

Corporate Governance

For the year ended March 31, 2016

Basic Position on Corporate Governance

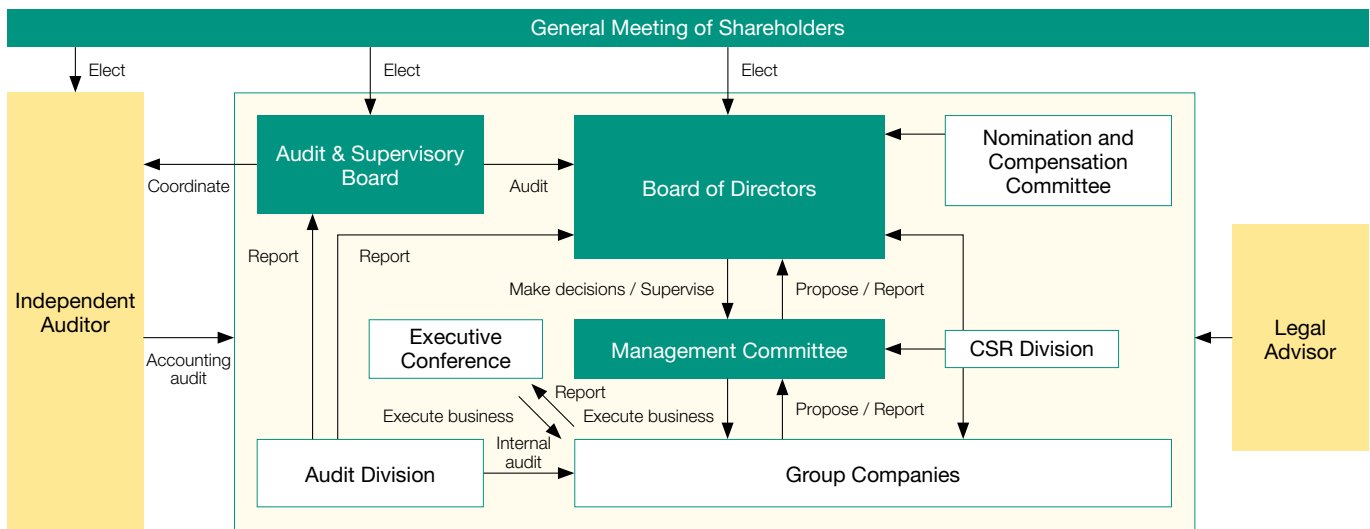
Based on its corporate philosophy, the Yamato Group carries out business activities in accordance with the law and social norms and actively promotes compliance management. Striving to maximize corporate value by effectively utilizing the management resources of the Group is one of the top priorities of management, and we have implemented measures and bolstered management systems as part of our corporate governance initiative. In the fiscal year ended March 31, 2016, by revising our meeting bodies and through other measures, we reinforced the supervisory function with respect to business execution and contemplated ways to ensure highly effective deliberations by the Board of Directors.

Characteristics of Corporate Governance System

(As of July 1, 2016)

System	Company with auditors
Number of directors	5
Of which, outside directors	2
Number of Audit & Supervisory Board members	4
Of which, outside auditors	2
Term of directors	1
Executive officer system in place	Yes
Independent auditor	Deloitte Touche Tohmatsu LLC

Corporate Governance Framework



Concurrent Posts and Main Activities of Outside Directors and Outside Audit & Supervisory Board Members

	Name	Independent officer	Concurrent posts	Main activities	Attendance at meetings of the Board of Directors and/or Audit & Supervisory Board during the fiscal year ended March 31, 2016
Outside Directors	Toshitaka Hagiwara	YES	<ul style="list-style-type: none"> Adviser of Komatsu Ltd. Outside Director of Zensho Holdings Co., Ltd. Outside Director of Hino Motors, Ltd. Outside Director of Takamatsu Construction Group Co., Ltd. 	Toshitaka Hagiwara has ample experience and extensive knowledge as a businessperson, and he comments and advises as needed on all aspects of business management. Furthermore, his collaboration with the independent auditor and the Audit Division enhances governance.	Board of Directors: 18 of 18 meetings
	Masakatsu Mori	YES	<ul style="list-style-type: none"> Vice Chairman of the International University of Japan Board of Director of SKY Perfect JSAT Holdings Inc. Board of Director of Stanley Electric Co., Ltd. Outside Audit & Supervisory Board Member of Kirin Holdings Company, Limited 	Masakatsu Mori has ample experience and extensive knowledge as a businessperson, and he comments and advises as needed on all aspects of business management. Furthermore, his collaboration with the independent auditor and the Audit Division enhances governance.	Board of Directors: 15 of 18 meetings
Outside Audit & Supervisory Board members	Motoharu Yokose	YES	<ul style="list-style-type: none"> Corporate Advisor of Asahi Tax Corporation Executive Director of Nomura Real Estate Private REIT, Inc. 	Motoharu Yokose has ample experience in finance and accounting through his professional experience as a certified public accountant. Furthermore, he attends regular meetings to exchange opinions with the representative director and president, outside directors, and Audit and Supervisory Board members, monitoring directors' execution of duties primarily by asking questions related to finance and accounting.	Board of Directors: 18 of 18 meetings Audit & Supervisory Board: 15 of 15 meetings
	Hiroyuki Kanae	YES	<ul style="list-style-type: none"> Partner, Anderson Mori and Tomotsune LPC 	Hiroyuki Kanae has ample experience in finance and accounting through his professional experience as a lawyer. Furthermore, he attends regular meetings to exchange opinions with the representative director and president, outside directors, and Audit and Supervisory Board members, monitoring directors' execution of duties primarily by asking questions related to overseas business risk.	Board of Directors: 18 of 18 meetings Audit & Supervisory Board: 15 of 15 meetings

Board of Directors

■ Roles and duties

- The Board of Directors shall make important decisions concerning the Company's business and supervises the execution of duties by executive directors and executive officers.
- The Board of Directors shall recognize the medium-term management plan as one of the commitments to shareholders and do its utmost to achieve the goals of the plan. Moreover, the Board of Directors shall sufficiently analyze the initiatives aimed at realizing the goals of the medium-term management plan as well as the extent to which the plan's objectives are being achieved. In addition to providing explanations to shareholders, such analyses shall be reflected in future management plans.
- The Board of Directors shall encourage executive officers to demonstrate a healthy entrepreneurial spirit and not excessively avoid or curb risk, while at the same time establishing a framework that enables it to ensure accountability.
- The scope of responsibility of each executive officer shall be decided by the Board of Directors and disclosed. Executive officers shall execute business in accordance with internal regulations.

■ Board of Directors management

- To allow Board of Directors meeting attendees the opportunity to prepare for meetings in advance, the Board of Directors secretariat shall send agenda items and related materials to directors well in advance of the meeting date and provide explanations in advance as needed.
- The annual schedule of Board of Directors meetings as well as anticipated agenda items shall be decided in advance, and this information shall be provided to directors and Audit & Supervisory Board members.
- The number of issues to be deliberated as well as the frequency of meetings shall be appropriately set, and the time of meetings shall be decided so as to allow sufficient time for deliberations.
- As needed, meetings comprising Board of Directors meeting attendees shall be held for the purpose of exchanging ideas, thereby encouraging lively debate.
- The effectiveness of the Board of Directors shall be evaluated through questionnaires and interviews performed by the chair.

■ Policy on cross-shareholdings

The Company shall maintain a policy of owning stocks that are deemed meaningful, based on a comprehensive consideration of the relationship with the Group's businesses and the profitability of the company, among other factors. With respect to the key stocks that the Company owns, a decision shall be made every year at the Board of Directors meeting concerning whether to continue holding the stocks, based on careful consideration of various factors including the effect of holding the stock on strengthening the alliance, the business track record with the company, and the market price of the shares.

In exercising the voting rights of shares held, decisions on supporting or opposing shareholders' meeting agenda items shall be made on a case-by-case basis, with consideration given to the issuing company raising its corporate value, the issuing company's compliance framework, and the possibility that the issue will have a negative impact on the Group's business, among other factors.

Audit & Supervisory Board

■ Roles and duties

- The Audit & Supervisory Board and its members shall exercise their authority actively and proactively, and they shall appropriately state their opinions at Board of Directors meetings as well as to members of senior management.
- The full-time Audit & Supervisory Board members shall attend Board of Directors meetings and other important meetings related to the execution of business, express reasonable opinions, hold effective Audit & Supervisory Board meetings, and ensure that information is shared and that members work together in a coordinated manner.
- The Audit & Supervisory Board shall regularly hold information exchange meetings for the purpose of sharing information with outside directors, thereby ensuring more robust gathering of information and encouraging teamwork.

Nomination and Compensation Committee

The Nomination and Compensation Committee shall comprise outside directors and the same number or fewer internal directors with an outside director serving as the committee chair. The committee shall deliberate on matters related to the appointment or removal of senior management members based on business performance and multifaceted observations and evaluation, thereby verifying the validity of such decisions, and decide policies on compensation and other matters related to senior management members. The committee shall propose candidates as successors to the representative director to the Board of Directors, following deliberation based on multifaceted observations and evaluations of candidates' track records, human nature, and other factors, thereby increasing management transparency.

Support Framework for Directors and Audit & Supervisory Board Members

- The Company shall establish a support framework that enables it to provide necessary and adequate information at the necessary time to allow directors to effectively fulfill their roles and duties.
- By participating in key business strategy meetings for the overall Group, such as the "Business Summit," "Business Conference," and "Management Plan Unveiling," as well as by observing key Group business sites, including those overseas, participants are able to better understand the business strategies and provide opportunities to see how these strategies are being advanced.
- As a system to help Audit & Supervisory Board members smoothly perform their duties, employees in the internal audit division shall be appointed to assist Audit & Supervisory Board members.
- Audit & Supervisory Board members shall exercise their authority to perform investigations in accordance with the Companies Act. In addition, if a director or employee discovers a fact that could potentially inflict marked damage on the Company, he/she shall immediately report this fact to an Audit & Supervisory Board member, even if there is no request to do so from an Audit & Supervisory Board member.
- If a director or Audit & Supervisory Board member believes it to be necessary, he/she shall obtain advice from an outside expert at the Company's expense.

- The internal audit division shall regularly hold meetings with the full-time Audit & Supervisory Board members, and provide audit reports in a planned manner to the Board of Directors and the Audit & Supervisory Board, thereby enhancing the provision of information to as well as bolstering coordination with outside directors and outside Audit & Supervisory Board members.

Compensation of Directors and Audit & Supervisory Board Members

Directors and Audit & Supervisory Board members	Total compensation and other remuneration (Millions of yen)	Total by compensation and remuneration category (Millions of yen)	Headcount of eligible directors and Audit & Supervisory Board members
		Basic compensation	
Directors (excluding outside directors)	310	310	4
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	35	35	2
Outside directors and Audit & Supervisory Board members	30	30	4

■ Policies related to methods for calculation and determination of director compensation

To ensure the objectivity and transparency of policies for determining director compensation, deliberations are conducted through the Nomination and Compensation Committee, more than half of whose members are outside directors, with the Board of Directors making resolutions.

Director compensation comprises fixed remuneration that reflects external standards and performance-based amounts. The compensation of Audit & Supervisory Board members and outside directors is fixed in keeping with the nature of their work.

In addition, for executives at or above the level of executive officer, a certain percentage of their compensation is allocated to purchase shares of Company through the Officers and Executives' Shareholding Association.

Compliance

■ Strengthening internal control for the Group overall

The Yamato Group has established an internal control system in order to promote sound corporate culture in the Group as a whole and to enable employees to perform their duties effectively and efficiently without any misbehavior or mistakes. Having stipulated its basic policy on the internal control system in accordance with the Companies Act, each Group company is working on strengthening internal control.

In addition, in order to respond to the internal control report system pursuant to the Financial Instruments and Exchange Act, we are promoting reviews of business rules and the standardization of operations, checking whether operations have been effectively performed in accordance with the rules, and establishing a system to immediately put improvements in place should there have been any shortcomings.

Internal control over the financial reporting of the Yamato Group as of March 31, 2016, was considered valid, and a report was submitted to the Kanto Local Finance Bureau.

■ Reinforcing the Whistle-Blower System

With regard to compliance violations by the Company, employees, directors, and other members, the Yamato Group ensures an appropriate framework related to whistle-blowing by having in place a contact point for the president, a contact point managed by the Compliance and Risk Committee, and a contact point managed by an outside attorney. The Company shall secure a framework in which employees who report on such violations are protected under whistle-blower regulations. Violations and responses to violations shall be regularly reported to the Compliance and Risk Committee, as well as reported to the Board of Directors if deemed necessary by the responsible officer.

Business Continuity Plan (BCP)

■ Revisions and maintenance to prepare for unexpected, large-scale natural disasters and power outages, based on our experience in the Great East Japan Earthquake

The Yamato Group offers the *TA-Q-BIN* service as social infrastructure, and it is expected to keep offering the steady service even under unforeseeable circumstances. In the wake of the emergence of the novel influenza strain (H1N1) in May 2009, we formulated a business continuity plan (BCP).

Based on this BCP, formulated according to response guidelines focusing on maximum priority on human life and on continuation of the *TA-Q-BIN* business, we addressed the problems caused by the Great East Japan Earthquake that occurred in 2011 and the 2016 earthquakes with epicenters in Kumamoto and Oita. Our aim is to prepare for an earthquake occurring directly beneath the Tokyo metropolitan area and an earthquake along the Nankai Trough, which are likely to occur in the future and are expected to cause large-scale damage.

Accountability

The Yamato Group considers the explanation of corporate and management data to shareholders, investors, and other stakeholders to be an important corporate governance issue and is committed to the speedy, accurate, and fair disclosure of information.

The main investor relations activities are listed below.

Item	Number of times	Content
Settlement of Accounts Meetings for analysts and institutional investors	4	Settlement of Accounts Meetings are held each quarter. The first-quarter meeting is held by telephone with the Chief Financial Officer. Meetings for the second, third, and fourth quarters are held with president.
Visits by the president to investors in the United States, Europe, and Asia	1 or more per year to each region	The president or chairman make regular overseas visits to investors in the United States, Europe, and Asia to explain management policies.
Small meetings with the president	2 per year	Creating regular opportunities for direct dialogue with management
Facility tours	2 or more per year	Creating regular opportunities to promote understanding of business operations
Website for investor relations materials	—	Financial results, news releases, securities reports, and quarterly reports; materials pertaining to settlement of accounts meetings, convocation notices for the ordinary general meeting of shareholders, notices of resolution, and disclosure of voting results. Publication of most important information in two languages – Japanese and English – so that information can be communicated to foreign investors.
Establishment of IR department	—	Responsibility for IR strategy