TOKYO KEIKI

Sustainability Report 2023

TOKYO KEIKI INC.

Management Philosophy

It is the mission of our Company and our Group to contribute to society, with a focus on our business of leveraging electronics and other advanced technology to create products that embody functions of human senses: measurement, cognition, and control.

1. Continually hone our technology to develop products that lead the world.
2. Anticipate changes in the market and create new value.
3. Prioritize quality in our products and earn the trust of customers.
4. Develop human resources who improve their abilities and their character to contribute to fulfilling our mission.
5. Engage in sound and fair corporate activities in line with social norms.
6. Protect the environment and work to conserve limited resources.
7. Increase our overall corporate value and meet the expectations of our stakeholders.

Sustainability policy

Through our creative technologies in measurement, cognition, and control, the TOKYO KEIKI Group aims to realize a sustainable society and enhance our corporate value over the medium to long term while earning public trust.

1. Identify the underlying needs of our customers and society, and continue to solve problems through our business activities.
2. Strive to reduce environmental impact and ensure respect for human rights throughout our supply chain.
3. Continue to foster a corporate culture in which diverse human resources can demonstrate their individual strengths and thrive.

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Company profile (as of March 31, 2023)

Trade name:	Tokyo Keiki Kabushiki-gaisha
Company name in English:	TOKYO KEIKI INC.
Founded:	May 1, 1896
Established:	December 21, 1948
Paid-in capital:	¥7,217,597,300
Employees:	1,306 (Consolidated: 1,676)

Editorial policy

We issue this report for the purpose of providing easily understood information on sustainability at TOKYO KEIKI to stakeholders including customers, business partners, shareholders, investors, local communities, and employees. Our goal is to make this report a useful tool for communication with our stakeholders.

Period covered

Fiscal 2022 (April 2022 to March 2023)
Some data and information on activities from April 2023 are also included.

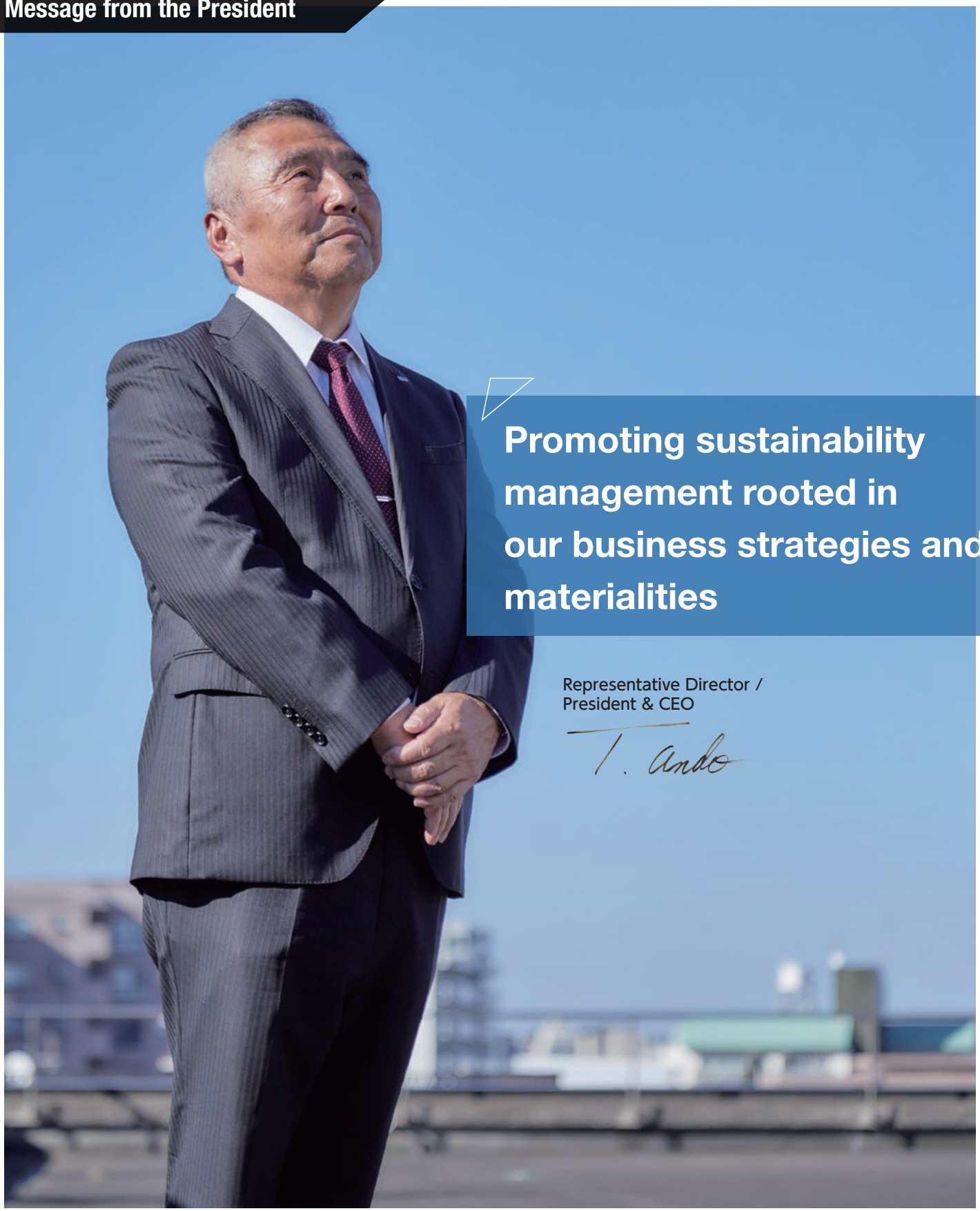
Scope of coverage

Financial information:
- TOKYO KEIKI INC. and its domestic and overseas consolidated subsidiaries

Non-financial information:
- TOKYO KEIKI INC.
- TOKYO KEIKI AVIATION INC.
- TOKYO KEIKI POWER SYSTEMS INC.
- TOKYO KEIKI RAIL TECHNO INC.
- MOCOS JAPAN CO., LTD.
- TOKYO KEIKI PRECISION TECHNOLOGY CO., LTD.

Referenced guidelines

GRI Standards



Promoting sustainability management rooted in our business strategies and materialities

Representative Director /
President & CEO

T. Ando

We will strive to reinforce our foundations and develop growth drivers as we work to achieve TOKYO KEIKI Vision 2030, promoting the corporate culture that has been passed down unbroken throughout our history and refining the creative technologies that have forged new eras.

Business Status

In fiscal 2022, the outlook for the TOKYO KEIKI Group's business environment remained uncertain. Despite the full-scale resumption of economic activity around the world, issues such as elevated resource prices, the short supply of semiconductors and other components, and the soaring price of raw materials were further compounded by dramatic movement in exchange rates and a rapid rise in energy prices. The Group was affected by these factors, and although we managed to achieve an increase in revenue, profit declined, and we recorded an impairment loss in the Fluid Power & Control Systems Company, which is part of the Hydraulics and Pneumatics segment.

While we expect the adverse business environment to continue in fiscal 2023, each internal company and subsidiary in the Group has formulated an ambitious business plan and is working to implement them. We are also actively promoting the development of growth drivers. We plan for a year-on-year increase in revenue and profit, but do not expect to achieve our targets under the three-year medium-term business plan that began in fiscal 2021. At the same time, however, we are steadily preparing for rapid growth under our next medium-term business plan.

Steering the Group toward Future Growth

The Group's history can be traced back to the development of navigational instruments in Japan's in Japan's Meiji era around the turn of the twentieth century. We began with marine gyrocompasses and other gyroscopic applications. As we developed toward our present-day business structure, we progressively created numerous core technologies such as applications using inertial sensors, microwaves, and ultrasonics, as well as hydraulic and pneumatic control technologies. These core technologies were shared and integrated between the Group's various businesses, forming the creative technologies that are the source of our growth. We have earnestly engaged in fulfilling customer requests and orders. Working face-to-face with our customers, mainly in Japan, to promote joint development, we have expanded our business domains by creating numerous "niche-leading" products. As a result, when one of our businesses faces an adverse external environment due to economic conditions or other reasons, we are able to offset its decline through earnings in other business fields, enabling us to maintain stable performance.

However, as the Ito Review notes, today's stock market demands that corporate groups achieve growth targeting an

ROE of 8%. The restructuring of markets on the Tokyo Stock Exchange has further fueled this trend. Meanwhile, with the competitive strength of the Japanese manufacturing industry on the wane, during the period sometimes referred to as "the lost 30 years," there is a limit to what we can achieve by focusing only on the Japanese market.

It was in this context that we established TOKYO KEIKI Vision 2030 in June 2021, aiming to steer the Group toward future growth, use the SDGs as a starting point for creating global niche-leading businesses and shift to a stage of medium- to long-term corporate value enhancement and sustainable growth. We have also positioned the three-year medium-term business plan that began in fiscal 2021 as a means to strengthen and reinforce our foundations as we strive to achieve our targets for the next decade. Under this plan, we will focus on identifying, incorporating, and developing growth drivers that open new markets.

One of the five growth drivers (see page 15) established as candidates for new businesses on which the Group may embark is the aerospace business. The frequent natural disasters in recent years, such as typhoons, extreme heat, and torrential rain due to linear rainbands, are thought to be partly due to global warming resulting from the rise in greenhouse gas (GHG) emissions. The use of small synthetic aperture radar (SAR) satellites is expected to assist in understanding such disasters. Small SAR satellites are used in constellations of several tens of units, and we have constructed the space wing at our Nasu Plant in Tochigi Prefecture as a production base to meet the continuing demand for satellite renewal. Although some time will be required before these satellites are deployed, we are steadily progressing towards contributing to disaster prevention and mitigation through the aerospace business, a new growth area.

Sustainability Management Integrated with Our Business Strategies

At the TOKYO KEIKI Group, we are forging ahead with sustainability management to achieve TOKYO KEIKI Vision 2030. I believe that sustainability management should be more than just a slogan: it must bring growth and perpetuity to our businesses. To date, the Group's employees have worked together with customers to pioneer new eras with creative technologies. However, simply maintaining our current businesses and methods will not lead to growth in sales and profit. Since becoming president, I have explained the keywords that describe our business environment to all employees at Group-wide instruction and meetings with management personnel, and repeatedly emphasized the importance of overcoming the adverse business environment to achieve growth. I have especially stressed the importance of a two-pronged approach to management, promoting medium- and long-term growth in addition to strengthening existing businesses to boost short-term revenue, and consistently reiterated how vital it is that we create a corporate culture overflowing with the desire to take on challenges.

The members of the Sustainability Promotion Office have also visited each plant and business location to hold briefings wherein they explain the policies and measures that form the core of the Group's sustainability management. They have directly conveyed our concept of sustainability management as an approach that leads to growth and perpetuity. It is vital that we ensure that a philosophy of sustainability management, integrated with our business strategies, penetrates throughout the Group by engaging in dialogue on business sustainability with a focus on front-line issues. I do not believe we can get anywhere unless we break down the issue into an understanding of what sustainability management actually means, as well as what each of us as individuals must do to achieve it.

In addition to these efforts to disseminate the Group's philosophy and align the direction of employees, we are undertaking revisions to our personnel evaluation and target management systems aimed at encouraging employees to actively take on new challenges such as proposals to enter new growth fields and pioneer new markets. Around me, I am now beginning to feel the results of the change in perceptions created by these reforms.

Identifying Materialities Rooted in Sustainability Management and Related Activities

As part of our pursuit of sustainability management, we have appointed, from among the Executive Officers, an officer responsible for actively promoting our response to each of the Group's four materialities (see page 23), which we have identified as important issues shared by the Group and our various stakeholders. Each responsible officer reports to the Sustainability Committee, which I chair, on the status of activities to address these materialities. The committee provides direction and support as necessary.

Here, I will present the main activities we have undertaken so far to address the Group's materialities.

Regarding the provision of products that solve social issues, the Corporate Planning & Administration Office has played a central role in product development initiatives based on the growth drivers and strategies for existing businesses established under TOKYO KEIKI Vision 2030. As part of this, we moved the Future Design Unit, newly established as a forum for innovation-generating proposals from individual employees, under the control of the Business Development Office newly established at the Corporate Planning & Administration Office in April 2023. The Business Development Office oversees the five areas of business we wish to enhance (see page 15), while the Future Design Unit is responsible for pioneering other new businesses. We will promote the development of "new products that contribute to resolving social issues" with greater clarity between the roles of each section.

Regarding the realization of an "environmentally conscious society," today, amid international awareness of the importance of achieving a decarbonized society, it is crucial for us, as a company listed on the Prime Market of the Tokyo Stock Exchange, to take the initiative in achieving this goal. We have established a target for the Group to reduce GHG emissions by 37% by fiscal 2030 (relative to fiscal 2013). While this is an ambitious target for us, the Chief Production Officer is playing a central part in promoting efforts to achieve it. In addition to the ongoing upgrade to energy-saving equipment, in fiscal 2022 we began procuring electric power

sourced from renewable energy, achieving a reduction in emissions ahead of our plan. In fiscal 2023, we have decided to install solar power generating equipment and we can expect an even more rapid reduction in GHG emissions in the future. We are also focusing on the hydrogen-related business as part of our development of new products that contribute to resolving social issues, as mentioned above. We will continue to contribute to achieving carbon neutrality, not just for the Group, but for society as a whole.

Regarding the "enhancement of supply chain management," we issued our Partnership Declaration in April 2023. TOKYO KEIKI has three plants in Tochigi Prefecture (Nasu Plant, Yaita Plant, and Sano Plant). Our production at each of these plants is only made possible through the support we receive from our local partner companies and other stakeholders. Building a strong supply chain is vital for the Group to achieve sustainable growth and realize TOKYO KEIKI Vision 2030. This not only requires improving efficiency but also building sustainable relationships of co-existence and mutual prosperity through concerted efforts with our partner companies, including the construction of environmentally friendly supply chains. The Chief Purchasing Officer plays a central role in exploring ways to construct resilient supply chains. We will work to strengthen our supply chain management, including efforts to reduce GHG emissions and protect human rights, to enable the Group to grow together with our partner companies.

Regarding support for the activities of a diverse workforce, we have established the slogan "Relentlessly taking on challenges" as a value under TOKYO KEIKI Vision 2030 to promote our transformation to a culture of taking on challenges. In fiscal 2022, we created the new catchphrase "If we stop taking on challenges, we will stop being TOKYO KEIKI" and made it known throughout the Group. We have also endeavored to create a corporate environment where diverse human resources can play an active part. In addition to reforming our human resources system, the Human Resources & General Affairs Department is playing a key role in promoting various initiatives. As diverse human resources are the Group's greatest asset, we encourage employees to acquire qualifications and enhance our training programs to support their growth, as well as establishing a range of other programs that enable diverse working styles. In these ways, we seek to create a virtuous cycle where boosting employee engagement leads to sustainable development for the Group.

Regarding the "promotion of gender equality" indicated by the Japanese government, the Group welcomed its first female Outside Director in June 2023, and we also sought

to boost the diversity of our management team. We will continue to engage in initiatives related to diversity as a Prime Market-listed company.

Towards the Next Stage

Many of the Group's products are incorporated into the products manufactured by our customers. Despite their inconspicuous presence, our products have supported safety and security around the world for over 120 years by making full use of the Group's unique, creative technologies. Employees throughout all of the Group's divisions — not only those related to manufacturing but also technological development, quality assurance, and the sales and service divisions responsible for contact with customers, as well as the staff who support the operation of each division — feel a sense of pride in this history and the role played by the Group's products. By striving for further growth by enhancing the abilities of our employees, each of whom holds limitless potential, I firmly believe that we can change the future of the Group.

Corporate growth has become a focus of attention in recent times, with the Tokyo Stock Exchange issuing requests to listed companies with price-book ratios (PBR) below 1.0. The Group's PBR has remained below 1.0 for some time, and I apologize for the concern that this has caused to our stakeholders. I believe that to increase our PBR and ROE, all we need to do is improve performance. To this end, it is crucial that we accelerate the Group's growth through inter-company alliances and M&A activities, in addition to further refining our technological capabilities.

We will deploy all our management resources as we aim for sustainable growth, and I look forward to the continued support of all our stakeholders in this effort.

Message from the Chief Sustainability Promotion Officer

Fiscal 2022 saw the intensification of Russia's full-scale military invasion of Ukraine, shaking democracy to its core. Held in these circumstances, the 27th Conference of the Parties of the United Nations Framework Convention on Climate Change (COP27) concluded without reaching an agreement on the further reduction of fossil fuel usage to achieve a decarbonized society. Conflict between nations leads to an explosive increase in energy consumption. In this sense, fiscal 2022 was a year of significant setbacks from the perspective of sustainability.

Meanwhile, global-scale climate change continues to cause chaos with no regard for human convenience, giving rise to a spate of natural disasters around the world such as widespread bushfires in western Australia, heatwaves soaring above 50 °C in India and other parts of South Asia, the collapse of glaciers in the Alps, and large-scale flooding in Pakistan. And the rise in temperatures is accelerating. According to the latest report by the World Meteorological Organization (WMO), we face a critical situation, with temperatures expected to rise by over 1.5 ℃ by 2027.

In this environment, we have established the TOKYO KEIKI Group's Sustainability Policy, drawing on our management philosophy, as a guideline for raising our sustainability in terms of the environment, society, and economy. We have also identified four materialities as we pursue sustainability management in line with this policy. These materialities reflect the expectations of our shareholders and important issues for the Group's growth going forward. They will be our driving force as we practice sustainability management.

Our materiality initiatives have just gotten underway, and it will take a little longer before we can present specific targets and results. However, resolving these materialities will form the nucleus of the Group's sustainability management, including the achievement of TOKYO KEIKI Vision 2030. We have therefore decided to share our progress on each initiative with our stakeholders, beginning with this fiscal year's Sustainability Report.

Achieving our four visions through these materialities will be no simple task. However, we are already face-to-face with the urgent need to respond to climate change, especially, and it is no longer possible to simply look the other way. In terms of consideration for the environment, we also have a corporate responsibility to engage in efforts such as the reduction of plastic waste, including packaging materials, all of which causes serious marine pollution. We will take the challenge to resolve these materialities through the value of "Relentlessly taking on challenges" set forth in TOKYO KEIKI Vision 2030.

Director & Executive Officer,
Chief of Sustainability Promotion
Yukihiko Suzuki

Company History

Founder Yoshihira Wada Story (Only in Japanese)
https://www.tokyokeiki.jp/company/chronicle/comic.html

1896 Begins production of pressure gauges in Koishikawa, Tokyo as Wada Keiki Seisakusho, Japan's first instrument factory

1901 Begins manufacture of navigational instruments such as compasses and depth sounders

Compass installed in bridge of the flagship "MIKASA"

1917 Company reorganized as TOKYO KEIKI CO., LTD.
Optical instruments business spun off and established as Nippon Kogaku K.K. (now NIKON CORPORATION) with Mitsubishi joint-stock company

1918 Begins manufacture of Sperry marine gyrocompasses

1923 Begins development of aeronautic instruments

Flight Compass

1930 Company name changed to TOKYO KEIKI SEIZOSHO

1948 株式会社 東京計器製造所 TOKYO KEIKI

Head Office moves to Kamata, Tokyo

1952 Successfully develops Japan's first marine radar system

MK-II Mod.0
Radar Indicator

1954 Begins manufacture of hydraulic equipment

1962 Develops a rail inspection car using ultrasonic flaw detection technology

1963 Successfully develops the world's first ultrasonic flowmeter and moves into the field of flow measurement

UF-100 Ultrasonic Flowmeter

1968 Establishes TOKYO VICKERS CO., LTD. (now TOKYO KEIKI Sano Plant) for mass production of hydraulic equipment

1969 Establishes NEW TOKYO KEIKI (now TOKYO KEIKI Yaita Plant) for mass production of electronic and measurement products

1970 Changes company name to TOKYO KEIKI CO., LTD.

1971 Develops radar warning system used in the F-4EJ fighter plane

1973 Establishes DAIICHI TOKYO KEIKI CO., LTD. (now TOKYO KEIKI Nasu Plant) as a specialized factory for the manufacture of aerospace and terrestrial electronic products

1990 Changes company name to TOKIMEC, INC.

TOKIMEC

1996 Celebrates 100 years of operations

1999 MRG-10 microwave level gauge goes on sale

2005 Establishes Maritime Traffic Department in the Electronics Systems Division

2008 Restores the "TOKYO KEIKI" corporate name

TOKYO KEIKI

2011 Establishes Chinese subsidiary TOKYO KEIKI (SHANGHAI) CO., LTD.

2012 Establishes TOKYO KEIKI PRECISION TECHNOLOGY CO., LTD. in Vietnam as a base for hydraulic equipment manufacturing

2013 Introduces company-based organizational structure

2016 Changes corporate governance system to have an Audit and Supervisory Committee

2021 Celebrates 125 years of operations

Our Businesses

Marine Systems Business

Marine Systems Company | MOCOS JAPAN CO., LTD.

Supporting the safety and security of ocean navigation through leading-edge gyrocompass technology and marine autopilot technology

- As a pioneer in nautical equipment, having been the first company in Japan to manufacture marine radars, gyrocompasses, and autopilots, we offer a comprehensive lineup of navigational instruments necessary for ship operation and supply them on a global scale.
- As a top manufacturer of gyrocompasses and autopilots, we are also participating in projects to develop unmanned vessels and to reduce GHG emissions.

Autopilot

Gyrocompasses

Electronic Chart Display and Information System

Hydraulics and Pneumatics Business

Fluid Power & Control Systems Company

TOKYO KEIKI POWER SYSTEMS INC.

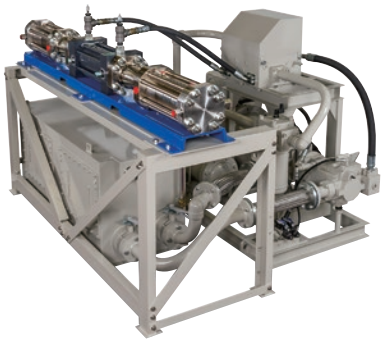
TOKYO KEIKI PRECISION TECHNOLOGY

Supporting manufacturing and infrastructure development on the ground

- We support the creation of social infrastructure by providing hydraulic, pneumatic, and electronic products that feature excellent energy efficiency and operability, principally for the industrial machinery and construction equipment markets.
- Our hydrogen compression equipment contributes to the proliferation of next-generation energy.

Energy-saving pump systems for industrial machinery

Display for construction machinery



Hydraulic hydrogen compressors for hydrogen filling stations

Fluid Measurement Equipment Business

Measurement Systems Company

Contributing to the safety of everyday life through water resource management and river disaster prevention

- We achieved the world's first practical application of ultrasonic flowmeters. We contribute to the effective use of valuable water resources through flow rate monitoring of water and sewerage systems and of agricultural water.
- Our microwave level gauge-based water level monitoring system aids in prevention and mitigation of river flooding and urban flooding.

High-precision ultrasonic flowmeter

Microwave level gauge

Supporting safe living through gas-based fire extinguishing systems

- Ever since we became the first in Japan to develop inert gas-based fire extinguishing systems, we have protected valuable assets from fires at facilities not suited to water- and foam-based fire extinguishing.

Gas-based fire extinguishing systems

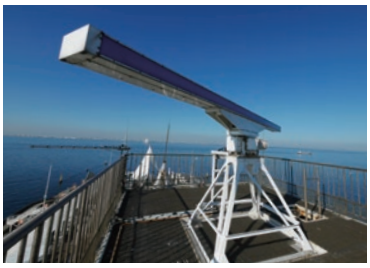
Defense & Communications Equipment Business

Electronics Systems Company
Communication & Control Systems Company
TOKYO KEIKI AVIATION INC.

Supporting society through proprietary microwave application technology and inertial sensor technology

- We develop and provide aircraft electronic equipment and military vessel inertial navigation systems for the defense market.
- We provide a vessel traffic service system that handles vessel traffic control in congested sea lanes, including in Tokyo Bay and Osaka Bay.
- Our high-performance microwave application products contribute to the miniaturization of semiconductors and to space projects.
- We support smart agriculture through inertial sensors and control technology.
- We provide a variety of attitude control systems that combine our core technologies, including gyroscopes, accelerometers, and magnetic azimuth sensors, for use in news helicopters, broadcasting vans, and more.

Aircraft radar warning receivers



Vessel traffic service system

Solid state microwave power supply

Automated straight-line assistance device for agricultural vehicles

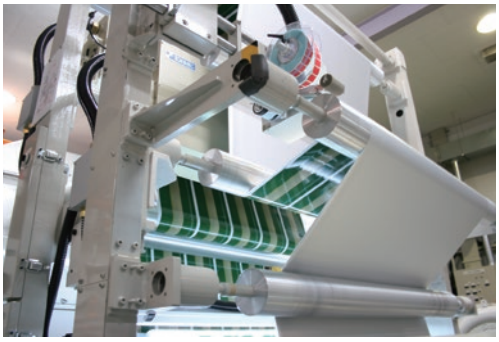
Antenna directioning system

Equipment Business

Inspection Systems Company
TOKYO KEIKI RAIL TECHNO INC.

Our Printing Inspection Equipment business contributes to maintaining quality in printing

- Our high-precision image processing technology detects printing problems and helps improve the quality of printed materials.



Printing quality inspection system

Our Railway Maintenance business supports safe transport on railways

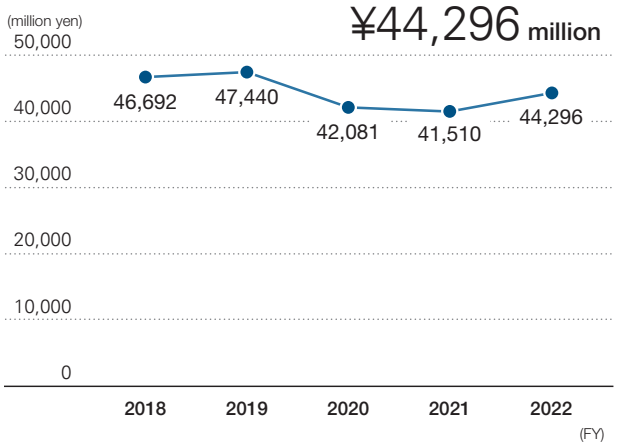
- We support rail maintenance operations with ultrasonic rail inspection cars and rail flaw detectors that are in operation at more than 70% of Japan's railway companies.

Ultrasonic rail inspection cars

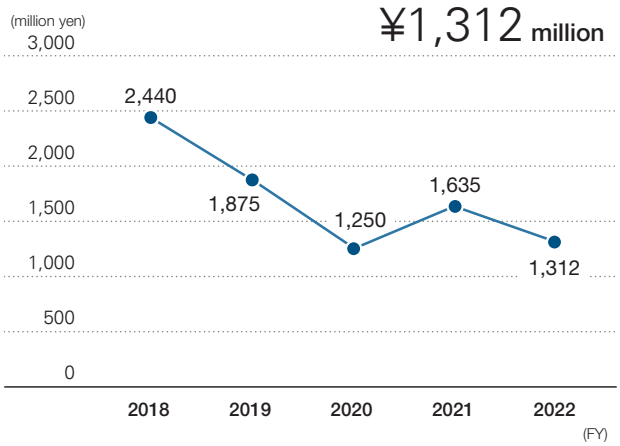
Financial and Non-Financial Highlights

Financial information

Changes in consolidated net sales

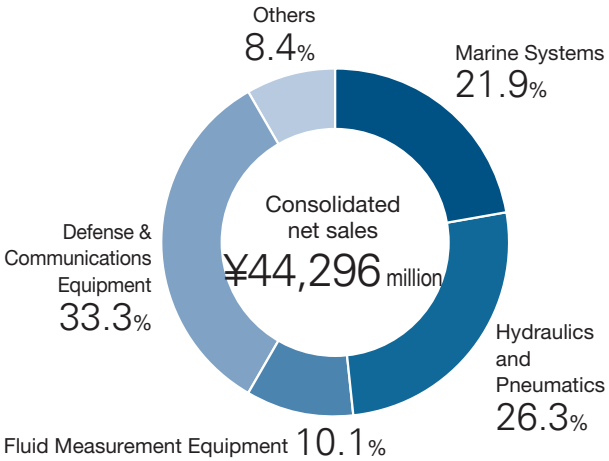


Changes in consolidated operating profit



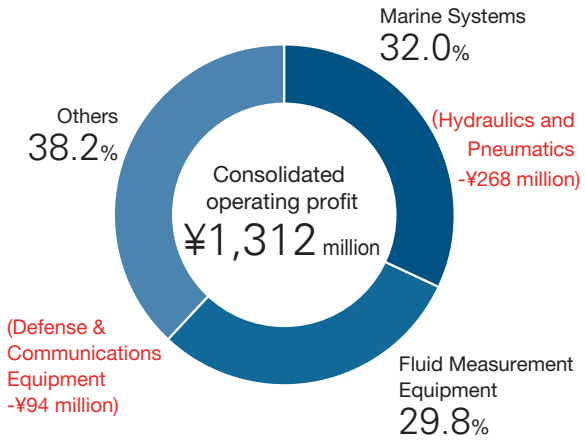
Consolidated net sales segment ratios

Fiscal year ended March 31, 2023

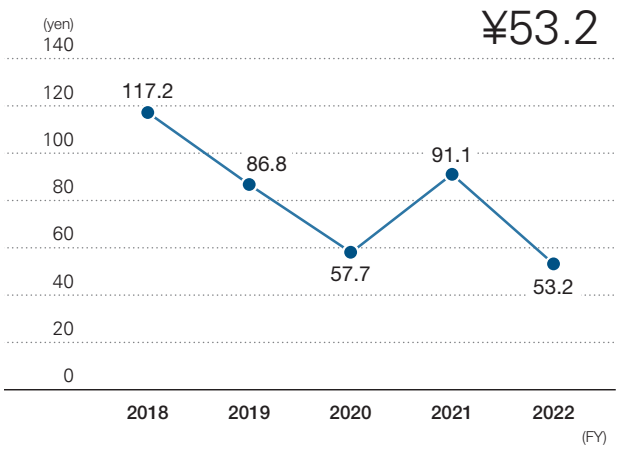


Consolidated operating profit segment ratios

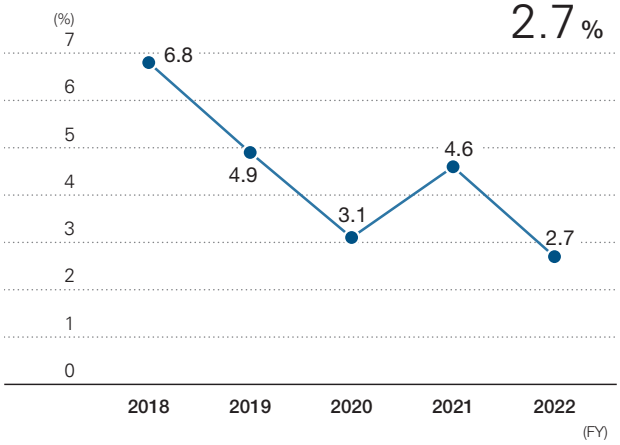
Fiscal year ended March 31, 2023



Changes in earnings per share



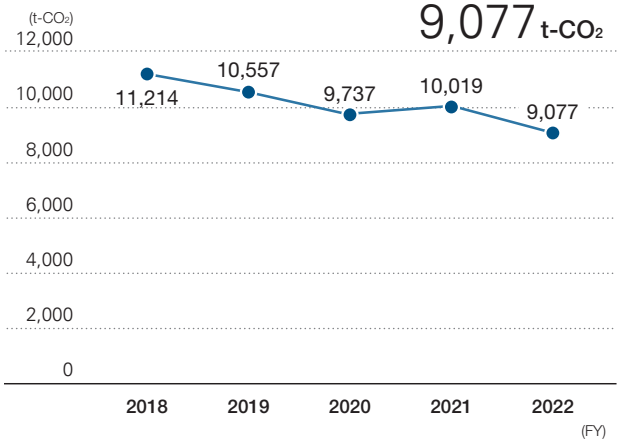
ROE



Non-financial information

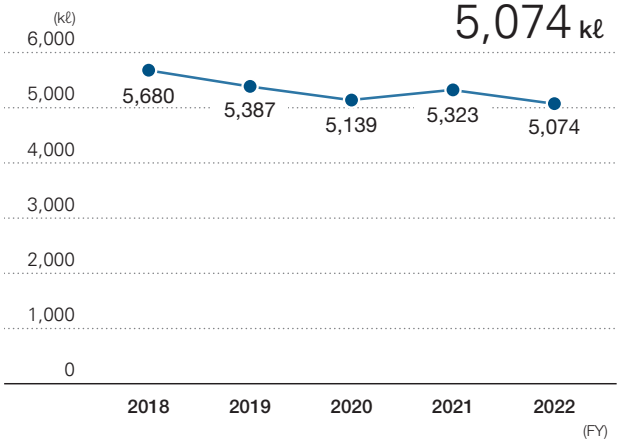
GHG emissions (Scope 1, Scope 2) (see p.32)

Note: Data is aggregated for the Head Office, Nasu Plant, Sano Plant, Yaita Plant, Tanuma Plant, Hanno Plant, and TOKYO KEIKI PRECISION TECHNOLOGY (Vietnam)

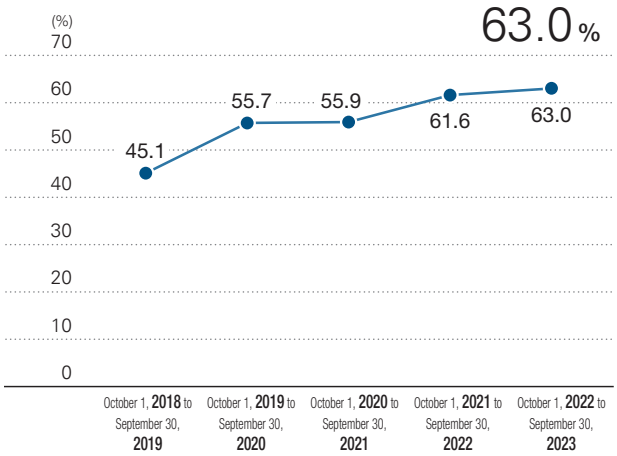


Energy usage (crude oil equivalent)

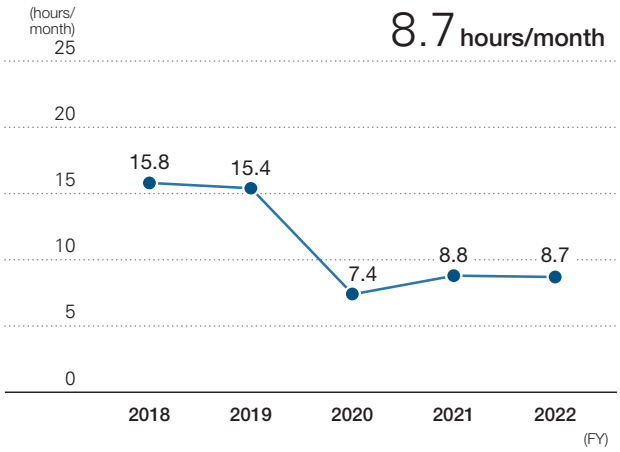
Note: Data is aggregated for the Head Office, Nasu Plant, Sano Plant, Yaita Plant, Tanuma Plant, Hanno Plant, and TOKYO KEIKI PRECISION TECHNOLOGY (Vietnam)



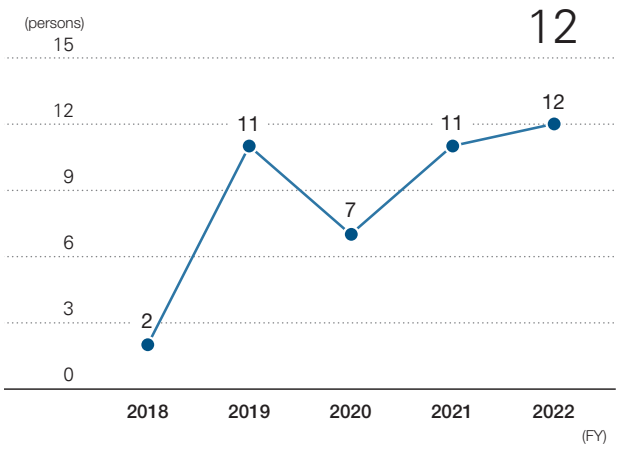
Annual leave utilization ratio



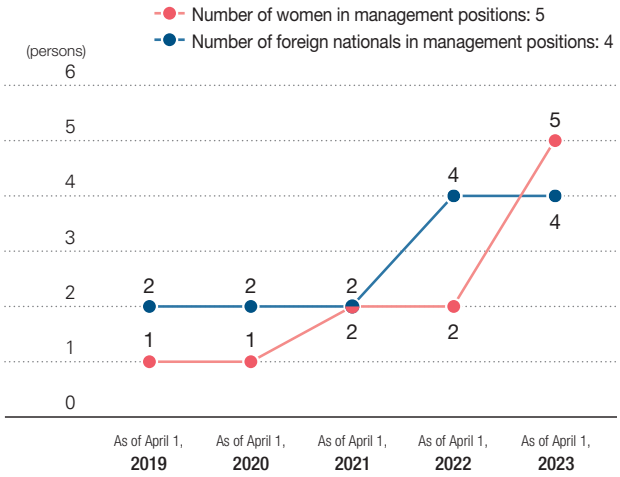
Average overtime hours



Number of persons taking childcare leave



Women/foreign naturals in management positions



TOKYO KEIKI Vision 2030

At the beginning of fiscal 2021, the TOKYO KEIKI Group formulated "TOKYO KEIKI Vision 2030," looking ahead to the next 10 years. This vision, which marks the 125th anniversary of TOKYO KEIKI's founding, outlines the Group's aspirations for 2030 in order to continue sustainable growth for the next 150 to 200 years.

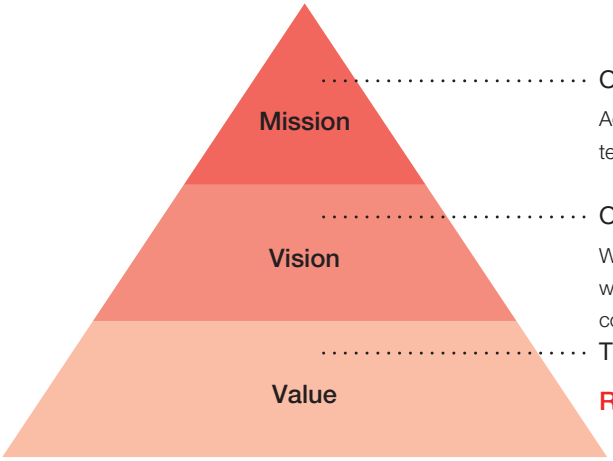
Purpose of the Vision

To date, as a result of our efforts to stay attuned to the problems facing our Japanese customers and to meet their expectations, the TOKYO KEIKI Group has built a number of leading businesses in niche domestic markets. However, we have come to the realization that to achieve further growth, we need to take a broader perspective in terms of developing our businesses.

By making our aspirations a reality through "TOKYO KEIKI Vision 2030," we will use the original technologies we have developed over many years to drive new innovation, creating "global niche-leading businesses" that take the SDGs as their starting point. In turn, this will allow us to shift to a stage of sustainable growth and mid- to long-term corporate value.

Mission, Vision, and Values

In "TOKYO KEIKI Vision 2030," we defined our "Mission," which is what we aim to do, our "Vision," which is what we aim to become, and our "Values," which are a shared set of beliefs for realizing our Vision.



Our mission

Achieve safety for society and happiness for people through proprietary technology centered on measurement, cognition, and control

Our desired states

We will strive to solve societal issues related to the safety of people worldwide through our proprietary technology, and will be a company that contributes to achieving a sustainable society.

The system of values to fulfill our mission and achieve our vision

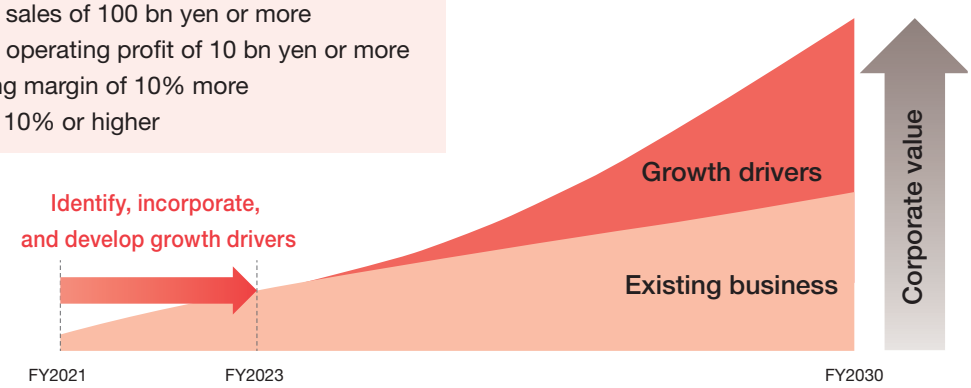
Relentlessly taking on challenges

Management targets by 2030

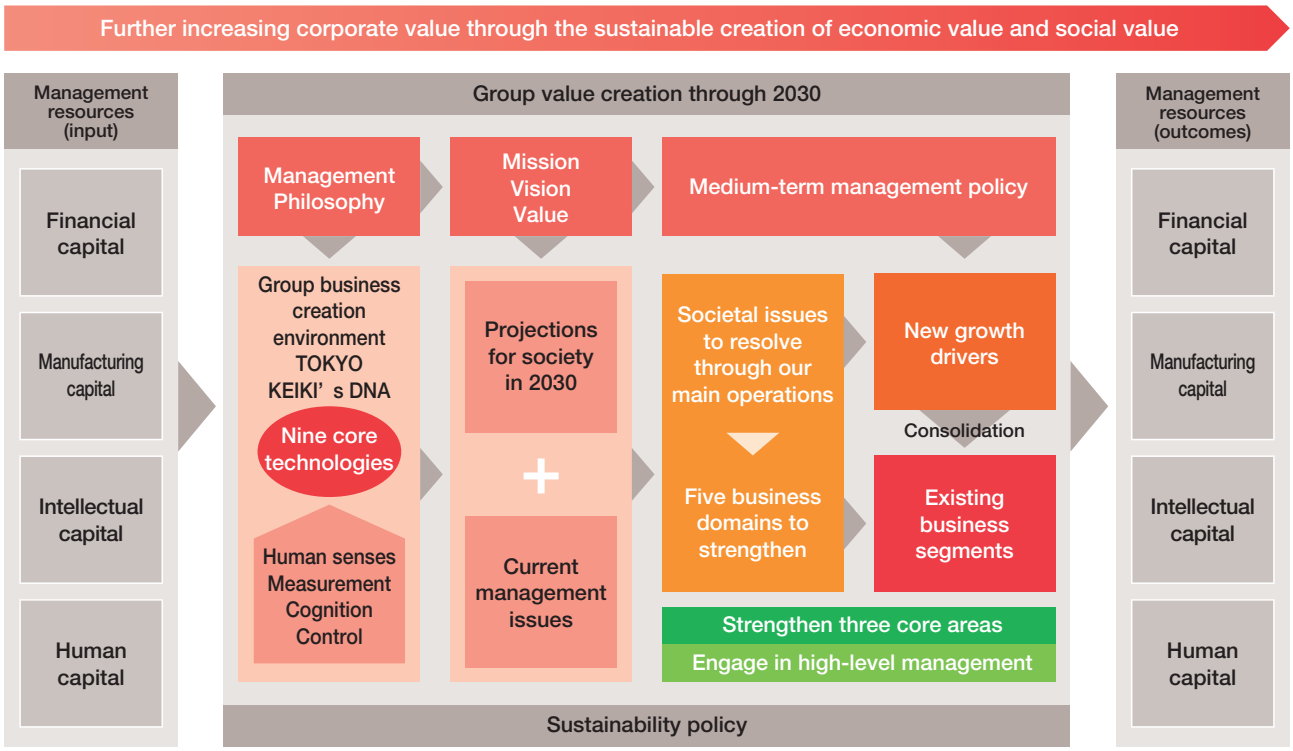
We anticipate that creating "global niche-leading businesses" will require significant investment in product development and market development because of differences in specifications and standards, as well as speeding up of the process through M&As, with the aim of complementing production, sales, and technology without insisting on vertical integration. Making effective use of funds based on the financial foundation that we have established so far, we will work to swiftly launch several growth drivers that are under development. We will then expand the scale of our business by discovering and cultivating new growth drivers while establishing a growth cycle that reinvests the profits generated from growth drivers that have developed into sources of revenue and the expansion of existing businesses.

On the basis of this growth cycle, we have set the following targets for management indicators in 2030.

- Growth: Consolidated net sales of 100 bn yen or more
- Profitability: Consolidated operating profit of 10 bn yen or more and consolidated operating margin of 10% more
  Return on equity (ROE) of 10% or higher



Overview of TOKYO KEIKI Vision for 2030



Business domains to strengthen

In "TOKYO KEIKI Vision for 2030," the five domains to strengthen business are defined based on projections for society in 2030 matter. We believe that in 2030, society will be based on safe and secure lifestyles, working toward a low-carbon society and other environmental initiatives based on a shared understanding of the SDGs. In addition, the development of new technologies is expected to expand the market for areas such as AI, IoT, and space business. In light of this social environment, we have identified five business domains to focus on for the Group's growth.

Projections for society in 2030

- Global sharing and pursuit of SDGs
- Diversification and advancement of sensor functions applicable for use in AI, IoT, and big data
- Advancement of clean energy revolution
- Full-scale development of aerospace business
- Advancements in software technology in the mobility domain

Set 5 domains to strengthen based on societal issues to resolve through our main operations

Building the future by serving as a key player in AI and ICT revolution	Protecting the global environment	Advancing mobility-based society	Overcoming problem of low birth rates and population aging	Ensuring a secure and healthy society
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 17 PARTNERSHIPS FOR THE GOALS	7 AFFORDABLE AND CLEAN ENERGY 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION	7 AFFORDABLE AND CLEAN ENERGY 11 SUSTAINABLE CITIES AND COMMUNITIES	2 ZERO HUNGER 3 GOOD HEALTH AND WELL-BEING 6 CLEAN WATER AND SANITATION 14 LIFE BELOW WATER	6 CLEAN WATER AND SANITATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION

Identifying candidate growth drivers

Next, we identified five candidates for growth drivers by comparing our existing businesses and technologies with the domains for business strengthening.

Candidates	Background of candidates
Edge AI business	• In response to industry changes driven by the shift to an AI society, we will develop our base technology for machine learning into Edge AI in order to overcome societal issues related to low birth rates and population aging.
Hydrogen & energy business	• We will develop products related to hydrogen stations to resolve environmental issues towards achieving carbon neutral in a mobility-based society.
Aerospace business	• Backed by our track record as a microwave device manufacturer for the aviation and aerospace industry, we will contribute to the realization of a secure society through our business related to utilizing satellites in existing business markets.
Railway business	• We will expand our existing rail line maintenance business to resolve problems related to the railway safety and security and the issue of low birth rates and population aging by conducting low-labor infrastructure inspections.
Life sciences	• We will expand the use of microwave and plasma applied technology in the medical and hygiene sectors to contribute to secure societies and the healthy lifestyles of people. • We will expand on the human activity domain that combines reality and virtual reality to increase security, safety, health, and comfort in an age of low birth rates and population aging.

Enhancement of existing businesses

In addition, we have also identified points to enhance within existing businesses in accordance with the domains to strengthen and the candidate growth drivers.

Business segments	Key points of business enhancement
Marine Systems Business	• Resolve societal issues related to safety, energy conservation, labor-saving, and environment measures by developing business and products for autonomous and unmanned vessels, and developing technology for energy-saving ship maneuvering that contribute to reductions in greenhouse gasses.
Hydraulics and Pneumatics Business	• Contribute to the advancement of a mobility-based society and energy shifts by developing facilities for hydrogen stations and developing pump systems for EV/FCV construction machinery.
Fluid Measurement Equipment Business	• Contribute to secure lifestyles by measuring, monitoring, and managing fluid with a focus on flood prevention fields such as rivers and ponds.
Defense & Communications Equipment Business	• In the private sector, we will engage in the AI & ICT revolution by developing microwave products for the semiconductor market and equipment related to smart agriculture. • In the public sector, we will contribute to security by engaging in R&D for equipment used in next-generation fighters.
Other Businesses	• For railway maintenance, we will advance the commercialization of next-generation products that contribute to safe transportation.

Strengthening 3 core areas

To achieve the Vision, it is essential to develop personnel who will serve as the source of the Group's competitiveness, and a company-wide change in mindset is needed to advance organizational reform. Accordingly, we have identified a number of issues related to changes in awareness, and have formulated three measures to strengthen the foundations of our business.

Promoting open Innovation with partners who share our vision of the future	**Strategic use of external resources** • In addition to in-house development of knowhow in new domains, we will aggressively incorporate external resources. • Investments in open innovation.	
Creating a motivating and pioneering culture	**Reforming into an HR system that encourages a challenging spirit** • Adopt an HR evaluation system that rewards challenges towards aspiration to reform into a culture that embraces never-ending challenges.	
Solicit workplace innovation	**Promote future-oriented improvement activities** • Expand on Improvement activities as an opportunity for personnel development that sees each employee embrace individual challenges and work towards innovation.	

Engaging in high-level management

Under "TOKYO KEIKI Vision 2030," we aim to further enhance our corporate value and implement advanced management practices through the introduction of sustainability management, ROIC management to achieve sustainable growth, and DX (Digital Transformation).

Sustainability management	• In June 2021, we established the Sustainability Committee to serve as the organization that oversees and evaluates companywide sustainability efforts. We also created the Sustainability Promotion Office to serve as corporate staff for promoting Group-wide sustainability management. • We will implement ESG-oriented management, including responding to the TCFD by ascertaining climate change risks and opportunities, drafting strategy, and managing efforts.
ROIC management	• We will adopt ROIC management to measure the earning potential and capital efficiency of each business. Adopting ROIC will enable us to simultaneously improve ROE and streamline our balance sheet. • Through ROIC management, we will optimize our business portfolio and achieve Sustainable growth. Striving for ROE that exceeds cost of shareholders equity we adopted WACC comparison (ROIC>WACC) as a performance indicator. • We will establish KPI for the individual performance indicators outlined on the ROIC tree and are reforming into a corporate culture that realizes that workplace goal achievement by all employees will lead to the achievement of management goals.
DX initiatives	• We will promote DX to ensure the effective use of internal and external data in order to enhance data-driven management and increase our ability to predict the future. • We will optimize workflow processes by upgrading backbone systems to increase the real-time nature of our data collection and accelerate management decisions. • We will improve production efficiency by engaging in smart manufacturing driven by IoT.

[Dialogue]

The Future of TOKYO KEIKI as Told by Company Presidents

~ Toward the achievement of the TOKYO KEIKI Vision 2030 ~

Consulting Business Division, Mitsubishi UFJ Research and Consulting Co., Ltd.
Nodoka Urata

1 Becoming a leading company supporting safety and security in seas around the world

Marine Systems Company

Executive Officer,
Marine Systems Company President
Yoshihiko Yoshida

In order to achieve the TOKYO KEIKI Vision 2030, in which the TOKYO KEIKI Group has changed course toward sustainability management aimed at sustainable growth and the enhancement of corporate value over the medium and long term, the Marine Systems Company has formulated a business plan that envisions a new history. Yoshihiko Yoshida, Company President, and Nodoka Urata of the Consulting Business Division of Mitsubishi UFJ Research and Consulting Co., Ltd. discussed the current status of this company, as well as its issues and future direction.

Solving all issues related to the safety of ocean navigation and shipping

Urata: I have heard that the Marine Systems Company was the founding business of the TOKYO KEIKI Group and has a history of over 100 years. Mr. Yoshida, as Company President, how do you feel about this history?
Yoshida: I definitely feel our company is like the eldest son of the TOKYO KEIKI Group, as we have come to operate our business on a worldwide scale. In that sense, I intend for us to properly fulfill our responsibilities as the eldest son.
Urata: Your mainstay products in this company are gyrocompasses, for measuring the ship's heading, and automatic steering systems called autopilot, which utilize heading signals from those gyrocompasses.
Yoshida: Correct. These two products have an overwhelming share of the commercial shipping market, for both oceangoing ships and domestic coastal ships. Additionally, in 2022, we also released a new version of our Electronic Chart Display and Information System (ECDIS). If we compare it to a car, ECDIS is like a car navigation system. The new version achieves three concepts, which have attracted strong interest from our customers: ease of operation thanks to its LCD touch panel, proficiency training with its tutorial function, and easy onboard maintenance.
Urata: It's a new strategic product for your company, whose products boast a market leading share.
Yoshida: Although we do not have a high market share in the ECDIS field by any means, I believe this means we have room to grow, so going forward we intend to focus our efforts on this field. We intend to leverage our technical capabilities and assets to continue developing new products and expanding our services on a worldwide scale, based on the theme of "solving all issues related to the safety of ocean navigation and shipping." We will also resolve issues related to the safety of ocean navigation and shipping with the confidence to ask, "If there were no TOKYO KEIKI products, who would protect the safety of the seas?"

From stability to growth; strengthening our products and services

Urata: Regarding your company's performance, unfortunately sales and profits have both been flat for some time.
Yoshida: Broadly speaking, we can split the market for new shipbuilding and existing ships. Many of our company's products are performing well in the new shipbuilding market, but we have not really made inroads into the existing ship market.
Urata: In a sense, you have generated stable performance solely from the new shipbuilding market.
Yoshida: As I cannot deny that we were overly reliant on that fact, we developed our ECDIS with new functions to lead our challenge on the existing ship market.
Urata: Does this mean it will be a foothold for you to expand your product lineup and move from stability to growth?
Yoshida: Correct. We are also strengthening our services, particularly in relation to the maintenance of our products. Of course, we are expanding our dealer network, but we have also begun expanding our network of agents performing product maintenance. We are also conducting training with actual equipment at locations around the world, to ensure that agents can properly conduct maintenance. Plus we have begun sharing videos for maintenance purposes.
Urata: The eldest son has taken on the challenge of creating a new history.

Revitalizing human capital, based on the keywords of "a brain is torn to shreds"

Urata: Your company's management philosophy contained the keywords "thinking until your brain is torn to shreds." I was surprised to see this slightly dynamic phrase.
Yoshida: Really? For our company's management philosophy, we needed to select words that would strike a chord with all workers to ensure it was communicated to them, so we used this phrase with the idea of pondering things over and over. Personally, I prefer a management style based on direct dialogue with workers on various workplaces .
Urata: And as part of this dialogue, you intend to revitalize the organization of your company.
Yoshida: That's right. We jokingly asked each other, "Did you think about that until your brain was torn to shreds?" and it became a kind of catchphrase within the company. Our workers are top-class human resources, so I do not want them to be content with stability, but instead to take on new challenges to achieve growth. It's a catchphrase for this approach.
Urata: As it says in your company's management philosophy, it's the idea that if you're going to do something, aim for the top.
Yoshida: Young workers in particular create a healthy sense of excitement. They even ask veteran workers, "Did you think about that until your brain was torn to shreds?" We also introduced stage gates in our development process, which is a method of collecting ideas from employees, with the employees who supplied these ideas then using them as themes for their work. They share their progress until they cross a gate, after which they set the next gate and move forward. Through such initiatives, I really feel that a positive atmosphere has developed within the company.
Urata: These top-class workers are moving on a common trajectory and are evaluating profitability and feasibility as they develop new technologies. I am looking forward to the future activities of this company.

The casting vote in global rules

Urata: Finally, I believe that factors such as energy conservation and carbon neutrality are issues for the future of the shipping market. How will your company address such issues?
Yoshida: In August 2022, we issued a press release concerning the start of joint development of marine systems with Nabtesco Corporation. By combining our course control technology with Nabtesco Corporation's propeller control technology, we aim to reduce shipping fuel consumption, ensure safe navigation, and save labor.
Urata: I see. By the way, TOKYO KEIKI is currently participating in the Nippon Foundation's MEGURI2040 Fully Autonomous Ship Program, right?
Yoshida: That's correct. In the first stage of MEGURI2040, TOKYO KEIKI participated in the DFFAS consortium, the predecessor of DFFAS+. We are also involved in the second stage of MEGURI2040, and are heading a working group for the creation of technical standards.
Urata: What are the differences between autonomous ships and self-driving cars?
Yoshida: The biggest difference is that self-driving cars takes utilize the infrastructure of the road system, whereas ships determine their own course when navigating. There are also external forces at work on the seas, namely the wind and waves. Other ships are also traveling on courses that they have determined themselves, so there are various rules for shipping, which we must strictly observe.
Urata: These rules will also apply to autonomous ships.
Yoshida: That's correct. First, we aim to practically apply this technology on domestic coastal ships, where rules in Japan apply. Later, we will apply it to oceangoing ships, where international rules managed by the International Maritime Organization (IMO) apply. European countries and the US also participate in rulemaking within the IMO, so we must make a concerted effort throughout Japan as a whole.
Urata: It will be great if MEGURI2040 standards are adopted.
Yoshida: Yes, I think so too. TOKYO KEIKI has a long history, and we will work toward the achievement of our TOKYO KEIKI Vision 2030, as a first step toward our long-term goal of casting the deciding vote for global rules.

[Dialogue]

The Future of TOKYO KEIKI as Told by Company Presidents

~ Toward the achievement of the TOKYO KEIKI Vision 2030 ~

Consulting Business Division,
Mitsubishi UFJ Research and Consulting Co., Ltd.
Nodoka Urata

2 Aiming to revive the company with new products created from dialogue with customers

Fluid Power & Control Systems Company

Executive Officer,
Fluid Power & Control Systems Company
President
Akihiro Ohi

The Fluid Power & Control Systems Company is focused on activities aimed at achieving the TOKYO KEIKI Vision 2030 and reviving the company. Akihiro Ohi, Company President, and Nodoka Urata of the Consulting Business Division of Mitsubishi UFJ Research and Consulting Co., Ltd. discussed issues for the revival and future direction of the Fluid Power & Control Systems Company.

All employees pledged to reviving the company

Urata: In fiscal 2022, you recorded an impairment loss in the Fluid Power & Control Systems Company. Mr. Ohi, as Company President, what are your thoughts on this point?
Ohi: I held briefings to explain this impairment loss at our Sano Plant and Yaita Plant production sites, and I all strongly pledged, "We can still carry on, so let's take on the challenge of business reform without fear of failure!"
Urata: I'm sure everyone working in these plants felt very uneasy when they heard the term "impairment loss."
Ohi: I wanted our workers to feel reenergized based on a proper understanding of the accounting process of impairment, instead of a vague negative image. I believe that, thanks to these briefings, our workers understood that we will carry on while making reforms to our plants and our business.
Urata: It's good that workers' concerns were eased.
Ohi: Our succession of operating losses was mainly due to the impact of various external factors, but we also have some points on which we need to reflect. In our hydraulics business, we have a business culture that has been developed over the course of our long history of more than 50 years. I feel that this culture has become somewhat rigid, causing us to lose our flexibility and agility to respond to change. We cannot deny that we did not make sufficient efforts to create a sense of crisis regarding our inability to generate profits. I felt that we were over-confident with our structure that was unable to respond immediately to change and were close to being a "boiling frog." So, at the briefings, I compared our current profit and loss statement to an individual's household finances, and touched on matters such as the fact that we will no longer continue with our current ways of doing things, and that we must fundamentally change the approach and actions of each and every individual. I also made a firm request to all workers to demonstrate leadership for the reforms we need to overcome this critical point.

In fact, after the briefing, we held a summer-night festival at our Sano Plant to boost morale and unity on the factory floor. We were not able to hold this festival during the COVID-19 pandemic, and it was our first one in six years. Seeing young workers become excited and acting as the secretariat for the event, as well as many mid-level and higher employees participating with their families, gave me a sense of our workers' compassion for their colleagues, their attachment to the workplace, etc., and I felt a positive response, to the extent that if these are our fellow workers, we cannot fail to overcome this crisis.

Strongly promoting capital investment that is effective for profit and loss

Urata: What efforts have you initiated to revitalize the company as Company President?
Ohi: As one example, at our Sano Plant in particular, a lot of our facilities had aged, and we were using labor to compensate for the degradation in performance of such facilities. From the perspective of economic benefit from the renewal of facilities, I also felt that we were somewhat lacking in areas such as further enhancing productivity and generating new profits. Ideas for reducing the cost of investment itself are important, but it is crucial to maintain a perspective of increasing new value areas with investment. I therefore instructed our employees to consider a framework for the creation of new value when renewing facilities for our mainstay products; in other words, "capital investment that is effective for profit and loss."
Urata: Does that refer to facilities that use automation and labor-saving technologies? When I visited the plant before, I had the impression that hydraulic products include many heavy cast-metal parts.
Ohi: As you say, in our hydraulics departments, we work with many cast-metal objects. Accordingly, we intend to focus on adopting automation and labor-saving systems as an initiative for increasing productivity while reducing safety risks. In the future, this will also be an important perspective for addressing the issue of the increasing difficulty of relying on labor. I also hope our workers, with whom we will work

together to achieve these reforms, will engage in work that creates more added value. In a recent example of facility renewal, we succeeded in evolving our previous two-shift production system to create a 24-hour full-production system by introducing additional industrial robots for intermediate processes. This has a direct impact on operating profit on the profit and loss statement, thanks to the reduction of overtime work. I would definitely like workers at our plants to maintain this perspective of investment that contributes to operating profit. Going forward, we will continue rebuilding the company through such investment activities into a strong organization capable of overcoming our competitors. To achieve this goal, I would like each and every worker to have a sense of ownership about designing their own future.

Carving out new markets through dialogue with customers

Urata: The products in this company's business consist of two types of equipment: hydraulic equipment and control equipment.
Ohi: That's correct. In particular, I believe we differ significantly from our competitors who are focused solely on hydraulic equipment regarding the fact that our business is centered on electronic equipment for use in specially-equipped vehicles such as cranes and aerial work platforms. Unlike the others, we are able to offer systems that move large pieces of machinery by controlling hydraulic pressure, and which also efficiently and safely control machines through the control of electricity and electronics. I think one notable feature of our company, and our strength, is our business model in which we utilize these systems to capture new markets by identifying and solving our customers' technical issues through dialogue with them.
Urata: In this company's markets, energy conservation and carbon neutrality (CN) have been raised as social issues.
Ohi: In our mainstay markets for construction machinery and specially-equipped vehicles, there has been a move toward electronic controls as a way of responding to regulations on exhaust gases, and the CN trend is contributing to the further acceleration of this movement. There is also increasing demand for automation, driven by the decline in labor, which we consider to be a major business opportunity for our company, based on our strength in electronic control. To respond to such market needs in a timely manner we are focusing on activities aimed at expanding our partnerships, without overly focusing on independence.

Nurturing the seeds of future growth that will blossom as flowers

Urata: In TOKYO KEIKI Vision 2030, the TOKYO KEIKI Group has listed five businesses as growth drivers. What initiatives will your company be pursuing?
Ohi: In the "Hydrogen and energy business," hydraulic products developed by our company are being used for hydraulic-drive hydrogen compressors used at hydrogen filling stations. We are also focusing on the development of products that are compatible with hydrogen, such as hydrogen compressors themselves and peripheral equipment, as we anticipate the further expansion of the hydrogen business. Ultimately, we intend to contribute to enhancing added value in the hydrogen filling station business by integrating our efforts with those of company-wide projects.
Urata: So you are implementing quite specific measures. If the presence of the TOKYO KEIKI Group increases in such state-of-the-art technical domains, it will act as the seeds of growth in various ways.
Ohi: After experiencing this impairment loss, the Fluid Power & Control Systems Company has embarked on the next stage in which we will nurture the seeds of new growth created out of dialogue with customers and original technology. Dawn always follows darkness, and we will continue working to meet the expectations of our stakeholders.

Identification of Materialities (Important Issues)

In accordance with the Sustainability Policy, we have identified four materialities that reflect the expectations of our stakeholders and important management issues for the TOKYO KEIKI Group. These are matters that the Group considers particularly important to enhance its corporate value with a view to realizing a sustainable society. Furthermore, in addressing these four materialities, we have adopted "establishment of a business fundamentals to support sustainable growth" as the guiding vision for the Group's governance.

Identifying Materialities for the Group

The Materiality Identification Process

STEP 1 Ascertaining Social Issues

We have compiled an extensive list of environmental, social, and economic issues, referring to international frameworks and guidelines such as the GRI Standards, as well as the 169 targets of the SDGs.

STEP 2 Initial Screening

After conducting consultations with relevant departments within the company regarding the Group's current situation and problems with the social issues listed, we narrowed down the list to those items most relevant to the Group.

STEP 3 Developing Evaluation Criteria and Conducting Evaluations

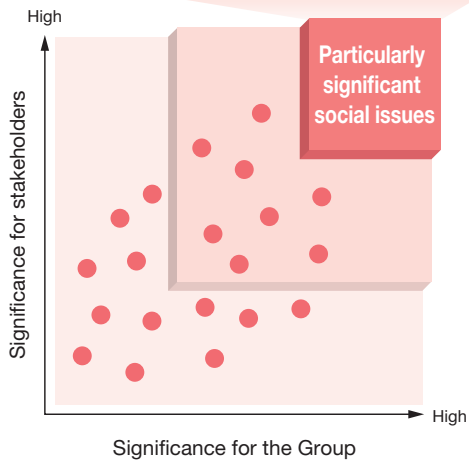
These issues were comprehensively evaluated on two axes, "significance for stakeholders" and "significance for the Group," and represented on a "Materiality Map."

STEP 4 Determining Materialities

Issues that were rated high on both axes in the materiality evaluation were grouped together as final candidates following discussions with experts. After receiving approval from the Sustainability Committee, the Management Conference and the Board of Directors deliberated on suitability and comprehensiveness of the issues in question before coming to a final decision.

Materialities Identified

- Provision of Products that Solve Social Issues
- Realization of an Environmentally Conscious Society
- Enhancement of Supply Chain Management
- Support for the Activities of a Diverse Workforce



● indicates other social issues.

Social: Provision of Products that Solve Social Issues

In providing products and services, we will continue to search for and resolve not only long-standing social issues but also new or latent issues that emerge in our rapidly changing society, thereby meeting the expectations and trust of our many stakeholders.

Approach to initiatives

TOKYO KEIKI Vision 2030 defines five business domains to strengthen based on the society projected to exist in 2030. It also confirms the relationship between those domains and our current businesses and technologies. Based on this, we put together a list of potential new businesses for the Group to take on as "candidates for growth drivers" and a list of "key points for enhancing existing businesses" so that current businesses may grow. Then, we set to work on the issues that come with these.

Promotion framework

Each internal company promotes enhancement of existing businesses while the Corporate Planning & Administration Office takes the lead in promoting candidates for growth drivers. We established the Business Development Office within the Corporate Planning & Administration Office in April 2023 to strengthen these efforts. Going forward, we will incorporate the progress we make on our existing business strategies and growth drivers in the next medium-term business plan.

Initiatives with candidates for growth drivers

We have set aside the period from fiscal 2021 to fiscal 2023 as a time to identify, incorporate, and develop new growth drivers. We have begun the following initiatives with five growth driver candidates.

- **Edge AI* business**

We have developed tools that optimize the use of AI on processors for edge AI and have made them available to users for testing. We have also begun recruiting partners in development on our website.

*Edge AI: To enable artificial intelligence (AI) to learn large amounts of data rapidly, AI typically resides on a server in a data center and communicates with terminals (edge devices) via the Internet. By contrast, edge AI can process calculations on-site without going through the Internet. Edge AI technology is expected to find use in agricultural and civil engineering/construction settings, where communication facilities are limited and real-time processing within the terminal is required. Very few companies in the world supply AI chips that can accelerate edge AI processing, and we aim to offer AI chips for different applications than others do.

- **Hydrogen & energy business**

In addition to hydrogen compressors, which we are working on within our existing businesses, we are collaborating with a partner to make hydrogen stations more compact and available in package form. We have also commenced joint R&D of hydrogen production equipment with the National Institute of Advanced Industrial Science and Technology (AIST).

- **Aerospace business**

Building on our delivery of microwave amplifiers for small SAR satellites* in our existing business, we partnered with Synspective Inc. to mass-produce small SAR satellites and constructed a space initiatives building where satellites are assembled within the Nasu Plant.

*SAR satellites: SAR = Synthetic Aperture Radar. As they move, SAR satellites emit microwaves toward the earth's surface and analyze images of the reflected waves to monitor conditions on the ground. Optical satellites used for surface observation cannot acquire images of cloud-covered areas or at night. SAR satellites that use microwaves, on the other hand, can observe ground conditions in any weather, day or night. As such, they are expected to be used for disaster monitoring and prevention and information gathering for infrastructure development. Although these SAR satellites are small and in the 100-kg class (about one-tenth the usual weight), they can capture high-resolution, wide-area images rivaling those of larger satellites. As the heart of SAR satellites, TOKYO KEIKI's microwave amplifiers have contributed greatly to this performance.

- **Railway business**

A track diagnosis support system we developed aims to save manpower by automating judgments when monitoring railroad tracks, a job that previously was only done on foot.

- **Life sciences**

Together with universities and outside R&D organizations, we are conducting research and studies to contribute to medical and health applications of microwave and plasma technology.

Initiatives with existing businesses

- **Marine systems business**

Having participated in the first stage of the Nippon Foundation's MEGURI2040 Fully Autonomous Ship Program, we are now taking part in the second stage, which aims for real-world implementation. Other projects include developing products that solve social issues by enabling safety, energy and labor savings, and eco-friendliness. This includes joint development with other companies.

- **Hydraulics and pneumatics business**

Our hydrogen compressor for hydrogen filling stations is helping to build a decarbonized society. Meanwhile, we are also developing energy-saving and hybrid hydraulic equipment.

• **Fluid measurement equipment business**
We offer water level gauge systems and fire extinguishing equipment for the disaster prevention market to keep communities safe.
• **Defense & communications equipment business**
We are meeting ICT needs by developing farm machinery automation equipment that makes agriculture more efficient and by offering microwave amplifiers for semiconductor production equipment. We also provide solid-state radars for marine monitoring that contributes to maritime traffic safety.

We also develop, manufacture, maintain, and repair products for the defense market to meet rapidly growing safety and security needs.

R&D Initiatives

Research and development approach

Our Group's products flourish in a variety of fields around the world, including shipping, aerospace, industrial machinery, farming, construction machinery, and social infrastructure. As the manufacturer providing these products, we understand that research and development serves as the foundation of the Group's management.

The basic policy of our Group's research and development is based on our Management Philosophy—"To contribute to society, with a focus on our business of leveraging electronics and other advanced technology to create products that embody functions of human senses: measurement, cognition, and control." Research and development is carried out based on the technology strategy and R&D plans of our research arm, the Research & Development Center, and is also implemented as part of product development by our internal companies and subsidiaries.

Research and development system

Our Research & Development Center primarily engages in relatively long-term research and development and, in general, the development of products utilizing the center's results is conducted by the development departments of our internal companies and subsidiaries. In addition, the Center is also responsible for providing technical support for individual projects, and for undertaking research and development that would be inefficient for our internal companies and subsidiaries to perform on their own. Seizing future business opportunities, the Center researches and develops technologies that will serve as the core of a business. At the same time, our internal companies and subsidiaries engage in development, including the development of products whose commercialization is still years away, based on customer needs.

Development Committee

The Development Committee is an organizational body chaired by the Chief Engineering Officer. Its members include the Chief of the Research & Development Center and engineering managers from various internal companies. The Development Committee determines a variety of matters concerning the drafting and execution of our Group's technology strategies, with the committee chair making proposals and reports to the Management Conference as necessary.

Open innovation

The TOKYO KEIKI Group actively participates in joint research with industry, government, and academia, as well as open innovation that promotes collaboration among businesses. The following are recent examples.

• **Aiming for wide-scale commercialization of fully autonomous ship technology by 2025**

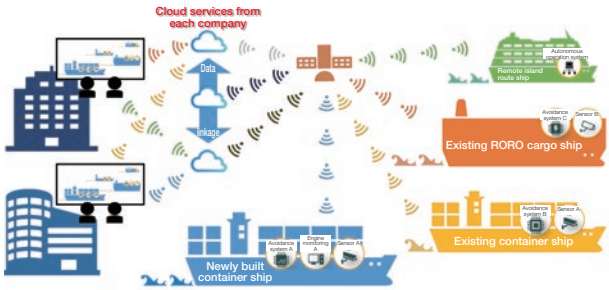
TOKYO KEIKI is a member of the Designing the Future of Fully Autonomous Ships Plus Consortium (DFFAS+), which consists of 51 companies in Japan. We are participating in the "Joint Technological Development Program for the Demonstration of Fully Autonomous Ships"(*1) under the Nippon Foundation's MEGURI2040 Fully Autonomous Ship Program (MEGURI2040).

The program is considered the second stage of MEGURI2040, which launched in 2020. Through it, TOKYO KEIKI and the Nippon Foundation aim for full-fledged practical application of autonomous ship technology cultivated in the first stage, known as "Joint Technological Development Program for the Demonstration Experiments of Fully Autonomous Ships," by 2025. This program has four objectives: demonstration experiments, standardization of developed technology, strengthening the development process infrastructure, and real-world implementation.

TOKYO KEIKI participated in the first stage of MEGURI2040 as the DFFAS Consortium, the predecessor of DFFAS+. We continue our participation in the second stage of MEGURI2040, in which we are serving as the leader of a working group tasked with standardizing the technology.

For the demonstration experiments, next-generation ships are being designed to support the domestic coastal shipping industry of the future. Demonstrations of ship and land operations that envision a future domestic coastal shipping industry supported by autonomous vessels are also being conducted. These demonstrations use four different ships(*2) and two fleet operation centers. In addition to autopilot, gyrocompass, and other products, TOKYO KEIKI is providing steering control technology cultivated during the R&D phase of these products for a newly built full-package container ship equipped with all the autonomous navigation functions. The system will help keep autonomous operation safe by providing appropriate position control on the entire route from detachment to berthing and for evading hazards.

Working with the Nippon Foundation, the other DFFAS+ participating companies, and cooperating organizations in Japan and abroad, TOKYO KEIKI will continue working on MEGURI2040 as it seeks to achieve commercial autonomous ship operation by 2025. This will help support stable domestic logistics and transportation infrastructure by solving social challenges facing the Japanese coastal shipping industry, reducing labor shortages and workloads, preventing marine accidents, and maintaining shipping routes to remote islands.



Overview of demonstration experiment (all rights reserved)

(*1) Technological Development Program for the Demonstration of Fully Autonomous Ships: A financial support program for the development of technologies to promote practical use of autonomous ships and thereby create opportunities for further technological development in the field, thus promoting the transformation of Japan's logistics, economy, and social infrastructure.

(*2) Four different ships: A newly built full-package container ship equipped with all the autonomous navigation functions, an existing container ship with some autonomous navigation functions, an existing RORO cargo ship, and an existing remote island route ship.

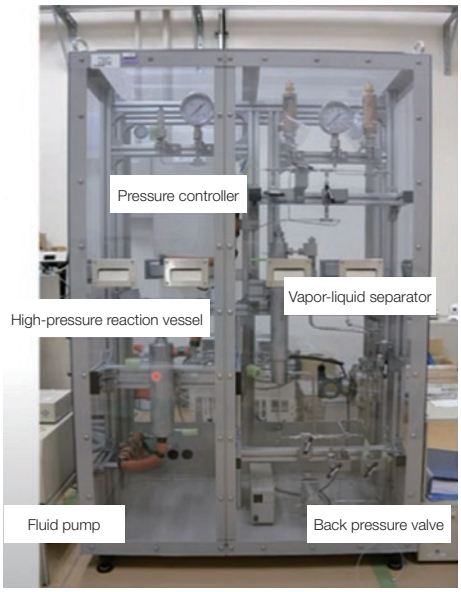
- **Miniaturization of high-pressure hydrogen production system using formic acid.**

TOKYO KEIKI and its subsidiary TOKYO KEIKI POWER SYSTEMS INC. (TPS), together with the National Institute of Advanced Industrial Science and Technology (AIST), have begun "Joint Research and Development on a Compact and Practical Model for a System for Producing High-Pressure Hydrogen using Formic Acid."*

TPS, a developer and producer of hydraulic systems, applies hydraulic control technology to offer hydrogen compressors for hydrogen filling stations, especially in urban areas. At the same time, we have been studying compact, low-cost hydrogen supply systems that can be used on-site. These are intended for rural areas with inadequate hydrogen filling stations and other hydrogen supply infrastructure, or for relatively small-scale hydrogen use.

In this area, we are researching and developing a compact and practical model for a system that produces high-pressure hydrogen using formic acid. AIST has been researching technology for producing high-pressure hydrogen from formic acid and implementing it in the real world. To store and transport hydrogen in large quantities, it must be compressed. Most hydrogen generation systems start with hydrogen at a pressure equivalent to the atmosphere and use a compression device to bring it to high pressure. A hydrogen production system using formic acid, however, can omit the compression process because it can obtain high-pressure hydrogen directly. This could allow for the use of smaller, less expensive equipment in the high-pressure hydrogen production process.

The Group is promoting the hydrogen and energy business as one growth driver in TOKYO KEIKI Vision 2030. We will work to further advance hydrogen energy through our R&D.



System for producing high-pressure hydrogen from formic acid, used by AIST to demonstrate the technology (Photo courtesy of AIST)

(*) Formic acid: A chemical widely used in industrial applications, including as a preservative in livestock feed, a tanning agent for hides, and anti-freeze. Storing and transporting hydrogen consumes a great amount of energy. This has prompted R&D on hydrogen carriers that can efficiently store and transport hydrogen by converting it to another substance. AIST has long focused on formic acid as a new hydrogen energy carrier.

Aiming for Track Diagnosis Support System

TOKYO KEIKI RAIL TECHNO INC. takes on new technological domain

Track inspection today

Japan prides itself on the unrivaled safety and accuracy of its railroads. Even today, many inspectors work to protect the tracks. It takes many materials (components) to build tracks, and these materials must be kept in sound condition for trains to operate safely. Inspection and repair work is performed late at night, after train service ends for the day until the first trains start running early in the morning. However, "foot patrols" (visual inspections) require monitoring track conditions on foot during the day. Workers risk being hit by a train while doing this very dangerous job. It's critical to secure highly skilled individuals, as they need to inspect the condition of track materials while walking along the line. Moreover, the work is a heavy responsibility and psychological burden for workers. The rigorous work conditions are one reason why the number of workers has fallen in recent years, making it acutely challenging for railroad operators to maintain safe and sustainable railroads. The need to solve this social issue has led to a great demand in recent years for measurement work to be done with rolling stock that carries inspection equipment.

The "track diagnosis support system" from TOKYO KEIKI RAIL TECHNO (TRT) could help to free workers from dangerous foot patrols and improve track maintenance productivity by enabling more frequent inspections and examinations and using data gathered at high frequency to predict the deterioration of facilities.

Merits of the track diagnosis support system

More than 70% of the ultrasonic rail inspection cars*1 used by railway companies in Japan today are TRT products. Based on this success, TRT developed the track diagnosis support system, which inspects various track materials. Mounted on passenger trains as well as exclusive maintenance vehicles, the system can automatically determine the condition of track materials. The result is greater efficiency, safety, and accuracy in the monitoring of track materials compared to foot patrols.

The system uses multiple image sensors that are located under the cabin and continuously photograph the track from different angles. It identifies individual track materials from the images taken. AI is implemented to support determination on whether anything has fallen off or is missing and whether there are any defects or other abnormalities from the track images.

The system can even be mounted on passenger rolling stock for high-frequency measurement. Operators can therefore switch from the conventional repair planning method of TBM*2 to CBM*3 and accurately calculate when repair work is required. This reduces both human and financial costs.

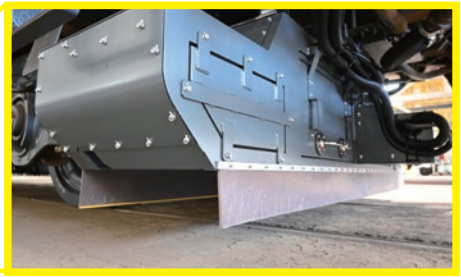
Through R&D conducted at TRT and TOKYO KEIKI's Fluid Power & Control Systems Company, we developed proprietary imaging equipment that mounts under the cabin. TOKYO KEIKI also made the image processor used by the system. In addition, the TOKYO KEIKI Group manages all processes, from the development of image processing algorithms to software production. This enables us to offer prompt and detailed support.

*1 Ultrasonic rail inspection car: A non-destructive inspection car, it has equipment that uses ultrasonic waves to detect flaws inside rails that are concealed from visual inspection.

*2 TBM: Time-Based Maintenance. A maintenance method based on periodic maintenance. Maintenance is performed at predetermined times and cycles, regardless of the condition of equipment and machinery.

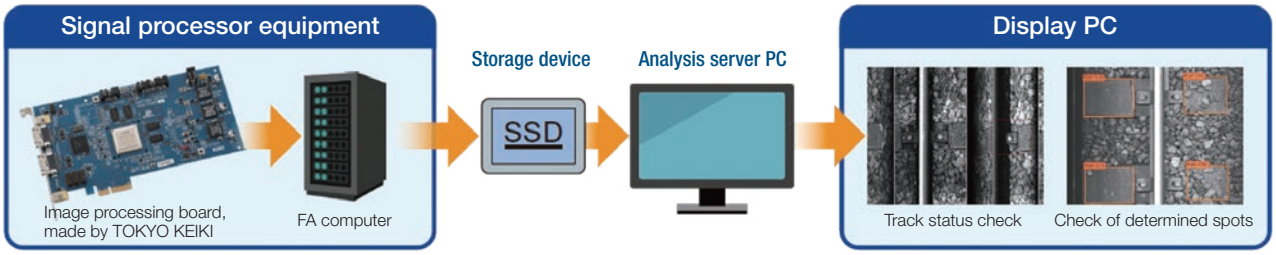
*3 CBM: Condition-Based Maintenance. A maintenance method that utilizes IoT, AI, or other technologies to monitor and predict equipment deterioration and breakdowns. This enables appropriate repairs and parts replacement before breakdowns or malfunctions occur.

A multifunction inspection car of Kyushu Railway Company (JR Kyushu) equipped with the track diagnosis support system

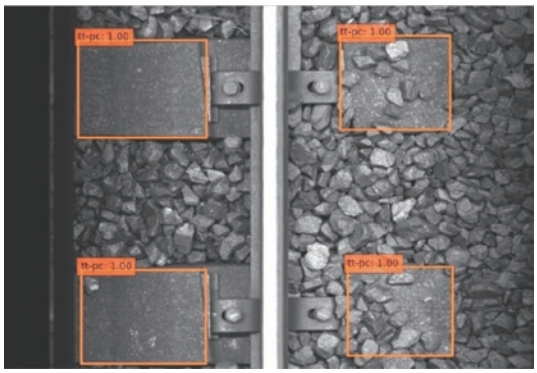


Track diagnosis support system

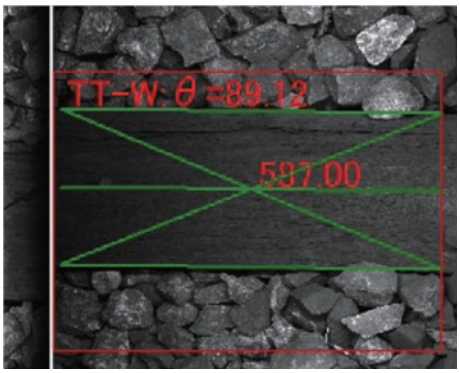
Overview of analysis



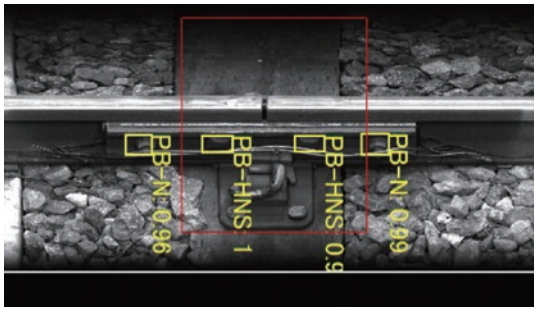
Example of materials detection



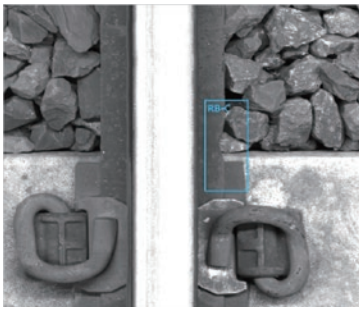
Automatic determination of railroad sleepers



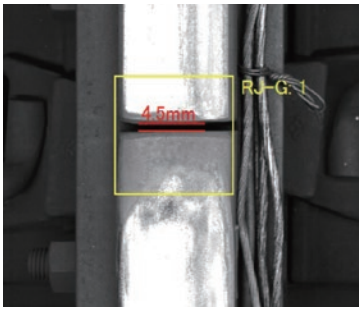
Perpendicular determination of railroad sleepers



Determination of fishplate bolt



Base corrosion



Measurement of joint gaps

Environment: Realization of an Environmentally Conscious Society

Through its business activities, the Group is working to reduce GHG (greenhouse gas) emissions, which is an important issue of global scale. In response to market and customer demands for environmental friendliness, we will integrate the design, procurement, and manufacturing processes for our products and services to provide added value, such as energy savings. In addition, to reduce GHG emissions in Scope 1 and 2, we will pursue efficient energy use by harnessing the creativity and ingenuity of all our employees.

Environmental policies

1. We will evaluate the environmental impact of all our business activities and the products we provide to our customers at during production, use, and disposal, and strive to save resources and energy, reduce waste, and prevent pollution.
2. We will establish and maintain a PDCA cycle by setting environmental objectives and targets for these initiatives.
3. In addition to complying with environmental laws and regulations, ordinances, industry codes of conduct, and agreements with local communities, we will establish and maintain independent management standards wherever possible.
4. We will establish an environmental management system in which all employees participate, using audits and reviews to make improvements on an ongoing basis.
5. We will provide education to all employees to improve their awareness of the environment and the environmental management system, as well as asking our affiliates and partner companies for their understanding and cooperation.
6. These environmental policies shall be publicly disclosed.

Environmental policies in each district

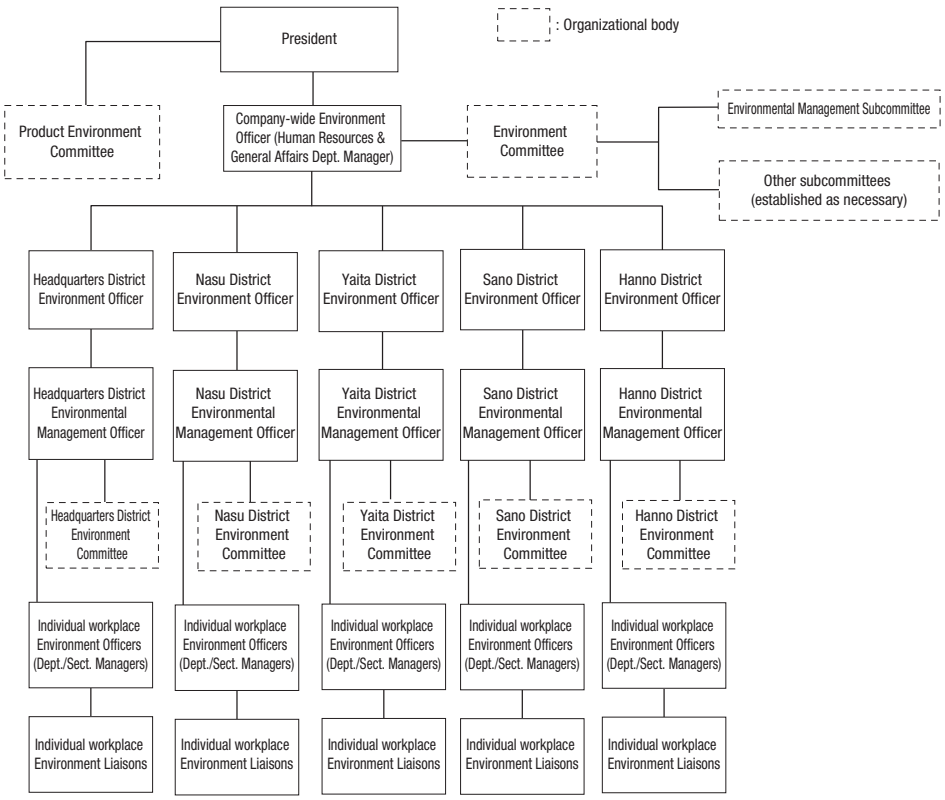
Our Nasu, Yaita, and Sano plants have drawn up their own environmental policies based on the company-wide policies, taking into account the characteristics of the manufacturing they perform and consideration for the surrounding environment. In order to put our basic philosophy into practice, each district has formulated its own environmental policies and is working actively to acquire various certifications, including ISO 14001.

ISO 14001 compliance status

Location	Date acquired
Nasu Plant	December 2005
Yaita Plant	January 2007
Sano Plant	April 2007
Tanuma Plant	December 2006

Environmental management structure

The Environment Committee is in charge of company-wide environmental policy, and the Environmental Management Subcommittee has been established beneath it. The head of the Human Resources & General Affairs Department chairs both committees, and the managers of the Nasu, Yaita, and Sano plants serve as committee members.



Climate Change Initiatives

The TOKYO KEIKI Group is working to reduce GHG emissions and promote resource and energy conservation to minimize the impact of our business on climate change. At the same time, we are taking steps to mitigate the impact of future climate change on the Group's businesses.

Initiatives on TCFD recommendations

We announced our endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in August 2022. By using the TCFD framework to comprehensively assess risks and opportunities related to climate change, we will enhance the resilience of our strategies. In addition, we will set clear indicators and targets for each initiative and enhance our disclosure of events that have a material impact on our business activities, providing climate change-related financial information and more.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

(1) Governance

To promote sustainability management, our Group established the Sustainability Promotion Office and the Sustainability Committee in June 2021. At the center of our Group, the Sustainability Promotion Office plans and promotes measures involving sustainability management. The Sustainability Committee is chaired by the Representative Director, President & CEO and selects members from Internal Directors and Executive Officers. It functions as a meeting body that discusses and shares sustainability management-related policies and measures, and executes decisions without delay across the Group. It also makes proposals on key measures and issues progress reports to the Management Conference and the Board of Directors.

The Sustainability Committee met nine times in fiscal 2022, planning and formulating important measures such as the determination of our sustainability policy and identification of materialities. The proposals were then sent to the Management Conference and Board of Directors for their deliberation before being adopted by the Group.

(2) Strategy

(2)-1. Scenario analysis based on TCFD recommendations

The TOKYO KEIKI Group recognizes climate change as a critical issue in the sustainability management of the Group. For that reason, we created our own scenarios based on the TCFD recommendations and referring to the 2°C and 4°C warming scenarios in the IPCC's Sixth Assessment Report. Using these scenarios, we evaluated the impact of a warmer climate in 2030, the target year for achieving our mid- to long-term strategy. The table below lays out our view of each scenario.

Scenario analysis based on TCFD recommendations

Classification		Our view of each scenario (future image)	
		2°C scenario	4°C scenario
Transition	Policy and regulations	Control policies and regulations will be implemented globally to curb rising temperatures. Environment-related regulations that are enacted will be stricter than in the 4°C scenario.	Despite calls to curb rising temperatures, there will not be much progress in tightening regulations after the 2020s.
	Technological innovation	Technological development will focus mainly on reducing GHG emissions.	Technological development will mainly solve issues relating to adaptation to rising temperatures.
	Markets	How well industrial machinery reduces GHG emissions will be an important factor in customer purchasing behavior.	Purchasing behavior will not change significantly from the status quo, but new markets will be formed to address problems created by rising temperatures.
	Reputation	The social reputation of companies that are passive about reducing GHG emissions or are unable to reduce them will be damaged, which will very likely affect customer purchases.	Companies that solve social problems will gain better reputations, and industry restructuring may result.
Physical (acute)		An increase in sudden climate disasters will cause damage.	An increase in sudden climate disasters will cause damage.
		Economic impacts of sudden climate disasters will include crop failures due to drought and the submergence of logistics and supply chain facilities and factories due to flooding.	These will happen more frequently than in the 2°C scenario.
Physical (chronic)		There will be chronic damage from prolonged extreme weather. Prolonged extreme weather will include more regularly occurring crop failures due to rising temperatures and the submergence of facilities and factories near the coast due to rising sea levels.	There will be chronic damage from prolonged extreme weather.
			These will happen more frequently than in the 2°C scenario.

(2)-2. Assessment of risks and opportunities based on scenario analysis

Based on the scenarios we created, we identified events that could affect TOKYO KEIKI Group business activities and measures to deal with them. We are presently reviewing specific initiatives and plan to decide on them as part of our materiality initiatives in conjunction with the next medium-term business plan. We will announce these when they are decided. The table below shows the events that we identified and countermeasures that are conceivable at this time.

Assessment of risks and opportunities based on scenario analysis

Classification		Risk & opportunity details	Impact on TOKYO KEIKI business		Countermeasures	Materiality initiatives
			Category	Nature of impact		
Transition	Policy and regulations	GHG emissions regulations become stronger. (carbon tax, related taxes, etc.)	Risks	Taxation causes energy procurement costs to rise.	• Make business processes more efficient and gradually shift to renewable energy to minimize the impact of the introduction of carbon tax. • Work to continually reduce GHG emissions. (Scope 1, 2)	Realization of an Environmentally Conscious Society
		Energy conservation regulations become stronger.		Prices of both fossil fuel energy and renewable energy rise, causing procurement costs to increase.		
	Technological innovation	Transition to low-carbon technology is encouraged.		Development costs to acquire low-carbon technologies rise and there is not enough development staff.	• Promote development of proprietary products using energy-saving and renewable energy technologies that are differentiated from competitors' products, and work to increase the number of developers for this purpose.	
			Opportunities	Technologies for adapting to rising temperatures are developed and put to practical use.		Provision of Products that Solve Social Issues
	Markets	There is increased demand for products that help conserve energy and reduce GHGs.	Risks	Product competitiveness is lost due to failure to meet customer purchasing requirements, making it impossible to continue doing business with existing customers.	• Build sustainable supply chains, including the development of products that meet customer needs and finding new partners to achieve this.	Realization of an Environmentally Conscious Society
	Reputation	A company's reputation is affected by how it is responding to rising temperatures.		Stock markets take a negative view of any business that is passive about efforts to reduce GHG emissions. Such businesses lose investment, which harms their corporate value.	• Actively and effectively disclose our decarbonization initiatives. • Work to continually reduce GHG emissions. (Scope 1, 2, 3)	Realization of an Environmentally Conscious Society
Physical (acute)		Localized torrential rains increase river flooding and landslides.	Risks	Business sites and cooperating factories are damaged due to flooding from nearby rivers or rainfall runoff, causing operations to be disrupted.	• Establish a resilient supply chain system by developing a business continuity plan and taking other measures to prepare for disasters.	Establishment of a Business Fundamentals to Support Sustainable Growth Enhancement of Supply Chain Management
				Supply chains are disrupted by disasters.		
Physical (chronic)		Localized hot temperatures, heat waves, and abnormally low temperatures occur chronically.	Risks	Significant deterioration of the working environment due to insufficient air-conditioning capacity at some workplaces, including partner factories, results in greater damage to employee health.	• Continually develop business infrastructure that supports sustainable business activities and establish rules to optimize the entire supply chain to ensure that occupational safety can be maintained at all times, including at partner factories.	Establishment of a Business Fundamentals to Support Sustainable Growth Enhancement of Supply Chain Management
				Factory operations are restricted in summer and winter due to planned power outages resulting from chronic power shortages.		

(3) Risk management

The TOKYO KEIKI Group manages risks in keeping with our risk management system.* Following our Risk Management Rules, we classify risks as major management risks or other risks and manage them accordingly. Risks that relate to sustainability are written up for the Sustainability Committee's consideration by members of the Sustainability Promotion Office or Sustainability Committee. The Sustainability Committee promptly discusses the magnitude of the risks and how to deal with them. Its resolutions go to the Management Conference and Board of Directors for deliberation and final approval.

*See the risk management system diagram on p. 53.

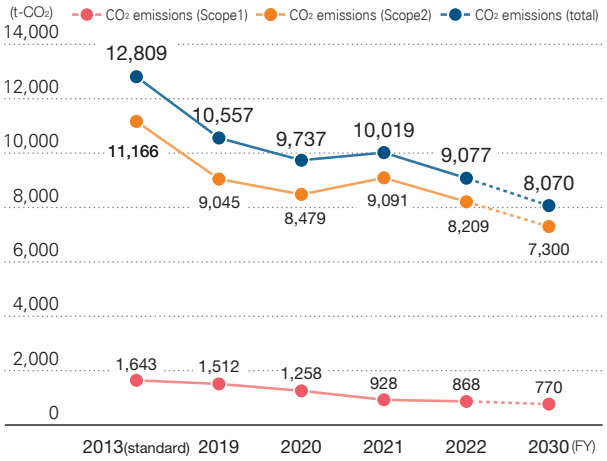
(4) Indicators and targets

• Scope 1 and 2 GHG emissions reductions

The Group set a target of reducing GHG emissions within the Group by 37% in fiscal 2030 compared to fiscal 2013. We are conducting activities to achieve this. In fiscal 2022, in addition to planned capital investments for energy conservation that we were already making, we switched part of our electricity purchases to green power midway through the fiscal year. These efforts caused fiscal 2022 emissions to decline to 9,077 t-CO_2, a reduction of 9.4% from the previous fiscal year.

In September 2023, our Vietnamese subsidiary TOKYO KEIKI PRECISION TECHNOLOGY CO., LTD. (TPT) also began a PPA (power purchase agreement for solar power). This will further accelerate GHG emissions reductions. The trends in Scope 1 and 2 emissions reductions are shown in the figure on the right.

Trends in GHG emissions reductions (Scope 1 and 2)



Initiatives to use renewable energy

TPT entered into a PPA in March 2022. Construction was subsequently delayed due to circumstances in Vietnam, but the supply of electricity began in September 2023. Thanks to this arrangement, solar power can provide about 30% of the electricity used by TPT, which could reduce GHG emissions by an estimated 400 t-CO_2 yearly.

TOKYO KEIKI has also decided to install solar power generation equipment at our Nasu Plant as part of our own facilities. Although the amount of power generated is small, we determined that the Nasu Plant could use the generated electricity without waste since it has a clean room that operates year-round. Our aim is to begin operation of the solar power equipment in fiscal 2023.

Solar panels on factory roof (TPT)

Energy saving initiatives at Headquarters building

Subsidiary TOKYO KEIKI TECHNOPORT INC. (TCN), which manages the TOKYO KEIKI headquarters building, sets annual targets for reducing energy consumption and manages progress on those targets. Buildings constructed in recent years commonly have individual air-conditioning systems to save energy. By contrast, the headquarters building, completed in 1988, has an atrium at its center, which makes energy conservation difficult.

To meet the challenge, TCN developed and implemented detailed daily plans for energy conservation.

In fiscal 2022, despite many extremely hot days that summer, energy consumption fell 6.4% compared to fiscal 2020. In addition, consumption of city gas, which is also used for heating in winter, decreased by a very significant 25.8%.

And with energy prices so high, it is even more important to reduce consumption. Our intent is to increase the number of energy-saving actions that individual Headquarters workers can take.

Initiatives for Environmental Management

In the manufacturing industry, it is our social responsibility to try to minimize our impact on the environment when we choose materials and use energy to make our products. By fulfilling this responsibility while engaging in business activities, we will contribute to the realization of a sustainable society.

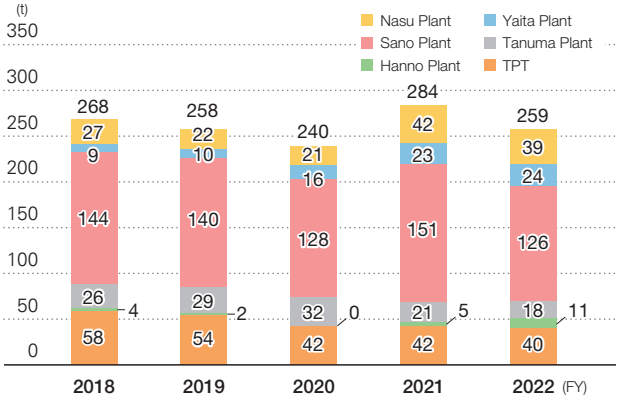
Initiatives to reduce waste

The TOKYO KEIKI Group aims to reduce the environmental impact of various types of waste generated when manufacturing our products. Our Group-wide efforts to reduce such waste are based on the 3Rs concept.

Compliance with laws and regulations

Waste is disposed of appropriately in accordance with laws and government ordinances, as well as the regulations of the municipalities where our factories and plants are located.

Amount of industrial waste produced



Promoting the "3Rs"

- **Reuse**

We are now reusing some of our used products and parts (including electronic parts) with the approval of our customers.

- **Reduce**

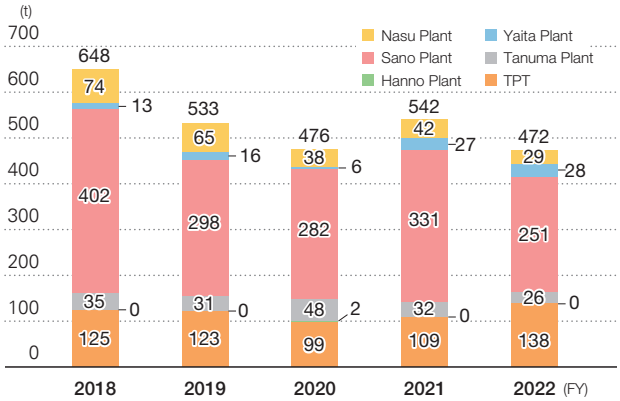
The use of equipment to reclaim wash oil and the evaporation and drying of wastewater from glass processing are helping to reduce the amount of wastewater and waste oil we produce. In fiscal 2022, the Sano Plant produced less waste oil, but other types of waste remained at about the fiscal 2021 level, for a total of 259 tons of waste.

- **Recycle**

We hire contractors to take our scrap metal, waste oil, and waste paper, which are valuable recyclable materials, and accordingly thoroughly separate our waste.

The breakdown for these valuable recyclable materials for fiscal 2022 was 403t of scrap metal, 17t of waste oil, and 51t of waste paper.

Valuable recyclable materials produced

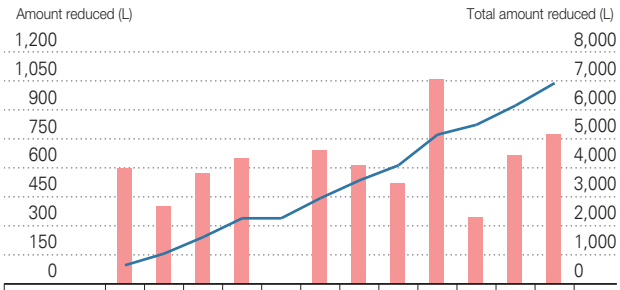


Recycling used wash oil

The Sano Plant alone accounts for about two-thirds of the company's overall waste output, and roughly 60% of that is water-soluble cutting fluid, wash oil, and other types of waste oil. To reduce the amount of these wastes, we installed hydrocarbon-based wash oil recycling equipment in fiscal 2020. The equipment separates out about 10% of the oil dissolved in the wash oil. The remaining 90% of the wash oil can be used as new, which reduces waste and uses resources more effectively.

In fiscal 2022, the equipment recycled 6,881 liters of oil. Going forward, we will continue to recycle waste oil to reduce our waste output.

Amount of waste oil reduced through use of wash oil recycling equipment (FY2022)



	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Amount reduced (L)	600	400	570	650	0	690	615	520	1,058	342	664	772
Total amount reduced (L)	600	1,000	1,570	2,220	2,220	2,910	3,525	4,045	5,103	5,445	6,109	6,881

Measures for proper management of chemicals

Some chemical substances have harmful effects on the environment and human body. As such, it is companies' social responsibility to manage them properly and to take the environment and occupational safety into account. We are working to cut our emissions of chemicals by setting voluntary reduction targets.

Switching to alternatives to hazardous chemicals

Each of our factories is actively switching to alternative materials to hazardous chemicals.

- **Cleaning agents for hydraulic products**

Switched from dichloromethane to hydrocarbon-based

- **Thinners**

Switched to alternatives free from toluene and xylene

- **Cutting fluid**

Switched to alternatives free from chlorine

In the past, we used dichloromethane to remove oil from the surface of hydraulic products produced at the Sano Plant prior to the coating process. Dichloromethane, however, is a highly toxic chemical substance. We made the decision to switch to a less toxic hydrocarbon-based cleaning agent and designed and built our own dedicated cleaning equipment. The equipment started operating in January 2021. The amount of dichloromethane used was 495 kg in fiscal 2021 and 743 kg in fiscal 2022. These represent a significant reduction in use of over 90% compared to fiscal 2020, and a reduction in environmental and human health impact.

Response to the PRTR system

Pollutant Release and Transfer Register (PRTR) is a system to determine the amount of hazardous Class 1-designated chemical substances discharged from factories and report the results to the national government. The government then compiles and publishes the data.

Reducing dichloromethane emissions at the Sano Plant has been a challenge for a long time. However, we have significantly reduced emissions by switching to a hydrocarbon-based cleaning agent and recycling it. Since fiscal 2021, we have no longer needed to submit reports to the government. Likewise, we have not needed to report on toluene emissions since 2020. However, we will continue to monitor emissions of both substances.

PRTR emissions: Sano Plant *Emissions only (excluding transfers)

FY	Dichloromethane (kg)	Toluene (kg)
2018	18,400	1,330
2019	14,000	1,100
2020	11,000	986
2021	495	989
2022	743	927

PRTR emissions: Nasu Plant *Emissions only (excluding transfers)

FY	Xylene (kg)	1,2,4-Trimethylbenzene (kg)
2018	66	17
2019	51	12
2020	50	12
2021	49	13
2022	13	11

Initiatives to protect biodiversity

Another critical social responsibility for our Headquarters, plants, business locations, and other sites as we continue our business is to reduce the impact on the surrounding environment and work to conserve it. The Group is committed to protecting the environment site by site.

Green space around the Headquarters building certified as an Ota Ward Protected Forest

Technoport Kamata, the location of TOKYO KEIKI's Headquarters, is an office building block that was built as a redevelopment of the site of our former headquarters and plant. Two-thirds of the vast grounds were turned into a tranquil green space environment, becoming a conspicuous green oasis in Kamata, a district with little verdure. The area around our Headquarters, in particular, is surrounded by a variety of trees, and Ota Ward has designated the more than 2,000-m^2 green space around the Headquarters building as a "Protected Forest."

Ota Ward Protected Forest

Social: Enhancement of Supply Chain Management

As a manufacturer, the Group's lifeline lies in its supply chain. In order to make it sustainable and strong, we will transform it into a robust materials purchasing system that can respond to rapid changes in the market, society, and the environment, while ensuring co-existence and mutual prosperity with our suppliers. We will also address various social imperatives, such as the reduction of GHG (greenhouse gas) emissions in Scope 3, the handling of hazardous substances, and human rights issues.

Establishment of the TOKYO KEIKI Group Sustainable Materials Procurement Policy

In addition to our existing requirements for materials procurement, we have established the Sustainable Materials Procurement Policy to declare our commitment as a company to building sustainable relationships with our suppliers and to procuring materials responsibly with regard to social issues such as human rights protection and conservation of the environment.

(1) Fair and equitable transactions
In procuring materials, we will, on the premise of conducting fair transactions, make selections in good faith based on a fair and comprehensive evaluation of basic evaluation criteria such as quality, price, delivery time, and environmental considerations, as well as sustainability of business activities and attitude toward ongoing improvement.

(2) Compliance and proper management of information
In conducting transactions, we will comply with social norms and related laws and regulations, and appropriately manage information obtained through such transactions. In addition, we will ensure that confidential information is not leaked.

(3) Relationship building as a manufacturing partner
In conducting transactions, we respect the vision and position of our suppliers as partners in manufacturing, and by building relationships of trust from a medium- to long-term perspective, we aim to strengthen our competitiveness through mutual prosperity with these partners.

(4) Ensuring sustainable quality and trust
In order to ensure the trust of customers and the market by maintaining the quality of procured parts and materials, we will establish a sustainable quality management system in cooperation with our business partners.

(5) Consideration for health and safety, the working environment, human rights, and conflict minerals
In conducting transactions, we will promote material procurement activities that take into consideration health and safety, the working environment, and human rights in the supply chain.

(6) Harmony with the global environment through green procurement
In procuring materials, we will strive, alongside our business partners, to protect the environment in accordance with our environmental policy and promote green procurement activities, including reduction of GHG emissions and harmful chemical substances, in consideration of the global environment.

(7) Realizing BCP in the supply chain
In preparation for disasters and unforeseen circumstances, we will work with our business partners to establish a BCP system for maintaining employee safety and continuity of corporate activities in the supply chain, and take appropriate measures.

Supply chain management system

Our Group's supply chain management system comprises the Material Management & Purchasing Office, the Headquarters' administrative divisions; and the purchasing divisions of each internal company.

As an organization under the direct control of the President, the Material Management & Purchasing Office supports each internal company's purchasing activities. The Material Management & Purchasing Office engages in administrative tasks such as maintaining and managing basic companywide policies, the Standard Purchasing Rules, and the template of Purchase Agreement used by our Group. The office also provides companywide guidance on the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (Subcontract Act); supervises purchasing and procurement; maintains and manages our core information system (TBB system*); manages credit based on supplier management information; and supports the activities of cooperatives and partner association suppliers. In addition, the Office is in charge of procuring materials for product development in the Headquarters District.

Each internal company's purchasing division primarily purchases the production materials necessary for that company's production activities, engaging in efficient, fair, and equitable transactions with our suppliers in Japan and overseas. When initiating a transaction, it is standard practice to conclude a Purchase Agreement. Actual purchasing is conducted using our TBB system, ensuring that the transaction is in accordance with the Standard Purchasing Rules.

Each internal company engages in the development of the skills of its purchasers. The Material Management & Purchasing Office also urges purchasers of each internal company's purchasing division to take a seminar on the Subcontract Act, and in fiscal 2022, 30 out of 55 purchasers took the seminar.

*TBB system: TOKYO KEIKI Best Buying system

Concepts regarding human rights

Our Group will respect human rights and will appropriately manage personal information. Under the idea that providing motivating workplaces while respecting the human rights, personalities, and individualities of

employees aids in maintaining and strengthening our competitiveness, we aim to be a company where diverse human resources can play active roles regardless of race, nationality, gender, age, or other characteristics. We also monitor the business activities of overseas subsidiaries and suppliers in everyday work to ensure the absence of human rights violations.

Green partner initiative

The "Green Partner System" is an initiative to eliminate hazardous substances from production processes throughout the supply chain in order to encourage environmentally friendly manufacturing. TOKYO KEIKI is putting this system into practice alongside our suppliers.

Under this initiative, suppliers who meet our management standards and have the ability to conduct independent quality management to prevent hazardous substances being used in or contaminating their production lines are certified as Green Partners. This eliminates the need to submit a non-inclusion certificate for each product or part and to conduct some of the tests on the chemical substances they contain. We also provide various services to Green Partners, such as support for the testing and analysis of chemical substances contained in parts and materials, provision of environment-related information, and support for environment-related education.

Engagement with suppliers

Business policy briefings for suppliers are held in May every year primarily at each of the Group's production sites (the Nasu Plant, Yaita Plant, and Sano Plant) in an effort to share information.

Quality audits are based on each internal company's quality management system and are conducted at the start of transactions, on a regular basis, and on other occasions as deemed appropriate. The scale of our Group's suppliers is varied. Many of our machined component suppliers, in particular, are small in scale, and with them we value face-to-face dialogue with purchasers. Placing importance on direct communication makes it easier to know a supplier's working conditions and quality management, and also helps to build long-term relationships of trust with suppliers.

Calculating Scope 3 emissions

In order to understand supply chain GHG emissions across all of our business activities and effectively reduce them, we calculated the total emissions of all of our supply chains based on the Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain from the Ministry of the Environment.

The breakdown of Scope 3 emissions is shown in the table below. Emissions from Category 1 (purchased goods and services) were the greatest at 55.2% of the total, followed by Category 11 (use of sold products) at 33.7%. We have confirmed that understanding the actual status of these two categories and planning and implementing reduction measures are effective in reducing Scope 3 emissions, and will implement these measures accordingly.

Since Scope 3 is expected to be replaced in the near future by calculations using primary data (actual data, rather than calculations), we have decided to set a target value for Scope 3 by fiscal 2025.

Overview of Scope 3 CO_2 emissions calculation (FY2022)

Category		CO_2 emissions ($t\text{-}CO_2$)	Percentage
1	Purchased goods and services	126,167	55.2%
2	Capital goods	3,631	1.6%
3	Fuel- and energy-related activities	1,450	0.6%
4	Upstream transportation and distribution	733	0.3%
5	Waste generated in operations	384	0.2%
6	Business travel	1,283	0.6%
7	Employee commuting	620	0.3%
8	Upstream leased assets*1	-	-
9	Downstream transportation and distribution*2	-	-
10	Processing of sold products*3	-	-
11	Use of sold products	76,939	33.7%
12	End-of-life treatment of sold products	17,323	7.6%
13	Downstream leased assets*4	-	-
14	Franchises*5	-	-
15	Investments*6	-	-
Total		228,530	100.0%

*1: Not applicable (emissions from leased assets included in Scope 1 and 2).
*2: Not applicable (finished product logistics outsourced and thus included in category 4).
*3: Not applicable (as TOKYO KEIKI's products are finished products, they are not processed after sale).
*4: Not applicable (no relevant leased assets).
*5: Not applicable (no relevant franchises).
*6: Not applicable (no relevant investments).

Calculation method: Based on the Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain from the Ministry of the Environment and the Ministry of Economy, Trade and Industry.
Calculation period: April 1, 2022–March 31, 2023
Calculation scope: TOKYO KEIKI (non-consolidated)

Social: Support for the Activities of a Diverse Workforce

In order to meet our goals with respect to this materiality, the TOKYO KEIKI Group will promote the recruitment and advancement of a diverse range of personnel regardless of gender, nationality, age, employment status , disability status, etc., providing a place where employees with a diverse range of attributes can play an active role. In promoting the advancement of women, we will not limit ourselves to the scope of the Act on the Promotion of Women's Active Engagement in Professional Life, but will continue to develop a comfortable working environment and expand opportunities for women to play an active role in the company.

TOKYO KEIKI Vision 2030, our vision for what the Group should be in fiscal 2030, establishes the strengthening human capital as our human resources strategy and policy, and in order to achieve this vision, we are focusing on human resources cultivation and organizational reform.

Concepts and Policies Regarding Human Resources

Initiatives for hiring

Amid great changes taking place in the business environment, it is essential for the sustainable growth and development of our Group that we secure the diverse human resources which form the wellspring of competitiveness and the pillar of change. In order for all employees to maximize their individual personalities and abilities, and to consolidate these into a powerful force aimed at creating new value, our vision for the human resources sought by our Group is people who take on challenges with determination.

The Human Resources & General Affairs Department is engaging in recruiting activities while at the same time coordinating this future-oriented vision for human resources with the needs of each department.

Policies for human resources development

Our Group is engaged in a wide variety of businesses, and as such, there is a diverse range of knowledge and skills required of employees in each of these businesses. We must also respond quickly to the drastically changing external environment.

To ensure the Group's continued sustainable growth given the nature of our business and the external environment, it is essential to have "independent, growth-oriented human resources," that is, people who are able to think for themselves and perform their duties proactively, not only under the direction of the Company or their superiors, and who can grow while adapting to changes around them.

To this end, our basic policy for human resource development is to "cultivate independent, growth-oriented human resources," and while holding the Group's management policies and strategies as universal values, we support the development of individual capabilities so that each employee can think, judge, and act on their own initiative in the face of the drastically changing external environment, maximize their individual capabilities, take on difficult tasks, and achieve results as an organization.

Through these efforts, we will also strengthen our human capital and pursue sustainable enhancement of corporate value.

Support for independent career development

Amid changes in the nature of our business and the external environment, we expect our employees to think about the careers they aspire to and the actions they need to take to achieve them. TOKYO KEIKI provides career training for employees four years after they join as new graduates and each time they are promoted. Opportunities are also provided for employees to meet with their supervisors every six months to discuss their future careers. In addition, the company offers self-development programs such as correspondence courses and external webinars.

There is also an internal recruitment system in place whereby departments advertise job openings, employees voluntarily apply for positions, and transfers are arranged through a matching process. Seven of these were concluded in fiscal 2021 and three in fiscal 2022.

Going forward, we will further support the development of individual skills by reviewing our training programs to encourage employees to think and learn on their own initiative, and by revamping our systems to stimulate internal open recruitment.

Encouraging the acquisition of qualifications for business use and to promote self-development

As part of our efforts to cultivate independent, growth-oriented human resources, TOKYO KEIKI has established a public qualification assistance program to improve employees' ability to perform their duties and to revitalize the company organization by promoting self-development.

As of March 31, 2023, 552 certifications have been accredited, and a total of 124 people were newly certified in fiscal 2022.

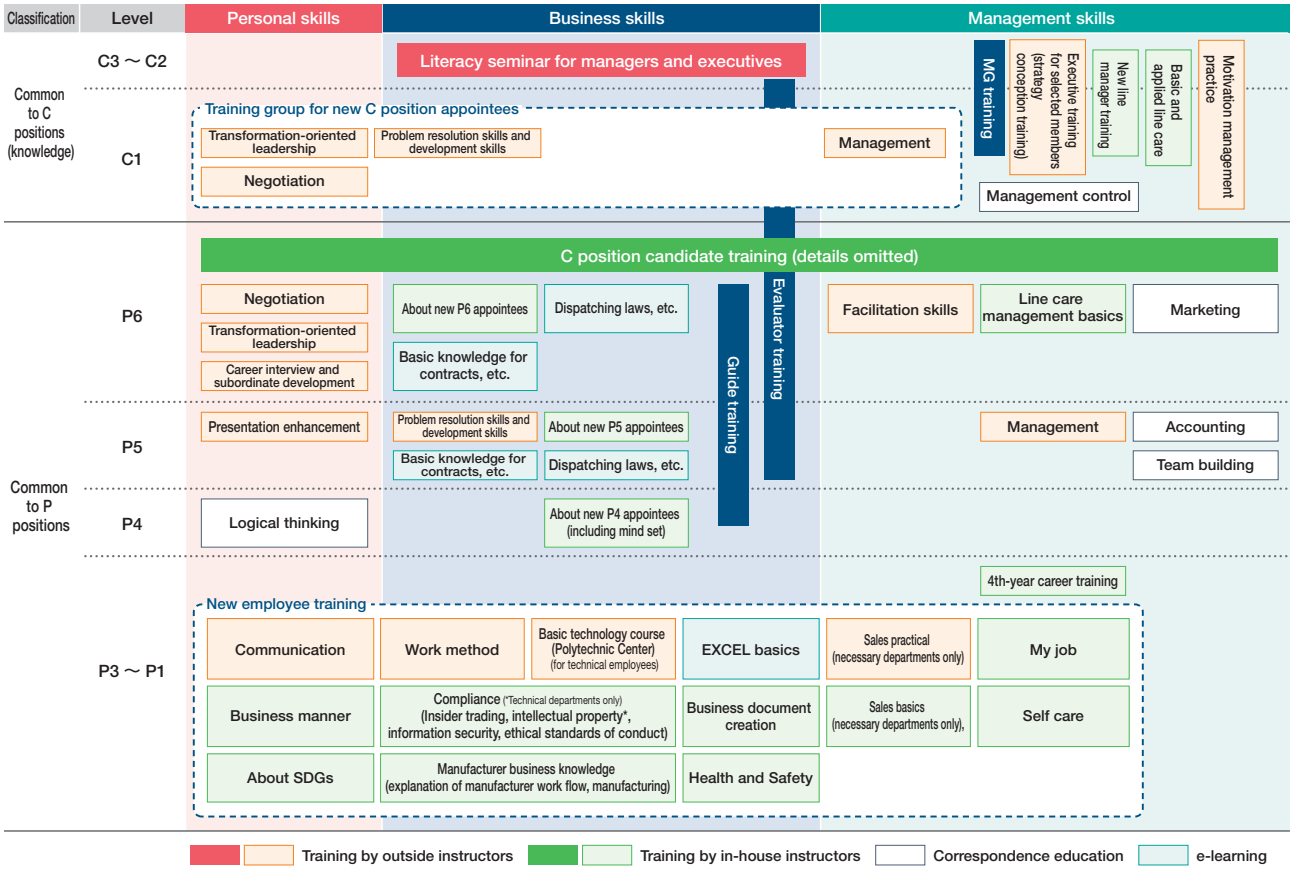
We expect that in the future, the knowledge and skills required of our employees will become more diverse, so from fiscal 2022, we have expanded our qualifications in data science fields such as statistical processing in order to "promote DX" as stated in the TOKYO KEIKI Vision 2030. We will continue to promote support for employees to acquire public qualifications so that they can develop their skills independently.

Education and training to enhance the value of human assets

To enhance the value of our human capital, we offer education and training to all employees, from new entrants to executives. Specific examples include hierarchical education

Knowledge and skills acquired at each level of hierarchy

* C positions: Creative positions (managerial positions); P positions: Professional positions (general positions)



in the form of level-specific training for the acquisition of knowledge and skill based on a finely-tuned curriculum.

This includes providing training to employees who have been promoted to managerial positions in the Group to improve their skills in transformation-oriented leadership, management, problem resolution skills and development skills, and negotiation in order to support the development of their capabilities. In principle, all employees who have been promoted to managerial positions since the introduction of this training system are required to participate in the training. However, some employees were unable to participate for work-related reasons, and as of March 31, 2023, the participation rate was 91.4% of eligible employees. Going forward, we will also encourage employees who have not yet taken the training to do so.

In addition, all employees promoted to management positions have an opportunity, six months after their appointment, to report to the Representative Director, President & CEO on their progress in realizing the TOKYO KEIKI Vision 2030 and receive feedback on their efforts.

Approach and Policy Regarding the Working Environment

In order to continue to foster a corporate culture in which a diverse range of workforce can demonstrate their individual strengths and grow through taking on challenges, the TOKYO KEIKI Group strives to create an environment conducive to personal development by assigning the right people to the right positions. In addition, we will work to establish a working environment that accommodates a diverse workforce and a variety of work styles.

Internal working environment development policy

- Promote a challenge-oriented personnel system to realize the TOKYO KEIKI Vision 2030
- Maximize the use of human capital by identifying individual capabilities and placing the right people in the right positions.
- Strive to create a comfortable working environment for everyone regardless of gender, nationality, age, employment status, disability status, etc. and to ensure that everyone has the opportunity to take on challenges.
- Accommodate a diverse range of work styles and strive to achieve work–life balance.
- Aim for fair and equitable evaluations that lead to human resource development.
- Strive to maintain and improve a safe and secure work environment to ensure both mental and physical health.

Reform of the personnel system to realize the TOKYO KEIKI Vision 2030

In order to realize TOKYO KEIKI Vision 2030, in fiscal 2022 we revised our evaluation system and wage system. The concept behind the new personnel system is to develop the company by placing human resource development at the core and expanding it to "strengthening the ability to implement strategies," "employee growth," and "fostering a culture of taking on challenges," all of which are interlinked and mutually reinforcing.

We believe that growth comes from employees taking on challenges, learning from their mistakes, and experiencing success. Accordingly, we have introduced the "Challenge Goal System," which is designed to place high value on personnel who take on the challenge of achieving ambitious goals. By reflecting evaluation results in compensation and promotion, this system encourages employees to take on challenges.

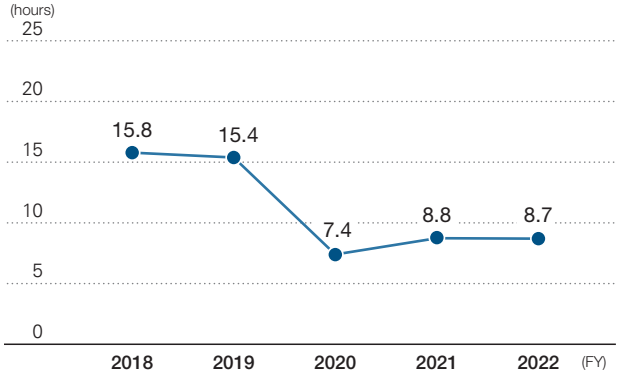
We will support our employees in achieving their challenges, aiming for the development of the company and the realization of the management targets set forth in TOKYO KEIKI Vision 2030. In addition, a committee has been established to deliberate on evaluation results and issues related to the operation of the evaluation system, aiming for a fair, equitable, and transparent personnel evaluation system.

Accommodating a diverse range of work styles

To let all employees fully exert their capabilities, we have implemented a number of measures, including the establishment of various systems such as telework and flextime that can flexibly accommodate a variety of work styles, as well as no-overtime days. In addition, to achieve work–life balance, we are striving to reduce overtime hours and improve the rate at which employees take annual paid leave (annual leave). In fiscal 2022, the upper limit on the number of times employees can take half-day leave was eliminated, creating an environment that makes it easier for employees to take annual leave.

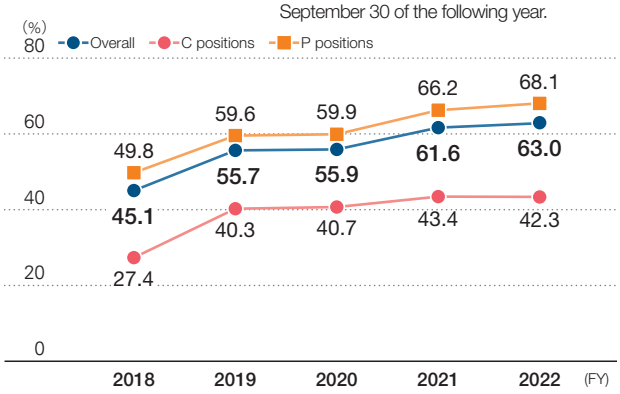
Monthly average overtime hours

* Average for professional positions (general positions) only



Annual leave utilization ratio

C positions: Creative positions (managerial positions);
P positions: Professional positions (general positions)
* Aggregated for each year from October 1 to September 30 of the following year.



Promotion of active participation by women

By promoting the development of a comfortable working environment for women, including the establishment of a childcare and nursing care leave system and a shortened working hours system for childcare, the TOKYO KEIKI Group has maintained a 100% rate of eligible female employees taking childcare leave and returning to work after childcare leave in fiscal 2022. Other opportunities for women to play an active role are expanding, such as the first appointment of a woman to a managerial position at a plant.

Employment of persons with disabilities

In addition to hiring at our head office and plants, we also use a satellite office that has been established as an environment that makes it easy for people with disabilities to work, and strive for appropriate labor management and necessary care through such measures as periodic visits by our Human Resources Department. The company is also actively hiring people with disabilities and expanding the scope of their work. For example, in fiscal 2022, we hired two new employees with disabilities in addition to our existing workforce of four, and broadened their duties from human resource-related tasks to accounting and business department tasks.

In addition, the Nasu and Sano plants have installed ramps and other accessibility facilities to provide a safe and secure working environment for people with disabilities.

Promotion of men taking childcare leave

The TOKYO KEIKI Group also promotes the utilization of our childcare leave system by men in order to support balance between work and childcare.

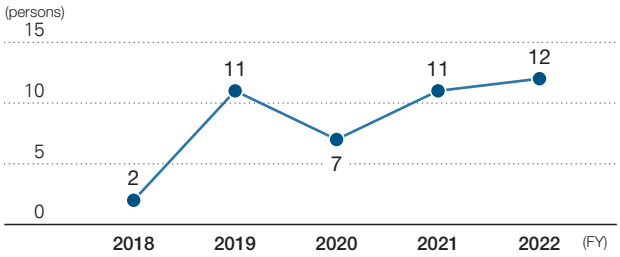
In fiscal 2022, 27% of eligible male employees took childcare leave, a higher rate than in the previous year (23.3%).

Special annual leave program

The TOKYO KEIKI Group has introduced a special annual leave program that allows employees to accumulate expired annual leave and use it in such situations as medical treatment for personal injury or illness, childcare, nursing care, or volunteer work. In fiscal 2023, the system was expanded to allow use for follow-up examinations as part of health checkups. This system supports employees in their health and balance between work and childcare or nursing care needs, as well as in performing community service, and is used by a large number of employees each year.

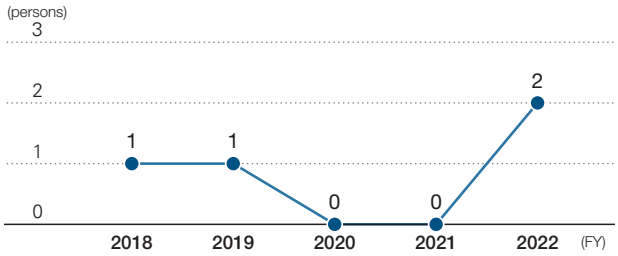
Number of persons taking childcare leave

*The number of persons newly taking childcare leave each fiscal year is counted; persons continuing childcare leave from the previous year are not counted in the year of continued leave.



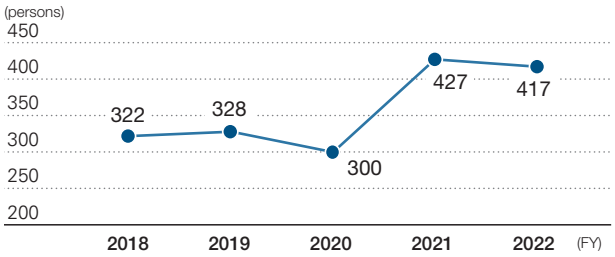
Number of persons taking nursing care leave

*The number of persons newly taking nursing care leave each fiscal year is counted; persons continuing nursing care leave from the previous year are not counted in the year of continued leave.



Number of persons taking special annual leave

*Special annual leave refers to leave days newly granted on October 1 in number equal to days of annual paid leave that had expired in the previous year. Persons who have used at least one day of the year during the fiscal year are counted.
*The number of persons taking special annual leave increased in fiscal 2021 due to people receiving vaccinations against COVID-19.



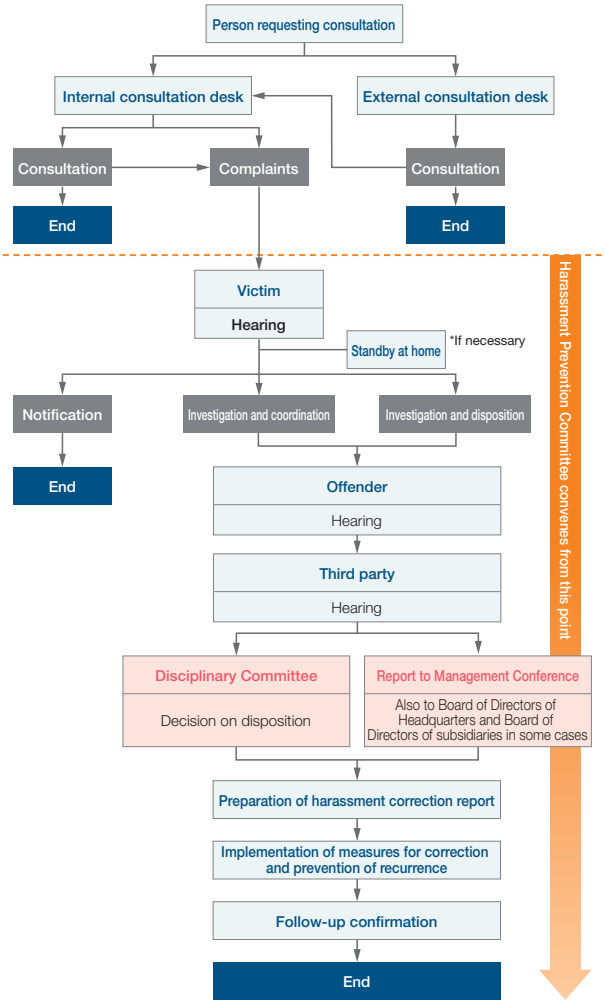
Initiatives to prevent harassment

The Group creates workplace environments in which all employees can exert their capabilities to the utmost and pursue their potential. At the same time, to achieve pleasant workplaces where people can actively collaborate and cooperate with others, we seek to take measures to prevent and eliminate harassment in workplaces and to respond promptly and fairly to complaints and requests for consultations concerning harassment.

The Harassment Prevention Regulations, which define harassment and prohibited actions, apply not only to all officers and employees working for the Group, but also to customers, business partners, and others. We have set up shared consultation desks, both inside and outside the Company, to accept information from persons who have been subjected to harm, from persons who have witnessed or heard of incidents of harassment, or from other third parties who experience suspicions.

In the event that a complaint is received, the Harassment Prevention Committee will certify whether or not harassment has occurred after seeking the opinions of lawyers and other experts. Following that, the Committee will report to the Management Conference (in the case of a subsidiary, to the subsidiary's Board of Directors as well) and to the Board of Directors of Headquarters and the Disciplinary Committee as necessary, and will entrust consideration of disposition. The Harassment Prevention Committee will then consider and implement measures for correction and prevention of recurrence, after which the Committee, the head of the relevant department, and management supervisors will prepare a harassment correction report.

The problem-solving process



Occupational health and safety initiatives

Employee health and safety forms the foundation for our corporate activities. As a part of the manufacturing industry, we realize that the physical and mental health of all of our employees is a key factor in continuing operations with safety at the forefront. Under this recognition, we will strive to create and maintain workplaces where employees can work with peace of mind, and will continuously work to create environments in which accidents do not happen.

Health and Safety Policy

1. We will eliminate risk factors related to occupational health and safety in the workplace, strive to create comfortable workplaces, and promote the maintenance and improvement of physical and mental health.
2. We will build a health and safety management system that includes occupational health and safety policies, and will maintain its appropriateness, validity, and effectiveness by making continuous improvements.
3. We will make occupational health and safety policies and other necessary matters known to all persons who work at the Company, and will work to enhance awareness of health and safety.
4. We will comply with laws and regulations related to occupational health and safety management systems, with agreements concluded by the Company, and with matters set forth in internal rules.

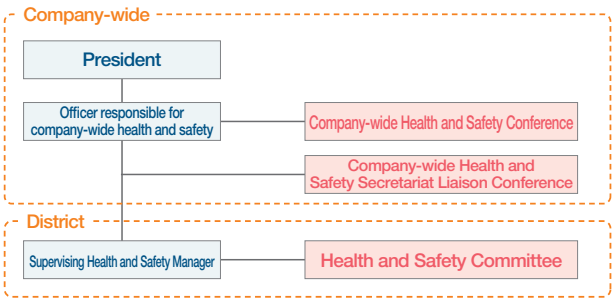
Health and safety system

Our health and safety system is composed of a district organization that consists of employees in each district and a company-wide organization that coordinates the district organizations. (See the health and safety organization chart.)

The Company-wide Health and Safety Conference is a labor-management meeting held in accordance with company regulations, and attended by the manager of the Human Resources and General Affairs Department, who is responsible for company-wide health and safety, Supervising Health and Safety Managers from each region, and a matching number of members from the labor union (normally, the Central Executive Committee). As a rule, the Conference convenes once a year to consider the revision and abolition of regulations concerning health and safety, and to discuss the content of regulations.

Like the Company-wide Health and Safety Conference, each District Health and Safety Committee is a labor-management meeting attended in equal numbers by the company and the union, and meets monthly to discuss topics related to health and safety in the district.

Health and safety organization chart



Work-related accidents in fiscal 2022 and efforts to prevent recurrence

Looking at work-related accidents in fiscal 2022, industrial accidents increased by 4 incidents from the previous fiscal year to 13 incidents and commuting-related accidents decreased by 7 incidents to 2.

When an industrial accident occurs, members of the district Health and Safety Committee conduct an on-site inspection in the presence of the victim and determine measures to prevent recurrence. The content of these measures is recorded in a work-related accident incident report and submitted to the Company-wide Health and Safety Secretariat Liaison Conference. The measures are also horizontally deployed to the district Health and Safety Committees.

In recent years, such accidents have tended to be less the result of negligence due to familiarity by experienced employees and more caused by inexperienced employees. Accordingly, we are striving to prevent industrial accidents before they occur by reinforcing instruction provided by experienced workers during the period when inexperienced employees are acquiring the basics of safe operation.

In addition, the number of traffic accidents involving company-owned vehicles, including those involving flying stones, is on the rise, and we are working to reduce the number of accidents by providing instruction on safe driving to drivers.

Thinking about health

As stated in our Health and Safety Policy, we recognize that the physical and mental health of our employees forms the foundation of our corporate activities.

As one example of our employee health management initiatives, we are working to reduce the rate of employees with abnormal findings and eliminate presenteeism by recommending that those with abnormal findings in health checkups undergo follow-up examinations and by restricting the work of employees who exceed certain levels. In addition, a Health Management Promotion Council was established in fiscal 2023. We actively support the maintenance and promotion of employee health and aim to obtain certification as a “Health and Productivity Management Organization” while implementing various measures such as enhancement of internal systems and optimization of the working environment.

For mental health, we provide training for self-care and for workplace-based care through occupational health nurses and Human Resources and General Affairs Department staff in charge of health care. We also conduct stress checks for employees and provide feedback on the results.

In fiscal 2022, we conducted stress checks for 1,947 persons, with a response rate of 93.8% (1,827 persons analyzed).

Measures to prevent infectious disease

To prevent the spread of infectious diseases within the company, the Group conducts annual vaccinations against seasonal influenza at workplaces to prevent the spread of infection through collective immunity.

For urgent issues such as COVID-19 that must be addressed by the entire company, an emergency response task force will establish to determine the best infection control measures based on the latest information and to coordinate the entire TOKYO KEIKI Group in order to prevent the spread of infection.

Major initiatives to increase the value of human capital

Category	FY2022 outcomes	FY2023 initiatives
Recruitment	• Recruitment based on individual business plans New graduate hires (joining in FY2023): 46 (34 men, 12 women, including 2 global personnel) Mid-career hires (joining in FY2022): 20 (17 men, 3 women, including 1 global personnel)	• Expansion of recruitment quota for international students and overseas students • Expansion of recruitment quota for semi-recent new graduates • Establishment of internship courses
Human resource development	• Implementation of 39 level-specific training courses over the course of the year • Implementation of President dialogue meetings (for newly appointed managers) • Expansion of accreditation of public qualifications • Implementation of data literacy assessments (to be used in future digital education)	• In addition to the existing training programs, “Strategy Realization Enhancement” for realizing TOKYO KEIKI Vision 2030 and “Coaching” training for developing subordinates are scheduled to be provided to managers.
Personnel system	• Revision of the evaluation system (setting of Challenge Goals) • Revision of the wage system	• Revision of the promotion system (introduction of a special promotion system) • Review of the personnel system
Diversity	• 3 women newly appointed to managerial positions (C positions: creative positions) • Rate of people with disabilities among employees: 2.14%	• Holding of dialogue meetings among female employees • Establishment of opportunities for dialogue between female prospective employees and female employees • Promotion of childcare leave use by male employees • Expansion of recruitment of people with disabilities
Health and productivity management	• Recommendation of follow-up examinations for those with abnormal findings in health checkups, imposition of work restrictions for those who exceed certain levels • Granting of special leave for follow-up examinations (permission to use) • Thorough implementation of interviews with occupational physicians for employees who work long hours • Workplace vaccinations against influenza	• Inauguration and regular meetings of the Health and Productivity Management Promotion Council • Additional implementation of various health measures to obtain certification as a “Health and Productivity Management Organization”

Social:

Initiatives of the Human Resources & General Affairs Dept.

for Realization of TOKYO KEIKI Vision 2030

The TOKYO KEIKI Group has embarked on addressing the materiality of promoting "Support for the Activities of a Diverse Workforce," which is one of the four materialities (important issues) that reflect important management issues for sustainability management (see page 23). Taking this occasion, four young employees from the Human Resources & General Affairs Department representing the next-generation leaders of TOKYO KEIKI and Fumio Kobori, Exective Officer and Department Manager discussed the Company's current status, issues, and future direction from the perspective of enhancing human capital as outlined in TOKYO KEIKI Vision 2030.

Minori Okano,
Labor Management Section

Risako Hosokawa,
Recruitment and Human Resources Development Section

Fumio Kobori,
Executive Officer and Human Resources & General Affairs Dept. Manager

Saya Ueo,
General Affairs Section

Tomonao Shimada,
Personnel Section

Challenge targets that instill a proactive spirit in employees

Kobori: We modified our human resources system in fiscal 2022 to a development system that encourages further growth of our employees. Specifically, we revised the evaluation, promotion, and wage systems. What changes have you noticed within the Company in association with these revisions?

Shimada: As part of my job, I am responsible for compiling employee evaluations, so I am probably more likely to notice changes in the system compared to other employees. The most noticeable change in the modified human resources system is the Challenge Target System that reflects the Company's commitment to actively recognizing individuals who take on challenges. Previously, the relative importance of targets was defined by weighing their level of difficulty, but the new system provides a separate category for the targets of challenges initiated by each employee. Thus, I think it promotes greater motivation for employees to take action on their own initiative.

Hosokawa: As part of my responsibilities in recruiting new graduates, we have made some changes to the human resources system so that it now places greater importance on challenges. Specifically, we have modified the type of human resources sought by the Company to "individuals who are willing to take on challenges," and have updated the keywords that describe our Company, replacing "a stable company" with "a company with a history of challenges" and "a company with a stable foundation that supports challenges."

Okano: There have also been changes in my task of calculating salaries. Under the conventional promotion system, employees who passed a promotion exam were normally promoted in the following fiscal year. However, under the new Special Promotion System, those who pass the exam can be promoted within the same fiscal year. Since a promotion means a salary increase, the new system will strengthen employee motivation. At the same time, there has been an increase in inquiries from employees wanting to know when they will receive a raise, as there are now multiple patterns of salary increases. I think it is necessary to thoroughly disseminate the new system to all employees.

Kobori: Yes, indeed. Many aspects of the new system are complex, so I think it may be necessary to spread greater awareness of the system. Ms. Ueo, what are your views as a new employee?

Ueo: I joined the Company in April 2023, so I am not familiar with the previous system. However, the addition of the new Challenge Target system alongside the regular objectives is

highly beneficial even for a new employee like myself. As a first-year working adult, I do not yet know what tasks I might be capable of and what the Company expects of me. In this situation, working with my supervisor and senior colleagues to set targets has helped me gain a sense of what I might be capable of, what areas would be rather challenging for me, and what the Company expects of me. Right now, every day presents a new challenge, but I intend to continue addressing these challenges by thinking of what I ought to begin studying and how I may responsibly engage in my duties so I can achieve my target a year from now.

Promoting workstyle reforms that value diversity

Hosokawa: Our Company introduced the teleworking system in fiscal 2020, just when I was due to return to work after my childcare leave. Thanks to this system and the system for reduced working hours for childcare, I was able to return to work smoothly and without stress. With more flexibility in our daily schedules, my husband and I can drop off and pick up our child from the nursery and still concentrate on our work. We are able to balance our work and childcare responsibilities in a way that is satisfying to us both.

Ueo: I understand there are three styles of teleworking: working from home, in a satellite office, and in a branch office.

Okano: I work from home once a week or so. I find it helpful, because I can concentrate better and work efficiently when I am alone.

Shimada: I commute to work as much as possible, because I sometimes lose focus when I work from home.

Kobori: Working from home has the advantage of enriching both work and private life. I think it is good to utilize the system to concentrate and increase productivity, like in Mr. Okano's case.

Ueo: One advantage of our Company is that it offers various workstyles that value diversity, including flextime and half-day leaves. The flextime system allows us to concentrate on working hard when we need to by adjusting our working hours according to the tasks at hand. Half-day leaves also provide a diversity of workstyles because we can take a half-day off and work either in the morning or afternoon only. Although this may not be directly related to diversity, having many extended vacations, such as the Golden Week holidays in May, summer vacation, the Obon holidays in August, and the year-end and New Year holidays, is also an additional benefit for new employees like myself who have just started working.

Shimada: Yes, I agree. I am generally able to utilize flextime or take an annual paid leave (annual leave) as I plan, although this may vary depending on the department. As Ms. Ueo mentioned, the extended vacations are a characteristic feature of our Company. Holidays and days off are rescheduled as working days and added to seasonal vacations that all employees take at the same time.

Okano: It is also uncommon for a company to go into summer vacation at the end of July and the Obon holidays soon thereafter in August.

Kobori: Our Company offers many extended vacations, and I have noticed that annual leaves are also quite easy to take. When working on holidays rescheduled as workdays, the company cafeteria is less crowded than usual because many employees choose to take annual leave on these days. I think it is a good idea to gradually increase the rate of employees taking annual leave by allowing flexibility in how and when they choose to take it.

Hosokawa: As I am in charge of operations for recruiting new graduates, the female employment ratio and the ratio of female managers are topics that frequently come up from the perspective of diversity. However, it is not easy to suddenly employ an increasing number of women. Rather, I believe we need to create an environment conducive to empowering our existing female employees even more so they can serve as role models for prospective students.
Shimada: Based on my standpoint of handling promotion-related affairs, every year sees few female candidates for management positions. This is partly due to the low ratio of female employees, although we are now recruiting more women than before.
Hosokawa: Yes, the ratio of women is increasing in terms of both applicants and new employees, including mid-career workers. The number of workers of different nationalities is also growing.
Shimada: In recent years, the Personnel Section has also been focusing on employing people with disabilities. In 2020, a satellite office was established in Yokohama city to provide opportunities for people with disabilities to engage primarily in basic tasks.
Kobori: Going beyond the satellite office, we must also create an inclusive environment for people with disabilities throughout our Company, including our plants. In fiscal 2023, a foreign national employee was assigned to our Human Resources Department, and more people of diverse nationalities are expected to be hired in the future. This will further advance diversity in our Company. Let's explore various ideas together to create a comfortable work environment for all, regardless of childcare or family care responsibilities, gender, nationality, age, or disability status, to give everyone an equal opportunity to take on challenges.

Benefits that enrich work-life balance

Hosokawa: When recruiting new graduates, I think the company housing for single employees is highlighted the most by our Company as a key benefit to students. Within the Company, we call them "dorms," and I believe everyone here, including Mr. Kobori, has experienced living in a dorm.
Okano: Yes, that's right. When an employee is assigned to the Head Office, living alone in Tokyo could be expensive, considering rent. However, in the case of our dorms, the Company leases an entire apartment building near the Head Office where employees can live for a rent of just 8,000 yen or so, which is deducted from their salary. Many companies commonly provide a housing allowance to their employees, but that is considered a part of their income, and each employee has to personally pay social insurance and taxes on it. In the case of a dorm, however, such out-of-pocket expenses are minimized, so I think it is an excellent system.
Ueo: Yes, living in a dorm is safe and secure, because everyone has their own room and privacy.
Kobori: I agree. Although it is a dorm, everyone is free to enjoy their own lifestyle, so there are probably few inconveniences in living in a dorm. I think it is a good system befitting our Company.
Ueo: Another benefit offered in our Company is the clubs which I have been charged with overseeing. I understand that clubs were once popular in our Company, but we have few such clubs now due to COVID-19 and other factors. Therefore, to increase their number, I am planning to first launch a website that provides comprehensive information about these clubs.
Kobori: There are many people at our plants who are passionate about clubs. By all means, please introduce their passion for these clubs via interviews and photos to generate excitement and interest.
Ueo: Yes, I certainly will. In addition to sports clubs such as baseball and soccer, there are also cultural clubs, so I look forward to meeting with various people.
Kobori: Additionally, we receive a constant stream of improvement ideas regarding employee welfare benefits, such as installing water dispensers and in-house convenience stores.
Ueo: When I was in university, we had water stations throughout our campus. They provided an eco-friendly solution, because by using our own bottles, no waste was generated. It would be nice to have similar water dispensers in our Company.

Okano: I was the one who proposed the idea of having an in-house convenience store. I think it would be helpful to have a convenience store or kiosk in the Head Office building. Although there are several stores nearby, when it rains during lunch break, most people are reluctant to go outside, so having the option to do some simple shopping within the company building would be great.
Shimada: I like that idea. I would also propose introducing a "cafeteria-style" welfare benefit system that would allow each employee to personally choose benefits that suit their needs, in response to diversifying values and lifestyles.

Education systems that encourage personal growth

Shimada: To ensure the active participation of diverse human resources, it is crucial to create an environment that promotes employee growth. Our Human Resources Department offers various training programs according to each level-specific curriculum. These include programs for all employees that focus on the knowledge and skills required of working adults, such as the capacities to think logically and solve problems. They aim to develop "independent, growth-oriented" human resources who can think for themselves, proactively pursue their duties, and respond to changes in society. In light of the dramatic changes in the business environment today, I think this type of training should continue to be emphasized.
Hosokawa: As noted by Mr. Shimada, it is definitely necessary to have training programs that raise the performance level of all employees to a certain extent. At the same time, as learning preferences vary widely from person to person, what remains to be done is to improve correspondence and support programs that help individuals acquire public qualifications, which everyone can take at their own initiative for self-improvement.
Okano: A few years ago, using a grant from the Company, I obtained a license as a Labor and Social Security Attorney. I had been interested in obtaining this license from before, but had been hesitant to act due to the time and cost required. However, when I consulted with my supervisor, I was offered support, such that the Company would cover part of my expenses and my attendance at Saturday classes would be counted as working on a holiday. With this support, I was able to obtain my license, which has been extremely useful in my present work. Now that many more correspondence and support programs are available for acquiring public qualifications, I plan to attain at least one public qualification every year.
Kobori: The Company is establishing a framework to help employees acquire public qualifications that are relevant to the individual's operation in the Company. During job interviews, students sometimes ask us what qualifications they should obtain. We respond by informing them that the recommended qualifications differ according to the department they are assigned to, but regardless of their department, they will receive comprehensive support from the Company.
Ueo: The new employee training we received immediately upon entering the Company equipped us with the knowledge required of working adults, and we were able to begin our jobs in our respective departments with a sense of readiness and confidence. I am currently striving to obtain third-grade bookkeeping certification within this fiscal year as a qualification pertinent to my job.
Kobori: Here, we discussed the qualification situation within our Human Resources Department, but obviously, employees engaging in engineering and production are also eager to obtain qualifications as a technician, electrician, chief electrical engineer, radio operator, information technology engineer, hazardous materials engineer, and more. When there is something that employees want to do and that somehow connects with their job, it can increase their expectations of improving their skills and strengthen their motivation and incentive to work. The views and thoughts you shared with us today were inspiring. As members of the Human Resources and General Affairs Department, let's refine our internal systems and mechanisms, considering developments both within and outside the Company, to firmly support all employees of our Group and ultimately realize TOKYO KEIKI Vision 2030 and further growth of our Company.

Stakeholder Engagement

To the extent possible, the TOKYO KEIKI Group provides opportunities for dialogs with stakeholders to discuss and exchange thoughts on the status of our business and our initiatives to resolve social issues through our business. We will continue such efforts to enhance communication.

Multi-Stakeholder Policy

We are aware of our mission to realize a safe society and people's happiness through creative technologies centered on measurement, cognition, and control, and we are committed to appropriate collaboration with multiple stakeholders based on the growing importance of co-creating value, not only with shareholders, but also with a wide range of other parties, including employees, business partners, customers, creditors, and local communities. Regarding the appropriate distribution of earnings and results generated through the co-creation of value and productivity improvement, in recognition of the fact that appropriate distribution to multiple stakeholders will lead to sustained momentum for wage increases and sustainable economic development, we will pursue the following initiatives aimed at returning profits to employees and giving due consideration to business partners.

1. Giving back to employees

We will focus on maximizing added value through sustainable growth and productivity improvement by focusing management resources on growth areas and by developing and enhancing the skills of our employees. Based on the earnings and outcomes generated, we will raise wages in a manner that is appropriate for the company's situation in accordance with the "General Principles of Wage Determination." In addition, as an overall improvement in benefits, we aim to provide a sustainable return to employees through proactive efforts centered on human resource investment that will contribute to higher employee engagement and further productivity.

2. Consideration of business partners

We remain committed to complying with our Partnership Building Declaration.

- **Date of registration of Partnership Building Declaration**
  April 28, 2023
- **Partnership Building Declaration URL**
  https://www.biz-partnership.jp/declaration/28872-05-21-tokyo.pdf

3. Other initiatives relating to stakeholders

To the extent possible, we provide opportunities for dialogs with stakeholders to discuss and exchange thoughts on the status of our business and our initiatives to resolve social issues through our business. We will continue to work on further enhancing our communication of information.

We will continue to make steady progress on the following items while monitoring the status of efforts.

Major areas of stakeholder engagement

Stakeholders	Communication method	Point of contact
Customers	• Daily sales activities • Explanation of product operation • Training • Product maintenance and service • Exhibitions, etc. • Hydraulic School (course on hydraulics)	• Business Divisions (sales/service departments) • Corporate Communications Office
Shareholders / Investors	• General Meeting of Shareholders*1 • Financial results briefings*2 • Disclosure of financial results briefing materials on IR-related web pages • Individual meetings with institutional investors*3	• Legal Governance Affairs Office (Handling of General Meeting of Shareholders) • Corporate Communications Office
Suppliers / partner companies	• Holding of business policy briefing sessions (cooperating factories, distributors, agents) • Daily procurement activities • Auditing of cooperating factories	• Material Management & Purchasing Office, factories' materials sections • Business Divisions (sales departments)
Employees	• Labor-Management Negotiations / Management Council (labor-management deliberations) • Briefings on programs, dialogs with the President & CEO*4 • Evaluation interviews	• Human Resources and General Affairs Department • Corporate Planning & Administration Office
Communities	• Dialogs with industrial park unions, etc. • Dialogs with local residents' associations, etc. • Community cleanup campaigns together with companies in vicinity of industrial parks • Sponsorship of local events (fireworks displays, etc.)	• (Headquarters District) Human Resources and General Affairs Department • (Plants) Plant administration sections • (Hanno) TKA Administration Department*5 • (Tanuma) TPS Administration Section*6
Government	• Dialogs with government officials (local government, police, fire department, etc.) • Response to government agencies in the event of accident or incident	• (Headquarters District) Human Resources and General Affairs Department • (Plants) Plant administration sections • (Hanno) TKA Administration Department*5 • (Tanuma) TPS Administration Section*6 • Corporate Planning & Administration Office (Government agency response)

(Notes) *1 Since June 2021, videos have been posted online following the General Meeting of Shareholders.
*2 Since June 2023, live online streaming of financial results briefings has been conducted and videos posted afterwards.
*3 Offered through telephone conferences, online conferences, and in-person meetings
*4 Held with a limited number of participants and support for online conferencing due to the COVID-19 pandemic
*5 TKA: TOKYO KEIKI AVIATION INC.
*6 TPS: TOKYO KEIKI POWER SYSTEMS INC.

Specific initiatives

Resumption of exhibitions

Various exhibitions that were suspended in fiscal 2020 and fiscal 2021 during the COVID-19 pandemic have resumed in fiscal 2022. Many of the visitors were eager to talk with our staff, as it had been a while since they had had a chance to touch the actual equipment and hear explanations.

Exhibitions in FY2022

Date / Exhibition name (Venue)	Business segments	Exhibit details	Picture of exhibit
April 2022 Sea Japan 2022 (Tokyo Big Sight)	-Marine Systems	New ECDIS, Autopilot, Autonomous Ship Concept, etc.	
August 2022 Sewage Works Exhibition '22 Tokyo (Tokyo Big Sight)	-Fluid Measurement Equipment -Defense & Communications Equipment	Open channel flowmeters, Microwave level gauges, etc., Fiberoptic gyrocompasses for tunneling in narrow-diameter tunnels, etc.	
September 2022 Shipbuilding, Machinery and Marine Technology trade fair (SMM) 2022 (Hamburg, Germany)	-Marine Systems	New ECDIS, Autopilot	
September 2022 Intermeasure 2022 (Tokyo Big Sight)	-Fluid Measurement Equipment -Hydraulics and Pneumatics	Microwave level gauges, Ultrasonic flowmeters, etc. Compact hydrogen compressors	
October 2022 Tokyo Pack 2022 (Tokyo Big Sight)	-Inspection Systems	Material inspection equipment, DAPDNA	
November 2022 Microwave Exhibition 2022 (Pacifico Yokohama)	-Defense & Communications Equipment	Electromagnetic shielded tents Microwave ultraviolet air sterilization equipment, etc.	
December 2022 SEMICON Japan 2022 (Tokyo Big Sight)	-Defense & Communications Equipment	Solid-state microwave power supply system	

Engagement with shareholders

We view the General Meeting of Shareholders as a valuable opportunity for dialogue with our shareholders. Accordingly, in addition to holding the meeting in the conference room of our headquarters, since the Annual General Meeting of Shareholders held June 2021, we have also posted a video of the meeting online after it has concluded. By doing so, we believe it is possible to deepen understanding of the Group's business activities among our many shareholders, including those who refrained from attending in person and those located far away. In addition, we have been posting part of the convocation notice in English on the company's website since June 2022 to enable shareholders overseas to obtain information in a timely manner.

By conducting a survey of shareholders who use the online service of our shareholder benefit program, "TOKYO KEIKI Premium Benefit Club," we are now able to hear directly from our shareholders more than ever before. We reflect the encouragement that we receive from many shareholders in our management activities. We also make use of a "Shareholders Post" function on the Club website to deliver information from our Company to registered shareholders.

From June 2021, we have also made it possible for shareholders to exercise electronic voting rights, increasing convenience for shareholders and achieving lower environmental impact by reducing mailings.

Online stream of the 92nd General Meeting of Shareholders

Engagement with institutional investors

Since June 2020, to prevent infection amid the COVID-19 pandemic, we have been conducting our financial results briefings for institutional investors via videos posted online, but for the fiscal year ending March 31, 2023, we held our financial results briefings in a live online format. In addition, since the disclosure of the second-quarter financial results, a transcription has been provided to aid a better understanding of the content. (Only in Japanese)

In addition, during IR meetings, we are receiving an increasing number of candid comments from investors regarding our initiatives on ESG and ROIC management and business issues, which we feel is a positive sign that constructive dialogue with investors is making progress.

Live streaming of the financial results briefings for the fiscal year ending March 31, 2023

Communication of information through the media

Our Group works to deepen understanding of our business activities by communicating information to stakeholders through varied media. In fiscal 2022, the TOKYO KEIKI Group was featured in magazines and newspapers from a variety of perspectives, including articles introducing the Group's businesses and focusing on "people," providing an opportunity for readers to develop a deeper understanding of the Group's businesses, which are rarely seen by the public but are active in a wide range of fields within society.

Communication of information through the media

Date	Media	Information communicated
April 2022	Keizaikai, "Company Report"	Introduction to business overview and growth businesses
May 2022	Nikkan Gendai, "The Storytelling Managers."	Interview with President Ando
July 2022	Project Design Monthly "New Businesses Spreading from the Sea"	Overview of the Marine Systems Business
July 2022	Zaikai "Window on Public Relations"	Interview with our Public Relations Manager
December 2022	Asahi Shogakusei Shimbun "Life-Size Picture Book"	Introduction to Marine Autopilots
April 2023	AIRVIEW	Company Profile

Redesign of the corporate website

In July 2022, the TOKYO KEIKI website was redesigned to provide more extensive information on the company. Major improvements include a new sustainability page and a new English-language IR site and sustainability page. We hope that this will help visitors gain a better understanding of the Group's sustainable growth.

Engagement with the local community

Registration as a fiscal 2022 supporting company for the Tokyo Metropolitan Government's "Heart Barrier Free Project" campaign

The Tokyo Metropolitan Government is promoting welfare-oriented urban development in which all people can live and visit in safety, security, and comfort.

In order to promote the creation of a community where everyone can move around freely and enjoy a variety of activities, it stresses the importance of not only facilities and equipment, but also a "Heart Barrier Free Project" to think about a society and environment where all people can participate equally and continue to take necessary actions. TOKYO KEIKI has given its support to this campaign.

In cooperation with the Tokyo Metropolitan Government, we will continue to implement the three steps of a "Heart Barrier Free Project": understanding barriers from the perspective of a social model of disability, communication, and appropriate accommodations. Accordingly, while maintaining a spirit of compassion for others, TOKYO KEIKI will contribute to activities aimed at realizing communities that are comfortable for everyone to live in.

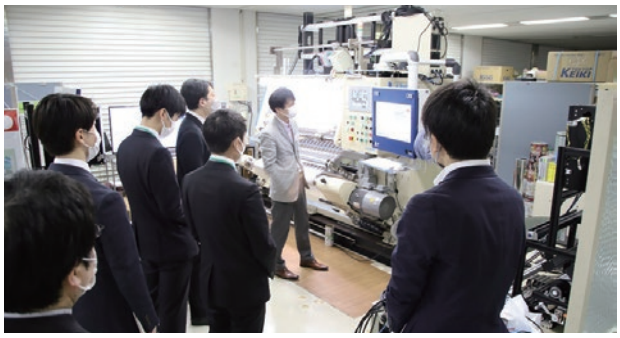
Cooperated in "work experience learning" for junior high school students

For three days between October 4 and 6, 2022, two students from Omori Daihachi Junior High School (Ota Ward, Tokyo) participated in a work experience program at our headquarters. Each year, the junior high school offers work experience as part of its classes, with the cooperation of local stores and businesses. In the hands-on learning program, a wide range of work experience was provided in the hope that students would learn about the excitement of manufacturing and how our products play a useful role in society. The students engaged with interest with products they would not normally encounter, such as operating an actual autopilot at the Marine Systems Company and remote controls for construction machinery manufactured by the Electronic Equipment Department of the Fluid Power & Control Systems Company. Also, at the Prototyping Section of the Engineering & Products Service Office, they tried their hand at designing a smartphone stand using 3DCAD. The design process, being entirely new to them, took about half a day, but they managed to produce the shapes they wanted, getting a firsthand taste of manufacturing work. Although the students seemed a little nervous at the sight of so many working adults, they made comments such as "I could feel their desire to deliver good products to customers," and "I was impressed by what they said about putting as much care into making products as they would into making something for themselves." Through careful explanations from employees, the students gained an insight into the difficult but fascinating world of manufacturing. We will continue to interact positively with the local community and provide support to the next generation of manufacturing professionals.

One-day work experience

On February 2 and 7, 2022, the Inspection Systems Company held a one-day work experience program for job hunters in the class of 2024 at TOKYO KEIKI head office. This one-day work experience program is one of the work experience opportunities we offer, and is an event for students to gain an understanding of the industry, types of work, and the company through a hands-on experience close to real work. In an activity involving evaluating image processing performance using actual equipment, dummy food labels were made to run past at high speed and the participants visually confirmed the defects detected by the printing inspection device. Our engineers shared various stories about the current state of work related to printing inspection, including the high quality demanded by customers and things that happen at actual printing sites. Because of the COVID-19 pandemic, this was the first time in three years that the event had been held in person. Participants made comments such as "I could see the actual equipment and it was easy to ask the employees questions," and also requested that "it would be great if we could have this kind of opportunity not only for printing inspection devices, but also for other technologies."

We are considering holding internships involving collaboration between multiple divisions in order to expand opportunities for work experience that is more closely aligned with actual business operations.



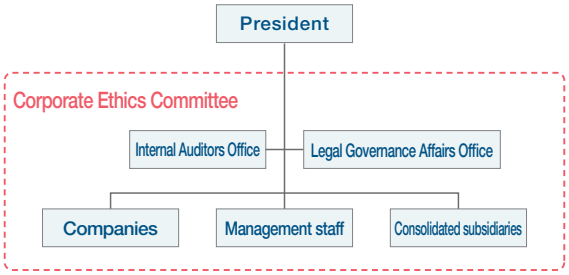
Social: Compliance and Risk Management

Our Company has established the TOKYO KEIKI Group Code of Ethical Conduct as a code for acting in compliance with laws, regulations, our Articles of Incorporation, and social norms. We recognize that the awareness of every employee is of utmost importance in the establishment of corporate ethics, and strive to uphold corporate ethics in our everyday activities. We also refuse any relationships with antisocial forces that threaten order and security in civil society.

Concepts and policies regarding compliance

To manage corporate ethics activities across the organization, we have established a permanent Corporate Ethics Committee chaired by the Chief Legal Governance Officer.

Corporate ethics-related organizational chart



Code of Conduct

The TOKYO KEIKI Group Code of Ethical Conduct* forms a basis for encouraging sound behavior by every employee. Working from basic stances that include the avoidance of words and acts in violation of laws and regulations, and appropriate response to acts that violate corporate ethics, the Code of Ethical Conduct sets out our responsibilities to all stakeholders, including the provision of products and services of benefit to society, contribution to society through our corporate activities, and the creation of safe and comfortable working environments. By complying with this code of conduct, we will fulfill our responsibilities to society.

Note that we also translate the Code of Ethical Conduct into local languages and ensure that our overseas subsidiaries are thoroughly versed in the code.

* https://www.tokyokeiki.jp/company/rinri.html

Initiatives aimed at raising awareness of compliance

Under the recognition that the awareness of all employees is of utmost importance in establishing corporate ethics, every year in April we carry out education on our code of conduct (the Code of Ethical Conduct) for all employees.

Status of training implementation

In response to the COVID-19 pandemic, we changed the way we ran our Code of Ethical Conduct education, which had previously focused on classroom-based group training. In order to enable all employees to take and complete the education, training is primarily conducted via e-learning and online meetings, and the period over which education is provided is also lengthened. Following completion of the course, all employees submit an Affidavit Concerning the Code of Ethical Conduct.

Internal audits

Our internal audits consist of “regular audits,” which are conducted periodically based on a predetermined annual audit plan, and “extraordinary audits,” which are conducted at the direction of the President and CEO and the Audit and Supervisory Committee, or whenever needed. Both types of audit are conducted by the Internal Auditors Office. The Internal Auditors Office investigates the appropriateness and effectiveness of Group internal control systems from a standpoint that is independent of the division, department, or consolidated subsidiary being audited, and by implementing improvements based on the results, helps to increase Group management soundness and efficiency.

Our directors ensure that employees are fully aware of the significance of internal audits, as well as the duties, authority, and responsibilities of the Internal Auditors Office, and make every effort to ensure that internal audits are conducted smoothly and efficiently. Audits by the Internal Auditors Office cover all aspects of the Group’s corporate ethics and activities. The Company’s directors ensure that the Manager of the Internal Auditors Office and audit staff are able to conduct internal audits without undue interference from employees. Audit personnel appointed by the Manager of the Internal Auditors Office are prohibited from engaging in the operations of their departments, divisions, or consolidated subsidiaries during the internal audit period, whether or not they are serving concurrently in the Internal Auditors Office. In addition, employees who receive instructions from the Audit and Supervisory Committee as necessary for their audit duties are not to receive instructions or direction from any other party with respect to such instructions. Furthermore, any personnel transfers, evaluations, or disciplinary actions involving employees belonging to the Internal Auditors Office must be approved by the Audit and Supervisory Committee.

The Manager of the Internal Auditors Office and audit staff may request that a department being audited submit forms and other materials necessary for conducting the internal audit, explain facts, and otherwise cooperate in the audit as required. If necessary, they may also inquire about details and request explanations of facts from related departments, divisions, consolidated subsidiaries, and external parties other than the department being audited. Furthermore, only when deemed necessary for the execution of internal audits, access to the minutes of various meetings may be requested.

The audit staff objectively evaluate the content of the audit and prepare an audit report within one month after its completion. The Manager of the Internal Auditors Office reports the results of the audit to the President and CEO, and delivers copies of the audit report to all directors as well as to the Chief of Legal Governance, the Audit and Supervisory Committee, and the audited department. If the President and CEO deems it necessary to report to the Management Conference, the Manager of the Internal Auditors Office reports the results of such audit to the Management Conference. In addition, if the Audit and Supervisory Committee determines that a report to the Board of Directors is necessary, the Manager of the Internal Auditors Office reports the results of such audit to the Board of Directors. In the event that a matter requires urgent attention or is deemed to have a significant impact on the management of the company, the Manager of the Internal Auditors Office promptly reports to the President and CEO and all directors without waiting for the internal audit to be completed or for the audit report to be produced.

Areas identified for improvement or correction in the audit report are addressed by the audited department, which develops remedial or corrective measures under the guidance of the Legal Governance Affairs Office. The audited department promptly implements internally any improvements or corrective measures decided upon. The Manager of the Internal Auditors Office confirms the status of the implementation of improvements or corrective measures in a timely manner, reports to the President and CEO, and delivers copies to all directors, the Chief of Legal Governance, and the audited department. If the President and CEO deems it necessary to report at the Management Conference, the Manager of the Internal Auditors Office reports the confirmed status of the implementation to the Management Conference. In addition, if the Audit and Supervisory Committee determines that a report at the Board of Directors is necessary, the Manager of the Internal Auditors Office reports the confirmed status of the implementation to the Board of Directors.

Whistleblowing system

Our Group has set up contact points inside and outside the company for directly accepting information on legally suspect acts or similar information, with the guarantee that no disadvantage will befall whistleblowers.

Two contact points inside the company are the Internal Auditors Office and the Audit and Supervisory Committee. The latter handles violations of laws and regulations by directors and executive officers, playing a role in preventing the concealment of violations by officers.

In fiscal 2022, there was one case of whistleblowing, which involved a minor issue, handled by the company's internal points of contact. We will continue working to entrench this system and enforce compliance with laws and regulations.

Security Export Control Initiatives

In order to properly implement security export control for the purpose of maintaining international peace and security, the TOKYO KEIKI Group has established a set of Security Export Control Regulations and is implementing them appropriately. The Representative Director acts as chief responsible officer, and the Legal Governance Affairs Office, as the department in charge of export control under the Chief responsible officer's direct supervision, controls export control for the entire Group. In addition, an export control supervisor and an export control manager have been appointed in each department to ensure compliance with the relevant rules and regulations and to properly implement export control operations.

Periodic audits are conducted after the end of each fiscal year to ensure that security export controls have been properly implemented. The results of the audit are reported to the department in charge of export control, and if the results indicate that there are areas in need of improvement, the department in charge of export control instructs the export control supervisor of the relevant department to take the necessary corrective measures. The department in charge of export control reports the results of the audit, including such corrective measures, to the chief responsible officer after confirming the results of the corrective measures taken by the department concerned.

Initiatives to prevent corruption

Our Group's Code of Ethical Conduct stipulates that we will not pursue profits through improper means, and that we will conduct dealings in accordance with domestic and foreign laws and rules.

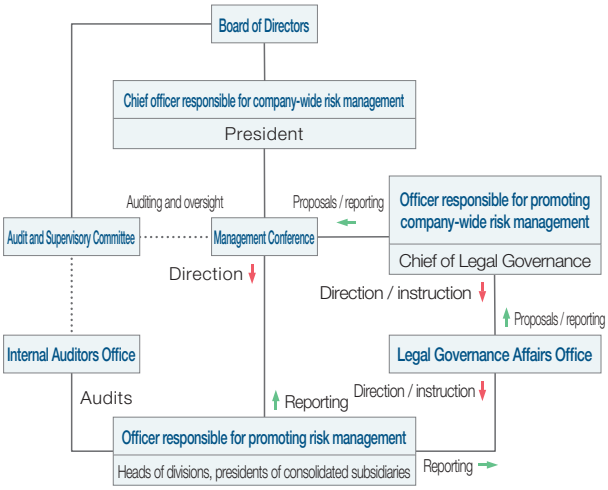
To address overseas dealings, we have established Regulations for the Prevention of Bribery of Foreign Public Officials, and offer education every year to deepen understanding of laws and regulations related to the prevention of bribery in key countries. The regulations stipulate the appropriate method of approval for gifts and entertainment to foreign public officials, etc., depending on the nature of the gift or entertainment. When signing a contract with a new overseas distributor, etc., the Legal Affairs Governance Office conducts a review in advance to ensure that payment of compensation to the distributor does not constitute bribery and that there are reasonable grounds not to suspect bribery, in addition to the normal contract review process. Furthermore, we thoroughly ensure that Group employees do not provide instructions, encouragement, or assistance to overseas distributors or any other party in bribing foreign public officials, etc. Education is conducted mainly as hierarchy-specific education for managerial-class employees in e-learning and classroom formats regarding overviews of laws on the prevention of bribery of foreign civil servants, the US Foreign Corrupt Practices Act, and cases of exposure of bribery of foreign public servants in Japan.

In Japan, since many of the Group's projects are for public agencies, the Group strictly prohibits so-called bid rigging, which is prohibited by the Act for Promoting Proper Tendering and Contracting for Public Works.

Concepts, policies, and structures for risk management

In our business activities, we face risks that must be identified, evaluated, and analyzed at the management level, and for which the priority of responses must be made clear. Our Group's risk management system is organized into a Legal Governance Affairs Office, Internal Auditors Office, Audit and Supervisory Committee, and other bodies, centered on the Management Conference and with the President & CEO as the chief officer responsible for company-wide risk management.

Risk management system diagram



Risk management implementation

We have established Risk Management Rules that are shared Group-wide and that apply to the entire Group.

We implement risk management separately for "serious management risks" and for all other risks.

What is deemed serious management risks is reviewed and re-drafted annually by the Legal Governance Affairs Office in accordance with the Risk Management Rules as a report titled "Serious Management Risks and Key Measures." The Chief Legal Governance Officer submits this report for approval to the Management Conference and the Board of Directors. Various divisions, departments, and subsidiaries are identified as being in charge in "Serious Management Risks and Key Measures." Based on the ideal situations and key measures described in the report, these divisions, departments, and subsidiaries create "Serious Risk Measure Programs" for each specific measure that are submitted to the Legal Governance Affairs Office by the end of each year. The Legal Governance Affairs Office verifies the content of the "Serious Risk Measure Programs" submitted by the various departments in charge and, in the event of any deficiencies, indicates improvements to the relevant department. Each department integrates the determined risk measures into their medium-term business plans, and those measures that can be put into effect immediately are implemented as required.

Risks other than serious management risks are handled in accordance with the Risk Management Rules. Each department, etc. follows a risk questionnaire to discover and identify risks that pose the possibility of causing a loss to the department. Departments conduct this process by investigating each risk category identified in the rules for that department's own business goals. Even when risks may not be applicable at the current time, full consideration is given to enumerating risks that can be expected to arise in the future due to environmental changes.

Each department then engages in evaluation and

calculation of all identified risks. This evaluation and calculation includes an evaluation of the frequency of occurrence and the impact of each risk. These values are in turn multiplied to produce an overall evaluation. Risks whose overall evaluation score is 10 or more points are identified as serious risks. Measures for these serious risks are recorded according to a set format and submitted to the Legal Governance Affairs Office. They are also integrated into the department's own medium-term business plan. In addition, those measures that can be put into effect immediately are implemented as required. Those risks whose overall evaluation score is less than 10 points are, based on the respective department's controls (measures, practices, and self-evaluation), tackled as part of work efficiency improvement activities, etc.

At the end of each term, the departments evaluate the status of the implementation of the risk measures they formulated in the preceding fiscal year and report the results to the Legal Governance Affairs Office.

The Internal Auditors Office evaluates the "Serious Risk Measure Programs" from an independent perspective and, as necessary, conducts internal audits (inspections) and indicates corrections and improvements.

Examples of serious management risks

1. Domestic and global economic changes	7. Transactions with public agencies
2. Natural disasters and epidemics	8. Increasing competition
3. Development of new products	9. Material and component procurement
4. Product quality	10. Information security
5. Securing human resources	11. Intellectual property rights
6. Interest rate fluctuations	12. Retirement benefit liabilities

*Details regarding the above risks are provided in our Annual Securities Report.

BCP (Business Continuity Plan)

Overview of BCP

In the event of emergencies, we place utmost priority on ensuring the safety of human life and promptly resolving the situation. The foundation of our response is minimization of losses and quick recovery from damage to ensure business continuity.

Toward this end, we maintain and improve regulations and work manuals common across our Group, namely, the Crisis Management Regulations that set forth basic matters concerning crisis management, and the Crisis Management Manual that describes procedures for responding to specific incidents.

BCP system

The chief officer responsible for crisis management is the President & CEO, or a director or executive officer who is appointed to the position by the President & CEO. The organization that actually responds to an emergency is generally the department in charge involved in the crisis situation, with the Legal Governance Affairs Office providing support. When deemed necessary by the chief responsible officer, an emergency response task force is set up with the chief responsible officer as the task force head and the department in charge as the secretariat.

In 2020, we established a COVID-19 Emergency Response Task Force with the President & CEO as the chief responsible officer, and this task force is still in operation in fiscal 2023.

Ongoing review of BCPs

The rapid increase in extreme weather events and natural disasters in recent years has contributed to the heightened need to review BCPs. There have been frequent occurrences of natural disasters caused by abnormal or extreme weather phenomena, such as flooding and river overflows caused by localized downpours and linear rainbands, heavy snowstorms caused by bomb cyclones, and widespread wind and flood damage caused by super typhoons. Such disasters pose increased risks to business continuity for companies and organizations by impacting production activities, logistics, and supply chains. In densely populated areas, the impact of disasters is more pronounced. In particular, metropolitan areas such as the Tokyo metropolitan area, where the TOKYO KEIKI Group's head office functions are located, are densely populated and have high concentrations of infrastructure, making the effects of disasters particularly severe. Natural disasters such as earthquakes and floods can be expected to cause complex and wide-ranging problems, such as interruptions in business activities, transportation, and power supply, factors that make it important to review the BCPs that have been put in place so far.

In today's business environment, many companies, including our Group, have global supply chains and close relationships with suppliers, manufacturers, and logistics networks in Japan and abroad. A major natural disaster or extreme weather event somewhere in the world could have a serious impact on the supply chain, which could cause a chain reaction of production stoppages and parts shortages for the Group, increasing risks related to business continuity.

Furthermore, in recent years, digital technology and information systems have become important risk factors for the Group. Many business processes today rely on IT infrastructure, including network computing, online trading with business partners, and integrated data management. As such, power outages and communication disruptions caused by natural disasters and extreme weather conditions can have a direct impact on the Group's business activities.

Recognizing that these factors require the development of more effective BCPs and periodic reviews, the Group has begun reviewing its continuous business operations, including improving disaster response capabilities, conducting risk assessments, and establishing appropriate preventive measures and recovery processes. In order to provide continuous support, as a manufacturer, for measurement, cognition, and control in each of the industries we deal with, even in the event of a disaster, we have begun reviewing our disaster response manual, starting with our main production sites, under the direction of the Legal Governance Affairs Office, the department responsible for risk management within the TOKYO KEIKI Group. In fiscal 2023, we began this task for the Yaita Plant, the main production plant for various navigational instruments for large commercial vessels and other ships, electronic equipment for construction machinery, and printing quality inspection devices. The Yaita Plant incorporates multiple operative functions for various businesses, including a product design department, a production department including material procurement and production control, a quality assurance department, an information system management department to support production, and a general affairs department to manage the plant as a whole. In conducting the review, we first convened line managers from each department and conducted desktop training. Through this training, managers familiar with practical operations discussed in a workshop style what each workplace must prioritize in the event of an emergency, what is currently being done and what is not being done, and identified problems at the plant and the necessary countermeasures. Going forward, we will use the results of this review to prioritize the manuals that need to be developed or revised. We plan to implement similar initiatives at our major sites, including the Nasu Plant, Sano Plant, and the headquarters.

BCP workshop at the Yaita Plant

Information security

Information security policy

Our Information Security Basic Policy is aimed at ensuring the confidentiality, integrity, and availability of the information that constitutes a vital asset of ours, as well as protecting that information from threats including disasters and accidents. The appropriate discretionary measures that we undertake in this area are grounded in the aims of this Basic Policy.

The Information Security Basic Policy consists of the following four categories.

Information Security Basic Policy

① Information security initiatives
② Compliance with laws and regulations, etc.
③ Protection of information assets
④ Incident response

System for promoting information security

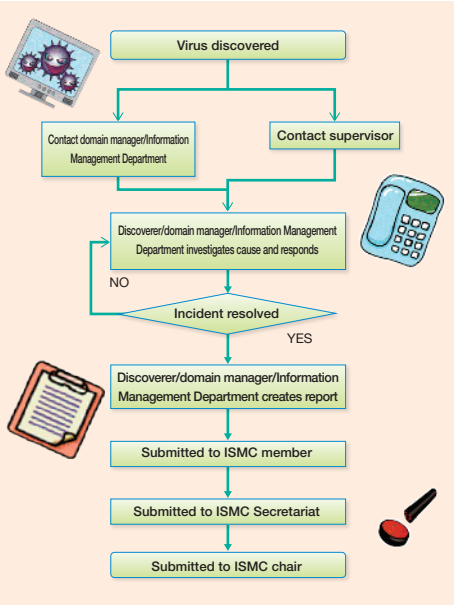
We have established an Information Security Management Conference (ISMC), chaired by the Chief Information Officer and composed of members selected from departments. Our Strategic Information Planning Department under the Corporate Planning & Administration Office oversees formulation of measures related to information security. When formulating key measures, the department submits these to the ISMC and, depending on the content, consults with the Management Conference. In addition, TOKYO KEIKI INFORMATION SYSTEMS INC. (TIS), a subsidiary of ours, is in charge of our Group's information system development and operation. TIS has acquired ISO/IEC 27001 certification, an international standard for an information security management system (ISMS).

ISO/IEC 27001
マネジメントシステム登録証
登録証番号：JQA-IM1702
東京計器インフォメーションシステム株式会社
ISO/IEC 27001:2013 ／ JIS Q 27001:2014
JQA

Information security incident response

We have created flowcharts and made these available on our intranet explaining in an easy-to-understand way what actions a user should immediately take in order to respond quickly when the risk of an information leak occurs due to the loss of a PC or smartphone, or when there is a serious information asset threat due to a computer virus infection, etc. Depending on the scope of the incident as reported by the chairperson of the ISMC, in accordance with the Crisis Management Regulations and per the judgment of the President & CEO, an emergency response task force for the information security incident may be established with the aim of swiftly bringing the incident under control and resolving it.

Example of information security incident response flowchart (computer virus)



Information system user support

User education is extremely important in order to increase the effectiveness of information security management. The Strategic Information Planning Department under the Corporate Planning & Administration Office holds briefings for users when new systems and services are implemented. The department also conducts e-learning classes on basic information security. Since fiscal 2022, we have conducted security training for all employees regarding email, one major source of infection by computer viruses wreaking havoc. Specifically, we issued an alert to employees on how to deal with suspicious emails so that they can recognize suspicious content and avoid risky behavior such as opening attachments or clicking on URLs in the email body.

In addition, in order to achieve a “new normal” way of working after the COVID-19 pandemic, we are continuing to improve the remote access environment and expanding the range of eligible employees. In parallel, security assessments by specialized outside contractors are being conducted on IT infrastructure, and feedback on the results of these assessments is being used to strengthen cybersecurity measures.

Social: Quality Management Initiatives

Our approach to quality management

Our Group's basic philosophy regarding quality is to "Prioritize quality in our products and earn the trust of customers." This philosophy is embodied by and integrated on an organizational level through the Group Code of Conduct and the Code of Ethical Conduct, among others.

Common quality control policies

In order to put our basic philosophy into practice, each internal company has formulated its own quality policy and is working actively to acquire and update certifications, including ISO 9001 or JIS Q 9100, and making continuous improvements of quality management systems.

Acquisition of ISO 9001 and other certifications

ISO 9001	Marine Systems Company Measurement Systems Company Fluid Power & Control Systems Company Inspection Systems Company Communication & Control Systems Company
JIS Q 9100	Electronics Systems Company

Quality management promotion system

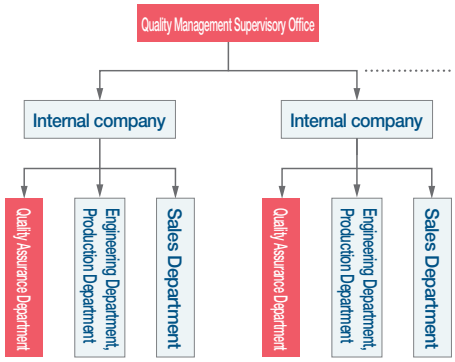
Two tiers of quality assurance activities

We have established a Quality Management Supervisory Office to deal with company-wide issues relating to quality under our Headquarters' administrative divisions.

The Quality Management Supervisory Office engages in the cross-organizational management and supervision of quality to ensure that our Group's products remain above a certain level of quality. The office also engages in activities to prevent risks to quality before they manifest. More specifically, in addition to maintaining and managing the Technical Production Regulations, which are company-wide rules regarding the quality of our products, the Quality Management Supervisory Office complements the independent quality management efforts of individual quality assurance departments by conducting inspection quality audits of each internal company and subsidiary.

Within each internal company, the Quality Assurance Department is established independently from the Sales, Engineering, and Production departments, providing direction and guidance in the contracting, design and development, purchasing, production, inspection, and service stages of the work process. In addition, we have established a framework of internal company rules, allowing each internal company, with their varying characteristics, to draw up its own operational rules as long as they do not violate the Technical Production Rules.

Schematic of the two-tier quality management system



Quality Subcommittee

The Quality Subcommittee was established as a forum for sharing information and resolving cross-organizational quality issues within the Company. It meets under the jurisdiction of the Chief Quality Officer, with the quality managers of each internal company and subsidiary as members. It is held four times a year by the Quality Management Supervisory Office to identify Company-wide problems and future challenges relating to quality, and to formulate measures to resolve them. In the event that concerns emerge regarding quality at an internal company or subsidiary, a report is made to the Chief of Quality at a Quality Subcommittee meeting. If the Chief of Quality deems it necessary, corrections may be indicated and information about the issue may be escalated to the necessary level, such as the Management Conference.

Specific measures for quality management

Inspection quality audits

The Quality Management Supervisory Office conducts inspection quality audits on each internal company and subsidiary. In order to ensure audit effectiveness and improve the quality management capabilities of our internal companies and subsidiaries, audit methods and scope are revised annually.

Activities of the Quality Subcommittee

Aiming to further improve product quality, the Quality Subcommittee has worked to build a defect database to share throughout the Group information on defects as well as peripheral knowledge, which had previously been accumulated on an individual basis by each internal company and subsidiary.

In fiscal 2022, analysis result reports for the past 10 years managed by the Testing and Analysis Team (belonging to the Engineering & Products Service Office) were compiled into a database. We will continue to add to the database sequentially.

Quality training

Internal quality audits are one means we use to maintain and strengthen quality management systems (QMS), and we conduct internal auditor education in order to maintain and enhance the capabilities of our lead and regular auditors. Further, each of our internal companies holds meetings regarding quality (quality control meetings, quality committees, etc.) to report defects and share solutions.

[Electronics Systems Company and Communication and Control Systems Company at the Nasu Plant]

Hierarchy-specific education on quality assurance and QMS is provided when employees join the company and when they are promoted to higher positions. An example of an everyday awareness-raising activity is our holding of human error debriefings, whose aim is the prevention of defects. In addition, we have established a quality enhancement month during which we solicit quality-related slogans from employees, post the best entries in the plant, and add quality-related slogans to the signatures of e-mails sent by employees of the Quality Assurance Department, thereby maintaining and strengthening awareness of quality on a daily basis.

[Fluid Power & Control Systems Company]

The scope of quality control has been expanded to the entire Hydraulics and Pneumatics business segment, and in order to improve quality control through the sharing of information, quality meetings are held in cooperation with our subsidiaries TOKYO KEIKI POWER SYSTEMS INC. (TPS) and TOKYO KEIKI PRECISION TECHNOLOGY CO., LTD. (TPT), and affiliate TOKIMEC KOREA POWER CONTROL CO., LTD. (TKP) in Korea.

In addition, for specially controlled products, for which inspection details are individually agreed upon with the customer, we have established a separate QMS and strengthened our inspection quality system by providing professional ethics education, inspector training and appointment/registration, and conducting unannounced audits of the relevant divisions.

[Marine Systems Company]

In order for our employees to learn quality control methods and improve their awareness of quality, we encourage them to obtain QC certifications and hold training sessions for doing so. This covers the Marine Systems Company, the Electronic Equipment Department of the Fluid Power & Control Systems Company, the Production Department of the Inspection Systems Company, and TOKYO KEIKI TECHNOPORT INC., all of which are located within the Yaita Plant to raise awareness.

Interview with Our Newly Appointed Outside Director

Outside Director
Nomination and Compensation Committee
Member/Special Committee Member

Sayoko Izumoto

Sayoko Izumoto has been newly appointed as an Outside Director for our Company at the Annual General Meeting of Shareholders held in June 2023. In her capacity as a Certified Public Accountant, Director Izumoto has actively engaged in corporate accounting for many years, and more recently, she has served as an auditor and director in multiple companies. We have strong expectations that she will utilize her high-level expertise in finance, accounting, and compliance to provide management supervision and advice to our Company as an Outside Director. Furthermore, as our first female director, we have high hopes that she will contribute to enhancing our corporate value from a new perspective.

Below, we asked Director Izumoto about her impressions of our Company and her future activities.

—— You have attended two Board of Directors meetings prior to this interview. What are your impressions?

I gained the impression that everyone plays an active part in exchanging views, perhaps because the Company has only six Directors, which is relatively few. Audit and Supervisory Committee Members also actively pose questions and share their opinions from a managerial perspective. On the other hand, however, the small number of Directors might be keeping members from actively articulating opposing views.

—— In what ways do you think your experience will benefit the Company?

As I am a Certified Public Accountant, my expertise lies in auditing. However, since being appointed as a Director who is not an Audit and Supervisory Committee Member, I am still considering what is expected of me. I can hardly speak from a managerial perspective, because I am not experienced as a corporate manager. A manager speaks with good business acumen based not only on numbers but also on detailed attention to all corners of the company. Since I am not a master of this business acumen, I wish to first contribute what I can to strengthening corporate governance.

Incidentally, my first assignment upon joining an audit firm was TOKYO KEIKI. Later, I had another opportunity to participate in the Company's audit work, so I am not totally unfamiliar with its business. However, times have changed considerably, and as the Company now engages in various new businesses, I hope to offer my input from a renewed perspective.

As an accountant, I ordinarily handle past figures and do not often make judgments about future investments. Nevertheless, investing also requires an analysis of past numbers, so I believe I can apply my experience in this regard. The Company now has many new buds of businesses and is at the stage where it must ascertain how far they can be grown. It will need to make choices, and in this process I hope to offer my views based on an analysis of numbers.

—— An important role of an Outside Director is to communicate messages from the standpoint of someone who does not possess the Company's DNA.

I agree, and that is why I intend to ask simple questions and transmit simple messages, even if they may be puzzling to people in the Company. For example, the expression "use such-and-such in the current business as a starting point,"

which appears repeatedly in conference materials, gives me the impression that the Company dwells on existing production methods and markets. Understandably, each company has its traditions, which make it a challenge to take bold steps forward. However, precisely because it is a challenge, I feel it is time for a meaningful move ahead.

Whether an investment will bear fruit is difficult to determine particularly during the development stage. It is easy to look twice before leaping and to call it off at the hint of an inherent risk. Ultimately, the decision to move forward or not rests on the corporate manager's intuition. However, rather than the president bearing the burden alone, I think it is an important for any board of directors to exchange views among the members and present ideas on which the president can base his decision.

There was a time at a different company when some of outside board members opposed a proposal to sell off the business. I, as an individual, also voiced my opposition. Consequently, the president withdrew the proposal, saying, "Since so many people are against the proposal, let's not sell the business after all." In such a situation, I am uncertain how much input an outside board member could or should provide, but I believe presidents feel they could more easily decide if matters are thoroughly discussed by the board of directors.

—— Ms. Izumoto Izumoto, as the Company's first female director, we look forward to hearing your views from a new perspective.

Here is another example of something I experienced at another company. In a warehouse tour I went on with another female outside director, we came across a pile of returned goods. We asked what the company does with these returns and were told they are all incinerated and discarded. Alarmed that burning them would emit a considerable amount of CO_2 and waste resources, we proposed that the company explore other alternatives, such as devising resale routes or creating a scheme to separate materials for recycling. While companies must necessarily consider transaction conditions and how to secure efficiency and profit, we, as women and consumers who are typically more sensitive to environmental issues, could not readily ignore the situation.

The Company may not have been consciously attuned to the female point of view until now because it is a BtoB company and not a BtoC company, which directly interacts with consumers. Hereafter, however, it will need the flexibility to examine its new businesses from various angles. In addition to the female perspective, it would also be effective to incorporate the perspectives of diverse individuals, including people from different countries and those with experience working in other companies.

With regard to women's employment, the Company is considering increasing the number of female managers, and it is exciting to anticipate how this will change the corporate climate. Initially, however, it is necessary to create an open environment where every female employee can speak her mind and know she will be heard. Without such an environment, women offered the position of section manager or department manager will be apt to refuse such a heavy responsibility. As there are still few case examples today, it may be interesting to hold inter-company exchanges to foster diversity, or to implement unique and impactful training programs, bearing in mind that diversity training has meaning only if it is attended by both men and women.

The Company has a diligent corporate culture, and everyone takes pride in their technical skills, which I think can flourish even more by devising a new mechanism. However, conventional practices in the Company may pose a limitation. I am convinced that new ideas will grow if people with diverse perspectives join the Company and offer insights into approaches and methods that have not previously been explored. The Company has a wealth of valuable assets that it should leverage even more, and as a Director, I hope to propose discussions on this issue.

Governance: Corporate Governance

By improving our corporate value through the realization of our Management Philosophy, and by increasing shared benefit with our stakeholders in the long term, the TOKYO KEIKI group hopes that our shareholders will feel confident in long-term ownership of our shares. Toward this end, we continuously pursue and work to enhance excellent corporate governance.

Concepts of corporate governance

Along with an understanding of the importance of corporate ethics, we recognize that achieving health, transparency, efficiency, and highly agile corporate management is the key point of corporate management systems for the sustainable growth and development of a company and the increase in its long-term corporate value as it responds swiftly to rapid changes in society and the environment—that is, it is the key point of corporate governance. We are enhancing our corporate governance in line with the following basic approaches.

■ **Relationship with shareholders and other stakeholders**

1. We will respect the rights of shareholders.
2. We will ensure the equality of shareholders.
3. We will build positive and smooth relationships with our shareholders and many other stakeholders.
4. We will properly disclose company information and ensure transparency in our corporate management.

In April 2022, we transitioned to the Prime Market as our new market segment on the Tokyo Stock Exchange. To provide a high level of governance appropriate to a company listed on the Prime Market, we will continue working to strengthen initiatives and enhance our sustainable growth as well as our medium- to long-term corporate value by solving diverse social issues.

System of corporate governance

Organizational structure

As the organizational structure of our Company under the Companies Act, we have adopted the form of a company with an Audit and Supervisory Committee. We have an Audit and Supervisory Committee in which Outside Directors with independence and neutrality make up a majority of members, and delegate a substantial portion of the Board of Directors' authority for business execution to Directors. Doing so allows us to separate the oversight and execution of business and engage in speedy decision-making.

Basic policy on the composition of the Board of Directors

Representative Directors, Management Executives (President & CEO, Vice President & Executive Officer, Senior Executive Officer, Senior Managing Executive Officer), and Directors who are not Audit and Supervisory Committee and its Members are appointed with comprehensive consideration of the balance of the Board of Directors overall and whether candidates possess the knowledge, experience, and capabilities required to satisfy diversity.

Candidates for Directors who are Audit and Supervisory Committee Members are appointed based on comprehensive judgment of whether the candidates possess sufficient knowledge to properly perform the duties of Audit and Supervisory Committee Members. In particular, we include one or more persons who possess sufficient financial and accounting knowledge.

We also strive to appoint Outside Directors with independence and neutrality to at least one third of Director positions.

Concepts concerning the functions of the Board of Directors and independence

Outside Directors are Directors who are personally and financially independent from the Company and who fulfill the requirements for independent officers established by the Tokyo Stock Exchange, as well as the requirements for outside directors set forth in the Companies Act. Outside Directors make efforts to achieve excellent corporate governance by providing counsel from perspectives differing from those of other Directors. As necessary, they may request submission of internal company materials or explanation and reporting of internal company information from other Directors, Executive Officers, or employees.

Audit and Supervisory Committee Members bear the role of working to establish an effective corporate governance system by overseeing and auditing the execution of duties by Directors. The Audit and Supervisory Committee composed of those members conducts verification of the content of reports received from Directors, Executive Officers, employees, Accounting Auditors, and other parties, as well as investigation of the status of the Company's business and assets. The Committee enacts necessary measures in a timely manner, including the provision of counsel, recommendations, and other opinions to Directors and suspension of the actions of Directors.

Composition of the Board of Directors

The Board of Directors has three Outside Directors among its six Directors (including three Directors who are Audit and Supervisory Committee Members). Outside Directors consist of two Directors who are Audit and Supervisory Committee Members and one female Director who is not an Audit and

Supervisory Committee Member. From Outside Directors, the Board receives candid comments from an external perspective and opinions of benefit to the Company's management based on the individuals' abundant experience. By doing so, we are making efforts to enhance the impartiality of our management and strengthen functions for the oversight of decision-making and execution of duties by business executives. Delegating important decisions on business execution to the Representative Director, President & CEO in accordance with the provisions of the Articles of Incorporation and resolutions by the Board of Directors enables swift decision-making in management and agile business execution, and allows the Board of Directors to focus on the oversight of business executives.

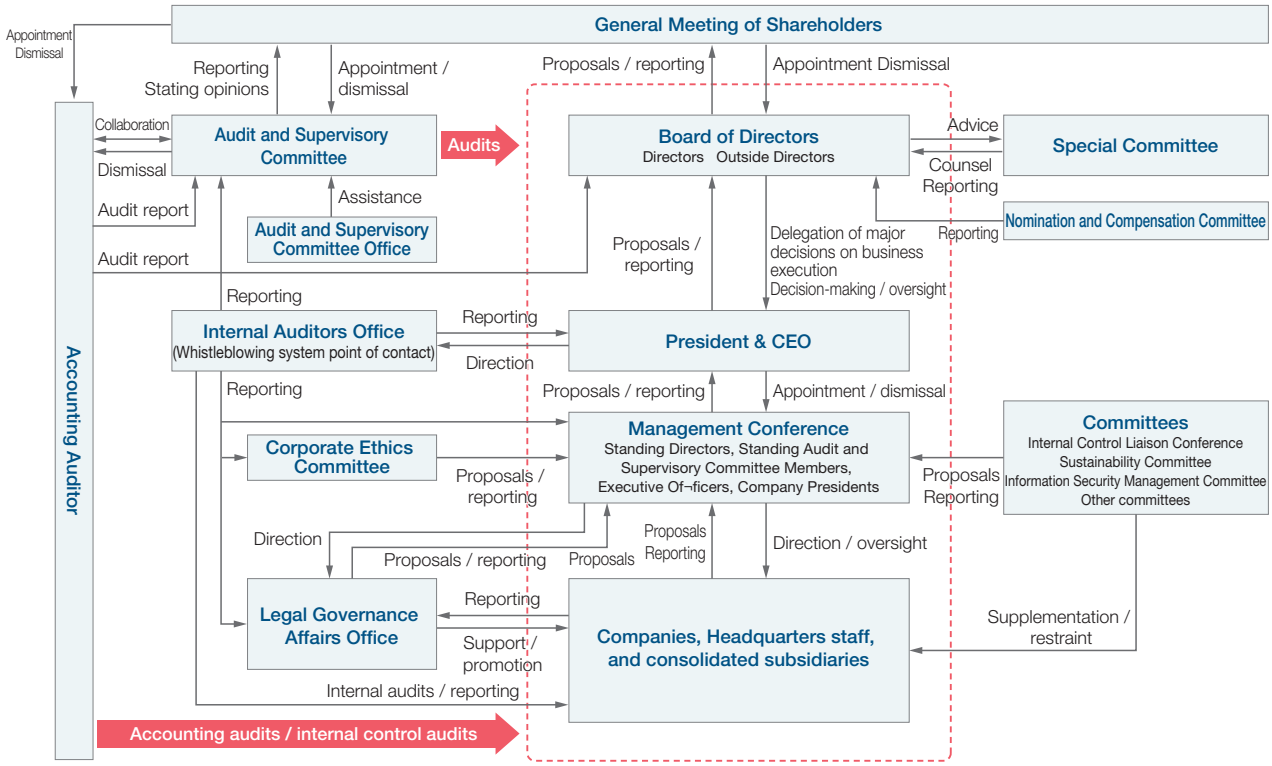
Related Committees

The Audit and Supervisory Committee is composed of two Outside Directors and one Internal Director. The Internal Director, as Standing Audit and Supervisory Committee Member, serves as Chair of the Committee. We have also established the Audit and Supervisory Committee Office, with one dedicated staff person and one staff person concurrently holding another position. This office supports auditing work and smooth execution of duties by the Audit and Supervisory Committee.

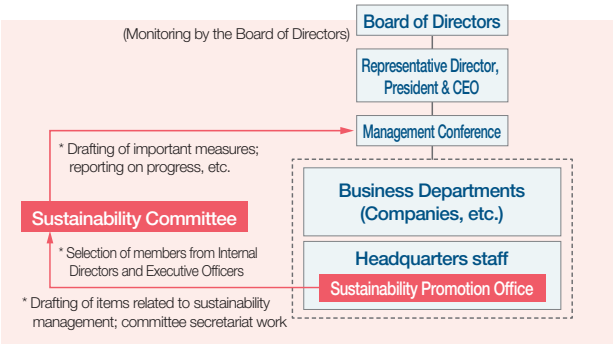
The Company has also established a Nomination and Compensation Committee under the Board of Directors to deliberate on proposals for director appointment and compensation. This Committee is chaired by Representative Director, President & CEO Tsuyoshi Ando, with Outside Directors Nanpei Yanagawa, Takashi Nakamura, and Sayoko Izumoto as members.

As a decision-making body for execution of management by the President & CEO, we have established a Management Conference to deliberate company-wide basic management strategy and its execution. The Management Conference is composed of Standing Directors, Executive Officers, and Company Presidents. The Corporate Ethics Committee, chaired by the Chief Legal Governance Officer, is composed of corporate ethics managers in the Group. It manages corporate ethics activities across the Group, enforces corporate ethics education for directors and employees, and works to prevent violations. We have also established a whistleblowing system as a means of directly providing information on legally suspect actions, and ensure that no disadvantage befalls whistleblowers.

The Special Committee is composed of experts including one or more university professors, attorneys, and certified public accountants who have no interest with the Company. Our Large-scale Purchase Rules (an anti-takeover defense measure), which clearly and specifically indicate procedures that takeover proposers should take prior to executing specific acts of purchase, in principle require judgment by the Special Committee on decisions regarding whether to implement specific measures, to exclude arbitrary decisions by the Company's Board of Directors.



Moreover, to promote sustainability management by which our Group seeks to improve the sustainability of our business through consideration of the sustainability of the environment, society, and economy, we established the Sustainability Promotion Office and the Sustainability Committee in June 2021. At the center of our Group, the Sustainability Promotion Office plans and promotes measures involving sustainability management. The Sustainability Committee is chaired by the President & CEO and selects members from Internal Directors and Executive Officers. It functions as a meeting body that discusses and shares sustainability management-related policies and measures, and executes decisions without delay across the Group. It also makes proposals on key measures and issues progress reports to the Management Conference and the Board of Directors.



Evaluation of effectiveness

Implementation guidelines for evaluations of the effectiveness of the Board of Directors during the reporting period

We carry out evaluations of effectiveness on the basis of Article 31 of our Corporate Governance Guidelines, which states, "The Board of Directors will, to evaluate its effectiveness, conduct self-evaluation at the end of each fiscal year with a focus on whether the execution of duties by the Board of Directors was performed in accordance with these Guidelines, and will analyze and evaluate the results. An outline of the results of the analysis and evaluation will also be disclosed as appropriate." We disclose the results in our Corporate Governance Report and Annual Securities Report.

Initiatives to address issues raised in our evaluation of the 91st term

In our evaluation of our 91st term (fiscal 2021, ended in March 2022), regarding deliberations on management and business strategies, which have been an issue in the past, it was indicated that the Board of Directors, in addition to confirming the basic guidelines of the business plan, which has been done every year, will deepen its involvement in recent issues related to sustainability management, among others, as a concrete measure in the 92nd term (fiscal 2022, ended in March 2023) to address issues in the 91st term.

As a result, during the 92nd term, the Board of Directors was involved in coordinating the strategic direction of the company, including the Sustainability Policy and the Human Capital Basic Policy, and was able to engage in extended discussions with the executive side of the business.

Results of evaluation of the 92nd term

We conducted a questionnaire survey aimed at all directors, including Audit and Supervisory Committee Members, to evaluate the effectiveness of the Board of Directors in the 92nd term. Preparation, distribution, tabulation, and analysis of the anonymous response sheets were conducted by the Legal Governance Affairs Office, which serves as the secretariat for evaluation of effectiveness. The answer sheet consists of 17 questions covering areas of the Board of Directors' composition, operation, deliberation, support structure, relationships with stakeholders, and the degree of contribution of individual directors.

At the Board of Directors meeting held in May 2023, the Chief Legal Governance Officer reported on the aggregation of responses and the findings of analysis, and members discussed current circumstances and recognition of issues.

On the basis of the results, it was determined that the Board of Directors of the company has shown some improvement with respect to the issues that were identified and that, in general, the Board of Directors is appropriately fulfilling its responsibilities and its effectiveness is being ensured. However, we also affirmed that there was still room for improvement in the areas of the setting of Board of Directors' deliberation matters, and in the provision of information related to the same. These issues are shared with the Board of Directors. Looking ahead, we will establish a concrete action plan for these issues and reconfirm progress and results in the next effectiveness evaluation.

The Company will endeavor to further improve the effectiveness of the Board of Directors by conducting appropriate evaluations every year, through resolution of issues recognized in effectiveness evaluations and continuous review of implementation guidelines for evaluation.

Policy for appointment of directors

Policy for appointing Internal Directors who are not Audit and Supervisory Committee Members

In accordance with guidelines outlining seven requirements, the Company appoints Internal Directors who are not Audit and Supervisory Committee Members from among Executive Officers and employees, etc. who have the strong will, abundant experience, high level of insight, and high level of expertise needed to carry out the duties of a director.

Policy for appointing Internal Directors who are Audit and Supervisory Committee Members

In accordance with guidelines outlining six requirements, the Company appoints Internal Directors who are Audit and Supervisory Committee Members from among current (or incumbent) Audit and Supervisory Committee Members, Executive Officers, and employees, etc. who have the strong will, abundant experience, high level of insight, and high level of expertise needed to carry out the duties of a director. We particularly emphasize a deep understanding of matters such as finance, accounting, and internal control, as well as sufficient experience and expert knowledge.

Policy for appointment of Outside Directors

In accordance with guidelines outlining seven requirements, the Company appoints Outside Directors from among persons who possess abundant experience, a high level of insight, and a high level of expertise; persons who possess a practical perspective as an outside company manager or other position; and persons who possess an objective and expert perspective based on a high level of knowledge of global conditions and socio-economic trends.

Skills matrix

In order to verify whether the TOKYO KEIKI Group is furnished with the management capabilities needed to resolve the Group's challenges, we have outlined in the following table the knowledge and expertise (skills) possessed by all of our Directors in various fields based on two perspectives: items required for the management of a listed company, and matters required per our business activities. The determination of each Director's skills took into consideration their accomplishments as Directors and Executive Officers in each field as well as their past professional experience.

Skills matrix

As of June 29, 2023

Name (Position)		Nomination and Compensation Committee	1 Corporate management	2 Marketing / sales	3 Finance	4 IT / digital technology	5 HR / labor / HR development	6 Legal affairs / risk management	7 Global experience	8 Production systems	9 Quality management	10 R&D / technology development	11 ESG / Sustainability management	12 Compliance / governance	13 M&As
Tsuyoshi ANDO	(Representative Director, President & CEO)	●	●	●		●		●	●			●		●	●
Yukihiko SUZUKI	(Director & Executive Officer)					●		●		●	●	●	●		
Sayoko IZUMOTO	(Outside Director)	●			●									●	
Takahiro KASHIMA	(Director & Audit & Supervisory Committee Member [full-time])		●		●	●								●	
Nanpei YANAGAWA	(Outside Director & Audit & Supervisory Committee Member)	●	●	●	●			●	●					●	
Takashi NAKAMURA	(Outside Director & Audit & Supervisory Committee Member)	●	●		●	●	●							●	

Note: Directors who possess relevant national qualifications: Sayoko IZUMOTO (Certified Public Accountant)

Compensation system for directors

Basic policies

Compensation for directors who are not Audit and Supervisory Committee Members is composed of monthly fixed compensation (basic compensation), performance-linked compensation, and transfer-restricted stock compensation, with the aim of reflecting business performance and sharing the values of shareholders. However, Outside Directors who are not Audit and Supervisory Committee Members receive only monthly fixed compensation. For all compensation amounts, proposals prepared by the Representative Director, President & CEO are submitted to the Nomination and Compensation Committee. The Representative Director,

President & CEO then receives a Memorandum on Director Compensation from the Committee and, based on this, finally determines and proposes compensation amounts that are resolved by the Board of Directors.

Compensation for Audit & Supervisory Committee Members, consisting of only basic compensation in the form of monthly fixed compensation, is determined through deliberation by Audit and Supervisory Committee Members on the basis of members' roles, duties, and categorization of standing or non-standing status, within the total amount determined at the General Meeting of Shareholders.

Monthly fixed compensation

The Representative Director, President & CEO will set a monthly fixed compensation proposal for each director who is not an Audit and Supervisory Committee Member, making reference to necessary information on director compensation allowing comparison with our Company, obtained through sources including surveys on trends in director compensation. After monthly fixed compensation is determined, amounts may be reduced in consideration of matters including the Company's business situation.

Performance-linked compensation

The Representative Director, President & CEO will determine whether performance-linked compensation will be paid, through discussions with the Representative Director in accordance with criteria for the payment of performance-linked compensation as set forth in the Rules for Directors' Compensation. Criteria for the payment of performance-linked compensation include positive operating profit, a given level of profit attributable to owners of parent, payment of dividends not below initial projections, and ROE that does not fall below initial projections by a given percentage.

Transfer-restricted stock compensation

The Company sets and pays monetary compensation credits in an amount equal to an individual's monthly fixed compensation converted to a yearly amount, multiplied by a coefficient based on position. Each eligible director receives an allocation of transfer-restricted stock through the granting of all monetary compensation credits as in-kind contribution. The paid-in amount of the transfer-restricted stock is determined by the Company's Board of Directors within an extent that is not overly advantageous to the receiving directors, based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day prior to resolution by the Board of Directors concerning issuance or disposal of the stock (or, if no transactions took place on said business day, the closing price on the most recent trading day).

Similar transfer-restricted stock is also allocated to the Executive Officers of the Company and Representative Directors of subsidiaries of the Company.

Amount of compensation by officer category

Officer category	Total amount of compensation, etc. (million yen)	Total amount by type of compensation, etc. (million yen)			Number of eligible officers
		Basic compensation	Transfer-restricted stock compensation (Note 2)	Performance-linked compensation	
Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors)	71	51	10	10	4
Directors who are Audit and Supervisory Committee Members (excluding Outside Directors)	17	17	–	–	1
Outside Directors (Note 1)	10	10	–	–	2

Notes
1. The total amount of compensation, etc. for Outside Directors is the amount of compensation for Outside Audit and Supervisory Committee Members.
2. The total amount of compensation, etc. is the amount of monetary compensation credits paid under the transfer-restricted stock compensation system.
3. The total amount of the above compensation, etc. for Directors does not include amounts equivalent to the employee salaries of Directors who serve concurrently as employees.

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