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**Tokai Carbon Co., Ltd.**

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Securities Code: 5301

<https://www.tokaicarbon.co.jp/>

The corporate governance of Tokai Carbon Co., Ltd. (the “Company”) is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

Tokai Carbon recognizes that enhancing the corporate value over the mid-to-long term is the most important management objective and believes that responding to the expectations of all stakeholders, including customers and shareholders, and building favorable relationships with them, is essential in achieving this objective. To this end, the Company sets forth its basic corporate philosophy, “Ties of Reliability.” Based on this philosophy and taking into account the views defined in its Guidelines and the TOKAI CARBON Code of Ethics, the Company strives to develop an effective corporate governance structure.

#### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

The Company recognizes that it puts into practice all principles of the Corporate Governance Code.

#### [Disclosure Based on the Principles of the Corporate Governance Code]

[Principle 1-4]

(1) The Company’s policy is to acquire and own shares of business partners, etc. only when it judges that it can increase its corporate value in the mid-to-long term through creating and maintaining business opportunities and building, maintaining and reinforcing business partnerships and collaborative relationships. In regard to the appropriateness of holdings of individual stocks, the Company appoints the responsible department, analyzes factors such as the significance of acquisition/holding, profitability, and whether risks associated with holding are worth the capital cost, and periodically verifies appropriateness from company-wide and strategic standpoints at meetings of the Management Committee and the Board of Directors. The Company will reduce holdings of stocks if the rationality of holding such stocks is deemed insufficient as a result of the verification.

(2) In regard to the voting rights of investee companies, judgment on the exercise of voting rights is made from the perspective of increasing corporate value of the Company and the respective companies in the medium-to-long term.

[Principle 1-7]

With respect to the competitive transactions and conflict of interest transactions of Directors, the Company’s policy is to have the Board of Directors deliberate such transactions in advance in accordance with relevant laws and regulations and the Rules of the Board of Directors. As for the transactions approved, the results are reported to the Board of Directors

[Principle 2-6]

In regard to the investment management of reserve funds for the defined-benefit pension plan, the Company has formulated internal regulations and invests the reserve funds in accordance with the regulations. Specifically, the Company has established the investment management guidelines and the basic policy for

investment management, and a person in charge of pension management assigned in the Human Resources Department confirms that the pension reserves are managed appropriately in accordance with the policy asset mix by referring to quarterly reports from asset managers. In addition, the Company appropriately carries out functions as an asset owner, such as having the person in charge of pension management report the results of investment management of pension assets for each fiscal year at meetings of the Management Committee.

[Principle 3-1]

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

The Company's corporate philosophy is "Ties of Reliability". It believes in the importance of trust between Tokai Carbon and our stakeholders (as represented by customers, shareholders, employees, and society). This idea of mutual reliability, which is based on common values shared with our stakeholders, is the foundation of our continued business and existence.

This concept allows the Company to provide added value to its stakeholders, thus enabling them to achieve their individual goals. Through this cycle of trust, the Company will strive to further enhance its ties of reliability.

The Company discloses its 3-year Mid-Term Management Plan T-2021 for the period from 2019 to 2021 on its Japanese-language company website: <http://www.tokaicarbon.co.jp/news/>

(2) Basic views and policy on corporate governance

Basic views on corporate governance are disclosed in "I. 1. Basic Views" and in "II. 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)" of this report.

(3) Board policies and procedures in determining remuneration

Policies and the method of determining remuneration of Directors of the Company are disclosed in the "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" in "II.1. Organizational Composition and Operation" of this report.

(4) Board policies and procedures in the appointment and dismissal of senior management and the nomination of candidates for Directors and Audit & Supervisory Board Members

At the Company, the Nomination Committee (composed of one (1) internal Director and two (2) External Directors), which is an advisory organ of the Board of Directors, deliberates and confirms the requirements for senior management and the basic policies on appointment and dismissal of senior management members. In addition, the election and dismissal of Executive Officers and their roles, etc. are determined based on deliberation by the Board of Directors. The policies and procedures for nominating and dismissing candidates for Directors and Audit & Supervisory Board Members as well as each of the individual proposals for nomination and dismissal are deliberated on by the Nomination Committee and resolved by the Board of Directors before they are addressed at a general meeting of shareholders.

(5) The Company discloses the reasons for nominating candidates for all Directors and Audit & Supervisory Board Members, including External Directors and External Audit & Supervisory Board Members, in the Reference Document for an Annual Meeting of Shareholders.

[Principle 4-1-1]

The Company defines matters stipulated by laws and regulations and the Articles of Incorporation, formulation, etc. of management policies and plans and other important business management matters as items to be resolved by the Board of Directors and delegates all other business execution decisions to the management team.

[Principle 4-9]

The Company appoints External Directors, who are independent officers, in accordance with the requirements for external directors set forth in the Companies Act and the independence standards defined by the financial instruments exchanges, and the Independence Standards for External Officers set forth by the Company.

[Principle 4-11-1]

The Board of Directors of the Company works to make accurate and timely business decisions in order to promote sustainable growth and increase corporate value in the mid-to-long term.

To achieve this objective, the Board of Directors of the Company takes into account the size, contents, etc. of the Company's business and elects candidates for business-executing Directors who are well versed in the operations of each business division and corporate division so as to optimize the composition of the Board of Directors in terms of diversity and the appropriate balance between knowledge, experience and skills of the Board as a whole.

External Directors are elected by taking into account the requirements for external directors as set forth in the Companies Act and the independence standards defined by the Tokyo Stock Exchange, as well as the Independence Standards for External Officers set forth by the Company, and the Company receives advice from External Directors from viewpoints independent from business execution based on their wide-ranging experience and insights not only in their specialized fields but also in a broad range of areas.

[Principle 4-11-2]

Concurrent positions held by Directors and Audit & Supervisory Board Members are indicated on p. 22 and pp. 39-49 in the Notice of the FY2018 Annual Meeting of Shareholders.

[Principle 4-11-3]

In order to strengthen the effectiveness of the Board of Directors, the Company analyzes and evaluates the effectiveness of the Board of Directors on an annual basis. The implementation status of the evaluation for FY2018 is summarized below.

(1) Method of evaluation

The Board of Directors analyzed and evaluated its effectiveness based on the results of (i) qualitative and quantitative analysis of operation results, status, and other details of the corporate governance system, including the Board of Directors and the Management Committee, in 2018; (ii) a survey on the composition/operation of the Board of Directors, information provision to External Directors, and other relevant matters conducted with all Directors and Audit & Supervisory Board Members; and (iii) individual interviews with External Directors.

(2) Overview of results of evaluation

The results of the evaluation of the effectiveness of the Board of Directors in FY2016 indicated that the Company has strengthened its corporate governance system centered on the Board of Directors by establishing the Nomination Committee, the Remuneration Committee, the Management Committee, and the Risk Management & Compliance Committee in 2016. This has contributed to making significant improvements from the previous year in various aspects, including selection of agenda proposals, content of materials/explanations, content of deliberations, and meeting minutes.

The evaluation pointed out that each of the External Directors has gained a better understanding of important cases by attending all Board of Directors meetings (according to 2016-2018 records) and proactively attending other important meetings. Neutral and objective opinions from External Directors have contributed greatly to enhancing the supervisory functions of the Board of Directors.

This year marked the third year of the evaluation. The evaluation concluded that the new corporate governance system has largely been established, and in addition to maintaining the achievements delivered in the early stage of launch of the system, further improvements have been made in effectiveness through the measures taken in 2018, such as (i) abolishment of the "Basic Policy Regarding Persons Who Control the Company's Decisions on Financial and Business Policies (so-called Basic Policy Concerning Takeover Defense Measures)," (ii) establishment of the "Independence Standards for External Officers," and (iii) more expedite distribution of meeting materials.

Further issues pointed out are the needs for (i) making continuous efforts to improve effectiveness, including review of the standards for matters to be discussed and reported at key meetings including the Board of Directors' meeting and (ii) expanding discussions to include higher-level themes including progress management of the T-2021 Mid-Term Management Plan and consideration for reviewing the plan in light of changes of circumstances.

[Principle 4-14-2]

In order to ensure that the management supervision and auditing functions of Directors and Audit & Supervisory Board Members are adequately demonstrated, a secretariat for the Board of Directors is put in place to provide information required for executing duties in an appropriate and timely manner. Further, from the perspective of promoting contribution to sustainable growth into the future, training opportunities are set.

[Principle 5-1]

It is provided in “III. 2. IR Activities” of this report.

## 2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,861,000	4.63
Japan Trustee Services Bank, Ltd. (Trust Account)	9,496,144	4.46
MUFG Bank, Ltd.	7,958,779	3.73
JP MORGAN CHASE BANK 380684 (standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	7,892,800	3.70
Mitsubishi Corporation	6,748,990	3.17
Mitsubishi UFJ Trust and Banking Corporation (standing proxy: The Master Trust Bank of Japan, Ltd.)	6,290,000	2.95
The Master Trust Bank of Japan, Ltd. (Benefit Trust Account, Mitsubishi Chemical Corporation Account)	5,900,000	2.77
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,562,800	1.67
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	2,542,900	1.19
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,426,936	1.14

Controlling Shareholder (except for Parent Company)	
Parent Company	None

### Supplementary Explanation

The above is based on the shareholder register as of June 30, 2019.

The Company holds 11,790,071 shares of treasury stock.

In the Change Report made available for public disclosure as of February 7, 2019, shares owned by Nomura Securities Co., Ltd. and its joint holder as of January 31, 2019 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of June 30, 2019, they are not included in the above Status of Major Shareholders. The contents of the Change Report are as follows.

(Name)	(Address)	(Number of shares held)	(Shareholding %)
Nomura Securities Co., Ltd.	9-1 Nihonbashi 1-chome, Chuo-ku, Tokyo	208,245	0.09
NOMURA INTERNATIONAL PLC	1 Angel Lane, London EC4R 3AB, United Kingdom	3,023,401	1.34
Nomura Securities International, Inc.	Worldwide Plaza 309 West 49th Street New York, New York 10019-7316	0	0
Nomura Asset Management Co., Ltd.	12-1 Nihonbashi 1-chome, Chuo-ku, Tokyo	14,383,400	6.39

In the Change Report made available for public disclosure as of May 30, 2019, shares owned by Mitsubishi UFJ Financial Group, Inc. as of May 23, 2019 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of June 30, 2019, they are not included in the above Status of Major Shareholders. The contents of the Change Report are as follows.

(Name)	(Address)	(Number of shares held)	(Shareholding %)
MUFG Bank, Ltd.	7-1 Marunouchi 2-chome, Chiyoda-ku, Tokyo	7,958,779	3.54
Mitsubishi UFJ Trust and Banking Corporation	4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo	10,091,700	4.49
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	12-1 Yurakucho 1-chome, Chiyoda-ku, Tokyo	4,662,100	2.07
kabu.com Securities Co., Ltd.	3-2 Otemachi 1-chome, Chiyoda-ku, Tokyo	278,500	0.12
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	5-2 Marunouchi 2-chome, Chiyoda-ku, Tokyo	3,869,127	1.72

In the Change Report made available for public disclosure as of June 21, 2019, shares owned by Goldman Sachs Japan Co., Ltd. and its joint holders as of June 14, 2019 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of June 30, 2019, they are not included in the above Status of Major Shareholders. The contents of the Change Report are as follows.

(Name)	(Address)	(Number of shares held)	(Shareholding %)
Goldman Sachs Japan Co., Ltd.	Roppongi Hills Mori Tower, 10-1 Roppongi 6-chome, Minato-ku, Tokyo	4,424,400	1.97
Goldman Sachs International	Peterborough Court, 133 Fleet Street, London EC4A 2BB United Kingdom	2,776,117	1.23
Goldman Sachs & Co. LLC	200 West Street, New York, New York 10282, U.S.A.	3,026,602	1.35

In the Change Report made available for public disclosure as of June 24, 2019, shares owned by Artemis Investment Management LLP as of June 18, 2019 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of June 30, 2019, they are not included in the above Status of Major Shareholders. The contents of the Change Report are as follows.

(Name)	(Address)	(Number of shares held)	(Shareholding %)
Artemis Investment Management LLP	Cassini House 57 St James's Street, London SW1A 1LD, United Kingdom	8,783,000	3.90

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	December
Type of Business	Glass & Ceramics Products
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	13
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	8
Appointment of External Directors	Appointed
Number of External Directors	2
Number of Independent Directors	2

#### External Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Yoshio Kumakura	Attorney									○			
Nobumitsu Kambayashi	From another company									△			

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/Audit & Supervisory Board Member

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company External Directors/Audit & Supervisory Board Members are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

External Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoshio Kumakura	Yes	Mr. Kumakura is a Partner at Nakamura & Partners, a patent and law firm. Transactions with the firm account for a very small percentage of the overall transactions of the Company.	Mr. Yoshio Kumakura has been a partner for many years at Nakamura & Partners and has also been serving as an External Director of the Company since March 2007, including a period of three years when he was away from the post. Mr. Kumakura offers advice to the management of the Company and provides appropriate advice on business execution from objective and professional viewpoints based on his abundant experience and insights as a lawyer and patent attorney focusing on intellectual property, the Antimonopoly Act, and the International Trade Law, and the Company has judged that he is capable of carrying out the management supervision function from a standpoint that is independent from the management team. Mr. Kumakura satisfies the independence standards defined by Tokyo Stock Exchange, Inc. and the Independence Standards for External Officers set forth by the Company. Considering the above, the Company has determined that he poses no risk of causing conflicts of interest with general shareholders and has designated him as an independent officer.
Nobumitsu Kambayashi	Yes	Mr. Kambayashi worked for Kawasaki Heavy Industries, Ltd., a business partner of the Company, as a person engaged in business execution up until the end of June 2016. Transactions with the firm account for a very small percentage of overall transactions of the Company.	Mr. Nobumitsu Kambayashi has served in various posts, including President and Managing Director of Kabushiki Kaisha Kawasaki Zosen and Senior Executive Vice President and President of Kawasaki Heavy Industries, Ltd., and President of Ship & Offshore company and has been serving as an External Director of the Company since March 2016. Mr. Kambayashi offers advice to the management of the Company and provides appropriate advice on business execution from objective and professional viewpoints based on his abundant experience and extensive knowledge in the management of a manufacturing business involving global business activities, and the Company has judged that he is capable of carrying out the management supervision function from a standpoint that is independent from the management team. Mr. Kambayashi satisfies the independence standards defined by Tokyo Stock Exchange, Inc. and the Independence Standards for External Officers set forth by the Company. Considering the above, the Company has determined that he poses no



			risk of causing conflicts of interest with general shareholders and has designated him as an independent officer.
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Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination Committee	Remuneration Committee
All Committee Members	3	3
Full-time Members	0	0
Inside Directors	1	1
External Directors	2	2
External Experts	0	0
Other	0	0
Chairperson	External Director	External Director

Supplementary Explanation

The Company established the Nomination Committee and the Remuneration Committee in March 2016. The objectives and roles of these two committees are described below.

**1. Objectives of the Nomination Committee and the Remuneration Committee**  
The Nomination Committee and the Remuneration Committee, where External Directors have a majority, ensure the objectivity and transparency of the decision-making process concerning personnel matters, remuneration, etc. of Directors, etc. and promote the further enhancement of the corporate governance system.

**2. Roles of the Nomination Committee**  
**(1)**The Nomination Committee deliberates the following matters and refers them to the Board of Directors.

- Contents of proposals on election of candidates for Directors and dismissal of Directors to be submitted to a general meeting of shareholders
- Appointment/dismissal of Representative Director, President and CEO
- Appointment/dismissal of Executive Officer
- Appointment/dismissal of Executive Officer with a specific title
- Other matters concerning personnel matters of Directors, etc. as deemed necessary

**3. Roles of the Remuneration Committee**  
**(1)**The Remuneration Committee deliberates the following matters and refers them to the Board of Directors.

- Basic policy concerning remuneration, etc. of Directors, etc.; formulation, change, and abolition of rules and systems
- Contents of proposals concerning the maximum amount of remuneration of Directors and Audit & Supervisory Board Members to be submitted to a general meeting of shareholders
- Other matters concerning remuneration, etc. of Directors, etc. as deemed necessary

**(2)**The Remuneration Committee deliberates and makes decisions on the following matters based on the designation from the Board of Directors.

- Contents of individual evaluation and amount of remuneration, etc. of Directors, etc.

The Nomination Committee was convened three times in FY2018, and all three committee members attended and discussed and resolved appointment and promotion, etc. of Directors and Executive Officers. The Remuneration Committee was convened three times, and all three committee members attended and discussed and resolved remuneration amounts for Directors and Executive Officers.

**[Audit & Supervisory Board Members]**

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	4
Number of Audit & Supervisory Board Members	4

**Cooperation among Audit & Supervisory Board, Accounting Auditors and Internal Audit Departments**

Audit & Supervisory Board Members and the Internal Auditing Office promote close information exchange through periodically holding meetings as well as through examining each other and exchanging opinions on the results of internal audits, recommendations and proposals.  
 Audit & Supervisory Board Members also hold meetings with Accounting Auditors as necessary to exchange information and promote collaboration. Audit & Supervisory Board Members cooperate with Accounting Auditors to establish auditing plans and attend the audits of the Accounting Auditors if necessary. They also receive reports and explanations regarding auditing processes and results, and audit consolidated and non-consolidated financial statements and other documents.

Appointment of External Audit & Supervisory Board	Appointed
Number of External Audit & Supervisory Board	2
Number of Independent Audit & Supervisory Board	2

**External Audit & Supervisory Board Members' Relationship with the Company (1)**

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Kenichi Kubota	Certified public accountant													
Kaoru Ogashiwa	Certified tax accountant													

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Non-executive director or executive of a parent company of the Company

d. Audit & Supervisory Board Member of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board Member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)
- k. Executive of a company, between which and the Company External Directors/Audit & Supervisory Board Members are mutually appointed (the Audit & Supervisory Board Member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)
- m. Others

External Audit & Supervisory Board Members' Relationship with the Company (2)

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Kenichi Kubota	Yes	---	Mr. Kenichi Kubota has worked as a certified public accountant for many years and has experience serving as a representative partner at an audit firm. The Company has judged that he is capable of carrying out audits from the perspective of financial soundness and accuracy based on his specialized knowledge of finance and accounting gained through his work as a certified public accountant. Mr. Kubota satisfies the independence standards defined by Tokyo Stock Exchange, Inc. and the Independence Standards for External Officers set forth by the Company. Considering the above, the Company has determined that he poses no risk of causing conflicts of interest with general shareholders and has designated him as an independent officer.
Kaoru Ogashiwa	Yes	---	Mr. Kaoru Ogashiwa has worked as a certified tax accountant for many years and has experience serving as auditor, external director, audit & supervisory committee member, etc. in the distribution industry. The Company has judged that he is capable of carrying out audits based on his specialized knowledge of taxation and accounting cultivated through his career as a tax accountant and experience of serving as auditor at other companies. Mr. Ogashiwa satisfies the independence standards defined by Tokyo Stock Exchange, Inc. and the Independence Standards for External Officers set forth by the Company. Considering the above, the Company has determined that he poses no risk of causing conflicts of interest with general shareholders and has designated him as an independent officer.

**[Independent Directors/Audit & Supervisory Board Members]**

Number of Independent Directors/Audit & Supervisory Board Members	4
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Matters relating to Independent Directors/Audit & Supervisory Board Members

<p>The Company designates individuals who satisfy the qualifications for an independent officer as independent officers.</p> <p>The Company has established its own standards for independence of external officers as follows.</p> <p>[Independence Standards for External Officers]</p> <ol style="list-style-type: none"><li>1. Person who executes the business (executive directors, executive officers, managers, and other employees) of the Tokai Carbon Group (the Company and its consolidated subsidiaries)(including a person who executed the business of the Tokai Carbon Group in the past)</li><li>2. Current major shareholder of the Company (a shareholder who holds voting rights equivalent to 10% or more of the total voting rights) or person who executes the business thereof</li><li>3. (1) Major business partner of the Group (a business partner whose transaction amount with the Company exceeded 2% of the annual consolidated net sales of the Company in the most recent fiscal year) or person who executes the business thereof; (2) Business partner of the Company whose transaction amount with the Company exceeded 2% of its annual consolidated net sales in the most recent fiscal year or person who executes the business thereof</li><li>4. Major lender of the Group (a lender to whom the Company has outstanding borrowings in an amount that exceeded 2% of its consolidated total assets at the end of the most recent fiscal year) or person who executes the business thereof</li><li>5. Provider of professional services, such as a consultant, lawyer, or certified public accountant, who has received monetary consideration or other property, in addition to remuneration for Directors and Audit &amp; Supervisory Board Members of the Company, in an average annual amount exceeding 10 million yen over the past three years, and the accounting firm, law firm or other organization to which such person belongs has the Group as its major business partner (the threshold is 2% or more of the annual net sales of such organization)</li><li>6. Representative partner or partner of the Company's accounting auditor</li><li>7. Person who executes the business of a juridical person of which the Group holds 10% or more of the total voting rights</li><li>8. Party who receives a large amount of donations or grants (the threshold is 10 million yen or more annually) from the Group or a person who executes the business thereof</li><li>9. Person who executes the business of a juridical person that has appointed the Group's officers, etc. (directors, accounting advisors, audit &amp; supervisory board members, executive officers, or accounting auditors) or employees as its officers, etc.</li><li>10. Close relative of the persons provided for in categories 1.-9. above (a spouse or relative within the second degree of kinship)</li><li>11. Person who fell under categories 2.-9. above in the past three years, or close relative thereof</li></ol> <p>If the Company deems that an individual has substantial independence even if any of the above applies to the</p>
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individual, the Company explains and discloses the reasons when the individual is elected as independent officer.

**[Incentives]**

Incentive Policies for Directors	Performance-linked Remuneration
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Supplementary Explanation

Effective March 2016, the Company decided to incorporate “performance-linked remuneration” that fluctuates based on the magnitude of achievement of performance targets as part of the remuneration for Directors and Executive Officers who engage in business execution.

Recipients of Stock Options	
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Supplementary Explanation

**[Director Remuneration]**

Disclosure of Individual Directors’ Remuneration	No Individual Disclosure
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Supplementary Explanation

Not applicable.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The remuneration for Directors and Audit & Supervisory Board Members of the Company consists of “basic remuneration,” which is the fixed portion, and “performance-linked remuneration,” which varies depending on the level of achievement of performance targets. The remuneration structure is designed so that for Directors who are responsible for business execution, the percentage of variable remuneration is set higher as the level of officer rises by taking into account the magnitude of management accountability of each Director and Audit & Supervisory Board Member.

The performance-linked remuneration consists of a bonus, which is paid based on the level of achievement of financial performance each year, and a mid-to-long-term incentive (performance cash) which is paid based on the magnitude of achievement of the three-year financial performance targets and on the evaluation of important initiatives taken that are unlikely to be clearly reflected on short-term financial results.

Since the performance-linked remuneration is not suitable for Directors and Audit & Supervisory Board Members who do not have concurrent executive responsibility and are independent from business execution, only fixed remuneration is paid to such Directors and Audit & Supervisory Board Members.

The amounts of remuneration are set within the maximum limits approved by the General Meeting of Shareholders and with the aim of having Directors and Audit & Supervisory Board Members engaged in business execution be strongly committed to achieving high management targets and maximizing mid-to-long-term corporate value by fulfilling the following requirements set as targets in their respective roles. The Company’s policy is to pay amounts of remuneration that are in line with the operating performance of the Company and the outcome of performance of each individual.

- Remuneration for encouraging commitment of Directors and Audit & Supervisory Board Members toward short- and mid-to-long-term management targets
- Remuneration guaranteeing the level of remuneration that can motivate and retain incumbent and future

candidates for Directors and Audit & Supervisory Board Members

- Remuneration guaranteeing the transparency and reasonableness in carrying out the responsibility of providing explanations to Directors, Audit & Supervisory Board Members, shareholders and investors

The Company has a mechanism in place where the Company's system of remuneration for Directors and Audit & Supervisory Board Members, performance evaluation of each officer and determination of remuneration for officers are deliberated by the Remuneration Committee headed by an External Director as the chairperson. It is a highly transparent remuneration system that incorporates objective viewpoints.

**[Supporting System for External Directors and/or Audit & Supervisory Board Members]**

In order to promote enhancement of deliberation by the Board of Directors, the Company distributes supporting materials and provides explanations, etc. to External Directors and/or External Audit & Supervisory Board Members as necessary in advance when holding meetings of the Board of Directors.

**[Status of persons who have retired from President and CEO or other relevant positions]**

Name and other information of Senior Corporate Advisors, Advisors, or other persons who have held positions such as President and CEO

Name	Title/Position	Description of Duties	Work Form and Conditions (including full-time or part-time, paid or unpaid)	Date of Retirement as President or Other Positions	Term of Office

Total number of Senior Corporate Advisors, Advisors, or other persons who have held positions such as President and CEO

0

Other

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**2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)**

The Company's corporate governance system is structured as described below.

(a) Board of Directors

The Board of Directors is responsible for determining important management matters and supervising business execution and meets monthly as a general rule. The Board of Directors was convened 15 times in FY2018. As of the date of submission of this report, there are eight (8) Directors two (2) of whom are External Directors. The Company has established the Nomination Committee and the Remuneration Committee, the majority of members of which are External Directors, as voluntary advisory organs of the Board of Directors. It has also established the Risk Management & Compliance Committee as a voluntary committee under the Board of Directors.

(b) Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board of the Company meets monthly as a general rule. The Audit & Supervisory Board was convened 15 times in FY2018. As of the date of submission of this report, there are four (4) Audit & Supervisory Board Members two (2) of whom are External Audit & Supervisory Board Members. Based on the auditing policy and the audit plan resolved by the Audit & Supervisory Board, Audit & Supervisory Board Members perform audits of the status of execution of duties by Directors through attending meetings of the Board of Directors and other important meetings and

investigating the status of business operations and assets.

(c) Business execution

The Management Committee was established under the Board of Directors to discuss and determine important matters concerning management based on the basic policies determined by the Board of Directors. Under the Management Committee are various committees that complement the discussions of the Management Committee by reporting the results of deliberation to the Management Committee. Furthermore, the Company adopts the Executive Officer System under which the Board of Directors selects fifteen (15) Executive Officers who are accountable for business execution.

(d) Internal audits and accounting audits

The Company has established an Internal Auditing Office to serve as an internal auditing department. The Internal Auditing Office is in charge of improving and enhancing the internal control systems by performing internal audits on business operations of the Company and each Group company. The Internal Auditing Office ensures it follows up on audits performed to see that recommendations for improvement have been implemented. Important audit results are reported to the Board of Directors.

The Company has a contract in place with the accounting audit firm Deloitte Touche Tohmatsu LLC regarding accounting audits pursuant to Japan's Companies Act and Financial Instruments and Exchange Act. The Accounting Auditors audit the account statements and financial statements from the standpoint of an independent third party and report the results of the audit to the Company. Appropriate opinions on reviews and issues of internal control systems, etc. are then exchanged, and improvements are implemented in accordance with recommendations. The Company also submits information and data to the Accounting Auditors in order to ensure an environment in which audits can be carried out swiftly and accurately. There are no special conflicts of interest between the Company and the aforesaid accounting audit firm and executive members of the said accounting audit firm who perform audits of the Company.

The names of certified public accountants who carried out the operations in the fiscal year ended December 31, 2017 and the composition of the assistants for auditing operations are as follows.

The names of certified public accountants who carried out the operations: Designated Limited Liability Partner and Executive Member Hiroyuki Motegi and Yoshiki Okutsu.

Composition of assistants for auditing operations: six (6) certified public accountants, eight (8) others

(e) Nomination Committee, Remuneration Committee

The Company has established the Nomination Committee and the Remuneration Committee as voluntary advisory organs of the Board of Directors that take on the decision making function for nomination and remuneration, respectively. For an overview of these committees, refer to "Establishment of Voluntary Committee(s), Composition of Committee and Attributes of Chairman."

**Outline of limited liability agreement**

The Company and its non-executive Directors (External Directors) and Audit & Supervisory Board Members enter into an agreement to limit the liability of damages stipulated in Article 423, Paragraph 1 of the Companies Act pursuant to Article 427, Paragraph 1 of the said Act. The amount of liability for damages under this agreement is the amount stipulated in laws and regulations for both non-executive Director and Audit & Supervisory Board Member. This limit is applicable only when the performance of duties of an External Director or an External Audit & Supervisory Board Member is recognized to have been carried out in good faith and with no gross negligence.

**3. Reasons for Adoption of Current Corporate Governance System**

Tokai Carbon, as a company with an Audit & Supervisory Board, operates under the basic stance of reinforcing audits by Audit & Supervisory Board Members and the internal audit function, and makes efforts to strengthen management supervision functions of the Board of Directors by appointing multiple External Directors and establishing voluntary committees in order to realize an appropriate corporate governance structure. In addition, from the perspective of clarifying the functions and responsibilities of corporate officers engaged in business execution, the Company has adopted the Executive Officer System and established a Management Committee in an effort to enhance and strengthen business execution functions of the organization. The Company views that the current system is functioning effectively and will continue to reinforce its corporate governance system.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	For the FY2018 Annual Meeting of Shareholders held on March 28, 2019, the Company mailed out the Notice of the FY2018 Annual Meeting of Shareholders on March 4 and also posted the Notice on its website prior to mailing out the Notice.
Scheduling AGMs Avoiding the Peak Day	The Company avoids peak days when scheduling its annual general meetings of shareholders.
Allowing Electronic Exercise of Voting Rights	The Company adopts an Internet-based system for exercising voting rights, allowing the exercise of such rights via PC and smartphone.
Participation in Electronic Voting Platform	The Company participates in an electronic voting platform for institutional investors operated by ICJ, Inc.
Providing Convocation Notice in English	The Company prepares the convocation notice (summary) in English and posts the notice on its company website and on the voting platform for institutional investors.

#### 2. IR Activities

	Supplementary Explanations	Explanation by the Representative
Preparation and Publication of Disclosure Policy	The Company defines its basic policy on information disclosure and posts it in Japanese and in English on its company website.	
Regular Investor Briefings for Analysts and Institutional Investors	Financial results briefing is held quarterly in Japan (in telephone conference format for the first and third quarters). The Company also periodically makes individual visits to domestic institutional investors and receives visits from investors.	Yes
Regular Investor Briefings for Overseas Investors	The Company visits overseas institutional investors several times a year to give explanations on business activities, operating performance, etc. The Company also responds to visits and phone interviews from overseas institutional investors.	Yes
Posting of IR Materials on Website	The Company discloses materials on financial results, securities reports, timely disclosure documents, etc. in Japanese and in English on a quarterly basis.	
Establishment of Department and/or Manager in Charge of IR	Responsible department: General Affairs Department Responsible officer: Officer in charge of General Affairs Department	

#### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The Company sets forth in its corporate philosophy (“Ties of Reliability”) that a company stands on relationships of trust with all stakeholders and hence can continue to pursue its activities.
Implementation of Environmental Activities, CSR Activities etc.	With respect to environmental protection activities, the Company takes initiatives to reduce environmental burden, promote ISO14001, etc. and continues to make improvements through implementing the PDCA cycle based on the environmental management system. Meanwhile, the Tokai Carbon Group carries out CSR activities by promoting steps toward achieving compliance, environmental and social



	<p>contribution, and summarizes the activities to be disclosed annually in the CSR Report in an effort to convey its activities to stakeholders in a user-friendly manner.</p>
Other	<p>[Action plan concerning promotion of women's participation]  The Company defines and promotes the action plan provided for in the Act on Promotion of Women's Participation and Advancement in the Workplace as follows.</p> <ol style="list-style-type: none"> <li>1. Period of plan  April 1, 2018 to March 31, 2020</li> <li>2. Objective <ol style="list-style-type: none"> <li>(1) Increase the ratio of females among new graduates hired for management trainee positions during the period of the plan (new hires in 2019 and 2020) to 30% or more.</li> <li>(2) Create a workplace environment that helps employees to continue to work throughout their child-bearing and child-rearing years.</li> </ol> </li> <li>3. Initiatives <ol style="list-style-type: none"> <li>(1)(i) Proactive PR activities to attract job-seekers as a workplace that encourages women to play active roles</li> <li>(ii) Form a parent population to roll out hiring activities targeting female students in science and engineering majors.</li> <li>(2) (i) Achieve a good work-life balance and increase the annual paid leave acquisition rate by establishing the Annual Paid Leave Acquisition Promotion Month and other systems.</li> <li>(ii) Review and redistribute a booklet for disseminating the Company's systems to promote women's participation to foster understanding about such systems.</li> </ol> </li> <li>4. Issues going forward  Increase the ratio of female workers among hired workers to improve women's employment opportunities, and create a workplace environment for both male and female employees to continue to work for a long period of time.</li> </ol> <p>[Status of female workers]</p> <ol style="list-style-type: none"> <li>1. Ratio of female workers among workers hired in FY 2018 (from April 2018 to March 2019)  Management trainee positions: 6.9%  General administrative positions: 4%  Contract employees: 26.3%  Hired total: 13.9%</li> <li>2. Ratio of female employees among regular employees  8.3%</li> <li>3. Difference in the number of years of employment between male and female workers  3.2 years</li> <li>4. Ratio of female workers in managerial positions  1.77%</li> <li>5. Ratio of female officers in board members  0.00%</li> </ol>

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

#### Basic Policy for Establishing an Internal Control System

1. System to ensure that the execution of duties by Directors complies with laws, regulations and the Articles of Incorporation
  - 1) The Board of Directors sets forth basic policies, including the Corporate Philosophy, the Guidelines, and the TOKAI CARBON Code of Ethics, and ensures the execution of duties in compliance with laws and regulations.
  - 2) The Board of Directors determines the execution of important business operations in accordance with laws, regulations and the articles of incorporation, and supervises the execution of duties by Directors.
  - 3) Internal audits are performed to address compliance matters and provide advice.
  - 4) Education, audits and guidance are provided to ensure compliance.
  - 5) An internal reporting system is properly operated to promptly detect and correct any organizational or personal violation of law, etc. and to contribute to reinforcing compliance management.
  - 6) Based on the TOKAI CARBON Code of Ethics, the Company severs any relations with antisocial forces, organizations, or individuals that threaten the order and safety of civil society, and organizationally takes a resolute stance against and rejects any unjust or illegal demands from such parties.
2. System concerning storage and management of information associated with the execution of duties by Directors
  - 1) Information associated with the execution of duties by Directors is recorded on paper or by electromagnetic means (hereinafter referred to as “Documents, etc.”), stored and managed in accordance with the Document Handling Rules and the Electronic Information Management Rules.
  - 2) A system is put in place where Directors and Audit & Supervisory Board Members are able to inspect and search Documents, etc. containing information associated with the execution of duties by Directors in an efficient manner.
  - 3) When important decisions are made, such facts are promptly and appropriately disclosed in accordance with the Basic Policy for Information Disclosure.
3. Rules concerning management of risk of loss and other systems
  - 1) In the event of a serious disaster, accident or any other unforeseeable situation, the Company and its group companies respond promptly and appropriately to the crisis in accordance with the Emergency Countermeasures Guidelines.
  - 2) In order to avoid the risk of loss from business operations, rules and regulations concerning accounting and financial management, business partner management, export management, environmental and disaster prevention management, quality management, information management, investment management, etc. are formulated, enforced and properly operated.
  - 3) To mitigate and avoid other latent business risks, each responsible department performs risk management on a day-to-day basis. In addition, the Risk Management & Compliance Committee, which meets quarterly in principle, discusses important matters concerning risk management and compliance; provides advice to relevant offices and departments, etc. based on the results of such discussions; reports and makes proposals to the Board of Directors and the management; and, makes efforts to identify risks and improve the operating environment.
  - 4) The Tokai Carbon Group companies promptly report matters that might cause significant damage to the Company and its group companies to the Company and the Audit & Supervisory Board Members of the Company in accordance with the Rules Concerning Management of Subsidiaries set forth by the Company.
4. System to ensure effective execution of duties by Directors
  - 1) The Company adopts the Executive Officers System to clarify the roles, etc. of Directors and Executive Officers and promote execution of business operations with agility and speed.
  - 2) A three-year medium-term management plan is formulated as a company-wide target to be shared by Directors and employees, and budgets are set for each business year for implementing specific steps. A General Planning Meeting is held to confirm targets and policies set.
  - 3) Financial reports are prepared monthly, quarterly, and annually, and the results, analyses, etc. are reported quarterly to the Board of Directors.
  - 4) Important matters are deliberated at Management Committee meetings, General Planning Meetings, and other important meetings attended by Directors, Executive Officers responsible for business

- operations, and other members.
5. System to ensure that the execution of duties by employees complies with laws, regulations and the Articles of Incorporation.
    - 1) The Company widely promotes awareness about its Corporate Philosophy, the Guidelines, the TOKAI CARBON Code of Ethics and its Ethics and Compliance Standards.
    - 2) Training and education concerning legal compliance are promoted.
    - 3) Internal audits are properly conducted to address compliance matters and provide advice.
    - 4) An internal reporting system is properly operated to promptly detect and correct any organizational or personal violation of law, etc. and to contribute to reinforcing compliance management.
    - 5) Based on the TOKAI CARBON Code of Ethics, the Company severs any relations with antisocial forces, organizations, or individuals that threaten the order and safety of civil society, and organizationally takes a resolute stance against and rejects any unjust or illegal demands from such parties.
  6. System to ensure appropriateness of operations of the corporate entity consisting of the stock company and its parent and subsidiaries
    - 1) The Company and its group companies are managed based on the group-wide philosophy and action guidelines, and the appropriateness of their operations is ensured through periodically setting plans of the Group companies, reporting the financial status, making preliminary reports and having discussions on important matters in accordance with the Rules Concerning Management of Subsidiaries so that they contribute to the implementation of business objectives and the improvement of management efficiency as a corporate entity.
    - 2) The Company establishes a system for promoting awareness of risk management and compliance while promoting reinforcement of group governance by dispatching officers and employees of the Company to its group companies as directors and auditors.
    - 3) The Tokai Carbon Group companies set out management objectives common within the group based on the medium-term management plan formulated by the Company and set budgets each business year for realizing specific objectives.
  7. Matters concerning employees to assist Audit & Supervisory Board Members with their duties and matters regarding independence of such employees from Directors, in the event that Audit & Supervisory Board Members request the assignment of such employees
    - 1) In the event Audit & Supervisory Board Members request the assignment of employees to assist with their duties, the Company considers, as necessary, appointing Audit & Supervisory Board staff member(s) to assist the duties of Audit & Supervisory Board Members and reinforcing the existing internal auditing functions.
    - 2) When appointing Audit & Supervisory Board staff member(s), such staff members are granted the authority over examinations performed based on instructions from Audit & Supervisory Board Members.
    - 3) Concurrence of full-time Audit & Supervisory Board Members is obtained in regard to the appointment, dismissal and evaluation of Audit & Supervisory Board staff member(s).
  8. System for reporting by Directors and employees to Audit & Supervisory Board Members, other systems concerned with reporting to Audit & Supervisory Board Members and system to ensure that audits by Audit & Supervisory Board Members are performed effectively
    - 1) If detecting a fact that might cause material damage to the Company, Directors immediately report the matter to Audit & Supervisory Board Members.
    - 2) Directors and employees of the Tokai Carbon Group companies promptly report matters that must be reported as stipulated in the Rules on Management of Subsidiaries, etc. to the Company and the Audit & Supervisory Board Members of the Company based on the aforesaid Rules, etc.
    - 3) Directors and employees of the Tokai Carbon Group companies shall not receive unjust treatment for the reason of having made reports to the Audit & Supervisory Board Members of the Company.
    - 4) Audit & Supervisory Board Members attend meetings of the Board of Directors in accordance with relevant laws and regulations as well as attend meetings of the Management Committee and other important meetings and hear from Directors and employees on the status of execution of their duties as needed.
    - 5) Audit & Supervisory Board Members inspect approval documents and other important reports, etc.
    - 6) Audit & Supervisory Board Members, Accounting Audit firm, and the Internal Auditing Office promote mutual understanding and information exchange among one another.
    - 7) Expenses arising in connection with the execution of duties by Audit & Supervisory Board Members

are paid in response to claims made by Audit & Supervisory Board Members except when the expenses are considered unnecessary for executing the duties of the said Audit & Supervisory Board Members.

9. System to ensure the reliability of financial reporting

The Company establishes and operates a system in accordance with the Basic Policy for Internal Control System Concerning Financial Reporting and the Internal Control Regulations for Financial Reporting, continues to evaluate whether the mechanism functions appropriately, makes necessary corrections, and ensures the reliability of financial reporting of the Company and its group companies.

## 2. Basic Views on Eliminating Anti-Social Forces

Basic views on eliminating antisocial forces

The basic policy of the Company is to cut off any relationships whatsoever with antisocial forces and organizations that threaten the order and safety of civil society and to take a resolute attitude in rejecting any unjust or illegal demands by such parties.

Initiatives taken toward eliminating antisocial forces

(1) Establishment of corporate code of conduct, etc.

The Company sets forth its policy to cut off any relationships with antisocial forces in the TOKAI CARBON Code of Ethics, which shall be complied with by officers and employees in order to promote fair business activities based on the Company's corporate philosophy and action guidelines.

(2) Responsible department

The Company assigns the General Affairs Department as a department responsible for responding to antisocial forces and takes steps to enforce management concerning prevention of transactions with antisocial forces and other steps.

(3) Cooperation with external specialized agencies

The Company cooperates with external specialized agencies in responding to antisocial forces, including making periodic visits, notices, etc. to the police office, reporting to the police in emergency situations and consulting the legal adviser as necessary.

(4) Collection and management of information concerning antisocial forces

The Company stipulates in its Ethical and Compliance Standard that when contacted by any antisocial force or organization and there is a risk of getting into a troublesome situation, the matter should not be handled by an individual but be reported to the General Affairs Department to receive consultation.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation

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## 2. Other Matters Concerning to Corporate Governance System

[Outline of timely disclosure system]

The status of the Company's internal system concerning the timely disclosure of company information is as follows.

1. Collection of information

With respect to information on the Company and its subsidiaries which may be subject to disclosure obligation, the head of the responsible department relating to the information checks the information and promptly reports the information to the person responsible for information handling (the Officer in charge of General Affairs Department).

2. Evaluation of important information to be disclosed

The person responsible for information handling makes judgments on disclosure with respect to the information collected in accordance with the relevant laws and regulations and securities exchange regulations, etc.

3. Disclosure based on evaluation

Based on the judgment above, the General Manager of General Affairs Department, who is the person in charge of information disclosure, arranges for appropriate disclosure after completing the procedure for authorization of disclosure documents by the Management Committee and the Board of Directors.

# Corporate Governance System Diagram

