

Corporate Governance

Group Philosophy

We at J. Front Retailing Group aim at:

- (1) Providing high quality products and services that meet the changes of the times and satisfying customers beyond their expectations; and
- (2) Developing the Group by making a broad contribution to society as an honest and reliable company.

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.

- (1) We will gain the highest popularity from customers in Japan by offering sales services and products that exceed their expectations.
- (2) We will achieve the Group's operating margin of more than 5% early.

Corporate Governance

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 created two headquarters and two policy departments in the company organization to clarify roles, responsibilities and authorities, thereby improving supervisory function and the internal control systems of the whole J. Front Retailing 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 as an advisory body to the Board of Directors and adopts a whistle-blowing system to solve compliance issues.

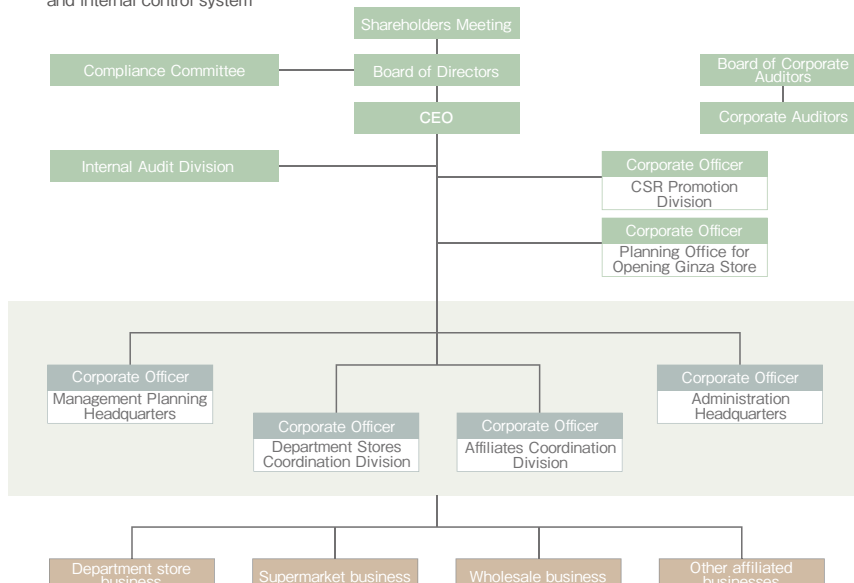
Meetings of the Board of Directors and Outside Directors

The Board of Directors as a management decision-making body consists of nine Directors (including two outside directors) and generally meets once a month under the chairmanship of President and CEO and with the attendance of Corporate Auditor 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 2008, the Board of Directors had 17 meetings to discuss and resolve the mid- to long-term management plan, the integration of department store business into one company, the reorganization of businesses of the Group, the acquisition of fixed asset by a subsidiary Daimaru, the winding-up of Imabari Daimaru and the closure of Yokohama Matsuzakaya department store, as well as approve budgets and settlements.

J. Front Retailing has invited Tsuyoshi Takayama and Isao Takeuchi 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.

Corporate governance organization and internal control system



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 (30 members) reporting directly to CEO to audit according to the annual audit plan whether each department carries out its operations appropriately and efficiently in accordance with laws, the articles of incorporation and internal regulations and duly report to the Board of Directors and the Board of Corporate Auditors. Internal Audit Division, the Board of Corporate Auditors and independent auditors cooperate with each other by exchanging information and views and discussing as needed.

Internal Control Systems

J. Front Retailing develops systems in line with the “Basic Policy to Build Internal Control Systems.” In 2009, marking the first year in which an internal control reporting system is adopted, the Company established the “Rules and Regulations for Internal Control over Financial Reporting” to clarify roles and authorities concerning their improvement and operation. Accordingly, internal control administration function and independent assessment function were transferred to CSR Promotion Division and Internal Audit Division respectively.

Risk Management

With its general manager and policy manager as responsible supervisors, each division defines check items for its specific business risks and analyzes and manages these risks and reports the management status on a regular basis.

In respect to particularly significant business risk factors thus identified, we discuss and determine a policy to deal with them in a strategy meeting and other meetings of the Group and concerned divisions implement it to prevent such risks from arising. In case of emergencies including great earthquakes, fires and accidents, the “Emergency Headquarters” headed by CEO are responsible for managing a crisis.

Preparation of the Compliance Manual of JFR Group

In January 2009, JFR Group prepared a compliance manual to define its structure and principles and code of conduct to implement compliance management.

The manual provides that the basic framework of the compliance system of the Group 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 and code of conduct with four perspectives to be followed by all officers and employees of JFR 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.

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.

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 corporate code of conduct and the corporate behavior charter 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.

● “Food” Quality Control

Sanitary supervisors are placed in the food departments of all Daimaru 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” and Daimaru’s “Quality Control Regulations” and rules for running. All Matsuzakaya stores also address the strengthening of food quality control and sanitary supervisors were newly placed in Nagoya and Ueno stores in March 2008.

● 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, and Matsuzakaya Co., Ltd. and Sakae Printing Co., Ltd. acquired the “Privacy Mark” certification to protect the personal information of customers.

● Customer Consultation Service

Daimaru has “Consultation Corners for Consumers” in its stores 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.

Matsuzakaya has a “Consultation Corner for Consumers” in Nagoya store and customer consultation service staff is always stationed in all stores to offer consultation for customers. When receiving inquiries about quality, like Daimaru, they work with Consumer Product End-Use Research Institute to conduct tests and ensure that the results are reported to customers.