



# Theme 3 Reinforcement of Corporate Governance to Increase Management Transparency

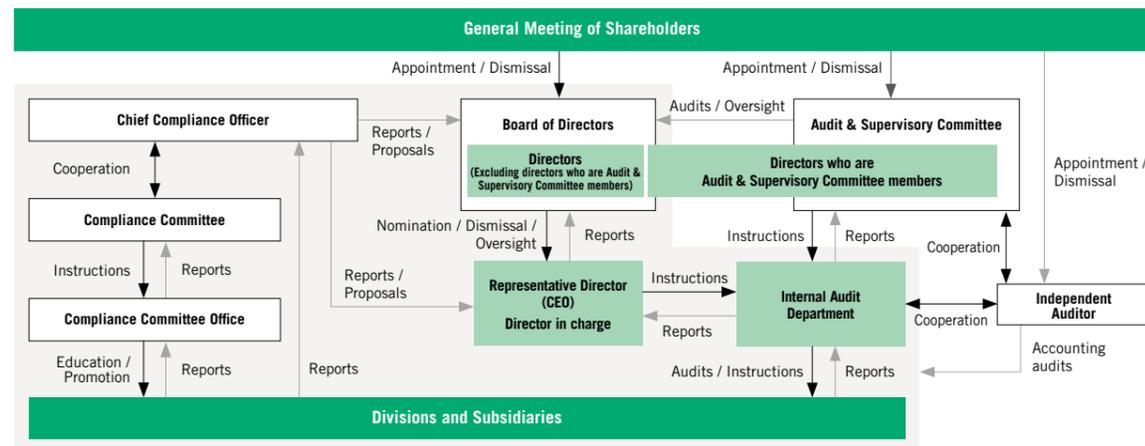
The Company has developed a unique organizational structure in which a significant amount of authority is delegated to the frontline employees that interact directly with customers, in order to ensure that we firmly adhere to the corporate philosophy of “valuing the customer as our utmost priority.” It is essential for us to create an atmosphere that ensures a high level of ethics and awareness among all directors and employees if we are to improve corporate value over the medium to long term. To this end, we have placed the reinforcement of corporate governance and compliance as top management priorities, and are targeting efficient and transparent management accordingly.

## Corporate Governance

In September 2016, the Company transitioned from a company with an audit & supervisory board structure to a company with an audit & supervisory committee structure described in the Companies Act of Japan. In conjunction with this change, we established the Audit & Supervisory Committee and granted voting rights to

directors that are Audit & Supervisory Committee members at the Board of Directors meetings. These moves are intended to strengthen the audit and supervisory functions of the Board of Directors and thereby enhance corporate governance and improve corporate value.

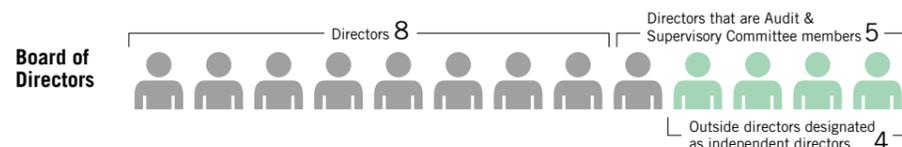
Corporate Governance Structure (As of June 30, 2018)



## Highest Decision-Making Body—The Board of Directors

The Board of Directors of the Company meets at least once a month to engage in vigorous discussions on topics such as the formulation of important Group management strategies for improving corporate value. The Board of Directors consists of 13 members, of which four are outside directors that have been

designated as independent directors. The appointment of such independent outside directors allows management to incorporate wide-ranging insight and perspectives that share the independent standpoint of shareholders. This system thus guarantees appropriate and highly transparent management.



## Evaluation of the Effectiveness of the Board of Directors

A third-party institution is commissioned to evaluate the effectiveness of the Board of Directors at least once a year. Measures are instituted to address any issues identified based on the evaluation results in order to

increase the effectiveness of the Board of Directors, enhance the Company's corporate governance structure, and contribute to sustainable growth and improved corporate value over the medium to long term.

### Evaluation Process



## Results of Evaluation of Effectiveness in the Fiscal Year Ended June 30, 2018

<b>Summary</b>	It was confirmed that the Board of Directors is fulfilling its role of contributing to medium- to long-term improvements in corporate value through swift and accurate decision-making based on vigorous discussions guided by the corporate philosophy and through stringent supervisory functions. We have therefore judged that the effectiveness of the Board of Directors has been ensured.
<b>Strengths of the Company's Board of Directors</b>	<ol style="list-style-type: none"> <li>1. Proceedings based on the corporate philosophy</li> <li>2. Swift decision-making processes enabled by appropriate delegation of operational execution authority</li> <li>3. Functional whistle-blower system and regular monitoring of implementation status</li> </ol>

Pressing issues for the Company's Board of Directors	Future initiatives
<b>Task 1</b> Creation of training opportunities for directors	The Company will provide, arrange, and support the utilization of external seminars and other training opportunities for directors. These efforts are aimed at ensuring that directors are able to fulfill their responsibilities and roles effectively based on changes in the structure of the Board of Directors, including the increase in the number of directors instituted in September 2017.
<b>Task 2</b> Provision of appropriate opportunities for utilizing the experience of outside directors	The Company will clearly define the roles and duties expected of each outside director to enable them to sufficiently exert their supervisory function based on their wealth of experience and specialized insight. Based on these definitions, discussions will be directed in a manner that draws upon the values and insight of outside directors.
<b>Task 3</b> Periodic revision of ideal state of Board of Directors	Discussions will be held on what constitutes an effective Board of Directors in the pursuit of sustainable growth and medium- to long-term improvements in corporate value, in order to achieve the ideal state of resolutions by and reports to the Board of Directors in terms of content, volume, and other factors.





**Director Remuneration System**

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.

**Remuneration of Directors in the Fiscal Year Ended June 30, 2018**

Position	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)				Number of applicable directors
		Basic remuneration	Stock options	Bonuses	Retirement benefits	
Directors (excluding Audit & Supervisory Committee members and outside directors)	466	219	247	-	-	10
Directors that are Audit & Supervisory Committee members (excluding outside directors)	6	6	-	-	-	1
Outside directors	13	13	-	-	-	4
Total	485	238	247	-	-	15

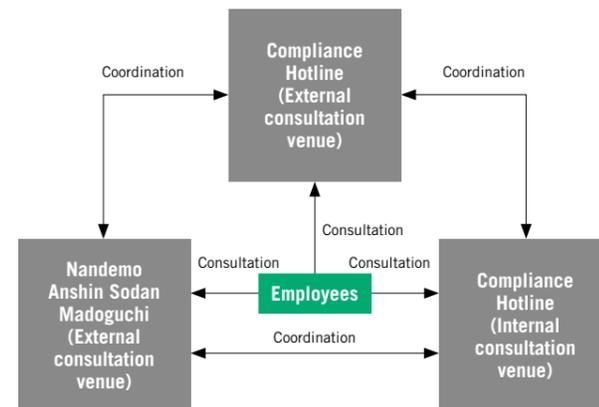
**Remuneration of Individual Directors in the Fiscal Year Ended June 30, 2018 (Directors that received total remuneration exceeding ¥100 million)**

Name (Position)	Company	Total remuneration (millions of yen)				Total remuneration (millions of yen)
		Basic remuneration	Stock options	Bonuses	Retirement benefits	
Koji Ohara (Director)	Don Quijote Holdings Co., Ltd.	69	173	-	-	258
	Don Quijote Shared Services Co., Ltd.	16	-	-	-	

**Reinforcement of Compliance**

In the Group's risk management system, the Chief Compliance Officer is designated as the director responsible for compliance, and the Group carries out compliance-based risk analyses and assessments and conducts education programs on compliance themes. To the Don Quijote Group, true compliance is about earning the confidence of all stakeholders and fulfilling social responsibilities. With this in mind, we have set up the Compliance Hotline, which functions as a portal for reporting concerns, such as possible legal violations, as well as the Nandemo Anshin Sodan Madoguchi (a consultation help desk for any issue) to help resolve issues relating to the emotional and physical well-being and lifestyles of employees and their families.

**Whistle-Blower System**



**Management Structure for Minimizing Risks**

The Don Quijote Group assigns the risk rank of "store compliance" to the laws and regulations with which stores are required to comply, and pursues improvements to compliance structures through e-learning programs for store managers and employees and store self-check sheets. We also have in place systems for monthly checks by Group companies responsible for legal compliance inspections and improvement follow-up systems for ensuring rigorous compliance by stores. Furthermore, branch and store managers that oversee stores coordinate with management divisions to reinforce systems for maintaining legal compliance.



**Enhancement of Store Disaster Countermeasures**

PAD (Protection Against Disasters) leaders are appointed at each store to lead the enhancement of disaster countermeasures at their store with the cooperation of the store manager. Through regular disaster response drills at stores, the presentation of awards to PAD leaders that have contributed to higher disaster preparedness awareness or the elimination of Fire Service Act violations, and the development of disaster response manuals, we work to prepare for disasters that could strike at any moment. These initiatives help foster disaster preparedness awareness among all employees and guarantee calm and accurate responses in times of disaster.



**Responsible Product Procurement**

Throughout the planning and manufacturing processes for original products, we exercise responsibility for our supply chain by performing on-site inspections of the overseas factories to which we outsource production. These inspections examine conditions pertaining to labor standards, working environments, and safety and quality management across all production processes.



Preparation and management of evaluation sheets detailing standards for approximately 100 items and reports containing internal views of factories to ensure appropriate working conditions and help manage quality

