

# Corporate Governance Report

July 8, 2020

J. FRONT RETAILING Co., Ltd.

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

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

### 1. Basic Views

The Company has established Corporate Governance Guidelines (the “Guidelines”) that set out the role of corporate governance in the Company and its subsidiaries (the “JFR Group”). The aims of the Guidelines are to realize our best possible corporate governance practices in order to ensure the sustainable growth of the JFR Group and increase corporate value over the medium to long term. For “Basic Ideas on Corporate Governance,” please refer to “Chapter 1. General Provisions” of the Guidelines appended to this report.

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

([https://www.j-front-retailing.com/\\_data/news/170410\\_midtermplan\\_E.pdf](https://www.j-front-retailing.com/_data/news/170410_midtermplan_E.pdf))

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

<Basic philosophy>

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

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

<Group Vision>

Create and Bring to Life “New Happiness”

<JFR Way> (The ideas that motivate us)

“Create the future”

“Act on courage not fear”

“Embrace new ideas”

“Think for yourself when taking action”

“Act sensibly and honestly”

<Commitments to stakeholders>

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

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

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

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

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

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

Recognizing the need to carry out the principles of the Corporate Governance Code in order to achieve the sustainable growth of the JFR Group and to increase corporate value over the medium to long term, the Company has, as of May 28, 2020, implemented all the principles.

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

Rather than disclosing only the matters mandated under the Corporate Governance Code, the Company believes that disclosing the following leads to the promotion of constructive dialogue with shareholders and investors: (i) principles that are currently implemented but for which the Company only recently began the initiatives for the implementation; (ii) principles for which policies, ideas, etc. have been in place by convention but have not been explicitly stated or announced; (iii) principles that have been implemented conventionally but for which the Company considers further enhancement of substance to be necessary; and (iv) the current status of the Company’s efforts regarding corporate governance.

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

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

Rights of Shareholders, (v)” in “Chapter 2. Relationship with Stakeholders Centered on Shareholders” of the Guidelines.

There were no special requests filed by beneficial shareholders at the 13th Annual Shareholders Meeting.

At the 10th Annual Shareholders Meeting held in May 2017, the Company amended the Articles of Incorporation in accordance with the aforementioned policy to enable an institutional investor that owns shares in the name of a trust bank, etc. and does not own shares in their own name to attend a shareholders meeting and exercise voting rights as a proxy (Article 18 of the Articles of Incorporation).

For the Company’s Articles of Incorporation, please refer to the following page on our website.

([https://www.j-front-retailing.com/\\_data/news/170410\\_articles\\_E.pdf](https://www.j-front-retailing.com/_data/news/170410_articles_E.pdf))

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

#### [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 liabilities, 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 liabilities.

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 through efforts to realize our Group Vision, we focus primarily on ROE for capital efficiency, consolidated operating profit for business profitability, free cash flows for profitability and stability, and ratio of equity attributable to owners of parent to total assets (equity ratio) for financial soundness.

#### [Promoting Management that Recognizes the Cost of Capital]

The Group aims to continually achieve a consolidated ROE of 8% or more. To explain the background of how we set the target as 8%, we began by recognizing the yields expected by shareholders and investors, or in other words the Company’s cost of equity.

The cost of equity is calculated at about 6% as of February 29, 2020, but it is speculated to shift within the range of 6–7% over the medium to long term. For this reason, the Company believes that what is expected of it is to stably achieve an ROE of a level 8% or more, that exceeds the cost of equity.

Furthermore, with regard to the WACC (weighted average cost of capital), as of February 29, 2020 it is falling slightly below 4%, but in addition to recognizing a level of roughly 5% for the Group as a whole

over the medium to long term, we have ascertained the WACC of each of the main operating companies including the Department Store Business, the PARCO Business, the Real Estate Business, the Credit and Finance Business.

Going forward, as we move ahead with business portfolio reforms, we hope to consider the idea of reducing capital costs by pursuing an optimal investment structure and a decrease in the awareness of business risks on the part of shareholders and investors.

[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.

[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.

In FY2019, the Company implemented the following measures in accordance with the aforementioned policy and achieved an ROE of 5.4% for the fiscal year.

- Undertaking strategic investment

For the undertaking strategic investment, please refer to the notice of convocation of the shareholders meeting (business report) and the following page on our website.

Notice of Convocation of the 13th Annual Shareholders Meeting (Year Ended February 29, 2020)

([https://www.j-front-retailing.com/english/ir/stock/pdf/\\_/200430\\_Notice\\_of\\_Convocation\\_E.pdf](https://www.j-front-retailing.com/english/ir/stock/pdf/_/200430_Notice_of_Convocation_E.pdf))

The Company's website

([https://www.j-front-retailing.com/\\_data/news/170410\\_midtermplan\\_E.pdf](https://www.j-front-retailing.com/_data/news/170410_midtermplan_E.pdf))

- Enhancing shareholder returns

For the year ended February 29, 2020, the Company provided an annual dividend from surplus of 36 yen per share with the addition of an interim dividend, marking nine consecutive years of dividend increases.

- Expanding net worth

The total amount of interest-bearing debt was approximately 478,700 million yen as of February 29, 2020 (an increase of approximately 304,400 million yen compared to February 28, 2019, mainly due to an increase of lease liabilities resulting from application of IFRS 16 “Leases”). The interest-bearing debt to equity ratio was 1.24 times, and the ratio of equity attributable to owners of parent to total assets (equity ratio) was 31.2% for a decrease of 8.9 percentage points compared to February 28, 2019.

- Business portfolio and investment plan

During the Medium-term Business Plan period, we will use 200.0 billion yen for capital investment and growth-oriented investment in existing business innovation and business portfolio reforms, aiming to generate operating cash flow of 260.0 billion yen or more. In addition, our business portfolio under the Medium-term Business Plan aims for growth of Department Store Business and PARCO Business that form the core of the Company’s business, and for an increase in the percentage of new businesses such as Real Estate Business and Credit and Finance Business by expanding them.

In addition, we transformed PARCO into a wholly-owned subsidiary in March 2020. By doing so, we have put in place a framework to maximize the utilization of the Group’s business resources in preparation for working together to implement fundamental but flexible reforms of the business portfolio.

\* We have adopted the International Financial Reporting Standards (IFRS) since FY2017.

\* Please refer to the following pages of the Company’s website as well.

([https://www.j-front-retailing.com/\\_data/news/170410\\_midtermplan\\_E.pdf](https://www.j-front-retailing.com/_data/news/170410_midtermplan_E.pdf))

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

##### [Policy on Cross-shareholdings]

As a rule, the JFR Group will not newly acquire cross-shareholdings (cross-shareholdings are holdings of listed shares other than those of subsidiaries and associates which are not held for pure investment purposes). However, this does not apply to shares where it has been recognized that they are necessary for the promotion of the JFR Groups business strategy, and that the holding of such shares will contribute to the increase of corporate value in the medium to long term through the validation of rationale for holding them. For example, with regard to promotion of the Urban Dominant Strategy, a key strategy of the Company, if we were requested to hold shares for such purposes by, a local government or a company, the Company would consider holding shares upon sufficient examination by the executive team of the benefits and risks of holding, from the perspective of initiatives for “coexistence with local communities,” which is one of the important issue of ESG.

##### [Validation of Rationale]

Every year, the Board of Directors validates the rationale of holding individual issues from both quantitative and qualitative perspectives. The qualitative perspective relates to business strategies such as maintaining harmonious and favorable business relationships with corporate customers and business

partners, and securing supply chains. The quantitative perspective relates to whether profitability by holding shares, including related trading profits and dividends, exceed capital costs, etc.

As a result, the JFR Group maintained cross-shareholdings in 26 issues as of February 29, 2020.

\* For details of the process and schedule for the validation of the rationale of holdings, and changes in the number of issues held, please refer to “The Company’s Cross-Shareholdings,” appended to this report.

#### [Policy on Exercising Voting Rights Regarding Cross-shareholdings]

Decisions are made from both of the following two perspectives: we consider whether cross-shareholdings contribute to improving the sustainable growth and the corporate value over the medium to long term of the company whose shares are held; we consider whether the cross-shareholdings contribute to improving the JFR Group’s sustainable growth and corporate value over the medium to long term. Specifically, in regard to proposals that we consider to be of high priority with respect to strengthening corporate governance, such as proposals relating to the corporate governance system (selection of company officers), proposals relating to shareholder return (appropriation of surplus), and proposals that have an effect on shareholder value (introduction of takeover defense measures), we establish policies upon which to base judgment of our exercise of voting rights, and acting as the JFR Group as a whole, we take a response that is in line with such policies. We engage in dialogue with companies whose shares we hold if necessary when we exercise voting rights.

#### [Other Shareholdings]

As for unlisted stocks, the executive team examines these on an ongoing basis with a view to selling or reducing holdings.

\* For retirement benefit trust shares, please refer to the Annual Securities Report.

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

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

#### 【Principle 1-7】 Related Party Transactions

For the procedure, etc. for related party transactions, please refer to “5. Related Party Transactions” in “Chapter 2. Relationship with Stakeholders Centered on Shareholders” of the Guidelines.

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

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

To facilitate the understanding and dissemination of the Group Vision and solidify relevant activities, the management's messages and employee pledges for action have been disclosed via the Company's internal website and in-house magazines. Since May 2017, the Company has been also undertaking the "Challenge Card program" through which employees are allowed to submit their original ideas to senior personnel throughout the year.

In FY2019, ideas related to products and services and new business plans, in addition to business improvement plans, etc. numbered roughly 7,000, so we can really feel a certain amount of penetration of the Group Vision.

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

With the aim of ensuring sustainable growth of the JFR Group and increasing corporate value over the medium to long term, the JFR Group has made efforts to build and deepen relationships of trust with all stakeholders (customers, shareholders, business partners, employees, local communities, etc.) through various corporate activities based on the basic philosophy and Group Vision and has taken proactive steps in dealing with social and environmental issues and other issues.

We newly formulated "Sustainability Policy" in July 2018 and were committed to fulfilling our social and environmental responsibilities through business activities toward the achievement of a sustainable society, and at the same time, as a Multi Service Retailer, clarified the creation of new happiness of life of each and every stakeholder. We are working to realize the quantitative medium- to long-term goals that need to be reached with regard to "contribution to a low-carbon society," "management of the entire supply chain," "coexistence with local communities," "promotion of diversity," and "realization of work-life balance," which are the five areas of materiality (important issues) set by the Group as needing to be prioritized.

For details, please refer to the following page on our website.

(<https://www.j-front-retailing.com/english/sustainability/sustainability.php>)

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

The Company recognizes that diversity of human resources is the source of competitiveness of a company, and considers it important to create new value with the combination of different elements obtained by exchanging a variety of personnel's opinions. In addition, we have set "promotion of diversity" as one of the areas of materiality (important issues) to be prioritized for sustainable growth of the company and realization of a sustainable society. By setting medium- to long-term goals and implementing specific measures, we aim to realize a company that respects and embraces diversity.

[Board of Directors]

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

For Outside Directors, we select individuals from the point of view of Board diversity 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 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.

[Active Participation of Women]

Under the structure of the Board of Directors, the Company has appointed 13 Directors including one female Director (independent Outside Director). The Company is taking various measures including the “JFR Juku (cram school) for Women,” a selective training program offered to help employees with young children improve motivation and change the way they think, and the “Mother Recruitment” program that aims to extensively hire external personnel wishing to further fulfill their lives by achieving a better balance between child care and work. In addition, the Company is continuously working on the development and enhancement of female-friendly workplace systems.

For female employees in leadership positions, please refer to the following page on our website.

(<https://www.j-front-retailing.com/english/sustainability/diversity/diversity01.php>)

[Disabled Persons]

Because we recognize that employment of people with disabilities is one of the social responsibilities that companies should fulfill from the perspective of ESG management, we aim to secure a stable work environment for people with disabilities, and to create a workplace where they can be motivated to use their abilities. “JFR Create Co., Ltd.” was established and the company was certified as a Special Subsidiary Company under the law in September 2017.

In addition, each operating company within the Group is working on its own initiatives for recruitment of people with disabilities to achieve the goals that have been set for it in the medium to long term.

[Appointment of External Human Resources]

We will widely appoint, from outside the Company, managerial talent to secure strategy promotion speed in specific fields such as ICT Strategy and Credit Card and Finance Businesses, and human resources with advanced expertise and rich careers that we do not have in-house at present, and arrange flexibly to strengthen strategy execution.

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

Under the pension plan for Daimaru Matsuzakaya Department Stores Co. Ltd., a main operating company of the Group, investments are made through appropriate asset diversification and allocation to ensure long-term returns in line with the asset investment objective of ensuring the stable sources of future benefits. The Company has formulated its asset investment policy on the selection of an investment management organization and a fund, and strictly reviews the management details, social assessments, investment experiences and results, legal compliance system, etc., based on assessments made by assessment agencies with a good reputation. The Company also monitors whether the said organization exercises voting rights, etc., in an appropriate manner. In addition, the Company carefully selects suitable personnel, and especially when replacing Investment Management Directors, it lets them acquire necessary working knowledge by having them attend various seminars (e.g., the seminar for newly appointed Investment Management Directors sponsored by the Pension Fund Association, seminars offered by financial institutions conducting



operational management of pension plans, and seminars offered by investment institutions) at the time of new appointment.

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

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

- Basic philosophy and Group Vision, etc.  
(<https://www.j-front-retailing.com/english/company/philosophy.php>)
- Management Policy  
(<https://www.j-front-retailing.com/english/ir/policy/policy.php>)
- Medium-term Business Plan  
([https://www.j-front-retailing.com/\\_data/news/170410\\_midtermplan\\_E.pdf](https://www.j-front-retailing.com/_data/news/170410_midtermplan_E.pdf))
- Strategies  
([https://www.j-front-retailing.com/english/ir/strategic\\_policy/strategic.php](https://www.j-front-retailing.com/english/ir/strategic_policy/strategic.php))

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

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

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

In order to facilitate the steady execution of the Medium-term Business Plan, the Company formulated a new “Officer Remuneration Policy,” which included the introduction of a stock-based remuneration system for officers, in April 2017. However, to reflect the promotion of sustainability management, which is a Company initiative that has emerged since that time, the details of this policy were revised to give it more substance in April 2020.

For details of the revised Officer Remuneration Policy, please refer to the following page on our website.  
([https://www.j-front-retailing.com/\\_data/news/200410\\_RemunerationPolicy\\_E.pdf](https://www.j-front-retailing.com/_data/news/200410_RemunerationPolicy_E.pdf))

**1. Policy on determining remuneration for Directors and Executive Officers**

[Basic policy for officer remuneration]

The Company's officer remuneration system is operated under the following basic policy with a view to realizing and promoting sustainability management (pay for purpose). The same basic philosophy is also established by Daimaru Matsuzakaya Department Stores, which is one of the major subsidiaries of the Group.

- (i) Contribute to the sustainable growth and increase of the corporate value of the JFR Group over the medium to long term, and also be compatible with its corporate culture
- (ii) A highly performance-based remuneration system that provides incentives to Executive Officers both for accomplishing objectives set under management strategies and business plans, and for

achieving targets with respect to corporate performance.

- (iii) Remuneration levels that can secure and retain human resources 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.

[How to determine remuneration levels]

To make quick responses to changes in the external environment and the market environment, the Company refers to objectively verifiable survey data from specialist external organizations, and adopts the officer remuneration levels of companies in the same industry (department stores / retailers) and companies of a comparable size (selected based on market capitalization and consolidated operating profit) in other industries as a benchmark, and compares the remuneration levels of its Executive Officers and Directors with the benchmark every year. The same treatment shall apply to the Directors, Executive Officers and Audit & Supervisory Board Members of Daimaru Matsuzakaya Department Stores.

[Composition of remuneration]

• Executive Officer

Remuneration for Executive Officers shall comprise (i) basic remuneration (monetary remuneration) in accordance with rank (position), (ii) bonuses (monetary remuneration) based on individual evaluations conducted each business year, and (iii) performance shares linked to the consolidated performance achievement rate, etc. provided in the Medium-term Business Plan as a stock-based remuneration system (trust-type stock-based remuneration).

• Directors who do not execute business

Remuneration for Directors who do not execute business shall consist only of fixed remuneration, which shall be (i) basic remuneration (monetary remuneration) in accordance with rank (position) and (ii) restricted stock (non-performance-linked stock-based remuneration), which is not linked to performance as a stock-based remuneration system (trust-type stock-based remuneration).

- For details of the composition of remuneration, please refer to the following page on our website.

([https://www.j-front-retailing.com/\\_data/news/200410\\_RemunerationPolicy\\_E.pdf](https://www.j-front-retailing.com/_data/news/200410_RemunerationPolicy_E.pdf))

2. Procedures for determining remuneration for Directors and Executive Officers

To ensure the appropriateness of the level and amount of remuneration, and the transparency of decision-making processes, independent Outside Directors account for the majority, and decisions are made by deliberation and resolution of a Remuneration Committee headed by an independent Outside Director. The Remuneration Committee determines the policy for deciding the content of individual remuneration for Directors and Executive Officers of the Company and officers of subsidiaries (Directors, Executive Officers and Audit & Supervisory Board Members), as well as deciding the content of individual remuneration for Directors and Executive Officers of the Company.

It is planned that the Remuneration Committee shall meet at least four times a year. Revisions of the officer remuneration system will be undertaken based on Medium-Term Business Plan periods.

In addition, the Company appoints external remuneration consultants with a view to introducing objective viewpoints from outside the Company and expertise on officer remuneration systems. With their support, the Company reviews its remuneration levels and remuneration system in light of external data, economic environment, industry trend and business conditions, among others.

### 3. Forfeiture of remuneration, etc. (clawback/malus clauses)

With regard to bonuses and stock-based remuneration, in cases where the Board of Directors has resolved that serious accounting errors or fraudulent adjustments after the settlement of accounts have occurred, or in cases where serious infringements of the delegation agreement, etc. between the Company and an officer have taken place, or in cases where a person has resigned for their own reasons during their tenure against the wishes of the Company, the right to be paid/issued remuneration may be forfeited, and the Company may demand the repayment of remuneration already paid or issued.

### 4. Stock acquisition and holding

Any shares of the Company acquired by Executive Officers as stock-based remuneration shall continue to be held by respective Executive Officers at least for three years from the grant date of the shares (or at least for one year after they retire from the office of Executive Officer). The purpose of this requirement is to deepen the common interest of shareholders and officers. In particular, the purpose of granting shares of the Company to Executive Officers who are responsible for business execution as performance-linked stock-based remuneration is to provide additional incentive to them to work for the improvement of the financial performance and corporate value of the Company from the medium- to long-term perspective.

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

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

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

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

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

Notice of Convocation of the 13th Annual Shareholders Meeting (Year Ended February 29, 2020)  
([https://www.j-front-retailing.com/english/ir/stock/pdf/\\_/200430\\_Notice\\_of\\_Convocation\\_E.pdf](https://www.j-front-retailing.com/english/ir/stock/pdf/_/200430_Notice_of_Convocation_E.pdf))

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

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

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

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

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

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

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

For the roles and responsibilities of the Board of Directors to realize the Medium-term Business Plan, please refer to “3. Basic Ideas on Corporate Governance, (4) Roles and Responsibilities of the Board of Directors, etc.” in “Chapter 1. General Provisions” of the Guidelines.

The Board of Directors periodically and on multiple occasions performs checks on whether the initiatives of the Medium-Term Business Plan that began in March 2017 have been delayed or not in comparison with the predetermined schedule, and in the event that divergences from targets occur, discusses problems and countermeasures, etc. However, with drastic changes in the external environment having caused significant divergences from original forecasts, making it difficult to maintain numerical targets over five years, and after taking into consideration changes in the business portfolio, including PARCO, the Board of Directors has come to the conclusion that it is desirable, from the perspective of increasing corporate value over the medium to long term, to begin a new Medium-Term Business Plan in the fiscal year ending February 28, 2021.

During the current fiscal year, the Board of Directors will endeavor to focus on formulating a medium-term business plan for the next period, hold discussions designed to improve the quality of strategies from the perspective of stakeholders while sharing a sense of crisis and speed with parties involved in execution, fully provide management oversight, and make efforts to realize the Group Vision and increase corporate value.

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

[Selection of President and Representative Executive Officer]

Selection of the President and Representative Executive Officer is a critical aspect of strategic decision

making, and accordingly the Company regards drawing up and implementation of plans regarding successors (next senior management team) as matters of particular importance in terms of management strategy.

The Company ensures clarity, transparency and objectivity in the process of selecting successor candidates through repeated reviews of successor candidates' individual evaluations based on assessments made by a third-party organization using internal data. The deliberations are conducted by the Nomination Committee, in which Outside Directors comprised a majority. Furthermore, in order to ensure the appropriateness of succession planning, the Nomination Committee regularly checks the succession plan on a regular basis every year so that it can reflect internal and external environmental changes surrounding the Company, progress of strategies, etc.

The Board of Directors plays a supervisory role focused on realizing the basic philosophy and the Group Vision, based on proposals received from the Nomination Committee.

#### [Dismissal of President and Representative Executive Officer]

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

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

#### [The Qualities Required of Successors]

The Company clearly defines the necessary values, capabilities, and behavioral traits in the form of the following five qualities required of a corporate officer in the Guidelines under "Desirable qualities required of the JFR Group managerial talent."

- (i) Strategic mindset
- (ii) Reform-oriented leadership
- (iii) Tenacity for achieving results
- (iv) Organization development strengths
- (v) Human resource development strengths

The Company endeavors to ensure impartial cultivation and selection of successors by sharing these qualities among all members of the Nomination Committee to make them all aware of the measures used in cultivating and assessing successors.

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

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

[Directors and Executive Officers of the Company and Directors, Audit & Supervisory Board Members and

#### Executive Officers of the Main Operating Companies]

The Company also provides with useful information, etc. about corporate governance, compliance, and Group management. Furthermore, based on the result of the evaluation on managerial talent by the third-party organization, the Company sets and conducts training plans such as coaching which leads to the manifestation of achievement expected to each individual.

#### [Candidates for Management Personnel, Including Executive Officers]

The Company helps the top management share awareness of problems and enhances ingenuity in carrying out the Medium-term Business Plan and undertakes “JFR Management Juku (cram school),” where the President and Representative Executive Officer serves as the principal of the Juku. External consultants deliver lectures to allow attendees the opportunity to consider not only the Medium-term Business Plan, but also a vision of the Group 10 years from now, from the management perspective. Presentations are also made directly to the President and Representative Executive Officer, and evaluated accordingly. The President and Representative Executive Officer attends all day long every time it is held. In addition, the Company lets them prepare new business plans, etc., to prevent them from being only engaged in classroom learning. We provide opportunities for students to make presentations to the Board of Directors regarding the outcomes of their initiatives and for them to receive advice from the Board.

#### [Outside Director]

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

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

By defining risks as “uncertainties,” the Group regards risks from both a positive and a negative standpoint. By recognizing positive risks as “opportunities” and negative risks as “threats,” a company can not only hedge risks that would be seen as threats but actively take the positive risks, which leads to sustained growth for the company going forward.

The Group has established the Risk Management Committee as an advisory body for its President and Representative Executive Officer to extract and evaluate risks related to the JFR Group, prioritize and reflect them in the strategies, and monitor the countermeasures. During the current fiscal year, 101 risks were identified in relation to the Group, with those requiring particular attention being recognized as “special corporate risk.”

In addition, the global spread and prolongation of novel coronavirus infections (COVID-19) constitutes an extraordinarily significant risk to the business continuity of the Group and to way its business activities are conducted after the situation itself has been resolved, and responding to this has thus been assigned the highest priority.

- For details of business and other risks, please refer to the Annual Securities Report.

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

The basic views of the Company under the corporate governance structure with three committees are that one-third or more of the Board of Directors must be independent Outside Directors and a majority of members must be independent Outside Directors and/or internally promoted Directors who do not execute business. By doing so, the Company aims to separate supervision and execution, ensure the effectiveness of the Board of Directors' discussions, and maintain and improve transparency and objectivity.

**Thirteen (13) Directors**

(Breakdown) Six (6) independent Outside Directors (Three of whom are chairpersons of Nomination Committee, Audit Committee and Remuneration Committee)

Three (3) internal Directors who do not execute business (One of whom is a chairperson of the Board of Directors)

Four (4) Executive Directors

One internal Director who does not execute business, and is well informed about internal information because of their extensive business experience in businesses of the JFR Group companies, fulfills his/her role as chairperson of the Board of Directors, and six independent Outside Directors, who have extensive external management experience or in-depth knowledge in specialized areas, fulfill their roles as chairperson of the Nomination, Remuneration and Audit Committee, or members of any of the three committees, so that the effectiveness of independent and objective management supervision can be ensured.

Furthermore, the Company organizes “executive sessions” that allow free discussion and exchanges of views among Outside Directors. It is held as a meeting of only Outside Directors after the meeting of the Board of Directors is concluded, and discusses issues that need to be watched from a position of oversight, such as issues in the Board of Directors and issues for improving effectiveness (The lead director is independent Outside Director SATO Rieko.) At the request of the lead director, the President and Representative Executive Officer and the chairperson of the Board of Directors may also participate in discussions.

For the Management Council which draws on advice obtained from Outside Directors, please refer to the following item.

**【Principles 4-7, 4-10, Supplementary Principle 4-10-1】 System to Ensure the Effectiveness of the Oversight Function of the Board of Directors**

The Company has established “The Management Council” as an optional advisory meeting for the President and Representative Executive Officer, with members consisting of the President and Representative Executive Officer, all Outside Directors, and the chairperson of the Board of Directors.

The Management Council functions as a place to obtain useful advice from Outside Directors with in-depth/specialized knowledge and rich experience, and to discuss issues raised by the Outside Directors regarding the management issues in general of the President and Representative Executive Officer.

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

For the criteria for determining independence of Outside Directors, please refer to “5. Criteria for

Determining Independence of Outside Directors” in “Chapter 4. Roles and Responsibilities of the Board of Directors, etc.” of the Guidelines.

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

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

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

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

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

Notice of Convocation of the 13th Annual Shareholders Meeting (Year Ended February 29, 2020)

([https://www.j-front-retailing.com/english/ir/stock/pdf/\\_200430\\_Notice\\_of\\_Convocation\\_E.pdf](https://www.j-front-retailing.com/english/ir/stock/pdf/_200430_Notice_of_Convocation_E.pdf))

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

The Company performed the evaluation by third-party organization of the Board of Directors annually since 2015.

**[Items Evaluated]**

There were about 30 items, including: (i) The Board of Directors’ contribution to the entire Group, (ii) the Board of Directors’ composition, (iii) its operational status, (iv) the content of deliberations, and (v) the effectiveness of activities of the Nomination, Remuneration and Audit Committees.

**[Evaluation Methodology]**

The method used was based on a questionnaire distributed beforehand, after which “individual interviews” (Note) conducted by the third-party organization, the results of which were collated and analyzed in the form of a report, which was then deliberated by the Board of Directors.

There is a recognition that improvements based on the past four evaluations have resulted in a well-formed Board of Directors and governance system, and for that reason a different third-party organization was used in 2019 in order to incorporate a new perspective, with the focus of this evaluation being placed on revealing actual problems.

**(Note) “Individual interviews”**

The third-party organization conducted individual interviews in which all Directors (both Internal and Outside) were inquired about their views and awareness of issues in response to various questions concerning the Board of Directors.

**[Evaluation Results and Issues, etc.]**

In the fifth evaluation of the Board of Directors, conducted between October and November 2019, it was reported by the third-party organization that under the current composition of the Board of Directors, its



deliberations have become more objective, and that lively discussions take place from multiple perspectives. The following issues with the Board of Directors were also recognized.

(Medium- to long-term issues)

- Reconfirming the direction of reforms among Directors and aligning their views of the future business and awareness of speed in achieving that
- Examining the detailed design related to the roles and functions of the Internal Audit Division so that the Audit Committee can better function

(Short-term issues)

- Setting management indicators that clearly indicate progress in implementing the medium-term business plan and clarifying the system and schedule for execution tied to strategy
- Continually improving the quality of deliberations by the Board of Directors

In response to these issues, the following initiatives will be implemented during the current fiscal year to improve the effectiveness of the Board of Directors.

- Promptly providing feedback to parties executing measures based on the results of deliberations by the Board of Directors via the Management Meeting and other venues, instructing related departments to implement required results, and reflecting that in execution
- Conducting more efficient and effective deliberations by developing creative methods for further uncovering issues related to the various strategies and strengthening monitoring of those

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

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

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

In addition, the Company released an integrated report in FY2017 that is replete with non-financial information. Included at the beginning of this report are the details of the Company’s value creation process. This process is the means by which the Company aims to make effective and efficient use of its “six capitals” (financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital) to circulate the Group’s business model. In so doing, it aimed to create, as a public entity of society, new values with which its various stakeholders empathize.

For the integrated report, please refer to the following page on our website.

(<https://www.j-front-retailing.com/english/ir/library/annual.php>)

## 2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned (Shares)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	23,620,900	8.95
Japan Trustee Services Bank, Ltd. (Trust Account)	16,598,700	6.29
Nippon Life Insurance Company	9,828,428	3.72
J. Front Retailing Kyoei Supplier Shareholding Association	6,319,842	2.39
The Dai-ichi Life Insurance Company, Limited	5,732,150	2.17
Japan Trustee Services Bank, Ltd. (Trust Account 5)	4,779,400	1.81
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,444,200	1.68
MUFG Bank, Ltd.	4,373,473	1.66
JP MORGAN CHASE BANK 385151	4,158,850	1.58
STATE STREET BANK WEST CLIENT - TREATY 505234	3,472,777	1.32

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

### Supplementary Explanation

- [1] The status above is based on the shareholder register as of February 29, 2020.
- [2] The shareholding ratios of major shareholders are calculated after excluding shares of treasury stock (6,592,332 shares).
- [3] As of September 1, 2014, the Company conducted a consolidation of common shares at a rate of one share for every two shares.

## 3. Corporate Attributes

Planned Listed Stock Market Section	Tokyo Stock Exchange and Nagoya Stock Exchange First Section
Fiscal Year-End	February
Type of Business	Retail Trade
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100.0 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

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

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

Conversion of PARCO to a wholly-owned subsidiary

The Company conducted a tender offer and a demand for share cash-out to shareholders of PARCO Co., Ltd., which became a wholly owned subsidiary of the Company, effective March 23, 2020. With the business environment in which the JFR Group operates facing up significant changes, a deepening of cooperation with PARCO and a concentration of management resources was considered necessary to enable the Group to promote fundamental but flexible reforms of the business portfolio going forward, based on prompt decision-making, but the conversion of PARCO to a wholly-owned subsidiary also led to a resolution of the situation in which both parent and subsidiary were listed, thus further solidifying the reforms of corporate governance that have been under way since the Company adopted a system of three committees (nomination, audit, and remuneration) in 2017.

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

### 1. Organizational Composition and Operation

Organization Form	Company with three committees (nomination, audit and remuneration committees)
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#### [Directors]

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

#### [Outside Directors]

Number of Outside Directors	6
Number of Independent Outside Directors	6

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*1)										
		a	b	c	d	e	f	g	h	i	j	k
ISHII Yasuo	From another company											

NISHIKAWA Koichiro	From another company											
UCHIDA Akira	From another company											
SATO Rieko	Attorney at law											
SEKI Tadayuki	From another company											
YAGO Natsunosuke	From another company											

\*1 Categories for “Relationship with the Company”

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

#### Outside Directors' Relationship with the Company (2)

Name	Committee to Belong			Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
	Nomina- tion	Remune- ration	Audit			
ISHII Yasuo	○	○		○	Director of Parco Co., Ltd.	ISHII Yasuo possesses insight based on his experience in global corporate management and abundant experience in the field of management planning outside the retail industry, such as special familiarity with business development in overseas countries. He has contributed to ensuring more effective meetings of the Board of Directors by actively and assertively furnishing advice with respect to overall management strategy such as strengthening the holding company functions aimed at swift decision

					<p>making for business execution. Moreover, as a member of the Nomination Committee and Remuneration Committee, he contributes to strengthening the management personnel function through determination of transparent and fair officer personnel change proposals, deliberation on the succession plan, and provision of suitable advice related to deliberation, etc. on proper level of officer remuneration and proper operation of the remuneration system.</p> <p>In light of his track record and abundant insight, the Company has judged that in acting as an Outside Director he is likely to contribute greatly to management of the Group. As such, he has been appointed to continue serving as Director.</p>
NISHIKAWA Koichiro			○	○	<p>NISHIKAWA Koichiro possesses practical experience in business alliances, M&amp;A, business reforms, and his involvement in numerous important international negotiations. This enabled him to contribute to ensuring more effective meetings of the Board of Directors by actively and assertively furnishing advice to the Board of Directors with respect to matters such as identifying risks regarding new business and M&amp;As as well as suitability thereof, advancing progress management and results verification for corporate management strategies, and the suitability of numerical-target based</p>

						<p>planning. Also, as chairperson of the Audit Committee he contributes to strengthening the audit function by promoting discussions from the perspectives of legal compliance and appropriateness on the business execution of Directors and Executive Officers as well as matters submitted to the Board of Directors for deliberation or matters deemed necessary by the Audit Committee. In light of his track record and abundant insight, the Company has judged that in acting as an Outside Director he is likely to contribute greatly to management of the Group. As such, he has been appointed to continue serving as Director.</p>
UCHIDA Akira	○	○		○	<p>Outside Director of Yokogawa Electric Corporation; Director of Daimaru Matsuzakaya Department Stores Co. Ltd.</p>	<p>UCHIDA Akira possesses broad experience and knowledge in the corporate division, as a manager in charge of management planning and IR, and as the person responsible for the finance and accounting division, and has contributed to ensuring more effective meetings of the Board of Directors by actively and assertively furnishing advice with respect to the best financial strategy considering the cost of capital and ideas on ESG management that appropriately reflect the opinions of stakeholders. As a member of the Audit Committee, he contributes to strengthening the audit function by carrying out audits of the appropriate execution of duties by Directors and Executive Officers of a company with three committees (nomination,</p>

						<p>audit, and remuneration committees), and from the perspective of legality, appropriateness, etc., engages in discussions related to items submitted to the Board of Directors, and items judged to require monitoring by the Audit Committee. In light of his track record and abundant insight, the Company has judged that in acting as an Outside Director he is likely to contribute greatly to management of the Group. As such, he has been appointed to continue serving as Director.</p>
SATO Rieko			○	○	<p>Attorney at law; Outside Corporate Audit of NTT DATA CORPORATION; Outside Director of Dai-ichi Life Holdings, Inc. (Audit &amp; Supervisory Committee Member); Director of Daimaru Matsuzakaya Department Stores Co. Ltd.</p>	<p>SATO Rieko possesses abundant experience as an outside director and outside audit &amp; supervisory board member at other companies, in addition to having made a career in handling many projects with in-depth and specialized knowledge as an attorney at law specializing in corporate legal affairs. She has contributed to maintaining and strengthening the Company's governance through providing active advice and oversight from an objective viewpoint, not only in areas related to defensive governance such as effective implementation method of internal audit and internal controls, but also regarding risks in creation of new businesses linked to the growth strategy. As a member of the Audit Committee, she contributes to strengthening the audit function by carrying out discussions from the perspective of legality,</p>

						<p>appropriateness, related to audits of the appropriate performance of duties by Directors and Executive Officers of a company with three committees (nomination, audit, and remuneration committees), and from the perspective of legality, appropriateness, engages in discussions related to items submitted to the Board of Directors, and items judged to require monitoring by the Audit Committee. In light of her track record and abundant insight, the Company has judged that in acting as an Outside Director she is likely to contribute greatly to management of the Group. As such, she has been appointed to continue serving as Director.</p>
SEKI Tadayuki			○	○	<p>Outside Director of VALQUA, LTD.; Advisory Member of ITOCHU Corporation; Outside Director of JSR Corporation; Outside Statutory Auditor of Asahi Mutual Life Insurance Company; Director of PARCO Co., Ltd.</p>	<p>SEKI Tadayuki was involved in international business management and risk management at a general trading company for many years, and as CFO has both abundant experience and highly specialized knowledge in relation to finance and accounting. He also has wide-ranging insights derived from roles as Outside Director and Audit &amp; Supervisory Board Member at multiple companies, including PARCO Co., Ltd. The Company judges that he will apply his achievements and deep knowledge to the appropriate supervision of management in the Group, and has accordingly nominated him as a new Outside Director.</p>



YAGO Natsunosuke	○	○		○	Outside Director of SUBARU CORPORATION	YAGO Natsunosuke has been involved in top-level company management for many years, and has abundant experience in strengthening financial bases and in compliance management. In addition to demonstrating his leadership skills during the transition of Ebara Corporation to a company with three committees (nomination, audit and remuneration committees), he has experience as a nomination committee member, and possesses highly specialized knowledge of internal control and corporate governance. The Company judges that he will apply his achievements and deep knowledge to the appropriate supervision of management in the Group, and has accordingly nominated him as a new Outside Director.
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### [Committees]

#### Composition of Each Committee, and Attributes of Chairperson

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

### [Executive Officers]

Number of Executive Officers	13
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#### Current Holding of Positions

Name	Right to Represent	Concurrent Post as Director			Concurrent Post as an Employee
		Concurrent Post as Director	Nomination Committee	Remuneration Committee	
YOSHIMOTO Tatsuya	Hold	Hold	○	○	None
SAWADA Taro	None	Hold	×	×	None
MAKIYAMA Kozo	None	Hold	×	×	None
HIRANO Hidekazu	None	None	×	×	None
WAKABAYASHI Hayato	None	Hold	×	×	None
YUNOKI Kazuyo	None	None	×	×	None
ARISAWA Hisashi	None	None	×	×	None
NAKAYAMA Takashi	None	None	×	×	None
IMAZU Takahiro	None	None	×	×	None
IWATA Yoshimi	None	None	×	×	None
NINOBE Mamoru	None	None	×	×	None
KONDO Yasuhiko	None	None	×	×	None
ONO Keiichi	None	None	×	×	None

#### [Audit Structure]

Assignment of Directors and employees in charge of assistance for the Audit Committee's duties	Assigned
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#### Matters Regarding Independent of Such Directors and Employees From Executive Officers

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

#### Cooperation among Audit Committee, Accounting Auditors and Internal Audit Departments

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

When the Internal Audit Division prepares its audit policy and plan, it submits the relevant report in

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

### [Independent Officers]

Number of Independent Officers	6
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### Matters relating to Independent Officers

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

### [Incentives]

Incentive Policies for Directors and Executive Officers	<ul style="list-style-type: none"> <li>• In order to realize and promote sustainability management, and steadily implement the Medium-Term Business Plan, the Company has formulated a new Officer Remuneration Policy, which includes a stock-based remuneration system, with the objective of incentivizing each Director and Executive Officer to perform their duties to the very best of their abilities.</li> <li>• Remuneration for Executive Officers shall comprise (i) basic remuneration (monetary remuneration) in accordance with rank (position), (ii) bonuses (monetary remuneration) based on individual evaluations conducted each business year, and (iii) performance shares linked to the consolidated performance achievement rate, etc. provided in the Medium-term Business Plan as a stock-based remuneration system (trust-type stock-based remuneration).</li> <li>• With regard to the composition of remuneration for Executive Officers, the ratio of performance-linked remuneration and of stock-based remuneration is set with an awareness of its function as a healthy incentive to help achieve sustainable growth.</li> <li>• Remuneration for Directors who do not execute business shall consist only of fixed remuneration, which shall be (i) basic remuneration (monetary remuneration) in accordance with rank (position) and (ii) restricted stock (non-performance-linked stock-based remuneration), which is not linked to performance as a stock-based remuneration system (trust-type stock-based remuneration).</li> <li>• With regard to the procedures for determining remuneration, to ensure the appropriateness of the level and amount of remuneration, and the transparency</li> </ul>
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	<p>of decision-making processes, specific amounts of remuneration to be paid shall be determined by deliberation and resolution of the Remuneration Committee, the majority of which consists of independent Outside Officers and which is headed by an independent Outside Director. The Remuneration Committee determines the policy for deciding the content of individual remuneration for Directors and Executive Officers of the Company and officers of subsidiaries (Directors, Executive Officers and Audit &amp; Supervisory Board Members), as well as deciding the content of individual remuneration for Directors and Executive Officers of the Company.</p> <p>* For details of the Officer Remuneration Policy, please refer to the following page on our website. (<a href="https://www.j-front-retailing.com/_data/news/200410_RemunerationPolicy_E.pdf">https://www.j-front-retailing.com/_data/news/200410_RemunerationPolicy_E.pdf</a>)</p>
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Supplementary Explanation

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Recipients of Stock Options	
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Supplementary Explanation

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**[Remuneration of Directors and Executive Officers]**

Disclosure of Individual Directors' Remuneration	Disclosure for all concerned
Disclosure of Individual Executive Officers' Remuneration	Disclosure for all concerned

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Supplementary Explanation

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Name	Total amount of consolidated remuneration, etc. (Millions of yen)	Category of Officer	Basic remuneration	Bonuses	Performance-linked stock-based remuneration	Non-performance-linked stock-based remuneration
KOBAYASHI Yasuyuki	59	Director	43	—	—	16
TSUTSUMI Hiroyuki	34	Director	25	—	—	9
MURATA Soichi	34	Director	25	—	—	9
TACHIBANA FUKUSHIMA Sakie	16	Director [Note.1]	13	—	—	3
OTA Yoshikatsu	16	Director [Note.1]	13	—	—	3

ISHII Yasuo	19	Director [Note.1]	16	—	—	3
NISHIKAWA Koichiro	16	Director [Note.1]	13	—	—	3
SATO Rieko	19	Director [Note.1]	16	—	—	3
UCHIDA Akira	11	Director [Note.1]	9	—	—	2
YAMAMOTO Ryoichi	112	Executive Officer	44	23	45	—
YOSHIMOTO Tatsuya	83	Executive Officer	39	20	24	—
MAKIYAMA Kozo	83	Executive Officer	48	17	—	18
WAKABAYASHI Hayato	45	Executive Officer	21	11	13	—
SAWADA Taro	42	Executive Officer	20	10	12	—
YUNOKI Kazuyo	42	Executive Officer	20	10	12	—
ARISAWA Hisashi	42	Executive Officer	20	10	12	—
NAKAYAMA Takashi	33	Executive Officer	16	8	9	—
IMAZU Takahiro	33	Executive Officer	16	8	9	—
IWATA Yoshimi	33	Executive Officer	16	8	9	—
NINOBE Mamoru	42	Executive Officer	25	8	9	—
KONDO Yasuhiko	33	Executive Officer	16	8	9	—
ONO Keiichi	33	Executive Officer	16	8	9	—
MAKITA Takayuki	33	Executive Officer	16	8	9	—
TADATSU Takehiko	33	Executive Officer	16	8	9	—

(Notes) 1 Independent Outside Director.

2 Lists only those who were officers as of the shareholders meeting of May 28, 2020.

3 Directors who concurrently serve as officers are listed in the “Executive Officer” column.

4 In the case of Executive Officers who serve concurrently at operating companies, remuneration paid by each company is included.

Policy on Determining Remuneration Amounts  
and Calculation Methods

Established

#### Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

For the policy on determining the remuneration of Directors and Executive Officers of the Company and Directors, Executive Officers and Audit & Supervisory Board Members of Daimaru Matsuzakaya Department Stores, please refer to 【Principle 3-1(ii)】 Basic Views and Policies on Corporate Governance and “Remuneration System of the Company” appended to this report.

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

In order to ensure the effectiveness of the Board of Directors and the three committees of nomination, remuneration, and audit, the Company has established a secretariat for each committee, as well as for the Board of Directors, which provide the following support.

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

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

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

Name	Title/ Position	Responsibilities	Working From and Conditions (Full-time/Part-time, Paid/Unpaid, etc.)	Date of Retirement from Position Such as President	Term of Office
OKADA Kunihiko	Senior Advisor	Engage in external activities such as those for another company, business community, etc.	Part-time Unpaid	May 27, 2010	Varies depending on an agreement made with another such company, community, etc.
OKUDA Tsutomu	Senior Advisor	Engage in external activities such as those for another company, business community, etc.	Part-time Unpaid	May 22, 2014	Varies depending on an agreement made with another such company, community, etc.
SAMURA Shunichi	Senior Advisor	Engage in external activities such as those for another company, business community, etc.	Part-time Unpaid	May 26, 2016	Varies depending on an agreement made with another such company, community, etc.

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

3

- In May 2017, the Company abolished the Advisor System from a standpoint of achieving its ideal state of corporate governance and ensuring management transparency in connection with the organizational structure change to a company with three committees (nomination, audit and remuneration committees).
- In connection with the abolition of the Advisor System, the Company has reviewed its rules related to the treatment of retiring officers, and decided to appoint them to counselor positions and pay remuneration for a maximum of one year as long as former officers including former Presidents and Representative Directors carry out important external activities, etc. (e.g., the assumption of office as an outside director of another company, and business community activities). However, the selection and remuneration of counselors are resolved by the Nomination and Remuneration Committees, a majority of whose members are Outside Directors.

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

### (1) Overview of Corporate Governance System

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

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

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

The Company has six supervisory units (Management Strategy Unit, Group Digital Strategy Unit, Affiliated Business Unit, Financial Strategy Unit, Human Resources Strategy Unit and Administration Unit) as management bodies of the Company to clarify each unit's roles, responsibilities and authorities, thereby reinforcing the supervisory function and improving the internal control systems of the entire JFR Group.

### (2) Board of Directors

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

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



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

The Board of Directors of the Company is to be composed of an appropriate number of Directors, but not more than 15, as stipulated in the Articles of Incorporation. The number of Directors is currently thirteen (13) (including six (6) independent Outside Directors, one (1) of whom is a female Director), and the term of office is one year. From the standpoint of separating supervision and execution and ensuring the effectiveness of the Board of Directors' discussions, one-third or more of Directors are independent Outside Directors and a majority of Directors are independent Outside Directors and/or internally promoted Directors who do not execute business. The chairperson of the Board of Directors is chosen from among internally promoted Directors who do not execute business from the standpoint of separating supervision and execution and ensuring the smooth operation of the Board of Directors.

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

The meetings of the Board of Directors were held 15 times in FY2019 (March 2019 to February 2020). Attendance at the meetings of the Board of Directors was 100%.

### (3) Three Committees (Nomination, Remuneration and Audit Committees) (Nomination Committee)

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

The meetings of the Nomination Committee were held 13 times in FY2019 (March 2019 to February 2020). Attendance at the meetings of the Nomination Committee was 100%.

### (Audit Committee)

To maintain and improve audit accuracy, the Audit Committee is composed of three (3) Outside Directors and two (2) internal full-time Directors who do not execute business and are well informed about internal information. The chairperson is chosen from among independent Outside Directors from the standpoint of ensuring transparency and objectivity. In addition, at least one of the Audit Committee members must have appropriate knowledge of finance and accounting. The Audit Committee effectively audits whether Executive Officers and Directors execute their duties in compliance with the laws and the Articles of Incorporation and efficiently in accordance with the basic philosophy of the Company and the Group Vision, and makes

necessary advice and recommendations. It also conducts audits on the construction and operation of internal control, and prepares audit reports.

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

The meetings of the Audit Committee were held 15 times in FY2019 (March 2019 to February 2020). Attendance at the meetings of the Audit Committee was 100%.

#### (Remuneration Committee)

The Remuneration Committee is composed of three (3) Outside Directors, chairperson of the Board of Directors who do not execute business, and President and Representative Executive Officer. The chairperson is chosen from among independent Outside Directors from the standpoint of ensuring transparency and objectivity. The Remuneration Committee determines the policy for deciding the content of individual remuneration for Directors and Executive Officers of the Company and officers of subsidiaries (Directors, Executive Officers and Audit & Supervisory Board Members), as well as deciding the content of individual remuneration for Directors and Executive Officers of the Company.

The meetings of the Remuneration Committee were held 11 times in FY2019 (March 2019 to February 2020). Attendance at the meetings of the Remuneration Committee was 100%.

#### (4) Management Council

For details, please refer to 【Principle 4-7, 4-10, Supplementary Principle 4-10-1】 System to Ensure the Effectiveness of the Oversight Function of the Board of Directors

#### (5) Accounting Auditor

The Company has concluded an audit agreement with Ernst & Young ShinNihon LLC. The Accounting Auditor performs accounting audits in accordance with respective legal provisions. The engagement partners of the auditor, and the number of years they have been involved in the audit, are as follows. Based on discussions with the auditor, appropriate measures are adopted to prevent engagement partners from being involved in the accounting audits of the Company for longer than certain periods.

TAKENOUCHI Kazunori (2 years), SHIBAYAMA Yoshihisa (3 years) and MATSUURA Hiroshi (3 years)

Support staff for audit operations consist of certified public accountants, part-qualified accountants and others.

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

- In order to enable an impartial audit, the details of the audit plan proposed at the beginning of the fiscal year by the Accounting Auditor shall be complied with, and sufficient time for the audit shall be secured.
- Arranging regular discussions (about twice a year) between the Accounting Auditor and President and Representative Executive Officer and relevant Executive Officers, based on “management letters” prepared by the Accounting Auditor. In addition, arranging explanations by the President and

Representative Executive Officer to the Accounting Auditor in relation to the Company's management strategy, as required.

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

#### (6) Risk Management Committee and Compliance Committee

The Risk Management Committee manages and addresses risks related to positive strategies geared to tapping growth opportunity as a whole systematically from a Group-wide perspective, and makes management decisions specifically focusing on risk management. The chairperson of this committee is President and Representative Executive Officer, and Committee members include Senior Executive General Managers and presidents of main operating companies. The committee assesses a variety of risks, prepares necessary measures, instructs departments to take charge of implementing such measures, and conducts progress management using extensive specialized knowledge of Committee members chosen from among Units.

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

The both committees also report details of its deliberations to the Audit Committee regularly and in a timely manner.

#### (7) JFR Group Compliance Hotline

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

The "JFR Group Compliance Hotline" was registered as a "Whistle-blowing System Certification (registration based on self-assessment of compliance with certain whistle-blowing system standards),"

(WCMS certification) under the jurisdiction of the Consumer Affairs Agency in March 2020.

(8) Limited Liability Agreement

The Company concludes a limited liability agreement with each Director who does not execute business pursuant to the provisions of Paragraph 1, Article 427 of the Companies Act so that Directors who do not execute business can adequately fulfill their expected roles. The limited liability agreement stipulates that the maximum amount of liability for damages due to negligence of duties by an Director who does not execute business shall be the higher of twelve million (12,000,000) yen or the amount fixed by laws and regulations; however the limitation of liability is applicable only when the duties that caused the liability were executed by the Director who does not execute business in good faith and without gross negligence.

### 3. Reasons for Adoption of Current Corporate Governance System

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

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

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

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

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

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

(3) Improvement of transparency and objectivity of management

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

(4) Building an organizational structure compatible with global perspectives

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

### III. Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary Explanations
Early Notification of General Shareholder Meeting	We ensure that there is adequate time for our shareholders to consider matters with respect to which they will exercise their voting rights. To that end, we send convocation notices as early as possible (with the aim of doing so at least three weeks prior to the date on which a Shareholders Meeting is to be held) and at the same time we submit such content to financial instruments exchanges and post it to the Company's website as early as practicably possible before sending out convocation notices. The Notice of Convocation of the 13th Annual Shareholders Meeting was provided to financial instruments exchanges and made available on the Company's website before delivery of the printed version and four weeks prior to the date of the Shareholders Meeting.
Scheduling AGMs Avoiding the Peak Day	We give consideration to ensuring time for audits in the course of setting dates on which Shareholders Meetings are to be held and schedules otherwise in relation to Shareholders Meetings.
Allowing Electronic Exercise of Voting Rights	Shareholders may exercise their voting rights by accessing the Internet voting website ( <a href="https://evote.tr.mufig.jp/">https://evote.tr.mufig.jp/</a> ) operated by Mitsubishi UFJ Trust and Banking Corporation via a PC, smartphone or cell phone.
Participation in Electronic Voting Platform	We give consideration to ensuring that our shareholders are able to conveniently exercise their voting rights, including domestic and overseas institutional investors. To that end, we have adopted online and other means of exercising voting rights and otherwise use an electronic platform for exercising voting rights.
Providing Convocation Notice in English	We also prepare English translations of our convocation notices and make them available so that our overseas investors are able to properly exercise their voting rights.
Other	We publish the Notice of Convocation of the Annual Shareholders Meeting, Reference Materials for Shareholders Meeting and attachments to the Notice of Convocation on the Company's website. ( <a href="https://www.j-front-retailing.com/english/ir/stock/pdf_/200430_Notice_of_Convocation_E.pdf">https://www.j-front-retailing.com/english/ir/stock/pdf_/200430_Notice_of_Convocation_E.pdf</a> )

## 2. IR Activities

	Supplementary Explanations	Explanation by Representative
Preparation and Publication of Disclosure Policy	<p><b>IR Policy</b></p> <p>Under the basic philosophy that “we aim at developing the Group by making a broad contribution to society as a fair and trusted business entity,” the Company promotes IR activities for the purpose of maintaining and developing relations of trust with stakeholders including shareholders and investors. By accurately and plainly disclosing important information about the Company in a fair, timely and appropriate manner, we aim to improve management transparency and help stakeholders better understand the Company.</p> <p><b>Information Disclosure Standards</b></p> <p>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.</p> <p><b>Information Disclosure Method</b></p> <p>The Company discloses important company information to which the timely disclosure rules apply through the TDnet (Timely Disclosure Network) system provided by the Tokyo Stock Exchange, while posting the</p>	

	<p>same information on the Company's website, etc. as quickly as possible. With respect to any information that is deemed to help stakeholders better understand the Company, even where the timely disclosure rules do not apply to it, the Company works to publicize such information on its website as well as by using SNS and publishing integrated reports.</p> <p>The Company releases information in a timely and appropriate manner by making use of the TDnet and EDINET platforms, the Company's website and other means in line with the attributes of the information being disclosed. Moreover, to ensure that we disclose information in an impartial manner, we prepare and release English translations of our convocation notices for Shareholders Meetings, integrated reports, timely disclosure information, financial information, sustainability reports and the Company website.</p> <p>Improvement of Communication</p> <p>The Company's efforts to improve communication include timely disclosure and information transmission on its website in combination with various briefings and meetings and responses to inquiries from shareholders and investors on a daily basis. The comments and requests received from shareholders and investors are widely shared among the Company and related companies of the Group, and we refer to them in company management to increase corporate value.</p> <p>Quiet Period</p> <p>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.</p> <p>Forward-looking Statements</p>	
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	<p>Forward-looking statements including future plans, prospects and strategies as disclosed by the Company are prepared based on certain assumptions the Company deems reasonable at the time of disclosure and include certain risks and uncertainties. Therefore, actual results may differ from forecasts and prospects due to future changes in economic and business environment surrounding the Company.</p>	
Regular Investor Briefings for Individual Investors	<p>Regular investor briefings for individual investors were held three times (one each in Tokyo, Osaka and Fukuoka) in the first half of FY2019 and eight times (three in Osaka, two in Tokyo and one each in Yokohama, Nagoya and Nara) in the second half of FY2019.</p> <p>During the current fiscal year, we intend to hold briefings mainly in the areas where the flagship department stores are located.</p>	None
Regular Investor Briefings for Analysts and Institutional Investors	<p>The Company holds briefings for analysts twice a year after the release of financial results (interim, year-end). During the current fiscal year, two financial results briefing sessions and eight small meetings (small-sized briefing sessions) were held at the initiative of President and Representative Executive Officer.</p> <p>In addition, after the earnings results were announced in the first quarter and the third quarter, IR personnel played a leading role in holding two teleconferences for analysts, four small meetings, and 110 individual meetings with domestic institutional investors.</p> <p>Moreover, in addition to holding a business strategy briefing in July (the first of its kind) to focus on three strategies that have received particular attention from institutional investors and analysts, in November we held the second ESG briefing, in which Outside Directors also appeared on the platform.</p>	Yes
Regular Investor Briefings for Overseas Investors	<p>To strengthen relationships with overseas investors, the Company held individual meetings with them in June (Europe), July (Hong Kong and Singapore) and November (U.S.A.) during FY2019, and the President and Representative Executive Officer held dialogues with 39 companies.</p>	Yes

	<p>The Company also participated in conferences for overseas investors held in Japan in March, May, September and November 2019, and the President and Representative Executive Officer held dialogues 28 times. In November, the Company participated in a conference held in Hong Kong, and the Managing Executive Officer held dialogues with 14 companies. In addition, IR personnel held 39 individual meetings with overseas investors in Japan. Using these opportunities, the Company held a total of 120 meetings with overseas-based investors in FY2019.</p> <p>During the current fiscal year, the Company is scheduled to hold individual meetings with overseas investors in Europe, Asia (Hong Kong and Singapore) and U.S.A. and rather than insisting on face-to-face meetings, we will take a proactive approach to remote meeting formats such as videoconferencing and telephone conference calls.</p>	
Posting of IR Materials on Website	<p>The above briefings may be viewed on video online. The Company also publishes its quarterly financial results and materials for investor briefings, monthly consolidated business reports, timely disclosure materials and other IR information on its website (<a href="https://www.j-front-retailing.com/english/ir/">https://www.j-front-retailing.com/english/ir/</a>).</p>	
Establishment of Department and/or Manager in Charge of IR	<p>Investor Relations Promotion Division, Financial Strategy Unit</p> <p>The Company has established the Investor Relations Promotion Division inside the Financial Strategy Unit to build stable relationships of trust with its shareholders and investors. The Company aims to enhance its constructive dialog using more highly accurate information based on financial data related to not only business performance in the short term but also the future outcomes expected as a result of carrying out the business strategies.</p>	
Other	<p>Promoting Constructive Dialogue</p> <p>Through these IR activities, the Company was chosen as No. 2 in the retail category of the 2018 Award for Excellence in Corporate Disclosure (sponsored by The Securities Analysts Association of Japan) in FY2018. We</p>	

	<p>will continue to promote its IR activities to enhance management transparency and help stakeholders understand us more deeply by fairly disclosing important information about the Company in an easy-to-understand, appropriate and timely manner.</p> <p>A full range of tools to promote dialogue</p> <p>The FY2019 Integrated Report was designated as an “Excellent Integrated Report” by asset managers of the GPIF. This is the third time that we have been selected in this way. We will continue to promote its IR activities to enhance management transparency and help stakeholders understand us more deeply by fairly disclosing important information about the Company in an easy-to-understand, appropriate and timely manner.</p> <p>In addition, with the aim of realizing sustainability management and disclosing related information, we created a Sustainability Report that focuses on ESG information.</p> <p>Maintaining and enhancing a constructive approach to dialogue</p> <p>In FY2020, the global spread of COVID-19 has resulted in a business environment of unprecedented severity and an outlook characterized by extreme uncertainty. Despite these circumstances, the Company published earnings forecasts that incorporate certain assumptions that could be considered reasonable by management as of the end of March 2020, with the objective of promoting dialogue by providing an opening for discussions with institutional investors and analysts.</p>	
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### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	<p>The JFR Group Philosophy defines the basic stance toward all stakeholders; “basic philosophy,” “Group Vision,” “JFR Way,” “commitments to stakeholders.” All officers and employees of all companies of the Group deeply understand this philosophy and act</p>

	<p>positively toward the further development of the Group.</p> <p>For details, please refer to the following page on our website.  <a href="https://www.j-front-retailing.com/english/company/company.php">https://www.j-front-retailing.com/english/company/company.php</a></p>
<p>Implementation of Environmental Activities, CSR Activities, etc.</p>	<p>■Formulation of the JFR Group “Sustainability Policy”</p> <p>The society we live in is facing various social issues inside and outside Japan, including abnormal weather, water resource crises, resource depletion, widening disparity, underemployment, and human rights issues. Corporations are required to make even more contributions to a sustainable society in line with the international initiatives by, for example, addressing climate change in accordance with the Paris Agreement and the social issues listed in the “Sustainable Development Goals (SDGs)” adopted by the United Nations. Initiatives toward environment, society, and governance by corporations are thus indispensable.</p> <p>Whereas Daimaru and Matsuzakaya, which are the cornerstones of the JFR Group, have carried out business activities in their long history spanning 300 to 400 years under the corporate credos “Service before profit” and “Abjure all evil; pursue all good,” representing their commitment to pursuing the right path. We have many places where we communicate with customers, including retail stores. We have set the places of communication with customers as one of the key areas that the Company designates for the sustainability management and are seriously making concerted efforts to realize a sustainable society on our own initiative.</p> <p>In this context, in July 2018 the Company drew up a “Sustainability Policy” in addition to identifying five areas of materiality (important issues) that the Group should address. We believe it will lead to contributing to the international goals “sustainable development goals (SDGs)” by setting medium- and long-term goals to be achieved for these issues and actively working on solutions through business activities.</p> <p>■Five materiality issues</p> <p>(i) Contribution to a low-carbon society</p> <p>[Policy]</p> <p>By developing a long-term environmental vision, decreasing the company’s energy consumption, improving usage efficiency, switching to renewable energy, and working with our business partners toward zero emissions, we will contribute to the prevention of global warming and air pollution, and aim for a society with a sustainable global environment.</p> <p>[Targets to be Achieved by 2030]</p> <ul style="list-style-type: none"> <li>Reduction of CO2 emissions by 40% (Scopes 1 and 2).* Compared to FY2017</li> </ul>

	<p>* We aim for elimination of CO2 emissions by 2050 (Scopes 1 and 2).</p> <p>(ii) Management of the entire supply chain</p> <p>[Policy]</p> <p>By respecting our social responsibility and promoting environment-friendly efforts throughout the entire supply chain, we will eliminate risks throughout the entire supply chain, and by providing products that customers can use enjoyably and securely from a social and environmental viewpoint, we will achieve a mutual increase in corporate value with our business partners.</p> <p>[Targets to be Achieved by 2030]</p> <ul style="list-style-type: none"> <li>• Scope 3. Reduction of CO2 emissions goal to achieve a 40% reduction by 2030. * Compared to FY2017</li> <li>• Supply Chain Policy permeation (goal: 100% by 2030)</li> </ul> <p>(iii) Coexistence with local communities</p> <p>[Policy]</p> <p>Through coexistence with local communities, we are aiming to combine the realization of a sustainable society and the realization of enjoyable shopping that unifies stores and urban development within each area, and through this to contribute to reinvigoration of the region by increasing the charm of the block, and thus to grow along with the local region over the medium to long term.</p> <p>(iv) Promotion of diversity</p> <p>[Policy]</p> <p>The JFR Group is establishing as a source of the company's growth the realization of a company that respects and embraces diversity, where people with different cultures and customs, people of various ages and genders, people with disabilities, etc. can all coexist, and will achieve the goal of turning the touchpoint with our various stakeholders into a diversified and excellent thing.</p> <p>[Targets to be Achieved by 2030]</p> <ul style="list-style-type: none"> <li>• Ratio of female managers (30% by 2025; 50%, or the same as the overall personnel composition, by 2030)</li> <li>• Mandatory retirement age (retirement age of 70 by 2030)</li> <li>• Disabled persons employment goal (3.0% by 2030)</li> </ul> <p>(v) Realization of work-life balance</p> <p>[Policy]</p> <p>In order to achieve a genuine work-life balance that takes into account changes of lifestyle and diversification of values, the JFR Group is making innovations in our way of working through means such as the use of technology, realizing an improvement in work efficiency and a</p>
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	<p>shift toward creative work, as well as achieving a work environment where the happiness of employees and their families can really be felt.</p> <p>[Targets to be Achieved by 2030]</p> <ul style="list-style-type: none"> <li>• Paternity leave for men with children (100% by 2030)</li> <li>• Ratio of job-leaving to rear children or take care of relatives (0% by 2025)</li> </ul> <p>For the specific measures taken toward each area of materiality, please refer to the following page on our website. (<a href="https://www.j-front-retailing.com/english/sustainability/sustainability.php">https://www.j-front-retailing.com/english/sustainability/sustainability.php</a>)</p>
<p>Development of Policies on Information Provision to Stakeholders</p>	<p>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.</p> <p>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.</p> <p>Formulating and Disclosing the Management Strategies and Business Plans</p> <p>The Company draws up business model, medium- to long-term strategy story that the JFR Group pursues, as well as the Group management strategies and Group business plans which indicate management benchmarks and other objectives, with the aim of realizing the Group Vision.</p> <p>We release those documents in order to share such details with our shareholders, investors and other stakeholders.</p> <p>Methods of Information Disclosure</p>

	Please refer to the methods stated in IR Policy under “2. IR Activities” above.
Other	<p>JFR Principles of Action</p> <p>The JFR Principles of Action, which stipulate that all the Group officers and employees shall recognize their own roles and responsibilities and act in a highly ethical manner in order to fulfill social responsibilities, adhere to the corporate credo, and realize the corporate vision, consists of the following five policies.</p> <ul style="list-style-type: none"> <li>• JFR Conduct Policy</li> <li>• Procurement Policy</li> <li>• Human Rights Policy</li> <li>• Anti-corruption Policy</li> <li>• Occupational Health and Safety Policy</li> </ul> <p>For each policy, please refer to the following page on our website. (<a href="https://www.j-front-retailing.com/english/sustainability/principles-of-action.php">https://www.j-front-retailing.com/english/sustainability/principles-of-action.php</a>)</p>

## IV. Matters Related to the Internal Control System

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

#### Basic Policy to Build Internal Control System

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

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

#### 1. Group Management System

##### (1) Board of Directors

- The Board of Directors shall perform an oversight function by monitoring the Executive Officers' and Directors' execution of business.
- The Board of Directors shall discuss and resolve matters defined in the Companies Act and/or the Articles of Incorporation, as well as the Group Vision, Group Medium-term Business Plan, overall policy and plan for Group management, M&As, Group financing plans, and other individual important matters relating to Group management. In order to speed up business decisions and execution, the task of determining matters involving business execution other than the above shall be delegated to execution, with the exception of matters which have a material impact.
- For monitoring action, decision making and the like by the Board of Directors, a certain number or more of highly independent Outside Directors shall be appointed, having no risk of a conflict of interest with the Company's shareholders, and being able to provide judgments independently from top management and make decisions appropriately.
- To ensure effectiveness of objective management oversight, in addition to the Outside Directors, internally promoted Directors who do not execute business and who are well informed about internal information shall also be appointed.



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

## (2) Management execution framework

- The Company shall clearly separate management oversight and execution and strengthen the Board of Directors' oversight function while delegating authority for execution to enable swift management decision-making. Meanwhile, execution shall be controlled by having the following framework.
- The execution bodies shall be the Management Strategy Unit, Group Digital Strategy Unit, Affiliated Business Unit, Financial Strategy Unit, Human Resources Strategy Unit and Administration Unit, and Executive Officers shall be appointed as the head of the units, through which the Company shall achieve swift and efficient business execution.
- Each strategy Unit shall formulate a mission statement that clearly states the responsibilities that management is required to fulfill, such as the Unit's objectives, risks, strategies, roles, and cooperation between divisions.
- Execution shall formulate the major Group management policies and individual important matters, and oversee business execution of operating companies. The Board of Directors shall discuss and determine (approve) the suitability of major policies and plans that execution has prepared as well as individual important matters.
- The Group Management Meeting, the Group Results and Strategy Examination Meeting, the Group Liaison Meeting, the JFR Liaison Meeting, the JFR Division Managers' Meeting shall discuss the overall policy and plan and other matters for Group management, as well as checking on the progress of management strategies and sharing information between management, and so forth.
- The Company shall construct systems to raise overall efficiency of the Group such as the introduction of the Group's common accounting system in principle and promotion of centralized management of Group funds.
- The Company has adopted the International Financial Reporting Standards (IFRS) voluntarily in the interest of implementing effective management based on appropriate asset evaluation, applying business management that gives emphasis to the profit of the current period, increasing convenience for overseas investors by improving the international comparability of financial information.

## (3) System to secure appropriateness of financial reporting

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

## 2. Risk Management

### (1) Risk Management Committee

- The Company shall establish the Risk Management Committee as an advisory body to the President and Representative Executive Officer with regard to risk management. The committee is chaired by the President and Representative Executive Officer and comprises Executive Officers and others.

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

#### (2) Execution control

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

#### (3) Crisis risk response

For crisis events such as large-scale earthquakes, fires and accidents, crisis management shall be controlled by the “Emergency Response Headquarters” headed by the President and Representative Executive Officer.

### 3. Legal Compliance System

#### (1) Compliance Committee

- The Company shall establish the Compliance Committee as an advisory body to the President and Representative Executive Officer regarding the operation of compliance management. The President and Representative Executive Officer shall be the chairperson and the members of the committee shall be corporate lawyers, Executive Officers and others.

- An officer shall be put in charge of compliance in order to promote the operation of compliance management.
- At operating companies, departments and responsible persons shall be put in charge of promotion of compliance and risk management, and shall carry out daily supervision and direction of business operations that are in accordance with laws and regulations and internal company rules.
- The Compliance Committee shall work to develop the foundations of compliance management such as internal company rules, operation management manuals and formulation of management systems. In addition, the committee shall periodically formulate and track progress on compliance penetration activities such as e-learning, through departments in charge of promotion of compliance at each company.
- The Compliance Committee shall periodically request reports from persons in charge of promotion of compliance at operating companies regarding the status of compliance management in their respective areas of responsibility, and take proper rectification measures. In addition, the committee shall formulate guidelines and measures to prevent recurrence to be followed and taken by the Group as a whole, and implement the said guidelines and measures.

#### (2) Whistle-blowing system

- The Company shall establish the “JFR Group Compliance Hotline” as the whistle-blowing system of the JFR Group that also extends beyond companies (to a corporate lawyer), which may be used by all persons working at the Company and operating companies.
- The hotline’s policy shall be to maintain strict confidentiality regarding notifications and reports and shall not disclose the personal information of whistleblowers to a third party without their consent; to be careful to avoid identification of the whistleblower when investigating the facts; and to ensure that whistleblowers are not subjected to disadvantageous treatment in terms of personnel affairs or any other aspect.
- For hotline reports concerning management personnel, the Company shall build a structure whereby the reports are submitted directly to the Audit Committee and subjected to directions from the Audit Committee so as to secure an independent reporting route.

#### 4. Internal Audit Structure

- The Company shall establish an independent Internal Audit Division under the direction of the President and Representative Executive Officer. In accordance with internal audit rules and under the direction of the President and Representative Executive Officer, the Internal Audit Division shall audit the operations of the Company and operating companies or properly report the results of audits of operations, examine the properness and effectiveness of the processes for their operations, and provide guidance, advice and proposals to all departments at the Company and to operating companies.
- To further enhance corporate governance by strengthening auditing functions, the Company shall clarify links between the President and Representative Executive Officer, the Audit Committee and the Internal Audit Division. Specifically, the Company shall adopt a double-reporting system where both the President and Representative Executive Officer and the Audit Committee shall receive reports. When the reports are made, the audit report and the improvement report shall be reported together to realize swift measures.
- Appointments and transfers of persons responsible for the internal audit departments shall be subject to advance approval by the Audit Committee.

## 5. Structure of the Audit Committee

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

## 6. Other

### (1) System for storage and management of information

- For documents relating to the execution of duties by Executive Officers and Directors, in accordance with the rules on confidential information management, each responsible department shall carry out document storage and management during the stipulated period and shall develop a system to enable inspections of such documents at any time.
- For minutes and related documents regarding meetings chaired by Executive Officers and Directors, and other important documents relating to the execution of duties by Executive Officers and Directors, each responsible department shall carry out document storage and management and shall develop a system to enable inspections of such documents at any time.

(2) Digital information security

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

## 2. Basic Views on Eliminating Anti-Social Forces

The Company aims to develop the Group by making a broad contribution to society as a fair and trusted business entity as defined in its Basic Philosophy of the Company and commits to ensuring CSR-oriented management. With regard to the severance of relations with antisocial forces, the JFR Conduct Policy sets out the following stipulations.

(Prohibition of Transactions with Antisocial Forces)

We maintain no relationships with antisocial forces, organizations, groups or individuals that could threaten the social order and the safety of civic life, resolutely rejecting pressure from such elements, and excluding them.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation
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Basic policy regarding control of the Company

[1] Contents of basic policy

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

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

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

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

[2] Frameworks contributing to realization of basic policy

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

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

Accordingly, in order to exemplify the principles of “customer-first principle” and “contribution to society,” which are in common with these philosophies and spirits, the Company has established the following basic philosophies of the Group: “to aim at providing high quality products and services that meet the changing times and satisfying customers beyond their expectations” and “to aim at developing the Group by making a broad contribution to society as a fair and trusted business entity.” Based on these basic philosophies, the Company implements a wide range of measures with the aim of realizing the Group’s vision; Create and Bring to Your Life “New Happiness,” in order to make a contribution to securing and enhancing the corporate value of the Group and, by extension, the common interests of shareholders.

[3] Framework to prevent parties deemed inappropriate in light of basic policy from controlling the financial and business policy decisions of the Company

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

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

Accordingly, if this occurs, the Company will establish an independent committee composed of outside officers and experts with viewpoints that are independent from the Company’s Internal Directors. If the Company judges that the said Large-Scale Purchaser is inappropriate in light of the aforementioned basic policy after considering advice and opinions from the committee, the Company will act to secure the Group’s corporate value and, by extension, the common interests of shareholders by taking necessary and appropriate measures.

[4] Judgment of the Company’s Board of Directors regarding concrete framework and reasons for such judgment

Various measures formulated by the Group are formulated based on the Group’s basic philosophy, and are intended to further build up the relationships of trust with customers and with society, which are the sources of the Group’s corporate value. Therefore, the Company believes that these measures are in line with the

contents of the basic policy and contribute to securing and enhancing the corporate value of the Group and, by extension, the common interests of shareholders.

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

## 2. Other Matters Concerning to Corporate Governance System

### Overview of Timely Disclosure Structure

#### [1] Identification and Management of Company Information

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

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

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

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

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

The Company also has established the "JFR Group Compliance Hotline" as the whistle-blowing system of



the Group to collect information on compliance issues, and the Compliance Committee appropriately reports these issues to the Board of Directors.

### (3) System to manage company information

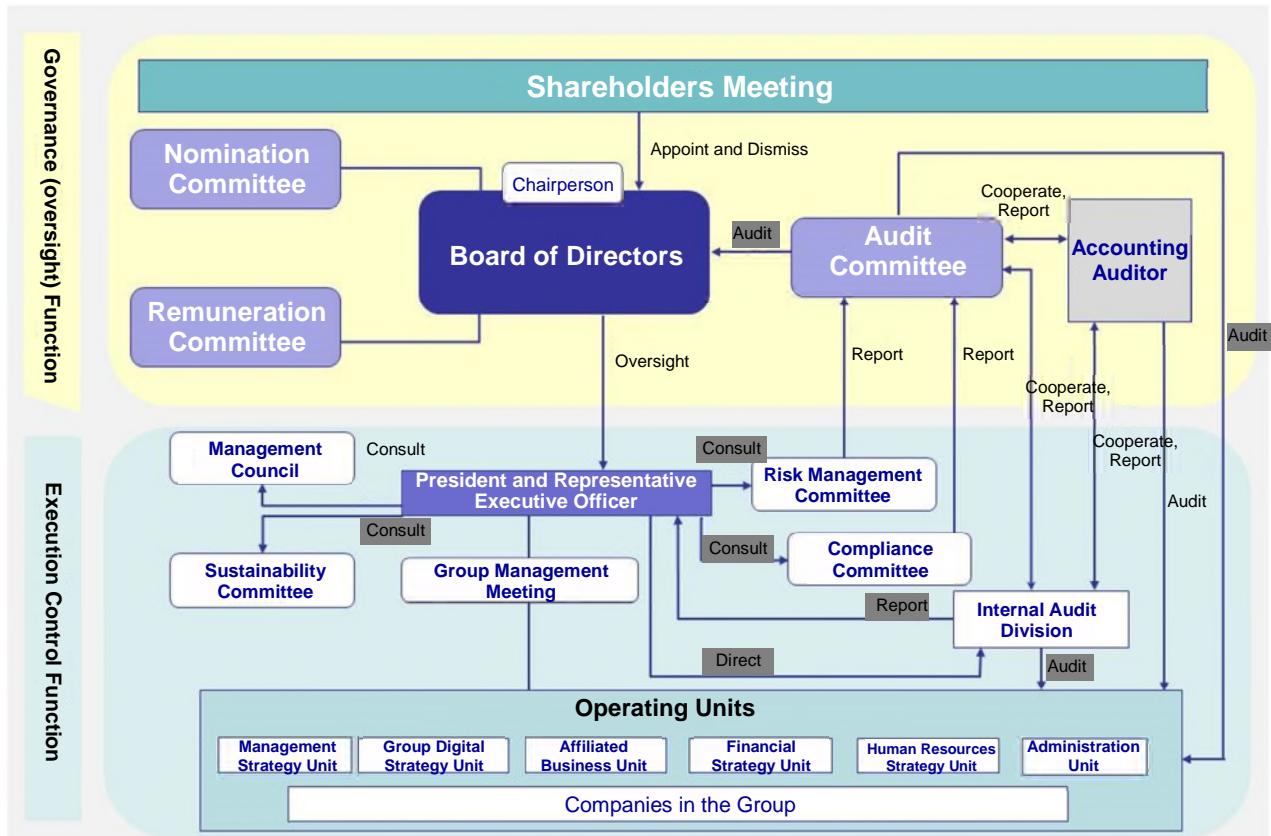
With respect to company information, particularly significant event having an effect on investment decisions of investors, and information that is subject to timely disclosure requirements as stipulated by financial instruments exchanges, we develop structures for appropriately managing it by stipulating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

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

### [2] System for Timely Disclosure of Company Information

Matters regarding important company information are presented for discussion at the Group Management Meeting, regardless of whether or not such information is to be disclosed. Matters involving such company information are presented for discussion at a meeting of the Board of Directors depending on the level of importance thereof, and disclosed in a timely and appropriate manner upon determining at such meetings the necessity of its disclosure. Meanwhile, upon any emergence of urgent company information that would not accord with the aforementioned procedures, that information is to be promptly disclosed after passing through the requisite organizational decision. The work involved in providing information disclosure is carried out by the Legal Division, Budget and Management Support Division, Investor Relations Promotion Division and Group Communications Promotion Division.

## JFR Corporate Governance Structure Chart



# **Corporate Governance Guidelines**

## **Foreword**

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

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

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**

Ever since the management integration between The Daimaru, Inc. and Matsuzakaya Holdings Co., Ltd., the JFR Group has been engaging in initiatives that involve strengthening its competitiveness and profitability as a multifaceted retailer operating multiple businesses and constructing a business model for growth along with regions in which it operates. However, we now face the prospect of an increasingly obsolete business model and other substantial changes emerging in the business environment in this era of changes occurring at an accelerating rate after having achieved a track record of successes spanning back over the last 50 years. As such, we are now finding it more difficult to generate growth by remaining on the path prescribed in terms of our current business model, and accordingly view our present situation as a turning point with respect to possibilities for drastically altering the course being taken by Group management.

Therefore, the JFR Group has been giving thought to the notion of what it is that makes people happy and has drawn up its Group Vision to provide new forms of value with respect to both lifestyles as well as means of seeking enjoyment. To realize this vision, the JFR Group aims to become a corporate group which helps people lead emotionally fulfilling lives by strategically seeking expansion in fields of business and the transformation of existing businesses and is engaged in developing into a Multi Service Retailer that transcends the boundaries of retailing.

Moreover, the organizational structure was changed to a company with three committees (nomination, audit and remuneration committees) as part of our efforts to enhance our managerial framework to aim for discontinuous growth. This will allow us to 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 will strengthen non-financial initiatives in addition to conventional financial strategies and indicators to sustainably grow the company. Therefore, the Company perceives ESG as an opportunity for future business growth and will strengthen ESG initiatives across the entire Group and endeavor to resolve social issues through business. Corporate governance is considered to play a role in supporting and promoting these ESG initiatives and will be further strengthened.

### **2. Group Philosophy**

#### **(1) Basic Philosophy**

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

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

#### **(2) Group Vision**

“Create and Bring to Life ‘New Happiness’”

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

“Create the future”

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

“Act on courage not fear”

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

“Embrace new ideas”

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

“Think for yourself when taking action”

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

“Act sensibly and honestly”

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

(4) Commitments to Stakeholders

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

### 3. Basic Ideas on Corporate Governance

(1) Role of Corporate Governance

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

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

## (2) Relationship with Stakeholders Centered on Shareholders

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.

Moreover, 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, etc.

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

- (i) Indicating the overall direction that Group management is to take, by engaging in constructive discussions with respect to the Group Vision, Group Medium-term Business Plan, Group Management Policy and other fundamental management policies, and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;

- (ii) Appropriately making decisions in terms of overall policy and plans pertaining to Group management on the basis of the direction noted above and overseeing progress and results of the plans;
- (iii) Developing an environment conducive to encouraging offense-oriented management geared to achieving discontinuous growth;
- (iv) Taking steps to build and develop internal control systems of the JFR Group overall, and otherwise overseeing the operational status of such systems;
- (v) Overseeing conflicts of interest between related parties; and
- (vi) On the basis of summary reports furnished by the Nomination Committee, overseeing progress of senior management team succession planning, personnel assignment plans pertaining to managerial talent and management team training, as delegated to the Nomination Committee.

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

- (i) The Company will strengthen the oversight function for business execution of the Board of Directors by separating oversight from execution. In addition, the Company aims to promote sophistication of strategy by having the Board of Directors actively include the insights of external persons in order to hold rigorous discourse on important strategic issues relating to the Group management.
- (ii) The Company will enable decisions of business execution to be delegated to Executive Officers, clarify the authority and responsibility, and carry out speedy management decision making.
- (iii) The Company will improve the transparency and objectivity of management by transitioning to a company with three committees (nomination, audit and remuneration committees). The majority of the members of each of these committees are 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 Centered on Shareholders**

### **1. Shareholders Meetings**

#### **(1) Positioning of Shareholders Meetings**

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

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

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

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

#### **(3) Analysis of Voting Results**

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



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

## **2. Capital Policy**

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

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

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

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

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

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

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

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

The Company will take steps to ensure that interests of its existing shareholders are not unduly harmed should it engage in a management buyout or a large capital increase by means of third-party allotment of shares or should it otherwise implement capital policy that will bring about a change of controlling interests or a substantial dilution of shares. Accordingly,

the Company will carefully consider the necessity and rationality of any such initiative at a meeting of the Board of Directors whose attendance shall include its Outside Directors who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's shareholders. Furthermore, the Company will fully explain such matters to the shareholders and will otherwise ensure that all necessary and proper procedures are followed.

(4) Basic Policy Regarding Control of the Company

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

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

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

(1) Policy on Cross-shareholdings

In principle, the JFR Group will not newly acquire cross-shareholdings (cross-shareholdings are holdings of listed shares other than those of subsidiaries and associates which are not held for pure investment purposes). However, this does not apply to 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 that have been judged as not being rational in the verification result, the Group will negotiate with corporate customers and business partners, and appropriately reduce cross-shareholdings that are already held upon reaching a consensus.

(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. Qualitative verification pertains to business strategies such as maintaining harmonious and favorable business relationships with 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) we consider whether cross-shareholdings contribute to improving the sustainable growth and the corporate value over the medium to long term of the company whose shares are held; (2) we consider whether the cross-shareholdings contribute to improving the JFR Group's sustainable growth and corporate value over the medium to long term. Specifically, in regard to proposals that we consider to be of high priority with respect to strengthening corporate governance, such as proposals relating to the corporate governance system (selection of company officers), proposals relating to shareholder return (appropriation of surplus), and proposals that have an effect on shareholder value (introduction of takeover defense measures), we establish policies upon which to base judgment of our exercise of voting rights, and acting as the JFR Group as a whole, we take a response that is in line with such policies. We engage in dialogue with companies whose shares we hold if necessary when we exercise voting rights.

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

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

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

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

**5. Related Party Transactions**

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

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

## **6. Relationship with Stakeholders Other than Shareholders**

The Company formulated a “Sustainability Policy” to handle issues surrounding sustainability starting with social and environmental problems and identified five areas of materiality (important issues) to prioritize across the entire Group which are “contribution to a low-carbon society,” “management of the entire supply chain,” “coexistence with local communities,” “promotion of diversity,” and “realization of work-life balance.” Through its business activities, the Company will assertively and actively confront these issues and strive to build trusting relationships with customers, business partners, employees, and community members.

## **Chapter 3. Information Disclosure**

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

#### **(1) IR Policy**

Under the basic philosophy that “we aim at developing the Group by making a broad contribution to society as a fair and trusted business entity,” the Company promotes IR activities for the purpose of maintaining and developing relations of trust with stakeholders including shareholders and investors. By accurately and plainly disclosing important information about the Company in a fair, timely and appropriate manner, we aim to improve management transparency and help stakeholders better understand the Company.

#### **(2) Promoting Constructive Dialogue**

If a shareholder or investor makes a request to engage in constructive dialogue with the Company, either the President or another Director (including Outside Directors), Executive Officers, or the Investor Relations Promotion Division will properly respond, upon taking into consideration the intent and aims of the request.

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

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

#### **(4) Improving Communications**

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

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

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

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

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

### **(2) Methods of Information Disclosure**

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

### **(3) Structures for Information Disclosure**

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

The work involved in providing information disclosure is carried out by the Legal Division, Budget and Management Support Division, Investor Relations Promotion Division and Group Communications Promotion Division.

### **(4) Appropriately Managing Insider Information**

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

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

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

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

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

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

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

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

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

The Board of Directors deliberates on and resolves matters defined in the Companies Act of Japan and/or the Articles of Incorporation, as well as the Group Vision, Group Medium-term Business Plan, Group Management Policy, matters relating to new business development and M&As. Moreover, the Rules of the Board of Directors stipulate that the Board of Directors is to determine matters to be resolved, consulted and reported before such meetings are held.

In order to speed up the decision-making and execution process, the task of determining matters of business execution other than the above is delegated to the management teams, with the exception of matters which have a material impact on Group management.

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

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

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

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

## **2. Board of Directors**

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

The Board of Directors of the Company is to be composed of an appropriate number of Directors, but no more than fifteen (15), as stipulated in the Articles of Incorporation (one-year terms of office). The membership is to include Representative Executive Officers, managing officers of the Company as a holding company, and managers of the major business subsidiaries. The membership is also to include multiple Outside Directors who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's shareholders, in order to improve the oversight function of the Board of Directors and ensure its effectiveness.

We take steps to ensure diversity with respect to the Board of Directors from the standpoint of separating oversight and execution and ensuring the effectiveness of the Board of Directors' discussions. To such ends, a majority of its membership consists of Directors who do not execute business (internal Directors who do not execute business and independent Outside Directors) with one-third or more of the Directors independent Outside Directors, while consideration is given to bringing about a balance of knowledge, experience and abilities within the Board of Directors as a whole.

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

#### **(i) Nomination Committee**

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

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 three (3) Outside Directors and two (2) full-time internal Directors who do 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) Outside Directors, chairperson of the Board of Directors who do not execute business, and President and Representative



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

The Remuneration Committee determines the policy on deciding the contents of individual remuneration for Directors and Executive Officers of the Company and officers of its 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 supplements the functions of the Board of Directors. In particular, the Company has established an optional advisory meeting in order to ensure the effectiveness of the oversight function.

- Management Council

A “Management Council” consisting of the President and Representative Executive Officer, all Outside Directors, and the Chairperson of the Board of Directors was established as an optional advisory meeting to engage in free, open, and constructive discussions and exchanges of views regarding issues of corporate governance and overall business management in addition to facilitating the sharing of information and collaboration among the Outside Directors.

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

The Company has established the Board of Directors Secretariat and a secretariat for each committee to enable sufficient discussion through effective operation of meetings among the chairperson of the Board of Directors and the chairpersons 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, each committee, advisory committees and other such bodies;
- (ii) Providing support for making decisions on agenda items of the respective meeting structures and plans for annual deliberations;
- (iii) Arranging to provide briefings beforehand to the Outside Directors, and coordinating other information;
- (iv) Providing in-house feedback with respect to questions, opinions and other communications from the Outside Directors provided during prior briefings and other forums, and managing progress of tasks;
- (v) Making adjustments to materials for deliberations; and
- (vi) Preparing meeting minutes.

(5) Evaluating the Board of Directors

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

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

### **3. Directors and Executive Officers**

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

[Desirable qualities required of JFR Group managerial talent]

- (i) Strategic mindset  
The persons need to forge strategies from a medium- to long-term perspective and contemplate their own forward-looking and innovative solutions geared toward achieving goals through a process that involves proactively analyzing changes in markets and customers and taking a multifaceted approach in using such findings to gain insights into the essential challenges at hand.
- (ii) Reform-oriented leadership  
The persons need to pursue new initiatives underpinned by a desire to take on challenges without becoming caught up with precedent or past experiences. Furthermore, they need to foment a healthy sense of urgency within the organization without any fear of risk while promoting a transformative course of action.
- (iii) Tenacity for achieving results  
The persons need to have a sense of mission and a desire to take on challenges with respect to achieving lofty goals, thereby holding course until goals are achieved and persevering until efforts lead to results.
- (iv) Organization development strengths  
The persons need to generate results through efforts that involve making the utmost of the organization's inherent energy and initiative by instilling their team members with a sense of vision and strategy for achieving the organization's objectives and spurring the organization's various elements (including its business operations, mechanisms, corporate culture and human resources).
- (v) Human resource development strengths

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

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

(i) 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 effectively ensure objective management oversight. Accordingly, such individuals must be able to fulfill the duty of care of a prudent manager and the duty of loyalty required by the Companies Act of Japan.

The chairperson of the Board of Directors, with the aim of further enhancing the oversight function while ensuring smooth operation of the Board of Directors, and the full-time members of the Audit Committee, with the aim of maintaining and improving audit accuracy, 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 fundamental and final decisions pertaining to business execution.

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

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

Matters involving human resources with respect to Directors and Executive Officers of the Company 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, a majority of the members are independent Outside Directors, and the Nomination Committee is chaired by an independent Outside Director. The committee is tasked with deliberating on such matters and making decisions in that regard and then reporting such details in response to the request of the Board of Directors. In our convocation notices for Shareholders Meetings (in the Reference Materials for Shareholders Meeting section), we disclose our rationale for appointing candidates for the position of Director and the status of officers from other listed companies who are concurrently serving in those positions.

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

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

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

To ensure that remuneration levels and remuneration amounts are appropriate and that their determination process is transparent, the determination of the specific remuneration amounts to be paid is made by discussion and resolution of the Remuneration Committee,

which comprises a majority of independent Outside Directors and is chaired by an independent Outside Director.

It is planned that the Remuneration Committee shall meet at least four times a year. Revisions of the officer remuneration system will be undertaken based on Medium-Term Business Plan periods. The Company will revise the level of basic remuneration during the Medium-term Business Plan if it is necessary to significantly revise basic remuneration due to extreme changes, etc. in the external environment.

#### (4) Training of Directors and Executive Officers

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

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

We provide Executive Officers with useful information regarding corporate governance, risk management and Group management, mainly when they are appointed. Furthermore, we establish and implement training plans tailored to individuals, taking into account results of managerial talent evaluations performed by a third-party organization.

We also enhance the business execution capabilities of our management team and implement scheduled initiatives to develop the next generation. This involves providing individual executive coaching for our management team to develop leadership, holding training sessions geared to candidates for management personnel including Executive Officers, and implementing training that entails enhancing ingenuity with respect to carrying out the medium-term plan.

#### (5) Management Team Succession Planning

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

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

In addition, dismissal of the President and Representative Executive Officer is determined by the Board of Directors after being discussed and resolved by the Nomination Committee based on the goals set, expected and actual results (e.g., annual performance and strategy execution status), and the status of results, etc., achieved by successor candidates who are selected under the succession plan made by the Nomination Committee. The Nomination Committee will continue to have discussions on succession planning in a planned manner so

that changes in environments and situations surrounding the Company, progress of strategies formulated, etc., can be reflected in such planning. The Nomination Committee also discusses and resolves the dismissal of senior management team members as in the case of the 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 Company regards risk as uncertainty embodied by the effects of an organization's profit or loss, and accordingly defines risk management as the notion of engaging in initiatives seeking to maximize returns by taking risks while keeping the potential negative effects of risk in check.

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

- (i) First line of defense: operating divisions such as business subsidiaries identify risks and take the necessary measures on their own.

- (ii) Second line of defense: the holding company corporate division monitors the risks and management conditions from a perspective which is independent of the operating divisions.
- (iii) Third line of defense: the Internal Audit 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 the corporate division.

Moreover, the Company has established the Risk Management Committee so that it can better systematically manage and address risks as a whole from a Group-wide perspective, particularly with respect to risk related to positive strategies that are geared to securing growth opportunities. Drawing on the extensive specialized knowledge of the committee members chosen from among the respective supervisory units, the Risk Management Committee assesses a variety of risks, prepares the necessary measures, instructs the departments to take charge of implementing such measures, and monitors progress in that regard.

Furthermore, the Risk Management Committee reports the details of its deliberations to the Audit Committee in a regular and timely manner.

## (2) Internal Control System

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

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 companies maintain and operate internal company systems to ensure the legality and appropriateness of the financial reporting.

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

The operational status of internal control systems of the overall JFR Group is reported to the Board of Directors regularly 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, for the purpose of addressing issues of JFR Group compliance management practices.

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



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

## **9. Whistleblowing System**

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

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

### **Supplementary Provisions**

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

End of document

Established on December 25, 2015

Amended on July 25, 2017

Amended on June 28, 2018

Amended on September 1, 2018

Amended on May 23, 2019

Amended on May 28, 2020

## The Company's Cross-Shareholdings

The holding policy on cross-shareholdings, method to validate the rationale of holding, etc. have been prescribed in the Corporate Governance Policy as follows, and the JFR Group has judged that cross-shareholdings are appropriate to hold at a meeting of the Board of Directors. (Refer to Chapter 2. Relationship with Stakeholders Centered on Shareholders, 3. Cross-shareholdings)

### 1. Cross-shareholdings

The Company and the JFR Group have defined the classification of investment shares held for the purpose of pure investment and investment shares held for purposes other than pure investment as follows.

[Investment shares held for the purpose of pure investment]

Shares held exclusively for the purpose of profiting through fluctuations in share prices or from the receipt of dividends

[Investment shares held for purposes other than pure investment] (hereinafter, the “Cross-Shareholdings”)

Shares held as they are necessary for the promotion of the JFR Group's business strategy, and because the JFR Group judged that the holding of such shares will contribute to the increase of corporate value in the medium to long term

### 2. Holding policy

(i) Shares will not be newly acquired or held in principle.

However, this does not apply to shares where it has been recognized that they are necessary for the promotion of the JFR Group's business strategy, and that the holding of such shares will contribute to the increase of corporate value in the medium to long term through the validation of the rationale of holding.

(ii) If shares that are already held are judged to not be rational based on the results of the validation of the rationale of holding, which occurs every year, the JFR Group will negotiate with corporate customers and business partners, and reduce them as appropriate upon receiving consent regarding sale method, period, etc.

### 3. Method to validate the rationale of holding

The JFR Group periodically validates the rationale of holding individual issues from the following perspective.

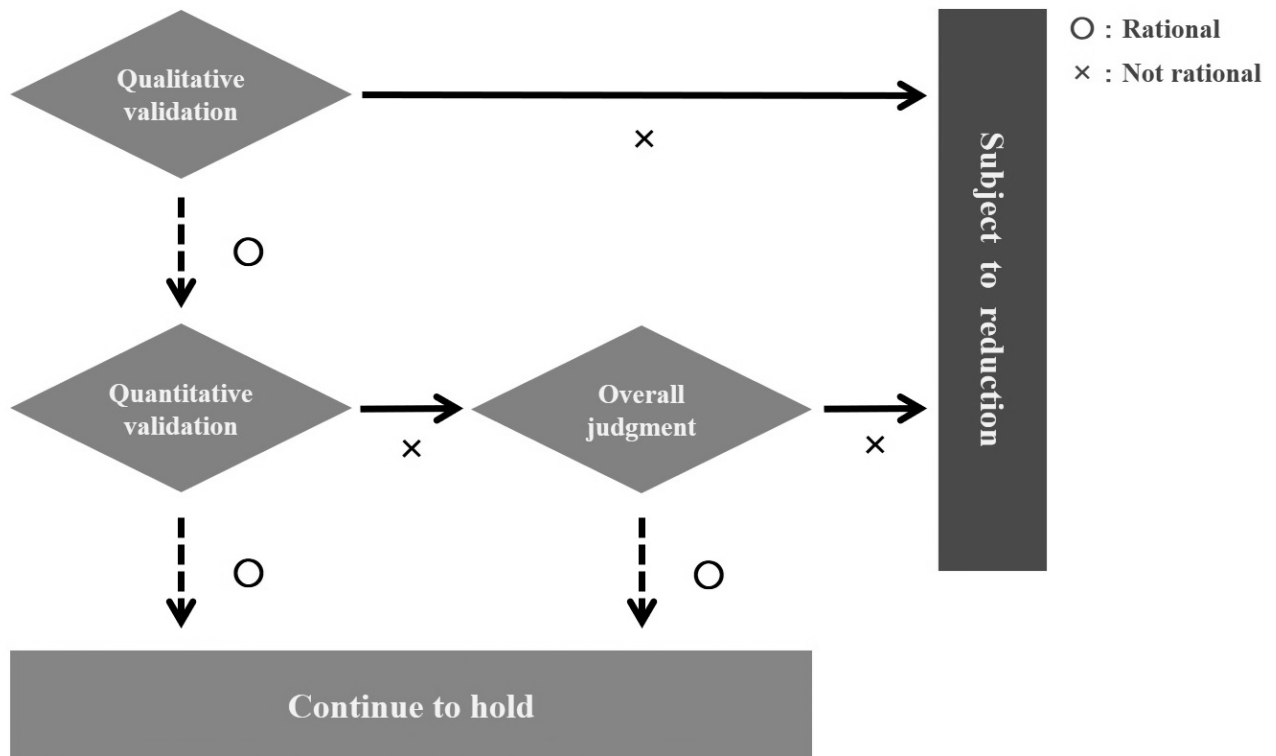
[Qualitative validation]

The perspective of business strategies such as that maintaining harmonious and favorable business relationships with corporate customers and business partners and securing supply chains

[Quantitative validation]

The perspective of whether the profitability by holding shares including related trading profits and the dividend exceeds the capital costs, etc.

- Intensive validation using continuous qualitative rationality in accordance with the purposes at the time of acquisition



4. Details of validation by the Board of Directors, etc. in relation to the appropriateness of holding individual issues

The results of the above validation that took place based on the holding policy, judgment regarding the continuation or disposal of held shares and reduction plan are discussed at the meeting of the Board of Directors held every August, and the JFR Group announces the reduction result at the meeting of the Board of Directors held the following March.

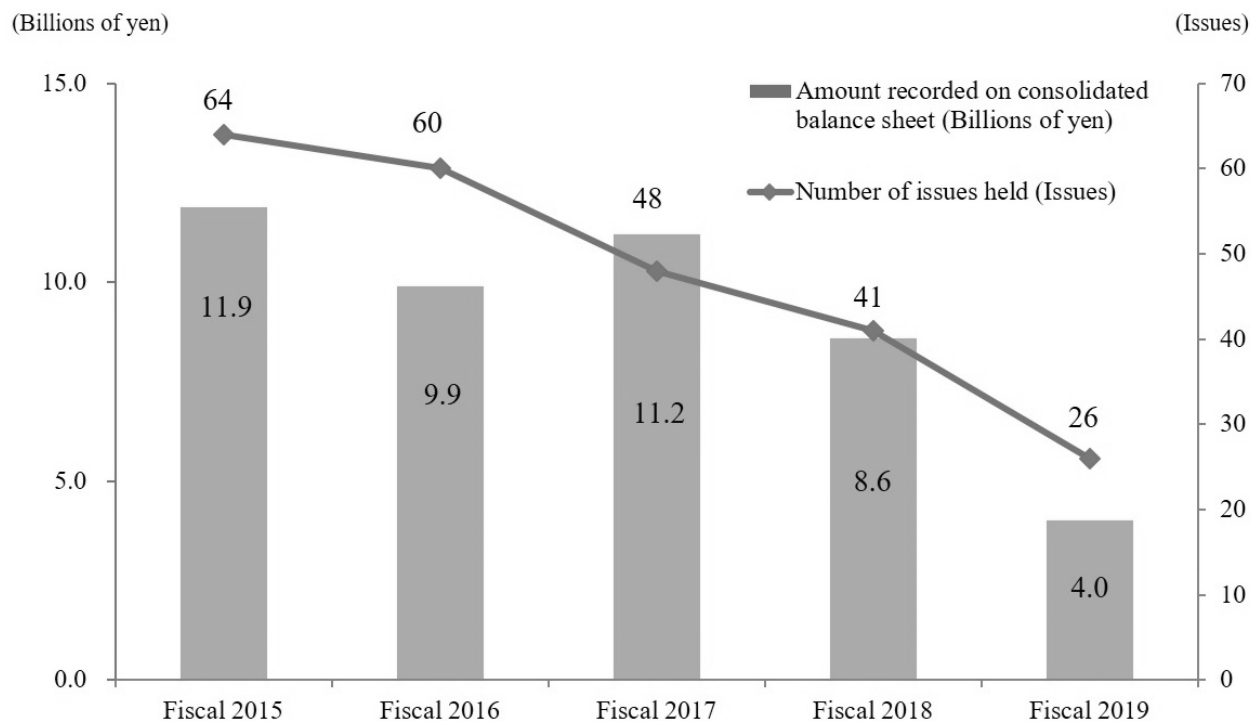
☐ **Validation of the rationale of holding, negotiation, reduction schedule**

\* ○ : Year X (first year)    ● : Year X + 1 year    ● : Year X + 2 years

Implementation period Implementation details		Year X			Year X + 1 year				Year X + 2 years			
		1st half	Aug.	2nd half	Mar.	1st half	Aug.	2nd half	Mar.	1st half	Aug.	2nd half
Operating units	Validation of the rationale of holding	○				●				●		
	Formulation of reduction plan	○				●				●		
	Negotiation/reduction			←→				←→				←
Board of Directors	Discussion		○				●				●	
	Confirmation				○		●		●		●	

As a result, the JFR Group maintained Cross-Shareholdings in 26 issues as of February 29, 2020, a decrease of 38 issues (-60%) in the five years since Fiscal 2015.

**□ Change in the number of Cross-Shareholdings (listed companies, excluding deemed holdings)**



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