

Dillard's, Inc.
Social Accountability Report

I. General Background and Social Accountability Policy

Dillard's considers its Vendors to be its partners. We build our sourcing guidelines based on a partnership strategy motivated by a common commitment to maintain the integrity of our standards, whether they are production, legal or ethical. While Dillard's recognizes that there are different legal and cultural environments in which Vendors operate throughout the world, the Dillard's Social Accountability Policy (the "Policy") sets forth the minimum requirements that all private label vendors from whom Dillard's imports merchandise must meet in order to do business with Dillard's.

The Policy is published on Dillard's website and can be accessed at <http://investor.shareholder.com/dillards/documentdisplay.cfm?DocumentID=3150>. In addition, Dillard's provides its Policy and other appropriate guidance on its expectations in writing to its employees, suppliers, Vendors and Factory managers.

The Policy is based on the International Labor Organization Declaration on Fundamental Principles and Rights at Work (adopted 1998). The Policy provides the foundation for Dillard's ongoing evaluation of a Vendor's practices and our continuing relationship with such Vendor. The standards set forth in the Policy are intended to convey the minimum standard for doing business with Dillard. Dillard's will apply more stringent standards in selecting and partnering with its vendors/suppliers in appropriate circumstances.

In addition to publication and communication of the Policy to its direct import supplier base, Dillard's conducts factory assessments in order to ensure compliance therewith. The following information and statistics describe Dillard's FY 2009-10 direct import supplier base for private label merchandise, the inspections conducted thereon, the findings of those assessments and the follow up conducted on the factories. The statistics provided relate to suppliers of private label merchandise imported by Dillard's in FY2009-10.

Dillard's intends to update this report periodically, add additional elements to the report, and work with Shareholder/stakeholder groups to make the report more meaningful and relevant to its changing environment.

Dillard's Compliance Department is responsible for ensuring that the Policy is communicated to Dillard's vendors, that appropriate employees are trained, and that the required inspections are completed and for measuring compliance. Dillard's Vice President of Operations and Legal Department monitor compliance and continually address issues as they arise.

II. Dillard's Direct Import Supplier Base

Dillard's uses two business models for purchasing private label merchandise from overseas vendors. The vast majority (92%) of Dillard's merchandise is purchased through various buying agents ("Agents") operating in the country or territory where the factories are located. In some instances, Dillard's purchases merchandise directly from the factory. Those instances are referred to herein as "Direct Direct" purchases.

In FY 2009 Dillard's received merchandise from 342 Factories located in 22 different countries. In FY 2010 Dillard's received merchandise from 336 Factories located in 23 different countries. Dillard's purchased Direct Direct from 27 factories in FY 2009 and 28 factories in FY 2010. Dillard's purchased from the remaining 315 factories in FY 2009 and 308 factories in FY 2010 using the services of its Agents. This report covers all Direct Import suppliers for FY 2009 and FY 2010.

Dillard's strives to ensure that its active factories (those from which orders can be placed) reflect only those factories from which Dillard's intends to place orders. By removing inactive factories from its factories base, Dillard's assessments and corrective action plans have become more effective. In 2007 Dillard's had over 1,000 active factories. Dillard's has deactivated 427 factories since 2008, leaving an active factory base at the end of FY 2010 of 386. Dillard's had obtained greater cooperation from its active factory base to undergo the yearly assessments and participate in CAPS.

The factories in this report are factories from which Dillard's imported merchandise within FY 2009 and FY 2010.

III. Dillard's Method of Assessing its Supplier Base

Dillard's policy is to conduct yearly assessments of each Direct Import supplier from which it receives merchandise. Among other things, Dillard's does not tolerate, and inspects to ensure against:

- the use not of forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise;
- The use of child labor and the performance by children of hazardous work in conflict with the laws of the country of manufacture;
- Subjection of workers to physical, verbal, sexual or psychological harassment or abuse in connection with their employment;
- Other issues as defined by our Policy as directed from time to time.

The frequency and manner in which the assessments are conducted vary depending on the results of previous assessments and CAP's, the country of manufacture and whether the merchandise is ordered through an Agent or Direct Direct.

Assessments are conducted all over the world by different third party services. All of the third party firms conduct assessments more thorough than Dillard's Social Accountability Standards require. The third party firms are utilized by many other companies in addition to Dillard's for social assessments. Additionally, all of them operate within a strict code of ethics and some will periodically send out mystery auditors to perform services. Finally many of them randomly follow up on their auditors by calling the factories to ensure that the auditors conduct themselves in accordance within the third party firm's code of conduct.

In most cases where Dillard's orders merchandise through an Agent, the Agent is responsible for retaining a third party inspection firm to conduct the initial and follow up assessments in accordance with Dillard's Policy and report the results to the Agent and to Dillard's. Where Dillard's orders merchandise Direct Direct, Dillard's retains the third party inspection firm to conduct the initial and follow up assessments and report the results directly to Dillard's.

The Social Compliance Evaluations minimally require a Meeting, Tour, Private Worker Interviews and a Corrective Action Plan (CAP) for any findings.

IV. Number of Direct Import Suppliers Assessed

In FY 2009 Dillard's conducted assessments of 322 of the 342 factories from which it imported merchandise. Each of the 20 factories not assessed in FY 2009 were assessed during FY 2008. The 20 factories had valid social assessments on file when Dillard's received merchandise from them.

298 of the 315 factories from which Dillard's purchased merchandise through an Agent were assessed in FY 2009. Each of the 17 factories not assessed in FY 2009 were previously assessed in FY 2008. 24 of the 27 factories

Dillard's received merchandise Direct Direct were assessed in FY 2009. All 3 of the factories not assessed in FY 2009 were previously assessed in FY 2008.

In FY 2010 Dillard's began a program to enable its manufacturing base to receive a social assessment that is valid for two years. Three factories qualified for two year assessments and were therefore exempt from yearly assessments. This new program provides clear guidance on Dillard's risk of compliance determinations and weights to establish the appropriate follow-up. Exempting low risk, compliant assessments from yearly assessments will more effectively deploy Dillard's social accountability resources. Dillard's conducted assessments of 317 of the 336 factories from which it imported merchandise during FY 2010. Four factories were not assessed in FY 2010 but were previously assessed in FY 2009. The remaining 12 factories were deactivated through the normal course of business.

V. Total Number of Social Accountability Assessments Conducted

Dillard's conducted a total of 414 assessments in FY 2009 of which 322 assessments were initial assessments. 86 of the assessments conducted were first follow up assessments and 6 were subsequent follow up assessments. For FY 2010, Dillard's conducted a total of 453 assessments of which 321 were initial assessments. 125 of the assessments conducted were first follow up assessments and 7 were subsequent follow up assessments.

VI. General Findings of Assessments

The findings discussed below are for the entire range of 414 assessments for FY 2009 and 453 assessments for FY 2010.

Dillard's partners with its suppliers through the Corrective Action Process (CAP) monitored through the 3rd party social compliance teams. Based on the first assessment of the factories in FY 2009 there were 826 exception areas cited. After the 91 follow up assessments the number of exceptions decreased to 618, an improvement of more the 25% with almost all exception categories experiencing a decrease.

In accordance with Dillard's instructions the inspection firms regularly check the status of all CAP's and arrange necessary follow-up. A combination of Desk Audits of pictures and re-validation visits are conducted to ensure the identified issues are addressed.

There were 734 exception areas cited in the first assessments during FY 2010. The number of exceptions decreased to 546 in the follow up assessments. The number of exceptions on both the first and the subsequent assessments was lower in FY 2010 as compared to FY 2009. This indicated that the follow up process with factories facilitates substantial improvements.

Dillard and its inspection firms work with vendors and factories to establish and monitor CAPs where there is an established relationship in order to bring them into compliance where failings are found. Dillard's desire is for continuous improvement in factory conditions and only terminates business relations as a last resort. However, Dillard reserves the right to terminate business relations for any violations of its Policy (See Section 8 of Policy).

VII. General Descriptions of Issues Found and Follow Up With Factories

In each case where inspections revealed areas of concern, including as set forth above, follow up actions and assessments were conducted and scheduled in order to ameliorate the issues. Dillard's conducted 92 follow up assessments in FY 2009 and 132 follow up assessments in FY 2010.

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VIII. Internal Training

Dillard's trains its associates responsible for direct imports of merchandise on their obligation to comply with Dillard's Social Accountability Policy and other policies relevant to purchasing and importing merchandise

IX. Dillard's Goals for FY 2009-10

Dillard's short term goal for FY 2009 was to assess 100% of its direct import supplier base. In 2009 Dillard's attained 94% total compliance and 100% of active factories. One of Dillard's FY 2010 goals was to follow up on assessments and ensure that Corrective Action Plans (CAP's) were being completed by the factories. We continued to see our manufacturers reacting to the issued CAP's and making improvements to their operations. Another FY 2010 goal was to develop a process to evaluate the compliance risk among factories and more effectively allocate Dillard's resources. This was accomplished through the institution of the one year exemption for low risk/compliant factories.

X. Dillard's Goals for FY 2011

In 2011 Dillard's will continue to focus on completion of Corrective Action Plans, communication of expectations to its vendors' third party inspectors and refinement of its procedures to evaluate risk and allocate resources accordingly. Dillard's intends to update this report periodically, add additional elements to the report, and work with shareholder/stakeholder groups to make the report more meaningful and relevant to its changing environment.

XI. Conclusion

Dillard's updated and published its Social Accountability Policy in FY 2008, communicated its updated Policy to all active suppliers, and began the process of cumulating data necessary to gauge the scope and effectiveness of implementation of its Social Accountability Policy. Dillard's will continue to work with shareholders/stakeholders to ensure that its policies and assessment of its supplier base are in line with industry standards.