

## Message from a Retired Director

### TOK will continue governance reform and support the attainment of TOK Vision 2030.

#### Ikuo Akutsu

Advisor, Former Representative Director, Chairman



#### Achievements and problems of long-term vision

I retired as representative director in March this year, the position in which I was appointed in 2011. I express sincere gratitude to shareholders, investors, customers, and other stakeholders who supported and advised me during the term.

While I served as the president for more than seven years from 2011, I established the overarching aspiration (long-term vision) for 2020 at the core of management as a ten-year vision, in order to encourage employees who were losing their motivation through business restructuring that followed the financial crisis in 2008, and aim for a new growth stage. In particular, I made a bold decision to establish TOK Advanced Materials Co., Ltd., in South Korea in 2012, in order to focus on customer-oriented strategies in Asia with a remarkable growth in the semiconductor industry. Although I received many pros and cons from stakeholders at that time, the site substantially contributed to the improvement of our competitiveness in the cutting-edge semiconductor fields, and to the record-high performance in FY 2020/12. The site is also effectively functioning in terms of risk distribution and BCP as diverse global risks emerge. On the other hand, inspiring customers with high value-added products as announced as our management vision had yet to be fulfilled, and several measures for strengthening management foundation scheduled in FY 2020/12 had to be postponed due to coronavirus. These attempts are inherited as qualitative targets and strategies in TOK Vision 2030, and I will support them toward the attainment of the Vision as necessary.

#### Promoting governance reform without becoming complacent

Regarding corporate governance, I increased one outside audit & supervisory board member in 2013, and one female outside director in 2015, during my tenure as the president. After I became chairman and one of the two representative directors along with President Taneichi in 2019, we could accelerate governance reform by creating the Executive Fellow system, formulating the Corporate Governance Guidelines, increasing

outside directors (to one-third of all directors), and introducing a new remuneration system for directors and audit & supervisory board members. In February this year, we resolved to discontinue the anti-takeover measures, advancing our corporate governance to a new stage. Following my retirement from the position, TOK returned to the structure where the president and chief executive officer serves both as the chair of the board of directors and as executive officer. However, the ratio of outside directors and audit & supervisory board members on the Board of Directors is 46.2%, and they make proposals during deliberation extremely vigorously. I am confident that governance reform at TOK will further proceed in coming years.

#### Paving the way through cooperation with stakeholders and contribution to society

Utilizing global personnel (development of human resources and organizations and diversity and inclusion) has been my focus since my tenure as the president and one of the key strategies for TOK Vision 2030. There still remain many requirements in this area. Under the requirement of human resource development with the pursuit of happiness as its concept, I consider that relationships with customers and other external stakeholders enhance happiness most effectively and develops human resources. Therefore, I hope that the development and manufacturing departments will accumulate on-site experience together with external stakeholders, though there are constraints on activities due to COVID-19. In the meantime, non-contact communication is becoming the new normal in the back-office departments with increased ratio of work from home. It is the largest requirement how to form happiness in these departments. I believe that we will be able to find the way by continue practicing our management principles that pursue making sure that all management resources and initiatives ultimately lead to contributing to society.

We kindly request the ongoing support and understanding of all our stakeholders.

## Message from Outside Directors and Audit & Supervisory Board Members

### Focusing on response to diversifying and frequent unexpected risks and on medium- to long-term strategies

#### Hiroshi Kurimoto

Outside Director, Chairman of the Nomination and Compensation Advisory Committee



#### Decided to discontinue anti-takeover measures

In the process that led to the resolution of discontinuation of anti-takeover measures ("these measures") in February this year, I participated in discussions on various occasions that included meetings of the Board of Directors as the chair of the special committee. We resolved not to continue these measures through careful review, taking into consideration the opinions of institutional investors and other shareholders in Japan and overseas, recent trends on anti-takeover measures, changes in our business environment, and other factors. These measures were introduced in 2006, primarily aiming to acquire sufficient and necessary information and time in the event of receiving an offer for takeover in order to examine and evaluate the offer at the Board of Directors. We determined to discontinue these measures because the requirement above was guaranteed to a certain extent, though not sufficient, through the subsequent amendments of law, including the strengthened regulation of foreign capital by the amended Foreign Exchange Act, which took effect in May 2020. We will leverage the decision to discontinue these measures as a kind of stimulation, thereby urging the Board of Directors to ensure careful management.

#### Toward upgrading the new remuneration system for directors and audit & supervisory board members

The new remuneration system for directors and audit & supervisory board members was started March this year, increasing the ratio of performance-linked remuneration to 45%, and introducing a system where annual bonus and performance-linked share-based remuneration can vary in a broad range from 0 to 200% in accordance with the achievement rate of numerical targets, while using ROE as one of the evaluation indicator for the performance-linked share-based remuneration. I highly evaluate this system in that it has established a mechanism that urges directors and audit & supervisory board members to deeply commit to the sustainable growth of the TOK Group, and to the medium- to long-term corporate value enhancement. To further upgrade this system, we will focus on the following

two requirements. First, we will examine how to further improve annual bonus and performance-linked share-based remuneration as evaluation indicators, considering the macro environment, business environment, historical performance trends, market expectations, and other factors. The Nomination and Compensation Advisory Committee, the majority of which consists of outside directors including me, will undertake monitoring to avoid arbitrary target setting. Second, we need to evaluate the system whether or not it appropriately functions in a downward performance trend. In particular, it is necessary to identify how the unexpected scale of deterioration in external environment and performance caused by tail risks, such as the pandemic and natural disasters, should be incorporated into the evaluation process. We will deepen discussion on this requirement in FY 2021/12.

#### Focusing on risk management and medium- to long-term strategies

Regarding the monitoring of ongoing business deployment under TOK Medium-Term Plan 2021, inside directors and audit & supervisory board members will take the lead in business execution, while five other outside directors and I will focus on making proposals on risk management, thereby coping with diversifying and frequent unexpected risks. In particular, I consider that the skills and risk recognition of the three outside audit & supervisory board members from financial institutions will effectively function in the governance of TOK as a technology-oriented company.

In addition, I recognize that discussion needs to be increased at the meetings of the Board of Directors concerning medium- to long-term strategic topics under TOK Vision 2030, as well as initiatives related to ESG and SDGs. In particular, our purpose (meaning of existence) to contribute to a sustainable future through chemistry is the source of motivation for all human resources throughout the group. Therefore, we will powerfully support, from outside directors' viewpoint, information provision and discussion that the products of TOK are indispensable for society.

## Message from Outside Directors and Audit & Supervisory Board Members

### Advancing risk management and diversity and inclusion as a global company

#### Noriko Sekiguchi

Outside Director, Member of the Nomination and Compensation Advisory Committee



#### Governance reform—Initiatives taken to date

In the course of governance reform implemented by TOK, I particularly highly evaluate the establishment of the executive fellow system because it has formally established a process for internally motivated corporate value enhancement, rather than responding to soft laws. I used to be against the discontinuation of anti-takeover measures for a concern that TOK could easily become a target of takeover as a niche top company in the semiconductor industry. However, I finally agreed to discontinuation, reaching a conclusion that corporate value enhancement through incessant efforts would be the most effective anti-takeover measure, given dialogs with investors and changes in the business environment.

As a member of the Nomination and Compensation Advisory Committee, I suggested that the first year of the new remuneration system for directors and audit & supervisory board members should be carefully reviewed, so that the short-term incentive indicators will be set considering the latest trends in the economy and the semiconductor industry. In the interviews with executive officers for the election of director candidates, I assessed their personality, motivation, and attitude toward duties, while striving to grasp the characteristics of each candidate, such as what they had accomplished, what difficulties they had and episodes at work. Discussion also progressed concerning succession planning. While the process, requirements for election and dismissal, and other elements have been specified, I consider that more details need to be identified through continued discussion on medium- to long-term initiatives.

#### Toward strengthening global risk management

As TOK pursues the attainment of TOK Vision 2030 as “The e-Material Global Company,” the Group Management System (GMS) continues to be the core of risk management in Japan and overseas. In the immediate future, traveling abroad seems difficult because the containment of the COVID-19 pandemic remains unclear. Therefore, we consider that it is an urgent

requirement to achieve close cooperation with overseas sites online. It is also considered necessary to steadily operate the PDCA cycle on measures for the sound development of the China business, as the presence of the Chinese market continues to increase.

To cope with the diversifying and frequent unexpected risks, it will be critical to implement thorough measures to handle expected risks, to monitor the changes and signs of risks and to share information and take rapid action to minimize negative impact if an unexpected risk emerges. TOK Vision 2030 assumes several external environment risks in its formulation stage. The continuous check of the BCP status for each risk at the relevant sites will enable a rapid response to unexpected risks.

#### Making proposals for establishing a mechanism to further advance diversity and inclusion

TOK pursues diversity and inclusion as an initiative for the material issue “Enhancement of personnel measures on a global basis.” It has promoted employment and promotion based on abilities, regardless of gender or nationality, thereby achieving a steady increase in the ratios of female employees and non-Japanese employees.

Work from home and staggered commuting increased in the COVID-19 pandemic, and led to the progress of work-style reform. They also contributed to the establishment of a comfortable work environment for all employees, thereby enhancing diversity.

In the coming years, it may be useful to indicate the Company’s attitude for diversity and inclusion more clearly as a visible company system, so that the attitude will permeate the awareness of individual employees through measures of adding diversity and inclusion to the evaluation items of managers and providing an annual occasion to boost diversity and inclusion through group reports and events.

## Message from Outside Directors and Audit & Supervisory Board Members

### Making proactive proposals on business portfolio reform from a long-term perspective

#### Kazuo Ichiyanagi

Outside Director, Member of the Nomination and Compensation Advisory Committee



#### Management principles permeate throughout the Company sites

After being appointed an outside director in March last year, I visited the Sagami Operation Center and the Shonan Operation Center, and participated in the technological report meetings held by the Research and Development Department whenever I could spare time in order to see the front lines of manufacturing at TOK. By doing so, I recognized that the management principles of TOK (“Create a frank and open-minded business culture,” “Continue efforts to enhance our technology,” “Raise the quality levels of our products,” and “Contribute to society”) have permeated throughout each site. I was also deeply impressed by vigorous discussions at the technological report meetings in line with the four management principles. They refreshed my memory of Professor Yasujiro Niwa,\* who served as the president of the university from which I graduated, stating, “In the technology breathes its creator, because technology embodies the personality of the creator of the technology.” I would like to support TOK, with this corporate culture inherited, in attaining TOK Vision 2030 and developing into a 100-year company in 2040.

\* Yasujiro Niwa (1893 to 1975): An engineer who is sometimes selected as one of the ten greatest Japanese inventors; developed the first facsimile in Japan; the first president of Tokyo Denki University

#### Reviewing my first year as an outside director and member of the Nomination and Compensation Advisory Committee

It is characteristic to the TOK Board of Directors that the share of outside directors and audit & supervisory board members is relatively high at 46.2%. This structure adequately protects the benefit of general shareholders, and also enables outside directors and audit & supervisory board members to make frank and straightforward suggestions, with the help of moderation by the chair (former Chairman Akutsu/present President Taneichi) to induce many opinions from outside directors and audit & supervisory board members.

As a member of the Nomination and Compensation Advisory Committee, the majority of which consists of outside directors and audit & supervisory board members, I have been engaged in the operation of the new remuneration system for directors and

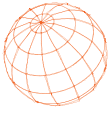
audit & supervisory board members and the election of director candidates. As it was my first year as outside director, I endeavored to have close communication with inside directors and audit & supervisory board members. In interviews with executive officers, I carefully evaluated them from an objective standpoint.

In the discussion that led to the discontinuation of anti-takeover measures, I agreed to discontinuation because the retention of the conventional pre-warning anti-takeover measures might be disadvantageous for investors and stakeholders due to the potential inhibition of proper stock price formation and because other legally acceptable measures could replace the conventional anti-takeover measures to a certain extent and because corporate value enhancement through incessant efforts would be the most effective anti-takeover measure.

A gender goal has been achieved to a certain extent in the skill matrix of the entire TOK Board of Directors. In coming years, I consider it desirable to elect non-Japanese outside director candidates.

#### To establish a new earnings driver from a long-term perspective

Semiconductor needs in society will continue increasing. I consider that TOK will be able to attain TOK Vision 2030 by continuously upgrading its strengths to win competition in the front-end processes, back-end processes, cutting-edge fields, and legacy fields of semiconductors over the next 10 years. However, in the path from 2030 onward aiming to become a 100-year company in 2040, it will be critical to establish a new earnings driver because TOK will probably face difficulties in further development with the business portfolio dependent on photoresists. President Taneichi and the management executives clearly recognize this requirement and have promoted the development of new businesses, such as life science materials, optical materials, and functional films, with certain achievements made. I consider that it will be also worth examining to enter the fields closely related to photoresists, such as mask blanks, reviewing the market conditions, and the competitive environment in the entire photolithography processes. In this way, I will make proactive proposals on business portfolio reform from a long-term perspective.



# Message from Outside Directors and Audit & Supervisory Board Members

## Aiming for sustainable development in cooperation with customers and society

Despite the intensifying geopolitical risks, including infectious diseases, climate change, and geopolitical risks, TOK achieved the record-high performance, while fulfilling its supplier responsibility to provide materials indispensable for semiconductor production, and aims to take another leap under the new long-term vision TOK Vision 2030. To attain this vision, TOK needs to further upgrade its sales power for anticipating and grasping both individual customer needs and broad social needs featuring SDGs, development power for creating

new added value with innovative ideas and accumulated know-how leveraging networks inside and outside the Company, and production power for efficiently and stably supply reliable products even at the time of disasters and other emergency situations. In addition, TOK needs to have robust financial foundation as the basis of all investments and corporate activities, as well as firmer governance structure to properly handle various risks.

To this end, I will fulfill my responsibility as an outside director through audit and other duties, so that TOK can maintain organization that enables each employee to maximize their abilities by combining vigor and order.



**Nobuyuki Takeuchi**  
*Outside Audit & Supervisory Board Member*



**Tadaharu Uehara**  
*Outside Audit & Supervisory Board Member*

## Advancing integrated risk management

I am Tadaharu Uehara, appointed outside audit & supervisory board member in March this year. I would like to contribute to the global development of TOK by leveraging my experience abroad at financial institutions, the Ministry of Foreign Affairs, and other organizations.

Business management in the semiconductor-related industries, which lead the fourth industrial revolution, is becoming increasingly difficult and complicated, calling for strategic technological innovation and bold reform, including alliances and partnerships, under the circumstances with increased geopolitical risks, changing global supply chain, knowledge integration for technological innovation driven by AI and 5G, response to climate

change risks as an urgent requirement, adaptation to the new work style in the post-COVID-19 era, and other factors.

TOK is on the growth trajectory stated in TOK Medium-Term Plan 2021 and TOK Vision 2030, but it must be noted that successful business management in the upcoming business environmental changes will not be achieved by the same means as in the past successes.

I will fulfill my mission as audit & supervisory board member so that TOK can advance integrated risk management toward the "overarching aspiration for 2030" as a milestone of its going concern, and establish a new business portfolio with high profitability through bold strategic investments and enhanced geopolitical intelligence.

## Increasing competitiveness while strengthening governance structure

I am Teruki Umezaki, appointed as a new outside audit & supervisory board member in March this year. I am serving as a senior executive officer at a life insurance company in Japan, and would like to contribute to the sustainable development of TOK by leveraging my experience.

The semiconductor industry is expected to further develop as digital transformation (DX) accelerates across the world in the COVID-19 pandemic. To enhance its sustainable

corporate value taking advantage of this situation, it is critical for TOK to increase competitiveness utilizing cutting-edge technologies and human resources as its strengths. At the same time, the Company needs to establish a governance structure that suits a global company by broadly considering the response to geopolitical risks and social requirements, including environmental issues. From this perspective, I will contribute to the advancement of governance structure at TOK, in addition to contribution in the personnel and compliance fields that I experienced and have knowledge of.



**Teruki Umezaki**  
*Outside Audit & Supervisory Board Member*