

# Corporate Governance

## Fundamental Policy

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We at PARCO are to constantly work to strengthen our system of corporate governance, recognizing that in order to enhance corporate value, we must: protect the rights and interests of our shareholders, build smooth relationships with stakeholders other than shareholders, preserve transparency in management, and establish an effective management oversight structure.

Our corporate governance system is to be characterized by a clear distinction between supervision and execution. Here, to assure a high degree of transparency in corporate governance while facilitating decisionmaking and execution, we adopt a corporate managerial structure that includes a Nominating Committee and other such entities.

We at PARCO established *Fundamental Policy for Corporate Governance* in 2016. This policy formulates our basic way of thinking with regards to corporate governance. That is, it sets down how PARCO believes corporate governance should best be applied to achieve continual growth and a medium-to-long-term enhancement of corporate value under the [PARCO Corporate Mission](#), which calls for the creation and provision of value in a manner that satisfies our customers, tenants, shareholders, and other stakeholders.

[Fundamental Policy for Corporate Governance](#)  [PDF] 335 KB (2018.7.26)

[Corporate Governance Report](#)  [PDF] 1 MB (2019.10.04)

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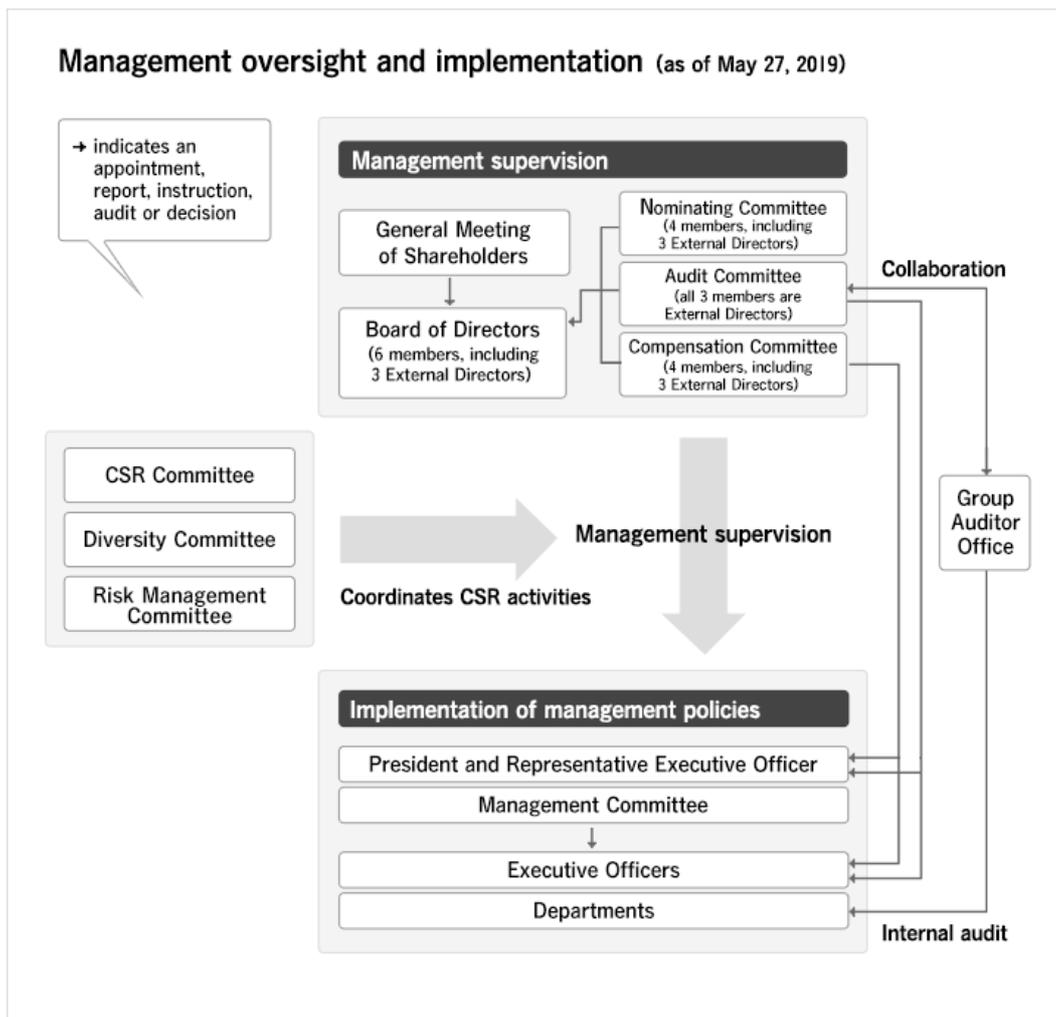
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## Overview of the PARCO Corporate Governance System



### Board of Directors

The Board of Directors is to strive for a sustained increase in corporate value. To this end and under a full realization of its fiduciary and explanatory duties to shareholders, the Board is to determine a strategic direction for the company, provide an environment conducive to risk management and, in collaboration with the Nominating Committee, the Audit Committee and the Compensation Committee, assure a high degree of supervision over Directors and Executive Officers.

### Composition of the Board of Directors

The Board of Directors is to be comprised of a variety of individuals with differing backgrounds, including area of expertise and experience, based on selection criteria formulated by the Nominating Committee. At least half of the members are to be External Directors, and the total number of members is to be maintained at a level that provides an optimal level of efficiency and effectiveness.

Selection criteria is disclosed at *Fundamental Policy for Corporate Governance*.

### Committees

PARCO has adopted the “Company with three Committees” system and has established a Nominating Committee, an Audit Committee and a Compensation Committee, all of which contain company Directors.

The Committees are to supervise managerial activities within their respective areas of responsibility and to report accordingly to the Board of Directors. Also, to help invigorate their activities, we have installed a Committees Secretariat, which is independent of the management team and staffed by employees assigned solely to it.

### **Nominating Committee**

The Nominating Committee is to determine the content of proposals to be submitted at the General Meeting of Shareholders regarding the appointment or dismissal of Directors. It also nominates candidates for Representative Executive Officer and Executive Officers to the Board of Directors; and can recommend their removal. The Committee is to be comprised of at least three Directors, a majority of whom must be External Directors.

### **Audit Committee**

The Audit Committee monitors the execution of duties by Directors and Executive Officers, and has determines the content of proposals on the election and dismissal or non-reappointment of the auditor, which are submitted at the General Meeting of Shareholders. The Committee is comprised of at least three Directors, all of whom, in principle, must be External Directors.

### **Compensation Committee**

The Compensation Committee determines the compensation of individual Directors and Executive Officers. The Committee is to be comprised of at least three Directors, a majority of whom must be External Directors.

### **Executive Officers and the Management Committee**

Executive Officers are to execute specific duties based on the fundamental policy determined by the Board of Directors. The Management Committee is to serve as a deliberative body to support concrete operational decision-making by the President and Representative Executive Officer.

### **External Accounting Auditor**

In the interests of auditing effectiveness, the Audit Committee is to verify the reputation of the External Accounting Auditor, as well as their independence and specialized knowledge. The External Accounting Auditor is expected to maintain communications with the President and Representative Executive Officer and discuss the handling of matters such as improprieties and errors in collaboration with the Audit Committee.

## Message from the Committee Chair

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### Audit Committee Chair



**Hiroshi Takahashi**

**External Director (Independent director)**

**Audit Committee Chair**

PARCO has adopted the “Company with Three Committees” system, which includes a Nominating Committee, in order to explicitly separate the oversight function from the executive function of management and build a highly transparent corporate governance structure, while allowing rapid decision-making and execution of operations. The roles of the external directors in a “Company with Three Committees,” are 1) advisors on management policy and improving management, 2) a supervisory function over management, 3) a supervisory function over conflicts of interest, and 4) to ensure transparency. In light of these roles, to achieve an increase in corporate value for the medium to long term, the external directors must be ready to act on the following two points in particular. The first is to point out and offer advice directly on issues that people inside the company find difficult to bring up with management if they deem it necessary. Next, to enable the growth of the company, the external directors with their different backgrounds must emphasize teamwork in order to build and maintain the effective “proactive corporate governance” that is the objective of the Corporate Governance Code.

### Compensation Committee Chair



**Noriko Nakamura**

**External Director (Independent director)**

**Compensation Committee Chair**

The ratio of working women in Japan is higher than in the U.S. at U1B however, inequalities between men and women persist in every industry. One reason for this is that the majority of women work part time or in non-regular positions. It is estimated that Japan's GaP would increase by 1RB if women had the same working hours and pay as men. I started by developing female managers and have been involved for over 30 years in services to support working women with their childcare and nursing care roles. As an external director of PARCO, I have been working to foster a corporate culture that allows women to play a role and to create an environment where customers who are raising children can easily visit stores. PARCO has a large number of energetic young employees, and the directors and executive officers act as leaders in helping people adjust to ideas rather than pushing their opinions on others. I hope to continue working proactively to provide the same opportunities to women and to develop the next generation.

## Nominating Committee Chair



### Tadayuki Seki

External Director (Independent director)

Nominating Committee Chair

The management environment for retail, including PARCO, is a tough one. I feel that in this environment, PARCO maintains a unique competitive advantage that differs from other companies. The sources of this advantage include a solid financial foundation along with the creativity and originality of PARCO's employees and management team, and their way of engaging with society. I aim to carefully monitor management to ensure that this unique competitive advantage is not lost, that the allocation strategy for management resources including human resources can achieve its full potential, and finally that the Company is managed so that it can achieve its medium-term management plan as a result. To ensure effective monitoring, it is important as an external director to have even better communication with employees and management and deepen my understanding of the Company. I consider this to be my duty as an external officer.

## Internal controls and risk management system

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Our company will work 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.

### Risk Management System

We are to work to provide a cross-organizational risk management system centered on our Risk Management Committee that, in addition to identifying and assessing the risks entailed by corporate activities, taking countermeasures against them and heightening our internal awareness of them, is capable of a swift response to risk-related occurrences through emergency action including taskforce deployment and information management.

### Compliance system

We are to advance an internal awareness program through methods such as issuing a *PARCO Employee Handbook* to all Officers and employees, in addition to formulating *Basic Principles of Compliance* and a *Code of Conduct*, to which all employees are expected to adhere. Also, we have set up a group-wide internal reporting system utilizing a third-party contact to encourage the reporting of infractions or other improper activities and to facilitate corrective responses to same.

### Internal auditing system

To reinforce the internal auditing capabilities of our group, we have established a Group Auditor Office which audits the legality, economic rationality, and risk exposure of the group as a whole,

based on audit plans and under the direction of a Director assigned solely to this task. We also strive to improve audit efficiency through the timely exchange of auditing information with the Audit Committee and auditors at group subsidiaries.

## Relations with shareholders and other stakeholders

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### Ensuring shareholder rights, equality, etc.

PARCO believes that in order to continually increase corporate value, it is imperative to protect the rights and interests of shareholders, including minority shareholders. Therefore we strive to protect those rights, to assure an environment in which shareholders can exercise their rights at the General Meeting of Shareholders, and to monitor any actions that harbor the risk of damaging shareholder rights, including related-party transactions and changes to capital policy.

### **Appropriate collaboration with stakeholders other than shareholders**

In order to support efforts to build smooth relationships with stakeholders beyond our shareholders, we have created a [Corporate Mission](#) and a [Code of Conduct](#) and are taking measures to strengthen compliance management and promote diversity, including encouraging the active involvement of women within the organization.

### **CSR (corporate social responsibility) initiatives**

We have established a CSR Committee to promote CSR activities within the PARCO Group and strengthen internal controls. The Committee will set PARCO Group policies for CSR activities, create action plans, support external publicity efforts, promote internal information sharing, and cooperate with external companies and organizations.

Committee activities are to span the organization, with related efforts covering everything from discussion sessions with PARCO Group Presidents and Executive Officers, to group-wide collaboration drawing together the Diversity Committee, Risk Management Committee, group companies, and PARCO internal departments.

### **Promoting and ensuring diversity within the organization, including encouraging the active involvement of women**

We have installed a Diversity Committee to promote diversity initiatives across the company. The Committee will carry out initiatives aimed at cultivating a corporate culture characterized by tolerance and openness to new ideas, in which people of diverse views, talents, capabilities, and cultures can work to their full potential. We regard ensuring the active involvement of women within the organization as an important issue and strive to assure full female representation in our selection of leaders and managerial candidates. The Committee will promote other cross-organization initiatives including discussion sessions with PARCO Group Presidents and Executive Officers, and collaboration among group companies and PARCO internal departments.

### **Internal reporting system**

In order to strengthen our compliance management, we have installed an internal reporting system that provides mechanisms for handling reports of infractions and other behavior that runs counter to laws, regulations or the like. The system includes the utilization of a third-party liaison to receive such information and measures to ensure that it is properly handled. One feature is that persons providing information, or persons cooperating with a subsequent investigation, are not to be dismissed or suffer other negative consequences as a result.

## **Standards and Criteria for Determining the Independence of External Directors**

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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.

## **Related Party Transactions**

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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.

## Evaluation of the Board of Directors

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PARCO perform an assessment of the effectiveness of all Directors in the interests of improving the effectiveness of the Board of Directors. 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.

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.

## Training Policy for Directors

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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.

## Reason for appointment as a Director and main activities of Directors

PARCO ensures that more than half of its Directors are External Directors. By serving on the Board of Directors and Executive Committees, these External Directors work to improve the effectiveness of internal controls by overseeing the execution of duties by Executive Officers and the like.

Director	
Name	Reason for appointment
Kozo Makiyama	After serving for many years in the Store Management Operation Divisions, Mr. Makiyama was appointed President and Representative Executive Officer in May 2011. Through his years of service, he has amassed a wealth of experience that broadly covers PARCO's business operations. As a PARCO Director, he has been actively contributing to discussion and deliberation at Board meetings since May 2008 and he was appointed to supervise operations and provide management oversight based on his experience and track record to date.
Hidekazu Hirano	After serving for many years in the Store Management and Corporate Operations Divisions, Mr. Hirano was appointed President and Representative Executive Officer in March 2008, and has served as a Senior Executive Officer since May 2011. Through his years of service, he has amassed a wealth of experience that broadly covers PARCO's business operations. As a PARCO Director, he has been actively contributing to discussion and deliberation at Board meetings since May 2008 and he was appointed to supervise operations and provide management oversight based on his experience and track record to date.
Taro Sawada	Serving as the Director and Managing Executive Officer of Daimaru Matsuzakaya Department Stores Co. Ltd., Mr. Sawada possesses a strong track record and a wealth of experience and insight regarding both management and the retail industry. We are confident that as a PARCO Director, Mr. Sawada will utilize his business management experience to provide valuable advice that will enable PARCO Executive Officers to execute their duties in an effective and appropriate manner.

## External Director

Each of the External Directors 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.

Name	Reason for appointment as an independent officer	Main activities (FY 2018)
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.	Attended 13 of 14 Board meetings and all 13 Audit Committee meetings held this fiscal year and provided his specialist perspective as a certified public accountant when needed.
Noriko Nakamura	CEO of Poppins Holdings and the Representative Director Chairman, 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.	Attended 11 of the 14 Board meetings and 10 of 13 Audit Committee meetings held this fiscal year and Provided her perspective as a vastly experienced business manager when needed.
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.	Attended all 14 Board meetings and all 13 Audit Committee meetings held this fiscal year and advised based on his perspective as a vastly experienced business manager when needed, and global knowledge and experience.

## Approach to Officer compensation

Under our Nominating Committee managerial structure, a Compensation Committee is to set standards for compensation and determine the compensation of individual Directors and Executive Officers in a fair and impartial manner based on assessment of roles, responsibilities and work results.

### Standards for Determining Director and Executive Officer Compensation

1. Director annual salary will take the form of fixed compensation which, depending on role, will comprise a basic annual salary, a Committee chairman annual salary and/or a Committee member annual salary.
2. Executive Officer annual salary will take the form of fixed compensation which, depending on role/position, will comprise of a basic annual salary, performance pay (based on company performance and personal performance) and stock compensation from a stock issuance trust.
3. The ratio of Executive Officer basic annual salary, performance pay (standard), and stock compensation is to be based on roles and responsibilities at 40%~50% : 30% (equivalent value) : 20%~30% (equivalent value).
4. Executive Officer basic annual salary is to be based on that person's role/position for the current term.
5. Executive Officer performance reward is to be determined by distributing a payment pool, linked to company earnings for the previous term, among Directors based on personal performance (0-200% allocation ratio).
6. Executive Officer stock compensation is to be based on that person's role/position for the current term.
7. For Executive Officers who also serve as Directors, payment is calculated by adding Executive Officer annual compensation to Director annual compensation

### Officer compensation in FY 2018

Position	Individuals paid	Amount paid (Millions of yen)
Directors (excluding External Directors) External	5	25
Directors	4	31
Executive Officers	16	451
Total	25	507

#### Notes

1. While PARCO officially abolished its retirement bonus system at the end of FY 2004, the payment of retirement bonuses was recorded for Directors and Executive Officers serving prior to this period, and was scheduled to be provided at the time of their retirement. As of the end of FY 2017, unpaid retirement bonuses totaled 5 million yen for Directors and 2 million yen for Executive Officers.
2. The number of Officers as of the end of the current fiscal year are as follows 4 Directors (excluding External Directors), 4 External Directors, and 16 Executive Officers, with 2 of the aforementioned serving concurrent roles as both Directors and Executive Officers.

## Position on shareholdings

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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

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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.

## Status of shareholdings

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1. Investment equities held for purposes other than portfolio investment

Number of companies: 7

Total value recorded on balance sheet: 525 million yen

2. PARCO does not maintain any equity holdings solely for the purpose of portfolio investment.

3. PARCO does not have any holdings in investment equities solely for the purpose of portfolio investment

# Fundamental Policy for Corporate Governance

## Section 1: General Provisions

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This policy formulates our basic way of thinking with regards to corporate governance. That is, it sets down how PARCO believes corporate governance should best be applied to achieve continual growth and a medium-to-long-term enhancement of corporate value under the PARCO Corporate Mission, which calls for the creation and provision of value in a manner that satisfies our customers, tenants, shareholders, and other stakeholders.

### 1. Corporate Mission

Our corporate mission is expressed as "creating welcoming, forward-thinking, innovative spaces that provide an enjoyable experience for customers and help our tenants prosper."

### 2. Basic Approach to Corporate Governance

We at PARCO are to constantly work to strengthen our system of corporate governance, recognizing that in order to enhance corporate value, we must: protect the rights and interests of our shareholders, build smooth relationships with stakeholders other than shareholders, preserve transparency in management, and establish an effective management oversight structure.

### 3. Our Corporate Governance System

Our corporate governance system is to be characterized by a clear distinction between supervision and execution. Here, to assure a high degree of transparency in corporate governance while facilitating decisionmaking and execution, we adopt a corporate managerial structure that includes a Nominating Committee and other such entities.

## Section 2: Overview of the PARCO Corporate Governance System

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### 1. Board of Directors

The Board of Directors is to strive for a sustained increase in corporate value. To this end and under a full realization of its fiduciary and explanatory duties to shareholders, the Board is to determine a strategic direction for the company, provide an environment conducive to risk management and, in collaboration with the Nominating Committee, the Audit Committee and the Compensation Committee, assure a high degree of supervision over Directors and Executive Officers.

#### (1) Role of the Board of Directors

The Board of Directors is to be responsible for fundamental managerial policy decision making and for the supervision of Directors and Executive Officers.

#### (Scope of responsibility over the managerial team)

PARCO utilizes a Nominating Committee type of managerial structure. Under this structure and as a general principle, the Board of Directors delegates authority to Executive Officers, retaining for itself only those powers stipulated by regulations and our Articles of Incorporation, and instead concerns itself with the supervision of Executive duties. This said, the Board of Directors is to itself resolve matters that it deems necessary to be addressed by the Board.

#### (Supervision of successor planning)

The Nominating Committee is to prepare a list of successor candidates and, upon subsequent monitoring, nominate suitable individuals. Also, the Committee is to check related progress as appropriate and oversee related matters in conjunction with the Board.

#### (2) Composition of the Board of Directors

The Board of Directors is to be comprised of a variety of individuals with differing backgrounds, including area of expertise and experience, based on selection criteria formulated by the Nominating Committee. At least half of the members are to be External Directors, and the total number of members is to be maintained at a level that provides an optimal level of efficiency and effectiveness.

#### (Effective utilization of External Directors)

To assure a degree of independence in company management, at least half of the Board membership is to be comprised of External Directors. Here, by bringing in the views of External Directors and the diverse range of knowledge and experience that they possess, we seek to enhance managerial transparency and the effectiveness of executional oversight. External Directors are to satisfy the independent standards of the Tokyo Stock Exchange, as well as those of our company, and serve as a member or chairman of the Nominating Committee, Audit Committee or Compensation Committee.

Furthermore, meetings of these Committees may be held with only External Directors in attendance when necessary, such as when assessing the performance of the President and Representative Executive Officer.

We do not appoint a Senior Independent Director. However, the Chairman of the Audit Committee is to work together with the management team by, for example, attending Management Committee meetings in an observer status. Chairmen of the other Committees are also expected to work closely with management.

#### (Standards and criteria for determining External Director independence)

Our company will formulate a set of standards for determining the independence of candidates for External Director based on the independence standards of the Tokyo Stock Exchange and the Japan Association of Corporate Directors.

#### (Scope of Director fiduciary duties)

At least half of the Board of Directors is to be comprised of External Directors. Internal Directors are to employ their broad range of knowledge and experience to the supervision and confirmation of managerial tasks, while External Directors, through participation in Board of Director and Committee meetings, are to supervise the execution of work by Executive Officers and strive to enhance the effectiveness of internal controls.

#### (Disclosure of Director's duties at other companies)

Directors are to work in accordance with rules concerning the roles of Directors and may serve concurrently at other companies to the extent that this dual assignment does not interfere with their duties. Any substantial concurrent service arrangement by a Director is to be publicly disclosed.

#### (3) Approach to Officer appointment

Under our Nominating Committee managerial structure, the Nominating Committee is to: set standards for the appointment of Officers; select suitable candidates for Directors, Representative Executive Officers and Executive Officers; determine resolutions for presentation to the General Meeting of Shareholders; and prepare recommendations for the Board of Directors. Standards for Officer appointment, together with the selection of Directors and reasons for doing so, are to be publicly disclosed.

#### (4) Approach to Officer compensation

Under our Nominating Committee managerial structure, a Compensation Committee is to set standards for compensation and determine the compensation of individual Directors and Executive Officers in a fair and impartial manner based on assessment of roles, responsibilities and work results. Standards for determining Officer compensation are to be disclosed.

#### (5) Ensuring vigorous debate at Board of Directors meetings

We are to continue in our efforts to encourage vigorous and active debate by the Board of Directors by promptly setting annual schedules, proposing matters for discussion, making preliminary explanations, and distributing related documents. Also, in response to requests from Directors, we are working to improve the provision of information.

#### (6) Analyzing and assessing effectiveness

We consider the effectiveness of the Board of Directors to be an important element for the continual growth and a medium-to-long-term enhancement of shareholder value. With this understanding, we are to compile the views and opinions of Directors regarding, for instance, the composition of the Board of Directors, the contents of discussion, and the conduction of Board meetings together with the support system for same; analyze and assess the effectiveness of Board meetings; and present a summary of our findings. We will also continue these annual assessments in our view that repeated assessment, analysis, debate, and reform can lead to favorable changes in the Board and enhance its effectiveness.

#### (7) Internal controls and risk management system

Our company will work 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.

##### (Risk Management System)

We are to work to provide a cross-organizational risk management system centered on our Risk Management Committee that, in addition to identifying and assessing the risks entailed by corporate activities, taking countermeasures against them and heightening our internal awareness of them, is capable of a swift response to risk-related occurrences through emergency action including taskforce deployment and information management.

##### (Compliance system)

We are to advance an internal awareness program through methods such as issuing a PARCO Employee Handbook to all Officers and employees, in addition to formulating Basic Principles of Compliance and a Code of Conduct, to which all employees are expected to adhere. Also, we have set up a group-wide internal reporting system utilizing a third-party contact to encourage the reporting of infractions or other improper activities and to facilitate corrective responses to same.

##### (Internal auditing system)

To reinforce the internal auditing capabilities of our group, we have established a Group Auditor Office which audits the legality, economic rationality, and risk exposure of the group as a whole, based on audit plans and under the direction of a Director assigned solely to this task. We also strive to improve audit efficiency through the timely exchange of auditing information with the Audit Committee and auditors at group subsidiaries.

#### (8) Information acquisition and support structure

Directors and Committee members are to work to obtain the information they need to meet the responsibilities of their roles. Here, we adopt a system by which a Board Secretariat and a Committees Secretariat provide such information as necessary and appropriate. Also, Audit Committee members are to collaborate with internal auditing divisions.

In principle, the company is to bear the expense incurred by a Director, within reason, when seeking the advice of an external specialist in relation to the execution of their duties.

#### (9) Officer training policy

Upon assuming office, newly appointed Executive Officers, including Internal Directors, are, given explanations of the duties, obligations and responsibilities of Executive Officers and/or Directors, contractual arrangements between them and the company, related rules and regulations, and so on. Also, compliance training and the like are to be held after assuming office.

Newly appointed External Directors are, upon assuming office, given explanations on subjects such as our company, Corporate Mission, management situation, matters relating to corporate governance, and related rules and regulations. After assuming office, there will be ongoing measures aimed at deepening their understanding of our company, such as explanations and store observations focusing on subjects such as our business operations, managerial environment, and trends within the retail industry.

## 2. Committees

PARCO has adopted the “Company with three Committees” system and has established a Nominating Committee, an Audit Committee and a Compensation Committee, all of which contain company Directors.

### (1) Roles

The Committees are to supervise managerial activities within their respective areas of responsibility and to report accordingly to the Board of Directors. Also, to help invigorate their activities, we have installed a Committees Secretariat, which is independent of the management team and staffed by employees assigned solely to it.

### (2) Committee Composition

#### (Nominating Committee)

The Nominating Committee is to determine the content of proposals to be submitted at the General Meeting of Shareholders regarding the appointment or dismissal of Directors. It also nominates candidates for Representative Executive Officer and Executive Officers to the Board of Directors; and can recommend their removal. The Committee is to be comprised of at least three Directors, a majority of whom must be External Directors.

#### (Audit Committee)

The Audit Committee monitors the execution of duties by Directors and Executive Officers, and has determines the content of proposals on the election and dismissal or non-reappointment of the auditor, which are submitted at the General Meeting of Shareholders. The Committee is comprised of at least three Directors, all of whom, in principle, must be External Directors.

#### (Compensation Committee)

The Compensation Committee determines the compensation of individual Directors and Executive Officers. The Committee is to be comprised of at least three Directors, a majority of whom must be External Directors.

## 3. Executive Officers and the Management Committee

Executive Officers are to execute specific duties based on the fundamental policy determined by the Board of Directors. The Management Committee is to serve as a deliberative body to support concrete operational decision-making by the President and Representative Executive Officer.

## 4. External Accounting Auditor

In the interests of auditing effectiveness, the Audit Committee is to verify the reputation of the External Accounting Auditor, as well as their independence and specialized knowledge. The External Accounting Auditor is expected to maintain communications with the President and Representative Executive Officer and discuss the handling of matters such as improprieties and errors in collaboration with the Audit Committee.

### (1) System to maintain audit effectiveness

Sufficient time is to be provided for an audit based on an audit plan. Also, the External Accounting Auditor is to methodically communicate with the President and Representative Executive Officer and is to hold discussions with the Chairman of the Audit Committee with regards to audit results. Should an impropriety, error or the like be discovered, the external accounting auditor is report to and discuss its handling with the Audit Committee.

### (2) Evaluation of External Accounting Auditor by the Audit Committee

The Audit Committee is to determine selection and evaluation standards for financial auditors, with the standards comprising of criteria for independence, specialist knowledge and other such items pertaining to audit work performance. The Audit Committee is to evaluate the financial auditor based on these standards. The Audit Committee is also to assess, among other items, quality control reviews per the Japanese Institute of Certified Public Accountants, results of investigations per the Certified Public Accountants and Auditing Oversight Board, and reportable items under Article 131 of Company Calculation Rules.

## Section 3: Relations with shareholders and other stakeholders

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1. Ensuring shareholder rights, equality, etc.

PARCO believes that in order to continually increase corporate value, it is imperative to protect the rights and interests of shareholders, including minority shareholders. Therefore we strive to protect those rights, to assure an environment in which shareholders can exercise their rights at the General Meeting of Shareholders, and to monitor any actions that harbor the risk of damaging shareholder rights, including related-party transactions and changes to capital policy.

(1) Providing an environment in which shareholders can exercise their rights at the General Meeting of Shareholders

We are working to create an environment in which shareholders can exercise their voting and other rights at the General Meeting of Shareholders and will take preparations such as providing related information, setting a suitable date for the meeting, and issuing convocation notices.

(Provision of information, issuance of convocation notices)

In our belief that shareholders should be promptly provided with information for use in making suitable and informed decisions at the General Meeting of Shareholders and provided with ample time to deliberate shareholder resolutions, we will send convocation notices before the legal deadline. A convocation notice is to be displayed on our website and on the Tokyo Stock Exchange's website before the convocation notice mailing date. We will also post a condensed English-language version of the convocation notice and other shareholder-related materials on our website.

(General Meeting date)

We are to select a date for our General Meeting of Shareholders that avoids surges of such meetings by other companies and thus is convenient for our shareholders to attend.

(Exercising electronic voting rights)

We utilize a platform for exercising electronic voting rights.

(Exercising voting rights by substantial shareholders)

To accommodate cases in which an institutional or other such investor holds company shares under the name of a trust bank or other such institution and wishes to, for instance, execute its voting rights in place of that trust bank or other such institution, we, in collaboration with the trust bank or the like, are to consider ways in which that wish can be met.

(2) Necessity for response when a significant number of 'against' votes are cast at a General Meeting of Shareholders

Following a General Meeting of Shareholders, we are to report the results of resolution voting to the Board of Directors and Management Committee. Also, if a significant number of 'against' votes are cast, we are to analyze the reasons why and, if necessary, consider corrective action.

(3) Entrustment of General Meeting of Shareholder resolutions to the Board of Directors

Our company has adopted a suitable system of corporate governance. Of the resolutions approved at the General Meeting of Shareholders, those permitted to be entrusted to the Board of Directors under the Companies Act, such as the distribution of retained earnings, buybacks of company shares, and other such matters under our Articles of Incorporation that demand a high degree of managerial flexibility or specialized knowledge, are to be thus entrusted.

(4) Basic approach to Capital Policy

We position the return of earnings to shareholders through continual growth and medium-to-long-term enhancement of corporate value as one of our key policies. With regards to the distribution of earned surpluses, we consider stable distributions to be fundamental and determine the level of these in reference to our earnings performance and dividend payout ratio. As for retained earnings, we strive to utilize them effectively to support business advancement into the future in line with our growth strategy, in addition to assuring an adequate financial foundation.

The Board of Directors, having at least one half of its membership comprised of External Directors, is to deliberate on any capital policy initiative that entails possible dilution.

#### (5) Strategic shareholdings

##### (Shareholding policy)

Our fundamental policy is not to hold strategic shareholdings on principle. However, we may maintain such shareholdings in cases where we determine that doing so would contribute to medium-to-long-term growth in corporate value by maintaining and strengthening business relationships or maintaining and developing operational alliances.

##### (Standards for the execution of voting rights)

With regards to the execution of voting rights granted under strategic shareholdings, we will decide whether to exercise those rights based on an overall consideration of whether doing so would contribute to an increase in the corporate value of our company and of the company in which we are invested.

#### (6) Basic Policy Regarding Company Control

With regards to large-scale acquisitions moves and under our Basic Policy Regarding Company Control, we are to take appropriate action within the scope permissible under the Financial Instruments and Exchange Act, the Companies Act, and other related laws and regulations so as to assure, for example, that shareholders are provided with sufficient information and have sufficient time to study the situation.

#### (7) Related-party transactions

We conduct a survey of all Officers of our company and our subsidiaries to ascertain the presence or absence of related-party transactions. We will also create a system for the appropriate management of related-party transactions, with reports of the situation regarding transactions between our company and our Officers, our major stockholders or other such parties to be made to the Board of Directors. Transactions between our company and our Directors or Executive Officers that may entail a conflict of interests are to require the approval of the Board of Directors based on relevant laws and PARCO's regulations for Directors.

## 2. Appropriate collaboration with stakeholders other than shareholders

In order to support efforts to build smooth relationships with stakeholders beyond our shareholders, we have created a Corporate Mission and a Code of Conduct and are taking measures to strengthen compliance management and promote diversity, including encouraging the active involvement of women within the organization.

#### (1) Formulating a Corporate Mission as a basis for the medium-to-long-term enhancement of corporate value

In achieving our Corporate Mission, PARCO hopes to continue to create value that satisfies all of our stakeholders, including customers, tenants, and shareholders. We aim to develop and grow as a company by achieving reasonable profits through these activities.

#### (2) Formulating and implementing company standards of conduct

We have formulated a Code of Conduct for group employees. It is intended to bring our daily activities closer to the ideals of our Corporate Mission and to provide a shared set of values and behavioral standards for application across the company.

#### (3) CSR (corporate social responsibility) initiatives

We have established a CSR Committee to promote CSR activities within the PARCO Group and strengthen internal controls. The Committee will set PARCO Group policies for CSR activities, create action plans, support external publicity efforts, promote internal information sharing, and cooperate with external companies and organizations.

Committee activities are to span the organization, with related efforts covering everything from discussion sessions with PARCO Group Presidents and Executive Officers, to group-wide collaboration drawing together the Diversity Committee, Risk Management Committee, group companies, and PARCO internal departments.

(4) Promoting and ensuring diversity within the organization, including encouraging the active involvement of women

We have installed a Diversity Committee to promote diversity initiatives across the company. The Committee will carry out initiatives aimed at cultivating a corporate culture characterized by tolerance and openness to new ideas, in which people of diverse views, talents, capabilities, and cultures can work to their full potential. We regard ensuring the active involvement of women within the organization as an important issue and strive to assure full female representation in our selection of leaders and managerial candidates. The Committee will promote other cross-organization initiatives including discussion sessions with PARCO Group Presidents and Executive Officers, and collaboration among group companies and PARCO internal departments.

(5) Internal reporting system

In order to strengthen our compliance management, we have installed an internal reporting system that provides mechanisms for handling reports of infractions and other behavior that runs counter to laws, regulations or the like. The system includes the utilization of a third-party liaison to receive such information and measures to ensure that it is properly handled. One feature is that persons providing information, or persons cooperating with a subsequent investigation, are not to be dismissed or suffer other negative consequences as a result.

## Section 4: Information disclosure

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1. Appropriate information disclosure and ensuring transparency

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, beginning with 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.

2. Policy regarding constructive dialogue with shareholders

Shareholder dialogue is handled by the Executive Officers of departments responsible for investor relations. Requests for constructive dialogue submitted by a shareholder or investor are first examined to surmise their basic outline and intent and then handled by either the President and Representative Executive Officer, the Executive Officer of the relevant department, or an External Director. The departments responsible for investor relations are to coordinate closely with relevant internal departments in their approach to shareholder dialogue.

(1) Interviews with company management or External Directors

We are to conduct IR activities in a manner that builds smooth relationships with investors, including our shareholders; promotes active dialogue and, by extension, mutual understanding; and contributes to a medium-to-long-term increase in corporate value. We are also to maintain a good understanding of our shareholder base by conducting periodic surveys.

In addition, we are to arrange and schedule interviews with External Directors as necessary.

(2) Engagement with individual investors

Our company holds periodic financial results briefings for analysts and institutional investors and also separate explanatory briefings to discuss business progress. Explanatory materials, videos, and other materials for our financial results briefings are posted on our website in both Japanese and English. With regards to individual investors, we provide information with a particular emphasis on promptness and usefulness. We also create comprehensive annual reports as a tool for constructive dialogue.

### (3) Feedback for members of management and Board of Directors

Views, opinions, and questions obtained through investor dialogue are fed back as appropriate to the management team. We also compile the results of our financial results briefings and report these to the Board of Directors.

### (4) Management of insider information

We work to prevent insider transactions by Officers and employees by providing PARCO Group Regulations for the Control of Insider Trading and Regulations for the Prevention of Insider Trading which set out rules for the management of insider information pertaining to our company and its subsidiaries, and for the handling of stock, including buying and selling, of our company and subsidiaries. We have also established a disclosure policy, including sections on basic policy on information disclosure, information disclosure standards, information disclosure methods, improving information disclosure, silent periods, and concerning forecasts. We have posted this policy on our website and strive to disclose information in a manner that is fundamentally transparent, balanced and consistent.

### (5) Formulation and public announcement of management strategy

We will publicly announce our long-term vision and medium-term business plans, as well as revealing investment plans and both qualitative and quantitative targets towards achieving our strategic and tactical goals.

#### (Supplemental Provisions)

Any revision or abolition of this basic policy is to be determined by resolution of the Board of Directors.

This fundamental policy is to take effect on 29 January, 2016.

## **Standards for Determining the Independence of External Directors**

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External Directors are to be selected from among people with a high degree of independence and with no conflicts of interest vis-à-vis our company or general shareholders. A Director will not be deemed independent if he or she falls under any of the following categories or descriptions:

- (1) A person who executes the operations of PARCO Group (either currently or at any time over the past 10 years)
- (2) An employee of the parent company or one of its subsidiaries. This restriction also applies to Executive Officers, as do restrictions (3) to (8) below.
- (3) A major shareholder of PARCO Group
- (4) A major contract business partner of PARCO Group
- (5) A major lender to PARCO Group
- (6) A law firm, an auditing firm, or other consultant, etc., that that has received payment exceeding a certain amount from PARCO Group as something other than Executive compensation
- (7) A beneficiary of funds from PARCO Group exceeding a certain amount
- (8) An employee of a company with which PARCO Group has reciprocal appointments to the Board of Directors
- (9) A person to whom any of restrictions (2) through (8) has applied over the past 5 years
- (10) A person whose spouse or close relative (up through the second degree of kinship) falls under any of restrictions (1) through (9) above.

“A person who executes the operations of PARCO Group” above, refers to Executive Directors, Executive Officers, or other key personnel. “Major shareholder” refers to a shareholder who holds a 10% or higher share of voting rights. “Major contract business partner” refers to a contract business partner who, in any fiscal year over the past five years, has, in transactions with PARCO Group, accounted for at least 2% of our annual consolidated revenues or at least 2% of that partner’s annual revenues. “Major lender to PARCO Group” refers to a company that ranks among the top three in terms of the value of borrowings by PARCO within the most recent business year. “Certain amount” refers to “¥10 million annually in any fiscal year over the past five years.”

Also, any person who currently serves as an External Director at our company may not be reappointed as External Director if that person has served in that capacity for more a total of more than 6 years.

## **Standards for Determining Director and Executive Officer Compensation**

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Compensation Committee standards for Directors and Executive Officer compensation will be set and administered as below.

1. Director annual salary will take the form of a fixed compensation and, depending on role, comprise a basic annual salary, a Committee chairman annual salary and/or a Committee member annual salary.
2. Executive Officer annual salary will take the form of fixed compensation and, depending on role/position, comprised of a basic annual salary, performance pay (based on company performance and personal performance) and, depending on role, remuneration for the purpose of acquiring company stock.
3. The ratio of Executive Officer basic annual salary, performance pay (standard), and remuneration for the purpose of acquiring company stock is to be 50% : 45% (equivalent value) : 5% (equivalent value).
4. Executive Officer basic annual salary is to be based on that person's role/position for the current term.
5. Executive Officer performance reward is to be determined by distributing a payment pool, linked to company earnings for the previous term, among Directors based on personal performance (0-200% allocation ratio).
6. Executive Officer remuneration for the purpose of acquiring company stock is to be based on that person's role/position for the current term.
7. As for Executive Officers who also serve as Directors, payment is calculated by adding Executive Officer annual compensation to Director annual compensation.

## **Officer Selection Standards**

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PARCO has adopted the “Company with three Committees” system, which includes a Nominating Committee, and determines Officer selection policies and procedures within Company with three Committees Bylaws as below.

### Selection of Directors

(1) From among individuals satisfying the criteria below and recommended by a Nominating Committee member, the Nominating Committee is to select those deemed suitable for an appointment (either a new appointment or reappointment) to a post as a PARCO Director and present them as candidates for approval by resolution of the General Meeting of Shareholders.

(2) Criteria for nomination as a candidate for Director are as follows:

#### 1. Executive Director

The candidate must:

- (1) Possess a superior managerial sense, and be well versed in various corporate management issues
- (2) Excel at strategic formulation, including an ability to view the managerial environment from an international perspective and accommodate changes within it
- (3) Abide by the law
- (4) Be of excellent character and superior discernment
- (5) Be physically and mentally healthy

## 2. Non- Executive Director

The candidate must:

- (1) Possess a superior managerial sense, and be well versed in various corporate management issues
- (2) Excel at strategic formulation, including an ability to view the managerial environment from an international perspective and accommodate changes within it
- (3) Abide by the law
- (4) Be of excellent character and superior discernment
- (5) If an External Director, be able to maintain independence
- (6) Be physically and mentally healthy

## Recommendation of Candidates for Executive Officer or Representative Executive Officer

(1) From among individuals satisfying the criteria below and recommended by a nominating Committee member, the Nominating Committee is to select those deemed suitable as a PARCO Executive Officer; or, from among Executive Officers, those deemed suitable as a Representative Executive Officer. The Committee is then to recommend them to the Board of Directors as new appointments and/or reappointments.

(2) Criteria for nomination as a candidate for Executive Officer or Representative Executive Officer are as follows:

### 1. Executive Officer

The candidate is to:

- (1) Possess a superior managerial sense
- (2) Have an excellent operational record
- (3) Excel at strategic formulation, including an ability to view the managerial environment and accommodate changes within it
- (4) Have a strong, tenacious leadership style
- (5) Have foresight and insight, as well as the ability to innovate, plan, and take action
- (6) Have a superior ability to command, lead, and nurture
- (7) Abide by the law
- (8) Be of excellent character and superior discernment
- (9) Be physically and mentally healthy

### 2. Representative Executive Officer

In addition to the qualities listed in 1. above, the candidate is to:

- (1) Be well versed in various corporate management issues
- (2) Be able to create innovative management visions
- (3) With regards to work execution and fulfillment of duties, possess the ability to view matters from a group-wide perspective and, as a representative of our company, to make judgments and decisions in an appropriate and timely manner

# Compliance and Risk Management

PARCO has established a framework to ensure the appropriateness of company and group operations with regard to business efficiency and effectiveness, the credibility of financial reports, legal compliance, and the preservation of company assets. Under this framework we are working to promote compliance and risk management and improve corporate value.



## Compliance system

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PARCO's Basic Principles of Compliance and Code of Conduct stipulate that all PARCO executives and employees shall conduct fair and highly transparent business activities in compliance with applicable laws in Japan and overseas, social norms, and internal company regulations. In addition, we pursue internal awareness programs and initiatives, including the distribution of a PARCO Employee Handbook to all officers and employees.

PARCO conducts compliance training on topics such as the Personal Information Protection Act and on the risks associated with social media and other online activity.

All employees are required to participate in awareness training designed to prevent harassment.

[Basic Principles of Compliance](#)

[Code of Conduct](#)

### Whistle-blower system

We have established multiple whistle-blower systems in order to quickly understand possible risks within each group company. The systems enable us to accept reports of legal and regulatory violations, prevent corruption, and detect and correct fraud. We have also established an appropriate processing system for reporting violations through a third-party organization.

### Internal auditing system

To reinforce the internal auditing capabilities of our group, we have established a Group Auditor Office which audits the legality, economic rationality, and risk exposure of the group as a whole, based on audit plans and under the direction of a Director assigned solely to this task. We also strive to improve audit efficiency through the timely exchange of auditing information with the Audit Committee and auditors at group subsidiaries.

## Risk management system

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We implement a cross-organizational risk management framework centered on our Risk Management Committee that identifies and assesses the risks entailed in corporate activities, heightens internal awareness of these risks, and takes countermeasures to deal with them. The risk management framework enables the Risk Management Committee to take emergency action in response to risk events including taskforce deployment and information management.

In order to prevent the occurrence of risk events and minimize the adverse effects on the business should they occur, PARCO has established The PARCO Risk Management Code and other regulations for risk assessment. If serious risk arises, the Risk Management Committee plays a key role in establishing an integrated response headquarters to address the issue systematically.

## Risk management framework

In principle, the Risk Management Committee holds a general meeting once every six months. Special committee meetings are also held to discuss and implement various measures as necessary.

Additionally, each department at PARCO head office, each PARCO store, and each group company has a risk management leader who promotes proper compliance and risk management, shares risk management information to facilitate discussion on proper and timely response methods, and encourages management and on-site employees to work together to enact measures in accordance with environmental changes both inside and outside of the company. Details related to risk management initiatives, including the above strategies for serious risks, are reported to the Management Committee once every six months.

## PARCO Group Business Continuity Plan (BCP)



PARCO's Business Continuity Plan for Major Earthquake Disasters was formulated to ensure that PARCO can quickly resume business operations and fulfill its social mission even in the event of a large-scale disaster that damages our commercial facilities or impacts Head Office functions.

Upon confirming the safety of customers, shop staff, and PARCO Group employees, the plan provides direction on mobilizing the strengths of all employees to maintain a level of service and commercial space that will enable us to continue to pursue our corporate mission of "creating welcoming spaces." The plan sets forth PARCO's post-disaster recovery plans, ongoing support, and basic conditions for resuming business operations.



Staff undergo Business Continuity Plan training at a PARCO store, with a focus on the initial response, when correct decisions must be made within a predetermined time, and resumption of business operations.

# Proactively supporting local communities in the event of a disaster



Major earthquake disasters threaten not only businesses, but also local governments and residents, and cooperation with these groups is essential for the smooth and effective recovery of affected areas, including PARCO stores. We believe that proactive, mutual assistance for local areas and neighboring businesses should be carried out in parallel with the recovery of PARCO stores. PARCO's Business Continuity Plan for Major Earthquake Disasters also sets forth our policy for providing assistance to customers who have difficulty returning home in the event of a disaster.

## Pre-arrangements with tenant shops for sale of daily necessities

PARCO has made arrangements with shops that carry daily necessities—primarily food, medicine, outdoor goods, and light clothing such as underwear—so that these items can be provided or sold at outside locations in the event of a disaster to affected areas.

## Collaboration with residents and government

### Local cooperation, partnerships and support

To the extent possible, PARCO will provide voluntary assistance and relief support and equipment to victims of natural disasters in the areas in which we operate. We will also support regional restoration activities and work to provide information and other forms of aid through our tenant shops.

### Cooperation with local governments

In the event of a large-scale disaster such as an earthquake, business continuity is necessary both from the perspective of resuming store operations and contributing to local recovery. For that reason, PARCO exchanges information with local governments not just when disasters occur, but in normal times too.

### Mutual support among local businesses

PARCO is strengthening relationships with neighboring businesses in the areas in which we operate and exchanging information and establishing cooperative frameworks as a means of providing mutual support and assistance. In the event of a disaster, this cooperation helps facilitate local recovery by providing evacuation guidance, personnel, equipment, and supplies.

At Nagoya PARCO, we adopted a ground filtration system as a measure to ensure potable water supplies exist should a natural disaster occur. The filtered groundwater is used for drinking water and facility equipment throughout the complex.

