

Our Initiatives Related to Japan's Corporate Governance Code

Established on September 15, 2015
Amended on November 2, 2015
Amended on May 25, 2016
Amended on July 25, 2016
Amended on May 24, 2017
Amended on June 26, 2017
Amended on June 25, 2018



BOOKOFF CORPORATION LIMITED

BOOKOFF CORPORATION LIMITED (hereinafter referred to as “the Company,” “we” or “BOOKOFF”) is engaged in business activities with an aim to become a social instrument for use by the public under a core tenet of our business principle—“Contributing to society through our business activities.” With this philosophy in mind, we believe it is crucial that we pursue operational efficiency with a goal of achieving compliance-oriented management and enhancing shareholder value, and then make highly transparent disclosures of the progress and results so as to seek our shareholders’ decision.

The status of the Company’s initiatives on each principle of the Japan’s Corporate Governance Code as well as the policies on initiatives are discussed below.

Section 1. Securing the Rights and Equal Treatment of Shareholders

General Principle 1
Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.
In addition, companies should secure effective equal treatment of shareholders.
Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

The Company promptly discloses information to ensure that all shareholders are essentially equal and to contribute to securing the shareholder rights and enabling shareholders to exercise their rights appropriately. In addition, the Company makes an effort to secure the exercise of rights that are also recognized for minority shareholders by stipulating its procedure in the Share Handling Regulations.

Principle 1.1 Securing the Rights of Shareholders
Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general meeting of shareholders.

The Company works to create an environment that enables proactive information disclosure and facilitates the proper exercise of voting rights to ensure that the shareholder rights, including voting rights at the general meeting of shareholders, are fully secured.

Supplementary Principles 1.1.1
When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.

The Company conducts analysis of the causes for agreement with and opposition to all proposals at the Board meeting following the general meeting of shareholders in order to get a concrete understanding of the opinions of shareholders at the general meeting of shareholders and to incorporate these opinions in management and dialogue with shareholders. In addition, when there were at least 10% of opposition votes against the proposal, the Company considers the need for shareholder dialogue and other measures and discloses it, if necessary.

Supplementary Principles 1.1.2
When proposing to shareholders that certain powers of the general meeting of shareholders be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.

The Company has appointed three Independent Outside Directors* and developed a structure to strengthen the function for supervising the status of business execution by Directors in order to fulfill adequately its corporate governance roles and responsibilities at the Board. In addition, resolutions



concerning the acquisition of treasury shares and interim dividends, both of which are matters to be resolved at the general meeting of shareholders, have been delegated to the Board pursuant to the provisions of the Articles of Incorporation. (*Independent Outside Director: The listing rules of securities exchanges provide that the outside directors, as defined in the Companies Act, are deemed independent where they satisfy independence criteria of securities exchanges and the Company determines that they do not have the possibility of conflicts of interest with its shareholders.)

Supplementary Principles 1.1.3

Given the importance of shareholder rights, companies should ensure that the exercise of shareholder rights is not impeded. In particular, adequate consideration should be given to the special rights that are recognized for minority shareholders with respect to companies and their officers, including the right to seek an injunction against illegal activities or the right to file a shareholder lawsuit, since the exercise of these rights tend to be prone to issues and concerns.

Given the importance of shareholder rights, the Company ensures that the exercise of shareholder rights is not impeded. In addition, the Company makes an effort to secure the exercise of rights that are also recognized for minority shareholders by stipulating its procedure in the Share Handling Regulations.

Principle 1.2 Exercise of Shareholder Rights at General Meetings of Shareholders

Companies should recognize that general meetings of shareholders are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder rights at such meetings.

The Company recognizes that the general meeting of shareholders can serve as an opportunity for dialogue with shareholders, and in principle holds the meeting on Saturday so that as many shareholders as possible can attend it. In addition, the Company has developed an environment that facilitates the exercise of voting rights by shareholders which are not able to attend the meeting by making it possible to exercise their voting rights through mailing of the voting rights exercise form or via the Internet.

Supplementary Principles 1.2.1

Companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision-making at general meetings of shareholders.

The Company believes that we should appropriately provide information to shareholders as necessary in order to facilitate appropriate decision-making at the general meeting of shareholders. To this end, we promptly disclose proposals for the general meeting of shareholders after the resolution at the Board meeting through means such as the Company's website and the website of the Tokyo Stock Exchange. Especially regarding an election of Directors and Audit & Supervisory Board Members, the Company provides information that will facilitate decision-making by shareholders. For example, the Company publishes messages from each candidate directed towards shareholders in a convening notice for the general meeting of shareholders.

Supplementary Principles 1.2.2

While ensuring the accuracy of content, companies should strive to send convening notices for general meetings of shareholders early enough to give shareholders sufficient time to consider the agenda. During the period between the board approval of convening the general meeting of shareholders and sending the convening notice, information included in the convening notice should be disclosed by electronic means such as through TDnet* or on the company's website. (*TDnet: The Tokyo Stock Exchange operates a real-time internet service (Timely Disclosure network) which distributes the information provided by listed companies on a timely basis in accordance with its listing rules.)

The Company strives to send the convening notice for the general meeting of shareholders early enough to give shareholders sufficient time to consider the agenda. In addition, the Company discloses it on the Company's website and the website of the Tokyo Stock Exchange before the sending date.

Supplementary Principles 1.2.3

The determination of the date of the general meeting of shareholders and any associated dates should be made in consideration of facilitating sufficient constructive dialogue with shareholders and ensuring the accuracy of information necessary for such dialogue.

The Company recognizes that the general meeting of shareholders can serve as an opportunity for dialogue with shareholders, and holds the meeting on Saturday each year so that as many shareholders as possible can attend the meeting.

Supplementary Principles 1.2.4

Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notices of general meeting of shareholders.

The Company has a system where shareholders are able to exercise their voting rights via the Internet and provides English translations of the convening notice for the general meeting of shareholders.

Supplementary Principles 1.2.5

In order to prepare for cases where institutional investors who hold shares in street name express an interest in advance of the general meeting of shareholders in attending the general meeting of shareholders or exercising voting rights, companies should work with the trust bank (*shintaku ginko*) and/or custodial institutions to consider such possibility.

In cases where institutional investors who hold shares in street name express an interest in advance of the general meeting of shareholders in attending the general meeting of shareholders or exercising voting rights, the Company makes some actions after consultation with the trust bank (*shintaku ginko*) and/or custodial institutions.

Principle 1.3 Basic Strategy for Capital Policy

Because capital policy may have a significant effect on shareholder returns, the Company should explain their basic strategy with respect to their capital policy.

The Company recognizes profit distribution as one of the most important management issues, and aims to increase dividends via a sustainable improvement of business performance targeting a 25% dividend payout ratio on a consolidated basis. The Company intends to use retained earnings effectively for a strategic investment leading to strengthening financial structure and future business foundation.

Principle 1.4 Cross-Shareholdings

When companies hold shares of other listed companies as cross-shareholdings*, they should disclose their policy with respect to doing so. In addition, the board should examine the mid- to long-term economic rationale and future outlook of major cross-shareholdings on an annual basis, taking into consideration both associated risks and returns. The annual examination should result in the board's detailed explanation of the objective and rationale behind cross-shareholdings. Companies should establish and disclose standards with respect to the voting rights as to their cross-shareholdings. (*Cross-shareholding: There are cases where listed companies hold the shares of other listed companies for reasons other than pure investment purposes, for example, to strengthen business relationships. Cross-shareholdings here include not only mutual shareholdings but also unilateral ones.)

In accordance with the Rules on Capital Contribution and Investment in Securities, the Company has established a policy that in principle it does not acquire shares for the purpose of strategic cross-shareholdings. In exceptional cases, however, the Company can hold shares of participants in our franchised chain. Regarding exercising voting rights along with the cross-shareholdings, the Company exercise it in an appropriate manner after carefully examining details of the proposal, communicating with the company as necessary, and deciding whether it contribute to increasing value for shareholders or not.

Principle 1.5 Anti-Takeover Measures

Anti-takeover measures must not have any objective associated with entrenchment of the management or the board. With respect to the adoption or implementation of anti-takeover measures, the board and Audit & Supervisory Board Members should carefully examine their necessity and rationale in light of their fiduciary responsibility to shareholders, ensure appropriate procedures, and provide sufficient explanation to shareholders.

The Company recognizes a sustainable growth and an increase in corporate value as the most important management issue in order to meet our shareholder expectations. At this point, there are no plans to introduce any anti-takeover measures.

Supplementary Principle 1.5.1

In case of a tender offer, companies should clearly explain the position of the board, including any counteroffers, and should not take measures that would frustrate shareholder rights to sell their shares in response to the tender offer.

In the event of a tender offer for the Company's shares, the Company promptly discloses the stance of the Board because such offers could change the corporate ownership structure and affect the interests of shareholders. In addition, the Company will respect the shareholder rights and not interfere with shareholders responding to a tender offer.

Principle 1.6 Capital Policy that May Harm Shareholder Interests

With respect to a company's capital policy that results in the change of control or in significant dilution, including share offerings and management buyouts, the board and Audit & Supervisory Board Members should, in order not to unfairly harm the existing shareholders' interests, carefully examine the necessity and rationale from the perspective of their fiduciary responsibility to shareholders, should ensure appropriate procedures, and provide sufficient explanation to shareholders.

Regarding a capital policy that results in the change of control or in significant dilution, while giving due consideration to the opinions of Independent Advisors, Members of the Board, the Company carefully examines the necessity and rationale of the policy and ensures the appropriate procedure in order not to unfairly harm the existing shareholders' interests. At the same time, the Company promptly discloses the information and, if necessary, works to provide explanations to shareholders through means such as explanations at the general meeting of shareholders, financial results meetings, etc.

Principle 1.7 Related Party Transactions

When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.

When the Company engages in the related party transactions, a resolution at the Board meeting is required in advance as stipulated in our internal regulations. That resolution is made exempting the number of relevant directors as special stakeholders from quorum for such resolution. In addition, the Company conducts a questionnaire to directors and officers of the Company and its subsidiaries each period for the purpose of confirming whether there have been transactions between those related parties.

Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders

General Principle 2

Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.

The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

The Company views that we should strive to cooperate with stakeholders including shareholders for sustainable growth and mid- to long-term creation of corporate value. We will continue to pursue our mission of becoming “BOOKOFF as a partner offering infrastructure for a waste-free lifestyle for people who don’t want to toss things away, and “BOOKOFF for people who don’t let things go to waste,” helping create a truly recycle-based society through the reuse of pre-owned goods across a wide range of categories reuse-based society.

Principle 2.1 Business Principles as the Foundation of Corporate Value Creation Over the Mid- to Long-Term

Guided by their position concerning social responsibility, companies should undertake their businesses in order to create value for all stakeholders while increasing corporate value over the mid- to long-term. To this end, companies should draft and maintain business principles that will become the basis for such activities.

Our business principles are “contributing to society through our business activities” and “the pursuit of employees’ material and spiritual wellbeing.”

Principle 2.2 Code of Conduct

Companies should draft and implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities. The board should be responsible for drafting and revising the code of conduct, and should ensure its compliance broadly across the organization, including the front line of domestic and global operations.

Our code of conduct is to realize two values: “a company as an infrastructure for people who don’t let things go to waste” and “a place where our employees and part-time workers can be proud to work.” In order to instill our values together with the business principles, we create opportunities to explain them repeatedly to all employees and part-time workers.

Supplementary Principle 2.2.1

The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company’s corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.

The Company sets the business principles to serve as judgment criteria since its inception and intends to instill it to all employees and part-time workers. To this end, the Directors and Executive Officers* as well as the President directly explain it in the general meeting of employees which is held once a year and all employees attend, and the Company issues an internal newsletter every month. In addition, the management report the situation to the Board when deemed appropriate and review it. (*Executive Officer: There are cases where a Company with the Audit & Supervisory Board or a Company with Supervisory Committee creates positions with the title of “Executive Officer” for persons who are delegated by the Board a certain range of discretion regarding business administration. Unlike Executive Officer in The Company with Three Committees (Nomination, Audit and Remuneration), Executive Officer is not a statutory position.)



Principle 2.3 Sustainability Issues, Including Social and Environmental Matters

Companies should take appropriate measures to address sustainability issues, including social and environmental matters.

The Company reports our policies on CSR activities at the Board meeting every year, and discloses them in the Shareholder Newsletters or on the Company's website.

Supplementary Principle 2.3.1

With the recognition that dealing with sustainability issues is an important element of risk management, the board should take appropriate actions to this end. Given the increasing demand and interest with respect to sustainability issues in recent years, the board should consider addressing these matters positively and proactively.

In addition to each CSR activity, the Company sees its business itself contributing to creating a recycle-based society.

Principle 2.4 Ensuring Diversity, Including Active Participation of Women

Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women.

The Company launched the "Project for Creating a Pleasant Working Place" as a measure aimed at the achievement of a work-life balance and the creation of a working environment where female employees can do their best and play active roles. Regardless of age and gender, the Company implements the efforts to enable our employees to work depending on different life stages including childcare, parental care, nursing care, and others. In September 2015, Sumitomo Mitsui Banking Corporation (SMBC) recognized our efforts as an advanced company promoting active participation by women, and extended the "SMBC Nadeshiko Loan" to us. In December 2016, we received a certificate from the city of Sagami-hara, where our head office is located, as a company that provides support for maintaining a balance between work and family life. Furthermore, the Company established a special subsidiary for employing persons with disabilities and proactively recruits them to secure diversity.

Principle 2.5 Whistleblowing

Companies should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework should allow for an objective assessment and appropriate response to the reported issues, and the board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.

The Company has established a framework concerning whistleblowing, and a compliance desk where our employees can consult illegal, inappropriate or other similar behaviors without fear of suffering from disadvantageous treatment. The executive (Director or Executive Officer) in charge of compliance monitors the implementation status of the whistleblowing system and reports it to the Board as necessary.

Supplementary Principle 2.5.1

As a part of establishing a framework for whistleblowing, companies should establish a point of contact that is independent of the management (for example, a panel consisting of Outside Directors and Outside Audit & Supervisory Board Members). In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment.

Besides the internal compliance desk, a whistleblowing contact point independent from the company has also been established within an external lawyer's office. It is called the "BOC Hotline." In addition, a system has been developed that protects whistleblowers through the whistleblowing-related internal regulations (Concerning the BOC Hotline—the Whistleblowing System).

Section 3: Ensuring Appropriate Information Disclosure and Transparency

General Principle 3

Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance.

The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

The Company appropriately discloses information in compliance with the laws and regulations, and actively provides information beyond that required by law. In addition, the Company strives to provide accurate, clear and concrete descriptions for disclosing information to be highly useful for users.

Principle 3.1 Full Disclosure

In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance:

- (i) Company objectives (e.g., business principles), business strategies and business plans;
 - (ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;
 - (iii) Board policies and procedures in determining the remuneration of the senior management and Directors;
 - (iv) Board policies and procedures in the appointment of the senior management and the nomination of candidates for Directors and Audit & Supervisory Board Members; and
 - (v) Explanations with respect to the individual appointments and nominations based on iv).
- (i) The business principles, the management strategies and other information are disclosed through the Company's website, materials for the financial results meeting, etc.
 - (ii) The basic view and guidelines on corporate governance are disclosed through the Company's website, reports on corporate governance and Securities Report (*Yukashoken Hokokusho*).
 - (iii) The Company has prepared the policy and the procedures in determining the remuneration of Directors pursuant to the Rules for Remuneration Review Committee and disclosed them in convening notices of the general meeting of shareholders, Securities Report (*Yukashoken Hokokusho*), and reports on corporate governance. The amounts of remuneration of Directors are determined by the Remuneration Review Committee that consists of President and Independent Outside Directors in consideration of the operating results of the Company and the degree of contribution of each Director to the Company within the limit of the amount resolved by the general meeting of shareholders.
 - (iv) As for candidates for Directors, the Company selects them based on whether they can contribute to our sustainable growth and help enhance our corporate value. After the dialogue with the candidates, Nomination Advisory Committee considers them upon the internal regulations, and the Board decides them. In addition, as for candidates for Audit & Supervisory Board Members, the Company selects them based on whether they contribute to maintenance and improvement of our sound management and social credibility and can audit objectively and neutrally. After considering and winning consent at the Audit & Supervisory Board, the Board finally decides them. Furthermore, the Company discloses the independence standards of the Outside Directors and the Outside Audit & Supervisory Board Members in the convening notice for the general meeting of shareholders.

The Company discloses the reasons for appointing candidates for Outside Directors and Outside Audit & Supervisory Board Members in the convening notice for the general meeting of shareholders. In addition, the Company mentions all candidates' work experiences and comments in the reference sources of the convening notice for the general meeting of shareholders. Supplementary Principle 3.1.1

These disclosures should add value for investors, and the board should ensure that information is not boilerplate or lacking in detail.

The Company strives to provide clear and concrete descriptions for disclosing information to be highly useful for investors.

Supplementary Principle 3.1.2

Bearing in mind the number of foreign shareholders, the Company should, to the extent reasonable, take steps for providing English language disclosures.

The Company discloses the convening notices of the general meeting of shareholders, Consolidated Summary Reports (*Kessan Tanshin*) and materials for the financial results meeting in English.

Principle 3.2 External Auditors

External auditors and companies should recognize the responsibility that external auditors owe toward shareholders and investors, and take appropriate steps to secure the proper execution of audits.

The Company corroborates with the Audit & Supervisory Board, Internal Auditing Department, Accounting Department, General Affairs Department, etc., and strives to coordinate an audit schedule and an audit system in order to enable external auditors to have sufficient time for an appropriate audit.

Supplementary Principle 3.2.1

The Audit & Supervisory Board should, at minimum, ensure the following:

- (i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors; and
- (ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.

- (i) In a selection and an evaluation of the external auditors, the Company sets certain standards for evaluation on the matters such as qualification, management and organizational structure, audit plan, audit fees, audit performance and audit implementation status, and is to judge the selection and the assessment with comprehensive consideration of them.
- (ii) Besides receiving the written or verbal explanation from the external auditors and discussing it as necessary, the Company carries out the verification via the audit implementation status.

Supplementary Principle 3.2.2

The board and the Audit & Supervisory Board should, at minimum, ensure the following:

- (i) Give adequate time to ensure high quality audits;
- (ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;
- (iii) Ensure adequate coordination between external auditors and each of the Audit & Supervisory Board Members (including attendance at the Audit & Supervisory Board meetings), the Internal Auditing Department and Outside Directors; and
- (iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.

- (i) The Company develops the audit schedule after preliminary consultations with the external auditor to secure adequate time for audits.
- (ii) Time is promptly set aside for interviews with the senior management including the President, if requested by the external auditor.
- (iii) The external auditor, Audit & Supervisory Board Members and Internal Auditing Department secures coordination through accounting and business audits. In addition, the Company has developed a structure which enables Outside Directors to coordinate if necessary.
- (iv) If the external auditor identified any misconduct and requested an adequate response or pointed out inadequacies and concerns, the Internal Auditing Department and Executive in charge investigate it and report the result to the President and the Management Committee. In addition, the Audit & Supervisory Board reviews it closely, and if necessary, Full-time Audit & Supervisory Board Members coordinate with related departments, investigate and request necessary remediation.

Section 4: Responsibilities of the Board

General Principle 4

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid- to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad direction of corporate strategy;
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
- (3) Carrying out effective oversight of Directors and the management (including *shikkoyaku** and so-called *shikkoyakuin*, or *Executive Officers*) from an independent and objective standpoint. (**Shikkoyaku*: According to the Companies Act, Companies with Three Committees (Nomination, Audit and Remuneration) must appoint one or more *shikkoyaku* from directors or non-directors by a resolution of the board and delegate business administration to *shikkoyaku*. Also, authority to make certain kinds of business decisions may be delegated to *shikkoyaku*.) Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with Audit & Supervisory Board (where a part of these roles and responsibilities are performed by Audit & Supervisory Board Members and the Audit & Supervisory Board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.

Our Board has decided on the directions of corporate strategies. To separate management from execution, we have adopted an Executive Officer system to ensure that our management and execution frameworks function promptly and efficiently. We have also appointed several Outside Directors to carry out effective oversight. Furthermore, we have appointed two Outside Audit & Supervisory Board Members and developed an audit framework that is independent of the execution of duties by our Directors.

Principle 4.1 Roles and Responsibilities of the Board (1)

The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans, and ensure that major operational decisions are based on the company's strategic direction.

We have our business principles in place. Our Board views the setting of strategic direction as one major aspect of its roles and responsibilities, and draws up business strategies based on opinions actively offered by Outside Directors and Audit & Supervisory Board Members as well as on constructive discussion with them. Also, major operational decisions are deliberated and made in light of the business principles and business strategies.

Supplementary Principle 4.1.1

The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to the management, and disclose a brief summary thereof.

Our criteria for decision-making authority specify the authority given to the Board, the Management Committee, President, Executives in charge, General Managers, and other relevant organizations and personnel. These decision-making organizations and personnel conduct deliberations and make final decisions in accordance with the authority. The Board functions as an overseer to ensure that the Company continues to grow sustainably and to enhance its corporate value, and, based on fair criteria, makes the best decisions regarding matters of significance specified by laws, Articles of Incorporation, and the criteria for decision-making authority. The Management Committee consisting of Inside Directors and Executive Officers executes matters resolved by the Board and address issues suggested by the Board, in addition to actions authorized by the criteria for decision-making authority.

Supplementary Principle 4.1.2

Recognizing that a mid-term business plan (*chuuki keiei keikaku*) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders, and analytic findings should be reflected in a plan for the ensuing years.

We do not have a medium-term business plan. However, business operations are guided by two medium-term policies. First is maximizing purchases by leveraging the comprehensive power of the BOOKOFF Group. Second is maximizing sales efficiency in stores and over the Internet. All group companies are concentrating on their respective roles in order to achieve growth in corporate value.

Supplementary Principle 4.1.3

Based on the company objectives (business principles, etc.) and specific business strategies, the board should engage in the appropriate oversight of succession planning for the CEO and other top executives.

For the selection of a new President and new Directors, we have established a framework for the transparent and fair selection of successors and director candidates. Selections are made at the Board meeting after the end of the fiscal year and before the general meeting of shareholders, reflecting evaluations of the effectiveness of the Board of Directors and its chairman performed by the Independent Outside Directors as well as the recommendations of the Nomination Advisory Committee.

Principle 4.2 Roles and Responsibilities of the Board (2)

The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from the management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented. Also, the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship.

We have established an environment that supports risk-taking, and set ethical standards and a code of conduct that encompass compliance. At the Board meetings, our Directors fully examine proposals from an independent and objective standpoint with the aim to secure accountability. Once the proposals are adopted, Executives in charge are responsible for the oversight and execution of them. Remuneration of Directors is decided in consideration of the Company's operating results.

Supplementary Principle 4.2.1

In order for management remuneration to operate as a healthy incentive for sustainable growth, the proportion linked to mid- to long-term results and the balance of cash and stock should be set appropriately.

We decide the remuneration of Directors in consideration of our operating results. We will continue to discuss the remuneration to link it more to our long-term results and shareholder value.

Principle 4.3 Roles and Responsibilities of the Board (3)

The board should view the effective oversight of the management and Directors, Members of the Board from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management.

In addition, the board should engage in oversight activities in order to ensure timely and accurate information disclosure, and should establish appropriate internal control and risk management systems.

Also, the board should appropriately deal with any conflict of interests that may arise between the company and its related parties, including the management and controlling shareholders.

We evaluate the performance of Directors with fairness and transparency at the Remuneration Review Committee that consists of President and Independent Outside Directors.

In regard to information disclosure, the Corporate Planning Department, Accounting Department, General Affairs Department and other units relevant to information disclosure have discussion each time an issue arises, and Executives in charge check their conclusion to ensure that accurate information is disclosed at the right time.

Regarding the related party transactions, a resolution at the Board meeting is required in advance as stipulated in our internal regulations. That resolution is made exempting the number of relevant officers as special stakeholders from quorum for such resolution. In addition, the Company conducts a questionnaire to directors and officers of the Company and its subsidiaries each period for the purpose of confirming whether there have been transactions between those related parties.

Supplementary Principle 4.3.1

The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures and reflect the results of company performance.

The Company's Remuneration Review Committee evaluates Directors with fairness and transparency in accordance with the policy and procedure specified in the internal regulations. The Nomination Advisory Committee deliberates the appointment and/or dismissal of members of the senior management, considering the Company's performance and other relevant factors, and the Board makes the final decision.

Supplementary Principle 4.3.2

The establishment of effective internal control and proactive risk management systems for compliance and financial reporting has the potential of supporting sound risk-taking. The board should place priority on the appropriate establishment of such systems and the oversight of whether they effectively operate, and should not limit itself to the examination of compliance with respect to specific business operations.

We have the Compliance Management Committee and the Risk Management Committee. These committees report the details of their discussion at their monthly meetings to the Management Committee that consists of Inside Directors and Executive Officers to prevent and manage risks within their frameworks.

Principle 4.4 Roles and Responsibilities of Audit & Supervisory Board Members and the Audit & Supervisory Board

Audit & Supervisory Board Members and the Audit & Supervisory Board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of duties of Directors, appointment and dismissal of external auditors and the determination of auditor remuneration. Although so-called "defensive functions," such as business and accounting audits, are part of the roles and responsibilities expected of Audit & Supervisory Board Members and the Audit & Supervisory Board, in order to fully perform their duties, it would not be appropriate for Audit & Supervisory Board Members and the Audit & Supervisory Board to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at the board meetings and to the management.

Two of our three Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members (one of them is Independent Audit & Supervisory Board Member), and they fulfill their responsibilities as Audit & Supervisory Board Members from an objective and independent standpoint. Also, these Audit & Supervisory Board Members are certified public accountants, lawyers, former employees at industrial companies, or other experienced individuals with expertise in the field. Drawing on their knowledge and experience, they actively offer their views and opinions at the Board meetings.

Supplementary Principle 4.4.1

Given that not less than half of the Audit & Supervisory Board must be composed of outside Audit & Supervisory Board Members and that at least one full-time Audit & Supervisory Board Members must be appointed in accordance with the Companies Act, the Audit & Supervisory Board should, from the perspective of fully executing its roles and responsibilities, increase its effectiveness through an organizational combination of the independence of the former and the information gathering power of

the latter. In addition, Audit & Supervisory Board Members or the Audit & Supervisory Board should secure cooperation with Outside Directors so that such Outside Directors can strengthen their capacity to collect information without having their independence jeopardized.

Two of our three Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members (one of them is an Independent Audit & Supervisory Board Member), comprising the Audit & Supervisory Board that maintains unwavering independence. Our Full-time Audit & Supervisory Board Member attends the Board meetings as well as important meetings of the Management Committee to share information with other Audit & Supervisory Board Members regularly. We also have in place a framework in which these Audit & Supervisory Board Members work with our Outside Directors as necessary.

Principle 4.5 Fiduciary Responsibilities of Directors and Audit & Supervisory Board Members

With due attention to their fiduciary responsibilities to shareholders, Directors, Audit & Supervisory Board Members and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.

Our Directors, Audit & Supervisory Board Members and management are aware of the importance of timely and appropriate release of information to fulfill our fiduciary responsibilities, and actively disclose information needed by stakeholders.

Principle 4.6 Business Execution and Oversight of the Management

In order to ensure effective, independent and objective oversight of the management by the board, companies should consider utilizing Directors who are neither involved in business execution nor have close ties with the management.

To ensure effective, independent and objective oversight of the management by our Board, we have six Outside Directors whom we ask for views and opinions at the Board meetings. This way we have developed our framework for effective oversight of the management.

Principle 4.7 Roles and Responsibilities of Independent Outside Directors

Companies should make effective use of Independent Outside Directors, taking into consideration the expectations listed below with respect to their roles and responsibilities:

- (i) Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid- to long-term;
 - (ii) Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management;
 - (iii) Monitoring of conflicts of interest between the company and the management or controlling shareholders; and
 - (iv) Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.
- (i) We have three Independent Outside Directors who are experienced corporate managers or have expertise in marketing and publishing. They offer sound advice and helpful opinions regarding our business strategies and other relevant matters based on their expertise and years of experience.
 - (ii) Our three Independent Outside Directors serve as members of the Nomination Advisory Committee and the Remuneration Review Committee, and they conduct transparent evaluations of Directors from an objective standpoint. They also oversee the management of the Company's business operations by participating in important decision-making at the Board meetings.
 - (iii) Our three Independent Outside Directors monitor conflicts of interest and other relevant matters from an independent standpoint.
 - (iv) Our three Independent Outside Directors appropriately represent the views of minority shareholders and other stakeholders at the Board meetings from a standpoint independent of the management and controlling shareholders.

Principle 4.8 Effective Use of Independent Outside Directors

Independent Outside Directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies should therefore appoint at least two Independent Outside Directors that sufficiently have such qualities. Irrespective of the above, if a company in its own judgement believes it needs to appoint at least one-third of directors as Independent Outside Directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should disclose a roadmap for doing so.

We currently have three Independent Outside Directors appointed in accordance with the independence standards we have set for Outside Directors.

Supplementary Principle 4.8.1

In order to actively contribute to discussions at the board, Independent Outside Directors should endeavor to exchange information and develop a shared awareness among themselves from an independent and objective standpoint. Regular meetings consisting solely of Independent Outside Directors (executive sessions) would be one way of achieving this.

Our three Independent Outside Directors work on the enhancement of our sustainable corporate value by asking President and Directors for explanations and actions toward improvement as necessary. We also have the Board of Independent Outside Directors that consists of Independent Outside Directors and thereby ensure they share information regularly.

Supplementary Principle 4.8.2

Independent Outside Directors should endeavor to establish a framework for communicating with the management and for cooperating with Audit & Supervisory Board Members or the Audit & Supervisory Board by, for example, appointing the lead independent director from among themselves.

We decide the lead Independent Outside Director through a mutual election by Independent Outside Directors so that the Board of Independent Outside Directors can communicate with our management and cooperate with the Audit & Supervisory Board.

Principle 4.9 Independence Standards and Qualification for Independent Outside Directors

Boards should establish and disclose independence standards aimed at securing effective independence of Independent Outside Directors, taking into consideration the independence criteria set by securities exchanges. The board should endeavor to select candidates for Independent Outside Directors who are expected to contribute to frank, active and constructive discussions at the board meetings.

We have in place our independence standards for Outside Directors and Outside Audit & Supervisory Board Members. These standards are disclosed in convening notices of general meeting of shareholders and reports on corporate governance. Our three Independent Outside Directors who are experienced corporate managers or have expertise in marketing and publishing, offer sound advice and helpful opinions regarding our business strategies and other relevant matters based on their expertise and years of experience. They oversee the management of the Company's business operations by participating in important decision-making and monitor conflicts of interest from an independent standpoint.

■ Independence Standards of the Outside Directors and the Outside Audit & Supervisory Board Members

The Company shall deem any Outside Director or Outside Audit & Supervisory Board Member (hereinafter "Outside Board Member") lacking independence if he or she falls under any of the following items:

1. As of the present day or within the past one year, any Outside Board Member is/was an executive director, executive officer as defined in the Companies Act, other executive officer, other similar officer or employee (hereinafter "Executive Person") of "a present customer with whom the Company and its subsidiaries (hereinafter "the Group") cannot promptly discontinue transactions" or "a present customer who cannot promptly discontinue transactions with the Group."

2. As of the present day or within the past one year, any Outside Board Member is/was a professional belonging to an organization that is the Group's "present fee recipient with whom the Group cannot promptly terminate the contract" or the Group's "present fee recipient who cannot promptly terminate the contract with the Group."
3. As of the present day or within the past one year, any Outside Board Member is/was an Executive Person or non-executive director of the present parent company of the Company.
4. As of the present day or within the past one year, any Outside Board Member is/was an Audit & Supervisory Board Member of the present parent company of the Company. (This item shall apply only for the independence standards of Outside Audit & Supervisory Board Members.)
5. As of the present day or within the past one year, any Outside Board Member is/was an Executive Person of the present fellow subsidiary (the company that shares the same parent) of the Company.
6. As of the present day or within the past one year, any Outside Board Member receives/received from the Group cash or other properties at the amount of ¥2.4 million or more per year other than remuneration as an Outside Board Member.
7. A spouse or a person within the second degree of affinity of any Outside Board Member is/was a person who falls/fell under any of the above Items 1 to 6.
8. As of the present day or within the past one year, a spouse or a person within the second degree of affinity of any Outside Board Member falls/fell under the following:
 - (1) An Executive Person of the Company or its subsidiaries
 - (2) A non-executive director of the Company or its subsidiaries (This item shall apply only for the independence standards of Outside Audit & Supervisory Board Members.)
9. Any Outside Board Member holds 10% or more of the voting rights of the Company (or is an Executive Person of a legal entity that holds 10% or more of the voting rights of the Company).
10. Any Outside Board Member is an Executive Person of a legal entity for whom an Executive Person of the Group is an Outside Director. (This item shall apply only for the independence standards of Outside Directors.)
11. Any Outside Board Member receives from the Group donations that he or she cannot promptly discontinue receiving (or is an Executive Person of an organization that receives from the Group donations that it cannot promptly discontinue receiving).
12. As of the present day or within past one year, any Outside Board Member is/was an Executive Person of a present "other associated companies" or the "parent company or subsidiaries of the other associated companies) of the Company.
13. An aggregate term of office as Outside Board Member of the Company exceeds 10 years.

Principle 4.10 Use of Optional Approach

In adopting the most appropriate organizational structure (as stipulated by the Companies Act) that is suitable for a company's specific characteristics, companies should employ optional approaches, as necessary, to further enhance governance functions.

We are a Company with an Audit & Supervisory Board. To further enhance our governance functions, we have the Nomination Advisory Committee and the Remuneration Review Committee. These committees are optional organizations that consist of President and Independent Outside Directors. They nominate candidates for Directors, evaluate them, and perform other relevant functions.

Supplementary Principle 4.10.1

If the organizational structure of a company is either Company with the Audit & Supervisory Board or Company with Supervisory Committee and Independent Outside Directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of the senior management and Directors, the company should seek appropriate involvement and advice from Independent Outside Directors in the examination of such important matters as nominations and remuneration by, for example, establishing optional advisory committees under the board to which Independent Outside Directors make significant contributions.

We are a Company with an Audit & Supervisory Board, and have three Independent Outside Directors who do not compose the majority of the Board. To strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of our senior management and Directors, we have the Nomination Advisory Committee and the Remuneration Review Committee as optional organizations that consist of President and Independent Outside Directors thereby ensuring appropriate involvement and advice from Independent Outside Directors.

Principle 4.11 Preconditions for Board and Audit & Supervisory Board Effectiveness

The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity and appropriate size. In addition, at least one person who has appropriate expertise on finance and accounting should be appointed as Audit & Supervisory Board Members. The board should endeavor to improve its function by analyzing and evaluating effectiveness of the board as a whole.

Our Board consists of experienced corporate managers, certified public accountants, individuals experienced in business, and other individuals conversant with the field of business they work for. Our Audit & Supervisory Board consists of certified public accountants, lawyers, and former employees at industrial companies. The Board of Independent Outside Directors analyzes and evaluates the overall effectiveness of the Board annually, and reports the results of the analysis and evaluation to the Board.

Supplementary Principle 4.11.1

The board should have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the board should establish policies and procedures for nominating Directors and disclose them along with its view.

We believe that, it is reasonable to have eight to ten Directors and three to four Audit & Supervisory Board Members on the Board to ensure effective and substantive discussions at the Board meetings. Currently, four Inside Directors, five Outside Directors (three of whom are Independent Outside Directors), one Full-time Audit & Supervisory Board Member, and two Outside Audit & Supervisory Board Members (one of whom is an Independent Outside Audit & Supervisory Board Member) comprise the Board. The Directors are experienced corporate managers, certified public accountants, individuals experienced in business, or individuals conversant with the field of business they work for. Our group of the Audit & Supervisory Board Members consists of certified public accountants, lawyers, and former employees at industrial companies. We try to maintain a good balance in terms of the Board members' knowledge, experience, and skills to ensure in particular that Outside Directors and Outside Audit & Supervisory Board Members are knowledgeable and experienced so that the Company will continue to achieve sound and sustainable growth. Furthermore, when we appoint Directors, we select candidates who are likely to contribute to our efforts to boost our corporate value. Then, after having dialogue with the candidates, the Nomination Advisory Committee consisting of President and Independent Outside Directors screen them, and the Board makes decisions, in accordance with the internal regulations. We also have guidelines on the appointment of Outside Directors, and the independence standards included in the guidelines are disclosed in convening notices of general meeting of shareholders.

Supplementary Principle 4.11.2

Outside Directors and outside Audit & Supervisory Board Members, and other Directors, Members of the Board and Audit & Supervisory Board Members should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where Directors and Outside Directors and Audit & Supervisory Board Members also serve as Directors, Audit & Supervisory Board Members or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.

While some of our Outside Directors and Outside Audit & Supervisory Board Members serve as directors, Audit & Supervisory Board Members or the management at other companies, we believe that they are able to devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Our Directors and Full-time Audit & Supervisory Board Members do not work as directors, Audit &

Supervisory Board Members or the management of other companies that are not our subsidiaries or affiliates, and thus they are able to devote sufficient time and effort to their functions as Directors or Full-time Audit & Supervisory Board Members. Our Outside Directors and Outside Audit & Supervisory Board Members working in positions at other companies are disclosed in convening notices of the general meeting of shareholders, Securities Report (*Yukashoken Hokokusho*), and reports on corporate governance.

Supplementary Principle 4.11.3

Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each Director. A summary of the results should be disclosed.

The Company has designed and put in place a system under which each Director makes its self-assessment and the Board of Independent Outside Directors conducts analysis and evaluation of the effectiveness of the entire Board of Directors as well as the assessment of the Chairman of the Board of Directors. The outline of the results of analysis and assessment is disclosed in convening notices of the general meeting of shareholders.

■ **Evaluation of the Board of Directors Effectiveness**

An assessment of the Board of Directors in FY3/2018 was performed as in the previous fiscal year. The conclusion regarding the composition, agenda items, discussions and operations of the Board of Directors and the effectiveness of the Chairman was that “the Board of Directors is generally effective, although there are some issues.” The assessment was based on the following activities: (1) Self-assessment by Internal Directors; (2) Assessment of all Directors using questionnaires and interviews; (3) Assessment of the entire Board of Directors by the Board of Independent Outside Directors consisting of three Independent Outside Directors and one Independent Outside Audit & Supervisory Board Member; and (4) Assessment of the Chairman of the Board of Directors by the Board of Independent Outside Directors. There were measures for improving the quality of discussions about activities to achieve recovery in the Company’s performance and for monitoring the activities of Directors with greater accuracy. One step was the frequent participation of Executive Officers and General Managers, including thorough explanations of various subjects, at the Board meetings. Another measure was continuous improvements in the quality and quantity of materials distributed to the Directors. Including a variety of participants at meetings and holding the Board meetings strictly in accordance with the agenda has resulted in another positive assessment regarding unrestricted discussions by the Directors about well-chosen agenda items. To further heighten the effectiveness of the Board of Directors, there will be measures to have the Directors hold discussions based on medium to long-term perspectives and to make improvements involving nominations and advisories in order to ensure the continuity of the Company’s management.

Principle 4.12 Active Board Deliberations

The board should endeavor to foster a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by Outside Directors.

Our Board has free, open and constructive discussions and exchanges of views, including the raising of concerns by Outside Directors. Our three Independent Outside Directors in particular, who are experienced corporate managers or have expertise in marketing and publishing, offer sound advice and helpful opinions regarding our business strategies and other relevant matters based on their expertise and years of experience. They oversee the management of the Company’s business operations by participating in important decision-making and monitor conflicts of interest from an independent standpoint.

Supplementary Principle 4.12.1

The board should ensure the following in relation to the operation of the board meetings and should attempt to make deliberations active:

- (i) Materials for the board meetings are distributed sufficiently in advance of the meeting date;
- (ii) In addition to board materials and as necessary, sufficient information is provided to directors by the company (where appropriate, the information should be organized and/or analyzed to promote



- easy understanding);
- (iii) The schedule of the board meetings for the current year and anticipated agenda items are determined in advance;
 - (iv) The number of agenda items and the frequency of the board meetings are set appropriately; and
 - (v) Sufficient time for deliberations.

- (i) Materials for the Board meeting are deliberated by the Management Committee attended by Directors and Full-time Audit & Supervisory Board Members, and distributed to Outside Directors and Outside Audit & Supervisory Board Members prior to the meeting.
- (ii) In addition to board materials, the Executive in charge gives a briefing to Outside Directors, and the Full-time Audit & Supervisory Board Members to Outside Audit & Supervisory Board Members prior to the Board meeting if necessary, to ensure that all information needed for deliberation is provided beforehand.
- (iii) We determine in advance the schedule of the Board meetings for the current year and anticipated agenda items.
- (iv) The Board meeting is held once a month, and special meetings may be held as necessary. The number of agenda items at a meeting is set appropriately to ensure enough time for deliberations.
- (v) We ensure that the Board meeting has sufficient time for deliberations, and make adjustments to the scheduled hours as necessary.

Principle 4.13 Information Gathering and Support Structure

In order to fulfill their roles and responsibilities, Directors and Audit & Supervisory Board Members should proactively collect information, and as necessary, request the company to provide them with additional information.

Also, companies should establish a support structure for Directors and Audit & Supervisory Board Members, including providing sufficient staff. The board and the Audit & Supervisory Board should verify whether information requested by Directors and Audit & Supervisory Board Members is provided smoothly.

Our Directors and Audit & Supervisory Board Members request relevant departments to provide necessary information to fulfill their roles and responsibilities, and these departments provide information and materials whenever such requests are made. The General Affairs Department that serves as the administrative office of the Board takes the lead in assisting Directors and Audit & Supervisory Board Members to receive information.

Supplementary Principle 4.13.1

Directors should request the company to provide them with additional information, where deemed necessary from the perspective of contributing to transparent, fair, timely and decisive decision-making. In addition, Audit & Supervisory Board Members, including outside Audit & Supervisory Board Members, should collect information appropriately, including the use of their statutory investigation power.

To make appropriate decisions, our Directors request relevant departments to provide additional information as necessary, and these departments provide information and materials whenever such requests are made. Also, to conduct an appropriate audit, our Full-time Audit & Supervisory Board Members leads the other Audit & Supervisory Board Members including Outside Audit & Supervisory Board Members in requesting the General Affairs Department that serves as the administrative office of the Board to provide information and materials as necessary.

Supplementary Principle 4.13.2

Directors and Audit & Supervisory Board Members should consider consulting with external specialists at company expense, where they deem it necessary.

We have a system that allows our Directors and Audit & Supervisory Board Members to consult external specialists at the Company's expense where they deem it necessary.

Supplementary Principle 4.13.3

Companies should ensure coordination between the Internal Audit Department, Directors and Audit & Supervisory Board Members.

In addition, companies should take measures to adequately provide necessary information to Outside Directors and Outside Audit & Supervisory Board Members. One example would be the appointment of an individual who is responsible for communicating and handling requests within the company such that the requests for information about the company by Outside Directors and Outside Audit & Supervisory Board Members are appropriately processed.

Issues and other matters identified by the Internal Auditing Committee at the Company are reported to President and the Executive in charge of compliance once a month. These reported issues are directed to be addressed, and improvements are made promptly. This process is coordinated with the Audit & Supervisory Board whenever necessary. Issues discovered through the internal audit are also reported to the Management Committee and the Board regularly. The General Affairs Department is in charge of communication and coordination between Outside Directors and relevant internal departments, and the Full-time Audit & Supervisory Board Member is in charge of communication and coordination between Outside Audit & Supervisory Board Members and relevant internal departments.

Principle 4.14 Training for Directors and Audit & Supervisory Board Members

New and incumbent Directors and Audit & Supervisory Board Members should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each Director and Audit & Supervisory Board Member along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.

We require our new Directors to participate in an external training program. We also provide all of our Directors and Audit & Supervisory Board Members with a mandatory corporate governance and insider training taught by legal experts at least once a year. Furthermore, we allow our Directors to participate in external training and workshops, and our Audit & Supervisory Board Members in training and workshops offered by Japan Audit & Supervisory Board Members Association, at the Company's expense whenever necessary.

Supplementary Principle 4.14.1

Directors and Audit & Supervisory Board Members, including Outside Directors and Outside Audit & Supervisory Board Members, should be given the opportunity when assuming their position to acquire necessary knowledge on the company's business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent Directors should also be given a continuing opportunity to renew and update such knowledge as necessary.

We provide our Directors and Audit & Supervisory Board Members with a mandatory corporate governance and insider training taught by legal experts at least once a year. We also allow our Directors to participate in external training and workshops, and our Audit & Supervisory Board Members in training and workshops offered by Japan Audit & Supervisory Board Members Association whenever necessary.

Supplementary Principle 4.14.2

Companies should disclose their training policy for Directors and Audit & Supervisory Board Members.

We provide our Directors and Audit & Supervisory Board Members with a mandatory corporate governance and insider training taught by legal experts at least once a year. We also allow our Directors and Audit & Supervisory Board Members to participate in external training and workshops at the Company's expense whenever necessary.

Section 5: Dialogue with Shareholders

General Principle 5

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general meeting of shareholders.

During such dialogue, senior management and Directors should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

We are aware that, to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, it is vital that our senior management and Directors engage in constructive dialogue with our shareholders even outside the general meeting of shareholders, and that we clearly explain our business policies to our shareholders in an understandable manner so as to gain their support. Hence, we have in place an investor relations (IR) framework that centers on the Executive in charge of IR to help investors deepen their understanding of the Company through regular dialogues.

Principle 5.1 Policy for Constructive Dialogue with Shareholders

Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.

We have appointed the Executive in charge of IR, and had the Corporate Planning Department assigned to IR. We also hold semiannual financial results meetings for our shareholders and investors, along with small meetings and individual interviews. In addition, our IR policy is disclosed on our website.

■ IR Policy (Policies for Promoting Constructive Dialogue with Our Shareholders)

We draft and implement the following IR Policy so that the constructive dialogue with shareholders can help the Company support its sustainable growth and increase corporate value.

- We appoint the Executive in charge of IR, and have the Corporate Planning Department assigned to IR. The executive in charge of IR and the Corporate Planning Department coordinate and cooperate with the General Affairs Department, the Finance Department, the Accounting Department, the Legal Affairs Department and other relevant departments to realize the constructive dialogue with shareholders.
- We pursue more effective IR activities through the events such as the financial results briefings and tours of company facilities aside from individual meetings.
- The executive in charge of IR relays shareholder views learned through the dialogue to the senior management and the Board in a timely and appropriate manner.
- We disclose information useful to shareholders and investors on a timely and appropriate manner. Specifically, we disclose matters that may materially affect the investment decision in accordance with the Rules on Timely Disclosure of Corporate Information by the Issuer of Listed Securities (hereinafter referred to as “the Timely Disclosure Rules”) stipulated by the Tokyo Stock Exchange in compliance with the Financial Instruments and Exchange Act of Japan. In addition, we proactively disclose the other information that we believe is useful for our shareholders and investors to understand our operations.

1) Disclosure method

We disclose information required by the Timely Disclosure Rules through the “Timely Disclosure Network (TDnet) provided by the Tokyo Stock Exchange and distribute materials (by issuing a press release) to media. In addition, from the standpoint of “timeliness” and “fairness” of disclosure, we promptly upload the information disclosed through the TDnet and press release on our corporate website. When we disclose information that is not subject to the Timely Disclosure Rules, we do it in

an appropriate manner in recognition of the spirit of the Timely Disclosure Rules.

2) Insider information control

In order to prevent insider information (i.e., material, nonpublic inside information) from being leaked outside, we control information in accordance with the Insider Information Control Policy and refrain from responding to any inquiries on matters other than those already disclosed during the “Quiet Period”—the period from the end of each quarter to the date of the announcement of financial results.

■ IR Policy (Policies for Promoting Constructive Dialogue with Our Shareholders)

<http://www.bookoff.co.jp/ir/policy.html>

Supplementary Principle 5.1.1

Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management and Directors should have a basic position to engage in dialogue (management meetings) with shareholders.

The Corporate Planning Department engages in dialogue (management meetings) with our shareholders. President and the Executive in charge of IR also meet shareholders as necessary after reasonably considering requests and interests of the shareholder and the number of shares held by the shareholder.

Supplementary Principle 5.1.2

At minimum, policies for promoting constructive dialogue with shareholders should include the following:

- (i) Appointing a member of the management or Director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below;
- (ii) Measures to ensure positive cooperation between internal departments such as Investor Relations, Corporate Planning, General Affairs, Finance, Accounting and Legal Affairs with the aim of supporting dialogue;
- (iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);
- (iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board; and
- (v) Measures to control insider information when engaging in dialogue.

Our IR Policy encompasses policies for promoting constructive dialogue with our shareholders, specifying the following:

- (i) We have appointed the Executive in charge of IR.
- (ii) The Corporate Planning Department that is in charge of IR takes the lead in meeting monthly with the Departments of General Affairs, Finance, Accounting and Legal Affairs, as well as in day-to-day communication with them.
- (iii) The Corporate Planning Department actively accepts requests for interviews about our IR, including phone interviews and small meetings. It also hosts semiannual financial results meetings where President and the Executive in charge of IR give explanations.
- (iv) Views and opinions received through our IR activities are reported to and shared across the Management Committee and the Board.
- (v) We have the Insider Information Control Policy and provide regular training sessions in an effort to control our insider information.

Supplementary Principle 5.1.3

Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.

We update the list of shareholders semiannually (in late March and late September) to understand our shareholder ownership structure. We also identify beneficial shareholders if necessary.

Principle 5.2 Establishing and Disclosing Business Strategy and Business Plan

When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policy, and present targets for profitability and capital efficiency. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources and specific measures that will be taken in order to achieve their plans and targets.

We disclose our sales and operating profit targets and give detailed presentations on our planned actions to achieve the targets at financial results meetings.

End

