TOYO KANETSU K.K.

TKK Report
2021

80th ANNIVERSARY

Contents

Editorial Policy

Since fiscal 2019, Toyo Kanetsu K.K. (hereinafter, "Toyo Kanetsu" or "the Company") has published its TKK Report annually, an integrated report to convey information about its finances, management strategy, business environment, and ESG (environmental, social, and governance) issues, with the aim of furthering an understanding of its corporate value from a medium- and long-term perspective. In preparing this report, the Company referred to sources including the International Integrated Reporting Framework (<IR> Framework) of the Value Reporting Foundation. We welcome any feedback or opinions from readers in order to make this report better and easier to understand.

▶ Details about results for fiscal 2020, the fiscal year ended March 31, 2021, are available in the *TKK Report 2021 Financial Section*, which is on the Company's website.

https://www.toyokanetsu.co.jp/global/ir/tkk_report.php

▶ Please visit the Company's website for other information for investors.

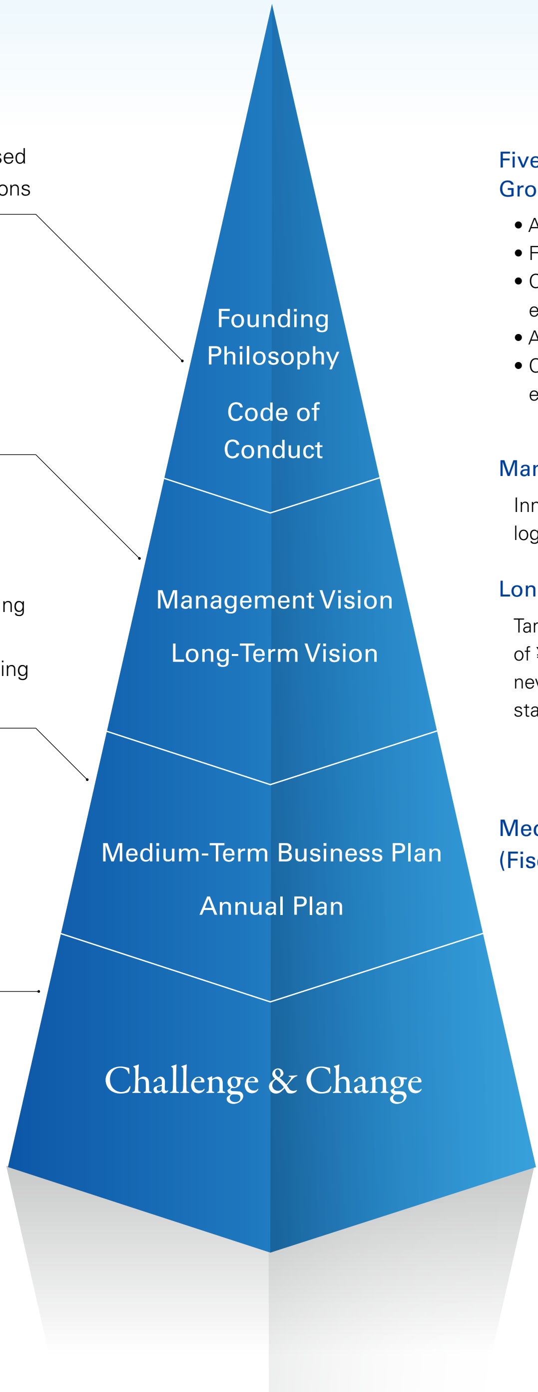
https://www.toyokanetsu.co.jp/global/ir/

Cautionary Note Regarding Forward-Looking Statements

In this report, contents not based on historical fact are future estimates and projections about Toyo Kanetsu and the Toyo Kanetsu Group's plans, strategies, and earnings that were made based on currently available information. Actual results may differ significantly from these forward-looking statements due to business-related risks and various uncertain factors.

Management Principles

Founding Philosophy:
Be Creative, Be Good for Society



Unwavering principles passed down through the generations

Long-term objectives and guideposts to achieve as principles take shape

Business strategies, including concrete action plans and numerical targets, for realizing our vision

Slogan shared by all Group employees working to achieve our principles and vision

Five Principles in the Toyo Kanetsu Group's Code of Conduct

- Adhere to laws, regulations, and rules
- Fulfill responsibilities to society
- Conduct business activities transparently and in good faith
- Adhere to standards of ethical conduct
- Create health-conscious work environments

Management Vision

Innovative solutions for logistics & energy

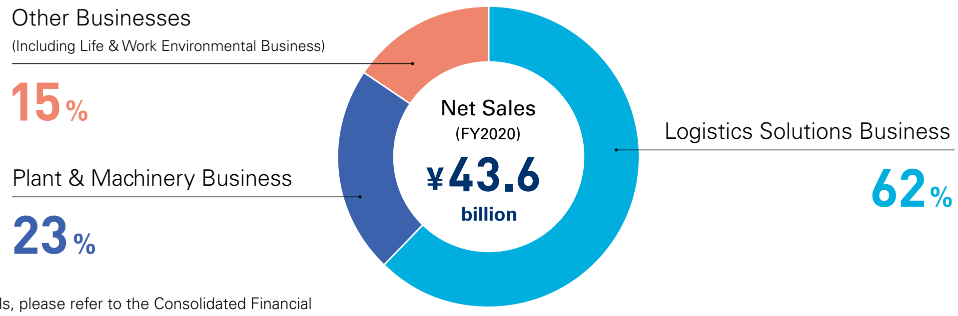
Long-Term Vision

Target Group consolidated net sales of ¥70.0 billion in 2030 by pursuing new growth opportunities after securing stable sources of earnings

Medium-Term Business Plan (Fiscal 2019–Fiscal 2021)

Snapshot

Ratio of Net Sales by Segment



For details, please refer to the Consolidated Financial Highlights on page 60.

Logistics Solutions Business

The Logistics Solutions Business supports logistics infrastructure by offering solutions capitalizing on its comprehensive proposal capabilities, which encompass processes from the design of sorting, picking, and handling systems to maintenance for customers centered on the logistics and airport industries.

Digital picking systems in the co-op industry

Domestic market share: No. 1

Airport baggage handling systems

Domestic market share: Over 80%

Plant & Machinery Business

The Plant & Machinery Business contributes to the stable supply of energy in Japan and overseas and the safe upkeep of energy storage facilities by leveraging its advanced project execution and maintenance capabilities in the construction of large-scale tanks.

Number of storage tanks delivered globally

More than 5,700

LNG storage tanks

Global market share: Over 14%

Other Businesses
(Including Life & Work Environmental Business)

Other Businesses include the Life & Work Environmental Business Division, which is centered on Group companies responsible for a variety of businesses, such as those for industrial machinery, building construction, environmental surveys and assessments, and the maintenance and management of environmental measurement equipment.

Winches

Domestic industry shipment track record: No. 1

Number of asbestos analyses in Japan

More than 30,000 samples per year

History of Toyo Kanetsu

Toyo Kanetsu celebrated its 80th anniversary in 2021.

We would like to express our sincere gratitude to all of our stakeholders for their support, which has enabled us to maintain our business management over this long period.

To mark this milestone, we would like to describe the history of the Toyo Kanetsu Group since its founding by focusing on how we shaped and developed the businesses and organizations of today in order to allow our stakeholders to gain a clearer understanding of the Group.

Founding Years

On May 16, 1941, Toyo Kanetsu Kogyo K.K., located in Kamakuragashi in Kanda Ward, Tokyo, was established with capital of ¥180,000 as a company engaged in the manufacture and sale of industrial kilns. Anticipating a rise in military demand for firebricks and other refractories amid rumblings of the war that would start in that same year, Toyo Kanetsu Kogyo was founded when it broke away to take over the industrial kilns manufacturing and sales division set up by Toyo Tile, a company that manufactured and sold tiles.

The effective founder of Toyo Kanetsu Kogyo was Yoshio Funo (the position of president was initially left vacant), who joined in its establishment as the senior managing director and became the Company's first president the following year in 1942. With Zenkichi Kinugawa (appointed to succeed President Funo in 1969 as the second president), who served as managing director at the time of Toyo Kanetsu Kogyo's establishment, as Funo's right-hand man, President Funo managed the Company with Christian love and his spirit of service as a Rotarian as fundamental principles of his corporate management.

Company Policy determined in 1955
(our Founding Philosophy of today):

Be Creative, Be Good for Society

Based on President Funo's own convictions, we can clearly see in these words an approach of contributing to the resolution of social problems through business activities that is consistent with the modern spirit of corporate social responsibility (CSR).

Postwar Struggles

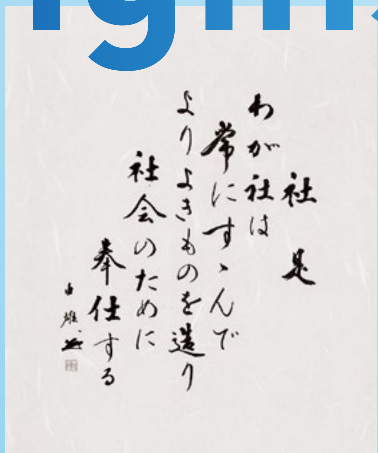
The plan at the time of our founding met with success, with the business fully occupied in sales of industrial kilns following its designation as a munitions factory in the Second World War, which began a few months after our establishment. As our operations expanded in line with military demand, we acquired a company, Asakura Kousakusho, in 1943, thereby obtaining their plant in Sunamachi, Koto Ward, Tokyo (later, the head office plant). However, as the tide of the war gradually turned against Japan, the Company lost its head office building in Edobashi in an air raid at the beginning of 1945 before the war reached its conclusion.

At the end of the war, military demand had disappeared and we had no products to sell as a manufacturer, although our plant in Sunamachi had avoided destruction by fire. In this critical situation, employees devoted themselves to sales activities and eventually received an order for a construction project to supply

Origins

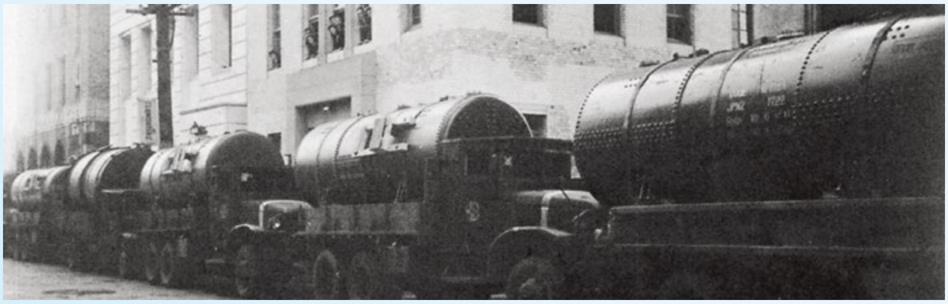
Yoshio Funo, our first president

Zenkichi Kinugawa, our second president



Founding Philosophy, written by Yoshio Funo

A row of trucks in front of the head office building in Nihonbashi carrying boilers made by the Company



Sunamachi Plant

Tank built at the Muroran Refinery of Showa Sekiyu, the first tank order won by the Company

boiler equipment for use in air-conditioning at the various garrisons of troops stationed in Japan. This order helped put the Company back on its feet after the war. As we had many ex-national railway company employees with expertise in combustion-related matters at that time, we were able to manufacture the radiators, hot-water pipes, and various types of industrial boilers that comprise air-conditioning equipment. This technology would subsequently enable us to begin the manufacture of tanks.

Demand from troop garrisons waned within a few years of the war's end and we were forced to shift to management aimed at tapping into civilian demand. In this era, we had to turn our hand to anything requested of us, such as tanks, transmission towers, bridges, utility poles, and coal-conveying equipment.

We used the technology cultivated in the manufacture of boilers for troop garrisons to manufacture tanks and received an order in 1950 for a fixed-roof, riveted cone-roof tank (CRT) from the Muroran Refinery of Showa Sekiyu Co., Ltd. (now Idemitsu Kosan Co., Ltd.), which would become our first tank order. We followed this with an order for our first welded CRT from the Shimotsu Refinery of Maruzen Oil Co., Ltd. (now Cosmo Energy Holdings Co., Ltd.).

However, at this time the Company was in a slump to the extent that it could not pay the salaries of its employees on time. This situation was due to the inefficient and unprofitable management practice of producing a wide variety of products in small quantities according to order, combined with the impact of the recession brought about by the Dodge Line.*

Although the outbreak of the Korean War in 1950 generated a brief boom stemming from special demand for such products as steel poles for use in barbed-wire fencing, challenging circumstances returned at the end of the war. In 1952, tough business conditions forced the Company to sell its head office building in Kabutocho in Nihonbashi, Tokyo, and to relocate it within the grounds of the Sunamachi Plant, and pursue management rationalization.

* A financial and monetary contraction policy drafted by Joseph Dodge for Japan to gain economic independence after World War II

Major Decision Concentration on the Tank and Conveyor Businesses

President Funo visited the United States amid tough business conditions in 1951. Although overseas travel was extremely difficult in this era due to the strict foreign currency restrictions, it is said that President Funo was allowed to go to the United States thanks to a special consideration by the Japanese government. During his stay in the United States, President Funo successfully concluded a provisional contract (formally approved by the Japanese government in 1954) to form a technical alliance for the manufacture of floating roof tanks (FRTs) with Hammond Iron Works (HIW), a leading FRT manufacturer (HIW was absorbed in a merger with Pittsburgh-Des Moines Steel Co. (PDM) in 1960.). The background to this contract was President Funo's strong determination to overcome the adverse business circumstances faced by the Company by positioning the manufacture of tanks using the latest technology at the core of the business.

Owing to the contract with HIW, we became the first in the industry in Japan to be able to manufacture tanks using floating roof technology. In 1952, we received an order from the Matsuyama Refinery of Maruzen Oil for Japan's first metal-sealed FRT, made possible by the technical alliance agreement with HIW. We completed this FRT in 1953, attracting considerable attention in the industry.

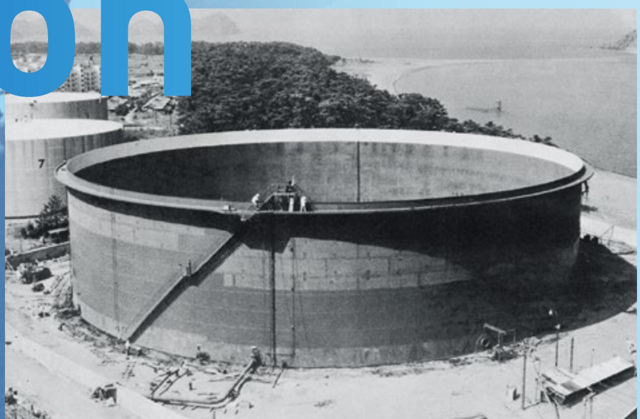
In 1953, we also won an order from the Shimotsu Refinery of Maruzen Oil for a tube-sealed FRT (completed in 1955) with superior safety performance and cost efficiency using technology developed by HIW as well. Despite suffering under deflationary conditions, we carved out a reputation as a manufacturer with outstanding technologies by proactively incorporating such cutting-edge technologies from the United States.

During this period, we also received an order for 10 irrigation sluice gates in India as our first export project, which we completed and delivered in 1954, despite encountering difficulties with the local construction work and weather. Moreover, in 1952 we continued endeavoring to rebuild our business in a variety of ways, including leasing a plant in Yokohama for manufacturing belt conveyors for use in construction work.

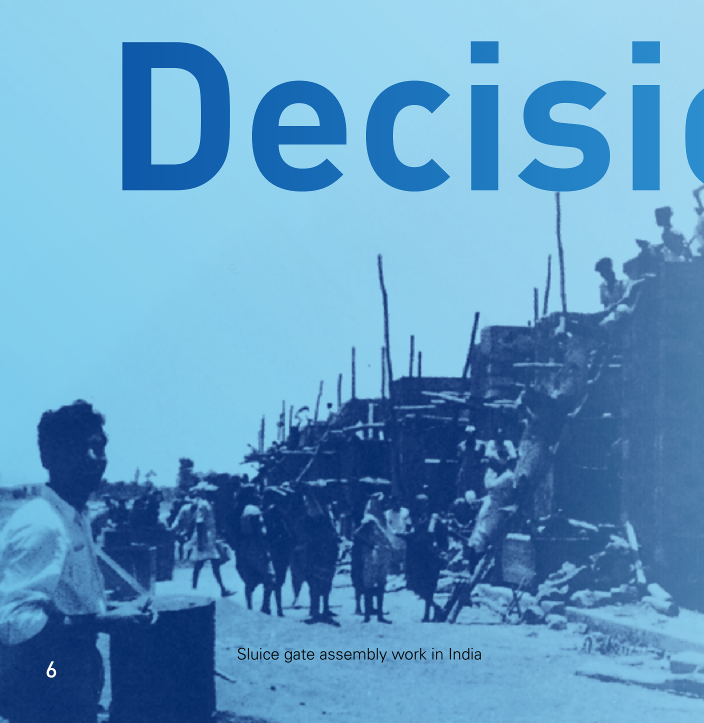
The year 1955 may be described as the starting point of the present business management of Toyo Kanetsu.

As our business gradually began to make a recovery, our management team led by Funo and Kinugawa took

Decision



First tube-sealed FRT (supplied to Shimotsu Refinery of Maruzen Oil)



Sluice gate assembly work in India

on the challenge of formulating a new management policy. Through a management assessment and diagnosis carried out by the Japan Management Association in 1954, we concluded that it would be to our advantage to break away from high-mix, low-volume production and adopt a business format that allowed us to make use of our expertise as a manufacturer in order to stabilize our business management. We therefore conceived the 3S principles of Specialization (focusing on a narrower range of production items), Standardization (pursuing rationality), and Simplification (enhancing efficiency through simplification) as our management policy and embarked on rebuilding unprofitable businesses that continued to engage in high-mix, low-volume production.

In 1955, we decided to establish a specialized two-plant system focusing on two items: tanks that we had been manufacturing at the Sunamachi head office plant and belt conveyors for use in construction work that we had just begun manufacturing at our plant in Yokohama that year. At the same time, we also opted to withdraw completely from the manufacture of pylons, bridges, boilers, and other such products. As the backdrop against which this decision was made, we had not only already begun to garner a strong market reputation for our tanks but also, anticipated an increase in energy demand during the coming period of rapid economic growth. In addition, despite still being at the market development stage, we had also seen the potential of conveyors as a type of labor-saving equipment. The shift from operating a jack-of-all-trades business to concentrating management resources in two businesses was the key management decision that helped create the Toyo Kanetsu of the present.

Early conveyor for civil engineering and construction work

Various types of tanks supplied to the Tokuyama Refinery of Idemitsu Kosan

Rapid Growth of the Tank Business

After deciding to concentrate on two businesses, Toyo Kanetsu made concerted efforts on a Companywide basis to work on them under President Funo's slogan of "No Sale, No Job." In particular, we further focused our efforts on the sales activities of the tank business division, which was seeing a sharp upturn in demand at the time.

In 1955, we received a major order for 25 tube-sealed FRTs from the Tokuyama Refinery, which Idemitsu Kosan was constructing as the largest refinery in the East. The impact of this substantial order, worth more than 10 times our capital at the time, was such that it boosted our performance and raised the motivation levels of employees. Furthermore, we succeeded in breaking free from the sluggish results caused by the recession that had persisted since the end of the Korean War, in part thanks to the unprecedented economic growth at the time. There then followed a boom in the construction of large tanks in various regions, which prompted a rapid recovery in our business results. This turnaround was made possible by the latest FRT technology of our partner, HIW, and the competitiveness that resulted from cost reductions realized by increased operational efficiency stemming from the automatic welding machines developed by our own engineering team.

In 1958, Toyo Kanetsu became the first company in Japan to have its tank manufacturing plant certified by the American Petroleum Institute (API). This certification was an indication that our manufacturing technology was of a world-class standard.

In 1959, a year after obtaining API certification, we received an order from the government of Kuwait to construct an elevated tank for supplying water, our first overseas tank project. This order was also our first comprehensive overseas construction project that saw us also undertake local construction work. Meanwhile, the order we received from the American Independent Oil Company of the United States (acquired by the Phillips Petroleum Company, also of the United States, in 1984) for an FRT in Kuwait in 1961 became our first overseas order for a crude oil tank project. Subsequently, the tank business entered a period of full-fledged overseas expansion in which the Toyo Kanetsu brand raised its profile in the global tank market.

Our tanks demonstrated their superiority from a technical point of view in the major earthquake of 1964, in Niigata Prefecture. While the earthquake either damaged or caused many of the more than 30 tanks of different shapes and sizes manufactured by other companies to catch fire, not one of our nine tube-sealed crude oil tanks was damaged or caught fire, providing verification of their safety. This verification further enhanced the reputation of our tanks, helping propel us from being Japan's top tank manufacturer to one of the world's leading tank manufacturers.

Elevated water tank under construction in Kuwait

As the size and quantity of tanks that we manufactured grew, the need for larger and more sophisticated manufacturing facilities became inevitable. While searching for a new production base to replace our outdated plant in Sunamachi, which had little room for expansion, we were approached regarding a plan that had emerged for the construction of a large industrial complex near Kisarazu, Chiba Prefecture. This plan involved the blast furnace plant of Yawata Iron & Steel

Certification awarded by the American Petroleum Institute

Growth

Chiba Plant immediately after completion

Co., Ltd. (now the Kimitsu Works of Nippon Steel Corporation) and a group of companies engaged in meeting steel demand. After deciding to join the plan, the Company acquired an approximately 200 thousand square meter site in the complex. In 1971, we completed the Chiba Tank Plant (now the Chiba Office), which was equipped with state-of-the-art facilities and a wharf capable of accommodating 3,000-ton class cargo ships.

In 1974, the Company jointly established PT Toyo Kanetsu Indonesia (TKI) in the export processing zone on the island of Batam, Indonesia, with the Indonesian state-owned oil company PT Pertamina, Nissho Iwai Corporation (now Sojitz Corporation), and Toyo Kanetsu taking stakes of 51%, 14%, and 35%, respectively (the venture is now a wholly owned subsidiary of Toyo Kanetsu.). The object of establishing the venture was to secure a market for crude oil and liquefied natural gas (LNG) tanks in Indonesia and address demand in the Asia-Pacific region. In 1978, TKI built a plant in Batam as a tank production base, thereby establishing a system for manufacturing large tanks in Chiba and in Batam.

In 2005, the Batam Plant replaced the Chiba Plant as the core plant for our tank business. Despite its location in an emerging country, the Batam Plant has established itself as a base for manufacturing our tanks, particularly LNG tanks, possessing world-class technologies and complying with various strict Japanese laws and regulations as well as global standards.

From the Conveyor Business to the Logistics Business

In 1955, our conveyor business, one of two businesses on which we had decided to concentrate, produced conveyors for civil engineering and construction work (Toyo Conveyor) at our plant in Yokohama. Although we had only just launched sales in the business, the timing of this decision coincided with the advent of a construction boom. Requests for labor-saving and rationalization in cargo handling operations saw a succession of leading construction companies adopt the Toyo Conveyor, resulting in increased sales.

President Funo, who had high expectations for the promising conveyor field, again visited the United States in 1958 with a plan to introduce the latest manufacturing technologies from the country's leading conveyor manufacturers, as he had done with tanks. After inspecting three leading local conveyor manufacturers, Funo chose Rapids Standard Company (Rapistan), which excelled in systems engineering, carrying out discussions with the company for a technical alliance and reaching an agreement in principle before returning to Japan. Based on this agreement, we obtained the approval of the appropriate authorities and concluded a technical alliance contract in 1960, beginning production of automatic pressure conveyors (APCs) using world-leading technology developed by Rapistan. The APC system was the first in the world to solve the problem of "line pressure" that occurs when materials for handling are on a powered conveyor. As such, this type of conveyor was suited to transporting packages in plants and warehouses, and its innovative features won wide acceptance from customers in Japan who needed high-speed, stable handling systems.


Rapistan conveyor (delivered to the Harumi Post Office of the Ministry of Posts and Telecommunications)

In addition to its Toyo Conveyor for civil engineering and construction work, the Company had now acquired highly productive Rapistan conveyors for use in logistics in warehouses and other settings. Leveraging these products, we subsequently succeeded in capturing a wide range of conveyor demand in Japan.

Later, Mannesmann, the German company that acquired Rapistan, established Mannesmann Dematic AG. This company was the predecessor of Dematic, our technical partner for the Multishuttle system, which is the key component equipment of our Logistics Solutions Business today. In this way, the groundwork laid by President Funo still underpins our logistics business of the present day.

BHS at Kuala Lumpur International Airport

Entry into the Airport BHS Market

Anticipating an increase in the size of jet aircraft, Rapistan also became the first manufacturer of commercialized pallets for air transportation and airport baggage handling systems (BHSs) by extending their excellent cargo handling technology.

In 1971, we delivered the Tri-Planar®, which our engineering team created by improving and developing the BHS technology that we had introduced from Rapistan, to Fukuoka Airport as our first BHS. The Tri-Planar® is an airport conveyor system that can be freely installed to move horizontally and vertically and which can handle a large volume of air passengers' baggage with greater efficiency in a shorter time than previous systems. The suitability of this system to conditions in Japanese airports, where large aircraft arrive and depart frequently, was such that more than 30 airports in Japan adopted it in the space of just three years from the first delivery in 1971 through 1974. In addition, New Tokyo International Airport (Narita) adopted the Tri-Planar® as its baggage handling system on its opening in 1978. Equipped with a frictionless drive, our new Tri-Planar has become a global standard-bearer when it comes to low noise, ease of maintenance, and reliability, and since it was first installed in Okayama Airport in 1992, Toyo Kanetsu now has an over 80% market share of all baggage handling systems at Japan's airports.

We have also proactively engaged in the supply of baggage handling systems to major overseas airports and in major airport development projects in emerging countries associated with the Japanese government's Official Development Assistance (ODA). In respect to major overseas airports, we supplied baggage handling systems at the opening of both Singapore's Changi Airport (delivered in 1981) and Malaysia's Kuala Lumpur International Airport (delivered in 1998) and delivered many such systems for airport projects under ODA programs, such as the Bohol-Panglao International Airport in the Philippines (delivered in 2018).

As for airport equipment, we are developing cutting-edge technologies that meet the needs of a variety of airport-related customers, such as for combating terrorism and facilitating smooth immigration control

Tri-Planar® three-dimensional conveyor

Pioneer

A self-service baggage drop unit equipped with facial recognition system delivered to Haneda Airport

measures, as well as addressing requests for improved air cargo handling in fields other than passengers' baggage handling. In response to the need to detect explosives in baggage at airports, we have incorporated a new explosive detection system using X-rays, known as an in-line screening system, into our baggage handling systems. Since delivering the first in-line screening system to Tokyo International Airport (Haneda) in 2004, we have delivered the system to other airports while continuously adapting it to cater to the scale and needs of a wide range of airports in Japan and overseas.

In addition, Haneda Airport started the verification tests of their "One ID" concepts in April 2021, in which

Company Name and Emblem

When the Company was founded as Toyo Kanetsu Kogyo K.K. in 1941, its name (東洋火熱工業株式会社) was written in Chinese characters.
"東洋 = Toyo" means "the East." "火 = Ka " means "fire."
"熱 = Netsu" means "heat." "工業 = Kogyo" means "Industrial."
"株式会社 = Kabushiki Kaisha (K.K.)" means "Company Limited."
As tanks developed to become the pillar of our business, the Company subsequently decided that the characters for "fire" and "heat," which featured in the original name, should not be associated with the tank business and began discussing a name change.

In 1969, we modified our name to Toyo Kanetsu K.K.(トーヨーカネツ株式会社), written in *katakana* (Japanese syllabary) instead of Chinese characters, after deciding that it would be unwise to change our name completely given that the Toyo Kanetsu brand was already well known overseas. Although the new company name no longer had "heat" and "fire" in characters, the pronunciation of the name remained the same (Toyo Kanetsu).

Meanwhile, immediately after our foundation in 1941, we had created a company emblem based on a design using the Chinese character for "fire, 火" in tribute to our business. However, on the basis that fire was not suitable for tanks, the Company also altered its emblem to that of its current one, ahead of the name change, on the 15th anniversary of its founding in 1956. The new emblem, featuring a metal pot standing on three legs indicating robust foundations and a surrounding circle representing Companywide harmony, expresses our hope for the future and wish for our development.

Former company emblem

Current company emblem

facial recognition at check-in would simplify the total boarding procedure. We delivered self-service baggage drop units compatible with "One ID" that are equipped with a facial recognition system.

In these ways, the innovative features of our airport-related systems are providing support for the safe and comfortable entry and departure of air passengers.

Stock Exchange Flotation

In 1955, President Funo decided to concentrate our management resources in two businesses while acquiring the latest technologies from the United States ahead of other manufacturers in Japan. The management decision of its first president to secure a leading position through technological superiority helped create the business foundation for today's Toyo Kanetsu.

As the two businesses stabilized its operations, the Company entered the capital market with a view to securing stable financing and solidifying public trust in its brand. To that end, the Company's shares were listed on the Over-the-Counter Section of the Tokyo Stock Exchange in 1959, the Second Section in 1961, and the First Section in 1970.

Provision of Energy Infrastructure Underpinning Rapid Economic Growth

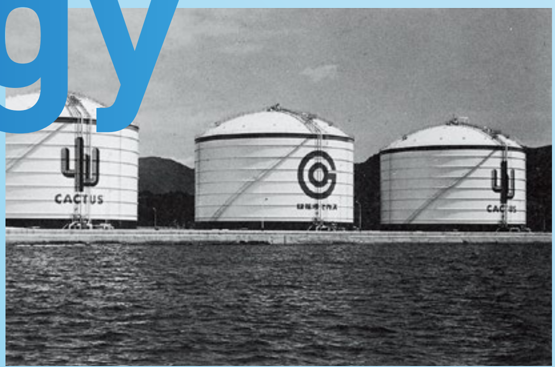
An increase in global energy demand during the era of rapid economic growth in Japan from the mid-1950s prompted a shift in the energy mix from coal to crude oil, which led to a sudden increase in demand for crude oil storage tanks. We responded proactively to this trend by increasing the size of our tanks and joining overseas tank construction projects. The emergence of the problem of air pollution associated with the burning of fossil fuels also forced us to cater to the cleaner energy that is commonplace today.

In terms of increased tank size, the Company broke the world record almost every year for the size of its crude oil tanks per tank delivered, rising from a capacity of 100,000 kiloliters in 1965 to reach 160,000 kiloliters in 1970 before continuing to increase further.

As for overseas projects, in 1965 we won an order for a large-scale FRT in Singapore from Royal Dutch Shell plc, a major oil company, which proved that our technology had reached a level at which it was in held in high regard by major overseas players. The year 1973 saw the Company receive an order for the world's largest tank (at the time) in Abu Dhabi, with a capacity of 185,000 kiloliters, from British Petroleum (now BP plc), another major oil company. In this manner, buoyed by the booming overseas market, the Company was working simultaneously on overseas tank construction sites in 12 locations as of March 31, 1972.

Energy

Newspaper advertisement announcing the Company's listing on the First Section of the Tokyo Stock Exchange



LPG tanks delivered to the Mizushima Refinery of Nippon Mining

In respect to cleaner energy, the growing attention placed on the problem of pollution caused by exhaust gas from automobiles led to the beginning of a trend for switching from oil to gas (liquefied petroleum gas (LPG) and liquefied natural gas (LNG)) as a cleaner type of fuel. We responded quickly to this trend while cooperating with Pittsburgh-Des Moines Steel Co., our technical alliance partner (HIW merged with Pittsburgh-Des Moines Steel Co., the tank division of which was subsequently acquired by the Chicago Bridge & Iron Company (CBI) in 2002.).

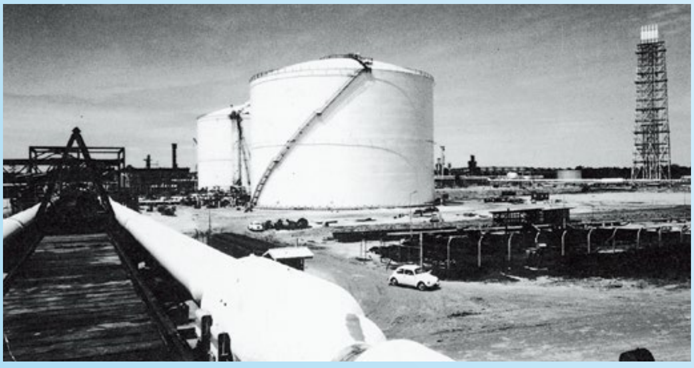
In 1965, we received an order for a metallic, double shell, low-temperature storage tank for LPG from the Mizushima Refinery of Nippon Mining Co. (now ENEOS Holdings, Inc.), the largest such tank in Japan at the time. Moreover, in 1969 we received our first order for LNG tanks in Brunei (two 60,000-cubic meter tanks, among the largest in the world at the time, completed in 1972). The same year 1969 was the year which witnessed the first import of LNG to Japan from Alaska. In 1972, we won an order from Algeria for three LNG tanks at a size of 100,000 cubic meters, which were also among the largest in the world. We then received our first domestic order for two 75,000-cubic meter LNG tanks from Osaka Gas Co., Ltd. in 1974.

In 1977, the Chiba Plant became the first manufacturer of tanks in Japan to obtain two types of stamps (certifications) from the American Society of Mechanical Engineers (ASME), which indicate a high level of quality control in the manufacture of pressure vessels. In procuring materials and equipment, engineering companies in the United States give priority to ordering from suppliers with plants that have obtained these stamps. The fact that the Company had obtained these stamps underlined the high level of its technology.

We have consistently received orders for LNG tanks from companies in Japan and overseas thanks to our continuous efforts in conducting technological development. As part of such efforts, we completed a full-containment tank with a PC (prestressed concrete) outer tank in 1993. To date, we have supplied 100 large-scale LNG tanks globally (34 of which in Japan), including a 230,000-kiloliter class tank that is one of the largest in the world. Our share of the world's market for large-scale LNG tanks stands at approximately 14% (based on number of tanks).

We also operate a tank maintenance business making use of the know-how we have accumulated through the manufacture and construction of large-scale tanks to meet the needs of tank owners for complying with periodic open inspections of tanks that are mandatory under the Fire Service Act at oil refineries and oil storage terminals in Japan.

Hydrogen is attracting significant expectations as a next-generation energy source. Amid explorations into storage methods at ultra-low temperatures lower than those for LNG, we are promoting technological development with the backing of the New Energy and



First LNG tanks ordered from Brunei

A full-containment tank with a PC (prestressed concrete) outer tank delivered to the Donggi-Senoro LNG project in Indonesia

Industrial Technology Development Organization (NEDO), a national research and development agency, to construct a large-scale, 10,000-kiloliter class liquid hydrogen tank in cooperation with the Tokyo Institute of Technology and Hokkaido University.

Provision of Logistics Solutions Meeting the Needs of Society

During Japan's period of rapid economic growth, rising labor costs triggered a sharp increase in the need for labor-saving solutions while logistics demand expanded dramatically. As a result, the Company's Rapistan conveyor business was required to address the growing scale of logistics centers and the diversifying requirements of customers. One of the achievements of our technological development in response to these circumstances was the delivery of the Rapistan conveyor system to the Fuchu Distribution Center of Seiyu Store Co., Ltd., the largest and most efficient of such systems in the East at the time, which we completed in 1969.

Following this delivery, we developed a series of new and innovative logistics systems to lead the industry. In 1981, we delivered the first domestically manufactured pick director system to Sanrio Company, Ltd. This product, for which we adapted the picking system developed by Rapistan for the Japanese market to dramatically improve picking efficiency, has since played a significant role in driving demand in Japan, including in the co-op market.

In 1993, we developed the New Posi-Sorter®, an ultra-high-speed sorter using an electromagnetic switching device. We offered a quiet and high-performance system by changing the switch component of this device from an air cylinder drive system to a system using an electromagnet with no moving parts.

In 1996, we delivered the world's first conveyor-based automatic handling system for a potted plant market. This system, which automates the flow of potted plants from arrival through to auction and shipment, won the Technology Prize in the Logistics Awards organized by the Japan Institute of Logistics Systems in the same year.

Furthermore, in 1999 we delivered a warehouse logistics system underpinning the business model of ASKUL Corporation, a mail-order office supplies company, for which we were honored with the grand prize in the Logistics Awards alongside ASKUL Corporation and Hitachi, Ltd.

In 2002, we concluded a strategic business alliance with Siemens Dematic AG (now Dematic), one of the world's leading logistics solutions manufacturers. Dematic is a manufacturer of Multishuttle technology that facilitates the quick entrance and exit of products from warehouses by performing the four tasks of storing, picking, sorting, and replenishing in order to address the requirements of online shopping companies for the quick delivery of a high mix of products. Through the introduction of this Multishuttle technology, we have provided a host of solutions that leverage and develop its functions. Consequently, we have accumulated a track record for delivering logistics warehouse equipment to not only mail-order and online retailers but also a great number of companies,

Rapistan conveyor system delivered to the Fuchu Distribution Center of Seiyu Store

World's first conveyor-based automatic handling system for a potted plant market

Logistics

GTP system (AutoStore) installed at the Wakayama Plant

including those in the manufacturing industry that store a vast amount of components and products.

In 2019, we launched the Goods to Person (GTP) system, deploying enhanced Multishuttle functionality to offer unparalleled labor-savings and efficiency in picking by facilitating the movement of products for delivery to a picking worker's station instead of the worker walking to pick up the products.

Toyo Kanetsu was among the first companies to incorporate radio frequency identification (RFID), which updates data in a non-contact manner using radio communication, into its logistics systems, opening a facility for conducting RFID verification testing at its Chiba Plant in 2005. Using the data obtained through testing, we developed a system for managing the transport trolleys and folding containers used on the premises of companies, for which we received the 15th Automatic Identification Systems Award in 2003 sponsored by the Japan Automatic Identification Systems Association.

In 2013, with a view to addressing increasing demand and customer needs, the Company rationalized its procurement of materials and equipment via the outsourcing of production to partner plants and strengthened its in-house production system by opening the Wakayama Plant, which produces logistics equipment.

Given Japan's aging society and low birth rate, our businesses will almost certainly see increasing labor-saving and energy conservation requirements. Amid these circumstances, we will supply systems tailored

Multishuttle

to the needs of customers and offer backup services that can be operated with peace of mind while utilizing the latest artificial intelligence (AI) and Internet of Things (IoT) technologies.

Progress of New Businesses

Since establishing a course concentrating on two businesses in 1955, our tank and logistics businesses have supported the Toyo Kanetsu Group. In the intervening period, the biggest management task for Toyo Kanetsu has been to create a business that will serve as the next pillar while growing its two core businesses. In particular, we explored the creation of new businesses, established new corporations, and focused on many businesses during the period between the late 1980s and 2000s. Although the Company attempted to commercialize a wide range of businesses, such as the leasing of construction machinery, solar system engineering, manufacture and sale of cosmetics, management of restaurants, and import and export of marine products, many have disappeared from the Toyo Kanetsu portfolio of businesses.

Those that have survived include the Group company Toyo Koken K.K., established in 1957 as a conveyor components manufacturer that today engages in the manufacture and sale of ancillary equipment for industry, such as winches, hoists, and balancers. Another surviving Group company is Toyo Kanetsu Builtec K.K., which we established in 1991 as a division of the tank business and spun off in 2014 to operate a building construction business and a gondola leasing business.

We began taking on a new challenge in the mid-2010s. In 2017, we established two corporate venture capital (CVC) funds. These funds primarily focus on acquiring technology that will assist the development of our two core businesses through partnerships with start-up companies. Meanwhile, we added, through M&A, Kankyo Research Institute Inc., known for environmental analysis and consulting, and Eco Analysis Corporation, with strengths in the environmental infrastructure field, such as the maintenance of environmental assessment equipment, to the Group in March 2018 and April 2021, respectively. In this way, we have reinforced our foothold in the promising field of environment-related businesses.

The Life & Work Environmental Business Division, established in April 2020, is in charge of these new businesses and subsidiaries.

Toyo Kanetsu—Protecting Infrastructure

The infrastructure systems that Toyo Kanetsu manufactures and sells must run 24 hours a day, 365 days a year. Such infrastructure includes tanks that receive, store, and deliver oil and gas, which are essential for industry and daily life; systems that support

Maintenance and management conducted by Eco Analysis Corporation employee

e-commerce, which is becoming a part of daily life; warehouse systems that underpin the transport of daily essentials to supermarkets, co-ops, and convenience stores; and baggage handling systems that control incoming and outgoing baggage at airports operating 24 hours a day. To ensure they can operate equipment expected to be running non-stop with peace of mind, we strive to realize the stable operation of these areas of infrastructure while working together closely with customers.

While supplying high-quality and robust equipment is a given, maintaining a smooth support system to deal with accidents and breakdowns is also essential.

In respect to tanks, we have put in place a system for swiftly assisting customers by setting up a dedicated team to deal with major disasters. For logistics, we have developed systems that are resilient to earthquakes and other disasters and have established nine service centers throughout Japan that offer round-the-clock support and meet customer requests for maintenance and repair. In 2020, we developed and launched sales of predictive maintenance services, leveraging the latest AI and IoT technologies that facilitate maintenance by monitoring the operating conditions of logistics equipment and predicting abnormalities using IoT sensors.

Toyo Kanetsu not only creates social infrastructure but also watches over its operation.

Toward the Next Era in Harmony with Society

In today's world, corporate management is impossible without initiatives for the environment, society, and governance and corporate social responsibility. Furthermore, coexisting harmoniously with the environment and society is essential to business management, as we have seen with the prominence of the United Nations Sustainable Development Goals.

Looking ahead to its 100th anniversary, the Toyo Kanetsu Group will continue contributing to the creation of a sustainable society through its businesses.

Innovative Solutions

To Our Stakeholders

Toru Yanagawa

President and
Representative Director

We will achieve further growth by resolving various social issues to ensure that we remain a company with lofty ambitions as we look ahead to our 100th anniversary.

The Toyo Kanetsu Group celebrated its 80th anniversary on May 16, 2021. I would like to take this opportunity to express my deep gratitude to all our stakeholders for their support throughout our history. While we have overcome many adversities over those 80 years, the year 2020, which was marked by the global spread of the COVID-19 pandemic, may well be described as the most turbulent of all. I would like to express our sincere condolences to anyone who has lost loved ones because of the pandemic and pray for a quick recovery for all those who have contracted the virus and for a safe end to this crisis. I would also like to express our respect and deep gratitude to those working to prevent the spread of the infection.

While we had fully understood that we would not be completely unaffected by the impact of COVID-19 in fiscal 2020, the Plant & Machinery Business in particular faced extremely severe headwinds. Consequently, in November 2020 we were regrettably forced to institute a downward revision of the targets set in our three-year Medium-Term Business Plan, launched in fiscal 2019. On the other hand, the Logistics Solutions Business enjoyed favorable tailwinds and the Company made steady progress with its environmental, social, and governance (ESG) initiatives centered on the important management issues (material issues) that it began addressing in earnest three years ago. In *TKK Report 2021*, we will describe the progress we made in fiscal 2020, the second year of the current Medium-Term Business Plan and our strategy for going forward as well as the initiatives we are pursuing with an eye on our 100th anniversary.

Performance Impacted by COVID-19

Looking back on our performance in fiscal 2020, the Logistics Solutions and Plant & Machinery businesses—our two business pillars—experienced starkly contrasting fortunes. Although delays in a portion of its projects resulting from the impact of COVID-19 brought about a decrease in net sales of 5.7% year on year, to ¥27.23 billion, the Logistics Solutions Business posted record profits for the second consecutive year with operating profit increasing 11.7% year on year, to ¥3.14 billion, thanks to an improvement in the profitability of large-scale projects due to a strengthening of revenue management and the expansion of the maintenance business. In recent years, project management had become an issue as the Logistics Solutions Business saw not only an increase in project numbers, such as those for e-commerce-related companies, but also an expansion in the scale of acquired projects. To address this issue, we placed executive officers in charge of each large-scale project to clarify responsibility and established a system to manage costs and schedules as well as to control quality throughout the entire value chain, from order processing to design, manufacture, and installation, which I believe led to the business' record performance.

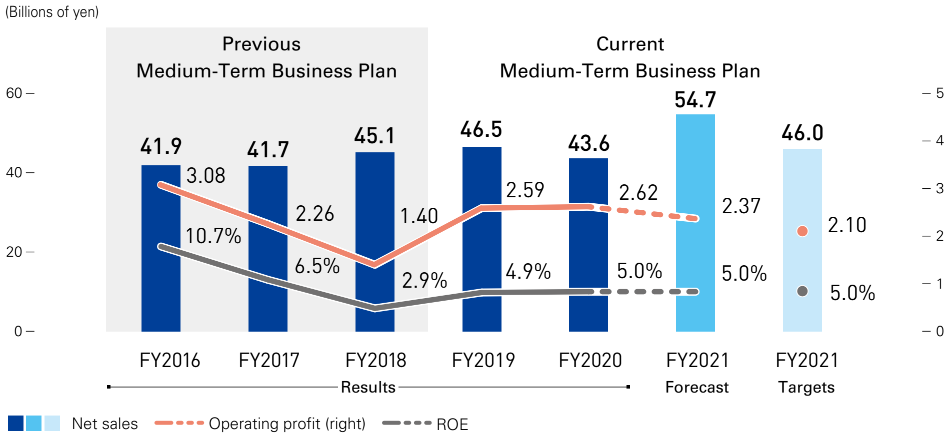
Meanwhile, the Plant & Machinery Business raised its profit margin by implementing strict revenue management while capturing periodic demand for oil refinery maintenance in Japan. However, despite efforts to win orders with the aim of capturing emerging small to medium-scale projects, severe conditions persisted overseas with delays in decisions on investment plans for large-scale liquefied natural gas (LNG) tanks, which had been a forte of the business. In particular, the Batam Plant in Indonesia experienced a dramatic decline in orders, which led to the operating rate falling to between 20% and 30% of its capacity. As a result of these factors, net sales in the Plant & Machinery Business declined 1.5% year on year, to ¥9.8 billion, and operating loss worsened from ¥0.3 billion in fiscal 2019 to ¥0.6 billion. Due to these severe business conditions and trends in performance, the business recorded impairment losses of ¥1.04 billion on non-current assets.

In fiscal 2020, reflecting the performance and other factors in these two businesses, consolidated net sales of the Company were down 6.2%, to ¥43.61 billion, while consolidated operating profit was up 1.2% year on year, to ¥2.62 billion. Profit attributable to owners of parent increased 3.5% year on year, to ¥1.77 billion, in part due to the recording of extraordinary income stemming from a reduction in our cross-shareholdings, and ROE rose 0.1 percentage point year on year, to 5.0%.

In fiscal 2021, we expect the Logistics Solutions Business to achieve a 10.1% increase in net sales, to ¥30.0 billion, by steadily executing orders received in previous years, such as those related to e-commerce and co-ops. In addition, we are forecasting a 14.0% decrease in operating profit, to ¥2.7 billion, due to an increase in our depreciation costs because of growth investments, such as those in relation to digital transformation (DX) and capital expenditures, under favorable business conditions. In the Plant & Machinery Business, we expect a 46.9% increase in net sales, to ¥14.4 billion, accompanying the impact of changes in accounting standards. Meanwhile, although depreciation costs may be eliminated due to the impairment losses of the previous fiscal year, the business will reduce its operating loss to ¥80.0 million by further enhancing profitability in its maintenance business in Japan and implementing thorough cost reductions. Lastly, we plan for Other Businesses to achieve an increase in net sales of 58.1%, to ¥10.4 billion, and a decrease in operating profit of 1.1%, to ¥0.78 billion, by expanding its environmental domain through M&A.

As a result, in terms of our performance forecast for the Group as whole in fiscal 2021, we are expecting an in increase in net sales of 25.4%, to ¥54.7 billion, a decrease in operating profit of 9.7%, to ¥2.37 billion, a decline in profit attributable to owners of parent of 1.6% year on year, to ¥1.75 billion, and ROE of

5.0%, the same level as fiscal 2020. In light of the downward revision of the current Medium-Term Business Plan's targets that we instituted in fiscal 2020, we will strive to ensure that we achieve the revised targets.



Confronting the Issue of Climate Change and Advancing New Initiatives

In fiscal 2018, we formulated 10 material issues and strengthened our ESG initiatives and information disclosure related thereto, while in fiscal 2019 we began the publication of the TKK Report, our integrated report. In fiscal 2020, we established the Companywide, cross-functional CSR Committee, appointing the executive vice president as chair of the committee, in which the head of each division takes part as a committee member. At each of these milestones, I have communicated information on our material issues, ESG management, and the United Nations Sustainable Development Goals (SDGs), and I believe that we have made progress in instilling awareness of these topics within the Company. Social demand for initiatives aimed at achieving ESG targets and the SDGs has been increasing in recent years. With this in mind, I feel strongly that the first step we took three years ago was of great significance for improving our corporate value into the future.

Currently, our most important material issue is to "respond to changes in the business environment caused by climate change." The Plant & Machinery Business views investment in LNG-related equipment as its primary business opportunity. Taking an overview of future developments in this market, we expect demand for such equipment to grow as we approach the latter half of the 2020s. In fact, we have recently begun to see plans for the construction of small to medium-sized LNG tanks. However, although LNG has a lighter environmental footprint than other fossil fuels, it still emits greenhouse gases when it is burned. Given the increasing importance of measures to address climate change in recent years, I believe that we cannot continue to thrive through business development that relies largely on LNG.

Considering the recent acceleration of the pace of the development of technology for co-firing with ammonia in order to significantly reduce CO_2 emissions from coal-fired power generation, we expect to see business opportunities for ammonia tanks. We aim to contribute to the demand for such new energy sources by making use of our technological capabilities in terms of storage.

Furthermore, in consideration of the acceleration of global trends toward the realization of a carbon-neutral society, we are working steadily to develop the world's first large-scale liquid hydrogen tank. We have been promoting this initiative since 2015 while leveraging industry–academia–government collaboration and are scheduled to establish the essential technologies for it in 2022. In order to contribute to the full-fledged introduction of hydrogen power generation using the technology we have cultivated through the construction of ultra-low-temperature LNG tanks, I believe we must rebuild the Plant & Machinery Business with a strong determination and sense of urgency.

In Other Businesses, we expanded our environmental business domain by following the March 2018 acquisition of Kankyo Research Institute Inc., which has strengths in the environmental consulting field, with the April 2021 acquisition of Eco Analysis Corporation, which specializes in the environmental infrastructure field and holds the leading share in the industry for maintaining and managing environmental measurement equipment. We will endeavor to solve environmental issues such as abnormal weather caused by climate change, which has emerged in recent years, while aiming to establish a third business pillar, which has long been a management issue.

We are also strengthening measures in response to our own CO_2 emissions. Currently, approximately 90% of our CO_2 emissions are from power consumption at our head office and business sites. In July 2021, as a first step toward making these locations carbon free, we installed solar power generation equipment to provide power for in-house consumption at the Chiba Office. Thanks to the installation, we expect to replace approximately 7% of our annual power consumption with renewable energy, based on the results for fiscal 2020. Going forward, we will examine the possibility of installing solar power generation equipment at other Group plants, and we plan to switch to CO_2-free electricity when purchasing power from third parties.

Although we carry out discussions on addressing climate change at meetings of the Management Council and the Board of Directors, I view it as vital that all Group employees in Japan and overseas are conscious of this issue.

Promoting Digital Transformation to Ensure We Become an Even More Trusted Partner for Customers

The next most important material issue is to "respond to the decline in Japan's population." While also of relevance to our own efforts to secure human resources, I regard the promotion of labor-saving, labor-reducing, and automation technologies in the Logistics Solutions Business as of great significance for solving this social issue. As an example of our accomplishments in this regard, in April 2021 we delivered self-service baggage drop units to the Tokyo International Airport (Haneda) that are a principal element of the "One ID" check-in-to-boarding process utilizing facial recognition technology at the airport. Despite the current stagnation in airport-related capital expenditures due to the spread of COVID-19, we expect appetite for such expenditures to once again increase in the next two to three years in Japan, which is seeking to establish itself as a tourism-oriented country. Toyo Kanetsu boasts a market share of over 80% for airport baggage handling systems in Japan; however, rather than resting on our laurels, we will proactively introduce the latest technologies while capturing business opportunities by advancing development in close collaboration with customers.

In the e-commerce domain, we constantly propose solutions contributing to the improvement of operational efficiency in logistics centers, such as those for labor-savings in picking and packing work, including the Goods to Person (GTP) system, which moves products to the worker's station. Accordingly, our technological superiority has garnered high praise from customers. The e-commerce and distribution industries have been boosted by the increase in stay-at-home demand accompanying the spread of COVID-19 and competition is intensifying as the market expands. In such an environment, I believe that we must proactively offer consulting in tune with customer needs to become a presence with strong proposal capabilities that makes customers glad they worked with us, in order to further heighten our competitiveness going forward and move on to our next stage of growth as a logistics systems manufacturer.

To that end, it is vital that we work to "develop and use new technologies," which is also one of our material issues. In particular, gathering and using data to promote digital transformation (DX) will become crucial to our business strategies going forward. As an example, in April 2020 we began providing predictive maintenance services that make extensive use of AI and IoT technologies to detect abnormalities as we seek to realize non-stop logistics through the stable operation of equipment in logistics centers. Looking ahead, we believe that gathering and analyzing image data will also become a key subject, and we aim to focus on increasing efficiency and promoting visualization based on an overarching view of entire logistics centers.

We recognize that it is difficult to take on such a challenge armed with only our own resources. As such, we are promoting open innovation, including partnerships with start-up companies. It is my belief that if we can make the kind of proposals that our competitors and customers have yet to come up with, we can win even greater trust as a company that provides unique logistics systems for its customers.

Enhancing Diversity Will Be Indispensable to Future Management

Another material issue that I view as particularly important is to "train and deploy human resources." While the importance of human resources as the source of our value creation will remain unchanged, I believe the future course of enriching human capital will involve assembling human resources with diverse characteristics to fully leverage their capabilities. The expansion of diversity, not only in regard to the empowerment of women, is essential for enabling us to change continuously. If we fall into the trap of recruiting and selecting homogenous human resources because that approach was successful in the past, we will be left with an inflexibly uniform organization that will find it difficult to adapt to an era of accelerating change. Based on this awareness, I aim to make decisions from a management perspective emphasizing diversity.

Given this aim, I understand that the participation and advancement of women in the workplace is a major task for the Company. Although I have no choice but to acknowledge that there are very few women in management positions at Toyo Kanetsu at present, the Company has finally increased the ratio of women serving as team leaders—a position introduced in fiscal 2020 for the next generation of candidates for management positions—to around 15%. I have high hopes that female employees will accumulate leadership experience in this position and develop into human resources who can soon be promoted to management positions. Needless to say, we intend to nurture female employees in anticipation of their playing a role in management in the future, rather than promoting them for the purpose of making superficial improvements. I personally view promotions to management positions and the development of human resources, regardless of gender, as essential to corporate growth.

In terms of workstyles, the Company has endeavored to improve the working environment with the use of staggered working hours, teleworking, and other arrangements, partly in response to COVID-19. Viewing these changes as an opportunity for permanent change, we aim to create more appealing workplace environments even after the COVID-19 pandemic is over. In addition to promoting the taking of childcare leave regardless of gender as a measure for improving the work–life balance of our employees, in August 2021 we began initiatives toward obtaining recognition under the Certified Health & Productivity Management® Organization Recognition Program by formulating the Toyo Kanetsu Group Health and Productivity Management Declaration, with myself as president serving as the chief health and productivity management officer.

Note: Health and Productivity Management® is the registered trademark of Nonprofit Organization Kenkokeiei.

<The Toyo Kanetsu Group Health and Productivity Management Declaration>

Based on its belief that the mental and physical health of each employee is an essential foundation for creating corporate value, the Toyo Kanetsu Group will work to promote health and create workplace environments so that diverse employees can work enthusiastically and demonstrate their individuality and talents to the fullest extent possible.

<Establishment of Priority Fields and Key Measures>

(1) Creation of comfortable working environments that emphasize a work–life balance
We will work to encourage the taking of annual paid vacation, promote mental well-being, prevent harassment, and ensure reasonable working hours.

(2) Support for health promotion and healthy lifestyle habits
We will strive to improve the health of our employees by communicating information on lifestyle habits and holding health seminars.

(3) Improvement of follow-up response in accordance with the results of regular health checkups
We will promote the early detection and treatment of diseases by encouraging those with positive findings to undergo detailed examinations while also creating environments that facilitate a return to the work place after recovery.

Refining Our Ability to Respond to Change through Interactions with External Parties

Toyo Kanetsu, which celebrated its 80th anniversary in 2021, is looking ahead to its 100th anniversary. We have a duty to further enhance the assets built by our predecessors over those 80 years and pass them on to the next generation. Whether we can do that or not will depend on how well we can respond to environmental changes ahead of time during an unpredictable next 20 years. I believe we must proactively change the orientation of our businesses according to the environment, a point that applies to the Logistics Solutions Business, the Plant & Machinery Business, and Other Businesses.

Guided by this belief, the Company set up the Future Creation Project in April 2021 under my direct supervision. Based upon this project, we have established three cross-departmental projects with the aim of creating and realizing a vision for our future. The first project is on a growth strategy for the Logistics Solutions Business. We will formulate and implement a strategy for achieving sustainable growth by improving our profitability and our ability to respond quickly to a changing market environment. The second project involves rebuilding the Plant & Machinery Business. In this project, we will begin transforming its business model targeting the new era of energy and rebuild its business foundation, even amid adversity. The third project is for reforming the operations of the Corporate Division. This project aims to increase the efficiency of management departments and raise the level of corporate planning capabilities.

To give a specific example, we are striving to improve our ability to gather a wide range of information in order to identify changes in advance. As I believe that we will not be able to overcome the challenges ahead by relying solely on our own past experience, we are proactively taking a number of measures, such as recruiting human resources from outside the Company and exchanging opinions with experts. I feel that I myself had accumulated experience internally in the Plant & Machinery and Logistics Solutions businesses and after becoming president, grew by acquiring a variety of knowledge through dialogue with financial institutions, investors, and other third parties. While our executives have engaged in discussions with outside experts, I aim to provide a greater number of our human resources with such opportunities to stimulate their growth. We are also planning to create a system to enable the smoother sharing of information internally across departments and business divisions. After all is said and done, a company cannot grow without the growth of its people, and it is my belief that such dialogue and information gathering helps facilitate that growth.

In Conclusion

Fiscal 2021 will mark the concluding year of the current Medium-Term Business Plan and see the Company formulate its next such plan. In the next Medium-Term Business Plan, we intend to further integrate ESG and SDG elements into the strategies of each business division. While financial targets are of course important, such targets alone are unlikely to inspire employees to hold lofty ambitions. Reflecting on that, I aim to set forth a vision for the Group as a whole that also encompasses what we will offer society. I know that employees take great pride in the Company's contribution to society, in the manner of its Founding Philosophy, "Be creative, be good for society," the spirit of which has long lived within those at Toyo Kanetsu. I hope to set goals that will strike a chord with employees, inspire their ambitions as members of the Toyo Kanetsu Group, and drive Companywide growth.

I would like to thank all our stakeholders in advance for their understanding and continued support of the Toyo Kanetsu Group.

August 2021

Toru Yanagawa
President and Representative Director

The Toyo Kanetsu Group's Value Creation Process

Social Issues Affecting the Toyo Kanetsu Group

Respond to the decline in Japan's population
- Labor shortages due to declining birth rate and aging society
- Decline in purchasing power of consumers
- Shortages of skilled laborers

Respond to changes in consumer spending patterns
- Sharp rise in small-lot distribution from growth in e-commerce

Strengthen industrial infrastructure
- Aging energy infrastructure
- Building of social foundation resilient to breakdowns and natural disasters

Combat climate change
- Expansion of use of liquefied natural gas as energy source
- Strong need for energy conservation technology
- Advent of a hydrogen society

Provide better working environments
- Need for training and deployment of personnel and productivity improvements (workstyle reforms)
- Importance of ensuring occupational health and safety

A Social issues that could have a major impact on corporate value

▶ Page 36

Founding Philosophy

"Be creative, be good

Business Activities and Strengths

Logistics Solutions Business
- Ability to propose comprehensive solutions encompassing everything from design to maintenance
- Trust from customers and a reputation based on track record of deliveries to broad range of industries

▶ Page 28

Plant & Machinery Business
- Technologies for constructing and maintaining large-scale tanks that require advanced technologies
- Trust and reputation from global customers based on many years of high quality and safety

▶ Page 30

Other Businesses (Including Life & Work Environmental Business)
- Development of multifarious businesses in fields including the industrial machinery, building construction, and environmental businesses

▶ Page 32

Creation of new businesses leveraging M&A and CVC, and reinforcement of existing businesses and pursuit of growth opportunities

Foundation That Supports Businesses

Human resources	• Advanced technical capabilities and specialization • Abundant experience in overseas projects
Partnerships	• Close partnerships with partner companies, universities, and research institutions built on extensive experience

B Initiatives addressing material issues to sustainably improve corporate value

▶ Page 38

for society"

Value Propositions

- Reduce burden on workers with labor-saving technologies using AI, the IoT, and robotics
- Realize highly efficient logistics for diversifying patterns of consumer spending
- Provide non-stop logistics that support supply chains and consumer spending
- Offer technologies that contribute to the realization of a carbon-neutral society
- Provide highly dependable social infrastructure
- Provide safe and secure working and living environments for people
- Realize attractive workplaces that are comfortable and inclusive of diversity

Management Vision

Innovative solutions for logistics & energy

Financial foundation	• Sound financial foundation that enables growth investments in technology and business operations	Page 58
Governance	• Governance structure that enables highly efficient and transparent work management • Appropriate risk management	Page 46
Corporate culture	• High awareness of contributions to society • Flexible, rapid decision-making ability	

C Initiatives prerequisite for sustainably improving corporate value Page 41

Logistics Solutions Business

The Logistics Solutions Business will endeavor to address social issues through unique solutions that shape the future of logistics while responding to diverse customer needs.

Takashi Owada
Director and Executive Vice President
Division Manager, Logistics Solutions Division

Value Propositions

1. Reduce burden on workers with labor-saving technologies using AI, the IoT, and robotics
2. Realize highly efficient logistics for diversifying patterns of consumer spending
3. Provide non-stop logistics that support supply chains and consumer spending

Status of Progress on the Medium-Term Business Plan

In the second year of the current Medium-Term Business Plan, the Logistics Solutions Business posted record profits for the second consecutive year by growing its maintenance business, further strengthening project control management, and steadily improving project execution capabilities in line with its basic policy of increasing profitability. In fiscal 2020, we responded to new needs that emerged during the COVID-19 pandemic while making use of our long-cultivated technologies.

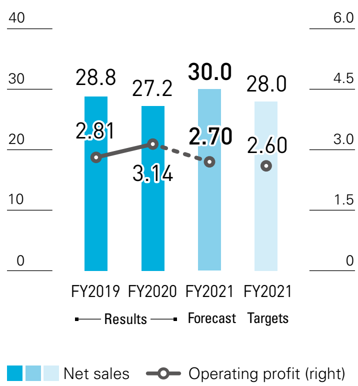
For logistics centers, amid increasing growth in the e-commerce and co-op industry markets, we provided solutions adapted to the requirements of the “era with-COVID-19” that help maintain social distancing using such systems as the Multishuttle, our key product.

For airports, we installed self-service baggage drop units at Haneda Airport that are a principal element of the “One ID” check-in-to-boarding process utilizing facial recognition technology. Through the installation, we are not only helping shorten waiting times at check-in but also reducing contact risks.

In response to the favorable market tailwind, we are also working to improve our business foundations by promoting a cross-departmental system renewal project aimed at increasing operational efficiency in order to augment our order processing system. Going forward, we will continue aiming to further increase profitability and strengthen competitiveness.

Net Sales and Operating Profit

(Billions of yen)



Business Environment

General logistics

- Market expansion of e-commerce, the co-op industry, and other sectors due to the spread of new lifestyles
- Increase in labor-saving and efficiency needs in retail-, wholesale-, and third-party-logistics-related fields resulting from labor shortages

Airport logistics

- Latent capital expenditure demand focused on the with- and post-COVID-19 eras

Competitive Advantages

- Know-how and system creation capabilities cultivated by specializing in distribution and airport fields
- Sophisticated project execution capabilities leveraging highly reliable products and systems

Challenges

- Catering to the growth of the e-commerce market
- Keeping pace quickly and accurately with accelerating technological innovations

Business Topics

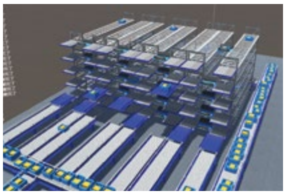
Provision of predictive maintenance services

The Logistics Solutions Business has launched predictive maintenance services for logistics centers—which have become an indispensable part of social infrastructure—that detect abnormalities ahead of time by leveraging AI and the IoT with the aim of realizing non-stop logistics through the stable operation of equipment. Combining our own high-performance IoT sensors and AI, these services detect failure signs by registering and analyzing changes in the vibrations of operational logistics equipment. As a result, predictive maintenance services optimize the timing of parts changes and greatly increase the efficiency of equipment maintenance.

IoT sensor units for predictive maintenance

Improved efficiency of logistics center operations via open innovation

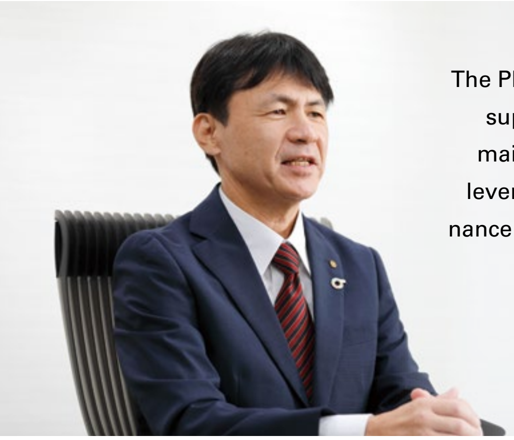
Leveraging digital twin technology to recreate in cyberspace the operations of the Multishuttle system used in existing logistics centers, we are aiming to increase operational efficiency by using an AI algorithm jointly developed in partnership with a start-up company. We are also conducting traffic flow analysis to improve the overall efficiency of logistics centers by optimizing layout and via an integrated analysis of center layouts, actual workers' movements, and operational data visualizing work efficiency.


Simulation using digital twin technology

Fiscal 2021 Focus Areas

- Improve marketing capabilities by strengthening proposal-based selling
- Standardize operational processes and add further value to existing services by promoting digital transformation

Plant & Machinery Business



The Plant & Machinery Business contributes to the stable supply of energy in Japan and overseas and to the maintenance of safety of energy storage facilities by leveraging its advanced project execution and maintenance capabilities in the construction of large-scale tanks.

Hiroshi Ohgi
Senior Managing Officer
Division Manager, Plant & Machinery Division

Value Propositions

1 Offer technologies that contribute to the realization of a carbon-neutral society	2 Provide highly dependable social infrastructure

Status of Progress on the Medium-Term Business Plan

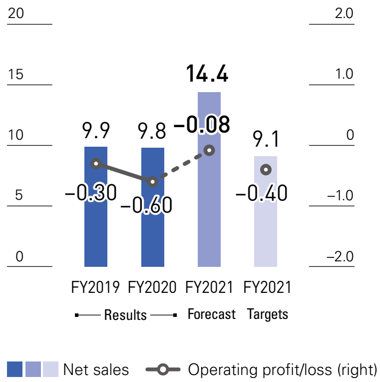
In the second year of the current Medium-Term Business Plan, the Plant & Machinery Business promoted the rebuilding of its business in a variety of ways, such as by thoroughly implementing cost reductions and scaling down its organization to an appropriate size by transferring personnel.

In fiscal 2020, orders for new construction projects accounted for only a small portion of overall orders as a harsh business environment persisted in Japan and overseas, including successive project delays and cancellations due to COVID-19. Nevertheless, our maintenance business for oil refineries in Japan was able to secure stable earnings by improving its profit margin thanks to efforts in strengthening order processing and management systems that emphasize profitability.

At the same time, our Indonesian subsidiary, which had undertaken fabrication projects for steel products other than tanks, saw a significant decline in orders due to the impact of COVID-19. In view of such a business environment, the Plant & Machinery Business posted impairment losses of ¥1.04 billion in fiscal 2020.

As a result, while losses exceeded projections in fiscal 2020, we are aiming to reduce these losses and rebuild the business by continuing to target opportunities to capture new construction projects while striving to maintain and expand a stable earnings foundation with a small, talented, and experienced group of personnel.

Net Sales and Operating Profit/Loss
(Billions of yen)



Business Environment

- Trends toward the consolidation of oil refineries in Japan due to decreasing demand for petroleum products
- Continuous maintenance demand arising from measures to address the aging of tanks
- Postponement and revision of investment decisions for overseas projects due to the impact of COVID-19
- Divestment trends and a shift to non-fossil energy sources aimed at realizing carbon neutrality
- Expansion in the use of LNG, a cleaner energy despite being a fossil fuel
- Growth in the importance of hydrogen and fuel ammonia storage technology for achieving a carbon-neutral society

Competitive Advantages

- Expertise in the construction and maintenance of large-scale tanks that require sophisticated technologies
- Trust from customers and a reputation around the world based on many years of high quality and safety

Challenges

- Transforming our business model to restore profitability
- Responding to global shifts in the energy mix
- Addressing the aging of project engineers and the shortage of successors
- Utilizing existing resources such as overseas production bases

Business Topics

Establishment of a new company for strengthening the securement and development of frontline human resources

On April 1, 2021, the Plant & Machinery Business established TKK Plant Engineering K.K. in cooperation with a partner company in order to strengthen its maintenance business. Through this new company's business activities, we will focus on maintaining a system that allows us to steadily execute our maintenance business into the future by strengthening the recruitment and development of human resources engaged in maintenance while advancing workstyle reforms for those on the front lines.

Winner of the High Pressure Institute of Japan's Science and Technology Award

Toyo Kanetsu has received the High Pressure Institute of Japan's Science and Technology Award for the "Development of Large Liquid Hydrogen Tank," a paper it contributed to the institute's journal. In this paper, we presented the distinctive features, specifications, and test results for a thermal insulation structure that can be applied to the actual construction of such tanks. We were able to gain such recognition through our efforts to date and thanks to the cooperation of our co-authors, including the Tokyo Institute of Technology, and other related parties. We will continue to promote the development of large-scale liquid hydrogen tanks while endeavoring to network with related institutions and gathering information.

Fiscal 2021 Focus Areas

- Pursue initiatives to secure and develop human resources and promote workstyle reforms in our maintenance business in Japan
- Leverage alliances to capture small to medium-scale new construction projects
- Cater to needs relating to fuel ammonia and promote the development of liquid hydrogen tanks

Other Businesses (Including Life & Work Environmental Business)

Besides the Logistics Solutions and Plant & Machinery businesses, the Toyo Kanetsu Group operates the industrial machinery, building construction, environmental, and other businesses. In fiscal 2020, we established the Life & Work Environmental Business Division centered on Group companies responsible for these three businesses. In April 2021, we added Eco Analysis Corporation to this division through an M&A. Under a basic policy of contributing to the creation of environments and infrastructure that are friendly to people, we aim to expand growth domains, pursue synergies among Group businesses, and enter new domains while leveraging M&A and CVC.

Other Businesses

(In addition to the following businesses, which are operated by major Group companies in Japan, real estate leasing management, equipment leasing, and copying and printing businesses are included within the Other Businesses accounting segment.)

Life & Work Environmental Business Division

Toyo Koken K.K.

Labor-saving and safety equipment for the civil engineering and construction fields and inside factories

Industrial machinery business

Toyo Kanetsu Builtec K.K.

Building construction, gondola leasing, and steel pipe pile businesses

Building construction business

Value Proposition

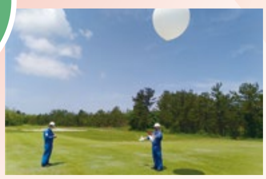
Provide safe and secure working and living environments for people

Environmental business

Kankyo Research Institute Inc.

Environmental surveys, assessments, and analysis and development of new environmental solution technologies

Eco Analysis Corporation



Maintenance and management of environmental measurement equipment, environmental surveys and assessments, and system solutions

Synergistic benefits through the execution of growth investments

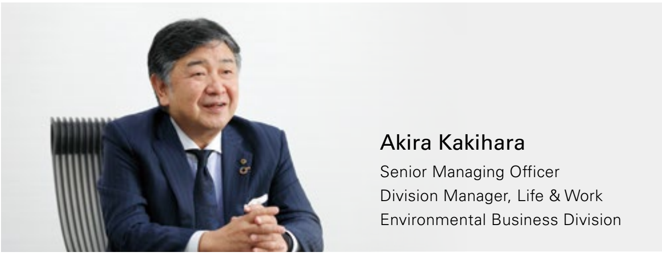
M&A **CVC**

- Introduction of new technologies aimed at strengthening existing businesses
- Entry into growth domains to create businesses over the medium to long term
- Creation of new businesses without regard to existing businesses

Utilization of M&A and CVC in fields not limited to the Life & Work Environmental Business Division

New businesses

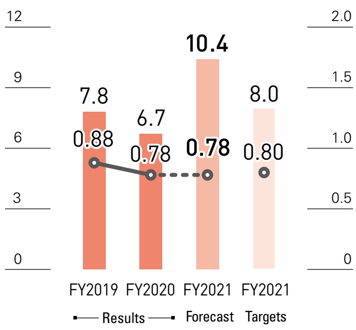
Logistics Solutions and Plant & Machinery businesses



Akira Kakihara
Senior Managing Officer
Division Manager, Life & Work
Environmental Business Division

Net Sales and Operating Profit

(Billions of yen)



Status of Progress on the Medium-Term Business Plan

In the second year of the current Medium-Term Business Plan, we promoted various measures in accordance with our basic policy of selection and concentration in existing businesses and the prompt achievement of profitability in new businesses. In existing businesses, we promoted the development of new products through the application of our accumulated technologies while entering into new domains using M&A as a way to expand our environmental business. In terms of business results, net sales and operating profit declined, reflecting the impact of restraints on capital expenditures due to COVID-19, particularly in the industrial machinery and building construction businesses.

Conversely, we secured a profit margin on a par with the previous fiscal year by promoting measures that included reducing selling, general and administrative expenses. We will continue to expand our business domains while leveraging M&A and CVC investments to operate businesses that solve environmental issues in people's working and living environments in a broader manner.

Business Topic

Addition of Eco Analysis Corporation to the Group

In April 2021, we conducted an M&A of Eco Analysis Corporation (EAC) and welcomed the company into the Toyo Kanetsu Group. EAC holds the leading share in the industry for the maintenance and management of environmental measurement equipment while also operating businesses in the environmental survey and assessment, disaster preparedness, and system solutions fields.

In recent years, as cases of abnormal weather have increased in frequency and the transition to a carbon-neutral society has accelerated, we have seen a greater emphasis being placed on the importance of environmental surveys, assessments, and measurements and of consideration for the natural environment. We will endeavor to solve social and environmental issues while catering to this constant demand by leveraging EAC's extensive track record and sophisticated technologies.

Since adding Kankyo Research Institute Inc. (KRI) to the Group in 2018, we have expanded our business in the environmental consulting domain, which includes environmental surveys, assessments, and analysis as well as a variety of solutions for addressing environmental issues. With the newly welcomed EAC developing business in the environmental infrastructure domain, the Group will further grow its environmental business by expanding existing services and entering into new domains while leveraging KRI's and EAC's strengths.

環境計測株式会社
Eco Analysis Corporation

Location	Kyoto City, Kyoto Prefecture
Established	March 23, 1971
Capital	¥75 million
No. of employees	173

Fiscal 2021 Focus Areas

- Expand environmental business through continuous strategic investments, including M&A
- Increase synergies among Group businesses
- Create new businesses by promoting collaboration with CVC investees

The Toyo Kanetsu Group's Material Issues

1 Basic Approach to Material Issues

The Toyo Kanetsu Group has identified 10 important management issues (material issues) to prioritize in management with the objective of sustainably improving corporate value through business activities. By solving these issues, the Group will ensure sustained growth and financial performance. Our material initiatives are designed to help contribute to the relevant SDGs, and by proactively working to solve these issues, we will fulfill the role expected of us by society.

2 The Toyo Kanetsu Group's Three Categories of Material Issues

The Toyo Kanetsu Group has divided material issues into three categories (A, B, and C) in accordance with their characteristics. The two topics in category A are social issues that could have a major impact on the Group. We will provide value to society and improve corporate value by contributing to the resolution of those two issues, primarily through our business activities. The four topics in category B are important management issues to be addressed in order for the Group to carry out these business activities sustainably. In addition, the four topics in category C are prerequisites for improving corporate value.

A	Social issues that could have a major impact on corporate value	(1) Respond to changes in the business environment caused by climate change
		(2) Respond to the decline in Japan's population
B	Initiatives addressing material issues to sustainably improve corporate value	(3) Train and deploy human resources
		(4) Develop and use new technologies
		(5) Promote collaboration with partner firms
		(6) Increase productivity
C	Initiatives prerequisite for sustainably improving corporate value	(7) Ensure occupational health and safety
		(8) Execute steadfast compliance and corporate governance
		(9) Practice sophisticated risk management
		(10) Evolve our corporate culture into one that encourages employees to quickly and proactively take on challenges

▶ Please refer to pages 36–43 for more details about each material issue.

3 Process for Identifying Material Issues and KPIs*

By paying due consideration to opinions inside and outside the Company and referencing global standards, The Toyo Kanetsu Group identified its material issues in March 2019 through the following process. In addition, we set KPIs in August 2020.

* Key performance indicators: Indicators for visualizing the progress of identified material issues.

1	Research and preparation	Management examined methods for identifying issues that are important for sustaining the growth of the Toyo Kanetsu Group and of society, referring to international guidelines, such as the SDGs adopted at the UN Sustainable Development Summit in 2015 and the Sustainability Accounting Standards Board (SASB), as well as to the Corporate Governance Code. We furthered the understanding of our employees in these areas by holding in-house seminars about ESG initiatives, the SDGs, and integrated reports.
2	Listing of social issues, identification of important issues	All members of upper management participated in multiple discussions about material issues to reach a consensus on the strengths of the Toyo Kanetsu Group, social issues that directly affect its operations, and the role that the Group should play in the future. As a result, we identified priority social issues needing to be solved, as well as the Group's own issues that must be addressed to solve such social issues.
3	Incorporation of opinions of stakeholders	Toyo Kanetsu exchanged opinions with outside experts and institutional investors, listened to the concerns and expectations of stakeholders of the Group, and made a list of identified issues.
4	Identification of material issues	The material issues discovered through this process were deliberated by the Management Council and the Board of Directors, which identified and approved 10 material issues for the Group to address in the future.
5	Setting of KPIs	Referring to guidelines, examples from other companies, interviews with relevant internal divisions, and other sources of information, we set KPIs by conducting discussions at internal meetings with the participation of members of management, after having listed several candidate KPIs for each material issue.

4 The Toyo Kanetsu Group's Approach

The Toyo Kanetsu Group engages in business activities while positioning these 10 material issues as important guides to consider when formulating business strategies and making decisions in each business.

In regard to initiatives for addressing material issues, the director serving as the chair of the CSR Committee is tasked with monitoring progress in resolving said issues. In addition, through dialogue with various stakeholders, management will keep track of changes in stakeholder concerns and expectations of the Group while monitoring social trends, including the prolonging of the COVID-19 pandemic. If deemed necessary, the Company will flexibly revise its material issues and KPIs.

Progress on Initiatives Related to Material Issues

A Social issues that could have a major impact on corporate value

(1) Respond to changes in the business environment caused by climate change

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

Climate change may have a major impact on the Company's business environment. There is the risk of a negative impact from weaker demand for storage tanks as energy use shifts away from fossil fuels. While considering measures to combat global warming, the Company will work on projects related to demand for fossil fuel alternatives, such as hydrogen energy, and develop products and services with excellent environmental performance. In these and other ways, Toyo Kanetsu will seek out new business opportunities in a bid to sustain business growth.

KPI

FY	2018	2019	2020	2021 (Target)	Unit
CO_2 Emissions	1,905	1,763	1,959	1,728	t-CO_2

Toyo Kanetsu, non-consolidated. The figure for fiscal 2018 includes Toyo Kanetsu Solutions.
In fiscal 2020, we began calculating emissions using adjusted emission intensity. Figures for fiscal 2018 and fiscal 2019, which were originally calculated using basic emission intensity, have been revised accordingly.
We aim to achieve a 1% reduction every fiscal year (compared with fiscal 2019), in compliance with the target set forth in ISO 14001.

Although the Company fell short of its KPI target due to factors including an increase in workload at the Chiba Office, it is now examining and implementing response measures, such as the installations of solar power generation equipment, to provide power for in-house consumption.

Topics

Toward the Realization of a Carbon-Neutral Society

Toyo Kanetsu is continuing to develop the world's first large-scale liquid hydrogen tank in order to achieve the full-fledged commercialization of hydrogen power generation by 2030. Based on the progress we have made in our research to date, we will continue resolving issues to realize the actual construction of such a tank and advance this project with the aim of establishing the essential technology for it in 2022 while receiving the support of external organizations, notably the New Energy and Industrial Technology Development Organization (NEDO), a national research and development agency. In connection with this research and development, we were selected by the Ministry of Economy, Trade and Industry for inclusion in a list of "Companies Taking On the Zero-Emission Challenge and Paving the Way to the Realization of a Decarbonized Society by Taking Advantage of Innovations." In addition, we are striving to gather and communicate information through our participation in "Challenge Zero," a project launched by Keidanren (Japan Business Federation), and in organizations including Tokyo Zero-emission Innovation Bay, the Japan Hydrogen Association, and the Clean Fuel Ammonia Association. We will continue aiming to contribute to the realization of carbon neutrality while networking and gathering information.

Installation of Solar Power Generation Equipment to Provide Power for In-House Consumption

The Toyo Kanetsu Group installed solar power generation equipment to provide power for in-house consumption at its Chiba Office in Kisarazu City, Chiba Prefecture, and began using it to generate power in July 2021.

We expect the operation of this equipment to facilitate the supply of renewable energy equivalent to 7%* of our annual power consumption. Moreover, as this equipment runs independently, the Chiba Office can use it as an emergency power source and local residents may utilize it for charging their cell phones in the event of a disaster.

The Group will continue working to address the social issue of reducing CO_2 emissions in a variety of ways, including installing solar power generation equipment to provide power for in-house consumption at its major business sites.

* Compared with annual power consumption in fiscal 2020

Solar power generation equipment at the Chiba Office

(2) Respond to the decline in Japan's population

It has become harder to secure human resources due to the decrease in Japan's population amid a declining birth rate and an increase in the number of elderly citizens. The Company understands the importance of maintaining attractive workplaces that are comfortable and inclusive of diversity and which facilitate rewarding work.

In the Logistics Solutions Business, there is a risk that the contraction in the population will lower the purchasing power of consumers and lead to weaker demand overall. By developing labor-saving systems and taking other steps amid labor shortages, the Company believes it can turn this into a major growth opportunity.

KPI

FY	2018	2019	2020	2021 (Target)	Unit
Rate of Annual Paid Vacation Taken	54	58	68	70	%

Toyo Kanetsu, non-consolidated. The rate for fiscal 2018 includes Toyo Kanetsu Solutions.

In particular, we have advanced the following initiatives to promote the taking of childcare leave by male employees.

① Implementation of communication on an individual basis with male employees whose spouses have given birth and with their superiors

② Implementation of awareness-raising training for general employees and managers

③ Provision of a handbook summarizing the childcare leave system in an easy-to-understand format

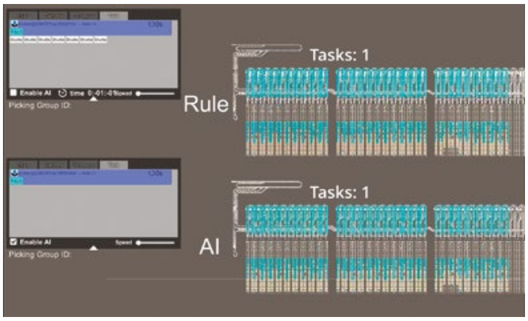
Topics

Various Systems for Realizing Flexible Workstyles

The Toyo Kanetsu Group is introducing and improving various systems designed to enhance the work–life balance of each of its employees. In fiscal 2020, we established a new system for employees to take annual paid vacation in one-hour increments and revised a system enabling them to utilize staggered working hours in a flexible manner. We are also promoting the establishment of systems, including those for working from home, with an eye on a post-COVID-19 society. We will continue working to create comfortable working environments by developing workstyles that are flexible in terms of time and place.

Initiatives through Our Business Activities

The Logistics Solutions Business is advancing a range of initiatives, such as AI-based operational efficiency simulations using digital twin technology and the development of solutions for optimizing layouts within warehouses by visualizing and analyzing the traffic flow of people and goods.



Simulator using digital twin technology

B Initiatives addressing material issues to sustainably improve corporate value

(3) Train and deploy human resources

To sustain growth, the Company must train its employees, imbuing them with knowledge and technical skills related to its businesses, while enhancing leadership skills, international awareness, and responsiveness to changes in the business environment. We must advance measures to secure, train, and deploy diverse human resources.

KPI

FY	2018	2019	2020	2021 (Target)	Unit
Female Semi-Management Team Leaders as a Percentage of Total Semi-Management Team Leaders	–	2.2	12.7	15.0	%

Toyo Kanetsu, non-consolidated
Note: A percentage is not recorded for fiscal 2018 because this fiscal year preceded the introduction of the team leader system.

With the aim of increasing the proportion of women in management candidate positions (team leaders) to 15% or higher by fiscal 2021, we are working on measures to develop and promote women, including through the establishment of workplace environments and the implementation of training that enables their active participation. As part of these efforts, in February 2021 we set up a project team for promoting the active participation of women and developing the next generation of human resources. This project team will endeavor to revitalize our human resources while further reinforcing our planning capabilities and driving force.

Topic

Creation of the Education Center

The Logistics Solutions Business has established a facility within the Chiba Office centered on fixed equipment in order to provide training for employees engaged primarily in the installation of products to be delivered to customers.

While we previously carried out technical training with a focus on on-the-job training at installation sites, we decided to establish our own educational facility with a view to further improving the skills of our human resources. At this facility, we have installed materials handling equipment, our primary product, which we use to implement training based on actual site conditions. By doing so, we will develop human resources who can not only adapt flexibly to any conditions but also acquire operational know-how.

We have also installed equipment for experience-based safety-training. By providing a simulated experience of accidents, this training encourages employees to reconfirm hazards and heighten their safety awareness.

Going forward, we also plan to extend safety training to customers and partner firms and make use of the Education Center as a facility for them to deepen their understanding of our products and services.

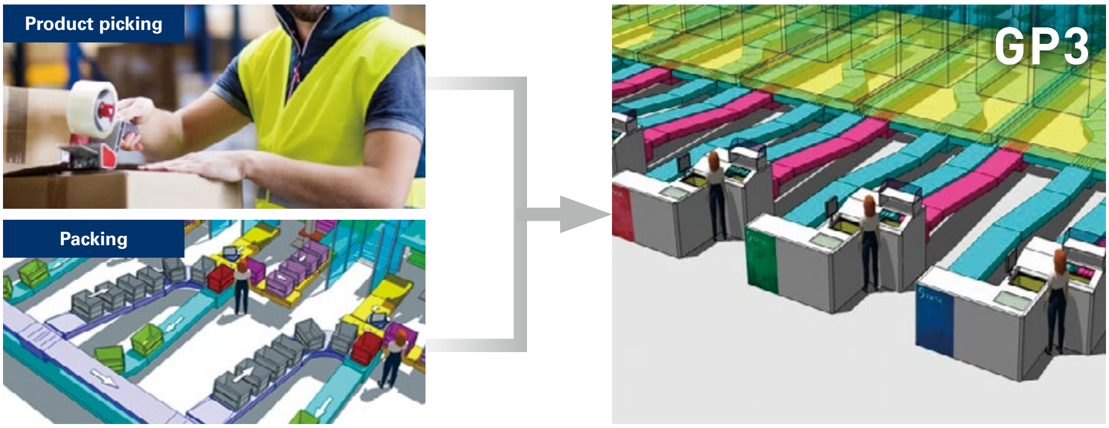
(4) Develop and use new technologies

The development and use of new technologies will allow the Company to provide new products and services, in addition to strengthening the competitiveness of existing businesses. Moreover, new technologies are likely to become the driving force behind new business creation. In particular, efforts to develop new technologies in the fields of AI, the IoT, robotics, and failure prediction should be effective in resolving the social issue of increasing efficiency in logistics by helping conserve and reduce labor as well as stabilize operations.

Topic

The Logistics Solutions Business is rolling out the GP3 (Goods to Person (GTP) for Pick and Pack) system, integrating automated packing into the GTP system, which moves products to picking workers' stations instead of requiring them to walk to pick up said products. This system has already been installed at logistics centers, where it is improving efficiency and saving space. In addition, in order to address growing demand related to e-commerce, we are advancing the development of a full-line GTP system that enables efficient processing by leveraging the respective characteristics of the Multishuttle high-throughput storage system, our key product, and AutoStore, our high-density storage system, through their hybrid operation. We have also initiated the development of a Goods to Robot (GTR) system, for which we are installing a demonstration machine at the Chiba Office.

Amid growing demand for labor-saving due to the decline in the working-age population in Japan, we are contributing to more efficient logistics by offering systems that realize "no searching, no mistakes, and no walking" for picking operations with a view to achieving complete automation within logistics centers. We will continue to evolve in tune with the times while making use of the know-how we have amassed.



The GP3, which automates picking and packing

B Initiatives addressing material issues to sustainably improve corporate value

(5) Promote collaboration with partner firms

17 PARTNERSHIPS FOR THE GOALS

The value chains in the Company's businesses depend on numerous partners inside and outside Japan involved in the supply of parts and materials, installation work, and IT engineering. Toyo Kanetsu works with its partners to supplement areas where it has insufficient resources and provide cutting-edge technologies, such as AI and the IoT. These partnerships expand the scope of business domains that Toyo Kanetsu can enter and increase opportunities to start new businesses.

Topic

The Logistics Solutions Business is further expanding its market presence by strengthening collaboration with partner firms. April 2021 saw the launch of verification tests for a new check-in-to-boarding process at terminals two and three of Haneda Airport, where we have installed self-service baggage drop units equipped with a facial recognition system by leveraging our own technological capabilities and know-how as well as those of our business partner. In this way, we are helping reduce contact risks and improve convenience for passengers when checking in.

We are also continuing a wide-ranging search for new partner firms by strengthening our public relations activities, such as participating in online exhibitions, revamping our website, and collaborating with external organizations, including the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN).

(6) Increase productivity

Amid stronger demand from customers for the delivery of high-performance, low-price equipment, Toyo Kanetsu must continuously increase productivity with innovative technologies to keep winning orders and booking sales.

KPI

FY	2018	2019	2020	2021 (Target)	Unit
Operating Profit per Employee	–	2,608	3,306	1,912	Thousands of yen

Toyo Kanetsu, non-consolidated
Note: A figure is not recorded for fiscal 2018 because this fiscal year preceded the business integration with Toyo Kanetsu Solutions.

The further strengthening of earnings management and the steady growth of operational execution skills in the Logistics Solutions Business contributed to the increase in profitability.

Topic

Efforts to Strengthen Competitiveness

The Logistics Solutions Business has set up a project with the aim of improving operational and production efficiency. We are promoting the construction of a new cross-departmental system that will enable the visualization of internal information and management of the progress of projects. Meanwhile, the introduction of AutoStore, a high-density storage system, at the Wakayama Plant reduced the space taken up by inventory to a third of the original space. We are also saving and reducing labor through the automation of picking operations.

The Plant & Machinery Business is endeavoring to make effective use of its resources while scaling down its organization to an appropriate size and implementing thorough cost reductions.

AutoStore

(7) Ensure occupational health and safety

8 DECENT WORK AND ECONOMIC GROWTH

Safety is a priority issue in everything that Toyo Kanetsu does. If a safety or health problem arises with employees, our most important resource, there is a risk that corporate value will be damaged considerably. Since accidents must not happen, the Company is reinforcing its safety-first mind-set by creating and implementing safety management plans to prevent accidents from occurring.

KPI

FY	2018	2019	2020	2021 (Targets)	Units
Frequency Rate of Industrial Accidents	0.63	0.95	1.39	0.00	Casualties/million working hours
Severity Rate of Industrial Accidents	0.00	0.01	0.05	0.00	Days lost/thousand working hours
Number of Fatal Work Accidents	0	0	0	0	Cases

Toyo Kanetsu, non-consolidated. The figures for fiscal 2018 include Toyo Kanetsu Solutions.

Although the Plant & Machinery Business went through fiscal 2020 without any incidents or accidents, lost work time resulting from accidents increased for the Toyo Kanetsu Group as a whole compared with fiscal 2019, which led to a worsening of both the frequency rate and the severity rate of industrial accidents. In response to industrial accidents, we thoroughly investigate the causes and take measures to prevent a recurrence in compliance with the ISO 45001 certification for management systems. At the same time, we carry out accident prevention education through ways that include sharing accident information and holding Group safety meetings with the aim of maintaining secure and safe working environments.

Topics

Ensuring of Occupational Health and Safety and Promoting Related Activities

Based on its Occupational Health and Safety Policy, the Toyo Kanetsu Group strives to cultivate a culture that prioritizes safety by maintaining ISO 45001 certification, holding Group safety meetings, implementing safety patrols, and maintaining and augmenting safety systems, including at partner firms.

In the Plant & Machinery Business, we focus on not only tank construction in Japan and overseas but also the maintenance business, centered on oil refineries in Japan, where we are engaged in the maintenance and repair of approximately 100 tanks per year. In order to achieve zero industrial accidents, our site managers, project engineers, and partner firms work as one at worksites to vigorously carry out occupational health and safety activities on a daily basis by returning to the basic stance of "accidents must not be allowed to happen," in accordance with the principle of respect for human life. Thanks to these efforts, which we continue to pursue, the Plant & Machinery Business has achieved a record of zero incidents and accidents spanning from 2015 to the present day.

We will continue offering high-quality services while strengthening plan–do–check–act (PDCA) functions and thoroughly implementing safety management centered on the Safety, Environment, and Quality Assurance Department, an independent organization that we reorganized under the direct control of the president in fiscal 2019.

Improvement of Our Health Support System

In August 2020, we began implementing health status follow-ups and mental health guidance using public health nurses in order to improve our system for supporting the mental and physical well-being of employees. In cooperation with industrial physicians, we have established opportunities to provide support for employees' well-being through in-person or online consultations, thereby maintaining an environment in which employees can work in good mental and physical health. In addition, the Company is promoting the creation of workplaces that raise the health consciousness of employees by communicating a range of useful health information to them through the publication on its in-house portal website of a newsletter, which it produces with the cooperation of public health nurses.

C Initiatives prerequisite for sustainably improving corporate value

(8) Execute steadfast compliance and corporate governance

As compliance with laws and regulations is a vital cornerstone for Toyo Kanetsu to conduct trustworthy business activities, the Company requires that all employees maintain a value system in which compliance is their highest priority. In addition, Toyo Kanetsu continuously reinforces its corporate governance system.

Topic

In June 2021, we revised our Corporate Governance Guidelines and made announcements on matters including the establishment of a succession plan, the clarification of our policy for determining the compensation of directors (excluding directors who are Audit & Supervisory Committee members), and the formulation of a skills matrix for directors. In addition, we are examining our response to the recent revision of the Corporate Governance Code.

In regard to compliance, we raise employee awareness by implementing internal training, communicating information via our internal newsletter, and conducting self-assessments while laying the basis for fair business activities in a variety of ways, such as revising our manual in accordance with changes in the law and social affairs.

▶ Please visit our website to view our Corporate Governance Guidelines (in Japanese only).

https://www.toyokanetsu.co.jp/ir/corporate.php

(9) Practice sophisticated risk management

Since Toyo Kanetsu engages in operations related to social infrastructure, management responds properly and quickly to demand from society when a problem arises while taking steps to prevent accidents from occurring. As the scope of business expands with new businesses and projects overseas, and as the fabric of society changes with greater speed, the risks the Company must address have grown in number and magnitude. Toyo Kanetsu aims to further strengthen its ability and systems for identifying, assessing, and minimizing various risks, such as by improving its credit and project screening capabilities and strengthening internal security, in addition to preparing for emergency situations around the world.

KPI

FY	2018	2019	2020	2021 (Targets)	Units
Rate of Information Security Training Participation	–	100	100	100	%
Number of Training Sessions Held on Risk Management	4	6	5	3	Times

Toyo Kanetsu and consolidated subsidiaries

Note: A rate is not recorded for fiscal 2018 because this fiscal year preceded the implementation of Companywide training.

The Toyo Kanetsu Group regularly implements information security training for all employees in order to thoroughly raise awareness of the importance of handling a variety of confidential information, including technological information, and to strengthen information management. We are also striving to update the knowledge of employees by conducting risk management training with the goal of developing our ability to respond quickly to diversifying risks.

Topic

Disaster Preparedness and Risk Countermeasures

In preparation for emergencies brought about by natural disasters such as earthquakes and floods, the Toyo Kanetsu Group works on disaster preparedness measures by stockpiling supplies for emergencies and carrying out drills on a regular basis, including safety confirmation drills and evacuation drills.

We have been publishing a newsletter every second month since September 2020 on our in-house portal website to increase employees' awareness of disaster preparedness. In preparation not only for risks related to earthquakes but also floods, which have been increasing in frequency in recent years, we aim to raise each employee's awareness of disaster preparedness by communicating the importance of precautionary measures and the Code of Conduct in the event of a disaster.

In response to risks associated with the spread of the COVID-19 pandemic, we are quickly sharing information centered on our COVID-19 countermeasures project and responding in an appropriate manner based on prompt decision-making and instructions. We are also taking a range of steps as we continue striving to prevent the spread of infection. These steps include improving cloud storage and electronic authorization systems, which underpin working from home and other workstyles, and recommending the proactive utilization of work arrangements such as staggered working hours.

(10) Evolve our corporate culture into one that encourages employees to quickly and proactively take on challenges

In order to advance existing businesses and create new ones, we must nurture a corporate culture where all of our employees can work together as one on challenges in new fields.

—Challenge & Change—

KPI

FY	2018	2019	2020	2021 (Target)	Unit
Commendation System: Improvement Proposal Submission Rate	74.6	76.4	72.3	100.0	%

Submission rate = Total number of proposals submitted (Toyo Kanetsu, non-consolidated) ÷ number of eligible Toyo Kanetsu employees at the end of the second fiscal quarter. Total number of proposals is the aggregate; multiple proposals from one person are all counted.

Given that we fell short of achieving our KPI target, we will continue striving to create a system to promote and assess new proposals and proactive operational improvement activities.

Topics

Launch of the Future Creation Project under the Direct Control of the President

Toyo Kanetsu celebrated its 80th anniversary in May 2021. In fiscal 2020, the Company set up and commenced the activities of the Future Creation Project under the direct control of the president in order to reflect on its history and continue achieving further growth. As part of this project, each business configured a cross-departmental project team to identify issues via several rounds of discussions, create a future vision for the management of the Group, and implement measures designed to realize that vision.

Activities in Local Communities

The Toyo Kanetsu Group conducts social contribution activities in the communities of various cities that have long been supportive of its business activities. In Koto Ward and Hachioji City in Tokyo, Kisarazu City in Chiba Prefecture, Minami Alps City in Yamanashi Prefecture, and Arida City in Wakayama Prefecture, we have made donations to libraries advancing the Plan for the Promotion of Children's Reading Activities. We make these donations out of a wish to create opportunities for children to come into contact with books and to contribute to achieving the SDG of "Quality Education" for everyone. Besides these efforts, in Koto Ward, the home of our headquarters, we co-sponsored and supported Artpara Fukugawa—which primarily displays the artwork of people with disabilities—and our employees cooperated in the operation of the event as volunteers. We will continue proactively engaging in such activities as a member of the local community while working to create a corporate culture that is conducive to further invigorating them.

The Toyo Kanetsu Group's ESG Data Highlights

Material issues	FY	2018	2019	2020	Units
A Social issues that could have a major impact on corporate value					
(1) Respond to changes in the business environment caused by climate change*1	Energy consumption (crude oil equivalent)	927	885	927	kl
	Energy consumption (electricity)	3,030	2,951	3,231	Thousand kWh
	Energy consumption (LPG)	112	95	72	t
	Energy consumption (city gas)	0.1	0.1	0.1	Thousand m^3
	CO_2 emissions*2	1,905	1,763	1,959	t-CO_2
	CO_2 emissions per unit of net sales*3	–	0.05	0.05	t-CO_2/millions of yen
	Water consumption	10.0	10.2	9.6	Thousand m^3
	Total amount of waste generated	227	190	258	t
	Paper consumption*4	8.3	13.4	12.2	t
	Rate of employee participation in environmental management training*5	36	–	37	%
(2) Respond to the decline in Japan's population*1	Rate of employees voluntarily leaving the Company*6	2.6	2.8	1.7	%
	Average number of service years	15.7	15.3	15.5	Years
	Number of employees taking childcare leave	5	6	4	Persons
	Number of employees taking childcare leave (male)	0	2	1	Persons
	Number of employees taking childcare leave (female)	5	4	3	Persons
	Number of employees returning to work after childcare leave	2	3	4	Persons
	Number of employees working shortened hours	6	6	8	Persons
	Number of employees working shortened hours (male)	0	0	0	Persons
	Number of employees working shortened hours (female)	6	6	8	Persons
	Number of employees taking nursing care leave	0	0	1	Persons
	Rate of annual paid vacation taken	54	58	68	%
	Average number of work hours*7, 8	–	2,015	1,814	Hours
	Average number of overtime work hours*8	–	23.95	20.48	Hours
B Initiatives addressing material issues to sustainably improve corporate value					
(3) Train and deploy human resources*1	Number of employees*9	552	560	575	Persons
	Number of employees (male)	455	457	470	Persons
	Number of employees (female)	97	103	105	Persons
	Average age of employees	43.9	44.0	44.4	Years old
	Average age of managers	52.7	53.0	53.0	Years old
	Number of new graduate recruits	16	19	16	Persons
	Number of new graduate recruits (male)	8	12	14	Persons
	Number of new graduate recruits (female)	8	7	2	Persons
	Number of mid-career recruits	14	11	16	Persons
	Number of non-Japanese employees	4	7	8	Persons
	Managers as a percentage of all employees	14.5	15.4	16.2	%
	Number of semi-management team leaders*10	–	46	55	Persons
	Female semi-management team leaders as a percentage of total semi-management team leaders*10	–	2.2	12.7	%
	Annual cost of training*11	52,311	52,143	44,699	Thousands of yen
	Annual cost of training (per employee)	95	93	78	Thousands of yen
	Number of rewards provided for qualification acquisition	23	21	14	Cases

Material issues	FY	2018	2019	2020	Units
(3) Train and deploy human resources*1	Amount of compensation givens for qualification acquisition	1,950	1,100	850	Thousands of yen
	Number of employees acquiring an important qualification*12	109	106	97	Persons
(4) Develop and use new technologies*13	Annual cost of research and development (consolidated)	543,183	541,497	597,420	Thousands of yen
(6) Increase productivity*3	Sales revenue per employee	–	55,076	51,327	Thousands of yen
	Operating profit per employee	–	2,608	3,306	Thousands of yen
C Initiatives prerequisite for sustainably improving corporate value					
(7) Ensure occupational health and safety*1	Frequency rate of industrial accidents	0.63	0.95	1.39	Casualties/ million working hours
	Severity rate of industrial accidents	0.00	0.01	0.05	Days lost/thousand working hours
	Number of fatal work accidents	0	0	0	Cases
	Frequency rate of industrial accidents not resulting in lost work time	1.26	3.50	1.39	Casualties/ million working hours
	Total number of work hours	3,168,563	3,146,153	2,882,716	Hours
	Number of Group safety meetings held	1	1	1	Times
	Number of safety patrols implemented	185	185	167	Times
	Response rate for stress checks	95.4	94.0	93.8	%
(8) Execute steadfast compliance and corporate governance	Rate of compliance training participation*14	91.8	92.5	92.5	%
	Number of helpline (whistleblower system) cases*1	7	7	5	Cases
(9) Practice sophisticated risk management*13	Rate of information security training participation*15	–	100	100	%
	Rate of safety confirmation drill participation (annual average)	88.5	93.6	93.5	%
	Number of training sessions held on risk management	4	6	5	Times
	Number of automated external defibrillator (AED) certificate holders	13	39	39	Persons
(10) Evolve our corporate culture into one that encourages employees to quickly and proactively take on challenges	Commendation system: Number of improvement proposals*16	950	1,066	1,048	Cases
	Commendation system: Improvement proposal submission rate*17	74.6	76.4	72.3	%

*1 Toyo Kanetsu, non-consolidated. The figure for fiscal 2018 includes Toyo Kanetsu Solutions.
*2 In fiscal 2020, we began calculating emissions using adjusted emission intensity. Figures for fiscal 2018 and fiscal 2019, which were originally calculated using basic emission intensity, have been revised accordingly.
*3 A figure is not recorded for fiscal 2018 because this fiscal year preceded the business integration with Toyo Kanetsu Solutions.
*4 The figure for fiscal 2019 has been revised because results for the Logistics Solutions Division were originally omitted due to business integration.
*5 Employees of Toyo Kanetsu Solutions in fiscal 2018 and employees of the Logistics Solutions Division in fiscal 2020 are not included in the rates as there are no plans to implement training for them for the ISO plan. Training was not implemented in fiscal 2019 due to the impact of COVID-19.
*6 Includes full-time employees (including senior employees but excluding assignees) + Contract employees + Temporary workers + Number of incoming assignees
*7 Includes full-time employees (including senior employees but excluding assignees)
*8 A figure is not recorded for fiscal 2018 because this fiscal year preceded the introduction of the attendance management system.
*9 Includes directors and full-time employees
*10 A figure is not recorded for fiscal 2018 because this fiscal year preceded the introduction of the team leader system.
*11 The figure for fiscal 2019 has been revised due to the duplication of a portion of data as a result of business integration.
*12 Number of employees who are architects, engineers, or construction management engineers
*13 Toyo Kanetsu and consolidated subsidiaries
*14 Includes directors, executive officers, and new employees, including those at Group companies.
*15 A rate is not recorded for fiscal 2018 because this fiscal year preceded the implementation of Companywide training.
*16 Overall number of proposals for the Toyo Kanetsu Group as a whole, including subsidiaries. The total number of proposals is the aggregate; multiple proposals from one person are all counted.
*17 Submission rate = Total number of proposals submitted (Toyo Kanetsu, non-consolidated) ÷ Number of eligible Toyo Kanetsu employees at the end of the second fiscal quarter. The total number of proposals is the aggregate; multiple proposals from one person are all counted.

Board of Directors (As of June 29, 2021)

Kazuo Ushida
Outside Director and Audit & Supervisory Committee Member

Toshiaki Hiwatari
Outside Director and Audit & Supervisory Committee Member

Kazuhito Watanabe
Director
Senior Managing Officer
Division Manager, Corporate Division

Keisuke Kodama
Director and Executive Vice President

Kazuto Abe

Director and Audit &
Supervisory Committee Member

Shigeharu Nakamura

Outside Director and Audit &
Supervisory Committee Member

Toru Yanagawa

President and Representative Director

Takashi Owada

Director and Executive Vice President
Division Manager,
Logistics Solutions Division

Corporate Governance

▶ Toyo Kanetsu has disclosed its Corporate Governance Guidelines (in Japanese only) on its website.
https://www.toyokanetsu.co.jp/ir/corporate.php

Basic Approach

Toyo Kanetsu manages its operations while considering the perspectives of its stakeholders, including shareholders, customers, suppliers, employees, creditors, and local communities, and striving to ensure efficiency, soundness, and transparency in management. The Company has a corporate governance system that facilitates accurate decision-making, rapid business execution, and proper supervision and monitoring of operations.

Strengthening of Corporate Governance

2000	Introduces an executive officer system
2005	Establishes the Compliance Committee Changes the maximum number of directors stipulated in its Articles of Incorporation from 20 to seven
2008	Abolishes the retirement allowance scheme for directors
2015	Transitions to a "company with an audit and supervisory committee" structure (shortening the term of office of directors from two years to one year) Changes its Articles of Incorporation to stipulate the maximum number of directors who are not Audit & Supervisory Committee members as seven and the maximum number of Audit & Supervisory Committee members as four Appoints outside directors (three members of the Audit & Supervisory Committee members) Establishes the Nomination and Compensation Committee (chaired by an outside director)

2015	Formulates a shareholder return policy Establishes its Corporate Governance Guidelines
2016	Commences evaluations of the effectiveness of the Board of Directors Formulates a basic capital policy
2018	Revises its Articles of Incorporation to allow an executive officer to be appointed as president
2019	Introduces a performance-linked stock compensation system
2020	Establishes the CSR Committee
2021	Resolves a policy for determining the compensation of executive directors

■ Structure ■ Director compensation system ■ Operational policy

Corporate Governance System

On June 26, 2015, Toyo Kanetsu switched from a "company with an audit and supervisory board" to a "company with an audit and supervisory committee" structure. By giving voting rights in the Board of Directors to directors who are members of the Audit & Supervisory Committee (including a number of outside directors), we strengthened the functions of the Board of Directors, as well as auditing and supervisory functions, with the aim of building a more effective corporate governance system.

Board of Directors

The Company's Board of Directors consists of a maximum of four directors who are members of the Audit & Supervisory Committee (including one inside director, in principle) and no more than seven directors who are not members of the Audit & Supervisory Committee, for no more than 11 directors. These directors have extensive experience, deep insight, high levels of specialization, and international perspectives for ensuring the Board of Directors is sufficiently diverse and of an appropriate size.

Directors who are members of the Audit & Supervisory Committee are selected for their experience in corporate management and/or in-depth understanding of the Company's operations, as well as for their knowledge in the necessary fields of finance, accounting, and law. At least one of these directors is an expert in finance and accounting. The Company will examine the possibility of nominating a female director in the future while trying to achieve an appropriate balance between the diversity and size of the Board of Directors.

Utilizing the framework provided by the "company with an audit and supervisory committee" structure, the Board of Directors meets once a month, in principle, to deliberate and decide on important matters that are fundamental to the Company based on resolutions approved by the General Meeting of Shareholders; matters that should be discussed and authorized as defined by laws, regulations, and the Articles of Incorporation; and important matters related to management principles, aims, strategic directions, and business execution. The Board of Directors also monitors business execution. From the standpoint of enhancing the effectiveness and efficiency of business execution, important matters related to the operations of the Company and the Group are deliberated and consulted on by the Management Council, and then decided by the Board of Directors. In accordance with laws, regulations, and the Articles of Incorporation, certain decisions related to important aspects of business execution are entrusted to a certain director, and core management matters that are especially important must be approved by the Board of Directors.

Audit & Supervisory Committee

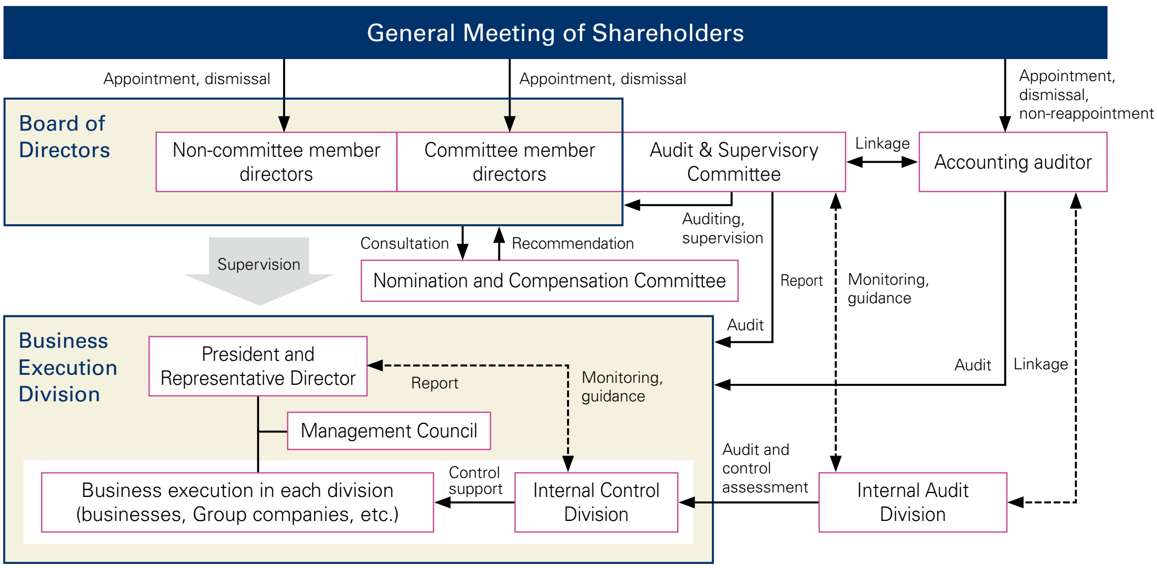
The Audit & Supervisory Committee has four members, including three outside directors to form a majority in accordance with the Companies Act. The Audit & Supervisory Committee conducts organizational audits using the internal control system with the intention of improving corporate value from an independent and objective standpoint, fully aware of the authority given only to members of the committee and of the importance of the roles and duties they are expected to perform. The Audit & Supervisory Committee also audits and monitors business execution from an independent and objective vantage point. For this reason, candidates who will serve as both outside directors and members of the Audit & Supervisory Committee are independent and highly specialized and possess extensive experience as corporate managers.

The Audit & Supervisory Committee meets once a month, in principle, and has one full-time member. While coordinating with the Internal Audit Division and the accounting auditor, committee members participate in Board of Directors' and other important meetings, read documents of significance, listen in on updates to business execution, visit important bases for audits, monitor and evaluate updates to the internal control system, and audit business reports and other briefing materials by investigating conditions at subsidiaries, all in accordance with the auditing policies and auditing plans determined by the Audit & Supervisory Committee. While monitoring and evaluating whether the accounting auditor is properly conducting audits, the committee receives reports and explanations from the accounting auditor about the state of progress on its work and also audits financial statements, supplementary documents, and the consolidated financial statements.

Nomination and Compensation Committee

Toyo Kanetsu established the Nomination and Compensation Committee, on which outside directors form a majority, as an advisory body to the Board of Directors to ensure transparency and appropriateness in the nomination of director candidates and decisions related to their compensation. In this regard, the Company has put in place a structure where fair and highly transparent procedures are followed, including the creation of opportunities for outside directors to get

Corporate Governance System (as of June 29, 2021)



involved and advise on matters in an appropriate manner. For matters concerning the nomination and compensation of directors, the committee meets as often as required to deliberate and make recommendations, and then the Board of Directors arrives at a final decision.

The committee comprises four directors who are members of the Audit & Supervisory Committee, including a representative director and three outside directors. Outside Director Toshiaki Hiwatari is the chair of the Nomination and Compensation Committee.

Evaluation of Effectiveness of the Board of Directors

In order to confirm that the Board of Directors is functioning effectively overall, each director completes a self-evaluation every year after gathering the necessary information from relevant divisions for evaluating the effectiveness of the Board of Directors, which then reaches a final evaluation decision while referring to these opinions on its effectiveness. In addition to evaluating the effectiveness of the Board of Directors, evaluations are conducted every year on whether the entire corporate governance system is operating in accordance with the Company's Corporate Governance Guidelines, with the objective of constantly improving the effectiveness of overall corporate governance.

Summary of Results of Effectiveness Evaluation in Fiscal 2020

The Company's Board of Directors evaluated the effectiveness of the Board of Directors mainly by asking, "Is the Board of Directors operating in accordance with the Corporate Governance Guidelines?"

(1) Method of Evaluation

From March to May 2021, the Board of Directors conducted an evaluation of its effectiveness by following the procedures outlined below.

1. The secretariat provided the reference materials needed to evaluate effectiveness.
2. The Board of Directors asked questions about the reference materials supplied by the secretariat, exchanged opinions, and asked for additional information to be provided.
3. Each director completed a self-evaluation based on a scoring sheet for effectiveness.
4. At the Board of Directors' meeting held on May 14, 2021, the directors discussed the self-evaluations and reached a decision on the final evaluation.

(2) Results of Evaluation and Analysis of Effectiveness of Board of Directors

Through this evaluation process, the Company's Board of Directors affirmed that the Board of Directors is functioning effectively overall. Below is a summary of the results of the evaluation.

1. The Company's Board of Directors is appropriately structured and operating in accordance with its Corporate Governance Guidelines.
2. Each director is fully aware of the roles and responsibilities expected of them by the Board of Directors while properly carrying out their duties.
3. The Board of Directors formulated and disclosed the Medium-Term Business Plan (fiscal 2019–fiscal 2021) to clarify the Company's strategic direction and has disclosed the status of progress of this plan at results briefings. In addition, the Board of Directors provided various non-financial information, including the status of the Company's ESG initiatives, in *TKK Report 2020*, an integrated report emphasizing ESG management.
4. The Board of Directors established the Nomination and Compensation Committee as an advisory body to the Board of Directors. This committee deliberates matters concerning the nomination and compensation of directors, and it makes sure this decision-making process is fair and transparent with the appropriate level of involvement of independent outside directors.
5. The Board of Directors has deliberated on and implemented projects for optimizing internal systems and has executed plans for maintaining internal infrastructure in order to advance the digitalization of corporate management.

(3) Future Issues and Response

The Board of Directors will continue to ensure the effectiveness of the Board of Directors, undertaking the following measures so that it can adequately fulfill its vital roles, including setting the strategic direction for the Company and facilitating independent and objective audit functions:

1. Gather information necessary for making decisions;

2. Hold in-depth discussions from multiple perspectives; and
3. Take appropriate risks and proactively and boldly make decisions.

In addition, amid calls to further strengthen public- and private-sector initiatives to address climate change, the Company will conduct appropriate information disclosure regarding its initiatives in this regard.

Skills Matrix of the Board of Directors

The Company has determined the skills that the Board of Directors possesses as a whole and organized and disclosed them in a skills matrix.

	Expected areas of expertise based on experience					
	General management	International experience	Sales	Manufacturing / technology / research and development	Law / risk management / ESG	Finance / accounting
Toru Yanagawa	○		○			
Keisuke Kodama	○	○	○			
Takashi Owada			○	○		
Kazuhito Watanabe			○		○	
Kazuto Abe		○			○	○
Toshiaki Hiwatari	○				○	
Shigeharu Nakamura	○	○			○	○
Kazuo Ushida	○			○		

Matters Related to Outside Directors

Name	Toshiaki Hiwatari	Shigeharu Nakamura	Kazuo Ushida
Field of expertise	Professional knowledge cultivated as a prosecutor and attorney and extensive experience in the legal profession, including serving as the attorney general and in other important posts	Extensive experience in all aspects of corporate management and broad knowledge of finance and accounting cultivated through many years of experience in financial institutions, including as a manager	Extensive technological development experience at a listed company (manufacturing industry) and extensive experience and broad knowledge of all aspects of corporate management cultivated as a manager
Number of Company shares owned	520 shares	520 shares	—
Attendance at Board of Directors' meetings	11/11 times (100%)	11/11 times (100%)	—
Attendance at Audit & Supervisory Committee meetings	11/11 times (100%)	11/11 times (100%)	—
Attendance at Nomination and Compensation Committee meetings	8/8 times (100%)	8/8 times (100%)	—

Note: Number of shares as of June 29, 2021. Meeting attendance shown for fiscal 2020
Kazuo Ushida became an outside director who is a member of the Audit & Supervisory Committee at the General Meeting of Shareholders held on June 29, 2021.

Director Compensation

The Company resolved a policy for determining the details of compensation for individual directors (excluding outside directors and Audit & Supervisory Committee members who are directors (hereinafter referred to as "executive directors")) at a meeting of the Board of Directors held on February 26, 2021. In passing this resolution, the Board of Directors consulted in advance with the Nomination and Compensation Committee, on which independent outside directors form a majority, regarding the resolution details and received the committee's recommendations.

The following is an overview of the policy on determining the details of compensation for individual executive directors.

a) Basic policy

- To ensure that compensation for executive directors enhances their motivation to improve its performance and increase its corporate value over the medium to long term and functions properly as an incentive to share risks and returns arising from changes in its share price with shareholders, the Company has adopted a compensation system linking compensation with its business results and stock value. The basic policy of this system is to establish appropriate criteria that take into consideration each individual's responsibilities when determining the compensation for individual executive directors. Compensation for directors (excluding directors who are Audit & Supervisory Committee members) comprises basic (monetary) compensation, performance-linked monetary compensation, and performance-linked stock compensation.
- In consideration of their duties, the Company pays only basic compensation as compensation for directors who are members of the Audit & Supervisory Committee, which is responsible for the supervisory function.

b) Policy on determining individual compensation amounts for basic (monetary) compensation (including the policy on determining the timing and the conditions for granting compensation)

- Basic (monetary) compensation for the Company's directors (excluding directors who are Audit & Supervisory Committee members) shall be monthly fixed compensation. This compensation is determined in line with a pre-existing compensation table according to rank, comprehensively taking into consideration factors including the compensation levels of other companies, the Company's performance, and the salary level of its employees.
- Alongside performance-linked monetary compensation (see c) 1. on the next page), the Company will pay such basic (monetary) compensation as monthly fixed compensation on a monthly basis for one year during the next fiscal year.

c) Policy on determining the details of performance-linked monetary compensation and non-monetary compensation (hereinafter referred to as "performance-linked stock compensation") and the method for calculating the amount and number of points (including the policy on determining the timing and conditions for granting compensation)

Total Compensation by Director Category, Total Compensation by Type, and Number of Eligible Directors in Fiscal 2020

Director category	Total amount of compensation (¥ million)	Total amount of compensation by type (¥ million)			Number of eligible directors
		Basic compensation	Additional compensation	Performance-linked stock compensation	
Directors (excluding members of the Audit & Supervisory Committee and outside directors)	146	76	61	9	6
Directors (members of the Audit & Supervisory Committee) (excluding outside directors)	16	16	–	–	1
Outside directors	26	26	–	–	3

Notes:
1. The number of directors (excluding Audit & Supervisory Committee members and outside directors) as of March 31, 2021 was four. This number differs from that shown above as the above number includes two directors who completed their terms and retired at the conclusion of the 112th General Meeting of Shareholders held on June 26, 2020.
2. The amounts paid to directors (excluding Audit & Supervisory Committee members and outside directors) do not include employee salaries of those serving concurrently as employee and director.
3. The maximum amount of compensation for directors (excluding those who are Audit & Supervisory Committee members) was resolved to be within ¥15 million per month (not including employee salaries) at the 107th General Meeting of Shareholders held on June 26, 2015 (the number of directors at the time of this meeting was seven.). Separate from this compensation, a performance-linked stock compensation system using a trust for directors (excluding outside directors and Audit & Supervisory Committee members who are directors) and executive officers who are ranked managing executive officer or higher and who are not directors was introduced at the 111th General Meeting of Shareholders held on June 27, 2019 (the number of directors at the time of this meeting was six.), with the maximum amount of trust money resolved to be ¥150 million for each of the three fiscal years of the period covered.
4. The maximum amount of compensation for directors (Audit & Supervisory Committee members) was resolved to be within ¥5 million per month at the 107th General Meeting of Shareholders held on June 26, 2015 (the number of directors (Audit & Supervisory Committee members) at the time of this meeting was four.).
5. The performance-linked stock compensation column for the above directors (excluding Audit & Supervisory Committee members and outside directors) represents the amounts reported as expenses for fiscal 2020.

1. Policy on determining the details of performance-linked monetary compensation and the method for calculating the amount and number of points

- Performance-linked monetary compensation is cash-based compensation reflecting key performance indicators (KPIs) that the Company has established in order to raise awareness of the importance of enhancing performance each fiscal year. The amount of this compensation is calculated by adding the amount of consolidated net income before taxes and other adjustments for each fiscal year to the projected amount of consolidated net income before taxes and other adjustments for the next fiscal year.
- Executive bonuses of a certain portion of profits may be paid by resolution of the General Meeting of Shareholders only in the event that the consolidated net income before taxes and other adjustments and stock dividend amounts are at a certain level or higher.

2. Policy on determining the details of performance-linked stock compensation and the method for calculating the amount and number of points

(i) Details, amount, and method for calculating performance-linked stock compensation

- Performance-linked stock compensation grants the following points each fiscal year to executive directors and executive officers who are ranked managing executive officer or higher and who are not directors (hereinafter, "directors and executive officers") in accordance with their rank and level of achievement of earnings indicators based on the Medium-Term Business Plan and other materials on the basis of the share delivery regulations of the Performance-Linked Stock Compensation System for Directors, which was resolved at a meeting of the Board of Directors on May 14, 2019, and the determination of compensation details and amounts associated with the introduction of the Performance-Linked Stock Compensation System for Directors and Executive Officers, which was resolved at the 111th General Meeting of Shareholders held on June 27, 2019.
- Directors and executive officers who are not responsible for business divisions or are responsible for corporate divisions:
  Points granted = Base points for rank × Performance-linked coefficient ((1) x 1.0)*
- Directors and executive officers responsible for business divisions
  Points granted = Base points for rank × Performance-linked coefficient ((1) x 0.5 + (2) x 0.5)*

* The performance-linked coefficients (1) and (2) vary between 0% and 144% according to the level of achievement of targets for ROE and the operating profit of each division.

- Directors and executive officers shall be granted a maximum of 41,000 points (corresponding to 41,000 shares) (of which 30,340 points (corresponding to 30,340 shares) are for executive directors) each fiscal year in the three fiscal years from fiscal 2019 through fiscal 2021 (hereinafter referred to as the "initial period," which is assumed to be the period of the Medium-Term Business Plan) and a maximum of 123,000 points (corresponding to 123,000 shares) (of which 91,020 points (corresponding to 91,020 shares) are for executive directors) in the three fiscal years of the initial period. Moreover, the points granted shall be converted into the Company's shares at the rate of one share per point when providing shares of the Company's stock to directors and executive officers.

(ii) Policy on determining the timing and conditions for granting performance-linked stock compensation

- The period of the performance-linked stock compensation system shall cover the initial period and every three fiscal years starting from the end of the initial period (or the period of the Medium-Term Business Plan formulated following the initial period).
- In principle, shares of the Company's stock shall be provided to directors and executive officers following the determination of the Company's performance in the final fiscal year of each period covered by the compensation system, in accordance with the cumulative total of points granted in the period covered. However, from the perspective of ensuring capital for the payment of taxes, a number of shares of the Company, corresponding to 50% of the cumulative points, shall be converted into cash and the cash amount equal to the amount of converted shares shall be paid to directors and executive officers.

d) Policy on determining the ratio of the amount of basic (monetary) compensation, the amount of performance-linked monetary compensation, and the amount of performance-linked stock compensation to the amount of compensation for individual directors

Regarding the ratio of each type of compensation for executive directors, as performance-linked monetary compensation is calculated based on performance in the preceding fiscal year and projected performance in the next fiscal year, and as performance-linked stock compensation is the number of shares calculated based on ROE and divisional operating profit—which are target KPIs of the Medium-Term Business Plan for the initial period—the Company has not determined the ratio, as said ratio will be decided by the performance in the relevant single fiscal year and the next fiscal year and by the degree of achievement of targets for ROE and divisional operating profit by each executive director in the initial period and the subsequent three fiscal years. However, in consideration of the intention behind introducing performance-linked compensation, the structure of compensation types is such that the higher an executive director's rank, the more weight is assigned to performance-linked compensation.

e) Matters regarding the method for determining the details of compensation for individual executive directors
The Company has stipulated policies and procedures for determining compensation for directors (excluding outside directors and Audit & Supervisory Committee members who are directors) in its Corporate Governance Guidelines, based on which it determines the amount of compensation for individual executive directors by a resolution of the Board of Directors following deliberations and recommendations by the Nomination and Compensation Committee, of which independent outside directors form a majority, thereby ensuring the transparency of the process for determining compensation.

f) Reasons why the Board of Directors decided to bring the details on compensation for individual executive directors in relation to fiscal 2020 in line with this policy
The Nomination and Compensation Committee, which was consulted by the Board of Directors, conducted a multi-faceted examination of the draft proposal, including of its consistency with decision-making policy, and confirmed specific amounts by applying them to the compensation table before making its recommendations to the Board of Directors. Accordingly, in determining the details of compensation for individual executive directors, the Board of Directors basically respects the committee's recommendations, deeming them to be in line with decision-making policy.

Cross-Shareholdings

Toyo Kanetsu has the following basic policies on holding cross-shareholdings and the exercise of voting rights.

(1) Toyo Kanetsu does not have cross-shareholdings for purposes other than strengthening relationships and partnerships with customers and suppliers, with the objective of increasing corporate value. New acquisitions of cross-shareholdings, as well as buying and selling shareholdings, are conducted and reported to the Board of Directors in accordance with internal rules.
(2) Every year, the Board of Directors examines the purpose for owning individual shares, the benefits and risks of holding these shares, and whether the holdings align with the cost of capital, in order to determine whether it is appropriate to own these shares.
(3) With regard to the exercise of voting rights, the Company shall, in principle, be in opposition when there are concerns that its purpose for owning the stock does not align with management, such as when:
   1. Earnings have worsened for several years at the investee company, with no sign of a recovery in sight; and
   2. Significant problems come to light in internal controls related to financial reporting by the investee, and improvements seem unlikely.
(4) In the event that a company that owns shares of Toyo Kanetsu for cross-shareholding purposes indicates its intention to sell these shares, the Company shall not take inappropriate action that may interfere with the sale of the shares, such as suggesting the company would lose business with the Company.
(5) Toyo Kanetsu shall not engage in business transactions with a company (in which it owns stock for cross-shareholding purposes) that conflict with its interests as well as with the common interests of its shareholders, such as continuing to conduct business without adequate evidence of economic rationality for the business transactions.

In fiscal 2020, the Company sold the listed shares of two stocks from among its cross-shareholdings (including a partial sale), the proceeds of which came to ¥765 million.

Risk Management

Under the Company's risk management system, based on its Risk Management Rules, the division manager of the Corporate Division oversees the risk management of the Company and the Group as the risk management officer. Under the command of the risk management officer, a department in charge of Groupwide risk management identifies risks and monitors evaluations and results. Important risks are regularly reviewed after considering changes in the business environment and the status of risk responses, and we strive to ensure that effective risk countermeasures are being appropriately implemented in a timely manner.

In fiscal 2020, the Company carried out measures expediently both to ensure safety and maintain business continuity by clarifying the position of the emergency project team, which is dealing with the COVID-19 pandemic, in revisions to its organizational and office regulations.

Business Risks

Of all the risks that could affect its business activities, certain of those potentially having a significant impact on the Toyo Kanetsu Group are shown below.However, this is not an exhaustive list of risks related to the Group and there are risks that are difficult to foresee.

▶ For details, please see the *TKK Report 2021 Financial Section*, which is available on the Company's website.
https://www.toyokanetsu.co.jp/global/ir/tkk_report.php

<table>
<tr><th>Category</th><th>Nature of risk</th></tr>
<tr><td>1 Climate change</td><td>• Impact on the business environment in the event of a decrease in demand for tanks amid an acceleration in the shifting energy mix prompted by growing global environmental awareness and the transition to a low-carbon and carbon-neutral society
• Decrease in social trust in the event of the occurrence of environmental problems arising from business activities</td></tr>
<tr><td rowspan="3">2 Execution of projects</td><td>Logistics Solutions Business
• Unexpected increase in costs due to various factors, such as compressed construction periods due to unforeseen changes in construction plans under pressure to shorten delivery times and delivery deadline adjustments due to carrying out multiple large projects simultaneously within a certain period of time
• Impact on the execution of projects in the event that principal products and materials purchased from specific overseas business partners cannot be purchased in a stable manner</td></tr>
<tr><td>Plant & Machinery Business
• Impact on business execution in the event of shortages of construction workers, rising procurement prices of materials and equipment, and delays in the transfer of technologies to project engineers</td></tr>
<tr><td>• Deterioration in profits from projects and adverse effect on the Group's social reputation due to serious quality complaints or problems with products
• In addition, the Group's overseas operations carry the following inherent risks.
a) Unexpected changes in laws and regulations, b) Political and economic instability, c) Difficulties in securing human resources, d) Unfavorable tax system revisions, and e) Social disorder due to terrorism, war, epidemics, disasters, or other factors</td></tr>
<tr><td>3 Securing and developing human resources</td><td>• Impact on business activities from an outflow of human resources and rise in recruitment costs</td></tr>
<tr><td>4 Intensifying competition for orders</td><td>• Unreasonable downward pressure on profitability
• Impact on the Group's ability to obtain orders due to changes in terms of customer policies and plans, the business environment of the industry, and industry restructuring
• Impact on business results and financial position stemming from the recording of impairment losses on non-current assets in the event that profitability declines and the Group cannot generate sufficient cash flows due to dramatic changes in the business environment and business conditions</td></tr>
<tr><td>5 Launch of new businesses</td><td>• Adverse effect on business results and financial position in the event of delays in creating a business that will become a third pillar to follow the Group's two core businesses</td></tr>
<tr><td>6 Occupational health and safety</td><td>• Compensation for damages, criminal penalties, administrative punishment, and a decline in public trust in the event of an incident or accident</td></tr>
<tr><td>7 Compliance</td><td>• Financial penalties and a decline in public trust in the Group stemming from the violation of laws and regulations in Japan and overseas</td></tr>
<tr><td>8 Natural disasters and epidemics</td><td>• Serious material damage and human injury caused by greater-than-expected natural disasters
• Risks in a wide range of areas caused by the impact of COVID-19</td></tr>
<tr><td>9 Information security and maintenance of information infrastructure</td><td>• Damage to the Group's reputation for reliability due to the loss or leakage of confidential information as a result of unforeseen cyberattacks
• Loss of business opportunities in the event that the Group lags behind in digital transformation initiatives</td></tr>
<tr><td rowspan="3">10 Market trends, etc.</td><td>Logistics Solutions Business
• Slowdown in investments in logistics-related facilities due to a lower volume of logistics as a result of a recession or Japan's declining birth rate and aging population
• Decline in demand for air travel</td></tr>
<tr><td>Plant & Machinery Business
• Cancellation, postponement, or major revision of investment plans due to factors including global economic trends, economic and social conditions in oil and gas producing and consuming countries, energy and environmental policies in various countries, and trends in crude oil and LNG prices</td></tr>
<tr><td>• In addition, the following risks are also possible in the event of the deterioration of the economic environment.
a) Fluctuations in foreign exchange rates, b) Fluctuations in interest rates, and c) Valuation of securities held</td></tr>
</table>

Note: Forward-looking statements contained in this section are based on the understanding of the Company as of the submission date (June 29, 2021) of its Securities Report (in Japanese only) for the fiscal year ended March 31, 2021.

Discussion on Corporate Governance

Shigeharu Nakamura
Outside Director and Audit & Supervisory Committee Member

Kazuto Abe
Director and Audit & Supervisory Committee Member

The Company held a discussion on corporate governance and diversity between a director and an outside director, both of whom serve as Audit & Supervisory Committee members.

Swift Organizational Reform with the Aim of Strengthening Corporate Governance

Abe: Toyo Kanetsu transitioned from a "company with an audit and supervisory board" to a "company with an audit and supervisory committee" structure a month after the revision of the Companies Act in May 2015. While this change of organizational design represented a decisive judgment for Toyo Kanetsu at a time when few other companies were making such changes, I have a strong sense that the transition has strengthened many aspects of its corporate governance. Examples include the Board of Directors' voting rights and right to state opinions on executive appointments, which relates directly to the revision of the Companies Act, and the reorganization of the Internal Audit Division from being under the direct control of the Company's president to being under the direct control of the Audit & Supervisory Committee, which has improved the independence and effectiveness of internal audits.
Nakamura: The speed at which Toyo Kanetsu responded to each revision of the Corporate Governance Code, which I see as a clear manifestation of the Company's pride in occupying a certain position in the industry, is worthy of high praise. I also believe that placing the internal audit system within the purview of the Audit & Supervisory Committee, separate from those carrying out business execution, represents an outstanding organizational form of corporate governance.

Securement of the Effectiveness of Corporate Governance through Uninhibited Debates at Meetings of the Nomination and Compensation Committee

Abe: The transition to a "company with an audit and supervisory committee" structure granted the Audit & Supervisory Committee the right to state opinions at the General Meeting of Shareholders regarding the appointment and compensation of directors who are not members of the Audit & Supervisory Committee.
Nevertheless, in order to enhance transparency and fairness, the Company established the Nomination and Compensation Committee comprising a representative director and all members of the Audit & Supervisory Committee, including outside directors, rather than having only Audit & Supervisory Committee members discuss the appointment and compensation of directors. Six years have passed since the establishment of the Nomination and Compensation Committee.
Nakamura: The appointment and compensation of directors should not be arbitrarily decided by the opinion of the president, who leads those in charge of business execution. I feel the idea that management would not be viable without first eliminating the possibility of such a situation has long been embedded in the minds of the Company's management personnel. In this sense, the establishment of the Nomination and Compensation Committee was inevitable for the Company.

The Nomination and Compensation Committee makes recommendations after conferring extensively in response to consultations from the Board of Directors, and I endeavor to offer frank opinions, as is my duty as an outside director. For example, at times I express a dissenting viewpoint with regard to director nomination proposals. In considering such proposals, the committee carries out discussions on the candidate's suitability for the requirements of the post while making reference to the objective perspective of Director Abe, whose standpoint differs from those in charge of business execution, as well as conducting exchanges of opinion involving only the candidate and outside directors. I also stated my opinion during a free discussion in the past that the Company was lagging behind other companies in introducing a performance-linked stock compensation system.

Abe: I am grateful for your frank opinions as I have counted on them in order to carry out repeated substantive discussions at Nomination and Compensation Committee meetings. To give an example, the committee discussed the appointment of directors in 2020 on a total of nine occasions, including exchanges of opinion, before reporting to the Board of Directors. In addition, Director Nakamura's viewpoint on compensation was a key factor behind the introduction of the performance-linked stock compensation system in 2019.

Nakamura: I believe the fact that the Nomination and Compensation Committee not only makes recommendations in response to consultations from the Board, but also is a committee where uninhibited debates are possible.

Succession Plan Looking Ahead to the Next Generation

Nakamura: Given that I have served as an outside director at Toyo Kanetsu for a number of terms, I have a general idea of the Company's human resource pool and regard all those ranked at the executive officer level or higher as future candidates for the position of president.

Abe: In respect to the succession plan, the Company amended its Articles of Incorporation in 2018 to allow executive officers who are not directors to be appointed as president with the aim of broadening the range of potential candidates for president. In addition, the Company strives to provide a variety of opportunities for outside directors to interact with those ranked at the executive officer level or higher in order for them to understand the personality and temperament of candidates for president.

Nakamura: I make use of any and all opportunities to look at candidates, such as the manner in which executive officers answer in response to questions on their presentations at meetings of the Board of Directors or the way they provide explanations and deal with people on worksite visits. Although only one among other criteria for assessing candidates for president, based on my past experience I believe it is important whether or not I can actually imagine them serving as president in the future, and I place a particular emphasis on whether or not they possess the leadership to energize the Company as a whole.

Improvement of Diversity and Reform of Awareness for the Next Stage of Growth

Nakamura: I believe it is important for companies to change positively and grow as a result of diversity, rather than simply aiming to promote diversity. To that end, I am of the opinion that, unless companies achieve inclusion as well as diversity, they will not see positive results. To be direct, I have the impression that Toyo Kanetsu has not yet reached a point where it can be said to be inclusive, although it is putting the foundations for diversity in place.

Abe: As you correctly point out, although the Company is making such efforts as increasing the number of female management candidates and recruiting non-Japanese personnel, I am afraid that at this point it still has more to do. While the presence of many female employees with potential within the Company offers high hopes for the future, achieving diversity and inclusion is likely to require some more time.

Nakamura: In Toyo Kanetsu's case, while I think that worksites have historically been male-dominated, women are now beginning to make inroads. It is important for management to make decisions that provide truly equal opportunities, rather than separating men and women based on the nature of their work. I am convinced that providing such opportunities will encourage competition among employees, which will in turn lead to the emergence of women active at the executive officer level or higher, although it may take a little time.

Abe: As generational shifts progress, possibilities are open today for individuals to step up to executive positions, regardless of their age or gender. As you have indicated, senior management and executives must further change their mind-sets accordingly.

Financial Strategy

Analysis and Examination of Financial Position

Total assets were ¥58.76 billion as of March 31, 2021, a decrease of ¥2.22 billion compared with March 31, 2020. The decline was mainly attributable to a decrease in cash and deposits of ¥4.09 billion and an increase in investment securities of ¥1.89 billion.

Total liabilities amounted to ¥22.28 billion, down ¥4.10 billion compared with March 31, 2020. The decline primarily reflected a total decrease of ¥3.74 billion in borrowings (short-term borrowings, current portion of long-term borrowings, and long-term borrowings) and bonds from financial institutions.

Total net assets came to ¥36.48 billion, an increase of ¥1.88 billion compared with March 31, 2020. This increase was primarily due to such factors as the recording of profit attributable to owners of parent of ¥1.77 billion and an increase in the valuation difference on available-for-sale securities of ¥1.27 billion, as well as on the distribution of dividends of surplus of ¥0.85 billion.

Given the uncertainty over the outlook for the business environment at the end of fiscal 2019 due to the spread of the COVID-19 pandemic, the Company curbed its repayment of borrowings from financial institutions and other bodies from the perspective of securing liquidity on hand. However, taking into consideration the impact of COVID-19 on the economy, the Company steadily advanced the repayment of borrowings in fiscal 2020, resulting in a decrease in cash and deposits as well as in borrowings from financial institutions. In addition, investment securities and the valuation difference on available-for-sale securities increased due to a rise in the market price of investment securities stemming from the upturn in the stock market through fiscal 2020.

Further, the equity ratio at the end of fiscal 2020 stood at 62.1%, up 5.4 percentage points compared with the end of fiscal 2019, thanks to the downsizing of the balance sheet and the increase in total net assets.

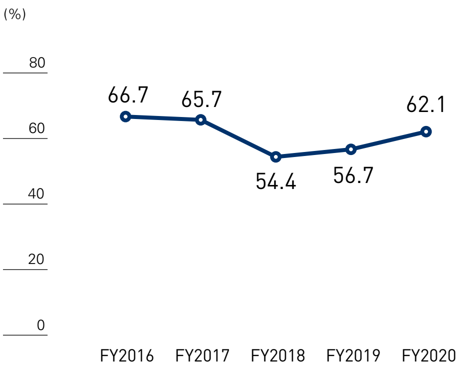
Approach to Building a Financial Foundation

As it has maintained its equity ratio, a general indicator of the stability of a company, at 50% or higher, Toyo Kanetsu's financial foundation remains sufficiently stable. The Company believes it is possible to strike a balance between maintaining the soundness of its financial foundation and increasing corporate value in a sustainable manner by allocating retained earnings to shareholder returns and investments for future growth in equal proportion while maintaining an equity ratio of 50% to 60%.

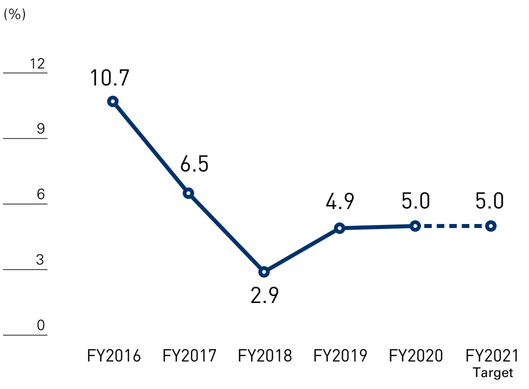
Key Financial Indicators

The Company's indicator for profitability is return on equity (ROE) and it views achieving its target of 5.0% as mandatory, as indicated in its Medium-Term Business Plan and other information disclosure materials. We also use indicators including an operating margin and a gross profit margin, which are general indicators for determining business profit, as key indicators in operating our businesses.

Equity Ratio



ROE



As for indicators of financial stability, we focus on those such as the equity ratio, the current ratio, and the fixed ratio with the aim of maintaining a well-balanced portfolio.

Toyo Kanetsu compares results for these indicators with those from previous years and analyzes the reasons behind increases and decreases.

Investment Policy

While its approach to investments is to conduct capital expenditures within the range of depreciation in the given fiscal year in principle, the Company makes decisions on a case-by-case basis regarding system investments for streamlining and increasing the efficiency of operations and the acquisition of non-current assets essential for operating its businesses.

In addition, we make decisions on investments aimed at securing a certain controlling interest in other companies, such as mergers and acquisitions, to directly increase our corporate value, after comparing and examining a range of factors, including future prospects, benefits, and costs.

Approach to Raising Funds

While Toyo Kanetsu uses funds obtained through free cash flows for the financing required to operate its businesses in a stable manner, its basic policy regarding shortfalls is to raise funds with a focus on the cost of liabilities and the cost of shareholders' equity.

In principle, we raise funds through long-term borrowings, bonds, and other means when the reason for using the funds is long term in nature and through short-term borrowings when the reason is short term in nature, thereby optimizing our use of assets and liabilities.

Shareholder Returns

Toyo Kanetsu has formulated a shareholder return policy based on optimizing the balance between financial soundness and the return of profits to its shareholders.

For fiscal 2020, we paid a full-year dividend of ¥115 per share for a consolidated dividend payout ratio of 54.1%, based on this shareholder return policy, and including a commemorative dividend for the 80th anniversary of our founding.

Given that its financial position is at present solid to a certain degree, the Company views the manner in which it balances growth investments for the future with shareholder returns as vital. Although we have set forth a consolidated dividend payout ratio of at least 50% as an indicator during the period of the current Medium-Term Business Plan, we believe that the ratio will be determined going forward by the business environment of the time and future projections.

Shareholder return policy during the period of the current Medium-Term Business Plan (fiscal 2019–fiscal 2021)

Consolidated dividend payout ratio
of at least 50%
(minimum annual dividend of ¥100 per share)

Unless there are considerable capital needs

(1) Retained earnings will be applied to investments and capital expenditures for increasing corporate value

(2) Share buybacks will be flexibly undertaken

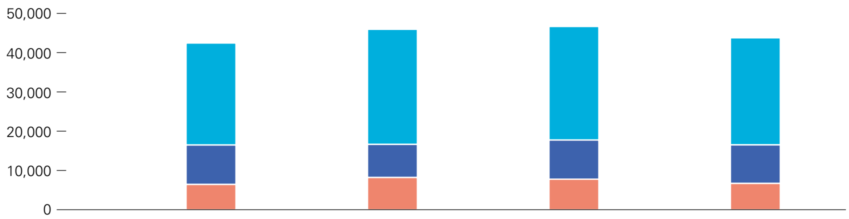
Consolidated Financial Highlights (Fiscal years ended March 31)

	FY2013	FY2014	FY2015
Net sales	¥ 48,395	¥ 52,457	¥ 46,572
Operating profit	4,341	3,588	3,024
Ordinary profit	4,776	3,891	3,227
Profit attributable to owners of parent	2,879	3,019	1,906
Total assets	54,515	55,928	51,368
Total net assets	33,789	36,580	34,376
Total shareholders' equity	32,105	33,525	32,136
Basic earnings per share*1	241.77	260.76	174.53
Dividends per share*1	50.00	40.00	50.00
Net assets per share*1	2,821.75	3,159.08	3,339.15
Equity ratio	61.6	65.0	66.9
Dividend payout ratio	20.7	15.3	28.6
Return on equity (ROE)	9.0	8.6	5.4
Return on assets (ROA)	8.5	7.1	6.0
Net cash provided by (used in) operating activities	2,606	(213)	4,041
Net cash provided by (used in) investing activities	(402)	(1,120)	(766)
Net cash provided by (used in) financing activities	(767)	(1,774)	(3,640)

The Toyo Kanetsu Group prepares its consolidated financial statements in accordance with Japanese generally accepted accounting principles (GAAP).
Figures are rounded down to the nearest million yen.
*1 Toyo Kanetsu conducted a 10:1 reverse stock split for ordinary shares effective on October 1, 2017.
As a result, figures prior to the fiscal year ended March 31, 2017 have been restated for basic earnings per share, dividends per share, and net assets per share.
*2 Figures denominated in U.S. dollars were converted at a rate of ¥110.71 = $1, referring to the prevailing rate on March 31, 2021.

Net Sales by Business Segment

(Millions of yen)

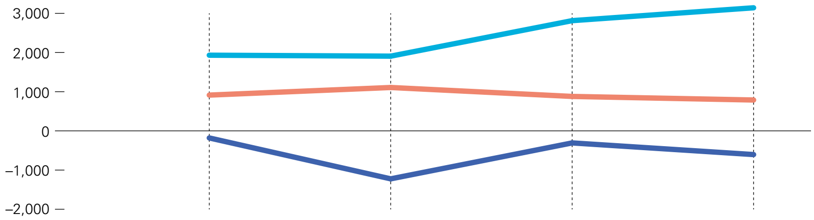


Net Sales by Business Segment	FY2017	FY2018	FY2019	FY2020
Logistics Solutions Business	25,939	29,274	28,887	27,239
Plant & Machinery Business	10,030	8,421	9,950	9,800
Other Businesses	6,470	8,237	7,813	6,729
Adjustment	(682)	(745)	(133)	(151)

FY2016	FY2017	FY2018	FY2019	FY2020	(Reference) FY2020
				(Millions of yen)	(Thousands of U.S. dollars)*2
¥ 41,932	¥ 41,758	¥ 45,188	¥ 46,518	**¥ 43,617**	**$393,975**
3,080	2,265	1,406	2,591	**2,623**	**23,692**
3,441	2,646	1,771	2,970	**3,053**	**27,576**
3,746	2,362	1,025	1,717	**1,777**	**16,050**
53,228	55,818	64,756	60,985	**58,764**	**530,792**
35,481	36,666	35,234	34,602	**36,484**	**329,545**
33,978	34,207	33,324	32,722	**33,068**	**298,690**
				(Yen)	(U.S. dollars)*2
373.78	251.26	112.80	195.87	**212.41**	**1.92**
120.00	100.00	100.00	100.00	**115.00**	**1.04**
3,702.00	3,941.68	3,897.68	4,095.51	**4,461.06**	**40.30**
				(%)	
66.7	65.7	54.4	56.7	**62.1**	
32.1	39.8	88.7	51.1	**54.1**	
10.7	6.5	2.9	4.9	**5.0**	
6.6	4.8	2.9	4.7	**5.1**	
				(Millions of yen)	(Thousands of U.S. dollars)*2
(2,131)	3,726	(6,698)	6,955	**1,482**	**13,386**
(1,714)	(85)	(1,315)	(812)	**(338)**	**(3,053)**
(2,820)	2,032	3,249	(2,351)	**(5,176)**	**(46,752)**

Operating Profit (Loss) by Business Segment

(Millions of yen)



Operating Profit (Loss) by Business Segment	FY2017	FY2018	FY2019	FY2020
Logistics Solutions Business	1,931	1,907	2,812	3,140
Plant & Machinery Business	(178)	(1,221)	(305)	(602)
Other Businesses	914	1,108	880	789

Consolidated Balance Sheets

(Japanese GAAP)

(Millions of yen)

Assets	Previous fiscal period (As of March 31, 2020)	Current fiscal period (As of March 31, 2021)
Current assets		
Cash and deposits	¥11,507	**¥ 7,413**
Notes and accounts receivable–trade	15,413	**13,489**
Investments in leases	937	**550**
Merchandise and finished goods	27	**57**
Work in process	5,179	**6,732**
Raw materials and supplies	1,977	**2,523**
Other	435	**863**
Allowance for doubtful accounts	(16)	**(13)**
Total current assets	35,461	**31,616**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,218	**4,142**
Machinery, equipment and vehicles, net	1,016	**716**
Tools, furniture and fixtures, net	364	**284**
Land	10,568	**10,122**
Construction in progress	253	**356**
Other, net	20	**18**
Total property, plant and equipment	16,442	**15,641**
Intangible assets	381	**481**
Investments and other assets		
Investment securities	8,013	**9,909**
Deferred tax assets	45	**42**
Retirement benefit asset	38	**452**
Other	889	**847**
Allowance for doubtful accounts	(286)	**(227)**
Total investments and other assets	8,699	**11,024**
Total non-current assets	25,523	**27,147**
Total assets	¥60,985	**¥58,764**

(Millions of yen)

Liabilities	Previous fiscal period (As of March 31, 2020)	Current fiscal period (As of March 31, 2021)
Current liabilities		
Notes and accounts payable–trade	¥ 919	**¥ 1,091**
Short-term borrowings	7,849	**3,620**
Current portion of long-term borrowings	619	**8**
Accrued expenses	4,763	**3,778**
Income taxes payable	553	**914**
Advances received	2,790	**2,354**
Provision for bonuses	267	**259**
Provision for loss on order received	241	**30**
Provision for warranties for completed construction	389	**348**
Other	455	**681**
Total current liabilities	18,848	**13,086**
Non-current liabilities		
Bonds payable	—	**1,000**
Long-term borrowings	4,488	**4,580**
Deferred tax liabilities	1,520	**2,138**
Deferred tax liabilities for land revaluation	1,095	**1,095**
Retirement benefit liability	152	**107**
Asset retirement obligations	235	**230**
Other	40	**41**
Total non-current liabilities	7,534	**9,193**
Total liabilities	26,382	**22,280**

Net assets	Previous fiscal period (As of March 31, 2020)	Current fiscal period (As of March 31, 2021)
Shareholders' equity		
Share capital	18,580	**18,580**
Capital surplus	1,273	**1,273**
Retained earnings	15,224	**16,148**
Treasury shares	(2,355)	**(2,933)**
Total shareholders' equity	32,722	**33,068**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,666	**3,937**
Deferred gains or losses on hedges	0	**9**
Revaluation reserve for land	106	**106**
Foreign currency translation adjustment	(729)	**(833)**
Remeasurements of defined benefit plans	(165)	**195**
Total accumulated other comprehensive income	1,878	**3,415**
Non-controlling interests	1	**0**
Total net assets	34,602	**36,484**
Total liabilities and net assets	¥60,985	**¥58,764**

Consolidated Statements of Profit or Loss and Comprehensive Income

(Japanese GAAP)

(Millions of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Net sales	¥46,518	**¥43,617**
Cost of sales	37,355	**34,369**
Gross profit	9,162	**9,247**
Selling, general and administrative expenses	6,570	**6,623**
Operating profit	2,591	**2,623**
Non-operating income		
Interest income	9	**14**
Dividend income	277	**259**
Foreign exchange gains	5	**—**
Subsidy income	34	**104**
Reversal of allowance for doubtful accounts	0	**84**
Other	125	**113**
Total non-operating income	452	**576**
Non-operating expenses		
Interest expenses	59	**59**
Bond issuance costs	—	**23**
Commission for purchase of treasury shares	1	**17**
Foreign exchange losses	—	**37**
Other	13	**11**
Total non-operating expenses	74	**147**
Ordinary profit	2,970	**3,053**
Extraordinary income		
Gain on sales of non-current assets	0	**9**
Gain on sales of investment securities	578	**913**
Other	—	**65**
Total extraordinary income	579	**989**
Extraordinary losses		
Loss on valuation of investment securities	673	**73**
Impairment losses	—	**1,047**
Loss on disaster	39	**13**
Other	48	**15**
Total extraordinary losses	761	**1,149**
Profit before income taxes	2,788	**2,892**
Income taxes–current	759	**1,199**
Income taxes–deferred	311	**(83)**
Total income taxes	1,070	**1,115**
Profit	¥ 1,717	**¥ 1,777**
Profit (loss) attributable to:		
Profit attributable to owners of parent	¥ 1,717	**¥ 1,777**
Loss attributable to non-controlling interests	(0)	**(0)**
Other comprehensive income		
Valuation difference on available-for-sale securities	44	**1,271**
Deferred gains or losses on hedges	0	**9**
Foreign currency translation adjustment	30	**(104)**
Remeasurements of defined benefit plans, net of tax	(104)	**360**
Total other comprehensive income	(29)	**1,536**
Comprehensive income	¥ 1,688	**¥ 3,313**
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	¥ 1,688	**¥ 3,314**
Comprehensive income attributable to non-controlling interests	(0)	**(0)**

Consolidated Statements of Changes in Equity

(Japanese GAAP)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2019	¥18,580	¥1,273	¥14,549	¥(1,077)	¥33,324
Changes during period					
Dividends of surplus			(903)		(903)
Profit attributable to owners of parent			1,717		1,717
Purchase of treasury shares				(1,416)	(1,416)
Disposal of treasury shares			(138)	138	—
Net changes in items other than shareholders' equity					
Total changes during period	—	—	675	(1,277)	(602)
Balance as of March 31, 2020	¥18,580	¥1,273	¥15,224	¥(2,355)	¥32,722
Changes during period					
Dividends of surplus			**(853)**		**(853)**
Profit attributable to owners of parent			**1,777**		**1,777**
Purchase of treasury shares				**(583)**	**(583)**
Disposal of treasury shares				**5**	**5**
Net changes in items other than shareholders' equity					
Total changes during period	**—**	**—**	**924**	**(578)**	**345**
Balance as of March 31, 2021	**¥18,580**	**¥1,273**	**¥16,148**	**¥(2,933)**	**¥33,068**

(Millions of yen)

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of March 31, 2019	¥2,621	¥—	¥106	¥(759)	¥ (61)	¥1,907	¥1	¥35,234
Changes during period								
Dividends of surplus								(903)
Profit attributable to owners of parent								1,717
Purchase of treasury shares								(1,416)
Disposal of treasury shares								—
Net changes in items other than shareholders' equity	44	0	—	30	(104)	(29)	(0)	(29)
Total changes during period	44	0	—	30	(104)	(29)	(0)	(631)
Balance as of March 31, 2020	¥2,666	¥ 0	¥106	¥(729)	¥(165)	¥1,878	¥1	¥34,602
Changes during period								
Dividends of surplus								**(853)**
Profit attributable to owners of parent								**1,777**
Purchase of treasury shares								**(583)**
Disposal of treasury shares								**5**
Net changes in items other than shareholders' equity	**1,271**	**9**	**—**	**(104)**	**360**	**1,536**	**(0)**	**1,536**
Total changes during period	**1,271**	**9**	**—**	**(104)**	**360**	**1,536**	**(0)**	**1,882**
Balance as of March 31, 2021	**¥3,937**	**¥ 9**	**¥106**	**¥(833)**	**¥195**	**¥3,415**	**¥ 0**	**¥36,484**

Consolidated Statements of Cash Flows

(Japanese GAAP)

(Millions of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Cash flows from operating activities		
Profit before income taxes	¥ 2,788	**¥ 2,892**
Depreciation	718	**776**
Impairment losses	—	**1,047**
Increase (decrease) in allowance for doubtful accounts	(9)	**(61)**
Increase (decrease) in retirement benefit liability	(195)	**(39)**
Decrease (increase) in retirement benefit asset	139	**94**
Increase (decrease) in provision for loss on order received	120	**(211)**
Increase (decrease) in provision for warranties for completed construction	(165)	**(41)**
Interest and dividend income	(287)	**(273)**
Interest expenses	59	**59**
Loss on disaster	39	**13**
Foreign exchange losses (gains)	(17)	**97**
Loss (gain) on valuation of investment securities	673	**73**
Loss (gain) on sales of investment securities	(578)	**(913)**
Loss (gain) on sales of non-current assets	6	**(9)**
Loss on retirement of non-current assets	(18)	**4**
Decrease (increase) in trade receivables	7,865	**1,865**
Decrease (increase) in investments in leases	562	**370**
Decrease (increase) in inventories	(1,221)	**(2,134)**
Decrease (increase) in advance payments to suppliers	1	**(228)**
Increase (decrease) in trade payables	(3,428)	**(785)**
Increase (decrease) in advances received	769	**(436)**
Other, net	(287)	**(54)**
Subtotal	7,533	**2,104**
Interest and dividends received	287	**273**
Interest paid	(67)	**(62)**
Payments associated with disaster loss	(24)	**(28)**
Income taxes paid	(772)	**(804)**
Net cash provided by (used in) operating activities	6,955	**1,482**
Cash flows from investing activities		
Payments into time deposits	(166)	**(102)**
Proceeds from withdrawal of time deposits	118	**102**
Purchase of non-current assets	(1,424)	**(1,131)**
Proceeds from sales of non-current assets	4	**11**
Purchase of investment securities	(250)	**(470)**
Proceeds from sales and redemption of investment securities	878	**1,238**
Other, net	27	**12**
Net cash provided by (used in) investing activities	(812)	**(338)**
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	**(4,229)**
Proceeds from long-term borrowings	480	**100**
Repayments of long-term borrowings	(514)	**(619)**
Proceeds from issuance of bonds	—	**1,000**
Purchase of treasury shares	(1,566)	**(583)**
Proceeds from disposal of treasury shares	149	**5**
Proceeds from share issuance to non-controlling shareholders	0	**—**
Dividends paid	(901)	**(850)**
Net cash provided by (used in) financing activities	(2,351)	**(5,176)**
Effect of exchange rate change on cash and cash equivalents	1	**(59)**
Net increase (decrease) in cash and cash equivalents	3,793	**(4,093)**
Cash and cash equivalents at beginning of period	7,609	**11,402**
Cash and cash equivalents at end of period	¥11,402	**¥ 7,309**

Corporate Profile and Stock Information (As of March 31, 2021)

Corporate Profile

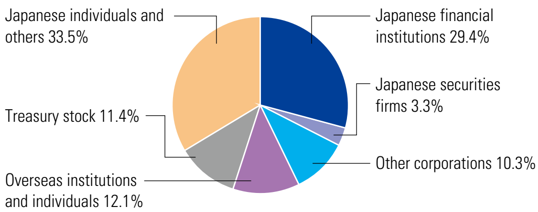
Corporate name	Toyo Kanetsu K.K.
Headquarters	11-1, Minamisuna 2-chome, Koto-ku, Tokyo 136-8666, Japan
Established	May 16, 1941
Capital	¥18.58 billion
Number of issued shares	9,323,074
Share unit	100
Number of employees	986 (on a consolidated basis)
Ticker code	6369
Share registrar	Mitsubishi UFJ Trust and Banking Corporation
Share registrar address and contact information	Stock Transfer Agency Department Mitsubishi UFJ Trust and Banking Corporation 1-1 Nikko-cho, Fuchu City, Tokyo 137-8081 TEL (free dial within Japan): 0120-232-711 Mailing address: P.O. Box 29, Shin-Tokyo Post Office, Tokyo 137-8081, Japan
Stock exchange listing	Tokyo Stock Exchange First Section
Independent accounting auditor	Gyosei & Co.

Major Shareholders

Name	Number of shares (Thousands)	Shareholding (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	516	6.25
Nippon Life Insurance Company	414	5.01
Resona Bank, Limited	409	4.95
Custody Bank of Japan, Ltd. (Trust account)	319	3.86
Daiei Real Estate & Development Co., Ltd.	212	2.57
Mizuho Bank, Ltd.	153	1.86
SUMITOMO LIFE INSURANCE COMPANY	115	1.39
Custody Bank of Japan, Ltd. (Trust account 5)	115	1.39
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	113	1.37
Sato Kogyo Co., Ltd.	111	1.34

Notes: 1. In addition to the aforementioned, the Company holds 1,063 shares of treasury stock.
2. The calculation of the percentage of total shares outstanding excludes treasury stock.

Shareholders and Distribution of Shares



Note: Percentage of total shares outstanding held by shareholder

Share Price and Trading Volume

Thank you for taking the time to read *TKK Report 2021*. With the aim of improving corporate value from an ESG standpoint, the Toyo Kanetsu Group began publishing the TKK Report in fiscal 2019. For this year's report, the Company again referenced the valuable feedback of its stakeholders to further enhance the content by presenting information on its material issues, an overview of its businesses, and a history of Toyo Kanetsu, which celebrated its 80th anniversary in 2021.
Please feel free to contact us if you have any opinions on this report.

Keisuke Kodama
Director and Executive Vice President
Chair of the CSR Committee

TOYO KANETSU K.K.

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