Corporate Governance Report

Last Update: Fabruary, 1, 2019

Pan Pacific International Holdings Corporation
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The corporate governance of Pan Pacific International Holdings Corporation (the "Company") is described below.

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

1. Basic Views

The Company firmly adheres to its corporate philosophy of "valuing the customer as our utmost priority" and strives to enhance corporate governance and compliance while actively carrying out disclosure practices and encouraging a deeper understanding of Pan Pacific International Holdings Corporation as a company coexisting with society. This commitment is integral to enhancing corporate value and is thus a top management priority. Business activities based on a high standard of ethics are crucial to the ongoing survival of a company. With this conviction, we will build and maintain our in-house structures to expedite problem solving and, when necessary, seek advice from outside experts to establish and support internal controls and ensure that operations are conducted properly. In regard to compliance, the Company will strive to foster an even stronger organizational framework and advance corporate activities while seeking to entrench and enhance initiatives for heightening compliance awareness and for reinforcing the accounting, internal audit, monitoring, and auditing departments.

[Disclosure Based on the Principles of the Corporate Governance Code]

Principle 1.4 Cross-Shareholdings

The Company does not currently hold any shares of stock in listed companies as cross-shareholdings. Should the Company be placed in the position of acquiring, holding, or disposing of cross-shareholdings in the future, these activities will be undertaken after in-depth evaluation of the appropriateness of the rationale for holding and of whether the potential benefits and risks are acceptable given the relevant capital costs. Based on these evaluations, the Company will determine if the cross-shareholdings are contributing to improved corporate value, and decisions with regard to these holdings will be made by the Board of Directors.

Voting rights attached to cross-shareholdings will be exercised based on comprehensive consideration

of the potential for proposals to contribute to increased profits for the Company as a shareholder and to improved corporate value for the issuing company.

Principle 1.7 Related Party Transactions

If a director plans to conduct a transaction that competes with the Company or represents a conflict of interest, the director is required to receive approval from the Board of Directors as stipulated by laws and internal regulations. Furthermore, the Company requires post-fact reports to be submitted to the Board of Directors detailing the progress, results, and other material facts of said transactions, and post-fact monitoring frameworks are in place.

Frameworks have also been established to ensure that the Company is aware of all related party transactions through means such as annual investigations of directors to ascertain any involvement in applicable transactions.

When engaging in other related party transactions, the materiality of each transaction is to be assessed and discussions are to be held among the Board of Directors as necessary to ensure that transactions do not adversely impact the interests of the Company or of its shareholders.

Principle 2.6 Roles of Corporate Pension Funds as Asset Owners

The Company does not have fund-type or contract-type defined-benefit pension plans or welfare pension fund plans. However, the Company does have a corporate defined contribution pension plan, and asset management education is provided to employees.

Principle 3.1 Full Disclosure

i) Company objectives (e.g., business principles), business strategies and business plans

The Company discloses information on its corporate philosophy—"valuing the customer as our utmost priority"—and on its business model and other policies, management strategies, and management plans through its various communication tools, which include the investor relations information, financial results briefing materials, and integrated reports available on its corporate website.

Investor relations website: https://ppi-hd.co.jp/en/ir/

ii) Basic views and guidelines on corporate governance based on each of the principles of the Code

The Company endeavors to entrench its corporate philosophy—"valuing the customer as our utmost priority"—and enhance corporate governance and compliance while also practicing proactive disclosure to encourage a deeper understanding of Pan Pacific International Holdings Corporation as a company coexisting with society. These tasks have been positioned as important objectives for improving corporate value.

Please refer to "1. Basic Policy on Corporate Governance" under "I. Basic Policy on Corporate Governance, Capital Structure, Company Details, and Other Basic Information" in this report for more information on the Company's basic policy on corporate governance.

iii) Board policies and procedures in determining the remuneration of the senior management and directors

The basic remuneration of directors (excluding those that are Audit & Supervisory Committee members) is determined by the Board of Directors, within the overall limit of remuneration approved by a resolution of the General Meeting of Shareholders, taking into account the Company's operating results and financial position as well as the economic environment.

Remuneration for directors that are Audit & Supervisory Committee members is determined by deliberation among Audit & Supervisory Committee members, within the overall limit of remuneration approved by a resolution of the General Meeting of Shareholders.

iv) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors and *kansayaku* candidates

The Company emphasizes swift decision-making for responding to the everchanging operating environment, appropriate risk management, Company performance, and other factors when appointing or dismissing members of senior management or when nominating candidates for positions as directors (excluding those that are Audit & Supervisory Committee members). Candidates are nominated by the Board of Directors after consulting with the Audit & Supervisory Committee and based on a comprehensive evaluation of the suitability of potential candidates with consideration given to their skills, experience, and personality.

Candidates for positions as directors that are Audit & Supervisory Committee members are nominated through decision by the Board of Directors. Decisions are based on a comprehensive evaluation of operational execution oversight functions and consultations with the Audit & Supervisory Committee and consideration is given to the need for a balance between financial and accounting insight and diverse perspectives regarding corporate management, among other factors.

v) Explanations with respect to the individual appointments/dismissals and nominations based on iv)

Information on appointments and dismissals of members of senior management are disclosed as required by law.

Information on new candidates for positions as directors, summaries of their careers, and other matters can be found in reference materials for the General Meeting of Shareholders. The Company intends to further enhance the range of information it provides going forward.

Notices of convocation of the General Meeting of Shareholders: https://ppi-hd.co.jp/en/ir/meeting/

Supplementary Principle 4.1.1 Scope of Delegation of Authority to Management from the Board of Directors

As the body responsible for making management decisions, the Board of Directors is tasked with making decisions on matters requiring decision by the Board of Directors as stipulated by law or the Company's

Articles of Incorporation as well as on important matters as defined by the regulations for the Board of Directors (establishment of important management policies; establishment, revision, or abolishment of important regulations or management systems; capital investment plans; etc.). In addition, the Board of Directors is also responsible for setting Groupwide management policies in light of the role of the Company as a holding company.

Following a resolution at the 36th Ordinary General Meeting of Shareholders held on September 28, 2016, the Company transitioned to the Company with Audit and Supervisory Committee structure described in the Companies Act of Japan. In conjunction with this transition, the Board of Directors resolved to partially or entirely transfer authority for certain important operational execution decisions to directors.

The primary business of the Group is retail. A great deal of authority is delegated to frontline operations in order to facilitate swift and flexible responses to the ever-changing operating environment of the retail industry. However, the Company has also established regulations regarding the limits of authority that clearly stipulate the matters for which authority should be delegated to directors, other managers, and members of senior management based on materiality, transaction amounts, and other factors. Guided by these regulations, the Company strives to enhance its operations management.

Principle 4.8 Effective Use of Independent Directors

The Board of Directors of the Company currently consists of 14 directors, four of which are outside directors. Notification has been submitted to the Tokyo Stock Exchange designating all four outside directors as independent directors in reflection of their independence from the Company. The outside directors have been judged to be effectively fulfilling their responsibility of supporting appropriate decision-making by the Company through the provision of valuable input based on their independent perspectives at venues such as meetings of the Board of Directors and through other means.

Principle 4.9 Independence Standards and Qualification for Independent Directors

The Company selects candidates for the position of outside director to be designated as independent directors based on the conditions for outside directors defined by the Companies Act of Japan and the requirements for independent directors stipulated by the Tokyo Stock Exchange. Candidates must not present the risk of conflicts of interest with general shareholders and are also expected to possess the extensive insight and personality required to effectively fulfill the function of overseeing management from an impartial perspective as an outside director to be designated as an independent director.

Supplementary Principle 4.11.1 Policies and Procedures Regarding the Appointment of Directors

The Board of Directors is tasked with facilitating the ongoing growth and improvement of the corporate value of the Company and with making swift, rational decisions. For this reason, the Company endeavors to appoint an appropriate number of directors by proposing to the General Meeting of Shareholders director candidates that are of superior temperament and that possess extensive insight,

experience, and skills in the field of retail, the Company's principal business, as well as in other fields.

Outside directors, meanwhile, must oversee management from an impartial and unbiased standpoint. Accordingly, the Company appoints the appropriate number of outside directors while seeking out individuals that have experience in important positions, have been corporate managers, or that possess insight in a variety of fields.

Supplementary Principle 4.11.2 Concurrent Positions Held by Directors

Information on concurrent positions, including positions as officers at listed companies and other important positions, held by directors or director candidates are disclosed each year in reference materials for the General Meeting of Shareholders, business reports, and annual securities reports.

Supplementary Principle 4.11.3 Analyses and Evaluations of Effectiveness of the Board of Directors

The Board of Directors evaluates its effectiveness at least once a year. In the fiscal year ended June 30, 2018, the following process was employed to evaluate the effectiveness of the Board of Directors. Through this evaluation, it was confirmed that the Board of Directors has been making swift and appropriate decisions based on brisk discussion in line with the Company's corporate philosophy while effectively fulfilling its role of improving medium- to long-term corporate value by exercising rigorous oversight functions. The Company therefore judged that the Board of Directors was effective.

Conversely, it was determined that there was a need to further build upon the Company's officer training systems based on changes to the composition of the Board of Directors instituted in the fiscal year ended June 30, 2018.

A third-party institution is commissioned to prepare and collect questionnaires and perform certain analyses in order to heighten the transparency of evaluations and ensure effectiveness.

Process of Evaluation of Effectiveness of the Board of Directors

(1) Preparation of questionnaires regarding the effectiveness of the Board of Directors based on advice from a third-party institution

(2) Collection of questionnaires from all directors by a third-party institution

(3) Analysis of the effectiveness of the Board of Directors based on questionnaire results

(4) Discussions at meetings of the Board of Directors

Overview of the Evaluation of Effectiveness of the Board of Directors in the Fiscal Year Ended June 30, 2018

[Strengths of the Company's Board of Directors]

・Proceedings based on the corporate philosophy

・Swift decision-making processes enabled by appropriate delegation of operational execution authority

・Functional whistle-blower system and regular monitoring of implementation status

[Pressing issues for the Company's Board of Directors]

・Creation of training opportunities for directors

・Provision of appropriate opportunities for utilizing the experience of outside directors

・Periodic revision of ideal state of Board of Directors

Going forward, the Company will implement measures to address issues identified based on the evaluation results in order to increase the effectiveness of the Board of Directors while enhancing the Company's corporate governance structure.

Supplementary Principle 4.14.2 Policies for Training Directors

The Company appoints directors that possess the prerequisite insight and experience pertaining to legal affairs, finance, accounting, and a wide variety of other fields and that are thereby able to effectively fulfill their roles and responsibilities. In addition, frameworks are in place to ensure that information is reported and supplied to directors as necessary after appointment, and directors are provided with opportunities to receive explanations directly from lawyers, accountants, and other specialists.

Principle 5.1 Policy for Constructive Dialogue with Shareholders

As part of its efforts to realize sustainable growth and improved corporate value over the medium to long term, the Company engages in constructive dialogue with shareholders and other investors through investor relations activities to ensure that its management policies and performance are accurately understood.

(1) The senior managing director and CFO has been designated as the director responsible for investor relations. In addition, the Corporate Communication Divisions of the Investor Relations Department in the Corporate Communications Headquarters has been placed under the direct jurisdiction of the senior managing director and CFO and designated as the division responsible for investor relations.

(2) Relevant information is relayed to the director responsible for investor relations in order to ensure that they are able to maintain an understanding of important internal matters while the division responsible for investor relations promotes cross-division coordination with organizations responsible for legal affairs, finances, accounting, sales, property development, and other areas as necessary in order to facilitate the appropriate disclosure of information.

(3) The director and division responsible for investor relations respond appropriately to requests for meetings from analysts and institutional investors and hold quarterly financial results briefings. The president and CEO also takes part in six-month and full-year financial results briefings. Furthermore, the investor relations section of the Company's corporate website (https://ppi-hd.co.jp/en/ir/) provides timely disclosure information, financial information, and other reference materials (financial summaries, annual

securities reports, integrated reports, shareholder newsletters, CSR reports, monthly sales reports, etc.) as part of the Company's efforts to support the investment decisions of shareholders and other investors (some information is available in Japanese only).

(4) The valuable input received from shareholders and other investors is shared with the Board of Directors and management as necessary to reflect this input in the management of the Company.

(5) The Company observes a set quiet period prior to the announcement of financial results during which it will not respond to any questions related to financial results. In addition, the Company complies with laws and regulations pertaining to undisclosed information (insider information), defines internal regulations for preventing insider trading, and practices rigorous management of this information.

2. Capital Structure

Foreign Shareholding Ratio	More than 30%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Credit Suisse AG Hong Kong Trust A/C Clients for DQ Windmolen B. V.	31,307,000	19.78
Japan Trustee Service Bank, Ltd. (Trust Account)	10,057,000	6.35
Anryu Shoji Co., Ltd.	8,280,000	5.23
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,875,600	4.98
Japan Post Bank Co., Ltd.	3,790,000	2.39
Yasuda Scholarship Foundation	3,600,000	2.27
Goldman Sachs International	2,585,374	1.63
State Street Bank and Trust Company 505001	2,531,109	1.60
Japan Trustee Service Bank, Ltd. (Trust Account 5)	2,505,500	1.58
The Bank of New York Mellon 140044	2,498,948	1.58

Controlling Shareholder (except for Parent Company)	-
Parent Company	No

Supplementary Explanation

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3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	June
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	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

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

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

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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 Supervisory Committee

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	27
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	14
Number of Outside Directors	4
Number of Independent Directors	4

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yukihiko Inoue	Other											

Yasunori Yoshimura	Academic											
Tomiaki Fukuda	Other								○			
Jumpei Nishitani	Academic											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

Name	Membership of Supervisory Committee	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yukihiko Inoue	○	○	-	Yukihiko Inoue has been appointed as an outside director as it was judged that he could use his experience as superintendent-general of the Metropolitan Police Department to perform his duties in an effective manner and from an objective standpoint. It was also judged that he does not present the risk of conflicts of interest with general shareholders and thus fulfills the requirements for being designated as an independent director. Mr. Inoue has therefore been designated as an independent director.
Yasunori Yoshimura	○	○	-	Yasunori Yoshimura has been appointed as an outside director as it was judged that he could use his

				experience from important positions, such as special advisor to the Cabinet, university professor, and chairman of various academic associations, to perform his duties in an effective manner and from an objective standpoint. It was also judged that he does not present the risk of conflicts of interest with general shareholders and thus fulfills the requirements for being designated as an independent director. Mr. Yoshimura has therefore been designated as an independent director.
Tomiaki Fukuda	○	○	Tomiaki Fukuda is the president of the Japan Wrestling Federation. The Company provides monetary support to the Japan Wrestling Federation to sponsor wrestling competitions and other activities. The federation's philosophy resonates with the Company, and the Company provides support as part of its CSR activities. This support is carried out to promote the sound development of youths through sports and as part of the Company's contributions to society in preparation for the Olympic and Paralympic Games Tokyo 2020. Furthermore, the amount of this payment is approximately ¥13 million per year (less than 0.01% of consolidated net sales and selling, general and administrative expenses of the Company), and the Company therefore believes that Mr. Fukuda has sufficient independence from the Company.	Mr. Fukuda has been appointed as an outside director as it was judged that he could use his experience from important positions, such as president of the Japan Wrestling Federation, to perform his duties in an effective manner and from an objective standpoint. It was also judged that he does not present the risk of conflicts of interest with general shareholders and thus fulfills the requirements for being designated as an independent director. Mr. Fukuda has therefore been designated as an independent director.
Jumpei Nishitani	○	○	-	Jumpei Nishitani has been appointed as an outside director as it was judged that he could use the specialized knowledge and wealth of experience pertaining to accounting and economics gained through his position as a professor of a university's faculty of business administration to perform the duties of an outside director that is an Audit & Supervisory Committee member in an effective manner. It was also judged that he does not present the risk of conflicts of interest with general shareholders and thus fulfills the requirements for being designated as an independent

				director. Mr. Nishitani has therefore been designated as an independent director.

[Supervisory Committee]

Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Supervisory Committee	5	1	1	4	Inside Director

Appointment of Directors and/or Staff to Support the Supervisory Committee	Appointed

Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

(1) The Company established an office of the Audit & Supervisory Committee (Auditors' Office) with staff exclusively dedicated to assisting the Audit & Supervisory Committee in its duty as required.

(2) Any personnel matters (including treatment and disciplinary action) pertaining to Auditors' Office staff must be reported first to the Audit & Supervisory Committee.

(3) If a staff member of the Auditors' Office concurrently performs administrative tasks in another division, priority shall be given to requests from the Audit & Supervisory Committee when the instructions are deemed necessary in the course of auditing activities. In addition, the supervisor in the other division where the individual with concurrent duties is assigned will extend the necessary support if requests are made to facilitate implementation of the Audit & Supervisory Committee's instructions.

Cooperation among Supervisory Committee, Accounting Auditors and Internal Audit Departments

(1) The Internal Audit Department provides the Audit & Supervisory Committee with timely and accurate updates on the implementation of internal controls.

(2) Directors and employees of the Company and of Group companies shall promptly inform the Audit & Supervisory Committee of any important issues that impact, or may impact, the operations of the Company or any Group company.

(3) Directors and employees of the Company and of Group companies must respond promptly when requested by the Audit & Supervisory Committee or the Auditors' Office to provide information about the status of operations, assets, or other corporate matters.

(4) The Company prohibits unfavorable treatment of anyone on the basis of a report given to the Audit & Supervisory Committee concerning information related to the aforementioned matters.

[Voluntary Establishment of Nomination/Remuneration Committee]

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Not Established

[Independent Directors]

Number of Independent Directors	4

Matters relating to Independent Directors

All outside directors that fulfill the requirements of independent directors are designated as such.

[Incentives]

Incentive Policies for Directors	Stock Options

Supplementary Explanation

Following a resolution at the 34th Ordinary General Meeting of Shareholders held on September 26, 2014, the Company abolished its retirement benefits plan for directors and Audit and Supervisory Board members. At the same time, share-based stock options were introduced for directors (excluding those that are Audit & Supervisory Committee members) with an exercise price of ¥1. This move was aimed at heightening directors' motivation and desire to contribute to improved medium- to long-term performance and corporate value for the Company by having directors share both the benefits of share price increases and the risks of share price decreases with shareholders. In addition, approval was received at the same meeting to set an upper limit of ¥40 billion annually for share-based stock options, which is to be separate from existing monetary compensation. The stock options held by directors (excluding those that are Audit & Supervisory Committee members) as of September 28, 2018, is as follows. (1) First Share-Based Compensation Stock Options Issue date: June 26, 2015 Number of share acquisition rights: 13 (200 shares of common stock can be acquired from 1 share acquisition right) Number of recipients: 3 Issue amount: ¥993,600 per share acquisition right (¥4,968 per share) Exercise price of share acquisition rights: ¥1 per share (2) Second Share-Based Compensation Stock Options

Issue date: December 28, 2015
Number of share acquisition rights: 25 (100 shares of common stock can be acquired from 1 share acquisition right)
Number of recipients: 3
Issue amount: ¥403,000 per share acquisition right (¥4,030 per share)
Exercise price of share acquisition rights: ¥1 per share

(3) Third Share-Based Compensation Stock Options
Issue date: June 1, 2017
Number of share acquisition rights: 140 (100 shares of common stock can be acquired from 1 share acquisition right)
Number of recipients: 3
Issue amount: ¥404,600 per share acquisition right (¥4,046 per share)
Exercise price of share acquisition rights: ¥1 per share

(4) Fourth Share-Based Compensation Stock Options
Issue date: June 29, 2018
Number of share acquisition rights: 500 (100 shares of common stock can be acquired from 1 share acquisition right)
Number of recipients: 3
Issue amount: ¥494,300 per share acquisition right (¥4,943 per share)
Exercise price of share acquisition rights: ¥1 per share

Following a resolution at the meeting of the Board of Directors held on June 30, 2016, the Company issued 335 share acquisition rights to the 11 directors (three of which were Audit & Supervisory Committee members) at the time (first paid-in stock options). (100 shares of common stock for each share acquisition right, issue amount of ¥2,000 per share acquisition right, and exercise price of ¥3,700 per share acquisition right)

Recipients of Stock Options	Inside Directors / Outside Directors / Parent Company's Employee / Subsidiaries' Directors / Subsidiaries' Employee

Supplementary Explanation

The Company has been issuing stock options to directors and employees since 1998 with the aim of heightening their motivation and desire to contribute to improved performance and thereby increasing shareholder value. Individuals eligible to receive stock options include directors and employees ranked senior staff or above of the Company and its subsidiaries. Following a resolution at the meeting of the Board of Directors held on June 30, 2016, share acquisition rights were issued to the aforementioned eligible

individuals (first paid-in stock options).

Following a resolution at the 34th Ordinary General Meeting of Shareholders held on September 26, 2014, the Company abolished its retirement benefits plan for directors and Audit and Supervisory Board members. At the same time, share-based stock options were introduced for directors (excluding those that are Audit & Supervisory Committee members) with an exercise price of ¥1. This move was aimed at heightening directors' motivation and desire to contribute to improved medium- to long-term performance and corporate value of the Company by having directors share both the benefits of share price increases and the risks of share price decreases with shareholders.

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors

Supplementary Explanation

In the fiscal year ended June 30, 2018, compensation totaling ¥466 million was paid to 10 directors (excluding those that are Audit & Supervisory Committee members) and compensation totaling ¥19 million was paid to five directors that are Audit & Supervisory Committee members (of which ¥13 million was paid to four outside directors). The above figure for compensation paid to directors (excluding those that are Audit & Supervisory Committee members) includes ¥247 million paid in the form of stock options (¥247 million paid to three directors).

Directors that received more than ¥100 million in total compensation are disclosed in the Company's annual securities report (Japanese only).

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The basic remuneration for directors (excluding those that are Audit & Supervisory Committee members) is determined by the Board of Directors, within the overall limit of remuneration approved by a resolution of the General Meeting of Shareholders, taking into account the Company's operating results and financial position as well as the economic environment.

Remuneration for directors that are Audit & Supervisory Committee members is determined by deliberation among Audit & Supervisory Committee members, within the overall limit of remuneration approved by a resolution of the General Meeting of Shareholders.

[Supporting System for Outside Directors]

Four of the Company's 14 directors are outside directors, and all four outside directors are Audit & Supervisory Committee members. The Auditors' Office is responsible for tasks such as arranging meetings of

the Audit & Supervisory Committee and managing meeting minutes and will support the outside directors in their duties when required.

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

(1) Board of Directors

The highest decision-making body within the Company with regard to the execution of operations is the Board of Directors, which meets at least once a month to discuss and determine important issues concerning business activities. The Board of Directors comprises 14 members, nine of which are directors (excluding those that are Audit & Supervisory Committee members), of which none are outside directors, and five are directors that are Audit & Supervisory Committee members, of which four are outside directors.

The execution of duties by directors are audited by the Audit & Supervisory Committee and, when necessary, the Audit & Supervisory Committee will work with the independent auditor to facilitate the execution of audits. In addition, management has designated all four of the outside directors as independent directors, who contribute broad-based knowledge from an objective position free from any conflicts of interest with general shareholders. Such input is applied to issues important from a corporate administration perspective, such as the formulation of Companywide business strategies, and management therefore believes that the current Board of Directors structure is conducive to suitable decision-making processes.

(2) Internal Audit Department

The Internal Audit Department, under the direct authority of the Board of Directors, is independent from divisions that execute operations. This department provides a point of contact, as necessary, between the independent auditor and Audit & Supervisory Committee members and undertakes audits, based on an auditing plan, to ascertain the legality and appropriateness of the activities of divisions and subsidiaries. In addition, the department applies an internal control perspective to its monitoring of key business practices in all divisions, at stores, and at subsidiaries.

(3) Outside Directors

The Company has four outside directors.

The outside directors are appointed on the expectation that the individuals will offer opinions and point out issues helpful to management from an external perspective, based on specialized knowledge and experience in corporate management, and thereby contribute to enhanced management soundness and transparency. Outside Director Jumpei Nishitani, as a professor of a university’s faculty of business administration, has a high level of specialized knowledge and possesses considerable insight regarding finance and accounting. All four outside directors have been deemed to present no risk of a conflict of interest with general shareholders and were designated as independent directors in accordance with rules set by the Tokyo Stock Exchange, to which notifications were submitted.

The Company has no clear-cut criteria or policies regarding the independence of individuals appointed as

outside directors. However, in the appointment process, a candidate for outside director is evaluated on the ability to maintain a sufficient degree of independence to perform assigned duties independent of the management team.

(4) Compliance Committee

Members of the Compliance Committee are primarily outside experts, including lawyers and outside directors. Their duties include formulating misconduct prevention measures, drafting monitoring and auditing plans, examining the results of such investigations and audits, and sharing information on misconduct cases that have occurred at other companies and verifying facts as a way to preclude such incidents from occurring at the Group.

(5) Other

The Legal Department holds legal consultation days to provide opportunities for receiving advice directly from legal counsel with regard to the legal conformity of important matters. These days are held on a regular basis to reinforce and entrench compliance.

The independent auditor, in addition to standard accounting audits, provides preconfirmation on the legality and accounting standard conformity of specific items from the perspectives of timely and accurate disclosure and offers advice when deemed necessary.

3. Reasons for Adoption of Current Corporate Governance System

At the 36th Ordinary General Meeting of Shareholders held on September 28, 2016, a resolution was passed to amend the Company's Articles of Incorporation to allow for a transition to the Company with Audit and Supervisory Committee structure described in the Companies Act of Japan. The Company thus transitioned from the prior Company with Board of Company Auditors structure to the Company with Audit and Supervisory Committee structure effective September 28, 2016. In conjunction with the transition, the Audit & Supervisory Committee was established and directors that are Audit & Supervisory Committee members were granted voting rights at meetings of the Board of Directors. The purpose of these changes was to strengthen the monitoring and oversight functions of the Board of Directors in order to facilitate enhancements to corporate governance and improvements to corporate value.

III. Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary Explanations
Scheduling AGMs Avoiding the Peak Day	The fiscal year-end of the Company is June 30, and the Ordinary General Meeting of Shareholders is held in late September of each year.

Allowing Electronic Exercise of Voting Rights	An electronic voting rights exercise system is employed through a website developed by a securities agency.
Participation in Electronic Voting Platform	The electronic voting rights exercise platform for institutional investors operated by ICJ, Inc., is employed.
Providing Convocation Notice in English	Notices of convocation (summaries) in English are prepared and made available on the Company's corporate website for the convenience of overseas investors.
Other	The General Meeting of Shareholders is positioned as a forum for communication between shareholders and the Company, and sales reports employing visual representations and other methods are utilized to ensure interactive meetings.

2. IR Activities

	Supplementary Explanations
Regular Investor Briefings for Analysts and Institutional Investors	Quarterly briefings are held to explain quantitative financial results to analysts and institutional investors. The CEO and CFO participate in the briefings, which are attended by between 100 and 150 individuals. Explanations are provided directly from Company representative: Yes
Regular Investor Briefings for Overseas Investors	Investor relations roadshows are held six to seven times a year in Europe, North America, Asia, and other regions. Explanations are provided directly from Company representative: No
Posting of IR Materials on Website	Financial summaries, financial results briefing materials, non-financial disclosures, annual securities reports, quarterly business reports, and other investor relations materials are made available on the Company's corporate website (https://ppi-hd.co.jp/en/ir/) to facilitate understanding of the Company among investors and other individuals (some information is available in Japanese only). In addition, the Company proactively discloses information in English for the benefit of overseas investors.
Establishment of Department and/or Manager in Charge of IR	Senior Managing Director and CFO Mitsuo Takahashi has been designated as the director responsible for investor relations and the IR Division in the Corporate Communications Headquarters has been designated as the division responsible for investor relations.

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	As a company that creates new store formats while adhering to its corporate philosophy of “valuing the customer as our utmost priority,” the Company implements various measures to develop stores that excite customers through high-quality amusement and services.
Implementation of Environmental Activities, CSR Activities etc.	We continue to exercise a strong sense of duty in our measures for and in our stance toward addressing environmental issues as members of the Group and as good corporate citizens. The Group’s constant social contribution activities include initiatives that take advantage of its business as a retailer, such as dispatching sales to senior citizen long-term care facilities and providing opportunities for elementary and junior high school students and other youths to experience working at stores. These initiatives are advanced while discussing and coordinating with local communities so that the Company can coexist in harmony with these communities. In addition, the late-night operation of our stores enables them to function as a safe harbor in times of emergency, and we are committed to continuously contributing to communities in the manner made possible by these late-night operations going forward. The Company also implements measures that are considerate of the environment of the communities in which its stores are located. Such measures include the introduction of energy management systems that automatically control air conditioning and humidity levels based on the number of people in a store at a given time as well as the installation of energy-saving LED lighting. Furthermore, daycare centers are set up in the offices of Group companies to help realize a society in which children can be raised happily and with peace of mind through the elimination of children waiting for daycare slots and the invigoration of communities. By instituting various initiatives that promote exchanges between communities, daycare centers, and stores, we aim to create an environment in which communities contribute to childrearing. The Company is also actively involved in promoting respect for diversity. For example, our efforts to foster understanding regarding LGBT employees include holding employee trainings led by external instructors and other initiatives for building understanding and incorporating this understanding into store operations.

IV. Matters Related to the Internal Control System

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

The Company's internal control structure was established and is maintained in accordance with the Companies Act of Japan and the Ordinance for Enforcement of the Companies Act to ensure the appropriateness of the Company's business operations.

1. System ensuring the execution of duties by directors complies with the Company's Articles of Incorporation and prevailing laws and regulations

(1) Directors must consistently ensure that the Company's management is undertaken in compliance with laws and regulations and must take the initiative to promote awareness of compliance practices at the Company and at its subsidiaries.

(2) To ensure appropriate execution of duties by directors, the Company continues to appoint outside directors to its Board of Directors and strives to enhance the supervision of duties executed by directors. In addition, the Audit & Supervisory Committee, which has the participation of outside directors, conducts thorough audits that ensure impartiality and transparency from a position independent of influence of directors (excluding those that are Audit & Supervisory Committee members).

(3) The Chief Compliance Officer (CCO) is designated as the director responsible for compliance and oversees issues related to legal compliance and internal controls. In addition, the CCO works closely with the Compliance Committee, members of which are primarily external professionals, such as lawyers, to ensure that business activities follow a highly ethical code of conduct and that the corporate governance structure and execution of associated practices conform to legal standards.

2. System for storing and managing information related to the execution of duties by directors

(1) The minutes of shareholders' meetings, Board of Directors' meetings, and other important meetings along with any and all related materials are stored and managed by a designated department and retained for a period of 10 years under conditions that facilitate examination whenever necessary.

(2) The Company utilizes tools to improve the security of in-house information networks and performs careful and timely reviews of its Rules for Information Security Management. Concurrently, the Company encourages information sharing within the organization and maintains systems to prevent leaks of confidential information.

3. Rules and system for managing the risk of loss

(1) The CCO and the Compliance Committee analyze and evaluate lateral risks from a compliance standpoint for the entire Group and examine potential measures for dealing with such risks.

(2) Efforts are made to swiftly and accurately systemize rules and instruction manuals and standardize business practices to minimize operational risks.

(3) Organizational and operating structures are swiftly and effectively established to control risks associated with procedures, including financial accounting, purchasing, sales, store operation, and legal issues, which serve to minimize operational risks.

4. System ensuring efficient execution of duties by directors

(1) Rules related to organizational structures are reviewed and updated in a timely and appropriate manner to clarify the division of directors' duties and respective oversight authority.

(2) Organizational and administrative systems are revised when necessary to meet changes in the business environment.

5. System ensuring the execution of duties by employees complies with the Company's Articles of Incorporation and prevailing laws and regulations

(1) The CCO promotes compliance and ensures thorough adherence to stated practices in accordance with resolutions by the Board of Directors.

(2) The Compliance Committee, through coordination with the CCO, formulates plans that include education on issues related to compliance, and the Compliance Office handles the administrative aspect of these activities based on instructions from the Compliance Committee.

(3) The Company maintains a whistle-blower system, dubbed the Compliance Hotline, which enables employees and business partners of the Group to directly report questionable conduct—that is, possible violations of the law or regulations or in-house rules—directly to an outside entity or an in-house point of contact with complete confidentiality. Concerted efforts are made to promote awareness of this system to ensure that it continues to function effectively. The Company makes it a top priority to protect individuals that report an actual or possible violation from any sort of disadvantage for bringing potential infractions to light.

6. System ensuring appropriateness of operations at the Company and at its subsidiaries

(1) Timely and accurate reports on the status of operations—that is, progress in the execution of

operations—at Group companies must be submitted to the Board of Directors of the Company.

(2) To confirm the proper execution of operations at Group companies, the Internal Audit Department works with each company to determine progress in establishing internal controls. To further improve the internal control system, the Compliance Committee provides instruction and support as required based on a shared understanding of internal control measures within the Group.

(3) To confirm the proper execution of operations at Group companies, the Company has prepared the Rules for Management of Affiliated Companies. These rules provide guidelines for monitoring business activities at Group companies.

7. Issues pertaining to employees that assist the Audit & Supervisory Committee when such assistance is required

The Company established an office of the Audit & Supervisory Committee (Auditors' Office) with staff exclusively dedicated to assisting the Audit & Supervisory Committee in its duty as required.

8. Matters related to the independence of employees that are to assist the Audit & Supervisory Committee with its duty from directors (excluding those that are Audit & Supervisory Committee members) and matters related to ensuring the effectiveness of instruction from the Audit & Supervisory Committee to such employees

(1) Any personnel matters (including treatment and disciplinary action) pertaining to Auditors' Office staff must be reported first to the Audit & Supervisory Committee.

(2) If a staff member of the Auditors' Office concurrently performs administrative tasks in another division, priority shall be given to requests from the Audit & Supervisory Committee when the instructions are deemed necessary in the course of auditing activities. In addition, the supervisor in the other division where the individual with concurrent duties is assigned will extend the necessary support if requests are made to facilitate implementation of the Audit & Supervisory Committee's instructions.

9. System for submitting reports to the Audit & Supervisory Committee, which includes the system for directors and employees to report to the Audit & Supervisory Committee

(1) The Internal Audit Department provides the Audit & Supervisory Committee with timely and accurate updates on the implementation of internal controls.

(2) Directors and employees of the Company and of Group companies shall promptly inform the Audit & Supervisory Committee of any important issues that impact, or may impact, the operations of the Company or

any Group company.

(3) Directors and employees of the Company and of Group companies must respond promptly when asked by the Audit & Supervisory Committee or the Auditors' Office to provide information about the status of operations, assets, or other corporate matters.

(4) The Company prohibits unfavorable treatment of anyone on the basis of a report given to the Audit & Supervisory Committee concerning information related to the aforementioned matters.

10. Other: Systems for ensuring the effectiveness of audits by the Audit & Supervisory Committee

(1) Opportunities are provided for the Audit & Supervisory Committee to communicate with directors (excluding those that are Audit & Supervisory Committee members) of the Company as well as the directors and audit & supervisory board members of Group companies to make audits as effective as possible. The Audit & Supervisory Committee keeps close ties with the Internal Audit Department and looks over internal audit reports to complement standard audits performed in line with in-house rules. Also, when the independent auditor submits an audit report, the Audit & Supervisory Committee confirms the appropriateness of the content therein.

(2) The Audit & Supervisory Committee is informed on a regular basis of how the Compliance Hotline is operating.

(3) Payments of costs incurred in the process of executing the required duties of a director that is an Audit & Supervisory Committee member shall be addressed promptly upon submission of a request for payment.

2. Basic Views on Eliminating Anti-Social Forces

The Group has defined the following policies for non-association with antisocial forces and has established internal systems with this regard.

(1) Neither the Company nor any Group company will respond to inappropriate requests or any other form of request from antisocial forces and will cancel business dealings if the counterparty is found to be an individual, business, organization, or any other type of entity with ties to antisocial forces.

(2) To guarantee a firm response to any inappropriate requests by antisocial forces, the Company has established the Crisis Management Department to respond to inappropriate requests by antisocial forces, implement in-house training, and address any questionable activities.

(3) The Crisis Management Department collects information through coordination with the police, legal counsel, and other external organizations. In addition, a special position has been set up within the Company to deal with inappropriate requests and an internal structure is in place, along with intranet, to expedite responses in the event a situation arises.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation
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2. Other Matters Concerning to Corporate Governance System

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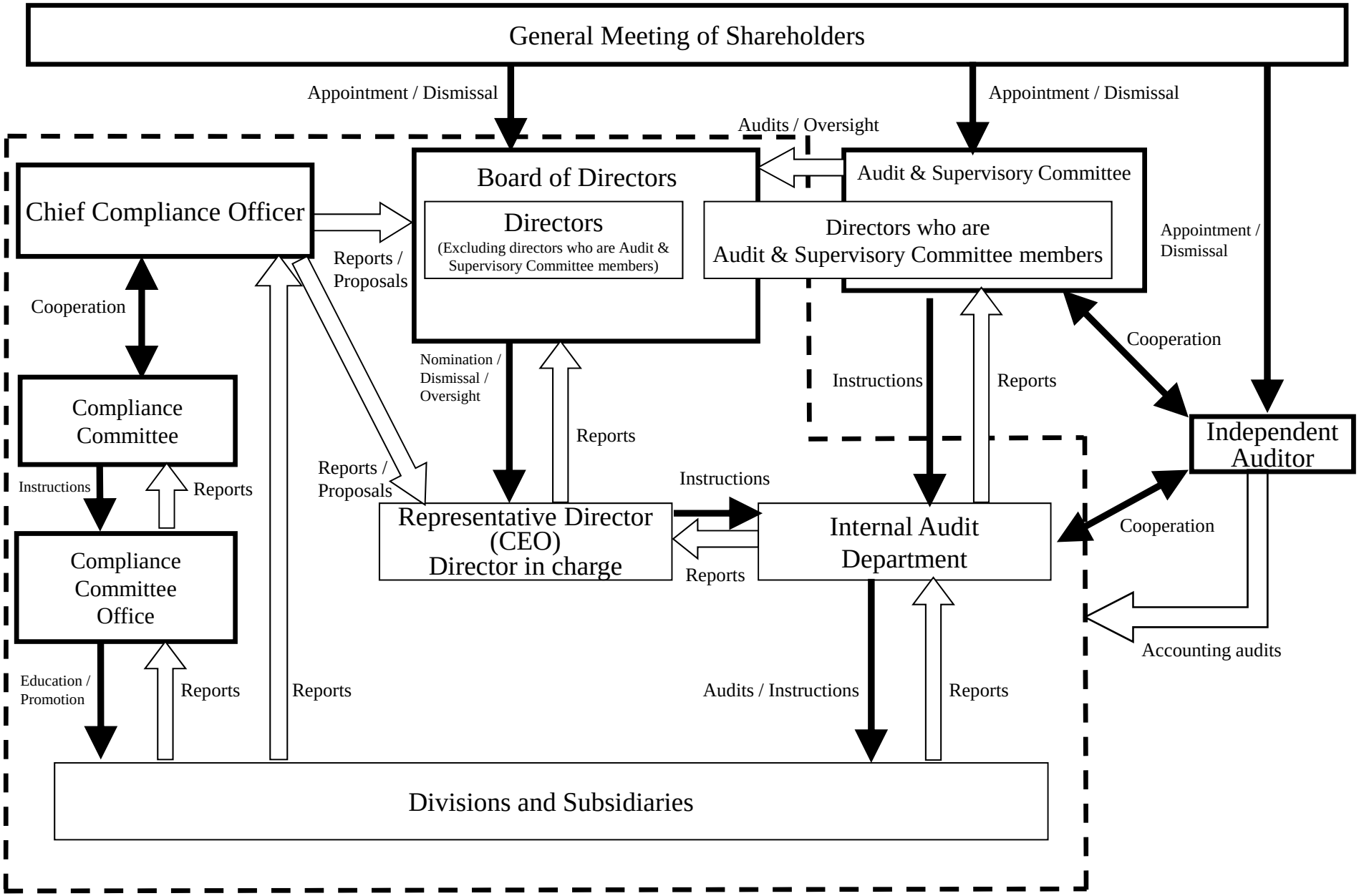
< Corporate Governance Structure >



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