Corporate Governance Report

December 25, 2018

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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

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.

The Company established a new Group Vision and the Medium-term Business Plan to realize that vision, and started implementation in FY2017. For details, please refer to the following page on our website.

(http://www.j-front-retailing.com/_data/news/170410_midtermplan_E.pdf)

The Company's basic vision including the Group Vision is described below.

<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.

<Group Vision>

Create and Bring to Life “New Happiness”

<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”

<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.

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

Recognizing the need to carry out all principles 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 principles.

【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 has made 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 basic philosophy and Group Vision and has taken proactive steps in dealing with social and environmental issues and other issues. In order to enhance the strategic positioning of CSR and clarify relevant activities of the entire Group from the current fiscal year, the JFR Group has established the ESG Promotion Division as a specialized department in March. During the current fiscal year, the

Company identifies important issues (materiality) that it should handle as executive matters when solving social issues, etc., through the entire Group's business activities from a long-term perspective, and officially determines and discloses the order of priority, etc., through discussions at the Board of Directors meetings as the next step. To do so, the JFR Group uses the results of a questionnaire survey of 4,250 stakeholders conducted to extract CSR issues. The JFR Group will formulate specific action policies including its sustainability policy to promote these initiatives of the entire Group more speedily.

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

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

- Any principles that are currently not implemented
- The 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

【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 11th Annual Shareholders Meeting.

At the 10th Annual Shareholders Meeting held in May 2017, the Company amended the Articles of Incorporation in accordance with the aforementioned policy to enable an institutional investor that owns shares in the name of a trust bank, etc. and does not own shares in their own name to attend a shareholders meeting and exercise voting rights as a proxy. For details, please refer to the following page on our website.

(http://www.j-front-retailing.com/_data/news/170410_articles_E.pdf)

【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 FY2017, the Company implemented the following measures in accordance with the aforementioned policy and achieved an ROE of 7.5% for the fiscal year.

- Undertaking strategic investment

  The basic approach taken regarding the Group's recurring capital investment is to keep such investment within the scope of the amount of depreciation. In FY2017, the Company made total capital investment of 27,021 million yen, which was a result of recurring investment combined with proactive implementation of strategic investment. The major facilities completed during FY2017 are construction relating to GINZA SIX, construction relating to Ueno Frontier Tower, and asset purchases associated with the redevelopment project of the Shibuya PARCO.

  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 low-profit and low-growth companies and divisions among existing businesses, the Company has established the Revitalization Plan Review Committee which draws up revitalization and withdrawal plans based on financial aspects from the perspective of investment recovery.

- Enhancing shareholder returns

  For the year ended February 28, 2018, the Company provided an annual dividend from surplus of 35 yen per share, an increase of 5 yen per share year on year for ordinary dividend plus a commemorative dividend of 2 yen to celebrate the 10th anniversary of the Company. For the year ending February 2019, the Company is scheduled to provide an annual dividend from surplus of 35 yen by making increase for ordinary dividend of 2 yen (eight consecutive years of dividend increases).

- Expanding net worth

  The total amount of interest-bearing debt was approximately 184,200 million yen as of February 28, 2018 (a decrease of approximately 21,700 million yen compared to February 28, 2017). The interest-bearing debt to equity ratio was 0.47 times, and the ratio of equity attributable to owners of parent to total assets was 38.7% for an increase of 2.0 percentage points compared to February 28, 2017.

- Business portfolio and investment plan

  During the five-year Medium-term Business Plan period, we will use 200.0 billion yen for capital investment and growth-oriented investment in existing business innovation and business portfolio reforms, aiming to generate operating cash flow of 260.0 billion yen or more. In addition, our business portfolio under the Medium-term Business Plan aims to reduce the percentage of

Department Store Business and PARCO Business from nearly 90% to about 70% in terms of the Group's operating profit, and increase the percentage of Real Estate Business and other new businesses by strengthening and expanding them.

* We have adopted the International Financial Reporting Standards (IFRS) since FY2017. Accordingly, we calculate year-on-year comparison figures by converting the actual figures for FY2016 to those based on IFRS.

【Principle 1-4, Supplementary Principle 1-4-2】 Cross-shareholdings

For the policy on cross-shareholdings, please refer to "3. Cross-shareholdings" in "Chapter 2. Relationships with Shareholders" of the Guidelines.

In accordance with the aforementioned policy, in the Board of Directors meeting held in August 2017, the Company reduced cross-shareholdings by verifying the Group's objective of holding individual shares, dividend income and other economic rationale from qualitative and quantitative perspectives, and risk of continuously holding them. In FY2017, the Company sold all shares of 12 companies and partially sold shares of two companies (proceeds from the sales amounted to approximately 1,320 million yen). As a result, the JFR Group maintained cross-shareholdings in 48 companies (approximately 6,300 million yen recorded on the statement of financial position) as of February 28, 2018. Also, from the current fiscal year, the Company has established the guidelines for exercising voting rights relating to cross-shareholdings and implemented them in line with the entire Group's policy.

【Supplementary Principle 1-4-1】 Handling of Requests from Holders of Cross-held Shares Regarding the Sale of JFR Shares

In case a shareholder who holds JFR shares for the purpose of cross-shareholding indicates intention to sell JFR shares, the Company will never conduct activities to hinder the sale of cross-held shares by implying a reduction of business transaction, etc., and will appropriately handle the sale, etc.

【Principle 1-7】 Related Party Transactions

For the procedure, etc. for related party transactions, please refer to "5. Related Party Transactions" in "Chapter 2. Relationships with Shareholders" of the Guidelines.

【Principle 2-2, Supplementary Principle 2-2-1】 Establishment and Implementation of the Company's Code of Conduct

Along with the development of the Group Vision, the Company has established "JFR Way" as a code of conduct for the entire Group to realize this vision. (Please refer to "1. Basic Views" in "I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information" of this report.)

To facilitate the understanding and dissemination of the Group Vision and solidify relevant activities, the management's messages and employee pledges for action have been disclosed via the Company's internal

website and in-house magazines. Since May 2017, the Company has also started the "Challenge Card program" through which employees are allowed to submit their original ideas to senior personnel throughout the year. This program encourages employees to express their ideas freely without setting limitations on their contents. In FY2017, a total of over 1,700 proposals were made, such as ideas related to products and services and new business plans. Since some of them have been well accepted by customers, the Company considers that certain permeation of the Group Vision has been achieved.

The Board of Directors regularly reviews to determine whether the "JFR Way" is widely disseminated within the group and a corporate culture/climate that respects their purpose and spirit has been realized.

【Principle 2-4】 Ensuring Diversity, Including Active Participation of Women

Under the structure of the Board of Directors, the Company has appointed 13 Directors including two female Directors (independent Outside Directors), aiming to ensure the effectiveness of the entire Board of Directors based on a variety of senses of value. The Company also considers it important to create new value with the combination of different elements obtained by exchanging a variety of personnel's opinions when executing operations. Regarding women's career advancement in particular, the Company is taking various measures including the "JFR Juku (cram school) for Women," a selective training program offered to help employees with young children improve motivation and change the way they think, and the "Mother Recruitment" that aims to extensively hire external personnel wishing to further fulfill their lives by balancing child care and work. In addition, the Company is continuously working on development and enhancement of female-friendly workplace systems.

Reference: Female employees of Daimaru Matsuzakaya Department Stores in leadership positions (as of March 1, 2018)

Number of female general managers: 12 (11.8% of 102 general managers in total)

Number of women in other leadership positions: 221 (35.9% of the 616 employees in other leadership positions in total)

Total: 233 (32.5% of the combined total of 718 general managers and employees in other leadership positions)

* The figures above include workers temporarily transferred to Daimaru Matsuzakaya Sales Associates Co. Ltd.

* Women in other leadership positions include those acting as managers, sub managers, buyers (including developers and editors), and team leaders (including supervisors and section leaders from Daimaru Matsuzakaya Sales Associates Co. Ltd.).

* Daimaru Matsuzakaya Department Stores has three female executive officers.

【Principle 2-6】 Roles of Corporate Pension Funds as Asset Owner

Under the pension plan for Daimaru Matsuzakaya Department Stores Co. Ltd., a main operating company of the Group, investments are made through appropriate asset diversification and allocation to ensure

long-term returns in line with the asset investment objective of ensuring the stable sources of future benefits. The Company has formulated its asset investment policy on the selection of an investment management organization and a fund, and strictly reviews the management details, social assessments, investment experiences and results, legal compliance system, etc., based on assessments made by assessment agencies with a good reputation. The Company also monitors whether the said organization exercises voting rights, etc., in an appropriate manner. In addition, the Company carefully selects suitable personnel, and especially when replacing Investment Management Directors, it lets them acquire necessary working knowledge by having them attend various seminars (e.g., the seminar for newly appointed Investment Management Directors sponsored by the Pension Fund Association, seminars offered by financial institutions conducting operational management of pension plans, and seminars offered by investment institutions) at the time of new appointment.

【Principle 3-1(i)】 Corporate Goals, Management Strategies, and Business Plans

Please refer to the following pages of the Company's website.

- Basic philosophy and Group Vision, etc.
  (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)
  (http://www.j-front-retailing.com/_data/news/170410_midtermplan_E.pdf)
- 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 Guidelines.

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

To carry out the Medium-term Business Plan steadily for realizing the Group Vision, the Company formulated the new "Officer Remuneration Policy" including the introduction of a stock-based remuneration system for officers in FY2017. This matter was resolved at the Remuneration Committee meeting, and we started putting this policy into effect. For details, please refer to the following page on our website.
(http://www.j-front-retailing.com/_data/news/170410_NewOfficerRemuneration_E.pdf)

【Principles 3-1(iv), 4-3】 Policy and Procedures for Nominating, Appointing and Dismissing Candidates for Directors and Executive Officers

For the policy on nominating and appointing the Company's Directors and Executive Officers and the main operating companies' Directors and Executive Officers, please refer to "4. Human Resources and Remuneration and Other Matters Involving Directors and Executive Officers, (1) Procedures for Nominating and Appointing Directors and Executive Officers, and Disclosure in That Regard" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

A proposal on the appointment or dismissal of Directors is resolved first by the Nomination Committee and then at a shareholders meeting. For the appointment or dismissal, and the delegation or suspension, of duties of the Company's President and Representative Executive Officer and Executive Officers and the main operating companies' Representative Directors, Directors and Executive Officers, the results of the Nomination Committee's discussions are submitted and resolved at Board of Directors meetings. In addition, the appointment or dismissal of three committee chairs and members is discussed by the Nomination Committee, and the results of discussions are submitted and resolved at Board of Directors meetings.

【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 11th Annual Shareholders Meeting (Year Ended February 28, 2018) (http://www.j-front-retailing.com/english/ir/stock/pdf/180426_jfr_e.pdf)

【Supplementary Principle 3-1-1】Disclosure of Value-added Information for Users

For our views on information disclosure, please refer to "3. Basic Ideas on Corporate Governance, (3) Information Disclosure" in "Chapter 1. General Provisions" and "1. Constructive Dialogue with Shareholders and Investors, (1) IR Policy" in "Chapter 3. Information Disclosure" of the Guidelines.

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

For the roles and responsibilities of the Board of Directors, please refer to "3. Basic Ideas on Corporate Governance, (4) Roles and Responsibilities of the Board of Directors, etc." in "Chapter 1. General Provisions" of the Guidelines.

【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.

【Supplementary Principle 4-1-2】 Best Efforts toward Realization of the Medium-term Business Plan

For the roles and responsibilities of the Board of Directors to realize the Medium-term Business Plan,

please refer to "3. 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 schedule planned in advance by the Board of Directors, the Company has regularly and multiple times verified and shared the progress of the Medium-term Business Plan implemented in March 2017. The Company will continue these initiatives in the current fiscal year.

【Supplementary Principle 4-1-3, 4-3-2, 4-3-3】 Succession Planning

Selection and dismissal of the Chief Executive Officer

It 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, transparency and objectivity 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 Nomination Committee and Remuneration Committee, in which Outside Directors comprised a majority. In the process of deciding a successor, the Board of Directors plays a supervisory role focused on realizing the basic philosophy and the Group Vision, based on proposals received from the Nomination 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 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 Nomination Committee to make them all aware of the measures used in cultivating and assessing successors. In addition, dismissal of the Chief Executive Officer is determined by the Board of Directors after being discussed and resolved by the Nomination Committee based on the goals set, expected and actual results (e.g., annual performance and strategy execution status), and the status of results, etc., achieved by successor candidates who are selected under the succession plan made by the Nomination Committee. The Nomination Committee will continue to have discussions on succession planning in a planned manner so that changes in environments and situations surrounding the Company, progress of strategies formulated, etc., can be reflected in such planning.

The Nomination Committee also discusses and resolves the dismissal of senior management team members as in the case of the Chief Executive Officer.

【Principle 4-2】 Roles and Responsibilities of the Board of Directors, Environmental Improvement that Supports Appropriate Risk Taking by the Management

Change in the business environment is a source of uncertainty that a company cannot avoid. But that uncertainty has positive aspects, as risk means opportunity, as well as the negative aspect of threat. In addressing such uncertainty, we tackle strategic issues raised in the Medium-term Business Plan in terms not

only of risk-hedging, but also of risk-taking for growth.

The Company has also established the Risk Management Committee as an advisory body for its President and Representative Executive Officer to extract risks related to the JFR Group and formulate, implement and monitor measures against individual risks.

During the current fiscal year, the Company will extract 138 risk items as those related to the JFR Group, choose 15 items out of them as special corporate risk priorities, including six items that will be reflected in the current year strategies, and continue to monitor the progress.

【Principles 4-6, 4-8】 Management Supervision and Execution, Effective Use of Independent Outside Directors

The basic views of the Company under the new corporate governance structure with three committees are that one-third or more of the Board of Directors must be independent Outside Directors and a majority of members must be independent Outside Directors and/or internally promoted Directors who do not execute business. By doing so, the Company aims to separate supervision and execution, ensure the effectiveness of the Board of Directors' discussions, and maintain and improve transparency and objectivity. In addition, three internal Directors who do not execute business, and are well informed about internal information because of their extensive business experience in businesses of the JFR Group companies, fulfill their roles as chairperson of the Board of Directors, chairperson of the Audit Committee, or Audit Committee members, and five independent Outside Directors, who have extensive external management experience or in-depth knowledge in specialized areas, fulfill their roles as chairperson of the Nomination Committee, chairperson of the Remuneration Committee, or members of any of the three committees, so that the effectiveness of independent and objective management supervision can be ensured.

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

The Company, in principle, holds monthly meetings of the Governance Committee, an optional advisory committee comprising of the chairperson of the Board of Directors, President and Representative Executive Officer, and all Outside Directors. The Governance Committee engages in constructive discussions 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 the results of evaluations of the Board of Directors, and considering options with respect to organizational structure. During the current fiscal year, new personnel have been appointed as presidents of three important affiliated companies (JFR Card, J. Front Design & Construction, and Dimples') whose businesses require high management efficiency, and these personnel have also been concurrently appointed as Executive Officers of the Company. This is because the Company has confirmed that the strengthening of group governance requires the strengthening of oversight, auditing and business execution functions of operating companies. Governance is also strengthened by assigning Audit & Supervisory Board Members to each main affiliated operating company, setting up auditing functions horizontally covering these companies, and taking other measures. From now on, the Company will engage in discussions and exchanges of views with respect to various issues on corporate governance, such as

governance of group companies and the role of the holding company.

【Principle 4-9】 Criteria for Determining Independence of Outside Directors

For the criteria for determining independence of Outside Directors, please refer to "5. Criteria for Determining Independence of Outside Directors" in "Chapter 4. Roles and Responsibilities of the Board of Directors, etc." of the Guidelines.

The Company has registered five Outside Directors as independent officers as stipulated by the financial instruments exchanges.

【Principle 4-11, Supplementary Principle 4-11-1】 Composition of the Board of Directors

For the composition of the Company's Board of Directors, please refer to "2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)" in Chapter II of this Report.

【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 11th Annual Shareholders Meeting (Year Ended February 28, 2018) (http://www.j-front-retailing.com/english/ir/stock/pdf/180426_jfr_e.pdf)

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

Continued from 2016, the Company performed the third evaluation by third-party organization of the Board of Directors from July to September 2017, in line with the transition to a company with three committees.

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, materials for deliberations, level of explanation for proposals, supporting system for Outside Directors, and the effectiveness of three committees' (nomination, audit and remuneration committees') activities.

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 through attendance at its meetings" (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 (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 through attendance at its meetings"

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

The evaluations of the Board of Directors conducted from July to September 2017 identified significant improvements compared to the previous evaluations regarding the level of the Board of Directors' contribution to the entire Group, selection of appropriate agenda items that are substantially discussed, each Director's contribution to discussions, and other matters. The enhancement of the corporate governance system through organizational structure changes and the level of each Committee's contribution to the Board of Directors were also highly evaluated.

On the other hand, since there are opinions demanding the improvement of execution planning and proposal ability due to expectations towards further improving the effectiveness of the Board of Directors, the Company has started to review discussion materials to improve the planning and proposal accuracy from shareholder viewpoints. The Company has also newly established the Business Development Unit that is responsible for completing the business portfolio reforms and achieving corporate value enhancement to strengthen execution, and the Human Resources Strategy Unit that is responsible for preparing HR policies and further strengthening the promotion activities related to recruitment, assignment, cultivation and evaluation so that the growth of human resources (i.e., most important business resources) can lead to the entire group organization's growth. The Company will continuously strive to share issues based on the evaluations of effectiveness of the Board of Directors, and ensure the effectiveness of the entire Board of Directors.

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

The Company continuously provides opportunities to Directors and Executive Officers of the Company and Directors, Audit & Supervisory Board Members and Executive Officers of the main operating companies, to acquire and update knowledge, etc. they need to fulfill their roles and responsibilities with respect to oversight, auditing, business execution and other tasks.

The Company also provides Internal Directors and Executive Officers of the Company and Directors, Audit & Supervisory Board Members and Executive Officers of the main operating companies with useful information, etc. about corporate governance, compliance, and Group management. Furthermore, based on the result of the evaluation on managerial talent by the third-party organization, the Company sets and conducts training plans such as coaching which leads to the manifestation of achievement expected to each individual.

To help the top management share awareness of problems and enhance ingenuity in carrying out the Medium-term Business Plan, the Company also offers training to candidates for management personnel, including Executive Officers, at the "JFR Management Juku (cram school)" newly opened in FY2017. At the JFR Management Juku (cram school), at which external consultants deliver lectures and the President and Representative Executive Officer attends all day long every time it is held, the Company lets the attendees reconsider its Medium-term Business Plan and relevant medium-term departmental plans from the President

and Representative Executive Officer's viewpoints, and also lets them make presentations directly to the President and Representative Executive Officer. These presentations are subject to evaluation. In addition, the Company lets them prepare new business plans, etc., to prevent them from being only engaged in classroom learning, and then the Board of Directors gives them advice, recommendations, etc., on the contents of the said plans.

We arrange briefings for Outside Directors, when they are appointed as well as on a continuous and regular basis, providing details on the basic philosophy, Group Vision, Group Medium-term Business Plan and Group Management Policy, and also featuring content that includes details of JFR Group operations, its performance, financial standing and operational status.

【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.

From 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 released an integrated report in FY2017 that is replete with non-financial information. Included at the beginning of this report are the details of the Company's value creation process. 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 aimed to create, as a public entity of society, new values with which its various stakeholders empathize.

・ Integrated Report 2018
(http://data.j-front-retailing.com/ir/library/pdf/annual/2018/J_FRONT_2018_E.pdf)

2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned (Shares)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	20,816,600	7.88
Japan Trustee Services Bank, Ltd. (Trust Account)	15,975,800	6.05
Nippon Life Insurance Company	7,862,828	2.97
Japan Trustee Services Bank, Ltd. (Trust Account 9)	7,044,800	2.66
J. Front Retailing Kyoei Supplier Shareholding Association	6,123,042	2.31
The Dai-ichi Life Insurance Company, Limited	5,732,150	2.17

MUFG Bank, Ltd.	5,624,473	2.13
Japan Trustee Services Bank, Ltd. (Trust Account 5)	4,543,400	1.72
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	4,083,400	1.54
STATE STREET BANK WEST CLIENT – TREATY 505234	3,723,609	1.41

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

Supplementary Explanation

[1] The status above is based on the shareholder register as of August 31, 2018.
[2] The shareholding ratios of major shareholders are calculated after excluding shares of treasury stock (6,584,321 shares).
[3] 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

Planned Listed Stock 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 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100.0 billion to less 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). The Company understands that the source from which the corporate value of PARCO Co., Ltd. is created is inseparable from the autonomy of that company's management and the creativity that underpins that management, and respects the independence of that company. The Company also strives to increase the corporate value of both companies as part of the JFR Group, aiming for discontinuous growth as a multifaceted services retailer.

The Company and PARCO Co., Ltd. are companies with three committees (nomination, audit and remuneration committees), and their respective independence has been ensured. However, the Company has adopted a system where both companies' directors have mutually concurrent positions to strengthen collaboration and secure management transparency. In addition, the Group Management Meetings consisting of the Company's management team including the president of PARCO Co., Ltd. are held to realize the Group Vision and the Management Philosophy.

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 three committees (nomination, audit and remuneration committees)

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Internal Directors who do not execute business
Number of Directors	13

[Outside Directors]

Number of Outside Directors	5
Number of Independent Outside Directors	5

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*1)										
		a	b	c	d	e	f	g	h	i	j	k
TACHIBANA FUKUSHIMA Sakie	From another company											
OTA Yoshikatsu	From another company											
ISHII Yasuo	From another company											
NISHIKAWA Koichiro	From another company											
SATO Rieko	Attorney at law											

*1 Categories for "Relationship with the Company"

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)

Name	Committee to Belong			Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
	Nomination	Audit	Remuneration			
TACHIBANA FUKUSHIMA Sakie	○	○		○	President and Representative Director of G&S Global Advisors Inc.; Outside Director of Ajinomoto Co., Inc.; Outside Director of USHIO INC.	TACHIBANA FUKUSHIMA Sakie has broad insight based on her abundant experience in internal and external governance as a director at a U.S. company's global headquarters and as an outside director at numerous Japanese companies. In addition, she has gained corporate management experience as the President of a foreign-owned human resource consulting company's local Japanese branch, and accordingly possesses in-depth knowledge regarding global human resources. 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 May 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. Since May 2017, she has contributed to increasing corporate value and sustainable growth from a professional perspective as the chairperson of the Nomination Committee in areas such as adequate selection of management personnel.

						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 Group. As such, she has been appointed to continue serving as Director.
OTA Yoshikatsu	○	○		○	Honorary Advisor of KONICA MINOLTA, INC.	OTA Yoshikatsu has abundant insight gained through his extensive experience acting as a manager of a company that 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 nominating and other 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, change in the form of corporate organization of the Company, 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 Group. As such, he has been appointed to continue serving as

						Director.
ISHII Yasuo			○	○	Director of Daimaru Matsuzakaya Department Stores Co. Ltd.	ISHII Yasuo has long-standing overseas work experience and possesses insight based on his abundant experience in the field of global corporate management outside the retail industry, such as special familiarity with business development in overseas countries. Since May 2017, he has served as an Outside Director of the Company and contributed to ensuring more effective meetings of the Board of Directors by actively and assertively furnishing advice to the Board of Directors with respect to overall management strategy such as strengthening the holding company functions aimed at swift decision making for business execution. Furthermore, in the Audit Committee, he has contributed to maintaining and strengthening the Company's governance through providing suitable advice as required based on his abundant experience and in-depth knowledge. In light of his track record and abundant insight, the Company has judged that in acting as an Outside Director he is likely to contribute greatly to management of the Group. As such, he has been appointed to continue serving as Director.
NISHIKAWA Koichiro			○	○	Director of Daimaru Matsuzakaya Department Stores Co. Ltd.	NISHIKAWA Koichiro possesses suitably useful insight even with respect to financial matters from his practical experience in business

						alliances, M&A, business reforms, and his involvement in numerous important international negotiations. Since May 2017, he has served as an Outside Director of the Company and contributed to ensuring more effective meetings of the Board of Directors by actively and assertively furnishing advice, recommendations and other feedback to the Board of Directors with respect to matters such as taking risks regarding new business and M&As, advancing progress management and results verification for corporate management strategies, and the suitability of numerical-target based planning. Furthermore, in the Audit Committee, he has contributed to maintaining and strengthening the Company's governance through providing suitable advice as required based on his abundant experience and in-depth knowledge. In light of his track record and abundant insight, the Company has judged that in acting as an Outside Director he is likely to contribute greatly to management of the Group. As such, he has been appointed to continue serving as Director.
SATO Rieko	○	○	○	○	Attorney at law; Outside Corporate Audit of NTT DATA CORPORATION; Outside Director of Dai-ichi Life Holdings, Inc. (Audit	SATO Rieko possesses abundant experience as an outside director and outside audit & supervisory board member at other companies, in addition to having made a career in handling many projects with in-depth and specialized knowledge

					& Supervisory Committee Member)	as an attorney at law specializing in corporate legal affairs. The Company has judged that she will provide active advice and recommendations mainly regarding corporate legal affairs from an objective perspective to the Board of Directors and each committee of the Company, and that she is capable of exhibiting this experience and insight in her duty to supervise management. As such, she has been appointed to serve as a new Outside Director.

[Committees]

Composition of Each Committee, and Attributes of Chairperson

	Nomination Committee	Remuneration Committee	Audit Committee
All Committee Members	5 members	5 members	5 members
Full-time Members	0	0	2
Internal Directors	2	2	2
Outside Directors	3	3	3
Chairperson	Outside Director	Outside Director	Internal Director

[Executive Officers]

Number of Executive Officers	15

Current Holding of Positions

Name	Right to Represent	Concurrent Post as Director			Concurrent Post as an Employee
		Concurrent Post as Director	Nomination Committee	Remuneration Committee	
YAMAMOTO Ryoichi	Hold	Hold	○	○	None
YOSHIMOTO Tatsuya	Hold	Hold	×	×	None
MAKIYAMA Kozo	None	Hold	×	×	None

SAWADA Taro	None	Hold	×	×	None
WAKABAYASHI Hayato	None	Hold	×	×	None
FUJINO Haruyoshi	None	None	×	×	None
ARISAWA Hisashi	None	None	×	×	None
MURATA Soichi	None	None	×	×	None
TADATSU Takehiko	None	None	×	×	None
MAKITA Takayuki	None	None	×	×	None
NAKAYAMA Takashi	None	None	×	×	None
IWATA Yoshimi	None	None	×	×	None
NINOBE Mamoru	None	None	×	×	None
KONDO Yasuhiko	None	None	×	×	None
ONO Keiichi	None	None	×	×	None

[Audit Structure]

Assignment of Directors and employees in charge of assistance for the Audit Committee's duties	Assigned

Matters Regarding Independent of Such Directors and Employees From Executive Officers

As an organization in charge of assistance for the Audit Committee's duties, the Audit Committee Secretariat has been established under the direction of the Audit Committee. Regarding personnel affairs (e.g. personnel appointment and changes) related to employees who belong to the Audit Committee Secretariat, the Audit Committee's advance approval is required.

Cooperation among Audit Committee, Accounting Auditors and Internal Audit Departments

The Audit Committee receives explanations on the audit policy and plan, as well as explanations and reports on audit results, from the Accounting Auditor, and also regularly exchanges opinions including requests on audit items.

When the Internal Audit Division prepares its audit policy and plan, it submits the relevant report in advance to the Audit Committee. In addition, its audit results are regularly reported to President and Representative Executive Officer and the Audit Committee. The Audit Committee is authorized to make requests to the Internal Audit Division on the execution of additional audits, or directly conduct audits if necessary. Regarding personnel affairs (e.g. personnel appointment and changes) related to the Executive General Manager of the Internal Audit Division, the Audit Committee's advance approval is required.

[Independent Officers]

Number of Independent Officers	5

Matters relating to Independent Officers

The Company designates all Outside Directors who fulfill the qualifications of an Independent Officer as Independent Officers.

[Incentives]

Incentive Policies for Directors and Executive Officers	・ We have adopted a performance-based remuneration system to motivate Executive Officers of the Company and main operating companies to achieve the Medium-term Business Plan. ・ To encourage the Company's Directors who do not execute business (including Outside Directors) to engage in management activities from medium- to long-term perspectives, we have also adopted a stock-based remuneration system that is not linked to performance.

Supplementary Explanation

Recipients of Stock Options	

Supplementary Explanation

[Remuneration of Directors and Executive Officers]

Disclosure of Individual Directors' Remuneration	Partially disclosed
Disclosure of Individual Executive Officers' Remuneration	Partially disclosed

Supplementary Explanation

YAMAMOTO Ryoichi

Total amount of consolidated remuneration, etc.	108 million yen
Basic remuneration	47 million yen
Bonuses	27 million yen
Performance-linked stock-based remuneration	33 million yen

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Basic Policy on Determining the Remuneration of Directors and Executive Officers of the Company and Daimaru Matsuzakaya Department Stores

For the policy on determining the remuneration of Directors and Executive Officers of the Company and Daimaru Matsuzakaya Department Stores, please refer to the following page on our website.

(http://www.j-front-retailing.com/_data/news/170410_NewOfficerRemuneration_E.pdf)

[Supporting System for Outside Directors (Outside Audit & Supervisory Board Members)]

To ensure the effectiveness of the Board of Directors and the three committees, the Company has established a secretariat for each committee, as well as the Board of Directors Secretariat, and has developed a support structure which handles the following:

- Supporting to make decisions on plans of holding meetings of the Board of Directors, three committees, Advisory Committee, etc.;
- Supporting to make decisions on agenda items of the respective meeting structures and plans for annual deliberations;
- Arranging to provide briefings beforehand to the Outside Directors and providing other information; and
- Providing in-house feedback with respect to questions, opinions and other communications from the Outside Directors provided during prior briefings and other forums.

[Status of Persons Who Have Retired from a Positions Such as President and Representative Director]

Retired President and Representative Directors, etc., Holding Advisory or Any Other Positions in the Company

Name	Title/ Position	Responsibilities	Working From and Conditions (Full-time/Part-time, Paid/Unpaid, etc.)	Date of Retirement from Position Such as President	Term of Office
OKADA Kunihiko	Senior Advisor	Engage in external activities such as those for another company, business community, etc.	Part-time Unpaid	May 27, 2010	Varies depending on an agreement made with another such company, community, etc.

OKUDA Tsutomu	Senior Advisor	Engage in external activities such as those for another company, business community, etc.	Part-time Unpaid	May 22, 2014	Varies depending on an agreement made with another such company, community, etc.
SAMURA Shunichi	Advisor	Engage in external activities such as those for another company, business community, etc.	Part-time Paid	May 26, 2016	4 years

Total Number of Advisors, Counselors etc., Who Held a Position of President and Representative Director, etc.	3

Other Matters

- In May 2017, the Company abolished the Advisor System from a standpoint of achieving its ideal state of corporate governance and ensuring management transparency in connection with the organizational structure change to a company with three committees (nomination, audit and remuneration committees).
- Since the Company's current Advisors were appointed before the abolition of the Advisor System, no changes were made to their current terms of office. After retiring as Advisors, they may be appointed Senior Advisors to continuously engage in external activities. We understand that there are concerns and negative effects such that the current management is unfairly influenced, but the Company's Board of Directors has been playing its roles very transparently and objectively without such concerns and negative effects.
- In connection with the abolition of the Advisor System, the Company has reviewed its rules related to the treatment of retiring officers, and decided to appoint them to counselor positions and pay remuneration for a maximum of one year as long as former officers including former Presidents and Representative Directors carry out important external activities, etc. (e.g., the assumption of office as an outside director of another company, and business community activities). However, the selection and remuneration of counselors are resolved by the Nomination and Remuneration Committees, a majority of whose members are Outside Directors.

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:

- Establishes corporate governance practices for the entire JFR Group;
- Plans and formulates the Group Vision, Group Medium-term Business Plan and Group Management Policy and tracks the progress and results thereof;
- Optimally allocates the JFR Group's management resources;
- Establishes Group-wide risk management system and is involved in internal audits;
- Makes decisions on important matters of business execution relating to management of the JFR Group; and
- Provides advice and approval for management policy and management strategy of respective operating companies, and oversees and evaluates progress thereof.

The Company has six supervisory units (Management Strategy Unit, Business Development Unit, Affiliated Business Unit, Financial Strategy Unit, Human Resources 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.

(2) Board of Directors

Directors 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 Group Vision. Accordingly, these roles and responsibilities include:

- Indicating the overall direction that Group management is to take, by engaging in constructive discussions with respect to the Group Vision, Group Medium-term Business Plan, Group Management Policy and other fundamental management policies, and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;
- Appropriately making decisions in terms of overall policy and plans pertaining to Group management on the basis of the direction noted above and overseeing progress and results of the plans;
- Developing an environment conducive to encouraging offense-oriented management geared to achieving discontinuous growth;
- Taking steps to build and develop internal control systems of the JFR Group overall, and otherwise overseeing the operational status of such systems;

- Overseeing conflicts of interest between related parties; and
- On the basis of summary reports furnished by the Nomination Committee, overseeing progress of senior management team succession planning, personnel assignment plans pertaining to managerial talent and management team training, as delegated to the Nomination Committee.

The Board of Directors of the Company is to be composed of an appropriate number of Directors, but not more than 15, as stipulated in the Articles of Incorporation. The number of Directors is currently thirteen (13) (including five (5) independent Outside Directors, two of whom are female Directors), and the term of office is one year. From the standpoint of separating supervision and execution and ensuring the effectiveness of the Board of Directors' discussions, one-third or more of Directors are independent Outside Directors and a majority of Directors are independent Outside Directors and/or internally promoted Directors who do not execute business. The chairperson of the Board of Directors is chosen from among internally promoted Directors who do not execute business from the standpoint of separating supervision and execution and ensuring the smooth operation of the Board of Directors.

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

(3) Three Committees

(Nomination Committee)

The Nomination Committee is composed of three (3) Outside Directors, chairperson of the Board of Directors who do not execute business, and President and Representative Executive Officer. The chairperson is chosen from among independent Outside Directors from the standpoint of ensuring transparency and objectivity. The Nomination Committee determines the contents of proposals on the nomination and dismissal of Directors submitted to shareholders' meetings and the contents of reports submitted to the Board of Directors regarding the nomination and dismissal of management personnel of the Company and Daimaru Matsuzakaya Department Stores, as well as the chairpersons and members of three committees, and other matters.

(Audit Committee)

To maintain and improve audit accuracy, the Audit Committee is composed of three (3) Outside Directors and two (2) internal full-time Directors who do not execute business and are well informed about internal information. In addition, at least one of the Audit Committee members must have appropriate knowledge of finance and accounting. In accordance with the overall policy and plan determined by the Board of Directors, the Audit Committee audits the execution of business by Directors and Executive Officers, important matters submitted to the Board of Directors, and other individual matters the Audit Committee considers necessary, as well as the status of establishing and implementing internal controls, and then prepares audit reports.

To ensure the reliability of accounting information, the Audit Committee also oversees the Accounting Auditor, and determines the contents of proposals on the nomination and dismissal of such Auditor and other matters submitted for discussion at shareholders meetings.

The chairperson is chosen from among internally promoted Directors who do not execute business from the standpoint of achieving a smooth transition from the Audit & Supervisory Board system. However, the Company will consider reviewing this system and establishing a more appropriate system.

(Remuneration Committee)

The Remuneration Committee is composed of three (3) Outside Directors, chairperson of the Board of Directors who do not execute business, and President and Representative Executive Officer. The chairperson is chosen from among independent Outside Directors from the standpoint of ensuring transparency and objectivity. The Remuneration Committee determines the policy on deciding the contents of individual remuneration to management personnel of the Company and Daimaru Matsuzakaya Department Stores, and these contents themselves.

(4) Governance Committee

We have established the Governance Committee whose membership consists of the chairperson of the Board of Directors, President and Representative Executive Officer and all Outside Directors. The committee engages in free, open and constructive discussion and exchanges of views regarding issues of corporate governance and business management overall, including reformation of the Board of Directors on the basis of evaluations thereof. Moreover, the committee endeavors to facilitate information sharing and collaboration among the Outside Directors.

(5) 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:

- 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;
- Arranging discussions between the Accounting Auditor and President and Representative Executive Officer and relevant Executive Officers on a regular basis (about two times per year);
- Arranging meetings between the Accounting Auditor and Audit Committee members and internal audit departments for the purpose of sharing information and exchanging views on a regular basis (about six times per year); and
- Enabling the Audit Committee to perform necessary investigations upon receiving a report from the Accounting Auditor detailing instances of material improprieties and illegal acts related to the execution of duties of Directors and Executive Officers; and enabling the Audit Committee to take necessary measures in that regard, that include reporting, furnishing advice and providing recommendations to the Board of Directors.

(6) Risk Management Committee and Compliance Committee

The Risk Management Committee manages and addresses strategic and other risks as a whole systematically from a company-wide perspective, and makes management decisions specifically focusing on risk management. The chairperson of this committee is President and Representative Executive Officer, and Committee members include Senior Executive General Managers and presidents of main operating companies. The committee assesses a variety of risks, prepares necessary measures, and conducts progress management, etc. using extensive specialized knowledge of Committee members chosen from among Units.

The Company has established the Compliance Committee (whose membership includes corporate lawyers) for the purpose of appropriately addressing issues of JFR Group compliance management practices. The chairperson of this committee is President and Representative Executive Officer, and the committee draws up a policy for addressing matters involving serious compliance-related violations, continuously oversees development of the foundations of compliance system (e.g. preparation of promotion systems and plans) and the status of implementation through close collaboration with departments in charge of promoting compliance, and promotes compliance with laws and regulations, corporate ethics, and other such standards.

The both committees also report details of its deliberations to the Audit Committee regularly (about two times a year) and in a timely manner.

(7) JFR Group Compliance Hotline

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 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.

(8) Limited Liability Agreement

The Company concludes a limited liability agreement with each Director who does not execute business pursuant to the provisions of Paragraph 1, Article 427 of the Companies Act so that Directors who do not execute business 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 Director who does not execute business 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 Director who does not execute business in good faith and without gross negligence.

3. Reasons for Adoption of Current Corporate Governance System

The Company has adopted the organizational structure of a company with three committees (nomination, audit and remuneration committees). This is for the purpose of carrying out initiatives to further strengthen corporate governance from the following perspectives:

(1) Strengthening of the management oversight function by separating oversight from execution

The Company will strengthen the oversight function for business execution of the Board of Directors by separating oversight from execution. In addition, the Company aims to promote sophistication of strategy by having the Board of Directors actively include the insights of external persons in order to hold rigorous discourse on important strategic issues relating to the Group management.

(2) Greater clarity of authority and responsibility in business execution and promotion of agile management

The Company will enable decisions of business execution to be delegated to Executive Officers (Note), clarify the authority and responsibility between the Board of Directors and Executive Officers and between the holding company and the operating subsidiaries, and carry out speedy management decision making.

(Note) With regard to Executive Officers, although the English name is the same as Executive Officers, which were previously referred to as "*shikkoyakuin*" in Japanese, the Japanese name and their functions are different.

(3) Improvement of transparency and objectivity of management

The Company will improve the transparency and objectivity of management by adopting the structure of a company with three committees (nomination, audit and remuneration committees). The majority of the members of each of these committees are Outside Directors.

(4) Building an organizational structure compatible with global perspectives

The Company will build a governance structure that is easy to understand from global perspectives, such as those of overseas investors.

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 11th 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 (https://evote.tr.mufg.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/pdf/180426_jfr_e.pdf) (http://www.j-front-retailing.com/english/ir/stock/pdf/180426_jfr_02_e.pdf)

2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	IR Policy Under the basic 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 integrated 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, integrated 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 twice (one each in Tokyo and Hakata) in the first half of FY2017 and seven times (five in Tokyo and one each in Osaka and Nagoya) in the second half of FY2017. In addition to the briefings scheduled to be held in Tokyo in June and in Nagoya in August, we are planning to hold more briefings in the current fiscal year than in FY2017.

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). During the current fiscal year, two financial results briefing sessions and nine small meetings (small-sized briefing sessions) were held at the initiative of President and Representative Executive Officer. In addition, IR personnel held 110 individual meetings with domestic institutional investors.
Regular Investor Briefings for Overseas Investors	To strengthen relationships with overseas investors, the Company held individual meetings with them in June (Europe), July (Hong Kong and Singapore) and November (U.S.A.) during FY2017, and the President and Representative Executive Officer held dialogues with 45 companies. The Company also participated in conferences for overseas investors held in Japan in March and November 2017 and February 2018, and the President and Representative Executive Officer held dialogues 33 times. In November, the Company participated in a conference held in Hong Kong, and the Director and Senior Executive General Manager of Financial Strategy Unit held dialogues with 12 companies. In addition, IR personnel held 58 individual meetings with overseas investors in Japan. Using these opportunities, the Company held a total of 148 meetings with overseas-based investors in FY2017. During the current fiscal year, the Company is scheduled to hold individual meetings with overseas investors in June (Europe), July (Hong Kong and Singapore) and November (U.S.A.), and also participate in domestic and overseas conferences for overseas investors.
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	Investor Relations Promotion Division, Financial Strategy Unit The Company has established the Investor Relations Promotion Division inside the Financial Strategy Unit to build stable relationships of trust with its shareholders and investors. The Company aims to enhance its constructive dialog using more highly accurate information based on financial data related to not only business performance in the short term but also the future outcomes expected as a result of carrying out the business strategies.
Other	Promoting Constructive Dialogue Through these IR activities, the Company was chosen as No. 1 in the retail category of the 2017 Award for Excellence in Corporate Disclosure

	(sponsored by The Securities Analysts Association of Japan) in FY2017. We will continue to promote its IR activities to enhance management transparency and help stakeholders understand us more deeply by fairly disclosing important information about the Company in an easy-to-understand, appropriate and timely manner.

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The JFR Group Philosophy defines the basic stance toward all stakeholders; "basic philosophy," "Group Vision," "JFR Way," "commitments to stakeholders." All officers and employees of all companies of the Group deeply understand this philosophy and act positively toward the further development of the Group. For details, please refer to the following page on our website. (http://www.j-front-retailing.com/english/company/philosophy.php)
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 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 management strategies and Group business plans which indicate management benchmarks and other objectives, with the aim of realizing the Group Vision. We release those documents in order to share such details with our shareholders, investors and other stakeholders.

	Methods of Information Disclosure Please refer to the methods stated in IR Policy under "2. IR Activities" above.
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.

IV. Matters Related to the Internal Control System

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

Basic Policy to Build Internal Control System

This is a basic policy relating to building an internal control system for appropriate execution of overall business within the corporate group comprising J. FRONT RETAILING Co., Ltd. and its operating companies. By specifically promoting this policy, the Group aims to contribute to increasing corporate value.

- J. Front Retailing aims to realize corporate governance that is a structure for transparent, fair, swift and resolute decision-making with due attention to the perspectives of shareholders and also customers, employees and communities in order to ensure the sustainable growth of the JFR Group and increase corporate value over the medium to long term. The Company has therefore adopted the structure of a company with three committees (nomination, audit and remuneration committees) in order to strengthen the oversight function and decision-making function for business execution of the Board of Directors by clearly separating management oversight and execution functions.
- In order to achieve our best possible corporate governance structure, it is important that the President and Representative Executive Officer takes and hedges various risks (uncertainties) within the corporate group to build an internal control system capable of appropriate and efficient business execution.
- The internal control system is a structure that companies should establish to control internal risks (uncertainties) with a view to realizing sustainable, stable growth. Specifically, the system comprises the following Group management system, risk management system, legal compliance system, internal audit system, and audit committee system.

1. Group Management System

(1) Board of Directors

- The Board of Directors shall perform an oversight function by monitoring the Executive Officers' and Directors' execution of business.
- The Board of Directors shall discuss and resolve matters defined in the Companies Act and/or the Articles of Incorporation, as well as the Group Vision, Group Medium-term Business Plan, overall policy and plan for Group management, M&As, Group financing plans, and other individual important matters relating to Group management. In order to speed up business decisions and execution, the task of determining matters involving business execution other than the above shall be delegated to execution, with the exception of matters which have a material impact on Group management.
- For monitoring action, decision making and the like by the Board of Directors, a certain number or more of highly independent Outside Directors shall be appointed, having no risk of a conflict of interest with the Company's shareholders, and being able to provide judgments independently from top management and make decisions appropriately.
- To ensure effectiveness of objective management oversight, in addition to the Outside Directors, internally

promoted Directors who do not execute business and who are well informed about internal information shall also be appointed.

・ To further strengthen oversight function while conducting smooth operation of the Board of Directors, internal Directors who do not execute business shall be selected as the chairperson of the Board of Directors.

(2) Management execution framework

・ The Company shall clearly separate management oversight and execution and strengthen the Board of Directors' oversight function while delegating authority for execution to enable swift management decision-making. Meanwhile, execution shall be controlled by having the following framework.

・ Each corporate division shall have a mission statement that clearly states its mission, and the responsibilities of execution are clarified, such as the targets, roles, risks, and interdivisional cooperation.

・ Execution shall formulate the major Group management policies and individual important matters, and oversee business execution of operating companies. The Board of Directors shall discuss and determine (approve) the suitability of major policies and plans that execution has prepared as well as individual important matters.

・ The execution bodies shall be the Management Strategy Unit, Business Development Unit, Affiliated Business Unit, Financial Strategy Unit, Human Resources Strategy Unit and Administration Unit, and Executive Officers shall be appointed as the head of the units, through which the Company shall achieve swift and efficient business execution.

・ The Affiliated Business Unit shall provide management support for operating companies and conduct business management of the operating companies to increase the Group's corporate value.

・ The Group Management Meeting, the Group Results and Strategy Examination Meeting, the Group Liaison Meeting, the JFR Liaison Meeting, the JFR Division Managers' Meeting shall discuss the overall policy and plan and other matters for Group management, as well as checking on the progress of management strategies and sharing information between management, and so forth.

・ 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.

・ The Company has adopted the International Financial Reporting Standards (IFRS) voluntarily in the interest of implementing effective management based on appropriate asset evaluation, applying business management that gives emphasis to the profit of the current period, increasing convenience for overseas investors by improving the international comparability of financial information.

(3) System to secure appropriateness of financial reporting

・ With regard to internal controls over financial reporting, the Company shall be in compliance with Japan's Financial Instruments and Exchange Act and various associated laws and regulations, and construct an internal company system to secure the legality and appropriateness of its financial reporting. In addition, all operating companies shall also construct the same system.

2. Risk Management

(1) Risk Management Committee

- The Company shall establish the Risk Management Committee as an advisory body to the President and Representative Executive Officer with regard to risk management. The committee is chaired by the President and Representative Executive Officer and comprises Executive Officers and others.
- An officer shall be put in charge of risk management in order to promote the operation of risk management.
- Each operating company shall put departments and responsible persons in charge of promoting compliance and risk management, and carry out daily supervision and direction of risk.
- The Risk Management Committee shall systematically manage and address strategic and other risks as a whole from a company-wide perspective, enabling management decisions from the perspective of risk management.
- For risks involved in business operations, the 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.
- Risks to be addressed shall be managed by the ESG Promotion Division by reviewing a Risk List and Risk Map, which centrally lists all the risks in the Group at any time.
- Of the risks involved in business operations that are identified, for particularly serious items, the Risk Management Committee shall deliberate over and determine a policy in response, and shall respond to them by having the Company and the operating companies execute the policy.
- The Risk Management Committee shall coordinate with the Revitalization Plan Review Committee, which shall discuss business revitalization for unprofitable or low-profit businesses, ascertain the management status of the operating companies, and share risk recognition within execution.

(2) Execution control

- Under the direction of President and Representative Executive Officer, the Company shall put a person in charge of execution control within the ESG Promotion Division in the Management Strategy Unit to strengthen internal control over execution. The person responsible shall develop and manage the control environment at the Company and the operating companies.
- The person in charge of execution control shall develop and manage the internal controls regarding the Companies Act and the internal control system regarding the Financial Instruments and Exchange Act at the Company and the operating companies.
- The person in charge of execution control shall clarify the mission and risk responsibility in each division and strengthen links between departments by developing and managing the mission statements for each corporate division.
- The person in charge of execution control shall coordinate with the Audit Committee, the Internal Audit Division, the corporate divisions and operating companies to share information and remedy any deficiencies that occur in the internal controls.

(3) Crisis risk response

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 and Representative Executive Officer.

3. Legal Compliance System

(1) Compliance Committee

- The Company shall establish the Compliance Committee as an advisory body to the President and Representative Executive Officer regarding the operation of compliance management. The President and Representative Executive Officer shall be the chairperson and the members of the committee shall be corporate lawyers, Executive Officers and others.
- An officer shall be put in charge of compliance in order to promote the operation of compliance management.
- At operating companies, 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.
- The Compliance Committee shall work to develop the foundations of compliance management such as internal company rules, operation management manuals and formulation of management systems. In addition, the committee shall periodically formulate and track progress on compliance penetration activities such as e-learning, through departments in charge of promotion of compliance at each company.
- The Compliance Committee shall periodically request reports from persons in charge of promotion of compliance at operating companies regarding the status of compliance 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.

(2) Whistle-blowing system

- 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 the Company and operating companies.
- The hotline's policy shall be to maintain strict confidentiality regarding notifications and reports and shall not disclose the personal information of whistleblowers to a third party without their consent; to be careful to avoid identification of the whistleblower when investigating the facts; and to ensure that whistleblowers are not subjected to disadvantageous treatment in terms of personnel affairs or any other aspect.
- For hotline reports concerning management personnel, the Company shall build a structure whereby the reports are submitted directly to the Audit Committee and subjected to directions from the Audit Committee so as to secure an independent reporting route.

4. Internal Audit Structure

- The Company shall establish an independent Internal Audit Division under the direction of the President and Representative Executive Officer. In accordance with internal audit rules and under the direction of the President and Representative Executive Officer, the Internal Audit Division shall audit the operations of the Company and operating companies or properly report the results of audits of operations, examine the properness and effectiveness of the processes for their operations, and provide guidance, advice and proposals to all departments at the Company and to operating companies.

・ To further enhance corporate governance by strengthening auditing functions, the Company shall clarify links between the President and Representative Executive Officer, the Audit Committee and the Internal Audit Division. Specifically, the Company shall adopt a double-reporting system where both the President and Representative Executive Officer and the Audit Committee shall receive reports. When the reports are made, the audit report and the improvement report shall be reported together to realize swift measures.
・ Appointments and transfers of persons responsible for the internal audit departments shall be subject to advance approval by the Audit Committee.

5. Structure of the Audit Committee
・ The Audit Committee shall audit the legality and suitability of the execution of duties by the Executive Officers and Directors.
・ To maintain and improve the accuracy of audits, two full-time Audit Committee members shall be appointed from among the internal Directors who do not execute business as Audit Committee members, one of whom shall be the chairperson of the Audit Committee.
・ As an organization in charge of assistance for the Audit Committee's duties, the Audit Committee Secretariat has been established within the Board of Directors Secretariat.
・ Regarding personnel affairs related to the Audit Committee Secretariat organization and staff members, the Audit Committee's advance approval is required to ensure independence.
・ The Audit Committee shall have periodic meetings with the President and Representative Executive Officer to share information. Moreover, the Company's Executive Officers and Directors may be asked to attend Audit Committee meetings to provide reports and opinions as necessary.
・ The Audit Committee shall regularly coordinate with the Internal Audit Division to share information. Moreover, the Accounting Auditor, outside experts and others may be asked to attend Audit Committee meetings to provide reports and opinions as necessary.
・ The Audit Committee members shall report to the Audit Committee on the status of audits of the following matters:
・ Matters resolved by or reported to the Board of Directors
・ Matters identified by the Audit Committee as issues
・ Internal audit implementation status and results (audit report, improvement report, etc.)
・ The Audit Committee members shall attend the Group Management Meeting and other meetings, inspect important documents associated with the execution of duties, such as circular approval memos, and request explanations from officers and employees of operating companies as necessary.
・ Operating companies shall submit the necessary audit reports and perform other duties if requested to do so by the Audit Committee.
・ The Audit Committee shall have periodic meetings and the like with Audit & Supervisory Board Members of the operating companies to enhance and strengthen the auditing of the entire Group.
・ The Audit Committee may request expenses deemed necessary for performing the duties from the Company, and the Company shall bear them.

6. Other

(1) System for storage and management of information

・ For documents relating to the execution of duties by Executive Officers and 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.

・ For minutes and related documents regarding meetings chaired by Executive Officers and Directors, and other important documents relating to the execution of duties by Executive Officers and 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.

(2) Digital information security

・ Senior Executive General Manager of the Business Development Unit shall control digital information management of the Company, and shall report periodically and whenever necessary on the status of digital information management and related matters to the Board of Directors, the Audit Committee, the Management Meeting and the President and Representative Executive Officer.

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 Company 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

[1] 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.

[2] 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; Create and Bring to Your Life “New Happiness,” in order to make a contribution to securing and enhancing the corporate value of the Group and, by extension, the common interests of shareholders.

[3] 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 officers 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.

[4] 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, Business Development Unit, Affiliated Business Unit, Financial Strategy Unit, Human Resources 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 Group company, and these proposals are, as a general rule, presented in advance at the Group Management Meeting. Furthermore, we operate the Group Results and Strategy Examination Meeting, Affiliated Business Results and Strategy Examination Meeting, Group Liaison Meeting, Affiliated Business Presidents Meeting, SS (Shared Service) Business Presidents Meeting and other meeting bodies to grasp and share information on the Company and Group companies.

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

To grasp important decision-making processes and the status of the execution of duties, full-time members of the Audit Committee not only attend important committee and other meetings, such as the Group Strategy Meeting, but also peruse important documents relating to the execution of business such as approval circulars. In addition, the Company has a system in place whereby if there is information about an event or risk of event that has not been shared at regular meetings of the Audit Committee and operating units and that is significantly damaging to the Company, Executive Officers and employees report such fact to the Audit Committee.

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 Committee.

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 Committee appropriately reports these issues to the Board of Directors.

(3) System to manage company information

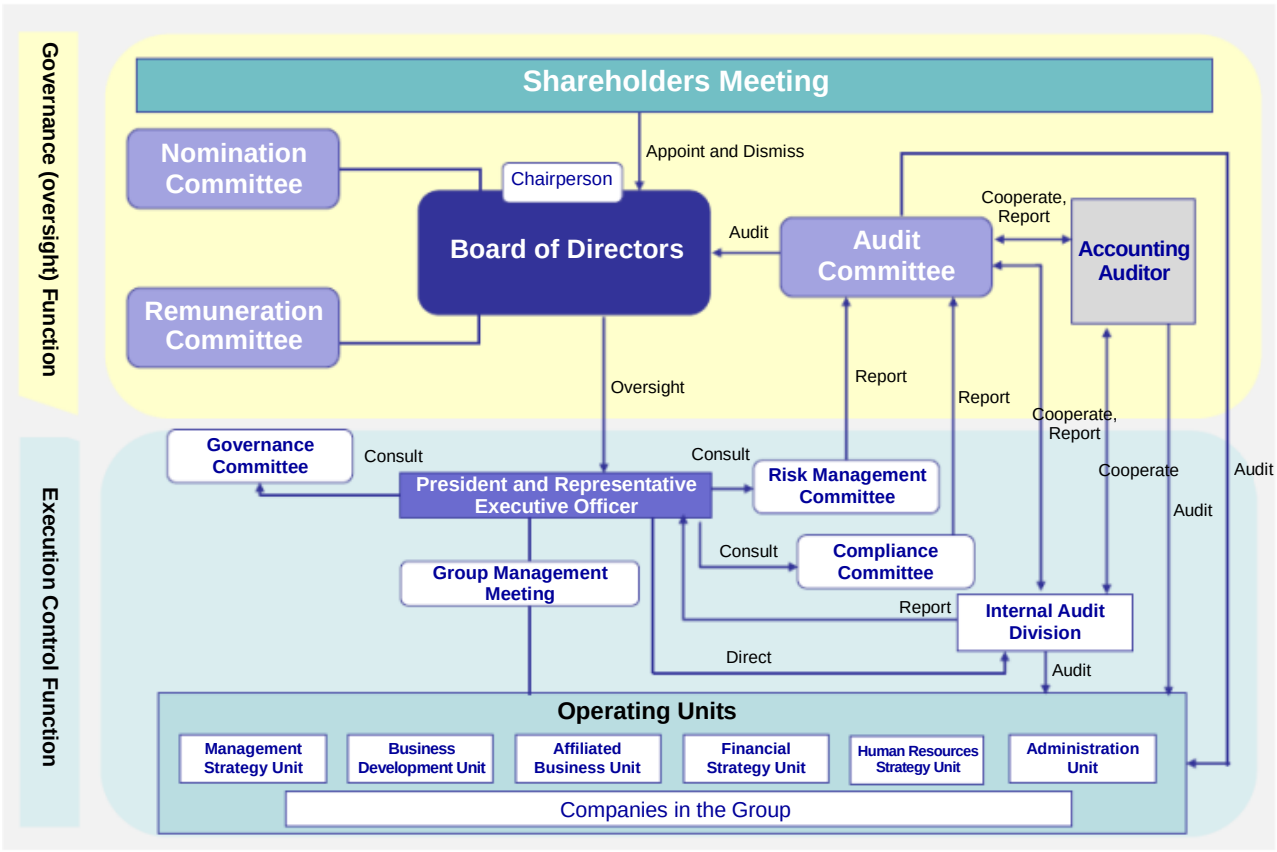
With respect to company information, particularly significant event having an effect on investment decisions of investors, and information that is subject to timely disclosure requirements as stipulated by financial instruments exchanges, we develop structures for appropriately managing it by stipulating 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 Management Meeting, regardless of whether or not such information is to be disclosed. Matters involving such company information are presented for discussion at 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 work involved in providing information disclosure is carried out by the Legal Division, Budget and Management Support Division, Investor Relations Promotion Division and Group Communications Promotion Division.

JFR Corporate Governance Structure Chart



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, the Company 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.

The Company 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.

Chapter 1. General Provisions

1. JFR's Approach to Corporate Governance

Ever since its management integration, the JFR Group has been engaging in initiatives that involve strengthening its competitiveness and profitability as a multifaceted retailer operating multiple businesses and constructing a business model for growth along with regions in which it operates.

However, we now face the prospect of an increasingly obsolete business model and other substantial changes emerging in the business environment in this era of changes occurring at an accelerating rate after having achieved a track record of successes spanning back over the last 50 years. As such, we are now finding it more difficult to generate growth by remaining on the path prescribed in terms of our current business model, and accordingly view our present situation as a turning point with respect to possibilities for drastically altering the course being taken by Group management.

Amid such trends, the JFR Group has been giving thought to the notion of what it is that makes people happy, and has consequently drawn up its new Group Vision. This new vision reflects our commitment to helping people lead emotionally fulfilling lives by strategically seeking expansion in current fields of business and transforming our existing businesses in hopes of providing new forms of value with respect to lifestyles as well as means of seeking enjoyment.

Accordingly, with the Group Vision pointing us in the direction we ought to be headed, we have shifted to a company with three committees (nomination, audit and remuneration committees) organizational structure as part of our efforts to enhance our managerial framework in a manner geared to substantially transforming the JFR Group while also achieving discontinuous growth.

Taking advantage of this change in organizational structure, we aim to persist with efforts to enhance our corporate governance practices while also heightening our corporate value by pursuing outcomes of more substance.

2. 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

"Create and Bring to Life 'New Happiness'"

(3) JFR Way (The ideas that motivate us)

"Create the future"

We will create things that society and consumers have never before perceived as well as create new amazing and delightful things.

"Act on courage not fear"

We will take action without fear of failure, and we will all learn from the challenges we have faced.

"Embrace new ideas"

We will not succumb to an inward-looking approach, but instead will take a broader view developed by coming into contact with people, objects and events in the outside world.

"Think for yourself when taking action"

We will think for ourselves when taking action without waiting to be told, and will enthusiastically accomplish our goals.

"Act sensibly and honestly"

We will take action as members of society in a manner commensurate with a sense of social decency, while unwaveringly conducting ourselves with sincerity and honesty at all times.

(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.

3. Basic Ideas on Corporate Governance

(1) Role of Corporate Governance

The Company believes 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, 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 Vision. 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 Group Vision, Group Medium-term Business Plan, Group Management Policy and other fundamental management policies, and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;

(ii) Appropriately making decisions in terms of overall policy and plans pertaining to Group management on the basis of the direction noted above and overseeing progress and results of the plans;

(iii) Developing an environment conducive to encouraging offense-oriented management geared to achieving discontinuous growth;

(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) On the basis of summary reports furnished by the Nomination Committee, overseeing progress of senior management team succession planning, personnel assignment plans pertaining to managerial talent and management team training, as delegated to the Nomination Committee.

The Company has recently adopted the company with three committees (nomination, audit, and remuneration committees). Rationale used in adopting this structure is as described below.

(i) The Company will strengthen the oversight function for business execution of the Board of Directors by separating oversight from execution. In addition, the Company aims to promote sophistication of strategy by having the Board of Directors actively include the insights of external persons in order to hold rigorous discourse on important strategic issues relating to the Group management.

(ii) The Company will enable decisions of business execution to be delegated to Executive Officers, clarify the authority and responsibility, and carry out speedy management decision making.

(iii) The Company will improve the transparency and objectivity of management by transitioning to a company with three committees (committees of nomination, audit and remuneration). The majority of the members of each of these committees are outside officers.

(iv) The Company will build a governance structure that is easy to understand from global perspectives, such as those of overseas investors.

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, our Articles of Incorporation stipulate that a shareholder may exercise his or her voting rights by proxy upon completing the necessary procedures when a beneficial shareholder has filed to exercise rights as a shareholder beforehand.

(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 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 sources of 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 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 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. Specifically, in regard to proposals that we consider to be of high

priority with respect to strengthening corporate governance, such as proposals relating to the corporate governance system (selection of company officers), proposals relating to shareholder return (appropriation of surplus), and proposals that have an effect on shareholder value (introduction of takeover defense measures), we establish policies upon which to base judgment of our exercise of voting rights, and acting as the JFR Group as a whole, we take a response that is in line with such policies. We engage in dialogue with companies whose shares we hold if necessary when we exercise voting rights.

(4) Handling of Requests from Holders of Cross-held Shares Regarding the Sale of JFR Shares

In case a company which holds the Company's shares for the purpose of cross-shareholding (holders of cross-held shares) indicates intention to sell the Company's shares, the Company will never conduct activities to hinder the sale of cross-held shares by implying a reduction of business transaction, etc., and appropriately handle the sale, etc.

4. Adoption of the International Financial Reporting Standards (IFRS)

The Group has adopted the International Financial Reporting Standards voluntarily in the interest of implementing effective management based on appropriate asset evaluation, applying business management that gives emphasis to the profit of the current period and ensuring accountability to domestic and overseas investors by improving the international comparability of financial information.

In monitoring our key financial indicators used in achieving objectives of the Medium-term Business Plan through efforts to realize our new Group Vision, we focus primarily on ROE for capital efficiency, consolidated operating profit for business profitability, free cash flows for profitability and stability, and ratio of equity attributable to owners of parent to total assets (equity ratio) for financial soundness.

5. Related Party Transactions

When engaging in transactions with Directors and Executive Officers, 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) IR Policy

Under the basic 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.

(2) 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), Executive Officers, or the Investor Relations Promotion Division will properly respond, upon taking into consideration the intent and aims of the request.

(3) 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 Management Meeting and other such forums.

(4) 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 has established the Investor Relations Promotion Division inside the Financial Strategy Unit to build stable relationships of trust with its shareholders and investors. The Company aims to enhance its constructive dialog using more highly accurate information based on financial data related to not only business performance in the short term but also the future outcomes expected as a result of carrying out the business strategies.

2. Appropriate Disclosure of Company Information

(1) Formulating and Disclosing the Group Vision, Group Medium-term Business Plan and Group Management Policy

The Company draws up business model, medium- to long-term strategy story that the JFR Group pursues, as well as the Group Vision, Group Medium-term Business Plan and Group Management Policy 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, integrated 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 Management Meeting, regardless of whether or not such information is to be disclosed. Matters involving such company information are presented for discussion at 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 work involved in providing information disclosure is carried out by the Legal Division, Budget and Management Support Division, Investor Relations Promotion Division and Group Communications Promotion Division.

(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, 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 judgment.

Matters delegated to the Board of Directors are reviewed to determine if such matters may be appropriately delegated in order to ensure optimal corporate governance.

(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 the Group Vision, Group Medium-term Business Plan, Group Management Policy, matters relating to new business development and M&As. Moreover, the Rules of the Board of Directors stipulate that the Board of Directors is to determine matters to be resolved, consulted and 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 matters which have a material impact on 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 matters which have an impact on 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 Medium-term Business Plan and Group Management Policy, and tracks the progress and results thereof;
(iii) Optimally allocates the JFR Group's management resources;
(iv) Establishes Group-wide risk management system and is involved in internal audits;
(v) Makes decisions on important matters of business execution relating to management of the JFR Group; and
(vi) Provides advice and approval for management policy and management strategy of respective operating companies, and oversees and evaluates progress thereof.

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 fifteen (15), as stipulated in the Articles of Incorporation (one-year terms of office). The membership is to include Representative Executive Officers, 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 with respect to the Board of Directors from the standpoint of separating oversight and execution and ensuring the effectiveness of the Board of Directors' discussions. To such ends, a majority of its membership consists of Directors who do not execute business (internal Directors who do not execute business and independent Outside Directors) with one-third or more of the Directors independent Outside Directors, while consideration is given to bringing about a balance of knowledge, experience and abilities within the Board of Directors as a whole.

(2) Roles of the Three Committees (Nomination, Audit and Remuneration Committees)

(i) Nomination Committee

The Nomination Committee is composed of three (3) Outside Directors, chairperson of the Board of Directors who do not execute business, and President and Representative Executive Officer. The chairperson is chosen from among independent Outside Directors from the standpoint of ensuring transparency and objectivity.

This committee determines the contents of proposals on the nomination and dismissal of Directors submitted to shareholders' meetings, seeks consultation from the Board of Directors, and reports to the Board of Directors regarding the nomination and dismissal of management personnel of the Company and its major business subsidiaries, as well as the nomination and dismissal of chairpersons and members of respective committees, and other matters.

(ii) Audit Committee

The Audit Committee is composed of three (3) Outside Directors and two (2) internal full-time Directors who do not execute business. In the near term, the chairperson has been chosen from among internally promoted Directors who do not execute business from the standpoint of achieving a smooth transition from the Audit & Supervisory Board system.

In accordance with the overall policy and plan determined by the Board of Directors, the committee audits the execution of business by Directors and Executive Officers, important matters submitted to the Board of Directors, and other individual matters that the Audit Committee considers necessary.

(iii) Remuneration Committee

The Remuneration Committee is composed of three (3) Outside Directors, chairperson of the Board of Directors who do not execute business, and President and Representative

Executive Officer. The chairperson is chosen from among independent Outside Directors from the standpoint of ensuring transparency and objectivity.

The committee determines the policy on deciding the contents of individual remuneration to management personnel of the Company and major business subsidiaries, and these contents themselves.

(3) Advisory Committees of the Board of Directors

The Company supplements the functions of the Board of Directors. In particular, the Company has established the advisory committee, in order to ensure effectiveness of the oversight function.

- Governance Committee

  We have established the Governance Committee whose membership consists of the chairperson of the Board of Directors who represents the Board of Directors, Outside Directors who represent our stakeholders, President and Representative Executive Officer who represents the Executive Officers. 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 Group governance of the Company and reforming the Board of Directors on the basis of evaluations thereof). Moreover, the committee endeavors to facilitate information sharing and collaboration of the Outside Directors.

(4) Board of Directors and Each Committee (Nomination, Audit and Remuneration Committees) Support Structure

The Company has established the Board of Directors Secretariat (Board of Directors Secretariat, Nomination Committee Secretariat, Audit Committee Secretariat, and Remuneration Committee Secretariat) to enable sufficient discussion through effective operation of meetings among the chairperson of the Board of Directors and the chairpersons of the three committees, and accordingly promotes greater effectiveness of meetings of the Board of Directors and the respective committees through collaboration with the ESG Promotion Division. In that regard, the Company develops a support structure which handles the following:

(i) Providing support for making decisions on plans of holding meetings of the Board of Directors, each committee, advisory committees and other such bodies;
(ii) Providing support for 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 coordinating other information;
(iv) Providing in-house feedback with respect to questions, opinions and other communications from the Outside Directors provided during prior briefings and other forums, and managing progress of tasks;
(v) Making adjustments to materials for deliberations; and
(vi) Preparing meeting minutes.

(5) 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 effectiveness of activities of the three committees.

(ii) Evaluation methodology

Evaluation involves self-assessment carried out by all Directors and 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

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

[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 who do not execute business

We appoint individuals who are well informed about internal information based on their extensive experience in the respective business of the JFR Group, and who are expected to effectively ensure objective management oversight. 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.

The chairperson of the Board of Directors, with the aim of further enhancing the oversight function while ensuring smooth operation of the Board of Directors, and the full-time members of the Audit Committee, with the aim of maintaining and improving audit accuracy by bringing about a smooth transition from our Audit & Supervisory Board Member system, are respectively appointed from among Directors who do not execute business. One of the full-time members of the Audit Committee has been appointed to act as the chairperson of the Audit Committee for the time being.

(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 or extensive expertise in finance, accounting, legal affairs etc.

For the position of Outside Director, we nominate those who meet our "5. Criteria for Determining Independence of Outside Directors," 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 are expected to steadily and swiftly carry out business execution on the basis of corporate management policy as determined by the Board of 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 have extensive experience in the respective businesses of the JFR Group; and they

must have a profound understanding of the JFR Group's operating environment (including its challenges).

The Company has stipulated appointment of a number of Executive Officers with specific titles in addition to the Representative Executive Officers. These individuals are to provide control, direction and oversight of business executed by the Executive Officers, acting as persons responsible for making fundamental and final decisions pertaining to business execution.

4. Human Resources and Remuneration and Other Matters Involving Directors and Executive Officers

(1) Procedures for Nominating and Appointing Directors and Executive Officers, and Disclosure in That Regard

Matters involving human resources with respect to Directors 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 Nomination Committee members are Outside Directors, 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 in response to the request of the Board of Directors.

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 the status of officers from other listed companies who are concurrently serving in those positions.

(2) Policy on Determining Remuneration for Directors and Executive Officers

To carry out the Medium-term Business Plan steadily for realizing the new Group Vision, the Company has formulated the new "Officer Remuneration Policy" including the introduction of a stock-based remuneration system for officers.

The basic policies on the officer remuneration are as follows.

(i) Contribute to the sustainable growth of the JFR Group and increase corporate value over the medium to long term.
(ii) A highly performance-based remuneration system that provides incentives to Executive Officers both for accomplishing objectives set under management strategies and business plans, and for achieving targets with respect to corporate performance.
(iii) Remuneration levels that can secure and retain personnel who have the desirable managerial talent qualities required by the Company.
(iv) Increase shared awareness of profits with shareholders and awareness of shareholder-focused management.
(v) Enhanced transparency and objectivity in the remuneration determining process.

(3) Procedures for Determining Remuneration for Directors and Executive Officers

To ensure that remuneration levels and remuneration amounts are appropriate and that their determination process is transparent, the determination of the specific remuneration amounts to be paid is made by discussion and resolution of the Remuneration Committee, which comprises a majority of independent Outside Directors and is chaired by an independent Outside Director. Remuneration Committee meetings are to be held at least four times per year, and the review of the officer remuneration system will be conducted in accordance with each Medium-term Business Plan.

(4) Training of Directors and Executive Officers

We continuously provide opportunities to Directors 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 arrange briefings for Directors who do not execute business and Outside Directors, when they are appointed as well as on a continuous and regular basis, providing details on the basic philosophy, Group Vision, Group Medium-term Business Plan and Group Management Policy, and also featuring content that includes details of JFR Group operations, its performance, financial standing and operational status.

We provide Executive Officers with useful information regarding corporate governance, risk management and Group management, mainly when they are appointed. 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 also enhance the business execution capabilities of our management team and implement scheduled initiatives to develop the next generation. This involves providing individual executive coaching for our management team to develop leadership, holding training sessions geared to candidates for management personnel including Executive Officers, and implementing training that entails enhancing ingenuity with respect to carrying out the medium-term plan.

(5) Management Team 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, transparency and objectivity in the process of selecting successor candidates through repeated deliberations conducted by the Nomination Committee, in which Outside Directors form a majority. The Board of Directors focuses on realizing the basic philosophy and the Group Vision and plays a supervisory role based on proposals received from the Nomination Committee.

In addition, dismissal of the Chief Executive Officer is determined by the Board of Directors after being discussed and resolved by the Nomination Committee based on the goals set, expected and actual results (e.g., annual performance and strategy execution status), and the status of results, etc., achieved by successor candidates who are selected under the succession plan made by the Nomination Committee. The Nomination Committee will

continue to have discussions on succession planning in a planned manner so that changes in environments and situations surrounding the Company, progress of strategies formulated, etc., can be reflected in such planning. The Nomination Committee also discusses and resolves the dismissal of senior management team members as in the case of the Chief Executive Officer.

5. Criteria for Determining Independence of Outside Directors

In appointing the Company's Outside Directors, 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, 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.

6. Accounting Auditor

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

The Audit Committee 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 Committee 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 Committee is to take necessary measures that include dismissing the Accounting Auditor upon resolution of the committee, 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 Committee 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 Executive Officers and relevant Executive Officers on a regular basis (about two times per year);

(iii) Arranging meetings between the Accounting Auditor and Audit Committee members and Internal Audit Division for the purpose of sharing information and exchanging views on a regular basis (about six times per year) in order to heighten effectiveness with respect to audit accuracy; and

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

7. Risk Management System

(1) Basic Ideas on Risk Management

The Company regards risk as uncertainty embodied by the effects of an organization's profit or loss, and accordingly defines risk management as the notion of engaging in initiatives seeking to maximize returns by taking risks while keeping the potential negative effects of risk in check.

In order to effectively manage risk, we have established a three-tiered system of checks performed in-house, as follows:

(i) Tier 1: On-site checking performed on a daily basis by business subsidiaries and other such entities

(ii) Tier 2: Checking performed on a routine basis via administrative departments of the head office and via meeting frameworks and other such forums that enlist the involvement of management teams

(iii) Tier 3: Checking from an independent viewpoint performed on a routine basis by the Internal Audit Departments

(2) 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.

(3) 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).

(4) Risk Management Committee

The Company has established the Risk Management Committee so that it can better systematically manage and address risks as a whole from a Group-wide perspective, particularly with respect to risk related to positive strategies that are geared to tapping growth opportunities.

Drawing on extensive specialized knowledge of committee members chosen from among respective supervisory units, the Committee assesses a variety of risks, prepares necessary measures, instructs departments to take charge of implementing such measures, and monitors progress in that regard.

The committee reports details of its deliberations to the Audit Committee regularly and in a timely manner.

8. Compliance

The Company has established the Compliance Committee, whose membership includes corporate lawyers, for the purpose of addressing issues of JFR Group compliance management practices.

The Compliance Committee draws up a policy for addressing matters involving serious compliance-related violations, continuously oversees development of the foundations of compliance system and the status of implementation through enhanced collaboration with departments in charge of promoting compliance of each Group company, and promotes compliance with laws and regulations, corporate ethics, and other such standards.

The committee also reports details of its deliberations to the Audit Committee regularly and in a timely manner.

9. 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 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.).

End of document

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