

Basic Ideas on Corporate Governance

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

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

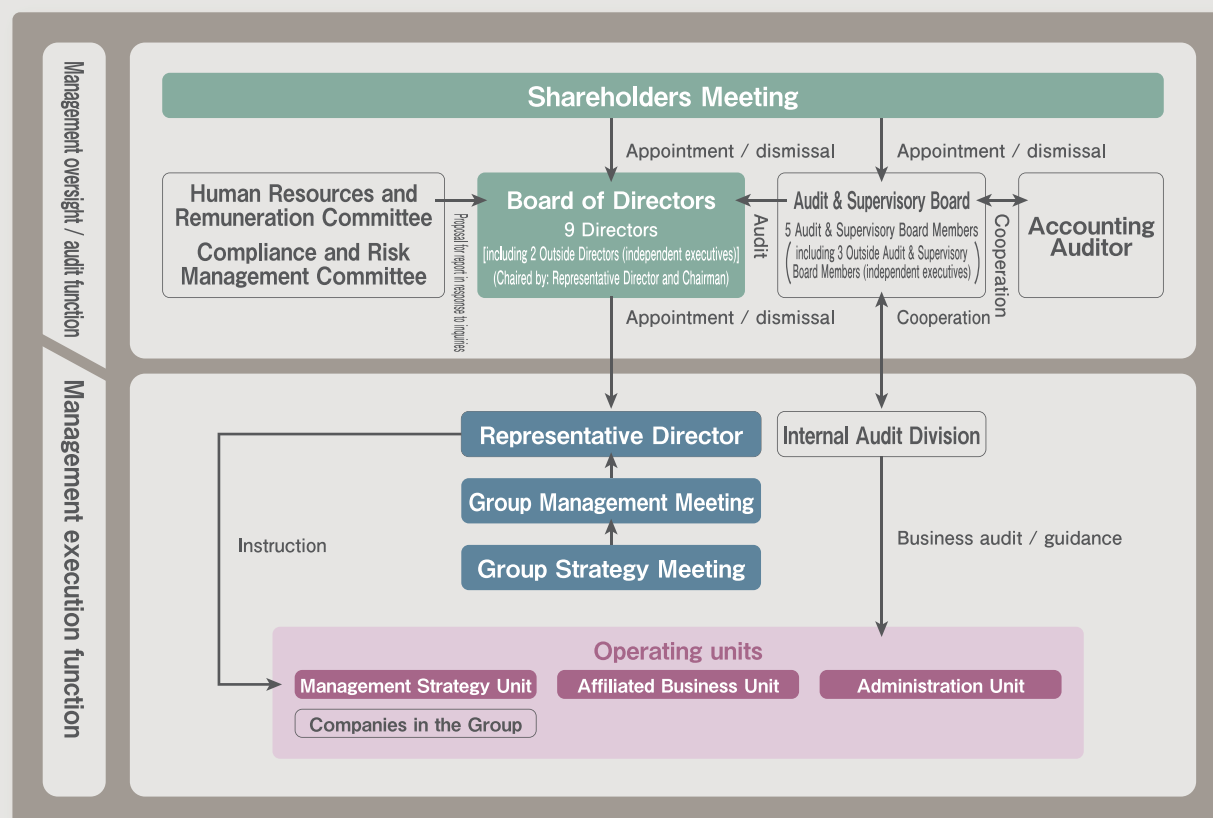
The term for Directors and Executive Officers is one year and the Human Resources and Remuneration Committee, on which Outside Directors sit, is entrusted to determine their remuneration based on their individual annual performance to clarify their responsibilities for the enhancement of management and business results.

The Company is a company with an Audit & Supervisory Board and it has a Shareholders Meeting, a Board of Directors, an Audit & Supervisory Board and Accounting Auditors as the company organizations provided in the Companies

Act, while adopting an executive officer system as a body to perform operations. The Compliance and Risk Management Committee is also in place as an advisory body to the Board of Directors and a whistleblowing system is adopted to resolve various issues related to compliance and risk management. A post in charge of Corporate Governance Promotion was created in the Management Strategy Unit to address the sustainable growth of the Group and the medium- and long-term enhancement of corporate value.

The Company has entered into a limited liability agreement with Outside Directors and Audit & Supervisory Board Members pursuant to the provisions of Paragraph 1 of Article 427 of the Companies Act so that they can adequately fulfill the roles expected of them when they perform their duties. The limited liability agreement provides that the maximum amount of liability for damages for negligence of the duties of Outside Directors and Audit & Supervisory Board Members shall be the higher of the previously stipulated amount of not less than ¥12 million or the amount fixed by laws and regulations and that the limited liability is applied only in cases the Outside Director or Audit & Supervisory Board Member in question has good intentions and there is no gross negligence in performing his/her duties causing liability.

The Company recognizes that we will be able to continue to maintain sound corporate governance under the system mentioned above.



Board of Directors

The Company has nine Directors, two of whom are Outside Directors including one female, as a management decision-making body and basically they meet once a month under the chairmanship of Representative Director and Chairman and in the presence of Audit & Supervisory Board Members to discuss and resolve the matters required by laws and regulations or prescribed by the articles of incorporation as well as the matters stipulated in the rules of the Board of Directors.

In fiscal year 2014, the Board of Directors had a total of 15 meetings to discuss and resolve the "FY 2014 to 2016 Medium-term Business Plan," a "change in the number of shares per unit and a consolidation of shares" and the "establishment of a joint venture property management company for planning the Ginza new store" as well as approve budgets and financial statements.

Two Outside Directors assume a role in strengthening the functions of and activating the Board of Directors by considering the management from a different perspective from Inside Directors. We invite TACHIBANA FUKUSHIMA Sakie and OTA Yoshikatsu as highly independent outside directors who can make appropriate decisions concerning decision-making and oversight by the Board of Directors independently of the top management. They are both in an objective position independent of the management team performing operations and reflect their involvement in the development of management strategies of domestic and foreign companies based on a global vision and their broad experience and extensive knowledge as managers of business corporations in the management of the Company.

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

Audit Function

In order to support the soundness of its management functions, the Company has an Audit & Supervisory Board, which consists of five Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members) to determine its audit policy and approach, while having a system that enables their views concerning important audit matters to be reflected in the Board of Directors. In accordance with the auditing standards established by the Audit & Supervisory Board, audit policies for the period under review, the division of duties and others, each of Audit & Supervisory Board Members works to communicate with Directors, Internal Audit Divisions and other employees in collecting information and improving the audit environment. Audit & Supervisory Board Members attend the Board of Directors meeting and other important meetings, receive reports from Directors, Executive Officers, employees and others on their performance of duties, seek explanations as necessary, review important decision-making documents, investigate the business and financial conditions, and monitor and verify the condition of internal control systems. The Company has set up an Internal Audit Division reporting directly to President to verify the appropriateness and effectiveness of the business processes of the daily routine and financial operations of the Company and other companies in the Group according to the annual audit plan. Important matters are duly reported to the Board of Directors and the Audit & Supervisory Board.

Appointment of Outside Executives

Two of the Company's nine Directors are Outside Directors and three of its five Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members. When appointing outside executives, we confirm that there are no applicable items in the guidelines developed by the Tokyo Stock Exchange regarding independent executives and that they are in an objective position independent of the management team performing operations. Thereby the Company judges from the viewpoint of strengthening corporate governance that they can contribute greatly to the management of the Company.

Outside Directors

TACHIBANA FUKUSHIMA Sakie

President and Representative Director, G&S Global Advisors

Reason for appointment

She has extensive knowledge and experience and deep insight concerning the utilization of human resources possessing global perspectives and the formulation of corporate management strategies of companies operating in Japan and overseas. In addition, she is in an objective position independent of the management team performing operations and the Company has judged from the viewpoint of strengthening corporate governance that she can contribute greatly to the management of the Company.

OTA Yoshikatsu

Special Advisor, Konica Minolta, Inc.

Reason for appointment

He has broad experience and extensive knowledge as a manager of a business corporation such as promoting the corporate merger between Minolta Co., Ltd. and Konica Corporation and serving as a chairman of the board of directors at companies with committees. In addition, he is in an objective position independent of the management team performing operations and the Company has judged from the viewpoint of strengthening corporate governance that he can contribute greatly to the management of the Company.

Outside Audit & Supervisory Board Members

TSURUTA Rokurou

Attorney at law

Reason for appointment

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

ISHII Yasuo

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

Reason for appointment

He has extensive experience and knowledge as a manager of a business corporation such as a long career in Europe and, in particular, familiarity with overseas business development. In addition, he is in an objective position independent of the management team performing operations and the Company has judged from the viewpoint of strengthening corporate governance that he can contribute greatly to the management of the Company.

NISHIKAWA Koichiro

Director, Kyowa Hakko Kirin Co., Ltd.

Reason for appointment

He has been mainly involved in business alliance, M&A and business reforms and also many important international negotiations. Thus he has extensive experience and knowledge as a manager of a business corporation. In addition, he is in an objective position independent of the management team performing operations and the Company has judged from the viewpoint of strengthening corporate governance that he can contribute greatly to the management of the Company.

Activation of Shareholders Meeting

The notice of convocation of shareholders meeting is required by law to be sent at least two weeks prior to the deadline for exercising voting rights in writing or electronically. But the Company strives to dispatch the notice as early as three weeks before the voting deadline.

The notice of convocation, reference documents for shareholders meeting and the documents attached to the notice of convocation are also posted on the Company's website.

Voting rights can be exercised on the Company's Internet voting site via a personal computer, a smartphone or a mobile phone. The electronic voting rights exercise platform for institutional investors operated by an external institution is also available.

The English translation of the notice of convocation is also posted on the Company's website and the electronic voting rights exercise platform.

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



Live relay venue in the Osaka area (Daimaru Shinsaibashi store)



Live relay venue in the Nagoya area (Matsuzakaya Nagoya store)

Disclosure and IR Activities

Under the Group mission statement that "we aim at developing the Group by contributing to society at large as a fair and reliable corporation," the Company promotes IR activities for the purpose of maintaining and developing relations of trust with stakeholders including shareholders and investors. By accurately and plainly disclosing important information on the Company in a fair, timely and appropriate manner, we aim to improve management transparency and help stakeholders better understand the Company.

The Company discloses important corporate information in a timely and appropriate manner in accordance with laws and regulations including the Financial Instruments and Exchange Act and the timely disclosure rules enacted by the Financial Instruments Exchanges where the Company is listed. As for any information deemed useful to stakeholders including shareholders and investors, even where such laws and regulations and the timely disclosure rules do not apply to it, the Company recognizes it as important information on corporate activities, which is required by society, and proactively discloses it on its website and others fairly and promptly in an appropriate manner.

The Company discloses important corporate information to which the timely disclosure rules apply through the TDnet (Timely Disclosure Network) system provided by the Tokyo Stock Exchange, while posting the same information on its website and others as quickly as possible.

Major dialogue activities with investors in fiscal year 2014

◆ With individual investors

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

◆ With analysts and institutional investors

Financial results presentations (on a semiannual basis)

◆ With overseas institutional investors

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

Internal Control Systems

The Company implements internal control in line with the Basic Policy to Build Internal Control Systems. With respect to internal control over financial reporting, the Administration Division of the Administration Unit that has the function of maintenance and operation and the Internal Audit Division that has the function of independent assessment clarify their roles and authorities and repeat discussions to make an appropriate assessment.

With President and Senior Executive General Manager of supervisory units as responsible supervisors, each division assesses and manages risks in a manner suiting the division and reports to the Compliance and Risk Management Committee. The management status of important risks is reported to the Board of Directors on a regular basis. With respect to particularly significant business risk factors thus identified, policies dealing with them are discussed and determined at the Group Strategy Meeting and concerned divisions implement them to prevent such risks from arising.

In response to increasingly diverse and complex business risks and growing social demands for companies to react quickly and accurately when risks occur, the Risk Management Guidelines were developed to set out the basic policy and framework for risk management. We have also formulated the Business Continuity Plan (BCP) based on the assumption of the occurrence of weather disasters including earthquakes and torrential rains, infections and others to specify the criteria for forming the emergency headquarters and its members, emergency priority operations to continue business, emergency response procedures and others. And at the same time, we conduct training activities at each company in the Group to improve the effectiveness of the Plan.

Compliance and Risk Management System

The Company is a company with an Audit & Supervisory Board and invites three Outside Audit & Supervisory Board Members to ensure fairer audit.

In addition, the Company has a Compliance and Risk Management Committee, which is chaired by President and consists of a legal advisor, the Directors and Audit & Supervisory Board Members named by the chairman, and others, as an advisory body to the Board of Directors related to compliance management, while adopting a whistleblowing system called JFR Group Compliance Hotline, which provides external contact (a legal advisor) as well as internal one for whistleblowing and is accessible to anyone working for the Group companies. Through these efforts, we strive to resolve compliance-related issues.

Persons in charge in each business site provide on-site guidance and inspection to check the firm implementation of compliance policies and rules. In case an accident should happen, it will be reported immediately to the Compliance and Risk Management Committee and remedial actions will be taken under the leadership of the Committee.

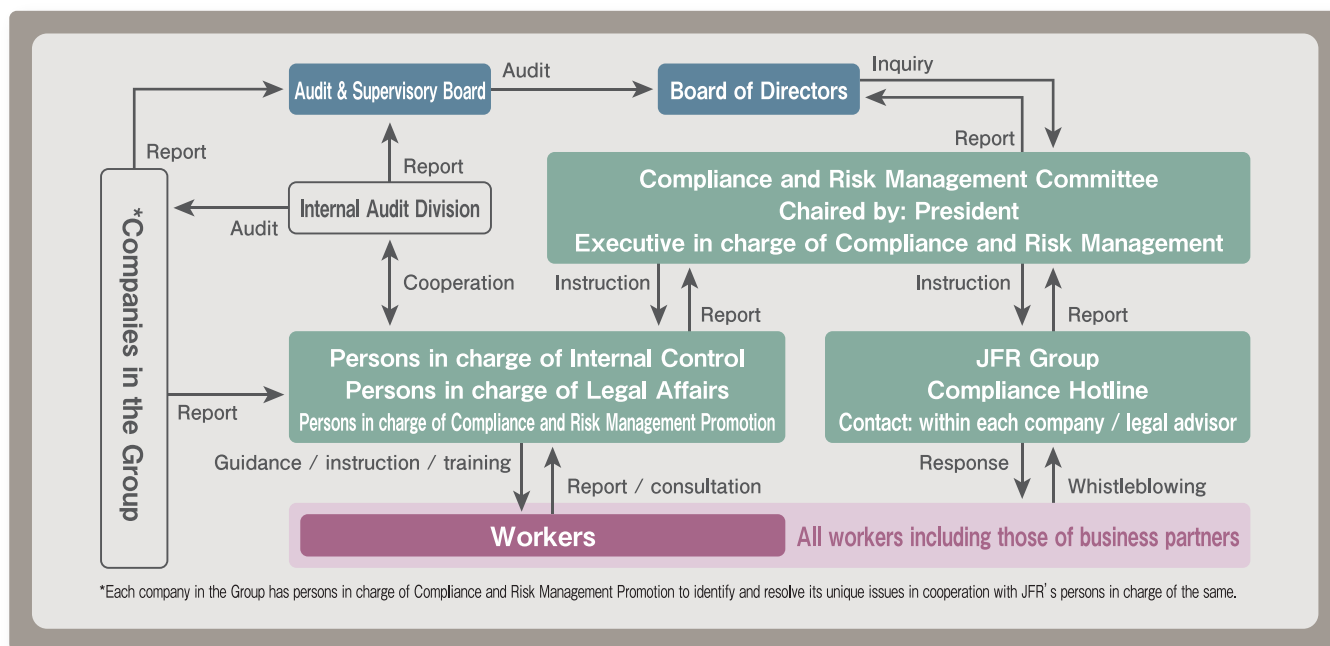
Compliance and Risk Management Manual

The basic framework of the compliance system is based on a binary structure consisting of “voluntary compliance with laws and regulations, corporate ethics and others in conducting business in all companies and divisions in the Group” and “guidance, supervision and strict audit by compliance divisions, operational audit divisions and others.”

And we have developed JFR Group Compliance and Risk Management Manual to be followed by all executives and employees of J. Front Retailing Group, which clarifies the systems, the principles of action and the code of conduct to implement compliance management.

The principles of action consist of four perspectives and specify the code of conduct in each of these perspectives. Each employee carries a Compliance Self-check List to self-check his/her daily behavior and the List is displayed on a poster at each company to promote daily compliance behavior.

◆ Compliance and risk management system



Four perspectives of compliance principles of action and code of conduct

1 Always put customers first

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

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

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

2 Promote high quality management for sound growth and development

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

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

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