

## Corporate Governance

### Fundamental Approach

The mission of Seven & i Holdings, as a holding company that oversees and controls its operating companies, is to strengthen corporate governance and maximize the enterprise value of the Group.

In corporate governance, through supervision by the Board of Directors and audits by the Board of Corporate Auditors, the Company implements initiatives in four areas: (1) operational effectiveness and efficiency, (2) reliability of financial reports, (3) strict compliance with laws and regulations in operating activities, and (4) appropriate preservation of assets. The objective of those initiatives is long-term growth in enterprise value.

In taking steps to achieve this objective, the Company seeks to leverage Group synergies and implements appropriate allocation of management resources based on management oversight. On the other hand, each operating company fulfills its own responsibilities in its field of business, where it acts independently to secure growth in profits and higher capital efficiency.

### Corporate Governance System

#### Introduction of the Executive Officer System

As of May 27, 2010, the Company's Board of Directors comprises 15 members, of whom three are outside directors. To facilitate prompt decision-making and execution in a rapidly changing management environment, we have introduced the executive officer system. Under this system, the supervisory functions of the Board of Directors are separate from the execution functions of the executive officers. The Board of Directors is able to focus on the formulation of management strategies and the supervision of business execution while the executive officers can focus on business execution. To ensure prompt reflection of the wishes of shareholders, the term of directors has been set at one year.

#### Auditing System

The Company monitors management through the corporate auditor system. As of May 27, 2010, the Company's Board of Corporate Auditors comprises five members, including three outside corporate auditors. Each corporate auditor takes steps to audit the work of the directors, such as attending meetings of the Board of Directors and other important meetings, exchanging opinions with the representative directors, periodically receiving reports from directors and others regarding business execution, and actively exchanging information with the Auditing Office. Information is also actively exchanged with the independent auditors, and a close relationship with the independent auditors is maintained.

### Support Systems for Outside Directors and Outside Corporate Auditors

The Company assigns employees to assist the outside directors and outside corporate auditors and facilitates smooth information exchange and close interaction with the inside directors and standing corporate auditors.

### Cooperation between the Internal Control System and the Corporate Auditors/Independent Auditors

The Company has established the Auditing Office as an independent office to conduct internal audits. In February 2009, as one part of initiatives related to the internal control system reporting system under the Financial Instruments and Exchange Act, the Company reorganized the auditing activities of major operating companies and expanded the Auditing Office to 24 employees. Employees in the Auditing Office have been assigned responsibility for "operating auditing" and for "internal control system evaluation." The employees responsible for operating auditing are responsible for indirect supervision through the provision of verification and guidance in regard to internal audits of major operating companies, as well as for direct internal auditing of the holding company and operating companies. The employees responsible for internal control system evaluation implement evaluations of internal control related to financial reporting for the entire Group. Also, information is actively exchanged between the corporate auditors and the independent auditors, and close ties are maintained between them. In these ways, the internal auditing function is being strengthened.

### Reason for the Selection of the Corporate Governance System

The corporate auditors (Board of Corporate Auditors), including multiple outside corporate auditors who maintain independence and have specialized knowledge in law, finance, and accounting, conduct audits through cooperation with the independent auditors and internal control departments.

The formulation of management strategies and supervision of business execution are handled by the Board of Directors, including multiple outside directors who maintain their independence and have high-level management experience and opinions.

It is the Company's judgment that this is an effective system for the implementation and maintenance of corporate governance effectiveness, and enables appropriate, efficient corporate management. Accordingly, the Company uses this governance system.

## Internal Control Systems

The Board of Directors has approved the following regarding “the development of systems for ensuring that the execution of duties by the directors comply with laws, regulations, and the *Articles of Incorporation* and other systems required by the Ministry of Justice Ordinance for ensuring the compliance of operations performed by a corporation,” as stipulated by the Companies Act.

### (1) Systems for ensuring that the execution of duties by directors and employees is compliant with laws, regulations, and the *Articles of Incorporation*

(i) Seven & i Holdings and its operating companies (“the Group”) shall comply with the *Corporate Creed* and the *Corporate Action Guidelines*. In order to continue to be trusted and known for integrity, the Group shall implement ethical corporate activities; strictly observe laws, regulations, and social norms; and announce their fulfillment of corporate social responsibilities. On that basis, the Company shall establish, maintain, and utilize compliance systems, centered on the Compliance Committee; operate helplines; promote fair trade; and reevaluate the *Corporate Action Guidelines* and the guidelines of each company. In these ways, compliance shall be further enhanced.

(ii) The Group will announce their commitment to not having any contact with antisocial groups and will clearly refuse unreasonable requests. Through cooperation with outside specialists, such as the police and lawyers, we will rapidly implement legal countermeasures, both civil and criminal.

(iii) The Auditing Office, which is independent from operating

departments, will audit and confirm the status of the maintenance and operation of the compliance systems of the Group.

(iv) Corporate auditors will ensure that the execution of duties by directors is compliant with laws, regulations, and the *Articles of Incorporation* and work to raise the effectiveness of the supervisory function.

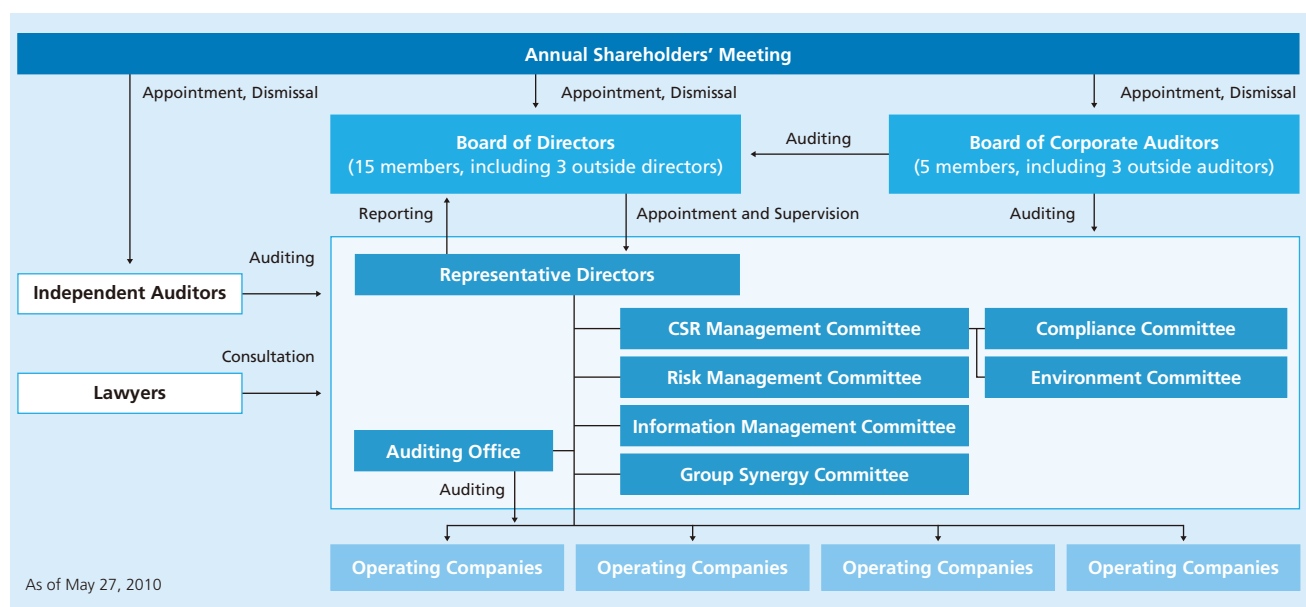
### (2) Systems for the storage and control of information related to the execution of duties by directors

(i) In accordance with laws, regulations, and the *Information Control Regulations*, the Group shall properly produce, store, and manage documents for which production and storage are legally required, such as the minutes of shareholders’ meetings, the minutes of Board of Directors’ meetings (including digital records, same hereafter), circular decision-making documents, and other documents and information necessary to secure appropriate operational execution.

(ii) Departments in charge of disclosure will rapidly and comprehensively collect important information related to the Group and conduct accurate, timely disclosure.

(iii) To ensure the appropriate production, storage, management, and timely, accurate disclosure of important administrative documents, and to also conduct integrated information management, with consideration for the safe management of such important information as trade secrets and personal information, the Group shall establish, maintain, and operate information management systems, centered on the Information Management Committee; inspect the status of the maintenance and utilization of information management systems; and

## Corporate Governance System



continue initiatives targeting further improvements. In addition, reports on such matters as the status of information management shall be made periodically to the Board of Directors and the corporate auditors.

### **(3) Regulations and systems for loss risk management**

(i) In accordance with risk management regulations, the Group shall establish, maintain, and utilize comprehensive risk management systems, centered on the Risk Management Committee, in order to accurately analyze, evaluate, and investigate risks associated with each business activity, with consideration for changes in the management environment and risk factors.

(ii) In regard to risk management, a system for periodic reporting to the Board of Directors and corporate auditors shall be established, maintained, and utilized. The Board of Directors, directors, and executive officers shall conduct sufficient examination, analysis, and investigation of risks associated with operational execution, and improvement measures shall be implemented rapidly.

(iii) To minimize damages to the Group when risk events occur, the Crisis Management Headquarters shall be established, and measures to facilitate the continuation of operations shall be implemented immediately.

### **(4) Systems for ensuring the efficiency of the execution of duties by directors**

(i) The details of the decision-making authority of the directors and executive officers and the divisions with responsibility for each administrative area shall be clearly and appropriately defined in the regulations of the decision-making authority, etc. In this way, the Group shall avoid administrative duplication and conduct flexible decision-making and administrative execution.

(ii) To secure the sustained growth of the Company, the Board of Directors shall make decisions on such matters as important management objectives and budget allocations for the Group. Through such means as periodic reports from directors and executive officers, the efficiency and soundness of administrative execution shall be investigated and appropriate reevaluations shall be conducted.

(iii) The Board of Directors, as a general rule, shall meet once each month. In addition, when necessary, extraordinary meetings of the Board of Directors shall be held or resolutions of the Board of Directors shall be executed through documents. Rapid decision-making will be implemented and efficient administrative execution will be promoted.

### **(5) Systems for ensuring the appropriateness of financial reporting**

(i) Centered on the Internal Control Project, which is related to financial reporting, a management system needed to secure the appropriateness of financial reporting for the Group shall be established, maintained, and operated.

(ii) In regard to issues that are judged to have a high possibility of majorly influencing financial conditions, information shall be shared in an appropriate manner among the directors, corporate auditors, and independent auditors.

### **(6) Systems for ensuring the appropriateness of the operations performed by the corporate group comprised of the Company, its parent companies, and subsidiaries**

(i) In regard to each of the items (1) to (5) above, the Company shall establish, maintain, and operate management systems for the Group as a whole; notify all Group companies of the general outlines of these systems; and require concrete policy formulations. In addition, the Company shall provide support and guidance for the internal control activities of all Group companies as necessary.

(ii) The Group shall maintain contact with each business segment and will share information with the Company's departments.

(iii) The Auditing Office will audit all Group companies.

### **(7) Matters related to the provision of support staff for corporate auditors when so requested**

The Company shall provide support staff for corporate auditors when so requested.

### **(8) Matters related to the independence from directors of the support staff for corporate auditors**

The selection (including subsequent replacements) of support staff to work exclusively for the corporate auditors shall be subject to the approval of the corporate auditors.

### **(9) Systems for reporting by directors or employees to corporate auditors and other systems for reporting to corporate auditors**

Situations that have the possibility of causing significant damage to the Company as well as malfeasances or violations of laws, regulations, or the *Articles of Incorporation* on the part of directors or employees shall be promptly reported to the corporate auditors. No director or employee providing such reports shall suffer any adverse consequences.

In addition, the Compliance Committee shall provide regular reports to the President and Representative Director and to the

corporate auditors concerning the operation of the helplines, which should function as public-interest reporting mechanisms.

**(10) Other systems for ensuring that the corporate auditors can conduct their activities effectively**

(i) The corporate auditors shall meet regularly with the President and Representative Director and exchange opinions concerning important audit matters.

(ii) The corporate auditors shall maintain close contact with the Auditing Office, and may request examinations by the Auditing Office when necessary.

(iii) The corporate auditors shall meet regularly with the corporate auditors of all Group companies and work together from time to time in order to conduct appropriate audits of all Group companies.

(iv) The corporate auditors may consult with the independent auditors and with lawyers as needed, and the Company shall bear all of the costs of such consultation.

**Main Activities of Outside Directors and Outside Corporate Auditors**

The outside directors gave advice and made proposals to ensure the suitability and appropriateness of the Board's decision-making, by expressing their opinions—mainly from the perspective of management and administration for Mr. Shimizu, management and administration and corporate social responsibility for Mr. Davis, and organizational and management theory for Mr. Nonaka.

The outside corporate auditors asked questions and expressed their opinions as appropriate—mainly from a legal perspective for Ms. Suzuki, an account and tax perspective for Mr. Nakachi, and a corporate governance perspective for Ms. Suto.

Attendance of outside directors and outside corporate auditors at meetings of the Board of Directors and the Board of Corporate Auditors is listed below.

Corporate auditor Hiroshi Nakachi retired as of the end of the 5th Annual Shareholders' Meeting, held on May 27, 2010, and Tsuguoki Fujinuma was newly elected as a corporate auditor.

| Name   | Reason for nomination   |
|--|---|
| Tsuguoki Fujinuma<br>(Certified Public Accountant) | As a Certified Public Accountant, has extensive experience and specialized knowledge, and in the area of appropriate auditing activities, the Company will benefit from his opinions that are based on that experience. |

**Amounts of Compensation for Directors and Corporate Auditors in the Fiscal Year under Review**

| Position   | Amounts                       |
|--|-------------------------------|
| Directors<br>(of which, outside directors)                   | ¥275 million<br>(¥31 million) |
| Corporate auditors<br>(of which, outside corporate auditors) | ¥66 million<br>(¥27 million)  |

(Notes)

- Included above is one director who retired upon the conclusion of the 4th Annual Shareholders' Meeting, held on May 28, 2009.
- The aggregate amounts of compensation shown above do not include the compensation paid as employees to directors who serve concurrently as employees.
- It was resolved at the 1st Annual Shareholders' Meeting, held on May 25, 2006, that the annual amount of compensation paid to directors shall not exceed ¥1 billion (not including compensation paid as employees) and that the annual amount of compensation paid to corporate auditors shall not exceed ¥100 million.
- The aggregate compensation shown above includes:
  - ¥49 million as the allowance for bonuses to directors and corporate auditors corresponding to the fiscal year ended February 28, 2010.
  - ¥49 million as stock options for stock-linked compensation issued to six directors (excluding outside directors).

**Attendance at Meetings of the Board of Directors and the Board of Corporate Auditors**

(Fiscal year ended February 28, 2010)

**Outside Directors**

| Name                                       | Attendance at meetings of Board of Directors |
|--|--|
| Noritaka Shimizu<br>(From another company) | 13 of 13 meetings                            |
| Scott Trevor Davis<br>(Academic)           | 13 of 13 meetings                            |
| Ikujiro Nonaka<br>(Academic)               | 13 of 13 meetings                            |

**Outside Corporate Auditors**

| Name   | Attendance at meetings of Board of Directors | Attendance at meetings of Board of Corporate Auditors |
|--|--|---|
| Yoko Suzuki<br>(Lawyer)                          | 13 of 13 meetings                            | 17 of 17 meetings                                     |
| Hiroshi Nakachi<br>(Certified Public Accountant) | 11 of 13 meetings                            | 15 of 17 meetings                                     |
| Megumi Suto<br>(Professor)                       | 13 of 13 meetings                            | 17 of 17 meetings                                     |