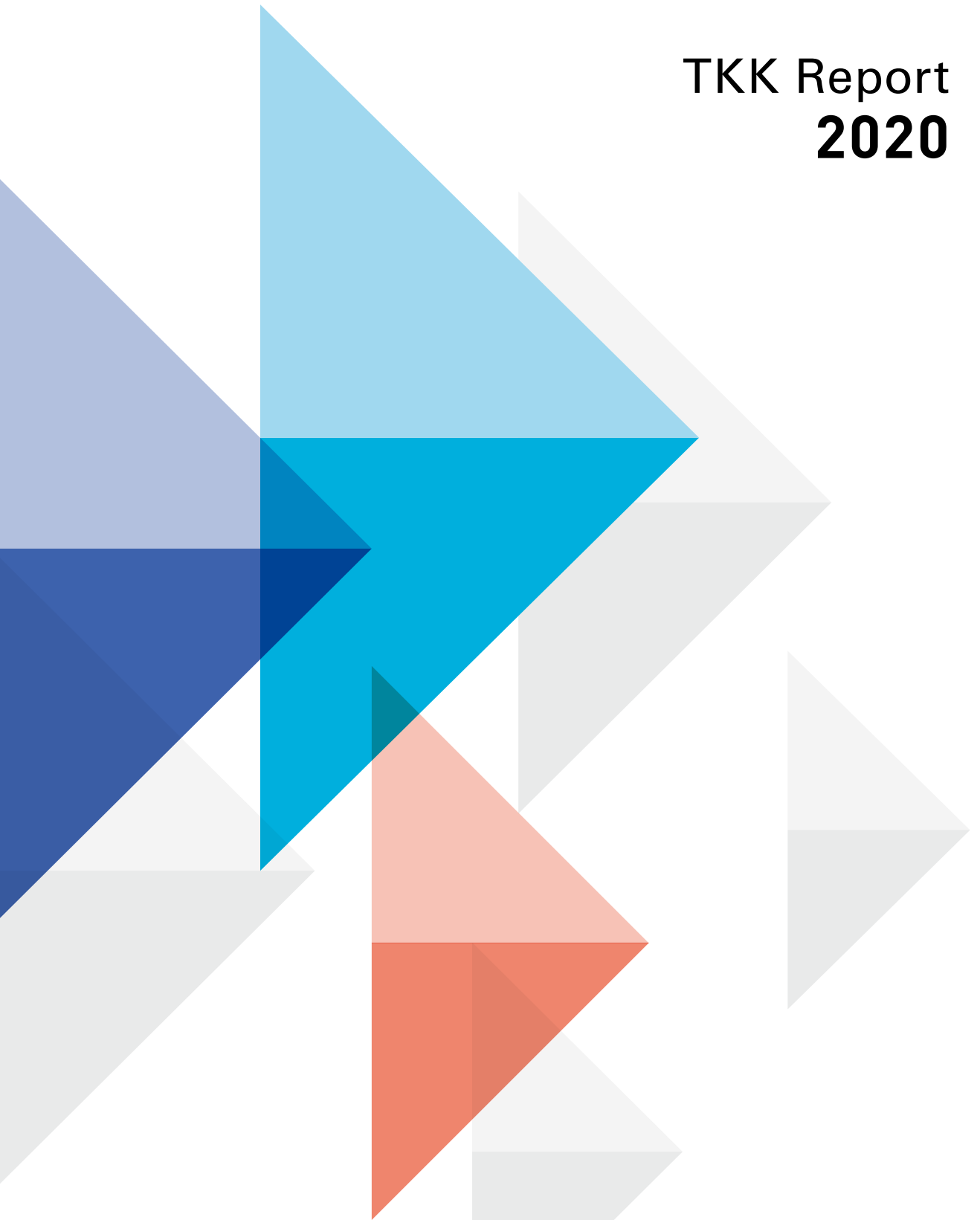


TKK Report **2020**



The Toyo Kanetsu Group aims to boldly work toward solving issues faced by society with its innovative and pioneering technologies, in order to contribute to the development of society while achieving sustainable improvements in its corporate value.

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Editorial Policy

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

- Details about results for fiscal 2019, the fiscal year ended March 31, 2020, are available in the *Financial Section of TKK Report 2020*, which is on the Company's website.

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

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

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

Cautionary Note Regarding Forward-Looking Statements

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

Management Principles

Founding Philosophy: Be Creative, Be Good for Society

Unwavering principles passed down through the generations

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

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

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

Founding Philosophy
Code of Conduct

Management Vision
Long-Term Vision

Medium-Term Business Plan
Annual Plan

Challenge & Change

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

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

Management Vision

Innovative solutions for logistics & energy

Long-Term Vision

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

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

Snapshot

The Toyo Kanetsu Group's Business

“Be creative, be good for society”

Since its establishment in 1941 as Toyo Kanetsu Kogyo K.K., Toyo Kanetsu has operated and expanded its business centered on the logistics and energy fields. Our founders' ambition for giving back to society while constantly eyeing future needs lives on today as our management principles and serves as the driving force for the Group's business supporting social infrastructure through innovative solutions and advanced technological capabilities.

Logistics Solutions Business

Domestic
market share

No. 1

▶ Digital picking systems in
the co-op industry



Domestic
market share

80+%

▶ Airport baggage handling
systems



We support logistics infrastructure by offering solutions capitalizing on our exceptional comprehensive proposal capabilities, which encompass processes from the design of sorting, picking, and handling systems to maintenance for customers centered on the logistics and airport industries. In recent years, to address constantly changing social issues and industry needs, we have aggressively deployed cutting-edge technologies such as AI and the Internet of Things (IoT), and robotics as we work to establish more efficient logistics centers and airport baggage handling systems.



Plant & Machinery Business

We are contributing to the stable supply of energy and the maintenance of the safety of energy storage facilities in Japan and overseas with advanced project execution and maintenance capabilities for the construction of large-scale storage tanks as our inherent strength. In the liquefied natural gas (LNG) storage tank field in particular, we have accumulated a delivery track record since the field's early days, garnering trust and acclaim from many customers. More recently, we have been engaging in research and development for next-generation energy storage systems by applying the advanced technological capabilities that we have cultivated.



5,700+

▶ Number of storage tanks we have delivered globally

Global market share

15+%

▶ LNG storage tanks

Other Businesses (Life & Work Environmental Business Division)

Besides its two core businesses, the Toyo Kanetsu Group has established the Life & Work Environmental Business Division centered on Group companies responsible for its industrial machinery, building construction, and environmental surveys and assessments businesses. We are contributing to safe environments and infrastructure creation through efforts that include supplying products that support those working on construction and manufacturing sites and the construction of housing and welfare facilities, as well as asbestos inspections and various types of environmental measurement.

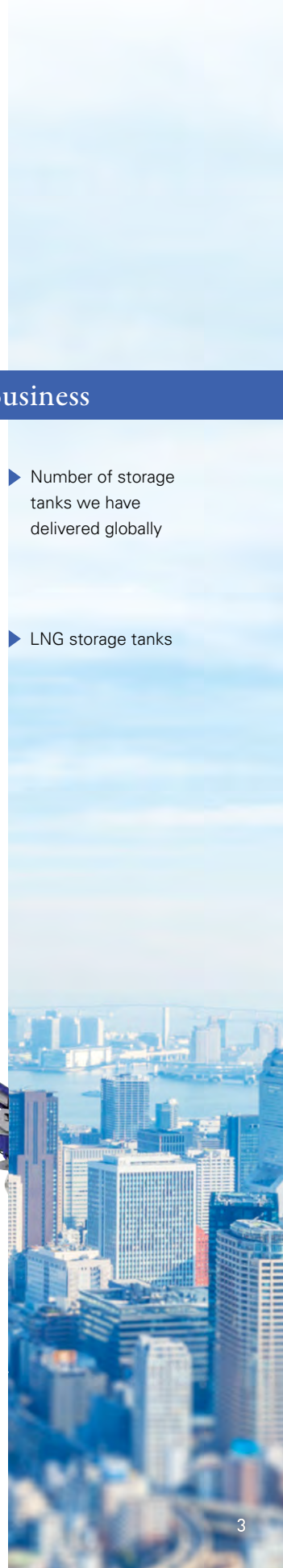


Domestic market share

No. 2 ▶ Balancers

Industry shipment track record

No. 1 ▶ Winches



Consolidated Financial Highlights (Years ended March 31)

Toyo Kanetsu K.K. and Consolidated Subsidiaries

	FY2012	FY2013	FY2014
Net sales	¥45,503	¥48,395	¥52,457
Operating profit	2,271	4,341	3,588
Ordinary profit	2,745	4,776	3,891
Profit attributable to owners of parent	1,526	2,879	3,019
Total assets	58,078	54,515	55,928
Total net assets	30,862	33,789	36,580
Basic earnings per share* ¹	125.27	241.77	260.76
Dividends per share* ¹	40.00	50.00	40.00
Net assets per share* ¹	2,577.06	2,821.75	3,159.08
Equity ratio	52.9	61.6	65.0
Dividend payout ratio	31.9	20.7	15.3
Return on equity (ROE)	5.0	9.0	8.6
Return on assets (ROA)	5.0	8.5	7.1
Net cash provided by (used in) operating activities	4,154	2,606	(213)
Net cash provided by (used in) investing activities	(1,198)	(402)	(1,120)
Net cash provided by (used in) financing activities	(2,274)	(767)	(1,774)

The Group prepares its consolidated financial statements under Japanese generally accepted accounting principles (GAAP).

Figures are rounded down to the nearest million yen.

*1 Toyo Kanetsu conducted a 10:1 reverse stock split for ordinary shares effective on October 1, 2017.

As a result, figures prior to the fiscal year ended March 31, 2017 have been restated for basic earnings per share, dividends per share, and net assets per share.

*2 Figures denominated in U.S. dollars were converted at a rate of ¥108.81/\$1, referring to the prevailing rate on March 31, 2020.

Net Sales by Business Segment

(Millions of yen)

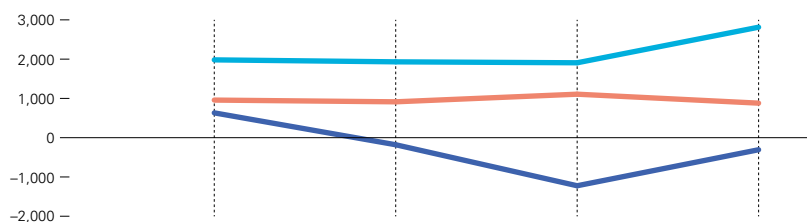


Net Sales by Business Segment	FY2016	FY2017	FY2018	FY2019
Logistics Solutions Business	21,711	25,939	29,274	28,887
Plant & Machinery Business	13,852	10,030	8,421	9,950
Other Businesses	7,030	6,470	8,237	7,813
Adjustment	(661)	(682)	(745)	(133)

FY2015	FY2016	FY2017	FY2018	FY2019	(Reference) FY2019
				(Millions of yen)	(Thousands of U.S. dollars)* ²
¥46,572	¥41,932	¥41,758	¥45,188	¥46,518	\$427,515
3,024	3,080	2,265	1,406	2,591	23,820
3,227	3,441	2,646	1,771	2,970	27,297
1,906	3,746	2,362	1,025	1,717	15,783
51,368	53,228	55,818	64,756	60,985	560,476
34,376	35,481	36,666	35,234	34,602	318,008
				(Yen)	(U.S. dollars)* ²
174.53	373.78	251.26	112.80	195.87	1.80
50.00	120.00	100.00	100.00	100.00	0.91
3,339.15	3,702.00	3,941.68	3,897.68	4,095.51	37.63
				(%)	
66.9	66.7	65.7	54.4	56.7	
28.6	32.1	39.8	88.7	51.1	
5.4	10.7	6.5	2.9	4.9	
6.0	6.6	4.8	2.9	4.7	
				(Millions of yen)	(Thousands of U.S. dollars)* ²
4,041	(2,131)	3,726	(6,698)	6,955	63,926
(766)	(1,714)	(85)	(1,315)	(812)	(7,468)
(3,640)	(2,820)	2,032	3,249	(2,351)	(21,614)

Operating Profit (Loss) by Business Segment

(Millions of yen)



Operating Profit (Loss) by Business Segment	FY2016	FY2017	FY2018	FY2019
Logistics Solutions Business	1,981	1,931	1,907	2,812
Plant & Machinery Business	633	(178)	(1,221)	(305)
Other Businesses	958	914	1,108	880

The Toyo Kanetsu Group's Value Creation Process

Social Issues Affecting the Toyo Kanetsu Group

Respond to Japan's declining population

- Labor shortages due to declining birth rate and aging society
- Decline in purchasing power
- Shortages of skilled laborers

Respond to changes in consumer spending patterns

- Sharp rise in small-lot distribution from growth in e-commerce

Strengthen industrial infrastructure

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

Combat climate change

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

Provide better work environments

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

A

Social issues that could have a major impact on corporate value

▶ Page 20

Founding Philosophy

“Be creative, be good

Business Activities and Strengths

Logistics Solutions Business

- Ability to propose total solutions that include maintenance
- Trust from customers and a reputation based on track record of deliveries to broad range of industries

▶ Page 30

Plant & Machinery Business

- Technologies for constructing and maintaining large-scale tanks that require advanced technologies
- Trust from customers and a reputation around the world based on many years of high quality and safety

▶ Page 32

Other Businesses

(Life & Work Environmental Business Division)

- Market recognition of products and advanced technological capabilities in specific fields

▶ Page 34

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

Foundation That Supports Businesses

Human resources

- Advanced technical capabilities and specialization
- Abundant experience in overseas projects

Partnerships

- Close partnerships with partner companies, universities, and research institutions built on extensive experience

B

Initiatives addressing material issues to sustainably improve corporate value

▶ Page 22

for society”

Value Propositions

Reduce burden on workers with labor-saving technologies using AI, the IoT, and robotics

Realize highly efficient logistics for diversifying patterns of consumer spending

Provide never-stopping logistics that supports supply chains and consumer spending

Research and development of large-scale liquid hydrogen storage tanks

Provide highly dependable social infrastructure

Realize attractive workplaces with systems and environments that facilitate work and are inclusive of diversity

Management Vision

Innovative solutions for logistics & energy

Financial foundation

- Sound financial foundation that enables growth investments in technology and business operations

▶ Page 46

Governance

- Governance structure that enables highly efficient and transparent work management
- Appropriate risk management

▶ Page 36

Corporate culture

- High awareness of contributions to society
- Flexible, rapid decision-making ability



Initiatives prerequisite for sustainably improving corporate value

▶ Page 25

To Our Stakeholders

Fiscal 2019—First Steps toward Our Long-Term Vision

The Toyo Kanetsu Group took important steps in fiscal 2019. The Company completed its merger with Toyo Kanetsu Solutions K.K., formerly our subsidiary, and set forth its management vision of realizing “Innovative solutions for logistics & energy” while launching a new Medium-Term Business Plan (fiscal 2019–fiscal 2021) after announcing its long-term vision for 2030.

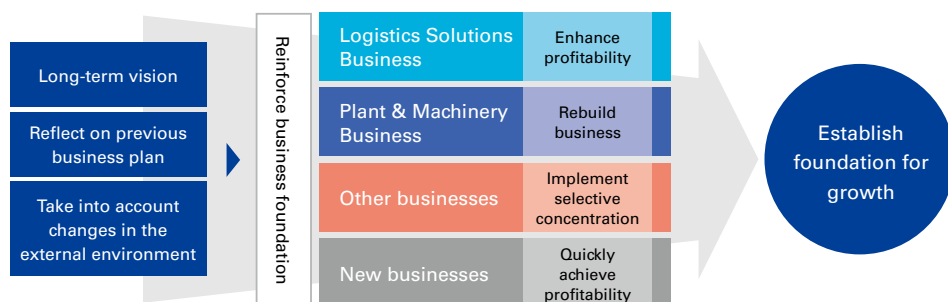
In addition, with the objective of sustainably improving corporate value, the Company formulated 10 important management issues (material issues) to prioritize by leveraging its strengths, and pledged to stakeholders—with the publication of its integrated report, the TKK Report—to strengthen environmental, social, and governance (ESG) initiatives and contribute to realizing the United Nations Sustainable Development Goals^{*1}. Against that backdrop, I would now like to convey my views on the accomplishments and issues arising from these initiatives and our policies going forward.

^{*1} Adopted at a United Nations summit, the Sustainable Development Goals (SDGs) are 17 goals to be achieved by 2030.

Promotion of the Group Medium-Term Business Plan (Fiscal 2019–Fiscal 2021)

Under the Group’s vision, Toyo Kanetsu aims to attain Group consolidated net sales of ¥70.0 billion by 2030 by securing earnings in stable domains, such as maintenance services for logistics systems and maintenance for tanks in Japan, increasing earnings in growth domains that have been in focus for the past few years, and ultimately by making inroads into future domains. The Toyo Kanetsu Group has positioned its Medium-Term Business Plan (fiscal 2019–fiscal 2021) as a strategy for establishing a foundation for the leap forward to realizing its long-term vision. The medium-term policy of management is to increase the ability of the entire Group to generate profits by improving profitability in the Logistics Solutions Business, rebuilding business in the Plant & Machinery Business, pursuing selection and concentration on other businesses, and moving quickly to achieve profitability in new businesses, while reinforcing its business foundations. For the concluding year

Establish a Foundation for Growth while Improving Profitability Utilizing Full Capabilities of Group Businesses



A full-page photograph of Toru Yanagawa, President and Representative Director, standing in a modern office hallway with large glass windows. He is wearing a dark blue suit, a white shirt, and a patterned tie. His hands are clasped in front of him, and he is looking directly at the camera with a slight smile. The background shows the interior of the building with glass partitions and warm lighting.

We Will Anticipate Social Change Through
Dialogue and Offer Solutions

Toru Yanagawa
President and
Representative Director

(fiscal 2021) of the current Medium-Term Business Plan, the Company targets consolidated net sales of ¥54.30 billion, operating profit of ¥3.95 billion, and ROE (return on equity) of 8.0%.

In fiscal 2019, the first year of the current Medium-Term Business Plan, consolidated net sales increased 2.9% year on year, to ¥46.5 billion, and consolidated operating profit soared 84.3% year on year, to ¥2.5 billion. Consolidated operating profit increased substantially thanks to factors including a decrease in losses in the Plant & Machinery Business, in addition to an improvement in the profitability of the Logistics Solutions Business. Despite recording an extraordinary loss of ¥0.4 billion because of recognition of an impairment loss on shares held due to the steep fall in share prices accompanying the global spread of the COVID-19 pandemic, profit attributable to owners of parent increased 67.5% year on year, to ¥1.7 billion, and ROE rose 2.0 percentage points year on year, to 4.9%. As a result, we were able to surpass our initial forecasts—announced on May 14, 2019, when we formulated the current Medium-Term Business Plan—for consolidated net sales by 4.1%, operating profit by 45.6%, and ROE by 1.2 percentage points.

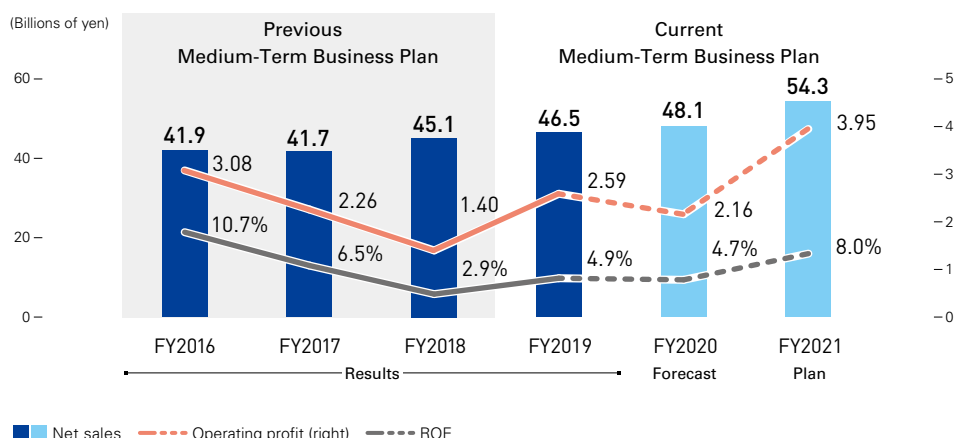
Positive and Negative Impacts of the Spread of the COVID-19 Pandemic

Although the first year of the current Medium-Term Business Plan got off to a good start overall, as has been demonstrated, the end of the fiscal year saw the spread of the COVID-19 pandemic. The Company established a countermeasures project team on February 14, 2020, ensured the safety of employees and their families, and has implemented various policies, including measures restricting business trips and meetings and enforcement of staggered working hours and working from home, from the standpoint of preventing the social spread of the pandemic. Although we experienced issues including temporary delays in the delivery of products and parts procured from overseas, we continued our business with a sense of our mission of underpinning logistics and energy infrastructure and have successfully maintained our supply chain.

While the impact of COVID-19 on performance was minor in fiscal 2019, I believe it will be difficult to avoid going forward. As I will explain again later, the business environment of the Plant & Machinery Business has become increasingly severe due to factors including the collapse of crude oil prices triggered by the spread of COVID-19. In the Logistics Solutions Business, on the other hand, although we are anticipating negative impacts, such as construction delays and suspensions, the increase in the use of e-commerce has created a favorable tailwind and we expect growing demand for labor-saving systems to reduce the risk of infection, as the wave of automation and labor-saving that we envisioned arrives earlier than we had forecast. However, since it is difficult to predict how long the pandemic will continue, the degree of impact it will have going forward is unknown and we must continue to remain vigilant.

In light of these circumstances, while we are forecasting a 3.4% year-on-year increase in consolidated net sales in fiscal 2020, to ¥48.1 billion, we expect operating profit to decline 16.7% year on year, to ¥2.1 billion, and ROE to decrease 0.2 percentage points, to 4.7%, taking into consideration the impact of COVID-19. Meanwhile, our management targets for fiscal 2021, the concluding year of the current Medium-Term Business Plan, will remain unchanged for the time being given that we are not able to forecast the impact of the COVID-19 pandemic at the present time. As we move forward,

we will revise these targets appropriately and make an announcement without delay when we are in a position to make a reasonable forecast.



Business Strategies

Logistics Solutions Business:

Accelerating the Resolution of Social Issues through Next-Generation Technologies

I will now discuss the conditions and policies in each of our businesses. As our basic policy in the Medium-Term Business Plan highlights, the focus in the Logistics Solutions Business is on improving profitability. In fiscal 2019, although net sales decreased 1.3% year on year, to ¥28.8 billion, operating profit increased 47.4% year on year, to ¥2.8 billion, as the Logistics Solutions Business posted a record high in profits thanks to an accumulation of factors, including an improvement in the profitability of large-scale projects due to the strengthening of project control management, an expansion in the maintenance business, and a reduction in expenses.

In fiscal 2020, we will follow a policy of securing a solid foundation for establishing a high-growth business that is able to respond to changes in the structure of the post-COVID-19 society by tapping into next-generation technologies and new markets while further raising our cost-competitiveness. Although we anticipate a 0.4% increase in consolidated net sales year on year, to ¥29.0 billion, we expect an 8.3% decrease in operating profit year on year, to ¥2.5 billion, due to the temporary impact of construction delays and suspensions accompanying the spread of the COVID-19 pandemic.

The e-commerce industry is one of the mainstay domains of the Logistics Solutions Business. The business counts among its customers almost all major general e-commerce business operators in Japan and boasts a leading delivery track record for logistics systems. Moreover, the business has a proven track record of deliveries to many logistics centers in the cooperative industry in Japan, centered on digital picking systems that maintain its top position in the industry. The markets for both of these industries have continued to expand in recent years due to changes in consumer

behavior. In addition, as investment in logistics systems is expected to increase further as a result of the rise in stay-at-home consumption accompanying the spread of COVID-19, the Logistics Solutions Business will achieve robust growth by addressing needs that include multiple-item management, prompt delivery, and labor productivity improvement.

The Logistics Solutions Business has a market share of more than 80% for baggage handling systems (BHSs) at domestic airports. Amid a low point in demand for capital investments aimed at the 2020 Tokyo Olympic and Paralympic Games, the decline in inbound passenger numbers stemming from the spread of COVID-19 is expected to further contribute to the decline in demand in the airport domain. As a measure in response to these changes in the business environment, we are working with determination to play a part in realizing the One ID check-in to boarding process concept utilizing facial recognition technology, the introduction of which is being promoted as the first of its kind in the world. We have already begun delivery of self-service baggage drop units that will become an important element of the One ID concept, and we are working proactively to introduce other innovations, such as automatic handling robots and baggage image-analysis technology. In these ways, we are addressing needs, not only for BHSs, but also peripheral business fields.

In terms of the impact of the spread of COVID-19, I am particularly interested in the development of fully automated logistics systems that entail no infection risk because they do not require human intervention. The technologies offered by the Logistics Solutions Business already include a technology called Goods to Person (GTP). As this technology moves products for picking to the worker's station, not only does it raise work efficiency and reduce the number of people involved in the work, it also makes it possible to carry out work in a fixed position while maintaining social distance. Going forward, if we add picking functions using robots to this technology it will become completely labor-free. To that end, we are advancing the development of robots tailored to this field while



considering collaborations with outstanding robot-related companies, and we have high hopes for this technology. Further, in order to roll out our predictive maintenance services that optimize the timing of parts changes and other forms of maintenance via the visualization of equipment operating conditions and the prediction of abnormalities, we advanced their development by leveraging AI and IoT technologies in concert with a variety of partners. Those innovative partnerships resulted in the release of these services in April 2020, with non-stop logistics as our guiding principle. In addition, with the aim of using conveyorless systems into the future, we are also moving ahead with the development of a control platform that controls automatic guided vehicles (AGVs), operation methods for which differ depending on manufacturers, in an integrated manner. The promotion of digital transformation (DX) leveraging AI and the IoT in the Logistics Solutions Business will help resolve the issue of the decline in the working-age population in Japan while, if we can realize conveyorless logistics, we will be able to lower CO₂ emissions significantly by reducing electricity consumption, which is in alignment with our material issues initiatives.

▶ For more details about initiatives in the Logistics Solutions Business, please refer to Business Review: Logistics Solutions Business on page 30.

Plant & Machinery Business: Confronting the Harsh Business Environment and Reducing Costs

Conditions in the environment surrounding the Plant & Machinery Business remained harsh, as orders received declined 13.4% year on year, to ¥9.9 billion, due to the failure to capture orders for any large-scale projects in fiscal 2019. However, net sales grew 18.1% year on year, to ¥9.9 billion, due to the accumulation of tank maintenance projects for oil refineries in Japan and overseas orders unrelated to tanks, such as the manufacture of steel products. On the profit front, operating loss improved ¥0.9 billion year on year, to ¥0.3 billion, due to the implementation of significant cost cutting, in addition to a gain on the reversal of provisions recorded in previous fiscal years.

When we formulated the current Medium-Term Business Plan, we assumed that oil- and gas-related demand would recover due to factors including the economic growth of emerging countries in recent years. Our plan to rebuild the Plant & Machinery Business was premised on an improvement in the market environment, given that we had been seeing the emergence of new construction projects for large-scale liquefied natural gas (LNG) storage tanks. However, the spread of the COVID-19 pandemic has severely affected the energy market. Amid a slump in crude oil prices, energy demand is expected to decline into the future and there are already moves to reduce oil- and gas-related capital investments. Although we are forecasting a 14.6% year-on-year increase in net sales, to ¥11.4 billion, for the business in fiscal 2020 by capturing all manner of earnings opportunities centered on tank maintenance in Japan, we expect operating loss to worsen ¥0.1 billion year on year, to ¥0.4 billion. While our Medium-Term Business Plan aims to return the business to profitability in fiscal 2020, at the present time I regret to say that will be difficult to achieve.

Our policy going forward will be to further advance cost reductions and keep expenses down to the minimum required for operating the business to reduce losses as much as possible. On the other hand, we will work to secure profits centered on domestic tank maintenance. In Japan, periodic open inspections of storage tanks for crude oil and other products are mandatory under the Fire Service Act.

For that reason, amid a decrease in sales for new tank construction projects, we are able to maintain a certain level of tank maintenance sales, which serve as a stable source of earnings. Partly to protect aging domestic oil infrastructure, we will work to increase profitability while gradually securing orders. In addition, we will also take steps to raise earnings at overseas subsidiaries.

From a long-term standpoint, we are carrying out research and development that aims to realize a large-scale liquid hydrogen storage tank for the power generation business, which we expect to be introduced on a full-scale around 2030. In addition, we have advanced development through industrial-academic collaboration since 2015, for which the New Energy and Industrial Technology Development Organization (NEDO) ^{*2} decided to provide a subsidy in August 2019. Taking on this challenge in partnership with the government and universities is of great significance to the Company, going beyond the scope of a single project. I would like to contribute to the construction of a hydrogen society by drawing on our world-class technologies in low-temperature and cryogenic tanks.

^{*2} NEDO: Established in 1980 to promote the development and introduction of new energy technologies, NEDO is one of the largest public research and development organizations in Japan.

▶ For more details about initiatives in the Plant & Machinery Business, please refer to Business Review: Plant & Machinery Business on page 32.

Other Businesses (Life & Work Environmental Business Division): Contributing to the Creation of Environments and Infrastructure Sensitive to People

In fiscal 2019, adopting a basic policy of selection and concentration, we were able to favorably advance the strengthening of existing businesses and laying of groundwork for new products and businesses, centered on various Group companies responsible for the industrial machinery, building construction, and environmental survey and assessment business. In fiscal 2020, despite the temporary impact of construction delays and suspensions due to the spread of COVID-19, we expect other businesses to maintain an overall business performance at the same level as fiscal 2019, with a 0.2% year-on-year decrease in net sales, to ¥7.8 billion, and a 3.4% year-on-year increase in operating profit, to ¥0.9 billion.

In other businesses, each Group company steadily contributed to consolidated earnings by leveraging their respective business characteristics. In addition, we increased sales by adding Kankyo Research Institute Inc. to the Group through M&A. Based on these circumstances, the Company established the Life & Work Environmental Business Division in April 2020, consolidating in the division Toyo Koken K.K., Toyo Kanetsu Bultec K.K., and Kankyo Research Institute Inc.—Group companies that are well-established as generators of earnings—and a corporate venture capital (CVC) fund that has been active since 2017. Adopting a policy of contributing to the creation of environments and infrastructure that are sensitive to people, the division will pursue the development and prompt achievement of profitability in new businesses, the expansion of growth domains in existing businesses, and synergies within the Group while leveraging M&A and CVC. At the same time, we will aim to enter new domains that go beyond existing businesses.

Our CVC is expanding its investment regions to Singapore and Australia, rather than just Japan and the United States, and has carried out new investments in an aggregate total of eight start-up companies related to AI, the IoT, and robotics, thereby engaging in open innovation. As a result of these efforts, effects are beginning to emerge, such as a timetable for increasing the processing capability of our key product, in collaboration with an AI start-up company, in the Logistics Solutions Business. Going forward, we will make cautious investment decisions, including the freezing of new investments for the foreseeable future, taking into account the impact of the spread of COVID-19.

► For more details about initiatives in other businesses, please refer to Business Review: Other Businesses (Life & Work Environmental Business Division) on page 34.

Promoting ESG Management Based on Our Material Issues

As discussed in the *TKK Report 2019*, the Toyo Kanetsu Group identified 10 important material issues*³ in March 2019 after discussions by management, with the objective of accelerating recognition and initiatives regarding such aspects as corporate social responsibility (CSR) and ESG. Initiatives for each of these material issues contribute to the achievement of their corresponding Sustainable Development Goals (SDGs). In addition to communicating these material issues outside the Company, I believe that what is important is to instill them into employees, who will lead the initiatives. To that end, although we are making use of internal newsletters and training, I have proactively communicated to employees on this topic in a variety of situations, including my greetings at the beginning of the year. I believe that the awareness among employees toward ESG, the SDGs, and the material issues has risen considerably.

Among the material issues I regard as particularly important are “(1) Respond to changes in the business environment caused by climate change” and “(2) Respond to the decline in Japan’s population,” as outlined in strategies for the Logistics Solutions Business, as well as “(4) Develop and use new technologies,” such as AI and the IoT, which will hold the key to resolving these issues. I also view “(9) Practice sophisticated risk management” as particularly important from an information security perspective. Needless to say, the other six material issues remain important. For example, in regard to “(3) Train and deploy human resources,” due to the nature of our business category, we had been slow to promote women to management. However, through efforts that include the introduction of a new human resource system and the implementation of an effective plan, we have made moves to facilitate the participation of women as future management. In addition, we are trying to change our corporate culture by reforming the way we think in order to fully promote DX and develop the next business model.

*³ For more details about our material issues, please refer to The Toyo Kanetsu Group’s Material Issues on page 18.

Creating Synergies through Management Integration

It may be said that the greatest effect of the management integration with Toyo Kanetsu Solutions K.K., our former subsidiary, is that it has made it easier for the Logistics Solutions and Plant & Machinery businesses to supplement each other in terms of human resources. In the short term, the merger will enable us to absorb ups and downs in the business environment. Furthermore, from a long-term perspective, it will be significant in leading to the cultivation of human resources who will play a role in future management by allowing them to experience both businesses through moving between the business divisions. Further, we reorganized the Safety, Environment, and Quality Assurance Department as an organization under the direct control of the Company's president, with the goal of centrally managing the strengthening of our occupational health and safety management system and quality management functions. We will utilize throughout the entire Group, including the Logistics Solutions Business, the expertise and know-how regarding safety that the Plant & Machinery Business, which handles a diverse range of dangerous materials, has cultivated over many years.

Aiming for a Consolidated Dividend Payout Ratio of At Least 50%, Based on Our Shareholder Return Policy

The Company formulated its shareholder return policy, described below, based on optimizing the balance between financial soundness and returning profits to its shareholders. While continuing to effectively utilize borrowings as a means of optimally allocating capital, the Company intends to use a portion of the profits it earns for investments in new businesses and other investments to increase corporate value, as well as for capital investments, in addition to taking a flexible stand on buying back its own shares. As the Company maintains a sufficiently stable shareholders' equity ratio of more than 50%, it has set a target for its consolidated dividend payout ratio of at least 50%.

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

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

Unless there are considerable capital needs

- (1) Retained earnings will be applied to investments and capital expenditures for increasing corporate value
- (2) Share buybacks will be flexibly undertaken



For fiscal 2019, we paid a full-year dividend of ¥100 per share, for a consolidated dividend payout ratio of 51.1%, based on this shareholder return policy. In addition, during fiscal 2019 we implemented share buybacks of 589,700 shares at a cost of approximately ¥1.4 billion.

In Conclusion

Like the impact on society of the spread of the COVID-19 pandemic, we do not know when or how the business environment will change. To respond to those changes, I believe management that emphasizes dialogue among people is required. It is important to get a sense of what the society of the future will demand by increasing dialogue with a variety of stakeholders, including customers, business partners, and industries—even those that have no direct connection with the Company's business.

The Plant & Machinery Business, our original business, built a track record as a leading player by taking the initiative to expand overseas to the Middle East and Southeast Asia and then responded swiftly when demand shifted from oil to gas. Today, although the Plant & Machinery Business is facing an exceptionally severe business environment, if we can draw on our DNA of "Challenge & Change" that flows within us continuously, there is no doubt we can revive this business. The Logistics Solutions Business also endured a challenging period until a few years ago. Preparing ourselves for the fact that the business environment can change dramatically, just like it has with the COVID-19 pandemic, we must take action, including the pursuit of cutting-edge technologies. To be able to realize "Innovative solutions for logistics & energy," the Toyo Kanetsu Group will continuously take on the challenge of solving social issues by leveraging the Group's comprehensive strengths to the fullest, under the slogan of "Challenge & Change."

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

August 2020

Toru Yanagawa
President and Representative Director

The Toyo Kanetsu Group's Material Issues

1 Basic Approach to Material Issues

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

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

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

A

Social issues that could have a major impact on corporate value

- (1) Respond to changes in the business environment caused by climate change
- (2) Respond to the decline in Japan's population

B

Initiatives addressing material issues to sustainably improve corporate value

- (3) Train and deploy human resources
- (4) Develop and use new technologies
- (5) Promote collaboration with partner firms
- (6) Increase productivity

C

Initiatives prerequisite for sustainably improving corporate value

- (7) Ensure occupational health and safety
- (8) Execute steadfast compliance and corporate governance
- (9) Practice sophisticated risk management
- (10) Evolve our corporate culture into one that encourages employees to quickly and proactively take on challenges

► Please refer to pages 20 to 29 for more details about each material issue.

3 Process for Identifying Material Issues and KPIs*

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

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

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

4 Our Approach

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

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

Progress on initiatives for addressing material issues will be monitored by the director in charge of the Corporate Division. By the end of fiscal 2019, plans call for setting qualitative and quantitative KPIs and numerical targets for each material issue. The Company also plans to disclose this information in the TKK Report starting in fiscal 2020. Through dialogue with stakeholders, management will keep track of changes in stakeholder concerns and expectations for the Group while monitoring social trends. If deemed necessary, the Company will flexibly revise its material issues.

A

Social issues that could have a major impact on corporate value

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



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

KPI

	FY	2018	2019	2020 (Target)	Unit
CO ₂ Emissions		1,789	1,688	1,671	t-CO ₂

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

We aim to achieve a 1% reduction every fiscal year (compared with the previous fiscal year), in compliance with ISO 14001.

Topics

Environmental Management System

Toyo Kanetsu has obtained ISO 14001 certification and established an Environmental Policy, which it shares throughout the Company. Setting up an environmental management system while adhering to the requirements of the ISO standard, we conduct internal environmental audits every year and revise our targets as well as seek to raise environmental awareness among employees.

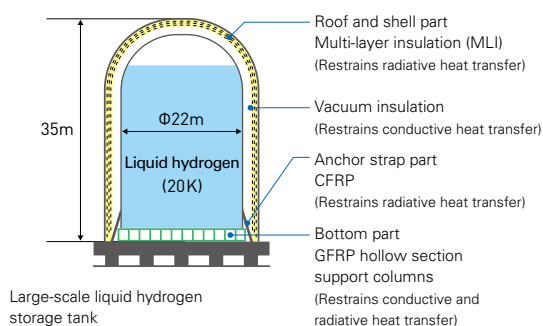
► For details of Environmental Policy, please visit our website.
<https://www.toyokanetsu.co.jp/global/company/policy.html>

Initiatives through Our Business Activities

Toyo Kanetsu recognizes environmental problems such as climate change as important issues for the sustainability of society and its business, and aims to reduce its environmental footprint through its business activities.

The Logistics Solutions Business contributes to energy conservation inside logistics centers through the provision of distributed-drive conveyors (Ecoloveyor).

Looking ahead to the coming of a hydrogen society, the Plant & Machinery Business conducts research and development aimed at the practical realization of a large-scale liquid hydrogen storage tank, in collaboration with Hokkaido University. In fiscal 2019, one of the Company's projects was awarded a subsidy from the New Energy and Industrial Technology Development Organization (NEDO). We have also been engaged in the biomass power generation business since 2017.



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



It has become harder to secure human resources due to the decrease in Japan's population amid a declining birth rate and an increase in the number of elderly citizens. The Company understands the importance of maintaining workplaces with systems and environments that facilitate work and of creating rewarding work.

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

KPI

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

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

We encouraged employees to take at least eight days of annual paid vacation in fiscal 2019. We will aim to raise the minimum number of days taken to 10 in fiscal 2020 and 13 in fiscal 2021.

Topics

Development of a Comfortable Work Environment

With the goal of continuously securing precious human resources, the Toyo Kanetsu Group is working to develop a comfortable employment environment in which employees can achieve a good work-life balance.

Based on the action plan regarding the participation and advancement of women in the workplace and the development of the next generation of human resources, we are carrying out initiatives that encourage male employees to take childcare leave and examining an extension to the period for reduced working hours, in addition to proactively calling for all employees to take annual paid vacation. We are also adopting flexible working styles that include staggered working hours and working from home, while conducting lecture meetings that encourage women's participation and advancement. In these ways, we are establishing a comfortable work environment for women and, in turn, all employees, and raising awareness.



Initiatives through Our Business Activities

The Logistics Solutions Business offers solutions tailored to labor reduction and labor-conserving needs that have been increasing in recent years due to the decline in the working-age population in Japan. Moreover, as COVID-19 countermeasures, these solutions are effective in securing social distancing in logistics centers.

► For details, please refer to Business Review: Logistics Solutions Business on page 30.

B

Initiatives addressing material issues to sustainably improve corporate value

(3) Train and deploy human resources



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

KPI

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

Toyo Kanetsu, non-consolidated

Note: A percentage is not recorded for fiscal 2018 because this fiscal year preceded the introduction of the team leader system.

Topics

To strengthen its business continuity amid the increasingly volatile operating environment, Toyo Kanetsu is working to develop and leverage its human resources, the most important element of business continuity.

In April 2019, the Company launched a new human resource system, which will serve as a framework to facilitate the active participation of diverse human resources. The new system makes it possible for employees to choose their career path from a multi-track course comprising organizational management and the deepening of specializations, while reflecting the wishes of each individual. We aim to manage human resources to facilitate a higher performance by employees, in ways that include appointing them as advanced specialists and team leaders under the new system. In addition to fine-tuning the system, we are promoting opportunities for each and every employee to consider their careers by carrying out career design training and other initiatives.

In terms of training, we implement programs for new employees and continuously conduct Companywide English-language courses, while in the Logistics Solutions Business we incorporate external expertise through collaborations with the public sector and universities, as well as plan training led by internal speakers to pass down their skills. In these ways, we

are carrying out in-house educational initiatives.

In addition, under the internships that we have been implementing since fiscal 2018, we create opportunities for participating students to communicate with employees, visit business sites, and experience actual work, under a program that fosters a sense of working while deepening students' understanding of our business and industry. The program also acts as an opportunity for existing employees to encounter the innovative ideas of the younger generation and refine their own teaching skills. In fiscal 2019, the program received public recognition when students who participated in it received an award for excellence (first prize) at the results presentation ceremony of the Japan Internship Promotion Consortium.



(4) Develop and use new technologies



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

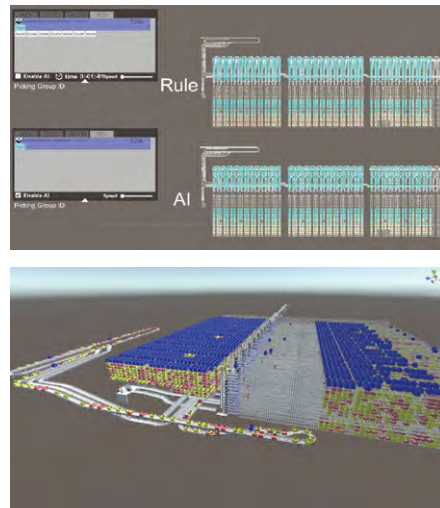
Topics

Promotion of Digital Transformation

Leveraging the latest technologies such as AI and the IoT, the Logistics Solutions Business is promoting DX while strengthening internal systems and developing human resources.

As an example of these efforts, on a simulation basis the Company achieved a 20% rise in the efficiency of incomings and outgoings at logistics centers by developing an optimal AI algorithm for automated case storage systems—our key product—using digital twin and deep learning technologies through collaboration with an AI start-up company. Amid a trend of the delivery of larger systems accompanying the growing scale of logistics centers, we aim to contribute to improving the productivity of logistics centers by making efficient use of AI technologies in response to the increasing difficulty of controlling systems through manual programming.

Simulator using digital twin technology



Open Innovation through CVC Initiatives

Since establishing a CVC fund in 2017, we have invested in promising start-up companies with innovative technologies in Japan and overseas. Our activities in Japan, the United States, Singapore, and Australia help us to not only incorporate outstanding technologies through interactions with start-ups but also acquire the latest technological information and open innovation initiatives.



B

Initiatives addressing material issues to sustainably improve corporate value

(5) Promote collaboration with partner firms



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

Topics

In the Logistics Solutions Business, we have established a collaboration with a partner factory in Indonesia, where we are advancing technology transfers and quality guidance to local partners and expanding the production of airport baggage handling systems while maintaining our high quality. In addition, the business operates predictive maintenance services by applying the IoT sensors developed through collaboration with a university-launched start-up company with outstanding IoT technologies.

In the Plant & Machinery Business, we have established collaborative relationships at many worksites

over the years with partner firms that carry out welding, assembly, operation of heavy machinery, and other tasks at construction sites. As labor shortages at work-sites have become a prominent issue, we are maintaining a stable construction system by strengthening relationships with such partner firms.

Moreover, in recent years we have been searching for new partner firms by leveraging the matching services provided by the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support Japan*).

* SME Support Japan is an independent administrative agency providing various support measures to promote growth for Japanese SMEs.

(6) Increase productivity

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

KPI

	FY	2018	2019	2020 (Target)	Unit
Operating Profit per Employee		–	2,608	2,706	Thousands of yen

Toyo Kanetsu, non-consolidated

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

Topics

In the Logistics Solutions Division, we are advancing plans for internal system renewal with the goal of overall optimization, from sales through to maintenance services. In 2019, we augmented our order processing system by extending the No. 3 building of our

Wakayama Plant, which primarily undertakes conveyor production. Concurrently, in the Plant & Machinery Business, we are making effective use of resources at existing production bases while carrying out exhaustive cost reductions.

C

Initiatives prerequisite for sustainably improving corporate value

(7) Ensure occupational health and safety



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

KPI

	FY	2018	2019	2020 (Targets)	Units
Frequency rate of industrial accidents		0.63	0.95	0.00	Casualties/ million working hours
Severity rate of industrial accidents		0.00	0.01	0.00	Days lost/ thousand working hours
Number of fatal work accidents		0	0	0	Cases

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

Topics

Based on its Occupational Health and Safety Policy, the Toyo Kanetsu Group seeks to ensure and improve occupational health and safety by acquiring and updating ISO 45001 certification, holding Group safety meetings, implementing work location patrols, and maintaining and augmenting safety systems, including at partner firms.

In addition, the Safety, Environment, and Quality Assurance Department, which was reorganized as an independent organization under the direct control of the

Company's president in April 2019, is working to reform systems and rules to promote occupational health and safety management, which had hitherto been conducted by business domain, in an integrated manner.

In terms of quality maintenance and improvement, Group businesses have obtained ISO 9001 certification and conduct operations based on their respective quality policies. We aim to offer high-quality products and solutions that continually satisfy customers.

(8) Execute steadfast compliance and corporate governance



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

Topics

The Toyo Kanetsu Group is developing a corporate governance system that facilitates precise decision-making, rapid business execution, and proper supervision and monitoring of operations, while ensuring efficiency, soundness, and transparency in management. At the same time, we strive to engage in dialogue with stakeholders through the annual publication of the TKK Report, the holding of results briefings, and

other forms of communication.

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

C

Initiatives prerequisite for sustainably improving corporate value

(9) Practice sophisticated risk management



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

KPI

	FY	2018	2019	2020 (Targets)	Units
Rate of information security training participation*		–	100	100	%
Number of training sessions held on risk management		4	6	3	Times

Toyo Kanetsu and consolidated subsidiaries

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

Topics

Disaster and Business Continuity Plan Countermeasures

The Toyo Kanetsu Group takes measures that include securing supplies for emergencies, implementing periodic evacuation drills, and carrying out workshops on life-saving techniques in each of its business bases. Further, in fiscal 2019, following the expansion of our Wakayama Plant, we concluded an agreement with the local authority to allow community residents to use the roof area as an evacuation shelter. Additionally, we held internal training based on the theme of responding to emergencies, increasing employees' crisis management awareness.

In addition, recognizing the spread of the COVID-19 pandemic as constituting a serious risk to its business



Rooftop of Wakayama Plant No. 3

continuity, the Toyo Kanetsu Group will fulfill its responsibility to provide services related to social infrastructure and the supply chain for daily necessities, with the safety of its stakeholders, including employees, as the top priority. With the goal of preventing the spread of infection, the Company is taking measures internally and externally, such as implementing telework and staggered working hours from March 2020.

Information Security Measures

In fiscal 2019, we revised our information security policy and established a top-down security structure by appointing the Division Manager of the Corporate Division as Chief Information Security Officer (CISO) and setting up the Information Security Committee, in which various division managers take part. In addition, we established the Computer Security Incident Response Team (CSIRT) within the committee, established a full-time department and personnel, and developed an appropriate initial response system to prevent or respond to the occurrence of an incident, while joining the Nippon CSIRT Association and sharing information with other companies.

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

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

—Challenge & Change—

KPI

	FY	2018	2019	2020 (Target)	Unit
Commendation System: Improvement Proposal Submission Rate		74.6	76.4	100	%

Submission rate = Total number of proposals submitted (Toyo Kanetsu, non-consolidated) ÷ number of eligible Toyo Kanetsu employees at the end of the second fiscal quarter.

Total number of proposals is the aggregate; multiple proposals from one person are all counted.

Topics

Development of a CSR and ESG Management Promotion Structure

To further evolve the promotion of CSR activities and ESG based management, the Toyo Kanetsu Group developed a new structure from fiscal 2020. We appointed a director in charge of CSR and established the Companywide, cross-functional CSR Committee, in which each division manager takes part, while establishing a section in charge of CSR within the Corporate Division.

Improvement Proposal System

To fulfill its slogan of “Challenge & Change,” Toyo Kanetsu commends outstanding operational improvement ideas submitted by Group employees. By establishing a framework to recognize the proactive operational improvement activities of individual employees, we aim to raise employee motivation and further increase operational efficiency.

Reinforcement of the Management Foundation



Kazuhito Watanabe
Director
Managing Officer and
Division Manager,
Corporate Division

In its Medium-Term Business Plan (fiscal 2019–fiscal 2021), the Toyo Kanetsu Group adopts a basic policy of creating a corporate culture that helps its employees to enthusiastically realize

change and achieve results while further improving Group governance.

We have set forth three measures in this regard: (1) reforming our corporate culture into one able to adapt to change and constantly produce business results, (2) strengthening the operations of the Group, and (3) further reinforcing our corporate governance structure and increasing corporate value from an ESG standpoint. The Group will work hard to steadily execute these measures and thereby achieve the next leap forward for the Group's businesses.

Toyo Kanetsu Group ESG Data Highlights

Material issues	FY	2018	2019	Units
A Social issues that could have a major impact on corporate value				
(1) Respond to changes in the business environment caused by climate change*1	Energy consumption (crude oil equivalent)	927	885	kl
	Energy consumption (electricity)	3,030	2,951	Thousand kWh
	Energy consumption (LPG)	112	95	t
	Energy consumption (city gas)	0.1	0.1	Thousand m ³
	CO ₂ emissions	1,789	1,688	t-CO ₂
	CO ₂ emissions per unit of net sales*2	–	0.04	t-CO ₂ /millions of yen
	Water consumption	10.0	10.2	Thousand m ³
	Total amount of waste generated	227	190	t
	Paper consumption	8.3	7.7	t
	Rate of employee participation in environmental management training*3	95	–	%
(2) Respond to the decline in Japan's population*1	Rate of employees voluntarily leaving the Company*4	2.6	2.8	%
	Average number of service years	15.7	15.3	Years
	Number of employees taking childcare leave	5	6	Persons
	Number of employees taking childcare leave (male)	0	2	Persons
	Number of employees taking childcare leave (female)	5	4	Persons
	Number of employees working shortened hours	6	6	Persons
	Number of employees working shortened hours (male)	0	0	Persons
	Number of employees working shortened hours (female)	6	6	Persons
	Number of employees taking nursing care leave	0	0	Persons
	Number of employees returning to work after childcare leave	2	3	Persons
	Rate of annual paid vacation taken	54	58	%
	Average number of work hours*5,6	–	2,015	Hours
	Average number of overtime work hours*6	–	23	Hours
B Initiatives addressing material issues to sustainably improve corporate value				
(3) Train and deploy human resources*1	Number of employees*7	552	560	Persons
	Number of employees (male)	455	457	Persons
	Number of employees (female)	97	103	Persons
	Average age of employees	43.9	44.0	Years old
	Average age of managers	52.7	53.0	Years old
	Number of new graduate recruits	16	19	Persons
	Number of new graduate recruits (male)	8	12	Persons
	Number of new graduate recruits (female)	8	7	Persons
	Number of mid-career recruits	14	11	Persons
	Number of non-Japanese employees	4	7	Persons
	Managers as a percentage of all employees	14.5	15.4	%
	Number of semi-managerial team leaders*8	–	46	Persons
	Female Semi-Managerial Team Leaders as a Percentage of Total Semi-Managerial Team Leaders*8	–	2.2	%
	Annual cost of training	52,311	84,215	Thousands of yen
	Annual cost of training (per employee)	95	150	Thousands of yen
	Number of rewards provided for qualification acquisition	23	21	Cases
	Amount of money provided in rewards for qualification acquisition	1,950	1,100	Thousands of yen
	Number of employees acquiring an important qualification*9	109	106	Persons

Material issues		FY	2018	2019	Units
(4) Develop and use new technologies* ¹⁰	Annual cost of research and development (consolidated)		543,183	541,497	Thousands of yen
(6) Increase productivity* ²	Sales revenue per employee		–	55,076	Thousands of yen
	Operating profit per employee		–	2,608	Thousands of yen
C Initiatives prerequisite for sustainably improving corporate value					
(7) Ensure occupational health and safety* ¹	Frequency rate of industrial accidents		0.63	0.95	Casualties/ million working hours
	Severity rate of industrial accidents		0.00	0.01	Days lost/ thousand working hours
	Number of fatal work accidents		0	0	Cases
	Frequency rate of industrial accidents not resulting in lost work time		1.26	3.50	Casualties/ million working hours
	Total number of work hours		3,168,563	3,146,153	Hours
	Number of Group safety meetings held		1	1	Times
	Number of safety patrols implemented		185	185	Times
	Response rate for stress checks		95.4	94.0	%
(8) Execute steadfast compliance and corporate governance	Rate of compliance training participation* ^{1,11}		91.8	92.5	%
	Number of helpline (whistleblower system) cases* ¹		7	7	Cases
(9) Practice sophisticated risk management* ¹⁰	Rate of information security training participation* ¹²		–	100	%
	Rate of safety confirmation drill participation (annual average)		88.5	93.6	%
	Number of risk management training sessions		4	6	Times
	Number of automated external defibrillator (AED) certificate holders		13	39	Persons
(10) Evolve our corporate culture into one that encourages employees to quickly and proactively take on challenges	Commendation system: Number of improvement proposals* ¹³		950	1,066	Cases
	Commendation system: Improvement proposal submission rate* ¹⁴		74.6	76.4	%

*1 Toyo Kanetsu, non-consolidated. The figure for fiscal 2018 includes Toyo Kanetsu Solutions.

*2 A figure is not recorded for fiscal 2018 because this fiscal year preceded the business integration with Toyo Kanetsu Solutions.

*3 The rate for fiscal 2018 excludes Toyo Kanetsu Solutions employees. Not implemented in fiscal 2019 due to the impact of COVID-19.

*4 Includes full-time employees (including senior employees but excluding assignees) + contract employees + temporary workers + number of incoming assignees.

*5 Includes full-time employees (including senior employees but excluding assignees).

*6 A figure is not recorded for fiscal 2018 because this fiscal year preceded the introduction of the attendance management system.

*7 Includes directors and full-time employees.

*8 A figure is not recorded for fiscal 2018 because this fiscal year preceded the introduction of the team leader system.

*9 Number of employees who are architects, engineers, or construction management engineers.

*10 Toyo Kanetsu and consolidated subsidiaries.

*11 Includes directors, executive officers, and new employees, including those at Group companies.

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

*13 Overall number of proposals for the Group as a whole, including subsidiaries. Total number of proposals is the aggregate; multiple proposals from one person are all counted.

*14 Submission rate = Total number of proposals submitted (Toyo Kanetsu, non-consolidated) ÷ number of eligible Toyo Kanetsu employees at the end of the second fiscal quarter.

Total number of proposals is the aggregate; multiple proposals from one person are all counted.

Logistics Solutions Business



Adopting a customer-first policy, the Logistics Solutions Business will tackle the challenge of addressing social issues through solutions that shape the future of logistics while responding to customer needs.

Takashi Owada

Director

Managing Officer and Division Manager, Logistics Solutions Division

In Step with the Logistics Needs of Different Eras

The Logistics Solutions Business was launched in 1955 to produce conveyors for civil engineering and construction work. Subsequently, due to needs for strengthening logistics functions, such as those to improve production efficiency during the era of rapid economic growth, the business has developed trailblazing systems for the distribution industry and airports that were the largest and first of their kind in Japan while introducing cutting-edge technologies from overseas. In these ways, the business has provided a variety of solutions to diversifying and increasingly sophisticated needs in step with the changing times.

The digital picking system that the Logistics Solutions Business introduced from the United States in 1981, the first such system launched in Japan, became the standard system in the co-op industry. To this day, the Company continues to maintain its leading market share of these systems. In the e-commerce

industry, which has seen dramatic growth in recent years, we entered the market when catalog mail order was the norm, prior to the expansion of e-commerce. In this industry, where we focus on Multishuttle systems, a key product addressing sophisticated logistics needs including high-mix, low-volume logistics and same-day deliveries, we count among our customers almost all major general e-commerce business operators in Japan and boast a leading delivery track record.

In airports, we have been providing airport baggage handling systems since 1971. Through the delivery to 65 domestic airports, such as Haneda, Narita International, and Chubu International airports, of systems of high reliability and serviceability that are passenger-, operator-, and baggage-friendly, we have captured a market share of over 80% for baggage handling systems in Japan.

Logistics Solutions Matched to the Social Patterns of the “Era with COVID-19”

In the distribution industry, the e-commerce and co-op markets in which the Logistics Solutions Business has built a track record have been growing rapidly in recent years. However, the decrease in Japan’s working-age population, due to the country’s falling birth rate and aging society, has become a serious issue on the logistics for the industry. Moreover, amid expectations of further market growth stemming from the entrenchment of and increase in stay-at-home consumption due to the spread of COVID-19, responding to new issues—including the preparation of business continuity plans that make contingencies for the risk of infection inside logistics centers, where workers are forced to work in

“Three Cs,” closed spaces, crowded places, and close-contact settings—has become an urgent task.

The Logistics Solutions Business offers logistics solutions addressing these social issues. Goods to Person (GTP), a picking system deploying the enhanced functionality of Multishuttle systems, is one of these technological solutions. Instead of a picking worker walking to pick up products for delivery, the product moves to the worker’s station, thereby saving labor and increasing



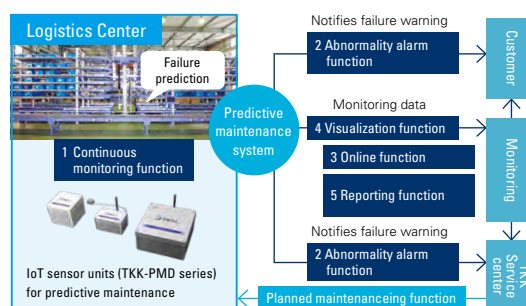
CG rendering of GTP

efficiency. At the same time, as workers can undertake picking at their separate stations while maintaining a distance from others and without moving around the warehouse, this technology is also effective in helping people maintain social distancing.

For logistics centers, which are also a type of social infrastructure, to operate 24 hours a day, 365 days a year, optimal maintenance of machinery and equipment is indispensable. To that end, we released predictive maintenance services leveraging AI and the IoT in April 2020. Using IoT sensors newly developed by the Company, predictive maintenance services enable non-stop logistics by optimizing the timing of parts changes and other forms of maintenance via the visualization of equipment operating conditions and prediction of abnormalities. A major general electronic components manufacturer has already decided to install this service.

In addition, as part of our DX efforts, we are working to increase the overall efficiency of logistics centers

that optimize layouts by taking into account data on incomings, outgoings, and storage, which is actual work data, in determining logistics center layouts and workers' movements. We are also advancing the development of picking systems utilizing robots (Goods to Robot (GTR)), an innovation that will further increase non-contact work processes, and considering the complete automation of logistics centers. In these ways, we will offer new logistics value in the "era with COVID-19"



Achieving the Objectives of the Medium-Term Business Plan

The Logistics Solutions Business has posted record-high profits by making exhaustive efforts to improve profitability, the basic policy of the Medium-Term Business Plan, through strengthening project control management for large-scale projects and other measures from the first year (fiscal 2019) of the Medium-Term Business Plan. Even in a business environment that is highly uncertain because of the impact of COVID-19, we will establish a solid foundation for a high-growth business while responding to social transformation.

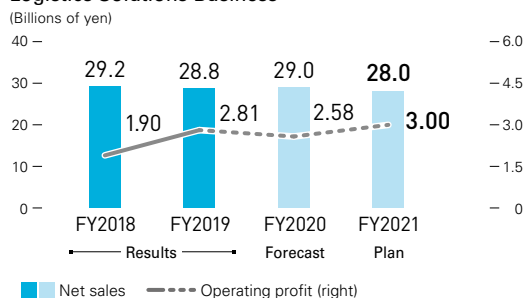
As mentioned earlier, amid the emergence of new growth opportunities for logistics centers, we will tackle the challenge of solving social issues, such as addressing the decline in the working-age population and responding to COVID-19, through a range of next-generation solutions.

For airports, on the other hand, the impact of COVID-19 has prompted a dramatic decline in air passenger numbers and demand for airport equipment is facing a challenging phase. To address this situation, the Company launched the delivery of a self-service baggage drop machine as a peripheral business field to the airport baggage handling systems. Furthermore, the Company is developing the local airport baggage handling systems

market in Indonesia and Thailand through proactive business activities in these countries while strengthening of cooperation with local partners, with the goal of expanding its geographical business fields.

In addition, to augment our order processing system in response to the expanding logistics systems market, we are working to renew internal systems that optimize the Logistics Solutions Business as a whole, such as digitalizing the value chain, from sales through to maintenance services. We will further increase profitability by linking these efforts to strengthening competitiveness, increasing productivity through efficient project control management.

Net Sales and Operating Profit in the Logistics Solutions Business



Plant & Machinery Business



The Plant & Machinery Business engages in the engineering, procurement, and construction (EPC) of tanks and auxiliary facilities designed to efficiently store energy and other products. We support society with our strong project execution capabilities at each phase of project control management.

Hiroshi Ohgi

Senior Managing Officer and Division Manager, Plant & Machinery Division

Together with Energy Infrastructure

In the Plant & Machinery Business, since fabricating its first fully welded tank in 1950 after the resumption of oil refining in Japan, Toyo Kanetsu has delivered more than 5,700 tanks to domestic and overseas projects mainly for oil refineries, oil storage terminals, and LNG export and import terminals as a leading player in the construction of large-scale tanks.

Toyo Kanetsu entered the market for LNG storage tanks when it began to take shape in the 1960s and played a key role in the formation of supply chains by delivering a large number of tanks. Storing LNG at temperatures of around -162°C requires special steel and advanced engineering and installation technologies. Toyo Kanetsu has always been a leader in the industry, delivering one of the world's largest LNG storage tanks (83 meters in diameter, 60 meters in height, and 230,000 cubic meters of storage capacity), for example, developing its technologies while responding to changes in laws, regulations, and standards. The Company has delivered over 100 large-scale LNG storage tanks in countries around the world, for a market share of approximately 15% (based on the number of large-scale LNG storage tanks).

In Japan, Toyo Kanetsu provides tank maintenance services for oil refineries and oil storage terminals across the nation. Domestic laws mandate periodic overhaul inspections of large-scale tanks. Toyo Kanetsu plays a vital role in ensuring the safe operation of storage facilities with its advanced technologies and know-how accumulated from the fabrication and installment of large-scale tanks over many years.

In 1978, we opened the Batam Plant, a fabrication plant for tank materials in Batam, Indonesia. Having been in operation for more than 40 years, the Batam Plant is highly regarded in the industry for its welding and fabrication technologies that comply with stringent laws in Japan and global standards. The plant has also contributed to the industrial development of Indonesia through the training of local personnel and technology transfers.



Batam Plant

Developing New Markets Using Our Accumulated Technologies

We believe it is our mission to fundamentally support economic activities in society through the construction and maintenance of resilient, vital energy infrastructure

to ensure the stable supply of energy. Therefore, leveraging the know-how we have established to date through maintenance in Japan, and with the goal of

advancing business expansion in Southeast Asia—where we boast a significant tank delivery track record—we opened a workshop in the Pengerang district of Johor, Malaysia, that will act as the base for our maintenance business. This base has the geographical advantage of being able to quickly respond to maintenance demand at large-scale plants in Malaysia as well as in surrounding countries. We are currently promoting sales to capture a wide range of demand by taking full advantage of that location while leveraging our abundant delivery track record, technological capabilities, and network.

Hydrogen, which has a light environmental footprint, is attracting expectations as a future form of energy. Hydrogen can be produced from various resources, and it does not produce CO₂ emissions when used. While hydrogen is drawing attention as a gateway to a low-carbon society, in liquid form, it must be stored at the ultra-low temperature of around -253C°, colder than LNG. Accordingly, storing liquid

hydrogen requires highly advanced technologies. By leveraging its accumulated expertise in low-temperature tanks, Toyo Kanetsu is developing a large (10,000-kiloliter class) liquid hydrogen storage tank while conducting joint development through industry-academia collaboration and the backing of a subsidy from NEDO, aiming to contribute to the realization of a low-carbon society in the near future.



Pengerang workshop

Achieving the Objectives of the Medium-Term Business Plan

Amid an ongoing severe business environment, the Plant & Machinery Business advanced measures to return to profitability as its basic aim of rebuilding business under the Medium-Term Business Plan and reduced losses in the first year of the plan (fiscal 2019) more than initially projected. However, we expect plant-related capital expenditures to be significantly delayed or revised due to the impact of the COVID-19 pandemic, making it difficult at this time to achieve our aim of returning to profitability in fiscal 2020.

In response, we will further reduce costs and promote measures that include making effective use of our assets by temporarily dispatching skilled engineers to

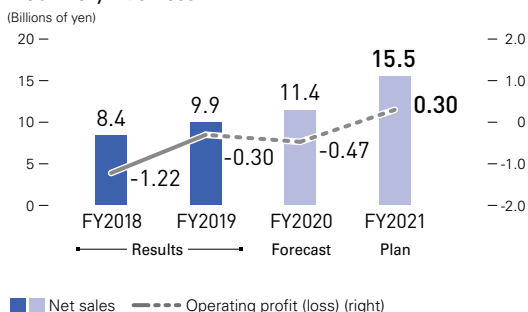
other companies and leasing construction equipment and materials, in addition to installing and operating such equipment and materials on a contract basis.

Also, we will improve our order system for tank maintenance, which is a source of earnings in Japan, and increase profitability while augmenting earnings overseas through such efforts as increasing orders for various steel products other than tanks at our Batam Plant in Indonesia and entering into the plant maintenance business centered on Malaysia.



Maintenance work

Net Sales and Operating Profit (Loss) in the Plant & Machinery Business



Other Businesses (Life & Work Environmental Business Division)

Besides its two core businesses, the Toyo Kanetsu Group operates the industrial machinery, building construction, and environmental surveys and assessments businesses. In fiscal 2020, the Company established the Life & Work Environmental Business Division centered on Group companies responsible for these three businesses and will aim to contribute to the creation of environments and infrastructure that are sensitive to people.

Value Provided by Each Business

For more than 60 years, Toyo Koken K.K. has been involved in the industrial machinery business as a pioneer in equipment for moving heavy loads. It has a firm foothold in the industry, producing and selling winches, balancers, and other products mainly used at building construction sites and inside factories. Toyo Koken has an extensive product lineup of winches, which are used in building construction and other industries to carry heavy loads and is proud to be number one in the winch category in Japan in terms of domestic deliveries. Mighty Puller and Baby Hoist are the brand names of some of its category-leading products. These brand names have grown to win the support of numerous customers. Its balancers allow workers to lift and move heavy loads at will using the principles of leverage. Toyo Koken ranks number two in terms of market share in the balancer industry in Japan, having won accolades from many customers at worksites, principally including those at manufacturing plants.

Leveraging its winch technology that boasts an impressive track record, Toyo Koken released Slope Walker, a new product tailored to disaster

preparedness and aging infrastructure countermeasure needs. This product allows for work to be carried out safely and efficiently by assisting ascent and descent on slopes (steep inclines such as mountain surfaces), which is a considerable burden for workers.

We are seeing an increasing need for products such as winches and balancers, which contribute to reducing and conserving labor, as the number of senior citizens and women working on production sites rises due to labor shortages caused by the declining birth rate and aging society. Toyo Koken underpins those working in a variety of settings, such as construction sites and plants, through development and proposal capabilities matching the requirements of worksites.



Winch

Balancer

Toyo Kanetsu Bultec K.K. operates a building construction contract business that provides high-quality buildings with environmental performance taken into consideration. It has put in place a structure for flexibly proposing solutions in tune with the times while incorporating original construction methods with its own design department. Toyo Kanetsu Bultec mainly concentrates on small and medium-sized buildings, including shared living environments, welfare-related facilities, and retail stores.

In addition, in its steel pipe pile business, Toyo Kanetsu Bultec has built up a lengthy track record in the civil engineering field, including for bridges and large-scale equipment, where the strengthening of foundations is emphasized as a countermeasure against natural disasters, as well as in the construction field that includes shared living environments and

office buildings as a certified construction firm for NS ECO-PILE™, a screwed steel pile that offers substantial benefits in terms of workability and economic efficiency. Toyo Kanetsu Bultec also conducts business for gondolas and building scaffolding that are useful when aging buildings are repaired and renovated, thereby protecting the lives of people through safe and reliable technologies.

* NS ECO-PILE™ is a registered trademark of Nippon Steel Corporation and Nippon Steel Metal Products Co., Ltd.



Construction of residential complex



Steel pile construction work

Kankyo Research Institute Inc. is in charge of the environmental surveys and assessments business, which offers various inspection, measurement, and analysis services related to asbestos, sick building syndrome, noises, vibrations, and bad smells. For the inspection and analysis of asbestos, which is harmful to the health of people, Kankyo Research Institute has a large number of certified technicians who are among the best in their class in the industry. Asbestos removal requires technologies for precisely and properly disposing of asbestos. Backed by its know-how gained from extensive experience, as well as its own high-performance analyzers, Kankyo Research Institute is capable of processing over 20,000 asbestos samples annually.

Amid increasingly diverse and sophisticated needs for environmental assessments in recent years, Kankyo Research Institute developed a real-time monitoring system leveraging IoT technology as a new environmental measurement tool. This system makes it

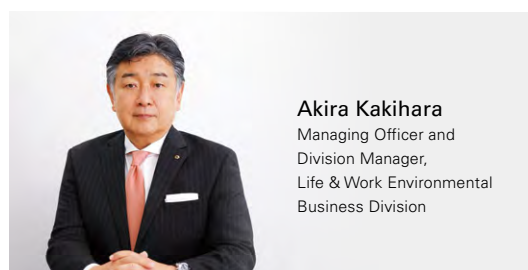
possible to identify and confirm more than 10 types of environmental information, including temperature, humidity, CO₂, atmospheric pressure, noises, vibrations, and dust in real time, anytime and anywhere using a smartphone, tablet, personal computer, or other device.

Kankyo Research Institute will continue to serve as a general consultant on the environment by making use of the know-how and technology it has cultivated through its track record of more than 30 years in environmental analysis while contributing to the creation of a society that is sensitive to people and the environment.



Real-time monitoring system

Achieving the Objectives of the Medium-Term Business Plan



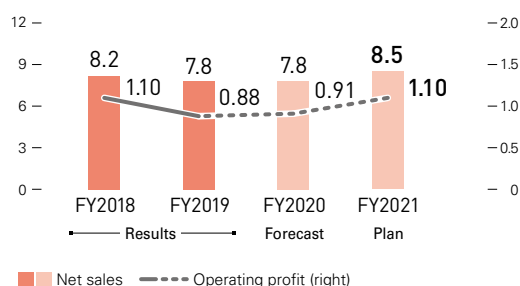
Akira Kakihara
Managing Officer and
Division Manager,
Life & Work Environmental
Business Division

Adopting a basic policy of selection and concentration in other businesses in the current Medium-Term Business Plan, we increased business profits by proactively investing resources in growth fields and promoting the fine-tuning and stabilization of our business structures. Despite an uncertain market environment due to the impact of COVID-19, the division, centered on Toyo Koken, Toyo Kanetsu Builtec, and Kankyo Research Institute, is developing and moving to achieve profitability in new businesses, expanding growth domains in existing businesses, and pursuing synergies among Group businesses, while leveraging M&A and CVC investments.

Although we will make cautious decisions as we take into account the impact of COVID-19 in regard to investments using M&A and CVC, we will aim to strengthen existing businesses centered on the Logistics Solutions Business and enter new domains where growth is expected in the future. We will also aim to contribute to the development of Group businesses by further advancing collaboration with start-up companies, including existing CVC investment businesses.

Net Sales and Operating Profit in the Other Business

(Billions of yen)



Board of Directors (As of June 26, 2020)

Shigeharu Nakamura

Outside Director and
Audit & Supervisory
Committee Member

Toshiaki Hiwatari

Outside Director and
Audit & Supervisory
Committee Member

Kazuhito Watanabe

Director
Managing Officer and
Division Manager,
Corporate Division

Keisuke Kodama

Director and
Executive Vice President



Toru Yanagawa

President and
Representative
Director

Takashi Owada

Director
Managing Officer and Division
Manager,
Logistics Solutions Division

Kazuto Abe

Director and
Audit & Supervisory
Committee Member

Tsuneo Nagai

Outside Director and
Audit & Supervisory
Committee Member

NETSU



Corporate Governance

► Toyo Kanetsu has disclosed its Corporate Governance Guidelines (in Japanese only) on its website.

URL <https://www.toyokanetsu.co.jp/ir/corporate.php>

Basic Approach

Toyo Kanetsu manages its operations while considering the perspectives of its stakeholders, including shareholders, customers, suppliers, employees, creditors, and local communities, and striving to ensure efficiency, soundness, and transparency in

management. The Company has a corporate governance system that facilitates precise decision-making, rapid business execution, and proper supervision and monitoring of operations.

Strengthening of Corporate Governance

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

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

■ Structure ■ Director compensation system
■ Operational policy

Corporate Governance System

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

Board of Directors

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

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

Utilizing the framework provided by the “company with an audit and supervisory committee” structure, the Board of Directors meets once a month, in principle, to deliberate and decide on important matters that are fundamental to the Company based on resolutions approved by the General Meeting of Shareholders; matters that should be discussed and authorized as defined by laws, regulations, and the Articles of Incorporation; and important matters related to management principles, aims, strategic directions, and

business execution. The Board of Directors also monitors business execution. From the standpoint of enhancing the effectiveness and efficiency of business execution, important matters related to the operations of the Company and the Group are deliberated and consulted on by the Management Council, and then decided by the Board of Directors. In accordance with laws, regulations, and the Articles of Incorporation, certain decisions related to important aspects of business execution are entrusted to a certain director, and core management matters that are especially important must be approved by the Board of Directors.

Audit & Supervisory Committee

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

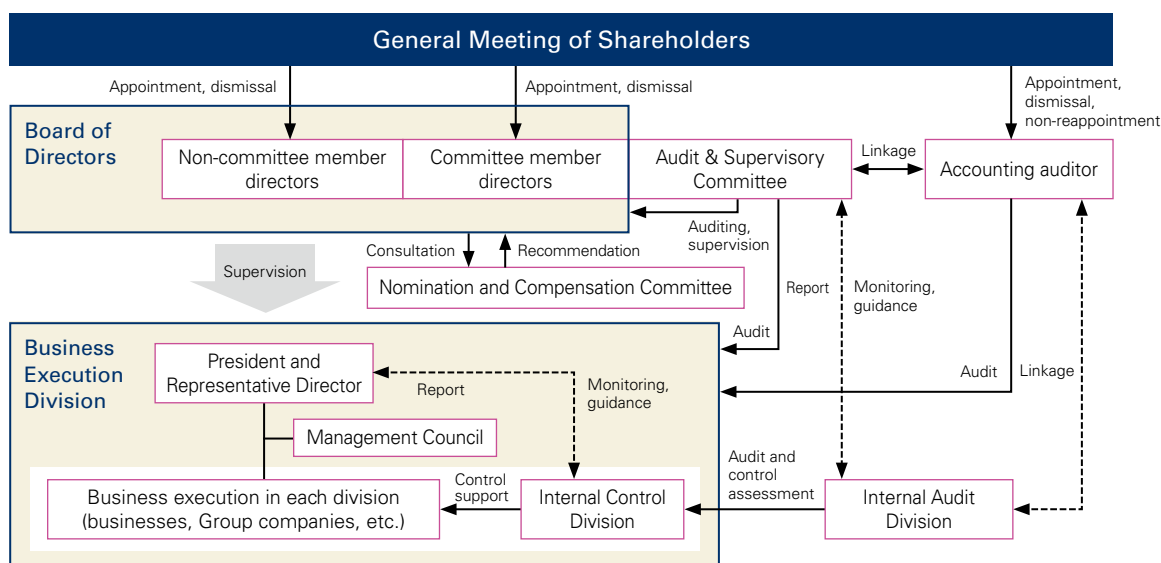
members of the Audit & Supervisory Committee are independent and highly specialized and possess extensive experience as corporate managers.

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

Nomination and Compensation Committee

Toyo Kanetsu established the Nomination and Compensation Committee, on which outside directors form a majority, as an advisory body to the Board of Directors to ensure transparency and appropriateness

Corporate Governance System (as of June 26, 2020)



in the nomination of director candidates and decisions related to their compensation. In this regard, the Company has put in place a structure where fair and highly transparent procedures are followed, including the creation of opportunities for outside directors to get involved and advise on matters in an appropriate manner. For matters concerning the nomination and compensation of directors, the committee meets as often as required to deliberate and make

recommendations, and then the Board of Directors arrives at a final decision.

The committee comprises four directors who are members of the Audit & Supervisory Committee, including a representative director and three outside directors. As of June 26, 2020, Outside Director Toshiaki Hiwatari is the chair of the Nomination and Compensation Committee.

Evaluation of Effectiveness of the Board of Directors

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

Summary of Results of Effectiveness Evaluation in Fiscal 2019

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

(1) Method of Evaluation

From March to May 2020, the Board of Directors conducted an evaluation of its effectiveness by following the procedures outlined below.

1. The secretariat provided the reference materials needed to evaluate effectiveness.
2. The Board of Directors asked questions about the reference materials supplied by the secretariat, exchanged opinions, and asked for additional information to be provided.
3. Each director completed a self-evaluation based on a scoring sheet for effectiveness.
4. At the Board of Directors' meeting held on May 25, 2020, the directors discussed the self-evaluations and reached a decision on the final evaluation.

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

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

1. The Company's Board of Directors is appropriately structured and operating in accordance with its Corporate Governance Guidelines.
2. Each director is fully aware of the roles and responsibilities expected of him by the Board of Directors, and is properly discharging his duties as a director.
3. The Board of Directors formulated and disclosed the new Medium-Term Business Plan (fiscal 2019–fiscal 2021) to clarify the Company's strategic direction and has disclosed the status of progress of this plan at results briefings. In addition, the Board of Directors newly published the *TKK Report 2019* as an integrated report to provide information to shareholders on the status of the Company's approach to ESG (non-financial information).
4. The Board of Directors established the Nomination and Compensation Committee as an advisory body to the Board of Directors. This committee deliberates matters concerning the nomination and compensation of directors, and makes sure this decision-making process is fair and transparent with the appropriate level of involvement of independent outside directors.
5. The Board of Directors has made strenuous efforts in regard to COVID-19 countermeasures to prevent the spread of infection, based on the government's state of emergency declaration.

(3) Future Issues and Response

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

1. Gather information necessary for making decisions,
2. Discuss deeply from multiple perspectives, and
3. Take appropriate risks and proactively and boldly make decisions. Further, invigorate discussion

regarding important internal management issues by the Management Council, the Board of Directors, and other bodies while endeavoring to promote the digitalization of corporate management.

In addition to evaluating the effectiveness of the Board of Directors, evaluations are conducted every year on whether the entire corporate governance system is operating in accordance with the Company's Corporate Governance Guidelines, with the objective of constantly improving the effectiveness of overall corporate governance.

Matters Related to Outside Directors

Name	Toshiaki Hiwatari	Tsuneo Nagai	Shigeharu Nakamura
Field of expertise	Professional knowledge as a prosecutor and attorney	Extensive experience and broad knowledge of corporate management as an executive at listed companies (different sector)	Extensive experience and broad knowledge of corporate management as an executive at financial institutions
Number of Company shares owned	260 shares	2,260 shares	260 shares
Attendance at Board of Directors' meetings	12/12 times (100%)	12/12 times (100%)	12/12 times (100%)
Attendance at Audit & Supervisory Committee meetings	13/13 times (100%)	13/13 times (100%)	13/13 times (100%)
Attendance at Nomination and Compensation Committee meetings	8/8 times (100%)	8/8 times (100%)	8/8 times (100%)

Note: Number of shares as of June 26, 2020. Meeting attendance shown for fiscal 2019.

Director Compensation

Policy for Deciding Method to Calculate Amount of Compensation for Directors

Toyo Kanetsu has created policies and procedures for determining the compensation of directors who are not members of the Audit & Supervisory Committee. The Company has a transparent process for deciding compensation, with the Board of Directors determining the amount of compensation following deliberation and recommendations by the Nomination and Compensation Committee, of which outside directors form a majority.

Compensation for directors who are not members of the Audit & Supervisory Committee comprises fixed compensation, additional compensation, and performance-linked stock compensation, the combined total of which is within the maximum amount for compensation approved by resolution of the General Meeting of Shareholders.

Compensation for directors who are members of

the Audit & Supervisory Committee comprises fixed compensation only, the total of which is within the maximum amount for compensation approved by resolution of the General Meeting of Shareholders and determined in deliberations by directors who are members of the Audit & Supervisory Committee.

a. Fixed Compensation and Additional Compensation
Within the maximum amount for compensation approved by resolution of the General Meeting of Shareholders, the amount of fixed compensation is determined according to rank while additional compensation, which is linked to the Company's earnings, is determined as a specific amount according to a compensation table, with consideration paid to performance indicators, such as the total return ratio, dividend payout ratio, and consolidated profit before income taxes and other adjustments as a basic reference. On occasion, a bonus may be paid to directors only if approved by a

Total Compensation by Director Category, Total Compensation by Type, and Number of Eligible Directors in Fiscal 2019

Director category	Total amount of compensation (¥ million)	Total amount of compensation by type (¥ million)			Number of eligible directors
		Fixed compensation	Additional compensation	Performance-linked stock compensation	
Directors (excluding members of the Audit & Supervisory Committee and outside directors)	149	77	56	15	6
Directors (members of the Audit & Supervisory Committee) (excluding outside directors)	16	16	—	—	1
Outside directors	26	26	—	—	3

Notes: 1 The above amounts do not include salaries and bonuses as employee directors.

2 Compensation is based on the Articles of Incorporation or resolutions approved by the General Meeting of Shareholders.

separate resolution of the General Meeting of Shareholders and only when the Company's earnings exceed a certain threshold.

b. Performance-Linked Stock Compensation

Performance-linked stock compensation is paid to directors (excluding outside directors and directors who are members of the Audit & Supervisory Committee) and executive officers who are ranked managing executive officer or higher and who are not directors. The period for the compensation runs for three fiscal years from the fiscal year beginning on April 1, 2019 (the period of the present Medium-Term Business Plan). The purpose of introducing the performance-linked stock compensation system is to clarify the link between compensation for eligible directors and executive officers and the Company's earnings and stock value. By facilitating the sharing by eligible directors and executive officers of the risks and returns arising from changes in the share price with shareholders, this system heightens the motivation of executives to further improve the Company's performance and increase its corporate value over the medium to long term. The process for determining this system began when the introduction of a performance-linked stock compensation system was brought to the Nomination and Compensation Committee at a regular meeting of the Board of Directors on June 28, 2018. Subsequently, following various examinations of issues such as the system's significance, compensation amounts, scope of eligible individuals, and performance-linked co-efficient by said committee, introduction of the system was recommended at the Board of Directors' meeting held on May 13, 2019, and approved by a resolution at the 111th General Meeting of Shareholders held on June 27, 2019.

In addition to the resolution approved at the General Meeting of Shareholders, this system grants

points to eligible directors and executive officers in accordance with their rank and achievement of earnings targets each fiscal year, based on the share delivery regulations of the Performance-Linked Stock Compensation System for Directors, which was established by the Company. In principle, these directors and executive officers are eligible to receive shares of the Company's stock (one point is equivalent to one share of ordinary stock) and monetary compensation based on their total number of accumulated points through a trust account set up for this purpose, after their retirement or after earnings have been recorded for the final year of each medium-term business plan. These points, shares of the Company's stock, and amounts of monetary compensation are approved by the Board of Directors after the General Meeting of Shareholders in the relevant fiscal year.

As a performance-linked co-efficient that serves as an indicator for granting performance-linked stock compensation to eligible directors and executive officers, the Company has adopted consolidated ROE for those with responsibilities on a Companywide basis, and Companywide ROE and divisional operating profit at a rate of 50% each for those with responsibility for each business as a method for calculating points. ROE has been adopted because it is publicly disclosed information and an indicator of improvement in medium- to long-term corporate value, which is expected by shareholders. At the same time, it is an effective indicator as an incentive for directors and executive officers who aim to achieve the ongoing growth of the Company. Divisional operating profit has been adopted because it is an indicator for the division for which directors and executive officers have responsibility as well as being publicly disclosed information. In fiscal 2019, Companywide ROE and divisional operating profit targets and results were as follows.

	Target	Result	Level of achievement
Companywide ROE	3.70%	4.97%	120% or more
Division Operating Profit (Logistics Solutions Business)	2,200 million yen	2,812 million yen	120% or more
Division Operating Profit (Plant & Machinery Business)	-650 million yen	-305 million yen	120% or more

Cross-Shareholdings

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

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

Risk Management

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

We recognize that the effects of the spread of COVID-19, which emerged in 2020, pose a significant risk to the Company on many fronts. In fiscal 2019, the impact on our business results was limited. In fiscal

2020, however, there is a downside risk to business performance due to the cancellation or delay of some projects that were ordered as well as delays in the supply of products and parts purchased overseas. In addition, constraints on oil- and gas-related capital investments, based on an observed decrease in energy demand, and lower demand for airport-related equipment due to a sharp drop in the number of air travelers could adversely affect the Group's business results over the medium to long term.

From a financial perspective, in preparation for a worsening of our cash flows due to the global spread of COVID-19, we will prepare for contingencies, while making careful investment decisions and ensuring that we have sufficient liquidity on hand for our needs.

Business Risks

Out of all the risks that could affect our business activities, in addition to risks arising from the effect of the spread of COVID-19, some that would have a significant impact are shown below. However, this is not an exhaustive list of risks related to the Group and there are risks that are difficult to foresee.

* Note that forward-looking statements contained in this section are based on the understanding of the Company as of the submission date (June 26, 2020) of the Securities Report (in Japanese only) for the fiscal year ended March 31, 2020.

Category	Nature of risk
1 Global economic and energy market trends, etc.	Logistics Solutions Business <ul style="list-style-type: none"> Slowdown in investments in logistics-related facilities due a lower volume of logistics as a result of a recession or the declining birthrate and aging population Decline in demand for air travel
	Plant & Machinery Business <ul style="list-style-type: none"> Cancellation, postponement, or major revision of investment plans due to factors including global economic trends, economic and social conditions in oil and gas producing and consuming countries, energy and environmental policies in various countries, and trends in crude oil and LNG prices In addition, the following risks are also possible in the event of a deterioration of the economic environment: <ol style="list-style-type: none"> Fluctuations in foreign exchange rates Fluctuations in interest rates Valuation of securities held
2 Execution of projects	Logistics Solutions Business <ul style="list-style-type: none"> An unexpected increase in costs due to various factors, such as compressed construction periods due to unexpected changes in construction plans under pressure to shorten delivery times and delivery deadline adjustments due to carrying out multiple large projects simultaneously within a certain time period Impact on the execution of projects in the event that products purchased from specific overseas business partners cannot be purchased in a stable manner
	Plant & Machinery Business <ul style="list-style-type: none"> Shortages of construction workers and rising purchase prices of materials and equipment Deterioration in profits from projects and adverse effect on the Group's social reputation due to serious quality complaints or problems with products In addition, the Group's overseas operations carry the following inherent risks: <ol style="list-style-type: none"> Unexpected changes in laws and regulations Political and economic instability Difficulties in securing human resources Unfavorable tax system revisions Social disorder due to terrorism, war, epidemics, disasters, or other factors
3 Intensifying competition for orders	<ul style="list-style-type: none"> Unreasonable downward pressure on profitability Impact on the Group's ability to obtain orders due to changes in terms of customer policies and plans, the business environment of the industry, and industry restructuring
4 Launch of new businesses	<ul style="list-style-type: none"> Impact on business results over the medium to long term in the event that strategic investments do not achieve initial expectations of synergies or do not lead to the launch of new businesses
5 Climate change	<ul style="list-style-type: none"> Impact on the business environment in the event that demand for tanks decreases due to a shifting energy mix Decrease in social trust as a result of the occurrence of soil, air, water, marine, and other pollution caused by business activities
6 Information security and maintenance of information infrastructure	<ul style="list-style-type: none"> Damage to the Group's reputation for reliability due to the loss or leakage of confidential information as a result of unforeseen cyberattacks Loss of business opportunities in the event that the Group lags behind in DX initiatives
7 Securing and developing human resources	<ul style="list-style-type: none"> Impact on business activities from an outflow of human resources and rise in recruitment costs
8 Occupational health and safety	<ul style="list-style-type: none"> Compensation for damages, criminal penalties, administrative punishment, and loss of social trust in the event of problems or an accident
9 Natural disasters and epidemics	<ul style="list-style-type: none"> Serious material damage and human injury caused by greater-than-expected natural disasters
10 Compliance	<ul style="list-style-type: none"> Financial penalties and a reduction in the public's trust in the Group stemming from violation of laws and regulations in Japan and overseas

Details are available in the *Financial Section of TTK Report 2020*, which is on the Company's website.
https://www.toyokanetsu.co.jp/global/ir/ttpk_report.php

Message from Outside Directors



**Tsuneo
Nagai**

Outside Director and
Audit & Supervisory
Committee Member

It is important for the corporate management of any company to make steady progress on day-to-day business matters. I am of the opinion that TTK has done this well. I also believe it is important to take on challenges that may seem impossible at first. The Company must contemplate what can be done or how to change in order to solve a challenge and, in doing so, it can become an innovative solution provider. For people who have been routinely successful in the past, taking on seemingly impossible challenges is the hardest, and they tend to look for reasons why it will fail. It is essentially important to change the approach by examining a new direction for taking on a challenge instead of looking for a solution based on what one can already do.

Looking at TTK now, I can see in the Logistics Solutions Business how the Company is on a path toward

becoming an innovator. That being said, the Plant & Machinery Business has yet to embark on this necessary path, in my view. In this context, following business integrations that reshuffled a large number of personnel, including managers, and their knowledge around the Company, conducting management through more rapid decision-making would be an effective solution for sustaining growth in corporate value as well as for restructuring the Plant & Machinery Business.

I believe TTK has kept its corporate governance structure in tune with the changing times and operating conditions. Rules about corporate governance are constantly subject to change, requiring a proactive approach instead of a passive one, and I feel that the Company has been proactive enough in this regard. I also think management needs to continue with efforts to improve its effectiveness.

As an outside director,, I will voice various opinions from different viewpoints, based on my career and experience to date. By doing so, I hope to change the tone of Board of Directors' meetings, which tend to focus on reports from inside officers, into venues where frank opinions are exchanged among the directors, furthering their shared understanding of issues.



**Shigeharu
Nakamura**

Outside Director and
Audit & Supervisory
Committee Member

Today, corporations are being asked to play a greater role in contributing to solutions for various social and global issues, such as the SDGs. TTK is well positioned to aggressively tackle these social and global issues, without circumventing such issues, as it engages in the fields of energy and the environment. I believe TTK made the right decision when it began publishing an integrated report in fiscal 2019 as a means of reporting on its progress addressing these issues while identifying material issues.

The 10 material issues identified by the TTK Group are a natural choice, in my opinion, including potential contributions to the SDGs. Of these, I think TTK is making solid progress on the category C issues related to corporate infrastructure, namely, (7) Ensure occupational health and safety, (8) Execute steadfast compliance and corporate governance, (9) Practice sophisticated risk management, and (10) Evolve our corporate culture into one that

encourages employees to quickly and proactively take on challenges. In my view, TTK has an adequate base from which to tackle the category A social issues that could have a major impact on its corporate value, such as (1) Respond to changes in the business environment caused by climate change, and (2) Respond to the decline in Japan's population. Another area in which the Company has made gradual progress is the empowerment of women in the workplace, but I believe more needs to be done in terms of providing guidance and training from a long-term perspective, including thinking about how best to draw out the latent abilities of female employees.

My impression of the Company's employees is that they are passionate about their jobs and put everything into their work. I also think TTK is concentrating efforts on improving its corporate governance. What I am concerned about is that inside executives have rarely commented on topics outside of their own areas of responsibility at Board of Directors' meetings. In my opinion, only by asking questions about other business areas and sometimes voicing an opinion critical of other business divisions can the executives deepen their understanding across businesses. For TTK to advance further as a corporation, I believe the scope of topics for discussion must be widened in the Board meetings, and, as an outside director, I intend to assist in this regard.

Consolidated Balance Sheets

(Japanese GAAP)

(Millions of yen)

Assets	Previous fiscal period (As of March 31, 2019)	Current fiscal period (As of March 31, 2020)
Current assets		
Cash and deposits	¥ 7,666	¥11,507
Notes and accounts receivable—trade	23,267	15,413
Investments in leases	1,499	937
Merchandise and finished goods	38	27
Work in process	4,252	5,179
Raw materials and supplies	1,670	1,977
Other	534	435
Allowance for doubtful accounts	(22)	(16)
Total current assets	38,906	35,461
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,321	4,218
Machinery, equipment and vehicles, net	1,021	1,016
Tools, furniture and fixtures, net	310	364
Land	10,556	10,568
Construction in progress	622	253
Other, net	12	20
Total property, plant and equipment	15,845	16,442
Intangible assets	357	381
Investments and other assets		
Investment securities	8,671	8,013
Deferred tax assets	63	45
Retirement benefit asset	332	38
Other	868	889
Allowance for doubtful accounts	(289)	(286)
Total investments and other assets	9,646	8,699
Total non-current assets	25,850	25,523
Total assets	¥64,756	¥60,985

Liabilities	(Millions of yen)	
	Previous fiscal period (As of March 31, 2019)	Current fiscal period (As of March 31, 2020)
Current liabilities		
Notes and accounts payable–trade	¥ 1,570	¥ 919
Short-term borrowings	7,849	7,849
Current portion of long-term borrowings	514	619
Accrued expenses	7,534	4,763
Income taxes payable	659	553
Advances received	2,020	2,790
Provision for bonuses	227	267
Provision for loss on order received	121	241
Provision for warranties for completed construction	555	389
Other	870	455
Total current liabilities	21,922	18,848
Non-current liabilities		
Long-term borrowings	4,627	4,488
Deferred tax liabilities	1,267	1,520
Deferred tax liabilities for land revaluation	1,095	1,095
Retirement benefit liability	358	152
Asset retirement obligations	224	235
Other	27	40
Total non-current liabilities	7,599	7,534
Total liabilities	29,522	26,382
Net assets		
Shareholders' equity		
Share capital	18,580	18,580
Capital surplus	1,273	1,273
Retained earnings	14,549	15,224
Treasury shares	(1,077)	(2,355)
Total shareholders' equity	33,324	32,722
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,621	2,666
Deferred gains or losses on hedges	—	0
Revaluation reserve for land	106	106
Foreign currency translation adjustment	(759)	(729)
Remeasurements of defined benefit plans	(61)	(165)
Total accumulated other comprehensive income	1,907	1,878
Non-controlling interests	1	1
Total net assets	35,234	34,602
Total liabilities and net assets	¥64,756	¥60,985

Consolidated Statements of Profit or Loss and Comprehensive Income

(Japanese GAAP)

	(Millions of yen)	
	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net sales	¥45,188	¥46,518
Cost of sales	38,194	37,355
Gross profit	6,994	9,162
Selling, general and administrative expenses	5,588	6,570
Operating profit	1,406	2,591
Non-operating income		
Interest income	12	9
Dividend income	302	277
Foreign exchange gains	—	5
Other	136	160
Total non-operating income	452	452
Non-operating expenses		
Interest expenses	49	59
Foreign exchange losses	19	—
Other	17	14
Total non-operating expenses	87	74
Ordinary profit	1,771	2,970
Extraordinary income		
Gain on sales of non-current assets	36	0
Gain on sales of investment securities	74	578
Gain on bargain purchase	87	—
Disaster donations	46	—
Other	1	—
Total extraordinary income	246	579
Extraordinary losses		
Loss on valuation of investment securities	237	673
Loss on disaster	159	39
Other	20	48
Total extraordinary losses	418	761
Profit before income taxes	1,599	2,788
Income taxes—current	748	759
Income taxes—deferred	(173)	311
Total income taxes	574	1,070
Profit	¥ 1,025	¥ 1,717
Profit attributable to		
Profit attributable to owners of parent	¥ 1,025	¥ 1,717
Loss attributable to non-controlling interests	(0)	(0)
Other comprehensive income		
Valuation difference on available-for-sale securities	(374)	44
Deferred gains or losses on hedges	—	0
Foreign currency translation adjustment	(83)	30
Remeasurements of defined benefit plans, net of tax	(66)	(104)
Total other comprehensive income	(523)	(29)
Comprehensive income	¥ 501	¥ 1,688
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	¥ 501	¥ 1,688
Comprehensive income attributable to non-controlling interests	(0)	(0)

Consolidated Statements of Changes in Equity

(Japanese GAAP)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of March 31, 2018	¥18,580	¥1,273	¥15,750	¥(1,397)	¥34,207
Changes during period					
Dividends of surplus			(930)		(930)
Profit attributable to owners of parent			1,025		1,025
Reversal of revaluation reserve for land			26		26
Purchase of treasury shares				(1,004)	(1,004)
Cancellation of treasury shares			(1,323)	1,323	—
Net changes in items other than shareholders' equity					
Total changes during period	—	—	(1,201)	319	(882)
Balance as of March 31, 2019	¥18,580	¥1,273	¥14,549	¥(1,077)	¥33,324
Changes during period					
Dividends of surplus			(903)		(903)
Profit attributable to owners of parent			1,717		1,717
Purchase of treasury shares				(1,416)	(1,416)
Disposal of treasury shares			(138)	138	—
Net changes in items other than shareholders' equity					
Total changes during period	—	—	675	(1,277)	(602)
Balance as of March 31, 2020	¥18,580	¥1,273	¥15,224	¥(2,355)	¥32,722

(Millions of yen)

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of March 31, 2018	¥2,995	¥—	¥133	¥(676)	¥ 5	¥2,458	¥0	¥36,666
Changes during period								
Dividends of surplus								(930)
Profit attributable to owners of parent								1,025
Reversal of revaluation reserve for land								26
Purchase of treasury shares								(1,004)
Cancellation of treasury shares								—
Net changes in items other than shareholders' equity	(374)		(26)	(83)	(66)	(550)	0	(550)
Total changes during period	(374)	—	(26)	(83)	(66)	(550)	0	(1,432)
Balance as of March 31, 2019	¥2,621	¥—	¥106	¥(759)	¥(61)	¥1,907	¥1	¥35,234
Changes during period								
Dividends of surplus								(903)
Profit attributable to owners of parent								1,717
Purchase of treasury shares								(1,416)
Disposal of treasury shares								—
Net changes in items other than shareholders' equity	44	0	—	30	(104)	(29)	0	(29)
Total changes during period	44	0	—	30	(104)	(29)	0	(631)
Balance as of March 31, 2020	¥2,666	¥ 0	¥106	¥(729)	¥(165)	¥1,878	¥1	¥34,602

Consolidated Statements of Cash Flows

(Japanese GAAP)

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Profit before income taxes	¥ 1,599	¥ 2,788
Depreciation	728	718
Gain on bargain purchase	(87)	—
Increase (decrease) in allowance for doubtful accounts	(3)	(9)
Increase (decrease) in retirement benefit liability	(13)	(195)
Decrease (increase) in retirement benefit asset	4	139
Increase (decrease) in provision for loss on order received	(62)	120
Increase (decrease) in provision for warranties for completed construction	(25)	(165)
Interest and dividend income	(315)	(287)
Interest expenses	49	59
Disaster donations	(46)	—
Loss on disaster	159	39
Foreign exchange losses (gains)	72	(17)
Loss (gain) on valuation of investment securities	237	673
Loss (gain) on sales of investment securities	(74)	(578)
Loss (gain) on sales of non-current assets	(31)	6
Loss on retirement of non-current assets	8	(18)
Decrease (increase) in trade receivables	(13,749)	7,865
Decrease (increase) in investments in leases	272	562
Decrease (increase) in inventories	(419)	(1,221)
Decrease (increase) in advance payments—trade	95	1
Increase (decrease) in trade payables	3,714	(3,428)
Increase (decrease) in advances received	1,621	769
Other, net	(134)	(287)
Subtotal	(6,400)	7,533
Interest and dividends received	314	287
Interest paid	(50)	(67)
Disaster donations received	46	—
Payments associated with disaster loss	(159)	(24)
Income taxes paid	(449)	(772)
Net cash provided by (used in) operating activities	(6,698)	6,955
Cash flows from investing activities		
Payments into time deposits	—	(166)
Proceeds from withdrawal of time deposits	—	118
Proceeds from sales and redemption of securities	500	—
Purchase of non-current assets	(1,080)	(1,424)
Proceeds from sales of non-current assets	375	4
Purchase of investment securities	(717)	(250)
Proceeds from sales and redemption of investment securities	74	878
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(427)	—
Other, net	(40)	27
Net cash provided by (used in) investing activities	(1,315)	(812)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	3,217	—
Proceeds from long-term borrowings	2,000	480
Repayments of long-term borrowings	(38)	(514)
Purchase of treasury shares	(1,004)	(1,566)
Proceeds from disposal of treasury shares	—	149
Proceeds from share issuance to non-controlling shareholders	1	0
Dividends paid	(926)	(901)
Net cash provided by (used in) financing activities	3,249	(2,351)
Effect of exchange rate change on cash and cash equivalents	(45)	1
Net increase (decrease) in cash and cash equivalents	(4,810)	3,793
Cash and cash equivalents at beginning of period	12,420	7,609
Cash and cash equivalents at end of period	¥ 7,609	¥11,402

Corporate Profile and Stock Information (As of March 31, 2020)

Corporate Profile

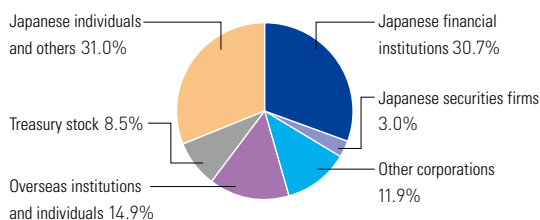
Corporate name	Toyo Kanetsu K.K.
Headquarters	11-1, Minamisuna 2-chome, Koto-ku, Tokyo 136-8666, Japan
Established	May 16, 1941
Capital	18.58 billion yen
Number of issued shares	9,323,074
Share unit	100
Employees	995 (on a consolidated basis)
Ticker code	6369
Share registrar	Mitsubishi UFJ Trust and Banking Corporation
Share registrar address and contact information	Stock Transfer Agency Department Mitsubishi UFJ Trust and Banking Corporation 1-1 Nikko-cho, Fuchu City, Tokyo 137-8081 TEL (free dial within Japan): 0120-232-711 Mailing address: P.O. Box 29, Shin-Tokyo Post Office, Tokyo 137-8081, Japan
Stock exchange listings	Tokyo Stock Exchange First Section
Independent auditor	Gyosei & Co.

Major Shareholders

Name	Number of shares (Thousands)	Shareholding (%)
The Master Trust Bank of Japan, Ltd. (trust account)	482	5.65
Japan Trustee Services Bank, Ltd. (trust account)	427	5.00
Resona Bank Limited	419	4.91
Nippon Life Insurance Company	414	4.85
Daiei Real Estate & Development Co., Ltd.	212	2.49
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	181	2.12
Japan Trustee Services Bank, Ltd. (trust account 5)	174	2.04
Mizuho Bank, Ltd.	153	1.80
JP MORGAN CHASE BANK 385151	133	1.56
Tomohiro Yoshida	128	1.50

Notes: 1 In addition to the aforementioned, the Company holds 790,040 shares of treasury stock.
2 The calculation of the percentage of total shares outstanding excludes treasury stock.

Shareholders and Distribution of Shares



Note: Percentage of total shares outstanding held by shareholder

Share Price and Trading Volume



Thank you for taking the time to read *TKK Report 2020*. With the aim of improving corporate value from an ESG standpoint, the Group began publishing the TKK Report in fiscal 2019. In fiscal 2020, which sees the publication of our second integrated report, we enhanced the report's content while referencing the valuable opinions of our stakeholders. We will continue to work to improve the report and strive to make it a tool for constructive dialogue with all stakeholders. Please feel free to contact us if you have any opinions on this report.

Keisuke Kodama

Director and Executive Vice President
Chair of the CSR Committee



Contact Information

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