

February 22, 2017

Notice Concerning Proxy Voting Policy in The Kobayashi Foundation

At the board of directors' meeting held on February 1, 2017, the Company passed resolutions to establish The Kobayashi Foundation (hereinafter called "the Foundation"), and dispose treasury stock (hereinafter called "disposal of the treasury stock") by allocation to a third party, subject to its approval in the ordinary general meeting of shareholders to be held in March 2017.

To dispose the treasury stock, we will create a third-party benefit trust (hereinafter called "the Trust") with Mitsubishi UFJ Trust and Banking Corporation as a trustee, The Master Trust Bank of Japan, Ltd. as a joint trustee, and the Foundation as a beneficiary. The Trust will acquire shares of the Company. When exercising voting rights, The Master Trust Bank of Japan, Ltd. will follow the instructions provided by the beneficiary's agent (*). The agent will serve as a third-party external institution and will focus on improving the long-term corporate value to secure stable dividends, which will be allocated to the beneficiary for the Foundation's activities.

When the beneficiary's agent provides instructions, the instructions shall be prepared in accordance with the attached "Proxy Voting Policy" (hereinafter, the "Policy").

Please note that the Company shall not be involved in any matter concerning the formation or revision of the Policy, and the proxy voting.

*It refers to a third-party organization to be established in accordance with the Trust Act.

Proxy Voting Policy

I. General Policy on Proxy Voting

We hereby provide instructions for proxy voting to ensure stable dividends which will become a financial resource for the activities of The Kobayashi Foundation.

II. Basic Policy on Standards for Making Judgments on Agenda Items

When making judgments on specific agenda items, we will do so based on "I. General Policy on Proxy Voting" upon having fully examined the specific agenda items before providing instructions for proxy voting.

When making judgments on shareholder proposals, we will do so on a case-by-case basis, but we generally oppose proposals which are determined as being solely used as a measure for resolving a particular social or political issue.

When making judgments on major agenda items, we do so based on the following criteria:

1. Appointment of Board of Directors

The Directors should be capable of effective and speedy decision making, and be composed of individuals qualified to adequately oversee the conduct of business. We generally oppose proposals related to the election of directors when we find that there is any problem, taking into consideration the following aspects:

- Inadequate Board of Directors resolutions that have undermined shareholder value.
- Continued poor business performance or capital efficiency.
- Scandal with serious managerial effect on the company.
- Insufficient number of outside directors,, especially when the company lacks multiple outside directors when the Board of Directors is composed of more than certain numbers of directors.
- Lack of more than two independent outside directors when the company is a listed company with a parent company, etc.
- Director nominee is not qualified to make adequate and speedy decisions.
- If the nominee is an outside director and he/she does not meet independence and/or Board meeting attendance standards (likewise, if the nominee does not meet committee meeting attendance standards if he/she belongs to the Audit Committee or Audit and Supervisory Committee),

We believe that the Board should be comprised of multiple outside directors.

2. Appointment of Corporate Auditors

The Audit Committee should be comprised of individuals qualified to adequately inspect and supervise the management decisions and business execution of the Board. We generally oppose proposals related to the election of corporate auditors when we find that there is any problem, taking into consideration the following aspects:

- Scandal with serious managerial effect on the company.
- If the nominee is an outside auditor and he/she does not meet independence and/or Board meeting attendance standards.
- Number of corporate auditors or outside corporate auditors is decreased without a clear and rational reason.

3. Partial Exemption from Liability of the Officers, etc. and Liability Limitation Agreement

We generally vote for proposals to limit or partially exempt the liability of officers (except for executive directors, etc.), accounting advisors, corporate auditors and accounting auditors, as long as there are no corporate governance issues.

4. Appropriation of Retained Earnings

If the Board has the authority to set dividends, etc., and where they are not subject to a shareholder vote, our stance will be reflected in our election of directors.

We generally oppose proposals for excessive dividend payouts to investors which we consider may be of damage to shareholder value, considering the company's financial position.

We generally oppose proposals for insufficient dividend payouts to shareholders considering the level of return on equity and the necessity for internal reserves.

We require proper explanation regarding appropriation of retained earnings to the company if it has larger than necessary internal financial reserves.

5. Director Compensation, etc.

We believe that the director compensation, etc. should be adequate upon taking into consideration both corporate performance and incentivization of the individual. We generally oppose proposals related to an increase in aggregate director compensation, the payment of bonuses to directors and retirement bonuses when we find that there is any problem, taking into consideration the following aspects:

- Scandal with a serious managerial effect on the company.
- Continued poor business performance.
- Inappropriate Board decisions that have undermined shareholder value.

As for proposals regarding retirement bonuses, we generally oppose proposals for retirement bonuses for directors and corporate auditors who are outside directors or audit and supervisory committee members since their functions as management inspectors or supervisors are more strongly required compared to inside directors, etc. except in the case of special payments in connection with the abolishment of a retirement bonus system.

We generally oppose proposals on stock option plans directors compensation when we find that there is any problem taking into consideration the following aspects:

- Proposals that result in a substantial dilution of ownership interest.
- If the company grants stock options to independent outside directors and corporate auditors having functions as management inspectors or supervisors that are more strongly required compared to inside directors, etc., or grants stock options to outsiders who have not directly contributed to earnings growth.
- If the exercise price of unexercised options is reduced.
- In the case where the exercise price is set below the market price, exercise conditions (such as setting of a certain vesting period after the provision) should be set to provide sufficient incentive in the context of promoting long-term corporate value.

It should be noted that the above standards will apply in judgments regarding Trust-Type stock incentive plan.

6. Changes to Financial Strategy and Business of the Company

We believe companies should make adjustments in procuring capital, changing financial structure, and business scale and activities, etc. based on an appropriate managerial strategy without harming shareholder interests. We generally vote for proposals regarding equity issuance, share buybacks, mergers and acquisitions, transfer and acceptance of business, changes in articles of association and capital policy, as long as they are based on an appropriate management and financial strategy.

7. Measures on Anti Hostile Takeover Protection

For proposals on shareholder rights plans, we should take into consideration the necessity of implementing such plans, and the transparency and adequateness in its activation, and we generally oppose such proposals when we find that there is any problem, taking into consideration the following aspects.

Where such protective measures are not subject to a shareholder vote, our stance will be reflected in our election of directors.

1) Necessity for implementation

- Full explanation that the implementation of such protective measures would help mid-to-long-term shareholder interests should be required.
- If there is a low necessity for implementing protective measures in light of corporate performance, etc.

2) Effective Term, Requirements for Implementation and Renewal

- The enforcement period is over three years.
- Implementing protective measures are not subject to a shareholder vote at the time of implementation or renewal, and the directors' term in office is 2 years.

3) Decision-Making upon Activation

- If a special committee is established and the Board of Directors makes decisions based upon its advice, such special committee shall be composed of multiple independent outside directors.
- If the shareholders' approval is to be confirmed in a shareholders' meeting, etc., such meeting shall be composed of appropriate and balanced shareholders.

4) Others

- Whether stock options that are provided to bidders can be acquired through providing monetary compensation.
- The limit on the period for consideration.
- Fair treatment of shareholders.

It should be noted that the above standards will apply in judgments regarding Trust-Type Rights Plans.

8. Other Specific Issues

We generally oppose proposals to amend the articles of incorporation to excessively increase the number of issuable shares, except in special circumstances.

With respect to proposals for which the company grants authorization to the board of directors, such as dividend payments, we will generally oppose proposals to eliminate a shareholder vote.

We generally vote against proposals for golden shares, shares with multiple voting rights, and class shares which could harm shareholder interests.

In terms of other specific issues, we determine whether the proposal contributes to the enhancement of corporate value and corporate governance. We generally vote against shareholder proposals that pursue the interests of specific shareholders.

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