

Corporate governance

Our basic principle

We have implemented a corporate governance system as shown in the chart in order to build and improve a management system that can quickly respond to changes in the business environment. Also, we have established and disclosed the “DKK-TOA Corporate Governance Guidelines” with the aim of fulfilling our social responsibilities to our stakeholders and achieving sustainable growth and enhancement of corporate value. We are also working to ensure management efficiency and fairness by complying with the Group’s management philosophy and Corporate Behavior Charter and building a solid supervisory system to ensure thorough compliance.

System outline

We have adopted a company structure with board of corporate auditors, where the Board of Directors decides basic management policies, matters stipulated by law, and other important management issues, while directors mutually supervise business execution, and corporate auditors strictly play their roles. In addition, we have set up a voluntary advisory committee chaired by an independent outside director to ensure the fairness, transparency, and objectivity of management decisions.

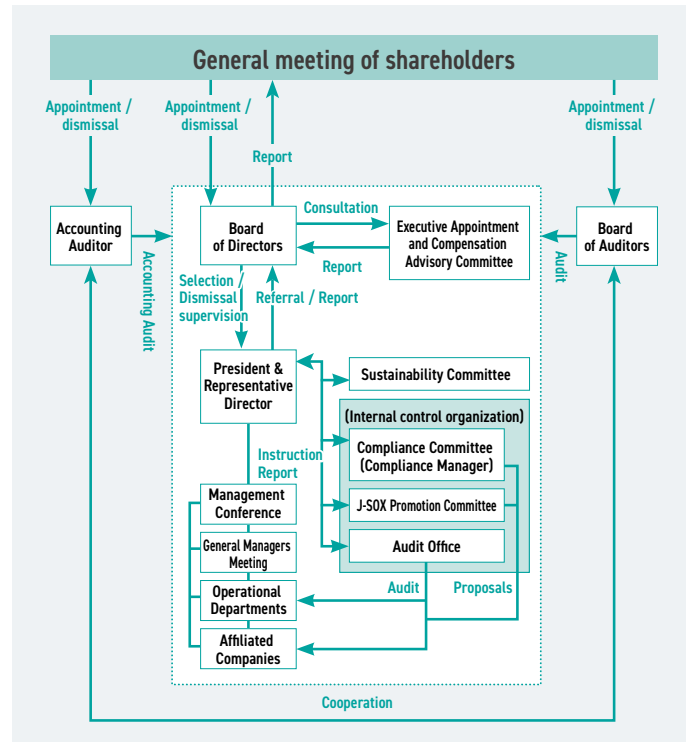


■ Board of Directors

The Board of Directors consists of 12 directors (including two outside directors). The regular Board of Directors generally meets once a month to make decisions on basic management matters and important business matters, and to supervise the business execution status of each director. The term of office for directors is one year to ensure that the management system can respond quickly to changes in the business environment.

■ Board of Auditors

Composed of four corporate auditors (including three independent outside auditors), the Board of Auditors holds a regular monthly meeting in principle. Auditors attend meetings of the Board of Directors and other important meetings and audit the status of execution of duties by full-time directors and others from an independent standpoint.



■ Executive Appointment and Compensation Advisory Committee

As an advisory body to the Board of Directors, we have established the “Executive Appointment and Compensation Advisory Committee” chaired by an independent outside director. The Committee deliberates on matters related to the appointment and dismissal of directors, corporate auditors, and executive officers, compensation for directors and executive officers, etc., and reports to the Board of Directors.

■ Management Conference

The Management Conference is composed of the president, directors with title, and persons appointed by the president, and is held at least once a month. The Conference deliberates on individual issues related to business execution from a practical perspective and make swift and decisive decisions.

■ Internal audit

We have set up an Audit Office that reports directly to the president and cooperates mutually with corporate and accounting auditors.

Director skills matrix

Our board composition is determined by the skills, insights, and expertise possessed by each individual director. Our fundamental policy is to foster diversity and maintain a balanced board, ensuring that each member makes a valuable contribution to enhance our corporate value. While the skills matrix on the right does not list the complete range of skills possessed by each director, it serves as a guide outlining the specific areas in which the Company expects each director to bring to the board table based on their knowledge and experience.

	Principal positions & responsibilities at the company	Corporate management	Sales & marketing	Manufacturing, engineering and development	Global	Finance & accounting	Legal & risk management
TAKAHASHI Toshio	President & Representative Director	●	●	●			
YAMAMORI Yasuo	Chairman	●		●	●		
SHOJI Masao	Senior Managing Director & Sales Supervisor	●	●		●		
NAKAJIMA Nobuhisa	Managing Director & General Manager of Production Div.	●	●	●			
TAKASHIMA Kazuyuki	Managing Director & General Manager of Development & Technology Div.	●	●	●			
TANIYAMA Susumu	Director & General Manager of Domestic Sales Div.	●	●				
KOSAKA Toru	Director & General Manager of Administrative Div.	●	●			●	●
NISHIZAWA Takashi	Director & Deputy General Manager of Development & Technology Div.	●		●			
MARU Sadakatsu	Director	●	●		●		
Mudassir Fajandar	Director	●	●		●	●	
AZUMA Nozomi	Outside director						●
IGARASHI Jinichi	Outside director	●		●			

Improving the Board of Directors' effectiveness

To address concerns related to the structure and functioning of the Board of Directors and to enhance its effectiveness, a comprehensive questionnaire is distributed to all directors and corporate auditors. The aggregated responses are used as a basis for discussion within the Board, focusing on identifying key issues and formulating future initiatives.



■ Evaluation results and key issues for FY2022

The Board of Directors has made notable strides in improving operational quality and fostering robust discussions, leveraging the valuable input and guidance of external directors, consistent with fiscal year 2021. However, in the pursuit of further enhancing the Board's effectiveness, the following critical issues have been identified:

- Strengthening discussions on human resource development, human resource strategy, medium- to long-term management strategy, and sustainability
- Promoting greater diversity within the Board through the appointment of female directors and other measures

Our Board of Directors remains committed to addressing these challenges head-on, driving continuous improvements and advancements in line with the identified issues.

■ Efforts to enhance the Board of Directors' effectiveness

We are implementing initiatives to bolster our support system, enabling outside directors to develop a comprehensive understanding of the DKK-TOA Group's business operations and make informed judgments. Upon their appointment, we promptly provide detailed explanations regarding the Group's business and financial conditions. To facilitate productive discussions and meaningful exchanges of opinions during Board of Directors meetings, we distribute meeting materials well in advance and offer pre-meeting briefings to outside directors as needed. These measures aim to foster efficient and effective decision-making processes within our Board of Directors.

Remuneration for directors and corporate auditors

Our company follows a fundamental policy that aligns director remuneration with shareholder value, aiming to establish clear management accountability and enhance long-term corporate value. Executive compensation comprises three components: "fixed compensation" (monetary), "performance-based compensation" (monetary), and "restricted stock compensation" (non-monetary)*, which serves as a medium- to long-term incentive. Independent outside directors and corporate auditors, who maintain independence from day-to-day business operations, receive only fixed remuneration. To ensure objectivity and transparency in the decision-making process regarding compensation, the Advisory Committee on Personnel and Compensation for Directors and Corporate Auditors, an independent advisory body, has been established to provide guidance to the Board of Directors.

* During the 79th Ordinary General Meeting of Shareholders held on June 27, 2023, a resolution was passed to introduce a new restricted stock compensation plan.

FY2022 Results (millions of yen)

Classification of officers	Total amount of compensation	Breakdown		Number of persons paid
		Fixed	Performance-based	
Directors (of which, outside directors)	166 (13)	136 (13)	30 (-)	12 persons (3 persons)
Audit & supervisory board members (of which, outside directors)	37 (24)	37 (24)	-	4 persons (3 persons)

Note 1: A portion of the fixed remuneration is allocated to the Directors' Shareholding Association, which allows directors to consistently acquire the company's shares. The acquired shares are held by the respective director throughout their term in office.

Note 2: The count of remunerated directors includes two individuals who retired during the fiscal year under review. Conversely, it excludes two directors who did not receive any form of remuneration.

Internal control

In 2006, the Board of Directors implemented the "Basic Policy for Internal Control System" in accordance with the requirements of the Companies Act and the Ordinance for Enforcement of the Companies Act. This policy has been periodically revised as needed. Building upon this foundation, the company has established a robust system to ensure that directors' duties are carried out in compliance with applicable laws, regulations, and the Articles of Incorporation. Additionally, the company has implemented a system to uphold the appropriateness of operations across the entire company group.

■ Internal control reporting for financial reporting

To ensure the reliability of financial reporting in line with the Financial Instruments and Exchange Law, we have established the J-SOX Promotion Committee. This committee is responsible for developing a comprehensive system to maintain and enhance the effectiveness of financial reporting controls. Our ongoing efforts focus on continual improvement and strengthening of these controls.

Message from outside director

Aiming to enhance governance and strengthen the management foundation



AZUMA Nozomi
Outside director

Our strength lies in our management philosophy grounded in corporate social responsibility awareness.

We strive to contribute to global environmental conservation and the creation of a prosperous, people-friendly society through our provision of measuring instruments. As sustainability becomes increasingly vital, we take pride in our longstanding commitment to corporate social responsibility.

Medium-term management plan: Seeking stakeholder support

Aligned with our management philosophy, we have prioritized strengthening our corporate governance system and fostering a fair and transparent management foundation. Our medium-term management plan, which commenced last fiscal year, focuses on becoming a company supported by stakeholders five to ten years from now. Our goal is to achieve continuous growth and enhance corporate value as we contribute to the realization of a sustainable society. In pursuit of this vision, we have established a Sustainability Committee, formulated a Basic Sustainability Policy, and adopted ESG management practices. These initiatives aim to improve long-term corporate value and foster a sustainable society by reforming our executive compensation system.

Enhancing governance and management foundation with a focus on our management philosophy

Moving forward, it is crucial to further strengthen our governance structure and solidify our management foundation. We recognize the importance of cultivating a diverse and talented workforce. Our company's essence lies in our commitment to making the greatest possible contributions to the realization of a sustainable society. This is the true path to enhancing our corporate value. With this principle in mind, we will continue to conduct our business operations from an external perspective, ensuring that our decisions and actions align with our management philosophy.

Compliance

Promoting compliance

To ensure adherence to ethical practices, we have implemented the Corporate Behavior Charter, Code of Conduct, and Compliance Management Regulations. To oversee compliance efforts, we have established the Compliance Committee, which comprises the director responsible for the Administration Division, division general managers, and presidents of Group companies. The Committee actively discusses critical compliance issues, facilitates information sharing, and promotes awareness and education. Furthermore, designated compliance managers within the divisions under the Committee's control regularly monitor and assess compliance promotion initiatives across the entire Group. By fostering a culture of compliance, we prioritize upholding ethical standards throughout our organization.



Compliance reporting system

To deal with a violation or potential violation of law, regulation, or policy, we have established a reporting desk where employees can seek guidance from our internal compliance managers and external legal advisors at any time. Additionally, counseling is available to those that need to speak to someone about harassment or discrimination. In fiscal year 2022, there were three cases within the Group that were brought to attention. In each instance, we responded promptly and appropriately in collaboration with the relevant departments, ensuring that no significant violations occurred. We remain committed to maintaining a transparent reporting system and fostering a culture of compliance throughout the organization.

Addressing compliance violations

In the event that a compliance violation is found after a thorough investigation of a complaint or report, we will take immediate action to rectify the situation and implement preventive measures. These corrective actions extend beyond the specific department involved, encompassing the entire Group to ensure non-recurrence.

Compliance awareness survey

In 2021, we conducted an anonymous compliance awareness survey for all Group employees (98.8% responded) to assess their level of understanding and gauge the effectiveness of our initiatives. The analysis of the survey results is utilized for future planning and implementation of compliance measures, ensuring continuous improvement in our practices.

Compliance legal education

Aligned with our annually formulated compliance promotion plan, we provide comprehensive training for all employees and share easy-to-understand compliance case studies in our internal newsletter. Here are some other compliance-related efforts we make:

- Job specific training
New employees and mid-career hires receive training to familiarize themselves with the Corporate Code of Conduct. Promoted employees undergo position-specific training, which includes going over examples of harassment.
- Specialized education on laws and regulations
We offer specialized training on various topics, such as antitrust law, subcontracting law, anti-corruption measures such as bribery regulations, and labor management. This training ensures a deep understanding of legal requirements and fosters compliance across the organization.

Fair business transactions

Compliance with antitrust and competition laws

Our Corporate Code of Conduct underscores our commitment to upholding laws and regulations, promoting honest, fair, and transparent business transactions. We strictly prohibit any actions that contravene the competition laws in each jurisdiction. To prevent cartel or suspected cartel activities, we have implemented measures such as prior notification, approval, and recording of communication with other companies in the same industry, depending on the nature of the interaction. In FY2022, no legal actions were taken for our Group due to anti-competitive, anti-trust, or monopolistic practices.

Anti-bribery initiatives

Our Corporate Code of Conduct explicitly prohibits offering gifts, entertainment, or donations with the intention of securing improper advantages, such as improper benefits to public officials, and entertainment or gift-giving to clients and suppliers. In fiscal year 2022, there were no instances of bribery violations. Consequently, no disciplinary actions or internal interventions were necessary.



[Key initiatives]

- Incorporating anti-bribery clauses in annual contracts with domestic distributors and other parties
- Ensuring compliance with laws and regulations by conducting confirmation and verification processes for overseas distributors, who are required to sign annual written pledges to promote compliance
- Implementing stricter approval processes for entertainment expenses and maintaining thorough transaction records
- Conducting annual assessments through the Audit Office to evaluate the effectiveness and adequacy of internal controls in preventing bribery and corruption
- Holding regular training sessions, primarily for the sales and marketing departments, to enhance awareness and understanding of compliance practices

Exclusion of antisocial forces

The company strictly adheres to the "Regulations for Eliminating Antisocial Forces" and maintains a strong stance against any association with organized crime groups or other antisocial forces. We have implemented measures to prevent our products and services from being utilized in financial crimes or money laundering activities.

[Key initiatives]

- Inclusion of provisions in transaction contracts to eliminate any involvement with antisocial forces
- Conducting thorough checks on business partners to ensure they are not affiliated with antisocial forces
- Generally prohibiting payments to third countries and third parties, unless specific exceptions apply



Transparency of relationships with medical institutions, etc.

Cooperation with medical institutions, research institutes, medical personnel, etc. is indispensable for the development and manufacture of medical equipment. Since there is a risk of conflicts of interest in such industry-academia collaboration, we have set out our "Guidelines for Transparency of Relationship with Medical Institution" based on the "Transparency Guidelines for the Medical Device Industry and its Relationships with Medical Institutions and Other Organizations" of the Japan Federation of Medical Devices Associations, and thereby disclose information on the provision of funds to medical institutions.

Risk management

Risk management system

We have established a robust risk management system guided by our “Risk Management Regulations.” The Compliance Committee plays a central role in regularly assessing and reviewing the system. Annually, we conduct a comprehensive analysis of company-wide risks, taking into account the nature of our business and changes in the external environment. This helps us identify and evaluate potential risks and create a risk map. For critical risks, the Management Committee confirms appropriate countermeasures. Our entire group actively works to mitigate risks and devise contingency plans.

To ensure effective risk management, the Audit Office conducts individual interviews with departments and affiliated companies. The findings are then reported to the Executive Committee and the Board of Directors. This process enables us to monitor and ensure the proper management of risks across the organization.

Risk classification	Examples of risk items	
External environment	Industry trends	Competition, technological innovation
	Political/social factors	Modification of laws and regulations
	Exchange rate fluctuations	Increase in purchase price
	Financial institutions/investors	Capital raising, market expectations
	Job seekers	Talent acquisition
	Supply chain	Stagnant or rising supply of parts/materials, logistics
	Business continuity	Natural disasters, infectious diseases, country risk
Operation	Business strategy	Policy/management strategy
	Sales/services	Customer satisfaction, product labeling/advertising, management/guidance of contract stores
	Research & development	Product development, technology transfer
	Production/quality	Quality control, product liability, deterioration and breakdown of equipment/machinery
	Real estate leasing	Tenant eviction
	Human resources/labor	Human rights, occupational accidents, human resources development
	Business functions	Intellectual property, accounts receivable collection, information disclosure, information security, legal affairs (contracts/litigation)
Governance	Business alliances	Alliance with HACH Inc.
	Compliance/internal control	Violation of antitrust law/subcontract law, bribery, forgery, misconduct, export control, infringement of intellectual property rights, information communication

Business Continuity Plan (BCP)

Our group recognizes the critical role our measuring instruments play in lifeline needs, including water supply, electricity, and medical care. In the event of a major disaster or accident, such as a large-scale earthquake or fire, society could be significantly impacted if these supplies are disrupted. To mitigate such risks and minimize the effects of a disaster, we have implemented an emergency communication network and are actively developing our BCP.

[Key initiatives]

- Establishing regulations and manuals to expedite business resumption after a disaster
- Stockpiling essential supplies such as water and food, and implementing measures to prevent equipment damage
- Implementing a system for promptly verifying the safety of our employees
- Establishing alternative procurement methods, including a dual-supplier purchasing system for materials and parts
- Developing an alternative production system
- Relocating our major internal system servers to a data center that could withstand a seismic intensity scale of 6

Recognized by Tokyo Metropolitan Government for promoting “Stay for Safety”

As per the “Ordinance on Measures for Stranded Persons” by the Tokyo Metropolitan Government, we actively support its “Stay for Safety” policy aiming to prevent employees from heading home all at once. This policy encourages employees to remain in safe locations, such as their offices, during disasters instead of immediately attempting to get back home. To ensure employee safety, we have implemented various measures, including disaster prevention cards to be carried by employees at all times, a safety confirmation system, and a stockpile of supplies enough for up to four days. In recognition of our commitment, we have been certified by the Tokyo Metropolitan Government as a company promoting the “Stay for Safety” policy since fiscal year 2020.



Information security

Regarding the handling of confidential information, we have established the “Document Management Regulations” to manage it in accordance with the standards for storage, archiving, and disposal of documents. To protect personal information, we have established our “Privacy Policy” based on the “Act on the Protection of Personal Information.” We have also established rules that stipulate detailed guidelines regarding the Internet, intranet, e-mail, use of portable storage media, and others. Furthermore, we strive to raise awareness and vigilance among all officers and employees through e-learning, etc., and confirm the status of compliance through internal control audits. We have taken multi-layered, technical measures such as preventing unauthorized access from the outside and preventing computer viruses. No major security incidents, such as personal data leaks, were reported within the Group during fiscal year 2022.

Object	Measures
Disseminating rules and regulations / raising awareness	<ul style="list-style-type: none"> • Establishing regulations related to information security • Offering e-learning to executives (100% attended in 2020) • Organizing briefing sessions on the rules and regulations
Countermeasures against fraudulent use	<ul style="list-style-type: none"> • Encrypting information terminal data • Activating information terminal through biometric and password authentication • Mandatory regular password reset • Access management by user authentication • Entry/exit management to priority areas • Automatic encryption of email attachments • Restricting the use of devices such as USB flash drives
Countermeasures against external threats	<ul style="list-style-type: none"> • Antivirus • Web filtering • Anti-spam mail measures • Enabling remote access with FIDO2 authentication • Monitoring unauthorized communication of network-connected devices



Briefing session on information security rules and regulations (hybrid event)

