



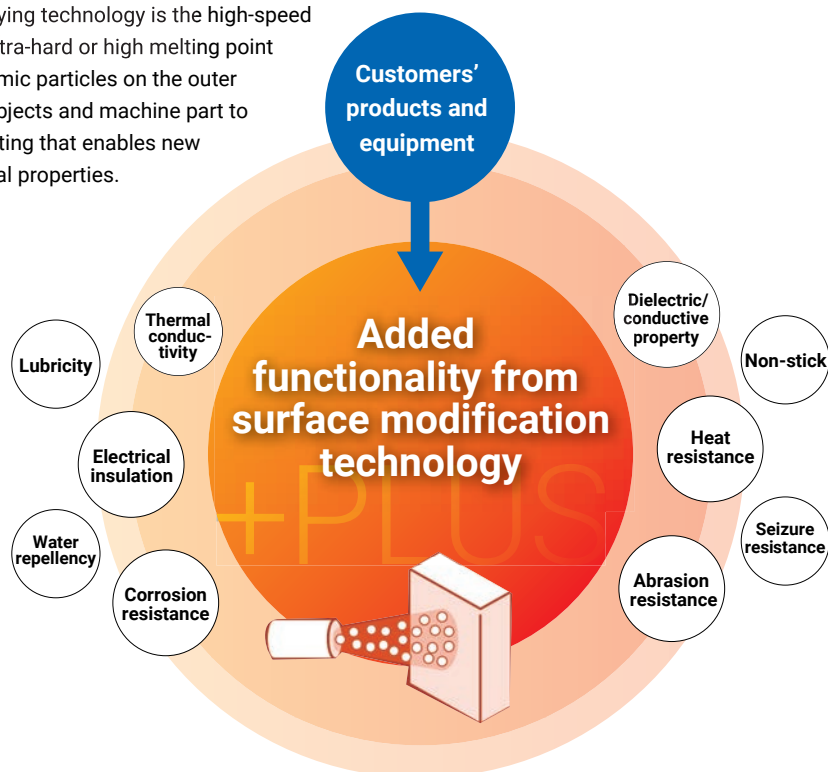
Integrated Report 2024



Core technologies

Add value for a sustainable future through thermal spraying and other surface modification technologies

Thermal spraying technology is the high-speed spraying of ultra-hard or high melting point metal or ceramic particles on the outer surfaces of objects and machine part to provide a coating that enables new high-functional properties.



Spraying melted or softened thermal spraying materials such as metal or ceramic to add new functionality

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Editorial policy

We edited this first Integrated Report with the aim of gaining the understanding of TOCALO Group by investors and many other stakeholders.

Reporting period

April 01, 2023 - March 31, 2024

*Also includes some content from outside of this period.

Organizations reported

TOCALO Co., Ltd. and consolidated subsidiaries in Japan and overseas (As at March 31, 2024)

*Where the scope falls outside the above descriptions, it is specified.

Reference guidelines

- International Integrated Reporting Framework of the International Financial Reporting Standards Foundation
- GRI Sustainability Reporting Standards of the Global Reporting Initiative (GRI), etc.

Caution regarding future forecasts

Of the business forecasts, plans, and strategies, etc. published in this report, forecasts of future business results represent management's judgments based on information available as at March 31, 2024, and include certain risks and uncertainties. We therefore ask that you refrain from making investment decisions based solely upon these results forecasts.

Part 1

Value creation story

Long-term vision

“Contributing to a bright future for people and nature.”

Mission

Enhance corporate value through continuous growth focused on ESG

- Provide high-quality and high value-added products to customers
- Be always trusted by customers, shareholders, business partners, and local residents
- Contribute to environmentally friendly technologies
- Be a company that all employees and their families are proud of, and create a safe working environment where employees enjoy working



Technology and Ideas

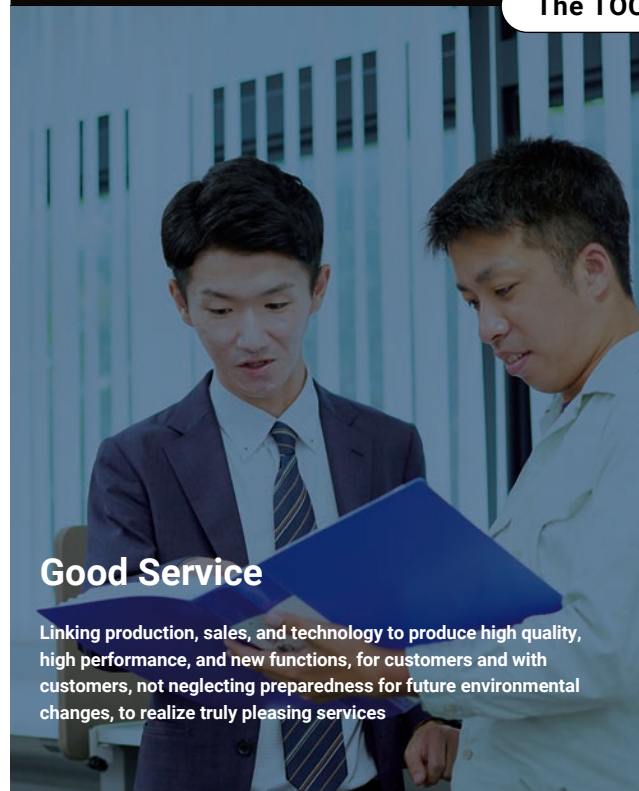
Expand use of surface modification technologies to diverse applications based on technological R&D capabilities that give shape to independent ideas unbound by pre-existing concepts, and provide high quality and high value-added products to customers



Youth and Passion

Continue to undertake bold challenges in growth fields based on a venture spirit leveraging creativity, aiming to be a company that continues to exhibit youth and passion, where anyone can speak and act freely and openly

The TOCALO Spirit



Good Service

Linking production, sales, and technology to produce high quality, high performance, and new functions, for customers and with customers, not neglecting preparedness for future environmental changes, to realize truly pleasing services

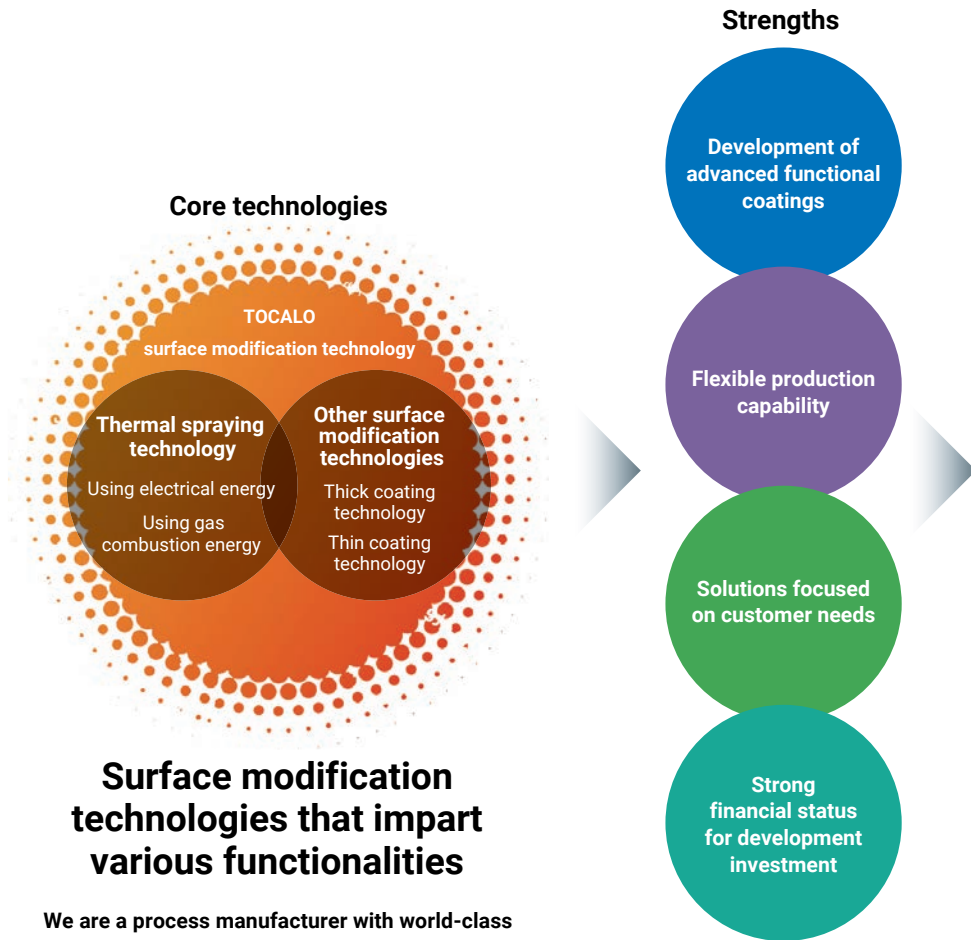


Harmony and Reliability

Undertake our work based on the slogan “Harmony and Reliability,” contributing to industrial development and society through our business operations. Furthermore, value our employees, and continue to be a company that is trusted by customers, shareholders, business partners, local communities, and society

What are we? (Business content and strengths)

TOCALO is a top runner in surface modification, contributing to solving social issues in diverse fields



Surface modification technologies that impart various functionalities

We are a process manufacturer with world-class technological capabilities and achievements in the field of surface modification, particularly for our thermal spraying technology. Our thermal spraying technology and highly developed coating technology use chemical reactions and physical phenomena, enabling us to offer solutions for various customer needs.



Where have we come from? (Our story of value creation)

We have contributed to society through the function of our surface modification technologies

TOCALO's surface modification technologies are often employed to reuse materials, and to reduce the weight or extend the life of equipment and machinery, making them suited for saving resources, energy, and labor.

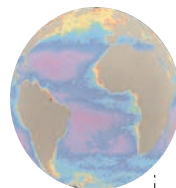


Growth in the iron and steel field

Orders increased for thermal spray of steel wire rod rolling guides. Thereafter, our business took off with the repair and life extension of facilities in the rolling and wire drawing fields. Later, we expanded into other fields in addition to iron and steel.



Labor saving



Growth in the industrial machinery field

We contributed to Japan's energy industry, which had reached a turning point, and quickly expanded applications for thermal spray to new challenges in the aircraft, pulp and paper, high-speed rail, and automobile industries.



Reducing environmental impact

Growth in the energy field

Use of thermal spray is increasing in fields attracting attention as future environmental technology, such as in high-capacity energy storage facilities and hydraulic turbines for hydro power generation.

1980s

Implemented various surface modification processes in succession, focusing on thermal spray

1990s

Established the Thermal Spraying Technology R&D Laboratories to boost our R&D capabilities. In 1996, we listed stock on the over-the-counter market

2000s

Entry into the semiconductor field boosted results and in 2005 we were listed on Section 1 of the Tokyo Stock Exchange

2010s

Began operations in China, Thailand, USA, and Indonesia, adapting to the needs of each region

2020s

Moved to the Prime Market of the Tokyo Stock Exchange
Enhanced efforts aimed at sustainability

Paper pulp industry

Our surface modification technologies, particularly thermal spray, were adopted by paper manufacturing plants for dryer rolls, etc. and application was later expanded to other paper roll types.



Resource conservation



Aircraft and aerospace industry

Obtained National Aerospace and Defense Contractors Accreditation Program (Nadcap) accreditation. TOCALO achieved entry into the aircraft and aerospace industry by obtaining this very high level certification that few companies in Japan have.

Growth in the semiconductor field

Embarked on bold efforts, mainly by young employees, in the semiconductor and FPD fields. After entering the semiconductor field from zero, it grew to become our largest growth driver.



Development of new business fields

We are making efforts to develop applications to enter new markets, for example, abrasion reduction in agricultural machinery parts, and enhancement of chemical resistance and prevention of blood adhesion for medical equipment.

Functionality enhancement

What we aim for (Value creation model)

Value creation process

INPUT (policy for strengthening capital and KPI results → goals)

BUSINESS/OUTPUT (products & services)

OUTCOME (created value)

Fiscal 2023 → **fiscal 2025**

External environment

Increasing environmental issues

- Becoming fossil-fuel-free
- Natural energy generation
- Smart grid (distributed power sources)

Technological shift to ICT/digitalization

- Arrival of the era of big data
- High speed communication
- Spread of electric vehicles

Resource and food shortages, population growth

- Development of smart agriculture
- Sophistication of medical technology
- Diversification of recycling technology

Intellectual capital	Focus on advanced coating development capabilities		
Maintain ratio of development spending to sales at 5%			
No. of patents owned (non-consolidated)	No. of patent applications (non-consolidated)	No. of technology-related external presentations (non-consolidated)	
257→280	40→30 or above	21→25	

Human capital	Boosting investment in human resource development		
Group employees: 1,389 (as at end of fiscal 2023)			
Ratio of female full-time employees (non-consolidated)	Ratio of female managers (non-consolidated)	Ratio of men taking childcare leave (non-consolidated)	
12.2→13.0%	2.1→5.0%	82.8→90.0%	
Educational spending per employee (non-consolidated)	Rate of frequency of occupational accidents (non-consolidated)	Severity rate of occupational accidents (non-consolidated)	
75,800 yen →80,000 yen	2.06→0.0	0.08→0.0	

Manufacturing capital	Securing flexible production capabilities	
Group manufacturing sites: 27 plants and offices in 6 countries		
Capital investment (non-consolidated) contributing to advancement of automation and IoT, and practical application of new coating formation technology	298	→ 400 million yen

Natural capital	Pursuit of environmentally friendly manufacturing	
GHG reduction goal of 46% compared with fiscal 2013 (by fiscal 2030)		
Greenhouse gas emissions (non-consolidated)	Ratio of waste recycled (non-consolidated) ^{*Scope 1 & 2}	
7,819→ 7,900t-CO₂ or less	48.6→ 40.0% or above	

Financial capital	Maintain strong financial capital to support growth investment		
Sales	Ordinary income	ROE	
46.7→ 53.0 billion yen	9.6→ 12.0 billion yen	11.6→ 15.0%	

Shareholder return policy
Consolidated dividend payout ratio **approximately 50%** and dividend on equity ratio (DOE) of **5% or above**
*Flexible implementation of repurchasing company shares

Social & related capital	Strengthen solution proposal capability for customers
Consolidated group: 6 companies (as at end of fiscal 2023)	
Financial value of orders received in environmental field (non-consolidated)	
9.1→ 10.5 billion yen	
Ratio of overseas sales	
28.2→ 25.0% or above	

Expand surface modification technology applications

Prevent SME dust generation

Prevent foreign matter from sticking to conveyor rolls

Improve durability of power generation, storage, and fuel equipment

Three focus fields

Semi-conductors

Iron & Steel

Environment & Energy

Safe and secure society

Healthy and long-living society

Digitized society

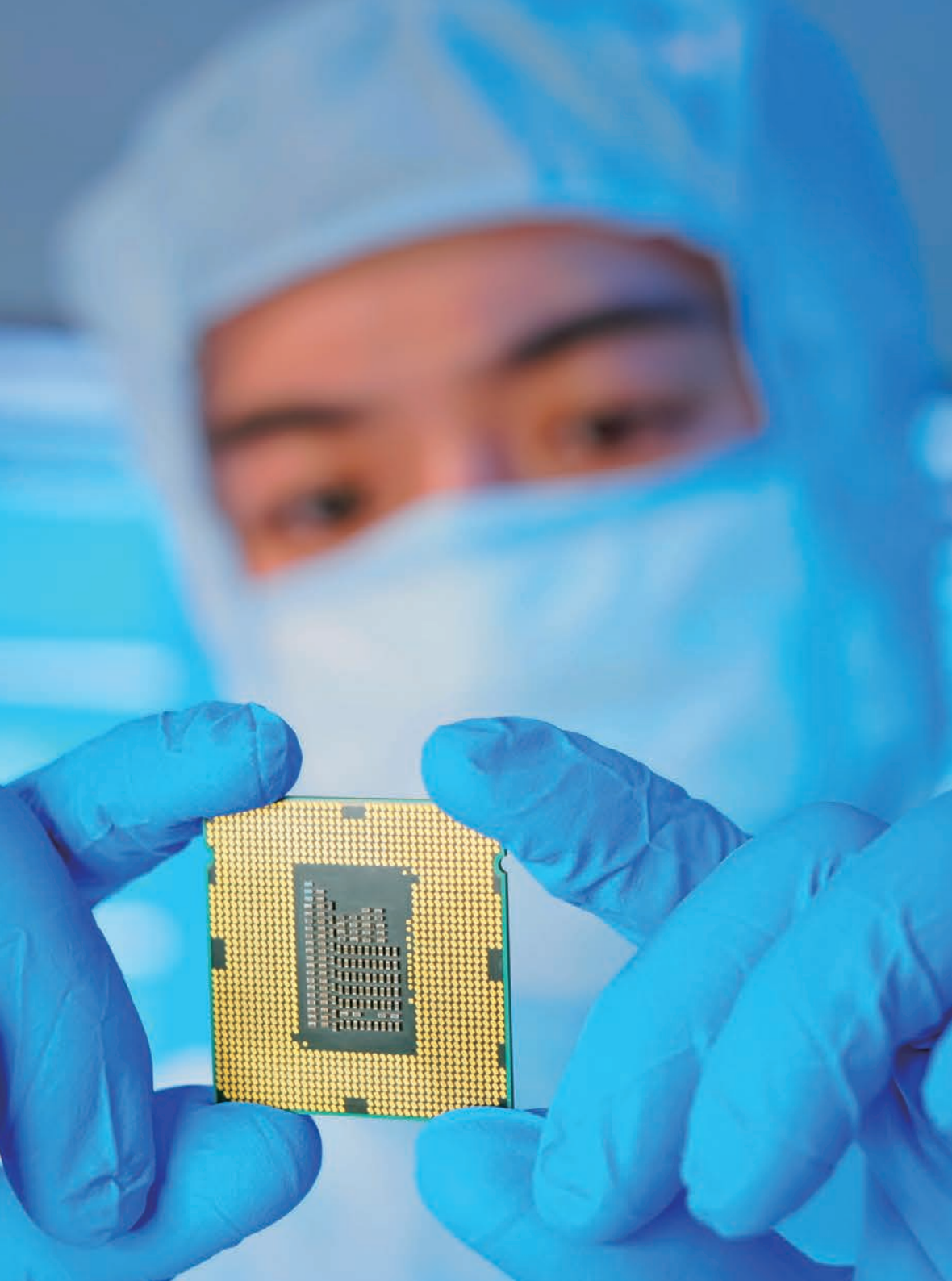
Society where anyone can play an active role

Decarbonized society

2030 Vision

Contributing to a bright future for people and nature

Reflux of created value to strengthening of capital



Part 2

Value creation strategy

Semiconductors and FPD field

Semiconductors and flat panel display (FPD) are indispensable to the increasingly advanced digital society.

TOCALO's surface modification technologies add essential functions to manufacturing equipment, including adsorption and dust prevention.



**With manufacturing that
“sees people’s faces,”
we are nurturing strongly
motivated and capable human
resources to be a group ready to
surge in our next stage of growth**

Kazuya Kobayashi

Representative Director, President and Executive Officer
TOCALO Co., Ltd.

Message from the President

Looking back on the past year

As president, I was reminded of the importance of the corporate motto

During my first year as president, I visited all our company sites in Japan and overseas. During my visits, I noticed that our operations in China and Japan, which have mature organizations and advanced technologies with many veteran staff, were somewhat lacking in vitality compared to our sites in Thailand, Indonesia, and Taiwan, where the staff is generally much younger. The age difference, however, doesn't fully explain the difference in energy levels. I realized that the starting point for generating new business growth is for each employee to

The TOCALO Spirit
Corporate motto

Technology and Ideas

Youth and Passion

Harmony and Reliability

Good Service

reflect on and strengthen their motivation and inner fortitude.

Over the past year, the discussions I've had with people outside the company at corporate briefings and earnings results announcements have helped me gain an overall vantage point of our operations that made me feel that, after 35 years in the company, my view of what we do may have become too focused on what my own duties are. When I was thinking about what I would tell this year's new employees about what kind of company TOCALO is was when I realized what I need to do to prevent from becoming too narrow-minded. Instead of giving some complex definition of what we're trying to do, I realized that TOCALO is best embodied by our corporate mottos of Technology and Ideas, Youth and Passion, Harmony and Reliability, and Good Service. I told the new employees that we should really keep these in our minds at all times because "in ten or twenty years, you will truly understand the importance of our mottos and, like me, finally understand that everything we do comes down to these words."

Thinking back on my career, I came to see that everything we do starts and ends with our corporate motto. As I visited our company sites, I thought that I wanted us to be a company that has more of a feeling of Youth and Passion. So I became determined to create a corporate culture where everyone can speak and act freely and openly.

Long-term vision

Sustainable company growth driven by our four missions

Our long-term Vision (Goal for 2030) is "Contributing to a bright future for people and nature." In our medium-term management plan for fiscal 2025, we are focusing on advancing the semiconductor business in our "people field" and the energy & environmental business in our "environment field." Our analysis of megatrends led us to determine that steadily advancing business in these two areas will lead us to fulfilling our Vision.

We are also promoting four missions to generate continuous growth and build corporate value: "Provide high-quality and high value-added products (coatings) to customers," "Be always trusted by customers, shareholders, business partners, and local residents," "Contribute to environmentally friendly technologies," and "Be a company that all employees and their families are proud of, and create a safe working environment where employees enjoy working." I believe our role in each of these areas is very clear and also essential to our sustainable growth. Being a company that our employees are proud of may be the most important foundation of all for us to continue thriving and evolving as a company.

Providing high quality and high value-added products

We value the effort to add the "personal touch in manufacturing" before moving to the next process

The key to carrying out the first mission to provide high-quality, high value-added products is to create products that can only be made by human hands. TOCALO's surface modification technology applies coatings to products and equipment with materials optimized to each client's specific needs, adding new properties and functions that enhance their value. However, that "value" that we provide must be uniquely TOCALO value and unproduceable by other companies. Although we are integrating automation as much as possible into our processes, our products will always have the human element in their quality and appearance. We want to keep the "handmade" sense that customers perceive and value in our products. That requires an exceptionally high level of technology and skill. When I'm at the manufacturing sites, I make it a point to remind people, "before sending something to the next step, take a moment and put in a little extra effort, put your personal touch on it."

Message from the President

With each person thinking and applying their personal touch to a product or process creates of manufacturing that can only be done by people. I would like to streamline as much as possible the processes that do not need human input, while valuing the parts that cannot be done without human input. I believe applying our technology enhanced by that personal extra effort will give our clients' cutting-edge products of the high quality and high value-added we are aiming to provide.

Providing Good Service

Working with a clear image of the client in our mind

We are in an order-driven industry and our "customer first" policy will never change. However, as our business grows, it is becoming increasingly difficult for us to imagine our clients' faces. The people at our manufacturing sites, in particular, have very few opportunities to meet clients. Even though our sales representatives are in contact with them every day, a gap has opened between many of us and our clients. If we don't close the gap, the sense we have that we are "making this for our client" will gradually fade.

To keep that "personal touch in manufacturing," sales representatives need to provide details to the staff making the products at the manufacturing site. At the morning meetings, sharing actual client

comments like "the client loved this" or "the client said we need to make it this way" will help keep the connection with the manufacturing workers and everyone at the worksites. For comments particularly about key products, everyone—even in the middle of work duties—should be brought in for a meeting so they can hear directly what the client said. This helps everyone understand the client's needs and expectations, so we can "see the client's face" in our minds. I believe that is the kind of relationship that sparks us to think, how can I make this better so the client will be happy.

From a sales representative's standpoint, telling the worksite staff what a client says is the little extra effort they can put in. Putting in that effort time and again at the morning meetings to share things like "the client was really pleased with what you did for them the other day" will help staff "see the client's face" so they will know what the client wants and what direction they want to go. As our business scale grows, the gap between our sales and worksite staff will widen and the sense of closeness with our clients will weaken, which after a while could lower our motivation. So, we need to break that negative cycle and recapture that feeling we had when we first started our work of working hard "for our clients." Sales staff making that effort to share their clients' comments is what will put us back on track.

I've been telling our sales representatives that beginning this year,

I'd like them to put in the little extra effort to share client information with people at the worksites so they can start getting a clearer image of our clients. Instead of just talking with the person in charge of the product, I want them to share information in their own words at the morning meetings and other gatherings, even just for five or ten minutes, so everyone at the worksites can hear it. I believe just that little effort will increase motivation for all staff.

Also, when the worksite staff know the sales staff better, some might start asking things like, how did the client like the product? That could increase our sense that manufacturing and sales are a team and recharge our energy. We started doing this this year, and I'd like to see it become part of TOCALO's permanent corporate culture.



Message from the President

The foundation of our company is in our motto of Good Service. To satisfy our clients, we all must have the client in mind as we do our work. I would like all of us together to renew our drive to exhibit Youth and Passion and advance our Technology and Ideas to deliver Good Service.

Seeking to provide Good Service can also lead to self-innovation. When we are able to scrutinize whether our solutions are what the client truly needs or if the client actually needs something even better; when we are always thinking critically about what we offer including considering that our solution maybe isn't the best solution and then to use trial and error to find what the client truly needs—that is when we will have attained a new stage in our business. And that will be a source for Good Service in the future.

For our prices and technologies, too, we will always be seeking to raise them to higher levels and will never give up no matter how many obstacles we encounter. I consider it my mission to make everyone understand that taking on challenges is the only way to provide Good Service. I want to refine this message and include it in the next medium-term management plan for everyone to know.

Initiatives in the three focus fields

Strengthening overseas cooperation in the semiconductor, iron & steel, and environment & energy fields

The strategies of the next medium-term management plan will be formulated very carefully, and the focus areas we have defined as the driving forces for generating our medium- and long-term business growth are the semiconductor, iron and steel, and environment & energy fields.

Our main clients in the semiconductor field are makers of semiconductor manufacturing equipment (SME). The recent wave of semiconductor plant construction in Japan has been a major topic of discussion, but in fact, in the past five years, nearly 100 new manufacturing plants have been built around the world. Many of our clients will be providing the SME for those plants. As such, there is a very high likelihood that parts and equipment using our technologies will be installed and used in manufacturing operations around the world. The rising number of semiconductor plants that will be built with an eye to 2030 is set to spur a major increase in demand. We are already preparing to respond to the huge increase in production activity with capital investment and steps to expand our own production capacity. Our mission now is to ensure we meet the growing demand and deliver on time, no matter what. I believe it is critical that we

anticipate what is coming and move swiftly to put in place the structure we will need.

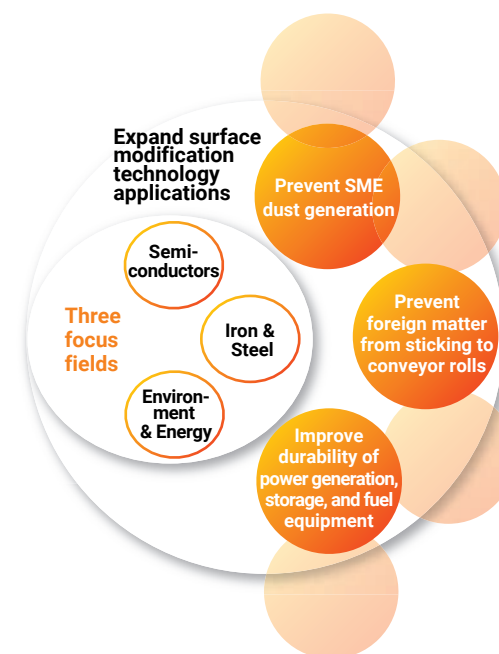
In the iron and steel field, we are currently competing with other companies for an extremely important customer base. We are currently formulating tactics for acquiring customers, including companies related to Japan steel manufacturers operating in China, Indonesia, and Thailand. We will mobilize all of our strengths to execute our strategies.

In the environment & energy field, we are focusing on engineering equipment for vaporizing liquid fuels. We currently provide on-site maintenance and service for equipment that vaporizes LNG. We expect demand to grow for equipment for vaporization of liquid hydrogen and are focusing on that area as well, including developing new coating technologies. Rechargeable batteries are another area where we expect demand to grow from demand for higher performance batteries and their manufacturing equipment. For boilers used in thermal power generation, we will initially focus on developing coatings specialized for environmentally friendly integrated gasification combined cycle (IGCC) technology and ammonia co-firing technology for the domestic market.

In each focus area, we plan to proactively pursue partnerships in Japan and overseas. For that reason, it will be important to decide how the parent will work with our Group companies overseas to develop human resources. We are already taking steps to improve our training structure, such as

launching the global experience program, but we will need to continue working to strengthen and expand the structure, including for development of local staff overseas.

Three focus fields for expanding surface modification technology applications



Message from the President



Environmental protection and quality control initiatives

Contributing to the environment and society by saving resources and labor

We are also taking steps to address the environmental impact of our business operations. Dealing with heat sources means that it is unavoidable that we must control our CO₂ emissions. We already use renewable energy sources for 60-70% of the energy we need and are testing with the aim of introducing other recycled fuels and bioethanol fuels.

In 2023, we announced our support for the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations*¹, and the Environment Promotion Department leading our efforts to add Scope 3 greenhouse gas (GHG) emissions to our current monitoring of Scope 1 and Scope 2 emissions.

We provide coatings for both new parts and parts already in use, both of which extend their useful life and save energy. We seek to use our business to help our clients save resources and labor and lower their environmental impact.

The semiconductor industry requires strict quality control, and our medium-term management plan includes the directive to formulate a product qualification plan (PQP) based on semiconductor industry quality manuals from around the world. Our testing devices use failure mode and effect analysis (FMEA) and 10 other methods to analyze and statistically identify any changes in quality. We are looking ahead to progressing beyond formulating the PQP to more advanced operations.

Quality control is also critical in the aircraft industry. Although it's of a different type, we are setting strict standards to fully meet the industry requirements while raising our quality control to an even higher level.

*¹ Disclosure data following the TCFD recommendations is posted on the corporate website. The Company uses TCFD-recommended indicators and targets as items of materiality and key performance indicators, and we monitor our progress as dictated in the medium-term management plan.
(Please see pages 6 and 22.)

Entering to a new stage of growth

Becoming a company that supports people determined to achieve their goals

For a company to continue creating new things and growing and developing, I believe it is important to "support people who are doing what they want to do." I think the people who become business leaders are the ones who link what they "want to do" with their jobs. Things are not made by an organization or machine, but by people who want to make something.

When someone has an idea and decides they are going to make it real, their seniors and superiors in the Company will support and encourage them. We will need everyone's help and cooperation if we are going to make our Company into an organization like that. An idea that comes out of experience can be important, but an idea that does not have that foundation should not be automatically suppressed or rejected. We should use our experience to see if we can make the idea work with the view that it could lead to something new tomorrow or in five or ten years. We are changing into an organization that is oriented toward the future. No matter how long a person has been with the Company or even if they started yesterday, if they have a good idea or concept, they will have my support. I'm sure anyone would feel frustrated if an idea shared by a new employee is chosen over

their own, but my mission is to continue sincerely supporting any idea that I think is interesting and has promise.

For a person or a company to reach a new stage of growth, there must be two things. The first is that we must face our clients' needs head on and make every effort to provide what they need. The second is for each person to find what they want to do, and then put all of their energy into doing it. Even if you are not sure if it will actually pan out as a business, it's essential to be absolutely determined that "this is what I want to do!"

I look forward to the support and encouragement of all of our stakeholders as we build a future of growth for the TOCALO Group.

President and Representative Director
TOCALO Co., Ltd.

Kazuya Kobayashi

Hiroshi Goto

Director in Charge of
Finance and Sustainability,
Managing Executive Officer;
General Manager,
Administrative Headquarters
TOCALO Co., Ltd.

Actively invest in growth. Formulate a growth strategy for 2030. Become a “venturous” company.

FY2023 results and FY2024 forecast

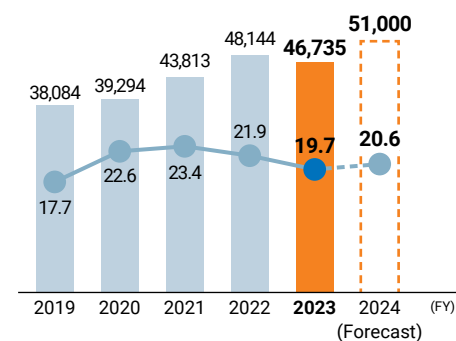
Presenting a clear long-term plan to reap the results of business growth

Fiscal year 2023, ended in March 2024, started amid severe conditions in the semiconductor market. Although conditions varied among our clients my sense is that the semiconductor

equipment makers were being cautious about their production plans. In these circumstances, we focused on capturing capital investment for industrial machinery and equipment in the manufacturing industry, but the impact from the conditions in the semiconductor industry was too large to overcome, and we ultimately recorded our first year-on-year decline in sales in four years. The booking of a lump-sum amortization of actuarial differences due to

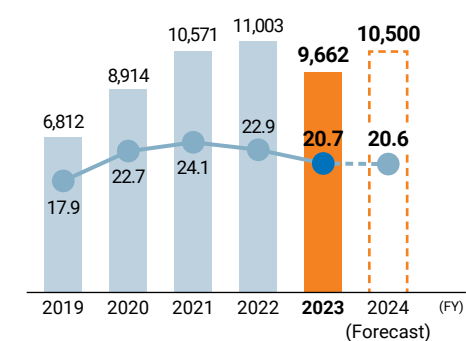
Net sales and operating profit ratio

■ Net sales (million yen) ● Operating profit ratio (%)



Ordinary profit and ordinary profit ratio

■ Ordinary profit (million yen) ● Ordinary profit ratio (%)



Message from the Director in Charge of Finance and Sustainability

retirement benefit accounting at the end of the fiscal year led to ordinary profit exceeding our initial forecast of ¥8.7 billion. However, this still represented a 12.2% YoY decline as the challenging conditions in fiscal 2023 impacted our earnings performance across the board.

For fiscal 2024, ending in March 2025, based on the return to favorable conditions in the semiconductor market since April 2024, we forecast net sales reaching a record high of ¥51.0 billion and ordinary profit of ¥10.5 billion.

While seeking to fulfill our current plan, as CFO I am also focusing on creating a plan for long-term growth to 2030. Although semiconductor market conditions will affect our final performance, we are positioned for unprecedented sales growth in the six years until 2030, with the potential to even double our sales to the ¥100.0 billion level by that year.

We have been maintaining an ordinary profit margin near 20%, which is relatively high for the manufacturing industry in Japan. However, it is becoming challenging to sustain that level owing to the ongoing high prices for raw materials and fuel and also due to our plan to increase investment in human resources. Despite the challenge, I would like the Group companies to all work together to make us a corporation capable of maintaining the 20% margin with ordinary profit of ¥20.0 billion on net sales of ¥100.0 billion by 2030.

Forming and presenting a long-term growth plan will be a key part to achieving that goal. One of the reasons our stock price has been dragging is that we have not been

adequately communicating our plan for growth. Our market capitalization value started rising when we stepped up our communication activities and is now near ¥110.0 billion. We will continue increasing our communication efforts.

Financial strategy

Establish 15% ROE and maintain consistently high dividends

Our goal is to maintain ROE at a steady 15%. We did not maintain that level in fiscal 2023 as net income attributable to owners of the parent company declined 13.9% from the previous year and ROE fell from 14.3% to 11.6%. We intend to continue generating

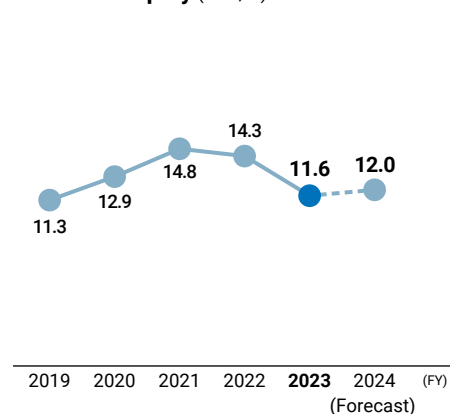
return that comfortably exceeds cost of capital, which has been in the 8-10% range, by actively investing in facilities and human resources to accelerate our business growth. In particular, we plan to accelerate capital investment in human resources that will lead the Company's next generation.

TOCALO basic policy on returning profits to shareholders is to provide a consolidated dividend payout ratio of approximately 50% and a minimum dividend on equity (DOE) ratio of 5%. In fiscal 2023, we fulfilled our dividend payout ratio target by raising the dividend by ¥3 per share. While maintaining high and stable dividend distributions, we will also step up activities, including flexibly considering repurchasing outstanding shares, aimed at maintaining ROE at a stable 15%.

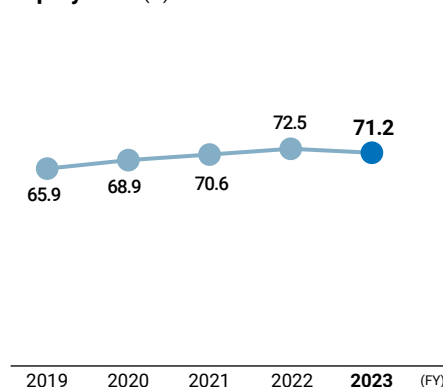
Our basic approach to capital allocation is unchanged: we continue to emphasize investment for future growth. In June 2024, we made an affiliate in Thailand a wholly owned subsidiary, and in August we added a machining manufacturer in Japan to the Group. We will continue to pursue M&A opportunities in Japan and overseas that will contribute to the Group's sustainable growth.

We are also increasing capital investment to ensure we meet the anticipated growth in future demand. In fiscal 2024, we plan to invest ¥6.4 billion, an increase of 31.3% from the previous fiscal year. We intend to maintain the percentage of development expenses to consolidate net sales at 5%, which will put spending on development at ¥2.55 billion, a 9.2% increase from the previous fiscal year.

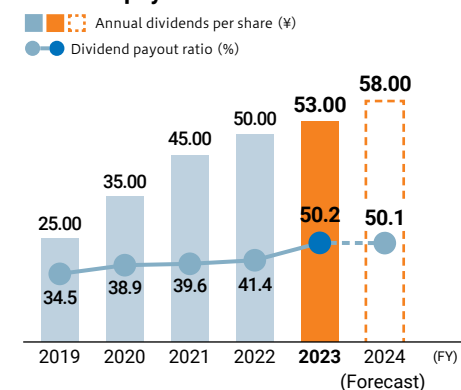
Return on equity (ROE, %)



Equity ratio (%)

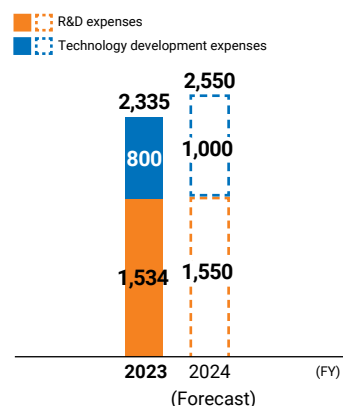


Annual dividends per share and dividend payout ratio

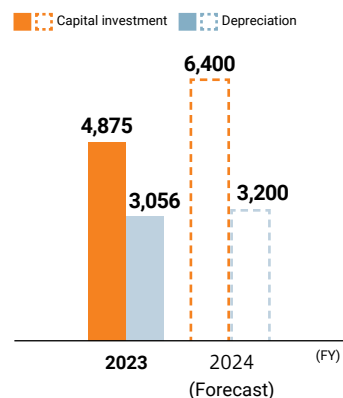


Message from the Director in Charge of Finance and Sustainability

R&D and technology development expenses (million yen)



Capital investment and depreciation (million yen)



Sustainability

Fostering an open and venturesome corporate culture

We value direct dialogue with employees, including new recruits and young employees. The chairman, president, myself, and all management use training programs and other opportunities to talk informally and frankly with employees.

The purpose training that we began last year is now into its fourth course. The line chiefs are systematically taking the courses in groups, and the employees under them join the training's second half. At the end of the course, all participants present a personal purpose statement. This kind of training is a first for the Company, and we have been encouraged by employee comments saying they were inspired by the chance to talk with people from other plants who they usually don't get a chance to meet.

We also began conducting an engagement survey this year. I view the results in every category as inadequate. The reason we had asked employees to submit a personal purpose statement was because we thought it would encourage them to incorporate the Company's purpose into their own purpose. We were expecting that to boost work quality while also increasing motivation, enthusiasm, and the sense of fulfillment in their work, with the overall effect of increasing engagement.



Reforming the corporate culture cannot be done in a single stroke, it's essential to make a continuous effort over time. For new mid-career and new graduate employees, we will provide particularly thorough training and dialogue, support their development into core human capital for the Company, and reward them with benefits and other considerations.

It has only been a few years that we started hiring as many as 40 new college graduates. This has resulted in relatively few section chiefs and managers compared to the number of younger workers, and we

are filling out the manager ranks by hiring mid-career professionals. To cultivate future section chiefs and managers from among new employees in their 20s, we will implement various measures to foster an environment that motivates them to "give anything a try."

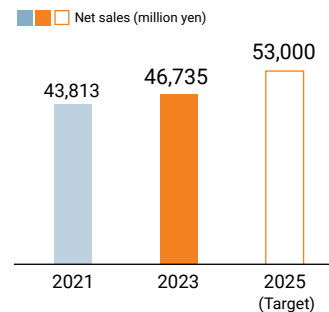
My greatest desire is to create an open company where people of diverse values grow and develop, where they demonstrate their individuality and abilities, and where everyone is encouraged to take on challenges.

Medium-term management plan

Implementing the five-year medium-term management plan launched in fiscal 2021.

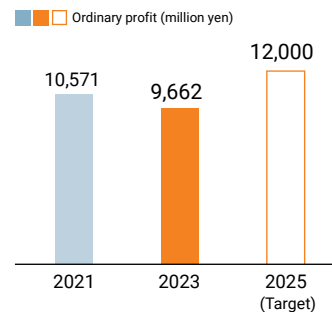
Numerical targets and progress

Net sales



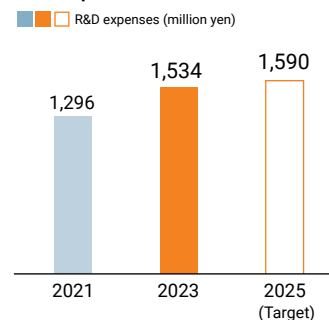
Fiscal 2023 sales declined moderately as strong sales in the industrial machinery and other segments offset most of a significant decline in the semiconductor segment. We remain on track to achieve the target of ¥53 billion in sales in the plan's final year of fiscal 2025.

Ordinary profit



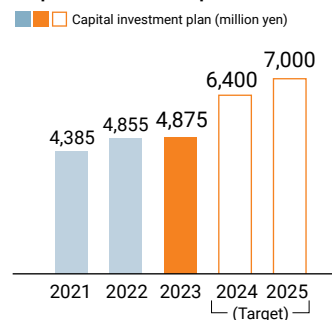
Ordinary profit fell behind the plan target in fiscal 2023. However, we expect recovery in the semiconductor segment to support renewed growth starting in fiscal 2024 that will enable us to attain the ¥12 billion target in the plan's final year of fiscal 2025.

R&D expenses



We are investing approximately 3% of annual consolidated sales in R&D mainly focused on semiconductor miniaturization and multi-layering technology along with ongoing development of next-generation coatings for new business directions.

Capital investment plan

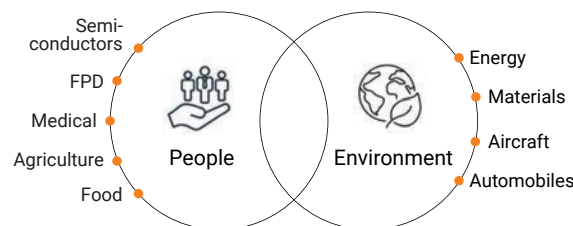


Among our investment plans, we are anticipating significant demand growth in the semiconductor and flat panel display (FPD) segments and plan to invest ¥5 billion to ¥7 billion annually to construct new plants, enhance the sophistication and efficiency of our manufacturing processes, and install state-of-the-art research equipment.

Focus fields

We developed two core initiatives based on our analysis of industry megatrends. We will develop projects and expand our product applications for both our existing businesses and in new business domains under the two categories of People and the Environment.

Advances in information and communications technology and digitalization have made semiconductors indispensable to people's daily lives. We will continue providing cutting-edge surface modification technology to support the technological progress of semiconductor manufacturing equipment. We are also increasing applications for our coating technologies in the medical and agricultural fields to contribute to social change and flourishing lifestyles.



With environmental issues becoming more critical, we will focus on developing and promoting surface modification technologies that increase efficiency and facilitate wider use of natural energy sources for power generation like wind, hydro, and geothermal as well as storage batteries. We will also pursue business growth in connection with client needs to reduce GHG emissions, such as by phasing out fossil fuel usage and implementing energy-saving measures.

Implementing ESG management

We are implementing ESG management as an effective means to enhance our corporate value and achieve sustainable growth.



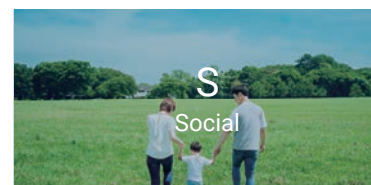
For zero greenhouse gas emissions*

- Consider coating methods without using fossil fuels
- Reduce electric power consumption by improving manufacturing processes
- Utilize renewable energy

Prevention of water and air pollution

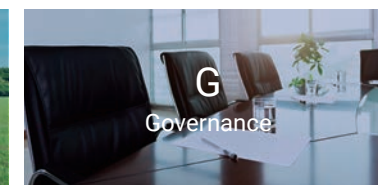
- Assess and improve the status of all business processes

* Target: 46% reduction in greenhouse gas emissions by the end of FY2030 compared to FY2013 (government target) (2-year preparation period from 2021 to 2022)



Human resource development and better working environment

- Promote diversity (values talents of women, persons with disabilities, mid-career employment)
- Promote workstyle reform
- Promote digital transformation
- Formulate a medium- and long-term human resource development plan



Make internal controls more sophisticated

- Implement ESG initiatives
- Promote engagement with domestic and overseas investors
- Fully conform to Corporate Governance Code
- Fully commit to compliance

Medium-term management plan

Management measures and themes

We are formulating specific measures aimed at strengthening our market development capabilities, fortifying our technology development structure, and enhancing the sophistication of our manufacturing processes.

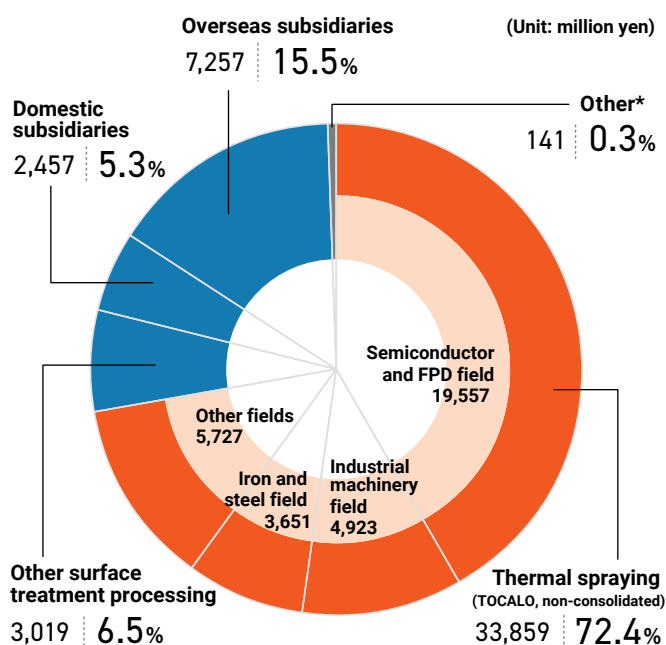
Theme		Measures for business expansion	Measures for internal management	Major initiatives in fiscal 2023	Future challenges
Reinforcing market development	Sophistication of service structures	- Shift from a supplier to a partner - Provide optimal solutions to customers - Establish projects in key areas (diversify revenue sources)	- Promote digital transformation (DX) - Cultivate problem-solving expert solution advisors	- Priority areas: Implement projects and other measures to increase knowledge, and conduct share case studies - Increase new coating proposals to clients - Establish a DX promotion team, DX education	- Strengthen client partnerships (for Good Service) - Coordinate flexible production systems and automation - Increase data utilization (optimize sales activities)
	Global operations	- Restructure maintenance service business - Promote localization (collaborate with leading local companies) - Technical assistance (reinforce the licensing business)	- Reinforce the global risk management system - Develop a global human resources in a planned manner	- Increase the overseas sales ratio - Strengthen cooperation and support of overseas subsidiaries - Develop global human resources through the global experience program	- Formulate a global strategy - Start operations at new overseas subsidiary plants (Kunshan, China; Taiwan) - Launch semiconductor business at the US subsidiary - Develop human resources at overseas subsidiaries
Reinforcing technological development	Ensuring technological superiority	- Invest with a focus on developing advanced coatings - Promote cooperation among government, industry and academia	- Enforce the intellectual property strategy - Make the human resource development plans more sophisticated - Enhance the technical databases	- Continuously invest in R&D and technology development (5.0% of sales) - Generate new development themes (thermal spraying technology, process development, functional components) - Promote joint development with clients and research institutes	- Foster a culture that continuously produces various ideas unconnected to precedent - Prepare for semiconductor miniaturization and multi-layering - Develop next-generation coatings to open new business areas - Integrate AI and machine learning
Sophistication of manufacturing	Sophisticating and improving efficiency of manufacturing processes	- Reinforce production capabilities - Optimize cost & delivery - Practical application of new coating technologies - Enable on-site smart processing	- Safety first commitment - Human resource development and technology transfer - Promotion of automation and IoT	- Invest in automation and labor-saving - Advance manufacturing technology innovation and cost-reduction initiatives - Pass on skills through the Meister system - Support employees seeking technician qualifications	- Obtain ISO 45001 certification (zero occupational accidents) - Encourage "personal touch" manufacturing (create TOCALO Value) - Promote data utilization (create smart factories)
	Reinforcing the quality control system	- Reinforce process control - Address and establish product performance assurance	- Ensure smooth operation of quality control systems (ISO and others) - Formulate a PQP*	- Enhance the design reviews - Integrate statistics-based process control - Install automated inspection equipment and data entry systems - Support employees seeking qualifications, such as QC certification	- Formulate a PQP* and more advanced operations - Support for subcontractor quality improvement efforts - Promote data utilization (nonconformity prevention)
	Reducing environmental impact	- Strategic decarbonization (toward carbon neutrality) - Develop and implement a green growth strategy	- Improve process methods to reduce electric power consumption - Utilize renewable energy - Prevent water and air pollution	- Achieve non-consolidated GHG reduction target (46% reduction versus fiscal 2013) - Create visualization and control energy consumption - Convert to renewable energy - Raise the waste recycling rate	- Formulate a carbon neutrality roadmap - Calculate surface modification contribution to client GHG reduction - Improve process methods to lower power consumption

*Product Qualification Plan

Performance overview by sector

Thermal spraying and various other surface modification solutions

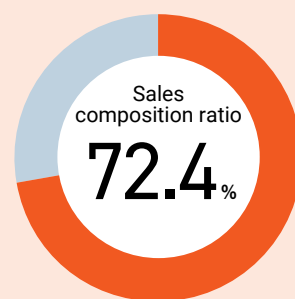
Fiscal 2023
Net sales **¥46,735** million



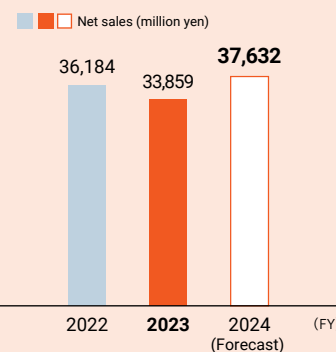
*Royalties and other revenue

We provide surface modification solutions for a vast array of products and production equipment. We optimize our coating materials to deliver new properties and functionality that meet specific client needs. We are Japan's foremost provider of contract thermal spraying processing and an industry leader in surface modification technology. Our expert capabilities in thermal spraying and numerous other surface modification technologies enable us to provide solutions for clients in a wide range of industries and fields, from basic to cutting-edge industries.

Thermal spraying (TOCALO)



Net sales



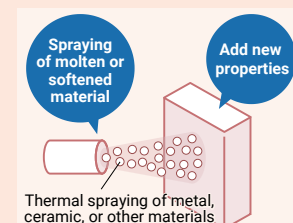
Performance overview and growth strategy

Overall sales declined year on year in fiscal 2023. We posted solid results for the thermal spraying business in the industrial machinery, petrochemicals, non-ferrous metals, and other fields, while sales declined sharply in the semiconductor and FPD fields, which were impacted by the temporary adjustment phase in the semiconductor market.

We are implementing several measures to ensure we are positioned to seize profit opportunities in the medium term by continuing to refine our world-leading thermal spraying technology and taking steps to boost productivity and tighten quality control. We are doing this by developing technologies for the increasingly miniaturized and multi-layered semiconductors, installing research, measurement, and assessment equipment to advance development of next-generation coatings for new business areas, and incorporating state-of-the-art automation and labor-saving equipment.

Opportunity and risk

The semiconductor market is expected to begin a new expansion phase and grow significantly in the years to 2030. Semiconductor manufacturing equipment manufacturers are increasing production capacity, and demand is growing from all sectors in the manufacturing industry for equipment that reduces environmental impact and energy consumption. These trends present increasing business opportunity for us. Risk to our business is also present, including exposure to the fluctuations in the semiconductor market, clients installing in-house thermal spraying processes, and the adoption of designs and materials that do not need thermal spraying coatings. We are addressing these risks by actively investing in and developing new business areas and creating new markets outside our current business domain.

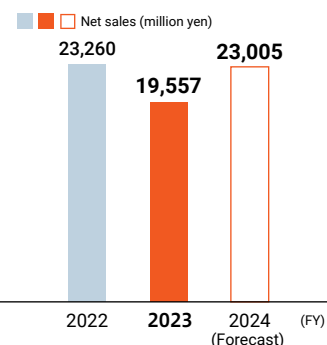


Thermal spraying (TOCALO)

Semiconductor and FPD field



Net sales



Core services

We perform thermal spraying processing for semiconductor and FPD manufacturing equipment parts. Semiconductor manufacturers require thermal spraying primarily for etching equipment to improve semiconductor chip yield by preventing dust emissions and to enable electrostatic adsorption to facilitate the handling of silicon wafers. We are continuously refining and improving our thermal spraying technology to meet the changing needs as semiconductors become increasingly smaller and multilayered.

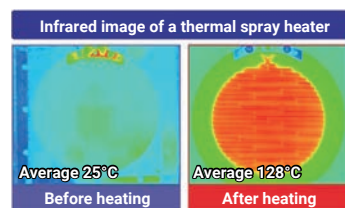
Performance outlook

In fiscal 2023, the semiconductor market was in a temporary adjustment phase, causing our sales in the semiconductor and FPD fields to decrease markedly. The semiconductor market started growing again in fiscal 2024 supported by demand for generative AI and other factors. Orders to our Company are gradually rising, and by the second half of fiscal 2024 we expect orders to be reach the level of the previous peak reached in fiscal 2022.

Topic

Advances in thermal spray heater applications

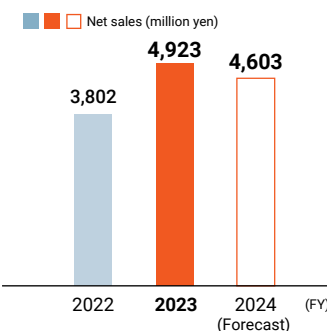
We are adapting the thermal spray heaters developed for the semiconductor sector to create new applications. Spraying a heating element on a component to be heated enables the manufacture of heaters at the desired wattage. Thermal spray heaters have excellent heating efficiency due to their large contact area and low heat loss, and see significant potential for applications beyond the semiconductor field.



Industrial machinery field



Net sales



Core services

Thermal spraying is used to apply an insulation coating to prevent electrolytic corrosion of bearings used in the drive motors of high-speed shinkansen trains. Thermal spraying is also used to improve heat resistance and prevent corrosion and wear of gas turbine components and boiler panels used in thermal power generation. We also provide on-site maintenance services.

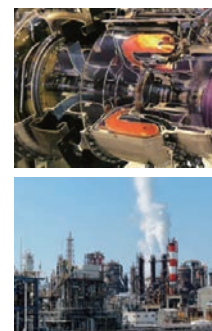
Performance outlook

Sales grew significantly in the industrial machinery field in fiscal 2023 driven by a huge increase in maintenance work at power generation facilities. In fiscal 2024, we expect ongoing strong sales for railway bearing processing, but receding demand for power facility maintenance work to lead to an overall decline in sales. We are exploring needs in the environmental and energy fields with the aim of stepping up our proposal activities.

Topic

Growing environmental and energy field business

We are focusing on developing thermal spraying technology and conducting public relations activities for the ability of our technologies to assist client efforts to reduce CO₂ emissions and energy consumption and to help increase the use and improve the efficiency of natural energy power generation. Our thermal spraying processes are increasingly being used for battery equipment and environmentally-friendly boilers, such as biomass, integrated gasification combined cycle (IGCC), and ammonia co-firing boilers.

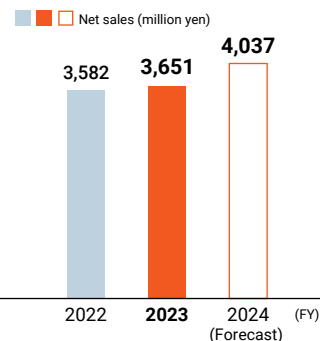


Thermal spraying (TOCALO)

Iron and steel field



Net sales



Core services

Our technology supports high-quality and stable production of products, such as high-tensile steel sheets used in automobile bodies, while also reducing the weight of manufacturing equipment. Replacing transfer rollers made of iron with aluminum rollers treated with our wear-resistant thermal spray coating, for example, can reduce equipment weight to less than half while vastly increasing the longevity of the aluminum rollers. Lighter equipment also reduces energy loss and improves on-site safety.

Performance outlook

Sales to the iron and steel field increased only moderately in fiscal 2023, as crude steel production in Japan continued to decline. We are aiming to boost sales by double digits year on year in fiscal 2024 by incorporating the needs of steel manufacturers to reduce maintenance work and lower their environmental impact. We are developing superalloy coatings that will enable long-term use of equipment parts even in harsh environments of high temperature oxidation, thermal shock, and high loads.

Other fields



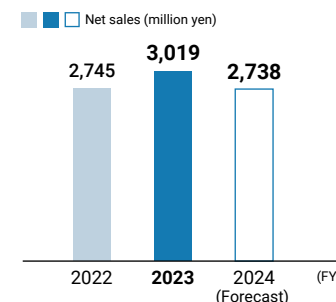
Core services

We apply our thermal spraying technologies to a variety of areas outside our core fields, including for petroleum refining and chemical plant equipment, wind and hydroelectric power generation equipment, dryer rolls for paper production, glass, resin, and film production equipment, and aircraft engine parts. We are making full use of the expertise and technical capabilities accumulated through our extensive experience in thermal spraying to develop applications for new areas.

Other businesses (TOCALO)

Other surface treatments

Net sales



Core services

In addition to our thermal spraying technologies, we also provide TD processing^{*1}, ZAC coating^{*2}, and PTA^{*3}, as well as laser surface treatment. We use these technologies on their own or combined with thermal spraying coating to provide clients with the optimal solution based on their specific needs and depending on the shape and material of the units to be treated.

^{*1} Diffusion osmosis method

^{*2} Chemical densification method

^{*3} Special overlay-welding method

Topic

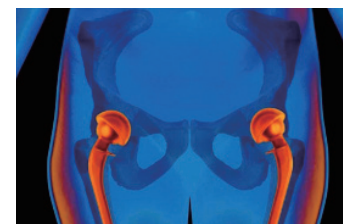
Strong demand for TD processing of agricultural machinery parts



We have been receiving strong demand for our TD processing coatings for agricultural machinery parts from the expanding agricultural industry in North America. The highly uniform and extremely hard coating TD processing provides for parts even with complicated shapes is ideal for reducing wear on agricultural machinery parts.

Topic

Expanding applications in the semiconductor and medical fields



ZAC coating increases the chemical resistance of medical devices and improves non-adhesiveness, such as of blood. ZAC coating is also being increasingly used to prevent corrosion and metal component contamination of gas pipes used in semiconductor manufacturing equipment.

Other businesses (TOCALO)

Domestic subsidiaries

JAPAN COATING CENTER Co., Ltd.

The company's primary business is machining cutting tools using a physical vapor deposition (PVD), a surface processing method used for cutting tools, blades, and metal molds. Automakers make up a large part of the customer base, so the company is closely monitoring the developments of fraudulent quality testing.



TERADA KOSAKUSHO Co., Ltd.

The company manufactures a wide variety of machine tool and precision machine parts in small quantities to order. TOCALO acquired 100% of the company's outstanding shares in August 2024 to further enhance the value provided to clients by combining the company's outstanding machining technology and TOCALO's surface modification technology.



Overseas subsidiaries

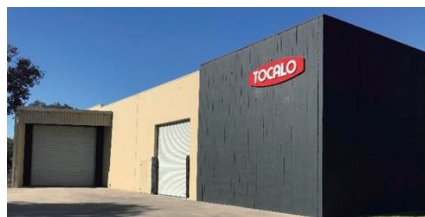
TOCALO & HAN TAI Co., Ltd.

The company provides surface modification processing centered on thermal spraying to clients in China. The business has clients in a wide range of industries, and is the foremost of few suppliers capable of providing high-performance coatings to its mainstay client base in the iron and steel field.



TOCALO USA, Inc.

Established to provide maintenance services for semiconductor manufacturing equipment parts in the United States, the company's business has not developed as planned and the situation remains severe. The company is positioning itself to respond to the rapid increase in semiconductor factory construction in the United States.



TOCALO & HAN TAI (KUNSHAN) Co., Ltd.

The company provides thermal spray coating for semiconductor and FPD manufacturing equipment parts in China. Amid the Chinese government's promotion of domestic production of semiconductors, the company is quickly constructing a new plant to meet an anticipated rise in orders from the semiconductor industry.



PT. TOCALO Surface Technology Indonesia

The company provides thermal spraying coating primarily to a major Japanese steel manufacturer producing steel sheet for automakers in Indonesia. The company is aiming to attract the growing demand from the many Japanese companies operating in Indonesia.



TOCALO & HAN TAI TW Co., Ltd.

The company provides thermal spray coating for semiconductor and FPD manufacturing equipment parts in Taiwan. Following the trends at Taiwan's largest semiconductor manufacturers, the company is preparing to launch operations of a new plant constructed to expand its production capacity for thermal spray recoating (maintenance business).



TOCALO Surface Technology (Thailand) Co., Ltd.

The company provides thermal spray coating to clients in the iron and steel and industrial machinery fields in Thailand. Originally established with a Japanese welding company, the joint venture was dissolved and TOCALO made it a wholly-owned subsidiary in June 2024 to expand business as a provider of thermal spraying coating.





Part 3

Foundation for value creation

Iron and steel field

Thermal spraying extends life and improves stability even for items used in harsh environments, such as the high temperatures of transport rolls in steel production lines.

Promoting sustainability

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 2023 achievement	Materiality	Main initiatives	KPI	Fiscal 2025 goal	Fiscal 2023 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: 257	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: 21
		No. of patent applications	Total: 30	Total: 40			No. of employees possessing qualifications as technicians	Total: 240 persons	Total: 231 persons
		Ratio of development expenses to sales (consolidated)	5%	5.0%			Educational spending per employee	80,000 yen	75,800 yen
	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) 2,000 million yen (2) 8,500 million yen Total: 10,500 million yen	(1) 1,913 million yen (2) 7,229 million yen Total: 9,143 million yen			Rate of frequency of occupational accidents	Aiming for zero	2.06 (Including temporary employees)
		Ratio of overseas sales (consolidated)	Total: 25%	Total: 28.2%		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	Severity rate of occupational accidents	Aiming for zero	0.08 (Including temporary employees)
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)	7,900 t-CO ₂ (Less than 54% of fiscal 2013 emissions)	7,819 t-CO ₂			Ratio of female full-time employees	13%	12.2%
		Note: Goals and indicators formulated according to "Disclosure Based on TCFD Recommendations"					Ratio of female managers	5%	2.1%
	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%	48.6%			Ratio of men taking childcare leave	90%	82.8%
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	298 million yen	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 4 times)
		No. of employees passing QC test	60 persons	91 persons					
	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 possessing qualifications as nondestructive inspection engineers	Total: 25 persons	Total: 20 persons					

Materiality

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.

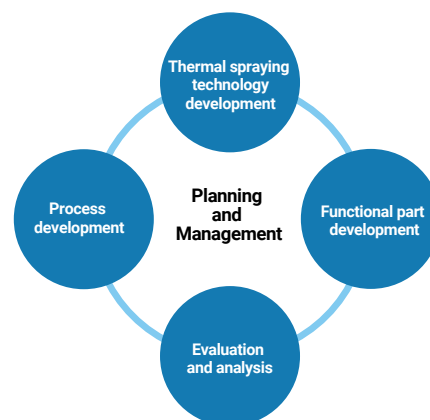


World-class research structure and core technologies

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

Thermal Spraying Technology R&D Laboratories play a central role in developing our technologies. The laboratories are expanding the applications for thermal spraying to new technological fields through ongoing efforts to deliver excellent services and technology as the "No.1 & Only One" company in thermal spraying.

The activities of the Thermal Spraying Technology R&D Laboratories center on teams working with each other to develop thermal spraying technology, new processes for creating coatings such as using lasers and to create ultra-thin films, coatings that boost functionality with a specific focus on parts for semiconductor manufacturing equipment, and the evaluation and analysis that is essential for developing coating technologies. The Planning and Management Group complements these efforts by handling the planning, management, and intellectual property aspects with the aims of enhancing the efficiency of the development activities and applying the latest surface modification technologies to stimulate innovation.



Thermal spraying technology

The thermal spraying process, particularly plasma and high-speed flame thermal spraying, is currently used in wide range of industries, including the environmental, energy, industrial machinery, and medical industries. Current development of the thermal spraying process is focusing primarily on improving the functionality of the coating characteristics by atomizing the coating materials to control the coating structure and by using high-speed particle spraying to increase coating density.

Monitoring the speed and temperature of the coating spray will enable us to optimize the spray powder and coating conditions leading to new levels of high-functional coating that are beyond the ability of current technologies. We are also anticipating a trend in the future of growing demand for technology that will lower the environmental impact of thermal spraying processes, and we are accordingly seeking to develop technology that meets the needs of society and our customers.



Thermal Spraying Technology R&D Laboratories

Advanced coating and latent market development

Begin practical application of new coating formation technology

We also continue to advance research in areas other than thermal spray, such as in existing technologies like CDC-ZAC coating and the thermal diffusion (TD) process. Our research in using chemical reactions for coating formation has enabled us to provide new high-performance coatings.

We are also methodically testing the feasibility of unconventional processing methods combining thermal spray and heat treatment with potential to drive additional growth in the medium to long term.

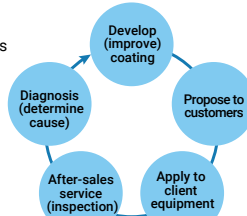
Investment in R&D

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

Advance research of Thermal Spraying Technology R&D Laboratories

Collaborative research with major domestic and overseas universities and public research institutes

Made-to-order coating development meeting customer specifications



FY2023 investment in development: **¥2,335** million (consolidated)

production technology departments at all of our plants are also continuing to invest in technology development. In fiscal 2023, we invested ¥2,335 million (5.0% of consolidated sales) in research and technology development.

Intellectual property strategy

Our business is using our surface modification technology to provide solutions for various problems our customers encounter with their products and production equipment. The advanced research conducted by the Thermal Spraying Technology R&D Laboratories and the development of coatings precisely engineered to customer specifications have led to numerous new technologies and areas of expertise (intellectual property).

Enhancing our technological advantages in the 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.

Developing new markets with external partners

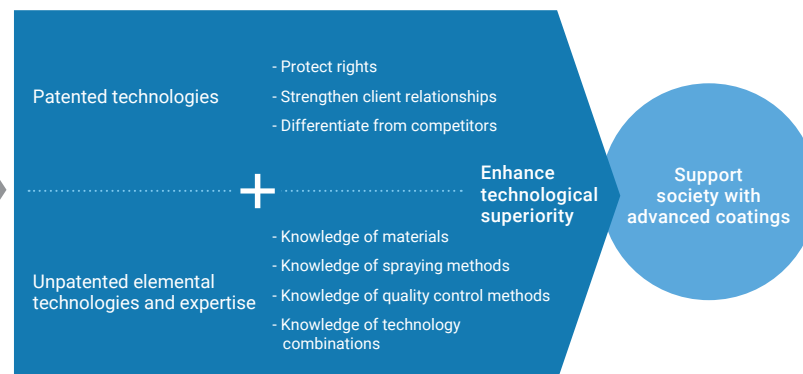
Our activities to develop advanced functional coatings include actively engaging in joint development with research institutes, universities, and clients. Our sales engineers work closely with manufacturing sites to address client issues, uncover underlying needs, and propose solutions.

Working together with our clients enables us to both provide optimal solutions and develop new coatings.



Photographs from the exhibition (Kyushu Mechanical Components & Technology Expo in fiscal 2023)

We worked with the Japan Fine Ceramics Center in a government-led project to develop the world's first heat-shielding nanodomain coating. The technology improves combustion efficiency by dramatically improving the heat shielding properties of high-temperature components used in the gas turbines in aircraft engines and thermal power plants. Engaging in collaborative joint development projects with external parties is an important initiative for developing new markets.



Materiality

2

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 global society. Our highly refined surface modification technologies offer functions, such as heat, corrosion, and wear resistance, that reduce greenhouse gas emissions by lowering energy consumption, and reduce the consumption of resources by extending the useful life of parts and products.



Preventing global warming ① Reduce manufacturing equipment energy consumption

Eliminating unnecessary heat

The key to reducing greenhouse gas emissions that contribute to climate change is to lower the amount of energy consumed, which is the fundamental source of the emissions. TOCALO contributes to reducing the energy needed to operate industrial equipment by applying coatings with properties that improve heat radiation from heating mechanisms.

For example, for a device that heats in a reduced-pressure environment with less heat medium (atmosphere), in certain conditions our coatings can shorten the heating period by 40% or lower the heating mechanism temperature by about 10%, both of which reduce the amount of energy consumed. In addition, our coatings enable more consistent heating within the chamber, enabling more uniform results, such as when air-roasting nuts. This improves product quality and yield while also reducing the amount of energy required for heating.

One-step coating for large parts

In most cases, molding or casting one large part made of resin or metal consumes less energy, in the form of electricity or gas, than molding and assembling many parts. The processes for both molding and casting entail pouring a heat-melted material into a die and cooling the resin or metal material by allowing heat to dissipate through the die. Large dies are prone to producing flawed products because the heated material has the potential to cool and harden before completely filling the die.

A ceramic coating on the mold surface can solve these problems. The ceramic holds the heat longer than the mold, giving the heated material a little more time to spread and fill even a large die before it cools and hardens. The coating also reduces the number of dies needed and reduces the workload

at the factory by decreasing the amount of storage and maintenance work.

Maintaining ideal conditions for rotating objects

The key components of generators and air compressors are the parts that rotate in air flow. However, the air that comes in contact with the parts can cause erosion or deposit particles that destabilize the rotation balance which, over time, can lead to significant energy loss.

Applying the optimum coating to surface areas that come in contact with the air flow can dramatically slow the wear and accumulation of particles on a part and preserve the part's initial ideal condition for an extended period of time.

Reducing the weight of rotating parts

Machine parts made of carbon fiber-reinforced polymer (CFRP) have been gaining widespread usage in recent years. CFRP contributes to preventing global warming because it is lighter than metal and requires less energy to move and rotate. However, CFRP cannot replace some metal rotating parts because they must be highly wear-resistant.

TOCALO has the technology to spray CFRP parts with a hard cermet alloy coat and mirror-finish, creating CFRP rotating parts that are high-durability, lightweight, and energy efficient.

Preventing global warming ② Promoting the use of renewable energy

Improving wind turbine durability

Wind power is a renewable energy generated from nature. Already widely used in the power infrastructure of Europe and the United States, the sight of large propellers of wind turbines is becoming increasingly common in Japan as well.

The bearings used in the power generations can be damaged by sparks emitted by the internal electrical current.

Environmental impact reduction measures

Our insulated bearings have a ceramic coating that protects the bearings and supports long-term, stable operation.



Protecting hydroelectric power equipment from dirt and sand

The river water used for hydroelectric power generation contains a mixture of large and small particles of dirt and sand. Without special care, this sediment can quickly wear the blades of the water turbines used to generate power, deteriorating their efficiency.

Tests of the sediment-resistant coating we developed showed it provides exceptional durability compared with the commonly used pump parts made of high-chromium iron. Our coating also exhibits high toughness, making it impact resistant even against large rocks.



Longer life for biomass power equipment

Biomass is generally defined as renewable, biologically derived organic resources other than fossil resources, with some familiar examples including food waste and livestock manure. Biomass power generation produces electricity from these resources by directly burning them or by converting them to gas.

TOCALO technology extends the life of boilers by providing a high temperature and corrosion resistant coating to boiler heat transfer tubes that are exposed to high temperature combustion gas and a wear-resistant coating to the equipment parts that remove air polluting sulfur oxides from the smoke exhaust.



Preventing global warming ③ Improving automobile fuel efficiency

Enabling lightweight, high-tensile strength steel sheet

The automobile industry is making every effort to improve automobile fuel efficiency to reduce CO₂ emissions. One step they are taking is to lighten the weight of vehicles by using steel sheet that is thin but still high strength.

TOCALO surface modification technology is being used to ensure stable production of high-tensile strength, high

quality steel sheet. The conveyer rollers used in steel sheet production lines are prone to accumulating foreign matter that causes scratches on the steel sheet. Our thermal spraying technology coats the rollers to prevent foreign matter from attaching to the rollers.



Resource conservation and waste reduction

Reducing materials used to restore machine part functionality

TOCALO's surface modification technology conserves resources and reduces waste by adding various functions and extending the life of machine parts. In addition, bushings, bearings, and other machine parts with coatings that have become worn and have reduced functionality due to extensive use can often be restored to full functionality by applying a fresh coating. Applying a new coat to machine parts eliminates the need to replace the parts and reduces the consumption of resources. TOCALO has also successfully developed a thermal spray ultra-low friction coating with exceptional friction and wear performance even in almost unlubricated conditions. The coating greatly reduces the amount of lubrication needed for bushings and bearings.

Environmental impact reduction measures

Group-wide environmental management

Basic environmental 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.

Environmental policy (Revised: July 17, 2024)

TOCALO follows its basic environmental philosophy in all activities, products, and services related to the manufacture and sale of its surface modification technologies. Following is a summary of policies we follow in our efforts to continuously improve our environmental performance.

1. Constantly recognize the environmental impact of our activities, products, and services, and establish, implement, and maintain an environmental management system.
2. Commit to preventing environmental pollution, using sustainable resources, preserving water environments, and preventing climate change.
3. Commit to continuously improving our environmental management system.
4. Comply with environmental laws and regulations relating to our operations, products and services, as well as other requirements to which we agree.
5. Based on our environmental policy and considering the potential environmental impact of our activities, products, and services, set environmental targets and engage in activities in the following areas to contribute to improving the environment:
 - (1) Energy and resource conservation in business activities
 - (2) Environmental contribution through promotion of business activities
 - (3) Climate change measures
 - (4) Water environment preservation

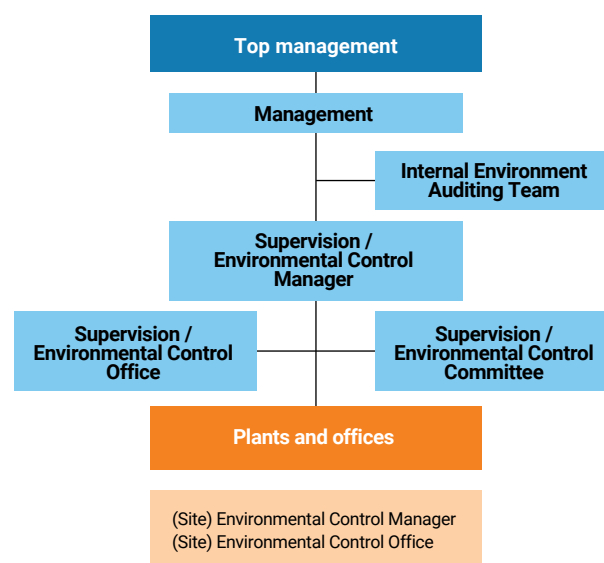
To successfully implement this policy, we will set environmental targets and contribute to environmental conservation by bringing

together the strengths of all our divisions and all levels of our workforce.

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. and TOCALO & HAN TAI Co., Ltd. in Guangzhou, China.

Environmental management organization structure



Environmental activity outcomes

Of the 43 goals set for fiscal 2023, only one was not achieved

ISO 14001 themes for fiscal 2023

- (1) Conserving energy and resources in our business activities
- (2) Using our businesses to make a positive contribution to the environment
- (3) Mitigating climate change

Each of our sites set and tackled targets based on our fiscal 2023 ISO 14001 themes. Of the 43 energy conservation targets we set for the year, these efforts achieved 42 of the targets and fell short of only one.

In fiscal 2023, each of our sites took part in the Energy Conservation and Environment Conference held every three months by the Environment Promotion Department aimed at promoting energy conservation and environmental activities throughout the Company. Specific initiatives have included converting to 100% power generated from renewable energy sources, upgrading to energy-saving, high-efficiency air conditioners, and creating visualization for power consumption for use in planning decisions, and installing equipment to improve heat exchange efficiency. Also, specific measures were aimed at reducing waste and increasing recycling.

TOCALO has set the group goal of reducing greenhouse gas emissions to 54% of the fiscal 2013 level by fiscal 2030. 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 and purchasing electricity generated from renewable energy sources.

Environmental impact reduction measures

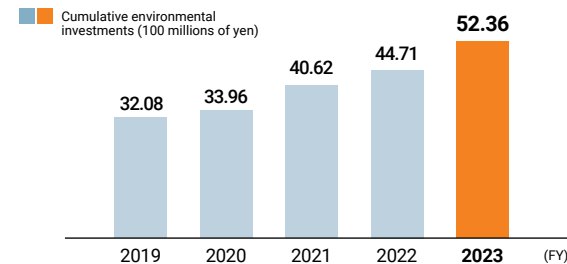
Environmental accounting

We focused on investing in environmental facilities, such as wastewater and waste gas treatment systems, and noise-prevention measures at new plants

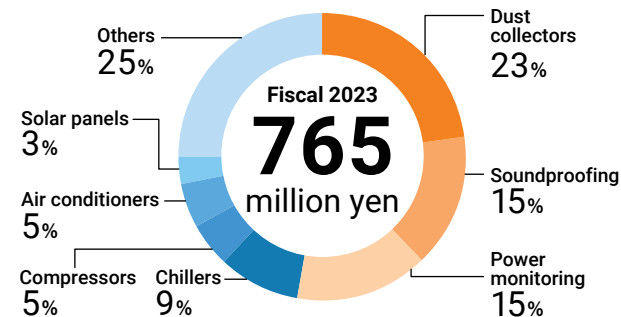
The graph below shows the cumulative amount of environment-related capital expenditures. Our main environmental facilities include dust collectors to prevent dust emissions, soundproofing equipment to block noise from the dust collectors, and energy-saving equipment.

In fiscal 2023, we added additional soundproofing equipment and dust collectors, and implemented energy-saving measures from the previous fiscal year, including installing power meter and monitoring devices.

Cumulative environmental investments



Breakdown of capital expenditures



Material balance

Input (energy, raw materials, water intake)

		Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023
Energy consumption volume*1,2	Electricity (MWh)	40,155	39,825	42,491	42,891	39,848
	Kerosene (kl)	229	209	203	188	177
	LPG (kg)	13,161	10,615	16,014	16,188	20,024
	Diesel (kl)	31	31	32	26	92
	Gasoline (kl)	108	101	88	88	88
	City gas (m³)	128,768	160,944	165,732	149,164	154,406
	Acetylene (kg)	—	—	—	16,142	45,885
	Energy consumption (crude oil equivalent) (kl)	10,734	10,754	11,435	11,503	10,333
Trend regarding volume of use of raw materials*3	Thermal spray materials (t)	325.2	297.2	271.9	298.7	257.9
	Other materials (t)	74.0	59.2	94.3	113.1	138.5
Trend regarding volume of water intake	Clean water (m³)	63,610.0	65,850.0	69,552.0	78,410.0	66,901.0
	Pure water (m³)	19.8	18.1	16.5	18.0	16.8
	Groundwater (m³)	0.0	0.0	0.0	0.0	0.0

Output (waste, emissions to atmosphere, effluent, recycling)

		Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023
Trend regarding volume of waste emissions	General business waste (t)	70.0	59.3	57.6	61.2	46.8
	Total industrial waste (t)	1,840.6	1,959.5	2,113.5	2,161.4	1,922.3
Trend regarding volume of emissions to atmosphere	PRTR Law Class 1 Designated Chemical Substances (t)	2.5	1.0	1.0	1.3	0.06
Effluent volume*4,5	Sewage (m³)	47,625.0 (2,528.0)	49,338.0 (1,640.1)	54,776.0 (1,939.4)	60,810.0 (1,518.1)	54,097.0 (1,298.5)
	Seawater (m³)	10,434.0	10,984.0	9,193.0	9,710.0	10,800.4
Recycling volume	Metal scraps (t)	90.6	108.4	90.1	111.7	150.5
	Thermal spray material waste (t)	28.6	27.4	21.2	15.1	12.4
	Blasting material waste (t)	570.8	716.4	686.2	715.6	723.6
	Oil waste/Solvent waste (t)	9.2	12.0	12.0	16.6	32.0
	Paper (t)	19.2	46.2	38.3	33.2	38.2

*1 The scope of aggregation was partially revised in FY2023.

*2 Results from FY2019 to FY2022 have been revised to correct an error in the aggregation of data on total energy consumption.

*3 Not including substrates.

*4 The numbers in parentheses are the volume of factory effluent that has undergone wastewater processing.

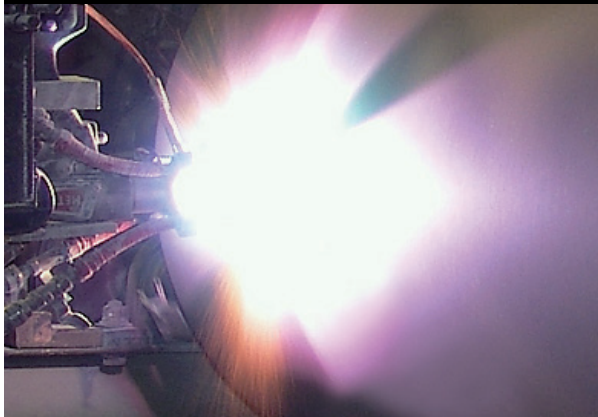
*5 Wastewater discharged from sites using septic tanks is defined as "seawater."

Materiality

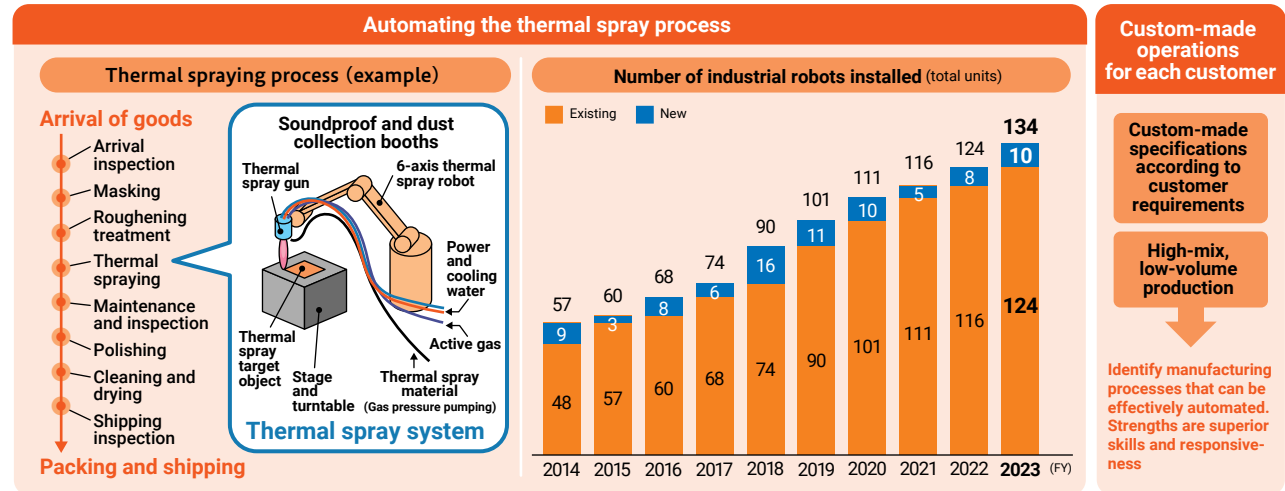
3

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. We are also focusing on the practical applications for new coating technologies as we continue pursuing technological innovation and enhanced competitiveness.



Features of our surface modification processing



Improve manufacturing process sophistication and efficiency

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. The reason is that coating entails several processes, including pre-treatment, setting, 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 processes that can reduce the dependence on human labor and on manufacturing processes that can improve efficiency.

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 skill proficiency at all Group companies and to ensure we maintain consistently high quality. The KPI categories are the number of certified technicians, number of people passing QC certification tests, and number of qualified non-destructive inspection engineers. The KPI scores for each year are presented on the corporate website.

Number of employees possessing technical qualifications

	Fiscal 2025 goal	Fiscal 2023 achievement
Number of people possessing the following national qualifications (total)		
(1) Spraying technician		
(2) Machining technician (Grade 2 or higher)		
(3) Metal heat treatment technician (Grade 3 or higher)		
Total:	240 persons	231 persons

Reinforce the quality control system

Establish and promote product performance assurance

Surface modification technology uses highly specialized processing techniques the success of which cannot be fully evaluated based solely on the surface appearance, and therefore require strict control of all processes, including the manufacturing process.

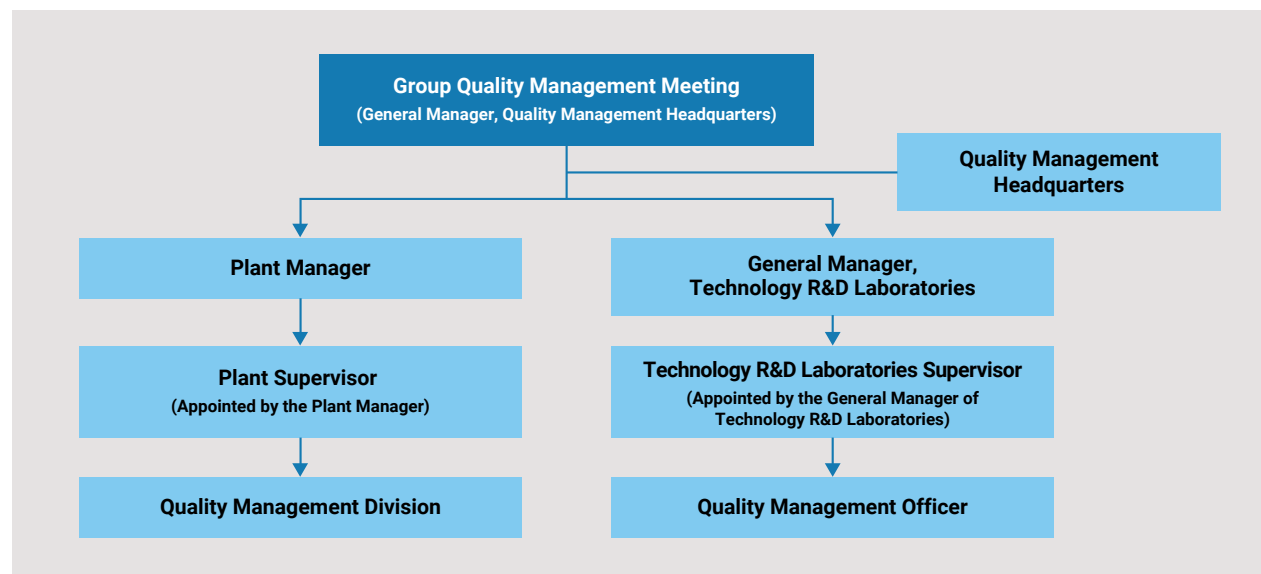
Our comprehensive management structure enables us to fully meet customer needs through our integrated technology, sales, and manufacturing divisions followed by attentive after-sales service.

Quality Policy

TOCALO quickly formulates and submits product and service proposals using its surface modification technology to fulfill customer needs and continuously improve quality.

1. Create products that fulfill customer quality requirements
2. Clarify and strictly adhere to quality standards
3. Set quality targets and evaluate degree of attainment
4. Continuously improve the quality management system

Quality management system



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.

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. To satisfy requirements specific to the aerospace industry, the Nagoya Plant acquired certification in November 2008.

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.

Cultivate and activate diverse human resources

Materiality



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.



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 ¥76 million, or ¥75,800 per employee, in employee education in fiscal 2023.

We continuously conduct both new graduate recruitment and mid-career recruitment of persons who can immediately become effective players. In fiscal 2023, we hired 64 new graduates and 10 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 will raise wages by 4% annually.

Education expense per employee (non-consolidated)

(thousands of yen)

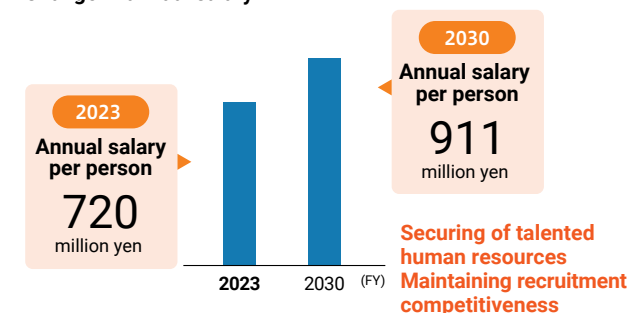
FY2021	FY2022	FY2023
54.2	63.2	75.8

New graduate and mid-career recruitment

(persons)

	FY2021	FY2022	FY2023
New graduate recruitment	35	25	64
Mid-career recruitment	10	22	10
Total	45	47	74

Change in annual salary



Human resource development

Training policy

We have prepared career-focused human resource training programs to cultivate personnel able to work autonomously in the four key areas of our management plan: reinforcing our market development, reinforcing our technological development, enhancing the sophistication of our manufacturing, and realizing sustainable growth to become a 100-year company.

We provide various growth opportunities to employees to bring out their potential and motivation and support the advancement of their careers.

Cultivate and activate diverse human resources

Improve proposal-based sales capabilities to provide optimal solutions

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 acquisition and deployment of specialist knowledge and relevant case studies leading to enhancement of sales skills and motivation.

Cultivate a corporate culture with a flexible approach to technology development

Each year, we hold technology report-presentation competitions as a forum to present new technological development by all of our plants, offices, and subsidiaries in Japan. This is aimed at fostering a corporate culture for tackling development with flexible thinking unbound by pre-existing concepts. We also organize annual reporting sessions for research staff to present the results of their research topics, with the aim of enhancing research and developing new ideas by sharing results and exchanging opinions. Also, they regularly share the results of their research externally by presenting at academic societies, submitting reviews to academic journals, and so on.

Continuously enhancing quality control

Manufacturing process management is important because of the difficulty of confirming the quality of a coating after it has been applied. Based on the operation of a quality management system, we therefore encourage employees to acquire quality control certification (QC Kentei) and non-destructive inspection engineer qualifications. We are also striving to increase the number of our ISO 9001 Certified Internal Auditors, and after the completion of training, employees participate in actual internal audits, endeavoring to make improvements and to boost product quality.

Encourage ingenuity in manufacturing and solidifying our foundation (personnel development)

We hold annual QA-presentation competitions to promote activities to improve our manufacturing. At these competitions, each division or team presents the background, process, and results of the improvement-focused activities they undertook over that year. The achievements of winning teams are shared throughout the company to provide motivation for ingenuity aimed at enhancing productivity and quality.

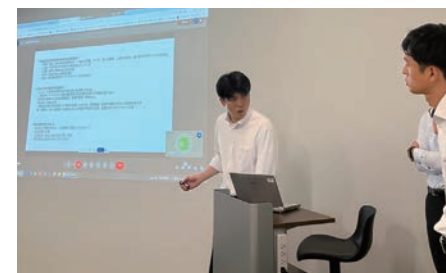


QA-presentation competition winning team

Establishment of global experience program

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.

In fiscal 2023, 14 employees completed the whole program, comprised of a special one-year curriculum including external training in marketing, management strategy, etc., conversational English classes, and in-house lectures.



TOCALO global experience program

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' understanding and ability to leverage digitization and DX.

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 teams with members recruited from each division to advance the concept of smart factories that realize automation, labor and energy-saving at plants.

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 draw out employees' 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.

Cultivate and activate diverse human resources

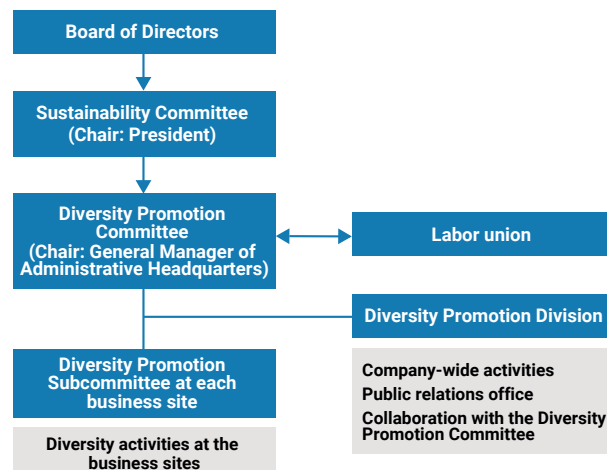
Creating a comfortable workplace environment

Promotion of diversity

Our objective is to be a company where diverse human resources can work energetically and rewardingly. We established the Diversity Promotion Committee in July 2020 to actively lead our diversity activities. Under the direct control of the president, the committee includes members of various genders, ages, and company responsibilities who gathered information and engaged in constructive discussion for improving diversity in the Company.

To further advance our initiatives, we established the Diversity Promotion Division in February 2022. The diversity committee and division work with labor unions to advance various activities related to diversity, including implementing measures related to our material issue of promoting the advancement of women in the workforce and to creating a workplace that emphasizes job satisfaction.

Diversity Promotion System



Creating an environment for harmony between work and private life

TOCALO earned Kurumin Plus certification (Hyogo Prefecture #1), recognizing our efforts as a company actively supporting employees who are balancing work with raising children or infertility treatment. We also acquired the highest level three-star "Eruboshi Certification" as a company excelling in initiatives for the promotion of women's participation and advancement. Also, we were certified as a 2024 Health and Productivity Management Outstanding Organization based on evaluation of our health management initiatives.



Female full-time employees / female managers / men taking childcare leave (non-consolidated) (%)

	Fiscal 2021	Fiscal 2022	Fiscal 2023
Ratio of female full-time employees	9.5	11.0	12.2
Ratio of female managers	1.4	2.3	2.1
Ratio of men taking childcare leave	31.3	68.0	82.8

System and initiatives for achieving harmony between work and private life

- Regional selection system for reasons of marriage or childcare
- System of reduced working hours that can be taken until children graduate elementary school
- Leave with pay for a portion of the period of childcare leave
- Leave with pay for employees taking child or family nursing care leave
- System to support balancing infertility treatment with work
- Distribution of a leaflet about support for balancing work and childcare/nursing care
- Implementation of training on support for balancing work and childcare/nursing care

Employment of senior human resources

In April 2022, we raised the mandatory retirement age from 60 to 65. Raising the retirement age boosted the morale of veteran employees and increased the overall vitality of the workplace. Retaining senior human resources allows them to further activate the high-level expertise gained from their experiences and share techniques with younger personnel, helping to cultivate future generations. Leveraging the expertise of senior human resources enhances our manufacturing capabilities and will further strengthen our competitiveness.

Hiring of foreign nationals

TOCALO hires individuals based on experience and skill regardless of race or nationality. Our recruitment activities are designed to provide equal opportunity to all applicants and no special circumstances are provided to foreign nationals.

When foreign nationals are hired to work in Japan, we support the acquisition of work visas, sponsor residence (with conditions), and other necessary procedures.

Hiring of persons with disabilities

As of March 31, 2024, persons with disabilities represented 2.86% of our workforce, which is above the 2.3% statutory employment rate (2.5% as of April 1, 2024). We consider the inclusion of persons with disabilities as an important contribution to the Company's vitality and provide an environment that supports active engagement by persons with various disabilities. We will continue to provide support and opportunities to maximize the power of each individual.

Enhancement of work-life balance

We help employees maintain a healthy work-life balance by promoting labor and management efforts to reduce long working hours 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. Also, through promotion of health management and our employee engagement survey, we hope to enhance employees' work-life balance and achieve further improvements for productivity.

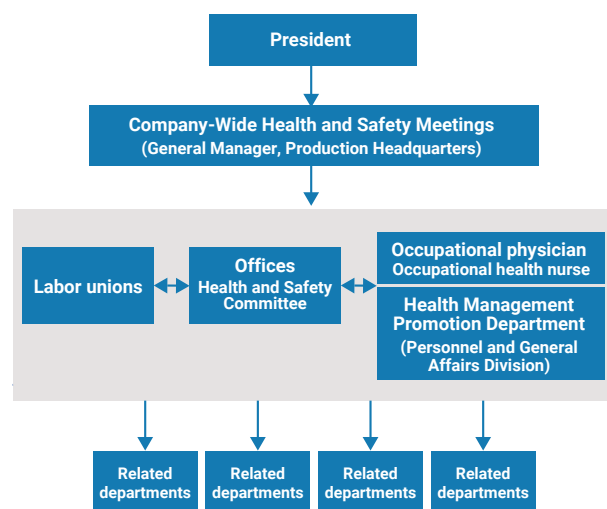
Cultivate and activate diverse human resources

Occupational safety and health

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. Safety and health committees at each business site meet each month to assess workplace risks and provide feedback to employees on the assessment results. Risk information issued by the committee is shared at Company-wide health and safety meetings headed by the General Manager of the Production Headquarters. The Company also works with 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



Occupational health and safety management system

Five of our business sites have acquired and are operating under ISO 45001:2018 certification (the international standard for occupational health and safety management systems) and JIS Q 45001 certification, which has additional requirements for daily health and safety activities. We are constructing a safe and healthy work environment by conducting risk assessments aimed at reducing and controlling safety and health risks and by supervising compliance with laws and regulations.

Preparations are under way to obtain ISO 45001 and JIS Q 45100 certification for the remaining sites. We are promoting acquisition of ISO 45001 certification at group companies, and have already acquired it at TOCALO & HAN TAI Co., Ltd. in Guangzhou, China.

ISO 45001 and JIS Q 45100 certification status

Plant	Registered date	Registration number
Kitakyushu Plant	March 2019	ISO45001:JISHA-O-102
	March 2024	JISQ45100:JISHA-102
Nagoya Plant	December 2023	ISO45001:JISHA-O-105
	December 2023	JISQ45100:JISHA-105
Kobe Plant	December 2023	ISO45001:JISHA-O-104
	December 2023	JISQ45100:JISHA-104
Kurashiki Plant	January 2024	ISO45001:JISHA-O-111
	January 2024	JISQ45100:JISHA-111
Akashi Plant	September 2024	ISO45001:JISHA-O-122
	September 2024	JISQ45100:JISHA-122

Group companies with ISO 45001 certification

Company	Registered date	Registration number
TOCALO & HAN TAI Co., Ltd.	May 2024	0350324S30211R1M

*For details of occupational accident frequency and severity, refer to page 46 (Non-financial highlights).

Initiatives to create a comfortable work environment

We abide by the Labor Standards Act and the Industrial Safety and Health Act, striving to maintain and improve a comfortable work environment, conscious of health and safety. Also, we work for the enhancement of various systems related to welfare. At all plants and offices, we prioritize employee health, 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. Induction training for new employees is centered on safety training, and we also focus on supervisor training led by external consultants, in our efforts to enhance safety awareness.

Main initiatives

- Implementation of safety patrols
- Timely sharing and visualization of information of workplace accidents and near misses
- Promotion of risk assessments
- KY (hazard prediction) activities each morning
- Implementation of occupational safety and health training
- Enhancement of heating and cooling equipment at manufacturing sites
- Implementation of measures to maintain and improve employee health
- Implementation of stress checks



KY (hazard prediction) activities

Materiality

5

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

Among these, we have identified and assessed negative impacts on human rights as part of our efforts to thoroughly apply our Corporate Philosophy. Herein, we report on the initiatives taken in the first fiscal year.



Respect for human rights

Management system

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 states the Group's basic policy on human rights is to respect basic 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

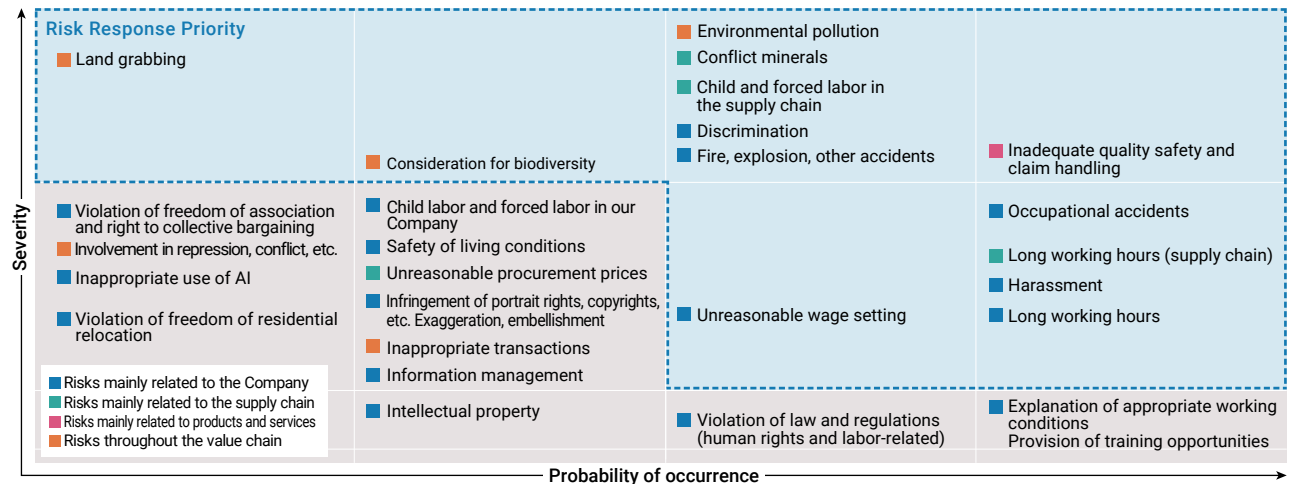
The Group has established a structure for human rights due diligence and enforcement based on the United Nations Guiding

Principles on Business and Human Rights.

As a first step of enforcement, in fiscal 2023, 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.

We assessed the scale, scope, and difficulty of redress for human rights violations and prioritized our response to risks of high severity. Where there are multiple risks with the same degree of high severity, we decided to prioritize those with a high likelihood of occurrence.

Human rights risk map (fiscal 2023)



Practice thorough compliance

Declaration of Partnership Building

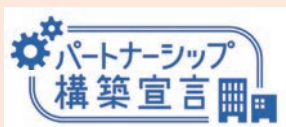
Cooperation, co-existence, and co-prosperity with supply chain business partners

We have released a Declaration of Partnership Building stating our endorsement of the Council on Promoting Partnership Building for the Future promoted by the Cabinet Office, The Small and Medium Enterprise Agency, and other organizations. This initiative aims to improve the productivity throughout the supply chain by promoting cooperation, coexistence, and co-prosperity among supply chain suppliers. The declaration states our commitment to working with our business partners to address social issues such as human rights, labor, health and safety, the environment, and ethics.

Our declaration in March 2024 included the following content.

Declaration of Partnership Building

1. Promote coexistence and co-prosperity, as well as new collaborations transcending scale and affiliation, throughout the supply chain
2. Adherence to the "Promotion Standards"
 - (1) Pricing methodology
 - (2) Payment conditions for promissory notes, etc.
 - (3) Intellectual property & know-how
 - (4) Negative consequences of workstyle reform, etc.



Logo for Declaration of Partnership Building

Thorough compliance and risk management

Compliance Committee

We have established a Compliance Committee to develop and implement a lateral compliance structure that includes each Group company. The Compliance Committee deliberates important compliance issues and reports the results to the Board of Directors. In addition, our Risk Management Committee supervises the state of risk management throughout the organization, including compliance issues, and considers company-wide measures. In order to enhance compliance awareness and affirmation of each officer, we have adopted a system that requires them to submit a "Confirmation of Director's Business Execution" or "Confirmation of Business Execution of Audit & Supervisory Board Members" to the Audit & Supervisory Board at the end of each fiscal year.

Establishment of Risk Management Committee

As part of our risk management system, in July 2023, we established a Risk Management Committee, chaired by Representative Director, President and Executive Officer Kazuya Kobayashi. The basic duties of this committee are supervision of the state of risk management throughout the organization, and consideration of company-wide measures. The other key committee members are all of the full-time directors, and eight executive officers, with two full-time Audit & Supervisory Board members as observers.

Thorough response in emergency situations

A Business Continuity Plan was created on April 1, 2010 and is updated annually.

When an unexpected situation occurs, an Emergency Management Headquarters is immediately established to implement countermeasures in accordance with our Emergency Management Protocol.

Thorough risk management

Each department creates rules and guidelines and publishes manuals to raise awareness of its relevant risks related to compliance, responses to antisocial forces, the environment, disasters, quality, information security, credit management, investment & financing, and export management.

In addition to the above, the Board of Directors promptly appoints directors to be responsible for responding to risks that have newly arisen and establishes systems for responding appropriately.

Ensuring information security

Among the various risks we must address, quality management and, similarly, ensuring information security are indispensable for TOCALO.

As a specialized manufacturer of surface treatment processing, we seek to be a "problem-solving company" that accurately and promptly responds to customer needs and an "R&D-driven company" that is constantly pursuing high-quality, high-functional coatings.

For us to be that kind of company, information security is critical. We ensure the security of our information with the following measures.

Information security

1. Information security management rules
2. Information security training for executives and employees
3. Confidential information safety management for subcontractors
4. Self-directed inspections and internal audits of compliance status
5. Regular review of the information security management system

Corporate governance

Corporate governance structure

TOCALO is a company with an Audit & Supervisory Board and appointed outside officers. The Board of Directors, and Audit & Supervisory Board members oversee and audit the execution of duties by directors.

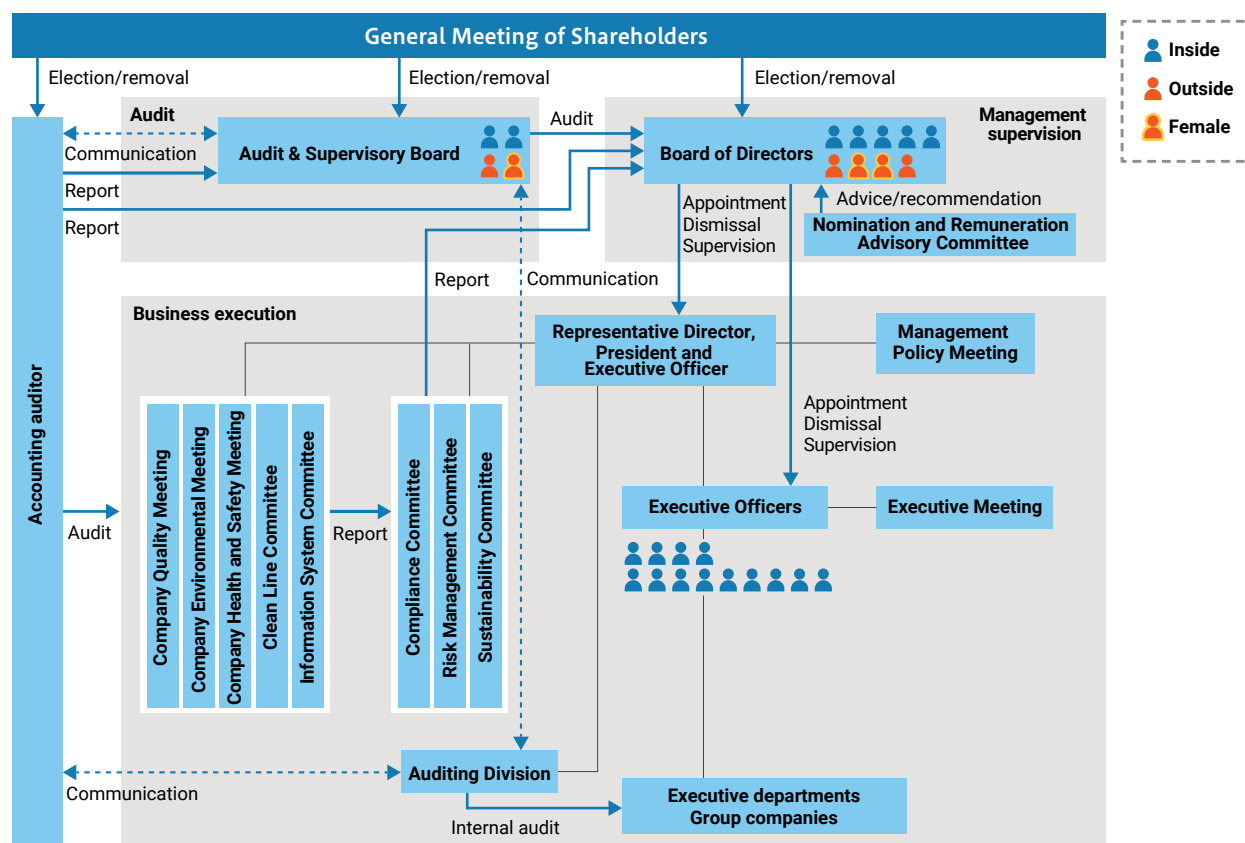
We consider the General Meeting of Shareholders as not only the primary decision-making body, but also as an important opportunity for shareholders to deepen their understanding of the Company and accordingly hold a company information session following the meeting. We make every effort to schedule the Ordinary General Meeting of Shareholders on a day when the greatest number of shareholders would be able to attend.

Board of Directors

The Board of Directors meeting is held in the middle of each month, and extraordinary meetings are held as necessary. Directors also convene management policy meetings to discuss and deliberate important management issues.

Most directors (other than outside directors) are in attendance at important internal meetings held daily on topics including the Company budget, sales, manufacturing, and quality, where they exchange viewpoints and formulate a unified management message and approach for the Company.

Deliberation by the Board of Directors is based on reports from the Sustainability Committee, Risk Management Committee, and Compliance Committee.



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.

As at the end of June 2024, there were 13 executive officers (including the president, deputy president, and two managing executive officers, all 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 and accounting auditor

The Audit & Supervisory Board consisted of four corporate auditors, two of which are outside auditors, which we believe is effective for monitoring management and appropriate for the Company's current status. 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. It monitors the earnings performance of subsidiaries by receiving monthly written reports and holding a Group Audit & Supervisory Board Member Liaison Council every three months. In addition, auditors of the subsidiaries report actively share information with the board, including reporting their quarterly earnings results and audit results.

Corporate governance

Board of Directors effectiveness evaluation

The Company conducts annual effectiveness evaluations of the Board of Directors and takes steps to improve the Board's effectiveness and functionality.

In fiscal 2023, the Secretariat of the Board of Directors prepared a questionnaire for all directors and Audit & Supervisory Board members to evaluate the effectiveness of the Board. The evaluation results indicated that the composition, operation, and freedom to express opinions of the Board of Directors were generally appropriate and identified areas where the Board could further improve, such as securing time for deliberation of capital policy and medium- and long-term management issues. The evaluation results were reported to the Board, and the Board is taking steps to implement improvements, including revising its agenda to allocate sufficient time for discussion of the above items or considering delegating responsibility to other management committees.

Training for directors and Audit & Supervisory Board members

Directors of the Company continue to develop their skills by participating in external courses and seminars to deepen their understanding of laws and regulations and their roles and responsibilities as corporate directors. The Company's full-time Audit & Supervisory Board members are members of the Japan Audit & Supervisory Board Members Association and enhance their knowledge by attending the association's meetings and seminars on auditing practices for medium-sized firms as well as by sharing information with other Audit & Supervisory Board members.

Director and corporate auditors support system

Outside directors are supported by the HR & General Affairs Division of the Secretariat of the Board of Directors. Outside corporate auditors are supported by the Auditing Division, which provides auxiliary and secretariat work for the Audit & Supervisory Board.

Policy for determining director remuneration

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.

The amount and structure of director remuneration is determined using the following guidelines.

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.

Payment ratio of remuneration

The ratio of basic remuneration, performance-linked monetary compensation, and performance-linked stock compensation for directors (excluding outside directors and part-time directors) is set at approximately 7:2:1 when the performance targets are achieved, with the performance targets being the three-year average of the Group's ordinary income, ordinary income ratio, ROE, and ROA (based on ordinary income). The Board of Directors determines the appropriateness of the ratio based on the counsel and recommendations of the Nomination and Remuneration Advisory Committee.

Delegation of individual compensation decisions

The specific amounts of monetary or stock remuneration for each director is based on a proposal amount prepared based on the calculation method established by the Board of Directors and deliberated on by the Nomination and Remuneration Advisory Committee, which is chaired by an independent outside director and comprised of a majority of independent outside directors. The Board of Directors considers the counsel and recommendations of the Nomination and Remuneration Advisory Committee, and the Representative Director decides the remuneration amount for each individual within the scope delegated by the Board of Directors.

Other matters

As of the end of March 2024, the Company does not hold strategically held shares. In principle, the Company does not hold shares for strategic purposes.

The Company has not adopted anti-takeover measures.

*In addition, we publish details including reasons for appointment of directors and Audit & Supervisory Board members on our website.

Corporate officers

					
	Noriyuki Mifune Chairman & Representative Director	Kazuya Kobayashi Representative Director, President and Executive Officer	Nobuyuki Kuroki Director, Deputy President and Executive Officer	Hiroshi Goto Director, Managing Executive Officer, General Manager, Administrative Headquarters	Takayuki Yoshizumi Director, Managing Executive Officer, General Manager, Sales Headquarters
Career information	April 1978 Joined TOCALO Co., Ltd. April 2001 General Manager, Kitakyushu Plant April 2005 General Manager, Akashi Plant June 2007 Director, General Manager, Akashi Plant June 2009 Director, Assistant General Manager, Production Headquarters June 2011 Chairman of the Board, TOCALO & HAN TAI TW Co., Ltd June 2012 Managing Director, General Manager, Production Headquarters June 2013 President & Representative Director June 2021 Representative Director, President and Executive Officer June 2023 Chairman & Representative Director (current)	April 1989 Joined TOCALO Co., Ltd. April 2014 General Manager, Kitakyushu Plant of the Company April 2017 Division Manager, Quality Management Division April 2018 General Manager, Akashi Plant June 2019 Director, General Manager, Akashi Plant April 2020 Director, Assistant General Manager, Production Headquarters June 2021 Managing Executive Officer, General Manager, Production Headquarters June 2023 Representative Director, President and Executive Officer (current)	April 1978 Joined TOCALO Co., Ltd. April 2001 Division Manager, Sales Division, Tokyo Plant April 2005 General Manager, Tokyo Plant April 2011 Manager, Overseas Preparation Office May 2011 Chairman of the Board, TOCALO & HAN TAI (Kunshan) Co., Ltd June 2011 Director June 2013 Director, Assistant General Manager, Sales Headquarters June 2016 Managing Director, General Manager, Sales Headquarters June 2019 Senior Managing Director, General Manager, Sales Headquarters April 2021 Chairman of the Board, TOCALO & HAN TAI TW Co., Ltd (current) June 2021 Director, Senior Managing Executive Officer June 2023 Director, Deputy President and Executive Officer (current)	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. February 2015 Corporate Officer, General Manager, Global Finance Department, Nachi-Fujikoshi Corp. April 2016 Joined TOCALO Co., Ltd., Division Manager, Accounting Division April 2017 Division Manager, Accounting Division, and Division Manager, Corporate Planning Division June 2018 Director, Division Manager, Accounting Division, and Division Manager, Corporate Planning Division June 2019 Director, Assistant General Manager, Administrative Headquarters, Division Manager, Accounting Division, and Division Manager, Corporate Planning Division June 2021 Director, Managing Executive Officer, General Manager, Administrative Headquarters (current)	April 1984 Joined TOCALO Co., Ltd. April 2006 Division Manager, Sales Division, Tokyo Plant of the Company April 2013 General Manager, Nagoya Plant April 2018 General Manager, Tokyo Plant June 2019 Director, General Manager, Tokyo Plant April 2020 Director, Assistant General Manager, Sales Headquarters June 2021 Managing Executive Officer, General Manager, Sales Headquarters July 2021 Chairman of the Board, TOCALO USA, Inc. June 2023 Director, Managing Executive Officer, General Manager, Sales Headquarters (current)
Experience & 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

					
	Toshimitsu Kamakura Director (Part-time)	Keiko Takihara Director (Part-time)	Yoko Sato Director (Part-time)	Kazuyuki Tomita 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)	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)	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 September 2019 Representative, Yoko Sato Certified Public Accountant Office June 2020 Director of TOCALO Co., Ltd. (current) June 2020 Outside Corporate Auditor, Japan Cash Machine Co., Ltd. (current) June 2021 Outside Director, Sanyo Electric Railway Co., Ltd. (current)	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 & 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	Hirosuke Hamada Audit & Supervisory Board Member	Toshihiko Yoshida Audit & Supervisory Board Member	Noriko Kaji Audit & Supervisory Board Member	Yuji Chiba Managing Executive Officer Representative Director and President, Japan Coating Center Co., Ltd.
Career information	April 1982 Joined TOCALO Co., Ltd. April 2009 Division Manager, Kitakyushu Plant of the Company October 2009 Division Manager, Production Division, Akashi Plant April 2013 General Manager, Akashi Plant June 2015 Director, General Manager, Akashi Plant April 2018 Director, General Manager, Quality Management Headquarters June 2021 Managing Executive Officer, General Manager, Quality Management Headquarters June 2023 Full-time Audit & Supervisory Board Member (current)	April 1984 Joined TOCALO Co., Ltd. April 2006 Division 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 Division Manager, Overseas 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, Division Manager, Overseas Business Division April 2024 Executive Officer June 2024 Full-time Audit & Supervisory Board Member (current)	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. (current) June 2021 Audit & Supervisory Board Member of TOCALO Co., Ltd. (current)	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 Joined Kaji Ikuko Tax Accountant Office April 2023 Representative, Kaji Noriko Tax Accountant Office (current) June 2024 Audit & Supervisory Board Member of TOCALO Co., Ltd. (current)	Tatsuo Suidzu Executive Officer General Manager, Tokyo Plant Hiroyuki Aisaka Executive Officer General Manager, Quality Management Headquarters Katsunori Nakai Executive Officer Division Manager, Personnel and General Affairs Division Yasuki Nakahira Executive Officer General Manager, Overseas Business Headquarters Takeshi Takabatake Executive Officer General Manager, Production Headquarters Tatsuya Hamaguchi Executive Officer General Manager, Kitakyushu Plant Yuu Murata Executive Officer General Manager, Akashi Plant Takema Teratani Executive Officer General Manager, Thermal Spraying Technology R&D Laboratories
Experience & 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.

More than sales and profits, our real goal is to realize the future vision



Toshimitsu Kamakura

Director (Part-time)

The current highly favorable conditions are the time for growth investment aimed at sustainable development

As a lawyer, I have provided consultation to companies of all sizes and types on governance, compliance, and risk management. I will apply the knowledge to consciously examine the pertinent matters and reporting items to be submitted to the Board of Directors with a specific focus on determining if there are any discrepancies between actual conditions, perceptions, and evaluations and the assumptions the executive departments are using when making business decisions. We have been receiving relevant materials as early as possible before meetings on the topics that are being held and, if necessary, we can visit plants and have situations directly explained to us by the employees in charge of daily operations. Discussions with Audit & Supervisory Board Members are another way we obtain valuable information, and the Company fully responds to requests for on-site inspections. All companies are eager to ensure the vitality of their Board of Directors, and I think the discussions at TOCALO's Board meetings are very open and candid. The Board meetings are conducted such that they present matters that executive departments have determined to require a board resolution; however, in certain cases, I think it would be beneficial to have all directors share their opinions before deciding whether an item should be submitted for resolution.

My understanding is that the current business conditions are highly favorable for the Company. During periods like this, I believe investing for future growth is critical. Improving technical capabilities and M&A is important, but most important of all is investing in the human resources that will be needed to ensure the Company's sustainable development. I think now is the time for management to also consider ways to visualize the status of investment in human resources.

Improving the soundness of rule operations and solidifying the Company's foundation

TOCALO's environmental management benefits from the environmental nature of its business content, and I think this could be further strengthened by paying more attention to the overall supply chain. In the area of governance, as the Company grows, both in terms of personnel and material, effectively functioning rules to maintain compliance will be key to remaining a fair and comfortable place to work. One way I will be monitoring this will be by continuing to watch how well the whistleblower system is working.

Management is preparing to formulate a new medium-term management plan in the next fiscal year. I understand that the process will be to set a vision for what they want the Company to be, and then determine what they need to do over the next few years to fulfill that vision.

In doing so, achieving the sales and profit targets tends to be viewed as the plan's main objective. I would like the executive departments to make sure that all employees are aware that the plan is not merely a business plan, that achieving the sales and profit targets is just one means for working toward fulfilling the future vision of the Company. Everyone should clearly understand that the true goal is realizing the vision.

Aware of the growing value of human capital, we are creating an environment for diverse human resources to be engaged and grow



Keiko Takihara

Director (Part-time)

Monitoring the work environment and harassment response Earning certification as a Health and Productivity Management Outstanding Organization

In my 40-year career as a medical practitioner, I worked in internal medicine at a university hospital and have also been in charge of diversity in university executive departments, student and faculty mental and physical health, and occupational safety and health.

Since TOCALO is in the manufacturing industry, I pay close attention to its efforts related to the employee work environment, health, and harassment. I also helped establish the Diversity Promotion Committee, participated in its activities as an observer, and provided advice. In addition, I proposed seeking to become a Health and Productivity Management Outstanding Organization, and the Company was certified as such for the first time in fiscal 2024. As Japan's working population shrinks, I expect initiatives to improve productivity by recognizing the value of human capital and conducting management with an awareness that employee health will become increasingly important.

The Company has been welcoming in more employees than ever in recent years, and I think it will be necessary to improve the training and guidance systems for young employees, as well as to develop career paths for female employees. Recognizing the importance of human capital will mean making greater efforts than ever to cultivate diverse human resources and create the systems and environment for everyone to be fully engaged.

The Company is generating growth for both sales and profits right now, but it needs to also continue sufficiently investing in research and development so it will be positioned to take on new challenges as it extends into new domains in the future.

The Board of Directors is having difficulty conducting effective discussions because of time constraints. I am aware of the problem and one remedy we have been considering is to revise the selection of items to be reported and discussed. I think increased selectivity will enable deeper and more effective discussion of each agenda item.

TOCALO provides opportunities for the outside directors to tour all of its plants. Since the information we receive for the Board of Directors meetings is necessarily limited, the information and the issues we learn about by visiting the plant sites is invaluable.

Building a system that unites the minds of all employees aiming to achieve "dream numbers"

TOCALO is actively promoting the fact that using its products and technologies reduces the environmental footprints of its clients, but I think it also needs to look internally and make its own manufacturing processes more environmentally sound.

For its contribution to society, I think the Company should increase its emphasis on promoting diversity. Just a few years ago, TOCALO had very few women in management positions, but the number is gradually growing. In the future, it will need to focus on developing human resources with the intention of cultivating female general managers and executive officers from within the Company. I also think TOCALO should take advantage of its network of overseas subsidiaries and seriously consider bringing in foreign human resources.

When the new medium-term management plan is formed, I would like to see it include some "dream numbers" among its numerical targets. I would like to see a structure where the executive departments communicate their ideas with all employees, so everyone has the "dream numbers" in their sights and shares the same motivation to reach the stated goals.



Part 4

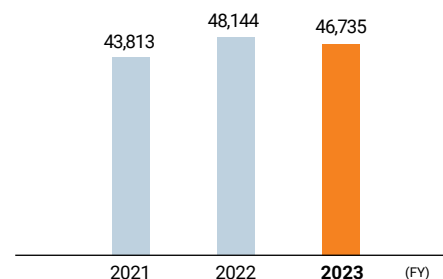
Financial/ Corporate information

Environment and energy field

We expect to see expansion in use of surface modification aimed at proliferation and improved efficiency of natural energy generation and becoming fossil-fuel-free, such as hydro and wind power generation facilities, energy storage facilities, and fuel facilities.

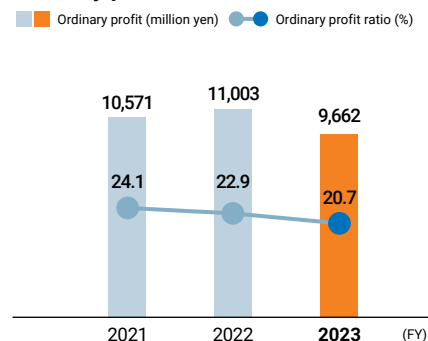
Financial highlights

Net sales (million yen)



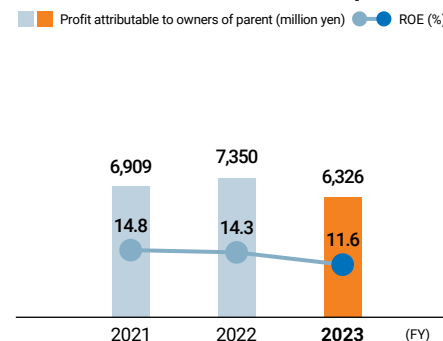
Net sales continued on a positive trajectory until fiscal 2022, but fell in fiscal 2023 for the first time in four periods to ¥46,735 million due to inventory adjustment in the semiconductor field.

Ordinary profit



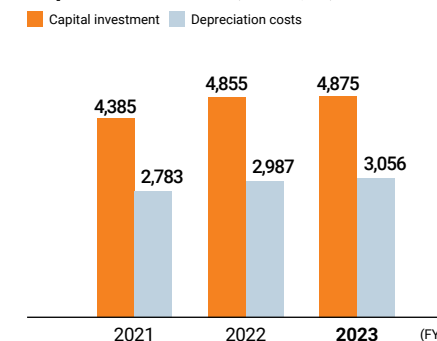
Ordinary profit for fiscal 2023 decreased 12.2% year-on-year to ¥9,662 million due to decreased sales in the profitable semiconductor field, but this was still higher than the start of fiscal year forecast of ¥8,700 million.

Profit attributable to owners of parent



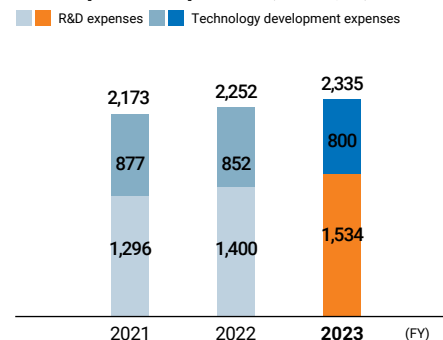
Profit attributable to owners of parent for fiscal 2023 decreased 13.9% year-on-year to ¥6,326 million, and ROE fell to 11.6%.

Capital investment (million yen)



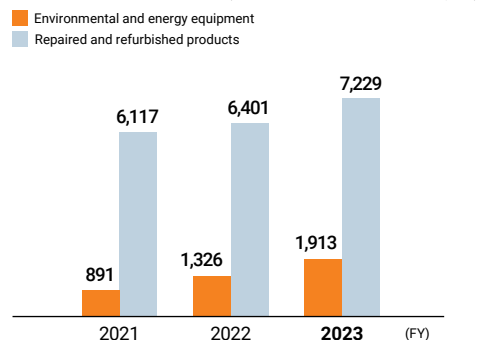
Capital investment for fiscal 2023 was ¥4,875 million. We installed new equipment, chiefly at our Tokyo, Akashi, and Kitakyushu plants, to boost our production systems and efficiency, as well as building a new plant at our subsidiary in Taiwan.

R&D expenses and technology development expenses (million yen)



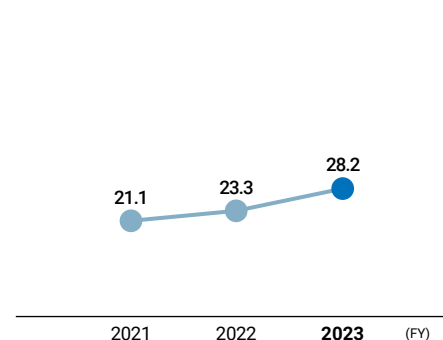
We maintained R&D expenses and technology development expenses at around 5% of consolidated sales. Despite reduced sales in fiscal 2023, we invested ¥2,335 million in development expenses, a 3.7% increase year-on-year. Going forward, we will continue our efforts to develop new coatings and to resolve issues faced by customers, to ensure our sustainable growth.

Financial value of orders received in environmental field (non-consolidated, million yen)



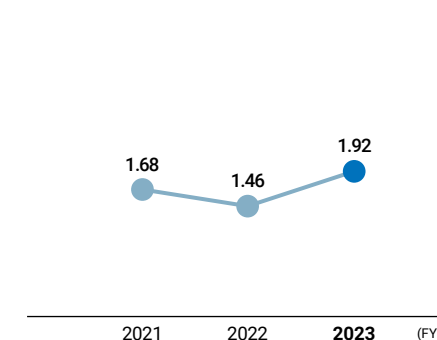
We are focusing on development and promotion of coating technology adapted to the greenhouse gas emission reduction and energy saving measures of customer, and for the popularization and increased efficiency of natural energy power generation. In environmental and energy equipment, processing of battery-related equipment and environmentally friendly boilers, etc. are proceeding favorably. Processing for repair and refurbishment of equipment parts for customers is also increasing steadily.

Ratio of overseas sales (%)



The ratio of overseas sales reached 28.2% in fiscal 2023, whereby we achieved our fiscal 2025 goal of 25% ahead of schedule. Ratio of overseas sales is comprised of export sales to overseas, sales at overseas subsidiaries, and overseas royalties earnings.

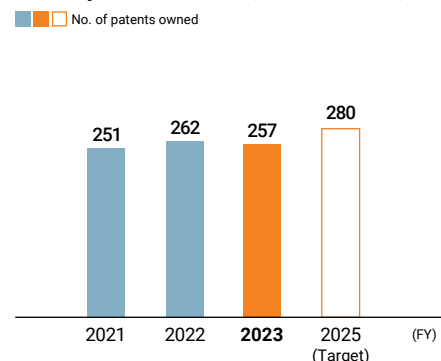
Price-to-book ratio (PBR) (times)



Our price-to-book ratio (PBR) was 1.92 times as at the end of fiscal 2023. We are aware that our cost of equity is 8-10%, but because ROE exceeded this, we think we were able to steadily maintain PBR at one or more times.

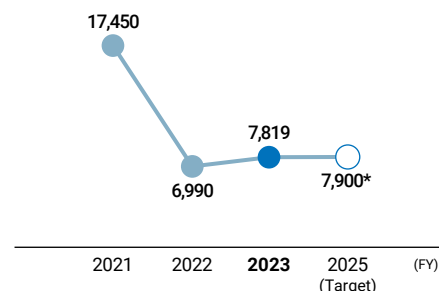
Non-financial highlights

No. of patents owned (non-consolidated)



We aim to own 280 patents by 2025, and to submit 30 or more patent applications per year. We will continue to actively promote patent application in order to further boost our technological advantage.

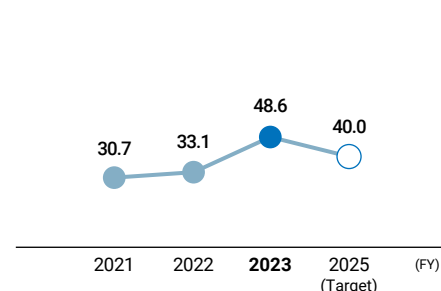
Greenhouse gas emissions (Scope 1, 2) (non-consolidated, t-CO₂)



We aim to reduce our greenhouse gas emissions to below 7,900 t-CO₂ by 2030 as part of our efforts to achieve carbon neutrality. This is equivalent to 54% or less of our fiscal 2013 emissions.

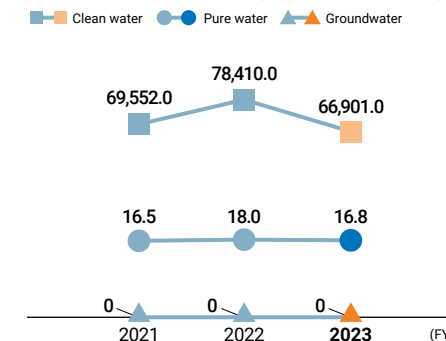
*Achieve 54% or less of fiscal 2013 emissions

Ratio of waste recycled (non-consolidated, %)



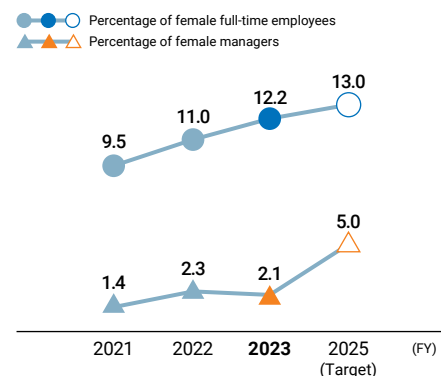
We are striving to increase our ratio of waste recycled as part of our efforts to reduce waste. We reached 48.6% in fiscal 2023, whereby we achieved our fiscal 2025 goal of 40% ahead of schedule.

Water intake amount (non-consolidated, m³)



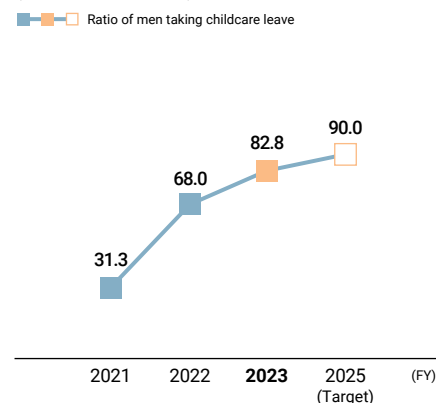
We consider water resource management a key environmental conservation issue and are striving to reduce the amount of water we use. Our water intake was 66,917.8 m³ in fiscal 2023, a 14.7% reduction year-on-year.

Percentage of female full-time employees and percentage of female managers (non-consolidated, %)



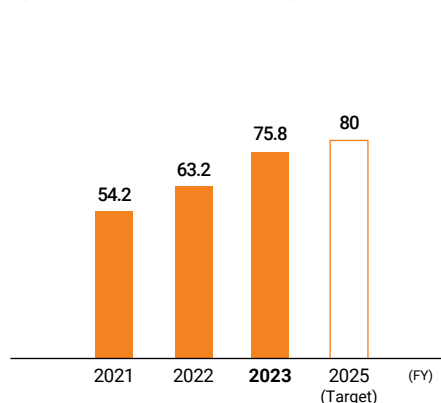
We are promoting the advancement of women as part of our efforts to ensure diversity. Consequently, we are conducting a range of activities towards the achievement of our fiscal 2025 targets of 13% female full-time employees and 5% female managers.

Ratio of men taking childcare leave (non-consolidated, %)



In an effort to increase the ratio of men taking childcare leave, we are creating an environment where it is easier to take leave, including introducing examples of men taking childcare, and holding information sessions with superiors present. As a result, the ratio of eligible men taking childcare leave reached 82.8% in fiscal 2023.

Educational spending per employee (non-consolidated, thousand yen)



We believe that employees being able to express their individuality and capabilities while enjoying their work is essential for the growth of the company and are therefore actively investing in training and reinforcement of human resources. TOCALO Co., Ltd. invested a total of ¥76 million, or ¥75,800 per employee, in employee education in fiscal 2023.

Frequency and severity of occupational accidents (non-consolidated)

	FY2021	FY2022	FY2023
Occupational safety incident frequency	0.62* ¹	1.80* ¹	2.06* ²
Labor safety incident severity rate	0.00* ¹	0.03* ¹	0.08* ²

In fiscal 2023, 15 occupational accidents occurred (0 resulting in death, 5 resulting in leave). We are striving to prevent occupational accidents through identification causes and countermeasures, as well as by sharing information about workplace accidents and near misses, with the aim of achieving zero occupational accidents.

*1 Not including temporary employees
*2 Including temporary employees

11-Year summary

Segment	Indicator	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
State of results, etc. (millions of yen)	Orders received	23,097	27,137	28,343	29,506	36,851	38,915
	Orders backlogged	2,774	3,843	3,440	3,983	6,725	6,081
	Net sales	22,708	26,218	28,950	29,108	34,275	39,742
	Operating profit	3,584	4,711	5,001	5,783	7,270	7,905
	Operating profit ratio (%)	15.8	18.0	17.3	19.9	21.2	19.9
	Ordinary profit	3,656	4,889	5,027	5,801	7,363	8,076
	Ordinary profit ratio (%)	16.1	18.6	17.4	19.9	21.5	20.3
	Net income attributable to owners of the parent	2,175	3,030	3,015	4,070	4,836	5,441
	Capital investments	2,513	2,678	3,730	5,936	6,361	5,965
	R&D expenses	653	746	862	834	905	1,003
Per share information (yen)	Earnings per share (EPS)	35.78	49.85	49.60	66.95	79.56	89.51
	Net assets per share (BPS)	390.18	427.37	456.92	504.11	562.12	617.80
	Annual dividend per share	12.50	15.00	18.75	21.25	26.25	30.00
	Dividend payout ratio (%)	34.9	30.1	37.8	31.7	33.0	33.5
	Dividend on equity ratio (DOE) (%)	3.3	3.7	4.2	4.4	4.9	5.1
Cash flow (millions of yen)	Cash flow from operating activities	3,465	4,545	4,533	5,237	7,611	8,044
	Cash flow from investment activities	(177)	(4,888)	(895)	(6,537)	(4,681)	(4,617)
	Cash flow from financing activities	(165)	(1,475)	(1,742)	1,581	(2,217)	40
	Balance of cash and cash equivalents at the end of this period	7,645	5,963	7,827	8,068	8,807	12,213
	Interest-bearing debt	1,752	1,207	604	3,204	2,486	4,478
Financial status (millions of yen)	Total assets	33,158	36,349	37,875	44,302	52,664	57,278
	Net assets	24,693	27,151	29,070	32,252	36,139	39,665
	Equity	23,721	25,982	27,778	30,647	34,174	37,559
	Equity ratio (%)	71.5	71.5	73.3	69.2	64.9	65.6
Financial indicators	Return on equity (ROE) (%)	9.5	12.2	11.2	13.9	14.9	15.2
	Return on assets (ROA) (%)	11.6	14.1	13.5	14.1	15.2	14.7
	Return on invested capital (ROIC) (%)	—	—	—	—	13.6	13.3
	Price earnings ratio (PER) (times)	11.4	11.3	10.2	10.8	16.3	9.7
	Price-to-book ratio (PBR) (times)	1.05	1.32	1.11	1.43	2.31	1.41
Non-financial indicators	Number of employees	802	824	857	898	955	1,021
	Sales per employee (thousands of yen)	28,315	31,818	33,780	32,414	35,890	38,925
	Non-consolidated educational spending per employee (thousands of yen)	—	—	—	—	—	—

Note: ROA = Ordinary profit ÷ Average total assets for the period. ROE = Net income attributable to owners of the parent ÷ Average equity for the period.

Figures used for BPS and EPS from FY2014 to FY2016 have been converted to take into account the 4-for-1 stock split on March 1, 2018.

Figures used for dividend per share from FY2014 to FY2017 have been converted to take into account the 4-for-1 stock split on March 1, 2018.

Figures for net sales and operating profit have been reconfigured to reflect changes to the disclosure method in FY2021 ("royalties and other income" was reclassified from non-operating income to net sales).

11-Year summary

Segment	Indicator	FY2019	FY2020	FY2021	FY2022	FY2023
State of results, etc. (millions of yen)	Orders received	38,011	39,021	45,394	48,419	47,505
	Orders backlogged	6,195	6,143	7,896	8,349	9,260
	Net sales	38,084	39,294	43,813	48,144	46,735
	Operating profit	6,727	8,890	10,255	10,558	9,197
	Operating profit ratio (%)	17.7	22.6	23.4	21.9	19.7
	Ordinary profit	6,812	8,914	10,571	11,003	9,662
	Ordinary profit ratio (%)	17.9	22.7	24.1	22.9	20.7
	Net income attributable to owners of the parent	4,404	5,463	6,909	7,350	6,326
	Capital investments	2,313	4,822	4,385	4,855	4,875
	R&D expenses	1,159	1,296	1,296	1,400	1,534
Per share information (yen)	Earnings per share (EPS)	72.45	89.86	113.62	120.83	105.53
	Net assets per share (BPS)	662.28	727.06	807.31	884.83	933.08
	Annual dividend per share	25.00	35.00	45.00	50.00	53.00
	Dividend payout ratio (%)	34.5	38.9	39.6	41.4	50.2
	Dividend on equity ratio (DOE) (%)	3.9	5.0	5.9	5.9	5.8
Cash flow (millions of yen)	Cash flow from operating activities	6,621	10,588	9,873	9,894	7,877
	Cash flow from investment activities	(4,217)	(4,615)	(5,044)	(5,094)	(4,634)
	Cash flow from financing activities	1,871	(3,798)	(4,547)	(4,561)	(3,241)
	Balance of cash and cash equivalents at the end of this period	16,496	18,672	19,141	19,520	19,656
	Interest-bearing debt	8,145	6,031	4,249	2,802	5,002
Financial status (millions of yen)	Total assets	61,122	64,183	69,517	74,263	77,940
	Net assets	42,634	46,891	52,459	57,643	59,924
	Equity	40,263	44,201	49,099	53,839	55,460
	Equity ratio (%)	65.9	68.9	70.6	72.5	71.2
Financial indicators	Return on equity (ROE) (%)	11.3	12.9	14.8	14.3	11.6
	Return on assets (ROA) (%)	11.5	14.2	15.8	15.3	12.7
	Return on invested capital (ROIC) (%)	9.8	11.9	13.0	12.5	10.2
	Price earnings ratio (PER) (times)	14.1	16.1	12.0	10.7	17.0
	Price-to-book ratio (PBR) (times)	1.54	1.99	1.68	1.46	1.92
Non-financial indicators	Number of employees	1,060	1,121	1,176	1,300	1,389
	Sales per employee (thousands of yen)	35,929	35,052	37,256	37,033	33,647
	Non-consolidated educational spending per employee (thousands of yen)	—	32.5	54.2	63.2	75.8

Note: ROA = Ordinary profit ÷ Average total assets for the period. ROE = Net income attributable to owners of the parent ÷ Average equity for the period.

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Figures used for dividend per share from FY2014 to FY2017 have been converted to take into account the 4-for-1 stock split on March 1, 2018.

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Company overview / Shareholder information (As of March 31, 2024)

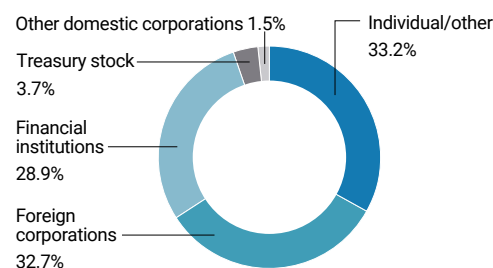
Company data

Company name	TOCALO Co., Ltd.
Established	July 1951
Head office	6-4-4, Minatojimaminami-Machi, Chuo-Ku, Kobe, Hyogo, 650-0047 Japan
Capital	2,658.823 million yen
Number of employees	Consolidated: 1,389 Non-consolidated: 889
Stock exchange	Tokyo Stock Exchange, Prime Market
Securities code	3433
Main banks	MUFG Bank, Ltd. The Mitsui-Sumitomo Bank, Ltd.

Stock information

Total number of issuable shares	160,000,000
Total number of issued shares	61,200,000 (including 1,762,426 treasury stock)
Number of shares per unit	100
Number of shareholders	13,528

Share ratio by owner



Major shareholder status

Shareholder name	Number of shares held (thousand shares)	Percent of total shares (%)*
The Master Trust Bank of Japan, Ltd.	10,282	17.30
Custody Bank of Japan, Ltd.	6,902	11.61
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	2,813	4.73
TOCALO Employee Shareholding Association	2,632	4.43
NORTHERN TRUST CO.(AVFC) RE FIDELITY FUNDS	2,008	3.38
STATE STREET BANK AND TRUST COMPANY 505001	1,283	2.16
GOVERNMENT OF NORWAY	1,242	2.09
Kumiko Saijo	1,036	1.74
STATE STREET BANK WEST CLIENT - TREATY 505234	908	1.53
KIA FUND F149	858	1.45

*Calculated excluding treasury stock

Third-party evaluations

Inclusion in indices

S&P/JPX Carbon
Efficient Index



JPX-NIKKEI Mid Small

JPX-Nikkei Mid Small Index

Participation in initiatives

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Task Force on Climate-Related
Financial Disclosures



Declaration of
Partnership Building

External evaluation of ESG initiatives

Rated "B" in CDP's
"Climate Change
Report 2023"



Company promoting
advancement of women
Eruboshi Certification
(highest rating of 3 stars)



Kurumin Plus
Certification



Certified as a Health and
Productivity Management
Outstanding Organization
(Large Enterprise Category)



Certified as a Sports Yell
Company for 2024 by the
Japan Sports Agency



External evaluation for IR disclosure

Nikko Investor Relations homepage ranking
Ranked as a AA Corporate Website in the All
Markets Ranking and Sector Ranking (Metal
Products) for second consecutive year
<https://www.tocalo.co.jp/english/>



Network

Global network



China

- ① TOCALO & HAN TAI (KUNSHAN) Co., Ltd.
- ① BAOWU EQUIPMENT INTELLIGENT TECHNOLOGY CO., LTD.
- ② TOCALO & HAN TAI Co., Ltd.
- ② High Shine Limited
- ③ SMS Siemag Technology (Tianjin) Co., Ltd.

Taiwan

- ③ TOCALO & HAN TAI TW Co., Ltd.
- ④ HAN TAI TECHNOLOGY Co., Ltd.

South Korea

- ⑤ DAE SHIN METALLIZING Co., Ltd.
- ⑥ TOPWINTech Corp.

Thailand

- ④ TOCALO Surface Technology (Thailand) Co., Ltd.

Indonesia

- ⑤ PT. TOCALO Surface Technology Indonesia

Vietnam

- ⑦ HAN TAI VIETNAM CO., LTD

India

- ⑧ ATS Techno Pvt. Ltd.

EU

- ⑨ Oerlikon Surface Solutions AG
- ⑩ Duma-BandZink GmbH

United States

- ⑥ TOCALO USA, Inc.
- ⑪ SMS group Inc.
- ⑫ NxEdge, Inc.

Brazil

- ⑬ SMS group Metalurgia do Brasil Ltda.

Number of sites

Japan: **3** companies, **26** sites

Overseas: **6** companies in **5** countries/regions; **9** sites

Total: **9** companies in **6** countries/regions; **35** sites

Japan network

● Office ● Plant ● Group company

