the committee endeavors to facilitate information sharing and collaboration among the Outside Directors and Outside Audit & Supervisory Board Members.

(3) Board of Directors and Audit & Supervisory Board Support Structure

To ensure effectiveness of the Board of Directors and the Audit & Supervisory Board, the Company has established the Board of Directors Secretariat (a position in charge of Corporate Governance Promotion) and the Audit & Supervisory Board Secretariat, and develops a support structure which handles the following:

(i) Making decisions on plans of holding meetings of the Board of Directors, Audit & Supervisory Board, advisory committees and other such bodies;
(ii) Making decisions on agenda items of the respective meeting structures and plans for annual deliberations;
(iii) Arranging to provide briefings beforehand to the Outside Directors and Outside Audit & Supervisory Board Members, and coordinating other information;
(iv) Providing in-house feedback with respect to questions, opinions and other communications from the Outside Directors and Outside Audit & Supervisory Board Members provided during prior briefings and other forums;
(v) Making adjustments to materials for deliberations; and
(vi) Preparing meeting minutes.

(4) Evaluating the Board of Directors

The Company understands that ensuring the effectiveness of the Board of Directors is of vital importance with respect to the JFR Group achieving sustainable growth and increasing corporate value over the medium to long term. Accordingly, we assess whether or not the Board of Directors is sufficiently effective through evaluations as described below.

(i) Items evaluated
Items evaluated include Board of Directors' composition and its operational status, agenda items, details of deliberations; the level of materials for deliberations and explanations of proposals; support structures for Outside Director and Outside Audit & Supervisory Board Member.
(ii) Evaluation methodology
Evaluation involves either self-assessment carried out by all Directors and Audit & Supervisory Board Members or third-party assessment carried out by a third-party organization.
(iii) Evaluation frequency
Evaluations are carried out periodically every year.
(iv) Evaluation results
Summaries of Board of Directors evaluation results are disclosed in the Corporate Governance Report.

3. Directors and Executive Officers

(1) Executive Officer System

The Company has adopted an Executive Officer system geared toward speeding up decision making and execution with respect to matters of business execution. Executive Officers (one-year terms of office) assume responsibility for business execution involving tasks previously assigned to them by the Board of Directors.

(2) Policy on Nominating and Appointing Directors and Executive Officers

The Company believes that parties who assume management of the JFR Group should be equipped with the qualities described below, in accordance with the Group Philosophy.

[Desirable qualities required of JFR Group managerial talent]

(i) Strategic mindset

The persons need to forge strategies from a medium- to long-term perspective and contemplate their own forward-looking and innovative solutions geared toward achieving goals through a process that involves proactively analyzing changes in markets and customers and taking a multifaceted approach in using such findings to gain insights into the essential challenges at hand.

(ii) Reform-oriented leadership

The persons need to pursue new initiatives underpinned by a desire to take on challenges without becoming caught up with precedent or past experiences. Furthermore, they need to foment a healthy sense of urgency within the organization without any fear of risk while promoting a transformative course of action.

(iii) Tenacity for achieving results

The persons need to have a sense of mission and a desire to take on challenges with respect to achieving lofty goals, thereby holding course until goals are achieved and persevering until efforts lead to results.

(iv) Organization development strengths

The persons need to generate results through efforts that involve making the utmost of the organization's inherent energy and initiative by instilling their team members with a sense of vision and strategy for achieving the organization's objectives and spurring the organization's various elements (including its business operations, mechanisms, corporate culture and human resources).

(v) Human resource development strengths

The persons need to maximize the growth potential of their team members by taking a series of approaches that involve assigning challenges to team members, retrospectively evaluating their results and drafting training plans, all on the basis of a career development mindset premised on the notion that "individuals achieve growth through the work that they pursue."

Based on the above, our policy for nominating and appointing Directors and Executive Officers is as follows.

(i) Internal Directors

We appoint individuals who possess qualities that make them capable of carrying out proper oversight of business execution, based on a grasp of risks and challenges from a Group perspective that is not limited to their own realm of responsibility. Accordingly, such individuals must be able to fulfill the duty of care of a prudent manager and the duty of loyalty required by the Companies Act of Japan; they must have an abundance of experience in the JFR Group's respective operations that is needed to deliberate on important matters of JFR Group management and make business decision; and they must have a profound understanding of the JFR Group's operating environment (including its strengths and challenges).

(ii) Outside Directors

We appoint individuals who are expected to furnish advice and perform the oversight function on the Board of Directors by drawing on points of view and perspectives that

vary from those of our Internal Directors. Accordingly, such individuals must be able to fulfill the duty of care of a prudent manager and the duty of loyalty required by the Companies Act of Japan; they must offer a sense of pragmatism along with a high-level overview and sweeping perspective of business based on abundant experience as corporate managers; and they must have careers outside the retail industry or have a global managerial background.

For the position of Outside Director, we nominate those who meet our "6. Criteria for Determining Independence of Outside Directors and Outside Audit & Supervisory Board Members," in this Chapter, to thereby avoid the prospect of any conflicts of interest arising with the Company's shareholders.

(iii) Executive Officers

We appoint individuals who possess experience, competency and a sense of responsibility that enables them to swiftly and appropriately take a strong leadership approach with respect to executing individual aspects of business operations on the basis of the Vision, management strategies, business plans and other guidelines drawn up by the Board of Directors.

4. Audit & Supervisory Board and Audit & Supervisory Board Members

(1) Composition of the Audit & Supervisory Board

The Company's Audit & Supervisory Board is to consist of an appropriate number of Audit & Supervisory Board Members, but no more than five, as stipulated in the Articles of Incorporation (four-year terms of office). The membership is to include full-time Audit & Supervisory Board Members appointed pursuant to provisions of the Companies Act of Japan, while a majority of the members must be Outside Audit & Supervisory Board Members who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's shareholders. In addition, at least one of the Audit & Supervisory Board Members must have appropriate knowledge of finance and accounting.

(2) Roles and Responsibilities of the Audit & Supervisory Board Members

The Audit & Supervisory Board Members endeavor to help the JFR Group achieve sustainable growth and increase corporate value over the medium to long term. To that end, they are to assume a role in performing the oversight function of the Company and JFR Group in cooperation with the Board of Directors. This involves auditing the performance of duties performed by the Directors, while also investigating the status of business operations and assets, and also providing advice, recommendations and otherwise expressing their views to the Board of Directors.

(3) Policy for Nominating Audit & Supervisory Board Members

Based on the aforementioned roles and responsibilities, our policy for nominating Audit & Supervisory Board Members is as follows.

(i) Internal Audit & Supervisory Board Members

We nominate individuals who have an abundance of experience in the JFR Group's respective operations, and also have insight in areas such as finance, accounting and

legal affairs. Moreover, such individuals must possess qualities that make it possible for them to maintain independence from those who execute business, to ensure that they adequately perform oversight and audit functions.

(ii) Outside Audit & Supervisory Board Members

With the aim of improving the oversight and audit functions, we nominate individuals who have abundant experience and suitable knowledge in fields such as finance, accounting, legal affairs and global management, and who are expected to actively and assertively furnish advice, recommendations and other feedback to the Board of Directors.

For the position of Outside Audit & Supervisory Board Member, we nominate those who meet our "6. Criteria for Determining Independence of Outside Directors and Outside Audit & Supervisory Board Members," in this Chapter, to thereby avoid the prospect of any conflicts of interest arising with the Company's shareholders.

5. Human Resources and Remuneration and Other Matters Involving Directors, Audit & Supervisory Board Members and Executive Officers

(1) Procedures for Nominating and Appointing Directors, Audit & Supervisory Board Members and Executive Officers, and Disclosure in That Regard

Matters involving human resources with respect to Directors, Audit & Supervisory Board Members and Executive Officers of the Company and its major business subsidiaries are carried out on the basis of the aforementioned policy for nominations and appointments, and such decisions are made in accordance with results of managerial talent evaluations performed by a third-party organization. To ensure transparency and objectivity in the decision-making process, a majority of the Human Resources and Remuneration Committee members are Outside Directors and Outside Audit & Supervisory Board Members, and the committee is chaired by an Outside Director. The committee is tasked with deliberating on such matters and making decisions in that regard, and then reporting such details to the Board of Directors upon gaining consent of the Audit & Supervisory Board with respect to Audit & Supervisory Board Member candidates.

In our convocation notices for Shareholders Meetings (in the Reference Materials for Shareholders Meeting section), we disclose our rationale for appointing candidates for the position of Director and Audit & Supervisory Board Member and the status of officers from other listed companies who are concurrently serving in those positions.

(2) Policy on Determining Remuneration for Directors, Audit & Supervisory Board Members and Executive Officers

Currently, remuneration of the Company's Directors, Audit & Supervisory Board Members and Executive Officers is monetary-based and consists of monthly compensation and executive bonuses which is tied to results and success in accordance with each year's business performance.

To help the JFR Group achieve sustainable growth and increase corporate value over the medium to long term, we are now considering the possibility of revamping the aforementioned policy on determining remuneration based on perspectives that include:

(i) Increasing the proportion of performance-based remuneration in terms of total remuneration in order to provide incentives for accomplishing objectives of management strategies and business plans, and achieving targets with respect to corporate performance;
(ii) Introducing remuneration based on medium- to long-term performance with the aim of increasing corporate value over the medium to long term;
(iii) Validating the adequacy of remuneration levels (including industry and employee salary level comparisons)
(iv) Devising optimal compensation balances such as between fixed and performance-based remuneration, and monetary-based and stock-based remuneration; and
(v) Developing a uniform fixed-remuneration scheme covering Outside Directors and Audit & Supervisory Board Members (both outside and internal).

(3) Procedures for Determining Remuneration for Directors, Audit & Supervisory Board Members and Executive Officers

The total monthly remuneration amount for the Company's Directors and Audit & Supervisory Board Members is limited to that set upon passage of a resolution of a Shareholders Meeting, and the total amount of bonuses to officers for the fiscal year is that set upon passage of a resolution of an Annual Shareholders Meeting held every fiscal year.

The specific amounts of remuneration paid to respective Directors and Executive Officers are set based on standards for officer remuneration that are determined beforehand, and are determined on the basis of respective performance evaluations conducted each fiscal year. Such amounts are deliberated on and decided by the Human Resources and Remuneration Committee, a majority of which are Outside Directors and Outside Audit & Supervisory Board Members and which is chaired by an Outside Director. The committee then reports such details to the Board of Directors.

The amount of remuneration paid to respective Audit & Supervisory Board Members is also deliberated on by the Human Resources and Remuneration Committee, and such details are then reported to all Audit & Supervisory Board Members.

(4) Training of Directors, Audit & Supervisory Board Members and Executive Officers

We continuously provide opportunities to Directors, Audit & Supervisory Board Members and Executive Officers to acquire and update knowledge they need to fulfill their roles and responsibilities with respect to oversight, auditing, business execution and other tasks.

We provide Internal Directors, Internal Audit & Supervisory Board Members, and Executive Officers with useful information regarding corporate governance, compliance and Group management. Furthermore, we establish and implement training plans tailored to individuals, taking into account results of managerial talent evaluations performed by a third-party organization.

We arrange briefings for Outside Directors and Outside Audit & Supervisory Board Members, when they are appointed as well as on a continuous and regular basis, providing details on the Group Philosophy, Vision, management strategies and business plans, and also featuring content that includes details of JFR Group operations, its performance, financial standing and operational status.

6. Criteria for Determining Independence of Outside Directors and Outside Audit & Supervisory Board Members

In appointing the Company's Outside Directors and Outside Audit & Supervisory Board Members, we select individuals who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's shareholders. An individual does not meet the criteria for independence if one or more of the items listed below apply to that individual.

(i) Person who executes business in the JFR Group
(ii) Major shareholder of the Company (including person who executes business thereof; the same applies with items (iii) to (vi), below)
(iii) Major business partner of the JFR Group
(iv) Person affiliated with a law office, audit firm, consultancy or other entity that receives payment other than executive compensation of more than a certain amount from the JFR Group
(v) Recipient of donations of more than a certain amount contributed by the JFR Group
(vi) Related party in cases where the party is engaged in an arrangement involving a reciprocal officer appointment with the JFR Group
(vii) Person with respect to whom any of items (i) to (vi) has applied at any point over the last five years
(viii) Spouse or relative within the second degree of consanguinity of a person with respect to whom any of the items (i) to (vii) applies

With respect to the above, "person who executes business" refers to an Executive Director, a Corporate Officer, an Executive Officer, and other employees; "major shareholder" refers to a shareholder who holds voting rights accounting for no less than 10% to the Company's voting rights; "major business partner" refers to a business partner whose transactions with the JFR Group account for 2% or more of the Company's annual consolidated net sales or the business partner's annual net sales for any of the fiscal years over the last five years; "a certain amount" refers to an annual amount of 10 million yen in any of the fiscal years over the last five years.

7. Accounting Auditor

(1) Policy for Decisions of the Audit & Supervisory Board on Proposals for Election, Dismissal and Non-reappointment of the Accounting Auditor

The Audit & Supervisory Board draws up criteria in advance for selecting and evaluating the Accounting Auditor, that is composed of matters relating to the auditor's independence, expertise and other aspects of executing the audit, with the aim of ensuring that the Accounting Auditor properly carries out the audit. On the basis of that criteria, the Audit & Supervisory Board sufficiently exchanges views with the management team, and then makes decisions on proposals for election, dismissal and non-reappointment of the Accounting Auditor that are submitted to the Shareholders Meeting.

The Audit & Supervisory Board is to take necessary measures that include dismissing the Accounting Auditor upon gaining consent of all Audit & Supervisory Board Members, or

otherwise making a decision on proposals to dismiss or not reappoint the Accounting Auditor submitted to the Shareholders Meeting, in the event that the Audit & Supervisory Board deems it appropriate to dismiss or otherwise not reappoint the Accounting Auditor either if there are grounds for dismissal as provided for in Article 340, Paragraph 1 of the Companies Act of Japan, or if a situation arises whereby the audit of the Company has been significantly impeded such as would be the case if the supervisory authorities were to issue an order requiring suspension of auditing activities.

(2) Developing Structures for Supporting Effective Audits Performed by the Accounting Auditor

To provide support for enabling effective audits performed by the Accounting Auditor, the Company develops structures for:

(i) Ensuring that content of audit plans proposed by the Accounting Auditor is respected and allowing sufficient time to perform the audit, in order to enable high-quality audits;

(ii) Arranging discussions between the Accounting Auditor and Representative Directors, relevant Directors and relevant Executive Officers on a regular basis (about two times per year);

(iii) Arranging meetings between the Accounting Auditor and Audit & Supervisory Board Members and Internal Audit Division for the purpose of sharing information and exchanging views on a regular basis (about six times per year); and

(vi) Enabling the Audit & Supervisory Board to perform necessary investigations upon receiving a report from the Accounting Auditor detailing instances of material improprieties and illegal acts related to the Directors' execution of their duties; and enabling the Audit & Supervisory Board to take necessary measures in that regard, that include reporting, furnishing advice and providing recommendations to the Board of Directors.

8. Internal Control Systems

(1) Developing and Maintaining Internal Control Systems

The Company has established the Policy on Developing Internal Control Systems with the aim of ensuring appropriateness of operations performed by the entire JFR Group. Accordingly, we take steps to facilitate the JFR Group's sustainable growth and increase corporate value over the medium to long term through specific initiatives geared toward promoting the policy.

(2) Overseeing and Disclosing the Operational Status of Internal Control Systems

The operational status of internal control systems of the overall JFR Group is reported to the Board of Directors regularly (about two times per year) and in a timely manner, and the Board of Directors engages in appropriate oversight in that regard. Moreover, summaries of the operational status are disclosed in our convocation notices for Shareholders Meetings (in the Business Report section).

9. Compliance and Risk Management

The Company has established the Compliance and Risk Management Committee, whose membership includes corporate lawyers, for the purpose of addressing issues of JFR Group compliance management practices and appropriately managing risk involved in business operations and evaluating practices.

The Compliance and Risk Management Committee draws up policy for addressing matters involving serious compliance-related violations and risk management. In addition, the committee also works to develop the foundations of compliance and risk management (such as establishing internal company rules, operation management manuals and management systems) for departments in charge of promoting compliance and risk management, and also provides guidance and education geared toward ensuring that respective departments comply with laws and regulations, corporate ethics and other such standards. The committee also reports details of its deliberations to the Board of Directors regularly (about two times per year) and in a timely manner.

10. Whistleblowing System

The Company has established a whistleblowing system that enables all JFR Group officers and employees as well as all individuals working at the JFR Group (including part-timers and employees seconded from business partners) to notify the Compliance and Risk Management Committee directly with respect to compliance-related issues, and to seek corrective action. The company has set up points of contact for whistleblowers both internally and outside the Company (corporate lawyers).

The JFR Group's internal company rules rigorously provide for the whistleblowing system in terms of protecting the confidentiality of whistleblowers and prohibiting disadvantageous treatment thereof.

Supplementary Provisions

Resolution of the Board of Directors is required to revise or abolish these Guidelines (with the exception of minor changes, etc.).

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