

[Translation]

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To whom it may concern

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### Notice Regarding Establishment of Corporate Governance Guidelines

J. FRONT RETAILING Co., Ltd. (the “Company”) resolved at a meeting of its Board of Directors held today on the establishment of Corporate Governance Guidelines, as described below.

#### 1. Aims of establishing Corporate Governance Guidelines

In accordance with the intent and spirit of Japan’s Corporate Governance Code, which listed companies began adopting from June 1, 2015, the Company has established Corporate Governance Guidelines that set out the role of corporate governance in the JFR Group. The aims of the Guidelines are to ensure sustainable growth of the JFR Group and increase corporate value over the medium to long term. Please refer to the attachment for further details.

The Corporate Governance Guidelines are based on the Group Philosophy and are intended to systematically summarize the JFR Group’s basic ideas and basic policy on corporate governance. The Guidelines comprise the following main sections.

Chapter 1. General Provisions

Chapter 2. Relationships with Shareholders

Chapter 3. Information Disclosure

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

#### 2. Publication of Corporate Governance Guidelines

The Guidelines will be available on the Company’s website from today.

<http://www.j-front-retailing.com/company/governance.php> (Japanese)

<http://www.j-front-retailing.com/english/company/governance.php> (English)

#### 3. Submission of Corporate Governance Report

A Corporate Governance Report detailing the above initiatives was submitted to the Tokyo Stock Exchange and the Nagoya Stock Exchange today.

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## **Corporate Governance Guidelines**

### Foreword

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

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

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

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

## Chapter 1. General Provisions

### 1. Group Philosophy

#### (1) Basic Philosophy

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

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

#### (2) Group Vision\*

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

#### (3) Business Operation Policy\*

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

Thoroughly pursuing high quality, freshness and hospitality

#### (4) Commitments to Stakeholders

(Customers) We are committed to providing genuine satisfaction captivating customers by offering new value.

(Shareholders) We are committed to increasing corporate value over the long term by practicing highly profitable and highly efficient management.

(Business partners) We are committed to building the relations of trust by working hard together and aim to grow together.

(Employees) We are committed to ensuring rewarding workplace environments where employees' performance and contributions are evaluated fairly and they can demonstrate their abilities, achieve growth, and have job satisfaction.

(Communities) We are committed to contributing to the development of the communities as well as promoting environmentally friendly business activities as a good corporate citizen.

#### (5) Our Principles of Action

(Customer perspective) We always think and act from the customer's point of view.

(Challenge to innovation) We try possibilities all the time and strive to produce greater results.

(Speed and thorough implementation) We act speedily and carry things through to the end without giving up.

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

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

## 2. Basic Ideas on Corporate Governance

### (1) Role of Corporate Governance

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

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

### (2) Relationship with Shareholders

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

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

### (3) Information Disclosure

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

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

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

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

- (i) Indicating the overall direction that Group management is to take, by engaging in constructive discussions with respect to the vision, management strategies, business plans and other fundamental management policies, and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;
- (ii) Making swift and resolute decisions regarding important matters of business execution involving Group management on the basis of the direction noted above, while ensuring that the decision-making process is transparent, fair and rational;
- (iii) Tracking progress of management strategies and business plans, and also determining matters of staffing and remuneration involving the management team on the basis of assessing the aforementioned;
- (iv) Taking steps to build and develop internal control systems of the JFR Group overall, and otherwise overseeing the operational status of such systems;
- (v) Overseeing conflicts of interest between related parties; and
- (vi) Drawing up plans regarding successors (next senior management team) and overseeing progress made in that regard.

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

- (i) Under the structure, responsible persons who execute business of respective JFR Group businesses ensure that tasks are executed in a cohesive and ongoing manner by taking part in meetings of the Board of Directors where those involved deliberate and make decisions on important matters relating to business of the Group.
- (ii) The structure provides a rational means of carrying out audits for the purpose of ensuring legal compliance of Group management. Accordingly, Audit & Supervisory Board Members whose independence and autonomy are legally ensured perform highly objective audits, and full-time Audit & Supervisory Board Members perform extremely precise audits drawing on sophisticated capabilities to gather information.

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

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

## Chapter 2. Relationships with Shareholders

### 1. Shareholders Meetings

#### (1) Positioning of Shareholders Meetings

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

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

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

- (i) We give consideration to ensuring time for audits in the course of setting dates on which Shareholders Meetings are to be held and schedules otherwise in relation to Shareholders Meetings.
- (ii) We ensure that there is adequate time for our shareholders to consider matters with respect to which they will exercise their voting rights. To that end, we send convocation notices as early as possible (with the aim of doing so at least three weeks prior to the date on which a Shareholders Meeting is to be held) and at the same time we submit such content to financial instruments exchanges and post it to the Company's website as early as practicably possible before sending out convocation notices.
- (iii) We upgrade the content of our convocation notices (containing sections that include the business report, financial statements, and reference materials for Shareholders Meeting) in a manner that provides our shareholders with a deeper understanding of the JFR Group and enables them to make appropriate decisions when exercising their voting rights. We also prepare English translations of our convocation notices and make them available so that our overseas investors are able to properly exercise their voting rights.
- (iv) We give consideration to ensuring that our shareholders are able to conveniently exercise their voting rights, including domestic and overseas institutional investors. To that end, we have adopted online and other means of exercising voting rights and otherwise use an electronic platform for exercising voting rights.
- (v) We act appropriately with respect to substantively ensuring that shareholders are able to exercise their rights to make proposals and other minority shareholder rights. Moreover, when a beneficial shareholder has filed to exercise rights as a shareholder beforehand, we take steps to ensure that such rights may be exercised upon consulting with relevant parties including the trust bank acting as nominal shareholder and the Company's share transfer agent.

#### (3) Analysis of Voting Results

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

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

## **2. Capital Policy**

### **(1) Basic Capital Policy**

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

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

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

### **(2) Shareholder Return Policy**

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

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

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

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

(4) Basic Policy Regarding Control of the Company

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

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

### **3. Cross-shareholdings**

(1) Policy on Cross-shareholdings

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

(2) Validation of Rationale for Cross-shareholdings

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

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

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

with companies whose shares are held when exercising voting rights.

#### **4. Related Party Transactions**

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

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

## **Chapter 3. Information Disclosure**

### **1. Constructive Dialogue with Shareholders and Investors**

#### **(1) Promoting Constructive Dialogue**

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

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

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

#### **(3) Improving Communications**

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

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

### **2. Appropriate Disclosure of Company Information**

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

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

## (2) Methods of Information Disclosure

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

## (3) Structures for Information Disclosure

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

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

## (4) Appropriately Managing Insider Information

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

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

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

### **1. Approach to Allocating Authority**

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

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

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

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

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

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

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

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

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

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

## **2. Board of Directors**

### **(1) Composition of the Board of Directors**

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

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

### **(2) Advisory Committees of the Board of Directors**

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

#### **(i) Human Resources and Remuneration Committee**

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

#### **(ii) Governance Committee**

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

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

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

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

(4) Evaluating the Board of Directors

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

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

### 3. Directors and Executive Officers

(1) Executive Officer System

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

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

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

[Desirable qualities required of JFR Group managerial talent]

(i) Strategic mindset

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

(ii) Reform-oriented leadership

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

(iii) Tenacity for achieving results

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

(iv) Organization development strengths

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

(v) Human resource development strengths

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

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

(i) Internal Directors

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

(ii) Outside Directors

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

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

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

(iii) Executive Officers

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

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

(1) Composition of the Audit & Supervisory Board

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

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

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

(3) Policy for Nominating Audit & Supervisory Board Members

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

(i) Internal Audit & Supervisory Board Members

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

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

(ii) Outside Audit & Supervisory Board Members

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **7. Accounting Auditor**

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

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

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

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

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

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

- (i) Ensuring that content of audit plans proposed by the Accounting Auditor is respected and allowing sufficient time to perform the audit, in order to enable high-quality audits;
- (ii) Arranging discussions between the Accounting Auditor and Representative Directors, relevant Directors and relevant Executive Officers on a regular basis (about two times per year);
- (iii) Arranging meetings between the Accounting Auditor and Audit & Supervisory Board Members and Internal Audit Division for the purpose of sharing information and exchanging views on a regular basis (about six times per year); and
- (vi) Enabling the Audit & Supervisory Board to perform necessary investigations upon receiving a report from the Accounting Auditor detailing instances of material improprieties and illegal acts related to the Directors' execution of their duties; and enabling the Audit & Supervisory Board to take necessary measures in that regard, that include reporting, furnishing advice and providing recommendations to the Board of Directors.

## **8. Internal Control Systems**

(1) Developing and Maintaining Internal Control Systems

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

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

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

## **9. Compliance and Risk Management**

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

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

## **10. Whistleblowing System**

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

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

### **Supplementary Provisions**

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

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