TOCALO

What is Good Service?

Integrated Report 2025

Contents

Integrated Report 2025

Contents/Editorial policy

Editorial policy

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

Reporting period

April 01, 2024 – March 31, 2025

Note: Also includes some content from outside of this period.

Organizations reported

TOCALO Co., Ltd. and consolidated subsidiaries in Japan and overseas
(As at March 31, 2025)

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

Reference guidelines

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

Caution regarding future forecasts

Of the business forecasts, plans, and strategies, etc. published in this report, forecasts of future business results represent management's judgments based on information available as at March 31, 2025, and include certain risks and uncertainties. We therefore ask that you refrain from making investment decisions based solely upon these results forecasts.

Integrated Report 2025 key points

1. President and CEO's comment on future prospects

▶pp. 9–12

Reflecting on the main initiatives of the medium-term management plan, now in its final fiscal year, consideration of the next medium-term management plan, and achievement of our 2030 Vision of "Contributing to a bright future for people and nature." We also introduce the President and CEO's belief that each employee's practice of good service contributes to a bright future.

2. Visualization of TOCALO's strengths

▶pp. 4, 5, 13–16, 21–24

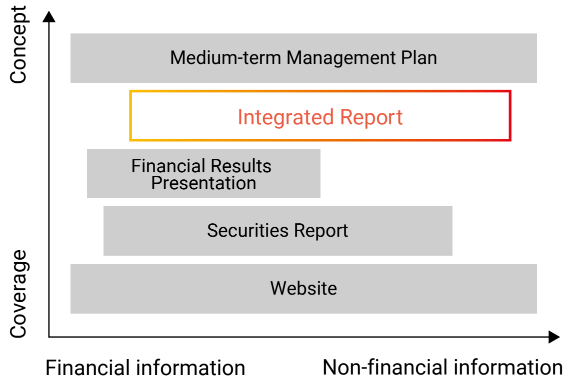
We use diagrams to clearly explain TOCALO's unique technologies and competitive advantages. We also conduct a many-faceted probe into boosting our strengths and sustainable growth strategies through a round-table discussion between our two senior managing executive officers, appointed in June 2025, and our executive officers responsible for development, production, sales, and plants.

3. Material issues and employee comments

▶pp. 25–42

We introduce the material issues in our ESG management policies interspersed with employee comments. Regarding TOCALO's sustainability management, we introduce our initiatives from the front-line perspective.

Positioning of this report



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Part 1

Value creation story

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Corporate philosophy structure

Corporate motto

Corporate philosophy

TOCALO values the words of its corporate motto, “Technologies and Ideas,” “Youth and Passion,” and “Harmony and Reliability” in order to maintain good relations with all relevant stakeholders as a leading company of surface treatment technology. We make every effort to contribute to sustainable society with its environmentally friendly products. We also strive to achieve solid business and good performance to remain a trustworthy company.

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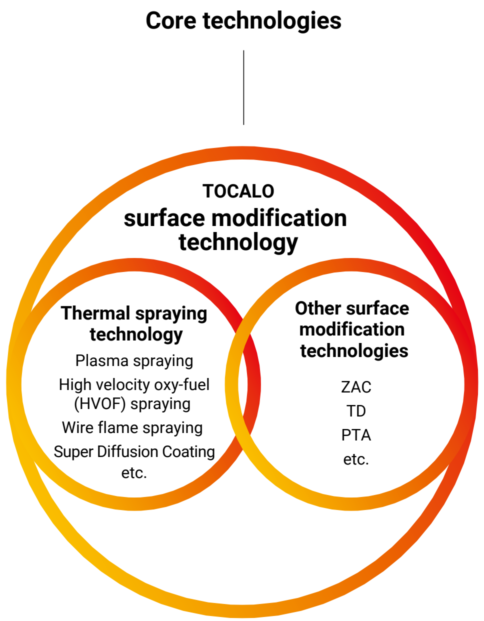
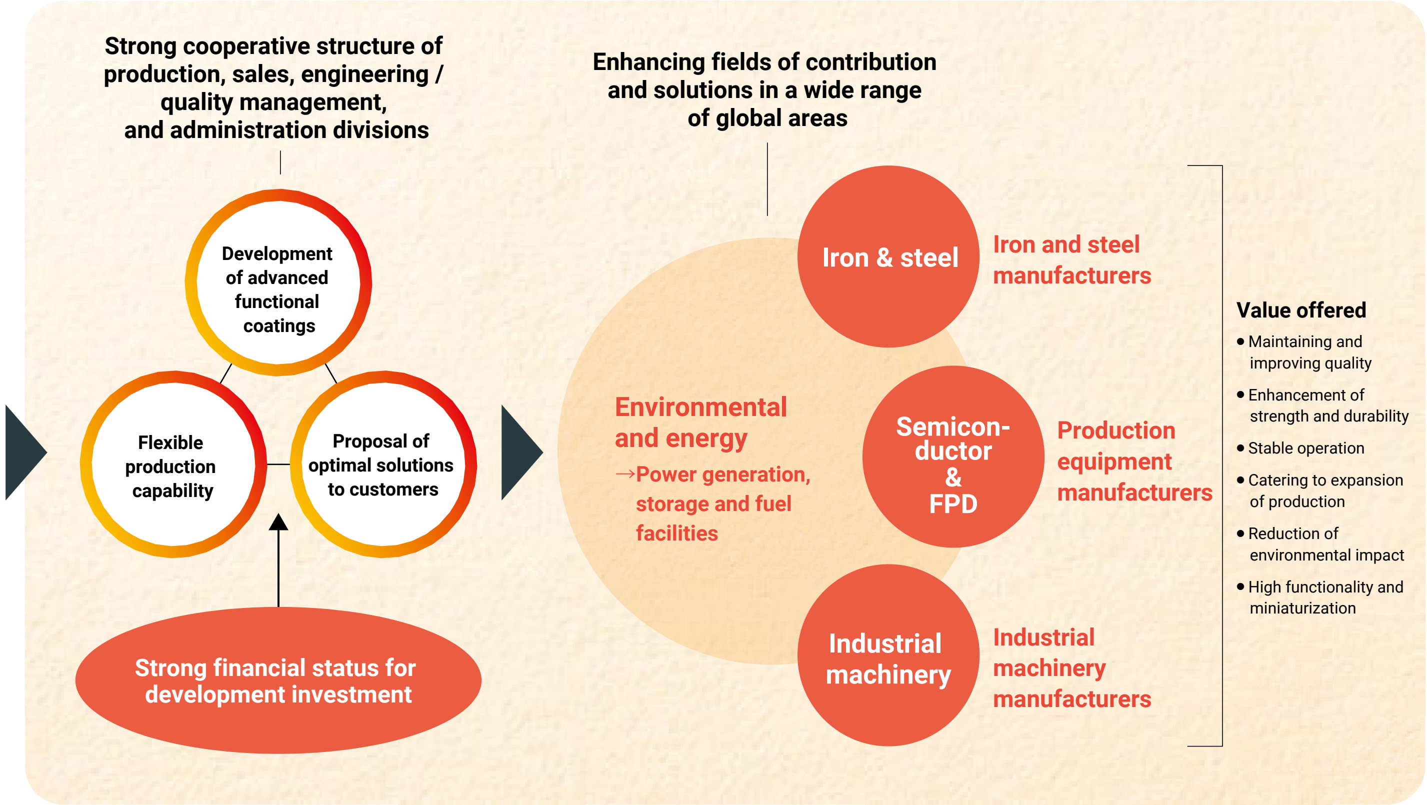
TOCALO's strengths and fields for their application

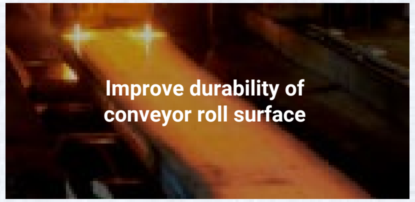




Surface modification technologies that impart various functionalities

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

Examples of order-made surface processing services



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Examples of TOCALO's strengths and business model (Semiconductor & FPD)

Providing order-made surface processing services as a technology partner

Strong cooperative structure of production, sales, engineering / quality management, and administration divisions

Development of advanced functional coatings

Flexible production capability

Proposal of optimal solutions to customers

- Implementation of laboratory testing
- Joint development etc.

TOCALO **takes** customers' products to its plants for **processing**

Sales engineers share customer issues within the company **to provide the best solutions**

Customers

Makers of semiconductor manufacturing equipment (SME)

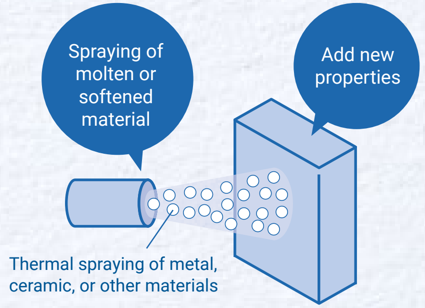
Semiconductor manufacturers

Semiconductor market

- Electronic equipment
- Electric vehicles
- Industrial robots
- Communications equipment
- Data centers
- Medical equipment
- Aircraft and aerospace
- Smart appliances

etc.

Surface modification through thermal spray



Effect provided by surface modification

Effect obtained by surface modification processing of a portion of products and equipment

- Improved product functionality
- Improved operating rate of equipment
- Longer lifespan, reduced maintenance costs
- Improved productivity
- Improved environmental performance and reduction of environmental impact etc.

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Our story of value creation

Growth in the iron and steel field

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

Labor saving

Growth in the industrial machinery field

Applications for thermal spraying technology rapidly expanded, and we tackled the aircraft, pulp and paper, high-speed rail, automobile, and other industries.

Reducing environmental impact

Growth in the energy field

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

1980s

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

1990s

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

2000s

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

2010s

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

2020s

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

2030s

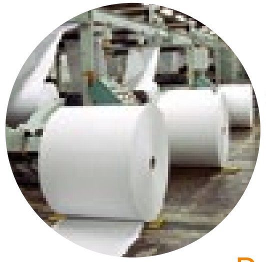
Aiming to develop as a company striving for continued growth

2030 vision

Contributing to a bright future for people and nature

Paper pulp industry

Expanded application of our surface modification technologies, particularly thermal spray, to paper manufacturing plants for dryer rolls and other paper roll types.



Resource conservation

Growth in the semiconductor field

The steadfast efforts of our sales, manufacturing, and R&D teams met with success, as we entered the semiconductor and FPD fields. Although we began work in the semiconductor field from scratch, it later grew to become the company's largest growth driver.

Aircraft industry

Obtained accreditation under National Aerospace and Defense Contractors (Nadcap), a global program for specialized processes. TOCALO achieved entry into aircraft industry by obtaining this high level certification, held by very few companies in Japan.

Sophistication

Expansion into new business fields

Applications are advancing in a range of fields, including abrasion reduction in agricultural machinery parts, and enhancement of chemical resistance and prevention of blood adhesion for medical equipment.

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Value creation process

Reflux of created value to strengthening of capital

INPUT (targets and KPIs for boosting capital investment) → **OUTPUT** (targets and KPIs for boosting capital investment) → **OUTCOME** (created value)

Value creation goals

Value creation goals	Capital	KPIs	
Secure flexible production capabilities	Manufacturing capital	Group sites: **37** plants and offices in **6** countries	Capital investment **5,000** million yen
Focus on advanced coating development capabilities	Intellectual capital	Ratio of development spending to sales **4.5**% (**2,400** million yen)	
		No. of patents owned (non-consolidated) **274**	No. of patent applications (non-consolidated) Over **32**
Boost investment in human resource development	Human capital	Group employees: **1,516** (as at end of fiscal 2024)	Educational spending per employee (non-consolidated) **66,000** yen
		Ratio of female full-time employees (non-consolidated) **12.5**%	Ratio of female managers (non-consolidated) **3.9**%
Strengthen solution proposal capability for customers	Social & related capital	Consolidated group: **6** companies (as at end of fiscal 2024)	
		Financial value of orders received in environmental field (non-consolidated) **9.1** billion yen	Ratio of overseas sales Over **30.1**%
Reduce volumes of GHG emissions, water consumption, and industrial waste emissions	Natural capital	Greenhouse gas emissions (non-consolidated) **7,147**t-CO_2	Ratio of waste recycled (non-consolidated) **62.3**%
Maintain strong financial capital to support growth investment	Financial capital	Sales **54.2** billion yen / Ordinary income **12.5** billion yen	ROE **13.9**%

With our "all-weather" management model tailored to diverse customers, we provide order-made surface modification processing solutions

TOCALO

Surface modification technologies

- Thermal spraying technology
- Other surface modification technologies

- Maintaining high quality/ stable operations
- Responding to production expansion (stable supply)
- Handling high functionality and miniaturization for semiconductors, etc.
- Enhanced strength and durability for parts and equipment
- Longer lifespan that reduces environmental impact

Boosting customer value by providing surface modification processing services focusing on thermal spray of customers' parts and equipment

2030 Vision

Contributing to a bright future for people and nature

- Safe and secure society
- Healthy and long-living society
- Digitized society
- Society where anyone can play an active role
- Decarbonized society

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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.

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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.

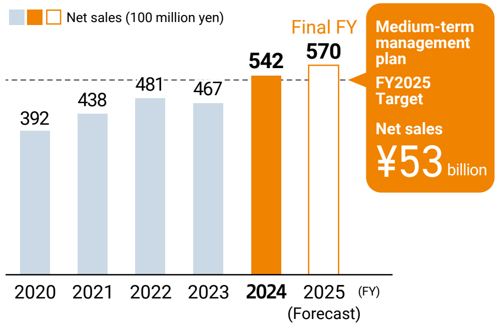
The global semiconductor market is forecast to grow to be worth around $1 trillion in 2030. We expect that demand will roughly double by 2030 compared with now from our main customers, makers of semiconductor manufacturing equipment. In order to handle this demand, we have invested in the construction, 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.

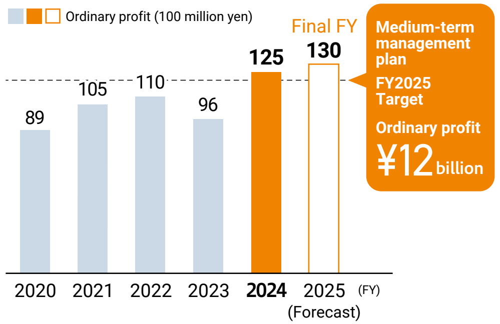
In order to achieve both net sales growth and wage increases, the improved motivation of our employees is essential. For this reason also, we will re-examine the market from new perspectives. To this end, TOCALO reviewed its existing incentive system and introduced a new system that returns 10% of year-on-year 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

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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

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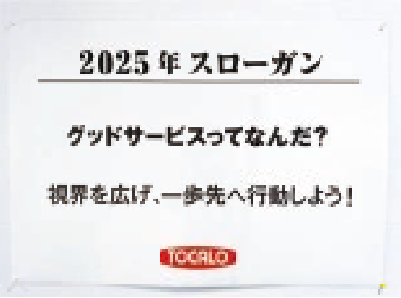
business partners who support our operations each day. I believe that such initiatives contribute to the co-existence and co-prosperity that we aim for with our business partners.



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

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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.

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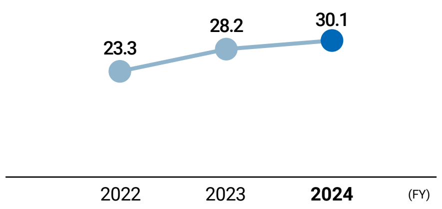
Since our founding in 1951, our strength has been in our threefold approach to service, with close cooperation between (1) our R&D division, with analytical capabilities, (2) our production division, with its high-level production capability and advanced quality management, and (3) our sales division, 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.

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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

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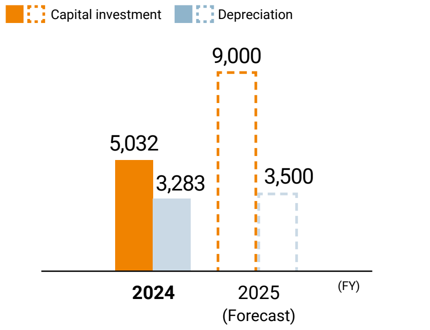
as much as possible for the expansion of orders and net sales, while aiming for operational efficiency. Also, in regards to information security, we will not spare the necessary investment required to deal with the stiff global competition going forward. As one part of this, we established the Information 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.

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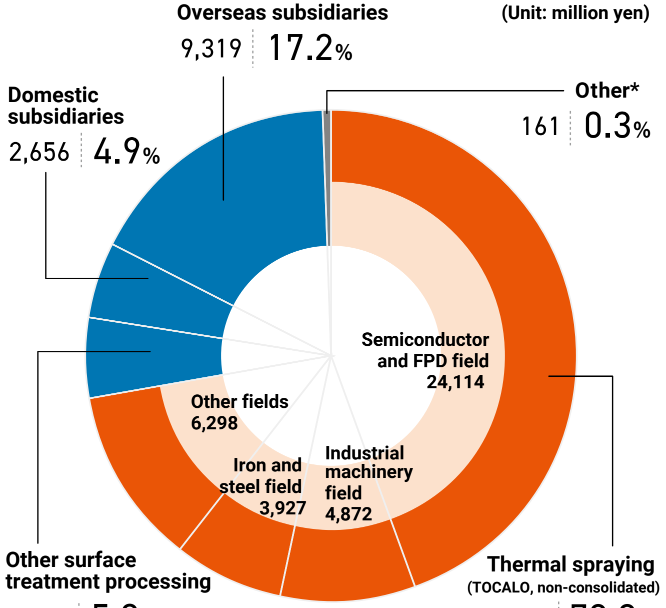
Thermal spraying and various other surface modification solutions

Fiscal 2024 Net sales ¥54,231 million



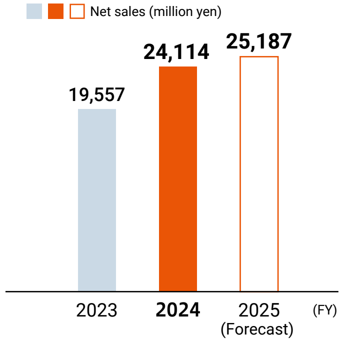
*Royalties and other revenue

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.

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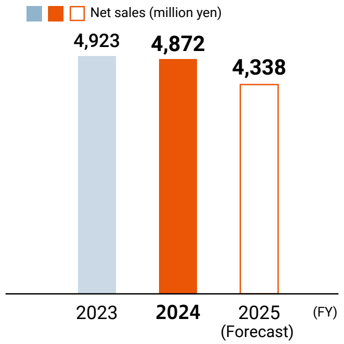
Thermal spraying (TOCALO)

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

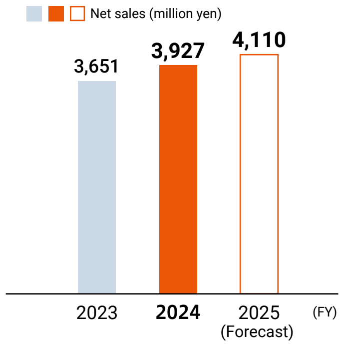
We are seeing favorable performance in Open Rack Vaporizer (ORV), which use seawater to vaporize LNG, power generation equipment for hydroelectric, wind, and other naturally derived energy, secondary battery-related products, and hydrogen-related business, with further growth expected going forward.

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.

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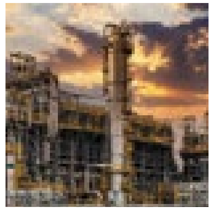
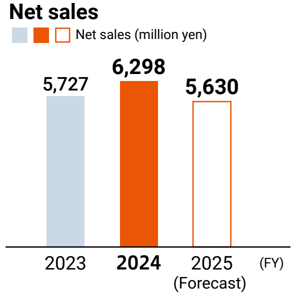
Thermal spraying (TOCALO)

Other fields





Core services

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

Performance outlook

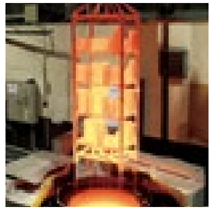
The petrochemical-related business performed well in fiscal 2024, resulting in increased revenue. In fiscal 2025, demand for aircraft engine parts is expected to be strong, but at present, there are no plans for large-scale construction in the petrochemical-related business, and revenue is expected to 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.

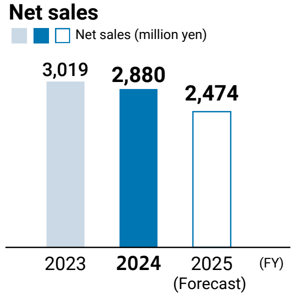
Topic **Proactive engagement in aircraft and defense-related fields**

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





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

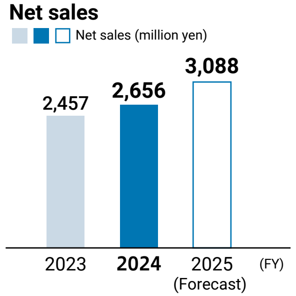
Performance outlook

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



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.

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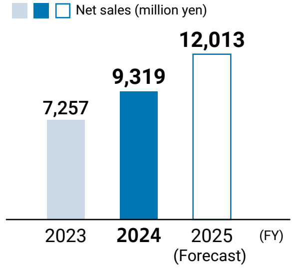
Other businesses (TOCALO)

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.

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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

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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

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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

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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)

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Part 3

Foundation for value creation

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Materiality identification process

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

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

Materiality, KPIs, goals and achievements

Materiality	Main initiatives	KPI	Fiscal 2025 goal	Fiscal 2024 achievement
1. Advanced coating and latent market development	**Invest with a focus on developing advanced coatings** • Develop high-performance coatings for the foundational elements of people's lives (such as digitalization, infrastructure, medical care, agriculture) • Develop coatings that help proliferate and improve the efficiency of renewable energy power generation (such as wind power, hydropower, geothermal power, storage batteries) • Develop coatings that help customers reduce greenhouse gas emissions (by supporting non-fossil fuels, recycling equipment)	No. of patents owned	Total: 280	Total: 274
		No. of patent applications	Total: 30	Total: 32
		Ratio of development expenses to sales (consolidated)	5%	4.5%
	Offer optimal solutions to customers • Grow from a supplier to a partner • Set up projects in priority areas • Foster experts in problem-solving	Financial value of orders received in the environmental field (1) Environmental and energy equipment (2) Repaired and refurbished products	(1) 2,000 million yen (2) 8,500 million yen Total: 10,500 million yen	(1) 2,033 million yen (2) 7,157 million yen Total: 9,191 million yen
		Ratio of overseas sales (consolidated)	Total: 25%	Total: 30.1%
2. Environmental impact reduction measures	**Advance decarbonization (carbon neutrality)** • Investigate thermal spraying methods that do not use fossil fuel • Reduce power consumption by improving processing methods • Use renewable energy	Greenhouse gas emissions (Scope 1, 2) Note: Goals and indicators formulated according to "Disclosure Based on TCFD Recommendations"	7,900 t-CO_2 (Less than 54% of fiscal 2013 emissions)	7,147 t-CO_2
	Measures to reduce waste and protect the environment • Reduce, recycle, and properly dispose of waste • Understand and improve water and air pollution conditions • Reduce the use of harmful substances	Ratio of waste recycled	40%	62.3%
3. Manufacturing sophistication and quality improvement	**Improve manufacturing process sophistication and efficiency** • Promote automation and IoT • Begin practical application of new coating formation technology • Create smart on-site construction	Amount of capital investment contributing to improving sophistication and efficiency of manufacturing process	400 million yen	1,026 million yen
	Reinforce the quality control system • Establish and promote product performance assurance • Implement quality controls systems (such as ISO) • Construct a Product Qualification Plan	No. of employees passing QC test	60 persons	116 persons
		No. of employees possessing qualifications as nondestructive inspection engineers	Total: 25 persons	Total: 25 persons
4. Cultivate and activate diverse human resources	**Form a medium- and long-term human resource development plan** • Develop human resources and technical training • Methodically develop global human resources	No. of technology-related external presentations	Total: 25	Total: 20
		No. of employees possessing qualifications as technicians	Total: 240 persons	Total: 241 persons
		Educational spending per employee	80,000 yen	66,000 yen
	Create a comfortable work environment • Fully engage in safety first • Promote diversity (value the talents of women, persons with disabilities, mid-career employment) • Promote workstyle reform	Rate of frequency of occupational accidents	Aiming for zero	2.36 (Including temporary employees)
		Severity rate of occupational accidents	Aiming for zero	0.031 (Including temporary employees)
		Ratio of female full-time employees	13%	12.5%
		Ratio of female managers	5%	3.9%
		Ratio of men taking childcare leave	90%	61.9%
5. Thorough compliance (acting in accordance with corporate ethics)	**Lay the management foundation for a long-surviving company** • Act in accordance with corporate ethics (social mores, ethics and morals, the environment, local community contribution) • Actively promote ESG initiatives • Promote engagement with domestic and foreign investors • Fully comply with the Corporate Governance Code	Ratio of employees receiving compliance training	100%	100% (Conducted 3 times)

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Advanced coating and latent market development

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

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

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

World-class research structure

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

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

Invest with a focus on developing advanced coatings

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

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

Intellectual property strategy

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

Employee comment

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

Ayumu Yano

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

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

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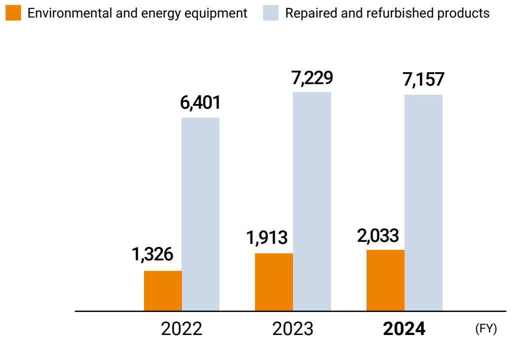
Offer optimal solutions to customers

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

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



Set up projects in priority areas

Iron & Steel Forum

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

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

Iron & Steel Forum

From supplier to partner

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

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

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

Nurturing human resources to enhance proposal and sales capability

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

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

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Environmental impact reduction measures

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

Main initiatives
- **Advance decarbonization (carbon neutrality)**
- **Measures to reduce waste and protect the environment**

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

Group-wide environmental management

Basic philosophy

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

Acquiring ISO 14001 certification at all sites

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

Third-party evaluations

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

CDP Discloser 2024

Employee comment

Working together with customers to resolve environmental issues

Kosaku Hiyama
General Manager, Environmental Promotion Department

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

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

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

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

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Information Disclosure Based on TCFD Recommendations

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

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

Governance

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

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

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

Risk management

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

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

Strategy

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

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

Scenario analysis

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

Risks, Opportunities, and Response Measures

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

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

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

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

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Advance decarbonization (carbon neutrality)

GHG emission reduction

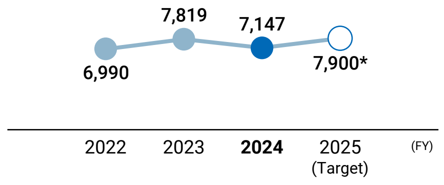
The Group's CO_2 emissions are primarily the result of the energy sources we use, which include primary energy derived from fossil fuels, such as kerosene, diesel oil, LPG, and city gas, and the secondary energy source of electricity. Converted to CO_2, electricity accounts for the vast majority—83.49%—of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

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

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

Greenhouse gas emissions (Scope 1, 2)

(non-consolidated, t-CO_2)



* Achieve 54% or less of fiscal 2013 emissions

Scope 3 emission reductions

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

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

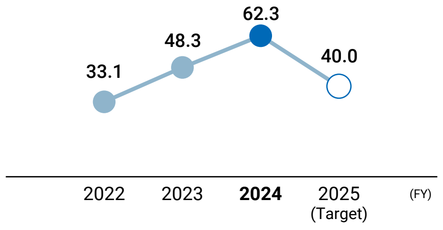
Measures to reduce waste and protect the environment

Waste reduction and recycling

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

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

Ratio of waste recycled (non-consolidated, %)



Initiatives to address air pollution

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

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

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

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

Dust collector

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Initiatives for biodiversity

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

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

Demonstration seaweed bed created in the inner bay area

Third-party verification

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

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

Reducing our environmental impact at plants

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

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

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

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

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

Employee comment

Recycling plastic to reduce CO_2 emissions

Hiromi Sasaki
Supervisor, Tokyo Plant Suzumi Workshop

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

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

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Materiality 3

Manufacturing sophistication and quality improvement

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

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

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


Kitakyushu Plant new building


Tokyo Plant Gyoda Workshop new building

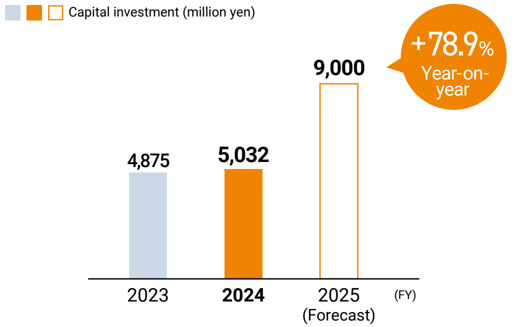
Improve manufacturing process sophistication and efficiency

Strategic capital investment

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

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

Capital investment



Planned capital investment for fiscal 2025 of ¥9 billion

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

Promotion of automation and IoT

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

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

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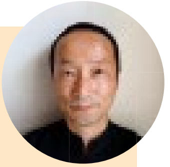
Cultivating highly skilled human resources

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

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

Employee comment

Recipient of a technical specialist award in fiscal 2024



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

Kazuya Kishimoto

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

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

Reinforce the quality control system

Establish and promote product performance assurance

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

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

Acquisition of ISO 9001 certification

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

Construct a Product Qualification Plan

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

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

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

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

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

Digitalization of inspections

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

3D measuring machines

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Cultivate and activate diverse human resources

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

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

Basic thinking

Image of the human resources we seek and our organization

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

Proactive human capital investment

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

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

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

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

Education expense per employee (non-consolidated)

(thousands of yen)

FY2022	FY2023	FY2024
63.2	75.8	66.0

Human resource programs (non-consolidated)

<table>
<tr><th></th><th>Young employees</th><th>Mid-career personnel and professionals</th><th>Management level</th></tr>
<tr><td rowspan="3">Market development and services</td><td colspan="2">Business case presentation meetings</td><td></td></tr>
<tr><td colspan="2">Salesperson development training</td><td></td></tr>
<tr><td colspan="3">Focus area projects and working groups</td></tr>
<tr><td rowspan="2">Technology development</td><td colspan="3">Joint development with customers, industry-academia-government collaboration</td></tr>
<tr><td>Technical Report presentation Competition</td><td>Technical meetings</td><td></td></tr>
<tr><td rowspan="5">Manufacturing and quality</td><td colspan="2">QA-presentation competitions (improvement initiatives)</td><td></td></tr>
<tr><td colspan="2">Thermal spraying/machining/metal heat treatment technicians</td><td></td></tr>
<tr><td></td><td>Meister system</td><td></td></tr>
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<tr><td rowspan="3">Management</td><td colspan="3">Global experience system</td></tr>
<tr><td></td><td>New supervisor training</td><td>Training for newly appointed managers</td></tr>
<tr><td></td><td>Management candidate development training</td><td>Deputy general manager training</td></tr>
<tr><td rowspan="2">Foundations</td><td>New employee training</td><td>Senior training / Instructor training</td><td></td></tr>
<tr><td>Training 2nd - 5th year</td><td colspan="2">Career planning training</td></tr>
<tr><td>Reskilling</td><td colspan="3">Digital education / Compliance training / Information security training / Diversity training / E-learning (self-development)</td></tr>
</table>

Initiatives to promote autonomous career development

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

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

Fifth year training *zazen* meditation experience

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

Zazen meditation experience

Provide digital education and selecting DX human resources

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

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

Global experience program initiatives

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

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

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

Examples from the fiscal 2024 program

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

Global experience program training

Employee comment

Completed the fiscal 2023 Global experience program

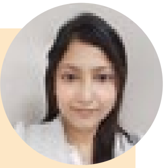
I hope to share the appeal of TOCALO’s technology on the global stage

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

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

Employee comment

Currently participating in the fiscal 2025 Global experience program



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

Hossain depudilruba
Production Control Department, Production Division, Kitakyushu Plant

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

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Creating a comfortable workplace environment

Basic thinking

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

Work environment principles

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

Implementation of employee engagement survey

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

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

Promotion of health management

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

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

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

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

Implementation of stress checks

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

Stress check examination rate

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

Enhancement of work-life balance

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

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

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

Promotion of diversity

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

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

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Occupational safety and health

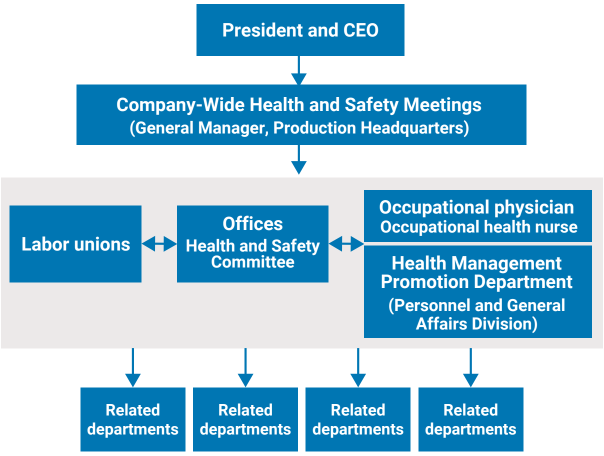
Approach to management hygiene

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

Management system

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

Occupational health and safety management system



nitiatives to prevent occupational accidents

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

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

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

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

Occupational health and safety management system

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

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

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

TOCALO Group companies with ISO 45001 certification

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

Initiatives to create a comfortable work environment

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

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

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Practice thorough compliance

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

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

Main initiatives ・**Lay the management foundation for a long-surviving company**

KPI	Fiscal 2025 goal	Fiscal 2024 achievement
Ratio of employees receiving compliance training	100%	100% (Conducted 3 times)

Supply chain management

Procurement Policies

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

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

Sustainable Procurement Guidelines

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

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

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

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

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

Partner appreciation event

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Thorough compliance

Approach towards compliance

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

Management system

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

Initiatives aimed at strengthening compliance

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

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

Risk management

Risk management system

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

Initiatives for strengthening information security

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

Business Continuity Plan (BCP)

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

Respect for human rights

Approach towards human rights

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

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

Identifying and assessing adverse human rights impacts

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

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

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

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

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Corporate governance

Basic thinking

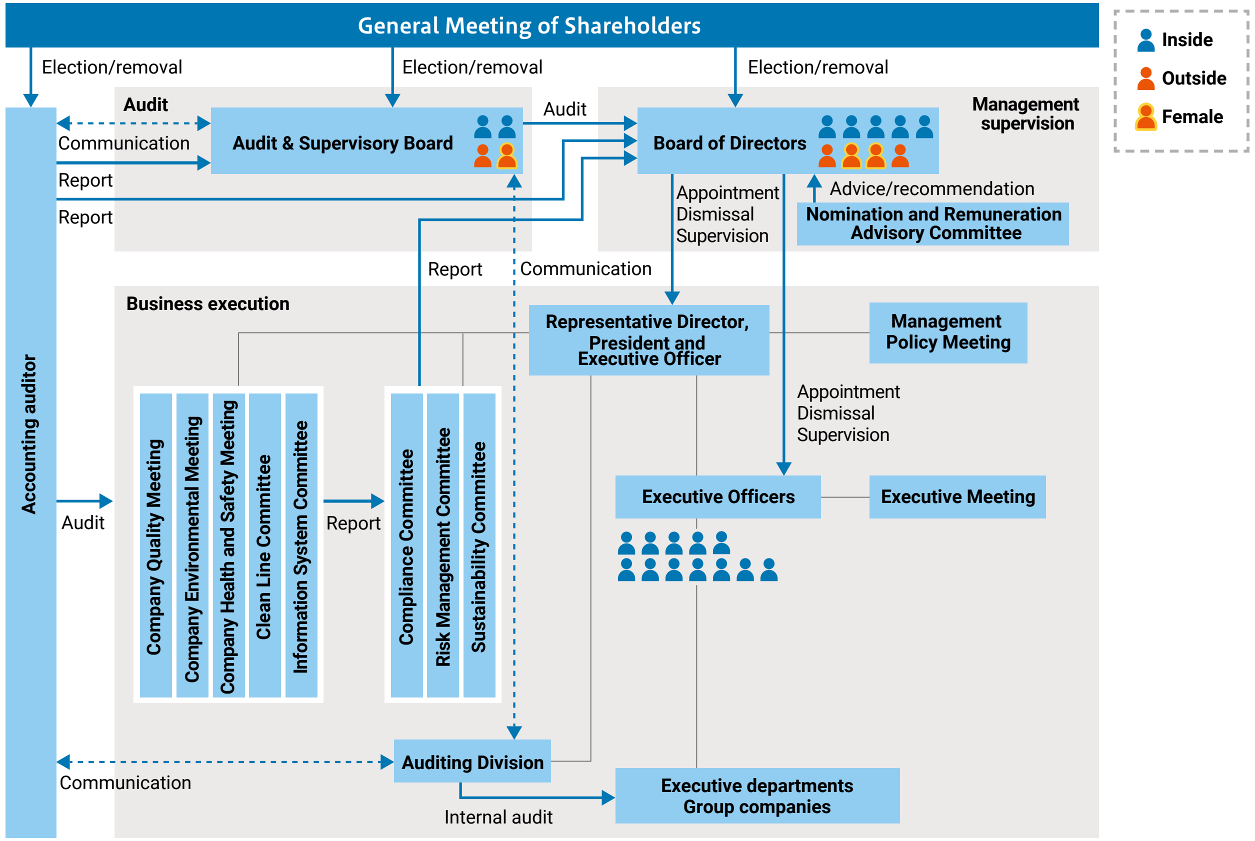
The Company recognizes that effective corporate governance is a priority management issue. Based on the recognition that “a company is a member of society and public entity,” we ensure management transparency and strengthen the trust placed in us by our shareholders, business partners, employees, local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

Corporate governance structure

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

Board of Directors

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



Executive officer system

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

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

Nomination and Remuneration Advisory Committee

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

Audit & Supervisory Board

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

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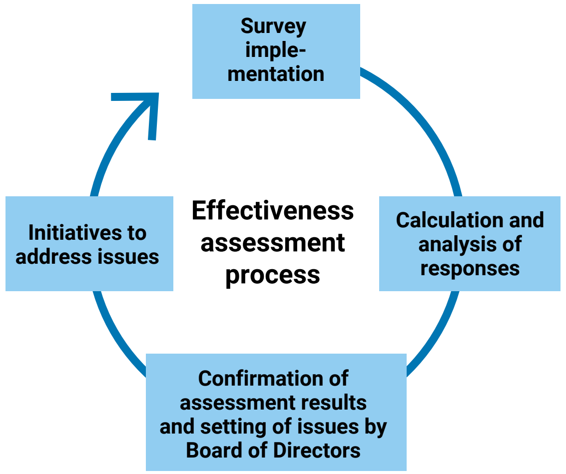
Board of Directors effectiveness evaluation

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



Main topics on effectiveness assessment survey

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

Fiscal 2024 assessment results and issues

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

Remuneration etc. of officers

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

Basic policy

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

Basic remuneration

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

Performance-linked remuneration

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

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

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

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

Remuneration by officer category

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

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

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Corporate officers

Kazuya Kobayashi
President and CEO, Representative Director

Takayuki Yoshizumi
Senior Managing Executive Officer, Representative Director

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

Tatsuo Suidzu
Managing Executive Officer, Director, General Manager, Tokyo Plant

Takeshi Takabatake
Managing Executive Officer, Director, Vice President, Production Headquarters

Career information

Kazuya Kobayashi

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

Takayuki Yoshizumi

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

Hiroshi Goto

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

Tatsuo Suidzu

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

Takeshi Takabatake

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

Experience and skills

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

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

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Corporate officers

				
	Toshimitsu Kamakura Director (Part-time)	**Keiko Takihara** Director (Part-time)	**Yoko Sato** Director (Part-time)	**Kazuyuki Tomita** Director (Part-time)
Career information	April 1990 Registered as an Attorney at Law April 1990 Joined Kamakura and Higaki Law Office (currently Higaki-Kamakura-Terahiro Law Office) April 1995 Partner, Kamakura and Higaki Law Office (current) June 2018 Outside Audit & Supervisory Board Member, Kinden Corporation (current) June 2019 Director of TOCALO Co., Ltd. (current)	March 1986 Medical Doctor (Osaka University) April 2008 Professor, Osaka University Health Care Center (currently, Health and Counseling Center, Osaka University) and the Department of Cardiovascular Medicine, Osaka University Graduate School of Medicine April 2012 Director, Health and Counseling Center, Osaka University October 2014 Vice President, Osaka University April 2018 Director, National Cerebral and Cardiovascular Center (National Research and Development Agency) June 2018 Director of TOCALO Co., Ltd. (current) September 2020 Auditor, National Institutes for Quantum Science and Technology (National Research and Development Agency) April 2021 Professor Emeritus, Osaka University (current) April 2024 Director, Health Promotion Center, The Kinki Sharyo Co., Ltd. (current)	September 1986 Joined Showa Ota & Co. (currently Ernst & Young ShinNihon LLC) March 1990 Registered as a Certified Public Accountant May 2011 Senior Partner, Ernst & Young ShinNihon LLC September2019 Representative, Yoko Sato Certified Public Accountant Office June 2020 Director of TOCALO Co., Ltd. (current) June 2021 Outside Director, Sanyo Electric Railway Co., Ltd. (current) June 2024 Outside Director, Audit & Supervisory Committee Member (current)	April 1982 Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation) January 2004 General Manager, Elemental Technology Development Center, Panasonic Mobile Communications Co., Ltd. July 2007 President, Panasonic Eco Technology Center Co., Ltd. October 2015 President, Panasonic Environmental Technology Solutions Co., Ltd. April 2017 Chief Incubation Manager, Osaka Regional Head Office, the Organization for Small & Medium Enterprises and Regional Innovation June 2021 Director of TOCALO Co., Ltd. (current) April 2022 Technical Advisor, Osaka Business Development Agency (current) April 2023 Outside Director, Qualtec Co., Ltd. (current)
Experience and skills				
Corporate management, management strategy				●
Sales, marketing				
Manufacturing, technology				●
Legal, compliance	●			
Financial, accounting			●	
International perspective, diversity		●	●	
Environmental and social issues	●	●		●

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

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Corporate officers

Hidetoshi Shin
Audit & Supervisory Board Member (Full time)

Hirosuke Hamada
Audit & Supervisory Board Member (Full time)

Toshihiko Yoshida
Audit & Supervisory Board Member

Noriko Kaji
Audit & Supervisory Board Member

Career information

Hidetoshi Shin

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

Hirosuke Hamada

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

Toshihiko Yoshida

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

Noriko Kaji

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

Experience and skills	Hidetoshi Shin	Hirosuke Hamada	Toshihiko Yoshida	Noriko Kaji
Corporate management, management strategy	●	●	●	
Sales, marketing	●			
Manufacturing, technology	●			
Legal, compliance			●	●
Financial, accounting		●	●	●
International perspective, diversity		●		●
Environmental and social issues	●			

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

Hiroyuki Aisaka
Executive Officer
Vice President, Quality Management Headquarters

Katsunori Nakai
Executive Officer
General Manager, Corporate Planning Division

Yasuki Nakahira
Executive Officer
Vice President, Global Business Headquarters

Tatsuya Hamaguchi
Executive Officer
Vice President, Sales Headquarters

Yuu Murata
Executive Officer
General Manager, Akashi Plant

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

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

Contents

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

Yoko Sato

Director (Part-time)

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

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

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

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

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

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

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

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

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

Kazuyuki Tomita

Director (Part-time)

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

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

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

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

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

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

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

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

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

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Part 4

Financial/ Corporate information

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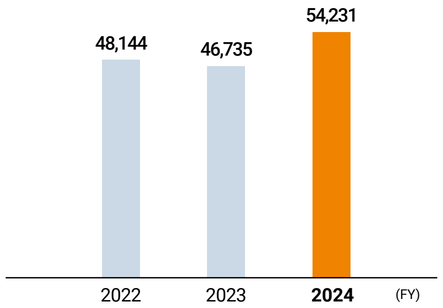
Financial highlights

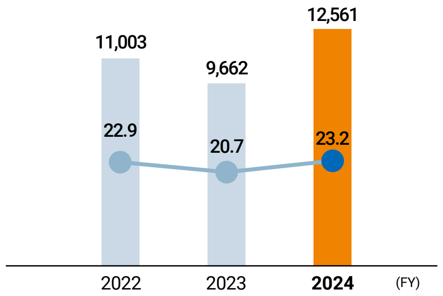
Net sales (million yen)



Net sales for fiscal 2024 increased 16.0%, to ¥54,231 million, a new record high, due to a recovery in the lucrative semiconductor field.

Ordinary profit

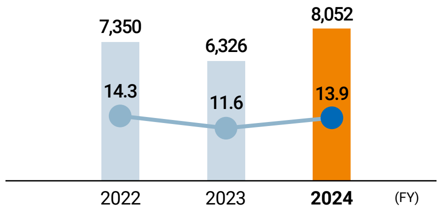
Ordinary profit (million yen) Ordinary profit ratio (%)



Ordinary profit for fiscal 2024 also increased 30.0% year-on-year to ¥12,561 million, a new record high, due to increased net sales in the profitable semiconductor field.

Profit attributable to owners of parent

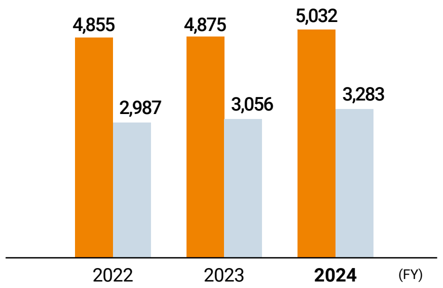
Profit attributable to owners of parent (million yen) ROE (%)



Profit attributable to owners of parent for fiscal 2024 increased 27.3% year-on-year to ¥8,052 million, and ROE was 13.9%.

Capital investment (million yen)

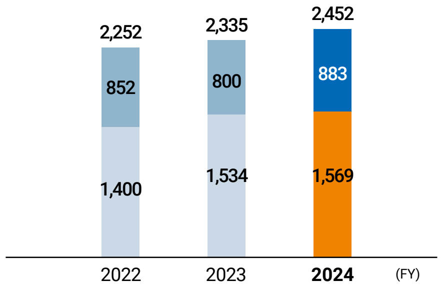
Capital investment Depreciation costs



Capital investment for fiscal 2024 was ¥5,032 million. We constructed a new building at our Kobe plant, and installed new equipment to boost our production structure and efficiency, as well as advancing construction of new plants at our subsidiaries in China and Taiwan.

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

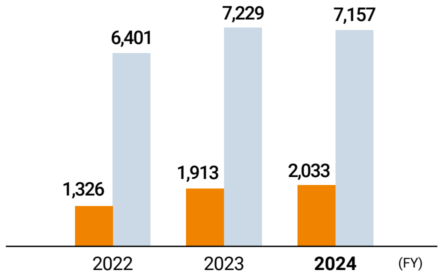
R&D expenses Technology development expenses



We maintained R&D spending and technology development spending at around 5% of consolidated sales. In fiscal 2024, we invested ¥2,452 million in R&D, a 5.0% increase year-on-year. Going forward, we will continue our efforts to in technological development for new coatings and to resolve issues faced by customers, to ensure our continued growth.

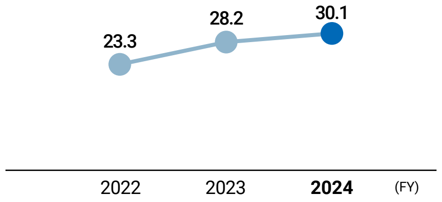
Financial value of orders received in environmental field (non-consolidated, million yen)

Environmental and energy equipment
Repaired and refurbished products



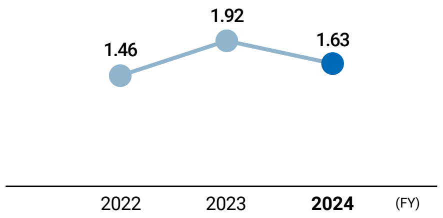
We are focusing on development and promotion of coating technology adapted to the greenhouse gas emission reduction and energy saving measures of customers, and for the popularization and increased efficiency of natural energy-derived power generation. In environmental and energy equipment, processing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

Ratio of overseas sales (%)



The ratio of overseas sales reached 30.1% in fiscal 2024, whereby we achieved our KPI goal of 25%. Ratio of overseas sales is comprised of export sales to overseas, sales of overseas subsidiaries, and overseas royalties earnings.

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



Our price-to-book ratio (PBR) was 1.63 times as at the end of fiscal 2024. We are aware that our cost of equity is 8–10%, but because ROE exceeded this, we think were able to steadily maintain PBR at one or more times.

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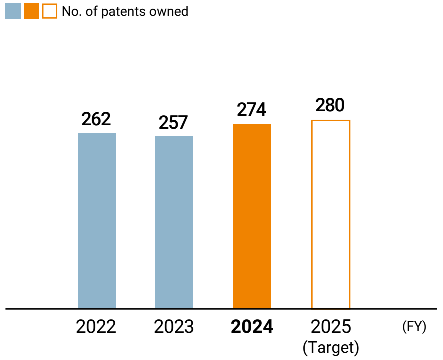
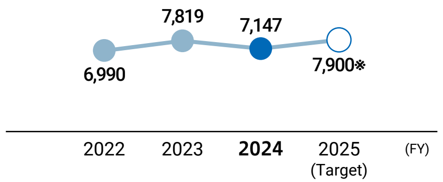
Non-financial highlights

No. of patents owned (non-consolidated)



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

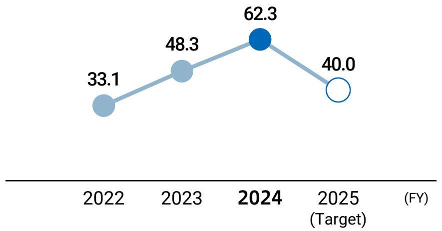
Greenhouse gas emissions (Scope 1, 2)
(non-consolidated, t-CO_2)



We aim to reduce our greenhouse gas emissions. Our greenhouse gas emissions in FY2024 were 7,147 t-CO_2, achieving the goal set in the KPI to reduce greenhouse gas emissions to 7,900 t-CO_2 or less.

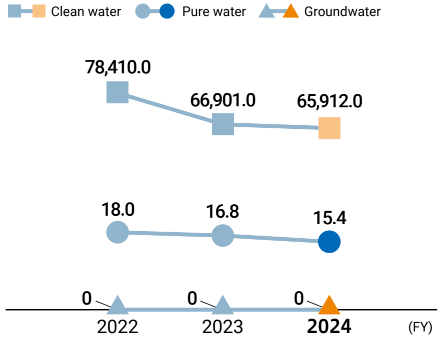
*Achieve 54% or less of fiscal 2013 emissions

Ratio of waste recycled (non-consolidated, %)



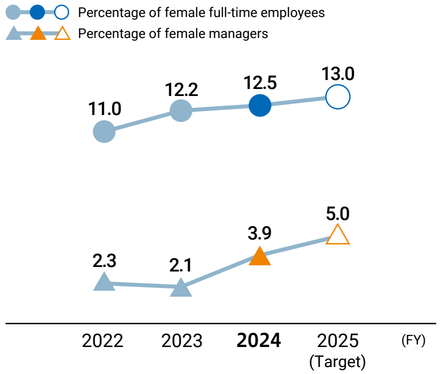
We are striving to increase our ratio of waste recycled as part of our efforts to reduce waste. The ratio of waste recycled reached 62.3% in fiscal 2024, whereby we achieved our KPI goal of 40%.

Water intake amount (non-consolidated, m^3)



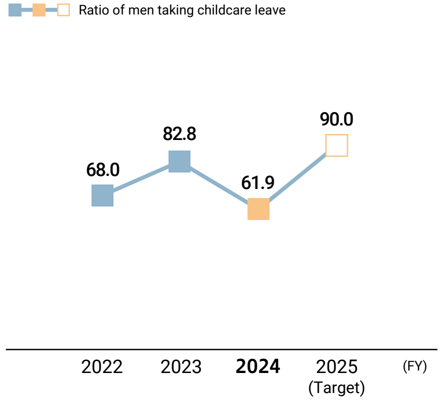
We consider water resource management a key environmental conservation issue and are striving to reduce the amount of water we use. Our water intake amount was 65,927.4 m^3 in fiscal 2024, a 1.5% reduction year-on-year.

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



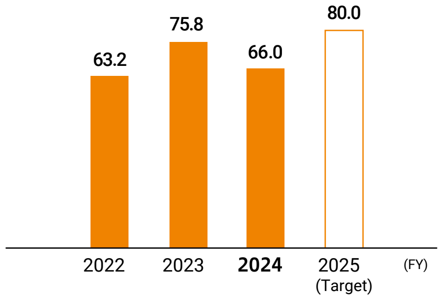
We are promoting the advancement of women as part of our efforts to ensure diversity. Consequently, we are conducting a range of activities towards the achievement of our fiscal 2025 targets of 13% female full-time employees and 5% female managers.

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



In fiscal 2024, the ratio of men taking childcare leave decreased 20.9 points year-on-year to 61.9%, but we continued efforts to promote the system with the cooperation of managers, to create a work environment conducive to leave-taking.

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



We believe that employees being able to express their individuality and capabilities while enjoying their work is essential for the growth of the company and are therefore actively investing in training and reinforcement of human resources. TOCALO Co., Ltd. invested ¥66,000 per employee in employee education in fiscal 2024.

Frequency and severity of occupational accidents
(non-consolidated)

	FY2022	FY2023	FY2024
Rate of frequency of occupational accidents	1.80*1	2.06*1	2.36*2
Severity rate of occupational accidents	0.03*1	0.10*1	0.031*2

In fiscal 2024, 14 occupational accidents occurred (zero resulting in death, six resulting in leave). We are striving to prevent occupational accidents through identification causes and countermeasures, as well as by sharing information about workplace accidents and near misses, with the aim of achieving zero occupational accidents.

*1 Not including temporary employees
*2 Including temporary employees

Contents

Six-year summary

Segment	Indicator	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
State of results, etc. (millions of yen)	Orders received	38,011	39,021	45,394	48,419	47,505	56,159
	Orders backlogged	6,195	6,143	7,896	8,349	9,260	11,349
	Net sales	38,084	39,294	43,813	48,144	46,735	54,231
	Operating profit	6,727	8,890	10,255	10,558	9,197	12,271
	Operating profit ratio (%)	17.7	22.6	23.4	21.9	19.7	22.6
	Ordinary profit	6,812	8,914	10,571	11,003	9,662	12,561
	Ordinary profit ratio (%)	17.9	22.7	24.1	22.9	20.7	23.2
	Net income attributable to owners of the parent	4,404	5,463	6,909	7,350	6,326	8,052
	Capital investments	2,313	4,822	4,385	4,855	4,875	5,032
	Depreciation costs	2,991	2,771	2,783	2,987	3,056	3,283
	R&D expenses	1,159	1,296	1,296	1,400	1,534	1,569
Per share information (yen)	Earnings per share (EPS)	72.45	89.86	113.62	120.83	105.53	135.45
	Net assets per share (BPS)	662.28	727.06	807.31	884.83	933.08	1020.04
	Annual dividend per share	25.00	35.00	45.00	50.00	53.00	68.00
	Dividend payout ratio (%)	34.5	38.9	39.6	41.4	50.2	50.2
	Dividend on equity ratio (DOE) (%)	3.9	5.0	5.9	5.9	5.8	7.0
Cash flow (millions of yen)	Cash flow from operating activities	6,621	10,588	9,873	9,894	7,877	9,077
	Cash flow from investment activities	(4,217)	(4,615)	(5,044)	(5,094)	(4,634)	(6,194)
	Cash flow from financing activities	1,871	(3,798)	(4,547)	(4,561)	(3,241)	(5,124)
	Balance of cash and cash equivalents at the end of this period	16,496	18,672	19,141	19,520	19,656	17,591
	Interest-bearing debt	8,145	6,031	4,249	2,802	5,002	3,796
Financial status (millions of yen)	Total assets	61,122	64,183	69,517	74,263	77,940	81,676
	Net assets	42,634	46,891	52,459	57,643	59,924	65,731
	Equity	40,263	44,201	49,099	53,839	55,460	60,646
	Equity ratio (%)	65.9	68.9	70.6	72.5	71.2	74.3
Financial indicators	Return on equity (ROE) (%)	11.3	12.9	14.8	14.3	11.6	13.9
	Return on assets (ROA) (%)	11.5	14.2	15.8	15.3	12.7	15.7
	Return on invested capital (ROIC) (%)	9.8	11.9	13.0	12.5	10.2	12.7
	Price earnings ratio (PER) (times)	14.1	16.1	12.0	10.7	17.0	12.3
	Price-to-book ratio (PBR) (times)	1.54	1.99	1.68	1.46	1.92	1.63
Non-financial indicators	Number of employees	1,060	1,121	1,176	1,300	1,389	1,516
	Sales per employee (thousands of yen)	35,929	35,052	37,256	37,033	33,647	35,772
	Non-consolidated educational spending per employee (thousands of yen)	–	32.5	54.2	63.2	75.8	66.0

Note: ROA = Ordinary profit ÷ Average total assets for the period. ROE = Net income attributable to owners of the parent ÷ Average equity for the period.
Figures for net sales and operating profit have been reconfigured to reflect changes to the disclosure method in FY2021 ("royalties and other income" was reclassified from non-operating income to net sales).

Contents

Material balance

Input (energy, raw materials, water intake)

		Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024
Energy consumption volume*1,2	Electricity (MWh)	39,824	42,491	42,891	39,848	41,085
	Kerosene (kl)	209	203	188	177	193
	LPG (kg)	10,615	16,014	16,188	20,024	22,970
	Diesel (kl)	31	32	26	92	83
	Gasoline (kl)	101	88	88	88	89
	Biodiesel (kl)	—	—	—	—	0.75
	City gas (m³)	160,944	165,732	149,164	154,406	180,566
	Acetylene (kg)	—	—	16,142	45,885	17,920
	Energy consumption (crude oil equivalent) (kl)	(10,456)	(11,125)	(11,189)	9,318 (10,433)	9,719
Trend regarding volume of use of raw materials*3	Thermal spray materials (t)	297.2	271.9	298.7	257.9	339.4
	Other materials (t)	59.2	94.3	113.1	138.5	99.8
Trend regarding volume of water intake	Clean water (m³)	65,850.0	69,552.0	78,410.0	66,901.0	65,912.0
	Pure water (m³)	18.1	16.5	18.0	16.8	15.4
	Groundwater (m³)	0.0	0.0	0.0	0.0	0.0

*1 The scope of aggregation was partially revised in FY2023.
*2 Results from FY2020 to FY2022 have been revised to correct an error in the aggregation of data on total energy consumption. The figures in parentheses are based on the standards prior to the revision of the Energy Conservation Law.
*3 Not including substrates.

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

		Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024
Trend regarding volume of waste emissions	General business waste (t)	59.3	57.6	61.2	46.8	38.4
	Total industrial waste (t)	1,959.5	2,113.5	2,161.4	1,922.3	1,792.8
Trend regarding volume of emissions to atmosphere	PRTR Law Class 1 Designated Chemical Substances (t)	1.0	1.0	1.3	1.2	1.3
Effluent volume*4,5	Sewage (m³)	49,338.0 (1,640.1)	54,329.0 (1,939.4)	58,848.0 (1,518.1)	51,185.0 (1,298.5)	50,107.0 (852.5)
	Seawater (m³)	10,984.0	9,640.0	11,680.0	13,712.4	14,566.8
Recycling volume	Metal scraps (t)	108.4	90.1	111.7	150.5	197.5
	Thermal spray material waste (t)	27.4	21.2	15.1	12.4	27.5
	Blasting material waste (t)	716.4	686.2	715.6	723.6	944.2
	Oil waste/ Solvent waste (t)	12.0	12.0	16.6	32.0	33.9
	Paper (t)	46.2	38.3	33.2	38.2	39.1

*4 The numbers in parentheses are the volume of factory effluent that has undergone wastewater processing.
*5 Wastewater discharged from sites using septic tanks is defined as "seawater."

Contents

Company overview / Shareholder information (As of March 31, 2025)

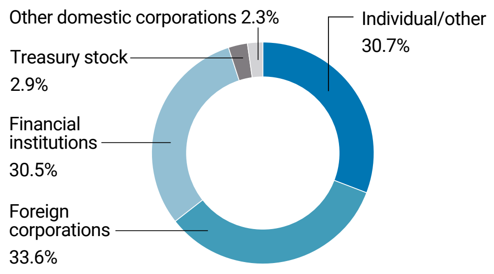
Company data

Company name	TOCALO Co., Ltd.
Established	July 1951
Head office	6-4-4, Minatojimaminami-Machi, Chuo-Ku, Kobe, Hyogo, 650-0047 Japan
Capital	2,658.823 million yen
Number of employees	Non-consolidated: 943 Consolidated: 1,516
Stock exchange	Tokyo Stock Exchange, Prime Market
Securities code	3433
Main banks	MUFG Bank, Ltd. The Mitsui-Sumitomo Bank, Ltd.

Stock information

Total number of issuable shares	160,000,000
Total number of issued shares	61,200,000 (including 1,744,662 treasury stock)
Number of shares per unit	100
Number of shareholders	13,945

Share ratio by owner



Major shareholder status

Shareholder name	Number of shares held (thousand shares)	Percent of total shares (%)*
The Master Trust Bank of Japan, Ltd.	10,831	18.22
Custody Bank of Japan, Ltd.	6,447	10.84
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	2,736	4.60
TOCALO Employee Shareholding Association	2,563	4.31
NORTHERN TRUST CO.(AVFC) RE FIDELITY FUNDS	2,088	3.51
GOVERNMENT OF NORWAY	1,447	2.43
STATE STREET BANK AND TRUST COMPANY 505001	1,406	2.37
Kumiko Saijo	1,036	1.74
STATE STREET BANK WEST CLIENT - TREATY 505234	916	1.54
KIA FUND 136	778	1.31

*Calculated excluding treasury stock

Third-party evaluations

Inclusion in indices

S&P/JPX Carbon Efficient Index

JPX-Nikkei Mid Small Index

FTSE Blossom Japan Index

FTSE Blossom Japan Sector Relative Index

Participation in initiatives

Task Force on Climate-Related Financial Disclosures

Declaration of Partnership Building

External evaluation of ESG initiatives

CDP

Eruboshi Certification

Kurumin Plus Certification

Health and Productivity Management Outstanding Organization

NIKKEI Sustainable Management Awards, Smart Work Edition

NIKKEI Sustainable Management Awards, SDGs Management Edition

External evaluation for IR disclosure

Nikko Investor Relations homepage ranking Ranked Corporate Website in the All Markets Ranking and Sector Ranking (Metal Products)

Received the "Most Liked!" IR Award from Japan Investor Relations Association (JIRA)

Contents

Global network

● Group company ● Technology licensing partner

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

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

South Korea
5. DAE SHIN METALLIZING Co., Ltd.
6. TOPWINTECH Corp.

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

Indonesia
5. PT. TOCALO Surface Technology Indonesia

Vietnam
7. HAN TAI VIETNAM CO., LTD

India
8. ATS Techno Pvt. Ltd.

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

United States
6. TOCALO USA, Inc.
11. SMS group Inc.
12. NxEdge, Inc.

Brazil
13. SMS group Metalurgia do Brasil Ltda.

Number of sites

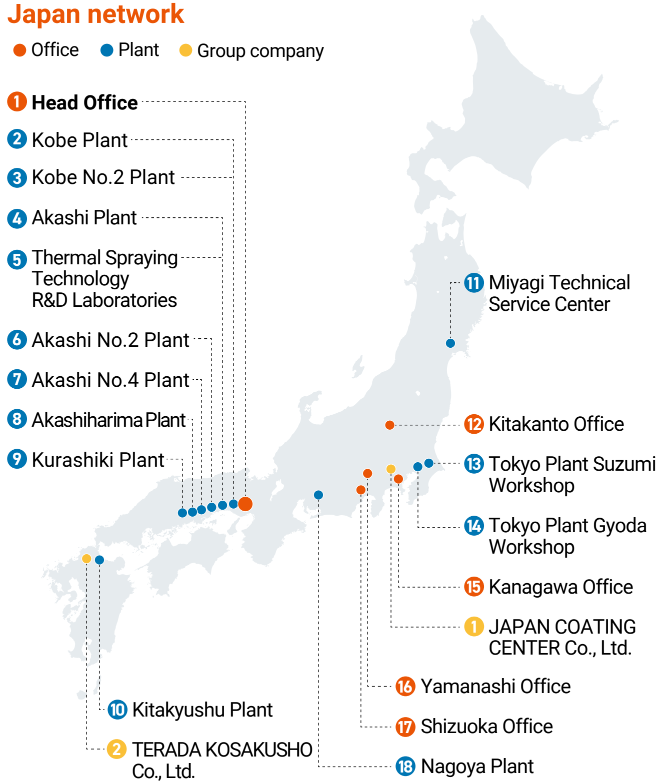
Japan: **3** companies, **28** sites

Overseas: **6** companies, **9** sites

Total: **9** companies, **37** sites

Japan network

● Office ● Plant ● Group company



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