

Corporate Governance

The Toyo Ink Group strives to build an appropriate corporate governance system, with the goals of ensuring prompt management decision-making, enhancing supervision, and improving transparency.

Corporate governance system

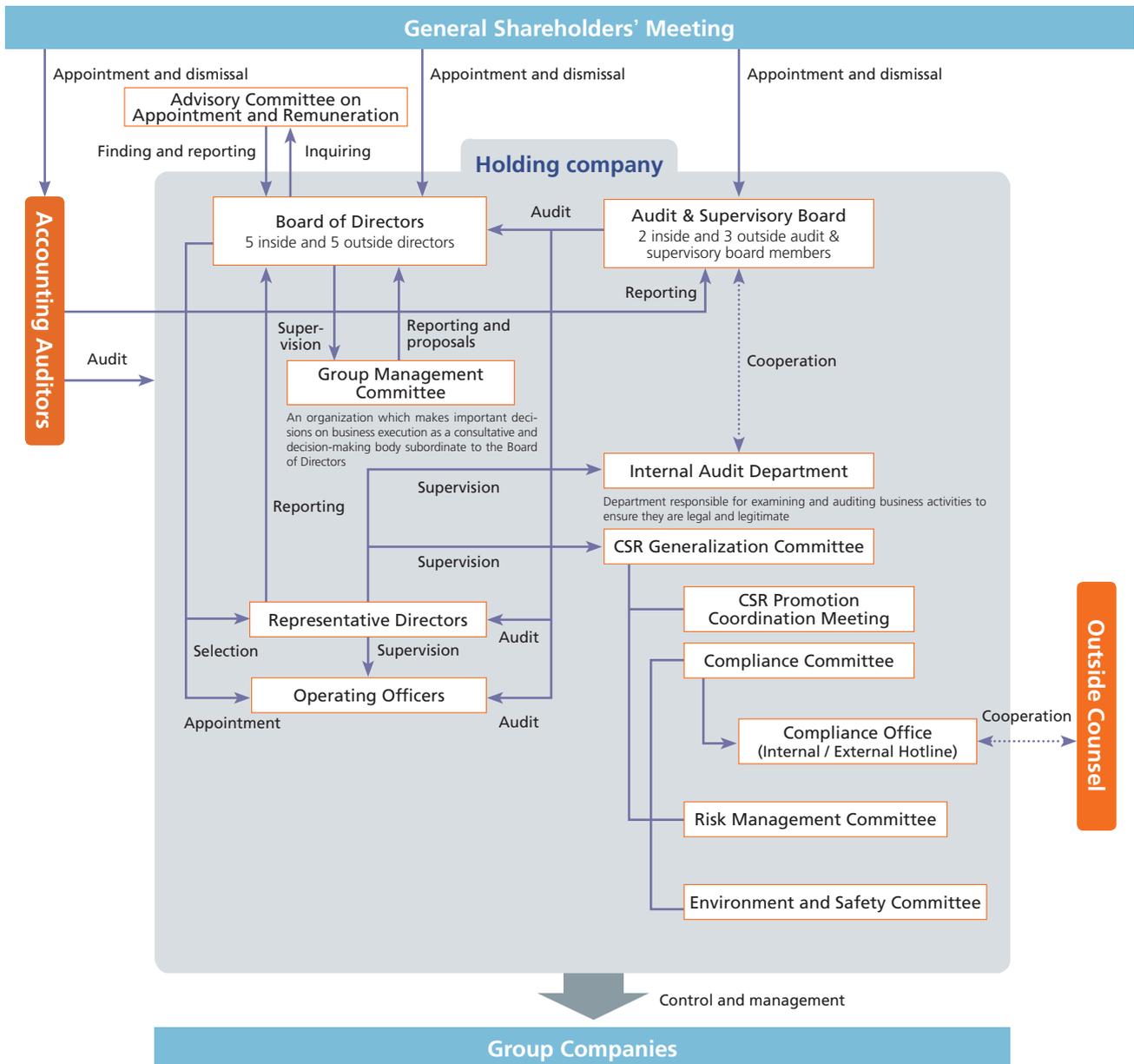
Toyo Ink SC Holdings Co., Ltd., the holding company, holds monthly Board of Directors meetings as it is an important organization making decisions regarding the overall management of Group. The company's Group Management Committee also meets regularly. It is an organization which makes important decisions on business execution as a consultative and decision-making body subordinate to the Board of Directors. Auditors attend all meetings of both of these bodies. This system enables auditors to suf-

ficiently oversee the directors' execution of their duties. Further, we have introduced an operating officer system (term: one year) to clarify the segregation of their duties to supervise management and execute business. Thus, we have ensured prompt decision-making and strengthened supervision related to the execution of business.

Additionally, Toyocolor Co., Ltd., Toyochem Co., Ltd., and Toyo Ink Co., Ltd., the core operating companies of the group, each have an Operating Company Management Committee that regularly meets to share management policies and strategies, and discuss issues and achievements regarding the execution of business. Directors of the holding company attend these meeting.

 Our Basic Corporate Governance Policies are shown in the Investors section of our official website.

Corporate governance system (FY2021)



Roles and members of major meeting bodies related to corporate governance (As of March 24, 2021)

	Board of Directors	Audit & Supervisory Board	Group Management Committee	Advisory Committee on Appointment and Remuneration
Members	10 persons 5 inside directors + 5 outside directors (including 2 female directors)	5 persons 2 inside Audit & Supervisory Board members (full-time) + 1 outside Audit & Supervisory Board member (full-time) + 2 outside Audit & Supervisory Board members	9 persons 5 inside directors + 1 inside Audit & Supervisory Board member (full-time) + 3 representative directors from core operating companies	6 persons 2 inside directors + 4 outside directors (including 2 female directors)
Roles	<ul style="list-style-type: none"> An organization making decisions regarding the overall management of the Group, which meets every month to make decisions on legal matters and important management matters and oversees the status of business execution 	<ul style="list-style-type: none"> Preparation of audit reports Full-time Audit & Supervisory Board members exchange opinions with representative directors, directors, and operating officers on a regular basis and conduct on-site inspections of major companies and business locations in Japan and overseas as necessary 	<ul style="list-style-type: none"> Making important decisions on business execution as a consultative and decision-making body subordinate to the Board of Directors To audit directors' execution of their duties, an Audit & Supervisory Board member always participates in the meetings of the committee 	<ul style="list-style-type: none"> Making decisions on the appointment of directors and their remuneration while ensuring transparency and objectiveness
	Number of meetings held in FY2020 17 times	Number of meetings held in FY2020 13 times	Number of meetings held in FY2020 25 times	Meeting date in FY2020 January 31, 2020

Board of Directors

The Board of Directors appoints and dismisses executives, nominates candidate directors and Audit & Supervisory Board members, and makes important management decisions on the execution of business to fulfill its fiduciary responsibilities to shareholders through sustainable growth and the medium- and long-term improvement of corporate value. The board ensures fair, transparent management by fulfilling its role of comprehensively supervising the management of the business. At the same time, it determines major directions, such as management strategies, and makes decisions on the allocation of important management resources.

To ensure the directors' efficient performance of their duties, additional meetings of the Board of Directors are held as and when necessary, in addition to the regular monthly board meetings, with the goal of accelerating management decisions and efficiently operating businesses.

Audit & Supervisory Board

The Audit & Supervisory Board consists of five auditors, including three outside auditors. Outside auditors fulfill their management supervision functions objectively from the viewpoint of external persons, such as by attending the Board of Directors' meetings and by obtaining management information through important documents and other means. The Internal Audit Department conducts audits to check if the operations of each Group company comply with laws and the Articles of Incorporation and if they are appropriate. It reports the results of audits to the representative director and the director in charge of internal control as well as to the Board of Auditors.

In addition, auditors and the Internal Audit Department collaborate in auditing by holding information exchange meetings every month, in principle. Further, the General Manager of the Internal Audit Department has been added to opinion exchange sessions of auditors and accounting auditors, thereby strengthening the three-way auditing system.

Group Management Committee

The Group Management Committee makes important decisions on the execution of business as a consultative and decision-making body subordinate to the Board of Directors. An Audit & Supervisory Board member always participates in the committee's meeting as part of a system that enables sufficient oversight of the directors' execution of their duties. Because the Group Management Committee mainly examines the Group's business strategies, business-related issues, and business results, its meetings are always attended by the representative directors of the Group's core operating companies, Toyocolor Co., Ltd., Toyochem Co., Ltd. and Toyo Ink Co., Ltd.

Advisory Committee on Appointment and Remuneration

We established the Advisory Committee on Appointment and Remuneration in 2017, with the goal of improving the transparency and objectivity of the decisions and the decision-making process regarding appointment of directors and their remuneration. The committee deliberates on director candidates and their remuneration before making a proposal to the annual general meeting of shareholders.

Meetings of this committee are attended by four outside directors who meet the "Standards Concerning the Independence of Outside Directors" that we have stipulated.

Outside directors and Outside Audit & Supervisory Board members

We have five outside directors and three outside Audit & Supervisory Board members. The Group believes that the five outside directors are able to fulfill their roles in the strengthening of our corporate governance through their oversight of our management from an objective perspective, reflecting their wealth of experience and knowledge as management experts familiar with this industry, their high level of knowledge as legal scholars, and their international perspective and broad insight

into the global situation cultivated through foreign diplomacy in out business. The opinions they provide from ESG and other perspectives are discussed at the Board of Directors' meetings.

We believe that the three outside Audit & Supervisory Board members are effectively auditing the Group from an objective perspective based on their wealth of experience and extensive track records in the field of corporate management, their deep knowledge of this industry, and their high level of expertise in corporate strategy, marketing, and corporate accounting.

 Standards Concerning the Independence of Outside Directors are shown in the Investors section of our official website.

Response to the Corporate Governance Code

In response to the coming into effect of Japan's Corporate Governance Code in June 2015, we formulated the "Basic Corporate Governance Policies" in November 2015 (these were subsequently revised, in December 2018). Since then, we have submitted a Corporate Governance Report to the Tokyo Stock Exchange every year.

 The latest version of the Corporate Governance Report are shown in the Investors section of our official website.

Evaluation of the effectiveness of the Board of Directors

Every year, the Toyo Ink Group conducts a questionnaire survey of all directors and Audit & Supervisory Board members, including outside directors and Audit & Supervisory Board members, to evaluate the appropriateness and effectiveness of the Board of Directors in accordance with its Basic Corporate Governance Policies.

In FY2020, the questionnaire survey was conducted to evaluate the composition of the Board of Directors, its capabilities, operating methods, agenda, and other aspects. As a result, the sound operation of the Board of Directors was confirmed, with discussions being unrestricted at all times including appropriate questions and the presentation of issues by outside directors and Audit & Supervisory Board members, and opinions and suggestions given from each expert's perspective.

At the same time, however, opinions were expressed indicating that the Board of Directors needs to improve and correct the asymmetry of information about the company

and its operations that is possessed by internal directors and outside directors. Based on the above assessment, the Board of Directors will continue to work to improve its effectiveness to achieve sustainable growth.

<Main contents of the questionnaire>

- Composition of the Board of Directors
- Roles of the Board of Directors (examinations and supervision concerning management strategies)
- Operations of directors, etc.

Facilitating animated discussion by the Board of Directors

Documents regarding agendas are distributed to Board of Directors meeting participants in advance to facilitate spirited discussion.

Training of directors and operating officers

Regular training is provided to directors and operating officers with the goal of enabling them to improve their knowledge. In FY2020, training was provided to all directors, operating officers, and executive employees after the CSR Conference.

Remuneration for directors and Audit & Supervisory Board members

The amount of remuneration for directors, etc. in FY2020 was determined based on the Group's policy that remuneration should be a level that enables the Group to attract and retain talent to increase our corporate value and a level that is in consideration of the balance between economic conditions and corporate performance. Remuneration consists of basic compensation, which is a cash-based, fixed compensation, and stock options, which are a performance-linked, stock-based compensation.

The amount of basic compensation for directors in FY2020 was determined based on the standard amount of compensation for each position while comprehensively considering such factors as economic conditions, the contributions of each director to corporate management, and the achievements resulting from the duties of each, while ensuring that the annual amount would not exceed 600 million JPY, the amount de-

Total amounts of remuneration, etc. by position and by type of compensation and the number of eligible persons in FY2020

Position	Total amount of remuneration, etc. (million JPY)	Total amount of remuneration, etc. by type (million JPY)		Number of eligible persons
		Fixed compensation (basic compensation)	Performance-linked compensation (stock options)	
Directors (excluding outside directors)	331	322	9	10
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	48	48	—	2
Outside directors and Audit & Supervisory Board members	70	70	—	8

The number of people and the amounts of compensation above include the four directors who resigned at the closing of the Annual General Meeting of Shareholders held on March 26, 2020.

terminated based on a resolution passed at the Annual General Shareholders' Meeting held on June 29, 2006. (The number of eligible directors was 19 when the resolution was passed.)

At the meeting held on February 12, 2021, the Board of Directors passed resolutions to review the overall remuneration of directors and Audit & Supervisory Board members, introduce restricted stock compensation as an alternative to stock options, and revise the amounts of director compensation. The proposals to introduce restricted stock compensation and revise the amounts of director compensation were submitted to, approved and passed at the 183rd Annual General Shareholders' Meeting held on March 24, 2021.

We understand that remuneration of directors and Audit & Supervisory Board members is an important matter impacting corporate governance. Based on this understanding, we established five basic policies. In addition, the remuneration system is operated by the Advisory Committee on Appointment and Remuneration, which is chaired by an outside director and operates from an objective perspective.

Policies on the remuneration of directors and Audit & Supervisory Board members

- ① The level of remuneration should be determined in consideration of the balance between economic conditions and corporate performance.
- ② Remuneration should be at a level that enables the Group to attract and retain talent to increase its corporate value.
- ③ The remuneration system should embody the Group's Corporate Policy, reflect its medium- and long-term management strategies, and strongly inspire sustainable growth.
- ④ Remuneration should be performance-linked and inspire the achievement of disclosed performance targets.
- ⑤ Remuneration should be designed to be fair and rational from the perspective of accountability to the stakeholders. It should be determined through an appropriate process with a high level of objectivity and transparency.

Based on the above policies, from the perspective of ensuring transparency and focusing on performance, the remuneration of directors excluding outside directors shall consist of basic compensation, performance-linked compensation, and restricted stock compensation. Regarding the amount of remuneration, the Annual General Shareholders' Meeting held on March 24, 2021 passed a resolution deciding that the total amount of basic compensation and performance-linked compensation (monetary compensation) for the directors including outside directors would not exceed 500 million JPY a year, and that the total amount of restricted stock compensation (non-monetary compensation) would be 100 million JPY a year or less, outside the 500 million JPY framework for monetary compensation. The percentage of each constituent element of compensation (standard amount when the 100% of the targets for performance-linked compensation are achieved) is as follows: 65% basic compensation, 35% performance-linked compensation, and 5% restricted stock compensation.

The remuneration of outside directors is fixed and composed of only basic compensation in light of their duties and

roles of supervising of the execution of business.

The remuneration of Audit & Supervisory Board members is also fixed and composed of only basic compensation in light of their duties and roles of conducting audits of the directors' execution of their duties. The amounts are determined through the discussion of the Audit & Supervisory Board members within the upper limit of 100 million JPY, which was determined based on a resolution passed at the Annual General Shareholders' Meeting held on June 29, 2006.

Approach to cross-shareholdings for listed shares

Regarding cross-shareholdings for listed shares, their economic viability is examined at meetings of the Board of Directors each year. Benefits from holding the shares, status of transaction, and other elements are examined on a stock-by-stock basis in comparison with the capital cost. Where it is deemed to be inappropriate to hold shares in a particular company, the number of shares we own will be reduced, taking into consideration the conditions of the said company and market trends. In the previous fiscal year, we sold all of the shares of two stocks that we held and some of the shares of five stocks that we held.

Voting rights in relation to cross-shareholdings for listed shares are exercised in an appropriate manner on a case-by-case basis, taking into account whether or not the relevant proposal will help enhance the corporate value of the issuing company over the medium to long term, whether or not it will contribute to the profits of all shareholders, including us, and the qualitative and overall impact it will have on the Toyo Ink Group in terms of their management and businesses. Where an issuing company has special circumstances, such as significant damage to its corporate value or a serious violation of laws, regulations, or other rules, or where there is a concern that an issuing company may damage the corporate value of us as its shareholder, we will determine the actions to be taken carefully by collecting sufficient information through dialogue with the issuing company and other means.

Dialogue with shareholders and investors

We believe that our shareholders and investors are important stakeholders in the Group. We have set Shareholder Satisfaction (ShS) as one of the Group's Guiding Principles, and we make effort to respect shareholders' rights and improve shareholder value. In particular, we believe in the importance of constructive dialogue with shareholders and investors. We appoint a director in charge of finance, general affairs, and IR, and ensure that information is shared through cooperation between related departments. The General Affairs Department and the Corporate Communication Department works to promote dialogue with shareholders and investors, respectively. If the feedback obtained through dialogue is deemed to be important, it is reported to the director in charge as necessary.