

Message from the CFO



Focusing on Growth-Oriented Corporate Governance and Pursuing New Management Vision and Purposes

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Focusing on growth-oriented corporate governance based on management principles and DNA in place since the founding of TOK

● Pursuit of both economic value and social value toward the achievement of sustainability

The recently formulated new management vision—The e-Material Global Company—contributing to the purpose of a sustainable future through chemistry, which expresses the strong intention of the TOK Group to pursue both economic and social value toward the achievement of sustainability. Naturally, this new management vision and purpose are rooted in integrated thinking, which aims to ensure that all management resources and initiatives ultimately contribute to society as stated in the management principles of the founder, Shigemasa Mukai, on page 14 of this report.

Therefore, I will share our resolve above with all stakeholders by focusing on growth-oriented corporate governance in order to powerfully promote the *development and effectively use of financial position* as one of the seven strategies in TOK Vision 2030 as formulated under the new management vision.

For more than 80 years, the TOK Group has embodied its inherited corporate spirit and expressed as an *eternal startup*, as well as its corporate characteristic of a *long-running R&D-driven, top global niche company* as a result of this spirit. This is the unchanging DNA of the TOK Group under the management principles: 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. With this DNA in place, I believe that the thorough pursuit of a business model to persistently develop and market fine innovative chemical products is the correct means of pursuing economic and social value toward the e-Material Global Company contributing to a sustainable future through chemistry.

The large step taken in 2020 toward more long-term financial capital policy

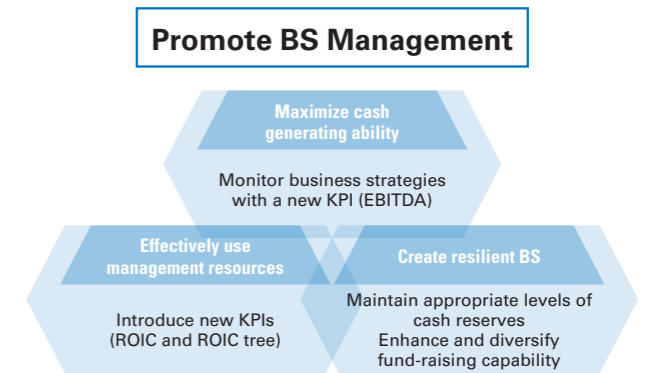
● Company-wide full-scale initiatives started toward the advancement of BS management

The greatest achievement made concerning the financial capital policy in 2020 was the clarification of *development and effectively use of financial position* as one of the strategies under TOK Vision 2030. In other words, we aligned the directions of the long-term financial capital policy and the long-term business strategies and investment strategies, while aiming to maximize cash generating abilities, effectively use management resources, and create resilient BS for a more advanced implementation of BS management measures. As a result of this alignment of the direction, we announced specific long-term targets, including EBITDA of 45.0 billion yen and ROE $\geq 10\%$ in 2030. We also established a structure for pursuing the optimal balance between investment, cash reserves, and shareholder returns as a specific financial capital policy to be thoroughly promoted.

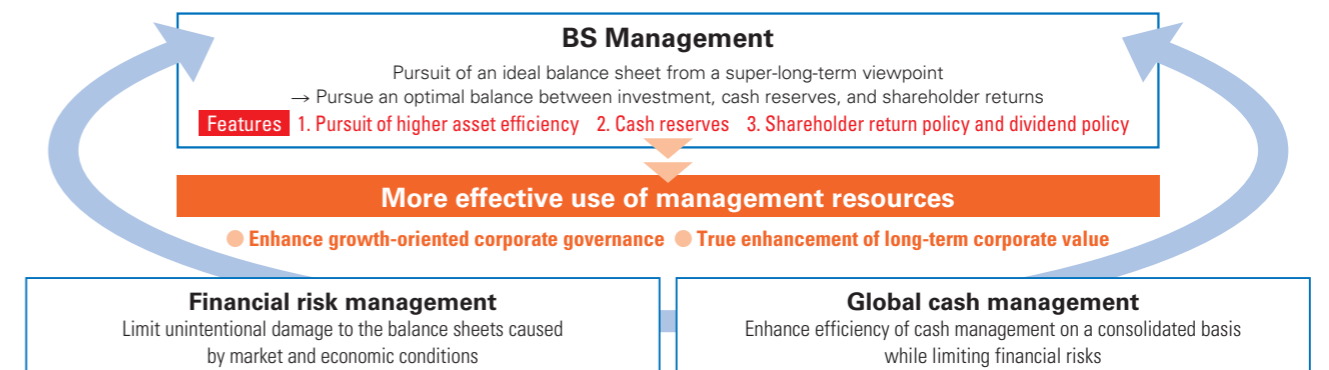
Another achievement was the company-wide implementation of BS management based on TOK Vision 2030, which was started steadily both at the management level and at the on-site level of each group company. For example, EBITDA was specified as a new KPI under the Vision and is taking root as an indicator measuring cash generating ability. ROIC and IRR as parameters for asset efficiency are being used as multifaceted tools for forecasting and for the relevant PDCA, at the committee of officers, at the management strategy meeting to discuss large-scale investments, as well as in requests for investment approval. In the ROIC reverse tree management of production sites, each plant started to use the *new plant balance*, which has been revised to measure real capacity. In-house communication and education are in progress with regard to the concepts of capital cost and the investment hurdle rate. In this way, initiatives under topics that had only been announced as principles and ideals and discussed at the officer level are being rapidly and steadily specified and implemented on a group-consolidated basis, both at the management level and on-site.

On the other hand, two new key requirements have emerged. One is the necessity for further strengthening of growth-oriented corporate governance for future growth in the financial capital measures focused on BS management. As specific measures, on-site proficiency in the use of new KPIs (e.g., EBITDA, ROIC, IRR) will be further enhanced, until all members from management executives to on-site employees have a complete command of these KPIs. The second requirement is to reset the key BS items in accordance with the next medium-term plan, such as debit balance that includes target cash reserves, target equity range, and the credit balance, including liability utilization measures.

Develop and effectively use financial position as one of the seven strategies under TOK Vision 2030



Continue promoting the *trinity* of BS management, financial risk management, and global cash management



In 2021, finish the current medium-term plan while forming the basis for the new medium-term plan

● Toward the formulation of the new medium-term plan backcast from TOK Vision 2030

In 2021, based on the recognition of the requirements above, we will complete the current TOK Medium-Term Plan 2021, while formulating the new medium-term plan backcast from TOK Vision 2030. While forming the basis above, we will focus on the following four points to further strengthen growth-oriented corporate governance.

First, we will further upgrade the *eternal startup spirit* to attain the new management vision and provide thorough support for long-term business activities in order to achieve sustainable growth as a *long-run R&D-driven company*.

Second, in addition to financial value, we will endeavor to maximize our social value by placing decarbonization initiatives and contributing to the SDGs in front of us.

Third, for the two measures above, we will repeat thorough cash flow simulations and BS simulations for the implementation of BS management that can actually maximize cash generating ability, effectively use management resources, and create resilient BS.

Fourth, we will further enhance the dialog with the capital market (IR and SR) to help in the understanding of the relationship between our corporate characteristics as a long-run R&D-driven top global niche company and the purpose. Based on this dialog, we will continue to pursue an optimal balance between investment, cash reserves, and shareholder returns.

● Strengthening ROIC improvement measures both through a macro approach and through a bottom-up approach

We will further infiltrate ROIC improvement measures to effectively use management resources both through a macro approach and through a bottom-up approach.

For the macro approach, company-wide training on the effective use of assets is being implemented as part of BS-oriented thinking training and CF-based management training. The changes in ROIC by business and by entity are analyzed. These results are combined with IRR as PDCA tools for business and investment strategies by business and by entity, as well as tools for in-house discussions among management executives.

In the bottom-up approach, certain plants have been designated ROIC model plants to further expand the idea from Japanese sites. The formulation of the ROIC reverse tree, and the activities based on the tree, have been started for on-site improvement and effective use of assets. On-site employees reacted very favorably. Progress has been felt in the activities for the effective use of plant fixed assets and those for the improvement of cash conversion cycle (CCC) linked to the plants and sales departments.

We will continue to strengthen ROIC tree-based initiatives to improve the ROA numerator, while degrading the denominator into invested business assets and cash reserves, while pursuing the respective medium- to long-term efficiency and thereby maintaining robust BS and attaining ROE ≥10% by FY 2030/12.

● Upgrade cash reserves and financial leverage by introducing new concepts

For cash reserves in the tree below, the concepts will be partially reviewed, and the moving targets will be reset in order to achieve higher efficiency. As specific measures, a new concept of net cash will be introduced. The related policy will be adapted according to the operated situation so that net cash can be used for risk reserves and for investments in major challenges coupled with risks. The review of financial leveraging will also be considered from the aspects resetting the optimal equity range and the more effective use of liabilities.

Improving ROIC for better ROE to utilize management resources effectively

ROE = ROA × Financial leverage

Improve the numerator of ROA based on the ROIC tree while dividing the denominator into invested business assets and cash reserves and pursuing the medium- to long-term efficiency of each

Invested business assets

Achieve efficient business operations based on the ROIC tree perspective

ROIC

Maximize cash generating ability

- Pursue EBITDA and EBITDA margin

Improve invested capital turnover ratio

- Effective use of assets
- Redefine capital investment judgment criteria and enhance monitoring

Cash reserves

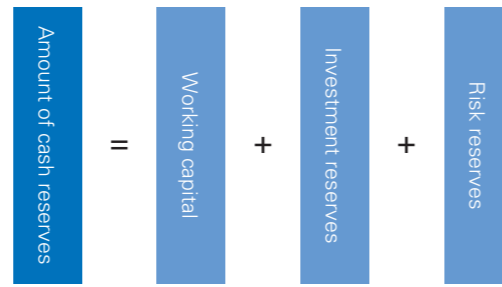
Retain cash reserve as a management objective (moving target)

Cash reserves = Working capital + Investment reserves + Risk reserves

Policies on cash reserves

As a long-run R&D-driven company, TOK will calculate cash reserves from the standpoint of securing the necessary funds.

- Develop technologies in anticipation of a super-long time frame
- Continuously tackle challenges over a super-long time frame
- Respond rapidly when the unexpected happens (restoration and rebuilding from major disasters)



● Paid the highest dividend ever to extend gratitude to long-term shareholders

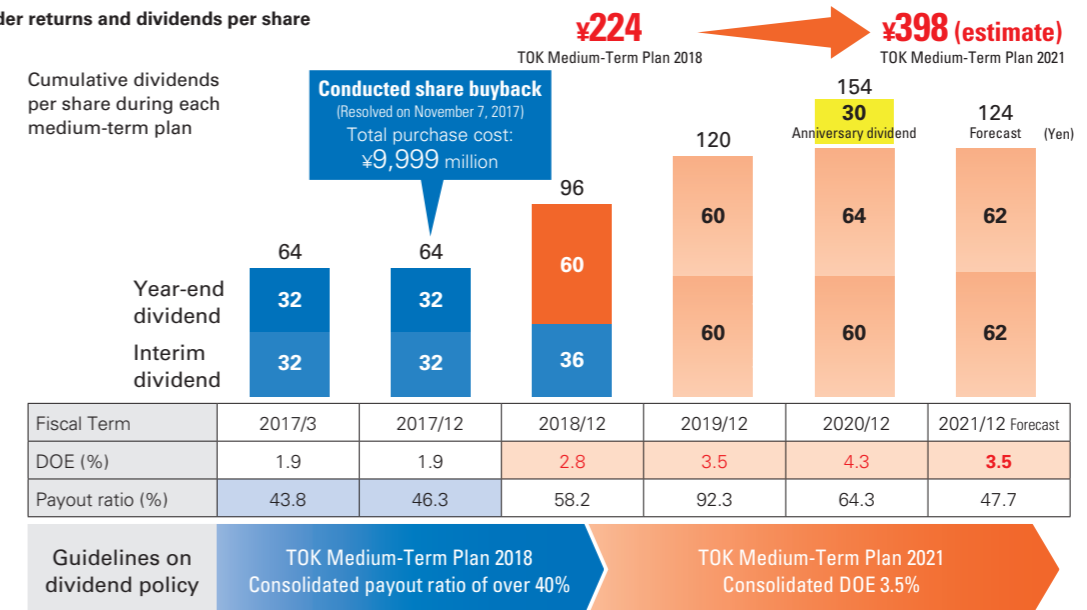
TOK introduced a new dividend policy targeted at DOE 3.5%, starting with the year-end dividend for FY 2018/12, as one of the key revised financial capital policies. Under this policy, TOK increased the annual dividend by 32 yen year-on-year in FY 2018/12, and by 24 yen year-on-year in FY 2019/12. TOK paid the highest dividend ever in FY 2020/12 at 154 yen, while adding a normal dividend increase (by 4 yen) and the 80th anniversary dividend (30 yen) to the BOY estimate, substantially exceeding the DOE 3.5% level. We paid 30 yen as the 80th anniversary dividend partly because we achieved income that substantially exceeded the BOY estimate and partly for the purpose of

extending our gratitude for support by shareholders that enabled us to celebrate the 80th anniversary and asking for their continued long-running support for our group. This dividend was based on our assessment that net cash and equity would be adjustable within a certain range, though long-term investment increases in human and material resources were expected under TOK Vision 2030, considering the strong uncertainty of business environment and the escalating communication reform.

Our future dividend policy will be clarified in the next

medium-term planning stage. We will stick to the DOE-based dividend policy because we shifted from the consolidated payout ratio-based standard to the DOE-based standard in 2019 for the primary purpose of rewarding long-term shareholders who provide long-running support for TOK as a long-running R&D-driven company. We will also consider better shareholder returns linked to the advancement of cash reserves and the review of finance leverages as mentioned above.

Shareholder returns and dividends per share



Initiatives for IR and SR, and tax governance

● Further reduce capital cost and improve corporate value, enhance dialogs with shareholders and investors

To reduce capital cost leading to improved corporate value, TOK has pursued the optimal capital mix (review of DE ratio) and thorough financial risk management as key financial means. In addition, the company considers it critical to minimize the long-term perception gap by gaining adequate understanding from shareholders and investors, primarily through detailed explanations of business strategies, investment strategies, and financial strategies aimed at the sustainable, stable, and efficient increase of group cash generating ability.

Under this policy, TOK had 281 individual meeting sessions with analysts and institutional investors, in addition to the periodic IR meetings in 2020. I also had individual dialogs with more than ten institutional shareholders. We have been encouraged by the many requests for continued and enhanced individual dialogs in 2021 onward, based on the extremely vigorous discussion on business strategies, investment strategies, and financial strategies under TOK Vision 2030. We will continue to enhance IR and SR activities.

● Further strengthen global tax governance as part of survival-oriented governance

The TOK Group has achieved the overseas sales ratio of approximately 80% and aims to become an e-Material Global Company. The key for survival-oriented governance will be to maintain and strengthen global tax governance that can ensure appropriate tax affairs and compliance. We recognize this is a prerequisite for establishing a win-win relationship with all stakeholders.

We are creating an appropriate tax governance system with the parent company as the control tower that gathers expertise on taxation on a consolidated basis and for each entity, with the intention of addressing issues in international taxation including problems associated with transfer price taxation and strengthening base erosion and profit shifting (BEPS) measures by local authorities in each country.

Specifically, we have researched taxation and tax customs, as well as product market conditions, in all regions where we do business, while maintaining an overview of tax affairs and identifying requirements at each entity and on a consolidated basis. At the same time, we formulated a transfer pricing policy based on the information above, incorporated the policy into the transfer pricing documents in BEPS, and enhanced training for group tax personnel in each country. In this way, we will expedite transfer pricing measures within the group and improve effectiveness, while continuing to strengthen tax governance on a worldwide basis.