

## Message from the President



Hiroshi Yokota, President

### Looking Back, Up Until Fiscal 2018

Looking back, my first year as the Company's president started with the posting of a huge impairment loss related to our solar-grade polycrystalline silicon business. Given this situation, we took decisive action, implementing various reform measures that placed priority on rebuilding our financial platform to ensure the revitalization of the Tokuyama Group.

In fiscal 2016, my second year, we formulated a medium-term management plan as the "cornerstone of the Group's revitalization." Despite difficult management conditions, operating income substantially exceeded forecasts at the beginning of the fiscal year owing to the fair winds of falling raw material and fuel costs, among other factors. In addition, we decided to transfer shares of our consolidated subsidiary for solar-grade polycrystalline silicon, Tokuyama Malaysia Sdn. Bhd., which had been the cause of considerable concern.

Notwithstanding signs of a surge in raw material and fuel prices, a reversal from the previous fiscal year, we achieved record high earnings in my third year, fiscal 2017. At the same time, positive steps were taken to complete the transfer of Tokuyama Malaysia shares to a Korean firm and to acquire in exchange for cash and cancel all Class A shares totaling ¥20 billion issued by the Company in fiscal 2016.

As was the case in the previous fiscal year, raw material and fuel prices continued to soar in my fourth year, fiscal 2018. Despite efforts to reduce costs against these difficult headwinds, earnings declined on an operating income basis for the first time since assuming the position of Tokuyama president. In addition to sluggish semiconductor demand, this downturn in earnings largely reflects cutbacks in production attributable to issues with the Group's in-house power plant and the external procurement of electricity. Under these circumstances, we addressed concerns regarding the stability of our financial position by refinancing an existing subordinated loan. Focusing largely on the healthcare domain, businesses that we expect will serve as future earnings pillars also began to bear fruit. This included the robust start of new products in the dental materials field.

## Entering the Fourth Year of the Medium-Term Management Plan:“Change the Group’s Organizational Culture and Structure”

In order to achieve our Medium-Term Management Plan targets, we have positioned “changes to the Group’s organizational culture and structure” as a priority theme. As a result, we are placing equal emphasis on maximizing the use of external human resources while developing the Group’s in-house employees. By actively recruiting outside personnel, who have excelled in a wide range of industries, we are bringing to the Group new perspectives and ideas. Their subsequent appointment to the positions of general manager and director is also generating considerable excitement in the Company’s approach toward work and the manner in which business is conducted. As far as the development in in-house employees is concerned, we have commenced training programs for employees in their 30s and 40s selected from Group’s various workplaces. These programs are designed to cultivate a management mindset at an early age. With an eye toward vigorously promoting diversity, two female employees were appointed to the position of president at Group companies in fiscal 2018.

Drawing from the Group’s growth businesses, we will continue to invest in ICT, a field that is expected to expand over the medium to long term. Recognizing that the healthcare domain is an area that requires considerable time from the development of products to their market release, we will work to definitively clarify an exit vision. As one specific initiative, we are strengthening our relationships with leading companies in cutting edge ICT fields. Little by little, steady results are beginning to emerge in connection with the development of new products. As far as our healthcare endeavors are concerned, we will consistently launch new products while investing in dental materials, plastic lens-related materials, active pharmaceutical ingredients and intermediates as well as diagnostic reagents and clinical systems in a timely manner.

### The Importance of Addressing ESG Concerns

There is a strong sense that environmental, social, and governance (ESG) concerns will play an increasingly important role in the management of companies going forward. Historically, the Company’s low-cost, coal-fired thermal power in-house power generation capabilities were recognized as an inherent strength. However, as a source of greenhouse gas emissions, this strength has transitioned into a significant risk. In order to mitigate this risk, we are undertaking a variety of measures. In addition to reducing the level of CO<sub>2</sub> emissions by partially shifting from coal to biomass materials, we are endeavoring to increase production efficiency and cutback power consumption. At the same time, we are actively working to develop and commercialize new CO<sub>2</sub> technologies with the help of our Research & Development Division.

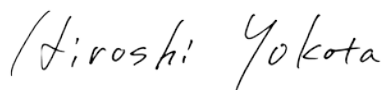
Rather than work on our own, we recognize the critical need to further advance these initiatives by involving public and local authorities. As one example, we are supplying the Company’s surplus power to public facilities in the vicinity of Tokuyama Factory, located in Shunan City, Yamaguchi Prefecture. In addition to supporting the finances of local government authorities, this initiative is also contributing to an improvement in energy efficiency across the region as a whole. In this manner, we plan to actively engage in a wide range of activities including steps that help enrich local communities.

From a management organization perspective, we are strengthening corporate governance as a matter of course. In order to enhance the Company’s overall decision-making process while increasing the pace of implementation, we intend to change our organizational structure with a view to positioning the decision-making process closer to the frontline. For this to occur, we understand that the development of human resources is an issue of the utmost importance.

### Fiscal 2019, the Fourth Year of the Medium-Term Management Plan

I am convinced that our actions over the two-year period, from fiscal 2019 to fiscal 2020, are vital to realizing our 2025 vision and will provide the steppingstone for our next leap forward. In this sense, we must position the next two years as a preparatory period. During fiscal 2019 and fiscal 2020, we must uncover new pillars of expansion while reforming our organizational culture with a greater sense of urgency. In this manner, we will reap the benefits of the seeds that we have sown and firmly secure genuine growth over the five years from fiscal 2021. Taking the aforementioned into consideration, we will undertake annual investments of around ¥30 billion for the foreseeable future.

While efforts to reform the Company remain underway, we are seeing a definitive improvement in business profitability and the emergence of a number of growth businesses. We kindly request the continued support of shareholders and investors as we continue to take up each new challenge.



Hiroshi Yokota, President

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