

# Boosting ROE and ESG practice should be level, while we ask ourselves what kind of make from the perspective of the SDGs.

We conducted the following interview with Mr. Kunio Ito, an Outside Director, on the evaluation of management and governance of the Seven & i Group, as well as the role of Outside Directors, and received his advice for the sustainable growth of corporate value in the future.

**Q** Please tell us your impression of the Seven & i Group's business.

**I** feel that the Group has a major *raison d'être*, with both strengths and weaknesses.

The Seven & i Group is surrounded by wide-ranging stakeholders, including customers, business partners, shareholders and other investors, local communities, franchisees and employees. When I was appointed four years ago, I noticed that the Group was fulfilling its various responsibilities through dialogue with its respective stakeholders and felt that it had an important *raison d'être* in society. The fact that the Group has both strengths and weaknesses also left an impression. The Group has maintained steady growth on the back of highly refined systems built by Seven-Eleven Japan, its main operating company. By the same token, convenience store operations account for a major proportion of business. If those operations stop performing well, there could be a large impact on the Group overall, which I thought was a potential weakness.

**Q** Please tell us the status of discussions at Board of Directors' meetings and give your evaluation of governance reforms.

**We** are progressing with governance reforms, with "dialogue" as the key word.

Since we adopted a new management organization two years ago, an emphasis on dialogue has emerged as an important policy, and I'm surprised at how energized the Board of Directors' meetings have become. Participants have become more active in asking questions, and explanations about discussion items and agendas have become more polite, which inevitably requires longer meeting times. President Isaka's emphasis on dialogue is also driving these major changes at Board meetings. While we always respectfully answer questions from shareholders at Annual Shareholders' Meetings, we place important emphasis on dialogue with all stakeholders. Our Board of Directors' meetings have also become more dialogue driven. I have come to realize that stimulating dialogue at Board of Directors' meetings, from both internal and Outside Directors and Audit & Supervisory Board Members, leads to an increase in corporate value.

We have been evaluating the Board of Directors' effectiveness since fiscal 2017. In fiscal 2018, however, we conducted questionnaire surveys and interviews with internal Directors (conducted by a third-party organization) and

# achieved at a high contribution we can



Outside Directors (conducted by in-house staff). All members of the Board of Directors and the Audit & Supervisory Board now proceed with discussions with information thus gathered, as well as through the aggregation and analysis of opinions and proposals for improvement. Using the questionnaire results, we held talks on four occasions and gave serious consideration to issues and improvement proposals, which led to a major push for governance reforms, I believe. To further increase the effectiveness of the Board of Directors, we have set Group governance improvement and the creation of a successor plan as priority themes for fiscal 2019. Having decided on the direction and method of initiatives to undertake, we now maintain major one-year PDCA cycles for evaluating the Board of Directors for the coming fiscal years.

## Q Please tell us what about the Board of Directors has impressed you.

**We are realizing governance based on both a sense of urgency and a free-and-open mind-set.**

I feel that the Board of Directors now maintains both a sense of urgency and a free-and-open mind-set. For example, in cases where important decisions had to be made, Outside Directors

(including myself) provided advice, and we requested reversal or revision of a proposal on multiple occasions. Internal Directors responded strongly to these requests, but we ultimately made a good decision. Building a system that encourages repeated discussions on important matters has led to improvements in governance, I believe.

## Q Please describe the role that Outside Directors play in the Board of Directors.

**Our role is to read between the lines to prevent decisions against the interests of shareholders from being made, not to compromise ourselves to the atmosphere.**

In addition to “objectivity” and “transparency,” I believe that “explainability” is an important judgment criterion for the Board of Directors. “Explainability” means the ability of the Board of Directors to explain its decisions properly to shareholders and other stakeholders. Outside Directors represent the interests of numerous shareholders, so we should not make decisions that we cannot properly explain to them. Although it is necessary to read the contextual background of discussion items and agendas, I believe we should avoid compromising ourselves to make judgments with “objectivity” or “transparency.”

**My obligation also entails gathering information on people close to the front lines.**

I recognize that my obligation is to ensure the sustainable growth of the Seven & i Group's corporate value, and I participate in discussions at Board of Directors' meetings to carry that out. By participating in discussions as Board members, Outside Directors can help prevent internal members from being swayed by "in-house paradigms." Because information submitted to the Board of Directors has usually been prepared for the purpose of passing motions, it is difficult to make correct decisions based solely on such information. As

Outside Directors, we need to have factual information, and therefore we endeavor to communicate with people other than internal Board members on a daily basis. Listening to a certain number of opinions enables us to understand what people really think about the Company, which in fact may be different from what is stated at Board of Directors' meetings. For making important decisions, therefore, factual information obtained through daily communication is very useful. To foster appropriate decision-making conducive to corporate growth, Outside Directors should make an effort to obtain information from the front lines, in addition to having information presented at Board meetings.

## Through governance reforms, we are fostering consensus for discussions based on long-term perspectives.

**We will continue improving corporate value through governance reforms.**

The Group is currently striving to continuously improve corporate value through governance reforms. To this end, it is important for each and every member of the Board of Directors to discuss specific agenda items based on a strong commitment to achieving the sustainable growth of corporate value. The term "corporate value" conjures up an image of being confined inside a picture frame and not venturing outside. Instead, we need to promote discussion while adding a specific interpretation in concrete terms as to what kind of initiatives will lead to the creation of corporate value. At Board of Directors' meetings, I feel that we are now fostering consensus when undertaking discussion and making decisions based on long-term perspectives, rather than short-term ones, while remaining conscious of sustainable growth in corporate value.

Q

**What do you think is necessary for the Group to achieve sustainable growth in the future?**

**I think it is important to create a pool of talented people who will be responsible for our future management.**

I am also the chair of the Nomination and Compensation Committee. Even though I have responsibilities to personnel at the executive level and above, I hope to help build a fair personnel system for all. A fair personnel system is conducive to sustainable improvements in corporate value. For this reason, I aim to communicate with top management, including the president, and make an effort to share information on in-house human resources.

When a great leader leaves the scene, companies often enter a period of difficulty in producing talented personnel. This applies to many companies. Producing talented people on an ongoing basis is fundamental for a company to achieve continuous growth. Therefore, it is important to create a pool of talented people who will be responsible for future management.

**I hope to bring together ROE and ESG at a high level to realize sustainable growth.**

Since the *Ito Review* four years ago advocating ROE of 8% or higher, I have constantly emphasized the importance of capital productivity. Seven & i Holdings is currently aiming for ROE of 10% or higher, but I want to raise it even further. Meanwhile, there is an increasing need to be mindful of ESG (environment, society, governance). For this reason, I am promoting the coined term “ROESG” as a combination of ROE and ESG. People who invest capital in a business will not invest in companies that do not increase capital productivity, and ESG is also

important for sustainable growth. Rather than being conflicting ideas, I think that ROE and ESG should be compatible.

The Sustainable Development Goals (SDGs) were adopted at a United Nations summit in 2015. With its numerous stakeholders, the Seven & i Group has a great influence on society. Accordingly, we need to be more proactive than other companies in creating a sustainable society. I think we should materialize ROESG at a high level by envisaging “what we should be like” from an SDG-related perspective, then ask ourselves what kind of contribution we can make to help create a sustainable society.

## Kunio Ito

Outside Director

Professor, Hitotsubashi University Business School  
Professor, Chuo University, Graduate School of Strategic Management  
Specialist in accounting, corporate governance and corporate valuation.  
Published “Ito Review” in 2014 under a project of the Ministry of Economy,  
Trade and Industry.  
Became Outside Director in May 2014.



# Features of Corporate Governance and Initiatives toward Its Reinforcement

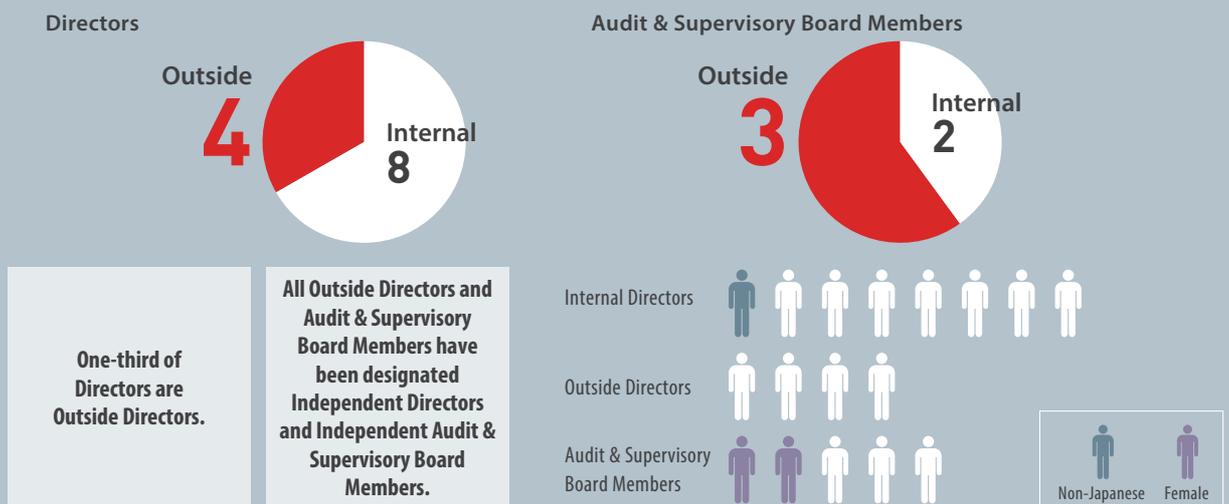
The mission of Seven & i Holdings, as a holding company that supports and monitors its operating companies, is to strengthen corporate governance and maximize the corporate value of the Seven & i Group. In taking steps to achieve these goals, the Company pursues Group synergies and implements the appropriate allocation of management resources.

On the other hand, each operating company fulfills its own responsibilities in its field of business, where it acts independently to secure growth in profits and higher capital efficiency.

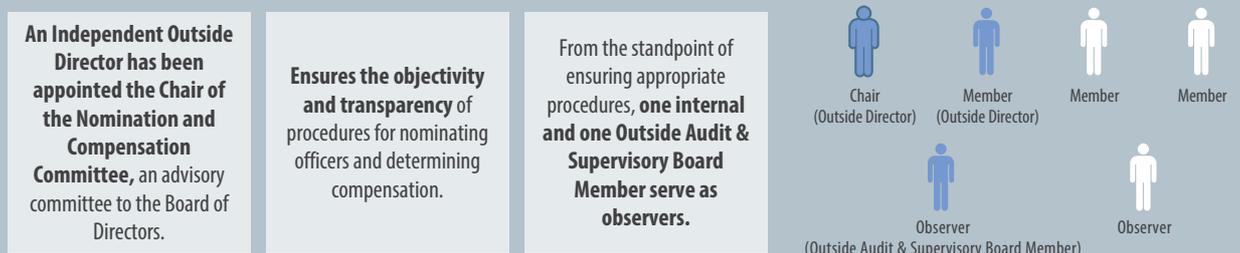
In this way, responsibilities are clearly allocated among Group companies and, through supervision by the Directors and auditing by the Audit & Supervisory Board Members, the Company's corporate governance system strives to ensure that these operating company activities are implemented in a manner that is fair, appropriate and effective.

## Outline of Seven & i Holdings' Corporate Governance

### 1. Composition and number of Outside Directors and Outside Audit & Supervisory Board Members



### 2. Establishment of the Nomination and Compensation Committee

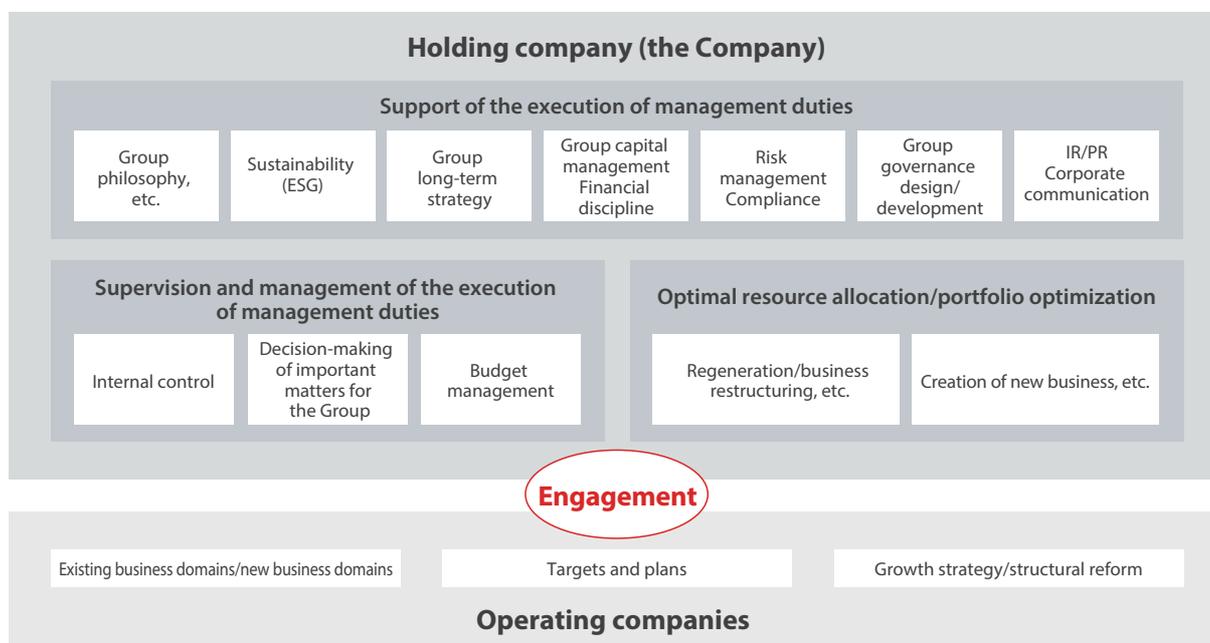


### 3. Organizational reforms aimed at further improving the precision of Group governance (March 2018)



# Group Governance Structure that Drives Corporate Value Creation

## 1 Group governance through a holding company structure



### Medium-Term Management Plan numerical targets (fiscal 2020)

Consolidated operating income of ¥ **450.0** billion, ROE of **10%**

We have adopted group governance through a holding company structure as a framework to drive not only short-term but also medium- to long-term corporate value creation for the Group based on its philosophy and management policy.

As the holding company overseeing the Group, the Company will provide management execution support for operating companies as well as supervision, and implement optimal resource allocation for sustainable growth and improvements in medium- to long-term corporate value of the Group. At the same time, we are responsible for instilling the Group philosophy, etc., formulating sustainability policies and Group long-term strategy, conducting Group capital management and financial discipline, developing risk management and compliance structures, and conducting “Group management” such as the development of Group

governance and “Group communication” including IR and PR.

Meanwhile, operating companies within the Group implement PDCA based on targets and plans set through engagement with the Company within the scope of the business responsible, while remaining individually autonomous as they boldly challenge and fulfill their responsibility for structural reform and growth strategy in an effort to improve corporate value and capital efficiency.

By making engagement and cooperation between the Company as a holding company and operating companies even closer and stronger based on the clarified division of roles among Group companies, we will not only steadily implement the Medium-Term Management Plan but also strive to realize the management philosophy and management policy, and improve the Group’s corporate value.

**2 The Company’s organizational reforms in fiscal 2019, aimed at further improving the precision of Group governance**

The Company has implemented the following organizational reforms from March 2018 for the purpose of strengthening responsiveness as a holding company, developing structures to advance focused policies for the Group and enhancing the functions of operating companies.

Going forward, the Company will work to implement PDCA on its own to improve its function as a holding company.

**The Company’s organizational reforms in fiscal 2019**

**Acceleration of information sharing through a six-division system**

Divisions have been newly established as the superior organization, fulfilling their respective functions. By shifting to an organizational structure that further promotes information sharing, we will not only be able to share information more closely but also promote efficient management through swift reporting to management.

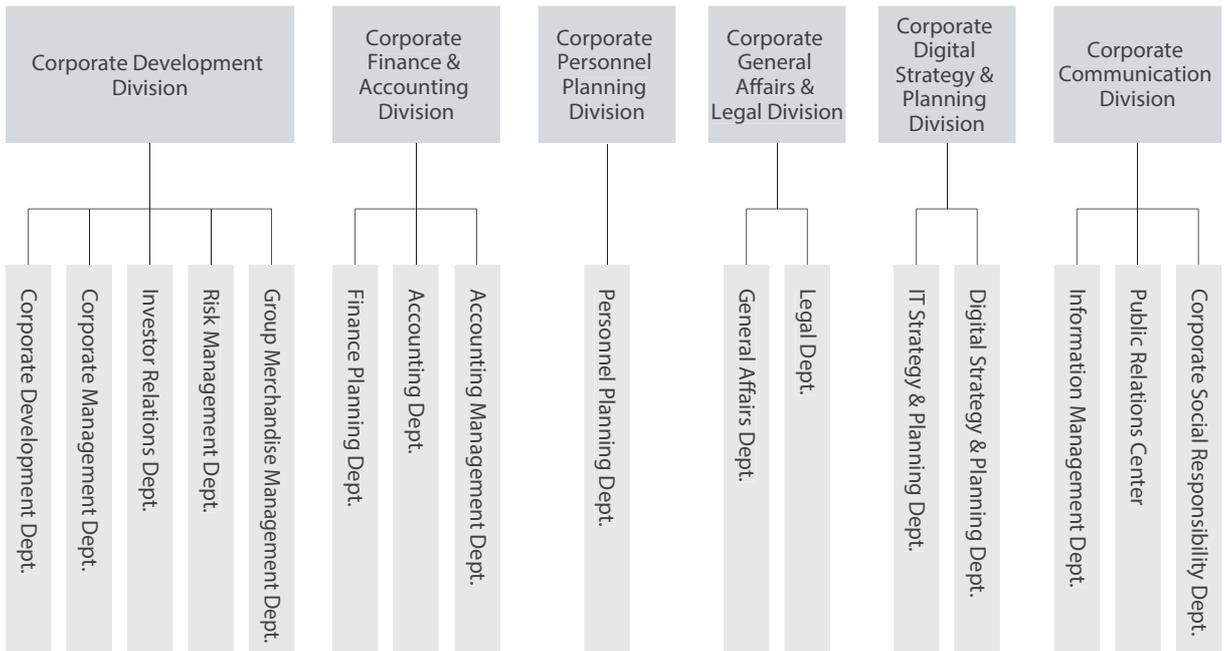
**Strengthening digital strategy promotion structure**

We have created a new digital strategy promotion structure to use IT and leverage the information of each individual customer to advance product development and CRM strategy more in line with needs as we realize the creation of services that integrate pioneering IT and physical stores.

**Strengthening field capabilities for operating companies by transferring administrative functions**

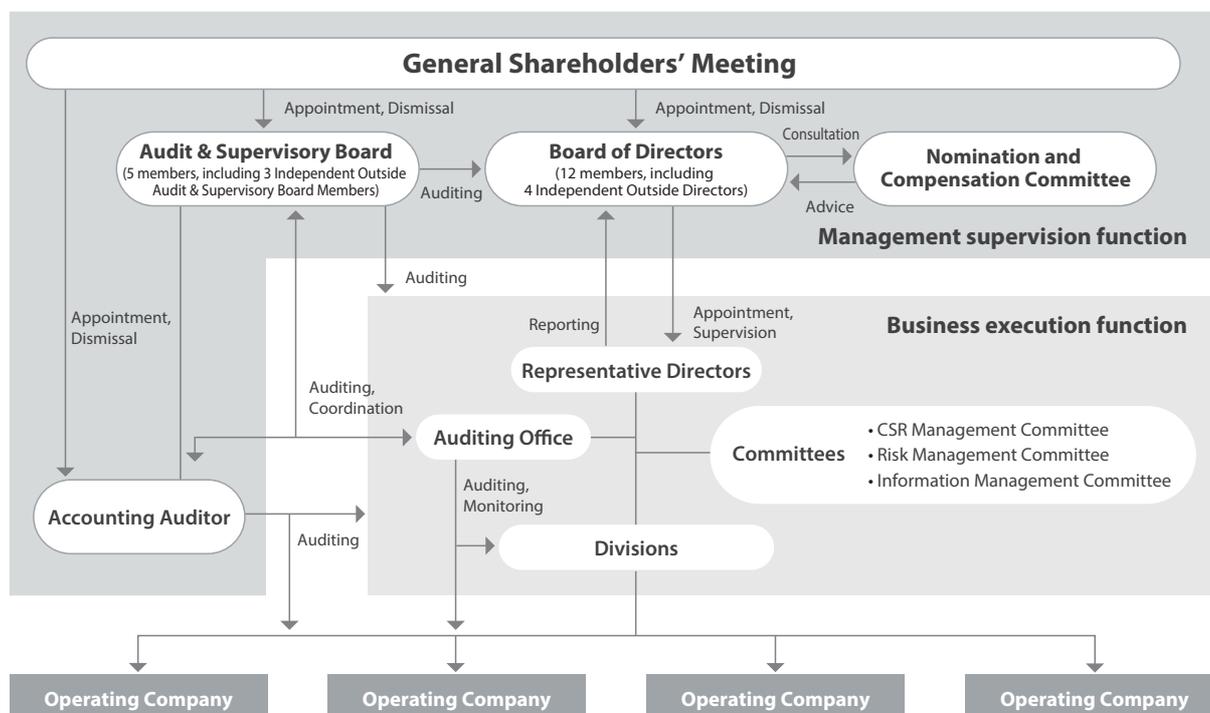
Some administrative functions will be transferred to SEVEN-ELEVEN JAPAN CO., LTD. to achieve improvements in field capabilities for the purposes of establishing a mutually efficient business operation structure, accelerating administrative reform capabilities and strengthening the governance of operating companies by redefining the role as a holding company that maximizes corporate value for the Group overall and the role of operating companies.

**The Company’s Divisional Structure (as of June 4, 2018)**



# Overview of the Corporate Governance Framework

Corporate Governance System (As of June 4, 2018)



## 1 Separation of the supervision function of the Board of Directors and the business execution function of executive officers through the introduction of an executive officer system (Clarification of the scope of delegation to management)

The Company's Board of Directors comprises 12 Directors (12 men and 0 women), of whom four are Outside Directors, and it meets on a monthly basis as a general rule.

To facilitate prompt decision-making and business execution within a drastically changing management environment, the Company has introduced the executive officer system. This has separated the supervision function of the Board of Directors and the business execution function of executive

officers. This has also developed an environment that allows the Board of Directors to focus on the formulation of management strategies and the supervision of business execution, and the executive officers to focus on business execution. The system comprises 20 executive officers (19 men and 1 woman).

As for selecting management, to ensure more timely reflection of the wishes of shareholders, the Company has set the term of Directors at one year.

### Clarification of the scope of delegation to management

The Company specifies the matters that should be prescribed by the Board of Directors in the Rules of the Board of Directors, the regulations of decision-making authority, etc., and the Board of Directors decides on matters as stipulated in the Companies Act and such internal regulations, etc.

In addition, the regulations of decision-making authority, etc., clearly prescribe the scope of decision-making by the President and Representative Director in an effort to clarify the decision-making process and responsibility structure for management and accelerate decision-making through the reasonable delegation of authority.

## 2 Reasons for selecting the current corporate governance structure

The Audit & Supervisory Board, which maintains independence and includes multiple Outside Audit & Supervisory Board Members with expertise in such areas as law and financial accounting, conducts audits in active cooperation with auditors and the Auditing Office. On the other hand, the Board of Directors, which maintains independence and includes multiple Outside Directors with high-level management experience and insights, focuses on the formulation of management strategies and supervision

of business execution. The duties assigned to each executive board complement one other and ensure effective corporate governance at the Company.

The Company adopted the corporate governance structure described above because we deemed it effective for achieving and ensuring corporate governance for the Company and for enabling appropriate and efficient corporate management.

### Use of an Audit & Supervisory Board system

The Company has adopted an Audit & Supervisory Board system as a corporate governance structure because we believe that the following characteristics and benefits of such a system are effective to ensure the appropriateness of corporate governance for the Company.

- 1) Each Audit & Supervisory Board Member has independent audit authority (the unitary system), and each Audit & Supervisory Board Member is capable of auditing from a multi-faceted perspective.
- 2) The independence of Audit & Supervisory Board Members is clearly legislated, which enables independent and objective audits.
- 3) The authority of Audit & Supervisory Board Members to investigate subsidiaries is legislated, and this is also effective from the perspective of Group audits.

## 3 Nomination and Compensation Committee structure

The Company has established a Nomination and Compensation Committee, chaired by an Independent Outside Director, which functions as an advisory committee to the Board of Directors. The knowledge and advice of Outside Directors are put to good use in committee discussions about nominations and compensation of the Representative Directors, Directors, Audit & Supervisory Board Members and executive officers. In addition, the

committee ensures objectivity and transparency in procedures related to decisions on nominations and compensation of the Representative Directors, Directors, Audit & Supervisory Board Members and executive officers. This structure promotes improvement in the supervisory function of the Board of Directors and further enhances the corporate governance function.

### Main discussion items and composition of the Nomination and Compensation Committee

#### 1) Main Items for Deliberation

- Basic policies and standards for the nomination of candidates for officers of the Company and candidates for Representative Directors of the core operating companies
- Details of appointment proposals of candidates for officers of the Company and candidates for Representative Directors of the core operating companies
- Basic policies and standards for compensation, etc., for officers of the Company and the core operating companies
- Details of compensation, etc., for officers of the Company (excluding Audit & Supervisory Board Members) and Representative Directors of the core operating companies

## 2) Composition (as of June 4, 2018)

Chair:	Kunio Ito (Independent Outside Director)
Members:	Ryuichi Isaka, Katsuhiro Goto (2 internal Directors), Kunio Ito, Toshiro Yonemura (2 Independent Outside Directors)
Observers:	1 internal Audit & Supervisory Board Member 1 Outside Audit & Supervisory Board Member

Notes: 1. The chair and committee members are selected by the Board of Directors, and the observers are decided through discussion among Audit & Supervisory Board Members.  
2. Decisions of the committee are made by a majority of members in attendance, and in the event of a tie, the decision is made by the chair.



## 4 Corporate governance through various committees

The Company has established the CSR Management Committee, the Risk Management Committee and the Information Management Committee under the Representative Directors. Each committee works with the operating companies to determine Group policies, and manage and supervise their dissemination and execution in an effort to strengthen corporate governance.

### CSR Management Committee

The CSR Management Committee was established to promote, manage and supervise CSR activities for the entire Group. The Corporate Ethics and Culture Subcommittee, Consumer Affairs and Fair Business Practices Subcommittee, Environment Subcommittee and Social Value Creation Subcommittee have been established under the CSR Management Committee as cross-organization bodies responsible for studying and implementing specific measures in response to the Five Material Issues (Materiality) of the Group overall. With these subcommittees, we aim to contribute to the resolution of social issues involving stakeholders through further ensured compliance and business activities and to achieve the mutual sustainable development of society and the Group from the perspective of ESG (environment, society and governance).

In addition, the Group has designated an external third-party institution as a whistle-blower contact point (Help Line) for the Group's employees and business partners as part of the internal control system for the entire Group. Officers responsible for the CSR Management Committee regularly report on and confirm the status of response to internal reports at the Board of Directors.

### Risk Management Committee

The Company has established, developed and operated an integrated risk management structure centered around the Risk Management Committee, based on the "basic rules for risk management," to appropriately analyze and evaluate risks, as well as properly respond to risks for each business in consideration of the management environment and changes in risk factors for the Company and each Group company.

The Risk Management Committee regards as risks all phenomena that threaten the continuation of the Group's businesses and hinder sustainable growth, and it works to strengthen comprehensive and integrated risk management.

During fiscal 2018, the Company worked to identify risk issues common to the Group and unique to each company and reduce risks through cooperation between divisions responsible for each of the risk items for the Company, and a feedback structure for risk-related information with operating companies to further strengthen risk management.

### Information Management Committee

The Information Management Committee supervises efforts to strengthen corporate governance and information security based on information collection and management.

Continuing from fiscal 2017, in fiscal 2018, the Committee worked to strengthen information collection, management structures and structures for cooperating with each company for the timely and appropriate gathering and handling of material information, while strengthening structures for the centralized management of such information and reporting without omissions or delays to management and the relevant divisions.

In addition, to respond to society's growing concerns about personal information protection and to ensure the safety and security of customers using the Group's integrated e-commerce site, *omni7*, ISO27001 certification, which is an international standard for Information Security Management Systems (ISMS), has been acquired at locations that handle customers' personal information related to *omni7*, as the Group worked to strengthen information security and expand certified business locations as necessary. At the same time, we have worked to further strengthen information security by setting information security levels that should be achieved as a Group and rolling out these standards in accordance with PDCA cycle methods in ISMS certification at each Group company.

# Composition of the Board of Directors

## Board of Directors at the Company



### **Composition of the Board of Directors (balance of knowledge/experience/capabilities, diversity and size of the Board of Directors)**

It is important for the Board of Directors to be composed in a manner that achieves a balance between diversity and appropriate size, and that it is well balanced overall in terms of the knowledge, experience and capabilities required for effectively fulfilling its roles and responsibilities as the Board of Directors.

In particular, because it is necessary for the Company to conduct comprehensive and multi-faceted management in diverse business domains as a holding company, we have decided to study the composition of

the Board in consideration of a good balance in terms of knowledge, experience and capabilities, in addition to diversity of female and foreign officers, etc.

Also, consideration is given to selecting members with appropriate knowledge of finance and accounting for the Company's Audit & Supervisory Board.

The Company has prescribed the policies above in the Guidelines for Directors and Audit & Supervisory Board Members (approved by the Board of Directors on April 7, 2016).

## Composition of the Board of Directors in fiscal 2019

In terms of the members of the Company's Board of Directors in fiscal 2019, the following points were taken into consideration as this fiscal year is an interim period for the Medium-Term Management Plan:

- 1) It is necessary to continuously confirm the progress of strategy, etc., prescribed in the Medium-Term Management Plan.
- 2) There are multiple ongoing issues from before, including the consideration of officer successor development plans and officer compensation systems.

In light of the above, we considered members believed to be appropriate for the Board of Directors of a holding company that principally formulates Group strategy and provides supervision on business execution while taking into consideration a good balance of knowledge, experience and capabilities as well as diversity without making major changes and while maintaining appropriate size.

There were some resignations by Directors and Audit & Supervisory Board Members who reached the age prescribed in the Company's regulations, and Outside Directors and Audit & Supervisory Board Members for whom a set number of years has elapsed since appointment. However, from the perspective that it is necessary to have Outside Audit & Supervisory Board Members who have specialized legal knowledge in addition to knowledge related to finance and accounting, persons with abundant experience in these specialized fields have been reappointed as Outside Audit & Supervisory Board Members.

Furthermore, in consideration of the opinion gained through an evaluation of the effectiveness of the Board of Directors that Outside Directors with experience as managers were needed, Outside Directors with abundant experience as managers have been newly appointed.

The Company's Board of Directors will continue to effectively fulfill its roles and responsibilities with members who ensure diversity.

### Reasons for the selection of Directors (internal)

Name	Reason for selection
Ryuichi Isaka	He has a broad range of knowledge on the Group's management developed as a Director of the Company and Group companies. The Company would like him to leverage this in maximizing the Group's corporate value by promoting the creation of new business and the revitalization of existing businesses, utilizing its comprehensive strength as a retail group with a diverse range of business formats, as aimed for by the Company.
Katsuhiro Goto	He has a broad range of knowledge related to business management developed as a Director of the Company and Group companies. The Company would like him to leverage this in advancing the Group function (providing high-value-added services and integrating management divisions, aimed at cost reduction) and digital strategy, etc., as new strategies, as aimed for by the Company.
Junro Ito	He has a broad range of knowledge on ESG (environment, society and governance) developed as a Director of the Company and Group companies. The Company would like him to leverage this in improving corporate value including non-financial aspects and the smooth performance of Group management, as aimed for by the Company.
Katsutane Aihara	He has a broad range of knowledge on systems developed as an executive officer of the Company. The Company would like him to leverage this in strengthening information systems for Group companies.
Kimiyoshi Yamaguchi	He has a broad range of knowledge on PR developed as an executive officer of the Company. The Company would like him to leverage this in developing new business, etc., for Group companies.
Fumihiko Nagamatsu	He has a broad range of knowledge on human resources, etc., developed as an executive officer of the Company and Director of Group companies. The Company would like him to leverage this in human resources strategy for Group companies.
Kazuki Furuya	He has a broad range of knowledge on the franchise business developed as a Director of Group companies. The Company would like him to leverage this in advancing the Group function (pursuing synergy in merchandising, procurement, logistics, product development, sales, etc.), as aimed for by the Company.
Joseph Michael DePinto	He has a broad range of knowledge on the franchise business developed as a Director of Group companies in the U.S. The Company would like him to leverage his advice from an international perspective in the Company's Board of Directors and the promotion of global management at the Company.

#### Reasons for the selection of Directors (Outside)

Name	Reason for selection
Yoshio Tsukio	He has many years of experience and knowledge as a media policy expert. The Company would like him to leverage this broad range of advanced knowledge, experience, etc., in the Company's management.
Kunio Ito	He has many years of specialized knowledge in accounting, management studies, etc., as a university professor. The Company would like him to leverage his abundant experience and appropriate supervision functions, etc., as an outside officer at other companies in the Company's management.
Toshiro Yonemura	He has had a career that includes important posts such as the Superintendent General and Deputy Chief Cabinet Secretary for Crisis Management. The Company would like him to leverage this broad range of valuable experience and knowledge, etc., in the Company's management.
Tetsuro Higashi	He has had a career that includes important posts such as the Representative Director, Chairman of the Board and President of Tokyo Electron Limited. The Company would like him to leverage this broad range of valuable experience and knowledge, etc., as a corporate manager in the Company's management.

#### Reasons for the selection of Audit & Supervisory Board Members (internal)

Name	Reason for selection
Noriyuki Habano	He has a broad range of knowledge on the operations of the Group overall developed as a Senior Officer of the Auditing Office of the Company. The Company would like him to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.
Yoshitake Taniguchi	He has been responsible for the finance and accounting divisions of the Company and Group companies, and has abundant experience and specialized knowledge in finance and accounting. The Company would like him to leverage this knowledge, etc., fostered through this career, to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.

#### Reasons for the selection of Audit & Supervisory Board Members (Outside)

Name	Reason for selection
Kazuko Rudy	She has abundant experience and knowledge as a marketing theory expert. The Company would like her to leverage this knowledge, etc., fostered through her career, to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.
Kazuhiro Hara	He has abundant experience and specialized knowledge in finance and accounting as a certified public accountant. The Company would like him to leverage this knowledge, etc., fostered through his career, to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.
Mitsuko Inamasu	She has abundant experience and specialized knowledge of law as a lawyer. The Company would like her to leverage this knowledge, etc., fostered through her career, to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.

## Exchanging opinions with Outside Directors and Outside Audit & Supervisory Board Members

Every Outside Director and Outside Audit & Supervisory Board Member attends meetings regularly and, as required, meetings such as those for exchanging opinions in addition to the Board of Directors with Representative Directors, Directors and Full-time Audit & Supervisory Board Members, etc. Each time, these meetings include the setting of themes centered around management issues and issues with a high level of social interest, reports from Directors and internal control divisions, etc., on the status of business execution and internal control at the Company and Group companies, and explanations in response to questions from Outside Directors and Outside Audit & Supervisory Board Members. Furthermore, Outside Directors and Outside Audit & Supervisory Board Members have cooperated to have frank

and lively exchanges of opinions including views based on expertise as well as a broad and high level of management experience and knowledge, etc., from each Outside Director and Outside Audit & Supervisory Board Member on the Company's management and corporate governance, etc.

In addition, every Outside Director and Outside Audit & Supervisory Board Member visits the offices of major subsidiaries, etc., and exchanges opinions with the Directors and Audit & Supervisory Board Members, etc., of operating companies.

Through these activities, Outside Directors provide supervision on business execution, and Outside Audit & Supervisory Board Members audit business execution and accounting.

### Management Opinion Exchange Meeting\*

The purpose of this body of all of the Company's Directors and Audit & Supervisory Board Members is to provide advance explanations on agenda items for the Board of Directors' meetings to the Directors and Audit & Supervisory Board Members and share information on management and business strategy, etc., for the Company and operating companies.

\*Name changed from the Outside Directors' Meeting as of April 2018.

## Evaluation of effectiveness of the Board of Directors

### Basic approach toward evaluation of the Board of Directors

The Company has established the evaluation of the Board of Directors as an important factor in the PDCA cycle to confirm whether the Board of Directors is effectively functioning to achieve corporate value and improve corporate governance, as aimed for by the Company, through objective analysis and thorough discussion by the Board of Directors' members, to lead to specific actions toward further improvements.

### Policy toward the Board of Directors' evaluation process for fiscal 2018

#### Previously

For the Board of Directors' evaluation in fiscal 2017, a self-evaluation method based only on discussions by the Board of Directors was used because only a short time had passed since the Company had moved to a new management structure. It was believed that there could still be some unfamiliarity with a general evaluation process covering the entire year.

#### Now

For the Board of Directors' evaluation in fiscal 2018, the Board of Directors' Secretariat spent sufficient time listening to opinions and improvement proposals from every Director and Audit & Supervisory Board Member through a combination of advance questionnaires, individual interviews and discussions while referring to advice from external consultants. Using a summary of the points, the members of the Board of Directors decided to conduct a self-evaluation through concentrated discussion on the future state of the Board of Directors.

#### Scope covered by the evaluation

The scope of the evaluation included not only the Board of Directors but also related meetings such as the Nomination and Compensation Committee as an advisory committee and the Management Opinion Exchange Meeting.

#### Main points for the evaluation

The clauses related to the Board of Directors, etc., in the Corporate Governance Code were used as the perspectives and points of the evaluation.

## Results of the Board of Directors' evaluation

An overview of the results of the Board of Directors' evaluation that was conducted is as follows:

### Overview of the results of the Board of Directors' evaluation for fiscal 2018

- 1) Made great progress in quantitative aspects (number of statements by members, discussion time, volume of information exchanged, etc.)
- 2) Made significant advances in qualitative aspects (contents of discussions, progress of discussions, atmosphere of free discussions, transparency, etc.)
- 3) Worked to focus on engagement with the goal of being an open Board of Directors
- 4) Set focus themes in an aim to further improve effectiveness

## Focus themes

The Company's basic duty as a retailer starts by promptly addressing matters as their contents require and making innovations and adjustments toward resolution. We believe that the same applies for the operation of the Board of Directors.

Our main themes during this time have been addressed for items for which practical adjustments are possible, and we have already started to respond by incorporating items that require separate discussions into a concrete annual schedule.

Items including the progress of these main themes will be confirmed and evaluated from the next Board of Directors' evaluation.

We will work to further improve the effectiveness of the Board of Directors to achieve sustainable growth and medium- to long-term improvements in corporate value in consideration of the results of this Board of Directors' evaluation.

### Focus themes for fiscal 2019 (examples)

Focus themes	
Group governance development	Confirm the main roles that should be fulfilled as a holding company while specifically setting the confirmation and strengthening of management conditions for each major operating company as an item to be reported in the annual discussion schedule in advance
Successor planning, etc.	Discuss and confirm the operation status at the Board of Directors several times per year
Governance at overseas subsidiaries	Increase the number of reports on governance at overseas subsidiaries at the Board of Directors and conduct monitoring
Complex M&As Discussions on other matters	The Board of Directors will continue to make advance reports and hold discussions on matters before they are finalized and encourage timely understanding and progress of matters
Matters related to the Nomination and Compensation Committee	The following points will be studied in an ongoing manner while a position as an optional advisory committee for the Board of Directors is maintained: <ul style="list-style-type: none"> <li>• Separation of the Nomination Committee and the Compensation Committee</li> <li>• Further clarification of nomination and compensation standards</li> </ul>
Composition of the Board of Directors	The following points will be studied in an ongoing manner: <ul style="list-style-type: none"> <li>• Achieving a composition with at least one-third Outside Directors</li> <li>• Appointment of female Directors</li> </ul>

### Basic policy toward the qualities and selection of Seven & i Group’s representative (the Company’s President) (Succession plan for the Group’s representative)

The Company prescribes the qualities required of the Group’s representative (the Company’s President) in the Guidelines for Directors and Audit & Supervisory Board Members as follows:

The following should be appropriate for the Group’s representative (the Company’s President):

Qualities	Perspectives
Business management capabilities	<ul style="list-style-type: none"> <li>• Capable of solving problems</li> <li>• Has excellent decision-making capabilities, etc.</li> </ul>
Leadership capabilities	<ul style="list-style-type: none"> <li>• Sets constructive targets and leads to results that go beyond these targets</li> <li>• Strong ability to communicate with officers and employees</li> <li>• Able to promote change, etc.</li> </ul>
Human nature	<ul style="list-style-type: none"> <li>• Able to understand own strengths and weaknesses and is capable of working with other people to compensate for qualities they lack</li> <li>• Has stance of always learning</li> </ul>

In addition, the basic policy toward the selection of the Group’s representative (the Company’s President) has been prescribed as follows:

- Evaluate the character of the candidate through a reliable procedure based on multi-faceted and objective materials
- Specifically consider whether the candidate has the management capabilities required for resolving the management challenges faced by Group companies
- Specifically confirm and evaluate the leadership style and capabilities of the candidate

### Basic approach to compensation of Directors and Audit & Supervisory Board Members

In regard to the compensation of Directors, the Company emphasizes compensation that is linked with financial results and corporate value. To further increase motivation and the desire to contribute to improved financial results and increased corporate value over the medium to long term, and to secure highly capable human resources who will support enhanced corporate governance through appropriate supervision and auditing of operational execution, the Company provides compensation levels and compensation systems that are appropriate to responsibilities.

#### Compensation of Directors and Audit & Supervisory Board Members

The compensation of Directors and Audit & Supervisory Board Members is decided within the following compensation framework limits determined by the General Shareholders’ Meeting:

- Directors: Not more than ¥1.0 billion per year (not including amounts paid as salaries to Directors who serve concurrently as employees)  
Maximum issue value for stock options for stock-linked compensation share subscription rights for Directors awarded under these compensation framework limits: ¥200 million per year
- Audit & Supervisory Board Members: Not more than ¥100 million per year

#### Compensation of Directors

##### ● System for compensation of Directors

The basic components of compensation for Directors are fixed monthly compensation and results-linked compensation (bonuses or stock options for stock-linked compensation). The compensation system is based on the position of each Director.

The compensation of the Outside Directors, who are independent from business execution, consists only of fixed monthly compensation. Outside Directors are not paid results-linked compensation (bonuses or stock options for stock-linked compensation).

- **Method of determining compensation of Directors**

Through deliberations by the Nomination and Compensation Committee, the compensation of Directors is determined in accordance with the evaluation of each Director's function and degree of contribution as well as the Group's results.

## Compensation of Audit & Supervisory Board Members

- **System for compensation of Audit & Supervisory Board Members**

With an emphasis on further strengthening the independence of Audit & Supervisory Board Members from management, the compensation of Audit & Supervisory Board Members consists only of fixed monthly compensation. Audit & Supervisory Board Members are not paid results-linked compensation (bonuses or stock options for stock-linked compensation).

- **Method of determining compensation of Audit & Supervisory Board Members**

The compensation of Audit & Supervisory Board Members is determined through discussions by the Audit & Supervisory Board.

## Audits by the Audit & Supervisory Board

The Company's Audit & Supervisory Board sets an audit plan based on the fundamental audit policy of ensuring the sound, sustainable growth of the Company and Group companies and establishing a quality corporate governance structure worthy of society's trust. It conducts audits by establishing and operating internal control systems and an advancement structure for compliance and risk management as essential audit items.

Every Audit & Supervisory Board Member fulfills such tasks as attending meetings of the Board of Directors and other important sessions, exchanging opinions with the Representative

Directors and holding regular meetings with Directors, etc., on the status of business execution. They also view important approval documents such as requests for managerial decisions and conduct inspections on the status of operations and finances at head offices, etc. Meanwhile, at subsidiaries, Audit & Supervisory Board Members conduct audits by working to share information with the Directors and Audit & Supervisory Board Members, etc., of subsidiaries. They also visit the head offices, stores and logistics centers of subsidiaries, following audit plans to conduct inspections on actual business and receive reports.

## Internal audits

Operational auditing staff and internal control evaluation staff have been assigned as independent internal audit divisions within the Auditing Office to enhance and strengthen the internal audit function. Operational auditing staff confirm and supervise internal audits on major operating companies including the status of the development and operation of

compliance structure. They also fulfill a supervisory function through direct audits and the internal audit function for auditing the Company itself as the holding company. Internal control evaluation staff evaluate the internal control related to financial reports for the entire Group.

## Compliance

Each of the Group's core operating companies has established a Corporate Ethics Committee and is working to ensure that all employees have knowledge of the "Seven & i Holdings Corporate Action Guidelines" and rigorously comply with laws and regulations. The "Seven & i Holdings Corporate Action Guidelines" were revised in September 2011 in line with changes in the Group's fields of business and operating environment. In addition, each operating company formulated "Principles for Action Guidelines" and specified standards for the actions of employees. Moreover, the personnel responsible for the operating companies' Corporate Ethics Committees participate in the Seven & i Holdings Corporate Ethics and Culture

Subcommittee. In this way, the Company is working to foster shared objectives and a common understanding throughout the Group and to share measures that have proven effective. Furthermore, the operating companies' Corporate Ethics Committees analyze and verify the details of consultations from the Help Lines for company employees and from the Groupwide Help Line, a consultation help desk that is operated by a third-party organization for all employees of domestic consolidated subsidiaries. Through these committees, we are taking steps to improve the workplace environment, such as working to limit and prevent actions that violate the "Seven & i Holdings Corporate Action Guidelines" and to resolve any problems.



**Mitsuko Inamasu**  
Outside Audit & Supervisory  
Board Member

**Kazuko Rudy**  
Outside Audit & Supervisory  
Board Member

**Noriyuki Habano**  
Full-time Audit &  
Supervisory Board Member

**Toshiro Yonemura**  
Outside Director

**Yoshio Tsukio**  
Outside Director

**Kazuki Furuya**  
Director

**Kimiyoshi Yamaguchi**  
Director and Executive  
Officer

**Junro Ito**  
Director and Managing  
Executive Officer

**Ryuichi Isaka**  
President and  
Representative Director



**Kunio Ito**  
Outside Director

**Tetsuro Higashi**  
Outside Director

**Yoshitake Taniguchi**  
Full-time Audit &  
Supervisory Board Member

**Kazuhiro Hara**  
Outside Audit & Supervisory  
Board Member

**Katsuhiro Goto**  
Vice President and  
Representative Director

**Katsutane Aihara**  
Director and Executive  
Officer

**Fumihiko Nagamatsu**  
Director and Executive  
Officer

**Joseph Michael DePinto**  
Director