

Corporate Governance

Our Basic Approach to Corporate Governance

The Onward Group believes that responding promptly to changes in its business environment and ensuring a level of corporate governance that enhances the health, fairness, transparency, and compliance of its management and operations are among its most important responsibilities and central to increasing corporate and shareholder value.

In its basic management policy, the Onward Group has defined its business domain as “a world of fashion that gives refreshment and beauty to people’s lives.” By offering fashion as an integral part of consumer culture, the Group creates new lifestyles and values that contribute to the enrichment of life for all people. Moreover, the Company believes that, in order to exercise this policy and accomplish its objectives, it is vital that the Group builds and maintains strong networks and relationships with customers and all other stakeholders it connects with in its corporate activities.

Directors and the Board of Directors

In order to further clarify the management responsibilities of directors, to increase the ability and opportunity to gain the confidence of shareholders, and to put in place an optimal and agile management framework that is capable of responding to changes in the business environment in a timely manner, the Company has set the term of directors at one year. In addition, two of the seven-member Board of Directors are appointed from outside the Company and selected on the basis of their high level of independence. This initiative is aimed at reinforcing the supervisory function of the Board.

Evaluation of the Effectiveness of the Board of Directors

The Company’s directors conduct annual self-evaluations to assess the effectiveness and appropriateness of the Board of Directors’ management oversight function as well as the degree of accomplishment of their own duties. The results of these evaluations are reported to the Board of Directors. Based on these self-evaluations, the Board of Directors analyzes and evaluates its overall effectiveness, disclosing information on the results.

1. Scope of evaluations

- All directors and Audit & Supervisory Board members

2. Procedures for evaluations

- Self-evaluation via questionnaire
- Support for evaluations provided by external advisor

3. Overview of results of analysis and evaluation of Board of Directors’ effectiveness in fiscal year 2018

- Board of Directors effectively exercising functions for establishing management strategies and targets, resolving management issues, and overseeing business execution in accordance with Onward’s Corporate Governance Policy

- Current operation methods, agendas, and composition of Board of Directors appropriate; no issues requiring urgent attention
- Further improvements to the effectiveness of the Board of Directors will require more efficient operation and more extensive provision of information to outside directors and outside Audit & Supervisory Board members

Reasons for the Appointment of Outside Directors

Name	Reasons for Appointment as an Outside Director
Yoshihide Nakamura	We are expecting Mr. Nakamura to use his abundant experience and knowledge as a member of the management of other companies to enhance the Company’s management.
Akira Kawamoto	We are expecting Mr. Kawamoto to use his extensive experience gained while working for the government for many years and diverse academic knowledge and insight to enhance the Company’s management.

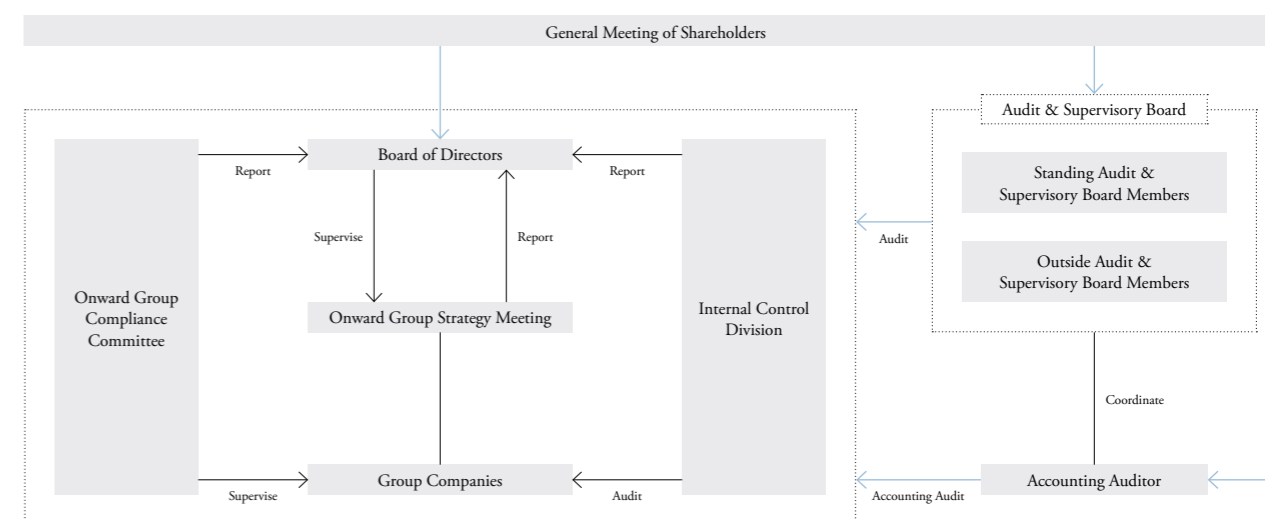
Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company has adopted an Audit & Supervisory Board structure, under which the Company has appointed four Audit & Supervisory Board members, two of whom are outside Audit & Supervisory Board members. Audit & Supervisory Board members have also assigned staff to assist them in carrying out their duties and to strengthen their supervisory function. Each member audits and monitors the performance of directors; responsibilities include reviewing the documentation of important decisions and attending important meetings, such as Board of Directors’ meetings, Group financial account settlement meetings, and Growth-Oriented Management Committee, in accordance with audit policies and the roles delegated by the Audit & Supervisory Board. In addition, the Internal Control Division and each department are under periodic monitoring in an effort to establish an effective and lawful corporate structure. The Audit & Supervisory Board meets with the Representative Directors and the Accounting Auditor on a regular basis to share and exchange information and opinions. This initiative is also designed to ensure that a structure is in place that is capable of conducting audits in an effective and lawful manner. Moreover, the Audit & Supervisory Board receives reports from each member in accordance with audit policies and the roles delegated by the board. Deliberations are undertaken and resolutions are made based on this information as required.

Reasons for the Appointment of Outside Audit & Supervisory Board Members

Name	Reasons for Appointment as an Outside Audit & Supervisory Board Member
Jotaro Yabe	We are expecting Mr. Yabe to use his wide range of experience in government organizations and his deep insight to oversee the Company’s operations.
Katsuaki Ohashi	We are expecting Mr. Ohashi to use his broad knowledge and deep insight as a former academic to oversee the Company’s operations.

Corporate Governance Structure



Business Execution Structure

The Onward Group has adopted a holding company structure that allows the Company’s Board of Directors to engage in strategic decision-making and supervise operating companies. At the same time, the Group has separated the supervisory and execution functions in order to clarify the responsibilities and authority of each operating company and to facilitate accelerated strategic decision-making. When matters that require urgent attention arise, the Board of Directors convenes as necessary. In this manner, the Onward Group has a system in place that ensures a swift and appropriate response to rapid changes in the business environment.

Moreover, the Group has introduced an executive officer system with the aim of clarifying other management decision-making and business execution functions. In order to facilitate agile decision-making as a corporate group, the Onward Group Strategy Meeting and the Growth-Oriented Management Committee have been established. At these meetings, management strategies and the important management matters of operating companies are debated and the state of operations is reviewed. The Onward Group also has advisory contracts with a number of attorneys to receive legal advice.

Directors’ and Audit & Supervisory Board Members’ Compensation

Compensation paid to directors, excluding outside directors, comprises a basic compensation component, bonuses, and compensation for use in acquiring company stock.

The total amounts of compensation paid by officer classification, the total amounts of compensation paid by type of compensation, and details on the number of eligible officers are presented as follows.

Officer Classification	Total Amount of Compensation Paid (Millions of yen)	Total Amount of Compensation Paid by Type of Compensation (Millions of yen)			Number of Eligible Officers
		Basic Compensation	Bonuses	Compensation for Use in Acquiring Company Stock	
Directors (excluding Outside Directors)	408	210	118	80	5
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	36	36	—	—	2
Outside Officers	40	40	—	—	4

Payments of compensation to persons who exceed ¥100 million are disclosed on an individual basis and are presented as follows.

Total Amount of Consolidated Compensation by Officer

Name (By Officer Classification)	Total Amount of Compensation Paid (Millions of yen)	Company Classification	Total Amount of Compensation Paid by Type of Compensation (Millions of yen)		
			Basic Compensation	Bonuses	Compensation for Use in Acquiring Company Stock
Takeshi Hirouchi (Director)	160	Filing company	85	47	27

Corporate Governance

Training of Directors, Audit & Supervisory Board Members, and Executive Officers

The Company offers venues for directors, Audit & Supervisory Board members, and executive officers to acquire the knowledge necessary for performing their duties along with opportunities for ongoing self-study to ensure that they are able to fulfill their roles and responsibilities. In addition, discussions are held with new directors, Audit & Supervisory Board members, and executive officers upon their appointment regarding the Company's management, business, and financial strategies; important relevant matters; and issues faced by the Onward Group and their resolutions. Outside directors and outside Audit & Supervisory Board members, meanwhile, are provided with explanations of the Company's business and organizational structures when they are appointed, and necessary information pertaining to issues faced in business activities and other matters is supplied regularly.

Policies for Cross-Shareholdings and Exercise of Related Voting Rights

In addition to stocks held purely for investment purposes, the Company will hold shares of stocks in listed business partners with the aim of maintaining and strengthening business relationships and thereby improving medium-to-long-term corporate value. With regard to major cross-shareholdings, the Board of Directors will conduct annual assessments of the meaningfulness and economic rationality of these holdings from the perspectives of shareholding risk limitation and capital efficiency with consideration paid to the Company's growth potential and profitability and to the reinforcement and maintenance of business relationships as well as other concerns. Our basic policy is to sell those holdings that are deemed to no longer be appropriate after gaining the understanding of the business partner in question. In addition, holdings that have been deemed appropriate may also be sold when necessitated by the market environment or by management or financial strategies.

Furthermore, the Company strives to make the best possible decision when exercising voting rights related to cross-shareholdings. We therefore determine how these rights will be exercised based on a comprehensive evaluation of factors, including the medium-to-long-term improvement of the corporate value of the business partner in question and the medium-to-long-term expansion of economic benefits for the Company and Group companies.

Criteria for Independence of Outside Directors and Outside Audit & Supervisory Board Members

Candidates for positions as outside directors and outside Audit & Supervisory Board members will be judged to lack the necessary independence if they meet any of the following criteria.

1. Positions at companies at which a person involved in operation of the Company serves as a corporate officer
The individual must not be a person involved in operation at a company at which a person involved in operation of the Company serves as a corporate officer.
2. Material business relationships
The individual must not be a major customer or a person involved in operation of a major customer of the Company or a major supplier or a person involved in operation of a major supplier of the Company.
3. The Company's Accounting Auditor
The individual must not be affiliated with the Accounting Auditor that performs audits of the Company based on the Companies Act or the Financial Instruments and Exchange Act.
4. External specialists
The individual must not be a specialist receiving large amounts of monetary payments or other financial assets from the Company that are separate from compensation received for services as a director or an Audit & Supervisory Board member. (Specialists include lawyers, accountants, tax accountants, patent attorneys, judicial clerks, and consultants. If the financial assets in question are received by a company, an association, or other entity, the individual must not be affiliated with that entity.)
5. Donation recipients
The individual must not receive large donations from the Company. (If the donations in question are received by a company, an association, or other entity, the individual must not be a person involved in operation of that entity.)
6. Major shareholders
The individual must not possess direct or indirect holdings equating to 10% or more of the total voting rights of the Company or be a person involved in operation of an entity that possesses such holdings.

7. Past relationships

The individual must not have been applicable under items 1. to 5. during the past five years.

8. Relationships of kinship

The individual must not be a close relative of someone who is applicable under items 1. to 7. (excluding cases in which the relationship in question is nonmaterial).

Compliance Structure

Recognizing that society as a whole is placing greater emphasis on efforts aimed at upgrading and expanding compliance structures, the Onward Group has positioned compliance as an important issue for management. Furthermore, by enhancing its corporate governance systems, the Company aims to earn high levels of trust among its customers and shareholders and from society as a whole. In specific terms, the Group published the *Compliance Manual* to clearly outline the direction of compliance activities and define standards for adhering to ethical concerns and social norms. The Onward Group Compliance Committee takes the lead in conducting continuous educational activities, including in-house training, as a part of efforts to ensure widespread awareness and understanding. In addition, the Company has established a factory certification system as part of its supply chain management initiatives with the aim of improving work environments at partner factories.

Risk Management Structure

The Onward Risk Management Regulations were established with the purpose of guiding the development of the Company's risk management structure. The Compliance Division is responsible for the development of the risk management structure, the identification of issues, and the development of risk-management-related plans. The division reports to the Board of Directors and works to establish an effective structure to address natural disaster risk, information system risk, and other risks that may severely impact the continuation of business. Additionally, the Board of Directors works in cooperation with external specialists as the situation requires in order to respond appropriately to such risks.

Interaction with Shareholders

The Company conducts various investor relations (IR) activities, and the Investor Relations Division has been established as a dedicated body for ensuring the functionality of these activities. This division maintains close coordination with Corporate Planning, Accounting, Legal Affairs, and other relevant divisions. It also relays the input and requests solicited through IR activities to the Executive Management Council and the Board of Directors for use in discussions of measures for improving corporate value.

1. Periodic briefings for analysts and institutional investors
The officer responsible for IR information disclosure plays a central role in holding periodic briefings for analysts and institutional investors at which we explain our financial results and business strategies.
2. Provision of IR materials on corporate website
An extensive amount of information is disclosed through Onward Holdings' corporate website. Please refer to this website for information on various topics.
 - A Message from Management
<http://www.onward-hd.co.jp/site/english/ir/message.html>
 - Financial Data
<http://www.onward-hd.co.jp/site/english/ir/financ.html>
 - Information on Shares and Shareholders
<http://www.onward-hd.co.jp/site/english/ir/stocks.html>