

Last Update: April 28, 2016

Tokai Carbon Co., Ltd.

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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 does not put into practice the following principles of the Corporate Governance Code for the reasons described below.

[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 shareholding, going forward, the Board of Directors periodically verifies the appropriateness by taking into account the economic reasonableness, etc. in the mid-to-long term.
- (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 4-11-3]

The Company has decided to have the newly established Remuneration Committee perform evaluations of individual Directors. In regard to the “analysis and evaluation of the effectiveness of the Board of Directors as a whole,” the Company recognizes that, in light of the perspective of further reinforcing the roles of the Board of Directors, such analysis and evaluation, including the method of evaluation, are issues to be considered going forward.

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

[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 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-2018 for the period from 2016 to 2018 on its company website: <http://www.tokaicarbon.co.jp/en/company/news/index.html>

(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 "II. 1. Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" of this report.

(4) Board policies and procedures in the appointment of the 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 for which External Directors account for the majority, and deliberates and confirms the requirements for senior management and the basic policies on appointment of senior management members. In addition, the election of Executive Officers and their roles, etc. are determined based on deliberation by the Board of Directors. The policy and procedure for nominating candidates for Directors and Audit & Supervisory Board Members as well as each of the individual proposals for nomination are deliberated by the Nomination Committee and resolved by the Board of Directors before they are addressed at the general meeting of shareholders.

(5) The Company discloses the reasons for the nomination of candidates for External Directors and External Audit & Supervisory Board Members in the Reference Document for the Annual Meeting of Shareholders. With respect to candidates for Directors and Audit & Supervisory Board Members other than External Directors and External Audit & Supervisory Board Members, a profile of each candidate is disclosed in the Reference Document for the 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 4-8] [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 standard defined by the financial instruments exchanges.

[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 standard defined by the Tokyo Stock Exchange, 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 individually in the Notice of Annual Meeting of Shareholders.

[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 20% to less than 30%
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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)	16,873,000	7.50
Japan Trustee Services Bank, Ltd. (Trust Account)	16,638,000	7.40
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,958,779	3.54
Mitsubishi Corporation	6,748,990	3.00
Mitsubishi UFJ Trust and Banking Corporation (standing proxy: The Master Trust Bank of Japan, Ltd.)	6,290,000	2.80
The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corp. Retirement Benefit Trust Account)	5,900,000	2.62
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	5,161,000	2.29
JUNIPER	4,978,000	2.21
DEUTSCHE BANK AG, FRANKFURT (standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	4,504,000	2.00
The Nomura Trust and Banking Co., Ltd. (Trust Account)	4,107,000	1.83

Controlling Shareholder (except for Parent Company)	
Parent Company	None

Supplementary Explanation

The above is based on the shareholder register as of December 31, 2015.

The Company holds 11,757,962 shares of treasury stock.

In the Change Report made available for public disclosure as of October 19, 2015, shares of each of the following owned by Mitsubishi UFJ Financial Group, Inc. as of October 12, 2015 are indicated. However, since the Company cannot confirm the numbers for substantial shareholding as of the end of the year ended December 31, 2015, the above status of major shareholders is based on the shareholder register.

(Name)	(Address)	(Number of shares held)	(Shareholding %)
The Bank of Tokyo-Mitsubishi UFJ, 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	9,584,000	4.26
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo	2,350,000	1.04

In the Change Report made available for public disclosure as of August 20, 2015, shares of each of the following owned by Sumitomo Mitsui Trust Bank, Limited as of August 14, 2015 are indicated. However, since the Company cannot confirm the numbers for substantial shareholding as of the end of the year ended December 31, 2015, the above status of major shareholders is based on the shareholder register.

(Name)	(Address)	(Number of shares held)	(Shareholding %)
Sumitomo Mitsui Trust Bank, Limited	4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo	3,999,000	1.78
Sumitomo Mitsui Trust Asset Management Co., Ltd.	33-1, Shiba 3-chome, Minato-ku, Tokyo	336,000	0.15
Nikko Asset Management Co., Ltd.	7-1, Akasaka 9-chome, Minato-ku, Tokyo	16,573,000	7.37

In the Change Report made available for public disclosure as of December 21, 2015, shares of each of the following owned by Nomura Securities Co., Ltd. as of December 15, 2015 are indicated. However, since the Company cannot confirm the numbers for substantial shareholding as of the end of the year ended December 31, 2015, the above status of major shareholders is based on the shareholder register.

(Name)	(Address)	(Number of shares held)	(Shareholding %)
Nomura Securities Co., Ltd.	9-1, Nihonbashi 1-chome, Chuo-ku, Tokyo	113,652	0.05
NOMURA INTERNATIONAL PLC	1 Angel Lane, London EC4R 3AB, United Kingdom	748,842	0.33
Nomura Asset Management Co., Ltd.	12-1, Nihonbashi 1-chome, Chuo-ku, Tokyo	10,509,000	4.67

### 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 1000

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 Partner at Nakamura & Partners, a patent and law firm. The Company has had no transaction with the firm since 2008.	Mr. Kumakura served as External Director of the Company for six years from March 2007 and also has held senior posts as an attorney in legal circles. The Company has judged that he is capable of carrying out the management supervision function from a standpoint independent from the management team that executes business operations. The Company designates Mr. Kumakura as an independent officer, since he satisfies the independence standards defined in the Guidelines for Listing set forth by Tokyo Stock Exchange, Inc. and bears no risk of causing conflicts of interest with general shareholders.
Nobumitsu Kambayashi	Yes	Mr. Kambayashi is from Kawasaki Heavy Industries, Ltd., a business partner of the Company, and currently serves as Adviser of the firm. Transactions with the firm account for a very small percentage of overall transactions of the Company.	Mr. Kambayashi has abundant experience and extensive knowledge in the management of transportation equipment manufacturing business, and the Company has judged that he is capable of carrying out the management supervision function from a standpoint independent from the management team that executes business operations. The Company designates Mr. Kambayashi as an independent officer, since he satisfies the independence standards defined in the Guidelines for Listing set forth by Tokyo Stock Exchange, Inc. and bears no risk of causing conflicts of interest with general shareholders.

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's Name	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
	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

In order to make the decision-making processes concerning personnel matters, remuneration, etc. relating to Directors, etc. and to promote further reinforcement of the corporate governance system, the Company established the Nomination Committee and the Remuneration Committee in March 2016.

#### [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
Seiichiro Sasao	From another company							△						
Yukihisa Asakawa	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 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
Seiichiro Sasao	Yes	<p>Since March 2009, Mr. Sasao served as an executive officer of Mitsubishi UFJ Trust and Banking Corporation, a correspondent bank of the Company.</p> <p>The Company has borrowings of 3,287 million yen from the bank (as of December 31, 2015).</p>	<p>Mr. Sasao contributes to audits of the Company's business on the whole by leveraging his experience in operations and management at a trust bank and its related companies.</p> <p>The Company maintains relationships with multiple financial institutions. The Company's dependence on Mitsubishi UFJ Trust and Banking Corporation is low with borrowings from the trust bank accounting for only 2.31% of the total assets (as of December 31, 2015). Hence, considering that there is a minimal level of influence of the trust bank on the Company, the Company has judged that Mr. Sasao bears no risk of causing conflicts of interest with general shareholders and designated him as an independent officer.</p>
Yukihisa Asakawa	Yes	<p>Mr. Asakawa was an Auditor (full-time) of Nippon Kayaku Co., Ltd. from August 2006 to June 2014.</p> <p>The Company has had no transaction with the firm since 2011.</p>	<p>The Company has judged that Mr. Asakawa is capable of contributing to the audits of the Company's business on the whole by leveraging his abundant experience and knowledge attained through working at a listed manufacturing firm.</p> <p>The Company designates Mr. Asakawa as an independent officer, since he satisfies the independence standards defined in the Guidelines for Listing set forth by Tokyo Stock Exchange, Inc. and bears no risk of causing conflicts of interest with general shareholders.</p>

**[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

The Company designates individuals who satisfy the qualifications for an independent officer as independent officers.

**[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.

## **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. As of the date of submission of this report, there are eight (8) Directors two (2) of whom are External Directors. The Company established the Nomination Committee and the Remuneration Committee for which the majority of members are External Directors as voluntary advisory and delegation organs of the Board of Directors effective March 30, 2016. Furthermore, we have put in place a 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. 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 is established under the Board of Directors to discuss and determine important matters concerning management based on basic policies determined by the Board of Directors. Under the Management Committee are the CSR Committee and other 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 eight (8) 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, consisting of four (4) members as of the date of submission of this report. 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, 2015 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 Saori Yamaguchi  
Composition of assistants for auditing operations: Six (6) certified public accountants, seven (7) other

(e) Nomination Committee, Remuneration Committee

Effective March 30, 2016, the Company established the Nomination Committee and the Remuneration Committee as voluntary advisory and delegation 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 154 <sup>th</sup> Annual Meeting of Shareholders held on March 30, 2016, the Company mailed out the Notice of the 154 <sup>th</sup> 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, cell phone 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 partly in English on a quarterly basis.	
Establishment of Department and/or Manager in Charge of IR	Responsible department: Corporate Administration Division, General Affairs Department Responsible officer: General Manager of Corporate Administration Division	

#### 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

	<p>promoting steps toward achieving compliance, environmental and social contribution, and summarizes the activities to be disclosed annually in the Social and Environmental 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, 2016 to March 31, 2018</li> <li>2. Objective  Make the difference in the average number of years of employment among persons in management trainee positions between males and females to no more than 10 years at the end of the period of the plan.</li> <li>3. Initiatives <ol style="list-style-type: none"> <li>(1) With career design as the keyword, improve communication between managers and subordinates. Further, in preparation for a future decline in the working population, conduct training for all management trainees in the domestic business departments by setting the theme of the training as management to make employees with working time restrictions become immediate assets in the workplace.</li> <li>(2) Conduct a career formation education in consideration of personal life events for employees aged 25 to 30 in management trainee positions and promote maintenance of motivation at times of personal life events.</li> <li>(3) Distribute a booklet containing a message from the top management and articles that contribute to disseminating the Company's systems on child-rearing, nursing care, etc. and to maturing the workplace climate to all employees.</li> </ol> </li> <li>4. Issues going forward  The Company will work to expand the field of work for female workers in management trainee positions and develop those who aim to assume managerial positions.</li> </ol> <p>[Status of female workers]</p> <ol style="list-style-type: none"> <li>1. Ratio of female employees among regular employees  6.46% (as of January 2016)</li> <li>2. Ratio of female workers among hired workers  FY2015 results:  Management trainee positions: 22.2%  General administrative positions: 0.0%  Contract employees: 21.7%  Hired total: 16.7%</li> <li>3. Difference in the number of years of employment between male and female workers  2.5 years (Management trainee positions: Male 17.9 years, Female 7.3 years; General administrative positions: Male 12.8 years, Female 15.5 years)</li> <li>4. Ratio of female workers in managerial positions  0.7%</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 firmly stands against antisocial forces and organizations that threaten the order and safety of civil society and takes a resolute attitude to reject any unjust or illegal demand 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) In order to mitigate and evade other dormant business risks, each responsible department performs risk management on a day-to-day basis, reports the results of management 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 for the first half and the second half of the year 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, semi-annually and annually, and the results, analysis, etc. are reported to the Board of Directors.
  - 4) Important matters are deliberated at Management Committee meetings, General Planning Meetings and other important meetings attended by Directors and Executive Officers responsible for business operations.
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 firmly stands against antisocial forces and organizations that threaten the order and safety of civil society and takes a resolute attitude to reject any unjust or illegal demand.
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 firmly stand against antisocial forces and organizations that threaten the order and safety of civil society and take a resolute attitude to reject any unjust or illegal demand by such parties.

Initiatives taken toward eliminating antisocial forces

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

The Company sets forth its policy to stand against 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

Discontinuation (termination) of countermeasures for large-scale purchases of the Company's shares (anti-takeover measures):

The Company reached a resolution at its meeting of the Board of Directors on February 13, 2008 to adopt "Countermeasures for Large-scale Purchases of Company Stock (Anti-takeover Measures)" and the decision was approved at the annual general meeting of shareholders on March 28, 2008, and subsequently updated the measures after partial amendments were made based on a resolution reached at the annual general meeting of shareholders on March 25, 2011. However, the Company resolved at the meeting of its Board of Directors on February 10, 2014 to discontinue the anti-takeover measures at the close of the annual general meeting of shareholders on March 28, 2014.

## 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 General Manager of Corporate Administration Division).

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 Corporate Administration Division, 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

