

Corporate Governance Report

Last Update: March 28, 2024

TOCALO Co., Ltd.

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<https://www.tocalo.co.jp>

The corporate governance of TOCALO Co., Ltd. (the “Company”) is described below.

I. Basic Views on Corporate Governance and Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The Company recognizes that effective corporate governance is one of the most important management issues.

Based on the recognition that “a company is a member and public entity of society,” our basic stance on corporate governance is to ensure management transparency and to further strengthen the trust placed in us by all of our stakeholders, those being our shareholders, business partners, employees and local communities. Alongside that, we aim to increase corporate value and achieve sustainable and sound growth of the Group as a whole, and thereby contribute to society through our surface treatment processing business.

[Disclosure Based on the Principles of the Corporate Governance Code]

[Principle 1-4 Strategically held shares]

1. Policy on strategically held shares

The Company did not retain any at the end of March 2023. As a general rule, we will not retain any strategically held shares in the future.

2. Criteria for exercising voting rights

Strategically held shares serve to continuously improve the value of the Company through the associated voting rights. Voting rights would be exercised, for example, in cases where shareholder value is significantly damaged or a serious non-compliance is found. Any decisions whether or not to approve proposals will be made only after collecting sufficient information.

[Principle 1-7 Transactions with related parties]

Based on the Rules of the Board of Directors, the Company regards matters such as competitive transactions, conflict-of-interest transactions, and the acquisition/disposal of large amounts of equipment/property by directors, as important management issues that should be presented to the Board of Directors, in a timely manner. These matters are deliberated in the interest of the Company and its shareholders as a whole and are treated in the same way even if our business partners are major shareholders, etc.

[Principle 2-4-1 Ensuring diversity in the appointment of core human resources, etc.]

With “developing diverse human resources to play an active role” set as a priority issue (materiality) for achieving sustainable growth, the hiring practices of the Company emphasize an individual’s abilities and achievements, regardless of gender or nationality, while also respecting different perspectives and values. The Company focuses on human capital development and improvement of the internal environment so that employees can work vibrantly by exerting their personalities and abilities.

With regard to human capital development, the Company has taken measures that:

1. Improve proposal-type sales skills in order to provide optimal solutions.
2. Nurture originality and ingenuity in manufacturing and solidify a firm base for it (human resource development).
3. Provide skills in exploring quality control methods.
4. Foster a corporate culture in which employees can work on technological development with a flexible mindset.
5. Provide digital skills training and identify DX human resources.
6. Encourage a higher perspective and foster strategic thinking through the global challenge program (development of core human resources).

For internal environment improvement, the Company has taken measures that:

1. Foster a psychologically safe corporate culture.
2. Maintain and improve a work environment that is comfortable, healthy and safe.
3. Provide fair growth opportunities through performance-based evaluations.
4. Support employees in their efforts to balance work and childcare/nursing care responsibilities.
5. Create a workplace environment that enables employees to choose flexible workstyles and work healthily.
6. Provide learning opportunities and establish an award program.

For details, KPIs, and target values of the measures, please refer to our website (<https://www.tocalo.co.jp/sustainability/employee/>).

[Principle 2-6 Fulfilling responsibilities as owner of corporate pension assets]

Regarding the management of corporate pension reserve funds, the Company issues management guidelines that set forth target investment yield, basic portfolio content and divergence tolerance for achieving targets to the asset management institution. Then, we monitor how those funds are managed through reports on the management status, stewardship activities, etc. provided periodically by the asset management institution. The Secretariat for Corporate Pension comprises members with appropriate qualifications selected and assigned from the human resources, finance, accounting, and other departments.

[Principle 3-1 Enhancement of information disclosure]

1. Our goals (Corporate Philosophy, Management Policy, Management Indices)

For our corporate philosophy and management policy, please visit our website.

(<https://www.tocalo.co.jp/ir/management/policy/>)

As for management indices, the following items are set as goals in our medium-term management plan.

<Maintaining a strong financial position>

- Maintaining equity ratio of approx. 70% (remaining a real debt-free company)

<Maintaining profitability>

- Maintaining ROE (return on equity) (Target: 15%)
- Maintaining ordinary income ratio (Target: 20%)
- Maintaining and improving EPS (earnings per share)

<Payout ratio>

- Stable dividend payment of a targeted one-third of net income or higher
- Maintaining DOE (dividend on equity ratio) (Target: 5%)

<Capital investment>

- Continued investment in maintaining and improving technological advantages totaling 25.0 to 35.0 billion yen (5 to 7 billion yen per year)
- Investments in semiconductor production increases, new technological processes, production efficiency improvements, etc.

<Research and development expenses + Technological development expenses>

- Research and development expenses: Maintaining approx. 3% of consolidated net sales
- Technological development expenses: Continued investments by production engineering divisions of each plant

2. Basic views on corporate governance

Our basic views on corporate governance are elucidated in I-1 Basic Views of this Report.

3. Determination of remuneration for senior management and directors

How remuneration for senior management and directors is determined is described in II-1 Organizational Composition and Operation [Director Remuneration] of this Report.

4. Appointment and dismissal of senior management and nomination of candidates for directors and Audit & Supervisory Board members

As an advisory body for the Board of Directors, the Company has established a Nomination and Remuneration Advisory Committee, with a majority of the members being independent outside directors and chaired by an independent outside director. The Committee deliberates proposals on the appointment/dismissal of director candidates and gives advice and recommendations to the Board of Directors. Director candidates, who as directors are expected to have broad experience and deep insight that they can utilize to manage the Company, are selected by the Board of Directors based on the advice and recommendations of the Nomination and Remuneration Advisory Committee. The Board submits the selected candidates to the General Shareholder Meeting for approval in the form of a resolution. Audit & Supervisory Board member candidates must have expertise and knowledge in auditing. They are selected by the Board of Directors after their qualifications have been deliberated and agreed to by the Audit & Supervisory Board, more than a half of which is comprised of Outside Audit & Supervisory Board members. The Board submits the selected candidates to the General Shareholder Meeting for approval in the form of a resolution. Regarding the dismissal of directors and Audit & Supervisory Board members, if a director/Audit & Supervisory Board member has committed fraud or seriously violated laws, regulations or the articles of incorporation in the course of executing his/her duties, or if no longer meets requirements, a resolution that clarifies the reason for dismissal is made by the Board of Directors and submitted to the General Shareholder Meeting for approval.

5. Explanation of individual appointments, dismissals and nominations

The reasons for the appointment of individual outside directors and outside Audit & Supervisory Board members are described in II-1 Organizational Composition and Operation [Directors] and [Audit & Supervisory Board members] of this Report. With regards to appointments, the background of each candidate and the reasons for appointment are described in the Convocation Notice of the General Shareholder Meeting. When a dismissal takes place, it will be disclosed as appropriate according to its importance.

[Principle 3-1-3 Initiatives on sustainability-related challenges]

The Company holds quarterly Sustainability Committee meetings chaired by the President to discuss various sustainability issues such as greenhouse gas emission reduction, formulate policies, plans, and initiatives, check the progress of initiatives, and other matters. It also strives to appropriately disclose information through the corporate website.

Regarding investment in human capital, based on its human capital development policy, the Company proactively invests in developing human resources to be the best partner to customers. In fiscal 2022, non-consolidated training expenses amounted to 59 million yen (63.2 thousand yen per employee).

As for investment in intellectual property, it is the Company's policy to maintain spending on research and development and technological development at around 5% of consolidated net sales, aiming to create many

new technologies and know-how through advanced and customized coatings. In fiscal 2022, these expenses amounted to 2,252 million yen (4.7%).

In addition, with the vision of “contributing to a bright future for people and nature,” the Company has positioned tackling climate change as an important management issue, and is advancing initiatives based on TCFD recommendations and constructively disclosing information in the four core areas of “governance,” “strategy,” “risk management,” and “metrics and targets.” In 2023, the Company took analysis farther and estimated the financial impact of risks and opportunities in each area, and based on the results, set indices and goals for measures deemed particularly important. Going forward, the Company will further refine analyses and proceed with measures to mitigate risks and increase opportunities based on the set indices and goals. For details, please visit our website. (<https://www.tocalo.co.jp/sustainability/tcfid/>)

[Supplementary Principle 4-1-1 Scope of delegation to senior management]

The Board of Directors is operated based on the important matters stipulated in the Rules of the Board of Directors. Based on the management strategies, plans, policies, etc. approved by the Board of Directors, decisions concerning business execution are delegated to the senior management in charge of business execution.

[Principle 4-9 Judgement criteria for independency of independent outside directors and their qualifications]

The criteria used to judge the independency of independent outside directors and their qualifications are described in II-1 Organizational Composition and Operation of this Report.

[Supplementary Principle 4-10-1 Authority, role, etc. of the Nomination and Remuneration Advisory Committee]

As an advisory body for the Board of Directors, the Company has established a Nomination and Remuneration Advisory Committee, with a majority (four out of seven) of the members being independent outside directors and chaired by an independent outside director. The Committee deliberates the appointment of director candidates (including successor plans), remuneration for directors, and other matters, and gives advice and recommendations to the Board of Directors based on which Board resolutions are made.

At the Company, there are two male and two female independent outside directors who have a broad range of specialized skills in corporate management and management strategies, manufacturing and technologies, legal affairs, finance and accounting, internationalism and diversity, and environmental and social issues, and they provide recommendations based on their expertise.

[Supplementary Principle 4-11-1 Policy for ensuring diversity in the Board of Directors, etc.]

When appointing members to the Board of Directors, our first priority will be to seek persons who have demonstrated leadership in business execution as a department head and have the knowledge and insight to

oversee our business from multiple perspectives. The candidates are then selected through deliberation by the Board of Directors, after fully considering their management skills, aptitude and contributions made to the company, and ensuring balance and diversity among our human resources. As for the experience and expertise expected of each candidate, a skills matrix is presented in the Convocation Notice of the General Shareholder Meeting and the Securities Report for the fiscal year ending in March 2023.

[Supplementary Principle 4-11-2 Status of concurrent position of directors and Audit & Supervisory Board members]

If directors and Audit & Supervisory Board members, including outside directors and outside Audit & Supervisory Board members, also serve as officers of other companies, the Board of Directors confirms the details thereof and ensures that said dual service does not pose any problems for the business of the Company. The status of any concurrent positions held by officers as of the date of account closing is described in the “Business Report” of the Convocation Notice of the General Shareholder Meeting, and that of any candidates to be appointed as new officers, in the “Reference Material for the General Shareholder Meeting”.

[Supplementary Principle 4-11-3 Evaluation of the effectiveness of the Board of Directors]

At the Company, all directors and all Audit & Supervisory Board members evaluate the effectiveness of the Board of Directors based on questionnaires prepared by the Secretariat for the Board of Directors. In fiscal 2022, the Board of Directors was evaluated as being generally appropriate in terms of composition, operation, agenda and other relevant matters. The results were reported to all directors and all Audit & Supervisory Board members. Efforts are being made to further enhance the effectiveness of the Board of Directors.

[Supplementary Principle 4-14-2 Policy on training for directors and Audit & Supervisory Board members]

Directors of the Company acquire knowledge of roles, responsibilities, laws and regulations by actively participating in external courses and seminars for self-improvement. Our full-time Audit & Supervisory Board members, as members of the Japan Corporate Auditors Association, enhance their knowledge by attending seminars and so on, and share information with other Audit & Supervisory Board members.

[Principle 5-1 Policy on constructive dialogue with shareholders]

Company management or personnel in charge of IR hold financial results briefings and small meetings for institutional investors every time we announce our quarterly financial results, and hold briefings for individual investors as well. We also accept requests for individual interviews. By posting IR-related information and an inquiry form on our website, we provide a platform where general shareholders can obtain information and ask us questions.

【Response Toward Achieving Management Conscious of Cost of Capital and Stock Price】 【Available in English】

The company have analyzed our current cost of capital and return on capital and formulated a policy for improvement. For details, please refer to our website.

(Japanese) URL: <https://ssl4.eir-parts.net/doc/3433/tdnet/2412684/00.pdf>

(English) URL: https://ssl4.eir-parts.net/doc/3433/ir_material11/226458/00.pdf

2. Capital Structure

Foreign Shareholding Ratio	More than 30%
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[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd.	10,048,700	16.51
Custody Bank of Japan, Ltd.	6,722,800	11.05
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	2,943,869	4.84
TOCALO Employees Shareholding Association	2,719,204	4.47
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	2,075,791	3.41
GOVERNMENT OF NORWAY	1,544,690	2.54
NORTHERN TRUST CO. (AVFC) RE THE HIGHCLERE INTERNATIONAL INVESTORS SMALLER COMPANIES FUND	1,295,600	2.13
Kumiko Saijo	1,036,400	1.70
STATE STREET BANK WEST CLIENT - TREATY 505234	897,800	1.48
KIA FUND F149	858,400	1.41

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

Supplementary Explanation

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3. Corporate Attributes

Listed Stock Market and Market Section	TSE Prime Market
Fiscal Year-End	March
Type of Business	Metal Products
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥10 billion to less than ¥100 billion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	Less than 10

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

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II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of Incorporation	2 years
Chairperson of the Board	President
Number of Directors	9
Appointment of Outside Directors	Appointed
Number of Outside Directors	4
Number of Independent Directors Designated from among Outside Directors	4

Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Toshimitsu Kamakura	Lawyer											
Keiko Takihara	Other											
Yoko Sato	CPA											
Kazuyuki Tomita	From another company											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/Audit & Supervisory Board member

g. Major shareholder of the Company (or an executive of the said major shareholder if the said shareholder is a juridical person)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company at which an executive of the Company holds concurrent position as an outside officer (the officer him/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Toshimitsu Kamakura	○	—	Toshimitsu Kamakura has a high degree of expertise and deep insight as a lawyer. He also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer.

Keiko Takihara	○	—	Keiko Takihara has considerable insight related to health enhancement as a specially appointed professor of the health and counseling center of a university. She also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, she has been designated an independent officer.
Yoko Sato	○	—	As a certified public accountant, Yoko Sato has expertise in finance and accounting. She also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, she has been designated an independent officer.
Kazuyuki Tomita	○	—	Kazuyuki Tomita has experience in developing thin coatings, semiconductor processes, etc., which was gained by working for a major manufacturing company, and has deep insight as a manager of a subsidiary of the said company. He also has no interests in the Company and is judged to be an outside director who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Status of Establishment of Voluntary Committee, Composition, and Attributes of Chairperson

Committee's Name	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
	Nomination and Remuneration Advisory Committee	Nomination and Remuneration Advisory Committee
All Committee Members	7	7
Full-time Members	0	0
Inside Directors	3	3
Outside Directors	4	4
Outside Experts	0	0
Other	0	0
Chairperson	Outside Director	Outside Director

Supplementary Explanation

For the purpose of ensuring the transparency and objectivity of procedures related to the nomination and remuneration of directors, the Company has set up a Nomination and Remuneration Advisory Committee with an independent outside director as its chair and independent outside directors accounting for the majority of its members.

The Committee deliberates the following matters at the request of the Board of Directors, and provides advice and recommendations to the Board of Directors.

- (1) Proposals submitted to the General Shareholder Meeting regarding the appointment and dismissal of directors
- (2) Appointments and dismissals of representative directors and their successor plans
- (3) Policy on determining details of remuneration for directors
- (4) Details of remuneration for individual directors
- (5) Reviews of remuneration in the event of a scandal, etc.
- (6) Establishment, revision, and abolition of basic policies, rules, procedures, etc. necessary to resolve the preceding items
- (7) Other matters stipulated by the Nomination and Remuneration Advisory Committee regarding each of the preceding items

[Audit & Supervisory Board Member]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Members	4

Cooperation among Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Department

Audit & Supervisory Board members meet regularly with the accounting auditors to receive detailed explanations of audit plans, audit results, etc. from the accounting auditors, and actively exchange opinions and information on their own views. Additionally, Audit & Supervisory Board members are present for onsite audits to hear comments made by the accounting auditors and otherwise hold meetings with the accounting auditors.

In order to achieve the purpose of the auditing role of Audit & Supervisory Board members, Audit & Supervisory Board members regularly review reports on the results of internal audits, etc. from the Auditing Division and exchange opinions and information with them. Moreover, Audit & Supervisory Board members may request the Auditing Division to conduct investigations as necessary, and use the results as a reference for their audits.

Appointment of Outside Audit & Supervisory Board Member	Appointed
Number of Outside Audit & Supervisory Board Members	2
Number of Independent Directors Designated from among Outside Audit & Supervisory Board Members	2

Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Toshihiko Yoshida	From another company													
Takuya Nakata	Tax Accountant													

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Non-executive director or executive of a parent company of the Company

d. Audit & Supervisory Board member of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board member

i. Major shareholder of the Company (or an executive of the said major shareholder if the said shareholder is a juridical person)

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board member himself/herself only)

- k. Executive of a company at which an executive of the Company holds concurrent position as an outside officer (the officer him/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board member himself/herself only)
- m. Others

Relationship with the Company (2)

Name	Independent Director	Supplementary Explanation of Relevant Items	Reasons of Appointment
Toshihiko Yoshida	○	—	Toshihiko Yoshida has expertise and knowledge cultivated during his service as a full-time auditor of a publicly listed company. He also has no interests in the Company and is judged to be an outside Audit & Supervisory Board member who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer.
Takuya Nakata	○	—	As a tax accountant, Takuya Nakata has expertise in finance and accounting. He also has no interests in the Company and is judged to be an outside Audit & Supervisory Board member who is unlikely to have a conflict of interest with general shareholders. Therefore, he has been designated an independent officer.

[Independent Directors]

Number of Independent Directors	6
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Matters relating to Independent Directors

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[Incentives]

Implementation of Measures to Provide Incentives to Directors	Performance-linked Remuneration
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Supplementary Explanation

The Company pays performance-linked remuneration, comprised of cash remuneration and stock-based portion of remuneration linked to target performance indicators, as an incentive, with the expectation that it will sustainably increase corporate value and further promote shared value with shareholders. More specifically, the performance-linked remuneration is calculated by applying a multiplier obtained from the average of the Group's ordinary income, ordinary income ratio, ROE, and ROA (ordinary income basis) over the last three years to a base remuneration.

Additionally, target performance indicators and their values are reviewed as necessary in response to changes in the environment so that they are consistent with management plans, and are determined by the Board of Directors based on the advice and recommendations of the Nomination and Remuneration Advisory Committee.

The performance-linked cash remuneration is paid evenly every month. As for the stock-based portion of the performance-linked remuneration, the Company grants restricted stocks with a transfer restricted period of 30 years once at some point every year. The restriction on transfer is lifted when any one of the eligible officers or employees of the Company or its subsidiaries retires from his/her post specified by the Board of Directors of the Company.

Recipients of Stock Options

Supplementary Explanation

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[Director Remuneration]

Disclosure of Remuneration for Individual Directors	No Individual Disclosure
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Supplementary Explanation

There is no single director whose total amount of consolidated remuneration, etc. is 100 million yen or more, therefore individual remuneration is not listed.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Company's policy on determining the details of remuneration for individual directors is established by a resolution of the Board of Directors based on advice and recommendations of the Nomination and Remuneration Advisory Committee, after preliminary deliberation by the Committee.

The details of the policy on determining remuneration for individual directors are as follows.

1. Basic policy

To serve as an appropriate incentive for increasing corporate value, the directors' remuneration system shall take into consideration the duties and responsibilities of individual directors, including whether full or part-time, performance of the Company, and other factors. More specifically, remuneration for directors who are not outside directors or part-time directors consists of a base remuneration, which is a fixed remuneration, and cash remuneration and stock-based portion of remuneration as performance-linked remuneration. For outside directors and part-time directors, who primarily take on a supervisory role, only base remuneration shall be paid based on their duties.

2. Policy on determining amounts of base remuneration for individual directors

Base remuneration, or cash remuneration paid monthly, is determined based on duties, responsibilities, and years of service of each director.

3. Policy on determining details and amounts, and calculating methods of the number of shares for performance-linked remuneration and non-monetary remuneration granted

The Company pays performance-linked remuneration, comprised of cash remuneration and stock-based portion of remuneration linked to target performance indicators with the expectation that it will further promote shared value with shareholders. More specifically, the performance-linked remuneration is calculated by applying a multiplier obtained from the average of the Group's ordinary income, ordinary income ratio, ROE, and ROA (ordinary income basis) over the last three years to the base remuneration. The reasons for having selected these performance indicators are that they are optimal indicators for measuring contribution to the increase in our corporate value and are objectively clear.

Additionally, target performance indicators and their values are to be reviewed as necessary in response to changes in the environment so that they are consistent with management plans, and determined by the Board of Directors based on the advice and recommendations of the Nomination and Remuneration Advisory Committee.

Performance-linked cash remuneration is paid evenly every month. As for the stock-based portion of performance-linked remuneration, the Company grants restricted stocks with a transfer restricted period of 30 years once at some point every year. The restriction on transfer is lifted when any one of the eligible officers or employees of the Company or its subsidiaries retires from his/her post specified by the Board of Directors of the Company.

4. Payment ratio of base remuneration, performance-linked remuneration, and non-monetary remuneration, etc. for individual directors

The payment ratio of base remuneration, performance-linked remuneration, and stock-based portion of remuneration for directors who are not outside directors and part-time directors, when the average of the Group's ordinary income, ordinary income ratio, ROE, and ROA (ordinary income basis) over the last three years are achieved, shall be roughly set to 7:2:1, and shall be determined by the Board of Directors based on the advice and recommendations of the Nomination and Remuneration Advisory Committee.

5. Matters regarding determination of the details of remuneration for individual directors

Specific amounts of remuneration or the number of shares granted for individual directors are drafted based on the calculation method specified by the Board of Directors, and deliberated in advance by the Nomination and Remuneration Advisory Committee, which is chaired by an independent outside director with the majority of the members being independent outside directors. Based on advice and recommendations of the Committee, President and Representative Director determine remuneration for individuals within the scope of power set by a resolution of the Board of Directors.

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

The HR & General Affairs Division, which serves as the Secretariat for the Board of Directors, provides support to outside directors. For outside Audit & Supervisory Board members, the Auditing Division provides necessary support for their audits and serves as the Secretariat for the Audit & Supervisory Board.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

1. Overview of business execution, audits and oversight

TOCALO is a corporation with an Audit & Supervisory Board and has appointed outside officers. We believe that our audit system involving outside Audit & Supervisory Board members is an effective function for monitoring management and that the current system is appropriate under the current circumstances of the Company. We ask our outside directors for advice to ensure and improve legal compliance and transparency of our corporate management practices and actions.

(1) About business execution

The Board of Directors of the Company consists of 9 directors and 4 of whom are outside directors. In addition to the Board meeting at least once a month, the Board holds a business policy meeting with the same members to deliberate and discuss important management issues. Moreover, all directors except outside directors attend important internal meetings to give instructions and exchange opinions on business execution.

(2) Methods of auditing and oversight

(a) Internal audits

The Company has set up the Auditing Division under the direct control of President as Internal Audit Department. Based on the internal audit plan, the Auditing Division conducts internal audits of each organization year-round, in principle, and regularly reports results and findings to President to promote improvements. Internal audits of our subsidiaries are carried out in collaboration with the Corporate Planning Division and Overseas Business Department of the Company and the Internal Audit Department of the subsidiary.

(b) Audits conducted by Audit & Supervisory Board Members

The Audit & Supervisory Board of the Company consists of four Audit & Supervisory Board members (including two outside Audit & Supervisory Board members). The policy, plan, method and work assignments of audits conducted by Audit & Supervisory Board Members are determined after consultation with the Audit & Supervisory Board. All Audit & Supervisory Board members attend the regular Board meetings and business policy meetings of the Company, and full-time Audit & Supervisory Board members attend other important internal meetings whenever held. Regarding the performance of our subsidiaries, the Audit & Supervisory Board of the Company receives a monthly report in writing from subsidiaries and holds a "Group Audit & Supervisory Board Member Liaison Council" meeting every three months, at which Audit & Supervisory Board members of the subsidiaries report on their quarterly performance, audit results, etc. In this way, we are actively exchanging information.

(c) Accounting audits

For the fiscal year ended March 31, 2023, the accounting audit work of the Company was executed by two certified public accountants, Mr. Yukihiro Matsunaga and Mr. Teruaki Arioka of PricewaterhouseCoopers Kyoto, with the assistance of two certified public accountants and about 11 others (who have passed the certified accountant examination, etc.).

Mr. Yukihiro Matsunaga has been providing accounting services to the Company for seven continuous years and Mr. Teruaki Arioka for two years.

2. Strengthening business execution, auditing and oversight

(1) Thorough enforcement of compliance and risk management

We have set up a Compliance Committee to build and manage a cross-sectional compliance system that includes all Group companies. The Compliance Committee discusses important compliance issues and reports the results to the Board of Directors. Furthermore, the Compliance Committee monitors the status of cross-organizational risk management and examines company-wide measures. In order to promote compliance awareness amongst officers, we have adopted a system in which a “Confirmation of Director’s Business Execution” and a “Confirmation of Business Execution of Audit & Supervisory Board Members” are submitted to the Audit & Supervisory Board at the end of each fiscal year.

(2) Proactive information disclosure

Recognizing that it is extremely important to disclose information in a timely and appropriate manner to all stakeholders, including shareholders and investors, we are striving to enhance management transparency through extensive information disclosure.

3. Reasons for Adoption of Current Corporate Governance System

TOCALO is a corporation with Audit & Supervisory Board and has appointed outside officers. We believe that an audit system involving outside officers is an effective function for monitoring management and that the current system is optimal for the current situation the Company is in.

Additionally, based on the recognition that “a company is a member and public entity of society,” we believe that the foundation of corporate governance is to ensure management transparency and to further strengthen the trust placed in us by all of our stakeholders, shareholders, business partners, employees and local communities. Alongside that, we aim to increase corporate value and achieve sustainable and sound growth of the Group as a whole, and thereby contribute to society through our surface treatment processing business and it is amongst the most important management issues. In order to address these issues, we recognize that it is desirable for us to further enhance our corporate governance system.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Convocation Notice of the 72 nd Ordinary General Shareholder Meeting (held on June 23, 2023) was sent out on June 1.
Scheduling AGMs Avoiding the Peak Days	We try to hold general shareholder meetings early in the reporting season to avoid the peak days in the business community.
Allowing Electronic Exercise of Voting Rights	Electronic voting over the internet has been an effective means for exercising voting rights.
Participation in the Electronic Voting Platform and Other Initiatives to Improve the Voting Rights Exercise Environment for Institutional Investors	Voting rights can be exercised using the electronic voting platform for institutional investors operated by ICJ Co., Ltd.
Providing Convocation Notice (Summary) in English	It has been posted on our website.
Other	We invite questions via the Internet prior to each general meeting of shareholders. Answers to the questions and a summary of the Q&A session at the meeting venue are posted on our website.

2. IR Activities

	Supplementary Explanations	Explanation Provided by Representative Himself
Regular Investor Briefings for Individual Investors	We exhibit at an investment fair for individual investors and hold a mini corporate briefing session once a year.	No
Regular Investor Briefings for Analysts and Institutional Investors	Twice a year (after fiscal year-end and interim account closings), President of the Company holds financial results briefings. When quarterly results are available, we hold small meetings for institutional investors.	Yes
Posting of IR Materials on Website	We publish earnings briefings, fact sheets, financial results briefing materials and other materials. When an important matter emerges, it is posted on our website as swiftly as possible in time with public announcement. https://www.tocalo.co.jp/ir/index.html	
Establishment of Department and/or Manager in Charge of IR	The Corporate Planning Division is the contact point for IR-related inquiries.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Our management philosophy stipulates that the Company shall be built on good relationships with and the trust we earn from all stakeholders, including shareholders, business partners, employees and local communities. Additionally, in order to manage important matters related to the business of the Group (internal information), we have established Internal Information Management and Insider Trading Control Rules, as well as a system based on the prompt and fair disclosure of accurate information.
Implementation of Environmental Activities, CSR Activities etc.	<p>TOCALO is a manufacturer specialized in surface treatment processing with thermal spraying as the core. Our environmental philosophy is to contribute to society and protect the global environment through the various advantages that coatings have to offer, such as resource-savings, labor-savings, and environmental load reduction. We have set environmental targets for the following themes.</p> <p>(1) Energy and resource conservation in business activities (2) Contribution to the environment by promoting business activities</p> <p>Moreover, we have formulated an annual budget to actively engage in activities that contribute to communities and society at large, and made donations to local governments' regional revitalization projects approved by the national government, as well as to children's funds and support organizations, and provided aid to international students.</p>

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

In accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act, the Company decided basic policies on developing a system to ensure Company business is properly executed (hereinafter referred to as "Internal Control System"), as follows, at the Board of Directors meeting held on September 18, 2015.

1. System to ensure that the execution of duties by directors, executive officers, and employees of a corporate group consisting of the Company and its subsidiaries complies with laws, regulations and the articles of incorporation

(1) Top management shall familiarize Company officers and employees with the underlying spirit of established corporate action guidelines and compliance rules, so they thoroughly understand that compliance with laws and social ethics is a prerequisite of corporate activities.

(2) A Compliance Committee chaired by the General Manager of the Administrative Headquarters, who is appointed to be in charge of compliance, shall be established to implement and manage a cross-sectional compliance system for the Company and its Group companies. The Compliance Committee shall discuss

important compliance issues and report the results to the Board of Directors. The Corporate Planning Division shall act as the Secretariat for the Compliance Committee and thoroughly ensure compliance among officers and employees. The Internal Audit Department (the Auditing Division) shall audit the status of compliance in cooperation with the Corporate Planning Division.

2. Matters concerning the storage and management of information related to the execution of duties by directors of the Company

In accordance with Document Management Rules and Record Management Rules, the General Shareholder Meeting Minutes, the Board of Directors Meeting Minutes, and other information related to the execution of duties by directors shall be recorded in writing or electromagnetic media, properly stored and managed (or disposed). How the concerned information is managed shall be audited, and the rules reviewed as necessary.

3. Rules and other systems regarding risk management of a corporate group consisting of the Company and its subsidiaries

(1) Each department/division and subsidiary shall report its performance periodically at a meeting attended mainly by directors and executive officers, and conduct risk management through continuous monitoring.

(2) Regarding risks pertaining to corporate activities and management strategies of the Group related to compliance, dealing with antisocial forces, environmental considerations, disasters, quality, information security, credit management, investments and loans, export control, etc., the department responsible for the respective matters shall establish rules, guidelines, manuals, and other tools to ensure that everyone is aware of them. In the event of an unforeseeable situation, a Headquarters for Disaster Control shall be set up immediately to take countermeasures in accordance with Disaster Countermeasures Rules.

For risks that newly arise other than the above, the Board of Directors of the Company promptly appoints a director who will be responsible for handling the situation and implement the necessary system.

(3) The Compliance Committee shall monitor the status of cross-organizational risk management and examine Group-wide measures.

4. System for ensuring the efficient execution of duties by directors and executive officers of a corporate group consisting of the Company and its subsidiaries

The efficiency with which duties are executed by directors and executive officers of the Group is improved using the following business management system.

(1) When carrying out daily business operations, authority shall be delegated based on Segregation of Duties Rules, Administrative Authority Rules, etc., and persons in charge at each level shall carry out their duties in accordance with rules on decision-making.

(2) A Management Policy Council comprised of directors and Audit & Supervisory Board members of the Company shall be set up for prompt decision-making regarding policies for important matters of the Group.

5. System for reporting to the Company matters related to the execution of duties by directors, etc. of the Company's subsidiaries

In accordance with Affiliated Companies Management Rules, when making important decisions, affiliated companies are required to consult with the responsible department of the Company Head Office and to report important matters, etc. Along with that, to enhance integrated Group management, affiliated companies shall also obtain prior approval from the Board of Directors and top management of the Company for the acquisition and disposal of important assets.

6. Matters concerning a system of employee assistance requested by Audit & Supervisory Board members, the independence from directors of said employees, and ensuring the effectiveness of instructions to said employees

(1) Audit & Supervisory Board members may order employees belonging to the Auditing Division to carry out matters concerning duties necessary for audits conducted by the Audit & Supervisory Board members and duties of the Secretariat for the Audit & Supervisory Board. The employees who receive the Audit & Supervisory Board members' orders shall ensure independence so they will not be given any instructions or order from directors, superiors, etc.

(2) Appointments and transfers of employees who are to assist the duties of Audit & Supervisory Board members shall require the approval of Audit & Supervisory Board members.

7. System for directors, executive officers, and employees of the Company, and directors, Audit & Supervisory Board members, and employees of subsidiaries to report to the Audit & Supervisory Board of the Company, other systems for reporting to the Audit & Supervisory Board, and a system in which anyone who reports information shall not suffer from unfavorable treatment

(1) Directors, executive officers, and employees of the Company shall report the status of execution of their duties whenever requested by the Audit & Supervisory Board. Moreover, directors, Audit & Supervisory Board members, and employees of subsidiaries shall be instructed to report the status of execution of their duties whenever requested by the Audit & Supervisory Board of the Company.

(2) Audit & Supervisory Board members attend meetings of the Board of Directors and other important meetings, and they shall periodically receive reports on business status, financial conditions, etc.

(3) If directors, executive officers, and employees of the Company and the directors, Audit & Supervisory Board members and employees of a subsidiary discover or learn of any matter that exerts or may exert a significant impact on the Company, they shall promptly report such matter to the Audit & Supervisory Board of the Company.

(4) A whistleblowing system shall be established so that the Audit & Supervisory Board of the Company can receive reports from directors, executive officers, and employees of the Company and directors, Audit & Supervisory Board members and employees of subsidiaries.

(5) Directors, executive officers, and employees of the Company and directors, Audit & Supervisory Board members and employees of subsidiaries shall never be treated unfavorably because of information that they provide to the Audit & Supervisory Board of the Company.

8. Matters concerning policies related to expenses and liabilities incurred in the execution of duties by Audit & Supervisory Board members and advance payments or redemption procedures for said expenses
When Audit & Supervisory Board members request the Company to pay in advance or reimburse expenses needed to execute their duties, such expenses shall be paid in advance or reimbursed appropriately and promptly at the request of the Audit & Supervisory Board members or the Audit & Supervisory Board unless said expenses are deemed unnecessary for the execution of the said duties.

9. Other systems to ensure effective audit implementation by Audit & Supervisory Board members

(1) Audit & Supervisory Board members attend the Board of Directors meetings and other important meetings to grasp and audit the business conditions and decision-making process.

(2) Internal systems centering on the Auditing Division shall be developed and enhanced so that Audit & Supervisory Board members can perform their audit work more efficiently.

(3) Audit & Supervisory Board members shall be guaranteed their access to independent advice and support for their audit work from experts such as lawyers and accountants as necessary.

10. System to ensure the reliability of financial reporting

In accordance with the provisions of the Financial Instruments and Exchange Act, the Company and its subsidiaries shall establish a Basic Policy on Financial Reporting and, based on this policy, shall strive to conduct business appropriately and ensure the reliability of financial reporting.

2. Basic Concept on the Exclusion of Anti-social Forces and the Development Thereof

It shall be strictly observed as our “corporate ethical behavior” to sever relationships with antisocial forces and groups that threaten social order and public safety.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation

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2. Other Matters Concerning to Corporate Governance System

The internal system for timely disclosure of our corporate information is as follows.

1. System for timely disclosure of our corporate information

(1) The General Manager of the Administrative Headquarters serves as the Chief Information Management Officer in relation to the management and timely disclosure of internal information (also serves as the “Information Handling Manager” that is the contact point for the Tokyo Stock Exchange), and the HR & General Affairs Division Manager serves as the Manager in charge of Information Management. (The responsibilities of the Chief Information Management Officer of each subsidiary are delegated to the representative director of the subsidiary.)

(2) The person in charge of internal information management of the department involved in the generation (including approval) and acquisition of internal information shall be the head of each division (General Manager, Factory Manager, etc.). When internal information is generated, each division head immediately reports the details to the General Manager of the Administrative Headquarters and the HR & General Affairs Division Manager.

(3) The Chief Information Management Officer (the General Manager of the Administrative Headquarters) and the Manager in charge of Information Management (the HR & General Affairs Division Manager) are responsible for examining whether or not information should be deemed internal information and give advice to each division head as necessary.

(4) Upon receiving decisions on important matters, reports, and approvals of account closing information, etc., from business execution organizations such as the Board of Directors and the Management Policy Council, the General Manager of the Administrative Headquarters immediately consults with the HR & General Affairs Division Manager on the announcement and discloses it in a timely manner. However, if there is an urgent need for the information, etc., the General Manager of the Administrative Headquarters shall obtain approval from President and Representative Director to disclose it in a timely manner.

2. Flow of timely disclosure

As shown in the attached diagram.

Flow of timely disclosure

