



Fulfilling Oversight and Checks and Balances Responsibilities, while Providing Objective Advice and Recommendations to Contribute to Ongoing Growth

Noriaki Shimazaki
Senior Independent Director

Among the Company's nine directors, three are independent outside directors. Based on a request by a major shareholder, we have appointed a senior independent director to lead dialogues as a representative of the independent outside directors. Following is an interview of the senior independent director, Mr. Noriaki Shimazaki, on his thoughts regarding the Company Group's corporate governance and the 2017 Medium-Term Business Plan.

Q1 What are your views on the roles of outside directors?

The most important role of an outside director is to oversee, and act as a check and balance on, the Board of Directors and especially the directors who have concurrent executive responsibilities, that of president being the most important. It is also vital for outside directors to express their opinions on the nomination of a person to become the company president. By participating in the nomination process, outside directors are able to contribute to corporate value through careful consideration of the fitness of individuals for this critical position.

In addition to this oversight function, it is important for outside directors to apply the knowledge and experience they have developed through their careers to provide third-party advice that supports company growth.

It is especially important for outside directors to provide advice when management has undertaken significant risk to enter a new business. This advice should focus on maintaining ongoing growth and address various issues, such as whether the company can expect earnings commensurate with the risk taken and whether the new business is progressing as expected.

Q2 How would you assess the corporate governance of the Company Group?

The governance of the Company Group, given its business activities and size, is properly designed and functioning as intended. The Board of Directors, for example, consists of nine members, three of whom are from outside the Company. Moving early on to reform its governance, the Company has had multiple outside directors since the fiscal year ended March 31, 2006, and can be called a governance leader for its initiative in drawing on the rich knowledge and experience of third parties to improve its management.

In addition, about one week prior to every month's scheduled Board of Directors meeting, the Company also holds Executive Committee meetings where directors with executive responsibilities discuss particularly important matters. Outside directors also participate in these meetings, as observers, and actively contribute their opinions. The results of these meetings are then used to shape the final agenda item to be submitted for consideration at the Board of Directors meeting. This two-step deliberation process allows for ample time to discuss the matters at hand and make decisions.

Q3 How would you assess the contents of the 2017 Medium-Term Business Plan?

In the past, the Company has focused significant attention on strengthening its governance, but has come up a bit short in taking on challenges for achieving business growth. The Company Group has an abundance of outstanding people, extremely solid finances, and a robust network. The 2017 Medium-Term Business Plan draws on these strengths and provides a clear roadmap for expanding the business of the entire group and enhancing earnings power. It presents to stakeholders a clear picture of the direction management will take.

In formulating the current Medium-Term Business Plan, intensive review meetings were held on two occasions, giving company officers, including outside officers, abundant time to discuss plan details from many perspectives. To help ensure active discussion, I, as an outside director, was chosen to chair these meetings. And the outside officers, including me, delved deeply into matters such as strategies, and levels of quantitative targets, for enhancing core businesses, and conditions with regard to returns to shareholders. I personally was most concerned with the question of whether the plan was truly achievable. I led discussions of details such as specific initiatives for achieving earnings targets, who would lead those initiatives, and whether the initiatives were realistic. With discussions such as these having contributed to the formulation of the Medium-Term Business Plan, I am convinced that it provides the Company Group with a solid roadmap going forward.

Q4 Are there any significant matters that the Medium-Term Business Plan should address but does not?

Though it goes without saying, planning does not end with the formulation of a plan. For each year of the plan, the PDCA

cycle is applied to regularly review implementation status and results to ensure target achievement and lay the groundwork for the following year's plan management. It is critical that this process be followed throughout the three years covered by the Medium-Term Business Plan. At this stage, the plan has been thoroughly discussed and formulated. Next comes implementation by management and frontline employees. And for the cycle to work, it is necessary for frontline employees to be fully committed to following the path set forth in the plan. This is absolutely essential.

It is critical to communicate current issues and goals, and strategies and directions for achieving goals, directly to not only employees but also franchise owners, store managers, and other frontline employees. At the same time, it is necessary to carefully listen to what these people have to say and reflect their views in management. I believe there is nothing more important than using this process to produce results and create a virtuous cycle that increases the motivation of frontline employees. As for outside directors, we must listen to status reports in monthly Board of Directors meetings and, if problems arise in plan implementation, press the officer in charge for an explanation of causes and solutions, and provide advice as necessary.

In addition to applying the PDCA cycle, I think it is important for all of the Group's officers and employees to be eager to take up challenges, as an entrepreneur would, and to think by themselves and take initiative. At present, work is moving forward to put in place incentive and other performance-linked systems, and I expect that these initiatives will ultimately foster the kind of culture the Company Group should have.

As I mentioned earlier, the Company Group has a wealth of management resources in terms of its people, capital, and network. As an outside director, I will vigorously support efforts that organically link these resources and enable the Company Group to achieve sustainable growth.

Noriaki Shimazaki Professional background

April 1969	Joined SUMITOMO CORPORATION	June 2011	Outside Director, AUTOBACS SEVEN Co., Ltd. (current position)
June 1998	Director of SUMITOMO CORPORATION	September 2013	Advisor, IFRS Foundation Asia-Oceania Office (current position)
April 2002	Representative Director, Managing Director of SUMITOMO CORPORATION	September 2013	Advisor, The Japanese Institute of Certified Public Accountants (current position)
January 2003	Member of the Business Accounting Council of the Financial Services Agency	June 2014	Chairman, XBRL Japan Inc. (current position)
April 2004	Representative Director, Senior Managing Director of SUMITOMO CORPORATION	June 2015	Outside Director, UKC Holdings Corporation (current position)
April 2005	Representative Director, Executive Vice President of SUMITOMO CORPORATION	June 2016	Outside Director, Nomura Holdings, Inc. (current position)
July 2008	Chairman, Sub-committee on Accounting of Nippon Keidanren	June 2016	Director, Nomura Securities Co., Ltd. (current position)
January 2009	Trustee of the International Financial Reporting Standards (IFRS) Foundation	June 2016	Outside Director, Loginet Japan., Co., Ltd. (current position)
July 2009	Special Adviser of SUMITOMO CORPORATION	July 2016	Director, Kamikawa Taisetsu Sake Brewery Co., Ltd. (current position)
June 2011	Trustee of the Financial Accounting Standards Foundation		