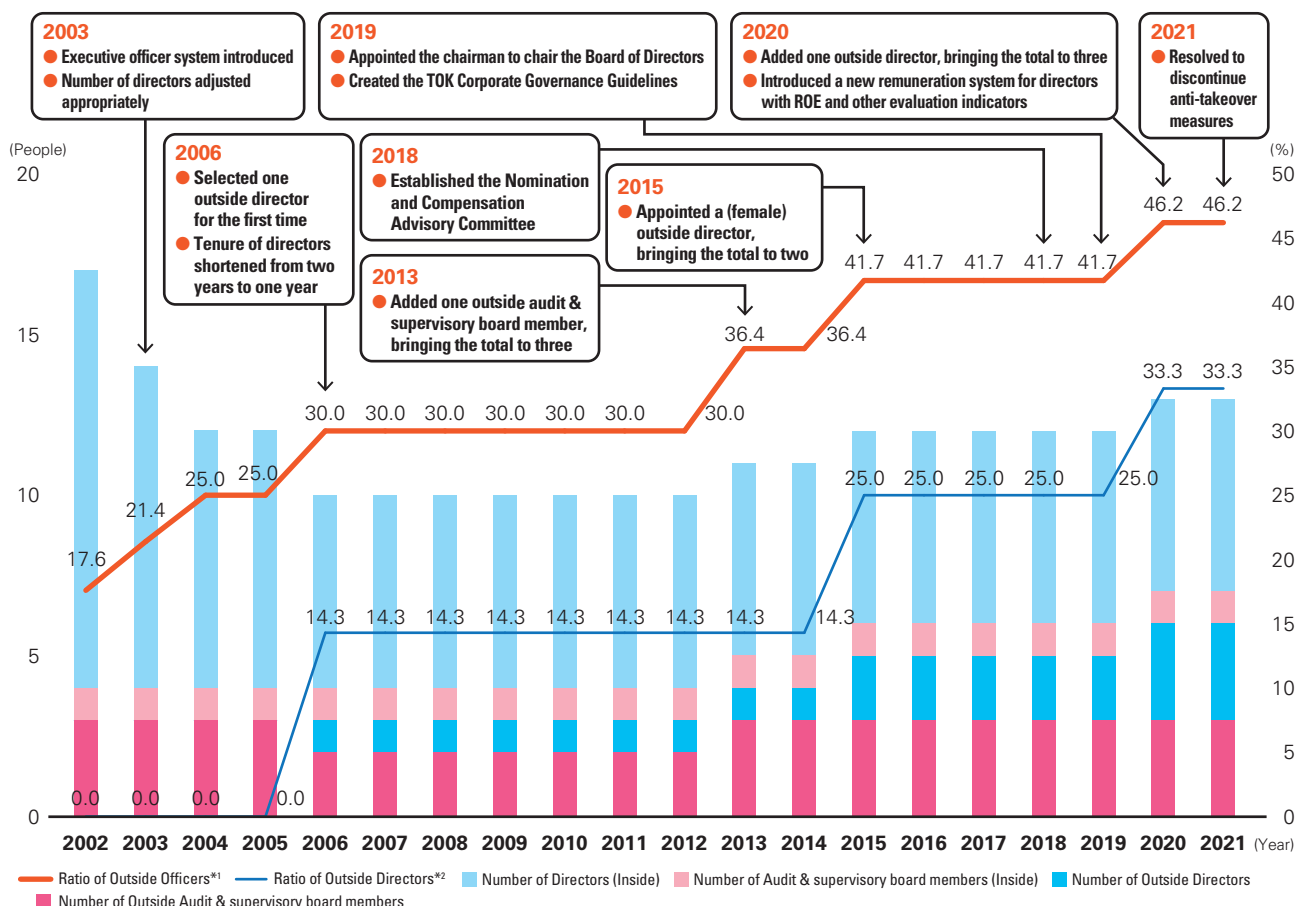


Corporate Governance

We will further strengthen corporate governance, looking to sustainably enhance our corporate value.

TOK's Path to Stronger Corporate Governance



*1 Ratio of Outside Officers = (Number of Outside Directors + Number of Outside Audit & Supervisory Board Members) / (Number of Directors + Number of Audit & Supervisory Board Member)
 *2 Ratio of Outside Directors = Number of Outside Directors / Number of Directors

Basic Concept

We have had a management vision of aiming to become "The e-Material Global Company" contributing to a sustainable future through chemistry under our management principles since the foundation ("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"). We believe that realizing this will lead to benefits shared by shareholders and all other stakeholders and improve corporate value.

We strive to realize the management vision, placing enhancement of corporate governance as one of the most important issues. That is to ensure transparency and solidness of the management and efficiency by expediting decision-making process.

One of TOK's material issues and company-wide strategies in the TOK Medium-Term Plan 2021 is improving corporate governance. The Company created and published the TOK Corporate Governance Guidelines in April 2019 as a compilation of its basic policies and approaches to continuously improve corporate governance.

→ TOK Corporate Governance Guidelines
https://www.tok.co.jp/content/download/4719/77678/file/gov_guidline0403.pdf (in Japanese)

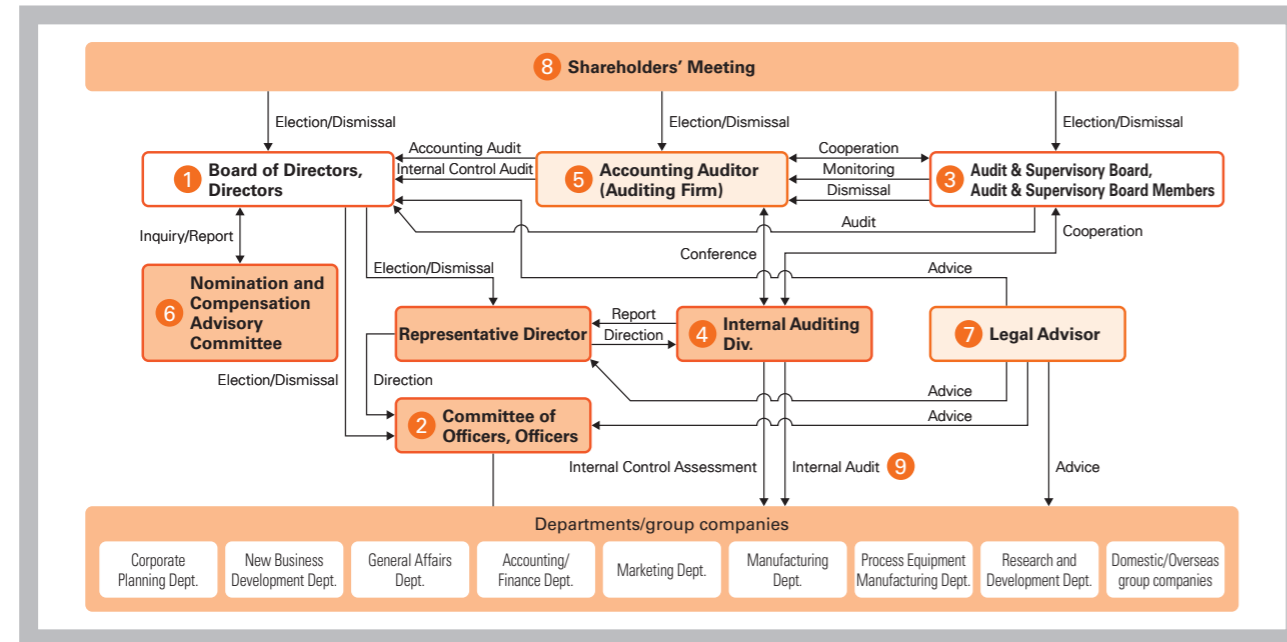


Corporate Governance

Type of System

As a company with audit & supervisory board members, TOK employs the audit & supervisory board members system. We are taking action to strengthen audits performed by the audit & supervisory board members with the greater authority stipulated by the Companies Act of Japan. In addition, TOK is taking advantage of the benefits of reforms to its Board of Directors, establishment of the executive officer system, and the election of an independent outside director to fortify the management decision-making and supervisory function and the business execution function while clarifying responsibility for performing these functions. We are convinced that these measures are the most effective means to strengthen management and upgrade our corporate governance.

Diagram of Corporate Governance System (As of March 30, 2021)



Directors/Board of Directors **Diagram 1**

To rapidly respond to changes in the operating environment and to clarify the management responsibility of directors in each accounting period, the tenure of directors has been shortened from two years to one year since June 2006. To increase transparency in the Board of Directors and to strengthen its oversight function, it was decided in June 2006 to appoint one outside director who has independence. The number of outside directors was increased by one in June 2015 and one in March 2020, leading to three independent outside directors at present. As a result, outside directors take up one-third of the nine directors in total.

In principle, the director system has simplified two layers: representative director and directors. This creates a framework that allows the Board of Directors to fulfill its primary responsibilities by effectively reaching management decisions and supervising the Company's management.

As of March 30, 2021, the Board of Directors is chaired by Director and President Noriaki Taneichi, and consists of nine directors (three of whom are outside directors). In principle, the Board of Directors meets once a month on a regular basis and holds extraordinary meetings as required. The meetings are held to decide important matters of business execution with the goal of supervising the business duties executed by the representative director and directors.

The number of directors on the Board of Directors is set to not exceed 10 directors in the Company's Articles of Incorporation. The articles also stipulate that resolutions for the election of directors must be approved by a non-cumulative

majority vote at a General Meeting of Shareholders with a third or more of the shareholders in attendance.

Assessment of the Effectiveness of the Board of Directors

Our directors and audit & supervisory board members conduct an assessment and discuss at meetings of the Board of Directors using an anonymous self-evaluation questionnaire of the composition of the Board of Directors, the effectiveness of the Board of Directors, information related to the Board of Directors, the decision-making process, and external communications. This offers an analysis and assessment of the effectiveness of the Board of Directors as a whole.

(Conducted evaluation of the Board of Directors for FY2019/12 and made improvements on identified issues) Standards for the preparation and operation of materials were established concerning the issues identified in the previous evaluation such as 1) clarification of agenda items, 2) deepening discussion on company-wide managerial requirements, and 3) further enhancement of training. Improvement was also made to review the training details and promote related discussion. **(Revised the content of the questionnaire for the Board of Directors evaluation for FY2020/12)**

In this sixth session of self-evaluation, questions were included concerning the promotion of DX and during-/post-COVID-19 era, which were identified as requirements and social issues in the previous evaluation. The questionnaire was also reviewed by including continuous questions that required descriptive responses concerning company-wide managerial requirements.

Time of evaluation	December 2020 (questionnaire survey)
Evaluation item	<ul style="list-style-type: none"> ◆ Composition of Board of Directors ◆ Effectiveness of Board of Directors ◆ Information related to Board of Directors ◆ Decision-making process ◆ External communication

Evaluation results	<ul style="list-style-type: none"> ○ Having a balanced composition of inside directors, in terms of experience and track record with thorough understanding of each field ○ Maintaining diversity by incorporating outside directors with different backgrounds, knowledge, and expertise ○ The share of independent outside directors has been increased to one-third ○ The size of the Board of Directors, frequency of meetings, matters discussed, and time spent on discussions are all appropriate ○ In an atmosphere of frank and open discussions, rapid decision-making has done well having the outside directors and outside audit & supervisory board members with high levels of transparency ○ Generally good self-improvement and in-house check-and-balance functions ▲ There should be deeper discussions about medium- to long-term management strategies toward the resolution of sustainability requirements regarding business domains, risk management, appointment of human resources, and utilization of IT ▲ Preliminary briefing and reporting systems should be improved for important matters
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Measures to be implemented/matters to be examined based on the evaluation results	<ol style="list-style-type: none"> 1 Deepening discussions on company-wide managerial requirements 2 Preliminary briefings to outside directors and audit & supervisory board members concerning important agenda items 3 Further enhancing communication among directors and audit & supervisory board members 4 Review of directors and audit & supervisory board members 5 Establishing a mechanism to facilitate discussion and providing preliminary briefing sessions for outside directors and audit & supervisory board members
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Review of Decision-Making Authority of the Board of Directors

Within the context of strengthening the functions of the Board of Directors and changes in the business environment, the decision-making authority of the Board of Directors was reviewed in April 2019, such as delegating decision-making authority to the Committee of Officers. We also revised the regulations of the Board of Directors, the regulations of the Committee of Officers, the Specific Authority by Position, and the Duty and Authority regulations. The decision-making authority of subsidiaries in Japan and overseas was also revised in FY 2020/12.

Establishment of Meetings of Outside Directors and Audit & Supervisory Board Members

TOK has established meetings of outside directors and audit & supervisory board members with the participation of all outside directors and all outside audit & supervisory board members. They are held with the same frequency as meetings of the Board of Directors. The standing audit & supervisory board members also attends the meetings.

• The meetings aim to strengthen the effectiveness and add vigor to discussions at the Board of Directors through the following:

- Exchange of opinions on themes to be taken up at the next meeting of the Board of Directors, as well as on the operation and proceedings of the said meetings of the Board of Directors
- Commentary on cutting-edge technological matters

and other measures, as well as reporting circumstances inside and outside the Company in a timely manner. In this way, the meetings aim to strengthen the effectiveness and add vigor to discussions by the Board of Directors.

Officers and Committee of Officers **Diagram 2**

While taking steps to strengthen the Board of Directors' functions in management decision-making and supervision, TOK has the Committee of Officers made up of all officers to reinforce its business execution capabilities. The committee members include the chief executive officer, the chief operating officer, senior executive officers, executive officers, and officers, allowing for their business responsibilities, capabilities, and other considerations.

As of March 30, 2021, the Committee of Officers was chaired by President Noriaki Taneichi and comprised 13 officers, including six officers also serving as directors. In principle, the Committee of Officers meets once a month on a regular basis and holds extraordinary meetings as required. The meetings are held to share instructions and orders resolved by the Board of Directors and information among the officers, and with the goal of planning management strategies and then deliberating and approving certain important decisions that are not subject to a Board of Directors resolution.

Audit & Supervisory Board Members and Audit & Supervisory Board **Diagram 3**

As of March 30, 2021, TOK has four audit & supervisory board members, including three outside audit & supervisory board members. To receive reports from audit & supervisory board members regarding important audit-related matters, to discuss the matters, and/or to make resolutions, the Audit & Supervisory Board meets once a month on a regular basis and holds extraordinary meetings as required. Audit & supervisory board members comply with the Audit Standards (Audit & Supervisory Board Members Auditing Regulations) established by the Audit & Supervisory Board and participate in meetings of the Board of Directors in accordance with the audit policy and the division of duties. They also receive reports from directors and others on the execution of duties, and require explanation when necessary, thereby auditing the execution of duties by the directors. The audit & supervisory board members receive reports from the accounting auditor (auditing firm) on the execution of duties concerning accounting matters, and require explanation when necessary, thereby verifying the validity of audit methods and results.

To improve the effectiveness of corporate audits, and to ensure smooth execution of audit duties, one person is assigned to assist the duties of the audit & supervisory board members while serving in other positions.

Internal Auditing Division **Diagram 4**

The Internal Auditing Division is under the direct control of the president. In addition to internal audits, this division offers suggestions, proposals, and advice for continuous improvement through evaluations of the effectiveness of internal controls in financial reporting.

Corporate Governance

Accounting Auditor Diagram 5

The accounting auditor undertakes accounting audit of TOK from a fair and independent standpoint. The accounting audit of TOK for FY 2020/12 was executed by two certified public accountants: Mr. Hiroki Kitagata and Mr. Yohei Masuda, both of whom are a designated limited liability partner and executive member of Deloitte Touche Tohmatsu LLC. There were nine other certified public accountants, three persons who have passed the certified public accountant examination, and eight other people who assisted in conducting the accounting audit of TOK. The details of the remuneration paid from TOK to the accounting auditor (Deloitte Touche Tohmatsu LLC) regarding accounting audit for FY 2020/12 was as follows:

- Remuneration in relation to the services set forth in Article 2, Paragraph 1, of the Certified Public Accountants Act (Act No. 103 of 1948): ¥58 million

Nomination and Compensation Advisory Committee Diagram 6

TOK established the Nomination and Compensation Advisory Committee, chaired by an outside director with more than half of its members consisting of outside directors, to enhance corporate governance by strengthening the fairness, transparency, and objectivity of procedures related to the nomination, dismissal, and remuneration of directors. → See pages 85–86

In the process of determining remuneration amounts for directors in FY 2020/12, the Nomination and Compensation Advisory Committee formulated the remuneration table for relevant directors, proposed remuneration amount for each director, and proposed remuneration amount for each outside director, referring to the performance of the TOK Group, contribution by the relevant directors to the medium-term plan and the budget for the previous fiscal year, and comparison with companies of the same scale. These proposed remuneration amounts for directors were deliberated and resolved at the Board of Directors meeting.

As of March 30, 2021, the majority of the Nomination

and Compensation Advisory Committee consists of outside directors, and the Committee is chaired by an outside director. The chair is Hiroshi Kurimoto, an outside director, and the members are Noriaki Taneichi, the president, Kunio Mizuki, a director, and Noriko Sekiguchi and Kazuo Ichianagi, who are outside directors.

Legal Advisers Diagram 7

The Company has concluded advisory contracts with a number of law firms and receives appropriate advice from legal advisors in situations requiring legal assessment.

Efforts to Invigorate the Shareholders' Meeting and Facilitate Smooth Exercise of Voting Rights Diagram 8

To facilitate the exercise of voting rights by shareholders, we hold our General Meeting of Shareholders in March, when most other Japanese companies' shareholder meetings are not hosted, set a period for reviewing the resolutions for approval by the meeting that is longer than the number of days required by law, and publish the Notice of Convocation of the General Meeting of Shareholders on our website ahead of time, or 28 days (four weeks) before the day of the meeting. It is also sent out early (21 days [three weeks] before the day of the meeting. Shareholders who cannot attend the General Meeting of Shareholders are able to exercise their voting rights in writing, and by electromagnetic means (including the use of a voting rights exercise platform for institutional investors). In addition, the notice of convocation is also prepared in English to help better understanding by institutional investors overseas. We also describe the reported matters using narrated video footage to promote understanding by shareholders who attended the General Meeting of Shareholders, and upload the Notice of Convocation, Notice of Resolution, and Results of the Exercise of Voting Rights to the General Meeting of Shareholders for disclosure, each of which is in Japanese and English, on the Company website.

Cooperation between the Audit & Supervisory Board Members, Internal Auditing Division and Accounting Auditor

Internal Audit and Corporate Audit Diagram 9
[Cooperation between the audit & supervisory board members and accounting auditor]

The audit & supervisory board members receive reports on the result of accounting audits and other work from the accounting auditor (auditing firm) four times a year. They also receive an explanation of the auditing plan from the accounting auditor once a year. In addition, the audit & supervisory board members also accompany the accounting auditor to the factory audits the accounting auditor conducts if necessary, as well as examine the auditing method of the accounting auditor. Apart from this, the audit & supervisory board members also regularly exchange information and opinions with the accounting auditor.

[Mutual coordination among audits by outside audit & supervisory board members, internal audits, audit & supervisory board members audits, and accounting audits, and their relationship with the internal control department]

To enable outside audit & supervisory board members to audit the directors' performance of duties, they attend the meetings of the Board of Directors. They also receive internal audit reports from the Internal Auditing Division, reports on the results of audits conducted by the standing audit & supervisory board member after attending important meetings (such as the executive officers meeting and the sales meeting), and audits performed by viewing and surveying important decision-making documents (such as requests for approval), and audit reports from the accounting auditor. Moreover, information and opinions are exchanged with the Internal Auditing Division, the standing audit & supervisory board member, and the accounting auditor on a periodic basis. In addition, the outside audit & supervisory board members receive reports as appropriate from the Internal Auditing Division regarding its evaluation of the effectiveness of internal controls over financial reporting and from the accounting auditor regarding its opinion on the internal control audit.

Election of Outside Directors and Outside Audit & Supervisory Board Members

The Company has nine directors, three of whom are outside directors, or one-third of them. Similarly, the Company has four audit & supervisory board members of whom three are outside audit & supervisory board members. The Company has established the following criteria and policies regarding independence in the election of outside directors and outside audit & supervisory board member.

Independence Standards for Outside Officers

Independent outside officers under these criteria are defined as those who fulfill the legal requirements of an outside officer and to whom any one of the following does not apply.

- A person who executes the business of the Company or its consolidated subsidiaries (the "Group") or who did so for a period of 10 years before being appointed.
- A person/entity for which the Group is a major client (Note 1) or who executes the business of such a person/entity.
- A major customer of the Group (Note 2) or a person who executes the business of such customer.
- A major lender of the Group (Note 3) or a person who executes the business of such lender.
- A person who, apart from receiving officer compensation from the Group, belongs to a consulting, accounting, or legal firm (corporate entity, cooperative, or other such group) receiving large amounts of cash or other assets (Note 4) from the Group.
- A person to whom the above b. through e. applied in the previous three years.
- A person who in the past three years has received donations from the Group averaging more than ¥3 million per year.
- Major shareholders of the Group (Note 5) or a person who executes the business of such shareholder.
- A person who executes the business of a company with a mutual relationship between outside officers. (Note 6)
- A person whose spouse or a relative within the second degree of kinship comes under any one of above items a. through i.

- A person who has served a total of more than eight years as an outside officer.
- Regardless of the above provisions, a person for whom it is deemed likely that conflicts of interest will arise with the Company.

Notes:

- A person/entity for which the Group is a major client means a supplier that provides the Group with products or services, the amount of which transactions averaged more than ¥10.0 million per year over the past three years and represented more than 2% of the supplier's consolidated annual revenue in the most recent fiscal year.
- A major customer of the Group means a customer to which the Group provides products and services, the amount of which transactions averaged more than ¥10.0 million per year over the past three years and represented more than 2% of the Group's consolidated annual revenue in the most recent fiscal year.
- A major lender of the Group means a financial institution that has lent an amount equivalent to more than 2% of the Group's consolidated total assets.
- A large sum of cash or other assets means assets that averaged more than ¥10.0 million per year over the past three years and which in the most recent fiscal year had an economic value in excess of 2% of the said consultant or accounting or legal expert's consolidated annual revenue. (In the event the beneficiary of the said assets is a corporation, association, or other organization, then assets that averaged more than ¥10.0 million per year over the past three years and which in the most recent fiscal year had an economic value in excess of 2% of the said organization's consolidated annual revenue).
- Major shareholder means a shareholder with a ratio of voting rights of more than 10%.
- A mutual relationship between outside officers means a relationship in which a person who executes the business of the Group is also an outside officer at another company, and in which a person who executes the business of the said outside company is an outside officer of the Company.

Reasons for the Election of Inside Directors

Name	Reasons for election
Noriaki Taneichi Representative Director President and Chief Executive Officer Nomination and Compensation Advisory Committee Member	Since assuming the position of representative director, president, and chief executive officer, Taneichi has led the management of the Group as its top executive and contributed to the Group's further development through the measures in the Medium-Term Plan. Thus, Taneichi can be expected to continue contributing to the management of the Company.
Harutoshi Sato Director	Sato has held important positions in the Group, serving in such roles as representative at the U.S. subsidiary, person responsible for quality assurance, and person responsible for product development before assuming the position of department manager, Research and Development Department. Owing to this experience, he is well acquainted with the Company's business characteristics and customers and consequently possesses necessary and sufficient knowledge of such matters as important decision-making by the Board of Directors and supervision of duties executed by other directors. Thus, Sato can be expected to continue contributing to the management of the Company.
Yoichi Shibamura Director	Shibamura possesses not only rich experience in financial institutions but also knowledge of management, particularly accounting and finance, having served first as the general manager, Finance Division, after joining the Company and then department manager, Accounting and Finance Department, and contributed to developing the finance strategy, including capital policy. He also has the necessary and sufficient knowledge of such matters as important decision-making by the Board of Directors and supervision of duties executed by other directors. Thus, Shibamura can be expected to contribute to the management of the Company.
Kunio Mizuki Director Nomination and Compensation Advisory Committee Member	Mizuki, since assuming the position of department manager of the General Affairs Department after serving as the general manager of the General Affairs Division, has been working to strengthen corporate governance, including development of the information management system, the risk management system, and the compliance system, as well as improvement of investor relations. Furthermore, through his experience with the business operations in his charge, he possesses necessary and sufficient knowledge of such matters as important decision-making by the Board of Directors and supervision of duties executed by other directors. Thus, Mizuki can be expected to continue contributing to the management of the Company.
Yuichi Murakami Director	Murakami has held important positions in the Group, serving in such roles as representative at the U.S. subsidiary, representative director and president of the South Korean subsidiary, and department manager of the Manufacturing Department. Owing to this experience, he is well acquainted with the Company's business characteristics and possesses the necessary and sufficient knowledge of such matters as important decision-making by the Board of Directors and supervision of duties executed by other directors. Thus, Murakami can be expected to contribute to the management of the Company.
Yusuke Narumi Director	Narumi has held important positions in the Group, serving in such roles as representative at the China office, person responsible for the sales and marketing of key products, before assuming the position of department manager, New Business Development Department. Owing to this experience, he is well acquainted with the Company's existing and new business fields, and consequently possesses necessary and sufficient knowledge of such matters for important decision-making by the Board of Directors and the supervision of duties executed by other directors. Thus, Narumi can be expected to contribute to the management of the Company.

Corporate Governance

Reasons for the Election of Outside Directors

Name	Reasons for election
Hiroshi Kurimoto Nomination and Compensation Advisory Committee Chairman	Kurimoto was elected as outsider director on the expectation that he would continue supervision of the Company's management from an objective and neutral point of view based on his abundant experience and considerable insight as an executive of a listed company, as well as his contribution to enhancement of the corporate governance with his advice on the general management of the Company.
Noriko Sekiguchi Nomination and Compensation Advisory Committee Member	Sekiguchi was elected as outside director on the expectation that she would continue supervision of the Company's management from an objective and neutral point of view based on her sophisticated expertise in accounting as a certified public accountant, abundant experience in several companies, and thorough understanding of internal control in her capacity as an external committee member for fraudulent accounting conducted in multiple listed companies. Thus, Sekiguchi can be expected to contribute to enhancement of the corporate governance with her advice on the general management of the Company.
Kazuo Ichiyanagi Nomination and Compensation Advisory Committee Member	Ichiyanagi was elected as outside director on the expectation that he would continue supervision of the Company's management from an objective and neutral point of view based on his abundant experience and considerable insight as an executive of a listed company, as well as his contribution to enhancement of the corporate governance with his advice on the general management of the Company.

Reasons for the Election of Outside Audit & Supervisory Board Members

Name	Reasons for election and Independence
Nobuyuki Takeuchi	Takeuchi was elected to contribute to auditing TOK's management from an objective and neutral point of view based on his experience as audit & supervisory board member of another company, as well as his abundant experience and considerable insight as an executive of financial institutions. Takeuchi was previously representative director and chairman of Mitsubishi UFJ Real Estate Services Co., Ltd., and is still serving there as an advisor as of December 31, 2020. There is a business relationship between Mitsubishi UFJ Real Estate Services Co., Ltd., and the Company, but it is general in nature. Moreover, Takeuchi was once a business executive with Mitsubishi UFJ Trust and Banking Corporation, which owns stock in TOK and conducts cash deposit, stock administration agent, and other transactions with the Company under routine and standard business conditions. However, these capital and business relationships were deemed not to affect Takeuchi's independence as an outside audit & supervisory board member of TOK.
Tadaharu Uehara	Uehara was elected to contribute to auditing TOK's management from a globally objective and neutral point of view based on his abundant experience at financial institutions, the Ministry of Foreign Affairs, and other organizations, as well as considerable insight as a management executive. Uehara was once a business executive with Tokio Marine & Nichido Fire Insurance Co., Ltd., which owns stock in TOK and conducts insurance transactions with the Company under routine and standard business conditions. However, these capital and business relationships were deemed not to affect Uehara's independence as an outside audit & supervisory board member of TOK.
Teruki Umezaki	Umezaki was elected to contribute to auditing TOK's management from an objective and neutral point of view based on his abundant experience and considerable insight as an executive of financial institutions. Umezaki serves as a senior executive officer at Meiji Yasuda Life Insurance Company, which owns stock in TOK and conducts insurance transactions with the Company under routine and standard business conditions. However, these capital and business relationships were deemed not to affect Umezaki's independence as an outside audit & supervisory board members of TOK.

The Main Activities of Outside Directors and Outside Audit & Supervisory Board Members

Name	Attendance record and activities at Board of Directors and Audit & Supervisory Board Members meetings
Hiroshi Kurimoto Outside Director	Kurimoto attended all 14 of the 14 meetings of the Board of Directors (attendance rate 100%) held during the fiscal year ended December 2020. He voiced timely opinions as required when discussing resolutions based on his broad experience and abundant expertise as a management executive of listed companies. Kurimoto attended all of the five Nomination and Compensation Advisory Committee meetings (attendance rate 100%), mainly discussing successor planning, the operation check of the revised remuneration system for directors, changes in managing executive appointments, the selection of executive fellows, and the selection of new director candidates and new independent audit & supervisory board member candidates. He appropriately fulfilled his responsibilities as chair of the Nomination and Compensation Advisory Committee, moderating the agenda, and reporting to the Board of Directors.
Noriko Sekiguchi Outside Director	Sekiguchi attended 13 out of the 14 meetings of the Board of Directors (attendance rate 93%) held during the fiscal year ended December 2020. She voiced timely opinions as required when discussing resolutions based on her professional expertise in accounting and abundant hands-on business experience with several companies as a certified public accountant. Sekiguchi also attended all of the five Nomination and Compensation Advisory Committee meetings (attendance rate 100%), mainly discussing successor planning, the operation check of the revised remuneration system for directors, changes in managing executive appointments, the selection of executive fellows, and the selection of new director candidates and new independent audit & supervisory board member candidates. She appropriately fulfilled her responsibilities as a member of the Nomination and Compensation Advisory Committee, making appropriate suggestions.
Kazuo Ichiyanagi Outside Director	Ichiyanagi attended all of the 11 meetings of the Board of Directors (attendance rate 100%) held since his appointment on March 27, 2020. He voiced timely opinions as required when discussing resolutions based on his broad experience and abundant expertise as a management executive of listed companies. Ichiyanagi also attended all of the five Nomination and Compensation Advisory Committee meetings (attendance rate 100%), mainly discussing successor planning, the operation check of the revised remuneration system for directors, changes in managing executive appointments, the selection of executive fellows, and the selection of new director candidates and new independent audit & supervisory board member candidates. He appropriately fulfilled his responsibilities as a member of the Nomination and Compensation Advisory Committee, making appropriate suggestions.
Kazumasa Fukada Outside Audit & Supervisory Board Member	Fukada attended all of the 14 meetings of the Board of Directors (attendance rate 100%) and all of the 14 meetings of the Audit & Supervisory Board (attendance rate 100%) held during the fiscal year ended December 2020. He voiced and raised timely opinions and questions as required at the meetings based on his broad experience including at a financial institution, and his abundant expertise as a business executive.
Koichiro Takahashi Outside Audit & Supervisory Board Member	Takahashi attended all of the 14 meetings of the Board of Directors (attendance rate 100%) and all of the 14 meetings of the Audit & Supervisory Board (attendance rate 100%) held during the fiscal year ended December 2020. He voiced and raised timely opinions and questions as required at the meetings based on his experience as an audit & supervisory board member of another company, as well as abundant experience and considerable insight as a business executive, including at financial institutions.
Nobuyuki Takeuchi Outside Audit & Supervisory Board Member	Takeuchi attended all of the 14 meetings of the Board of Directors (attendance rate 100%) and all of the 14 meetings of the Audit & Supervisory Board (attendance rate 100%) held during the fiscal year ended December 2020. He voiced and raised timely opinions and questions as required at the meetings based on his experience as an audit & supervisory board member of another company, as well as abundant experience and considerable insight as a business executive, including at financial institutions.

The Major Decisions and Agenda of Board of Director Meetings in the Fiscal Year Ended December 2020

- ◆ Implementation of measures against COVID-19 and related support (donation)
- ◆ External environmental risks, management vision, overarching aspiration (qualitative/quantitative), and management strategies under TOK Vision 2030
- ◆ Enhancement of development equipment, manufacturing equipment, and storage equipment for cutting-edge semiconductor materials (Japan, South Korea, etc.)
- ◆ Postponement of the introduction of the new personnel system
- ◆ Addition of import management function to GMS
- ◆ Revision of the remuneration system for directors and executive officers
- ◆ Future structure of the TOK Group in China (resolution on the direction)
- ◆ Formulation of the CSR Policy
- ◆ Revenue of the Basic Policy on the Establishment of Internal Control System
- ◆ Continued possession and selling of cross-shareholdings

Remuneration for Directors and Audit & Supervisory Board Members

[Basic Policy on Determination of Remuneration for Directors (Excluding Outside Directors)]

The Company has established a Nomination and Compensation Advisory Committee, chaired by an outside director, to serve as an advisory function to the Board of Directors. The committee has held deliberations to examine the preferred remuneration system for the Company, giving consideration to the outlook for the management environment and the approach to corporate governance in Japan based on which the Company's remuneration policy for directors (excluding outside directors) has been determined as follows.

[Basic Principle of Remuneration]

Remuneration for directors (excluding outside directors) is determined based on the following basic concepts.

Aim to support the Company's sustainable value creation

- Set the composition and level of remuneration so as to provide healthy motivation to generate sustainable growth and corporate value in the medium to long term
- Clarify responsibility for each fiscal year's results by fairly and impartially reflecting quantitative evaluations based on financial performance and evaluation of efforts to address issues taking into consideration medium- to long-term strategy in annual bonuses
- Strive to create sustainable corporate value by continuously providing long-term incentives linked to the Company's medium- to long-term performance
- Promote the long-term holding of shares while serving in management and share interests with shareholders

Ensure objectivity and transparency in remuneration decisions

- Determine the remuneration decision policy and the individual amount of payment upon deliberation by the Nomination and Compensation Advisory Committee, which is composed primarily of outside directors.
- Employ an independent remuneration advisor and set an appropriate remuneration level taking into consideration the Company's business characteristics and, based on verification through comparisons with corporate groups of the same size using objective data from outside, also taking into account recent public opinion.
- Proactively disclose information necessary for stakeholders including shareholders, to monitor the relations between remuneration and corporate value

[Remuneration Structure]

The Company's remuneration structure for directors (excluding outside directors) consists of basic remuneration, which is a fixed salary, and performance-linked remuneration. Performance-linked remuneration consists of an annual bonus that is linked to company-wide performance for each fiscal year, a performance-linked share-based remuneration system (performance share units) that is linked to the sustainable creation of corporate value, and a restricted share-based remuneration system that is provided to continually share value with shareholders through the continued holding of stock. An outline of each remuneration component is presented below.



Headquarters

Outline of Remuneration Components

Type of remuneration	Objective/summary
Basic remuneration	Fixed cash salary based on position
Annual bonus	<p>Performance-linked cash remuneration to evaluate steady achievement of targets for each fiscal year</p> <ul style="list-style-type: none"> To clarify responsibility for results in each fiscal year, the payment rate is determined in a range from 0% to 200% of the standard amount, in proportion to the degree of achievement of the targets for consolidated operating margin and consolidated net sales for each fiscal year, which are key performance indicators. In some cases, the payment rate determined above may be multiplied by any of 0.95, 1.00, or 1.05 depending on discretionary evaluation by the Nomination and Compensation Advisory Committee or by the president. Paid in a lump sum after the end of each fiscal year
Performance-linked share-based remuneration (performance share unit)	<p>Performance-linked share-based remuneration to provide an incentive to sustainably increase corporate value</p> <ul style="list-style-type: none"> The number of shares to grant is decided within the range of 0% to 200% of the standard amount (the "payment rate"), according to the achievement rate for numerical targets such as earnings during the performance evaluation period.*1 The method for calculating the number of the Company's shares granted and amount of cash paid is as follows. First, the number of the Company's shares to be granted to each eligible director is calculated in accordance with formula (i) below (fractions of less than 100 shares being rounded down); then the amount of cash paid to each eligible director (cash for payment of taxes) is calculated in accordance with formula (ii) below. <ul style="list-style-type: none"> (i) Number of the Company's shares granted to each eligible director Standard share unit number*2 × Payment rate × 50% (ii) Amount of cash to be paid to each eligible director (Standard share unit number × Payment rate – Number of the Company's shares calculated in (i) above) × Stock price at the time of grant Grant shares in a lump sum after the end of a performance evaluation period
Restricted share-based remuneration system	<p>Share-based remuneration to further facilitate the alignment of interests with shareholders by promoting long-term holding of stock</p> <ul style="list-style-type: none"> Grant restricted shares in the number determined by the Company's Board of Directors each fiscal year in accordance with the rank of each eligible director Restriction on transfers is lifted when conditions are met, such as when the restriction period expires, or when an eligible director retires or resigns from their position before the restriction period expires by reason of expiration of their term of office, death, or some other reason the Company's Board of Directors deems justifiable, and ceases to serve as a director, officer, audit & supervisory board member, employee or any other equivalent position stipulated in advance by the Board of Directors of the Company.

*1 The initial performance evaluation period for the performance-linked share-based remuneration system is the two-year period from the fiscal year ending December 31, 2020 through the fiscal year ending December 31, 2021. Aiming to sustainably create corporate value, the Company will use the ROE target, which is a strategic indicator in the Medium-Term Plan, during the initial performance period.

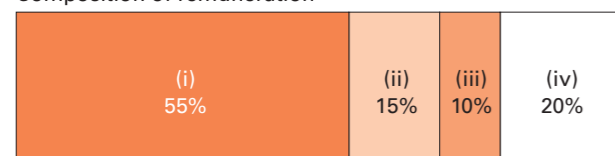
*2 Determined by the Board of Directors in accordance with the rank of each eligible director

[Payment Rate of Basic Remuneration and Performance-Linked Remuneration]

As for the weight of each remuneration component, the ratio of basic remuneration as a fixed salary to performance-linked remuneration was set at 55:45 in order to provide a healthy incentive to generate sustainable growth and corporate value in the medium -to long term. The ratio of basic remuneration to the annual bonus (standard amount) to performance-linked share-based remuneration (standard amount) to restricted share-based remuneration (standard amount) is set at roughly 1 (55%) to 0.27 (15%) to 0.18 (10%) to 0.36% (20%). The composition of remuneration is indicated in the figure below.

The indicators used for specific calculation of performance-linked remuneration are decided by a resolution adopted by the Company's Board of Directors after deliberation by the Nomination and Compensation Advisory Committee.

Composition of remuneration



(i) Basic remuneration (ii) Annual bonus (standard amount)
(iii) Performance-linked share-based remuneration (standard amount)
(iv) Restricted share-based remuneration (standard amount)

[Level of Remuneration]

The level of remuneration for the Company's directors (excluding outside directors) is appropriately set according to each position in order to provide healthy incentives to excellent personnel who generate sustainable growth and corporate value in the medium to long term. The level is specified by setting benchmarks upon a selection of comparable corporate groups and considering the Company's business characteristics using the officer remuneration survey data managed by an external remuneration advisor and other data.

[Remuneration Decision Process]

To guarantee objectivity and transparency in the process of determination of the remuneration amounts for eligible directors, the Nomination and Compensation Advisory Committee formulates standard amounts for the respective remuneration components ("remuneration table"), the proposed remuneration amount for each eligible director, and the Board of Directors deliberates and resolves whether the president and chief executive officer may determine the remuneration table and the remuneration amount for each eligible director based on the propositions above. The president and chief executive officer then determines the remuneration table and the remuneration amount for each eligible director within the range approved at the General Meeting of Shareholders.

Remuneration Amount for Directors (Excluding Outside Directors)

The remuneration amounts for directors (excluding outside directors) are determined by the process described above within the range approved at the General Meeting of Shareholders. The remuneration range includes the portion paid as salary and bonuses for officer duties undertaken by directors who also serve as officers. The ranges for remunerations are as follows.

Type of remuneration	Remuneration range
Basic remuneration	Within ¥400 million per year
Annual bonus	Within ¥220 million per year
Performance-linked share-based remuneration (performance share unit)	The total amount of monetary remuneration claims and cash for tax payment provided to eligible directors as remuneration related to the new performance-linked, share-based remuneration system is within an amount per fiscal year equivalent to 58,000 shares multiplied by the stock price at the time of grant.
Restricted share-based remuneration system	The total amount of monetary remuneration claims provided as remuneration related to the restricted share-based remuneration system is within ¥150 million per year.

[Basic Policy on Determination of Remuneration for Outside Directors]

Remuneration for outside directors, who serve as oversight function from an independent standpoint from business execution, consists only of basic remuneration of a set amount, which is determined taking into consideration the result of comparison with corporate groups of the same size. The Nomination and Compensation Advisory Committee formulates

the proposed remuneration amount for each outside director, and the Board of Directors deliberates and resolves whether the president and chief executive officer may determine the remuneration amount for each outside director based on the propositions above. The president and chief executive officer then determines the remuneration amount for each outside director within the range (up to ¥50 million per year) approved at the General Meeting of Shareholders.

[Basic Policy on Determination of Remuneration for Audit & Supervisory Board Members]

Audit & supervisory board members are responsible for supervising and auditing business duties executed by the directors, in a position that is independent of the Board of Directors. They receive only a basic remuneration in the form of a basic salary, which is decided on and paid out following discussions among the audit & supervisory board members, within a remuneration framework (of within ¥72 million per year) approved by the Shareholders' Meeting.

Total Remuneration Paid to Directors and Audit & Supervisory Board Member (Fiscal Year Ended December 31, 2020)

Position	Total remuneration (Millions of yen)	Total of various types of remuneration (Millions of yen)					Number of eligible personnel
		Basic remuneration	Annual bonus	Performance-linked, share-based remuneration	Restricted share-based remuneration system	Stock options	
Directors (Excluding outside directors)	523	274	128	37	69	13	8
Audit & supervisory board members (Excluding outside audit & supervisory board members)	23	23	—	—	—	—	2
Outside directors and audit & supervisory board members	56	56	—	—	—	—	6

Note: The amounts for total remuneration and total of various types of remuneration for directors (excluding outside directors) include the portion paid as salary for officer duties undertaken by directors who also serve as officers.

Remuneration Amounts for Directors and Audit & Supervisory Board Members (FY 2020/12)

Name	Total remuneration (Millions of yen)	Position	Company	Total of various types of remuneration (Millions of yen)				
				Basic remuneration	Annual bonus	Performance-linked, share-based remuneration	Restricted share-based remuneration system	Stock options
Ikuo Akutsu	134	Director	Submitting company	70	32	9	17	3
Noriaki Taneichi	123	Director	Submitting company	64	30	8	16	3

Note: The table only includes officers who receive remuneration of ¥100 million or more in total.

Corporate Governance

Internal Control System

Initiatives are taken to bolster the group internal control system, including the strengthening of business management at overseas subsidiaries with increasing presence, and the establishment of compliance systems. In this section, an overview is provided on activities related to group management system, compliance system, risk management system, and the improvement of information management.

→ For further details on internal control, please see the Corporate Governance Report at <https://www.tok.co.jp/content/download/6608/98796/file/210611.pdf> (in Japanese)



Group Management System (GMS)

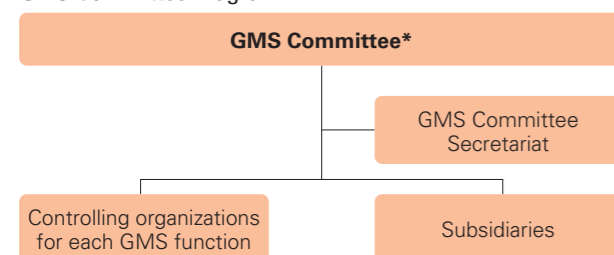
As the TOK Group continues to expand within and outside of Japan, a unified Group management system is needed. We have therefore been focusing on initiatives under the Group Management System (GMS), which manages various fields such as compliance and risk management across the entire Group. By promoting these initiatives, we will tie the Group's value creation to the steady enhancement of sustainable corporate value.

[Organization Structure for Promoting GMS]

TOK has established the GMS Committee to ensure that GMS properly functions. The Committee has divided GMS management functions into 15 fields for Group management. It continuously works in a PDCA cycle, deliberating on action plans and activity reports for each field and making adjustments between relevant organizations to resolve issues and so forth.

We will continue to deepen dialog with overseas subsidiaries, maintain compatibility between GMS management functions, integrate with CSR promotion activities, and strengthen the functions of Headquarters, which controls these initiatives. In this way, the TOK Group will make a united effort to promote GMS activities.

GMS Committee Diagram



* Chaired by the Department Manager of the Corporate Planning Department

Compliance

The TOK Group makes concerted efforts to enhance its compliance system from the basic understanding that maintaining relationships of trust with all its stakeholders is a prerequisite for sustainable development as a corporation that coexists with society. We strive to improve awareness of compliance among all officers and employees to ensure strict compliance with laws and regulations, the articles of incorporation, Company rules and social norms.

[Compliance Promotion System and Standards of Conduct]

Compliance promotion activities are being promoted with the participation of all employees, led by the Compliance Committee, which consists of TOK officers and undertakes awareness raising and dissemination activities at Group companies with the support of the Legal Division (Compliance Committee Secretariat). To prevent the violation of compliance, the Compliance Committee collects information about potential

15 GMS Management Functions

Business management	Sales management	Accounting/ Financial management	Purchase/ Procurement management
Risk management	Human resource management	Production management	EHS management
Compliance	Information management	Safe export management	SCM
Research and development	Import management	GMS (as the basis)	

[GMS Initiatives]

To achieve enhancement of sustainable corporate value, the entire Group needs to be optimized. Therefore, we manage progress on targets for each management function and subsidiary, investigate issues and identify points for improvement (self-evaluation), and provide continuous support and monitoring of these.

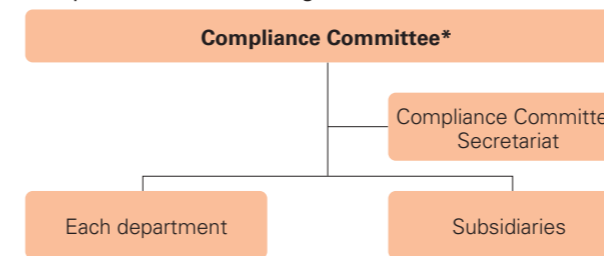
In 2020, we conducted a self-evaluation of the development and operation of GMS for two GMS management functions and two subsidiaries. We also revised our rules and processes, creating and revising over 70 new documents. We also made progress with a 98% resolution rate on key issues.

problems and compliance issues from each site, along with corrective actions and the planned time of correction, and monitors progress on a periodic basis. The standing audit & supervisory board member and the Internal Auditing Division as the internal audit department attend the Compliance Committee to share key points in audit, thereby improving the quality and effectiveness of audit.

In addition, the Ethics and Anti-Corruption Policy was

established as a subordinate policy under the CSR Policy, aiming to improve compliance awareness in each officer and employee, and to clarify the values and code of conduct to be shared. This policy is also applicable to subsidiaries in Japan and overseas, and is translated into the local language of each group company to be distributed to all its officers and employees.

Compliance Committee Diagram



* Chaired by President and Chief Executive Officer

Initiatives for ensuring compliance with laws and regulations

To prevent compliance-related risks from emerging, it is essential that all officers and employees absorb compliance into business practices. To achieve this, the Company is working to construct a system that can respond rapidly to revisions to laws and regulations in each country. It also conducts its own unique compliance training that considers conditions at each department and site within the Group and goes through a PDCA cycle to prevent risks from materializing. In FY 2020/12, the revision of the group compliance rules was promoted based on activities in the previous fiscal year (listing of laws applicable to business, monitoring for amendments in laws at an increased frequency, and interview results concerning the legal management and information collection). The major

Risk Management

The Group's perpetual development depends on being able to precisely deal with various risks that have major impacts on business. Through communications with stakeholders, we strive to identify and prevent a variety of potential risks. If a risk emerges, we will take the necessary measures to minimize the negative impacts of the risk. In these and other ways, TOK maintains and improves its global risk management system.

[Risk Management System]

The Risk Management Committee plays a central role in reviewing the risk management system and formulating risk management policy. To appropriately handle various risks, we have established the Risk Management Rules and the *Risk Management Manual*. Based on the *Manual*, we implement preventive measures at normal times by identifying risks that may cause serious outcomes, analyzing such risks, and determining, implementing and evaluating actions required, among other risk management activities, in the categories of management risks, social risks, and disaster/accident risks.

revised points are the requirement for the establishment of legal management structure at each site in Japan and overseas, and the increased frequency of monitoring on legal compliance status from twice to four times a year. These changes have enabled the establishment of a process for timely information collection on changing laws and incorporating the information into practice. To help better understanding of compliance, e-learning on overall compliance was implemented for all employees in Japan, through which the changing concepts of compliance were shared, and the examples of violation in society were presented.

Internal reporting system

To identify and improve or prevent compliance risks in business activities at an early stage, the Company has an internal reporting system based on the Whistleblower Protection Act. A whistleblower may select one of the three channels that respectively report to the Compliance Committee Secretariat (internal), the standing audit & supervisory board member (internal), and the legal advisor (external). Whistleblowing and consultation may be made by phone, in writing, in person, or by other means, and an anonymous whistleblower is acceptable. It is clearly stated that a whistleblower is protected from dismissal or any other disadvantageous treatment because of whistleblowing, unless it is conducted for an illegitimate purpose. In FY 2020/12, three reports were received concerning labor and workplace environment. After identifying the specific facts and assessing the objective status, instructions and training for correction were provided to the relevant individuals. To establish a more reassuring environment for whistleblowing, we will further enhance the system and disseminate it to all employees, officers and directors.

Risk Management Committee Diagram



* Chaired by President and Chief Executive Officer

Corporate Governance

Initiatives to strengthen risk management system

Reaffirming the importance of contingency management after the Great East Japan Earthquake, the Group has taken steps to address various risks, including disasters and other accidents and environmental risks, with the establishment of the Contingency Management Committee (present Risk Management Committee). In 2016, the TOK Group Risk Management Committee was established to deal with a broader range of risks in accordance with the Company's global expansion.

In FY 2020/12, efforts were made to reduce risks that were considered to have high impact on business continuity based on risk assessment in the previous fiscal year (such as risks in material supply and continuous production). The COVID-19 Response Center was also established, headed by the president, to continue the production and supply of products while assuring the safety of employees. We will continue striving for the prevention of infection spread, while taking risk reduction measures toward the long-term development of the TOK Group (see page 93).

Strengthened crisis management

The Group believes business continuity plan (BCP) begins with the safety of our employees. In Japan, TOK operates a safety confirmation system for confirming whether Group employees are safe in the event of natural disasters, including major earthquakes. Safety confirmation drills are conducted every

year to ensure the smooth operation of this system and to raise awareness among employees. In the fiscal year ended December 31, 2020, three drills were implemented out of the four planned drills, and the response rate was maintained at a high level.

Large-scale natural disaster preparedness

Based on lessons learned from the Great East Japan Earthquake and the Kumamoto Earthquake, TOK has put in place a BCP that envisions damage simultaneously striking the Headquarters and multiple sites from earthquakes directly beneath the greater Tokyo area. TOK reviews its BCP every year so it is grounded in reality by running desktop drills that simulate real-world damage that may interrupt order taking and placement, product shipment, and essential utilities. In 2020, a survey was conducted on the transportation means of suppliers, and alternative means for material transportation were secured in the event of disaster. This enabled TOK to receive supplies without failure when a torrential downpour occurred in Kyushu in July, interrupting the operation of a railroad company that transported raw materials. We also formulated flood prevention plans for sites with the high risk of flooding, and preventive measures have been taken at some sites including the installation of water bars (see page 100). In FY 2021/12, we will continue to expand flood prevention equipment, while formulating BCP scenarios in the event of flooding.

Improving Information Management

The environment surrounding information management is drastically changing. Leaks of information assets could greatly damage the competitive advantages of the TOK Group and threaten its existence as an ongoing concern. For this reason, reinforcing the information management system is a priority issue in terms of preserving corporate value and fulfilling our social responsibility. From this standpoint, we are redoubling our efforts in ensuring information security by establishing a PDCA cycle.

[TOK Group Information Management Policy]

The TOK Group (comprising TOKYO OHKA KOGYO CO., LTD. and its subsidiaries, hereinafter collectively the "TOK Group") is implementing measures in line with the following policies, having positioned risk management related to information assets as a priority management issue to fulfill its corporate social responsibility.

Definition, protection, and effective utilization of information assets

With respect to all information assets held by the TOK Group, including managerial, client, marketing, personal, and technical information, the Group will comply with laws and regulations related to information security, other social norms, in-house rules and other guidelines, and protect the information appropriately. The Group shall only use the information to efficiently execute the operations of the Group, within the stipulated scope of authority, and for the prescribed purpose.

Update and maintain tools and security platforms

The TOK Group updates and maintains reasonable communications tools and security platforms to effectively utilize its information assets.

Organizational structure and organized activities

The TOK Group has established an Information Management Committee and will continue to build, maintain, and promote management structure to properly govern an information asset for the overall Group.

Completeness, confidentiality, and availability

The TOK Group will identify and assess risks and continue to implement countermeasures and improvements as well as appropriately reduce information management risks through a range of human, physical, organizational, and IT-based measures to prevent leakage, falsification, theft, destruction, and other damage to the information assets held by the TOK Group.

Education

The TOK Group will implement in-house education regularly and continuously and work to raise awareness and keep everyone well informed of the in-house rules and other regulations.

Incident response

The TOK Group will endeavor to minimize the damage when an information security incident occurs and implement measures to prevent its recurrence.

Audits and continuous improvements

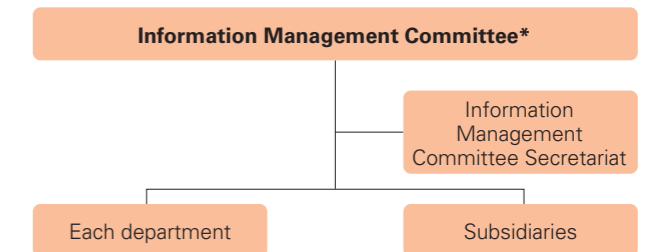
The TOK Group will implement regular audits and make continuous improvements as a part of its management of information assets.

[Maintain, Manage, and Improve Information Management Systems]

The TOK Group has created the TOK Information Management Committee, headed by the manager of the General Affairs Department. The Committee determines policies and measures related to information security and personal information protection. The overseas subsidiaries have established their information management organizations, which develop systems and rules to collaborate under the guidance of the TOK Information Management Committee, thereby strengthening information management systems across the Group. During the fiscal year ended December 31, 2020, the TOK Group worked to promote paperless practice, while utilizing and protecting information assets. The Company worked to maintain and instill information management standards throughout the organization, including the preparation of the *Files and Folders Classification Guidebook*, the review of information security measures and information management rules in response to changing work styles (when working outside the office or using a web conferencing system), and the implementation of internal training on risk management.

In addition, the Internal Auditing Division regularly audits compliance with rules and other matters on information management as part of its internal audits. It aims to improve the information management system by giving guidance, proposals, and advice to relevant departments.

Information Management Committee Diagram



* Chaired by the Department Manager, General Affairs Department

Strengthening information management through each responsible division

The TOK Information Management Committee has identified key topics based on information management policy and put the respective responsible divisions in charge in a bid to strengthen information management.

Key topics for information management

Management of trade secrets, training and rules, human security, IT security, physical security, and supplier management

Risk management

— To achieve stable supply in the COVID-19 pandemic —

While the TOK Group continues to expand its activities in Japan and overseas, supported by the strong semiconductor demand, the COVID-19 has yet to subside with the spread of variants. We will continue to implement thorough measures to prevent both getting infected and infecting others inside and outside the Company, thereby protecting the safety of employees, customers, and business partners, and playing our role in the supply chain.

Measures and purposes

1 Safety of employees

- ◆ Implement thorough infection prevention measures at each business site
- ◆ Implement work from home
- ◆ Restrict traveling in Japan and overseas



Temperature taking and hand antiseptics are implemented for all employees and visitors

2 Safety of external stakeholders

- ◆ Use online operations whenever possible (business negotiations, coordination, audits, etc.)
- ◆ On-site collaboration through non-contact operations



Web conferencing system is introduced throughout the group

3 Contribution to local community

- ◆ Contribute monetary donations
- ◆ Donate relief goods



Received letters of appreciation from Kanagawa Prefecture and other local governments for the contribution of monetary donations



Hideo Ohhashi

Head of Risk Management Secretariat

To fulfill the supplier responsibility while assuring the safety of employees

The business of the TOK Group is to supply chemicals and manufacturing equipment to support the production of semiconductors that are indispensable for a sustainable future. Therefore, the Company is required to reduce infection risks during the COVID-19 pandemic, while minimizing the impact on business activities to sustain corporate activities. To establish and maintain an environment where all employees can feel safe and concentrate on their duties, the Company will continue to promote infection prevention measures with cooperation from internal and external stakeholders.

Main Business Risks, Countermeasures, and Opportunities

The TOK Group conducts business activities in every region of the world in a diverse range of fields. When carrying out these business activities, it encounters a variety of risk factors that may have a detrimental impact on its financial conditions and management performance. The risks described below are solely those that the Group assesses as most significant as of December 31, 2020, and are not exhaustive of all risks associated with the TOK Group.

Theme	Risk	Countermeasure	Opportunities
Industrial and economic change	<ul style="list-style-type: none"> The electronics market is subject to major cyclical changes in demand; in particular, materials and devices for semiconductors and displays are extremely affected by such demand trends. The Group may also be affected by market changes and price fluctuations driven by the rapid speed of technological innovation and the complexity and diversity of user needs. 	<ul style="list-style-type: none"> The Group will conduct rapid flexible sales and marketing strategies based on a deep understanding of the characteristics of each market in the semiconductor industry, including the memory field, which has large fluctuations in demand and price, the logic field which has relatively small fluctuations, and the power device field that has a broad base. → See pages 30–37 and 56–57 The Group will mitigate the impact of demand and price fluctuations for old products and fluctuations in economic conditions by constantly acquiring business in cutting-edge fields. The Group will expand new business in fields such as life science, which has a different demand fluctuation cycle from semiconductors. → See pages 44–45 	<ul style="list-style-type: none"> The Group will realize long-term stable growth and stable increase in corporate value through its business portfolio, which is highly resilient to economic fluctuations and centered on high value-added products. The Group will use marketing and development to create opportunities from structural changes in its target markets and contribute to innovation.
Exchange rate fluctuation	<ul style="list-style-type: none"> The Group has production and sales sites in North America, Asia, and Europe, and hedges exchange risks by carrying out some of its overseas transactions in yen and by using forward exchange contracts. However, the Group may be affected if exchange rate fluctuations are greater than forecast. 	<ul style="list-style-type: none"> As a part of balance sheet management, the Group is evolving global cash management, including adjusting the balance of cash positions between overseas sites. Through these measures, the Group will enhance financial risk controls for exchange rate fluctuations and liquidity. → See pages 46–49 The Group receives advice on exchange rate risk hedging from three outside audit & supervisory board members who have backgrounds in finance. 	<ul style="list-style-type: none"> By minimizing exchange rate fluctuation risk, the Group will minimize the risk of fluctuations in its business performance due to focusing on the highly volatile semiconductor industry.
Research and development	<ul style="list-style-type: none"> The Group carries out R&D to provide products that precisely reflect user needs to maintain its competitiveness in the electronics industry, where technological innovation occurs at a rapid pace. However, since it is difficult to realize technological innovation and anticipate changes to user needs, the Group may be unable to produce the intended results due to unforeseeable reasons, regardless of how much management resources it invests into R&D. 	<ul style="list-style-type: none"> The Group will continue to deepen the customer relationships it has cultivated at customer-oriented sites in Japan and overseas. Meanwhile, the Group will work in many fields and flexibly set its focus themes, while strengthening proactive marketing in R&D. → See pages 30–37 and 58–59 The Group will go beyond simply responding to its customers' technology needs, expanding technological seeds through venture capital investment, open innovation, and collaboration with industry and academia and continue development in major themes until it succeeds. → See pages 58–59 	<ul style="list-style-type: none"> The Group will form development communities with stakeholders in Japan and overseas in the cutting-edge fields of electronics materials, such as semiconductor materials. The Company will use open innovation to acquire a wide range of technological seeds to enable a response to any market that may launch in the future, making a full-scale investment in its resources in line with the launch of new markets.
Intellectual property	<ul style="list-style-type: none"> The Group has a diverse portfolio of intellectual property, for which it grants licenses to third parties, also acquiring licenses from third parties when they are necessary or useful. If the Group is unable to safeguard and maintain or acquire these rights as anticipated, it may become a party in a dispute or lawsuit relating to these rights. 	<ul style="list-style-type: none"> Management of intellectual property, such as granting and acquiring licenses, is conducted without delay by a dedicated department. The Group also conducts awareness raising and training about intellectual property rights for relevant divisions such as development, sales, and manufacturing. 	<ul style="list-style-type: none"> The Company will conduct stable management of intellectual property, while building an intellectual property portfolio that supports corporate value enhancement more effectively by discerning whether to employ open or closed strategy on a case-by-case basis.
Raw material procurement	<ul style="list-style-type: none"> The Group aims to stably procure materials by maintaining a network of multiple suppliers. However, its production activities may be affected by a delay or suspension in the supply of raw materials due to accidents at the manufacturers. An increase in the price of raw materials may also impact the Group. 	<ul style="list-style-type: none"> By strengthening supplier engagement, the Group continuously tracks potential risks for each supplier. While continuing internal efforts such as reducing costs, streamlining operations, and switching to alternative materials, the Group passes on price changes for products to customers where this can be rationally justified. 	<ul style="list-style-type: none"> The Group will reduce factors that could impede future growth by strengthening its BCP on the assumption of emergent risks at suppliers. The Group will increase capital efficiency by securing appropriate profits from its high value-added products.

Theme	Risk	Countermeasure	Opportunities
Product liability	<ul style="list-style-type: none"> Within the process in which customers use our products, faults may occur that originate in a product defect. The Group has insurance to cover product liability compensation payments, but as insurance may not be able to cover the entire amount that has to be paid, there could be an impact on the Group's business results. 	<ul style="list-style-type: none"> The Group provides in-line support and reduces defects through the trinity of sales, development, and manufacturing, while reducing the risk of faults through thorough understanding of customers' manufacturing lines. → See pages 30–37 and 52 and 64–67 	<ul style="list-style-type: none"> The Group will further improve customer satisfaction and increase its brand capabilities by increasing customers' manufacturing yields. Profitability and capital efficiency will be increased by adding higher value to products.
Natural disaster and accident	<ul style="list-style-type: none"> In the event of a natural disaster, such as an earthquake, or an unforeseen accident, such as a fire or an explosion, the Group may have to suspend its production activities at its manufacturing plants in Japan and overseas with a resulting delay in product shipments. The Group may also have to pay repair or replacement costs at the damaged plant. If COVID-19, influenza or other infectious diseases spread among its employees, the Group may be forced to temporarily suspend its operations. 	<ul style="list-style-type: none"> The Group has created a unified BCP. → See pages 91–92 The Risk Management Committee plays a central role in reviewing the risk management system and formulating risk management policy. → See pages 91–92 "Disaster/accident risks" was added as a category in the Risk Management Rules and the Risk Management Manual. The Company identifies risks that may cause serious outcomes, analyzes such risks, and determines, implements, and evaluates actions required, among other activities. → See pages 91–92 The Group has established appropriate management systems for preventing infection and the spread of infection. → See pages 91–93 	<ul style="list-style-type: none"> By limiting the impact of natural disasters and accidents as far as possible, the Group will minimize its downside risk and maintain its upside potential. The Group will acquire trust from stakeholders, such as customers, employees, and local communities, over the medium- to long term and increase its brand capabilities.
Environment	<ul style="list-style-type: none"> The Group uses various types of chemical substances within its production activities and has strict rules to ensure that they are handled safely. However, in the event of an accident involving the discharge of chemical substances into the external environment from Company premises, the Group's reputation within society may be affected, it may have to pay costs as compensation or in order to carry out countermeasures, and it may have to suspend production activities. If environment-related laws and regulations in each country where the Group conducts its business activities are made stricter, the Group may face additional costs or limits on its business activities. 	<ul style="list-style-type: none"> The Group has reassessed its production lines and work procedures based on lessons learned from accidents caused by highly corrosive chemical substances. → See pages 109–110 The Group had a third-party institution conduct a health and safety audit to further improve the level of occupational health and safety by identifying potential sources of danger. → See pages 109–110 The Group coordinates closely with local subsidiaries overseas to obtain the latest information on revisions to laws and regulations. → See pages 106–108 The Group will automate its processes and develop systems to lighten the workload from registrations and filing. 	<ul style="list-style-type: none"> By preventing accidents, the Group will maximize its upside potential. The Group will foster greater loyalty among employees by ensuring safety on its manufacturing sites. The Group will maintain and increase social trust in local communities overseas.
Laws and regulations	<ul style="list-style-type: none"> If the Group fails to precisely understand their requirements, or for any reason it is unable to observe the laws and regulations such as approval for business and investment, trade, monopolies, international taxation, the environment, and recycling when they are significantly revised, this may have an impact on the Group's business results. 	<ul style="list-style-type: none"> The Group has accelerated the process of registering and receiving approval for chemical substances by having local non-Japanese employees interpret the laws and regulations and negotiating with local government institutions. → See pages 108 	<ul style="list-style-type: none"> Developing products that use alternatives to prohibited substances may give rise to new product characteristics and added value. The Company will differentiate itself from competitors through its ability to comply with local laws and regulations.
Overseas business activity	<ul style="list-style-type: none"> The Group's overseas business activities may be obstructed by the emergence of such risks as unexpected revisions to laws and regulations, weakening of the industrial base, difficulties in securing personnel, terrorist attacks, wars, and natural disasters. 	<ul style="list-style-type: none"> The Group uses its strength of having production sites in five regions around the world: Japan, China, the U.S., South Korea, and Taiwan to minimize emergent risks by coordinating between them. → See pages 21 and 124–125 	<ul style="list-style-type: none"> Reducing the Group's overall environmental risk and natural disaster and accident risk will enable it to continue fulfilling its responsibilities as a supplier.
Information leakage	<ul style="list-style-type: none"> The Group implements thorough measures to ensure the security of confidential business information, information relating to various other companies, and personal information. However, if some unforeseeable event information leaks outside of the Group, this may damage its reputation within society, and it may have to pay liability payments for the damage caused to a company or an individual whose information was leaked, which could have an impact on the Group's business results. 	<ul style="list-style-type: none"> Reinforcing the information management system is a priority issue in terms of preserving corporate value and fulfilling our social responsibility. From this standpoint, the Group is redoubling its efforts to ensure information security by establishing and running the PDCA cycle. → See pages 92–93 	<ul style="list-style-type: none"> A solid information management system will increase customer trust, helping to expand business opportunities. The Group's brand capabilities will increase in Japan, the U.S., South Korea, Taiwan, China, and other regions in and outside of Japan where the Group operates.