

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, as concerning corporate governance of the JFR Group, are positioned as high-order regulations along with the Sustainability Policy, 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 regulations of the JFR Group.

These Guidelines set out the role of corporate governance of the JFR Group as of the date of their release, and the Company will maintain efforts to revise these Guidelines on a continual basis, with the aim of bringing about the best possible corporate governance practices.

Moreover, the Company will disclose these Guidelines to society at large, and continue to engage in sincere and constructive dialogue with all JFR Group stakeholders.

Chapter 1. General Provisions

1. Introduction

In this era of accelerating changes, the transformations emerging in the Company's business environment are such that we can no longer deal with them simply by drawing on our track record of successes over the last 50 years and our existing business model; we are now finding it more difficult to generate growth by remaining on the path our current business model prescribes. Accordingly, the Company views its present situation as a turning point for drastically altering the course being taken by Group management, and has drawn up its Group Vision, "Create and Bring to Life 'New Happiness'," aiming to become a corporate group which helps people lead emotionally fulfilling lives.

As a company with three committees (nomination, audit and remuneration committees), we will enhance the management oversight function and carry out speedy management decision-making based on a high degree of transparency and objectivity as well as maintain and operate a group business management structure and internal control system to achieve sustainable improvement of the corporate value while being actively accountable to stakeholders.

In addition, we are moving faster to address risks that arise from our rapidly changing environment, and are practicing sustainability management that incorporates the concept of sustainability into our strategies in order to achieve sustainable growth as a company.

Corporate governance plays a key role in supporting and promoting such sustainability management; as a company listed on the Prime Market, we are therefore striving to further strengthen our corporate governance.

2. Group Philosophy and Policy, etc.

(1) Corporate Credo

"Service before profit" and "Abjure all evil and practice all good"

(2) 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.

(3) Group Vision

"Create and Bring to Life 'New Happiness'"

(4)

1) Sustainability Policy

"With people, with local communities, with environment to realize a sustainable society and new happiness in life"

2) Corporate Governance Guidelines

With an aim to ensure sustainable growth of the JFR Group and increase corporate value over the medium to long term (realize the ideals of the Group Philosophy), the Company will work to ensure managerial transparency, soundness, and compliance of the entire Group.

(5) Ideal company we aim to be and value we aim to provide

“Producing fulfilling lifestyles and unique urban development in coexistence with local communities”

(6) 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.

(7) Commitments to Stakeholders

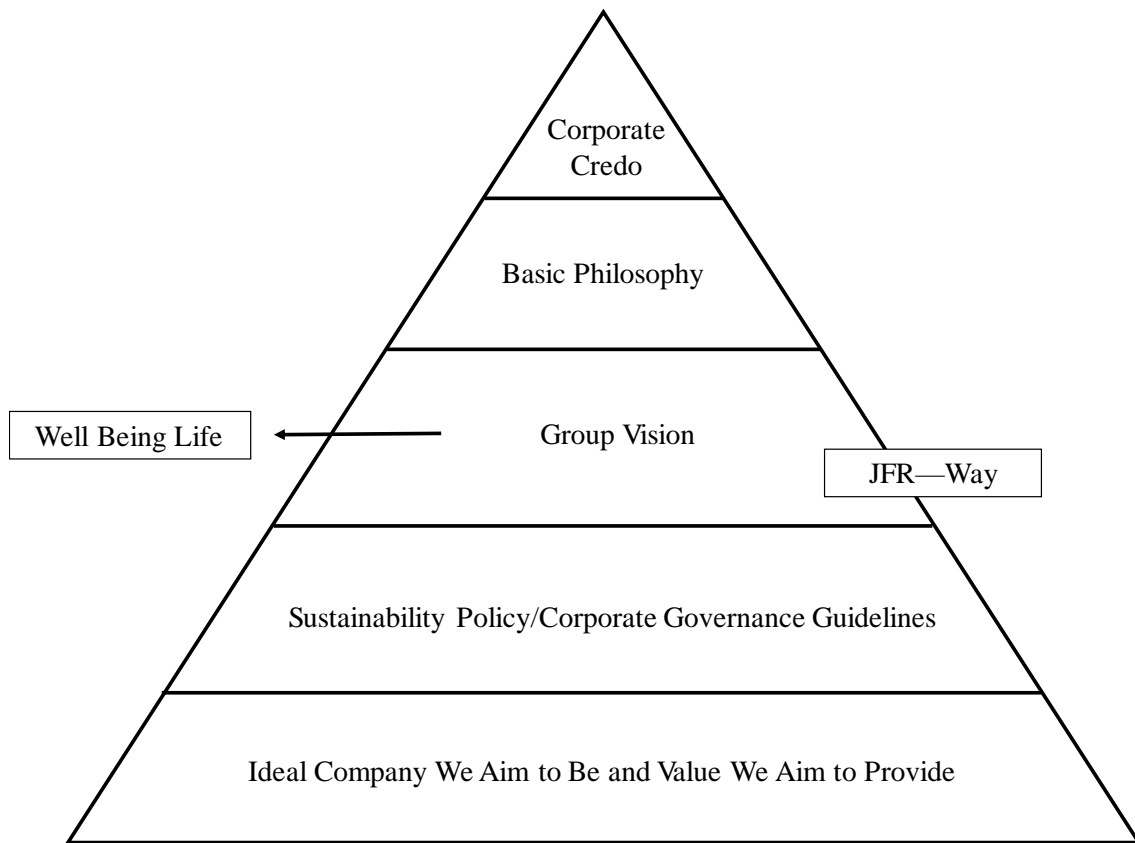
(Customers) We are committed to providing genuine satisfaction captivating customers by offering new value.

(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 the 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 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 Stakeholders

The Company strives to build trusting relations with all stakeholders through its business activities.

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. Furthermore, the Company will actively fulfill its responsibilities to the

environment and society to realize a sustainable society with respect to customers, business partners, employees, and community members.

(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

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, Sustainability Policy, Group Medium-term Business Plan, Group Annual 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) Overseeing progress of succession planning relating to the President and Representative Executive Officer, personnel assignment plans pertaining to managerial talent and Executive Officer training, on the basis of summary reports furnished by the Nomination Committee in response to requests.

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

Chapter 2. Relationship with Stakeholders

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, etc.

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 post materials for the Shareholders Meeting to the Company's website and submit them to financial instruments exchanges' websites as early as practicably possible before the start date of measures for electronic provision prescribed by the Companies Act (three weeks prior to the date on which a Shareholders Meeting is to be held or the date of sending the convocation notices, whichever is earlier).
- (iii) We upgrade the content of our information materials for the Shareholders Meeting (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 information materials for the Shareholders Meeting 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.
- (vi) We strive to ensure that all shareholders, including those who reside in distant locations, have opportunities to participate in or listen to Shareholders Meetings through means such as live streaming of Shareholders Meetings and accepting questions in advance on the Company's website.

(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, in consideration of the business environment and measures for addressing risks, the Company promotes a capital policy that takes a balanced approach to undertaking strategic investment, enhancing shareholder returns, and expanding net worth.

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 achieve maximization of the operating profit and sustainable improvement of the operating profit margin by strengthening our core businesses and concentrating management resources on initiatives such as business field expansion and active development of new businesses.

In monitoring our key financial indicators used in achieving objectives of the Medium-term Business Plan, we focus primarily on ROE for capital efficiency, consolidated operating profit and ROIC 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.

(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 President and Representative Executive Officer and Executive Officers (the "Management Team") and 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

In principle, the JFR Group will not newly acquire cross-shareholdings (cross-shareholdings are holdings of listed and unlisted shares other than those of subsidiaries and associates which are not held for pure investment purposes). However, this does not apply to cross-shareholdings that have been recognized as being indispensable to the promotion of the Group's business strategy, and contributing to increasing corporate value in the medium to long term through the following validation of rationale.

For cross-shareholdings (listed and unlisted shares) that have been judged as not being rational in the verification result, the Group will negotiate with companies whose shares we hold, and appropriately reduce cross-shareholdings that are already held upon reaching a consensus regarding sale method, period, etc.

(2) Validation of Rationale for Cross-shareholdings

The Company periodically verifies the rationale of cross-shareholdings held by the Group by individual issues every year at the Board of Directors from a qualitative perspective and a quantitative perspective. The qualitative perspective relates to business strategies such as maintaining harmonious and favorable business relationships with companies with which the Company makes up a community, corporate customers and business partners, and securing supply chains. Quantitative verification pertains to whether profitability of holding shares including related trading profits and the dividend exceeds the capital costs, etc.

(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) the Company considers 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) the Company considers 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, and business management that gives emphasis to the profit of the current period, as well as improving accountability to and convenience for domestic and overseas investors, particularly in terms of the international comparability of financial information.

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.

6. Efforts for Sustainability

To handle issues surrounding sustainability starting with social and environmental problems, the Company has set out its fundamental approach to sustainability, focused on its corporate credo, basic philosophy, and Group Vision, in the form of the Sustainability Policy, and has identified important issues (areas of materiality) to prioritize for action.

For each area of materiality, the Company clearly identifies both the opportunities and the threats associated with risk, assertively and actively confronting these important issues through its business activities. In this way, it is aiming to realize both social and economic value based on trusting relationships with all its stakeholders including customers, shareholders, business partners, employees and community members.

In addition, the Company has established the Sustainability Committee, chaired by the President and Representative Executive Officer, which formulates action plans and monitors their progress to advance sustainability management within the JFR Group. The committee also reports details of its deliberations to the Board of Directors.

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 (financial and non-financial 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 a division in charge of IR 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 division in charge of IR 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 and Group Medium-term Business Plan

The Company draws up business model, medium- to long-term strategy story that the JFR Group pursues, as well as the Group Vision, Sustainability Policy, Group Medium-term Business Plan and Group Annual Management Policy, 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 the attributes of the information being disclosed. Moreover, to ensure that we disclose information in an impartial manner, we prepare and release English translations of our convocation notices for Shareholders Meetings, annual securities reports, integrated reports, timely disclosure information, financial information, sustainability reports and the Company website.

(3) Structures for Information Disclosure

The Company submits the matters regarding important company information for discussion to 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 its disclosure at each stage. In addition, the "Information Disclosure Review Committee" works to ensure appropriateness of disclosures, and at the same time the committee examines the necessity of disclosures in advance. 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.

(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, the Company develops 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, Sustainability Policy, Group Medium-term Business Plan, Group Annual 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 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 Team, 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 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 holding company, are as described below. Accordingly, the Company:

- (i) Plans, formulates and penetrates the Group Vision, Group Medium-term Business Plan and Group Annual Management Policy, and tracks the progress and results thereof;
- (ii) Sets business domains of the Group;
- (iii) Business portfolio management (Optimally allocates the JFR Group's management resources);
- (iv) Generates synergies between businesses;
- (v) Establishes Group-wide risk management system;
- (vi) Organization design and operation of the entire Group;
- (vii) Human resource management of the entire Group;
- (viii) Management of shareholders;

- (ix) Establishes corporate governance practices for the entire JFR Group;
- (x) Makes decisions on important matters of business execution relating to management of the JFR Group; and
- (xi) Provides advice and approval for management policy and management strategy of respective operating subsidiaries, 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 eleven (11), as stipulated in the Articles of Incorporation (one-year terms of office). From the standpoint of separating supervision and execution and ensuring the effectiveness of the Board of Directors' discussions, the composition is such that a majority of the total are independent Outside Directors who are not susceptible to conflicts of interest involving the Company's shareholders.

In addition, we take steps to ensure diversity upon giving consideration to bringing about a balance of knowledge, experience and abilities required of the Board of Directors as a whole, and disclose a combination of skills, etc. possessed by Directors (skill matrix).

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

(i) Nomination Committee

The Nomination Committee is composed of three (3) independent Outside Directors and chairperson of the Board of Directors who does not execute business. 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 reports to the Board of Directors upon consultations from the Board of Directors regarding the nomination and dismissal of Executive Officers as well as the chairpersons and members of individual statutory committees, and other matters.

(ii) Audit Committee

The Audit Committee is composed of four (4) independent Outside Directors and one (1) full-time Director who does not execute business, and the Chairperson is chosen from among independent Outside Directors from the standpoint of ensuring transparency and objectivity.

The Audit Committee shall effectively oversee whether the performance of duties by Executive Officers and Directors conforms with the laws and regulations and the Articles of Incorporation and are efficiently performed according to the Company's basic philosophy and Group Vision to provide any necessary counseling and recommendations, etc.

(iii) Remuneration Committee

The Remuneration Committee is composed of three (3) independent Outside Directors and chairperson of the Board of Directors who does not execute business. 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 for Directors and Executive Officers of the Company and officers of the Group's major subsidiaries (Directors, Executive Officers and Audit & Supervisory Board Members), and determines the contents themselves of individual remuneration for Directors and Executive Officers of the Company.

(3) System to Ensure the Effectiveness of the Oversight Function of the Board of Directors

The Company ensures the effectiveness of the oversight function of the Board of Directors by adopting the structure of a company with three committees (nomination, audit and remuneration committees) where the majority of the members of each of these committees are independent Outside Directors, having a system where the majority of members of the Board of Directors are independent Outside Directors, and selecting independent Outside Directors as the chairperson for each committee in addition to carrying out executive sessions with only independent Outside Directors.

With regard to the status of the oversight function, the Company periodically identifies issues through evaluations of the effectiveness of the Board of Directors, and is responding appropriately.

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

The Company has established secretariat for the Board of Directors and each committee to enable sufficient discussion through effective operation of meetings among the chairperson of the Board of Directors and the chairperson of each committee. Each secretariat promotes greater effectiveness of meetings of the Board of Directors and the respective committees with following support:

- (i) Providing support for making decisions on plans of holding meetings of the Board of Directors and each committee;
- (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 Effectiveness of 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 assessment carried out by a third-party organization.
- (iii) Evaluation frequency
Evaluations are carried out periodically every year.
- (iv) Evaluation results
Summaries of the evaluation results of the effectiveness of the Board of Directors 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.”

[Discernible capabilities required of JFR’s President and Representative Executive Officer]

1. Capacity to conceive a business vision
 - The ability to break free of preconceived ideas, look ahead, and present a vision for creation of new value in future
 - The ability to present logical, convincing strategies for the organization that will give it a competitive edge
2. Capacity to communicate a vision
 - The ability to instill a vision throughout the organization and influence the organization’s members
 - The ability to form an organization comprising a diverse range of members and take the lead in driving that organization
 - The ability to unite different cultures within one organization and enable mutual enhancement among cultures through adoption of each other’s merits
3. Persistence and capacity to achieve results
 - The ability to use every means to execute plans tenaciously and ensure that results are always achieved
4. Moral character and charisma
 - A selfless ethos that enables consideration of all stakeholders’ interests and embodiment of the corporate credo
 - Unimpeachable personal integrity

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

(i) 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.

(ii) 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 ensure the effectiveness of 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, are respectively appointed from among Directors who do not execute business.

(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 guidance of business executed by the Executive Officers, acting as persons responsible for making 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 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. Moreover, to ensure transparency and objectivity in the decision-making process, the Nomination Committee is composed of three (3) independent Outside Directors and the chairperson of the Board of Directors, who is a non-executive Director from inside the Company. 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 realize and promote sustainability management, and to carry out the Medium-term Business Plan steadily, the Company formulated the "Officer Remuneration Policy," which

includes stock-based remuneration system, with the aim of each Director and Executive Officer fully performing their duties.

The basic policies on the officer remuneration are as follows.

- (i) Contribute to the sustainable growth of the Group and medium- to long-term enhancement of corporate value, and stay consistent with its corporate culture.
- (ii) Establish a remuneration system that facilitates the achievement of duties (mission) based on management strategies of professional corporate managers.
- (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 specific remuneration amounts to be paid are determined by the Company by discussion and resolution of the Remuneration Committee, which comprises three (3) independent Outside Directors and the chairperson of the Board of Directors, who is a non-executive Director from inside the Company.

Revisions of the officer remuneration system will be undertaken based on Medium-Term Business Plan periods. The Company will revise the levels of basic remuneration, bonuses, etc. based on the determination of the Remuneration Committee during the Medium-term Business Plan if it is necessary to make significant revisions due to extreme changes, etc. in the external environment.

(4) Training of Directors and Executive Officers

The Company continuously provides 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 Annual 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 the 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

The Company regards the selection of the President and Representative Executive Officer as a critical aspect of strategic decision-making, and accordingly regards the formulation and implementation of plans regarding successors 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, which consists of three (3) independent Outside Directors and the chairperson of the Board of Directors, who is a non-executive Director from inside the Company. The Board of Directors focuses on realizing the basic philosophy and the Group Vision, selects the President and Representative Executive Officer, and plays a supervisory role based on proposals received from the Nomination Committee.

In addition, dismissal of the President and Representative Executive Officer is discussed and 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 performance of duties, 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. Election and dismissal of Executive Officers are deliberated and decided by the Board of Directors according to proposals submitted following deliberation by the Nomination Committee, as in the case of the President and Representative 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 takes into account the opinions of 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 at the beginning of the fiscal year is respected and allowing sufficient time to perform the audit, in order to enable strict audits;
- (ii) 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) based on management letters prepared by the Accounting Auditor. Moreover, the President and Representative Executive Officer provides the Accounting Auditor with explanations of the management strategy of the Company as appropriate;
- (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

- (iv) 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) Risk Management

The Group defines risk as “uncertainties that have both potential positive and negative sides that could have an impact on the achievement of targets by a company.” The Company has positioned risk management as “activity that increases corporate value by managing risks by reasonable and optimal methods from a company-wide perspective” to achieve sustainable corporate growth by addressing the positive side and the negative side of risk properly.

Furthermore, in order to effectively perform risk management, we have established the following three lines.

- (i) First line: Operating divisions such as business subsidiaries. These divisions identify risks and take the necessary measures on their own.
- (ii) Second line: The holding company’s divisions. Each division provides support, guidance and monitoring regarding risk management from a perspective which is independent of the operating divisions.
- (iii) Third line: The Internal Audit Division. This division oversees the validity of the risk management functions and the internal control system from a perspective which is independent of the operating divisions and each division of a holding company.

In addition, the Company has established the Risk Management Committee as an advisory body to the President and Representative Executive Officer. The committee discusses important matters, including risk identification and evaluation, and determination of risks to be reflected in strategies, and utilizes risk management for management decision-making.

The committee also reports details of its deliberations to the Board of Directors in a timely manner.

(2) Internal Control System

The Company has established the Policy on Developing Internal Control Systems with the aim of ensuring that overall operations of the JFR Group are performed legally and appropriately. 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.

With regard to internal controls over financial reporting, the Company is in compliance with Japan’s Financial Instruments and Exchange Act and various associated laws and regulations. The Company and operating subsidiaries maintain and operate internal company systems to ensure the reliability of the financial reporting.

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

The Company reports the operational status of internal control systems of the overall JFR Group to the Board of Directors regularly 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).

8. Compliance

The Company has established the Compliance Committee, whose membership includes corporate lawyers, as an advisory body to the President and Representative Executive Officer, for the purpose of addressing issues of JFR Group compliance practices.

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

The committee also reports details of its deliberations to the Audit Committee 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.

10. Efforts for Sustainability

The Company believes it is important, in contributing to sustainable society as a member of society and also in the sustainable growth of the JFR Group and increase of its corporate value over the medium to long term, to address sustainability issues, such as taking care of climate change and other global environmental issues, respect of human rights, fair and appropriate treatment of the workforce including caring for their health and working environment, fair and reasonable transactions with suppliers, and crisis management for natural disasters.

In line with this approach, the Board of Directors deliberates and decides on important matters relating to the Company's sustainability, including the Sustainability Policy. In conjunction with this, it oversees the progress and results of related initiatives, advancing sustainability management.

11. Human Capital Initiatives

The Company believes it is human resources only that can open the way to the future in a highly uncertain environment, and has positioned human resources as the most important capital. Inspired by a conviction that the growth of individual human resources leads to the overall growth of an organization or company, the Company will enhance the investment in human resource development, such as the formulation of training plans to support employees' development, and is upgrading its human resource management as a People Development Company by putting in place a framework to more precisely assign the right person to the right place within the organization in order to enable human resources to develop through their work.

In addition, the Company is working toward its corporate vision by undertaking focused investment in human capital, including the expansion of initiatives to support human resource development, in order to proceed with the reform of its business portfolio.

The Board of Directors oversees the allocation of management resources including human capital through means including the Group Medium-term Business Plan and Group Annual Management Policy.

12. Business Portfolio Initiatives

The Company believes that reviewing its business portfolio is indispensable to ensure the JFR Group's sustainable growth and increase its corporate value over the medium to long term.

When formulating the Group Medium-term Business Plan, the Company clearly articulated its corporate vision aimed at increasing the value provided to customers. In order to achieve this goal, the Company reviews its business portfolio and allocates management resources to individual businesses, having accurately ascertained its own capital costs.

The Board of Directors oversees the review of the business portfolio through means including the Group Medium-term Business Plan and Group Annual Management Policy.

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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