

Corporate Governance

We will further strengthen corporate governance, looking to sustainably enhance our corporate value.

Message from Independent Officers

Risk management in a time of diversifying risks and huge losses

One of TOK's missions is to be a responsible supplier of products when needed and without delay. To fulfill this responsibility, TOK has made preparations for unforeseen events by repeatedly conducting evacuation drills and desktop drills, in addition to formulating detailed plans as a part of its Business Continuity Plan (BCP) for quickly restoring operations and securing alternative production capacity in the event of a natural disaster, which have been increasing in size and severity. Moreover, TOK must further increase the effectiveness of its BCP to prepare for an earthquake directly beneath the greater Tokyo area or an earthquake along the Nankai Trough, which is said to have a 70% likelihood of striking within the next 30 years. Additionally, it is becoming more important to manage new risks in an advanced information society, such as the risk of information leaks, hacking, data falsification, and other new risks related specifically to AI. Furthermore, geopolitical risks have become unprecedented in size, and could have a major impact on governments and economies around the world. In this time of diversifying risks, it is vital to have a corporate culture where all group employees think of risks themselves. Moreover, the Company must instill in its organization a strong culture to address risks and minimize the unexpected and opportunity losses. I will proactively advise on this matter as well.



Kazumasa Fukada
Outside Auditor

Systems that bring out the best abilities of everyone are the driving force

Most corporate scandals that emerged in the latter half of the Heisei era (1989–2019) have been recognized as an adverse outcome of "Japanese-style organizations" that were a driving force in the Showa era (1926–1989). The primary issue faced by corporations has changed from volume growth to strengthening responsiveness to change. In terms of organizational culture, team spirit is still a prerequisite, and high levels of employee autonomy are now needed instead of an organization-first approach. A system that brings out the best abilities of each employee will become a new driving force behind improvements in the value of R&D and increases in productivity. At the same time, such a system will enhance the sophistication of corporate governance and risk management by realizing genuine diversity management that can deal with changes in the external environment. One of the Company's strategies in the "TOK Medium-Term Plan 2021" is to strengthen human resources who can perform research, make decisions, and take actions on their own initiative. This represents a major step toward realizing such a system, and I will do my best to bring this strategy to a successful conclusion as an independent officer.



Koichiro Takahashi
Outside Auditor

Front lines are the key to solutions

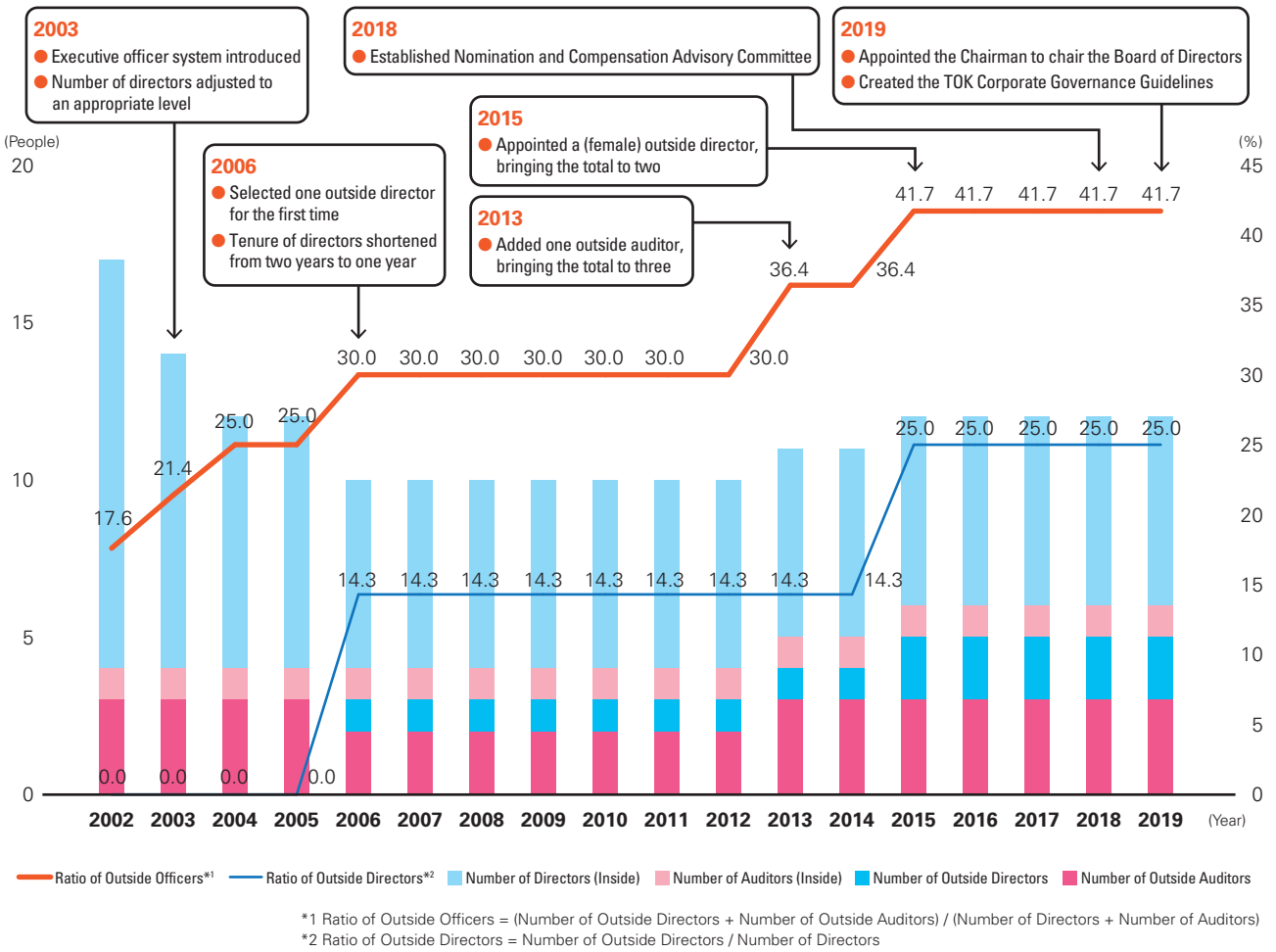
My name is Nobuyuki Takeuchi, and I was appointed an outside auditor in March 2019. I have served as an officer and director at a major trust bank in Japan, and also as the president and CEO of its group company. I currently hold the position of outside corporate auditor at a different company. Based on my experience, I aim to contribute, even if only in a small way, to the sustained value creation at TOK.

Currently, I am absorbing all the information and knowledge I can about TOK with an eye on how the Company addresses issues common to all corporations, regardless of their sector. With "front lines are the key to solutions" as a motto based on the business experience I have accumulated so far, I aim to provide audits and advice that supports the development of TOK while truly gaining an understanding of the Company's stakeholders, including its shareholders, investors, executives and employees, without letting any preconceptions lead me astray.



Nobuyuki Takeuchi
Outside Auditor

TOK's Path to Stronger Corporate Governance



Basic Concept

We have had a management vision of aiming to be a globally trusted corporate group by inspiring customers with high value-added products that have satisfying features, low cost and superior quality, under our management principles since our establishment. ("Continue efforts to enhance our technology;" "Raise the quality levels of our products;" "Contribute to society;" and "Create a frank and open-minded business culture.") We believe that realizing this will lead to benefits shared by shareholders and all other stakeholders and will improve corporate value.

Realizing the management vision is the means to maintain sound and transparent management and to enhance operational efficiency, with speeding up of the decision-making process as one of the most important management issues.

One of TOK's material issues and company-wide strategies in the "TOK Medium-Term Plan 2021" is improving corporate governance. The Company created and published the TOK Corporate Governance Guidelines in April 2019 as a compilation of its basic policies and approaches to continuously improve corporate governance.

→ "TOK Corporate Governance Guidelines"

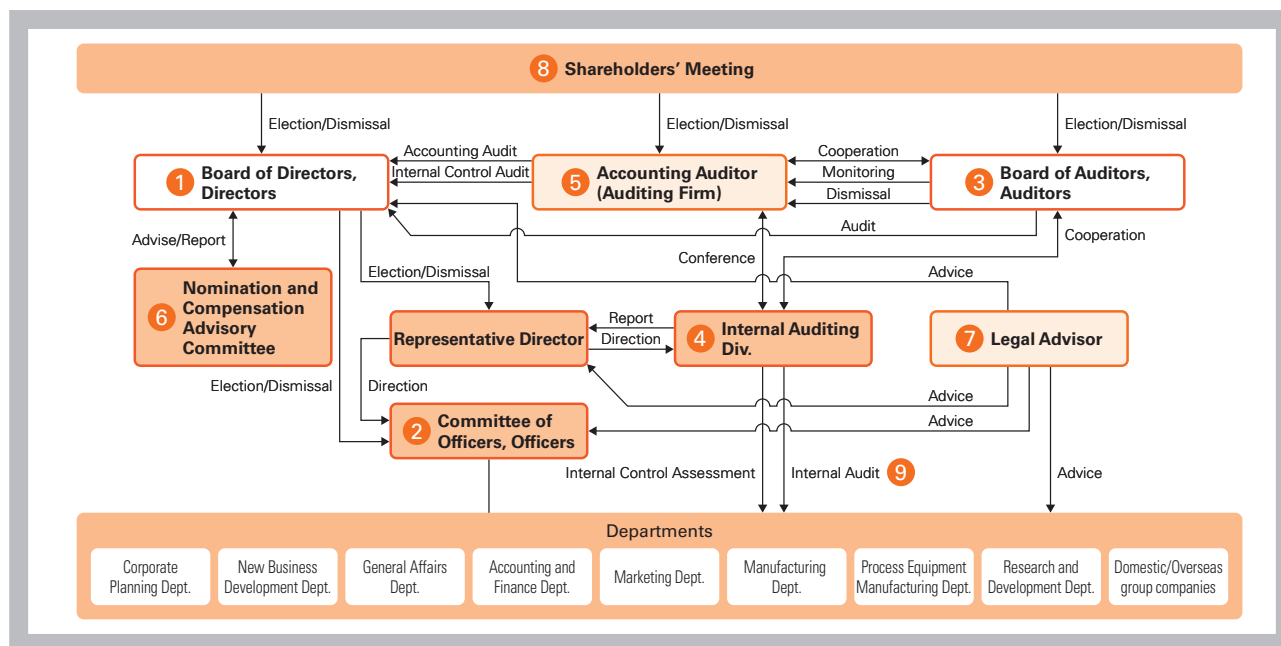
https://www.tok.co.jp/content/download/4719/77678/file/gov_guideline0403.pdf (in Japanese)



Type of System

As a company with corporate auditors, TOK employs the corporate auditor system. We are taking actions to strengthen audits performed by the corporate auditors with the greater authority endowed by the Companies Act of Japan. In addition, TOK is taking advantage of the benefits of reforms to its Board of Directors, establishment of the executive officer system, and the election of an independent outside director to fortify the management decision-making and supervisory function and the business execution function while clarifying responsibility for performing these functions. We are convinced that these measures are the most effective means to strengthen management and upgrade our corporate governance.

Diagram of Corporate Governance System (As of March 28, 2019)



Directors and Board of Directors Diagram 1

To quickly respond to changes in the operating environment and clarify accountability for the directors concerning operating results in each fiscal year, we have shortened the tenure of the directors from two years to one year since June 2006. With the aim of enhancing the transparency of the Board of Directors and strengthening the corporate governance system, the Company selected one independent outside director in June 2006 and another in June 2015. TOK currently has two independent outside directors.

In principle, the director system has a flat structure with two levels: representative director and directors. This creates a framework that allows the Board of Directors to fulfill its primary responsibilities by effectively reaching management decisions and supervising the Company’s management.

As of March 28, 2019, we had eight directors, including two outside directors. In principle, the Board of Directors meets once a month on a regular basis and holds extraordinary meetings as required. The meetings are held to decide important matters of business execution, with the goal of supervising the business duties executed by the representative director and directors.

The number of directors on the Board of Directors is set to not exceed 10 directors in the Company’s Articles of Incorporation. The articles also stipulate that resolutions for the election of directors must be approved by a non-cumulative majority vote at a General Meeting of Shareholders with a third or more of the shareholders in attendance.

Assessment of the Effectiveness of the Board of Directors

Our directors and auditors conduct an assessment and discuss at the Board of Directors using an anonymous self-evaluation questionnaire format of the composition of the Board of Directors; the effectiveness of the Board of Directors; information related to the Board of Directors; the decision-making process; and external communications. This offers an analysis and assessment of the effectiveness of the Board of Directors as a whole.

The following opinions were received during the fiscal year ended December 31, 2018, the fourth time the assessment has been conducted:

- having an impartial composition offering inside directors with thorough understanding of each field, and a good balance between experience and actual performance
- maintaining diversity by incorporating outside directors with differing backgrounds, knowledge and expertise
- the size of the Board of Directors, frequency of meetings, matters discussed, and time spent on discussions are all appropriate
- in an atmosphere of frank and open discussions, the outside directors and outside auditors continue to positively contribute to high levels of transparency and rapid decision-making
- generally good self-improvement and in-house check-and-balance functions

However, the following criticisms were also made:

- authority should be delegated to deepen discussions about business strategy
- the reporting system should be improved in terms of risk analysis and important matters

Considering this feedback, the Company will continue to focus on further improving the effectiveness of the Board of Directors.

Review of Decision-Making Authority of the Board of Directors

Within the context of strengthening the functions of the Board of Directors amid changes in the business environment, TOK has started a review of the decision-making authority of the Board of Directors, including authorities delegated to the Committee of Officers. The Company modified decision-making authorities in April 2019 and has started to examine changes to decision-making authorities at subsidiaries inside and outside Japan with the aim of implementing these changes in January 2020.

Establishment of Independent Officer Meetings

TOK has established meetings for its independent officers, currently two outside directors and three outside auditors. They are held with the same frequency as Board of Directors meetings. The standing statutory auditor also attends the meetings.

The meetings aim to strengthen the effectiveness and add vigor to deliberations at the Board of Directors through:

- additional explanations on topics from management meetings that were not on the agenda of the Committee of Officers
- exchange of opinions on themes to be taken up at the next Board of Directors meeting
- explanations of cutting-edge technology matters

Officers and Committee of Officers Diagram 2

While taking steps to strengthen the Board of Directors' functions in management decision making and supervision, TOK has the Committee of Officers made up of all officers to reinforce its business execution capabilities. The committee members include the chief executive officer, the chief operating officer, senior executive officers, executive officers and officers. Those officers' ranks derive from differences in business responsibilities and other considerations.

As of March 28, 2019, the Company had 14 officers, including five officers also serving as directors. In principle, the Committee of Officers meets once a month on a regular basis and holds extraordinary meetings as required. The meetings are held to share instructions and orders resolved by the Board of Directors and information among the officers, and with the goal of planning management strategies, deliberating and approving certain important decisions that are not subject to a Board of Directors resolution.

Auditors and Board of Auditors Diagram 3

As of March 28, 2019, we had four auditors, including three outside auditors. In principle, the Board of Auditors meets once a month on a regular basis and holds extraordinary meetings as required. The auditors attend the Board of Directors, the Committee of Officers, and other important meetings. Their duties are performed in accordance with auditing standards (Corporate Auditor Auditing Regulations), the auditing policy, the division of tasks, and other considerations. In addition, the auditors check the performance of directors by receiving reports from directors and other corporate staff, and requesting an explanation if necessary. For financial audits, the auditors receive reports from the accounting auditor and use other

means, including requesting an explanation if necessary, to verify the suitability of financial accounting methods and the results of these audits.

To improve the effectiveness of corporate audits, and to ensure smooth execution of audit duties, one person is also assigned to assist the auditors.

Internal Auditing Div. Diagram 4

The Internal Auditing Division is under the direct control of the president. In addition to internal audits, this division offers suggestions, proposals, and advice for continuous improvement through evaluations of the effectiveness of internal controls in financial reporting.

Accounting Auditor Diagram 5

The accounting auditor conducts accounting audits of the Company from an impartial and independent standpoint. There were two certified public accountants who conducted the accounting audit of the Company in the fiscal year ended December 31, 2018: Hiroki Kitagata and Masato Shoji, both of whom are designated limited liability partners and executive members of accounting auditor Deloitte Touche Tohmatsu LLC. Moreover, there were six other certified public accountants, two junior accountants, and 14 other people who assisted in conducting the Company's accounting audit. The details of the remuneration of the Company's certified public accountants (Deloitte Touche Tohmatsu LLC) for conducting the accounting audit during the fiscal year ended December 31, 2018 are as follows:

- Remuneration in relation to the services set forth in Article 2, Paragraph 1 of the Certified Public Accountants Act (Act No. 103 of 1948): ¥54 million



Nomination and Compensation Advisory Committee Diagram 6

In December 2018, TOK established the Nomination and Compensation Advisory Committee, chaired by an independent outside director with half of its members consisting of independent outside directors, to enhance corporate governance by strengthening the fairness, transparency, and objectivity of procedures related to the nomination, dismissal, and remuneration of directors.

Legal Adviser, etc. Diagram 7

The Company has concluded advisory contracts with a number of law firms, and receives appropriate advice from legal advisors in situations requiring legal assessment.

Efforts to Invigorate the Shareholders' Meeting and Facilitate Smooth Exercise of Voting Rights Diagram 8

To facilitate the exercise of voting rights by shareholders, we hold our General Meeting of Shareholders in March, when most other Japanese companies' shareholder meetings are not hosted at the same time, set a period for reviewing the resolutions for approval by the meeting that is longer than the number of days required by law, and publish the Notice of Convocation of the General Meeting of Shareholders on our website ahead of time, 28 days (four weeks) before the day of the meeting. It is also sent out early (21 days (three weeks) before the day of the meeting).

To enable the shareholders in attendance to better understand the proceedings of the General Meeting of Shareholders, we use narrated video footage to report the items up for resolution. In addition, we also upload the Notice of Convocation, Notice of Resolution, and Results of the Exercise of Voting Rights to the General Meeting of Shareholders for disclosure on the Company website.

Cooperation between the Auditors, Internal Auditing Division and Accounting Auditor

Internal Audit and Corporate Audit Diagram 9

Cooperation between the auditors and accounting auditor

The auditors receive reports on the result of accounting audits and other work from the accounting auditor (auditing firm) four times a year. They also receive an explanation of the auditing plan from the accounting auditor once a year. In addition, the auditors also accompany the accounting auditor to the factory audits the accounting auditor conducts if necessary, as well as examine the auditing method of the accounting auditor. Apart from this, the auditors also exchange information and opinions with the accounting auditor as required.



Relationship between internal audits, corporate audits, accounting audits and Internal Auditing Division and the internal control department

The TOK Group's internal control department comprises divisions in charge of compliance and risk management in addition to the Internal Auditing Division, which is in charge of evaluating the effectiveness of internal control as it pertains to internal audits and financial reporting.

The Internal Auditing Division, as a part of the internal control department, reports the results of internal audits to the president, auditors and the relevant divisions. In addition, it provides the relevant divisions with suggestions, proposals and advice as required.

As for corporate audits, the auditors report the results of their corporate audits of directors' execution of duties to the president and the accounting auditor (auditing firm). In conducting internal control audits, the auditors receive evaluation reports and other information from the internal control department as necessary.

The accounting auditor (auditing firm) reports the results of its accounting audits to the president and auditors. It also holds discussions with the internal control department to help them with internal control audits.

Election of Outside Directors and Outside Auditors

The Company has eight directors, of whom two are outside directors, as well as four auditors, of whom three are outside auditors.

The Company has established the following criteria and policies regarding independence in the election of outside directors and outside auditors.

Independence Standards for Outside Officers

Independent outside officers under this criteria are defined as those who fulfill the legal requirements of an outside officer, and to whom any one of the following does not apply.

- a. A person who executes the business of the Company or its consolidated subsidiaries (the "Group"), or who did so for a period of 10 years before being appointed.
- b. A person/entity for which the Group is a major client (Note 1), or who executes the business of such a person/entity.
- c. A major customer of the Group (Note 2) or a person who executes the business of such customer.
- d. A major lender of the Group (Note 3) or a person who executes the business of such lender.
- e. A person who, apart from receiving officer compensation from the Group, belongs to a consulting, accounting, or legal firm (corporate entity, cooperative, or other such group) receiving large amounts of cash or other assets (Note 4) from the Group.
- f. A person to whom the above b. through e. applied in the previous three years.
- g. A person who in the past three years has received donations from the Group averaging more than ¥3.0 million per year.
- h. Major shareholders of the Group (Note 5) or a person who executes the business of such shareholder.
- i. A person who executes the business of a company with a mutual relationship between outside officers. (Note 6)
- j. A person whose spouse or a relative within the second degree of kinship come under any one of above items a. through i.
- k. A person who has served a total of more than eight years as an outside officer.
- l. Regardless of the above provisions, a person for whom it is deemed likely that conflicts of interest will arise with the Company.

- Notes:
1. A person/entity for which the Group is a major client, means a supplier that provides the Group with products or services, the amount of which transactions averaged more than ¥10.0 million per year over the past three years and represented more than 2% of the supplier's consolidated annual revenue in the most recent fiscal year.
 2. A major customer of the Group means a customer to which the Group provides products and services, the amount of which transactions averaged more than ¥10.0 million per year over the past three years and represented more than 2% of the Group's consolidated annual revenue in the most recent fiscal year.
 3. A major lender of the Group means a financial institution which has lent an amount equivalent to more than 2% of the Group's consolidated total assets.
 4. A large sum of cash or other assets, means assets that averaged more than ¥10.0 million per year over the past three years, and which in the most recent fiscal year had an economic value in excess of 2% of said consultant or accounting or legal expert's consolidated annual revenue. (In the event the beneficiary of said assets is a corporation, association or other organization, then assets that averaged more than ¥10.0 million per year over the past three years, and which in the most recent fiscal year had an economic value in excess of 2% of said organization's consolidated annual revenue).
 5. Major shareholder, means a shareholder with a ratio of voting rights of more than 10%.
 6. A mutual relationship between outside officers means a relationship in which a person who executes the business of the Group is also an outside officer at another company, and in which a person who executes the business of said outside company is also an outside officer of the Company.

Reasons for the Election of Inside Directors

Name	Reasons for election
Ikuo Akutsu <i>Representative Director Chairman</i>	Akutsu has led the management of the TOK Group ("the Group") for many years as its top executive and contributed to the Group's further development through the measures in the Medium-Term Plan. Thus, Akutsu is qualified to continue strengthening corporate governance of the Company and to supervise the execution of business.
Noriaki Taneichi <i>Representative Director President and Chief Executive Officer</i> <i>Nomination and Compensation Advisory Committee Member</i>	Taneichi is well versed in not only the Company's existing business areas but also in new business areas. Since assuming the position of Representative Director, President and Chief Executive Officer with the launch of the "TOK Medium-Term Plan 2021," the three-year medium-term plan starting from fiscal year 2019, Taneichi has led the management of the Group and contributed to medium- to long-term improvement of the Group's corporate value and its sustainable growth through the measures in the Medium-Term Plan. Thus, Taneichi can be expected to continue contributing to the management of the Company.
Harutoshi Sato <i>Director</i>	Sato has held important positions in the Group, serving in such roles as representative at the U.S. subsidiary, person responsible for quality assurance, and person responsible for product development before assuming the position of Department Manager, Research and Development Dept. Owing to this experience, he is well acquainted with the Company's business characteristics and customers and consequently possesses necessary and sufficient knowledge of such matters as important decision-making by the Board of Directors and supervision of duties executed by other Directors. Thus, Sato can be expected to continue contributing to the management of the Company.
Kunio Mizuki <i>Director</i> <i>Nomination and Compensation Advisory Committee Member</i>	Assuming the position of Department Manager of the General Affairs Dept. after serving as General Manager of the General Affairs Div., Mizuki has been working to strengthen corporate governance, including development of the information management system, the contingency management system, and the compliance system as well as improvement of investor relations. Furthermore, through his experience with the business operations in his charge, he possesses necessary and sufficient knowledge of such matters as important decision-making by the Board of Directors and supervision of duties executed by other Directors. Thus, Mizuki can be expected to continue contributing to the management of the Company.
Nobuo Tokutake <i>Director</i>	Tokutake has held important positions in the Group, serving in such roles as product developer, representative at the U.S. subsidiary, and Chairman and President of the Taiwanese subsidiary before assuming the position of Department Manager, Manufacturing Department. Owing to this experience, he is well acquainted with the Company's business characteristics and customers and consequently possesses necessary and sufficient knowledge of such matters as important decision-making by the Board of Directors and supervision of duties executed by other Directors. Thus, Tokutake can be expected to continue contributing to the management of the Company.
Keiichi Yamada <i>Director</i>	Yamada has knowledge and rich experience in product development, sales and marketing, which he developed in previous positions. In addition, since joining the Company he has mainly been engaged in sales and marketing of mainstay products and is well acquainted with the electronic materials industry and characteristics and customers of the Company's business based on such roles as Department Manager of the Marketing Dept. Furthermore, he possesses necessary and sufficient knowledge of such matters as important decision-making by the Board of Directors and supervision of duties executed by other Directors. Thus, Yamada can be expected to continue contributing to the management of the Company.

Reasons for the Election of Outside Directors

Name	Reasons for election
Hiroshi Kurimoto <i>Nomination and Compensation Advisory Committee Chairman</i>	Kurimoto was elected on the expectation that he would continue supervising TOK's management from an objective and neutral point of view, based on his abundant experience and considerable insight as a business executive of a listed company, and contribute to strengthening corporate governance by advising the Company on management in general.
Noriko Sekiguchi <i>Nomination and Compensation Advisory Committee Member</i>	Sekiguchi was elected to contribute to corporate governance and TOK's management from an objective and neutral point of view continuously, based on her professional expertise in accounting and abundant hands-on business experience with several companies as a certified public accountant, and her thorough understanding of internal control, including from her experience as a member of external committees investigating fraudulent accounting at numerous listed companies, and advise the Company on management in general.

Reasons for the Election of Outside Auditors

Name	Reasons for election and independence
Kazumasa Fukada	Fukada was elected to contribute to auditing TOK's management from an objective and neutral point of view, based on his abundant experience and considerable insight as a business executive including at financial institutions. Fukada was once a business executive with Tokio Marine & Nichido Fire Insurance Co., Ltd., which owns stock in TOK and conducts insurance transactions with the Company under routine and standard business conditions. However, these capital and business relationships were deemed not to affect Fukada's independence as an outside auditor of TOK.
Koichiro Takahashi	Takahashi was elected to contribute to auditing TOK's management from an objective and neutral point of view, based on his abundant experience and considerable insight as a business executive including at financial institutions. Takahashi was once a business executive with Meiji Yasuda Life Insurance Company, which owns stock in TOK and conducts insurance transactions with the Company under routine and standard business conditions. However, these capital and business relationships were deemed not to affect Takahashi's independence as an outside auditor of TOK.
Nobuyuki Takeuchi	Takeuchi was elected to contribute to auditing TOK's management from an objective and neutral point of view, based on his experience as a corporate auditor of another company as well as his abundant experience and considerable insight as an executive of financial institutions. Takeuchi was once a business executive with Mitsubishi UFJ Trust and Banking Corporation, which owns stock in TOK and conducts cash deposit, stock administration agent and other transactions with the Company under routine and standard business conditions. However, these capital and business relationships were deemed not to affect Saito's independence as an outside auditor of TOK.

The Main Activities of Outside Directors and Outside Auditors

Name	Attendance record and activities at Board of Directors and Auditors meetings
Hiroshi Kurimoto <i>Outside Director</i>	Kurimoto attended all 15 of the 15 Board of Directors meetings (attendance rate 100%) held during the fiscal year ended December 2018. He voiced timely opinions as required when discussing resolutions, based on his broad experience and abundant expertise as a business executive.
Noriko Sekiguchi <i>Outside Director</i>	Sekiguchi attended all 15 of the 15 Board of Directors meetings (attendance rate 100%) held during the fiscal year ended December 2018. She voiced timely opinions as required when discussing resolutions, based on her professional expertise in accounting and abundant hands-on business experience with several companies as a certified public accountant.
Hiroshi Saito <i>Outside Auditor</i>	Saito attended all 15 of the 15 Board of Directors meetings (attendance rate 100%) and all 14 of the 14 Board of Auditors meetings (attendance rate 100%) held during the fiscal year ended December 2018. He voiced and raised timely opinions and questions as required at the meetings, based on his abundant experience and considerable insight as a business executive including at financial institutions.
Kazumasa Fukada <i>Outside Auditor</i>	Fukada attended all 15 of the 15 Board of Directors meetings (attendance rate 100%) and all 14 of the 14 Board of Auditors meetings (attendance rate 100%) held during the fiscal year ended December 2018. He voiced and raised timely opinions and questions as required at the meetings, based on his broad experience including at a financial institution, and his abundant expertise as a business executive.
Koichiro Takahashi <i>Outside Auditor</i>	Takahashi attended all 15 of the 15 Board of Directors meetings (attendance rate 100%) and all 14 of the 14 Board of Auditors meetings (attendance rate 100%) held during the fiscal year ended December 2018. He voiced and raised timely opinions and questions as required at the meetings, based on his abundant experience and considerable insight as a business executive including at financial institutions.

The Major Decisions and Agenda of Board of Director Meetings in the Fiscal Year Ended December 2018

- ◆ Enhanced manufacturing equipment for high-purity chemicals mainly used in the cutting-edge miniaturization process in semiconductor manufacturing (TOKYO OHKA KOGYO AMERICA/TOK TAIWAN)
- ◆ Confirmed progress on plans for new R&D Building (to be completed in 2019 at the Sagami Operation Center)
- ◆ Updated aging facilities (Sagami Operation Center)
- ◆ Devised the vision, company-wide strategies and key measures for the “TOK Medium-Term Plan 2021”
- ◆ Updated the shareholder return/dividend policy, balance sheet management policy, etc.
- ◆ Confirmed progress on Group Management System (GMS)
- ◆ Reviewed measures for EHS (environmental, health and safety) and reinforced measures at domestic and overseas business sites
- ◆ Debated matters related to new personnel measures and employee training programs

Remuneration of Directors and Auditors

TOK’s guidelines for remunerating its directors, senior management and auditors are as follows. The guidelines focus mainly on complying with laws and regulations and maintaining sound management, while also seeking to set remuneration at a level that satisfies the expectations of shareholders and other stakeholders by increasing earnings and corporate value.

Directors’ Remuneration

Directors’ remuneration consists of a fixed salary as base remuneration, a bonus linked to financial performance in the fiscal year, and stock options linked to results, enhancement of corporate value and stock price performance as an incentive to enhance drive and motivation to increase the stock price.

The fixed salary, bonus and stock compensation-type stock options are decided based on the Policy and Procedures for Deciding the Remuneration of Directors and Senior Management (“the policy and procedures for remuneration”), within a remuneration framework (up to ¥420 million per year) approved by the General Meeting of Shareholders.

Outside directors do not receive stock compensation-type stock options (subscription warrants) in consideration of their roles.

Remuneration for Senior Management

Remuneration for senior management consists of a fixed salary as base remuneration, a bonus linked to financial performance in the fiscal year, and stock compensation-type stock options linked to medium- to long-term performance.

The fixed salary, bonus and stock compensation-type stock options are decided based on the policy and procedures for remuneration.

Policy and Procedures for Deciding the Remuneration of Directors and Senior Management

The Nomination and Compensation Advisory Committee chaired by an independent outside director drafts proposals for deciding the remuneration (fixed salary and bonuses) of directors and senior management. The committee takes care to set appropriate percentages of cash remuneration and stock remuneration, as well as the ratio of remuneration linked to medium- to long-term performance, while paying due consideration to the degree of contributions to the medium-term plans and budgets in the previous fiscal year of the directors and senior managers, as well as the self-evaluations of the Board of Directors, in addition to the TOK Group's financial performance.

The committee also drafts proposals for deciding the weighting of stock compensation-type stock options as medium- to long-term performance-linked remuneration for directors (excluding outside directors) and senior managers. Based on these proposals, the Board of Directors makes the final decision.

Auditors' Remuneration

Auditors are responsible for supervising and auditing business duties executed by the directors, in a position that is independent of the Board of Directors. They receive only a basic remuneration in the form of a basic salary, which is decided on and paid out following discussions among the auditors, within a remuneration framework (of within ¥72 million per year) approved by the General Meeting of Shareholders.

Remuneration Totals Paid to Directors and Auditors (Fiscal Year Ended December 31, 2018)

Position	Total remuneration (Millions of yen)	Total of various types of remuneration (Millions of yen)			Number of eligible personnel
		Basic remuneration	Stock options	Bonuses	
Directors (Excluding outside directors)	170	136	21	13	6
Auditors (Excluding outside auditors)	22	22	—	—	1
Outside directors and auditors	47	46	—	1	5

Note: The amounts for total remuneration and total of various types of remuneration for directors (excluding outside director) do not include the portion paid as salary for employee activities undertaken in parallel with director activities.

Internal Control System

TOK endeavors to augment the Group's internal control systems by strengthening management at overseas subsidiaries that have a growing presence and maintaining its compliance system. Below is a summary of our compliance system, risk management system, business execution reporting and other group internal control systems, as well as systems for the retention and management of information, and information management structure.

→ For further details on internal control, please see the Corporate Governance Report at https://www.tok.co.jp/content/download/4591/76284/file/gov_report190627.pdf (in Japanese)



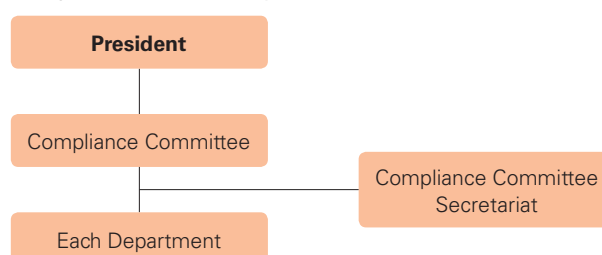
Compliance

The TOK Group makes concerted efforts to enhance its compliance system from the basic understanding that maintaining relationships of trust with all its stakeholders is a prerequisite for sustainable development as a corporation that coexists with society. We strive to improve awareness of compliance among all officers and employees to ensure strict compliance with laws and regulations, Company rules and social norms.

Compliance Promotion System and Standards of Conduct

Guided by the Compliance Committee, all employees at Group companies take action to promote compliance by participating in thorough training and related activities. We aim to improve awareness of compliance among all officers and employees. We have created the TOK Group Compliance Standards of Conduct to clarify shared values and standards of conduct, including for subsidiaries in Japan and overseas. We have created handbooks for the Compliance Standards of Conduct in the languages used by Group companies and distributed them to all officers and employees of Group companies.

Compliance Promotion System



Ongoing activities to instill compliance

To prevent compliance-related risks from emerging, it is essential that all officers and employees practice and adhere to compliance. The Company conducts its own unique compliance training that considers conditions at each department and site within the Group, and goes through a PDCA cycle to prevent risks from materializing. With the completion of the compliance training overseas in the fiscal year ended December 31, 2017, staff from the Compliance Committee Secretariat visited all domestic sites during the fiscal year ended December 31, 2018, providing compliance training to employees, including reminders about the internal reporting system.

Internal reporting system

TOK has an internal reporting system set up to facilitate the early discovery, remediation and prevention of compliance risks in business activities. When internal reports are made, we allow the internal reporter to choose who the report is made to, and we have a clearly stated policy of not dismissing or unfairly treating internal reporters, unless the report has been made for deceitful purposes.

In the fiscal year ended December 31, 2018, the TOK Group received three reports concerning labor conditions and the work environment, and private matters. After gaining a detailed understanding of the situation and those involved, based on an objective judgment of the situation, the Company provided guidance, took disciplinary action, and implemented training about proper behavior for those involved. The Company intends to enhance the internal reporting system to make it more accessible for employees.

Risk Management

The Company's perpetual development depends on being able to precisely deal with various risks that have major impacts on business. Through communications with stakeholders, we strive to identify and prevent a variety of potential risks. If a risk emerges, we will take the necessary measures to minimize the negative impacts from the risk. In these and other ways, TOK maintains and improves its global risk management system.

Risk Management System

The Risk Management Committee plays a central role in reviewing the risk management system and formulating risk management policy. The Company has risk management regulations and a risk management manual for precisely dealing with various risks. Guided by this manual, we ensure that preventive measures are normally in place by managing business risk, public risk, and disaster and accident risk, and identifying and analyzing significant risks, as well as determining, executing, and reviewing countermeasures for these risks.

Risk Management System



*1 The Risk Management Committee is made up of the president, department managers.

*2 The Risk Management Conference is made up of responsible persons for risk management from each department, and representatives of persons in charge of risk management.

Initiatives to strengthen risk management system

Reaffirming the importance of contingency management after the Great East Japan Earthquake, the Group has taken steps to address various risks, including disasters and other accidents and environmental risks, since creating the Contingency Management Committee (current Risk Management Committee). In 2016, the TOK Group Risk Management Committee was established to deal with a broader range of risks in accordance with the Company's global expansion.

In the fiscal year ended December 31, 2018, TOK took action to reduce risks deemed high based on risk assessments at all sites, including group subsidiaries. As a result, the Company achieved 20% of its risk reduction goals. TOK will continue with activities to reduce new risks identified in the risk assessment and existing issues.

Strengthened crisis management

The Group believes business continuity planning begins with the safety of our employees. In Japan, TOK operates a safety confirmation system for confirming whether Group employees are safe in the event of natural disasters, including major earthquakes. Safety confirmation drills are conducted every year to ensure the smooth operation of this system and to raise awareness among employees. In the fiscal year ended December 31, 2018, 100% of the planned number of drills were held, and the response rate remained at a high level.

Large-scale natural disaster preparedness

Based on lessons learned from the Great East Japan Earthquake and the Kumamoto Earthquake, TOK has put in place a BCP that envisions damage simultaneously striking the Headquarters and multiple sites from earthquakes directly beneath the greater Tokyo area. TOK regularly reviews its BCP so it is grounded in reality by running desktop drills that simulate real-world damages that interrupt order taking and placement, product shipment, and cut off lifelines. In the fiscal year ended December 31, 2018, the Company reviewed alternative transportation options considering the damage caused by torrential rainfall in western Japan in July 2018, and finished a formulation of initial action guidelines applicable to all production sites of the Group, including overseas subsidiaries.

Improving Information Management

The environment surrounding information management is drastically changing. Leaks of information assets could greatly damage the competitive advantages of the TOK Group and threaten its existence as an ongoing concern. For this reason, reinforcing the information management system is a priority issue in terms of preserving corporate value and fulfilling our social responsibility. From this standpoint, we are redoubling our efforts in ensuring information security by establishing a PDCA cycle.

Information Management Policies

The TOK Group (comprising TOKYO OHKA KOGYO CO., LTD. and its subsidiaries, hereinafter collectively the "TOK Group") is implementing measures in line with the following policies, having positioned risk management related to information assets as a priority management issue to fulfill its corporate social responsibility.

Definition, protection, and effective utilization of information assets

1. With respect to all information assets held by the TOK Group, including managerial, client, marketing, personal, and technical information, the Group will comply with laws and regulations related to information security, other social norms, in-house rules and other guidelines, and protect the information appropriately. The Group shall only use the information to efficiently execute the operations of the Group, within the stipulated scope of authority, and for the prescribed purpose.

Update and maintain tools and security platforms

2. The TOK Group updates and maintains reasonable communications tools and security platforms to effectively utilize its information assets.

Organizational structure and organized activities

3. The TOK Group has established an Information Management Committee and will continue to build, maintain, and promote an information asset management structure properly governed for the overall Group.

Completeness, confidentiality, and availability

4. The TOK Group will identify and assess risks and continue to implement countermeasures and improvements as well as appropriately reduce information management risks through a range of human, physical, organizational, and IT-based measures to prevent leakage, falsification, theft, destruction, and other damage to the information assets held by the TOK Group.

Education

5. The TOK Group will implement in-house education regularly and continuously and work to raise awareness and keep everyone well informed of the in-house rules and other regulations.

Incident response

6. In the case that accidents and other incidents related to information security occur, the TOK Group will endeavor to minimize the damage from such incidents and implement measures to prevent their recurrence.

Audits and continuous improvements

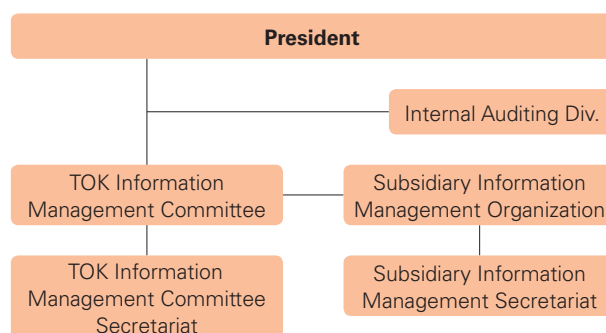
7. The TOK Group will implement regular audits and make continuous improvements as a part of its management of information assets.

Maintain, Manage, and Improve Information Management Systems

The Company has created the TOK Information Management Committee, headed by the Manager of the General Affairs Department and staffed by department managers of the TOK Group, including overseas affiliates and subsidiaries. The Committee decides on policies and measures related to information security and personal information protection. Key subsidiaries have established their own information management organizations, which collaborate under the guidance of the TOK Information Management Committee to strengthen information management systems across the TOK Group. In the fiscal year ended December 31, 2018, TOK updated its management regulations.

The Internal Auditing Division, which is independent of the TOK Information Management Committee, regularly audits compliance with rules and other matters, and reports the results to the president. If there are problems, improvement orders are issued to the audited divisions and the Information Management Committee. In this way the division works to improve our information management systems.

TOK Group Information Management Structure



Strengthen information management through working groups

The TOK Information Management Committee has identified key topics based on information management policy, and put working groups (WG) in charge of addressing each key topic in a bid to strengthen information management.

Working Groups for Information Management PDCA Cycle

Trade Secrets WG/Training and Rules WG/Human Resources Related WG/IT Development WG/Physical Security WG/Supplier WG

Group Management System (GMS)

The TOK Group's value creation has continued expanding within and outside of Japan. Since 2015, we have focused on the Group Management System as a way to tie this to steady enhancement of sustainable corporate value. After the two years of the project phase, since 2018, we have shifted to the fixing phase where the project results will become established aspects of the TOK Group's overall global structures and frameworks.

Initiatives in FY2018/12

Through a self-evaluation of development and operation of GMS in six fields and two subsidiaries, more than 30 matters in need of correction were identified and corrective actions were taken.

The progress rate of resolutions was 98%, thanks to the ongoing collection and resolution of key issues for the Group.

TOK also added to and revised its rules and processes, creating and modifying more than 70 documents.

We updated documentation pertaining to regulations and standards for basic information management in the Group, and cross-referenced Group documents to documentation at each company.

• March

Added Supply Chain Management (SCM) as a GMS field

• September

Modified information management rules in GMS documentation

• October

Created information management regulations to replace confidentiality regulations and basic regulations for information management at the Headquarters and four domestic subsidiaries

Updated Human/IT/Physical (HIP) standards

• December

Added R&D as a GMS field

Updated information management regulations and Human/IT/Physical (HIP) standards at four overseas subsidiaries

We also took the following steps to improve company regulations at overseas subsidiaries.

- Clarified company regulations in need of updating at subsidiaries
- Reassessed the company regulations at Tokyo Ohka Kogyo Europe B.V. and decided on an approach
- Decided on an approach for company regulations in need of updating at CHANG CHUN TOK (CHANGSHU) CO., LTD. in China
- Decided on an approach for company regulations for EHS, added basic policy for internal control systems
- Updated information management regulations and standards documentation with cross-references in documents at each company

IR Activities/SR Activities

Dialogue with shareholders and investors

The Director, Executive Officer, Department Manager of General Affairs Dept. is responsible for managing and controlling investor relations (IR), and through meetings on business results, meetings with institutional investors, company orientations for individual investors and a variety of other efforts, works to be proactive in achieving a constructive dialogue.

The Public Relations Division serves as the department responsible for TOK's IR with regard to dialogue with shareholders and investors, and is primarily responsible for facilitating that dialogue, exchanging information with our accounting, sales, legal and other departments as needed and maintaining a coordinated collaboration. The department in charge of IR also works to provide the top management and relevant officers with records of meetings with analysts, shareholders and investors, and to share information.

Main IR activities in FY2018/12

Business results meetings for institutional investors/analysts	2
Individual meetings with institutional investors/analysts	177
Financial results briefings for individual investors	9

IR activities

TOK conducts proactive IR activities, centered primarily on the Public Relations Division, in an effort to enhance our dialogue with shareholders and investors. Specifically, we hold events including biannual meetings on business results, company orientations for individual investors, as well as tours of our facilities. Our CSR reports, annual reports, business reports to shareholders, and Notice of The Convocation of The Ordinary General Meeting of Shareholders are all published on our website, part of our proactive effort to provide shareholders and investors with the information they need.

Records of opinions and requests from shareholders and investors that reach us through this dialogue are collected and regularly reported to the chairman, president and all directors, and we work to ensure that information is understood and shared.

In accordance with our Disclosure Policy, TOK also makes an effort to provide its shareholders and investors with consistent information, and to offer fair and timely disclosure. We have also established internal regulations regarding management of insider information, and strive to ensure those regulations are closely followed.

Complying with the Corporate Governance Code

TOK implements all of the principles set forth in the Corporate Governance Code established by the Tokyo Stock Exchange.

Complying with Various Principles of the Corporate Governance Code

[Principle 1.4] Cross-shareholdings

(1) Policies regarding cross-shareholdings

To sustain business development as a business pioneer and R&D-driven company, TOK may hold cross-shareholdings to maintain and expand business synergies in the context of product development, sales promotion, raw material procurement, and manufacturing technology.

Once a year, the Board of Directors examines each stock in terms of synergistic effects with businesses now and in the future, with due consideration paid to the Company's cost of capital and other benchmarks. Shareholdings deemed of low necessity or importance are reduced in principle.

(2) Criteria for exercising voting rights

When exercising voting rights on cross-shareholdings, TOK makes decisions based on a comprehensive analysis of whether the matter proposed aligns with the medium- to long-term enhancement of corporate value and sustainable growth of TOK and the investee.

When special attention is required when exercising voting rights, due to long-term weakness in earnings, organizational restructuring or a major compliance violation at the investee, TOK makes decisions after gathering adequate information.

[Principle 1.7] Related Party Transactions

When engaging in transactions with its officers, major shareholders and others (i.e., related party transactions), TOK considers the rationality of pricing and other transaction terms as it would in third party transactions, to ensure that such transactions do not harm the common interests of the Company and its shareholders. At the same time, in compliance with legal provisions and our own internal regulations, particularly important transactions are presented to the Board of Directors for their approval.

[Principle 2.6] Roles of Corporate Pension Funds as Asset Owners

TOK has adopted a fund-type corporate pension plan. Funds in the corporate pension are managed with the objective of having a positive impact on the financial health of the Company and its employees through stable asset formation. TOK selects and appoints personnel, such as senior managers in finance, who have enough knowledge and experience to undertake management of the corporate pension fund, with the objective of increasing management sophistication, including stewardship activities, and adequately function as the asset owner.

TOK has established the Pension Committee as a company-wide organization to manage and supervise the operation of the retirement pension system, with the aim of fostering specialized personnel while strengthening governance of the pension fund.

Through the proper operation of the Pension Committee, TOK appropriately manages any conflicts of interest with the beneficiaries of corporate pensions.

[Principle 3.1] Full Disclosure

(1) Company objectives (e.g. business principles), business strategies and business plans

→ See the first page "Management Principles"; pages 20–27 "A Message from the President" and pages 36–38 "Overview of the TOK Medium-Term Plan 2021"

(2) Basic views and guidelines on corporate governance

→ See page 75 "Basic Concept"

(3) Board policies and procedures in determining the remuneration of the senior management and directors

→ See pages 81–82 "Remuneration of Directors and Auditors"

(4) Board policies and procedures in the appointment/dismissal of senior management the nomination of director and auditor candidates

a. Policies and procedures in the appointment of senior management and the nomination of director candidates

The Nomination and Compensation Advisory Committee, which is chaired by an independent outside director, in the capacity of its advisory function to the Board of Directors, creates drafts to facilitate decisions on the nomination of senior managers and directors based on a comprehensive evaluation of the character, insight, and work experience of the candidates against the requirements of a management supervisory position. The Board of Directors then decides on a resolution to the General Meeting of Shareholders based on said draft.

b. Policies and procedures in the nomination of auditor candidates

The Nomination and Compensation Advisory Committee, in the capacity of its advisory function to the Board of Directors, creates drafts for the Board of Directors to evaluate candidates for auditor that comprehensively considers their knowledge, experience, and capabilities gained through their career at the Company. Additionally, candidates for outside auditor are comprehensively evaluated based on their knowledge, experience, and capabilities gained through their work outside the Company, in addition to their independence and objectivity. Upon the consent of the Board of Auditors, the Board of Directors then decides on a resolution to the General Meeting of Shareholders based on said draft.

c. Policies and procedures for dismissal of senior managers
In the event of a relationship with anti-social forces, a serious violation of laws and regulations, violation of internal rules, or other reasons that inhibit the proper execution of other duties is discovered, the Board of Directors shall reach decisions with a report from the Nomination and Compensation Advisory Committee, and if necessary, submit a proposal to the General Meeting of Shareholders.

(5) Explanations with respect to the individual appointment/dismissal of senior management and nominations of director and auditor candidates based on (4)

→ Refer to page 80 “Reasons for the Election of Directors and Auditors” for information on the reasons for election directors and auditors.

[Supplementary Principle 4.1.1]

Based on the Board of Directors regulations, the Company's Board of Directors decides on matters prescribed by laws and regulations, the Articles of Incorporation, and other matters concerning the execution of important business. Decision-making involving execution of business other than matters to be decided by the Board of Directors is delegated, as appropriate, to the Committee of Officers, the representative director, the directors and the officers, and those matters are clearly set forth in the Committee of Officers regulations and the Specific Authority by Position.

[Principle 4.9] Independence Standards and Qualification for Independent Directors

→ See page 79 “Independence Standards for Outside Officers”

[Supplementary Principle 4.11.1]

(1) Policies for appointment of director candidates and approach to composition of the Board of Directors

The appointment of director candidates is decided following consultation with the Nomination and Compensation Advisory Committee. Internal director candidates are chosen from among officers and others responsible for overall management, based on a comprehensive consideration of numerous factors, including diverse, advanced skills, knowledge and actual performance. Outside director candidates are also evaluated for similar factors, with appointments focusing on those with extensive experience at listed companies and wide-ranging knowledge in management, or from among experts with a thorough understanding of legal affairs, finances, accounting, internal control systems and other areas. We also select

those who can devote sufficient time and effort as required by their duties, and who meet the standards for independence prescribed by TOK and the Tokyo Stock Exchange. Regarding the diversity and size of the Board of Directors, we strive for a balanced composition of internal directors selected for their thorough understanding of areas including sales, development, and manufacturing, with due consideration given to their length of service, experience and actual performance. We also strive to ensure diversity by bringing in multiple outside directors of differing backgrounds, knowledge, and expertise, in addition to diversity in the composition of the Board of Directors in terms of gender and internationalism. Our policy is to maintain a Board of Directors in an appropriate size that will facilitate quick, bold decision-making in a manner commensurate with our business.

(2) Procedures for appointing director candidates

Based on the above policy, the Nomination and Compensation Advisory Committee prepares a draft appointment of director candidates. The draft is then voted on by the Board of Directors and presented as a resolution to the General Meeting of Shareholders.

[Supplementary Principle 4.11.2]

Directors serving in other important positions

→ See pages 88–89 “Board of Directors/Corporate Auditors and Officers”

[Supplementary Principle 4.11.3]

Board of Directors evaluation

→ See page 76 “Assessment of the Effectiveness of the Board of Directors”

[Supplementary Principle 4.14.2]

TOK offers its outside officers opportunities to gain knowledge of the TOK Group's business, structure, management strategy and financial condition, as well as opportunities to deepen their understanding of the TOK Group through participation in internal meetings and visits to our plants and so forth. Upon appointment, inside officers are offered opportunities to learn their legal obligations and responsibilities as fiduciaries, as well as to recognize the attitudes and roles expected of them as officers, and to acquire the knowledge they need to appropriately execute those obligations and roles.

[Principle 5.1] Policy for Constructive Dialogue with Shareholders

→ See page 85 “IR Activities/SR Activities”

Anti-takeover Measures

TOK has adopted anti-takeover measures. Please refer to our website for more information.

→ <https://www.tok.co.jp/content/download/4193/59903/file/180223.pdf> (in Japanese)

