

Corporate Governance Report

Last Update: July 9, 2020

TOCALO Co., Ltd.

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

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

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

1. Basic Views

The Company recognizes that effective corporate governance is one of the most important management issues.

Based on the recognition that “a company is a member and public entity of society,” our basic stance on corporate governance is to ensure management transparency and to further strengthen the trust placed in us by all of our stakeholders, those being our shareholders, business partners, employees and local communities. Alongside that, we aim to increase corporate value and achieve sustainable and sound growth of the Group as a whole through our surface treatment businesses, and, thereby contribute to society.

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

[Supplementary Principle 4-2-1 Remuneration for senior management]

Remuneration for directors of the Company, excluding outside and part-time directors, consists of a base remuneration and performance-linked remuneration. Since the performance-linked remuneration is calculated from the Group’s performance (ordinary income, ordinary income ratio, ROE) in a given year, using the base remuneration as a basis, we believe that it functions as an appropriate incentive to increase our corporate value. The Nomination and Remuneration Advisory Committee, which is chaired by an independent outside director, deliberates the policy on determining the payment ratio of the base remuneration and performance-linked remuneration, remuneration amounts and calculation methods, as well as the details of remuneration of individual directors, and provides advice and recommendations to the Board of Directors. At this point, we have no plans to adopt medium- to long-term performance-linked remuneration instruments such as stock options, but we are acquiring our own shares through the director stock ownership plan, aiming for medium- to long-term growth of the Company. In addition, the Nomination and Remuneration Advisory Committee examined how the directors’ remuneration plan (stock remuneration plan, etc.) should be handled during the previous fiscal year.

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

[Principle 1-4 Strategically held shares]

1. Policy on strategically held shares

The Company did not retain any at the end of March 2020. As a general rule, we will not retain any strategically held shares in the future.

2. Criteria for exercising voting rights

Strategically held shares serve to continuously improve the value of the Company through the associated voting rights. Voting rights would be exercised, for example, in cases where shareholder value is significantly damaged or a serious non-compliance is found. Any decisions whether or not to approve proposals will be made only after collecting sufficient information.

[Principle 1-7 Transactions with related parties]

Based on the Rules of the Board of Directors, the Company regards matters such as competitive transactions, conflict-of-interest transactions, and the acquisition/disposal of large amounts of equipment/property by directors, as important management issues that should be presented to the Board of Directors, in a timely manner. These matters are deliberated in the interest of the Company and its shareholders as a whole, and are treated in the same way even if our business partners are major shareholders, etc.

[Principle 2-6 Fulfilling responsibilities as owner of corporate pension assets]

Regarding the management of corporate pension reserve funds, the Company issues management guidelines that set forth target investment yield, basic portfolio content and divergence tolerance for achieving targets to the asset management institution. Then, we monitor how those funds are managed through reports on the management status, stewardship activities, etc. provided periodically by the asset management institution. The Secretariat for Corporate Pension comprises members with appropriate qualifications selected and assigned from the human resources, finance, accounting, and other departments.

[Principle 3-1 Enhancement of information disclosure]

1. Our goals (Corporate Philosophy, Management Policy, Management Indices)

For our corporate philosophy and management policy, please visit our website.

<https://www.tocalo.co.jp/english/csr/index.html>

Management indices are on a consolidated basis.

(1) Ordinary income ratio: Stable achievement of 15% or higher

(2) Return on equity (ROE): Stable achievement of 15% or higher

(3) Return on assets (ROA): Stable achievement of 15% or higher

We have set three goals as shown above.

2. Basic views on corporate governance

Our basic views on corporate governance are elucidated in “I-1 Basic Views” of this Report.

3. Determination of remuneration for senior management and directors

How remuneration for senior management and directors is determined is described in II-1 Organizational Composition and Operation [Director Remuneration] of this Report.

4. Appointment and dismissal of senior management and nomination of candidates for director and Audit & Supervisory Board member positions

As an advisory body for the Board of Directors, the Company has established a Nomination and Remuneration Advisory Committee, with a majority of the members being independent outside directors and chaired by an independent outside director. The Committee deliberates proposals on the appointment/dismissal of director candidates and gives advice and recommendations to the Board of Directors. Director candidates, who as directors are expected to have broad experience and deep insight that they can utilize to manage the Company, are selected by the Board of Directors based on the advice and recommendations of the Nomination and Remuneration Advisory Committee. The Board submits the selected candidates to the General Shareholder Meeting for approval in the form of a resolution. Audit & Supervisory Board member candidates must have expertise and knowledge in auditing. They are selected by the Board of Directors after their qualifications have been deliberated and agreed to by the Audit & Supervisory Board, more than a half of which is comprised of Outside Audit & Supervisory Board members. The Board submits the selected candidates to the General Shareholder Meeting for approval in the form of a resolution. Regarding the dismissal of directors and Audit & Supervisory Board members, if a director/Audit & Supervisory Board member has committed fraud or seriously violated laws, regulations or the articles of incorporation in the course of executing his/her duties, or if no longer meets requirements, a resolution that clarifies the reason for dismissal is made by the Board of Directors and submitted to the General Shareholder Meeting for approval.

5. Explanation of individual appointments, dismissals and nominations

The reasons for the appointment of individual outside directors and outside Audit & Supervisory Board members are described in II-1 Organizational Composition and Operation [Directors] and [Audit & Supervisory Board members] of this Report. With regards to appointments, the background of each candidate and the reasons for appointment are described in the Convocation Notice of the General Shareholder Meeting. When a dismissal takes place, it will be disclosed as appropriate according to its importance.

[Supplementary Principle 4-1-1 Scope of delegation to senior management]

The Board of Directors is operated based on the important matters stipulated in the Rules of the Board of Directors. Based on the management strategies, plans, policies, etc. approved by the Board of Directors,

decisions concerning business execution are delegated to the senior management in charge of business execution.

[Principle 4-9 Judgement criteria for independency of independent outside directors and their qualifications]

The criteria used to judge the independency of independent outside directors and their qualifications is described in II-1 Organizational Composition and Operation of this Report.

[Supplementary Principle 4-11-1 Capacity and diversity of the Board of Directors as a whole]

When appointing members to the Board of Directors, our first priority will be to seek persons who have demonstrated leadership in business execution as a department head and have the knowledge and insight to oversee our business from multiple perspectives. The candidates are then selected through deliberation by the Board of Directors, after fully considering their management skills, aptitude and contributions made to the company, and ensuring balance and diversity among our human resources.

[Supplementary Principle 4-11-2 Status of concurrent position of directors and Audit & Supervisory Board members]

If directors and Audit & Supervisory Board members, including outside directors and outside Audit & Supervisory Board members, also serve as officers of other companies, the Board of Directors confirms the details thereof and ensures that said dual service does not pose any problems for the business of the Company. The status of any concurrent positions held by officers as of the date of account closing is described in the “Business Report” of the Convocation Notice of the General Shareholder Meeting, and that of any candidates to be appointed as new officers, in the “Reference Material for the General Shareholder Meeting”.

[Supplementary Principle 4-11-3 Evaluation of the effectiveness of the Board of Directors]

At the Company, all directors and all Audit & Supervisory Board members evaluate the effectiveness of the Board of Directors based on questionnaires prepared by the Secretariat for the Board of Directors. In fiscal 2019, the Board of Directors was evaluated as being generally appropriate in terms of composition, operation, agenda and other relevant matters. The results were reported to all directors and all Audit & Supervisory Board members. Efforts are being made to further enhance the effectiveness of the Board of Directors.

[Supplementary Principle 4-14-2 Training for directors and Audit & Supervisory Board members]

Directors of the Company acquire knowledge of roles, responsibilities, laws and regulations by actively participating in external courses and seminars for self-improvement. Our full-time Audit & Supervisory Board members, as members of the Japan Corporate Auditors Association, enhance their knowledge through circle activities and seminars, and share information with other Audit & Supervisory Board members.

[Principle 5-1 Policy on constructive dialogue with shareholders]

Company management or personnel in charge of IR hold financial results briefings and small meetings for institutional investors every time we announce our quarterly financial results, and hold briefings for individual investors as well. We also accept requests for individual interviews. By posting IR-related information and an inquiry form on our website, we provide a platform where general shareholders can obtain information and ask us questions.

2. Capital Structure

| | |
|----------------------------|---------------|
| Foreign Shareholding Ratio | More than 30% |
|----------------------------|---------------|

[Status of Major Shareholders]

| Name / Company Name | Number of Shares Owned | Percentage (%) |
|--|------------------------|----------------|
| Japan Trustee Services Bank, Ltd. | 10,791,500 | 17.75 |
| The Master Trust Bank of Japan, Ltd. | 5,813,500 | 9.56 |
| TOCALO Employees Shareholding Association | 2,815,704 | 4.63 |
| BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO) | 2,654,200 | 4.36 |
| GOVERNMENT OF NORWAY | 2,578,090 | 4.24 |
| NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS | 2,110,636 | 3.47 |
| Kumiko Saijo | 1,036,400 | 1.70 |
| Trust & Custody Services Bank, Ltd. | 906,000 | 1.49 |
| RBC IST 15 PCT NON LENDING ACCOUNT - CLIENT ACCOUNT | 891,100 | 1.47 |
| JP MORGAN CHASE BANK 385151 | 861,186 | 1.42 |

| | |
|---|------|
| Controlling Shareholder (except for Parent Company) | — |
| Parent Company | None |

Supplementary Explanation

—

3. Corporate Attributes

| | |
|--|--|
| Listed Stock Market and Market Section | Tokyo Stock Exchange First Section |
| Fiscal Year-End | March |
| Type of Business | Metal 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 ¥10 billion to less than ¥100 billion |

| | |
|---|--------------|
| Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year | Less than 10 |
|---|--------------|

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

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

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| — |
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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 |
|-------------------|--|

[Directors]

| | |
|---|-----------|
| Maximum Number of Directors Stipulated in Articles of Incorporation | 15 |
| Term of Office Stipulated in Articles of Incorporation | 2 years |
| Chairperson of the Board | President |
| Number of Directors | 14 |
| Appointment of Outside Directors | Appointed |
| Number of Outside Directors | 5 |
| Number of Independent Directors Designated from among Outside Directors | 5 |

| |
|-----------------------------------|
| Relationship with the Company (1) |
|-----------------------------------|

| Name | Attribute | Relationship with the Company* | | | | | | | | | | |
|-----------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Masaru Yamasaki | Lawyer | | | | | | | | | | | |
| Shinichi Tamba | From another company | | | | | | | | | | | |
| Keiko Takihara | Other | | | | | | | | | | | |

| | | | | | | | | | | | | | |
|---------------------|--------|--|--|--|--|--|--|--|--|--|--|--|--|
| Toshimitsu Kamakura | Lawyer | | | | | | | | | | | | |
| Yoko Sato | CPA | | | | | | | | | | | | |

* 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 said shareholder is a juridical person)
- 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 at which an executive of the Company holds concurrent position as an outside officer (the officer him/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Relationship with the Company (2)

| Name | Designation as Independent Director | Supplementary Explanation of the Relationship | Reasons of Appointment |
|-----------------|-------------------------------------|---|--|
| Masaru Yamasaki | ○ | — | Masaru Yamasaki has a high degree of expertise and deep insight as a lawyer. He also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer. |
| Shinichi Tamba | ○ | — | Shinichi Tamba has abundant experience and deep insight as a manager of a publicly listed company. He also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer. |
| Keiko Takihara | ○ | — | Keiko Takihara has considerable insight related to health enhancement as a professor of the health care department |

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| | | | of a university. She also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, she has been designated an independent officer. |
| Toshimitsu Kamakura | ○ | — | Toshimitsu Kamakura has a great deal of experience and broad insight as a lawyer. He also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer. |
| Yoko Sato | ○ | — | As a certified public accountant, Yoko Sato has expertise in finance and accounting. She also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, she has been designated an independent officer. |

| | |
|---|-------------|
| Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee | Established |
|---|-------------|

Status of Establishment of Voluntary Committee, Composition, and Attributes of Chairperson

| | Committee Corresponding to Nomination Committee | Committee Corresponding to Remuneration Committee |
|-----------------------|---|---|
| Committee's Name | Nomination and Remuneration Advisory Committee | Nomination and Remuneration Advisory Committee |
| All Committee Members | 6 | 6 |
| Full-time Members | 0 | 0 |
| Inside Directors | 2 | 2 |
| Outside Directors | 4 | 4 |
| Outside Experts | 0 | 0 |
| Other | 0 | 0 |
| Chairperson | Outside Director | Outside Director |

Supplementary Explanation

For the purpose of ensuring the transparency and objectivity of procedures related to the nomination and remuneration of directors, the Company has set up a Nomination and Remuneration Advisory Committee

with an independent outside director as its chair and independent outside directors accounting for the majority of its members.

The Committee deliberates the following matters at the request of the Board of Directors, and provides advice and recommendations to the Board of Directors.

- (1) Proposals submitted to the General Shareholder Meeting regarding the appointment and dismissal of directors
- (2) Appointments and dismissals of representative directors and their successor plans
- (3) Policy on determining details of remuneration for directors
- (4) Details of remuneration for individual directors
- (5) Reviews of remuneration in the event of a scandal, etc.
- (6) Establishment, revision, and abolition of basic policies, rules, procedures, etc. necessary to resolve the preceding items
- (7) Other matters stipulated by the Nomination and Remuneration Advisory Committee regarding each of the preceding items

[Audit & Supervisory Board Member]

| | |
|---|-------------|
| Establishment of Audit & Supervisory Board | Established |
| Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation | 5 |
| Number of Audit & Supervisory Board Members | 4 |

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

Audit & Supervisory Board members meet regularly with the accounting auditors to receive detailed explanations of audit plans, audit results, etc. from the accounting auditors, and actively exchange opinions and information on their own views. Additionally, Audit & Supervisory Board members are present for onsite audits to hear comments made by the accounting auditors and otherwise hold meetings with the accounting auditors.

In order to achieve the purpose of the auditing role of Audit & Supervisory Board members, Audit & Supervisory Board members regularly review reports on the results of internal audits, etc. from the Audit Division, internal audit departments, and exchange opinions and information with them. Moreover, Audit & Supervisory Board members may request the Audit Division to conduct investigations as necessary, and use the results as a reference for their audits.

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|---|-----------|
| Appointment of Outside Audit & Supervisory Board Member | Appointed |
| Number of Outside Audit & Supervisory Board Members | 2 |

| | |
|---|---|
| Number of Independent Directors Designated from among Outside Audit & Supervisory Board Members | 2 |
|---|---|

Relationship with the Company (1)

| Name | Attribute | Relationship with the Company* | | | | | | | | | | | | |
|-------------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k | l | m |
| Toshihiko Yoshida | From another company | | | | | | | | | | | | | |
| Takuya Nakata | 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 said shareholder is a juridical person)
- 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 at which an executive of the Company holds concurrent position as an outside officer (the officer him/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

Relationship with the Company (2)

| Name | Independent Director | Supplementary Explanation of Relevant Items | Reasons of Appointment |
|-------------------|----------------------|---|--|
| Toshihiko Yoshida | ○ | — | Toshihiko Yoshida has expertise and knowledge cultivated during his service as a full-time auditor of a publicly listed company. He also has no interests in the Company and is judged to be an outside Audit & Supervisory Board member who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer. |

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| Takuya Nakata | ○ | — | As a tax accountant, Takuya Nakata has expertise in finance and accounting. He also has no interests in the Company and is judged to be an outside Audit & Supervisory Board member who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer. |
|---------------|---|---|---|

[Independent Directors]

| | |
|---|---|
| Number of Independent Directors | 7 |
| Matters relating to Independent Directors | |
| — | |

[Incentives]

| | |
|--|---------------------------------|
| Implementation of Measures to Provide Incentives to Directors | Performance-linked Remuneration |
| Supplementary Explanation | |
| <p>Remuneration for directors of the Company, excluding outside and part-time directors, consists of a base remuneration and performance-linked remuneration. Performance-linked remuneration is calculated from the Group's performance (ordinary income, ordinary income ratio, ROE) in a given year, using the base remuneration as a basis.</p> <p>The Nomination and Remuneration Advisory Committee, which is chaired by an independent outside director, deliberates the policy on determining the payment ratio of base remuneration and performance-linked remuneration, and provides advice and recommendations to the Board of Directors.</p> <p>At this point, we have no plans to adopt medium- to long-term performance-linked remuneration such as stock options.</p> | |
| Recipients of Stock Options | |
| Supplementary Explanation | |
| — | |

[Director Remuneration]

| | |
|--|--------------------------|
| Disclosure of Individual Directors' Remuneration | No Individual Disclosure |
|--|--------------------------|

Supplementary Explanation

There is no single director whose total amount of consolidated remuneration, etc. is 100 million yen or more, therefore individual remuneration is not listed.

Policy on Determining Remuneration Amounts and Calculation Methods

Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The amount of remuneration, etc. for directors is determined within the upper limit of remuneration (annual amount of 400,000 thousand yen) set by a resolution of the General Shareholder Meeting, based on the “Rules for Officers’ Remuneration.”

Specific amounts are determined by the method that the Board of Directors approves based on the advice and recommendations of the Nomination and Remuneration Advisory Committee, after taking into consideration the duties and responsibilities of each director, both full-time and part-time, business results of the Company, and other factors.

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

The Personnel & General Affairs Division, which serves as the Secretariat for the Board of Directors, provides support to outside directors. For outside Audit & Supervisory Board members, the Audit Division concurrently provides support necessary for their audits and serves as the Secretariat for the Audit & Supervisory Board.

[Retired presidents/CEOs holding advisory positions (*sodanyaku*, *komon*, etc.)]

Information on retired presidents/CEOs holding advisory positions (*sodanyaku*, *komon*, etc.)

| Name | Job title/ position | Responsibilities | Employment terms (Full/part time, with/without compensation, etc.) | Date when former role as president/ CEO ended | Term |
|--------------------|---|--|---|--|------------------------|
| Kazuo Machigaki | Senior Advisor (<i>Sodanyaku</i>) | 1. Providing advice based on experience and knowledge at the request of directors 2. Chairman, Tocalo & Han Tai TW Co., Ltd. 3. Outside Director, Dae Shin | Part-time, with remuneration | June26, 2019 | Until June 30, 2021 |

| | | | | | |
|---|--|-------------------------|---|--|--|
| | | Metalizing Co., Ltd. | | | |
| Number of retired presidents/CEOs holding advisory positions (<i>sodanyaku</i> , <i>komon</i> , etc.) | | | 1 | | |
| Others | | | | | |
| <ul style="list-style-type: none">• Commissioning of <i>sodanyakus</i> is determined by resolution of the Board of Directors.• Remuneration for <i>sodanyakus</i> is determined based on internal rules. | | | | | |

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

1. Overview of business execution, audits and oversight

TOCALO Co., Ltd. is a corporation with an Audit & Supervisory Board and has appointed outside officers. We believe that our audit system involving outside Audit & Supervisory Board members is effective as a management monitoring mechanism, and that the current system is appropriate under the current circumstances of the Company. We ask our outside directors for advice to ensure and improve legal compliance and transparency of our corporate management practices and actions.

(1) About business execution

The Board of Directors of the Company consists of 14 directors, 5 of whom are outside directors. Besides meeting at least once a month, the Board holds meetings on business policy with the same members to deliberate and discuss important management issues. Additionally, all directors except outside directors attend important internal meetings to give instructions and exchange opinions on business execution.

(2) Methods of auditing and oversight

(a) Internal audits

The Company has set up an Audit Division under the direct control of the President as an internal audit department. Based on the internal audit plan, the Audit Division conducts internal audits of the organization year-round, in principle, and regularly reports results and findings to the President to promote improvements. Internal audits of our subsidiaries are carried out in collaboration with the Corporate Planning Division and Overseas Business Division of the Company and the internal audit department of the subsidiary.

(b) Audits conducted by Audit & Supervisory Board Members

The Audit & Supervisory Board of the Company consists of four Audit & Supervisory Board members (including two outside Audit & Supervisory Board members). The policy, plan, method and work assignments of audits conducted by Audit & Supervisory Board Members are determined after consultation with the Audit & Supervisory Board. All Audit & Supervisory Board members attend the regular and business policy meetings of the Board of Directors of the Company, and full-time Audit & Supervisory Board members attend other important internal meetings whenever held. Regarding the performance of our

subsidiaries, the Audit & Supervisory Board of the Company receives a monthly report in writing from subsidiaries and holds a “Group Audit & Supervisory Board Member Liaison Council” meeting every three months, at which Audit & Supervisory Board members of the subsidiaries report on their quarterly performance, audit results, etc. In this way, we are actively exchanging information.

(c) Accounting audits

For the fiscal year ended March 31, 2020, accounting audit work of the Company was executed by two certified public accountants, Mr. Yukihiro Matsunaga and Mr. Takuya Urakami of PricewaterhouseCoopers Kyoto, with the assistance of six others (who have passed the certified accountant examination, etc.). Both Mr. Matsunaga and Mr. Urakami have been providing accounting services to the Company for four continuous years.

2. Strengthening business execution, auditing and oversight

(1) Thorough enforcement of compliance and risk management

We have set up a CSR Committee to build and manage a cross-sectional compliance system that includes all Group companies. The CSR Committee deliberates important compliance issues and reports the results to the Board of Directors. Furthermore, the CSR Committee monitors the status of cross-organizational risk management and examines company-wide measures. In order to promote compliance awareness amongst officers, we have adopted a system in which a “Confirmation of Director’s Business Execution” and a “Confirmation of Business Execution of Audit & Supervisory Board Members” are submitted to the Audit & Supervisory Board at the end of each fiscal year.

(2) Proactive information disclosure

Recognizing that it is extremely important to disclose information in a timely and appropriate manner to all stakeholders, including shareholders and investors, we are striving to enhance management transparency through extensive information disclosure.

3. Reasons for Adoption of Current Corporate Governance System

TOCALO is a corporation with an Audit & Supervisory Board and has appointed outside officers. We believe that an audit system involving outside officers is effective as a management monitoring mechanism, and that the current system is optimal for the current situation the Company is in.

Additionally, based on the recognition that “a company is a member and public entity of society,” we think it lies at the foundation of corporate governance and amongst the most important of management issues we must address to ensure management transparency, improve corporate value and achieve sustainable and sound growth for the Group as a whole, while further strengthening the trust placed in us by all stakeholders such as shareholders, business partners, employees and local communities, and contributing to society through the surface treatment businesses. In order to address these issues, we recognize that it is desirable for us to further enhance our 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 | The Convocation Notice of the 69 th Ordinary General Shareholder Meeting (held on June 24, 2020) was sent out on June 2. |
| Scheduling AGMs Avoiding the Peak Day | We try to hold general shareholder meetings early in the reporting season to avoid the peak days in the business community. |
| Allowing Electronic Exercise of Voting Rights | Electronic voting over the internet has been an effective means for exercising voting rights. |
| Participation in the Electronic Voting Platform and Other Initiatives to Improve the Voting Rights Exercise Environment for Institutional Investors | Voting rights can be exercised using the electronic voting platform for institutional investors operated by ICJ Co., Ltd. |
| Providing Convocation Notice (Summary) in English | It has been posted on our website. |
| Other | The Convocation Notice has been posted on our website. |

2. IR Activities

| | Supplementary Explanations | Explanation Provided by Representative Himself |
|---|---|--|
| Regular Investor Briefings for Individual Investors | We exhibit at an investment fair for individual investors and hold a mini corporate recruiting session once a year. | No |
| Regular Investor Briefings for Analysts and Institutional Investors | Twice a year (after fiscal year-end and interim account closings), the president of the Company holds a financial results briefing. When quarterly results are available, we hold small meetings for institutional investors. Regarding the financial results for the fiscal year ended March 2020, we canceled the briefing session and instead posted a video of financial results presented by the president on our website in order to prevent the spread of the new coronavirus. | Yes |
| Posting of IR Materials on Website | We publish earnings briefings, Fact Books, financial results briefing materials and other materials. When an important matter emerges, it is posted on our website as swiftly as possible in time with public announcement. (https://www.tocalo.co.jp/english/ir/index.html) | |

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| Establishment of Department and/or Manager in Charge of IR | The Corporate Planning Division is the contact point for IR-related inquiries. | |
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3. Measures to Ensure Due Respect for Stakeholders

| | Supplementary Explanations |
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| Stipulation of Internal Rules for Respecting the Position of Stakeholders | Our management philosophy stipulates that the Company shall be built on good relationships with and the trust we earn from all stakeholders, including shareholders, business partners, employees and local communities. Additionally, in order to manage important matters related to the business of the Group (internal information), we have established Internal Information Management and Insider Trading Control Rules, as well as a system based on the prompt and fair disclosure of accurate information. |
| Implementation of Environmental Activities, CSR Activities etc. | TOCALO is a manufacturer specialized in surface treatment with thermal spraying as the core. Our environmental philosophy is to contribute to society and protect the global environment through the various advantages that coatings have to offer, such as resource-savings, labor-savings, and environmental load reduction. We have set environmental targets for the following themes. (1) Energy and resource conservation in business activities (2) Contribution to the environment by promoting business activities Moreover, we have formulated an annual budget to actively engage in activities that contribute to communities and society at large, and provided support against the new coronavirus and disasters, and aid to international students. |

IV. Matters Related to the Internal Control System

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

In accordance with the Companies Act and the Enforcement Regulations of the Companies Act, the Company decided basic policies on developing a system to ensure Company business is properly executed (hereinafter referred to as “Internal Control System”), as follows, at the Board of Directors meeting held on September 18, 2015.

1. System to ensure that the execution of duties by directors and employees of a corporate group consisting of the Company and its subsidiaries complies with laws, regulations and the articles of incorporation

(1) Top management shall familiarize Company officers and employees with the underlying spirit of established corporate action guidelines and compliance rules, so they thoroughly understand that compliance with laws and social ethics is a prerequisite of corporate activities.

(2) A CSR committee chaired by the General Manager of the Administrative Headquarters shall be established to develop and manage a cross-sectional compliance system for the Company and its Group companies. The CSR Committee deliberates important compliance issues and reports the results to the Board of Directors. The Corporate Planning Division acts as the Secretariat for the CSR Committee and thoroughly ensures compliance among officers and employees. The internal audit department (Audit Division) audits the status of compliance in cooperation with the Corporate Planning Division.

2. Matters concerning the storage and management of information related to the execution of duties by directors of the Company

In accordance with Document Management Rules and Record Management Rules, the General Shareholder Meeting Minutes, the Board of Directors Meeting Minutes, and other information related to the execution of duties by directors shall be recorded in writing and on electromagnetic media, properly stored and managed (or disposed). How the concerned information is managed shall be audited and the rules reviewed as necessary.

3. Rules and other systems regarding risk management of a corporate group consisting of the Company and its subsidiaries

(1) Each department and subsidiary shall report its performance periodically at a meeting attended mainly by directors, and conduct risk management through continuous monitoring.

(2) Regarding risks pertaining to corporate activities and management strategies of the Group related to compliance, dealing with antisocial forces, environmental considerations, disasters, quality, information security, credit management, investments and loans, export control, etc., the department responsible for the respective matters shall establish rules and guidelines, and prepare manuals and other tools to ensure that everyone is aware of them. In the event of an unforeseeable situation, a Headquarters for Disaster Control shall be set up immediately to take countermeasures in accordance with Disaster Countermeasures Rules. For risks that newly arise other than the above, the Board of Directors of the Company promptly appoints a director who will be responsible for handling the situation, and puts the necessary system in place.

(3) The CSR Committee monitors the status of cross-organizational risk management and examines Group-wide measures.

4. System for ensuring the efficient execution of duties by directors of a corporate group consisting of the Company and its subsidiaries

The efficiency of the execution of duties by directors of the Group is improved using the following business management system.

(1) When carrying out daily business operations, authority shall be delegated based on Segregation of Duties Rules, Administrative Authority Rules, etc., and persons in charge at each level shall carry out their duties in accordance with rules on decision-making.

(2) A Management Policy Council comprised of directors and Audit & Supervisory Board members of the Company shall be set up for prompt decision-making regarding policies for important matters of the Group.

5. System for reporting to the Company matters related to the execution of duties by directors, etc. of the Company's subsidiaries

In accordance with Affiliated Companies Management Rules, when making important decisions, affiliated companies are required to consult with the responsible department of the Company and the Head Office, and to report important matters, etc. Along with that, to enhance integrated Group management, affiliated companies shall also obtain prior approval from the Board of Directors and top management of the Company for the acquisition and disposal of important assets.

6. Matters concerning a system of employee assistance requested by Audit & Supervisory Board members, the independence from directors of said employees, and ensuring the effectiveness of instructions to said employees

(1) Audit & Supervisory Board members may order employees belonging to the Audit Division to carry out matters concerning duties necessary for audits conducted by the Audit & Supervisory Board members and duties of the Secretariat for the Audit & Supervisory Board. The employees who receive the management's orders shall ensure independence so they will not be given any instruction or order from directors, superiors, etc.

(2) Appointments and transfers of employees who are to assist the duties of Audit & Supervisory Board members shall require the approval of the Audit & Supervisory Board members.

7. System for directors and employees of the Company and directors, Audit & Supervisory Board members and employees of its subsidiaries to report to Audit & Supervisory Board members of the Company, other systems for reporting to Audit & Supervisory Board members, and a system in which anyone who reports shall not suffer from unfavorable treatment

(1) Directors and employees of the Company shall report the status of execution of their duties whenever requested by Audit & Supervisory Board members, and shall instruct directors, Audit & Supervisory Board members and employees of subsidiaries to report the status of execution of their duties whenever requested by Audit & Supervisory Board members.

(2) Audit & Supervisory Board members attend meetings of the Board of Directors and other important meetings, and periodically receive reports on business status, financial conditions, etc.

(3) If directors or employees of the Company or the directors, Audit & Supervisory Board members or employees of a subsidiary discover or learn of any matter that exerts or may exert a significant impact on the Company, they shall promptly report to the Audit & Supervisory Board members of the Company.

(4) A whistleblowing system shall be established so that the Audit & Supervisory Board members of the Company can receive reports from directors and employees of the Company and directors, Audit & Supervisory Board members and employees of the subsidiaries.

(5) Directors and employees of the Company and directors, Audit & Supervisory Board members and employees of the subsidiaries shall never be treated unfavorably because of information that they provide to the Audit & Supervisory Board members of the Company.

8. Matters concerning policies related to expenses and liabilities incurred in the execution of duties by Audit & Supervisory Board members and advance payment or redemption procedures for said expenses
When Audit & Supervisory Board members request the Company to pay in advance or reimburse expenses needed to execute their duties, such expenses shall be paid in advance or reimbursed appropriately and promptly at the request of the Audit & Supervisory Board members or the Audit & Supervisory Board, unless said expenses are deemed unnecessary for the execution of the said duties.

9. Other systems to ensure effective audit implementation by the Audit & Supervisory Board members

(1) Audit & Supervisory Board members attend the Board of Directors meetings and other important meetings to grasp and audit the business conditions and decision-making process.

(2) Internal systems centering on the Audit Division shall be developed and enhanced so that Audit & Supervisory Board members can perform their audit work more efficiently.

(3) Audit & Supervisory Board members shall be guaranteed access to independent advice and support for their audit work from experts such as lawyers and accountants as necessary.

10. System to ensure the reliability of financial reporting

In accordance with the provisions of the Financial Instruments and Exchange Act, the Company and its subsidiaries shall establish a Basic Policy on Financial Reporting and, based on this policy, shall strive to conduct business appropriately and ensure the reliability of financial reporting.

2. Basic Concept on the Exclusion of Anti-social Forces and the Development Thereof

It shall be strictly observed as our “corporate ethical behavior” to sever relationships with antisocial forces and groups that threaten social order and public safety.

V. Other

1. Adoption of Anti-Takeover Measures

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| 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

The internal system for timely disclosure of our corporate information is as follows.

1. System for timely disclosure of our corporate information

(1) The General Manager of the Administrative Headquarters serves as the Chief Information Management Officer in relation to the management and timely disclosure of internal information (also serves as the “Information Handling Manager” that is the contact point for the Tokyo Stock Exchange), and the Personnel & General Affairs Division Manager serves as the Division Manager in charge of Information Management. (The responsibilities of the Chief Information Management Officer of each subsidiary are delegated to the representative director of the subsidiary.)

(2) The person in charge of internal information management of the department involved in the generation (including approval) and acquisition of internal information shall be the head of each division (General Manager, Factory Manager, etc.). When internal information is generated, each division head immediately reports the details to the General Manager of the Administrative Headquarters and Personnel & General Affairs Division Manager.

(3) The Chief Information Management Officer (General Manager of the Administrative Headquarters) and Division Manager in charge of Information Management (Personnel & General Affairs Division Manager) are responsible for examining whether or not information should be deemed internal information and give advice to each division head as necessary.

(4) Upon receiving decisions on important matters from business execution organizations such as the Board of Directors and the Management Policy Council, reports, and approvals of account closing information, etc., the General Manager of the Administrative Headquarters immediately consults with the Personnel & General Affairs Division Manager on the announcement and discloses it in a timely manner. However, if there is an urgent need for the information, etc., the General Manager of the Administrative Headquarters shall obtain approval from the President and Representative Director to disclose it in a timely manner.

2. Flow of timely disclosure

As shown in the attached diagram.

Flow of timely disclosure

