



Corporate Governance/Compliance/ Risk Management

Importance of corporate governance

One of the most important management issues for TOMY today is maintaining the trust of its stakeholders while offering continual improvements in corporate value and achieving sound and transparent management practices. We will make every effort to achieve this by bolstering our corporate governance, including by enhancing self-checking functions and strengthening our risk management and compliance system, while improving operational efficiency.

Corporate governance structure

As of August 1, 2011, TOMY's director and auditor system consists of 13 directors and five auditors, including five outside directors and four outside auditors.

As a company with an auditor system, TOMY appoints several outside directors and outside auditors who are independent of the executive team that carries out business operations, and implements various initiatives to strengthen corporate governance. TOMY has concluded that the current system is effective for putting the Company's corporate governance into practice, and for enabling the conduct of proper and efficient business administration.

• Systems for performance of duties by directors

1. The Board of Directors is tasked with determining basic policies and strategies for the Group as a whole, as well as issuing decisions

concerning the performance of important business operations and supervising the performance of the business operations. As a general rule, meetings of the Board of Directors are convened once a month.

2. As a general rule, Management Committee are held once each week with the purpose of conducting the Group's business operations and management in a smoother and more efficient fashion. The members of the meetings decide flexibly on matters concerning the overall implementation of the Group's business management. The members of the meetings consist of executive directors including the president & CEO and standing auditors.
3. Delegation of authority and other steps associated with the adoption of the operating officer system have been taken to achieve greater speed and efficiency in the performance of business operations in all managing divisions, under the policies, strategies and supervision of the Board of Directors.
4. The Advisory Committee has been established as an advisory body to the president & CEO, and is requested to render a broad range of counsel pertaining to the effectiveness of business performance, the reliability of the Group's financial affairs and other important matters. The principal members of the Advisory Committee are the officers including the president & CEO, outside directors and outside auditors. Other appropriate and necessary members are chosen according to the topic of discussion.

• Auditing system

1. As a general rule, the Board of Auditors meets once a month to oversee the directors' performance of the business operations, and to deliberate and determine important matters necessarily pertaining to auditing. Corporate auditors attend regular important meetings, irregular meetings and other occasions, and receive reports on

management conditions as well as the status of business performance, financial affairs, internal audit implementation, risk management, compliance and other matters.

2. Regarding internal audits, the Internal Control & Audit Group audits each department's performance of business and status of compliance, and reports to the president & CEO and Board of Auditors as needed.
3. Corporate auditors, accounting auditors, and the Internal Control & Audit Group exchange opinions and information with regard to important issues pertaining to auditing and other matters, collaborating mutually to monitor the Group's internal control conditions.
4. The Risk/Compliance Committee and the Internal Control & Audit Group are at the center of efforts to maintain and enhance a company-wide risk management system integrated with the internal control system (including compliance with the J-SOX Law). If unexpected circumstances occur, the Company will promptly establish a Crisis Management Headquarters and deal with the situation rapidly and appropriately to minimize losses and damages and will take effective measures devised to prevent recurrences of such situations. The Safety & Quality Assurance Division, which was established to deal exclusively with product safety, works to improve processes for the provision of quality products that can be used without worry.
5. In June 2011, the General Meeting of Shareholders selected KPMG AZSA LLC to handle accounting audits for TOMY, and the firm has conducted audits efficiently.

The following are the certified public accountants who conducted accounting audits for TOMY:

Tetsuya Yamamoto, Designated Partner & Managing Partner, KPMG AZSA

Naoya Miyaki, Designated Partner & Managing Partner, KPMG AZSA
In addition, the assistance involved in accounting audits consisted of two certified public accountants and 16 others, for a total of 18 assistants.

• Other matters relating to the corporate governance structure

In addition to the Advisory Committee and the Risk/Compliance Committee, the Compensation Committee, consisting mainly of outside directors and outside auditors, has been established to review and evaluate the rewards packages and evaluation system for managers to ensure management transparency.

Compliance system

1. The TOMY Group Code of Conduct was established to clarify that all officers and employees must not only comply with laws and ordinances, but also strive to fulfill social responsibilities through the conduct of sincere and fair corporate practices. Thorough efforts are taken to ensure that officers and employees are familiar with the Code.
2. The Risk/Compliance Committee, a body chaired by the president & CEO and comprised of outside directors and outside auditors, deliberates important issues pertaining to risk and compliance,

and reports upon the results of those discussions to the Board of Directors to enhance and ensure thorough functioning of TOMY's compliance system and risk management system.

3. The Internal Control & Audit Group, an organization under direct control of the president & CEO, audits the status of TOMY's compliance and reports its results to the president & CEO and the Board of Auditors as deemed necessary.
4. TOMY maintains no relationships of any kind with anti-social groups or organizations that threaten social order or the sound activities of the Company, and will respond systematically with a firm stance to unreasonable demands and similar situations.

Risk management system

1. The Risk/Compliance Committee and the Internal Control & Audit Group are at the center of efforts to maintain and enhance a company-wide risk management system integrated with the internal control system.
2. In the event of unexpected circumstances, the Company will promptly establish a Crisis Management Headquarters and deal with the situation rapidly and appropriately to minimize losses and damages and will take effective measures devised to prevent recurrences of such situations.
3. The Environment Department in the President's Office and the Safety & Quality Assurance Division, which were established to deal exclusively with the environment and product safety, lead efforts to improve processes to address environmental issues and provide quality products that can be used without worry.

Adoption of a takeover defense plan

TOMY established a basic policy pertaining to the desirable type of party that should control the determination of policies on the Company's financial affairs and business. An Action Plan regarding Large-scale Purchasing of TOMY's Shares (Takeover Defense Plan) was adopted at the General Meeting of Shareholders held in June 2007 to prevent a party that is inappropriate in light of that basic policy from controlling the determining policies concerning the Company's financial affairs and business. The General Meeting of Shareholders held in June 2010 approved the continuance of the Takeover Defense Plan.

TOMY feels that defined rules are needed to defend against share purchasing that does not contribute to improving the Company's corporate value and that would be contrary to the common interests of shareholders. These rules, to be followed in the event of large-scale purchasing of TOMY's shares, include obtaining information so that shareholders can make an appropriate decision regarding whether to react to such purchasing, securing the time and information needed for the Company's Board of Directors to make an alternative proposal, or blocking purchases that, due to their nature, threaten the Company's corporate value.

