

To whom it may concern

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Notice Regarding Introduction of a Stock-based Remuneration System for Officers

J.FRONT RETAILING Co., Ltd. (the “Company”) has resolved at the meeting of its Remuneration Committee held today to introduce a stock-based remuneration system for officers utilizing trust (the “System”) as a new incentive plan targeting officers of the Company and the Company’s main subsidiary, Daimaru Matsuzakaya Department Stores Co., Ltd. as described below.

In this timely disclosure material, Daimaru Matsuzakaya Department Stores Co., Ltd. shall be referred to as the “Subject Subsidiary,” the Company and the Subject Subsidiary shall be collectively referred to as the “Subject Company,” and Directors and Executive Officers of the Company and directors and executive officers of the Subject Subsidiary shall be collectively referred to as the “Officers.”

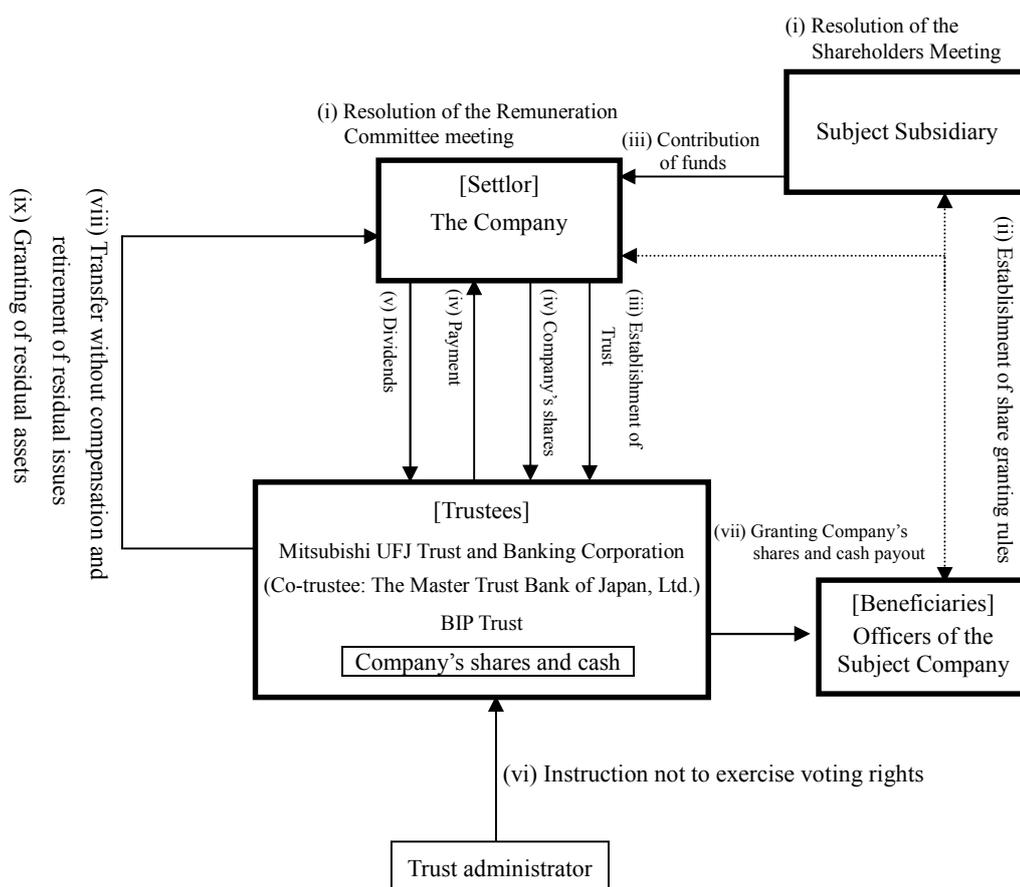
1. Purpose of the introduction of the System, etc.

- (1) As described in “Notice Regarding Formulation of the New Officer Remuneration Policy Including a Stock-based Remuneration System for Officers (Informal Decision)” released on April 10, 2017, at the first fiscal year of the FY2017–2021 JFR Group Medium-term Business Plan, the Company established the new Officer Remuneration Policy upon the transition to a company with three committees (nomination, audit and remuneration committees), which will contribute to strengthening the corporate governance structure, to ensure steady execution and progress of the Medium-term Business Plan for realizing the new Group Vision. The System is to introduce a stock-based remuneration system for the Officers according to the said policy.
- (2) Under the System, the Company will establish two trusts as follows.
 - (i) The trust that issues the Company’s shares for Executive Officers of the Company and directors and executive officers of the Subject Subsidiary (collectively, the “Executive Officers, etc.”) to help the JFR Group achieve sustainable growth and increase corporate value over the medium to long term.
 - (ii) The trust that issues the Company’s shares in a way that it not linked to performance, with the objective of involving Non-executive Directors of the Company (Outside Directors as well as chairperson of the Board of Directors, Audit Committee members and other internal Non-executive Directors; collectively, the “Non-executive Directors, etc.”) 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.
- (3) The System adopts a structure called Board Incentive Plan Trust (the “BIP Trust”). The BIP Trust is a system that is designed to issue the Company’s shares for the Officers (in certain cases, the Company’s shares will be converted into cash within the trust and cash in the amount equivalent to their conversion value will be paid), in accordance with the rank or level

of achievement of the Medium-term Business Plan, etc., which is similar to the performance share and restricted stock plans in the U.S.A. and Europe.

- (4) The introduction of the System has been resolved at the meeting of the Remuneration Committee, which comprises a majority of Outside Directors and is chaired by an Outside Director, held today. The Remuneration Committee fairly evaluates the adequacy of business performance targets, status of achievement thereof, etc., and ensures transparency and objectivity in the determining process and results concerning officer remuneration system.

2. Framework of BIP Trust



- (i) The Company will obtain approval by the resolution of the meeting of the Remuneration Committee related to the introduction of the System and officer remuneration. The Subject Subsidiary will obtain approval by the resolution of the Shareholders Meeting related to the introduction of the System and officer remuneration.
- (ii) Each Subject Company will establish “share granting rules” related to the officer remuneration at their respective meetings of the Remuneration Committee or the Board of Directors concerning the introduction of the System.
- (iii) The Subject Subsidiary will each contribute cash to the Company, within the range approved by the resolution of the Shareholders Meeting as in (i) above. The Company (Settlor) will entrust cash, which consists of cash within the range of the amount approved by the resolution of the meeting of its Remuneration Committee as in (i) above and cash contributed from the Subject Subsidiary, to a trust bank (Trustee), and, on the premise that the Officers of each Subject Company who satisfy criteria for beneficiary will become beneficiaries, establish the followings.
- The trust that issues shares in accordance with the performance achievement rate as of the end of the Target Period (decried in 4. (1) below) (the “Trust I”); and
 - The trust that issues shares at the time of retirement of the Officers which is not linked to performance (the “Trust II”).

- (iv) Trustees of both Trust I and Trust II (the “Trust”) will, in accordance with the instructions by the trust administrator, use funds contributed as in (iii) above as the source of funds to acquire the Company’s shares from the Company (upon the establishment of the trust). The Company’s shares under the Trust will be managed in accordance with the amount contributed from each Subject Company.
- (v) Dividends will be paid for the Company’s shares under the Trust in the same manner as other Company’s shares.
- (vi) Voting rights will not be exercised during the trust period with regard to the Company’s shares under the Trust.
- (vii) During the trust period, pursuant to the share granting rules of each Subject Company, beneficiaries will receive a certain number of points. In addition, beneficiaries will receive the Company’s shares equivalent to a certain conversion ratio of the said points (In certain cases, the Company’s shares will be converted into cash within the Trust and cash in the amount equivalent to their conversion value will be paid.).
- (viii) If there are residual shares at the time of expiry of the trust period due to non-achievement of performance targets and other reason, (a) the Trust will continue to be used as a type of incentive plan similar to the System by amending the trust agreement and placing additional trust, or (b) if the Trust will not continue to be used, the said residual shares will be transferred from the Trust to the Company without compensation and the Company will retire the residual shares by the resolution of the meeting of its Board of Directors.
- (ix) Upon the termination of the Trust, residual assets remaining after distribution to beneficiaries will belong to the Company within range of reserve for trust expenses derived by deducting the funds for purchasing shares from the trust money. Any portion in excess of the reserve for trust expenses will be donated to organizations that have no special interests with the Subject Company and the Officers of the Subject Company.

3. Details of the System

The System is an incentive plan that is designed to issue (grant, in case of cash payout; the “Grant, etc.”) the Company’s shares (in certain cases, the cash in the amount equivalent to the conversion value will be paid; the “Company’s Shares, etc.”) as officer remuneration, in accordance with the rank or level of achievement of the Medium-term Business Plan, etc., over five consecutive fiscal years in line with the period of the JFR Group Medium-term Business Plan from the fiscal year ending February 28, 2018 through the fiscal year ending February 28, 2022.

Under the System, the Company will establish two types of trusts: Trust I that issues the Company’s shares for the Executive Officers, etc. each year and at the end of the Target Period to help the JFR Group achieve sustainable growth and increase corporate value over the medium to long term; Trust II that issues the Company’s shares to the Non-executive Directors, etc. upon their retirement from office, with the objective of involving them 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.

4. Trust I

(1) Target Period and the upper limit of amount of remuneration

Each Subject Company will contribute monetary remuneration to Executive Officers, etc. each with the following upper limit of amount during the period of five consecutive fiscal years in line with the period of the JFR Group Medium-term Business Plan from the fiscal year ending February 28, 2018 through the fiscal year ending February 28, 2022 (the “Target Period”), and will establish Trust I with a trust period of five years and with the Executive Officers, etc. who satisfy the criteria for beneficiary as beneficiaries. The trust amount contributed to Trust I will be calculated by adding trust fees and expenses after taking into account the balance between the basic remuneration and bonuses as well as the performance-linked range in Trust I.

Furthermore, the upper limit of the number of the Company’s shares (including the Company’s shares paid in cash in the amount equivalent to their conversion value) to be issued to the Executive Officers, etc. from Trust I during the trust period will be the number obtained by

dividing the upper limit of amount set forth by each Subject Company by the average acquisition cost per share of Trust I (rounded down to the nearest unit).

As described in (8) below, the Trust I may continue to be used by amending the trust agreement and placing additional trust at the time of expiry of trust period.

- (i) The Company
The upper limit of the amount to be contributed to the Trust I: ¥1.65 billion (*1)
 - (ii) Subject Subsidiary
The upper limit of the amount to be contributed to the Trust I: ¥1.95 billion (*1)
- (2) Persons eligible for the Trust I (criteria for beneficiary)
- The Executive Officers, etc. of each Subject Company may receive the Grant, etc. of the Company's Shares, etc. corresponding to the number of each point (as specified in (3) below) from the Trust I on the condition that satisfying the following criteria for beneficiary.
- (i) Shall be the Executive Officer, etc. of the Subject Company during the Target Period
 - (ii) Must not have conducted certain illegal activities
 - (iii) Any other requirements necessary to achieve the purpose of the System
- (3) The Company's Shares, etc. to be delivered as the Grant, etc. to beneficiaries
- The Company's Shares, etc. to be delivered as the Grant, etc. to the beneficiaries from Trust I will be determined by points received according to their one year performance (the "Short-term PS Points") and points received according to the achievement level of the Medium-term Business Plan (the "Medium-to long-term PS Points").

(i) Short-term PS Points

Short-term PS Points are calculated by multiplying the basic points set forth during the Target Period in accordance with the rank each year by the performance-linked coefficient corresponding to the performance of each business year. The Company's Shares, etc. are delivered as the Grant, etc. in about June every year according to the number of Short-term PS Points. One point will stand for one Company's share. (*2)

The performance-linked coefficient for Short-term PS Points is weighted, with 50% based on consolidated operating profit and 50% based on basic earnings per share for the level of achievement with respect to the initial forecast (IFRS basis) stated in the Company's Consolidated Results announced each April. The fluctuation range for remuneration in accordance with the performance achievement rate is between 0% and 200%.

The forecast for basic earnings per share for FY2017, however, is as stated in the following [Management numerical targets, etc. in the Medium-term Business Plan].

(ii) Medium-to long-term PS Points

Medium-to long-term PS Points are calculated after the expiry of the Target Period by multiplying the accumulated amount of basic points, received during the Target Period in accordance with the rank of each year, by the performance-linked coefficient corresponding to the performance of the relevant Target Period. The Company's Shares, etc. are delivered as the Grant, etc. according to the number of Medium-to long-term PS Points in about June 2022. One point will stand for one Company's share. (*2)

The performance-linked coefficient for Medium-to long-term PS Points is weighted, with 50% based on the consolidated operating profit, for which numerical target (IFRS basis) is set in the Medium-term Business Plan, and 50% based on basic earnings per share (Numerical targets in the Medium-term Business Plan is stated in the following [Management numerical targets, etc. in the Medium-term Business Plan]). If free cash flow and ROE targets are not met, the amount of shares issued will be reduced. The fluctuation range for remuneration in accordance with the performance achievement rate is between 0% and 200%.

Details of performance-linked shares

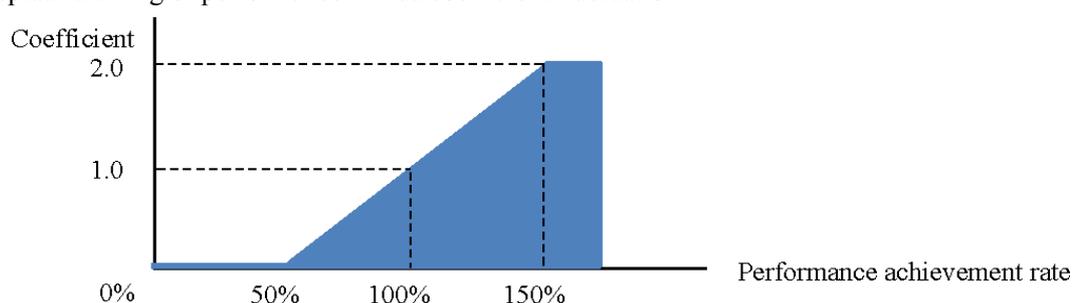
KPI		Short term	Medium to long term	Methods of use
Profitability	(i)	Consolidated operating profit	○	Evaluation based on achievement rate of targets (absolute value) Evaluations are weighted as 50% for each indicator
	(ii)	Basic earnings per share	○	
	(iii)	Free cash flow	—	○
Efficiency	(iv)	ROE	—	○

- Notes: 1. KPI: Key Performance Indicator
2. Short-term numerical 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%).

Management numerical targets, etc. in the Medium-term Business Plan

KPI		Short-term PS Points (FY 2017)	Medium-to long-term PS Points
Profitability	Consolidated operating profit	¥44.5 billion	¥56.0 billion
	Basic earnings per share	¥101.32	¥141.47
	Free cash flow	—	Actual performance > 0
Efficiency	ROE	—	8% or more

- (4) Method and timing of the Grant, etc. of the Company's Shares, etc.
(i) Short-term PS Points

The Executive Officers, etc. who have satisfied the criteria for beneficiary will receive the Grant, etc. of the Company's Shares, etc. corresponding to the Short-term PS Points in about June immediately after the end of each business year. (*3) (*4)

(ii) Medium-to long-term PS Points

The Executive Officers, etc. who have satisfied the criteria for beneficiary will receive the Grant, etc. of the Company's Shares, etc. corresponding to the Medium-to long-term PS Points in about June 2022. (*3) (*4)

(5) Method for the Trust I to acquire the Company's shares

Acquisition of the Company's shares by Trust I will be acquired from the Company within the range of the upper limit of funds to acquire shares set by each Subject Company in (1) above (upon the establishment of the trust).

(6) Exercise of voting rights related to the Company's Shares under the Trust I

Voting rights related to the Company's shares under Trust I (the Company's shares before issuance to the Executive Officers, etc. of each Subject Company in accordance with (3) above) will not be exercised during the trust period in order to ensure neutrality of management.

(7) Treatment of dividends of the Company's Shares under the Trust I

Trust I will receive the dividends of the Company's shares under Trust I and the dividends will be appropriated to trust fees and expenses of Trust I. If there are residuals after dividends are appropriated to trust fees and expenses at the time of expiry of Trust I trust period, the Company plans to donate to organizations that have no special interests with the Subject Company and the Executive Officers, etc. Furthermore, if Trust I continue to be used, the said residual funds will be used as funds to acquire shares.

(8) Treatment at the expiry of the trust period

If there are residual shares at the time of expiry of trust period due to non-achievement of performance targets and other reasons during the Target Period, and a proposal of continuation of the System is discussed and approved at the meetings of the Company's Remuneration Committee, etc. held after the expiry of the Target Period, Trust I may continue to be used by amending the trust agreement and placing additional trust within the range approved by the said meetings of the Company's Remuneration Committee, etc. In case of terminating the Trust I upon the expiry of trust period, the said residual shares will be transferred from the Trust I to the Company without compensation and the Company will retire the residual shares by the resolution of the meeting of its Board of Directors as a measure for returning profits to shareholders.

5. Trust II

(1) Target Period and the upper limit of amount of remuneration

The Company will contribute monetary remuneration during the Target Period to the Non-executive Directors, etc. each with the following upper limit of amount, and will establish Trust II with a trust period of five years and the Non-executive Directors, etc. who satisfy the criteria for beneficiary as beneficiaries. The trust amount contributed to Trust II will be calculated by adding trust fees and expenses after taking into account the balance with the basic remuneration.

Furthermore, the upper limit of the number of the Company's shares (including the Company's shares paid in cash in the amount equivalent to their conversion value) to be issued to the Non-executive Directors, etc. from Trust II during the trust period will be the number obtained by dividing the upper limit of amount set forth by the Company by the average acquisition cost per share of Trust II (rounded down to the nearest unit).

As described in (8) below, the Trust II may continue to be used by amending the trust agreement and placing additional trust at the time of expiry of trust period. Furthermore, even if Trust II is not going to be continuously used, if a Non-executive Director, etc. who may satisfy the criteria for beneficiary is present at such time, until such Non-executive Director, etc. retires, and the Grant, etc. of the Company's Shares, etc. is completed, the Company may extend the trust period of Trust II up to ten years.

- (i) The Company
The upper limit of the amount to be contributed to the Trust II: ¥0.4 billion (*1)
- (2) Persons eligible for the Trust II (criteria for beneficiary)
The Non-executive Directors of the Company may receive the Grant, etc. of the Company's Shares, etc. corresponding to the number of point (as specified in (3) below) from the Trust II on the condition that satisfying the following criteria for beneficiary.
 - (i) Shall be a Non-executive Director of the Company during the Target Period
 - (ii) Shall be retired from Non-executive Director of the Company
 - (iii) Must not have conducted certain illegal activities
 - (iv) Any other requirements necessary to achieve the purpose of the System
- (3) The Company's Shares, etc. to be delivered as the Grant, etc. to beneficiaries
The Company's Shares, etc. to be delivered as the Grant, etc. to beneficiaries from Trust II will be determined by points received in accordance with rank (position) (the "RS Points").
RS Points will be received every year throughout the Target Period, and at the time of retirement of the Non-executive Directors, etc., the Company's Shares, etc. corresponding to the accumulated number of RS Points (the "Number of Accumulated RS Points") will be delivered as the Grant, etc. One point will stand for one Company's share. (*2)
- (4) Method and timing of the Grant, etc. of the Company's Shares, etc.
The Non-executive Directors, etc. who have satisfied the criteria for beneficiary will receive the Grant, etc. of the Company's Shares, etc. corresponding to the Number of Accumulated RS Points at the time of their retirement. (*3) (*4)
- (5) Method for the Trust II to acquire the Company's shares
Acquisition of the Company's shares by Trust II will be acquired from the Company within the range of the Company's upper limit of funds to acquire shares as stated (1) above (upon the establishment of the trust).
- (6) Exercise of voting rights related to the Company's Shares under the Trust II
Voting rights related to the Company's shares under Trust II (the Company's shares before issuance to the Non-executive Directors, etc. in accordance with (3) above) will not be exercised during the trust period in order to ensure neutrality of management.
- (7) Treatment of dividends of the Company's Shares under the Trust II
Trust II will receive the dividends of the Company's shares under Trust II and the dividends will be appropriated to trust fees and expenses of Trust II. If there are residuals after dividends are appropriated to trust fees and expenses at the time of expiry of Trust II trust period, the Company plans to donate to organizations that have no special interests with the Company and the Non-executive Directors, etc. Furthermore, if Trust II continues to be used, the said residual funds will be used as funds to acquire shares.
- (8) Treatment at the expiry of the trust period
If there are residual shares at the time of expiry of trust period due to the decrease of relevant Non-executive Directors, etc. and other reasons, and a proposal of continuation of the System is discussed and approved at the meetings of the Company's Remuneration Committee, etc. held after the expiry of the Target Period, Trust II may continue to be used by amending the trust agreement and placing additional trust within the range approved by the said meetings of the Company's Remuneration Committee, etc.
In case of terminating the Trust II upon the expiry of trust period, the said residual shares will be transferred from the Trust II to the Company without compensation and the Company will retire the residual shares by the resolution of the meeting of its Board of Directors as a measure for returning profits to shareholders.

(*1) The amount is the sum of the share acquisition funds from the Trust, trust fees and expenses within the trust period.

- (*2) In case the number of the Company's shares under the Trust increases or decreases due to share split, allotment without contribution, consolidation of shares and other reasons, the number of the Company's shares per point in which the Grant, etc. is delivered will be reviewed.
- (*3) In case an Officer undertakes an assignment overseas in July 2017 and afterward, the Company's Shares, etc. corresponding to each number of points received until the time of the assignment will be delivered as the Grant, etc. from the Trust promptly after the assignment is fixed.
- (*4) In case an Officer deceases in July 2017 and afterward and retires, or deceases after retirement, the Company's Shares, etc. corresponding to each number of points received during office will be delivered as the Grant, etc. from the Trust to the heir who is subject of the System promptly after decease.

(Reference)

[Details of Trust Agreement]

	Trust I	Trust II
(i) Type of trust	Monetary trust other than designated individually-operated monetary trust (third party benefit trust)	
(ii) Purpose of trust	To provide incentives to the Company's Executive Officers, directors and executive officers of the Company's subsidiary	To involve the Company's Non-executive Directors in management with a medium- to long-term view from a different standpoint to the executives as representatives of stakeholders
(iii) Settlor	The Company	
(iv) Trustee	Mitsubishi UFJ Trust and Banking Corporation (Co-trustee: The Master Trust Bank of Japan, Ltd.)	
(v) Beneficiaries	The Company's Executive Officers, directors and executive officers of the Company's subsidiary who satisfy the criteria of beneficiary	The Company's Non-executive Directors who satisfy the criteria of beneficiary
(vi) Trust administrator	Third party who has no special interests with the Company (certified public accountant)	
(vii) Trust agreement date	July 14, 2017	
(viii) Trust period	From July 14, 2017 till the end of August 2022 (Scheduled)	
(ix) Starting date of System	July 14, 2017	
(x) Exercise of voting rights	Voting rights shall not be exercised	
(xi) Class of shares to be acquired	Ordinary shares of the Company	
(xii) Total value of shares to be acquired	¥3,564,841,800	¥383,970,600
(xiii) Timing of acquisition of shares	July 24, 2017	
(xiv) Method of acquisition of shares (upon establishment of trust)	Acquisition of the Company's shares through third party allotment (Issuance of new shares by third-party allotment)	
(xv) Vested right holder	The Company	
(xvi) Residual assets	Residual assets receivable by the Company as the vested right holder shall be within the amount of the reserve for trust expenses, after deducting the funds for purchasing shares from the trust money.	

[Details of clerical tasks related to the trust and shares]

- (i) Clerical tasks related to the trust Mitsubishi UFJ Trust and Banking Corporation shall serve as the trustee of the Trust and perform clerical tasks related to the Trust
- (ii) Clerical tasks related to shares Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. shall perform clerical tasks for the granting of the Company's shares to beneficiaries based on an outsourcing agreement.

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