

March 15th, 2021

Notice regarding Recurrence Prevention Measures and Disciplinary Actions

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(Stock code: 7729, Tokyo Stock Exchange 1st Section)

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As described in the announcement “Notice regarding Receipt of Investigation Report from Special Investigation Committee“ on March 12th, 2021, TOKYO SEIMITSU CO., LTD. (the Company) received an investigation report (the Report) from Special Investigation Committee (the Committee) which was established to thoroughly clarify whole truth of the misconducts (the Misconducts) confirmed at Tosei Engineering Corp(TSE), a fully owned consolidated subsidiary, including details of the Misconducts, financial impacts, etc., and recommendations represented by corporate governance reformation. The Company took the Report seriously, therefore resolved recurrence prevention measures and disciplinary actions to the persons concerned as set out below.

1. Recommendations by the Committee

(1) To strengthen check function at TSE

(i) Exchange of opinions crossing by the boundaries of business divisions

It is recommended to establish working environment where observation can be made to other business divisions' status spontaneously and problems can be raised through cross boarder opinion exchange meeting such as division to division, and/or directors to employees.

(ii) Expansion of indirect divisions

It is necessary to allocate sufficient number of employees to indirect divisions such as Control Group to be able to investigate issues found in the business process from its own viewpoints.

(2) To strengthen the Company's management system to subsidiaries

It is necessary for the Company to establish systems to grasp internal control status of TSE, in order to establish management system to subsidiaries in line with their actual situation by human resource exchange between the Company and TSE, etc.

Also, the Company should establish systems to make it possible to verify current situation of TSE's subsidiaries, without leaving entire management to TSE, by conducting internal audit etc. by the Company without TSE's filters, when necessary.

(3) Compliance training to directors and employees of TSE and its' subsidiaries

It is necessary to perform basic compliance education again to directors and employees of TSE and its subsidiaries to let them choose the way of consulting and reporting to upper managements and/or or parent company, or use whistleblower system when they encounter any kind of suspicious cases in terms of compliance, as a member of Tokyo Seimitsu Group, a listed company.

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2. Outline of Recurrence Prevention Measures upon from the Recommendations

(1) Recurrence prevention measures at TSE

(i) Governance

- ◆ To strengthen supervisory function to each business division, system, regulations, and operations of board of directors will be reviewed and revised.
- ◆ Contents and methods of audit by auditors will be reviewed and revised.

(ii) Internal Control

- ◆ Internal regulations for purchasing process, such as purchase orders, sign-off, and authorities of orders will be realigned.
- ◆ Internal regulations for application and approval process for unusual transactions with regards to sales activities application will be realigned.
- ◆ Internal regulations for TSE's overseas subsidiaries will be realigned.

(iii) Compliance

- ◆ Compliance system will be strengthened through assignment of Responsible Officer of Compliance and Managing Officer of Compliance.
- ◆ Compliance education program for all directors and employees will be conducted to raise and fix compliance awareness.

(iv) Monitoring System

- ◆ A division, independent from the sales division, will be newly established to monitor check appropriateness of sales activities and operation.
- ◆ Monitoring of overseas subsidiaries' operation and administration by Control Group will be strengthened.
- ◆ Internal audit group, independent from executive divisions, will be newly established
- ◆ Workforce of indirect divisions will be increased to implement the above-mentioned measures.

(iv) Company Environment and Communication

- ◆ Purpose and contents of the Whistleblower system will be explained again to all domestic and overseas employees to make it well-known.
- ◆ Company environment will be made more open for employees to be encouraged to speak out opinions or information in a timely and appropriate manner.

(1) Recurrence prevention measures at the Company

(i) Governance

- ◆ Through enhancing communication, the Company will share and solve management and business issues addressed at each subsidiary in a timely and appropriate manner.
- ◆ The Company will improve company environment which enables all the subsidiaries to escalate their management and business issues spontaneously and actively.
- ◆ Personnel of the Company will be newly dispatched as directors of TSE to establish system to strengthen TSE's governance and to solve management and business issues in a meticulous and careful manner.

(ii) Compliance

- ◆ Board of directors will send a message of "Compliance to be emphasized" policy again to all the employees.
- ◆ Responsible Officer of Compliance and Managing Officer of Compliance will be assigned in the Company and each subsidiary to share information and reconfirm issues by the group as a whole at Compliance Committee. Compliance education program will be conducted for all the group employees.

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(iv) Monitoring system

- ◆ Status and situation of governance, compliance, and monitoring at each subsidiary will be monitored and checked and extend support, if necessary.
- ◆ TSE's and its subsidiaries' internal audit results and auditor's audit will be shared, and works together to examine improvement measures. In addition, Audit Dept. will conduct internal audit to TSE.

(v) Company environment and communication

- ◆ Board of Directors will send a message of its management policy that the Company initiates bidirectional management solves issues through smooth communication, hearing opinion of each workplace, and sharing information with each other.

3. Disciplinary Actions to the persons concerned

(1) The Company's Board members' compensation reduction

President and CEO	20%	(3 months)
Vice President and COO	10%	(3 months)
Representative Director and CFO	20%	(3 months)
Director (Full-time)	10%	(1 month)
Director (Full-time, served as Audit and Supervisory Committee member)	10%	(2 months) Voluntary return

(2) TSE's Board members' compensation reduction

Director (Full-time)	10%	(1 month)
Auditor (Full-time)	20%	(2 months) Voluntary return

Note that TSE's former president had been dismissed.

In addition, employees those who concerned to the Misconducts will be severely imposed based on internal regulations.

The Company expresses its most sincere apologies to shareholders, suppliers, customers, and all other stakeholders for any concern or inconvenience caused on this occasion.

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