

# Governance: How It is Linked to the Shareholders and Investors

## Basic Concept

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We firmly believe that the realization of our management vision—"to become a corporate group that is trusted around the world by creating inspiration through high value-added products," established under our management principles since the establishment of the company—will bring about shared profits to many of our stakeholders, as well as enhance our corporate value. To achieve this management vision, we strive to ensure a sound and transparent management, and to enhance operational efficiency by speeding up the decision-making process. We have positioned the enhancement of corporate governance as one of our most important management issues, and are fully committed to achieving this goal.

## Corporate Governance System

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As a company with corporate auditors, TOK adopts a corporate auditor system. This is to enhance audits performed by the corporate auditors, whose authority has been strengthened under the Japanese Companies Act. In addition, we aim to strengthen the functions of managerial decision-making/supervision and business execution, and clarify the responsibility for performing these functions, through the reform of our Board of Directors, establishment of a corporate officer system, and election of an independent outside director. We believe that these are the most effective means of enhancing our corporate governance.

### Directors and the Board of Directors

The Board of Directors comprises seven directors, including one outside director\*. Their term of office is one year, which permits us to respond swiftly to changes in the business environment and clarify the responsibility of directors in each fiscal year. In addition, we elect one outside director with an independent status in order to enhance the transparency of the board and strengthen its supervisory function. The board, comprising of representative directors and directors, has an optimal structure in executing its required functions of managerial decision-making and supervision.

### Officers and the Committee of Officers

We have thirteen officers, including six officers concurrently serving as directors\*. While strengthening the functions of the Board of Directors, i.e. managerial decision-making and supervision, the officers also focus on the function of business execution. In order to reinforce this function, we set up the Committee of Officers composing of the chief executive officer, chief operating officer, senior executive officer, executive officers, and officers, based on their respective duties and responsibilities.

### Auditors and the Board of Auditors

We have four auditors, including three outside auditors\*. Each auditor is required to perform his/her duties allocated in accordance with the auditing standards (Corporate Auditor Auditing Regulations) and the auditing policies/responsibilities stipulated by the Board of Auditors. These include: attending the meetings of the Board of Directors and the Committee of Officers as well as other important meetings; and supervising the performance of directors by receiving progress reports from the directors and others and requesting an explanation when necessary. They also supervise the appropriateness of audit methods and results performed by the accounting auditors by receiving their progress reports and requesting an explanation when necessary.

### Internal Auditing Division

We have set up the Internal Auditing Division, under the direct control of the President, composing of five staff members\*. In addition to the standard audits of business operations, this division provides suggestions, proposals and advice for continuous improvements by undertaking evaluations of the effectiveness of internal controls on financial reporting.

\*Number as of June 26, 2013

WEB

Corporate Governance

<http://www.tok.co.jp/company/about/governance.html>

## Remuneration for directors and auditors, or the policies and methods of deciding on the computation methods for officers' remuneration

The payment of remuneration to TOK directors and auditors is aimed at enhancing corporate value by improving business results, and seeks to meet the expectations of all stakeholders, including our shareholders. At the same time, we are focused on maintaining sound management that complies with laws and regulations. To that end, we have laid out the following policies for remunerating directors and auditors.

### Directors' Remuneration

Company directors' remuneration consists of fixed-salary remuneration, company performance-related remuneration, and subscription warrants (stock options). The fixed-salary remuneration is decided and paid out based on specific standards established by the company's Board of Directors, and lies within the remuneration framework approved at the General Meeting of Shareholders. The company performance-related remuneration is a bonus payment, with the amount being based on the company's fiscal year results. Within the remuneration framework approved at the General Meeting of Shareholders, the Board of Directors discusses both the performance of the Company and the individual to decide if a bonus is appropriate and if so, the amount. The purpose of subscription warrants (stock options) is to further increase directors' motivation toward improving the Company's results and corporate value, and also to boost their morale. Directors receive subscription warrants following discussions among the Board of Directors to decide on the appropriate number of rights to be allocated to each director within the remuneration framework approved at the General Meeting of Shareholders. Outside directors do not receive subscription warrants (stock options).

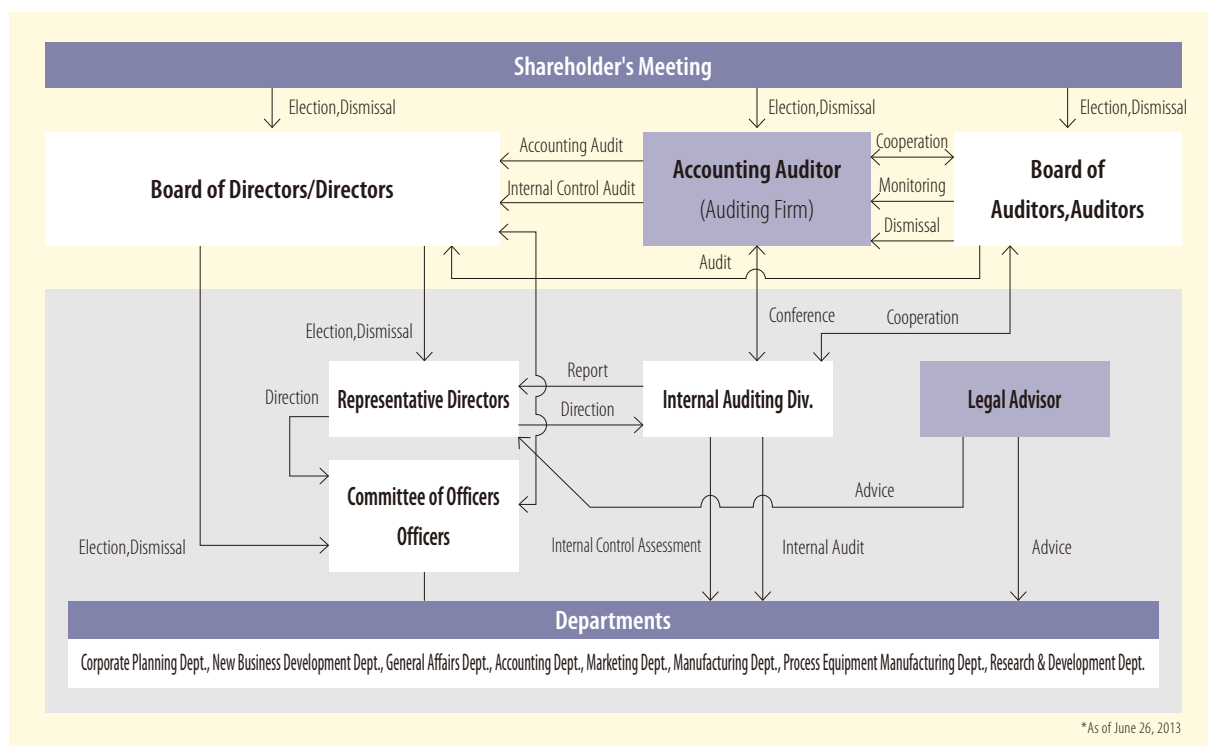
### Auditors' Remuneration

Auditors are responsible for supervising and auditing the execution of responsibilities by the directors, in a position that is independent of the Board of Directors. They receive only a fixed-salary remuneration, which is decided on and paid out following discussions among the Board of Auditors, within the remuneration framework approved at the General Meeting of Shareholders.

Position	Total remuneration (Million yen)	Total remuneration by type of remuneration (Million yen)			Number of eligible directors and auditors
		Basic remuneration	Stock options	Bonuses	
<b>Directors</b> (Excluding outside directors)	273	249	1	23	8
<b>Auditors</b> (Excluding outside auditors)	20	20	—	—	2
<b>Outside directors and auditors</b>	24	23	—	0	3

- Note
1. Total directors' remuneration (excluding outside directors) as well as total remuneration by type of remuneration do not include the part paid to directors as their employee salary and employee bonus when they also hold the position of employee.
  2. Total directors' remuneration (excluding outside directors) and total auditors' remuneration (excluding outside auditors), as well as total remuneration by type of remuneration, includes the remuneration for two directors and one auditor who resigned at the closing of the 82nd General Meeting of Shareholders held on June 27, 2012.
  3. In addition to the above, based on the resolution on final payment accompanying the abolishment of the retirement benefit system for directors and auditors at the 78th General Meeting of Shareholders, held on June 26, 2008, retirement benefits were paid out to one director who retired at the closing of the 82nd General Meeting of Shareholders. This retirement benefit was accounted for in the previous fiscal year as provision for directors'/auditors' retirement benefits.

## Corporate Governance System

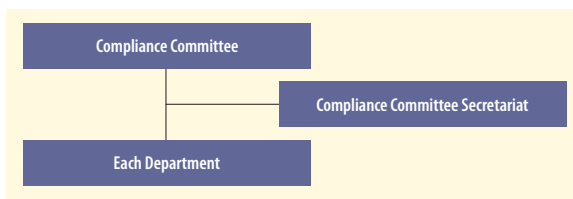


## Strengthening the Compliance System

TOK fosters a strong spirit of compliance with the law, Company rules and regulations and social norms in all corporate activities, on the part of each and every one of its management executives and employees.

### System to Promote Compliance

We recognize that maintaining relationships of trust with all our stakeholders is the foundation for the sustainable development of a company that can coexist with the society. As such, we are putting effort into enhancing our compliance system. Led by the Compliance Committee, we carry out company-wide activities to promote compliance. These activities include providing education and raising awareness of compliance in each department.



### Compliance Standards of Conduct

To raise awareness of the importance of compliance and to establish a clearly defined set of shared values and code of conduct among each individual officer and employee, we have drawn up the TOK Group Compliance Standards of Conduct.

A Compliance Standards of Conduct Handbook has also been produced and distributed to all employees as part of our efforts to ensure thorough dissemination and awareness throughout the company.



### Activities to Raise Awareness

In addition to providing education to raise awareness of compliance in each department, e-learning training sessions as well as compliance training sessions are also conducted for new employees and newly appointed managers. Using the intranet, educational materials and various forms of information are also disseminated.

### Internal Reporting System

Our internal reporting system has three options to protect internal reporters: an internal route (reporting to the Compliance Committee Secretariat), an auditor route, and an external route (reporting to corporate lawyers). Employees can select either option according to the situation. In addition, we clarify our policy stating that any employee who has taken "internal reporting" actions should not receive a dismissal or other negative consequences, except in cases where such internal reporting was done with a dishonest intent.

### Toward Fair Trading (Compliance with the Subcontract Act)

In order to ensure thorough compliance with the Subcontract Act (Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors), we periodically conduct investigations into the capital stock and payment terms, etc. of our trading partners to verify that each transaction is not in violation of the Subcontract Act. In addition, the Procurement Department strives to enhance the understanding of the Subcontract Act among its representatives by sending them for external lectures. Efforts are also made to raise awareness among the related departments by conducting activities through the intranet and in meeting spaces.

### Initiatives to Eliminate Anti-Social Elements

With the aim of eliminating anti-social elements, we take effort during times of peace to communicate with the relevant parties such as the police and Enterprise Defense Council, in order to establish close cooperative relationships. At the same time, we also collect information pertaining to trends on anti-social elements. We have also laid out items concerning breaking off ties with anti-social elements, and the appropriate response when an unreasonable demand is received, in our Basic Policy on Establishing an Internal Control System, as well as in the TOK Group Compliance Standards of Conduct. Furthermore, by introducing educational materials, we have taken steps to raise awareness about anti-social elements among all members of the TOK Group, and added clauses about the elimination of gangs in our business contracts (TOK format) with business partners.

## VOICE : Ensuring Complete Compliance

## Aiming to improve not only "knowledge" but also "awareness"

The word "compliance" is becoming increasingly entrenched in society, and tougher attitudes are being shown toward companies that have violated compliance stipulations. Today, compliance is regarded as one of the key management issues in the continued survival of a company. In order to ensure complete compliance, TOK has also taken initiatives to promote training and education aimed at raising awareness. The company's stance is that compliance does not stop with the gaining of knowledge about laws and regulations; rather, the issue lies in how to raise awareness about compliance among its officers and employees. A company is established upon the foundation of the relationships of trust that it has with various stakeholders. Hence, we aim to become a company where all officers and employees can act with a sense of ownership, in consideration of what they can do in order not to betray the trust that stakeholders have invested in the company. Going forward, we aim to continue putting effort into raising awareness of compliance.



**Ryuichiro Tsuchiya**, Legal Div., General Affairs Dept.  
(Compliance Committee Secretariat)

## Measures to Strengthen Risk Management

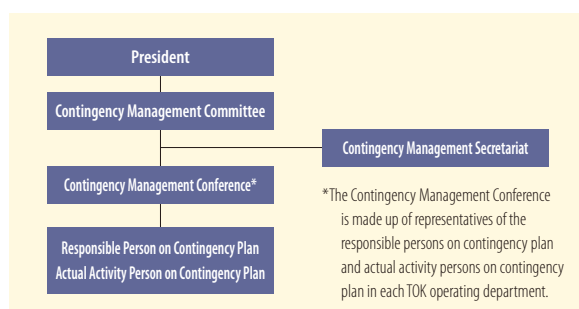
To preempt various risk events that could affect the business operations of the TOK Group, and to minimize the impact of their materialization, the Group has strengthened its risk management, focusing on mitigation of risk factors and preemptive measures. In addition, we have established a contingency management framework to mitigate damage resulting from emergencies.

### Contingency Management

In addition to establishing a Contingency Management Committee of operating department managers and office managers, TOK has established a subordinate Contingency Management Secretariat, and has made revisions to the Group's contingency management procedures, with formulation of contingency management policies.

We have also set up a Contingency Management Conference as a cross-departmental organization covering the whole Group, which identifies risks that could have a significant effect on business activities, establishes preventive measures and formulates responses in the event of a crisis.

In addition, we have further improved and strengthened our risk management systems by introducing a plan, do, check, act (PDCA) cycle of verification and appraisal at all bases including those overseas. This helps us carry out risk appraisal and analysis, and take measures against particularly dangerous risks.



### Risk Management System

In the belief that the Company must continuously develop ways of accurately dealing with risk that threatens to have severe impact on business operations, we have compiled contingency management regulations and a contingency management manual and categorized potentially significant risk into various categories—business risk, public risk, disaster and accident risk, manufacturing risk and environmental risk—based on the manual. We ensure preventive measures are normally in place by carrying out risk analysis and risk countermeasure formulation while at the same time carrying out appraisals and other forms of risk management.

In the event that a risk event occurs despite our best efforts, leading to an emergency situation as specified above, we have created frameworks for responding rapidly and appropriately based on the manual.

### Business Continuity Plan (BCP)

Drawing on the lessons we learned from the Great East Japan Earthquake, we have revised our Business Continuity Plan (BCP) to deal with a scenario in which our headquarters and multiple business locations are simultaneously devastated by an earthquake occurring directly under Tokyo, resulting in disruption of order processing and product shipment, and severance of essential supply lines.

### Information Security

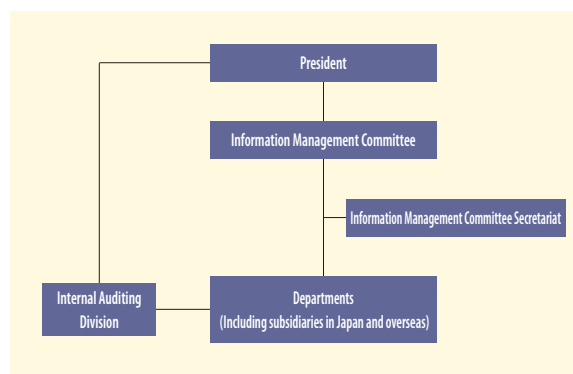
For management purposes, we have centered information security measures on our Information Systems Division. We have set up an Information Management Committee chaired by the manager of the General Affairs Department and comprising departmental managers of Group companies including overseas affiliates and subsidiaries, since our subsidiaries for overseas product development, manufacturing and marketing use cutting-edge technologies.

- (1) Strengthen information protection and management
- (2) Respond to leakage of information
- (3) Use information resources

For the purposes of (1)–(3), we will strengthen our information management system on a Group-wide basis, by broadening operational frameworks for information security in terms of materiel, personnel and IT to create an inventory of information assets, while launching training activities for the whole Group and establishing an auditing system.

In addition, we have taken measures to strengthen internal checks and balances, management frameworks and countermeasures, with the Internal Auditing Division carrying out audits into compliance with Information Management Committee directives and information security standards.

### Information Management Committee



### Development of Standards for Countermeasures and Progress in Implementation

Based on the new committee structure, we are revising and standardizing countermeasures for maintenance of information security. We are also stepping up and continuously promoting educational activities, including tools such as e-learning, for all Group executives and employees. Our aim is to raise awareness of the importance of personal data confidentiality and avoidance of leakages, and of compliance with management procedures.