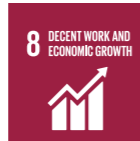


CH 02

Chapter II Strengthening Corporate Governance

Contribution towards UN SDGs



6,379 stores **No.1** market share

Exceeding 6,300 stores with the biggest market share (reaching a total of 6,379 stores)

262,735,464 thousand

The consolidated revenue and net profits amounted to NT\$262,735,464 thousand and NT\$10,018,536 thousand respectively

3 year

Listed on the Dow Jones Sustainability World Index and Dow Jones Emerging Markets Index for the third consecutive year, ranked among the world's benchmark companies.

7 th

Once again ranked in the top 5% in the 7th Taiwan Corporate Governance Evaluation System as the only listed company in the retail industry to do so for the seventh year running

Corresponding Material Topics

Ethical Corporate Management Information Security
Legal Compliance

Corresponding Stakeholders

Investors	Employees	Government Agencies
Suppliers	Franchisees	Local Communities
Customers	Non-Governmental Organization	

Objectives

Every element within PCSC as well as its external value chain is governed by the principle of ethical corporate management. Only by abiding by the principle of ethical corporate management can operations be long-lasting and stable, as well we are taking on the responsibility and obligation the enterprise has towards its stakeholders. Due to the rapid changes in laws and regulations, staying updated with the trend of laws and regulations can ensure the operations of the organization comply with the regulations. This reduces legal risks and protects the Company's rights and interests. In addition, PCSC also provides consumers with more convenient life choices through its online service platform. How to manage and protect the privacy of customers and provide consumers with better services based on the big data generated by consumption patterns is the key to PCSC's sustainable operations, and it is also PCSC's responsibility towards the consumers.

Policies

- Ethical Corporate Management Practice Team
- Ethical Corporate Management Best Practice Principles
- Ethical Corporate Management Operating Procedures and Code of Conduct
- PCSC Principles of Legal Control and Breakthrough
- Personal Data Protection Management System and Policy

Dedicated Units

- Ethical Corporate Management Practice Team
- Regulation Identification Committee
- Digital Innovation Department
- Integrated Services Center
- Department of Legal Affairs and Personal Data Protection Task Force

Action Plans

- PCSC raises awareness and organizes training for employees. Suppliers are requested to sign the Code of Conduct to realize ethical corporate management
- PCSC has set up a Personal Data Protection Team to ensure the safety of consumer data through internal audits and external verification of personal data (Taiwan Personal Information Protection and Administration System, TPIPAS), crisis prevention and education and training. In addition, PCSC continues to optimize and expand the scope of services of the OPEN POINT membership system so that consumers can enjoy more convenient services in the era of e-commerce.
- PCSC has established a Regulation Identification Committee to ensure and strengthen legal compliance through legal information reporting, regulation identification and legal breakthrough

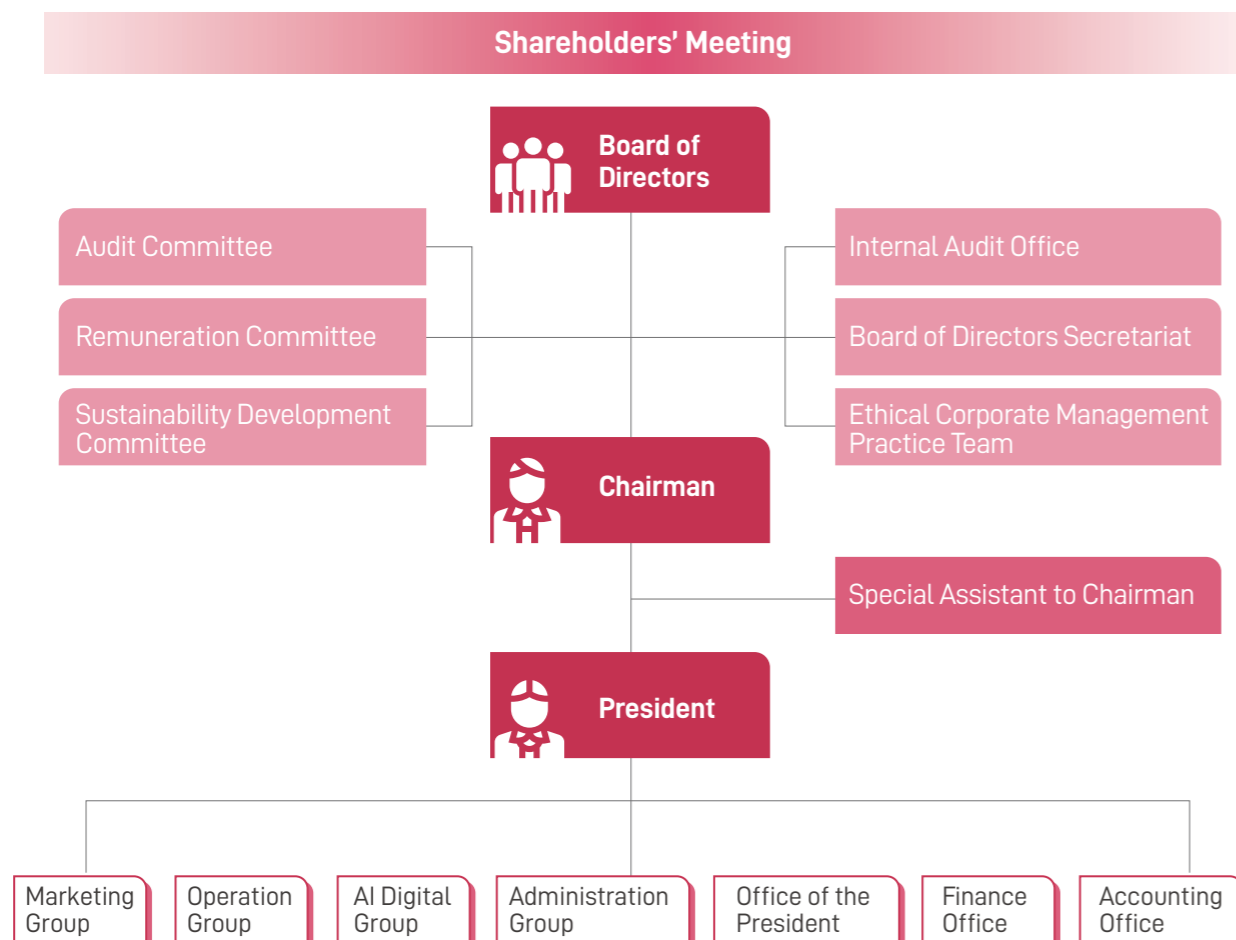
Grievance Mechanisms

- Integrated Services Center
- Stakeholder section on the official website
- Internal proposal system
- Internal Audit Office hotline
- Stakeholder grievance mailbox
- Contact for personal data declaration within the department

2.1 Corporate Governance

Governance Structure

PCSC believes that sound corporate governance is crucial to the stable development of a business. PCSC's sound and rigorous corporate governance framework is built on distinct layered management. In the meantime, it designates functional committees or task forces to deal with specific major issues, allowing PCSC to stand firm in the industry and continue to grow. In 2021, PCSC ranked in the top 5% in the 7th Taiwan Corporate Governance Evaluation System and was selected again by the TWSE Corporate Governance 100 Index, and FTSE4Good TIP Taiwan ESG Index, FTSE4Good Emerging Markets Index, MSCI ESG Leaders Indexes, and MSCI Global SRI Indexes. In addition, PCSC was listed on the Dow Jones Sustainability World Index and Emerging Markets Index for the third year running, ranked among the world's benchmark companies.



Board of Directors

To enhance financial information disclosure, managerial performance and stability, and the Company's sustainable development, the Audit Committee, Remuneration Committee and Sustainability Development Committee have been set up under the Board of Directors, PCSC's highest governing body. It carries out top-down management and supervision to ensure the sound operations of the Company.

PCSC's Board of Directors consists of 13 directors (including 3 independent directors). They are elected through a nomination system and serve a 3-year term, whereby shareholders select names from a list of candidates. The PCSC board is characterized by diversity. The average age of board members is 62 and 2 female members are included. Their backgrounds range from business administration, economy, marketing, accounting, law to information engineering. Their education, professional expertise and remuneration can be found on pages 19-26 of the 2021 Annual Report ^(Note 1).

In order to ensure the independence of board, per the regulations set forth in the "Regulation Governing Procedure for Board of Directors Meetings," if Board members or the corporation they represent have interest in a matter before the Board which could adversely impact Company interests, they can state their opinions and provide consultations but are not permitted to participate in discussion or voting and must recuse themselves during discussion and voting to avoid conflicts of interest among those at the highest levels of governance for the Company. They are also prohibited from serving as proxy for other directors. The Board of Directors must convene at least once every quarter to discuss the Company's business performance and development strategies as well as major investment issues. In 2021, the Board convened 7 times with an average attendance rate of 100%.

PCSC has set forth the "Rules for Performance Evaluation of Board of Directors" to implement corporate governance and enhance the functions of the Company's Board of Directors and functional committees, and set performance targets to enhance operational efficiency. A few measurement items linked to corporate governance and corporate sustainable development have been selected so as to ensure the Company's sustainable operations. In 2021, it was assessed that the Board of Directors, individual board members and each functional committee have a good grasp of the Company and the committee's goals and tasks, which meet the Company's operational needs, effectively promote the Company's sustainable operations, social responsibilities, risk management and long-term strategic development, as well as realizing the spirit of corporate governance.

Note 1: The Annual Report can be downloaded from the Market Observation Post System or the investor relations website (<http://www.7-11.com.tw/company/ir/>).

Audit Committee

PCSC set up the Audit Committee on June 21, 2012, based on the "Regulations Governing the Exercise of Powers by Audit Committee of Public Companies." The Audit Committee assists the Board of Directors in overseeing and controlling the fair presentation of the Company's financial statements, the hiring (and dismissal), independence, and performance of certificated public accountants, effective implementation of the internal control system, compliance with relevant laws and regulations, and management of the existing or potential risks of the Company. The committee is composed of three independent directors, with independent director Liang Chen as the convener, and the committee convened at least once a quarter. In 2021, the Audit Committee convened 5 times with an attendance rate of 100%.

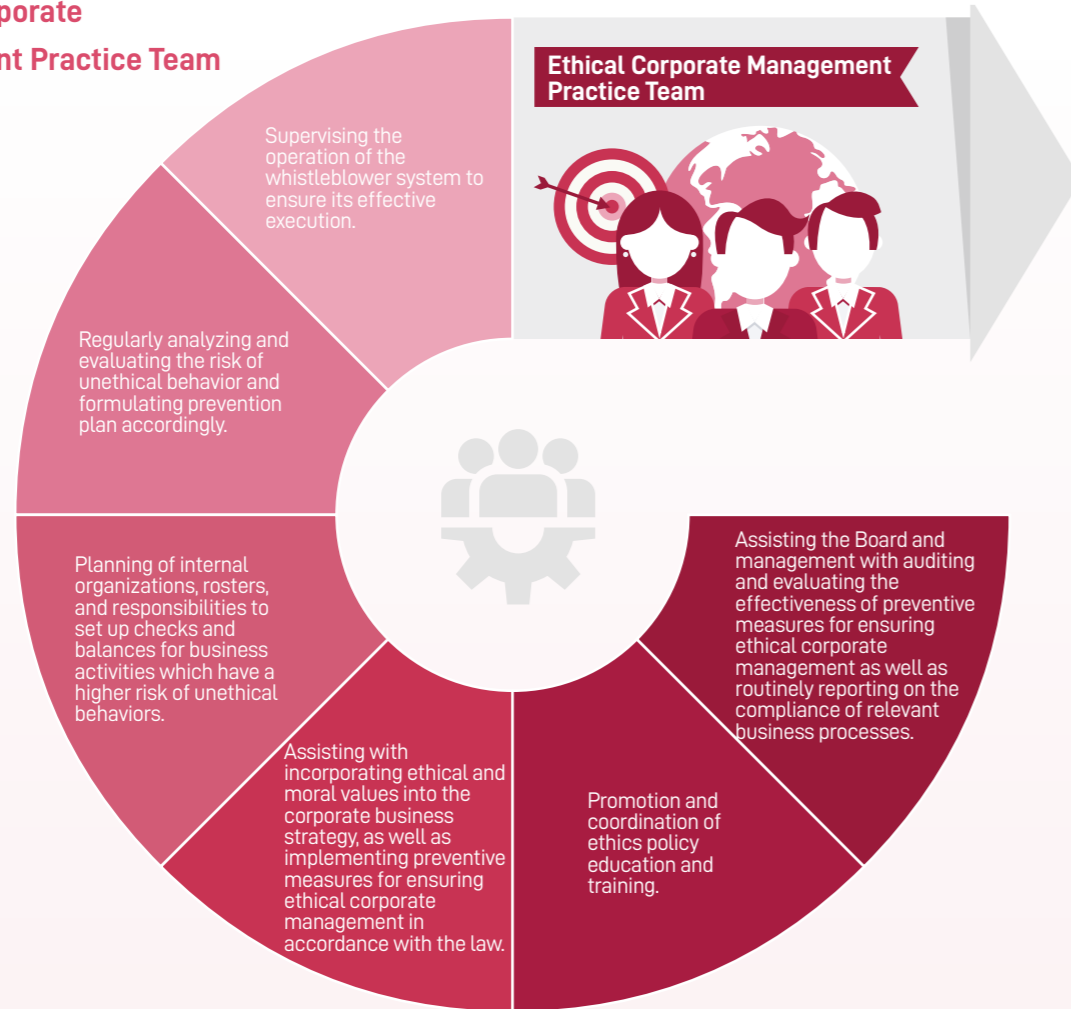
Remuneration Committee

PCSC set up the Remuneration Committee on August 19, 2011, based on the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter." It primarily assists the Board of Directors in implementing and assessing the Company's overall remuneration and benefits policy as well as remuneration for directors and managers. The Committee is composed of three independent directors with Ke-Wei Hsu serving as convener after the mid-year election. The Committee convenes at least twice a year. In 2021, the Committee convened twice with an attendance rate of 100%.

Ethical Corporate Management

Ethical management is one of the most important guiding principles for PCSC. PCSC established its "Ethical Corporate Management Practice Team" under the Board of Directors, as well as drafting the "Corporate Governance Best Practice Principles," "Ethical Corporate Management Best Practice Principles," and "Ethical Corporate Management Operating Procedures and Code of Conduct" to serve as the base for promoting ethical corporate management within the Company. The status of the Company's performance is disclosed on our official website and in the annual report each May. There was no incident of corruption, bribery or event that violated the Fair-trade Act in 2021.

Ethical Corporate Management Practice Team



Internal Education and Training and External Regulations

PCSC raises awareness of ethical corporate management through a monthly publication, featuring cases or reminders collected by the Ethical Corporate Management Practice Team to promote the concept and policy. Relevant education and training apply to all PCSC employees, including store managers. In terms of external collaboration with suppliers, we have formulated ethical corporate management clauses to ensure ethical corporate management from suppliers. In 2021, a total of 1,125 supplier contracts and raw material supply agreements, as well as a total of 482 procurement contracts were signed. The signing rate of the ethical corporate management and CSR-related clauses in the aforementioned contracts is 100%.

Ethical Corporate Management Grievance Channels

In the event of violations of ethical operations, employees can also offer feedback and suggestions to management through the Integrated Services Center, email, dedicated stakeholder section on the official website and the internal proposal system. If an incident violating ethical corporate management is discovered by external stakeholders, they can report the incident through the dedicated hotline set up by PCSC's Internal Audit Office and Integrated Services Center, or the stakeholder section of our website.

After stakeholders send their feedback by email through our website, messages are passed directly to the dedicated unit, which is then required to update the status of the case within a specified time frame. PCSC keeps track of the number of reports as well as the status each month.

Financial and Tax Governance

Due to the domestic pandemic 2021, PCSC faced unprecedented challenges in terms of overall operations with a sharp decrease in the number of customers and even a complete standstill. However, PCSC continued to improve the development of products and services in the face of adversity by providing consumers with innovative and convenient products and services. Please refer to the PCSC individual financial statement available on the Market Observation Post System.

In the meantime, PCSC stays in conformity with the core values of our tax policy by being committed to following the tax laws and regulations of the areas in which it operates, reporting and paying taxes based on the principle of honesty, fulfilling its obligations as a taxpayer, and supporting the government as it promotes sustainable development policies, including industrial innovation, R&D and reinvestment.

Direct economic value distribution

Item	2021 (NT\$1,000)
Operating costs	111,722,341
Employee wages and benefits	6,922,452
Payment to providers of capital	Interest: 404,229 Dividend: 9,356,600
Payment to government	1,778,290
Community investment	34,912

Operating revenue, pre-tax profit and loss, income tax payable and income tax payment in each country/region in which PCSC and its subsidiaries operate in 2021

Revenue: NT\$262,735,464 thousand

Region	ROC	Philippines	Others (including Mainland China and Japan)
Amount (NT\$1,000)	228,480,604	26,481,589	7,773,271
Percentage	86.96%	10.08%	2.96%

Pre-tax profit and loss: NT\$12,071,695 thousand

Region	ROC	Philippines	Others (including Mainland China and Japan)
Amount (NT\$1,000)	12,712,625	(246,383)	(394,547)
Percentage	105.31%	-2.04%	-3.27%

Income tax payable for the current year: NT\$1,410,650 thousand

Region	ROC	Philippines	Others (including Mainland China and Japan)
Amount (NT\$1,000)	1,393,466	67	17,117
Percentage	98.78%	0.01%	1.21%

Income tax paid: NT\$2,816,338 thousand

Region	ROC	Philippines	Others (including Mainland China and Japan)
Amount (NT\$1,000)	2,776,828	3,270	36,240
Percentage	98.60%	0.11%	1.29%

Effective Tax Rate

The effective tax rate for 2021 and 2020 were lower than the industry average as Taiwan was the primary source of operating profits and the income tax rate for profit-seeking enterprises in Taiwan was 20%. The average tax rate for the food and consumer staple retail industry in GICS comes from related industries around the world, with the average increasing due to the influence of countries with high tax rates.

Year	2020	2021 ^(Note 4)	Industry average tax rate ^(Note 1)
Reported tax rate (%) ^(Note 2)	17.9%	17%	26.4%
Cash tax rate (%) ^(Note 3)	18.6%	23.3%	26.60%

Note 1: Industry average tax rates were taken from GICS's (Global Industry Classification Standard) for food and consumer staple retailers.

Note 2: Reported tax rate (%) = income tax expenses/profit before income tax

Note 3: Cash tax rate (%) = income tax paid/profit before income tax

Note 4: The cash tax rate in 2021 is higher than the reported tax rate of book and the cash tax rate in 2020, which is mainly since the income tax liabilities estimated in previous years were realized in 2021, resulting in an increase in income tax cash payments.

2.2 Risk Management

PCSC's ability to respond to and deal with risks has been an important key to its continued growth and stable operations. Our risk management covers the entire group and all its subsidiaries. Every member, from the Board of Directors and management at all levels to the staff, participates and implements risk management policies as well as setting up corresponding dedicated units called Risk & Information Security Management Office. From here, we identify, analyze, evaluate, monitor, respond to and report all risks while improving our countermeasures. The dedicated units and risk management for PCSC's primary risks are as follows:

Risk Identification

Type	Risk Management Measures	Dedicated Unit
Strategic Operational Risks	Business groups and subsidiaries plan and assess risks before deciding on investment and operations. The Office of the President regularly performs analysis of relevant metrics with periodic oversight of specific types of affiliated enterprises cases with tracking and analysis of business results with timely adjustments made to operations strategy direction based on changes in market competition and consumer trends to ensure that each business unit's operations strategy conforms to the operational goals and vision.	Office of the President
Finance, Liquidity and Credit Risks	PCSC's Finance Office takes laws, policy and market changes into consideration when formulating various strategies, processes and indicators, regularly analyzing and assessing changes of relevant risk and taking appropriate countermeasures to reduce the Company's overall potential risks. PCSC also continuously reviews and updates the cash flow forecast in order to adjust the cash level in a timely manner following the pandemic situation to ensure liquidity.	Finance Office
Market Risks	Based on the functions, all departments and business units analyze and assess major domestic and foreign policy, law and technological changes and adopt appropriate countermeasures to reduce potential operational risks in the future. Moreover, PCSC also has an inter-division Regulation Identification Committee that regularly holds "Regulation Identification Meetings" to keep abreast of the latest changes to laws and regulations so as to be able to adopt appropriate countermeasures. Additionally, each unit's supervisor also sets up a "Crisis Management Team" to effectively control and manage any potential or current market risks or crisis.	Various business units/Regulation Identification Committee/Crisis Management Team
Food Safety Risks	PCSC attaches a great deal of importance to consumer health and safety and has made food safety its top priority while continuing to invest each year to ensure rigorous quality control. Food safety risks can have a serious impact on the Company's image as well as income and profits. To this end, a product safety process control mechanism has been set up to enhance management of the supply chain as a long-term effort on the part of the Company. The countermeasures are listed as follows: 1. Establishing the Merchandise Safety Committee and holding regular meetings to discuss topics such as government laws and regulations, contract manufacturers and supplier assessment deficiencies, product safety information, food safety testing programs and implementation progress. 2. Establishing the Product Safety Information Collection and Inventory Tracking Operational Standards, collecting own product safety information and setting up inventory and tracking procedures to ensure the safety of our products. 3. With measures such as contractual cooperation, production site management, ingredient tracing mechanisms and systems, supplier grading, management and on-site assessment system, distribution centers and periodic store checks, as well as occasional sampling of raw materials and finished products, we continue to stay on top of the entire supply chain from production to store in order to set up a food safety net for our consumers.	Operations Group/Marketing Group

Type	Risk Management Measures	Dedicated Unit
Risks maintaining franchisee order	To keep individual stores growing and the overall operations of the Company stable, PCSC continues to optimize its franchising mechanism, improving the remuneration to franchisees, and keeping franchises in good order as countermeasures.	Operations Group/Marketing Group
Climate Risks	PCSC has integrated our climate risk management into the existing risk management framework, with the departments closely related to the 5 aspects of climate change issues inventorying and evaluating climate risks and proposing countermeasures based on their functions, including transitional risks such as policies/regulations, market/technology and reputation, as well as physical risks that are both immediate and long-term, before putting forward management strategies and goals. For details, please refer to Chapter 6 "Creating a Sustainable Planet."	All business units

Emerging Risks

In order to stand firm in this fast-changing food retail industry, PCSC places great importance on significant social, economic, and environmental trends to better control risks that might affect the Company's profits and sustainable operations. PCSC has integrated the way we identify and respond to emerging risks into our risk management structure. Emerging risks that have been identified are as follows:

Type	Emerging Risk	Future Impact	Countermeasure
Social employment and life crisis	Changes in the demographic structure The number of births in Taiwan hit the all-time low in 2021, with the population decreasing by 186,000 compared with 2020. The low birth rate, low or negative growth, and an aging population are expected to lead to a reduction in the working age population and an aging consumer group in the next few years.	PCSC refers to the population estimation released by the National Development Council, and the information provided by government agencies such as the aging society and utilization of human resources to conduct scenario analysis, predict future population changes, and estimate the impact on the human resources and customer base of the stores in the medium and long term. Convenience stores and logistics which is vital to their operations, require high labor input. In addition, in an aging society, it will also lead to changes in the main consumer group. Therefore, PCSC may experience the impacts listed below as a result of this risk: 1. Impact on talent recruitment and personnel costs 2. The impact of different product structures and services required by the elderly consumer group	1-1. Plan to collaborate with schools to develop diverse employment channels, and establish a human resources recruitment platform to integrate resources for human recruitment 1-2. Create a local recruitment mechanism to increase the recruitment of middle-aged and elderly partners, and propose flexible work arrangements to rearrange the work processes for middle-aged and elderly partners 1-3. Plan to introduce various AI intelligence and labor-saving tools in stores, such as self-checkout machines and self-service coffee machines, to achieve the goal of saving labor and personal costs as well as meeting the needs for the workforce 2-1. Focus on developing products for the elderly and introduce the veggie selection lifestyle store 2-2. Evaluate the age-friendly store design to provide a friendly environment for consumption

Type	Emerging Risk	Future Impact	Countermeasure
Social infectious diseases	Changes in consumption patterns during the "new normal" of the pandemic	The risk of a large-scale pandemic is unpredictable for PCSC. A scenario analysis of the impact of consumer behavior on PCSC in the next three to five years was conducted as the basis for planning diversified development strategies in the future for physical and online businesses.	<ol style="list-style-type: none"> 1-1. Constantly stay updated with the pandemic situation, adopt WFH measures and introduce an online conference system to increase work flexibility and reduce the risk of cluster infection 1-2. Plan different ways of providing the merchandise based on the principle of maintaining food safety and supply chain stability (for example, placing warm food in the self-service area in the fridge) 2-1. Sufficient stock of high-demand products (for example water and instant noodles) 2-2. Introduce a variety of electronic payment tools at the storefront to reduce exposure risks, continue to strengthen the cleaning and sanitation protocols at all operating bases as well as requiring all contractors to take pandemic prevention measures 2-3. Continue to expand and optimize online and mobile sales channels, and introduce digital tools such as mobile ordering and pickup, iPre-order, iGroup-buying, food delivery, MyShip, virtual gift voucher, etc., to provide consumers with fast, diverse, safe and convenient services 3-1. Research and develop product portfolio to improve immune health protection to help customers stay healthy 3-2. Track changes in consumer psychological state in the post-pandemic era and adjust merchandise supply accordingly
	Pandemics such as COVID-19, dengue fever and influenza have occurred in recent years. The uncertainty and instability brought by the pandemic also have an impact on the consumption preferences and behavioral patterns. It is necessary to focus on the consumption trends in the post-pandemic era.	<p>The uncertainty brought by the pandemic might result in the following impacts on PCSC:</p> <ol style="list-style-type: none"> 1. Impact of pandemic prevention measures on supply chain stability and logistics efficiency 2. Consumers panic buy or have doubts about the safety of the consumption environment 3. Consumers have different product demands for physical and mental health due to the pandemic situation 	

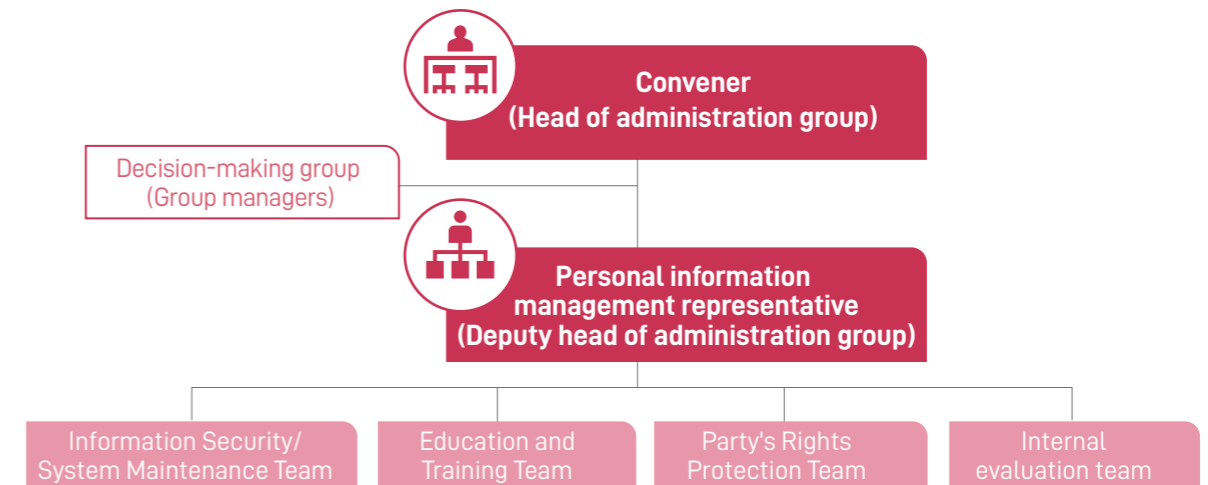
Information Security and Privacy Protection

PCSC takes advantage of the power of digital technology to make consumers' lives more convenient. To this end, it provides customers with cash flow, logistics and information flow services with digital tools such as the 7-ELEVEN online shopping site, ibon, OPEN Wallet, icash Pay, icash 2.0, OPEN POINT app (including iGroup-buying and iPre-order) and MyShip. This allows consumers to make the most of PCSC as the base and service center for everything in life.

Digital technologies involve a lot of customers' personal data. PCSC set up a special task force, reporting mechanism, as well as conducting training and internal audits to ensure the protection of consumers' personal data.

The "Personal Data Protection Team" is a cross-departmental task force that regularly performs personal data inventory, risk analysis, internal system review, notification and revision, data destruction, education and training. The task force presents the final results of the previous month in the monthly report. Education and training are systemized with a 100% completion rate of internal training through online courses. In addition to integrating personal data risk management into the overall risk management and audit mechanism of the Company, personal data protection management reports are formulated for each department, as well as adding personal data protection clauses to contracts when working with external suppliers to ensure that all operating units and suppliers comply with the Company's personal data protection policy. PCSC's internal evaluation plan and external verification system can effectively supervise and assist various departments in formulating corrective, preventive or improvement measures for non-conformities discovered during internal evaluations or audits. Records of improvement are equally made and kept. Corresponding penalties are also formulated for employees who violate the Company's personal data management rules.

Figure 1 Organizational Structure of the PCSC Personal Data Protection Team



Internal Audit and External Certification

PCSC integrates personal data risk management into the overall risk management and audit mechanism of the Company, and its internal evaluation program and external certification system can effectively supervise and audit various departments in formulating internal evaluation or audit non-conforming aspects. Afterwards, corrective, preventive or improvement measures are formulated with the incidents and improvement saved in the record. For key systems, PCSC performs a vulnerability scan each year to check the operating system, network services, operating system or network service settings, account password settings and management measures to ensure the security of the PCSC information system.

In order to further ensure information security, PCSC first obtained TPIPAS certification in 2014 (Taiwan Personal Information Protection and Administration System). In 2020, the Company updated its certification, with the validity period covering 2021. Moreover, PCSC entrusted a third-party to manage the security and maintenance of the system and is planning to obtain the ISO 27001 certification, which covers the in-store e-invoice system.

Grievance Mechanism

To provide customers with comprehensive personal data protection, PCSC has also set up personal data issue reporting and contacts that correspond to our various personal data collection channels.

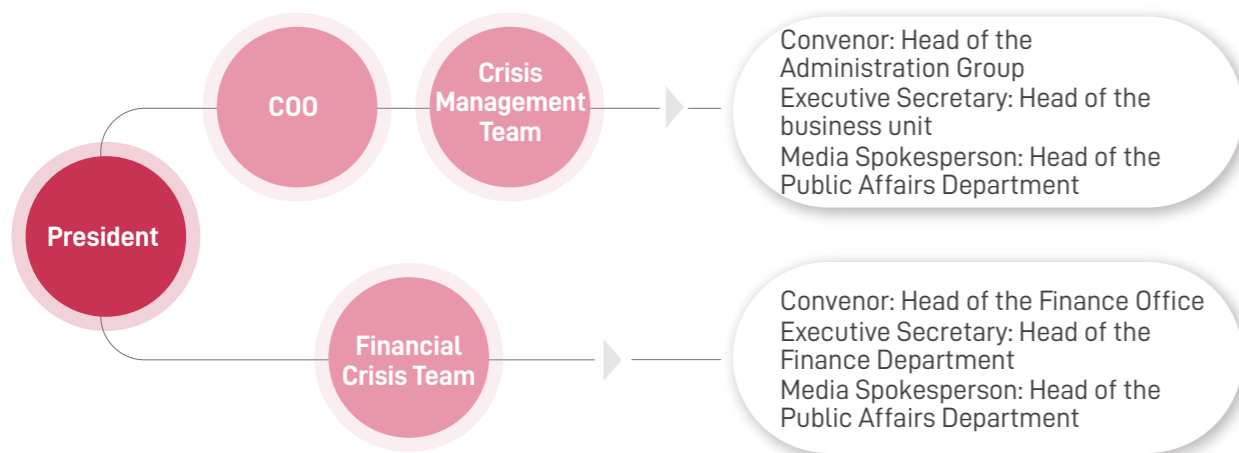
Identity	Personal Data Grievance and Contact
Consumer	Integrated Services Center Tel: 0800-008711 Email: public@mail.7-11.com.tw
	All PCSC departments have respective contact persons for reporting privacy issues As there are many departments within PCSC, it is impossible to list every point of contact for reporting privacy issues. These points of contact are also responsible for handling and responding to privacy issues. The processed cases will be reported to the Personal Data Protection Team for record-keeping.
Non-consumer	

PCSC passed the TPIPAS certification for the first time in 2014, with the verification updated in 2020. In 2021, there was no violation of customer privacy.

Crisis Management

In addition to managing risks, PCSC has also set up a comprehensive dedicated risk management unit and SOP for dealing with crises to minimize potential losses. The Company drafted the "PCSC Crisis Management Handbook" to minimize losses caused by crisis. We set up a cross-departmental "Crisis Management Team" headed by the President, as well as a "General Crisis Management Team" and "Financial Crisis Team" underneath it. Dedicated units are assigned for various types of crisis with crisis reporting principles formulated to respond to the crisis in a timely manner. The procedure is standardized from the occurrence, handling to external response to strengthen PCSC operations with a rigorous mechanism.

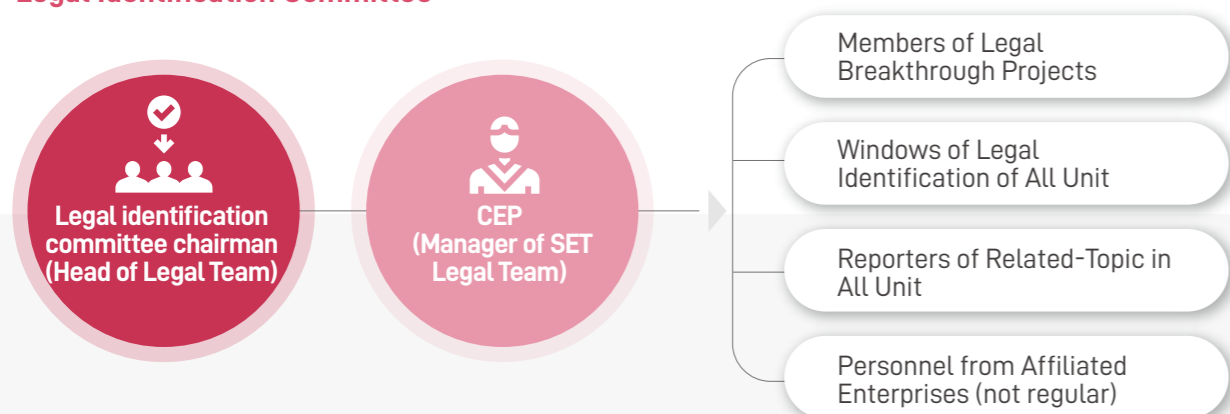
Organizational Chart of the Headquarters' Crisis Management Team



2.3 Legal Compliance

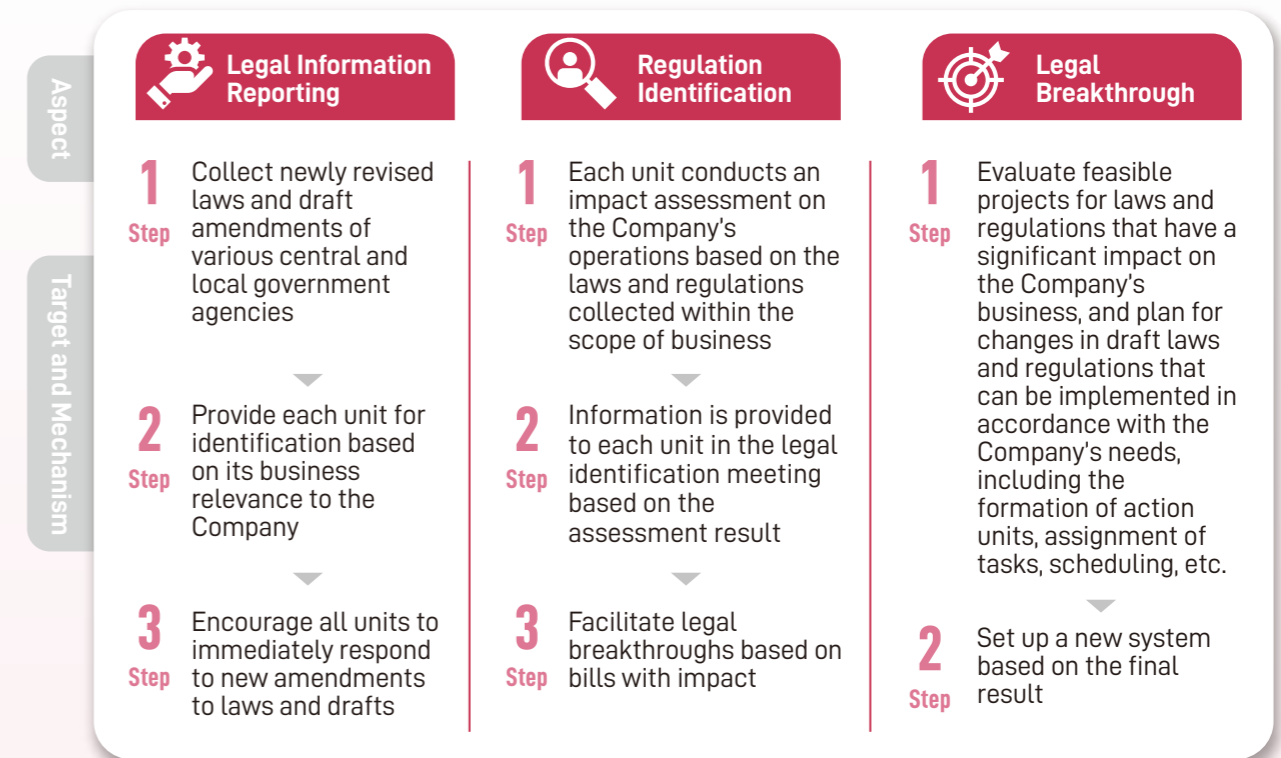
PCSC has formulated the "PCSC Principles of Legal Control and Breakthrough", stating that the Legal Identification Committee as the guiding body on legal compliance. The legal identification contact is included in each unit to ensure legal compliance in order to stay updated with the trends in legal revision, ensuring the operations of each company organization comply with government regulations.

Legal Identification Committee



Legal Compliance Mechanism

With the establishment of the Legal Identification Committee, PCSC is committed to fulfilling the goals of "legal information reporting," "regulation identification" and "legal breakthrough."



Violations in 2021

Food is a staple that has a huge impact on everyday life. Therefore, PCSC lays great emphasis on food safety. Food products sold through PCSC stores must all comply with the Act Governing Food Safety and Sanitation as well as its sub-laws. The sub-laws include "Regulations on Good Hygiene Practice for Food," "Food Sanitation Standards," as well as other relevant laws issued by the Ministry of Health and Welfare. In October 2020, the large cup of iced American coffee sold by PCSC stores violated the labeling regulations and was discovered as such during a sample inspection. The labeling violation resulted in a penalty of NT\$30,012 by the Act Governing Food Safety and Sanitation. In 2021, PCSC reviewed and implemented improvement measures regarding the violation, as well as making the stores aware of the relevant regulations. Please refer to the table below and on page 71 of the 2021 Annual Report for the detailed description of the violation, penalty and improvement measures. In addition to the Act Governing Food Safety and Sanitation, PCSC also pays attention to operational compliance in the three major aspects of economy, environment and society. In 2021, PCSC did not violate major environmental, economic or social regulations.

Note: PCSC refers to penalties over NT\$10,000 as major violations.

Law Violated	Incident	Fine	Improvement Measure
Act Governing Food Safety and Sanitation	Discrepancy between the actual caffeine content and the label	NT\$30,012	<ul style="list-style-type: none"> Legal affairs participated in the MOHW meetings and suggested that the competent authority change the labeling to the highest value. The competent authority accepted the feedback and amended the labeling regulations for freshly-brewed beverages. Each store labels the drinks with the highest value in accordance with the law