

## J. Front Retailing Group Philosophy

The philosophy system of J. Front Retailing Group consists of “basic philosophy,” “business operation policy,” “commitments to stakeholders” and “our principles of action.”

### ● Basic Philosophy

- (1) We aim at providing high quality products and services that meet the changing times and satisfying customers beyond their expectations.
- (2) We aim at developing the Group by making a broad contribution to society as a fair and trusted business entity.

### ● Business Operation Policy

- (1) Realizing high quality management that provides the highest customer satisfaction at the lowest cost.
- (2) Thoroughly pursuing high quality, freshness and hospitality.

### ● Commitments to Stakeholders

They represent the Group's commitments to customers, shareholders, business partners, employees and communities.

### ● Our Principles of Action

They represent the principles of action that every person working for the companies of JFR Group should try to follow concerning customer perspective, challenge to innovation, speed and thorough implementation, communication, respect for diverse individuality and ethics and fairness.

## Group Vision

We will establish a status as a leading Japanese retail company both in terms of quality and quantity with the department store business as our core.

## Basic Concepts

As the core of the unified governance of the Group, J. Front Retailing positions the strengthening of corporate governance as one of the most important business challenges to ensure the transparency, soundness and compliance of the management of the whole Group and thoroughly fulfill its accountability to its stakeholders (including customers, shareholders, employees, suppliers and communities).

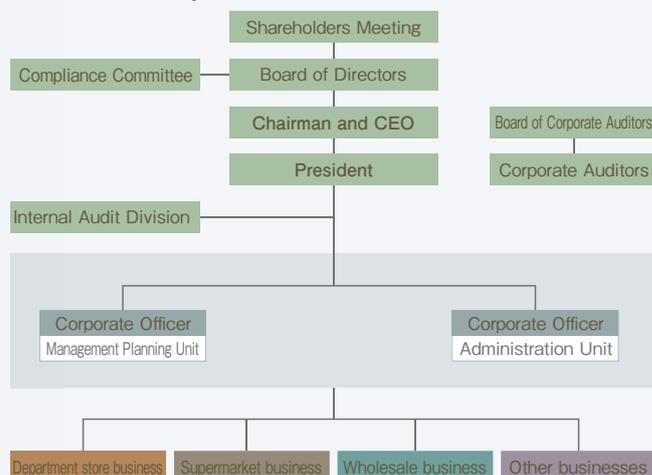
To this end, we have two units (Management Planning Unit and Administration Unit) in the company organization to clarify roles, responsibilities and authorities, thereby improving supervisory function and the internal control systems of the whole Group. In addition, a corporate officer system is in place to separate between decision-making and execution of the management, which enables more speedy decision-making and implementation.

The term for Directors and Corporate Officers is one year and they are remunerated based on their individual annual performance to clarify their responsibilities for the enhancement of management and business results.

## Corporate Bodies and Internal Control Systems

J. Front Retailing has the Board of Corporate Auditors. Its corporate bodies include Shareholders Meeting, the Board of Directors, the Board of Corporate Auditors and independent auditors as stipulated in the Corporate Law. In addition, the Company adopts a corporate officer system as a body to perform operations. It also has a Compliance Committee, which is chaired by CEO and consists of a corporate lawyer and Directors and Corporate Auditors named by the chairman, as an advisory body to the Board of Directors and adopts a whistle-blowing system to solve compliance issues.

Corporate governance organization and internal control system



## Meetings of the Board of Directors and Outside Directors

The Board of Directors as a management decision-making body consists of seven Directors (including two outside directors) and generally meets once a month under the chairmanship of Chairman and CEO and with the attendance of Corporate Auditors to discuss and resolve the matters required by laws or prescribed by the articles of incorporation as well as the matters stipulated in the rules and regulations of the Board of Directors.

During fiscal 2010, the Board of Directors had 15 meetings to discuss and resolve the closure of Hakata Daimaru Nagasaki store and the acquisition of shares in StylingLife Holdings Inc., as well as approving budgets and settlements.

J. Front Retailing has invited Takayama Tsuyoshi and Takeuchi Isao as highly independent outside directors who can judge independently from the top management and appropriately determine the decisions and supervisory actions made by the Board of Directors. They are both in an objective position independent from the management team performing operations. We expect Takayama as an executive of a business entity and Takeuchi as an executive of a financial institution and a business entity to reflect their rich experience, achievements and insights in the management of J. Front Retailing.

## ■ Audit Function

In order to support the soundness of its management structure, J. Front Retailing has five Corporate Auditors (including three outside auditors) 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. The Company also has Internal Audit Division reporting directly to President to verify the appropriateness and effectiveness of the business process of daily routine and financial operations of J. Front Retailing and J. Front Retailing Group according to the annual audit plan. Important matters are duly reported to the Board of Directors and the Board of Corporate Auditors.

## ■ Internal Control Systems

J. Front Retailing develops internal control in line with the Basic Policy to Build Internal Control Systems. With respect to internal control over financial reporting, the General Affairs Division of Administration Unit that has the function of overseeing internal control and the Internal Audit Division that has the function of independent assessment clarify their roles and authorities and discuss to make a fair assessment. During fiscal 2010, we reviewed and redeveloped the internal control of Daimaru Matsuzakaya Department Stores, which was formed by merger in March.

## ■ Risk Management

With President and Executive General Managers of two units as responsible supervisors, each division assesses and manages risks in a manner suiting the division and reports the management status of important risks 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's strategy meetings 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 in March 2011 to set out the basic policy and framework for risk management and the Emergency Headquarters headed by President is responsible for handling crises in case of emergencies.

## ■ Practice of Compliance under Company Regulations and Operation Manuals

J. Front Retailing develops company regulations and various operation manuals to ensure the implementation of the Group philosophy on the job, while setting its own strict standards on quality control and the protection and management of personal information to thoroughly carry out daily compliance activities.

## ■ Preparation of Compliance Manual

J. Front Retailing prepared a compliance manual to demonstrate its structure, principles of action and code of conduct to implement compliance management.

The manual provides that the basic framework of the compliance system is a binary structure consisting of "all companies' and divisions' voluntary compliance with laws and corporate ethics in conducting business" and "training, supervision and strict audit by compliance divisions, operational audit

divisions and others." It also sets compliance principles of action and code of conduct consisting of four perspectives to be followed by all officers and employees of J. Front Retailing Group.

The Group ensures thorough compliance activities on a daily basis by posting "compliance self-check lists" in each company, which enable employees to check their own everyday behavior.

### "Food" Quality Control

Sanitary supervisors are placed in the food departments of all locations of Daimaru Matsuzakaya Department Stores and affiliated department stores to ensure the high level of quality expected of department stores. For customers' security and safety, they periodically inspect the conditions of quality control in cooperation with Consumer Product End-Use Research Institute based on the "Food Sanitation Law," "Quality Control Regulations" and rules for running.

### Protection of Personal Information

In order to ensure the protection of personal information, J. Front Retailing Group established the "basic principles" and the "code of conduct" and continuously provides employee training and checks the management status in all companies of the Group. JFR Information Center Co., Ltd. and JFR Card Co., Ltd., which handle all the customer information data of Daimaru Matsuzakaya Department Stores, acquired the "Privacy Mark" certification to protect the personal information of customers.

### Customer Consultation Service

Major stores of Daimaru and Matsuzakaya have "Consultation Corners for Consumers" and consultants certified as advisory specialists for consumers' affairs offer consultation for customers. Customer complaints about products are sent online to Consumer Product End-Use Research Institute for scientific quality inspection. Consultants inform customers of the results. These test results are also provided to stores and manufacturers to prevent recurrence and improve quality.

## ■ Monitoring of Implementation

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