

[Translation]

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To whom it may concern

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Notice Regarding Formulation of the New Officer Remuneration Policy Including
a Stock-based Remuneration System for Officers (Informal Decision)

J.FRONT RETAILING Co., Ltd. (the “Company”) informally resolved at a meeting of its Board of Directors held today to formulate the new Officer Remuneration Policy including the introduction of a stock-based remuneration system for officers as described below.

1. Purpose of the formulation of the new Officer Remuneration Policy including the introduction of a stock-based remuneration system

The Company established Corporate Governance Guidelines (the “Guidelines”) that set out the role of corporate governance in the Company and its subsidiaries (the “JFR Group”) on December 25, 2015, based on the intent and spirit of the Corporate Governance Code, which began to be applied to companies listed on the stock exchange in June 2015. The aims of the Guidelines are to ensure the sustainable growth of the JFR Group and increase corporate value over the medium to long term.

The Guidelines stipulate that the Company shall, considering the following points, review the current policy on determining officer remuneration that is monetary-based and consists of monetary-based monthly remuneration and officer bonuses that are tied to results and successes in relation to each year’s business performance.

Discussion Points Specified in the Guidelines

- (i) Increasing the proportion of performance-based remuneration in terms of total remuneration in order to provide incentives for accomplishing objectives of management strategies and business plans, and achieving targets with respect to corporate performance;
- (ii) Introducing remuneration based on medium- to long-term performance with the aim of increasing corporate value over the medium to long term;
- (iii) Validating the adequacy of remuneration levels (including industry and employee salary level comparisons);
- (iv) Devising optimal remuneration balances such as between fixed and performance-based remuneration, and monetary-based and stock-based remuneration; and
- (v) Developing a uniform fixed-remuneration scheme covering Outside Directors and Audit & Supervisory Board Members (both outside and internal).

The Company has formulated a new Group Vision and Group Medium-term Business Plan, as disclosed separately today in the press release titled “Notice Regarding the J.Front Retailing Group’s Vision and the FY2017–2021 JFR Group Medium-term Business Plan.”

At this time, for the first fiscal year of the Medium-term Business Plan, to ensure steady execution and progress of the Medium-term Business Plan for realizing the new Group Vision, the Company will transition to a company with three committees (nomination, audit and remuneration committees), which will contribute to strengthening the corporate governance structure. To coincide with this transition, the Company has made an informal resolution to adopt a new Officer Remuneration Policy (including the introduction of a stock-based remuneration system for officers), for the policy on determining officer remuneration, based on the above discussion points.

2. Details of the new Officer Remuneration Policy

(1) New Group Vision and Group Medium-term Business Plan

Drawing up the new Group Vision

Going forward, we anticipate developing trends that involve increasingly diverse lifestyles stemming from Japan's dwindling birthrate and growing aging population along with its shifting family dynamics. We also anticipate trends that involve people pursuing increasingly diverse means of seeking enjoyment amid factors such as shifting patterns of consumption where people are opting for experiences rather than goods, and progress being made with information and communications technologies (ICT). Amid such trends, in order to be in a position to offer new values in both "lifestyles" and "leisure-styles," the JFR Group has formulated the following new group vision. We believe this is a suitable vision for a corporate group that contributes to peoples' realization of soul-enriching lifestyles by advancing strategies of expanding business fields and reforming existing businesses.

Create and Bring "New Happiness" to Your Life

With the Group Vision pointing us in the direction we ought to be headed, we aim to substantially transform the Group while also achieving discontinuous growth.

FY2017–2021 Medium-term Business Plan

Positioning and basic policies of the Medium-term Business Plan

Over the duration set for the new Medium-term Business Plan, the five years from FY2017–2021, we intend to complete large development projects that we launched during the term of the FY2014–2016 Medium-term Business Plan, and then expect to start generating returns from those projects which should help enable us to attain dramatic growth. At the same time, we regard the plan as comprising a "phase of Group structural transformation" involving a turning point during which the course taken by Group management will be drastically altered to achieve discontinuous growth based on the new Group Vision. Accordingly, we aim to achieve ROE of 8% in fiscal 2021.

Under the plan, we will take one step away from our approach as a multifaceted retailer operating multiple businesses to act as a multifaceted services retailer, thereby expanding our business domain to encompass endeavors in new fields extending beyond the retail industry framework. Meanwhile, we will actively reshuffle our portfolio of businesses by accelerating the identification of unprofitable business fields and other efforts.

Transition to the International Financial Reporting Standards (IFRS)

In the interest of implementing effective management based on appropriate asset valuation, applying business management that gives emphasis to the profit of the current period, and strengthening accountability to domestic and overseas investors by improving the international comparability of financial information, the JFR Group voluntarily applied International Financial Reporting Standards (hereinafter "IFRS") from the fiscal year ended March 31, which marked the start of the Medium-term Management Plan period. All future financial forecasts and operating results announced by the JFR Group, including the management numerical targets in the Medium-term Business Plan, will be disclosed according to IFRS.

Strengthening corporate governance (transition to a company with three committees – nomination, audit and remuneration committees)

On the basis of our decision for transitioning to a company with three committees (nomination, audit and remuneration committees), we will engage in initiatives that include strengthening the management oversight function, promoting agile management, as well as maintaining and improving the precision of audit procedures. We will enhance corporate governance practices of the Group overall to ensure that the Group achieves growth. To that end, we will clarify authority and responsibility with respect to the holding company and operating subsidiaries, as well as strengthening the management oversight function of the respective companies, and promoting managerial agility through swift business decision-making.

(2) Basic policies for officer remuneration

With the aim of realizing the ideals of the Basic Philosophy, the Company's basic views regarding its officer remuneration system are as follows. Moreover, the JFR Group's main subsidiary, Daimaru Matsuzakaya Department Stores Co., Ltd. has adopted the same basic policies.

- (i) Contribute to the sustainable growth of the JFR Group and increase corporate value over the medium to long term.
- (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) Approach to remuneration levels

To enable rapid response to changes in the external environment and market environment, officer remuneration levels at companies in the same sector (department stores and the retail sector) and at companies of the same scale in different industry types (selected by market capitalization and consolidated operating income) shall be set as a benchmark, and remuneration levels of Executive Officers and Directors shall be compared to this benchmark each year. Remuneration levels for directors and executive officers at Daimaru Matsuzakaya Department Stores Co., Ltd. shall be determined in the same manner.

(4) Remuneration composition

[Executive Officers]

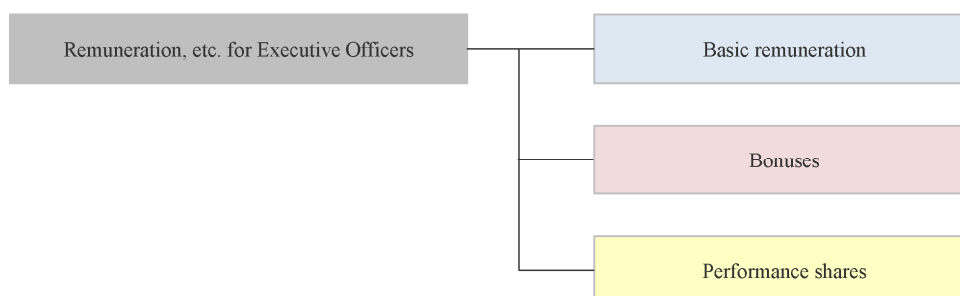
Remuneration for Executive Officers shall comprise (i) basic remuneration (monetary remuneration) in accordance with rank (position), (ii) bonuses (monetary remuneration) based on individual evaluations conducted each business year, and (iii) performance shares linked to the consolidated performance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

In the Executive Officers' remuneration composition, the ratio of performance-linked remuneration and stock-based remuneration shall be set so as to function as a healthy incentive for sustainable growth.

Specifically, bonuses and performance shares shall be each set at around 60% of basic remuneration, which serves as the standard.

For the Company's President, bonuses shall be set at around 60% of basic remuneration, which serves as the standard, while performance shares are set at around 100% to increase the correlation between remuneration and performance considering the importance of the President's responsibilities.

Daimaru Matsuzakaya Department Stores Co., Ltd. shall have adopted the same remuneration composition for its directors and executive officers. For its performance shares, shares of the Company shall be issued.



Proportions of remuneration by type for Executive Officers of each rank

President

Basic remuneration 38.5%	Bonuses 23.0%	Performance shares 38.5%
Monetary remuneration 61.5%		Stock-based remuneration 38.5%
Fixed remuneration 38.5%	Performance-linked remuneration 61.5%	

Executive Officers excluding the President

Basic remuneration 45.4%	Bonuses 27.3%	Performance shares 27.3%
Monetary remuneration 72.7%		Stock-based remuneration 27.3%
Fixed remuneration 45.4%	Performance-linked remuneration 54.6%	

Note: The above figure represents the case of a bonus for a standard ranking where the performance achievement rate for stock-based remuneration was 100%.

Note: The remuneration composition for directors and executive officers at Daimaru Matsuzakaya Department Stores Co., Ltd. is the same that shown for “Executive Officers excluding the President” in the figure above.

Basic remuneration

Basic remuneration is positioned as a fixed remuneration, and is decided for each rank (position) based on the size (weight) of the responsibility borne by each officer.

Bonuses

Bonuses are a performance-linked remuneration, which is tied to results or success in accordance with each year’s business performance. Evaluations are performed with balanced scorecards that are used in qualitative evaluations that cover four perspectives including a financial perspective and a customer perspective.

Performance shares

Performance shares are issues of the Company’s shares linked to the consolidated performance achievement rate, etc. provided in the Medium-term Business Plan. The shares are designed to help the JFR Group achieve sustainable growth and increase corporate value over the medium to long term.

Under this system, 60% of the entire amount of performance shares will be issued in a single issuance at the end of the Medium-term Business Plan, with the remaining 40% to be issued each year in order to promote management from the shareholders' perspective.

Under the system, the portion of shares issued at the end of the Medium-term Business Plan is weighted, with 50% based on the consolidated operating income, for which there is a numerical target (IFRS basis) in the Medium-term Business Plan, and 50% based on basic earnings per share. If free cash flow and ROE targets are not met, the amount of shares issued is reduced.

The portion issued each year is weighted, with 50% based on consolidated operating income and 50% based on basic earnings per share for the level of achievement with respect to the initial forecast (IFRS basis).

The fluctuation range for remuneration in accordance with the performance achievement rate is between 0% and 200%.

Administration of the trust-type stock-based remuneration system is to be contracted to Mitsubishi UFJ Trust and Banking Corporation to ensure independence, objectivity, and fairness.

Details of performance shares

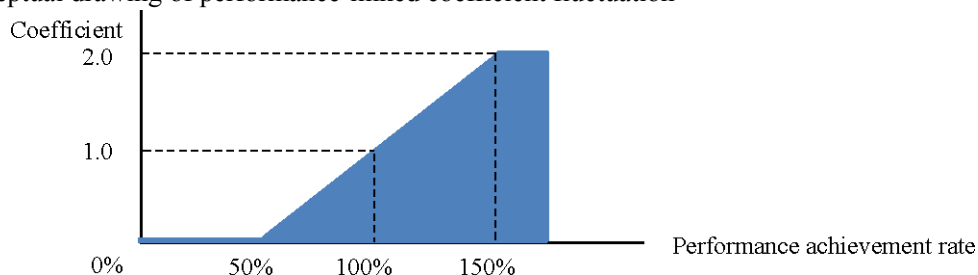
Key Performance Indicator			Short term	Medium to long term	Methods of use
Profitability	(i)	Consolidated operating income	○	○	Evaluation based on achievement rate of targets (absolute value)
	(ii)	Basic earnings per share	○	○	Evaluations are weighted as 50% for each indicator
	(iii)	Free cash flow	—	○	If targets are not achieved, the amount of stock-based remuneration is reduced by 50% (reduced by 25% if one target is not achieved)
Efficiency	(iv)	ROE	—	○	

Note: Short-term targets are the initial forecasts for that business year as announced in the Consolidated Financial Results each April (IFRS basis).

Calculation method for performance-linked coefficient

Performance achievement rate	Performance-linked coefficient
150% or higher	2.0
From 50% to less than 150%	$(\text{Actual value} / \text{Targets} - 0.5) \times 2$
Less than 50%	0

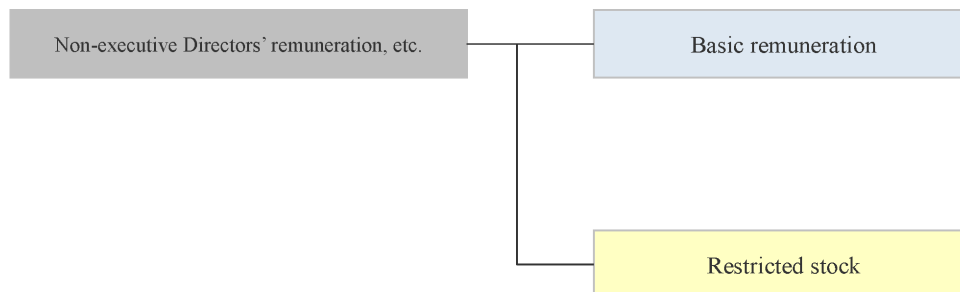
Conceptual drawing of performance-linked coefficient fluctuation



Note: If the performance achievement rate is less than 50%, the performance-linked coefficient is 0 (0%). If the performance achievement rate is 150% or higher, the performance-linked coefficient is 2.0 (200%).

[Directors]

Non-executive Directors' remuneration shall consist only of fixed remuneration, which shall be (i) basic remuneration (monetary remuneration) in accordance with rank (position) and (ii) restricted stock (trust-type stock-based remuneration), which is not linked to performance, as part of the stock-based remuneration system.



Note: Non-executive Directors refer to Outside Directors as well as Audit Committee Members and other internal Non-executive Directors.

Basic remuneration

Basic remuneration is positioned as fixed remuneration and is decided based on a table for each rank (position) according to the size (weight) of each officer's responsibility.

Restricted stock

Restricted stock is a system for issuing the Company's shares in a way that it not linked to performance, with the objective of involving Non-executive Directors in management with a medium- to long-term view in order that they should strengthen proactive and defensive governance of the Company from a different standpoint to the executives as representatives of stakeholders. The shares are issued upon their retirement from office.

Administration of the trust-type stock-based remuneration system is to be contracted to Mitsubishi UFJ Trust and Banking Corporation to ensure independence, objectivity, and fairness.

(5) Determination process

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 a resolution of the Remuneration Committee, which comprises a majority of independent Outside Directors and is chaired by an independent Outside Director. Remuneration Committee meetings are to be held at least four times per year, and the Company plans to conduct a review of the officer remuneration system based on external conditions during the period of the Medium-term Business Plan.

During the Medium-term Business Plan period, the level of basic remuneration will be reviewed if a drastic review becomes necessary due to dramatic changes in the external environment and so forth.

Moreover, the Company has employed an external remuneration consultant to introduce an objective perspective from outside the Company and specialist knowledge relating to officer remuneration systems. With this support, the Company will examine remuneration levels, remuneration systems and so forth, giving consideration to factors such as external data, the economic environment, industry trends, and management conditions.

(6) Acquisition and holding of shares

Executive Officers shall continue to hold the Company's shares that they have acquired as stock-based remuneration until three years has elapsed after the issuance of the shares (or until the officer retires from office). This system is designed to provide further incentive to increase the

Company's performance and corporate value from a medium- to long-term perspective by deepening the shared interests between shareholders and officers and by issuing shares as remuneration in the form of performance shares, particularly for Executive Officers responsible for execution functions.

Directors and executive officers of Daimaru Matsuzakaya Department Stores Co., Ltd. have adopted the same policy for their acquisition and holding of the Company's shares.

(7) Policy on information disclosure, etc.

Details of the Company's officer remuneration system are disclosed swiftly to the Company's shareholders through the Annual Securities Report, Business Report, Corporate Governance Report, which are prepared and disclosed in accordance with various laws and regulations, and the Company website, among others. The Company also engages proactively with institutional investors.

3. Start of application of new remuneration policy

The new Officer Remuneration Policy including the introduction of a stock-based remuneration system for officers will be further deliberated and resolved by the Company's Remuneration Committee after the transition to a company with three committees (nomination, audit and remuneration committees) has been approved and resolved by the 10th Annual Shareholders Meeting of the Company scheduled for May 25, 2017, after which the Company plans to begin implementing the policy.

4. Scale of the Company's shares to be acquired by the trust related to the stock-based remuneration system

The trust that is to be established for the stock-based remuneration system for officers will be on the scale of approximately ¥4.0 billion, considering the maximum amount of shares that could potentially be issued to eligible officers, etc. over the next five years.

The introduction of the stock-based remuneration system, including the details of the system and the period for acquisition of shares by the trust, is to be further deliberated and resolved at the meeting of the Company's Remuneration Committee to be held on May 25, 2017 after the transition to a company with three committees (nomination, audit and remuneration committees) and at the meetings of the Board of Directors and Remuneration Committee scheduled for late June, 2017. Their resolutions will be announced publicly.

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