

## Corporate Governance

### 1. Basic Stance

UNITED ARROWS LTD. has positioned efforts to create globally recognizable and accepted values that set new standards of Japanese lifestyle as its overarching Company Policy. In addition, we have identified the creation of value for five distinct stakeholders—customers, employees, business partners, society, and shareholders—as one element of our overall Policy Structure and a key feature of our promise to society. In this regard, the Company’s mission is to increase value for all stakeholders. In order to maintain the proper mindset that will allow us to realize our Company Policy, we put in place the Code of Conduct. This code expresses how we should think and act to achieve our stated goals. Recognizing the critical need to build a transparent and fair management framework, along with a structure under which we are capable of making timely and bold decisions, we are committed to continuously strengthening and expanding our corporate governance capabilities and functions in order to realize our Company Policy and fulfill our promise to society. Through these means, we are working to enhance our corporate value on a long-term and continuous basis.

(Reference) Major Initiatives to Strengthen Corporate Governance Undertaken over Recent Years

UNITED ARROWS LTD. is working to enhance both stakeholder and corporate value by continuously upgrading and expanding its corporate governance structure and systems. In recent years, the Company has paid particular attention to further strengthening its corporate governance with the aims of accelerating the pace of its decision making, increasing the transparency and soundness of its management, and bolstering the oversight function.

2008	Adopted an executive officer system
2009	Put in place the disclosure policy
2013	Appointed a director from outside the Company
2014	Announced details of the Company’s policy to institutional investors that have expressed their acceptance of the Stewardship Code
2015	Increased the number of outside directors from one to two Put in place the Corporate Governance Policy
2016	Transitioned to a Company with an Audit and Supervisory Committee structure and appointed three outside directors (Audit and Supervisory Committee members) Established the Nomination and Compensation Committee Undertook an evaluation of the effectiveness of the Board of Directors
2017	Adapted a Restricted-Share Remuneration Plan

### 2. Corporate Governance Framework

Guided by the aforementioned basic stance, UNITED ARROWS LTD. decided to adopt an Audit and Supervisory Committee structure as its corporate governance framework. The purposes for adopting this structure is to bolster the monitoring function of the Board of Directors and to accelerate the pace of decision making by utilizing outside directors, who do not directly engage in the execution of business, and properly delegating authority. In addition, the Company established the Nomination and Compensation Committee, which is mainly comprised of independent outside directors. This structure is designed to reinforce the independence, objectivity, and accountability of the Board of Directors by ensuring the integrity of the nominating process and compensation paid.

#### Board of Directors

The Board of Directors is comprised of seven directors (three of whom are independent outside directors) who in principle meet once a month. Meetings of the Board of Directors are attended by directors who are not Audit and Supervisory Committee members as well as directors who are Audit and Supervisory Committee members. The

Board makes decisions on legal and regulatory matters as well as important matters set forth in the bylaws governing the Board of Directors. The Board of Directors is also responsible for supervising and overseeing business execution. UNITED ARROWS LTD. has developed a framework conducive to efficient business execution, with the Board of Directors holding extraordinary meetings whenever necessary and directors meeting individually to discuss matters when required.

#### Audit and Supervisory Committee

The Audit and Supervisory Committee is comprised of three directors who are Audit and Supervisory Committee members. The Committee determines policies relating to audits and related activities in accordance with the regulations of the Audit and Supervisory Committee. Moreover, the Audit and Supervisory Committee prepares audit reports based on explanations provided by each Audit and Supervisory Committee member, directors who are not members of the Audit and Supervisory Committee, and the accounting auditor. By ensuring that all three Audit and Supervisory Committee members are outside directors, positive steps are being taken to secure the transparency of management and to ensure that a proper structure is in place to oversee and audit the Company as a whole. As of March 31, 2017, Audit and Supervisory Committee members did not hold shares in the Company. Accordingly, UNITED ARROWS LTD. is confident that there are no conflicts of interest from a personal, business, or any other perspective.

#### Executive Officer System

UNITED ARROWS LTD. adopted an executive officer system in July 2008. To allow the Board of Directors to concentrate on decision making with respect to important matters relating to business operations and to supervise and oversee the execution of business activities, executive officers are appointed to assume responsibility for the executive function. Substantial authority is delegated by the Board of Directors to allow executive officers to carry out their duties in a timely fashion. At the same time, steps are being taken to bolster the decision making and supervisory functions of the Board of Directors.

#### Nomination and Compensation Committee

UNITED ARROWS LTD. has established the Nomination and Compensation Committee. In order to reinforce the independence, objectivity, and accountability of the Board of Directors and to ensure the integrity of the nominating process and compensation paid, the Nomination and Compensation Committee is comprised of three independent outside directors and one representative director.

#### Outline of the Corporate Governance Framework

Organizational format	Company with an Audit and Supervisory Committee <sup>*1</sup>
Chairman of the Board of Directors	Representative Director, President and CEO
Directors (excluding directors who are Audit and Supervisory Committee members)	Four (none of whom are outside directors)
Directors who are Audit and Supervisory Committee members	Three (all of whom are outside directors)
Independent officers <sup>*2</sup>	Three outside directors
Average age	51.4 years
Number of Board of Directors’ meetings held during the fiscal year ended March 31, 2017	17
Number of Audit and Supervisory Board meetings held during the fiscal year ended March 31, 2017 <sup>*1</sup>	10
Number of Nomination and Compensation Committee held during the fiscal year ended March 31, 2017 <sup>*1</sup>	4

<sup>\*1</sup> UNITED ARROWS LTD. transitioned to a Company with an Audit and Supervisory Committee in accordance with a resolution at the Company’s 27th Ordinary General Meeting of Shareholders held on June 23, 2016.

<sup>\*2</sup> Yukari Sakai, Gaku Ishiwata, and Hidehiko Nishikawa satisfy the qualifications for independent officers stipulated by Tokyo Stock Exchange, Inc. as well as the “Independence Determination Standards for Independent Officers” of the Company. Although the Company registered Yukari Sakai and Hidehiko Nishikawa as independent officers with the Tokyo Stock Exchange, Gaku Ishiwata has not been registered as such due to the internal regulations of the law firm to which he belongs. Please refer to the Company’s Corporate Governance Policy (Japanese only) for details regarding its “Independence Determination Standards for Independent Officers.” [www.united-arrows.co.jp/en/corporate/governance.html](http://www.united-arrows.co.jp/en/corporate/governance.html)

#### Policy on Determining Directors’ Compensation

UNITED ARROWS LTD. has positioned the payment of compensation to directors as an incentive to help realize sustainable growth and increase corporate value over the medium to long term in accordance with its Company Policy. The compensation paid to executive directors is comprised of a basic fixed monthly component, a bonus that is linked to the Company’s performance over a single fiscal year period, and stock-based compensation that is set in line with the degree to which the targets under the Medium-Term Business Plan are met.

#### Basic Compensation

UNITED ARROWS LTD. has put in place a directors’ compensation table based on the position of each director. In putting together this table, the Company also took into consideration industry-wide compensation payment levels as well as the results of executive compensation surveys conducted by external research agencies. Recommendations for the payment of compensation are put forward within the range identified in the table based on the role and responsibilities of each director.

#### Stock-Based Compensation

UNITED ARROWS LTD. has adopted a Restricted-Share Remuneration Plan in order to ramp up efforts aimed at sharing value with all shareholders and putting in place a compensation structure and system that is designed to enhance corporate value over the medium to long term. Under this plan, restricted share remuneration that lifts transfer restrictions is granted to executive directors who achieve the targets set out under the Medium-Term Business Plan within the fixed transfer restriction period. The amount of restricted share remuneration reflects the degree to which targets are achieved.

#### Bonuses

After putting forward a proposal for the total bonus amount to be paid, UNITED ARROWS LTD. advances an additional proposal for the allocation of bonuses to each executive director. The Company’s proposal for total bonuses paid is determined following a comprehensive evaluation of such management indicators as consolidated operating cash flow and ROE, in addition to the degree to which initial earnings forecasts in any given fiscal year were achieved, with a particular emphasis on consolidated ordinary income. The amount of bonus allocated and paid to each director is determined on the basis of each director’s managerial rank. It is set up this way so that a higher ranking on the director compensation table receives a higher bonus

Total amount of compensation and other benefits paid to directors and Audit and Supervisory Board members for the fiscal year ended March 31, 2017

Officer category	Number of officers to whom compensation and other benefits were paid	Total amount of compensation and other benefits paid (millions of yen)	Total amount of compensation and other benefits paid by type of payment (millions of yen)			
			Basic compensation	Stock options	Bonus	Retirement benefit allowance
Directors (excluding outside directors)	4	151	151	—	—	—
Independent officers	5	32	32	—	—	—

coefficient (the ratio of bonus paid to the total amount of basic compensation and bonus paid), with the objective of strengthening the commitment of directors to achieving business targets in any given fiscal year. In principle, bonuses are not paid if consolidated ordinary income falls below the initial forecast by a certain amount.

Bonuses are not paid to non-executive directors. Payments made to non-executive directors comprise a basic compensation payment only in line with the role and responsibilities of each non-executive director.

#### Procedure for Determining Individual Compensation

The procedure for determining the amount of compensation paid to individual directors who are not Audit and Supervisory Committee members is based on the aforementioned policy. Accordingly, each amount is determined based on a resolution of the Board of Directors and falls within an established range authorized by shareholders. As a part of the procedure for determining individual compensation, steps are also taken to obtain the advice of the Nomination and Compensation Committee.

The procedure for determining the amount of compensation paid to individual directors who are Audit and Supervisory Committee members is also based on the aforementioned policy. In this instance, each amount is determined based on a resolution of the Audit and Supervisory Committee and falls within an established range authorized by shareholders.

In addition to the preceding, the Nomination and Compensation Committee verifies the validity of the policies relating to and composition of directors’ compensation as well as the compensation table and associated computation rules. Among other activities, the Nomination and Compensation Committee also puts forward revised proposals.

### 3. Maintaining an Environment That Facilitates the Proper Taking of Risks

UNITED ARROWS LTD. continues to put in place an environment that enables the Company to properly take risks. In specific terms, we have established an internal control system as well as a risk management structure that allows us to make important decisions regarding a wide range of activities, including the expansion of business into new domains.

#### Internal Control System

UNITED ARROWS LTD. has put in place an appropriate internal control system in an effort to ensure that directors and employees perform their duties in accordance with laws, regulations, and the Articles of Incorporation and that directors carry out their duties in an efficient manner and maintain risk management systems for the Group as a whole. Through its internal control system, the Company maintains a framework that enables all directors and employees to consistently carry out their duties with a strong sense of ambition and the desire to improve themselves in order for them to realize the Company Policy.

### Internal Whistleblower System

UNITED ARROWS LTD. has an internal whistleblower system whereby employees can anonymously contact an external organization if they discover suspect behavior from a compliance standpoint. Law offices and other external organizations serve as the contact point for the system and designate an individual who is responsible for the investigation depending on the particulars of each case and performs any necessary investigations. The whistleblower is treated anonymously to preclude any repercussions.

#### (Reference) Enlightened Compliance

Along with the expansion of business scope in recent years, the number of brands handled and suppliers has been on the rise, leading to an increase in the frequency of inquiries made from each department to the General Affairs & Legal Department for advice about trademarks and other aspects of intellectual property law.

We have therefore been holding study sessions on topics of interest, including the Act against Unjustifiable Premiums and Misleading Representations, the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, Intellectual Property Law, and Product Liability Law. Moreover, the Customer Service Center and the Quality Control Department take the lead in efforts to reduce the number of defective products by providing feedback to upstream manufacturers about the opinions and complaints received concerning merchandise. Training is also given to staff responsible for products to enlighten them of the situation.

Sharing specific examples of how staff at the Customer Service Center interact with customers also helps improve awareness of quality issues that can arise.

### Risk Management

Recognizing that the Company continues to confront a wide variety of risk factors, UNITED ARROWS LTD. is putting in place a management framework in accordance with its basic rules regarding internal control and crisis management. The Internal Control Committee considers all important matters concerning operational risks. This includes the establishment of rules and regulations, manuals, and guidelines as well as an emergency headquarters to respond to a crisis situation by gathering and managing information. In line with changes in the environment in which the Company operates, each department constantly reviews all pertinent risk factors, continues to upgrade and expand rules and regulations as well as manuals, and puts in place the structure and systems required to prevent risks before they arise and to properly respond at the time of a crisis.

## 4. Corporate Governance Policy Formulation and Corporate Governance Code Compliance

### Corporate Governance Policy Formulation

UNITED ARROWS LTD. formulated and disclosed the Corporate Governance Policy in November 2015 based on the Corporate Governance Code. The Corporate Governance Policy outlines policies on such matters as the Company's basic approach to corporate governance, measures for ensuring shareholder rights and equality, appropriate cooperation with stakeholders, and the corporate governance framework in order to improve the transparency of management and organizational operations.

The Company works to continuously enhance its corporate governance in a bid to improve both stakeholder and corporate value.

Corporate Governance  
www.united-arrows.co.jp/en/corporate/governance.html

### Corporate Governance Code Compliance

The status of the Company's compliance with each of the Corporate Governance Code's fundamental principles is as follows.

#### Fundamental Principle 1: Securing the Rights and Equal Treatment of Shareholders

The Company will take appropriate measures to fully secure shareholder rights, including the effective exercise of voting rights at shareholders' meetings.

To ensure that shareholders have sufficient time to review shareholder meeting agenda items, convocation notices are announced to the Tokyo Stock Exchange and on the official Company website four weeks prior as well as mailed out three weeks prior to the shareholders' meeting. In addition, an abridged English-language convocation notice is released to the Tokyo Stock Exchange and on the official Company website. The Company works to enhance constructive dialog with shareholders by avoiding holding shareholders' meetings on days when many other companies are also holding shareholders' meetings and by selecting times and venues that facilitate shareholder participation. The Company engages in optimal information disclosure aimed at ensuring that shareholders are treated equally by establishing an IR website for individual shareholders and investors, broadcasting videos of earnings results briefings, and promptly posting Q&A sessions related to earnings results briefings and the status of monthly sales.

#### Fundamental Principle 2: Ensuring Appropriate Cooperation with Stakeholders Other Than Shareholders

In its Company Policy, UNITED ARROWS LTD. has made a promise to society to create value for its customers, its employees, its business partners, society, and its shareholders. Moreover, the Company formulates and discloses a code of conduct that illustrates what types of attitudes and actions must be taken in order to realize the Company Policy.

The Company continuously revises this code of conduct to reflect social changes and needs as well as takes action based on this code with the aim of remaining an organization that contributes to society.

Furthermore, UNITED ARROWS LTD. maintains an internal whistleblower system whereby employees can anonymously contact an external organization if they discover suspect behavior from a compliance standpoint.

#### Fundamental Principle 3: Ensuring Appropriate Information Disclosure and Transparency

The Company aims to increase management transparency by proactively promoting IR activities, improve corporate management soundness by engaging in communications with shareholders and investors, and create shareholder value. The Company formulates and makes available its disclosure policy in order to enhance constructive dialog with shareholders and investors as well as information disclosure. This disclosure policy lists policies on timely disclosure prescribed in the Companies Act, the Financial Instruments and Exchange Act, and other legal regulations as well as policies intended to facilitate constructive dialog with shareholders and investors.

Fundamental Principle 4: Responsibilities of the Board of Directors  
Established as an organization entrusted by shareholders to manage the Company, the Board of Directors undertakes management decisions always aimed at realizing the Company Policy and Our Promise—Our Five Core Values. The Board also sets the medium-to-long-term direction of the Company and is responsible for maintaining sustainable growth and improving corporate value by following this direction.

Based on the Board's roles and responsibilities listed above, the Company takes steps to strengthen Board of Directors' monitoring functions and accelerate decision making by utilizing and delegating appropriate authority to outside directors who are not involved in business execution. To this end, the Company has adopted an audit and other committee governance structure to serve as its corporate governance system. Limiting the number of directors not serving as corporate audit committee members to eight and the number of directors who do to six, it is the policy of the Company to maintain the minimum number of directors necessary to preserve the functions of the Board.

Furthermore, the Company has established the Nomination and Compensation Committee consisting mainly of independent outside directors to enhance the independence and objectivity of the Board of Directors' functions as well as accountability with regard to director nominations and compensation.

#### Fundamental Principle 5: Dialog with Shareholders

Recognizing that investor relations (IR) activities are an important management initiative, the Company has established regulations for IR activities overseen by the President. In addition, the director in charge of administration has been made responsible for IR in order to ensure enhanced IR activities and strict internal information control as well as maintain organic links between financial and capital measures. The President and the director in charge of IR attend earnings results briefings held quarterly to explain the medium-to-long-term direction of the Company and the progress of management policies and key initiatives for each fiscal year and to hold Q&A sessions.

The Company established an IR department under the direction of the director in charge of IR to enhance information disclosure as well as maintain systems to facilitate constructive dialog with shareholders and investors. In addition, the President and the director in charge of IR attend small meetings and individual interviews as needed in an effort to engage in constructive dialog with shareholders and investors. The Company aims to improve corporate value by providing feedback to management and throughout the Company about opinions, requests, and concerns received through IR activities based on the amount of information available.

## 5. Management Control System

### Clarification of Revenue Responsibility and Key Performance Indicator Management

The Company conducts the profit and loss management of all its directly operated stores on an individual basis and clarifies the revenue responsibility of each business. The latter is undertaken by controlling the actual profit and loss that each business (store brand) has built up against forecasts. The Company sets numerical targets for such key

performance indicators (KPIs) as net sales, product sales rate, product ROI, and purchase rate; numerical targets are also set for divisions and stores as well as for employees to achieve the KPI targets. In addition, the Company undertakes progress management on a daily, weekly, monthly, seasonal, and annual basis against achievement status and other benchmarks. UNITED ARROWS LTD. is building a framework to achieve Companywide business targets by having individuals, stores, and divisions achieve their respective targets.

### Clarification of Investment Criteria, Store Closure Criteria

When making new investments in sales facilities or undertaking large-scale renovations with a view to beneficially utilizing the cash obtained as a result of its business activities, the Company calculates the return of investment fiscal year, which takes into account the capital cost (approximately 8%) set by the Company, the net present value (NPV) of expected net cash flows, and the internal rate of return (IRR). The Company makes its investment decisions on the condition that Company-set hurdle rates are exceeded.

In cases where it is expected to be impossible for a new business to turn a single fiscal year profit in three years and cover all accumulated losses in five years, Companywide backup is provided toward an improvement in profitability. Should there be no possibility of an improvement, an assessment is made regarding withdrawal from that business. The Company has worked to improve its profitability by withdrawing 10 underperforming brands out of the 22 brands deployed over a three-year period that began from the fiscal year ended March 31, 2007.

## 6. Abandoning Measures to Prevent a Hostile Takeover

UNITED ARROWS LTD. adopted measures to prevent hostile takeovers in June 2011. After lengthy consideration, the Company decided to abandon these measures in June 2017.

In addition to further strengthening corporate governance, UNITED ARROWS LTD. is steadily promoting the newly established UNITED ARROWS Group's Medium-Term Vision. Through these means, the Company is creating the five core values identified under its Policy Structure and working to enhance its corporate value while increasing profits both for the Company and its shareholders.

Under these circumstances, UNITED ARROWS LTD. carefully considered the merits or otherwise of continuing or abandoning its measures to prevent a hostile takeover. At the same time, the Company listened closely to the comments of institutional investors with whom it maintains deep ties and other shareholders. The decision to abandon the measures in June 2017 was based on a variety of factors. In addition to changes in the external and internal environments in which UNITED ARROWS LTD. operates, the Company realized that the widespread nature of legislation relating to the large-scale purchase of shares and related matters helped to secure its status against hostile takeovers to a certain degree and diminished the need to maintain measures in relative terms.

Looking ahead, UNITED ARROWS LTD. will endeavor to enhance corporate value and increase profits both for the benefit of the Company and its shareholders. Despite abandoning measures to prevent a hostile takeover, should a third party attempt a large-scale purchase of the Company's shares, UNITED ARROWS LTD. will continue to provide all relevant information for shareholders to properly

decide whether or not to accept any offer, disclose all pertinent opinions including those of the Board of Directors, and ensure that shareholders receive sufficient time and data to make an informed decision. In this regard, the Company will take appropriate measures within the scope provided in Japan's Financial Instruments and Exchange Act, Companies Act, and other related legislation.

## 7. Investor Relations

### Proactive Approach to Investor Relations

Since its founding, UNITED ARROWS LTD. has aimed to be a publicly held company that is open to society. Since the time of its initial public offering to today, the Company has proactively engaged in investor relations activities for shareholders and investors inside and outside of Japan. UNITED ARROWS LTD. holds earnings announcement meetings every quarter for analysts and institutional investors, holds an average of 300 or so separate investor meetings each year for investors in Japan and overseas, arranges around 10 small meetings with the President, and gives tours of its facilities.

UNITED ARROWS LTD. makes concerted efforts to ensure management transparency by setting a disclosure policy and maintaining a framework for the timely disclosure of information.

Disclosure Policy  
www.united-arrows.co.jp/en/ir/strategy/disclosure.html

### Open-Ended Shareholders' Meetings

UNITED ARROWS LTD. strives to send out convocation notices as quickly as possible for the purpose of having livelier shareholders' meetings. For the 28th Ordinary General Meeting of Shareholders, held on June 22, 2017, convocation notices were mailed on May 31, approximately three weeks before the meeting was held. Moreover, a convocation notice was posted on the Company's IR and the Tokyo Stock Exchange websites approximately four weeks prior to the meeting with the aim of making this information available as early as possible.

The times and dates of shareholders' meetings are purposely set to avoid coinciding with days that have a concentration of other meetings and held during the evening hours on weekdays to be more accessible to individual shareholders. Social gatherings are also organized to facilitate interaction between shareholders and the Company's directors as a part of efforts to hold open-ended shareholders' meetings. This year's meeting was attended by 587 people and lasted 79 minutes, and six individuals asked a total of 11 questions.

### External Appraisal of Our Corporate Investor Relations Activities

As indicated in its basic policy on corporate governance, UNITED ARROWS LTD. is working diligently to put in place a transparent and fair management framework while at the same time continuously upgrading and expanding its corporate governance in order to ensure its ability to make timely and bold decisions. In this manner, the Company is endeavoring to fulfill the Company Policy and promise to society and to create five core values. To fulfill one of its promises to create value for shareholders, UNITED ARROWS LTD. has positioned efforts to voluntarily provide fair information on a constant, timely, and continuous basis at the heart of its basic policy on investor relations (IR) activities. As a result of proactively engaging in corporate and IR activities based on this policy, the Company has received various commendations from external evaluation agencies.

Going forward, UNITED ARROWS LTD. will strive to continuously evolve and improve its corporate and IR activities to realize the Company Policy while receiving the enduring trust of capital markets.

2002	Awarded the IR Grand Prix Award by the Japan Investor Relations Association (JIRA)
2003	Awarded the Best IR Award by the Japan Investor Relations Association (JIRA)
2005	Awarded the Best IR Award by the Japan Investor Relations Association (JIRA)
2012	Awarded the Nikkei Annual Report Special Award for its abridged version Awarded the Tokyo Stock Exchange's Corporate Value Improvement Award, Grand Prize
2013	Awarded the Porter Prize, Hitotsubashi University's Graduate School of International Corporate Strategy (ICS) Awarded the Nikkei Annual Report Special Award for its abridged version Awarded the IR Special Award by the Japan Investor Relations Association (JIRA)
2014	Awarded the IR Grand Prix Award by the Japan Investor Relations Association (JIRA)
2016	Awarded the top IR ranking in the domestic retail sector category of the 2016 All-Japan Executive Team Rankings by Institutional Investor, a North American financial information magazine
2017	Awarded the top IR ranking in the domestic retail sector category of the 2017 All-Japan Executive Team Rankings by Institutional Investor, a North American financial information magazine for a second consecutive year Awarded the highest evaluation under the ISS Quality Score (Please refer to the Topics column below for details.)



shareholders using a scale from 1 to 10 (ISS Quality Score). As one of around 50 reported companies in Japan, UNITED ARROWS LTD. received the highest ISS Quality Score of "1" in 2017. Looking ahead, the Company will work diligently to improve its corporate governance in a bid to secure a sound reputation and the confidence of all stakeholders.

ISS QualityScore

## Message from an Outside Director



We will do our utmost to steadily pursue our Medium-Term Vision in spite of significantly changing market conditions.

Yukari Sakai  
Outside Director  
Standing Audit and Supervisory Committee member (Chairperson)  
Nomination and Compensation Committee member (Chairperson)

### Transitioning to a company with an Audit and Supervisory Committee structure and evaluating the effectiveness of the Board of Directors

In terms of corporate governance, the fiscal year ended March 31, 2017 was a year of significant progress for UNITED ARROWS LTD. This progress began in June 2016 with UNITED ARROWS LTD. transitioning from being a company with an Audit and Supervisory Board to one with an Audit and Supervisory Committee as well as establishing a Nomination and Compensation Committee. In addition, the Company began evaluating the effectiveness of the Board of Directors. Regarding the operations of the Board of Directors, the Company has taken steps to streamline resolutions by delegating authority to the president and executive officers in charge with the aim of ensuring sufficient time for deliberations, which is a key issue for evaluating the Board's effectiveness. Moreover, the Company has provided sufficient time to deliberate important proposals by newly establishing mechanisms for reporting, resolutions, and deliberations as part of the Board's agenda. As a result of these actions, I believe that the Board of Directors thoroughly deliberated numerous proposals during the previous fiscal year, including medium- to long-term strategies, whether to continue measures that prevent hostile takeovers, and M&A prospect considerations. On the other hand, the Board faced issues such as deliberation time for certain matters going well beyond their scheduled limits, which kept the process from moving forward. I think the Board of Directors can become more effective by taking appropriate measures to address this issue, which includes trying to further clarify key deliberation points presented at Board meetings.

### Enhancing outside director oversight functions

Having previously served as a member of the Audit and Supervisory Board and currently serving as an outside director and Audit and Supervisory Committee member after the Company adopted an Audit and Supervisory Committee structure, I believe that its oversight functions have been steadily improving since this change in organizational structure. Examples of this are the Company increasing the amount of information it provides for facilitating thorough deliberations, which in turn further deepens understanding of these issues. The Audit and Supervisory Committee (which is comprised of outside directors) is working to bring to light managerial and operational issues by regularly setting aside time for discussions with the president, executive directors, and presidents of important consolidated subsidiaries. In addition, with every outside director being a member of the Nomination and Compensation Committee, they are provided with detailed information on the progress of operations in areas overseen by each executive director in order to make decisions about nominations and compensation. These

actions help consolidate sufficient information provided to outside directors and, in turn, invigorate deliberations on these issues as well as improve the transparency and fairness of director nominations and compensation, which has led to a steady enhancement of the Company's oversight functions.

### Introducing a restricted stock compensation plan

Serving as the chair, I oversee the operations of the Nomination and Compensation Committee, which was established in June 2016. In fiscal 2017, Nomination and Compensation Committee meetings were held four times following its establishment, during which discussions were held about what type of executive officer compensation and succession plan should be instituted. Against this backdrop, ongoing discussions were held about the necessity of building an executive officer compensation structure that contributes to further increasing corporate value over the medium to long term, which resulted in the introduction of a restricted stock compensation plan in the fiscal year ending March 31, 2018. Based on this plan, the Company's executive director compensation will be composed of a (1) fixed monthly salary as basic compensation, (2) bonus linked to performance in a single fiscal year, and (3) stock-based compensation linked to the progress of the Medium-Term Business Plan. I think this has created a more balanced compensation structure for achieving sustainable growth and improving corporate value over the medium to long term.

### The driving force behind the Company's corporate governance improvements

A year has passed since UNITED ARROWS LTD. became a company with an Audit and Supervisory Committee structure, and I can actually see the improvement in the Company's organizational structure in my managerial role as an outside director and member of the Audit and Supervisory as well as Nomination and Compensation committees. This has been a year in which reforms have moved forward, including enhancing the effectiveness of the Board of Directors, improving outside director oversight functions, and increasing the transparency and fairness of director nominations and compensation. I believe the driving force behind these corporate governance improvements is undertaking corporate management with the strong conviction that the Company's top executives should always aim to keep UNITED ARROWS LTD.'s doors open to the public and value all stakeholders. Going forward, I will work in my role as outside director to steadily realize the Company's Medium-Term Vision based on a highly transparent corporate governance framework.