



Basic Ideas on Corporate Governance

As the core of the unified governance of the Group, J. Front Retailing as a holding company puts the strengthening of corporate governance at the top of its business agenda to ensure transparency, soundness and legal compliance of the management of the whole Group and focus on and thoroughly fulfill its accountability to its stakeholders (customers, shareholders, employees, business partners, communities and others).

The Company has four supervisory units (Management Strategy Unit, Affiliated Business Unit, Financial Strategy Unit and Administration Unit) in its corporate organization to clarify each organization's roles, responsibilities and authorities, thereby improving supervisory function and the internal control systems of the whole Group. In addition, an executive officer system is in place to separate between decision-making and execution, which facilitates speedier decision-making and execution.

The Company is a company with an audit & supervisory board and it has a shareholders meeting, a board of directors, an audit & supervisory board and accounting auditors as the company organizations provided in the Companies Act, while adopting an executive officer system as a body to perform operations. Following are the reasons why the Company has adopted the organizational structure of a company with an audit & supervisory board.

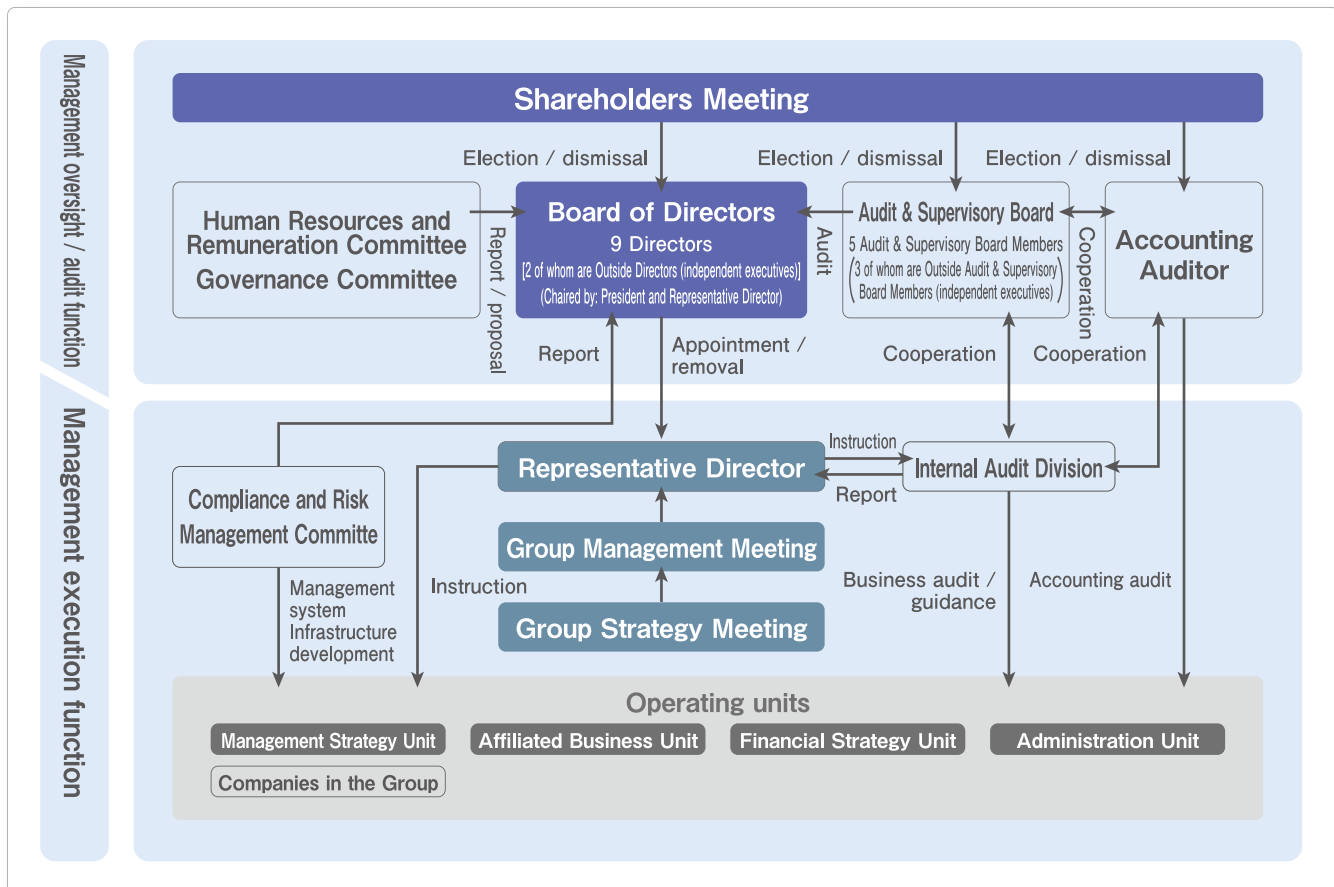
① Unity and continuity with the execution of operations are ensured by involving the persons who are responsible for business execution of the individual businesses of the Group in deliberations and decision-making on important matters relating to the management of the Group in the meetings of the Board of Directors.

② Highly objective audits by Audit & Supervisory Board Members whose independence and autonomy are legally ensured and highly accurate audits by Full-time Audit & Supervisory Board Members who have a high ability to collect information are rational in order to ensure legal compliance of the Group management.

On that basis, multiple independent Audit & Supervisory Board Members are appointed to supplement the functions of the Board of Directors under the structure of a company with an audit & supervisory board, and in particular, ensure the effectiveness of its oversight function. In addition, we have established the Human Resources and Remuneration Committee and the Governance Committee as the advisory committees of the Board of Directors to strengthen the functions of the Board of Directors.

With regard to the Company's organizational structure (choice among a company with an audit & supervisory board, a company with an audit & supervisory committee and a company with nominating and other committees) and the use of Non-executive Inside Directors, we will continuously consider adopting an optimal structure to further enhance the effectiveness of corporate governance as well as to achieve sustainable growth of the Group and increase corporate value over the medium to long term.

◆ Corporate governance structure chart



Board of Directors

The Company has nine Directors, two of whom are Outside Directors including one female, as a management decision-making body and basically they meet once a month under the chairmanship of President and Representative Director and in the presence of Audit & Supervisory Board Members to deliberate and resolve the matters required by laws and regulations or prescribed by the articles of incorporation as well as the matters stipulated in the Rules of the Board of Directors. Two Outside Directors assume a role in strengthening the functions of and activating the Board of Directors by considering the management from a different perspective from Inside Directors.

In fiscal year 2015, the Board of Directors had a total of 16 meetings to deliberate and resolve the "capital and business alliance with Senshukai Co., Ltd.," a "repurchase of the Company's own shares" and the "rebuilding of the main building of the Daimaru Shinsaibashi store" as well as approve budgets and financial statements.

With regard to the agenda for discussion at the Board of Directors meetings concerning important policies related to the Group's overall management, we deliberate in advance at the Group Management Meeting, which consists of Inside Directors, Full-time Audit & Supervisory Board Members and others, and the Group Strategy Meeting, which consists of Inside Directors.

Establishment of Advisory Committees

The Company has established the Human Resources and Remuneration Committee and the Governance Committee as voluntary advisory committees to supplement the functions of the Board of Directors under the structure of a company with an audit & supervisory board, and in particular, ensure the effectiveness of its oversight function.

The Human Resources and Remuneration Committee deliberates and decides the appointment of Directors, Audit & Supervisory Board Members and Executive Officers of the Company and its major subsidiaries based on the nomination and election policy determined in advance and the results of third-party assessment of management personnel and submits personnel proposals to the Board of

Directors. In April 2016, the Committee deliberated and decided a partial revision of the policy for determining the remuneration of Directors, Audit & Supervisory Board Members and Executive Officers (applied to payments in June 2016 and beyond) for the purpose of achieving sustainable growth of the Group and increasing corporate value over the medium to long term and submitted a report to the Board of Directors.

The Governance Committee has discussions and exchanges opinions in a constructive manner concerning various issues to increase the effectiveness of the Board of Directors and the Company's organizational structure based on the results of the assessment of the Board of Directors.

Audit & Supervisory Board

In order to support the soundness of its management functions, the Company has an Audit & Supervisory Board, which consists of five Audit & Supervisory Board Members, three of whom are Outside Audit & Supervisory Board Members, to determine its audit policy and approach, while having a system that enables their views concerning important audit matters to be reflected in the Board of Directors. The Company has set up an Internal Audit Division reporting directly to President to verify the appropriateness and effectiveness of the business processes of the daily routine and financial operations of the Company and other companies in the Group according to the annual audit plan. Important matters are duly reported to the Board of Directors and the Audit & Supervisory Board.

Audit & Supervisory Board Members collaborate with the Board of Directors to play a role in the oversight function of the Company and the Group by auditing the performance of duties by Directors, investigating the conditions of business and property and providing the Board of Directors with their opinions such as advice and recommendations in an effort to achieve sustainable growth of the Group and increase corporate value over the medium to long term.

Assessment of the Board of Directors

The Company conducted a third-party assessment of the Board of Directors from June to September 2015.

The composition, operation, agenda items and meeting materials of the Board of Directors were analyzed and assessed in light of the roles and responsibilities of the Board of Directors.

A third-party institution prepared a report compiling and analyzing the results of "interviews with individual members of the Board of Directors" and the "direct observation of the Board of Directors" and the Board of Directors discussed based on the report.

The third-party institution interviewed all Directors and Audit & Supervisory Board Members (both Inside and Outside) individually to ask about their ideas and awareness concerning the Board of Directors. The third-party institution attended the Board of Directors meetings and directly observed actual discussions there.

As a result, it was confirmed that the Board of Directors has some points to be improved in the selection of agenda items, essential discussion, the quality of meeting materials and other items in light of its roles and responsibilities. Based on these results, we strive to ensure the effectiveness of the whole Board of Directors by revising the Rules of the Board of Directors to clarify agenda items and criteria for proposing agenda items, ensuring sufficient time for discussion through thorough prior explanation and reduction in time for explanation on agenda at the Board of Directors meetings, and improving meeting materials.

Election of Outside Executives

Two of the Company's nine Directors are Outside Directors and three of its five Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members. When electing outside executives, we confirm in light of our criteria for independence that there is no risk of conflict of interest with our shareholders and that they are in objective positions independent of our management team that engages in business execution.

Policy and Procedures for Determining Executive Remuneration

The existing remuneration of the Company's Directors, Audit & Supervisory Board Members and Executive Officers consists of monthly compensation and merit-based annual executive bonuses contingent on each year's performance, both of which are monetary remuneration. With regard to the policy for determining the remuneration of Directors, Audit & Supervisory Board Members and Executive Officers, the Company made the following changes applicable to amounts paid in June 2016 and thereafter by the resolution of the Board of Directors based on the report submitted by the Human Resources and Remuneration Committee in April 2016.

◆ Remuneration of Inside Directors and Executive Officers

The Company has increased the proportion of annual executive bonuses (performance-based remuneration) to total remuneration, with monthly compensation at 60% and annual executive bonuses at 40% (standard ranking), in order to provide incentives for completing management strategies and business plans and achieving corporate performance targets.

◆ Remuneration of Outside Directors and Audit & Supervisory Board Members (both Outside and Inside)

The Company has decided to discontinue executive bonuses and provide monthly compensation only.

In conjunction with the above, with the aim of ensuring that the Group achieves sustainable growth and increases corporate value over the medium to long term, the Company will consider introducing remuneration for Inside Directors and Executive Officers linked to their medium- to long-term performance (stock-based remuneration, etc.) beginning in fiscal year 2017.

Succession Plan

The appointment of Chief Executive Officer is the most important strategic decision-making and the Company positions the development and implementation of succession plan (for next management positions) as a particularly important item in terms of management strategy.

The Human Resources and Remuneration Committee will "develop an appointment policy based on 'what the management personnel of the Group should be'," "appoint prospective successors based on such policy," and "develop and implement succession plans for individual prospective successors."

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 business and concentrating management resources on initiatives such as business field expansion and active development of new businesses.

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.

Policy on Cross-shareholdings

The Group reduces its cross-shareholdings, which means holdings of listed shares other than those of subsidiaries and associates which are not held for pure investment purposes, as appropriate considering the market environment, share price trends and other such factors. 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.

The Board of Directors validates the rationale for the 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.

Decisions with respect to voting on matters regarding cross-shareholdings are made from both perspectives of whether cross-shareholdings contribute to the sustainable growth of the company whose shares are held and the medium- to long-term improvement of its corporate value and of whether the cross-shareholdings contribute to the Group's sustainable growth and the medium- to long-term improvement of its corporate value. When necessary, we also consider the possibility of engaging in dialogue with the companies whose shares are held when exercising voting rights.

Outside Directors

TACHIBANA FUKUSHIMA Sakie

President and Representative Director, G&S Global Advisors

Reason for election

TACHIBANA FUKUSHIMA Sakie has in-depth understanding regarding globally-minded human resources and abundant knowledge and experience as an international corporate manager. Based on that, she has contributed to ensuring more effective meetings of the Board of Directors since being elected as Outside Director of the Company in 2012, by adequately providing advice and oversight with respect to the direction of overall management and other such matters, from an objective viewpoint independent of the management team that engages in business execution. In light of her track record, the Company has judged that in acting as Outside Director she is likely to contribute greatly to the management of the Company from the perspective of enhancing corporate governance. As such, she has been elected as a candidate to continue serving as Outside Director.

TACHIBANA FUKUSHIMA Sakie is an independent executive who has been given the obligation by the Tokyo Stock Exchange and the Nagoya Stock Exchange to protect ordinary shareholders.

The Company has entered into an agreement with TACHIBANA FUKUSHIMA Sakie to limit the liability of damages stipulated in Paragraph 1, Article 423 of the Companies Act pursuant to Paragraph 1, Article 427 of the said Act.

◆Number of attendance at the Board of Directors meetings during the current fiscal year: 16/16 (100%)

OTA Yoshikatsu

Special Advisor, Konica Minolta, Inc.

Reason for election

OTA Yoshikatsu has extensive experience and abundant insight acting as a manager of a company that, like the Company, is a holding company. In that capacity, he promoted the corporate merger between Minolta Co., Ltd. and Konica Corporation, and has served as a chairman of the board of directors of a company with committees (currently a company with nominating and other committees). Accordingly, since being elected as Outside Director of the Company in May 2015, he has contributed to ensuring more effective meetings of the Board of Directors by adequately providing advice and oversight with respect to promoting management of the Group and other such matters, from an objective viewpoint independent of the management team that engages in business execution. In light of his track record, the Company has judged that in acting as Outside Director he is likely to contribute greatly to the management of the Company from the perspective of enhancing corporate governance. As such, he has been elected as a candidate to continue serving as Outside Director.

OTA Yoshikatsu is an independent executive who has been given the obligation by the Tokyo Stock Exchange and the Nagoya Stock Exchange to protect ordinary shareholders.

The Company has entered into an agreement with OTA Yoshikatsu to limit the liability of damages stipulated in Paragraph 1, Article 423 of the Companies Act pursuant to Paragraph 1, Article 427 of the said Act.

◆Number of attendance at the Board of Directors meetings during the current fiscal year: 12/12 (100%) after election

Outside Audit & Supervisory Board Members

TSURUTA Rokurou

Attorney at law

Reason for election

TSURUTA Rokurou has deep insight as a person from legal circles, and the viewpoint of strengthening corporate governance as well as the viewpoint of strengthening the compliance and risk management system, the Company has judged that he can contribute greatly to the management of the Company as Outside Audit & Supervisory Board Member particularly through the implementation of objective and fair audit and advice for the Board of Directors from a legal perspective.

TSURUTA Rokurou meets all the conditions for independence stipulated in the guidelines of the Tokyo Stock Exchange and the Company recognizes that he maintains a high degree of independence.

◆Number of attendance at the Board of Directors meetings during the current fiscal year: 15/16 (93.8%)

ISHII Yasuo

Audit & Supervisory Board Member, Daimaru Matsuzakaya Department Stores Co. Ltd.

Reason for election

He has extensive experience and knowledge as a manager of a business corporation such as a long career in Europe and in particular, familiarity with overseas business development.

Since ISHII Yasuo meets all the conditions for independence stipulated in the guidelines of the Tokyo Stock Exchange and he is in an objective position independent of the management team that engages in business execution, the Company has judged from the viewpoint of strengthening corporate governance that he can contribute greatly to the management of the Company.

◆Number of attendance at the Board of Directors meetings during the current fiscal year: 12/12 (100%) after election

NISHIKAWA Koichiro

Audit & Supervisory Board Member, Daimaru Matsuzakaya Department Stores Co. Ltd.

Reason for election

NISHIKAWA Koichiro has been mainly involved in business alliance, M&A and business reforms and also many important international negotiations. Through such experience, he has appropriate knowledge in finance.

Since NISHIKAWA Koichiro meets all the conditions for independence stipulated in the guidelines of the Tokyo Stock Exchange and he is in an objective position independent of the management team that engages in business execution, the Company has judged from the viewpoint of strengthening corporate governance that he can contribute greatly to the management of the Company.

◆Number of attendance at the Board of Directors meetings during the current fiscal year: 12/12 (100%) after election

Improvement of Shareholders Meeting

With the aim of promoting constructive dialogue with its shareholders, the Company dispatches the notices of convocation of shareholders meetings early (at least three weeks before the meeting) as well as delivers them to financial instruments exchanges and posts them on its website as soon as practicable before the dispatch of the notices to ensure sufficient time for consideration to exercise voting rights. We disclosed the notice of convocation of the 9th annual shareholders meeting to financial instruments exchanges and on our website four weeks before the meeting prior to dispatching its hard copies.

For the convenience of shareholders including institutional investors in Japan and abroad in exercising voting rights, the Company made available Internet voting and uses the Electronic Voting Platform. Moreover, we prepare English translations of the notices of convocation of shareholders meetings and disclose them on our website and the Electronic Voting Platform so that foreign shareholders can exercise their voting rights properly.

In addition, in order to provide many shareholders who have become more distant from the meeting venue compared to the times when they were the shareholders of Daimaru or Matsuzakaya before J. Front Retailing was established as a holding company with opportunities to view the Company's shareholders meeting, we set up live relay venues in the Osaka area (the Daimaru Shinsaibashi store) and the Nagoya area (the Matsuzakaya Nagoya store).

Starting with the 9th annual shareholders meetings, we deliver video of "business report" presentation given at the meeting on demand.



Recorded shareholders meeting presentation posted on our website



Shareholders meeting

Disclosure and IR Activities

Under the Group mission statement that "we aim at developing the Group by contributing to society at large as a fair and reliable corporation," 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 on the Company in a fair, timely and appropriate manner, we aim to improve management transparency and help stakeholders better understand the Company.

The Company discloses important corporate information to which the timely disclosure rules apply through the TDnet (Timely Disclosure Network) system provided by the Tokyo Stock Exchange, while posting the same information on its website and others as quickly as possible. As for information deemed to help deepen the understanding of shareholders about the Company, even where the timely disclosure rules do not apply to it, we strive to disclose it through SNS and annual reports. We disclose information in a timely and appropriate manner using TDnet, EDINET and our website according to the characteristics of information. In order to ensure fairness in information disclosure, we prepare and disclose English translations of the notices of convocation of shareholders meetings, annual reports, timely disclosure information, financial information and our website.

In conjunction with timely disclosure and the provision of information on our website, we hold various presentations and meetings and respond to inquiries from shareholders and investors in an effort to improve communication. Comments and requests from shareholders and investors are widely shared between the Company and concerned companies in the Group to help manage these companies and enhance corporate value.

Major dialogue activities with investors in fiscal year 2015

◆ With individual investors

Participated in presentation meetings organized by securities companies (seven times in total)

◆ With analysts and institutional investors

Financial results presentations (on a semiannual basis)

◆ With overseas institutional investors

Overseas IR roadshows (twice in total)

Participated in conferences for overseas institutional investors in Japan (three times in total)

Internal Control Systems

The Company has set the Basic Policy on the Building of Internal Control Systems to ensure the appropriateness of operations of the whole Group, and by promoting the Policy in a concrete manner, we strive to achieve the sustainable growth of the Group and increase its corporate value over the medium to long term.

The operation status of the internal control systems of the whole Group is reported to the Board of Directors regularly (twice a year) and timely and it is properly supervised by the Board of Directors. Its overview is disclosed in the notice of convocation of shareholders meeting (business report).

Compliance and Risk Management

The Company has formed the Compliance and Risk Management Committee whose membership includes a legal advisor for the purpose of addressing issues on the Group's compliance management and managing and evaluating risks associated with the Group's business operations in a proper manner.

The Committee draws up policies for addressing matters involving serious compliance-related violations and matters involving risk management. In addition, it develops the foundations of compliance and risk management systems (such as establishing internal rules, operation management manuals and management systems) for departments in charge of compliance and risk management and instructs and trains individual departments to ensure their compliance with laws and regulations and business ethics. The Committee holds meetings regularly (four times a year) and timely and reports to the Board of Directors as needed.

For particularly serious operational risks that are identified, the Compliance and Risk Management Committee will deliberate and determine policies for addressing them and prevent them occurring by

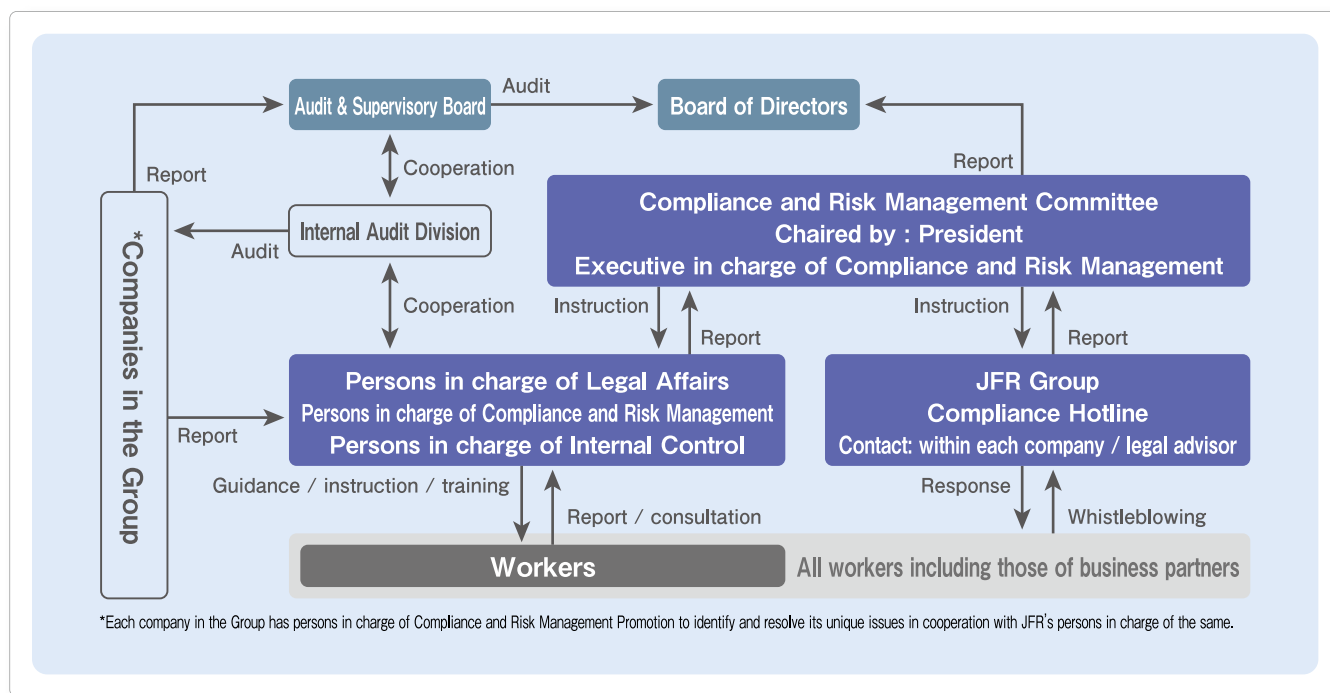
having the responsible departments of the Group companies implement these policies. For emergency situations including large-scale earthquakes, fires and accidents, crisis management will be controlled by the Emergency Response Headquarters headed by President.

Whistleblowing System

The Company has set up a whistleblowing system in which all executives and employees of the Group and any other persons working for the Group (including part-time workers and workers from business partners) can report any compliance issues directly to the Compliance Hotline and seek correction. It provides external contact (a legal advisor) as well as internal one for whistleblowing.

With respect to this whistleblowing system, the Group's internal rules strictly stipulate the protection of whistleblower confidentiality and the prohibition of disadvantageous treatment of whistleblowers.

◆ Compliance and risk management system



Four perspectives of principles of action and code of conduct for compliance and risk management

1 Always put customers first

We will always put the realization of customer satisfaction first and gain trust and support from customers through faithful actions in compliance with laws and regulations, internal rules and others such as the fulfillment of promises with customers, the development and provision of socially useful and safe products and services and the ensuring of fair labeling.

3 Create a fair and vibrant organization where individuality and ability are respected

With respect for each individual's basic human rights, we will form a vibrant organization where workers can be motivated to use their ability by creating a safe and secure work environment in compliance with labor-related laws and treating them based on a fair and equal evaluation.

2 Promote high quality management for sound growth and development

With the aim of becoming an open corporation that communicates with society at large, we will promote high quality management for sound growth and development by conducting fair, transparent and proper corporate activities, while maintaining fair relations with business partners whereby both grow together.

4 Contribute to society (good corporate citizen living in harmony with society)

As a good corporate citizen living in harmony with society, we will actively conduct creative business activities that contribute to society at large including the contributions to communities and environmental initiatives to achieve sustainable growth.