

To whom it may concern

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Recommendations and Guidance from the Japan Fair Trade Commission Related to  
the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors

Today, a consolidated subsidiary of J. FRONT RETAILING Co., Ltd. (the “Company”) engaged in the direct marketing business, JFR Online Co. Ltd. (head office: Suminoe-ku, Osaka, President: Kenichi Hayashi, capital stock: 100 million yen; “JFR Online”), received recommendations and guidance from the Japan Fair Trade Commission based on the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (the “Subcontract Act”) related to the following actions.

1. Recommendations

- (1) It was determined that JFR Online violated the provisions of Item 3, Paragraph 1, Article 4 of the Subcontract Act (prohibition of reduced subcontracting payments) in actions in which it subtracted certain discounts at the time of the sale of products and a portion of costs related to advertising materials production as “charges borne by supplier” and “materials production co-sponsor fee,” respectively, from purchase payments to subcontractors. The subtracted amount of 9,230,944 yen was returned to nine subcontractors in question through July 2016.
- (2) It was determined that product returns from catalog sales conducted by JFR Online after the order receiving period had ended were in violation of the provisions of Item 4, Paragraph 1, Article 4 of the Subcontract Act (prohibition of product returns). A total of 333,130,138 yen in product payments related to returned products, and shipping and other costs borne by subcontractors as part of the product returns were paid to 13 subcontractors in question through October 2016.
- (3) It was determined that JFR Online violated the provisions of Item 3, Paragraph 2, Article 4 of the Subcontract Act (prohibition of demands to provide unfair economic gains) in actions in which subcontractors bore repackaging and other costs to resell unused products returned by customers as “product reuse fees.” The 390,132 yen in question was paid to 13 subcontractors in question through October 2016.

2. Guidance

- (1) JFR Online received guidance that it was in violation of the provisions of Article 3 of the Subcontract Act (delivery of documents, etc.) for not listing the details of the products provided by subcontractors, such as (order volume), in the documents delivered to subcontractors when orders were placed.

- (2) JFR Online received guidance that it was in violation of the provisions of Item 2, Paragraph 1, Article 4 of the Subcontract Act (prohibition of delayed payment of subcontracting fees) for reserving in advance a part of purchase payments as “reserve balances” in preparation for product returns to subcontractors, and for paying purchase payments one or more months later than the date they were originally to be paid. The late payment interest was paid to subcontractors in question through October 2016.

JFR Online takes these recommendations and guidance seriously, and will work to create thorough awareness of the details of the recommendations and guidance among all officers and employees to prevent the reoccurrence of these violations. The J. FRONT RETAILING Group will further enhance and implement internal training and monitoring systems related to legal compliance, beginning with the Subcontract Act, ensuring thorough compliance-based management.

We would like to offer our sincere and deep apologies to all related parties, beginning with our subcontractors, for any concern or inconvenience we have caused.

Furthermore, the impact of these violations and resultant recommendations and payments, on the Company’s consolidated financial results of the fiscal year ending February 28, 2017 is expected to be insignificant.

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