Part 3

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Materiality identification process

We have identified specific issues (materiality) to focus on to fulfill our Vision (Goal for 2030) and Mission. We identified the points of materiality by first reviewing international standards, such as the GRI Standards, and then selecting possible candidate issues while considering megatrends, social issues, and the requirements and expectations of stakeholders.

We then considered them in relation to the strategies of the medium-term management plan and selected the issues that were in accord with the medium- and long-term direction of our business. The Board of Directors approved the following five items as issues of materiality. Furthermore, we have set key performance indicators (KPIs) to manage our materiality.

Materiality, KPIs, goals and achievements

Materiality	Main initiatives	KPI	Fiscal 2025 goal	Fiscal 2024 achievement
1. Advanced coating and latent market development	**Invest with a focus on developing advanced coatings** ● Develop high-performance coatings for the foundational elements of people's lives (such as digitalization, infrastructure, medical care, agriculture) ● Develop coatings that help proliferate and improve the efficiency of renewable energy power generation (such as wind power, hydropower, geothermal power, storage batteries) ● Develop coatings that help customers reduce greenhouse gas emissions (by supporting non-fossil fuels, recycling equipment)	No. of patents owned	Total: 280	Total: 274
		No. of patent applications	Total: 30	Total: 32
		Ratio of development expenses to sales (consolidated)	5%	4.5%
	Offer optimal solutions to customers ● Grow from a supplier to a partner ● Set up projects in priority areas ● Foster experts in problem-solving	Financial value of orders received in the environmental field (1) Environmental and energy equipment (2) Repaired and refurbished products	(1) 2,000 million yen (2) 8,500 million yen Total: 10,500 million yen	(1) 2,033 million yen (2) 7,157 million yen Total: 9,191 million yen
		Ratio of overseas sales (consolidated)	Total: 25%	Total: 30.1%
2. Environmental impact reduction measures	**Advance decarbonization (carbon neutrality)** ● Investigate thermal spraying methods that do not use fossil fuel ● Reduce power consumption by improving processing methods ● Use renewable energy	Greenhouse gas emissions (Scope 1, 2) Note: Goals and indicators formulated according to "Disclosure Based on TCFD Recommendations"	7,900 t-CO_2 (Less than 54% of fiscal 2013 emissions)	7,147 t-CO_2
	Measures to reduce waste and protect the environment ● Reduce, recycle, and properly dispose of waste ● Understand and improve water and air pollution conditions ● Reduce the use of harmful substances	Ratio of waste recycled	40%	62.3%
3. Manufacturing sophistication and quality improvement	**Improve manufacturing process sophistication and efficiency** ● Promote automation and IoT ● Begin practical application of new coating formation technology ● Create smart on-site construction	Amount of capital investment contributing to improving sophistication and efficiency of manufacturing process	400 million yen	1,026 million yen
	Reinforce the quality control system ● Establish and promote product performance assurance ● Implement quality controls systems (such as ISO) ● Construct a Product Qualification Plan	No. of employees passing QC test	60 persons	116 persons
		No. of employees possessing qualifications as nondestructive inspection engineers	Total: 25 persons	Total: 25 persons

Materiality	Main initiatives	KPI	Fiscal 2025 goal	Fiscal 2024 achievement
4. Cultivate and activate diverse human resources	**Form a medium- and long-term human resource development plan** ● Develop human resources and technical training ● Methodically develop global human resources	No. of technology-related external presentations	Total: 25	Total: 20
		No. of employees possessing qualifications as technicians	Total: 240 persons	Total: 241 persons
		Educational spending per employee	80,000 yen	66,000 yen
	Create a comfortable work environment ● Fully engage in safety first ● Promote diversity (value the talents of women, persons with disabilities, mid-career employment) ● Promote workstyle reform	Rate of frequency of occupational accidents	Aiming for zero	2.36 (Including temporary employees)
		Severity rate of occupational accidents	Aiming for zero	0.031 (Including temporary employees)
		Ratio of female full-time employees	13%	12.5%
		Ratio of female managers	5%	3.9%
		Ratio of men taking childcare leave	90%	61.9%
5. Thorough compliance (acting in accordance with corporate ethics)	**Lay the management foundation for a long-surviving company** ● Act in accordance with corporate ethics (social mores, ethics and morals, the environment, local community contribution) ● Actively promote ESG initiatives ● Promote engagement with domestic and foreign investors ● Fully comply with the Corporate Governance Code	Ratio of employees receiving compliance training	100%	100% (Conducted 3 times)

Advanced coating and latent market development

We are leveraging our highly refined, cutting-edge thermal spraying technology actively propose applications to existing and potential new clients that will add value to their products and enhance the functionality of their production facilities. The Thermal Spraying Technology R&D Laboratories lead the development of innovative functional coatings that will contribute to future technologies.

Main initiatives
- **Invest with a focus on developing advanced coatings**
- **Offer optimal solutions to customers**

KPI	Fiscal 2025 goal	Fiscal 2024 achievement
No. of patents owned	Total: 280	Total: 274
No. of patent applications	Total: 30	Total: 32
Ratio of developmen expenses to sales (consolidated)	5%	4.5%
Financial value of orders received in the environmental field		
(1) Environmental and energy equipment	(1) 2,000 million yen	(1) 2,033 million yen
(2) Repaired and refurbished products	(2) 8,500 million yen	(2) 7,157 million yen
	Total: 10,500 million yen	Total: 9,191 million yen
Ratio of overseas sales (consolidated)	Total: 25%	Total: 30.1%

Thermal Spraying Technology R&D Laboratories

World-class research structure

TOCALO's motto begins with the words "Technologies and Ideas." Our top priority is to develop unique and creative technologies.

Our Thermal Spraying Technology R&D Laboratories play a central role in developing our technologies. While developing advanced coatings with an eye on the future, and driving development of products adapted to customer needs, collaborating with engineering, manufacturing and sales, we aim to create "No.1 & Only One" technologies and services.

Invest with a focus on developing advanced coatings

Our medium-term management plan for the fiscal years 2021-2025 is to further enhance our technological superiority by concentrating investment on the development of advanced coatings, promoting collaboration of industry-academia-government, fortifying our intellectual property strategy, and broadening our technology database. To carry out our plan, we are allotting roughly 3% of consolidated net sales to investment in R&D. The production technology departments at all of our plants are also continuing to invest in technology development. In fiscal 2024, we invested a total of ¥2,452 million (4.5% of consolidated sales), comprised of 2.9% of consolidated sales on R&D expenses, and 1.6% on technology development expenses.

Our activities to develop advanced functional coatings also include actively engaging in joint development with research institutes, universities, and clients. Sales engineers work closely with customers at their manufacturing sites to determine potential needs and make proposals. By working on development together with customers, we can offer optimal solutions and develop new coatings.

Intellectual property strategy

Maintaining and enhancing our technological advantages in the surface modification market is essential to our business, and we are actively acquiring patents for our intellectual property. We are particularly eager to apply for patents for products developed jointly with our clients both to further solidify our relationship with our clients and to differentiate ourselves from our competitors. Our ability to propose the most effective coatings for a wide variety of specific client conditions is the foundation of our competitiveness. For that reason, it is essential that we also use numerous elemental technologies and expertise in areas that are not patented, such as in materials, spraying methods, and quality control methods. In fiscal 2024, we submitted 32 patent applications.

Employee comment

Through repeated testing of hypotheses, even in uncertain conditions, I hope to create new coating technologies

Ayumu Yano

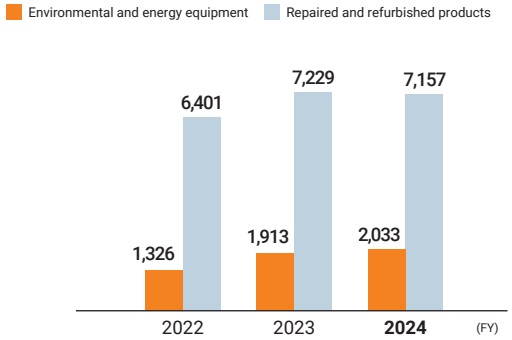
Manager, Coating Process Technology Department, Thermal Spraying Technology R&D Laboratories

Each day at the Thermal Spraying Technology R&D Laboratories, we propose and test hypotheses for different coatings that we hope will effectively address new issues constantly arising in manufacturing worldwide. It is very satisfying when a hypothesis I suggested proves to be correct, or the moment that something we could not verify in previous testing becomes clear. We share these results with our customers and make improvements based on their feedback to develop coatings which we then convey to our various plants and offices. I believe this is our role.

Offer optimal solutions to customers

We are focusing on development and promotion of technologies adapted to the CO_2 emission reduction and energy saving measures of customer, and for the popularization and increased efficiency of power generated from natural energy. We announced and are working towards KPIs for the financial value of orders received in the environmental field, an area for future growth, and the use of our processes for battery equipment and environmentally friendly boilers is steadily increasing. Furthermore, we strive with our customers to resolve issue they face by providing surface processing for environmental and energy equipment, and for repaired and refurbished items. The needs of the environmental field are expected to increase even further going forward, and therefore we are boosting our technological and proposal capabilities to be a company leading that growth.

Financial value of orders received in the environmental field (million yen)



Set up projects in priority areas

Iron & Steel Forum

In addition to the advanced technological services we provide to respond to expanding applications and our customers' diversifying needs in the iron and steel field, TOCALO also hosts an Iron & Steel Forum, a cross-plant forum for sharing information proactively utilizing DX. In recent years, domestic production of crude steel is in decline, but the need for iron and steel remains as high as ever, a situation we believe provides opportunities for our company. TOCALO not only provides surface processing technologies that contribute to enhanced durability for production lines, we also leverage our advanced technologies to propose new solutions to resolve social issues, such as reducing environmental burden and ensuring safety at manufacturing sites. The iron and steel field accounts for 7.2% of our net sales, and is expected to remain favorable in fiscal 2025.

Through this forum, we deepen our dialog with customers and work together to resolve issues, whereby we contribute to the continued development of the iron and steel industry overall.

Iron & Steel Forum

From supplier to partner

At TOCALO, sales engineers are involved in all processes, from initial consultation, through coating proposal, manufacturing, post-delivery after-sales service, to follow up. Together, our production, sales and engineering strive to resolve customers' issues.

We leverage our advanced technological capabilities and abundant know-how to propose and provide the optimum coatings for customer needs. Through our activities close to the front line we are also able to pinpoint potential issues that customers themselves may not notice, to make appropriate proposals and implement meticulous after-sales service.

Also, we communicate closely with the engineering and manufacturing divisions, not delivering only products, but aligning ourselves closely with customers as a trusted partner, to provide additional value. Furthermore, we are also committed to joint development with customers, and development of coatings with new functionality and performance with the aim of creating solutions with greater added value.

Nurturing human resources to enhance proposal and sales capability

In order to nurture human resources who can be responsible for market development while bearing in mind the diverse needs of our customers, we have organized opportunities for in-house collaboration, such as participation in priority area projects, and sales case presentation meetings, etc. Also, through the activities of working groups for different fields, such as blast furnaces, pulp and paper, petrochemicals, and batteries, comprised of members from each business site, we promote sharing and deployment of specialist knowledge and relevant case studies leading to enhancement of sales skills and motivation.

Each year we set a theme for our sales case presentation meetings, where members present sales activity results and initiatives. By deploying outstanding case studies to all plants and offices, the system helps to enhance overall sales skills and share know-how.

Environmental impact reduction measures

Climate change, resource depletion, and other environmental conditions caused by global warming are intensifying to the point that they are becoming serious threats to the survival and prosperity of humankind and society. Our highly refined surface modification technologies offer functions, such as heat, corrosion, and wear resistance, that reduce greenhouse gas emissions and reduce the consumption of resources by extending the useful life of parts and products.

Main initiatives	・Advance decarbonization (carbon neutrality) ・Measures to reduce waste and protect the environment	
KPI	Fiscal 2025 goal	Fiscal 2024 achievement
Greenhouse gas emissions (Scope 1, 2) Note: Goals and indicators formulated according to "Information Disclosure Based on TCFD Recommendations"	7,900 t-CO_2 (Less than 54% of fiscal 2013 emissions)	7,147 t-CO_2
Ratio of waste recycled	40%	62.3%

Group-wide environmental management

Basic philosophy

TOCALO recognizes that “continuously improving the global environment and preventing pollution” is one of the most important challenges of our time. Our basic environmental philosophy is to use surface modification technologies to save resources, save energy, and reduce our environmental impact to protect the global environment and contribute to society.

Acquiring ISO 14001 certification at all sites

We are continually improving our environmental management system to contribute to society and protect the global environment by conserving resources and energy and reducing our environmental impact. Since acquiring ISO 14001 certification at all our sites in 2012, we have maintained our 100% certification rate even when relocating or launching new sites. We are driving acquisition of ISO 14001 at all Group companies, and have thus far gained certification at Japan Coating Center Co., Ltd., TOCALO & HAN TAI Co., Ltd. in Guangzhou, China and TOCALO & HAN TAI (KUNSHAN) Co., Ltd in Kunshan, China.

Third-party evaluations

We obtained CDP 2024 certified scores of B for climate change and B- for water security.

CDP Discloser 2024

Employee comment

Working together with customers to resolve environmental issues

Kosaku Hiyama
General Manager, Environmental Promotion Department

The Environment Promotion Department presides over environmental activities company-wide, including the introduction of renewable energy, updating to energy-efficient equipment, and reduction of waste products. We deploy concrete strategies through our Environmental Meetings and Energy Conservation and Environment Conference in coordination with the persons responsible at each site. In addition, we are striving to promote in-house environmental awareness through the introduction of supplies that make use of recycled paper and timber from forest thinning.

In recognition of these ongoing initiatives, in 2024, we received an award for environmental contribution from our customer. This was because our CO_2 reduction technology in the component manufacturing process was judged to make a significant contribution to the achievement of net-zero through the improved energy-efficiency and component longevity of the customer’s equipment.

Amidst the accelerating move towards net-zero, TOCALO is working closely with customers to contribute to reduction of CO_2 emissions. By supporting improved equipment energy efficiency and emissions reduction through both technical and informative angles, together, we can develop optimal solutions to specific environmental issues faced by customers, as we aim to realize a sustainable society.

100% of disposed company documents are recycled as raw materials for toilet paper used in-house

Information Disclosure Based on TCFD Recommendations

TOCALO's vision is to contribute to a bright future for people and nature, so we have positioned tackling climate change as a management priority. We will focus our expertise as a coating manufacturer to help clients conserve resources, reduce labor, and lower environmental burden for a decarbonized society. We will also actively disclose our efforts concerning climate-related risks and opportunities. Following the change in the basis of climate-related disclosure guidelines from the TCFD*1 to the ISSB*2, we will continue to stay informed and up to date on the changes in disclosure standards and further enhance disclosure.

*1 Task Force on Climate-related Financial Disclosures
*2 International Sustainability Standards Board

Governance

The president is responsible for supervising activities related to climate change risks.

The Sustainability Committee formulates sustainability policies and action plans, monitors the progress of our efforts, and deliberates on our response to climate change. The committee, which meets four times a year in principle and is chaired by the president who acts as the individual in charge, includes full-time directors and the general managers of business divisions among its members.

The Board of Directors receives reports from the committee concerning every aspect of sustainability, including climate change, and deliberates on and approves matters as necessary.

Risk management

We have positioned climate change risk as a serious business risk, and it is incorporated into the management of each division.

The Sustainability Committee also monitors risk management on a cross-divisional basis. The Board of Directors receives reports on matters such as the results of this monitoring and then deliberates and decides upon company-wide response measures.

Strategy

In 2022, we analyzed and extracted the main risks and opportunities associated with climate change, along with their responses. In 2023, we deepened our analysis by calculating the financial impact of each risk and opportunity and used the results to set indicators and targets for the countermeasures that we have deemed of critical importance.

In 2025, we updated the medium-term scenario analysis period from 2030 to 2035. With the update, we reevaluated the risks and opportunities and confirmed the progress of countermeasures.

Scenario analysis

Scope	Period	Main reference scenarios
Carbon tax items are TOCALO Corporation consolidated; other items are TOCALO Corporation non-consolidated	Present to 2050	● IEA WEO 2023 NZE・SPS・APS ● Fifth Assessment Report of the IPCC, RCP2.6 (2.0℃), RCP8.5 (4.0℃) ● Sixth Assessment Report of the IPCC, SSP1-1.9 (1.5℃), SSP5-8.5 (4.0℃)

Risks, Opportunities, and Response Measures

Environmental energy related business that contributes to climate change mitigation measures and adaptation strategies, as well as repair and refurbishment business, offer opportunities for expansion of net sales.

Because physical, regulatory and other risks impact procurement costs for TOCALO and our supply chain, we are bolstering BCP measures that include our supply chain, including countermeasures to risks such as disaster, and operation stoppage.

* We provide more details on our website (https://www.tocalo.co.jp/english/sustainability/env/tcfd/)

Countermeasure	KPI	Fiscal 2025 goal	Relevant page in this report
Convert to renewable energy, improve efficiency, and reduce electricity consumption	GHG emissions (non-consolidated, Scope 1 and 2)	7,900 t-CO_2 (Less than 54% of fiscal 2013 emissions)	Page 31
Improve efficiency and reduce consumption (including recycling) of materials	Waste recycling rate	40%	Page 31
Advance development of our coating technologies and engage in public relations to communicate how our coatings contribute to client efforts to reduce GHG emissions, conserve energy, and promote the adoption and efficiency of natural energy power generation.	Financial value of orders received in environmental field	Total: 10,500 million yen	Page 28
	(1) Environmental and energy equipment	(1) 2,000 million yen	
	(2) Repaired and refurbished products	(2) 8,500 million yen	

Advance decarbonization (carbon neutrality)

GHG emission reduction

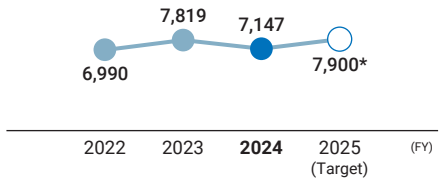
The Group's CO_2 emissions are primarily the result of the energy sources we use, which include primary energy derived from fossil fuels, such as kerosene, diesel oil, LPG, and city gas, and the secondary energy source of electricity. Converted to CO_2, electricity accounts for the vast majority—83.49%—of our CO_2 emissions.

TOCALO takes meticulous steps to conserve electricity as a regular part of efficient business operations while also implementing measures including installing energy-saving equipment and upgrading aging equipment with environmentally efficient equipment.

We are also taking steps to convert to renewable energy sources that do not emit CO_2 in power generation. These steps include aggressive measures to reduce CO_2 emissions by using solar power to generate our own energy and by purchasing electricity generated from renewable energy sources.

Greenhouse gas emissions (Scope 1, 2)

(non-consolidated, t-CO_2)



* Achieve 54% or less of fiscal 2013 emissions

Scope 3 emission reductions

In fiscal 2023, we began calculating our Scope 3 emissions and are working towards decarbonization across our supply chain through visualization of emissions.

Our Scope 3 emissions amounted to 30,514 t-CO_2 in fiscal 2024. Going forward, we are setting targets aimed at further reduction and strengthening cooperation throughout our supply chain.

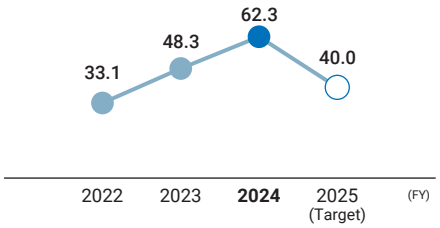
Measures to reduce waste and protect the environment

Waste reduction and recycling

As TOCALO undertakes its business activities, we are constantly aware of the environmental burden of our products and services. We are striving to prevent environmental pollution through appropriate management of the materials related to waste reduction and environmental regulations. Regarding waste, we consider advancement of recycling as a key issue, and have established ratio of waste recycled as one of our environmental KPIs. Our fiscal 2024 results represent the achievement of 40% of our 2025 goals.

In addition, in fiscal 2024, we engaged in recycling of thermal spray materials, and our reduction of CO_2 emitted in manufacturing processes was recognized by our customers.

Ratio of waste recycled (non-consolidated, %)



Initiatives to address air pollution

TOCALO's main products modify surfaces by way of thermal spraying, which uses powder or wire as a material. The material is fed into a combustion flame or plasma jet, where it is melted and then sprayed to form a coating. Powders that did not melt or did melt but were not deposited when sprayed become dust. Dust collectors collect the dust before it can be released into the atmosphere.

Thermal spraying is a dry process and the collected dust is mostly dry, so there is no need for waste liquid treatment. A duct draws the airborne dust in a thermal spray booth into the dust collector where it is filtered with internal filters made of woven and nonwoven fabrics. The fine layer of dust that collects on the filter surface becomes thick and can clog the filter, reducing the efficiency of the dust collection. Using a pulse jet, compressed air is used at regular intervals to remove the dust and maintain process efficiency.

Dust that can be reused is recycled, and dust that cannot be reused becomes industrial waste.

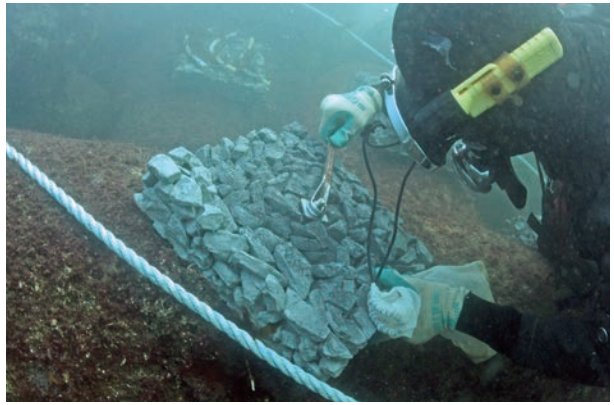
As of the end of fiscal 2024, we have not confirmed the generation of sulfur oxide (SOx) from our operations.

Dust collector

Initiatives for biodiversity

Blue carbon ecosystems, created by propagating sea grasses in the ocean, deliver a range of environmental conservation effects, including the capture and storing of CO_2, improving water quality, and boosting biodiversity. In Osaka and Hyogo prefectures, the Osaka Bay MOBA Link Initiative, launched to coincide with the Expo 2025 Osaka, Kansai, is connecting the whole of Osaka Bay as a single blue carbon corridor. MOBA (Members of the Osaka Bay Blue Carbon Ecosystem Alliance), established jointly by the two prefectures in January 2024, is being advanced through the collaboration of local governments, businesses, and other organizations, and TOCALO is also a proud supporter and participant. We are leveraging the surface modification technologies we have assembled until now to develop constituent technologies aimed at realizing agreeable living conditions for sea grasses.

As global warming advances to the point where it has been referred to as “global boiling,” we will continue our proactive participation in this initiative in the hope for its early realization, and that it may act as an inspire others around the world.



Demonstration seaweed bed created in the inner bay area

Third-party verification

To ensure our environmental data is transparent and accurate, TOCALO obtained third party verification of environmental data for fiscal 2023 (April 2023 to March 2024) related to greenhouse gas emissions (Scope 1, 2, and 3), water consumption, and industrial waste emissions.

We continuously seek to ensure the highest quality of data by expanding the verification scope and improving data accuracy.

Reducing our environmental impact at plants

In fiscal 2024, specific measures were aimed at conserving energy and resources and reducing waste and increasing recycling. Environmental measures related to ISO 14001 in fiscal 2024 were focused on conserving energy and resources in our business activities, using our businesses to make a positive contribution to the environment, and mitigating climate change, with specific targets for each operating site.

TOCALO has set the group goal of reducing greenhouse gas emissions to 54% of the fiscal 2013 level in 2025. The first step to achieving that target is to reduce our energy consumption by improving our production efficiency. Other steps will include using solar power generation to produce our own power.

In addition, where necessary, we will flexibly introduce purchasing of electricity generated from renewable energy sources. We are also planning to recycle plastics and oils.

Also, in order to reduce our water usage volume, we are working to use water resources effectively. For example, at our Kobe Plant, previously we simply discharged water used for cooling and cleaning, but now, we collect it in underground tanks and reuse it in our cleaning tanks, in an effort to reduce the volume of water used.

In 2024, after considering data-based reduction of electric consumption, we embarked upon kiln insulation. We are gradually implementing more measures to ensure we attain our targets for reducing greenhouse gas emissions as well to progress toward our goal of being carbon neutral. Furthermore, we have also launched measures aimed at achieving net-zero by 2040.

Employee comment

Recycling plastic to reduce CO_2 emissions

Hiromi Sasaki

Supervisor, Tokyo Plant Suzumi Workshop

At our Tokyo Plant Suzumi Workshop, we are making efforts to recycle waste material. Material recycling* of waste plastic, which has a high CO_2 coefficient, is helping us to achieve reduction of our CO_2 emissions. Currently, we recycle 88% of waste, but the challenge remains to make further cuts. We are aiming to cut 500 kg of waste plastic with new technology to recycle special containers we use in manufacturing. By raising environmental awareness throughout the plant, we hope to make further reductions in cooperation with our workers.

* Material recycling is conversion of waste materials into resources for reuse

Manufacturing sophistication and quality improvement

Our surface modification processing is a labor-intensive operation in which we customize coatings to meet each client's individual specifications. We believe that improving our profitability will require identifying manufacturing processes where our coatings can improve efficiency, and using automation and the Internet of Things (IoT) to improve our productivity and quality. In addition, we are putting effort into nurturing human resources to handle leading technologies, aiming to maintain our high quality and boost our competitiveness through transmission of skills and our award system.

Main initiatives
- **Improve manufacturing process sophistication and efficiency**
- **Reinforce the quality control system**

KPI	Fiscal 2025 goal	Fiscal 2024 achievement
Amount of capital investment contributing to improving sophistication and efficiency of manufacturing process	400 million yen	1,026 million yen
No. of employees passing QC test	60 persons	116 persons
No. of employees possessing qualifications as nondestructive inspection engineers	Total: 25 persons	Total: 25 persons

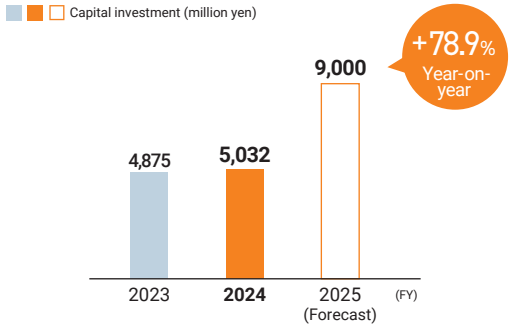
Improve manufacturing process sophistication and efficiency

Strategic capital investment

The semiconductor market is forecast to be worth one trillion dollars in 2030. In response to this market growth, TOCALO is conducting strategic capital investment to double its 2024 production capabilities by 2030. Our plan for fiscal 2025 allows for capital investment of nine billion yen.

This includes ¥7 billion of investment planned for TOCALO Co., Ltd. this fiscal year. We will invest ¥4 billion in the construction of new buildings for the semiconductor field at our Tokyo and Kitakyushu plants, and are also investing in increased production and new technologies. Furthermore, we plan capital investment of ¥2 billion in our subsidiaries in Japan and abroad. Also, we will continue planned capital investment as we approach fiscal 2030, in our effort to boost our manufacturing systems and technological capabilities.

Capital investment



Planned capital investment for fiscal 2025 of ¥9 billion

- **TOCALO ¥7 billion:**
  Construction of new buildings at the Tokyo and Kitakyushu plants, increased production capacity and efficiency, research facilities, etc.
- **Japanese subsidiaries ¥800 million:**
  Construction of a new building at TERADA KOSAKUSHO, boosted production capability at JAPAN COATING CENTER, etc.
- **Overseas subsidiaries ¥1.2 billion:**
  Launch of new plants at TOCALO & HAN TAI (KUNSHAN) and TOCALO & HAN TAI TW (Taiwan)

Promotion of automation and IoT

The surface modification processing work we perform is a combination of semi-automated work performed inside equipment, such as thermal spraying and other surface treatments, and work that relies on manual work, such as masking. Fully automated processes are extremely difficult even for processing done inside equipment. This is because coating entails several processes, including maintenance work, surface checks and inspection, and must accommodate parts of different shapes and volume numbers while meeting specifications required by the client as well as by the type of material.

Our investment in automation and IoT is therefore being focused on reducing dependence on human labor, and on manufacturing processes that can improve efficiency. At present, as a part of this, we are also engaged in automation at these plants. Conventionally, employees handled thermal spraying manually, but through the introduction of robots, we have improved safety for workers and enabled more uniform and stable coating formation. Going forward, we will continue to advance introduction of automation technologies in efforts to further enhance productivity and quality.

Cultivating highly skilled human resources

Highly skilled individuals are one of our Company's core strengths and is essential to strengthening our competitiveness.

We have set key performance indicators (KPI) to promote in-house skill proficiency and to ensure we maintain consistently high quality. We set KPI categories for the number of certified technicians, number of people passing QC certification tests, and number of qualified non-destructive inspection engineers, and encourage participation. The KPI results for each year are presented on the corporate website. Also, through the introduction of our technical specialist award system, each year, we reward employees with especially exceptional technical skills. Technical specialist awards are conferred on employees recommended by general managers of our plants and confirmed by the company. In fiscal 2024, there were 19 employees who received the award.

Employee comment

Recipient of a technical specialist award in fiscal 2024

I want to tackle challenging problems with my team members to produce high quality products

Kazuya Kishimoto

ESC Production Department, Production Division.2, Akashi Workshop.2, Akashi Plant

I was very surprised but also thrilled to receive this award. The manufacturing I am responsible for, which is conducted under very special conditions, is beset with issues and equipment trouble from day to day. For this reason, I cannot overlook minor changes, but record them so I can deal with them promptly. Also, when coaching younger colleagues, I focus on ensuring that they understand the reasons for our work techniques and procedures. Going forward, I aim to further increase my skill levels, share my knowledge with those around me, and produce high quality products with the team.

Reinforce the quality control system

Establish and promote product performance assurance

Surface modification technology cannot be fully evaluated based solely on the surface appearance, and therefore require strict control of all processes, including the manufacturing process.

Our comprehensive management structure enables us to fully meet customer needs through our integrated quality management, technology, sales, and manufacturing divisions followed by attentive after-sales service.

Acquisition of ISO 9001 certification

All TOCALO plants have acquired ISO 9001 certification, the international standard for quality management systems from the International Organization for Standardization, and we are continually improving our quality management system. We are also training internal ISO 9001 auditors.

Construct a Product Qualification Plan

We are formulating a product qualification plan (PQP) based on semiconductor industry quality manuals from around the globe. Our testing devices use failure mode and effect analysis (FMEA) and 10 other methods to analyze and statistically identify any changes in quality.

When the rods we use as materials change, we review the specifications to check whether there will be any impact on product quality. In addition, during the inquiry stage, we conduct a design review (DR) to confirm that we will be able to achieve the design in line with the plan, and consider whether production is possible based on the customer' s plan. Through such measures, we aim to improve our level of product quality starting from the process design stage.

Acquired JIS Q 9100, Nadcap certification (for the aerospace industry)

JIS Q 9100 was established to manage the quality of aerospace defense products, which requires advanced quality control.

Meanwhile, Nadcap is an international certification system under which the Performance Review Institute (PRI), an NPO in the United States, reviews special process operations in the aerospace and defense industry. To satisfy requirements specific to the aerospace industry, the Nagoya Plant acquired certification.

Digitalization of inspections

We are introducing 3D measuring machines to perform rapid and high-precision inspections at sites whose products are used in the semiconductor field. By advancing automation of measurement tasks, we can both improve work efficiency and the soundness of measurement data.

3D measuring machines

Cultivate and activate diverse human resources

For TOCALO to achieve sustainable growth and development, the growth of each individual employee is essential. TOCALO respects diverse perspectives and values, and conducts ability-based recruitment of human resources focused on capabilities and achievements, irrespective of gender or nationality. We also strive to create workplace environments where employees can express their individuality and capabilities while enjoying their work.

Main initiatives	• Form a medium- and long-term human resource development plan • Create a comfortable work environment	
KPI	Fiscal 2025 goal	Fiscal 2024 achievement
No. of technology-related external presentations	Total: 25	Total: 20
No. of employees possessing qualifications as technicians	Total: 240 persons	Total: 241 persons
Educational spending per employee	80,000 yen	66,000 yen
Rate of frequency of occupational accidents	Aiming for zero	2.36 (Including temporary employees)
Severity rate of occupational accidents	Aiming for zero	0.031 (Including temporary employees)
Ratio of female full-time employees	13%	12.5%
Ratio of female managers	5%	3.9%
Ratio of men taking childcare leave	90%	61.9%

Basic thinking

Image of the human resources we seek and our organization

Based on our corporate motto: "Technologies and Ideas," "Youth and Passion," "Harmony and Reliability," and "Good Service," our policy is to nurture human resources who will strive for "better than now." We also value the ideas produced by our human resources, and endeavor to cultivate an organizational culture where everybody supports one another.

Proactive human capital investment

We believe that securing and training human resources adapted for the company's growth is a key factor in realizing continuous business expansion, and we therefore engage in proactive human capital investment.

TOCALO Co., Ltd. invested a total of ¥69 million, or ¥66,000 per employee, in employee education in fiscal 2024.

We continuously conduct both new graduate recruitment and mid-career recruitment of persons who can immediately become effective players. In fiscal 2024, we hired 41 new graduates and five mid-career recruits. We plan to hire approximately 40 new recruits annually up to fiscal 2030.

In addition, it is also our policy to continuously increase employee remuneration, with the aim of securing and retaining talented human resources, and boosting our recruitment competitiveness. From fiscal 2024, we plan to raise wages by 4% annually.

Education expense per employee (non-consolidated)

(thousands of yen)

FY2022	FY2023	FY2024
63.2	75.8	66.0

Human resource programs (non-consolidated)

	Young employees	Mid-career personnel and professionals	Management level
Market development and services	Business case presentation meetings		
	Salesperson development training		
	Focus area projects and working groups		
Technology development	Joint development with customers, industry-academia-government collaboration		
Manufacturing and quality	Technical Report presentation Competition	Technical meetings	
	QA-presentation competitions (improvement initiatives)		
	Thermal spraying/machining/metal heat treatment technicians		
		Meister system	
	Quality management system (quality meetings)		
	QC testing, non-destructive testing engineer qualifications		
Management	Global experience system		
		New supervisor training	Training for newly appointed managers
		Management candidate development training	Deputy general manager training
Foundations	New employee training	Senior training / Instructor training	
	Training 2nd - 5th year	Career planning training	
Reskilling	Digital education / Compliance training / Information security training / Diversity training / E-learning (self-development)		

Initiatives to promote autonomous career development

From 2023, we have conducted "purpose training." Through this training, employees express their "purpose," verbalizing the significance of their working for TOCALO, so that they understand why they work for TOCALO and how their job is useful to society. The training is devised to make employees conscious of their purpose in working and draw out willingness to tackle new challenges. After line managers have taken

purpose training, there are opportunities for their subordinates to meet to share their own “purpose.” Through this process, they are able to gain a deeper awareness of their role and the significance of their work, which is also helpful in enhancing team work.

Fifth year training *zazen* meditation experience

TOCALO conducts various level-specific training. In fiscal 2024, we conducted a new trial by introducing *zazen* meditation training for fifth-year employees. Taking employees from the clamor of the city to a tranquil space gave them an opportunity to reflect on their thoughts and actions, and provided time for deep introspection. We hope that being temporarily separated from their smartphones and regular work and experiencing a mental state of nothingness will enhance their power of concentration and clarity of thought, resulting in them being more able to make calm decisions each day at work and to enjoy emotional stability. Through such opportunities, we aim to contribute to the growth of individuals and for continuous value creation for our organization.

Zazen meditation experience

Provide digital education and selecting DX human resources

Digitalization and DX are important to improving the productivity and quality of all operations. We are implementing company-wide digital education to enhance employees’ individual understanding and ability to leverage digitization and DX in their actual work.

Also, we are focusing on developing individuals as DX human resources who can use data and digital technology to lead to innovation. We have formed DX promotion core members with members recruited to advance the concept of smart factories that realize automation, labor and energy-saving at plants.

Global experience program initiatives

In 2022, taking a long-term perspective, we established a Global experience program to develop core human resources who will lead our future corporate development. The program is intended not only to develop human resources who will lead our global expansion, but also to broaden the perspectives and nurture the strategic thinking of highly motivated employees.

Fiscal 2025 is the third year of this program, and this year 13 employees are participating, selected by internal recruitment. In the program, we provide a diverse one-year curriculum including external training in marketing and business strategy, conversational English classes, and in-house lectures from general manager-level speakers.

In the first two fiscal years a total of 27 employees completed the program, some of whom are now in fact working at overseas bases. Going forward, we intend to continue and bolster this program to nurture personnel who will lead our global expansion.

Examples from the fiscal 2024 program

- Group discussion from a management perspective
- Technological trends, etc. of various applications
- Participation in cross-industry exchange open training

Global experience program training

Employee comment Completed the fiscal 2023 Global experience program

I hope to share the appeal of TOCALO’s technology on the global stage

Kohei Nakata

Supervisor, Sales Department 1, Sales Division,
Tokyo Plant Suzumi Workshop

One aspect of the lectures that made a deep impression on me was in a corporate strategy lecture where I learned the need for strategy leveraging the company’s strengths as a manufacturer with the highest market share. After the end of the entire program, I am using this learning in my current role to try to differentiate us from rivals by being conscious of offering proposals and after-sales service that is closely aligned with customer needs. When doing business overseas, I realized how our technology is accepted abroad. In the future, I hope to continue to share the appeal of our technology globally as a sales representative.

Employee comment Currently participating in the fiscal 2025 Global experience program

I want to grow as a leader with a diverse outlook and global perspective

Hossain depudilruba

Production Control Department, Production Division,
Kitakyushu Plant

I applied to be a candidate for the program in my fourth year at the company with the hope of contributing to the company’s further growth. In the critical thinking lecture, I was shocked at the discrepancies in assumptions regarding the same topic. I realized that we only pay attention to things within our own limited viewpoint. In the future, I want to perform a role supporting the company’s growth as a leader with a global perspective and an understanding of the needs in foreign markets.

Creating a comfortable workplace environment

Basic thinking

We will maintain a comfortable work environment for all employees so that they can express their individuality and abilities and achieve harmony between their work and private lives.

Work environment principles

1. Foster corporate culture with psychological safety
2. Maintain and improve a comfortable work environment, including health and safety
3. Provide equal-opportunity career advancement and merit-based evaluations
4. Support employees balancing work with childcare and nursing care
5. Create a workplace environment allowing flexible work styles and healthy work activity
6. Provide learning opportunities and establish an award program

Implementation of employee engagement survey

In fiscal 2024, we implemented our second employee engagement survey.

Total engagement (overall score) was 3.56 points out of a maximum possible 5 points, maintaining a favorable score (3.5 points and over), as was the case last year. Regarding issues that were identified last year, as a result of introducing a new incentive system and advancing enhancement of the training system, the relevant survey scores showed an improvement, indicating a degree of success. However, other issues came to light in this survey, which we must reflect in our policies going forward.

Promotion of health management

TOCALO's health management is led by employees who are qualified occupational health nurses. One of our fundamental activities is providing regular and periodic medical checkups for 100% of our employees. For individuals who receive results indicating recommendations for detailed examinations or reexamination, our occupational health nurses encouraging them to make examination appointments at medical institutions and follow up on their condition until receiving the new results. The Company covers the cost of initial consultations at medical institutions. In addition, we support the early detection and treatment of diseases by also covering the costs of employee screenings for cancer and lifestyle diseases, gynecological checkups, and dental examinations.

In regards to our company's health management issue of reducing smoking, following on from last year's "Non-smoking Event," this year we held a "Non-smoking Challenge."

As a result of these initiatives, we were certified as a Health and Productivity Management Outstanding Organization (Large Enterprise Category) for the second consecutive year.

2025
健康経営優良法人
KENKO Investment for Health
大規模法人部門

Implementation of stress checks

Each year, TOCALO conducts a stress check for all employees. For people suffering from great stress, we arrange consultations with occupational physicians and a public health nurses in an effort to prevent mental health issues from arising.

Stress check examination rate

FY	2020	2021	2022	2023	2024
Examination rate	83.9	79.1	84.2	90.7	90.1

Enhancement of work-life balance

We help employees by promoting labor and management efforts aimed at appropriate management of overtime work and encouraging employees to take annual paid leave, including refreshment leave, with the intention of creating an environment where employees can carry out their jobs in a way that is comfortable for them. We are supporting individuals seeking to maintain a professional career while raising children by encouraging the use of childcare leave and fostering a work environment that accommodates health management during pregnancy and after childbirth. We also arrange meetings between those eligible for childcare leave and their supervisors and provide partially paid leave to encourage all eligible employees to use childcare leave.

While expanding our workstyle flexibility, we are also seeking to raise workplace awareness and change the workplace culture. This includes a program to raise awareness about employees who are working while also providing nursing care to a family member. We introduced a nursing care leave program for up to 183 days and with up to five days of paid nursing care leave per year.

In addition, in March 2023, we introduced infertility treatment leave, with eligibility conditions, in consideration of supporting employees undergoing infertility treatment.

Promotion of diversity

The diversity promotion members at each plant and office work with our Diversity Promotion Division with the aim of becoming a company where diverse human resources can enjoy and feel a purpose in their work.

We revised our diversity patrols and facilities so that women at manufacturing sites can expand their range of work, and made improvements to create a clean workplace environment. As a result of these efforts, the percentage of female employees reached 12.5% and is increasing each year. Going forward, we hope to advance the creation of workplaces where everybody is able to play an active role.

女性が活躍しています！

Occupational safety and health

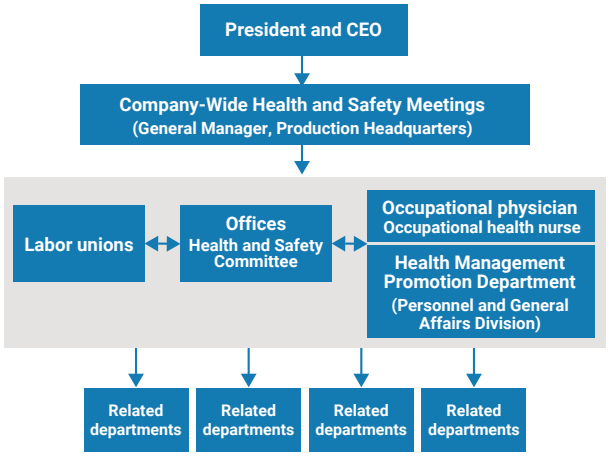
Approach to management hygiene

TOCALO's safety and health policy is based on the principle that "safety takes precedence over everything." The policy provides guidelines for "maintaining and improving work environments" and "achieving zero accidents and zero injuries" by showing due consideration to safety and health in ways that safeguard and enhance the health of all employees.

Management system

TOCALO maintains an occupational health and safety management system headed by the president and dedicated to providing a comfortable and safe work environment. The Company also works with the safety and health committees at each business site, the Health Management Promotion Department, labor unions, and external experts (occupational physicians) to raise employee safety awareness and continuously improve health and safety conditions.

Occupational health and safety management system



nitiatives to prevent occupational accidents

TOCALO is advancing company-wide initiatives based on a policy of safety first, with the aim of achieving zero accidents. In fiscal 2024, 14 occupational accidents occurred (0 resulting in death, six resulting in leave). At the time of an accident occurring, we immediately share the information, and hold discussions at the Company-Wide Health and Safety Meetings to identify the causes and determine countermeasures. Thereafter, we deploy these horizontally to each base in order to prevent recurrence. Also, we regularly conduct risk assessments to identify and assess in advance any potential risks in work procedures, equipment, and work environments, implementing measures to reduce these risks. A further system we have in place to prevent accidents is analyzing risks prior to introducing new processes or changing layouts.

KPIs for frequency and severity of occupational accidents
(non-consolidated)

KPI	Definition	Fiscal 2025 Goal	2021 Achievement	2022 Achievement	2023 Achievement	2024 Achievement
Rate of frequency of occupational accidents	No. of deaths and injuries due to occupational accidents ÷ total no. of actual working hours × 1,000,000	Aiming for zero	0.62 (Not including temporary employees)	1.80 (Not including temporary employees)	2.06 (Including temporary employees)	2.36 (Including temporary employees)
Severity rate of occupational accidents	Total no. of working days lost ÷ total no. of actual working hours × 1,000	Aiming for zero	0.00 (Not including temporary employees)	0.03 (Not including temporary employees)	0.10 (Including temporary employees)	0.031 (Including temporary employees)

In addition, we have installed recording cameras in workplaces to check the circumstances in the occurrence of occupational accidents or near misses, and whether safe work procedures are being adhered to, and we use the information when considering measures to prevent recurrence. We have installed dedicated cameras in booths where particular care is required for operational reasons, facilitating a system whereby we can check work execution remotely in an effort to improve the level of workplace safety and management.

Occupational health and safety management system

TOCALO is promoting the creation of a workplace environment that prioritizes consideration of employees' safety and health. As one aspect, we have obtained international certification ISO 45001 and Japanese certification JIS Q 45100 for Occupational Safety and Health Management System (OSHMS) at all plants and offices.

By obtaining this certification, we established systems that ensure ongoing safety, including prevention of occupational accidents and management of employee health.

Going forward, we will strive to create workplaces that are people-friendly, for the safety and health of all employees, with a belief that "Safety takes precedence over everything" as the foundation of our safety and health management.

TOCALO Group companies with ISO 45001 certification

Company	Consolidated group companies with certification
TOCALO Co., Ltd. (All plants and offices)	2 out of 7 companies
TOCALO & HAN TAI Co., Ltd.	

Initiatives to create a comfortable work environment

At TOCALO, we prioritize employee safety, taking measures to address dust, noise, heat, and so on, as necessary for each site, based on our motto of creating clean, functional, and people-friendly working environments.

As one example, we installed high-performance dust collectors which are not just a measure against environmental pollution, but also effectively remove fine dust particles, fumes, and mist to maintain constant air purity in the work environment. This helps to prevent health hazards for employees, and helps to boost maintenance of equipment and production efficiency. For workplaces that handle semiconductors in particular, we use specialized filters to ensure air management, thus realizing both product quality and comfortable work environments.

Practice thorough compliance

We have established the four issues below to "lay the management foundation for a long-surviving company."

- **Act in accordance with corporate ethics (social mores, ethics and morals, the environment, local community contribution)**
- **Actively promote ESG initiatives**
- **Promote engagement with domestic and foreign investors**
- **Fully comply with the Corporate Governance Code**

Main initiatives	・Lay the management foundation for a long-surviving company	
KPI	Fiscal 2025 goal	Fiscal 2024 achievement
Ratio of employees receiving compliance training	100%	100% (Conducted 3 times)

Supply chain management

Procurement Policies

TOCALO Group has a vision of "Contributing to a bright future for people and nature" through the various functions that surface modification coatings possess, including resource savings, energy savings, and reductions in environmental impacts. On the basis of this vision, we will strengthen our partnerships with our suppliers and collaborate with them to realize a sustainable society through procurement activities that take into account corporate social responsibility (CSR) such as respecting human rights, environmental conservation and compliance, and which have just and fair trading as a foundation.

1. Just and fair trading
2. Consideration for human rights/labor environment
3. Consideration for the environment
4. Thorough corruption prevention
5. Safeguarding of confidential information
6. Promote mutual development

Sustainable Procurement Guidelines

As a company that aims to contribute to society though its business activities (surface modification coatings), we are engaging in building a sound and sustainable supply chain. In August 2024, we formulated "Sustainable Procurement Guidelines" outlining TOCALO Group's approach to procurement and specific requests to our business partners. In addition, we ask for their agreement to these guidelines, and are steadily requesting them to submit a written agreement.

Going forward, based on these guidelines, we will further promote initiatives aimed at the realization of a sustainable society together with all of our business partners.

Cooperation, co-existence, and co-prosperity with business partners

TOCALO believes that trusting relationships with suppliers and collaborating businesses are indispensable to smooth business operations each day. In fiscal 2024, we held a trial partner appreciation event at all of our plants and offices aimed at strengthening relationships with our business partners. We invited business partners to this event who provide back up for our day-to-day business, for example, by supplying materials and supplies, or maintaining our equipment. A total of 95 partners participated in the event, providing us with a great opportunity to thank them for their ongoing support and to exchange ideas with them.

Going forward, we will strive to build favorable relationships not only with customers but with all related parties, including suppliers and collaborating businesses.

Partner appreciation event

Thorough compliance

Approach towards compliance

As a company that sincerely and creatively promotes sound business activities and contributes to creating a flourishing society, TOCALO Group has formulated the Corporate Code of Conduct and the Corporate Ethics and Behavior Guidelines. We believe that by all employees acting in accordance with our Corporate Code of Conduct (social mores, ethics and morals, the environment, local community contribution), we can lay the management foundation for a long-surviving company.

Management system

A Compliance Committee has been established to oversee compliance with laws and regulations, the Articles of Incorporation, and the Company's internal rules and to ensure our activities are in line with corporate ethical practices. The committee in principle meets quarterly, and at other times where necessary. It monitors, deliberates, and assesses measures related to key issues in the areas of compliance and reports the results to the Board of Directors.

Initiatives aimed at strengthening compliance

We distribute our Compliance Handbook to all employees to ensure full awareness and understanding of our policies.

The handbook opens with a message from the President, and contains policies, guidelines and important principles, and we have established an environment where employees can check its contents any time. In addition, three times a year, we conduct online training, which 100% of employees take, aimed at raising awareness of, and ingraining, compliance.

Risk management

Risk management system

We have established the Risk Management Committee, chaired by our President and CEO, Representative Director. The basic duties of this committee are supervision of the state of risk management throughout the organization, and consideration of company-wide measures. It takes precautions through execution of risk management, by identifying and analyzing risks with serious consequences, determining and implementing countermeasures, and evaluating these.

Initiatives for strengthening information security

Our Information Security Committee meets quarterly to deliberate information security policies and strategies. In consideration of the growing importance of information security with the advancement of globalization, we established the Information Security Management Division in April 2025, and appointed dedicated representatives, in an effort to strengthen our systems. We also regularly conduct online training to nurture awareness of information security among our employees.

Business Continuity Plan (BCP)

The highest priority of our business continuity plan (BCP) is the safety of our employees. The plan provides for the swift establishment of emergency headquarters to take recovery measures in the case of a natural disaster, such as a major earthquake, and a safety confirmation system for all employees. In addition, we have distributed stockpiles of emergency supplies to all plants and offices, regularly send test emails on the safety confirmation system, and conduct disaster prevention drills. Through these measures, we strive to ensure the safety of employees and to raise disaster awareness.

Respect for human rights

Approach towards human rights

The TOCALO Group is a company that sincerely and creatively promotes sound business activities and contributes to creating a flourishing society. The Corporate Code of Conduct stipulates ethical standards that all Group officers and employees are expected to follow.

The Code of Conduct expresses our basic stance towards human rights, which is to respect fundamental human rights, prohibit discriminatory treatment and child and forced labor, and foster a workplace culture that recognizes diversity and individuality.

Identifying and assessing adverse human rights impacts

The Group has established a structure for human rights due diligence and enforcement based on the United Nations Guiding Principles on Business and Human Rights.

As a first step of enforcement, the Group identified and prioritized action on potential human rights issues for each business activity. To assess human rights risks, we set five categories of occupational health and safety, discrimination, community, information management, and intellectual property. We subdivided these into 28 classifications, and assessed and analyzed the potential risks identified according to two axes of (1) severity and (2) likelihood of occurrence, to create a risk map*.

In fiscal 2024, we conducted a human rights questionnaire for all people in management positions in order to grasp in-house awareness of identified priority risks. Going forward, we will implement initiatives based on the questionnaire results such as training on topics where there is low awareness of human rights violation.

* Details are available on our website.
(https://www.tocalo.co.jp/english/sustainability/soc/human_rights/)

Corporate governance

Basic thinking

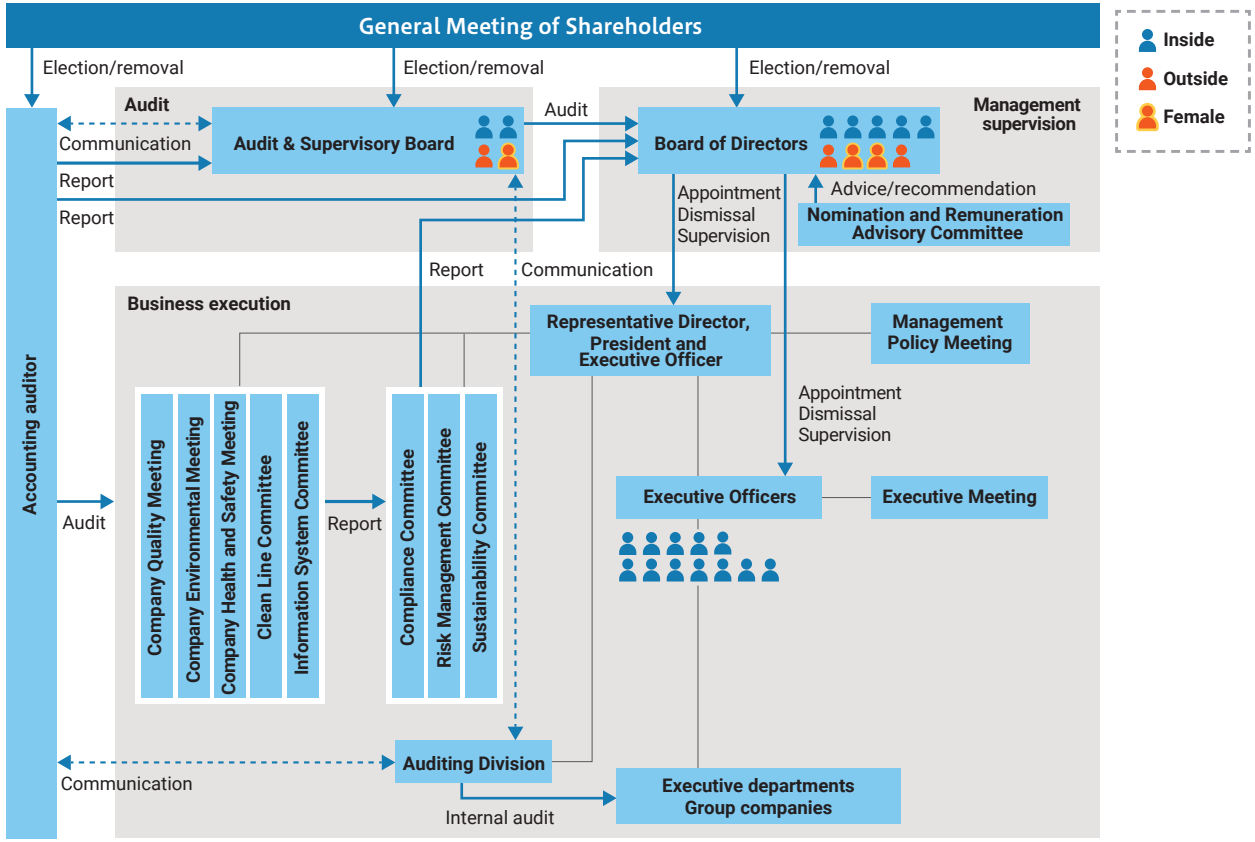
The Company recognizes that effective corporate governance is a priority management issue. Based on the recognition that “a company is a member of society and public entity,” we ensure management transparency and strengthen the trust placed in us by our shareholders, business partners, employees, local communities, and all stakeholders. Our objective is accordingly to increase the Group’s corporate value and achieve sustainable and sound growth, and we will contribute to society through our surface treatment processing business.

Corporate governance structure

TOCALO is a company with an Audit & Supervisory Board, pursuant to the Companies Act of Japan. It has a Board of Directors with nine members, including outside directors, and a four-member Audit & Supervisory Board, also with outside members.

Board of Directors

The Board of Directors is comprised of nine members including four outside directors. The President and CEO, Representative Director acts as the chairperson of the Board of Directors, which meets monthly and holds extraordinary meetings as necessary. In fiscal 2024, the Board held 17 meetings, discussing important management issues, checking the status of initiatives to address sustainability issues, and deliberating the operational status of internal control systems, including compliance and risk management.



Executive officer system

On June 25, 2021, the Company adopted an executive officer system, aimed at accelerating the decision-making and fortifying the supervisory function of the Board of Directors, fortifying the Company’s business execution function, and improving management efficiency.

There are 12 executive officers (including the president, two senior managing executive officers, and two managing executive officers, all five of whom are also directors). The executive officers attend the Board of Directors and management policy meetings, giving reports and explanations concerning their areas of responsibility. In addition, they convene executive board meetings where they are informed about and discuss the resolutions of the Board of Directors.

Nomination and Remuneration Advisory Committee

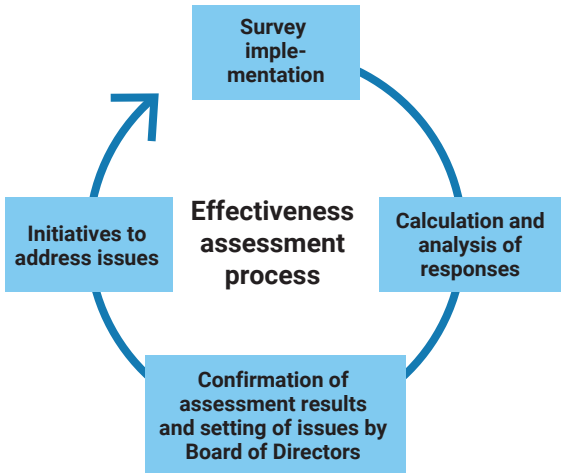
On July 1, 2019, we established a Nomination and Remuneration Advisory Committee as a discretionary advisory body to the Board of Directors. The committee is comprised of three or more directors (Nomination and Remuneration Advisory Committee members) selected by the Board of Directors, the majority of whom are independent outside directors, from which one serves as the committee’s chair, decided by a resolution of the Board of Directors. The committee generally meets once every two months and deliberates on topics including the election and removal of directors, the content of individual remuneration for directors, and director successor plans, and submits solutions its council and recommendations to the Board of Directors.

Audit & Supervisory Board

The Audit & Supervisory Board consists of four corporate auditors, two of whom are outside auditors. The auditors attend the Board of Directors, management, and other meetings, and also refer to reports from hearings, etc. from their department(s) of responsibility in order to supervise the execution of duties by the directors and executive officers. The Audit & Supervisory Board meets, in principle, once a month to fulfill the duties stipulated in laws and regulations and in accordance with the board’s rules.

Board of Directors effectiveness evaluation

Each year, TOCALO evaluates the effectiveness of the Board of Directors in order to continuously work on maintaining and improving the Board's functionality. We also conduct questionnaire on matters relating to the Board of Directors to identify issues with the Board and points for improvement to ensure its greater effectiveness and to enhance its functionality. Leveraging the evaluation results, we are continuing efforts aimed at improving the Board of Directors' effectiveness.



Main topics on effectiveness assessment survey

- Board of Directors composition
- Board of Directors operation
- Board of Directors agenda items
- Board of Directors support structure
- Free comments

Fiscal 2024 assessment results and issues

The evaluation results indicated that the Board of Directors' composition, operation, and freedom to express opinions were generally appropriate, but in regards to other areas, there was no indication of improvements from fiscal 2023. Consequently, we identified (1) shortening of materials, (2) reviewing allocation of discussion time, and (3) implementing various training as three issues to tackle to further enhance the Board of Directors' effectiveness going forward.

Remuneration etc. of officers

The Company policy for determining the amount and structure of director remuneration is for the Nomination and Remuneration Advisory Committee to deliberate and then submit its counsel and recommendations to the Board of Directors for final decision.

Basic policy

The Company formulates director remuneration structure to provide appropriate incentive to enhance corporate value by considering the individual director's duties and responsibilities, corporate performance, and other factors based on their status as part time or full time. Remuneration for directors (excluding outside directors and part-time directors) consists of fixed basic remuneration and performance-linked remuneration in the form of monetary and stock remuneration. Remuneration for outside directors and part-time directors, who perform primarily supervisory functions, is basic remuneration only due to the nature of their position.

Basic remuneration

Basic remuneration is a monthly monetary remuneration determined by a comprehensive consideration of the individual's duties, responsibilities, and years in office.

Performance-linked remuneration

Performance-linked remuneration serves as an incentive to continually increase corporate value. It is linked to performance indicator targets and provided in the form of monetary compensation and stock compensation with the intention of promoting the sharing of value with shareholders.

The performance-linked remuneration is calculated by applying a multiplier obtained from the three-year average of the Group's ordinary income, ordinary income ratio, ROE, and ROA (based on ordinary income) to base remuneration.

The performance indicators and their values are reviewed for consistency with the management plan in light of changes in the business environment, and the Board of Directors determines their appropriateness based on the counsel and recommendations of the Nomination and Remuneration Advisory Committee.

Performance-linked monetary compensation is uniformly paid every month. Performance-linked stock compensation is provided one time per year on a set date in the form of shares with a 30-year restriction on transfer. The Board of Directors removes the restriction at the time an individual retires from a predetermined position as a director of the Company or a subsidiary of the Company.

Remuneration by officer category

Officer category	Total remuneration etc. (millions of yen)	Total amount of remuneration by type (millions of yen)			Basic number of entitled officers
		Basic remunera-tion	Perfor-mance-linked remuneration	Non-monetary renumeration portion of the above	
Directors (excluding outside directors)	320	213	106	31	5
Auditors (excluding outside auditors)	44	44	—	—	3
Outside officers	40	40	—	—	7

*1 No employee salary (including bonuses) is paid in addition to the total amount of the above remuneration, etc. for employees also serving as directors.
*2 The breakdown of the total amount of non-monetary remuneration etc. for directors (excluding outside directors) is performance-linked remuneration (stock remuneration) of 31 million yen.

Corporate officers

Kazuya Kobayashi

President and CEO,
Representative Director

Career information

April 1989	Joined TOCALO Co., Ltd.
April 2014	General Manager, Kitakyushu Plant
April 2017	General Manager, Quality Management Division
April 2018	General Manager, Akashi Plant
June 2019	Director, General Manager, Akashi Plant
April 2020	Director, Deputy Vice President, Production Headquarters
June 2021	Managing Executive Officer, Vice President, Production Headquarters
June 2023	President and CEO, Representative Director (current)

Takayuki Yoshizumi

Senior Managing Executive Officer,
Representative Director

April 1984	Joined TOCALO Co., Ltd.
April 2006	General Manager, Sales Division, Tokyo Plant
April 2013	General Manager, Nagoya Plant
April 2018	General Manager, Tokyo Plant
June 2019	Director, General Manager, Tokyo Plant
April 2020	Director, Deputy Vice President, Sales Headquarters
June 2021	Managing Executive Officer, Vice President, Sales Headquarters
July 2021	Chairman of the Board, TOCALO USA, Inc.
June 2023	Managing Executive Officer, Director, Vice President, Sales Headquarters
April 2025	Managing Executive Officer, Director Chairman of the Board, TOCALO & HAN TAI TW Co., Ltd (current)
June 2025	Senior Managing Executive Officer, Representative Director (current)

Hiroshi Goto

Senior Managing Executive Officer, Director,
Vice President, Administrative Headquarters

April 1984	Joined The Tokai Bank Ltd. (currently MUFG Bank, Ltd.)
May 2010	General Manager, Higashi Branch of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently MUFG Bank, Ltd.)
June 2013	Transferred from The Bank of Tokyo-Mitsubishi UFJ, Ltd. to Nachi-Fujikoshi Corp.
February2015	Corporate Officer; General Manager, Global Finance Department, Nachi-Fujikoshi Corp.
April 2016	Joined TOCALO Co., Ltd., General Manager, Accounting Division
April 2017	General Manager, Accounting Division, and General Manager, Corporate Planning Division
June 2018	Director, General Manager, Accounting Division, and General Manager, Corporate Planning Division
June 2019	Director, Deputy Vice President, Administrative Headquarters, General Manager, Accounting Division, and General Manager, Corporate Planning Division
June 2021	Managing Executive Officer, Director, Vice President, Administrative Headquarters
June 2025	Senior Managing Executive Officer, Director, Vice President, Administrative Headquarters (current)

Tatsuo Suidzu

Managing Executive Officer, Director,
General Manager, Tokyo Plant

April 1987	Joined TOCALO Co., Ltd.
April 2012	General Manager, Thermal Spraying Technology R&D Laboratories
October 2014	General Manager, Thermal Spraying Technology R&D Laboratories
March 2017	Obtained a doctoral degree of engineering, Tokyo University of Science
June 2021	Executive Officer; General Manager, Thermal Spraying Technology R&D Laboratories
April 2024	Executive Officer; General Manager, Tokyo Plant
June 2025	Managing Executive Officer, Director, General Manager, Tokyo Plant (current)

Takeshi Takabatake

Managing Executive Officer, Director,
Vice President, Production Headquarters

April 1994	Joined TOCALO Co., Ltd.
April 2017	General Manager, Engineering Division, Akashi Plant
April 2018	General Manager, Production Division.1, Akashi Plant
April 2020	General Manager, Akashi Plant
June 2021	Executive Officer; General Manager, Akashi Plant
April 2023	Executive Officer; Vice President, Production Headquarters
June 2025	Managing Executive Officer, Director, Vice President, Production Headquarters (current)

Experience and skills

	Kazuya Kobayashi	Takayuki Yoshizumi	Hiroshi Goto	Tatsuo Suidzu	Takeshi Takabatake
Corporate management, management strategy	●	●	●	●	●
Sales, marketing	●	●		●	●
Manufacturing, technology	●	●		●	●
Legal, compliance	●		●	●	●
Financial, accounting			●	●	
International perspective, diversity		●	●		
Environmental and social issues	●	●	●		●

Note: The above does not represent a complete list of the knowledge and experience of the directors.

Corporate officers

Toshimitsu Kamakura
Director (Part-time)

Career information

April 1990	Registered as an Attorney at Law
April 1990	Joined Kamakura and Higaki Law Office (currently Higaki-Kamakura-Terahiro Law Office)
April 1995	Partner, Kamakura and Higaki Law Office (current)
June 2018	Outside Audit & Supervisory Board Member, Kinden Corporation (current)
June 2019	Director of TOCALO Co., Ltd. (current)

Keiko Takihara
Director (Part-time)

Career information

March 1986	Medical Doctor (Osaka University)
April 2008	Professor, Osaka University Health Care Center (currently, Health and Counseling Center, Osaka University) and the Department of Cardiovascular Medicine, Osaka University Graduate School of Medicine
April 2012	Director, Health and Counseling Center, Osaka University
October 2014	Vice President, Osaka University
April 2018	Director, National Cerebral and Cardiovascular Center (National Research and Development Agency)
June 2018	Director of TOCALO Co., Ltd. (current)
September 2020	Auditor, National Institutes for Quantum Science and Technology (National Research and Development Agency)
April 2021	Professor Emeritus, Osaka University (current)
April 2024	Director, Health Promotion Center, The Kinki Sharyo Co., Ltd. (current)

Yoko Sato
Director (Part-time)

Career information

September 1986	Joined Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
March 1990	Registered as a Certified Public Accountant
May 2011	Senior Partner, Ernst & Young ShinNihon LLC
September2019	Representative, Yoko Sato Certified Public Accountant Office
June 2020	Director of TOCALO Co., Ltd. (current)
June 2021	Outside Director, Sanyo Electric Railway Co., Ltd. (current)
June 2024	Outside Director, Audit & Supervisory Committee Member (current)

Kazuyuki Tomita
Director (Part-time)

Career information

April 1982	Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)
January 2004	General Manager, Elemental Technology Development Center, Panasonic Mobile Communications Co., Ltd.
July 2007	President, Panasonic Eco Technology Center Co., Ltd.
October 2015	President, Panasonic Environmental Technology Solutions Co., Ltd.
April 2017	Chief Incubation Manager, Osaka Regional Head Office, the Organization for Small & Medium Enterprises and Regional Innovation
June 2021	Director of TOCALO Co., Ltd. (current)
April 2022	Technical Advisor, Osaka Business Development Agency (current)
April 2023	Outside Director, Qualtec Co., Ltd. (current)

Experience and skills				
Corporate management, management strategy				●
Sales, marketing				
Manufacturing, technology				●
Legal, compliance	●			
Financial, accounting			●	
International perspective, diversity		●	●	
Environmental and social issues	●	●		●

Note: The above does not represent a complete list of the knowledge and experience of the directors.

Corporate officers

Hidetoshi Shin
Audit & Supervisory Board Member (Full time)

Career information

April 1982	Joined TOCALO Co., Ltd.
April 2009	General Manager, Kitakyushu Plant
October 2009	General Manager, Production Division, Akashi Plant
April 2013	General Manager, Akashi Plant
June 2015	Director, General Manager, Akashi Plant
April 2018	Director, Vice President, Quality Management Headquarters
June 2021	Managing Executive Officer, Vice President, Quality Management Headquarters
June 2023	Full-time Audit & Supervisory Board Member (current)

Hirosuke Hamada
Audit & Supervisory Board Member (Full time)

April 1984	Joined TOCALO Co., Ltd.
April 2006	General Manager, Accounting Division
August 2011	Temporarily transferred to TOCALO & HAN TAI (KUNSHAN) Co., Ltd.
February 2015	Temporarily transferred to TOCALO & HAN TAI Co., Ltd.
April 2017	General Manager, Global Business Division; Chairman of the Board, TOCALO & HAN TAI Co., Ltd
July 2017	Concurrently served as Chairman of the Board, TOCALO & HANTAI (KUNSHAN) Co., Ltd.
June 2021	Executive Officer, General Manager, Global Business Division
April 2024	Executive Officer
June 2024	Full-time Audit & Supervisory Board Member (current)

Toshihiko Yoshida
Audit & Supervisory Board Member

April 1978	Joined Taiyo-Kobe Bank Limited (currently Sumitomo Mitsui Banking Corporation)
April 2004	General Manager, Kobe Corporate Business Office III of Sumitomo Mitsui Banking Corporation
June 2007	General Manager, Corporate Planning Department of Sanyo Special Steel Co., Ltd. (temporarily transferred)
October 2007	General Manager, Internal Inspection Department of Sanyo Special Steel Co., Ltd.
June 2008	Transferred to Sanyo Special Steel Co., Ltd.
April 2009	General Manager, General Administration Department of Sanyo Special Steel Co., Ltd.
June 2012	Corporate Auditor, Sanyo Special Steel Co., Ltd.
June 2016	Full-time Audit & Supervisory Board Member of TOCALO Co., Ltd.
June 2021	Audit & Supervisory Board Member of TOCALO Co., Ltd. (current)

Noriko Kaji
Audit & Supervisory Board Member

April 1981	Joined Osaka Regional Taxation Bureau
July 2014	District Director, Higashinari Tax Office
July 2016	Secretary, Osaka Training Center, National Tax College
July 2018	District Director, Kishiwada Tax Office
July 2019	Retired from the office of District Director, Kishiwada Tax Office
August 2019	Registered as a Certified Public Tax Accountant
August 2019	Joined Kaji Ikuo Tax Accountant Office
April 2023	Representative, Kaji Noriko Tax Accountant Office (current)
June 2024	Audit & Supervisory Board Member of TOCALO Co., Ltd. (current)

Experience and skills

Corporate management, management strategy	●	●	●	
Sales, marketing	●			
Manufacturing, technology	●			
Legal, compliance			●	●
Financial, accounting		●	●	●
International perspective, diversity		●		●
Environmental and social issues	●			

Note: The above does not represent a complete list of the knowledge and experience of the auditors.

Hiroyuki Aisaka
Executive Officer
Vice President, Quality Management Headquarters

Katsunori Nakai
Executive Officer
General Manager, Corporate Planning Division

Yasuki Nakahira
Executive Officer
Vice President, Global Business Headquarters

Tatsuya Hamaguchi
Executive Officer
Vice President, Sales Headquarters

Yuu Murata
Executive Officer
General Manager, Akashi Plant

Takema Teratani
Executive Officer
General Manager, Thermal Spraying Technology R&D Laboratories

Shinichi Okabe
Executive Officer
Representative Director and President, Japan Coating Center Co., Ltd.

Investing in business that can become a second revenue pillar from a long-term perspective while performance is strong

Yoko Sato

Director (Part-time)

Boosting human resources and personnel who will play an active role in overseas markets with consideration for our main business's susceptibility to market fluctuations.

In comparison with five years ago, when I was first appointed as an outside director, TOCALO has advanced investment in its thermal spray and surface treatment business in Japan and abroad, and has continued to enjoy increasing net sales and profits. I can sense the openness of the corporate culture in the atmosphere of the Board of Directors, where we can speak out freely.

I believe that one of TOCALO's strengths is its initiatives for nurturing human resources, without bias towards any particular age group. In regards to promotion of the advancement of women, the company has also been making efforts since just prior to my appointment, and its earnest approach has gained it high appraisal. An issue that deserves mention aside from these is surely consideration of striking a balance between formulation of management strategies and investment aimed at achieving our ideal form in the near future. It is a matter that can be tackled now, precisely because of the company's strong performance, and I think it should be approached from a long-term perspective.

Going forward, I believe we must consider opportunities expansion of Japanese and overseas sites, M&As, and so on, without being limited to existing business fields. To this end, I hope the company will make it the highest priority to enhance overseas human resources and boost personnel capable of smooth negotiations and adaptation. Changes to the business climate are becoming ever-more intense, not only for TOCALO. In order to increase our swift response capabilities to these changes, it is surely necessary to also utilize divisions and experts to analyze issues that should be addressed from a long-term perspective. The semiconductor and FPD field, which currently drives our results, is very susceptible to market fluctuations. Consequently, we should actively investigate investment in a business division that will become the second revenue pillar, and nurture human resources, precisely because of our current strong performance.

Strengthening the business foundation by nurturing management human resources and promoting DX now, during this growth phase

In the process of expanding the scale of their business, companies generally over-prioritize increasing local personnel, while tending to lack human resources for management. TOCALO is also undergoing growth in its business scale, therefore I feel it is necessary to focus on nurturing human resources in management divisions of high-priority overseas subsidiaries. When net sales grow, business partners strengthen their demands for price reductions, and there is also a limit to what individuals can manage. It is also important to advance discussions with the future in mind, for example, asking whether our current management methods are sufficient, and how we can drive expanded use of digital transformation (DX).

As one aspect of promoting diversity, companies are expected to appoint female executive officers. However, they also need the willingness to take new approaches, such as looking not only in-house but also outside to find talent to appoint. Furthermore, while it is praiseworthy to take the stance of responding to stakeholder needs, for example, through forward-looking shareholder returns, I also hope we can brush-up our medium- to long-term plans to be able to more clearly champion our management strategies.

Presently, TOCALO is in the process of steadily expanding the scale of its business. It is also going through a transition period of structural reform to speedily respond to the drastic social and market changes underway. I hope that all of our stakeholders will continue to provide us with a range of opinions and requests so that, together, we can achieve continuous growth for the business. In addition, I hope that TOCALO continues to be a company that uses the feedback it receives to fuel continued flexible and forward-facing development.

Towards execution of management that fulfills our responsibility as a social institution

Kazuyuki Tomita

Director (Part-time)

Initiatives to boost employees' sense of reward and pride through our social contribution of surface modification technologies

It is about four years since I was appointed outside director, during which time we have raised the profile of ESG management and clarified our material issues. I believe that the monitoring of this progress through KPIs is one of TOCALO's strengths. In particular, I admire that the company has turned its attention to the environmental impact of its business, and its approach of contributing to society by further enhancing its surface modification technologies. Meanwhile, because the company is a social institution, I hope it will bolster initiatives from the viewpoint of how to contribute to society not only through improved results, but also through measures for quality and productivity, nurturing of diversity and human resources, and global strategies.

Due to segmentation of the front-line work of parts surface processing at TOCALO, the reality is that employees have few opportunities to directly come into contact with the finished product or equipment. However, those technologies are most certainly contributing to society, and recent developments of semiconductors can be attributed to TOCALO's technologies. Unfortunately, I feel that this fact is still not widely known within the company. By externally communicating how we have become the cornerstone of building a new future, and the company's approach of further focusing on new fields, this message will also be shared in-house, which I believe will lead to a greater sense of reward for employees.

In regards to corporate governance, admirable measures are in place, including the regular meetings held by the Compliance Committee and the Risk Management Committee. Continued efforts to promote understanding of our Corporate Code of Conduct are also important. We outside directors will also affirm this, from the same perspective of our stakeholders, including shareholders, customers, and business partners.

Exercising proper management for TOCALO with an awareness of society's expectations

When I was at Matsushita Electric Industrial (now called Panasonic), I often heard the management philosophy of the company's founder Konosuke Matsushita concerning "The virtuous way, the domineering way, and the corrupt way." The righteous way is to operate in line with basic management policy, taking into account society's expectations of the company. I believe that following this righteous way is indispensable to the realization of continuous growth.

For TOCALO, the righteous way of management must be to focus on material issues in line with our Vision of "Contributing to a bright future for people and nature," while driving efforts towards the achievement of our KPIs. Companies that are accomplishing continuous growth have an unshakable, clear management policy, underpinned by a firmly rooted organizational culture. In spite of the significant societal and environmental changes taking place, it is important to not be distracted by present events, but rather to steadily continue business operations with our eyes on our future ideal form.

When I visited our R&D business division, I found many things of great interest, and felt their eagerness to tackle challenges without fearing failure. A workplace culture that accepts mistakes gives birth to the next technological innovations, which I believe is the cornerstone for forging the future. I hope that TOCALO will value its culture of continuing to tackle challenges going forward.

Through my interaction with plant managers and employees, my desire for TOCALO's further growth has become stronger. Going forward, I will monitor operations from a standpoint which is independent from the management who execute business, and frankly communicate my points of concern. I also hope to share my stance of aiming for continuous growth.