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## PARCO CO., LTD.

Company Representative: Kozo Makiyama  
President, Representative Executive Officer

Enquiries: 03-3477-5826

Stock code: 8251 (TSE 1st Section)

<http://www.parco.co.jp/en/>

The corporate governance of PARCO Co., Ltd. (the “Company”) is described below.

### I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

#### 1. Basic Views

Believing the protection of the rights and interests of shareholders, the creation of smooth relationships with other stakeholders, the ensuring of the transparency of operations, and the establishment of an effective management monitoring function to be essential in order to boost company value, PARCO is strengthening its corporate governance. For information on PARCO’s basic philosophy on corporate governance, please refer to *the Fundamental Policy for Corporate Governance* on the PARCO website.

(<http://www.parco.co.jp/en/about/governance/>)

#### Reasons for Non-compliance with the Principles of the Corporate Governance Code

Believing that in order to achieve sustained growth of the PARCO Group and boost the company’s value in the medium-to long-term there is a need to attain real understanding of, and implement, each of the various principles embodied in the corporate governance code, PARCO is in the process of improving and amending, and putting into writing its philosophy on, its compliance arrangements, with a view to implementing all of the principles. While the only category for which disclosure is mandatory in this section is principles whose implementation is pending, PARCO will also carry out disclosure for principles for which the following three conditions apply:

1. Principles that are currently implemented but for which the Company only recently began the initiatives for the implementation.
2. Principles for which policies, ideas, etc. have been in place by convention but have not been explicitly stated or announced.
3. Principles that have been implemented conventionally but for which the Company considers further enhancement of substance is necessary.

#### Supplementary Principle 4-2-1 Compensation Incentives for Management

PARCO is a Company with Committees, and as such, its Compensation Committee has set forth remuneration criteria. PARCO determines remuneration on an individual basis in a fair and unbiased manner, on the basis of its assessment of the roles, accountabilities, and performance of its Directors and Executive Officers. As set forth in the *Fundamental Policy for Corporate Governance*, Director’s annual remuneration comprises basic annual salary and, depending on role, a committee chairman annual salary or a committee member annual salary. Executive officer annual salary comprises basic annual salary and performance pay, and it was recently decided

that stock compensation using trusts would be implemented as well. Executive officer performance pay is based on company performance and individual performance. PARCO has decided to introduce Stock compensation for the purpose of creating a strong connection between management compensation and the company's stock value, forging a common interest with shareholders, and to contribute to an increase in corporate value.

## Disclosure Based on the Principles of the Corporate Governance Code

### Principle 1-4 Cross-shareholdings

#### ■Position on shareholdings

PARCO does not generally maintain policy shareholdings, except in cases where it has judged that doing so will help to enhance the value of the company in the mid-to long-term as a result of the maintenance and strengthening of trading relationships and the maintenance and development of business alliances.

#### ■Criteria for exercise of voting rights

Voting rights are exercised appropriately, and on the basis of an overall assessment of whether or not the vote in question will contribute to the value of PARCO or the companies in which it invests.

### Principle 1-7 Related Party Transactions

In order to ensure that transactions entered into with related parties are appropriate, PARCO conducts a survey of all officers of PARCO and its subsidiaries regarding whether they have engaged in related party transactions, and on the basis of this submits to the Board of Directors a report on transactions between PARCO and its officers and major shareholders. Any transaction between PARCO and a Director or Executive Officer that gives rise to a conflict of interest is subject to approval by the Board of Directors based on the relevant laws and PARCO's regulations for Directors.

### Principle 3-1 Full Disclosure

#### ■Position on information disclosure

PARCO strives to present all our stakeholders, including shareholders and investors, with timely information that is fundamentally transparent, balanced and consistent. As well as increasing management transparency, PARCO endeavors to build trusting relationships with all stakeholders and promote a deeper understanding of the company through the timely disclosure of relevant information. In order to provide appropriate information to stakeholders, including shareholders and investors, we disclose information such as our *Corporate Mission*; *Medium-term Business Plan*; *Fundamental Policy for Corporate Governance*; and officer appointments, dismissals, and compensation. We approach disclosure with an eye to providing shareholders, investors, and other users with information that is convenient and useful. Furthermore, disclosures posted on our website are, if necessary, presented in both Japanese and English.

(i) PARCO Corporate Mission, Medium-term Business Plan

- PARCO Corporate Mission <http://www.parco.co.jp/en/about/vision/>
- Medium-term Business Plan <http://www.parco.co.jp/en/ir/plan/>

(ii) Fundamental Policy for Corporate Governance

<http://www.parco.co.jp/en/about/governance/>

(iii) Stance and Process for Determining Officers' Remuneration

PARCO is a Company with Committees, and as such, its Compensation Committee has set forth remuneration

criteria, and determines remuneration on an individual basis in a fair and unbiased manner, on the basis of its assessment of the roles, accountabilities, and performance of its Directors and Executive Officers. PARCO's remuneration criteria are set forth in its *Fundamental Policy on Corporate Governance*.

(iv) Stance and Process for Selecting Officers

PARCO is a Company with Committees, and as such, its Nominating Committee sets forth criteria for selection of officers, and selects individuals suitable for the roles of Director, President and Representative Executive Officer, and Executive Officer, and decides upon the content of the proposal for discussion at the General Meeting of Shareholders, and of the recommendation made to the Board of Directors. The criteria for selection of officers are as set forth in PARCO's *Fundamental Policy on Corporate Governance*.

(v) Reasons for Selection of Directors

The reasons for the selection and nomination of individual directors are listed in the Notice of Convocation of the General Meeting of Shareholders.

#### Supplementary Principle 4-1-1 Scope of the Matters Delegated to the Management Team

As PARCO is a Company with Committees, its Board of Directors generally delegates its authority to Executive Officers—excluding those powers stipulated by regulations and our Articles of Incorporation—and oversees the execution of said delegated duties. The Board of Directors will also pass direct resolutions on matters that it deems necessary to be addressed by the Board.

#### Principle 4-8 Effective Utilization of Independent External Directors

Four of PARCO's eight Directors charged with ensuring objectivity in management are independent External Directors. By bringing the perspective of independent external directors to the PARCO Board of Directors, along with the varied knowledge and experience they possess, PARCO aims to further boost management transparency and the effectiveness of executorial oversight. The External Directors satisfy the independent judgement criteria stipulated by the Tokyo Stock Exchange, and the independent judgement criteria stipulated by PARCO, and serve as either a member or chairman on the Nominating Committee, Audit Committee, and the Compensation Committee respectively. Each of these Committees also holds sessions that are attended only by External Directors, such as sessions of the Nominating Committee for assessing the performance of the President and Representative Executive Officer. While a Senior External Director is not appointed, the Chairman of the Audit Committee works together with the management team, such as attending Management Committee meetings as an observer. Chairmen of the other Committees also work closely with management.

#### Principle 4-9 Standards and Criteria for Determining the Independence of External Directors

PARCO has created its own standards for determining the independence of External Directors, based on the independence standards of the Tokyo Stock Exchange and the Japan Association of Corporate Directors, which is set forth in the *Fundamental Policy on Corporate Governance*.

#### Supplementary Principle 4-11-1 Position on the Overall Balance of Knowledge, Experience, and Ability, and the Diversity and Size of the Board of Directors

In accordance with the criteria for selection of officers stipulated by the Nominating Committee, the Board of Directors is comprised of eight directors whose backgrounds, in terms of expertise and experience, differ, and of

whom four are External Directors, thus maintaining the number of members that allows the Board of Directors to operate at optimum effectiveness and efficiency.

#### Supplementary Principle 4-11-2 Director's Duties at Other Companies

In accordance with the rules concerning the roles of Directors, Directors are only allowed to assume concurrent roles at other companies to the extent that doing so does not interfere with the performance of their PARCO duties. Prominent positions held concurrently elsewhere by Directors are disclosed in the Notice of Convocation of the General Meeting of Shareholders.

(Notice of Convocation of the 78th Ordinary General Meeting of Shareholders)

[http://www.parco.co.jp/ir/shareholders/pdf/file\\_170529a.pdf](http://www.parco.co.jp/ir/shareholders/pdf/file_170529a.pdf)

#### Supplementary Principle 4-11-3 Evaluation of the Board of Directors

To improve the effectiveness of the Board of Directors, PARCO performed an assessment of the effectiveness of all Directors during the period of December 2017 and January 2018. This was the third such evaluation, and the evaluation process, evaluation focus, the findings and the resulting improvements are disclosed below.

##### (i) Evaluation Process

The Committees Secretariat and Board Secretariat (Corporate Planning Office) conducted surveys and interviews with each individual Director concerning their assessment of the effectiveness of the Board of Directors.

##### (ii) Focus of evaluation

The evaluation covered the makeup of the Board of Directors, the quality of debate, agenda items, and management and support arrangements. Feedback on the current situation and progress on improvements from the previous year's evaluations was compiled to inform how the Board of Directors could be made more effective in future.

##### (iii) Evaluation Results

Evaluations were performed in FY2015 and FY2016, but as FY2017 was the first year of the new Medium-term Business Plan, strategic measures focused on core businesses were implemented, the starting period of Board of Directors meeting was accelerated to ensure that more substantive debate could take place, and plans were implemented to provide additional information to Directors and to strengthen communication with the execution side. As a result, the FY2017 evaluation showed trends of overall improvement. Assessments were made by each Director based on standardized evaluation criteria, and as a Company with Committees, there has been a noticeable a rise in the effectiveness of the Board of Directors. The measures that received an especially positive assessment were, "Effectiveness of a Company with Committees," "Contribution to the management of Board of Directors' discussions and resolutions," and "Determining the hours and number of meetings for the Board of Directors and establishing a support system for committee Members."

##### (iv) Areas in which effectiveness can be improved even further:

1. Improving substantive debate about high priority strategic issues, such as management strategy, financial policy, etc.
2. Improving project planning and making progress on the implementation of the above-mentioned debate.
3. Ensuring opportunities for bilateral communication between Directors and the execution side, and further improving Directors' understanding of the company.

The outcome of the assessment was shared with and debated substantively by the Board. We conduct an evaluation of the effectiveness of the Board of Directors on an annual basis, believing that by repeating the process of evaluation, analysis, debate, and improvement, the Board of Directors will change, leading to increased effectiveness.

#### Supplementary Principle 4.14.2 Training Policy for Directors

All newly-appointed Executive Officers, including Internal Directors, are briefed on the roles, obligations and responsibilities of Directors and Executive Officers, the nature of their agreement with PARCO, and related regulations. Compliance training is offered after appointment. Upon joining the Board, External Directors are also given an overview of the company and briefed on its management philosophy, business situation, corporate governance matters and related regulations. Ongoing briefing on PARCO's business operations, trends in the retail sector, and the business environment in which we are placed is also provided to these External Directors after appointment, along with opportunities to visit stores, in the interest of giving them a better understanding of our company.

#### Principle 5-1 Policy on Constructive Dialogue with Shareholders

Dialogue with shareholders is handled by the Executive Officers of departments responsible for investor relations. The President and Representative Executive Officer, the Director in charge of the department in question, or an External Director will respond to constructive requests for discussion received from shareholders and investors, subject to consideration of the focus and aims of said requests. The departments with responsibility for investor relations will engage in dialogue with shareholders while working closely with the relevant divisions. PARCO will conduct its investor relations activities in a way that helps to enhance the company's medium- to long-term value, building smooth relationships with shareholders and other investors, and actively engaging in dialogue in the interest of facilitating mutual understanding. PARCO also ascertains the makeup of shareholders by way of a periodic survey conducted twice a year. Furthermore, PARCO will make External Directors available for consultation as necessary. In addition to holding twice-yearly meetings for the announcement of financial results to institutional investors and analysts, PARCO also hosts discrete information sessions fitting with the progress of its business. Explanatory materials and videos used in announcements of financial results will be made available on the PARCO website in English and Japanese. Information will be shared with individual investors with an emphasis on speed and usability. Since FY2015 we have also issued a consolidated annual report to serve as a tool for the facilitation of constructive dialogue. PARCO reports feedback and questions received in the course of dialogue with investors to the Senior Executive as appropriate. The outcomes of financial results briefings are reported to the Board of Directors in summary form. PARCO has regulations in place governing the control of internal information regarding PARCO and its subsidiaries, and the purchase and sale of shares in PARCO and its public subsidiaries by officers and employees of PARCO (*PARCO Group Regulations for the Control of Insider Trading; Regulations for the Prevention of Insider Trading*) in order to prevent insider trading by employees and officers of the company. Our efforts in the field of insider information management are focused on transparency, fairness, and sustainability, and in FY2015 we revised our disclosure policy and posted it on the PARCO website, including sections on basic policy on information disclosure, information disclosure standards, information disclosure methods, improving information disclosure, quiet periods, and future projections.

## 2. Capital Structure

Foreign Shareholding Ratio 10% less than

### Status of Major Shareholders\*

Name / Company Name	Number of Shares Owned	Percentage (%)
J. FRONT RETAILING Co., Ltd.	65,922,614	64.98
AEON CO.,Ltd.	8,272,900	8.15
Credit Saison Co., Ltd.	7,771,500	7.66
Japan Trustee Services Bank, Ltd. (Trust Account)	2,938,600	2.90
GOVERNMENT OF NORWAY	946,800	0.93
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	936,480	0.92
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	930,155	0.92
The Master Trust Bank of Japan ,Ltd. (Trust Account 9)	684,100	0.67
The Master Trust Bank of Japan ,Ltd. (Trust Account)	440,000	0.43
The Master Trust Bank of Japan ,Ltd. (Trust Account 5)	361,400	0.36

Parent Company J. FRONT RETAILING Co., Ltd Stock code: 3086, (TSE and NSE 1<sup>st</sup> Section)

\*As of the end of February, 2018

## 3. Corporate Attributes

Listed Stock Market and Market Section	First Section of the Tokyo Stock Exchange
Fiscal Year-End	February
Type of Business	Retail Trade
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	At least ¥100 billion but less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	less than 10

## 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

As a Company with Committees with the aim of implementing a highly transparent corporate governance framework, PARCO appoints independent officers (External Directors) to over half the positions on the Board of Directors in order to ensure objectivity in the management of the business. This ensures that a degree of autonomy is exercised in PARCO's management, with transactions entered into with the controlling shareholder determined by way of a fair and appropriate process.

## 5. Other Special Circumstances which may have Material Impact on Corporate Governance

Our parent company, J. Front Retailing Co., Ltd., owns a majority of voting shares in PARCO. As a member of the J. Front Retailing Group, we intend to implement the group's vision to increase our corporate value, while also maintaining the uniqueness of our PARCO brand. To accomplish both of these goals, we have established our own system of corporate governance that ensures independent and transparent management.

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form Company with Committees

#### Directors

Maximum Number of Directors Stipulated in Articles of Incorporation 15

Term of Office Stipulated in Articles of Incorporation 1 year

Chairperson of the Board President

Number of Directors 8

#### Outside Directors

Number of Outside Directors 4

Number of Independent Directors 4

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company
Hiroshi Takahashi	Certified public accountant	
Tomonori Ito	Academic	
Noriko Nakamura	From another company	
Tadayuki Seki	From another company	

#### Outside Directors' Relationship with the Company (2)

Name	Committee Membership			Designation as Independent Director
	Nominating Committee	Compensation Committee	Audit Committee	
Hiroshi Takahashi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tomonori Ito	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Noriko Nakamura	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tadayuki Seki	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

#### Reasons of Appointment

**Hiroshi Takahashi** Mr. Takahashi is a certified public accountant (formerly a Senior Partner at Ernst and Young ShinNihon LLC), and a Representative Director of Pronet Inc. PARCO appointed Mr. Takahashi as an External Director on the expectation that he can perform the function of business oversight and checking on the basis of the specialized knowledge, experience, and judgement regarding finance and accounting he has gained over the course of his career.

Reason for appointment as an independent officer: PARCO is a Company with Committees, and as such has in place highly transparent corporate governance arrangements in which the business audit function and executive function are clearly isolated from each other. Mr. Takahashi was designated as an independent officer because he

is in a position to oversee the management of the business and possesses an appropriate degree of independence.

**Tomonori Ito** Mr. Ito is a professor at Hitotsubashi University's Graduate School of Business Administration. PARCO appointed Mr. Ito as an External Director on the expectation that he can perform the function of business oversight and checking on the basis of the knowledge, experience and judgement he has gained over the course of his extensive career, and his experience working both within Japan and overseas. Reason for appointment as independent officer: PARCO is a Company with Committees, and as such has in place highly transparent corporate governance arrangements in which the business audit function and executive function are clearly isolated from each other. Mr. Ito was designated as an independent officer because he is in a position to oversee the management of the business and possesses an adequate degree of independence.

**Noriko Nakamura** Ms. Nakamura is the Representative Director and CEO of Poppins Holdings, and the Representative Director and Chairman of Poppins Corporation, and is a member of the Nikkei's Management Advisory Board. PARCO appointed Ms. Nakamura as an External Director on the expectation that she can perform the function of business oversight and checking on the basis of her knowledge of management, and the experience and judgement from a global perspective gained over the course of her career.

Reason for appointment as independent officer: PARCO is a Company with Committees, and as such has in place highly transparent corporate governance arrangements in which the business audit function and executive function are clearly isolated from each other. Ms. Nakamura was designated as an independent officer because she in a position to oversee the management of the business and possesses an adequate degree of independence.

**Tadayuki Seki** Mr. Seki was involved in the management of Itochu Corporation for many years. PARCO appointed Mr. Seki as an External Director on the expectation that he can perform the function of business oversight and checking on the basis of the knowledge, experience, and global perspective he has gained over the course of his career.

Reason for appointment as independent officer: PARCO is a Company with Committees, and as such has in place highly transparent corporate governance arrangements in which the business audit function and executive function are clearly isolated from each other. Mr. Seki was designated as an independent officer because he is in a position to oversee the management of the business and possesses an adequate degree of independence.

## Committee Information

### Composition of each Committee and Chairperson attributes

	Total number of members	Number of full-time members	Number of Outside Directors	Number of Outside Directors	Chairperson
Nominating Committee	5	0	1	4	Outside Director
Compensation Committee	5	0	1	4	Outside Director
Audit Committee	4	0	0	4	Outside Director



## Executive officers

Number of Executive officers 16

### Executive Officers holding other duties

Name	Hold representative rights?	Other duties served concurrently with Director role?			Employee position held concurrently?
			Nominating Committee	Compensation Committee	
Kozo Makiyama	Yes	Yes	○	○	No
Hidekazu Hirano	No	Yes	×	×	No
Masaaki Abe	No	No	×	×	No
Takashi Sensui	No	No	×	×	No
Tomoyuki Yamaki	No	No	×	×	No
Yuji Hirai	No	No	×	×	No
Kazuko Hamada	No	No	×	×	No
Shigeyoshi Sato	No	No	×	×	No
Hideki Noguchi	No	No	×	×	No
Hajime Inoue	No	No	×	×	No
Gaku Mizoguchi	No	No	×	×	No
Chiaki Nakano	No	No	×	×	No
Masao Tominaga	No	No	×	×	No
Takashi Kashimoto	No	No	×	×	No
Naotaka Hayashi	No	No	×	×	No
Masaki Utsunomiya	No	No	×	×	No

## Audit Structure

Directors and employees appointed to assist duties of Audit Committee? Yes

### Statement regarding the independence of the above Directors and employees from Executive Officers

PARCO has established a Committee Secretariat to act as a central organization to assist with Audit Committee, Nominating Committee and Compensation Committee duties, and has appointed two staff to said secretariat. In order to ensure independence from Executive Officers, approval from the Chairperson of all three committees, including the Audit Committee, is required for any personnel changes regarding said secretariat staff.

### Cooperation between the Audit Committee, External Auditor, and internal audit division

#### Cooperation between the Audit Committee and External Auditor:

The Audit Committee is briefed and updated on the audit process, the audit plan, and the progress and findings of the audit by the External Auditor, and engages in discussions with said External Auditor.

#### Cooperation between the Audit Committee and the internal audit division:

The Group Audit Office, which serves as PARCO's internal audit division, informs the Audit Committee in advance of its stance on the audit for the fiscal year and the audit plan it is formulating, and makes regular reports on audit findings to the President and Representative Executive Officer, and the Audit Committee. The Audit

Committee can also request that the Group Audit Office performs additional audits as necessary. The staff of the Audit Committee Secretariat attend regular meetings of the Group Audit Office held weekly, during which they share audit information on the company and other group companies.

## Independent Directors

Number of Independent Directors 4

The Company designates all Outside Directors who fulfill the qualifications of an Independent Director as Independent Directors

## Incentives

Initiatives in place for awarding incentives to Directors and Executive Officers The introduction of a system of performance-related remuneration, etc.

The amount of performance pay (fixed remuneration) paid to Executive Officers is determined based on the performance of the company and the individual (target-based assessment) in the preceding period. PARCO has also decided to introduce stock compensation as a long-term incentive for Executive Officers.

## Director and Executive Officer Remuneration

Disclosure of Directors' Remuneration

Total of remuneration paid to each Internal Director and External Director is disclosed.

Disclosure of Executive Officers' Remuneration

Total of remuneration paid to all Executive Officers is disclosed.

Policy on Determining Remuneration Amounts and Calculation Methods Yes

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods
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Compensation Committee policy for determining remuneration received by individual Directors and Executive Officers:

- a. PARCO's Compensation Committee is made up of External Directors and operates in accordance with the following policy in order to maintain objectivity and transparency:
  - The Compensation Committee sets pay scales and remuneration standards that enable it to maintain a board of high-performing and necessary Directors and Executive Officers, and in turn enables each of said Board Members to fulfil their roles and responsibilities and meet their targets in order to increase the value of the company.
  - The Compensation Committee determines the remuneration for each individual fairly and equitably, and in accordance with the remuneration arrangements and standards, and its assessment of the role, responsibilities, and the performance of each Director and Executive Officer.
- b. Remuneration for Directors
  - Director remuneration is comprised of basic annual salary, Committee chairman annual salary, and Committee member annual salary.
  - The amount of basic salary paid is determined on an individual basis and depends on whether the Director is internal (and whether he or she also serves as an Executive Officer), or external (and if so, full-time or part-time), while Committee chairman salary is paid to the chairpersons of Committees, and Committee member salary is paid to members of Committees.

- Directors who also serve as Executive Officers are paid Executive Officer compensation in addition to the compensation they receive as Directors.
- c. Annual salary
  - Annual salary received as Executive Officer compensation/fixed compensation is comprised of basic salary, performance pay, and remuneration for the purpose of acquiring company stock.
  - The amount of basic salary paid is determined on the basis of the position and role performed in the year in question, while performance pay is determined based on the performance of the company and the individual (target-based assessment) in the preceding period. Remuneration for the purpose of acquiring company stock is determined based on rank, and role played in the current period.
  - The amounts of basic salary, performance pay and remuneration for the purpose of acquiring company stock paid to new Board Members is determined in accordance with the roles and responsibilities of those members.

## Supporting System for Outside Directors

Before every meeting of the Board of Directors and each Committee, a member of staff from the Board Secretariat (Corporate Planning Office), or the secretariat for the Committee in question, provides an explanation of the matters to be discussed.

## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

### 1. Overview of the current arrangement

PARCO is a Company with Committees, and as such, its structure includes the bodies listed below. With the selection of Directors having been approved at PARCO's regular General Meeting of Shareholders held on 27 May 2017, the number of Directors is now eight (of whom four are External Directors).

#### (1) Board of Directors

The Board of Directors oversees decision-making relating to the company's general stance on the management of the business, and the performance of duties by Directors and Executive Officers. The Board is made up of eight Directors (seven men and one woman), of whom four are External Directors. In addition to its regular monthly meetings, the Board also convenes on an extraordinary basis, responding flexibly as required. In FY2017, the Board convened for a total of 14 ordinary and extraordinary sessions.

#### (2) Committees

##### <1> Nominating Committee

The Nominating Committee has the authority to determine the content of agenda items submitted to the General Meeting of Shareholders concerning the appointment and removal of directors, recommend Representative Executive Officer and Executive Officer candidates to the Board of Directors, and propose the dismissal of board members. The Nominating Committee is comprised of five Directors (four men and one woman), of whom four are External Directors (all independent). The Nominating Committee met eight times in the 2017 fiscal year.

##### <2> Audit Committee

The Audit Committee is authorized to determine the content of agenda items submitted to the General Meeting of Shareholders that concern auditing of the execution of duties by Directors and Executive Officers, and the appointment, dismissal or non-reappointment of External Auditors. The Audit Committee is comprised of four External Directors (three men and one woman, all of whom are independent officers). The Audit Committee met

13 times in FY2017.

### <3> Compensation Committee

The Compensation Committee is authorized to determine compensation paid to individual Directors and Executive Officers. The Compensation Committee is comprised of five Directors (four men and one woman), of whom four are External Directors (all independent officers). The Compensation Committee met 7 times in FY2017. A secretariat with a dedicated staff has been established to support the Compensation Committee.

### (3) Executive Officers and the Management Committee

Executive Officers execute specific actions on the basis of the general policy agreed upon by the Board of Directors. There are 16 Executive Officers (14 men and two women). The Management Committee is the body that the President and Representative Executive Officer uses to make decisions on specific actions to be executed. The Management Committee consists of Executive Officers with titles, Executive Officers with responsibility for the Finance Department, the Accounting Department, the Accounting Coordination Department, the Personnel Department, the Administration and Legal Department, the Group Audit Office, and Executive Officers from the division that submitted an agenda item in question and any related divisions; there is one woman on the Management Committee.

## 2. Internal Audit and External Audit

### (1) Internal Audit

The Internal Audit Division is comprised of the Group Audit Office (11 staff) that answers to a dedicated Executive Officer, and audits the legality, reasonableness and risk management of the overall operations of the Company and Group subsidiaries in accordance with the audit plan. The internal audit team also exchanges audit information with the auditors of Group subsidiaries as necessary, in the interests of efficient auditing.

### (2) External Audit

The External Auditor issues a statement of opinion on the audit of accounts in its capacity as an independent body. PARCO's External Auditor is KPMG AZSA LLC. The certified public accountants who were the designated limited liability partners and managing partners involved in our FY2017 financial statements are Tomoyuki Inoue and Daiki Sato, with the former having been involved in audits for five consecutive years, and the latter having been involved in audits for one consecutive years. PARCO's external audit was assisted by 10 certified public accountants and 7 other personnel.

## 3. Role of External Directors

External directors aim to further improve the transparency of management and the effectiveness of executorial oversight, by bringing perspectives from outside the company to the Board of Directors, based on diverse knowledge and experience. All four External Directors are designated as independent officers, and said Directors either chair or sit on the Nominating Committee, the Audit Committee, or the Compensation Committee.

## **3. Reasons for Adoption of Current Corporate Governance System**

We have put in place a highly transparent corporate governance system that explicitly separates the oversight function from the executive function of management, and have transferred much authority to Executive Officers in a framework that allows rapid decision-making and execution of operations.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### **1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights**

##### Early Notification of General Shareholder Meeting

Since FY2006, notifications of the General Meeting of Shareholders have been sent out three weeks in advance. (In 2016, the notifications were sent out on May 2, which is 25 days in advance.) Announcements were posted on the Tokyo Stock Exchange's TD Net site and the PARCO website earlier still, on 25 April.

##### Scheduling AGMs Avoiding the Peak Day

General meetings of shareholders are generally held on the last Saturday in May.

##### Allowing Electronic Exercise of Voting Rights

The electronic exercise of voting rights has been implemented since the General Meeting of Shareholders in May 2006.

##### Participation in Electronic Voting Platform and Other Initiatives Aimed at Facilitating the Exercise of Voting Rights by Institutional Investors

An electronic voting platform has been implemented since the General Meeting of Shareholders in May 2011.

##### Providing Convocation Notice in English

Summary translations of convocation notices are provided in English.

##### Other

Beginning with the General Meeting of Shareholders of May 2009, convocation notices for general meetings (with attached business reports) and PARCO Report have been issued in installments. PARCO Report now contains illustrations and is more appealing to the reader. Convocation notices of general meetings (since 2015) and PARCO Report are also posted on the PARCO website.

#### **2. IR Activities**

##### Preparation and Publication of Disclosure Policy

Basic Policy on investor relations

##### I. General approach to information disclosure

PARCO is creating new added value and proposing ways to enrich urban consumer lifestyles through the three social responsibilities of 'incubation', 'urban revitalization' and 'ability to communicate trends' as set forth in our long-term vision towards becoming a business group that prospers in urban markets. PARCO strives to present all our stakeholders, including shareholders and investors, with timely information that is fundamentally transparent, balanced and consistent. As well as increasing management transparency, PARCO endeavors to build trusting relationships with all stakeholders and promote a deeper understanding of the company through the timely disclosure of relevant information. To ensure PARCO's disclosures are carried out consistently with proper standards, methods and framework, our disclosure policy is as set out below.

##### II. Information Disclosure Standards

PARCO discloses information in compliance with regulations including those set out by the Financial Instruments and Exchange Act and the Tokyo Stock Exchange rules on timely disclosure.

##### III. Information Disclosure Method

All information that falls under the Rules on Timely Disclosure will be disclosed in accordance to those rules using the Timely Disclosure Network system (TDnet) provided by the Tokyo Stock Exchange. In principle, publicly released information will be posted promptly on the PARCO website. Information that doesn't fall under rules on timely disclosure will also be publicly released using the website.

#### IV. Improving Information Disclosure

In order to encourage understanding of the company, PARCO is improving content such as the 'About Us' and 'Investor Relations' sections of the website, as well as carrying out the effective disclosure of information through a variety of information media. PARCO is also proactively releasing information through channels such as RSS and SNS.

#### V. Quiet Periods

To avoid leaks of accounting information and to ensure fairness, quiet periods have been established which last several weeks leading up to the time accounting information is announced. During these periods, the company refrains from commenting on or responding to questions about this information. However, in the event of a distinct gap between a performance forecast issued during the quiet period and the one previously announced that falls under timely disclosure regulations, the information will be disclosed as appropriate through TDnet and press releases.

#### VI. Concerning Forecasts

Forward looking information currently released by PARCO including business plans, strategies, convictions and financial forecasts (from here on 'financial forecast, etc.')

is based on the company's judgment using the information available at the time, including potential risk and uncertainties. Therefore, please understand that various factors such as changes in the economic situation and market environment may result in actual business content and results differing greatly from financial forecasts, etc.

**Regular Investor Briefings for Individual Investors** \* Briefing by the Representative Executive Officer: No

PARCO has continuously increased the amount of IR information provided with the aim of further responding to the needs of investors. PARCO continues to send out IR emails on a regular basis (more than twice per month) and disseminate information over SNS.

**Regular Investor Briefings for Analysts and Institutional Investors** \* Briefing by the Representative Executive Officer: Yes

PARCO conducted two briefings on its financial results for analysts and institutional investors. Both were presented by the President and Representative Executive Officer, and mainly consisted of a summary of the financial results, a summary of PARCO's operations and our views. A video of the briefing was distributed to analysts and investors. In addition, PARCO also held individual meetings and small meetings for Japanese institutional investors by the Managing Executive Officer, which included a briefing by the Representative Executive Officer himself.

**Regular Investor Briefings for Overseas Investors** \* Briefing by the Representative Executive Officer: No

PARCO held individual meetings in Japan with overseas institutional investors. PARCO is enhancing its approach to foreign investors and, releasing English versions of its briefing materials on the same day it announced its financial results, and releasing an English video of its results briefing on the next day, aiming to be informative and immediate in the way it communicates.

#### **Posting of IR Materials on Website**

The following materials are posted on the PARCO website on the About Us, Investor Relations and CSR pages.  
(<http://www.parco.co.jp/en>)

Message from the President, PARCO Corporate Mission, The Concept Behind Our Name, Corporate Message, Overview, Stores, Corporate History, Organization and Executives, Corporate Governance, Group Companies, IR News, Financial Highlights, Monthly Sales Summary, Financial Indicators, Medium-term Business Plan, IR Library, IR Calendar, Stock and Bond Information, Disclosure Policy, Business risk, President's CSR message, Fundamental CSR Policy, CSR activities, Environmental initiatives, CSR reports

## Establishment of Department and/or Manager in Charge of IR

Division responsible for IR:

•••Public Relations and Investor Relations Office

Officers responsible for IR:

•••Managing Executive Officer for the Corporate Planning Office, the Public Relations and Investor Relations Office, and Executive Assistants Office

IR liaison officer:

•••Senior Manager, Public Relations and Investor Relations Office

## Other

Promoting Constructive Dialogue

The Managing Executive Officer for the Investor Relations Office is responsible for communication with shareholders. Offers of constructive dialogue from shareholders and investors will be handled by the President and Representative Executive Officer, Executive Officers for each department, or an External Director. The Investor Relations Office will cooperate closely with related departments to handle shareholder inquiries.

## 3. Measures to Ensure Due Respect for Stakeholders

### Stipulation of Internal Rules for Respecting the Position of Stakeholders

PARCO has established CSR Implementation Rules in the interests of carrying out CSR activities across the PARCO Group in an organized and smooth manner. In these rules, CSR is defined as measures taken in the course of business to gain the trust and satisfaction of stakeholders and enhance corporate value.

### Implementation of Environmental Activities, CSR Activities etc.

In March 2005, PARCO established the CSR Committee as a function to oversee CSR (corporate social responsibility) across the Group, as well as working with the division in charge of CS, the Diversity Committee and the Risk Management Committee to implement CSR activities on a companywide basis. The Committee's primary activities include the advancement of initiatives at PARCO stores to contribute to their local communities, and implementing environmental initiatives such as upgrading electrical equipment at PARCO stores to energy-saving versions, enforcing refuse separation, and promoting weight reduction and recycling activities

### Development of Policies on Information Provision to Stakeholders

PARCO discloses relevant information in a timely manner in accordance with the law and regulations on timely disclosure.

## Other

In November 2005, PARCO started the PARCO Women's Network (PWN), a project enhancing opportunities for female employees and better utilizing and developing a diverse workforce, aiming to ultimately increase the value of the company. PWN was later recast as a Diversity Promotion Project in 2011 and subsequently a Diversity Committee Promotion Project in 2014, and currently carries out activities from a range of perspectives, including initiatives aimed at changing attitudes amongst all employees (irrespective of gender or role), and providing the company with recommendations for improving employee careers.

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

#### General philosophy on the internal control system

PARCO is working to increase corporate value by establishing a system to assure the suitability of our Company and Group's operations regarding factors such as the efficiency and effectiveness of these operations, the credibility of our financial reports, the legal compliance of our business activities, and preservation of company assets

#### Internal controls Framework

By way of its basic stance on systems of internal control pursuant to the Companies Act, PARCO has put in place *systems for ensuring that the exercise of duties by Executive Officers complies with laws, regulations and the Articles of Incorporation, and systems to ensure that the operations of PARCO and industry organizations composed of PARCO and its subsidiaries are appropriate* (Companies Act Article 416, paragraph 1(i)(e), Enforcement Regulations to the Companies Act Article 112, paragraph 2 (i)-(v)), and *matters necessary for the performance of duties of the Audit Committee* (Article 416, paragraph 1(i)(b) of the Companies Act, Article 112, paragraph 1 (i)-(vii) of the Enforcement Regulations to the Companies Act), in addition to having regulations in place to govern the execution of operations.

The specific systems of internal controls in place are described below:

System to ensure that execution of duties by Executive Officers complies with laws and regulations and the Articles of Incorporation and systems to ensure the appropriateness of operations performed by the corporate grouping comprising PARCO, its parent company and its subsidiaries.

1. System to ensure that execution of duties by Executive officers and employees complies with laws and regulations and the Articles of Incorporation

- (1) So that it may comply with laws and regulations and operate in a fair and transparent manner as a corporation, PARCO has enacted a *Basic Principles on Compliance* and a code of conduct, in addition to compliance regulations that provide measures to prevent unlawful conduct by Executive Officers and employees, remedies, and corrective measures. As part of the compliance systems in place, the company has established *Basic Principles on Compliance* and a *Code of Conduct* which all employees are required to comply with and put into practice, in addition to displaying its conduct guidelines in offices, it also distributes a *PARCO Employee Handbook* to all officers and employees which includes guidelines on compliance activities, and otherwise conducts internal educational activities.
- (2) PARCO conducts training sessions as required in order to spread awareness of its *Basic Principles on Compliance*, and educate about laws and regulations.
- (3) On a companywide level, it is the division responsible for administration that implements compliance. At the divisional level, each division manages compliance matters as appropriate to its business.
- (4) In order to enhance its compliance management, PARCO has implemented an internal whistleblowing process for the PARCO Group that sets forth the appropriate processes for handling information received regarding unlawful conduct and the like. The system is structured in a manner appropriate for the handling of information on unlawful conduct, such as using a third party as the contact for receiving said information.
- (5) The division with responsibility for finance has implemented systems of internal controls relating to financial reporting, which is assessed by the Internal Audit Division. PARCO manages and operates its internal control



systems on a companywide level.

- (6) PARCO stipulates the division responsible for administration as the division overseeing countermeasures against antisocial elements, and will deal firmly with any unreasonable demand received in cooperation with the relevant external agencies.
- (7) The Internal Audit Division performs an audit of the degree of control and efficiency of compliance measures implemented by each division.

## 2. Systems for the storage and management of information relating to the execution of duties by Executive Officers

- (1) PARCO enacts document handling regulations setting forth rules concerning the creation, storage and control of documents, in order to ensure that information related to the performance of duties by Executive Officers (hereinafter referred to as "Document(s)") is handled properly and to reduce risks attributed to Document handling.
- (2) Executive Officers shall file and store the following categories of Documents and make them available for inspection by Directors, members of the Audit Committee and the like upon request: requests for approval, documentation of approval, and materials pertaining to the performance of duties (decision-making), records showing annotations of comments by third parties (including lawyers), and any other records that leave a trail, such as statements by the two opposing sides in a disagreement (prudent discussion).
- (3) The Documents referred to in (2) may also be documents created by the Executive Officer him or herself or documents created by the member of staff charged with performing the task.
- (4) The Internal Audit Division performs audits of Document storage and control.

## 3. Rules concerning management of risk of losses and other systems

- (1) In order to prevent the occurrence of risk events and minimize adverse effects on the business if risks should arise, PARCO has established a risk management code and other necessary regulations for risk assessment, prevention processes, and risk management, as well as methods for handling and remedying any risk events that do arise.
- (2) PARCO has established the Risk Management Committee as a body to conduct companywide monitoring and response to various types of risk, and exercise overall command. The Risk Management Committee is chaired by the Senior Executive Officer for the Related Business Division and the Related Business Department, and its secretariat is situated in the division with responsibility for administration.
- (3) In order to oversee and efficiently implement CSR activities, including risk management, PARCO has established a CSR Committee. The CSR Committee is chaired by the Managing Executive Officer for the Corporate Planning Office, the Public Relations and Investor Relations Office and Executive Assistants Office, and its secretariat is situated in the division with responsibility for direction of CSR operations.
- (4) The CSR Committee and Risk Management Committee function in a timely and efficient manner, coordinating with each other when necessary.
- (5) Training is provided as necessary in order to maintain and establish a risk-aware culture.
- (6) Each division performs reviews of the effectiveness of risk management systems, including systems to mitigate to the extent possible risks arising in the operations it is responsible for, and damage sustained as a result from risk.
- (7) The Internal Audit Division performs audits of the deployment and operation of risk management systems

across the company as a whole.

4. System to ensure efficient execution of duties by Executive officers

- (1) In order to ensure the appropriateness and efficiency of the execution of duties by Executive Officers, PARCO has enacted regulations on division of duties and regulations on authority to grant approval, which set forth authorities attached to duties, persons responsible for execution, and the execution process.
- (2) In the interests of more efficient management of the business, Executive Officers continually review ways to make operations more efficient, more digitized, and faster.
- (3) The Internal Audit Division performs audits of implementation status of the regulations referred to in (1).

5. Systems to ensure the appropriateness of operations performed by the corporate grouping comprising PARCO, its parent company and its subsidiaries

- (1) By way of the system described in the regulations concerning the management of the risk of losses by subsidiaries, the system to ensure the efficient execution of duties by Directors of subsidiaries, and the system to ensure that the execution of duties by Directors and employees of subsidiaries complies with laws and regulations and the Articles of Incorporation, PARCO has put in place regulations on the management of affiliates, in accordance with laws and regulations, and mindful of the size of the companies in the PARCO Group and the characteristics of the business they perform, in addition to putting in place, and operating, a system of internal controls within the PARCO Group.
  - (i) Systems of risk Management
  - (ii) Systems of compliance
  - (iii) Systems to ensure the reliability of financial reports
  - (iv) Systems to ensure the efficiency of other operations
- (2) By way of a system relating to reporting on matters regarding the execution of duties by Directors of subsidiaries, PARCO endeavors to share and exchange information and views within the PARCO Group by way of the following Group-level bodies regularly and as necessary:
  - (i) Group-level Management Committee
  - (ii) Group-level meeting for divisions performing common operations
  - (iii) Reporting meeting for group-wide audit
  - (iv) Other group-wide meetings
- (3) Directors and auditors assigned by PARCO to its group companies are engaged in overseeing and monitoring the execution of duties by those companies.
- (4) The Internal Audit Division audits the suitability of operations performed by the Group comprising PARCO and its subsidiaries.
- (5) As a listed company, PARCO makes management decisions from an autonomous perspective, although it may provide important information concerning the management of the business to its parent company where necessary, and discuss certain important matters with its parent company, sharing the information related thereto. PARCO also reports any risks to the management of the business, major earthquakes, fires, accidents, or other states of emergency to its parent company.

## Matters necessary for the Audit Committee to perform its Duties

1. Matters regarding Directors and employees to assist the Audit Committee in performing its duties
    - (1) The Committee Secretariat is established as a joint organization to assist with duties pertaining to the Audit, Nominating, and Compensation Committees.
    - (2) A Head of the Secretariat and staff (hereinafter referred to as "Secretariat Staff") are appointed to the Committee Secretariat, with the duties of these persons set forth in the respective committee secretariat regulations stipulated by the Audit, Nominating, or Compensation Committee respectively.
    - (3) The Board of Directors will review the question of whether a Director needs to be assigned to assist the duties of the Audit Committee (hereinafter referred to as "Director with Responsibility for Audit Committee"), and if so, what authorities that director should have.
  
  2. Matters relating to ensuring independence of the Directors and employees referred to in the preceding paragraph from Executive Officers, and ensuring efficient instructions for said Directors and employees
    - (1) The director with responsibility for the Audit Committee and the Secretariat Staff must maintain their independence from business execution divisions and obey only the instructions of the Audit Committee.
    - (2) Personnel change regarding the Secretariat Staff is subject to prior consent from the chairpersons of the three committees.
    - (3) Remuneration matters relating to the Secretariat Staff, including personnel assessment, role grades and the like, are subject to advance approval from the chairpersons of the three committees (the chairpersons of the three committees must debate and decide upon the matter before informing the business execution divisions).
  
  3. Systems relating to reporting to the Audit Committee
    - (1) Executive Officers and employees (hereinafter referred to collectively as "Executive Officers, etc.") are required to report the following to the Audit Committee or a member of the Audit Committee:
      - (i) Violations of laws, regulations or the Articles of Incorporation by Executive Officers, etc.
      - (ii) Facts that could cause serious damage to the company
      - (iii) Information received in accordance with the internal whistleblowing regulations
      - (iv) Other important matters
    - (2) Executive Officers, etc. are required to report to the Audit Committee if requested by the Audit Committee or if it is otherwise necessary to do so.
    - (3) Directors, auditors, company members and employees of subsidiaries charged with executing duties must report any violation of laws, regulations or the Articles of Incorporation they become aware of to the head of the Audit Committee using the internal whistleblowing system.
    - (4) In addition to providing regular briefing and reporting on the audit process and findings to the Audit Committee and its members, the Internal Audit Division and auditors of subsidiaries also work closely with each other, sharing information and exchanging opinions.
  
  4. Systems to ensure that no person making a report of the type described in the preceding paragraph will be disadvantaged
- PARCO and its subsidiaries do not terminate the employment of or otherwise disadvantage persons on the grounds that they made a report of the type described in the preceding paragraph or reported issues using the

## Group's central internal whistleblowing system

5. Matters concerning our position on expenses arising from the execution of Audit Committee duties, and the processing of debts

PARCO will bear any costs claimed by Audit Committee members for the performance of their duties, unless the company has demonstrated that the expense or debt in question was not necessary for the purpose of performing said duty.

6. Systems for ensuring that auditing performed by the Audit Committee is effective

(1) In accordance with the annual audit plan, and as otherwise necessary, the Audit Committee will request reports from Executive Officers, etc., the Internal Audit Division, auditors of subsidiaries, and External Auditors, perform an efficient and effective audit, and then report the findings of said audits to the Board of Directors.

(2) The Audit Committee will select Audit Committee members to perform the following duties as necessary:

(i) Attending major meetings such as Management Meetings in order to understand the process behind business decisions, and the execution status of operations

(ii) Obtaining reports from Executive Officers, etc. on matters relating to the performance of their duties, as well as reports regarding the operations of subsidiaries, and investigating the status of the operations and assets of Group companies, including subsidiaries

(iii) Receiving accounting documentation, business reports, and the like from the designated Executive Officer, and the audit report from the External Auditor

(3) The Audit Committee may delegate investigations performed as part of its duties to the Internal Audit Division, as necessary.

(4) The Audit Committee may request the opinions of lawyers, accountants, and other external experts as necessary, and guarantees their validity.

### Operational status of the system for internal controls pertaining to FY2016 financial reports

The Group Audit Office has performed an evaluation of the internal controls pertaining to financial reports. PARCO will continue to evaluate the effectiveness of internal controls implemented by the PARCO Group, and make improvements

## 2. Basic Views on Eliminating Anti-Social Forces

### General Position on the Elimination of Antisocial Forces

In its general philosophy on compliance, part of its code of conduct, PARCO stipulates the requirement that all of its officers and employees take a resolute stance against antisocial forces that would threaten the order and safety of civil society, and on no account comply with the demands of said forces.

### Measures in place for the Elimination of Antisocial Forces

- PARCO has designated the administration division as the division responsible for responding to antisocial forces, and will respond resolutely to any unjust demands, including through coordination with external agencies.
- PARCO is a member of Tokuboren (the Federation for Action to Prevent Organized Crime within the

Jurisdiction of the Tokyo Metropolitan Police Department) and endeavors to be prepared for unexpected events by gathering relevant information as quickly as possible as well as strengthening links with the relevant police departments and its legal advisers.

- PARCO will establish regulations regarding reporting and response upon the occurrence of an incident.
- PARCO's *Basic Principles on Compliance* sets forth a code of conduct regarding response to antisocial forces. These basic principles have also been disseminated both internally and externally through the PARCO website and employee handbook.
- A system has been implemented that puts in place an internal whistleblower system that provides for early detection and remedy of both organized and individually-perpetrated wrongdoing through the appropriate handling of whistleblower reports.

## V. Other

### 1. Adoption of Anti-Takeover Measures

#### Adoption of Anti-Takeover Measures Not Adopted

- Basic policy regarding control of the Company

Basic policy regarding individuals who make decisions on PARCO's financial and operational policy

#### Summary of contents of basic policy

PARCO believes that the individuals controlling decisions on PARCO's financial and operational policy need to be able to understand the root drivers of PARCO's corporate value, and enable the company to maintain and increase its corporate value and common benefit to shareholders on an ongoing and sustained basis. PARCO believes that if a proposal is made for the purchase of PARCO shares involving a transfer of the rights to control the company, the decision on whether to accept it should ultimately be based on the wishes of all shareholders. Therefore, if a major purchase of PARCO shares is offered, and it contributes to maintaining or enhancing PARCO's company value and the common interest of shareholders, then it should not be denied. However, many large-scale share purchase bids do not enhance corporate value or serve the common interest of shareholders, be it because they have aims and structures that can be clearly seen to erode corporate value and the common interest of shareholders, because they effectively force all shareholders to sell their shares, or because they fail to provide shareholders with appropriate or sufficient information to appropriately determine whether the price tendered by the party making the bid represents a fair price for PARCO shares or whether a large-scale bid for share purchase by a large buyer is otherwise appropriate. We believe that the key driver of PARCO's corporate value lies in its comprehensive retail management capabilities, gained in the course of operating PARCO shopping centers. We believe that this is supported by the expertise accumulated in the course of PARCO's development, holding, and operation of commercial premises thus far and the rolling out of PARCO's own unique offering of various retail shops and services as well as people that can leverage this expertise, corporate brands and store brands, and its intimate relationship with many tenants, vendors and local communities around our stores. We therefore believe that in order to successfully manage PARCO, one must understand the realities of our business of developing, holding, and running shopping centers, and the relationships cultivated between us and our customers, vendors, employees and other stakeholders, and that it is not possible to appropriately realize PARCO's potential for future corporate value and serve the common interest of shareholders if this is not sufficiently understood. PARCO believes that there is a need to protect its corporate

value and the common interests of its shareholders in the event that a large-scale bid for a buy up of shares is made that runs against PARCO's corporate values or the common interests of its shareholders.

#### Frameworks contributing to realization of basic policy

Under the PARCO Group's Long-term Vision established in 2014, we strive to be *designers of unique offerings for 24/7 urban life and creative drivers of urban evolution* to achieve our goal of being a *business group that prospers in urban markets*. The Medium-term Business Plan for FY2017-21 was formulated based on the three strategies for achieving this vision - *cultivation of major urban areas, expansion of core targets, and innovative use of ICT*.

#### Outline of the Medium-term Business Plan

PARCO will contribute to city maturity by leveraging the businesses of the entire Group, including the Stores Business, to meet the diversifying needs of consumers who enjoy urban lifestyles and business owners active in urban areas through the provision of unique PARCO values, such as personal fulfilment, new inspirations, and contentment.

To achieve this, PARCO Group will update its businesses and expand into new business areas to improve existing value provided and realize business portfolio innovation.

#### Three tactics for realizing the Medium-term Business Plan

1. Evolve the store brand
2. Produce commercial real estate
3. Expand soft content

#### Four directions for advancing the three tactics

1. Expand domain to include commercial real estate and soft businesses that leverage PARCO's intrinsic expertise and capabilities
2. Increase operational efficiency through business resource choice and focus – be a compact, high-yield business group.
3. Widen unique value provided to meet the diversifying needs of urban consumers and business owners
4. Develop a corporate culture that expands our purpose in society

Specific information on the Medium-term Business Plan is listed on the PARCO website.

<http://www.parco.co.jp/en/ir/plan/>

At PARCO we believe that these initiatives aimed at enhancing our corporate value will benefit all our stakeholders, including shareholders. In addition to carrying out initiatives to make execution of duties swifter and management even more transparent via a corporate governance structure appropriate to a Company with Committees. We will also work to strengthen our internal audit functions in the interests of ensuring compliance with laws and regulations relating to the execution of operations and efficiency, such as by establishing a Group Audit Office.

#### Framework to prevent parties deemed inappropriate in light of basic policy from controlling the Company

PARCO will establish appropriate measures to the extent allowed by the Financial Instruments and Exchange Act, the Companies Act and other related laws and regulations, such as endeavoring to ensure that shareholders are provided with sufficient and relevant information for suitably determining whether a large-scale bid for share purchase by a large buyer is appropriate, that the opinion of the PARCO Board of Directors and other related information is published at the same time, and that enough time is provided for shareholders to consider the offer.

#### Judgment of PARCO's Board of Directors regarding concrete framework and reasons for such judgment

PARCO's initiatives were formulated on the basis of specific mid-to long-term business strategy aimed at continuously and sustainably increasing the value of our company and the shared benefits to shareholders. Our initiative to prevent parties deemed inappropriate under our general policy from gaining control of the company was implemented not in order to enable PARCO's Directors to maintain their status, but rather to ensure corporate value and serve the common interest of shareholders, both of which are in agreement with PARCO's general policy.

## 2. Other Matters Concerning to Corporate Governance System

#### Internal systems relating to timely disclosure of PARCO's company information

At PARCO, the Accounting Department is responsible for disclosure to the Tokyo Stock Exchange. The department will disclose information when circumstances arise that necessitate such a disclosure or a decision is made to disclose information. The structures and systems listed below function as a framework for internal information gathering and corporate governance.

1. As PARCO is a Company with Committees, the Board of Directors determines basic management policy and oversees the functions of execution of duties by Directors and Executive Officers, and Executive Officers determine and execute specific duties in accordance with basic policy determined by the Board of Directors.
2. PARCO has established three committees: the Audit Committee, the Nominating Committee and the Compensation Committee. Currently, four of the eight directors on the Board of Directors are External Directors. It should be noted that the Audit Committee is comprised of four Directors, all of whom are external. The Nominating Committee and Compensation Committees also both consist of five members and are chaired by an External Director, with one Internal Director serving on the Nominating Committee and one serving on the Compensation Committee.
3. Secretariats have been established to support the activities of the three committees, and have their own staff.
4. The Group Audit Office assists the execution of duties of the Audit Committee as appropriate, in accordance with requests or instructions from the Audit Committee.
5. Every week, Executive Officers with titles, Executive Officers with responsibility for the Finance Department, the Accounting Department, the Accounting Coordination Department, the Personnel Department, the Administration and Legal Department, the Group Audit Office, and Executives Officers from the division that submitted an agenda item and related divisions, hold a management meeting to decide on important matters in the course of performance of duty, and report on any matters that warrant reporting.
6. The Board of Directors meets once a month and shares reports from the committees as well as deliberating on matters for resolution by the Board of Directors.
7. PARCO has established *Basic Principles on Compliance*, a *Code of Conduct*, and an internal whistleblower system, and has also issued a handbook and distributes it to all employees to spread awareness.
8. In order to be party to information from the various companies in the group, a PARCO Executive Officer will assume a position as Director or Auditor on the board of each of PARCO's Japanese subsidiaries, and will attend

the respective board meetings. The Presidents of other companies in the PARCO group meet monthly in order to be updated on their respective situations. Executive Officers of PARCO also assume positions on the boards of overseas subsidiaries.

