Part 2

Value creation strategy

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Aiming to be a company where each employee's practice of Good Service can contribute to a bright future

Kazuya Kobayashi
President and CEO,
Representative Director
TOCALO Co., Ltd.

Fiscal 2024 results and our future prospects

Aiming for 7% growth in net sales and 4% wage increases, annually to 2030

In November 2021, TOCALO announced its medium-term management plan to fiscal 2025. The plan included targets of ¥53 billion in consolidated net sales and ¥12 billion in ordinary profit by the final year, but in fiscal 2024, we achieved these targets a year early, with TOCALO Co., Ltd. consolidated realizing its highest ever net sales and ordinary profit. Now, we have set a medium- and long-term target of 7% growth in net sales annually to 2030.

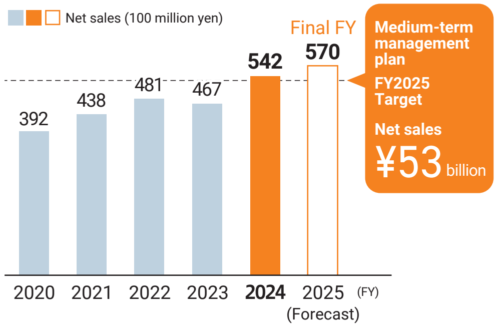
The global semiconductor market is forecast to grow to be worth around $1 trillion in 2030. We expect that demand will roughly double by 2030 compared with now from our main customers, makers of semiconductor manufacturing equipment. In order to handle this demand, we have invested in the construction, now underway, of new plants at our Tokyo and Kitakyushu plants. These new plants are scheduled to start operating in May 2027 (Kitakyushu) and late 2027 (Tokyo), and once completed, are expected to ensure a roughly doubling of our fiscal 2024 production capacity.

In April 2024, TOCALO applied for the Ministry of Economy, Trade and Industry's "Large-Scale Growth Investment Subsidy for Labor-Saving Measures to Support Wage Increases at Medium-Sized and Small Enterprises," for which we were selected in November 2024, based on recognition of our growth investment to achieve our business plan. The capital investment selected on this occasion amounts to ¥10.2 billion by December 2026, and one-third of this, ¥3.4 billion, is due to be paid to us as a subsidy. The subsidy is for our growth strategy premised on wage increases, and consequently, our plan is for 7% growth in net sales annually to 2030. Profits from this growth will go towards 4% annual wage increases for employees.

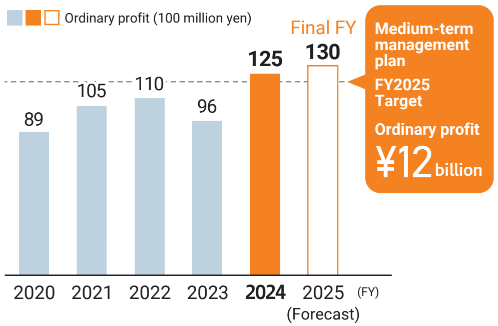
In order to achieve both net sales growth and wage increases, the improved motivation of our employees is essential. For this reason also, we will re-examine the market from new perspectives. To this end, TOCALO reviewed its existing incentive system and introduced a new system that returns 10% of year-on-year ordinary profit increases to employees. I feel this made it easier to realize a shared direction and attitude among all employees. We explain to our employees how the achievement of these initiatives and wage increases will raise the average wage to ¥8.77 million by fiscal 2029, which should lead to greater motivation.

In order to continue to realize medium- and long-term growth from 2030 onwards, it is important that we do not rely solely on our current mainstay of the semiconductor and FPD fields, but also incorporate other growth business fields, nurturing these as new profit pillars. Currently, promising candidate fields where business opportunities are expanding and market growth is expected in the future include the environmental and energy field, such as gas turbines, thermal power generation, aircraft, and defense.

Progress of medium-term management plan (net sales)



Progress of medium-term management plan (ordinary profit)



Selected for the Growth Investment Subsidy by the Ministry of Economy, Trade and Industry

We applied for the Ministry of Economy, Trade and Industry's "Large-Scale Growth Investment Subsidy for Labor-Saving Measures to Support Wage Increases at Medium-Sized and Small Enterprises." Our growth investment plan was highly evaluated and selected for the subsidy.

- **Subsidy overview**
  Subsidy project period: November 1, 2024 – End of December 2026
  Eligible investment amount: ¥10.2 billion (approved investment amount)
  Approved subsidy amount: ¥3.4 billion (one-third of the investment amount)
- **Capital investment details**
  With focus on expanding the semiconductor and FPD fields, we will carry out three-pronged investment
  1. Construction of new plants
     In response to growing demand in the semiconductor field, we will build new factory buildings at existing sites (Tokyo Plant Gyoda Workshop and Kitakyushu Plant)
  2. Introduction of advanced equipment at existing plants
     We will introduce production equipment to realize automation and labor-savings, increase order capacity, and enhance functionality
  3. Introduction of research equipment for advanced technology development
     At the Thermal Spraying Technology R&D Laboratories, we will introduce equipment to develop advanced technologies aimed at new business areas, with a focus on responding to "miniaturization technologies" in the semiconductor field

From "supplier" to "partner"

All employees thinking about and performing the "Good Service" that satisfies customers

TOCALO has adopted the Vision of "Contributing to a bright future for people and nature" to express its ideal form in 2030, and has identified five material issues to address.

For the first material issue, "Advanced coating and latent market development," one concrete initiative is to "Offer optimal solutions to customers" with the approach to grow from being a supplier to being a partner. Until now, we have responded to issues after they have arisen, but going forward, we will do more than this, and will communicate our intention to make proposals that address future issues.

For example, even for ingredients and materials that do not yet exist, we will make proactive proposals along the lines of "if such an ingredient existed, we could resolve future issues," or "we could tackle new challenges in the future," so that we can offer dynamic and optimal solutions for the development of new semiconductor manufacturing equipment. I believe that such proposals lead to our being able to "offer optimal solutions to customers."

In order to realize our aim to grow "from supplier to partner," I hope that all of our employees re-consider what the "Good Service" described in our corporate motto is, and put it into practice. It is not we who evaluate Good Service, but the recipients of our service. When we perform to the best of our abilities, we can gain the high appraisal of customers. That is truly Good Service. To this end, we must accurately grasp the needs of customers, view issues from multiple angles to identify the very best solution, and offer service at the optimal timing. We should take this attitude not only with customers but also within the company. Consider your counterpart's needs earnestly and frankly propose what you believe to be the best solution. Do your best, even if they do not accept your proposal. I believe that Good Service involves building upon and repeating this. Last year, when I first had the opportunity to greet new employees as President and CEO, I reflected on my work ethics from when I joined the company until now, and revisited the importance of our corporate motto.

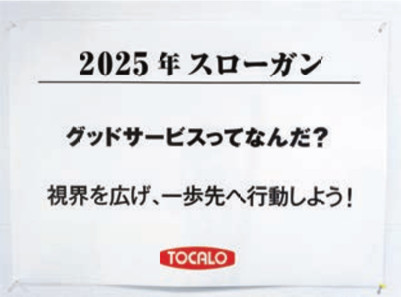
Our in-house slogan for this fiscal year is "What is Good Service?" If each employee considers their own style of Good Service and implements this, I am sure that TOCALO will become a more rewarding place to work, and we will evolve into an organization where we can grow together.

To grow from being a supplier into a partner, the most important thing is for ourselves to build a strong and sustainable supply chain. To this end, our plants and offices across Japan held a partner appreciation event, inviting all of the

Materiality and main initiatives

Materiality	Main initiatives	
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)
	Offer optimal solutions to customers	• Grow from a supplier to a partner • Set up projects in priority areas • Foster experts in problem-solving
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
	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
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
	Reinforce the quality control system	• Establish and promote product performance assurance • Implement quality controls systems (such as ISO) • Construct a Product Qualification Plan
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
	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
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

business partners who support our operations each day. I believe that such initiatives contribute to the co-existence and co-prosperity that we aim for with our business partners.



The behavior slogan displayed in-house

Quality enhancement, safety and health, environmental awareness, nurturing human resources

Through high employee awareness, we can become an organization that grows with the company

One initiative and outcome related to our third material issue "Manufacturing sophistication and quality improvement," has been obtaining JIS Q 45100 certification at all plants and offices in Japan. In my own career, I have accumulated various experience as General Manager at our Kitakyushu and Akashi plants and General Manager of the Production Headquarters. We had a workplace policy of "Safety takes precedence over everything," but our systems for achieving this were insufficient. After my appointment as General Manager of the Production Headquarters, I began by addressing the acquisition of JIS Q 45100 at all plants, and in fiscal 2024, we completed its acquisition at all plants and offices.

In addition, we are advancing automation in on-site construction, aimed at sophistication of our manufacturing. This has enabled us to perform high-precision thermal spray and is also contributing to simplification of measurement points. I believe that the sophistication of our on-site construction leads to enhancement of our manufacturing processes.

We have bolstered our environmental conservation initiatives, including the installation of advanced dust collectors and equipment to separate waste oil and water, which we utilize to prevent water pollution. Our initiatives relating to the environment and energy include the adoption of our coatings in production lines for batteries, which are experiencing growth in demand, and providing coating to power generation facilities utilizing ammonia, which are linked to the expansion of new business opportunities.

TOCALO is currently proactively engaged in not only hiring new graduates but also in nurturing employees. We hope that the younger generation will keenly consider their work, gain motivation, and discover challenges they hope to tackle. There are many new opportunities in the workplace, such as programming for automation and numerical control (NC) processing. Once their goal becomes clear, employees can gather members to discuss it as a team, then move forward on their own initiative. Through such activities, I hope to create an environment that facilitates further growth. I urge those in managerial positions to encourage a spirit among the young to tackle such challenges and to provide active support.

In our next medium-term management plan, we plan for consolidated net sales in five years' time of ¥80 billion, or around 1.5 times that of fiscal 2024. Our employees will work together as one team to achieve this.

I hope that all of our stakeholders will hold high hopes in TOCALO and continue to support us.

President and CEO, Representative Director
TOCALO Co., Ltd.

Kazuya Kobayashi

Sales strategies and front-line capabilities to capture growing markets our lineup for the global competition

Appointment as Representative Director and Senior Managing Executive Officer

Leveraging my unique experience and perspective, working with the President to lead management in a better direction

I was appointed as Representative Director and Senior Managing Executive Officer at our general shareholders' meeting in June, in our 75th year of business. In taking on a much bigger role and duties than ever before, I feel the deep responsibility to commit myself to our employees and their families, along with all of our stakeholders.

President and CEO Kobayashi, whom I have worked with for many decades, was appointed President and CEO, Representative Director in 2023. While he has held roles in our engineering and manufacturing business divisions, my career has been in the sales field. Going forward, we will strive to have more discussion and exchange of opinions in various business scenarios from our respective viewpoints and positions, as we lead management in a better direction.

Global business expansion

Prioritize securing and nurturing human resources, and further boosting our overseas net sales ratio

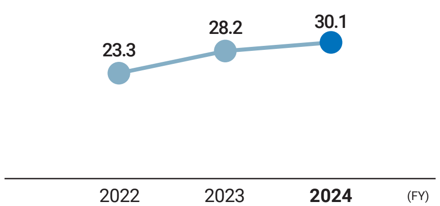
TOCALO opened its first overseas business site in 2005, with the establishment of TOCALO & HAN TAI Co., Ltd. in Guangzhou, China. This marked the start of our global expansion. Exactly 20 years have passed since then, and we now have two bases in China, and one each in Taiwan, the USA, Thailand, and Indonesia, creating a network of six sites. Three of these sites handle our mainstay business, in the semiconductor and FPD fields. Overseas, our goal is to find local companies who can become our customers, and we aim to firmly root our subsidiaries in each region, developing deep ties there, and growing as a local business.

Since our founding in 1951, our strength has been in our threefold approach to service, with close cooperation between (1) our R&D division, with analytical capabilities, (2) our production division, with its high-level production capability and advanced quality management, and (3) our sales division, with sales engineers who respond flexibly to customer needs. At our overseas sites, we also prioritize nurturing of human resources to drive the creation of a structure that leverages TOCALO's character.

For this reason, we established our Global experience program in fiscal 2022, still ongoing, which includes language lessons, training with external lecturers, and trial visits to overseas customers. ▶Page 36

Overseas business is experiencing significant growth, accounting for 30.1% of net sales in fiscal 2024, a 6.8 point increase from fiscal 2022. One reason the overseas business net sales ratio is growing substantially is increasing demand in the semiconductor and FPD fields in China and Taiwan. The global semiconductor market is forecast to grow to be worth around $1 trillion in 2030. Presently in the USA there is an increasing trend to reverse the off-shoring of manufacturing bases in a wide range of fields, and we anticipate construction and launch of semiconductor-related plants to continue to increase. Going forward, TOCALO's overseas business net sales ratio will likely be led by the USA in addition to China and Taiwan. I believe that securing and nurturing human resources able to flourish in the global market will become increasingly important as a measure to continue further boosting overseas business as a proportion of total net sales.

Ratio of overseas sales (%)



TOCALO's strengths

Good Service realized by our R&D, manufacturing, and sales divisions

Quality, cost, delivery, and service (QCDS) is an indicator commonly used in the manufacturing front-line. These four aspects are firmly integrated into the work of all TOCALO's business divisions.

Our R&D division carefully analyzes customer feedback to respond to their needs. There is continuous demand for high-level technical capabilities and precise analysis skills, and by sharing these, we are boosting our intellectual capital.

Our production division's strength is its ability to flexibly expand production capacity in response to customer requirements. For example, even if order volume suddenly doubles, we have in place the facilities and capital to handle it.

The sales engineers of our sales division, who deal directly with customers, work to accurately grasp customer requirements, which they communicate to the production and R&D front-line, cooperating closely with each division to ascertain how to achieve this.

I also worked in the sales division for many years, but I am conscious of the fact that, for my first ten years, I could not fully stand on my own two feet, partly because of my humanities background. I therefore made extra effort to comprehend customer needs. If I was uncertain about any technical or manufacturing aspect, I devised a way to deal with it, sometimes inviting members of the R&D or production division to accompany me on customer visits. Because of such experiences, I am certain that, while the sales division is the customer's contact point, close cooperation with the R&D and production divisions enables us to offer service that satisfies customers, from receiving an order through to delivery and after-sales service.

Promotion of diversity

Creating workplaces where the younger generation can flourish

In order to recruit human resources with high potential, I believe it is important to further promote diversity. More than anything, creating workplaces where the younger generation can flourish is crucial to the future of TOCALO.

At present, women still account for just 12.5% of our full-time employees, and 17.4% of our overall direct hires. To date, we have organized systems to directly and indirectly assist female employees, including support for their work and child-rearing. Evaluation of these systems has earned us Kurumin Plus certification and Eruboshi certification of the highest three-star level.

Going forward, we will strive to further advance the creation of workplaces where employees feel happy to work for many years, where they feel job satisfaction, and where they can easily work while balancing their jobs with home duties or with child-rearing.

Continued investment for foundation consolidation and growth in line with our growth scenario to 2030

FY2024 results and FY2025 forecast

Continuing steady and deliberate investment to realize our medium- and long-term "ideal form"

I find it sobering to be appointed as Senior Managing Executive Officer. Since joining the company in 2016, my career path has led me from the role of Accounting Division manager, to Director, and then to Managing Executive Officer. I will leverage this experience to support President and CEO Kobayashi under the new administration and contribute to the company's development.

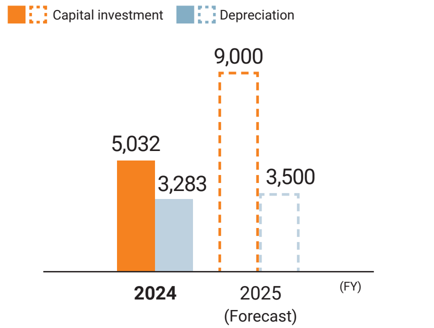
Fiscal 2024 saw a significant rise in income and profit as a result of growing demand in the semiconductor and FPD field both in Japan and overseas. Environmental and energy and other fields also made favorable progress, enabling us to achieve record net sales and ordinary profit.

In our mainstay field of semiconductors and FPD, satisfactory demand is forecast to continue from the latter half of fiscal 2025 through fiscal 2026 and beyond. It is also believed that high demand will continue on a global scale also in carbon-neutral related business. We will also endeavor to expand orders and net sales from a medium- to long-term perspective, through to 2030 and 2040, in the industrial machinery and energy-related fields.

As one aspect of its medium- to long-term strategies, from fiscal 2025, TOCALO commenced construction of new buildings at our Kitakyushu and Tokyo plants, and is engaged in proactive capital investment for further growth. Although it is impossible to avoid a rise in fixed costs and depreciation costs associated with capital investment, we position this investment as necessary for medium- to long-term foundation consolidation and growth. Over the past roughly 10 years, TOCALO has continued to operate essentially debt-free, but going forward, we will leverage debt including bank loans to conduct stable financial operations while maintaining a high-level ROE.

In the manufacturing front-line, we are advancing automation or semi-automation as much as possible for the expansion of orders and net sales, while aiming for operational efficiency. Also, in regards to information security, we will not spare the necessary investment required to deal with the stiff global competition going forward. As one part of this, we established the Information Security Office this April. Furthermore, enhancement of our business continuity plan (BCP) is also essential, in readiness for large-scale natural disasters or accidents. Were we to neglect this, should some kind of accident occur, it could lead to significant losses that could rock the company. It is also essential for the safety of our employees and local communities, and we will therefore also proactively advance foundation-building investment. Thus I believe that the most important point for us is to maintain and strengthen our supply chain. Going forward, we intend to continue initiatives aimed at sustainable growth in partnership with our suppliers, who support our day-to-day production activities.

Capital investment and depreciation (million yen)



Human resources strategy

Using our Global experience program to invigorate human resource exchange in Japan and abroad

Presently, alongside of capital investment, TOCALO is focusing on investment in people from a medium- to long-term perspective. This will allow us to secure more, and enhance the quality of, human resources. We are of course driving recruitment both of new graduates and mid-term hires, along with training of employees, and we must further facilitate human resource exchange across the entire Group.

For example, Japan Coating Center, a 100% subsidiary since 2004, which possesses achievements and expertise in surface treatment technologies. TERADA KOSAKUSHO, which became a Group company in August 2024, has high-level machinery processing technologies as a machine tool and precision parts manufacturer. It is essential that we operate as one Group, with interaction of people at our heart. Going forward, we must further boost flexible human resource exchange between our sites in Japan and overseas.

We launched our Global experience program in fiscal 2022 aimed at nurturing human resources to support this global expansion in the medium- to long-term. Thus far, we have had 40 participants in the three years of the program. We intend to make further capital investment in our managers and other eager employees, with our eyes fixed five and 10 years from now. Also, in our manufacturing and quality management divisions, we are systematically nurturing human resources equipped with the skills to play an active role abroad, dispatching them to overseas offices and so on, and will continue strategic and proactive development of global human resources going forward.

One important aspect of investment in people is the advancement of diversity. Until now, we have driven the creation of employee-friendly workplaces, but our policy now is to make further efforts in the coming five years to create workplaces that offer job satisfaction, where people can find a sense of reward in their employment. Job satisfaction and a rewarding feeling differ between individuals. Through discussion between management and the front-line, we aim to create workplaces that offer greater satisfaction.

Future prospects

Continuing long-term growth, aiming to be a company that contributes broadly to society

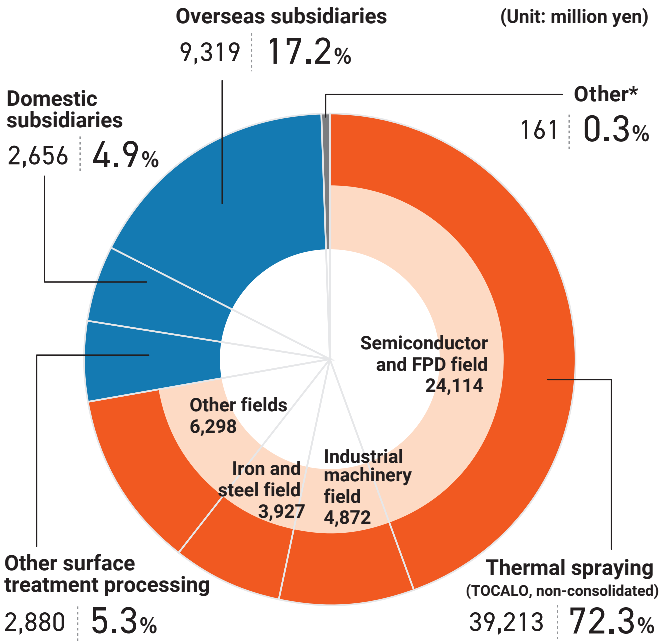
We are also taking measures to quickly grasp and respond to risks associated with enlargement of our business scale. TOCALO Group auditors share information quarterly, and in addition, our Risk Management Committee and Compliance Committee hold meetings to check the current circumstances and issues faced by the Group as a whole. We do not merely look as each Group company's achievements, but also have systems in place to consider less-obvious potential risks, to immediately respond if issues arise. With the expansion of our business, we undertake thorough risk management, through our Global Business Headquarters, governing overseas business sites, and our Corporate Planning Division for Japanese sites.

A saying often quoted in management policy are the words of Edo period shogunate retainer and agriculturalist Sontoku Ninomiya: "One who anticipates the distant future will plant a cedar sapling for one hundred years from now." This teaches us that one who plants a sapling now anticipating one hundred years into the future will enjoy abundance. Similarly, TOCALO will continue to grow with the aim of being a 100-year company. Here, I introduced our forecast future short-term results and investment strategy, together with our human resource strategy and improved performance from a medium- to long-term perspective. By steadily and deliberately implementing these strategies, we will further enhance our corporate value and social contribution.

Performance overview by sector

Thermal spraying and various other surface modification solutions

Fiscal 2024 Net sales ¥54,231 million



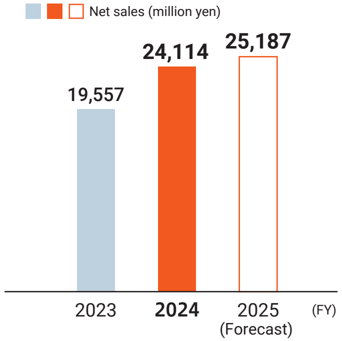
*Royalties and other revenue

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)

Semiconductor and FPD (flat panel display) field

Net sales



Core services

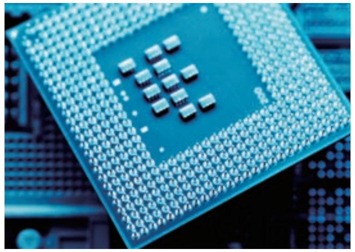
We perform thermal spraying processing for semiconductor and FPD manufacturing equipment parts. Semiconductor manufacturing equipment (SME) in particular requires thermal spraying primarily for etching equipment to improve semiconductor chip yield by preventing dust emissions and to enable electrostatic 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 2024, thanks to a recovery in the semiconductor market, the semiconductor and FPD field has been in good shape, and we broke our previous record for the first time in two fiscal years. Demand remains strong in 2025, and we expect net sales to surpass fiscal 2024 levels and reach a new record high.

Opportunities and risks

The semiconductor market is forecast to continue to grow toward 2030, and we believe that demand for semiconductor manufacturing equipment will also increase. Consequently, we anticipate expansion in needs for our company, and hope this will provide opportunities for growth. Nevertheless, we are aware of the risk of rapid changes in the semiconductor market, and intensified price wars overseas. Also, with design changes to manufacturing equipment, if structures are adopted that eliminate the need for thermal spray, it has the potential of significant impact on our orders. In readiness for such risks, we are responding to demand for maintenance of semiconductor manufacturing equipment parts, and developing new coating technologies for next-generation equipment to minimize the impact of changes in demand.



Topic Expecting to increase investment in semiconductor manufacturing equipment to $208 billion by 2030

Global demand for semiconductors is forecast to grow approaching 2030. Key factors in this growth include advancement of digitalization, improved performance of generative AI, the evolution of autonomous driving technology, and expansion of data centers. In response, semiconductor manufacturing equipment makers are expanding fab construction, and consequently, the value of investment in semiconductor manufacturing equipment has increased each year since 2020. Going forward, the semiconductor manufacturing equipment market is forecast to grow to around $208.0 billion in 2030, or 1.7 times the value in 2024.

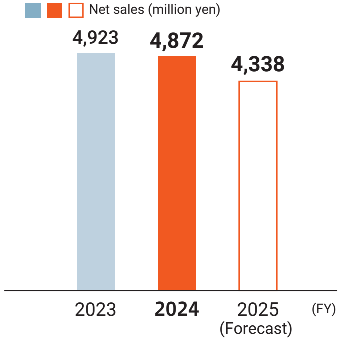
Thermal spraying (TOCALO)

Industrial machinery field

Core services

In the field of industrial machinery, we handle parts surface treatment for a range of customers, including power generation facilities, high-speed shinkansen train bearings, and battery-related parts. We add diverse functions, such as heat and wear resistance, and electrical insulation, providing optimal coatings to resolve issues faced by customers, thereby achieving enhanced durability and function stabilization for parts. Such increased longevity helps to reduce environmental impact and contributes to greater energy efficiency and reduced maintenance costs.

Net sales



Performance outlook

Although the industrial machinery field is seeing favorable performance in bearings, overall results were not as good as last year, falling 1%. In fiscal 2025, we anticipate continued healthy demand in bearings, but due to uncertainty in large-scale energy-related construction, we are forecasting decreased revenue overall. We are exploring needs in the environmental and energy fields with the aim of stepping up our proposal activities.

Topic Growing demand in environmental and energy

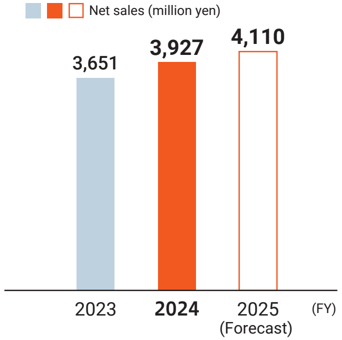
We are seeing favorable performance in Open Rack Vaporizer (ORV), which use seawater to vaporize LNG, power generation equipment for hydroelectric, wind, and other naturally derived energy, secondary battery-related products, and hydrogen-related business, with further growth expected going forward.

Iron and steel field

Core services

Our technology supports equipment for the stable manufacture of high-quality 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.

Net sales



Performance outlook

Although domestic production of crude steel is continuing to decline, the iron and steel field performed strongly in fiscal 2024, achieving increased revenue. In fiscal 2025, we will continue to capture needs to help iron and steel makers to cut maintenance work and reduce 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.

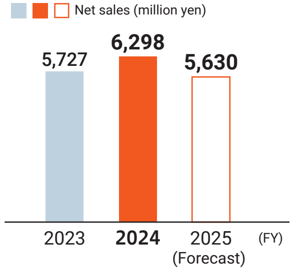
Topic Growing demand for safety countermeasures

Manufacturing equipment parts such as large-scale sink rolls require regular replacement, but this is accompanied by a degree of risk. TOCALO's thermal spray coatings can extend the life of rolls, helping to reduce the frequency of this dangerous procedure. It also contributes to enhanced safety and reduced environmental impact.

Thermal spraying (TOCALO)

Other fields

Net sales



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.

Performance outlook

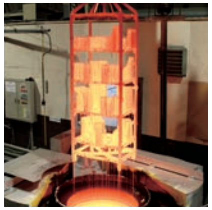
The petrochemical-related business performed well in fiscal 2024, resulting in increased revenue. In fiscal 2025, demand for aircraft engine parts is expected to be strong, but at present, there are no plans for large-scale construction in the petrochemical-related business, and revenue is expected to decline compared with fiscal 2024. Given these circumstances, TOCALO is aiming for a recovery in results, mainly by expanding order-taking in the environmental and energy field.

Topic Proactive engagement in aircraft and defense-related fields

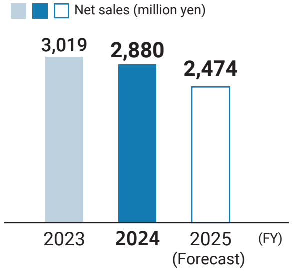
Demand for aircraft will continue to grow. With our proven track-record in the application of surface modification technologies required for enhanced durability, we anticipate that this increased demand will further boost needs for TOCALO going forward. Furthermore, we have launched initiatives aimed at full-scale entry into defense-related business.

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

Performance outlook

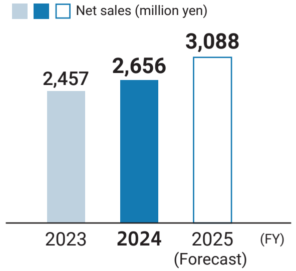
Our fiscal 2024 results saw reduced revenue, due to a decline in orders for agricultural machinery parts, impacted by customer inventory adjustment. Meanwhile, we are making progress in the semiconductor manufacturing equipment and medical fields with ZAC coating processing, and in fiscal 2025, we are expanding areas of application in these fields, in order to achieve a recovery in results.

Topic Construction of Kobe No. 2 Plant completed in May 2025

Kobe No. 2 Plant is working to enhance chemical resistance and prevention of blood adhesion for medical devices. In addition, application of ZAC coating is growing for corrosion prevention and metal contamination countermeasures in gas pipes used in semiconductor manufacturing equipment.

Domestic subsidiaries

Net sales



Core services

We have two Japanese subsidiaries, Japan Coating Center Co., Ltd. and TERADA KOSAKUSHO. Japan Coating Center uses physical vapor deposition (PVD) coating technologies primarily for processing the surface of automobile cutting tools. Meanwhile, TERADA KOSAKUSHO handles processing for precision machinery. Going forward, our intention is to strengthen ties with both companies, to realize synergies in technology and service.

Performance outlook

In fiscal 2024, Japan Coating Center suffered from a downturn in the automobile industry, but with the consolidation of TERADA KOSAKUSHO in August, we enjoyed increased revenue. In fiscal 2025, we expect TERADA KOSAKUSHO to contribute to our annual revenue, along with a recovery in the automobile industry and the pioneering of new markets.

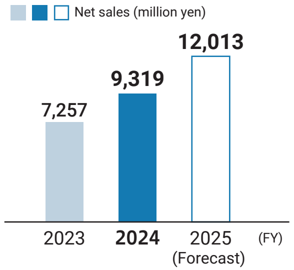
Topic Launch of joint development with Japan Coating Center

Through the amalgamation of TOCALO's thermal spraying technology with Japan Coating Center's PVD technology, we are advancing the development of thin coating technologies. Through these technologies, we aim to develop coatings for semiconductor manufacturing equipment, while expanding the scope of application, looking towards applications in other areas, such as the energy and medical fields.

Other businesses (TOCALO)

Overseas subsidiaries

Net sales



Consolidated overseas subsidiaries

- TOCALO & HAN TAI Co., Ltd.
- TOCALO & HAN TAI (KUNSHAN) Co.,Ltd.
- TOCALO & HAN TAI TW Co., Ltd.
- TOCALO USA, Inc.

Performance outlook

Last fiscal year's growth in demand in the semiconductor industry will continue in fiscal 2025, and therefore net sales at our overseas subsidiaries are forecast to remain strong. We are also aiming for growth in demand for the iron and steel field and the industrial machinery field.

Overseas subsidiary feature

Employee comment

Building trust and aiming for continuous growth, armed with technological prowess

Katsuhiro Ono (on secondment)
TOCALO & HAN TAI Co., Ltd.

Trusting relationships are extremely important in China. In addition to verbal communication, we regularly make visits and exchange information to deepen relationships. Amid the fierce price competition, we approach local businesses courteously, mainly in the new energy and iron and steel-related leveraging our technological prowess and proposal capabilities. Going forward, we will respond flexibly to market changes, deepen our relationships with local companies, and aim for long-term growth.

TOCALO & HAN TAI Co., Ltd.

Company overview

Location:	Guangzhou City, Guangdong Province, People's Republic of China
Capital:	Four million US dollars
Investment ratio:	TOCALO Co., Ltd. 70% Han Tai Technology Co., Ltd. 30%
Established:	April 2005

Core services

In April 2005, we opened our first overseas business site, with the establishment of TOCALO & HAN TAI Co., Ltd. through joint investment with Taiwan's Han Tai Technology Co., Ltd. Since operations began, the company has offered surface treatment technologies, chiefly thermal spray, for manufacturing facilities in various industries, making and repairing parts for production facilities in the iron and steel, petroleum, and pulp and paper industries, and performing on-site thermal spraying repair work at natural gas plants. Going forward, we aim to continue expanding dealings in a range of industries using high quality surface treatment technologies.

Topic 20th anniversary of establishment

This year, we celebrated the 20th anniversary of our establishment. At the time of the company's founding, we developed business focused on surface treatment, mainly for Japanese companies in the iron and steel industry. But in recent years, we have expanded dealings with local companies, and our results are growing steadily. Going forward, we will strive to offer products and services to meet the diverse needs of customers, aiming for further growth.

TOCALO & HAN TAI TW Co., Ltd.

Company overview

Location:	Tainan City, Republic of China (Taiwan)
Capital:	400 million New Taiwan dollars
Investment ratio:	TOCALO Co., Ltd. 50% Han Tai Technology Co., Ltd. 50%
Established:	June 2011

Core services

In June 2011, through joint investment with Han Tai Technology Co., Ltd. we established a business in Tainan City, Taiwan. TOCALO & HAN TAI TW handles thermal spray coating for semiconductor and FPD manufacturing equipment parts. Taiwan's semiconductor device manufacturers are among the world's largest. Through our high precision recoating and maintenance of parts used for a certain period in their equipment, we can extend service life and contribute to cost optimization. Going forward, we aim for further technological innovation and to boost customer satisfaction.

Topic Construction of new plant completed

In August 2025, we held a ceremony to commemorate construction of our new plant. The semiconductor market is forecast to be worth one trillion dollars in 2030. With such growth in demand for semiconductors, demand for semiconductor manufacturing equipment maintenance is also increasing. Through our new plant, we aim to further strengthen our manufacturing structure to respond to the expanding demand for semiconductors.

Offering Good Service that exceeds customer expectations through close cooperation between development, production, and sales

TOCALO's strengths lies in its threefold approach to service, through the close cooperation of its development, production, and sales divisions. We gathered together four directors and executive officers who have outstanding track records in their respective divisions, and asked them for hints on how to further expand the Good Service ethic that has been passed down to us, and how to make it a driving force for growth of the next generation.

What is TOCALO's Good Service?

Hamaguchi In the sales division, we pursue "diversity service." We have customers in a variety of fields and industries, including semiconductors, iron and steel, and industrial equipment, and our overseas client base is expanding, diversity is therefore needed to ensure our response capability. I believe that, for employees of the sales division, Good Service means seriously confronting the various issues faced by customers, and spreading the joy of exercising proposal capabilities we have fostered to resolve them.

Teratani At the front-line of technological R&D, there is a tendency for us to pursue themes that we are interested in. This is precisely why we must pay attention to customer opinion, shared via the sales division, and sometimes accompany them on visits, to fully understand the issues. Furthermore, I believe that deliberating and resolving issues together with the manufacturing division leads to Good Service that in fact surpasses customer expectations.

Takabatake In the production division, we customize coating characteristics to the customer, even with the same materials, by becoming accustomed to a myriad of processing conditions. This is one of TOCALO's great strengths. The R&D division is

able to think of such techniques precisely because the sales division grasps the information required for customization. A threefold approach is required for service to be appreciated as “Good Service”.
Suidzu At our plants, the development, production, and sales divisions combine their strengths in customization to provide customers with products treated through the required processing at the optimal quality, cost, and delivery schedule to lift the revenue of customers and our company. Effectively, I believe that, for our plants, Good Service means to continue as a production site for building relationships of trust with our customers.

What is required to realize Good Service?

Teratani There are cases where it is difficult to communicate the customer’s intention with the R&D and production front-line. When the R&D division senses this, I like to send someone along with the sales team to ask the customer directly, strengthening our collaboration to speed up development.
Hamaguchi When we receive requests for surface treatment for new items in particular, in many cases, the customer’s usage environment is harsh, which sets the engineering bar high for us. In such situations, the sales, development, and production divisions first come together to determine the optimal conditions for handling the coating work. In one case, we produced 49 types of coating before developing one that pleased the customer, through trial and error. For this reason, I believe that one of TOCALO’s strengths is that we always come up with a solution. Many times, customers have said to us that they never thought they would get so much use out of their equipment, which is something we can boast about. (laughs)
Suidzu The sales division is the point of contact for customers, but our R&D and production divisions are also very mobile, and very often someone will accompany the sales division to hold direct briefings between our engineers and the customer. I am now a plant manager, but previously, I was research laboratory manager, and Mr. Hamaguchi from sales is also renowned for his technical knowledge. All four of us have overseen sales, technology, production, and quality management divisions as plant managers, therefore we all have experience in realizing TOCALO’s threefold approach to service. Even if our current positions are different, all of us are very familiar with the way in which sales collaborates with production based on the comprehensive judgment of the R&D division. We speak of a threefold approach, but actually, in reality, TOCALO’s service is fourfold, in that we collaborate with the customer to tackle surface modification processing. When I worked at the research laboratory, sometimes representatives of customers’ laboratories worked together with our lab members to resolve issues. Sales often takes the initiative in coating selection while discussing the thermal spray and application procedure with the production division.

Takabatake On one occasion while I worked at the research lab, a coating product that one plant was working on simply wouldn’t produce the expected functionality. Because there were no issues with the sales division or the manufacturing process, research lab members visited the site to measure the temperature and other conditions, whereby they realized that it was being used in an environment that had not been anticipated when making the thermal spray coating. It was not possible to change the coating material or usage environment due to the coating functionality, therefore a team with members from the research lab and the plant undertook development, including reconsideration of the raw materials. It took about six months, but after in-house review we proposed our solution to the customer. It resulted in speeding up and improving the quality of the customer’s production line. This was a case of achieving customer satisfaction through close collaboration between development, production, and sales.

What is required to open up new markets?

Hamaguchi The sales division’s mission is to do our utmost to monitor customer and in-house developments to gather information, and closely watch market trends, so as not to miss any opportunities, to make the best proposals to customers at the optimal timing. We constantly research our customers so that we know the customer better than they know themselves. I believe this behavior becomes the driving force in opening up potential needs. We are currently engaging in DX marketing, and I would like us to incorporate generative AI in order to open up new markets.
Teratani Going forward, we will continue to pursue and propose high quality technology and results in our thermal spraying technologies for surface modification processing. But I believe it is important to also keep an eye on surrounding fields, and attempt

different surface modification processes to match customer needs. In order to not miss the necessary timing, we do not limit contact with the customer's department that sends us orders, but are also advancing several joint development projects with departments engaged in R&D for the next generation and beyond. The fact that we receive such invitations is thanks to their trust in TOCALO and our technological capabilities to rise to the task. In particular, I believe we are in a position to know the right timing for the technological reform that the semiconductor industry aims for in the future.

Takabatake It is the R&D and production divisions who must consider how we can respond to new needs, such as with strength or special characteristics that have not been required before. One challenge we face is nurturing people to think about the manufacturing method, because we can't prepare equipment and machinery until that is decided. To achieve this, we must create an environment where people can tackle challenges without fear of failure. However, in the production division, there is strong resentment of failure, and people tend to prioritize the safest choice. When approached by sales about a difficult project, there is actually a culture of refusing it if they lack confidence. For this reason, going forward, I hope they can gain motivation and a positive outlook to face potential failure while hoping for success.

Suidzu When we speak of an environment where there is no fear of failure, actually, the four of us are of a generation where our

careers spanned an era when failure was allowed. When I was young, I had many experiences where dealing with a flaw was the start of the next development. In fact, I felt great fulfillment in dealing with the flaws. But more importantly than whether failure is allowed or not, I believe that how you use failure as an ingredient in your cooking is a chance to show your skills.

What are the strengths that make customers choose TOCALO?

Hamaguchi The expertise of TOCALO's employees and the diversity of its production sites, along with the abundance of types and variations of coatings we can make with thermal spray are aspects that are highly regarded by our customers. It may seem that we are handling the same kind of work at all of our Japanese plants, but in fact each plant has its own unique technologies. Our highly individual plants and employees function as a composite body, whereby we are able to respond to needs as they change with the times, and offer a wide range of products and services. I believe that this is TOCALO's strength.

Takabatake Even for customers who require surface modification processing, in most cases, they aren't able to express the characteristics of the coating they require in numbers. Even when the solution is not clear, I hope that, when customers wonder if any company could solve the problem, they think of TOCALO first. Even for cases outside our area of expertise, or where the sales division rep feels it's a difficult project, the R&D and production divisions try various options, never giving up hope, and are able to customize a solution that will conform as close as possible to the customer's needs. Even if it isn't 100%, I want us to always be the company that will respond to the customers' requirements.

Teratani Customers often tell me that they consider TOCALO's strength to be that we will listen to any kind of request. Of course, this doesn't mean we necessarily do whatever we are asked. I believe that TOCALO's strength is that we never say "no," never say "can't," and strive without quitting. The R&D division receives many requests for work based on the customer's design specifications. Sometimes when we look over it, we can find points for improvement that the customer hasn't noticed, and are able to propose something even better. Such cases are not just a flash of inspiration—the proposals are convincing because they are underpinned technologically. These efforts benefit our customers and the R&D division, and the next time the customer considers something new, they might consider discussing it with us.

Suidzu Currently, our Tokyo and Kitakyushu plants are constructing new plants for semiconductor-related work. For the Tokyo Plant, the construction cost excluding equipment is around ¥6.7 billion, while we will invest around ¥3.2 billion for the Kitakyushu Plant construction work. There is no other company, at least in Japan, who's main line of business is surface modification processing that can undertake such massive capital investment. In the semiconductor and FPD field, going forward, there will continue to be demand for new products and technologies, and now, TOCALO is upscaling so that its facilities and employees will be able to sufficiently meet customer needs. Also, we are not only augmenting our facilities, we have obtained the occupational safety and health management JIS Q 45100 certification at all our plants and offices in Japan, creating an organization aware of not only the environment but also of safety, and I

would like us to continue evolving into a company worthy of our listing on the Prime Market of the Tokyo Stock Exchange.

What hopes do you paint for the future, and what do you want to convey to the younger generation?

Hamaguchi TOCALO has grown together with its customers. Going forward, I want us to remain conscious of this. I truly hope that the younger generation will experience learning from the customer. You can grow by learning from the customer, work becomes more pleasurable, and you become better able to tackle things constructively. The manufacturing industry is very broad, and is sure to evolve further. There are still fields that TOCALO is unable to open up, and new technologies will continue to emerge, and this too will give us opportunities to create a brighter future.

Takabatake There is an expression in Japanese "You become skilled when you like something," but in the production division front-line, even when you think of a good method, there is a tendency to focus on the negatives from the perspective of hazard prediction. But repeating this process helps you to gain knowledge. There are many possible techniques for surface modification processing, and a lot of freedom to choose, but first, I want the younger generation to grow to love engineering. I believe that the company will move in a positive direction when more of them learn how to work in a way that makes the people around them happy and therefore makes them happy.

Teratani At the front-line of TOCALO, we value the pluses rather than the minuses. That is, we have a culture where, even if we make a mistake, it's fine if we learn from that. When someone finds something they want to do, I want them to tackle it autonomously and proactively. Furthermore, because TOCALO's business is expanding to a wide range of fields and industries, even with technologies that are unrelated now, they might fit perfectly to a customer's needs in the future. It is an industry where people don't continue if they don't like it, so to begin, I want everyone to decide what they want to do. I often tell new recruits "Turn your knowledge into wisdom." Knowledge is the accumulation of what people before us have done, so if you have acquired that properly, you should be able to apply it to the next step and the next development, without flashes of inspiration.

Suidzu Our 2025 behavioral goal at the Tokyo Plant is "Imagine your ideal." In 2024, it was "Think one step ahead," so now I want everyone to imagine the ideal that is the next step ahead. I believe that each individual having a firm picture in their mind of their ideal image and the company's ideal image leads to Good Service for the company and the customer. Maybe a better slogan for us would be "Deeply moving service." (laughs/note: Japanese play on words) Both in-house and towards the customer, we should be conscious of providing service that resonates in the other person's heart. Perhaps this will become our code of behavior.

Tatsuo Suidzu (born March 13, 1964)

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

Takema Teratani (born June 19, 1968)

April 1994	Joined TOCALO Co., Ltd.
April 2014	General Manager, Kobe Plant
September 2018	General Manager, Engineering Division, Tokyo Plant
April 2020	General Manager, Tokyo Plant Gyoda Workshop
April 2023	Deputy General Manager, Tokyo Plant
April 2024	General Manager, Thermal Spraying Technology R&D Laboratories
June 2024	Executive Officer; General Manager, Thermal Spraying Technology R&D Laboratories (current)

Takeshi Takabatake (born May 24, 1969)

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

Tatsuya Hamaguchi (born December 25, 1970)

May 1993	Joined TOCALO Co., Ltd.
April 2015	Manager, Tokyo Plant Miyagi Technical Service Center
April 2020	General Manager, Tokyo Plant Suzumi Workshop
April 2022	General Manager, Kitakyushu Plant
June 2023	Executive Officer; General Manager, Kitakyushu Plant of the Company
April 2025	Executive Officer; Vice President, Sales Headquarters (current)