

# NETUREN INTEGRATED REPORT 2023

# NETUREN VISION 2030

## Evolution and Breakthrough

### Motto

Contribute to creating sustainable society  
while increasing corporate value



Neturen  
technologies  
to the world



Supporting  
disaster resilient  
urban building



Contributing to  
environmental protection  
with W-ECO technology

### Target of our activity

Increase corporate value as well as  
reducing environmental burden by  
our IH technologies.

Expand our business globally with  
all out efforts of the group and  
N-DX technologies.

Placing the SDGs at the core of its management, the Neturen Group has formulated “NETUREN VISION 2030 (evolution and breakthrough),” its long-term management vision, and is running business accordingly with a sustainability point of view.

We are working to solve social problems, increase corporate value and continue growing and our final goal is to be a corporate that “contributing to sustainable society as well as increasing its value.”

## Management Philosophy

1. We continuously challenge to develop new products and new businesses based on our core heat treatment technologies, in order to contribute to the improvement of society.
2. We aim to be a trusted partner in society through superior quality and technology, outstanding customer satisfaction, and a transparent and fair corporate culture.
3. We strive for continuous improvement of ourselves and for constant growth as a company.
4. Based on the priorities of safety and health, we strive to develop our employees and establish ourselves as a dynamic corporate group.
5. We commit to act with corporate social responsibility, based on the principle of coexistence with the environment.

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## Editorial policy

This integrated report is published with the approval of management as an information dissemination medium that comprehensively compiles financial and non-financial information, with the aim of communicating the medium- to long-term growth and value creation of the Neturen Group. It is positioned as a medium to facilitate constructive dialogue with our stakeholders and also to promote the Group employees' understanding of our corporate policies and strategies.

This is the first integrated report aiming to explain the medium-to long-term value creation plan in an easy-to-understand way, such as the progress and future initiatives of 15th Medium-term Management Plan, which is positioned as the first phase toward realizing NETUREN VISION 2030, specific strategies for each Division, Research and Development, and financial matters.

For the editing of this report, the Guidance for Collaborative Value Creation by the Ministry of Economy, Trade and Industry was employed as a reference.



### Reporting period

Fiscal Year 2022 (April 1, 2022 to March 31, 2023)  
\* Information on some of the activities after April 2023 is also included.

### Scope of report

This report covers Neturen Co., Ltd. and its 17 consolidated subsidiaries, 1 non-consolidated subsidiary, and 4 affiliated companies.

Sustainability-related data basically covers all departments of Neturen Co., Ltd., and any exception is indicated in the text in each case.

**Date of issue** October 2023

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### Note regarding future outlook

Forward-looking statements, such as earnings forecasts, contained in the materials disclosed by the Company are based on estimation made in accordance with information available at the time of disclosure, and may contain many uncertainties.

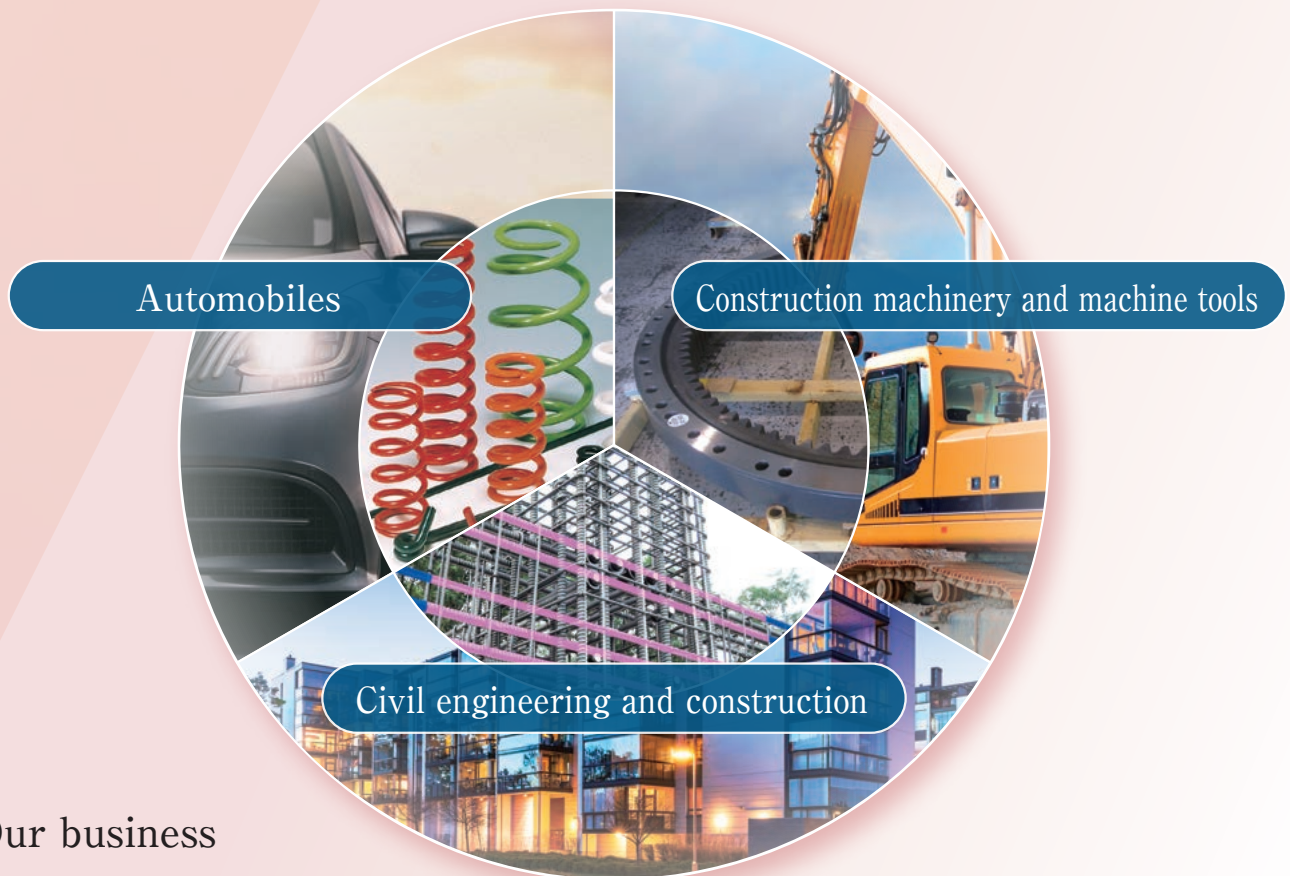
Actual results may differ from forecasts due to changes in social, economic, and business conditions.

# PROFILE

## Introduction of the Neturen Group

### Technologies and products that support the lives of people

Neturen's IH technologies and products support people's safe and prosperous lives. We can strengthen various metal components like steel bars for high-rise building, construction and machine tools and automobile parts which resulted in their weight reduction, life extension and resources saving and finally they play an important role in determining the quality and safety of final products.



## Our business

### Specialty Steel and Wire Products Division

#### High-strength steel products

##### ●Automobiles

Induction heat-treated high-strength spring steel wire (ITW®) for cold forming  
Manufacturing and sales of hollow rack bars and other automobile parts

##### ●Civil engineering and construction

Manufacturing and sales of induction heat treated high-strength, high-quality PC steel bars for components of prestressed concrete and their related products, high-strength shear reinforcement for construction work

##### ●Construction machinery and machine tools

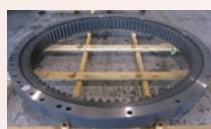
Manufacturing and sales of slewing bearings for construction equipment and ball screw shaft materials for semiconductor manufacturing equipment, etc.



ITW® for cold forming spring



Shear reinforcement



Slewing bearings

### Induction Heating Division

#### Induction heat treatment service

High frequency induction heat treatment and other heat treatment services for all machinery parts



#### Induction heating equipment

Design, production, sales, and engineering of induction heating/heat treatment equipment, frequency converters, etc.



Neturen group placing the IH (Induction Heating) technology as its core, globally engages in the metal products' manufacture and related services and equipment sales. We respond to the needs of society and our customers with our technical capabilities that we have honed since our founding and provide unique value to them.

## Global network

We have production bases both in Japan and overseas, engaging in business globally.

Neturen group can accurately meet the needs of local customers in different areas and strategically launch new business through own expanding global network, thereby we could gain profit quickly.

### Neturen Group

#### In Japan

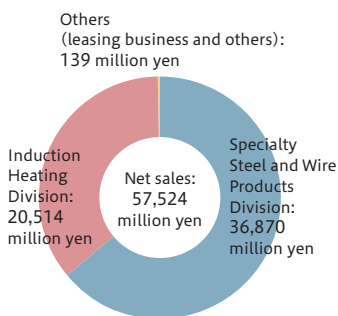
9 companies,  
25 bases

#### Overseas

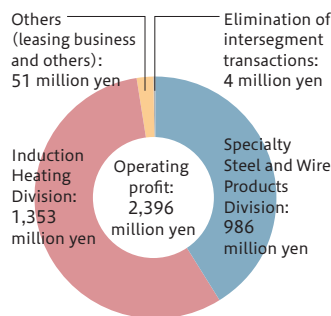
15 companies,  
16 bases  
in 6 countries



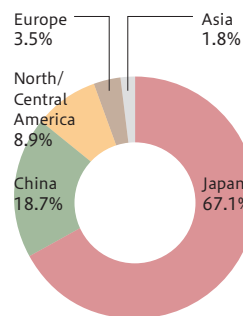
#### Net sales by segment



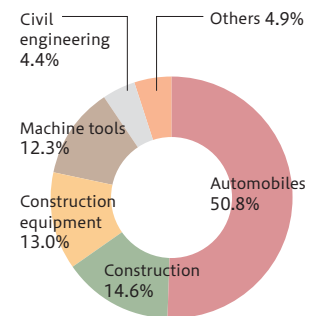
#### Operating profit by segment



#### Ratio of net sales by region



#### Ratio of net sales by industry



\* FY2022 results

# HISTORY

## History of the Neturen Group

### As a pioneer of IH technology

In 1946, shortly after the end of the World War II, Neturen was founded with IH technology to help rebuild Japanese industry.

Since it became the first company in commercializing and industrializing IH technology, Neturen has developed its business consistently placing IH technology at the core.



### Supporting Japan during the high economic growth period

In 1961, Neturen's PC steel bars were adopted for the sleepers of the Tokaido Shinkansen.

As construction demand expanded due to rapid infrastructure development, Neturen's high-strength steel materials were applied to a wide range of fields, supporting the development of society and the company's significant growth.



### From very small to super-large parts

Neturen's IH treatment, which even includes design of heat treatment equipment, is applicable to a variety of parts of any shape, from very small parts as tiny as a fingertip to super-large ones.

With the wide range of product lineups, we have responded to the requests of customers in diverse fields.



### History of our technologies and products

#### Commercialization of induction heating

- Sales of induction heating equipment (1947)
- Induction heat treatment service (1946)



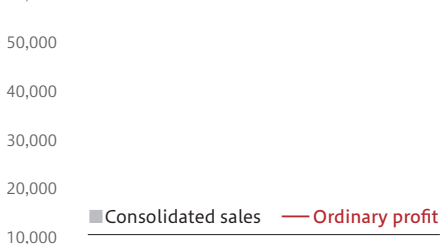
#### Commercialization of high-strength steel

- ULBON® (1964)
- PC steel bars (1958)



### Trends in consolidated sales and ordinary profit

(Million yen)



- 1946 Neturen Co., Ltd. established, and Tamagawa Plant established
- 1948 Osaka Plant established
- 1951 Kyushu Koshuha Neturen Co., Ltd. established
- 1962 Hiratsuka Plant established
- 1971 Ako Plant and Kariya Plant established
- 1973 Neturen Hirakata Co., Ltd. established
- 1976 Korea Heat Treatment Co., Ltd. established (South Korea)
- 1980 Neturen Meinan Co., Ltd. established
- 1983 Neturen Heat Treat Co., Ltd. established
- 1985 Neturen Komatsu Co., Ltd. established
- 1987 Korea Neturen Co., Ltd. established (South Korea)
- 1991 Iwaki Plant established
- 1992 Nagoya Plant established
- 1996 Neturen USA, Inc. established (U.S.A.)
- 1999 Neturen Hymec Co., Ltd. established
- 2003 Shanghai Neturen Co., Ltd. established (Shanghai, China)
- 2003 Okayama Plant established
- 2005 Yancheng Neturen Co., Ltd. established (Jiangsu Province, China)

Neturen is a pioneering company that successfully commercialized and industrialized IH (induction heating) technology for the first time in Japan in 1946. By gathering all the strengths of the Neturen Group based on know-how related to the IH technology that it has accumulated since its founding as well as its sophisticated technological and development capabilities, Neturen has contributed to and brought about innovations in a wide diversity of industries.

## Movement to the globalization

In 1976, we established a joint venture in South Korea as our first overseas base. Since then, Neturen has expanded its production bases globally. Today, it provides unique value to customers around the world from its sites in Japan, China, South Korea, Asia, North and Central America, and Europe.

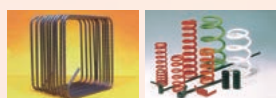
## Consistently meeting to the up-to date demand

In line with the growing public interest in environmental issues, Neturen has been creating original products and new technologies that contribute to CO<sub>2</sub> reduction and resource conservation by taking advantage of its environment-friendly IH technology.

We will move forward consistently to meet the up-to-date demand with our outstanding technological capabilities.

### Expanding business of high-strength steel

- High-strength shear reinforcement (1985)
- High-strength spring steel wire ITW® (1977)



### Commercialization of high value-added products

- Slewing bearings (2008)
- Hollow rack bars (2007)



### Commercialization of super value-added products

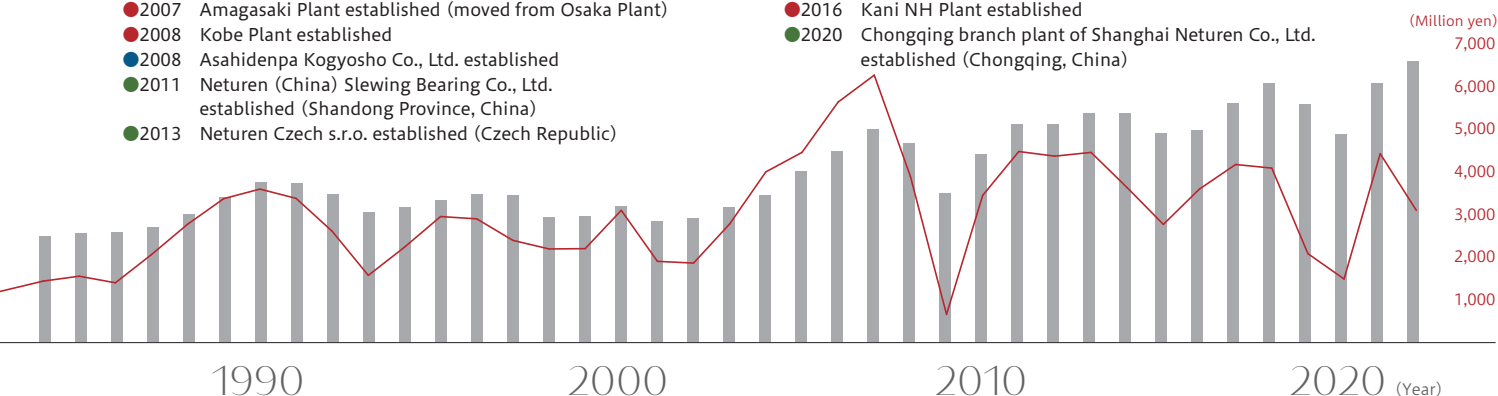
- Cut-off construction method (2019)
- Double Stark (2018)



● Neturen ● Group companies ● Overseas sites

- 2006 Guangzhou Fengdong Neturen Co., Ltd. (Guangdong Province, China)
- 2006 Neturen America Corporation established (U.S.A.)
- 2007 Neturen Takuto Co., Ltd. established
- 2007 Kani Plant established
- 2007 Amagasaki Plant established (moved from Osaka Plant)
- 2008 Kobe Plant established
- 2008 Asahidenpa Kogyosho Co., Ltd. established
- 2011 Neturen (China) Slewing Bearing Co., Ltd. established (Shandong Province, China)
- 2013 Neturen Czech s.r.o. established (Czech Republic)

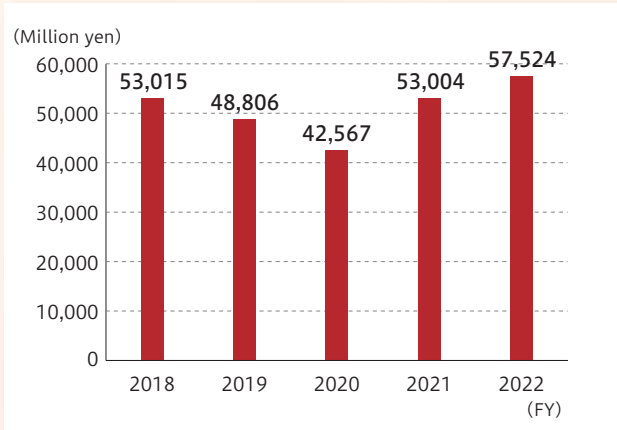
- 2013 PT. NETUREN INDONESIA established (Indonesia)
- 2013 Ibaraki Plant established
- 2013 Capital participation in Tianjin Fengdong Heat Treatment Co., Ltd. (Tianjin, China)
- 2015 NETUREN MEXICO,S.A.de C.V. established (Mexico)
- 2016 Kani NH Plant established
- 2020 Chongqing branch plant of Shanghai Neturen Co., Ltd. established (Chongqing, China)



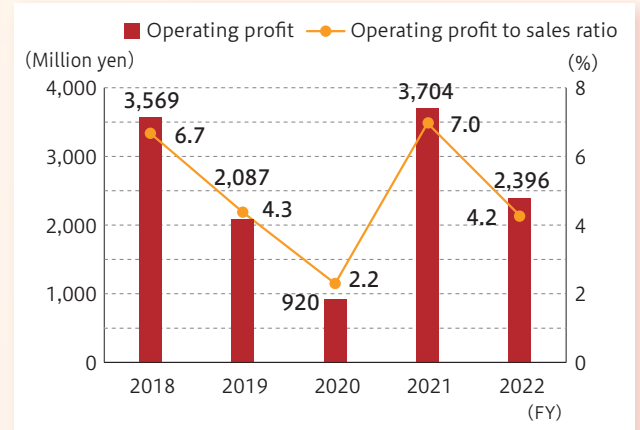
# HIGHLIGHTS

## Financial and nonfinancial highlights

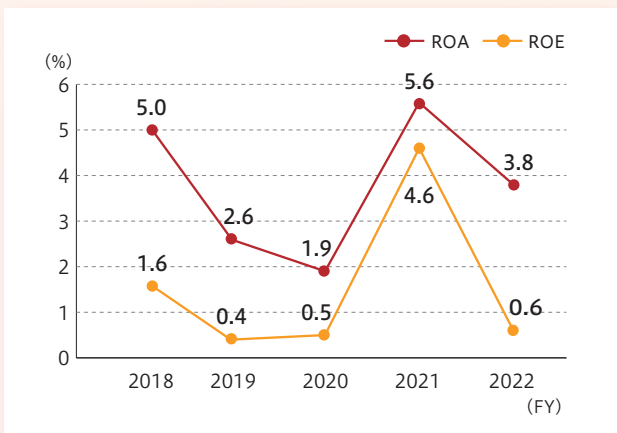
Net sales



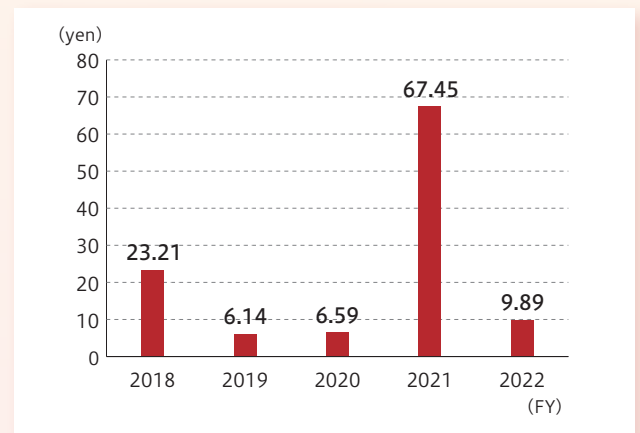
Operating profit / Operating profit to sales ratio



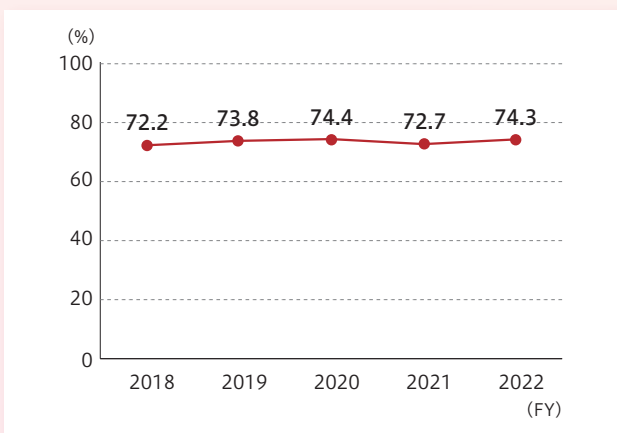
Return on equity (ROE) / Return on assets (ROA)



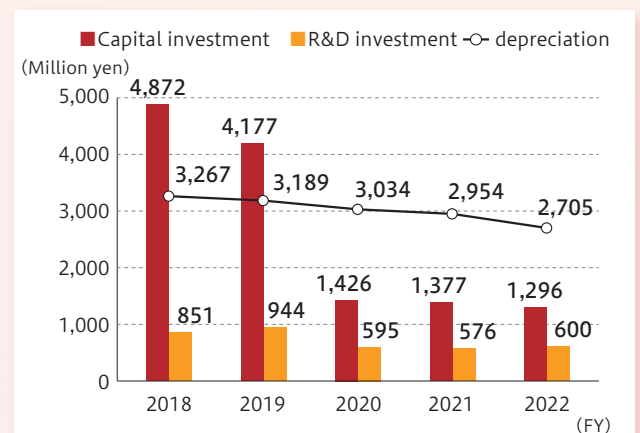
Basic earnings per share



Equity ratio

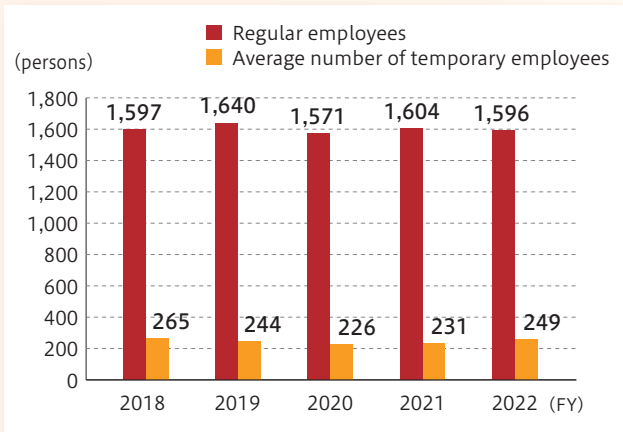


Capital investment, R&D investment, and depreciation

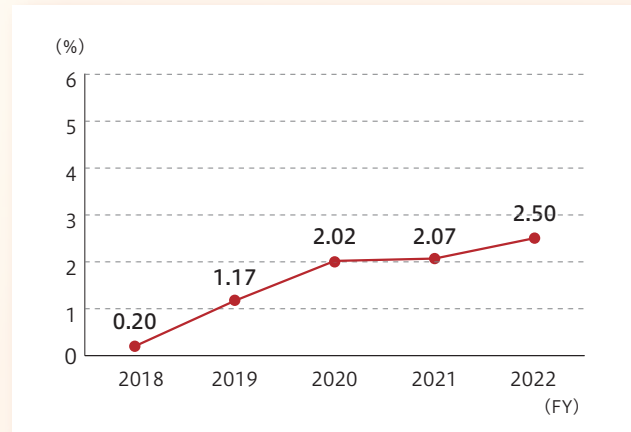




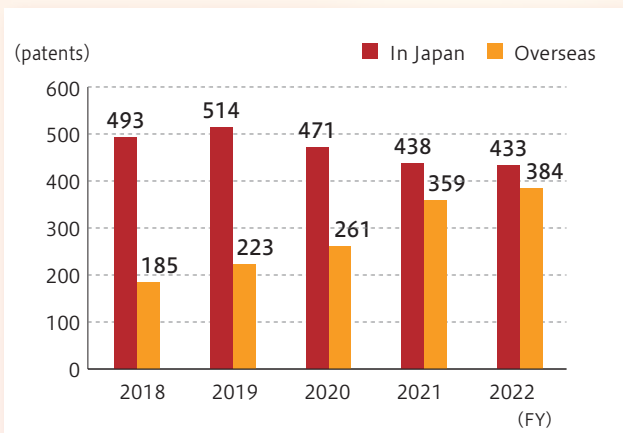
## Number of Group employees



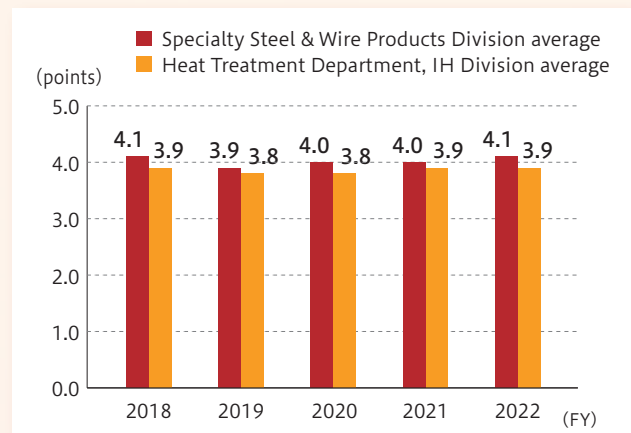
## Ratio of female managers\*



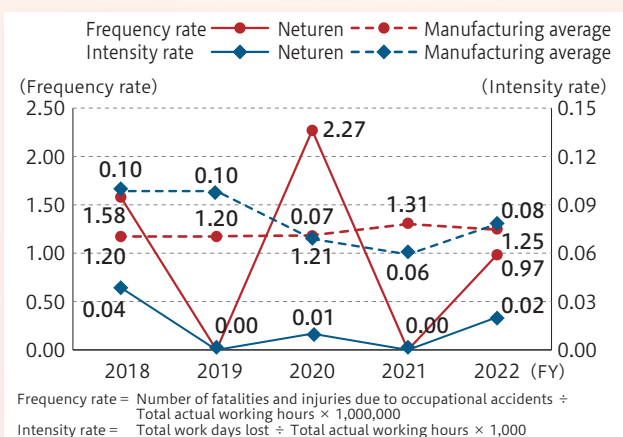
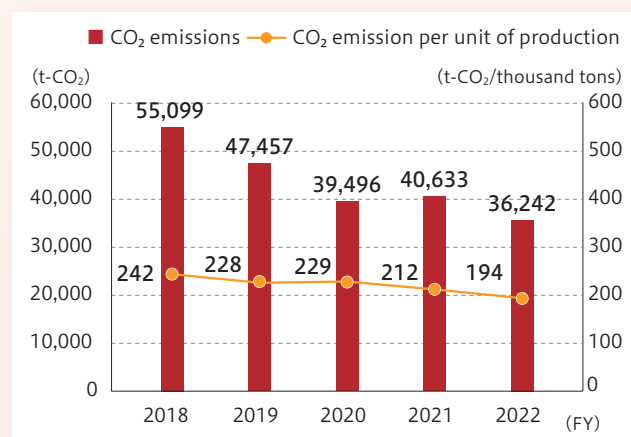
## Number of patent rights held\*



## Customer satisfaction survey results (out of 5 points)\*



## Occurrence of occupational accidents\*

CO<sub>2</sub> emissions and CO<sub>2</sub> emissions per unit of production\*

Items marked \* are data of nonconsolidated Neturen only (accounting for 60% of the Group's consolidated sales).

# TOP MESSAGE

We aim to contribute to building a sustainable society as well as increasing corporate value by expanding IH (Induction Heating) technology throughout the world.

Representative Director,  
Member of the Board  
President and  
Chief Executive Officer

Katsumi Omiya



## Review of fiscal year 2022 and the business environment of the Neturen Group

In fiscal year 2022, although signs of recovery from the COVID-19 pandemic were seen, the business environment was severe due to the zero-COVID policy in China, production stagnation due to the shortage of semiconductors and other components, and the soaring costs of steel materials, electricity, and logistics. With uncertainty clouding the outlook of the world economy due to factors such as the conflict in Ukraine and the rapid weakening of the yen, it was difficult to predict the future during the year.

At Neturen, we made all-out efforts to secure the volume of orders received while working to pass the increased costs to the customers and introducing measures to reduce costs. While orders from the civil engineering/construction, construction equipment and machine tool industries were stable, we could not see the full-scale recovery from the automobile industry. As a result, while net sales increased by 8.5% from the previous fiscal year to a record high of 57.5 billion yen, operating profit decreased by 35.3% from the previous fiscal year to 2.3 billion yen. We conservatively revised the production plan of the factories producing automotive parts and recorded 1.8 billion yen as an impairment loss.

We regret the decreased profit and ROE result which did not reach to the target, however, we were proud of Neturen's real strength that was shown in increasing sales and remaining profitable result even in this severe environment.

During the year, fundamental discussions were also held within the Group about the way we conduct our business. As the speed of changes in the market has been increasing, it is ever more crucial to quickly detect and respond to such changes. Members in charge of sales of each Division should properly grasp not only the needs of customers in front of us but also their underlying market trends to take proactive action. In the production segment, collaboration across Divisions has been increasing, such as plants sending members to support others that are short of workers.

Despite the severe environment, a spirit of fun and enjoyment in business management has been growing, which makes me feel that the slogan "Change!! New NETUREN 2023" upheld in 15th Medium-term Management Plan is putting into practice.

## "NETUREN VISION 2030" for evolution and breakthrough

Under the NETUREN VISION 2030, a long-term vision with fiscal year 2030 as the target year, the Neturen Group is currently working to "contribute to a sustainable society" and "increase corporate value."

The slogan of the vision is "evolution and breakthrough," expressing our strong determination to make changes. Not just progress, but we aim to achieve an evolution like a four-legged creature becoming a two-legged one. By expanding our ecological, economical, and environment-friendly double-eco (W-ECO) IH technology, we will continue to make breakthroughs globally.

Now that the international community is moving rapidly toward carbon neutrality, IH technology is exactly in line with the needs of the time. We will enhance our efforts to spread the technology to more countries and regions, and install our business in all continents in the world in 2030. For example, Neturen has many products and technologies that help increase the resilience of buildings to the earthquake. At the same time, our technologies are always meet the Building Standards Act of Japan, known as an earthquake-prone

country, is one of the strictest laws in the world in terms of safety requirement. Hence, we will surely contribute to the countries that need to be prepared to natural disasters.

We also place a focus on research and development of materials and applications. We have excellent research teams, including those of the Research and Development Headquarters at Shonan Office (Hiratsuka, Kanagawa), which is a strength of Neturen. Our proposals such as, "use Neturen products and then get higher strength" has been highly appreciated by customers in the automobile industry and elsewhere. We are currently endeavoring to hire engineers in the civil engineering and construction fields to reinforce our capabilities to propose applications for general construction contractors and design offices.

It is also essential to proactively approach new industries and markets. Many initiatives have been under way in the research and development segment, such as industry-academia collaboration projects that leverage our connections with universities and academic societies. We will continue to challenge for the breakthrough without being bound by precedents.

## Steadily promoting four basic strategies

---

Fiscal year 2022 was the second year of 15th Medium-term Management Plan, the first phase of achieving “NETUREN VISION 2030.” Initiatives under the four basic strategies moved forward in various ways.

For Strategy 1 “Stabilizing business by further strengthening core competence, and bringing new technologies, products and businesses to the market,” we have steadily expanded application of existing products, launched new parts, increased sales of new power supplies. In NETUREN AMERICA, we have completed new building and installed equipment to increase production capacity and started commercial production. In NETUREN INDONESIA, we have invested to increase production capacity and achieved profit there. We will continue to enhance capital investment for overseas production bases.

Strategy 2 is “Promote digitization and improve information sharing throughout the company by N-DX.” Although it took some time but we could have seen steady change of employees for the necessity of transformation of business operation which is not only digitization but also whole business procedure. At present, we have approximately 2,600 work flows at all sites and started restructuring to reduce them. Multiple demonstration experiments have been launched, such as in-house training using VR and grand design of next-generation factory operation systems.

Under Strategy 3 “Promote reduction of CO<sub>2</sub> and contribute to a sustainable society,” we upgraded equipments to energy-saving, high efficiency ones and reduced energy consumption for logistics by modal shift from truck to railways and ships. We also installed solar power generation systems at two plants in Amagasaki

and Kobe and have started investigation for the next sites. While increasing production volume, we have steadily reduced CO<sub>2</sub> emissions, achieving a 31% reduction in terms of emissions per unit of production compared to fiscal year 2017.

Under Strategy 4 “Develop human resources to enhance the Group’s sales and global marketing capabilities,” we focused efforts on developing fully skilled human resources through technical support to overseas factories and supporting career development to increase the number of female managers. We have enhanced the training curriculum for each job position, and the number of participants has been increasing year by year, which will lead to further strengthening of our human resources.

Although we have implemented various growth strategies to achieve the plan, I feel that problems remain with the speed of launching new products. The question is how quickly we can transfer the information obtained from the customers to the upstream R&D by the sales and development intersected organization based on “inverted T-shape model”. We aim to have already started development when customers' requirements are actualized.

We expect our net sales in fiscal year 2023, the final year of 15th Medium-term Management Plan, to hit a new record high, as we will make efforts to further expand sales volume and revise selling prices in line with production recovery in the automobile industry. Specifically, we expect net sales to increase by 9% from fiscal year 2022 to 63.0 billion yen and operating profit to increase by 16% to 2.8 billion yen.

## Identifying sustainability as the core of business management

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In order for a company to survive and grow for a long period of time, it is essential to contribute to sustainable society and continue to be trusted by society. From the beginning, Neturen’s Management Philosophy has advocated improvement of society through business activities and coexistence with the global environment, based on the idea of sustainability. Under this philosophy, we have developed our business using IH and supported a wide range of industries and the lives of people, which is the history of Neturen.

As NETUREN VISION 2030 declares that we identify

the SDGs as the core of management, we reviewed the initiatives we have promoted for a long time within the framework of the SDGs. I am sure that Neturen’s businesses will contribute to achieving “Goal 9: Industry, Innovation, and Infrastructure,” “Goal 11: Sustainable Cities and Communities,” and “Goal 13: Climate Action,” and we will strengthen our efforts to communicate the environmental and social value that the Neturen Group will offer.

In April 2023, we established the Neturen Group Sustainability Basic Policy, while at the same time

## TOP MESSAGE

we identified the material issues of our business and classified them into categories of E (Environment), S (Social), and G (Governance).

Contributing to the environment is the core of Neturen's business. Providing products that utilize the W-ECO IH technology will help increase our sales while contributing to solving the issue of climate change and also increasing both financial and nonfinancial value of the corporate group. A representative example of such products is high-strength spring steel wire ITW®, which meets the need for weight reduction of EVs, and we are currently enhancing efforts for its global promotion. As EVs with less environmental impact are becoming mainstream worldwide, we will clarify our direction of not just steadily responding to EV needs but taking advantage of EVs' market expansion to achieve significant growth of us.

Active investment in human resources is also very important for the growth of Neturen. Especially as we move toward 2030, it is crucial to acquire and develop global human resources. It may be a good idea to

bring persons hired overseas to Japan to have them experience working at Head Office or plants in Japan for some years before assigning them as core human resources to be in charge of their local sites. In Japan, the number of employees volunteering to be assigned overseas has been increasing so, cross border personal exchanging is increased a lot.

In terms of promoting diversity, while the ratio of female managers is still low, it is encouraging to see these days that more and more female employees, especially young ones, are motivated to become managers. We will improve the environment for them through opportunities such as casual talks with female employees who are candidates for managerial positions to gather their opinions and reflect them in formulating measures.

In supply chain management, it is essential to be prepared for geopolitical risks in view of today's international situation. We will formulate a BCP related to the supply chain, including measures such as securing suppliers in multiple regions, in case of an emergency.

## Sophisticating business management through dialogue with stakeholders

In fiscal year 2022, we also focused on PR and IR activities to raise awareness of the Neturen Group among the public. In addition to appearing on TV and radio programs and other media, I spoke directly to institutional and individual investors at briefing sessions for them. "Good product is always sold well." is no longer true. It is now important to proactively disclose Neturen's technologies, which have been known only to parties related to the industry, to the world.

Inside the company, a project was launched by a working group of young members to disseminate the vision, communicating relevant information to employees in an easy-to-understand way. The "President's Diagnosis," in which I, as the president, visit and inspect each site, was resumed from fiscal year 2022 after being suspended due to COVID-19. Through these visits, I deepen communication with frontline employees and reflect their voices in management.

I will continue to have constructive talks with a wide range of stakeholders, including customers, shareholders, investors, suppliers, and employees, as one of my priority tasks. I'm glad Neturen is here. I'm glad we did business

with Neturen. I'm glad I joined Neturen. I believe that increasing those who think so is the key to increasing our corporate value.

Aiming to become a corporate group that is chosen and trusted, we will make all-out efforts to achieve "evolution and breakthrough." We would appreciate your candid opinions about our Group's activities.



# Source of value creation

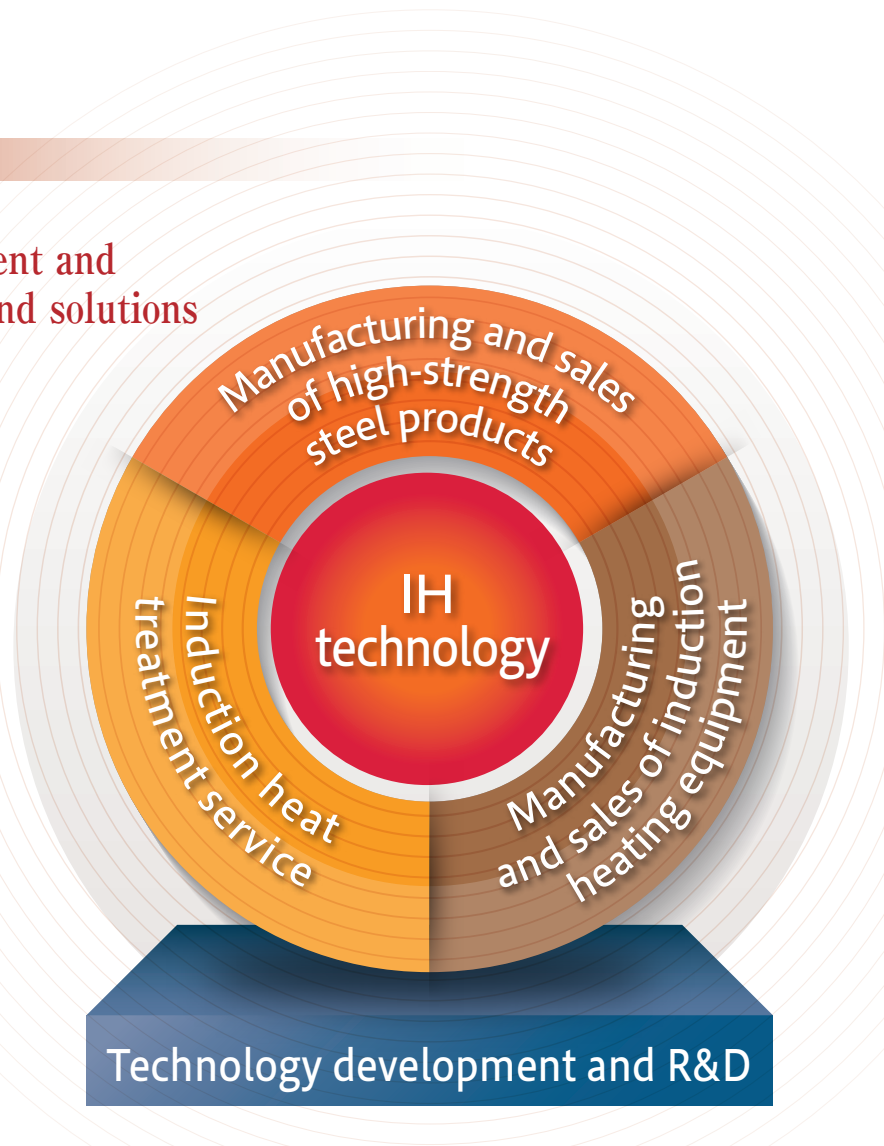
The Neturen Group has a unique business model in which three businesses specialized in IH (induction heating) technology complement each other. This business model and unique strengths enable sustainable value creation.

## Neturen's strength 1

### Advanced technology development and R&D enabling in-house, end-to-end solutions

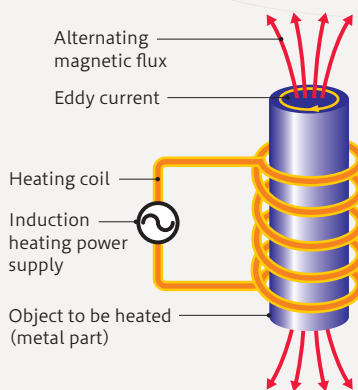
Neturen's business consists of three parts: "induction heat treatment service" providing heat treatment, mainly induction heat treatment, for all kinds of machine parts; "manufacturing and sales of induction heating equipment" involving design, production, sales and engineering of induction heating / heat treatment equipment, frequency converters, etc.; and "manufacturing and sales of high-strength steel products" involving the manufacture and sales of unique, induction heat-treated steel products, such as automobile parts and materials for civil engineering and construction. These parts complement each other, enabling us to complete all processes in house from procurement to manufacturing, and processing to sales, which is our strength.

Furthermore, Neturen has the research and development segment with industry-leading technologies for material analysis, simulation and production, capable of developing various solutions during the development period. This enables us to respond to diverse needs from customers in various fields.



### Mechanism and features of IH (induction heating) technology

IH technology uses electricity as the heat source, and is a double-eco (W-ECO) technology that is environment-friendly and non-polluting (ecological) and resource-saving (economical). Employing a highly efficient heat treatment method using magnetic force, it is not associated with direct CO<sub>2</sub> emissions.








- ① Alternating magnetic flux is generated by an electric current flowing through the heating coil.
- ② Influenced by the alternating magnetic flux, an eddy current occurs in the object (mainly metal).
- ③ The kinetic energy of the eddy current generates Joule heat, which heats the metal.

It is a technology to heat objects by causing their self-heating using electricity. It can precisely heat only the part of the product without any contact.

## Neturen's strength 2

### High-quality products and services based on solid technological capabilities and a stable financial base

Neturen has gained an excellent reputation for its induction heat-treated products and services. For example, induction heat treatment service for parts for automobiles, construction equipment and machine tools, PC steel bars used for railway sleepers and slab tracks for Shinkansen, and high-strength shear reinforcement for construction have acquired the top market share in Japan. These products are used in various situations, in social infrastructure and people's daily lives, contributing to society as useful, unique products. These products and services support our stable financial base and serve as the source of our growth.

Induction heat treatment service	ITW® for cold forming spring	PC steel bars and deformed PC steel bars	High-strength shear reinforcement	Induction heating equipment
				
Securing the largest induction heat treatment service capacity in the industry	Achieving the world's highest material strength and expanding globally	Started with PC sleepers for the Tokaido Shinkansen (started operation in 1964)	After obtaining ministerial certification (1985), responding to needs for earthquake resistance	Producing high-performance equipment tailored to the requests of customers

## Neturen's strength 3

### Global network

Neturen has 9 subsidiary and related companies and 25 sites in Japan and 15 subsidiary and related companies and 16 sites in 6 countries overseas. By expanding our global network, we have established a structure capable of quickly

responding to requests from local customers. We are also creating a system to optimize the entire supply chain, from the purchasing of raw materials to the production and sales of products, including at overseas sites.

## Neturen's strength 4

### Professional human resources that swiftly adapt to changes

Aiming to grasp the needs of customers and provide cutting-edge proposals in this rapidly changing term of the period, Neturen has adopted the "inverted T-shaped model" (see p18), a concurrent development model in which all processes from research and development to

manufacturing and sales are performed simultaneously across departments. Human resources from different departments work together across departmental boundaries and form teams based on Neturen's unique technologies, to develop and propose new products.

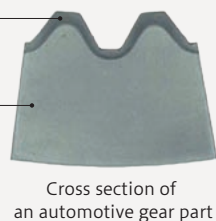
#### IH technology enables heating specific areas of a metal part

##### Hardened layer:

improved metallic characteristics (improved fatigue strength and wear resistance)

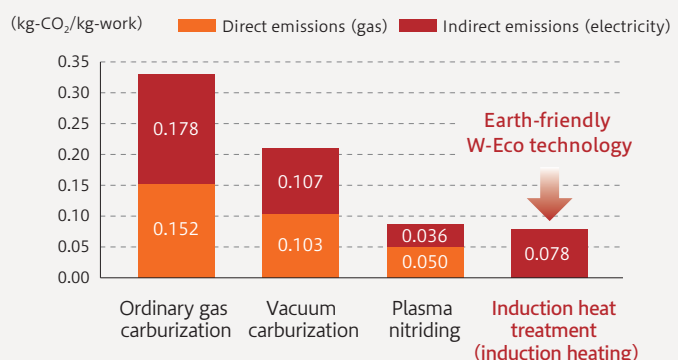
##### Base material:

only the necessary part is hardened because it should be flexible enough to absorb external forces.



Adding strength and flexibility to make metal parts smaller, lighter, stronger, and have longer life.

#### Comparison of CO<sub>2</sub> emissions



# Value creation model

## Social issues surrounding Neturen and megatrends

Moves toward decarbonization

- CO<sub>2</sub> reduction
- Contribution with new technologies
- Partnerships beyond corporate boundaries, etc.

Technological innovation and changes in industrial structure

- Advancement in IT and AI technologies
- Electrification of vehicles
- Increase in wooden high-rise buildings

Increasing new business risks

- Geopolitical risks
- Pandemic
- Supply chain disruption
- Resource depletion
- Violation of human rights, etc.

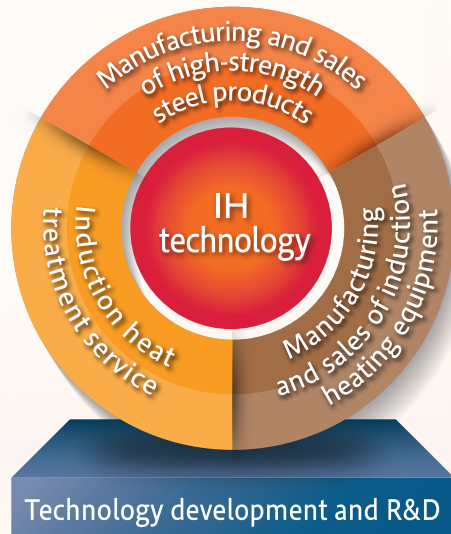
Declining working-age population due to aging of society

- Labor shortage
- Improved business efficiency
- Handing down of technologies

## Source of value creation

### Business model

Based on Neturen's core IH heat treatment technology, responding to various needs of society through three businesses



### 《In-house, end-to-end solutions》



### Four strengths

Advanced technology development and R&D enabling in-house, end-to-end solutions

High-quality products and services based on solid technological capabilities and a stable financial base

Global network

Professional human resources that swiftly adapt to changes

## Management plan / Material issues

## Management Philosophy / Sustainability Basic Policy



Neturen group has been creating many kinds of products and technologies which help developing infrastructures, sustaining human life and solving social problems. A series of these activities has been enabling our continuous growth and improvement of our corporate value. It also allows us to make our next challenges.

## Value to be created

Responding to the demands of the new era and solving social issues with cutting edge IH technology

### Value to be provided for society

- Reducing the environmental impact of mobility
- Building safe, secure, and resilient communities
- Improving accuracy and extending life of machine tools and construction machinery
- Providing unprecedented value to new market

### Economic value

Net sales	¥57.5 bn
Operating income	¥2.3 bn
Operating income to net sales	4.2%
Return on equity (ROE)	0.6%
Return on asset (ROA)	3.8%

(FY2022)

Long-term management vision

NETUREN  
VISION  
2030

Motto

Contribute to creating sustainable society while increasing corporate value

# Progress of 15th Medium-term Management Plan

15th Medium-term Management Plan (April 2021 – March 2024)

## Change!! New NETUREN 2023

Basic policy

Aim to “contribute to a sustainable society” and “increase corporate value” as first phase of achieving “NETUREN VISION 2030 (Evolution and Breakthrough)”

In NETUREN VISION 2030, Neturen describes its future image in 2030 as “contribute to creating sustainable society while increase corporate value” and declares to pursue these two targets. The 15th Medium-term Management Plan, which started in fiscal year 2021, is positioned as the first phase of achieving this Vision, under which we have been working on four basic strategies.

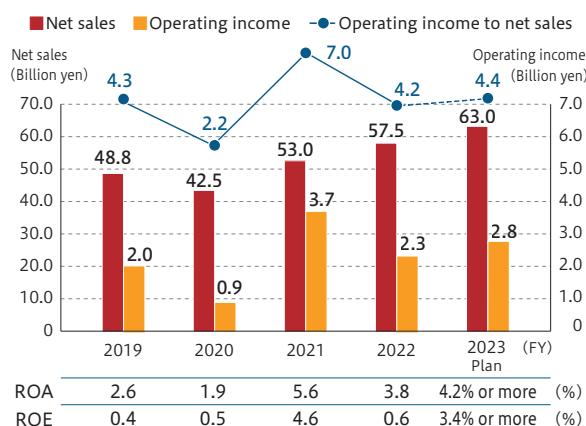
In the 14th Mid-term business plan, Neturen group introduced the organizational way of working and manufacturing, proactive attitude in solving quality issues based on “Total Optimization” policy. We will take over the previous plan and continue striving to maximize its contribution to the human society and evolving to be an essential company in the world.

### Progress in four basic strategies

		General review
Strategy 1	<b>Stabilizing business</b> by strengthening core competence, and developing new technologies, products and businesses to the market.	Steady progress was seen in such initiatives as expanding applications of existing products, launching new parts, improving productivity by utilizing IoT, and expanding sales of new power supplies.
Strategy 2	Promote digitization and <b>improve information sharing throughout the company</b> by N-DX system, targeting full operation in three years' time.	Infrastructure development for DX promotion progressed at each site and work flows were defined. Demonstration experiments were launched to solve issues toward achieving the vision.
Strategy 3	Identify SDGs as the core of management, reduce CO <sub>2</sub> emission and <b>contribute to a sustainable society</b> .	Various measures for energy conservation were implemented, achieving a 33% reduction in CO <sub>2</sub> emissions (compared to FY2013). We will continue to steadily promote the plan.
Strategy 4	Develop human resources to enhance the Group's sales and marketing capabilities <b>globally</b> .	Efforts were focused on developing skilled human resources and female managers using skill maps. In FY2022, analysis was conducted on the current situation based on an employee awareness survey.

### Major management indicators (consolidated)

Anticipating that the difficult business environment will continue in fiscal year 2023 and beyond, we revised the numerical targets of the final year of the 15th Medium-term Management Plan in May 2023. As a result, net sales are forecasted to reach a record high of 63.0 billion yen, taking into account the reflection of increased costs including materials and electricity on selling prices and the impact of exchange rates. On the other hand, expected operating profit was revised downward to 2.8 billion yen, in view of the possibility of delays in passing the costs on prices and the unclear order situation from the automobile industry. Although we have revised the ROE target downward to 3.4% or higher, we will continue to actively implement measures to achieve ROE of 5.0%.



## Strategy

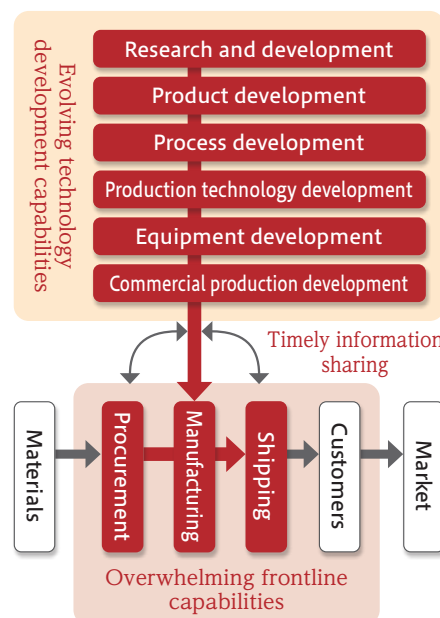
## 1

## Stabilizing business by strengthening core competence, and developing new technologies, products and businesses to the market.

In line with the start of 15th Medium-term Management Plan, we are working on strengthening our technology development structure based on the concept of total optimization. We are working eagerly to develop new applications of existing products, launch new heat-treated parts, improve productivity of our factory by IoT, and promote new power supplies, based on the concept of “Inverted T-shaped model,” which deepens cross-departmental cooperation in all process among concurrent technology development, marketing and commercial production.

In fiscal year 2022, the Specialty Steel & Wire Products Division incorporated the cut-off construction method calculation formula into general design software, and started proposing replacement of current software to customers. Neturen America, whose main product is high-strength spring steel wire ITW® and where demand is expected to increase, completed its first stage of factory expansion plan and started operation of the drawing process for commercial production. The second stage has already started and the installation of quenching equipment is planned from November 2023. In the IH (Induction Heating) Division, investment for production increase was completed for Neturen Indonesia, where preparations for commercial production are being made. We will continue to promote development and sales expansion of new products, as well as active capital investment for production bases.

### Realizing Neturen's “inverted T-shaped model”



## Major initiatives in FY2022 and achievements

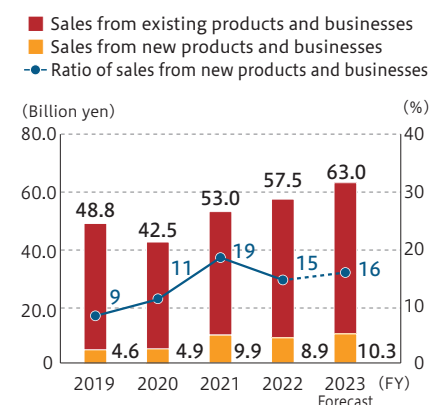
Business division	Major initiatives and achievements
Specialty Steel and Wire Products Division	<ul style="list-style-type: none"> <li>Completed <b>implementing</b> cut-off construction method calculation formula to general <b>design software, and started proposing it at the time of replacement. (high-strength shear reinforcement)</b></li> <li>Completed the first stage of factory expansion plan of NETUREN AMERICA, including building construction and installation of processing equipment and started commercial production. <b>The second stage has already started.</b></li> </ul>
Induction Heating Division (Induction heat treatment-related services)	<ul style="list-style-type: none"> <li><b>Started commercial production of 4 types</b> of new products (EV-related).</li> <li>NETUREN INDONESIA received orders of 5 new products to start commercial production in FY2023. <b>New facility completed and preparing commercial production which was amounting approximately ¥0.3 billion investment.</b></li> </ul>
Induction Heating Division (Induction heating equipment/services)	<ul style="list-style-type: none"> <li>Expand sales of new power supplies equipped with FPGA: <b>Achieved 75% replacement of legacy power supplies</b></li> <li>Expand sales of Semiconductor Manufacturing Equipment: <b>Achieved 200% of the previous year's sales</b></li> </ul>

## Developing new products and businesses into pillars for profit

To achieve NETUREN VISION 2030, development of new products and businesses is essential. We define the new products and businesses of the Neturen Group that have been on sale or in operation for not more than five years, and we aim to increase their sales ratio.

In fiscal year 2023, in addition to the overseas business expansion of ITW®, it is expected the sales increase of products related to cut-off construction method, pre-grouted PC steel bars and construction equipments. As a result, sales from new products are expected to be 10.3 billion yen. We will integrate more resources to strengthen research and development capabilities and launch new product faster. We will also accelerate marketing activity to help them.

### Net Sales of New Products and New Businesses

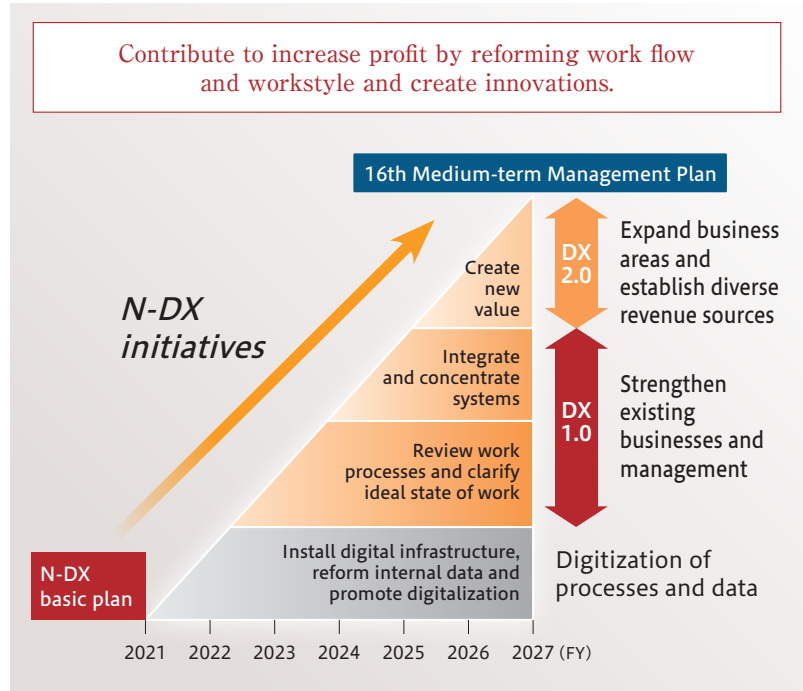


## Promote digitization and improve information sharing throughout the company by N-DX

Under Strategy 2, which aims to realize “data-driven management” that will lead to increased corporate value, we have been working to establish a system for N-DX (Neturen Digital Transformation). In November 2021, the N-DX Project was launched with the President as the chief supervisor. In the project, we are reforming the way of working in the company by three specialized teams.

At present, the teams are working on the “DX1.0” phase, which is infrastructure development for DX installation and workflow restructuring. We expect actual outcome in the following “DX2.0” phase that will lead to the creation of new value. In the second half of fiscal year 2023, the three teams will be integrated to start system design. In the three-year period of the next (16th) Medium-term Management Plan, we plan to invest to cloud systems, ICT for production equipment, and advanced smart factory.

### Target of N-DX activity



### Major initiatives in FY2022 and achievements

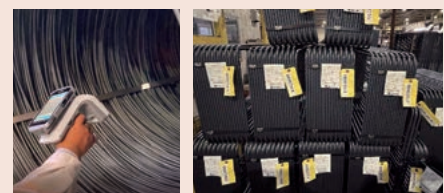
Initiatives related to DX	Major initiatives, achievements, and issues
<b>Speed up management control</b>	Revised work flow design was started in addition to its analysis. Further workflow analysis was conducted to identify issues, examine solutions, and formulate a grand design.
<b>Build, deploy, and utilize a centralized management system for customer information</b>	Information sharing on dashboards using SFA data* <sup>1</sup> began at various meetings. The task for the future is to promote utilization of SFA data at all sales offices to reform sales styles.
<b>Collect data that enables us to respond to changes and utilize digital technology</b>	For the introduction of ICT to improve workstyle, the first-phase project for three plants was completed, and the plan for the second phase has been formulated. Demonstration experiments for production management and inventory management using RFID* <sup>2</sup> tags were started.

\*1 SFA data: Information gathered by the sales segment and made available to research and development segments for the purpose of establishing new business models  
 \*2 RFID (Radio Frequency Identification): Technology of contactless reading of tag information using radio waves

### Demonstration experiment of production management and inventory management using RFID

One of the three tasks of N-DX is to achieve "data collection and digital technology utilization to adapt to change", and RFID experiment was started as one of the items in the task to improve work efficiency. Use of RFID makes it possible to quickly and effectively perform raw material counting and finished goods picking which are time consuming process in inventory control.

Moving ahead, we will consider collaboration with external raw material warehouses and transportation companies, to improve the efficiency of supply chain management as a whole.



Inventory management using RFID tags

## Strategy

## 3

## Identify SDGs as the core of management, reduce CO<sub>2</sub> emission and contribute to a sustainable society.

Neturen's IH (induction heating) technology provides value for industry and is essential for realizing a sustainable society. Having positioned three of the SDGs as priority issues for our group,

we will further strengthen our contribution to the environment and society through our products and technologies while working to improve our corporate value.

Contributing to solving issues of society and customers through our products



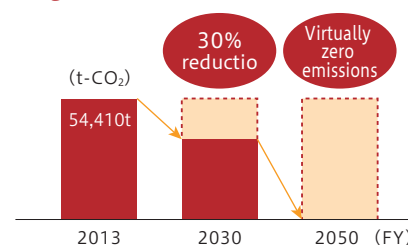
- Significant reduction of CO<sub>2</sub> emissions through expansion of IH heat treatment technology
- Improvement in durability of EV parts by IH heat treatment (reduced weight, lower fuel consumption)
- Reduction of the amount of steel used in structures and shortening of construction time by the introduction of high-performance steel products

### Toward carbon neutralization in 2050

Recognizing climate change as a management issue of Neturen, we have been targeting 30% reduction in CO<sub>2</sub> emissions by 2030 (compared to FY2013) and net zero emissions in fiscal year 2050 in NETUREN VISION 2030. In fiscal year 2022, we achieved a reduction of about 5% in CO<sub>2</sub> emissions per unit of production from the previous fiscal year and achieved a reduction of about 25% from fiscal year 2013.

At the same time, we will focus on contributing to the reduction of CO<sub>2</sub> emissions by customers and society with our non-polluting (ecological) and resource-saving (economical) double-eco (W-ECO) IH technology.

### Targets for CO<sub>2</sub> emissions reduction



For details of climate actions, please see pages 33-35.

### Implementation plan (15th Medium-term Management Plan period)

No.	Implementation items	Description	Activity period		
			FY2021	FY2022	FY2023
1	Clarification of the current status of CO <sub>2</sub> emissions	Checking emissions benchmarks of each product	→		
		Calculating emissions (Scope 3), organizing energy flows	→		
2	Setting emissions targets	Finding the gap between targets and reality		→	
		Setting targets for each scope/category		→	
3	Formulating measures to reduce emissions	Examination of reduction measures for each Scope			→
		Determining priorities of reduction measures and implementing them			→
4	Expanding reduction activity	Explanation to affiliated companies (Group companies)		→	→
5	Evaluation of results	Re-evaluation of the implementation results and the reduction amount		→	→
6	Dissemination inside and outside the company	Explanation of priority issues and achievements (financial effects, etc.)			→
7	Summary of activities	Recalculation of CO <sub>2</sub> emissions			→
		Evaluation and review of the activity period (1 year) and reorganization of issues	→	→	→

### Introduction of solar power generation systems

In Neturen's business site, more than 90% of energy consumption was provided by purchased electricity. Therefore, we have been upgrading facilities to be more energy-saving, high-efficiency ones by installing solar power generation systems. In February 2023, the installation of solar power generation systems was completed at Kobe Plant and Amagasaki Plant, and they have started power generation. At present, the amount of electricity generated is very small compared to the total amount of electricity consumption, but we are considering installing solar power systems at more sites.



Solar power panels (Kobe Plant)

## Develop human resources to enhance the Group's sales and marketing capabilities globally.

Human resources are one of the most important capitals supporting the Neturen Group's business and are the core of its management foundation. NETUREN VISION 2030 declares that we should develop diverse global human resources who have a motivation for voluntary contribution, having challenging and continuously growing mind, to cover worldwide market. In the 15th Medium-term Management Plan, the first phase for realizing the Vision, we focus on three key points in fostering the motivation for voluntary contribution, which makes each employee having image for their future, mind of self development and will to improve their own skills.

In January 2022, we conducted an employee awareness survey (target: non-consolidated Neturen employees). Based on the results of the survey, we have been promoting talks between management and employees and information exchange by the NETUREN VISION 2030 dissemination working group. Every member confirms what role they play in NETUREN VISION 2030 and also their own role in their work. We will establish a virtuous cycle in which diverse human resources work with smiles and produce results, and build a system for creating long-term value.



Executive Officer  
General Manager,  
Human Resources Headquarter  
Naoki Hisada

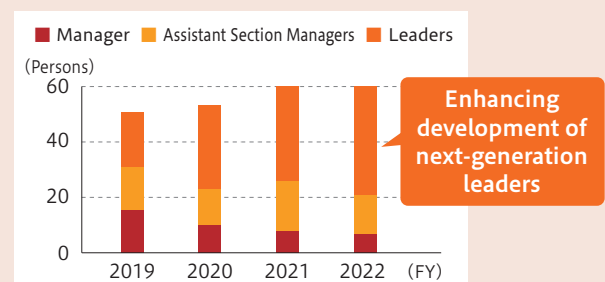
### What we aim for and key points to focus on



### Skill maps and human resource records

Skill map was introduced in 15th Medium-term Management Plan to visualize the proficiency levels of the skills of individuals and clarify the strengths and problems in their skills, with the aim of developing them into professional, skilled human resources in 10 years after joining the company. We have begun to prepare skill maps for employees of all departments. Development of next-generation leaders is also urgently necessary. As a tool to help each individual design their career path, we create personnel career development records and incorporate them into the human resource system, thereby systematically developing human resources for the future.

### Number of participants in rank-based training programs



## Develop fully skilled human resources

Aiming to become a company that can demonstrate comprehensive strength centered on technology, we provide comprehensive education on heat treatment skills and practical training to pass the certification test for metal heat treatment technicians. At the Human Resources Development Center, a dedicated training facility opened in 2019, offers various training programs, including the hand tool dojo, a practical program using tools that are actually used at manufacturing sites, step-up seminars for technology development personnel, in which not only employees but also students of collaborating universities participate, and other programs on different technology themes. In addition to serve various training programs to improving individual skills, Neturen fosters a corporate culture where employees freely discuss, learn, and grow on their own through QC (quality control) circle activities, which are firmly rooted in Neturen.



Hand tool *dojo*

## Realize diversity

The Neturen Group believes that in order to provide value and contribute to society through its business activities, it is essential to create an environment where diverse human resources can play active roles. For this reason, realizing diversity has been positioned as a core of our human resources strategy.

At Neturen, the percentage of women among employees is small, and therefore the empowerment of women, including female managers, is one of our issues. Toward the goal of doubling the number of female managers by the end of March 2026, we have been implementing various initiatives, such as providing career development support and expanding the range of recruitment for new graduates and mid-career recruits. Also, discussions on diversity are held in rank-based training programs, and the opinions obtained are reflected in improvement activities.

As an initiative for technology exchange and human resource development, starting from September 2022, the Heating Machine Department of the IH Division and the Research and Development Headquarters invited three engineers of Yancheng Neturen (China) as trainees and is conducting training.



In-house training

## Realize diverse work styles

Neturen is reforming its workstyle to enable flexible work that allows diverse human resources to play active roles. In addition to familiarizing employees with working from home, we encourage them to take childcare leave, nursing care leave, and family care leave. Neturen also promotes health and productivity management, and awarded “silver certification” from the Tokyo Society of National Federation of Health Insurance Societies in February 2023. Through the realization of diverse work styles, we aim to help our employees to achieve balance in their work and life, to raise their motivation to work.





## Aiming for sustainable improvement of corporate value, we will strengthen strategic investment in growth sectors

Director, Member of the Board, Executive Officer  
General Manager, Administrative Headquarters  
Tomokatsu Yasukawa

### Implementing management conscious of the cost of capital

The 15th Medium-term Management Plan, which is for the stage of solidifying the foundation for growth toward achieving NETUREN VISION 2030, our long-term management vision, aims to improve capital efficiency and considers BS(balance sheet) and CF(cash flow) as a core management indicator as well as PL(profit and loss statement) in its basic policy.

In fiscal year 2022, the second year of the Plan, net sales reached a record-high of 57,524 million yen (up 8.5% from the previous year). However, profits decreased with operating profit of 2,396 million yen (down 35.3%), ordinary profit of 3,088 million yen (down 30.1%), and profit attributable to owners of parent of 381 million yen (down 85.8%). Although this was partly due to the special factor of recording 1,852 million yen as an impairment loss, the low percentages of operating margin and ROE are a problem to be addressed. The question is how we will increase our earning power.

As increases of steel prices, electricity and logistics costs, are still ongoing, it is essential for the Neturen Group to first seek understanding from our customers and pass these costs on to selling prices. In addition, we will increase capital efficiency through cost reduction and other efforts, and work to achieve an ROE of 8% and PBR of 1.0 times or more as quickly as possible. In implementing the 15th Medium-term Management Plan, we have adopted the concept of WACC (weighted average cost of capital) and held internal

discussions, with the aim of improving our balance sheet while securing financial soundness. We also plan to introduce ROIC (return on invested capital) as a management indicator.

To promote the financial strategies and capital policies during the period of this Medium-term Management Plan, an internal project was launched to proceed with activities to raise recognition of the cost of capital-conscious management within the company under my direction as the chief supervisor. Starting with executive management and general managers of departments and plants, we will instill understanding of how quality and productivity improvement and cost reduction will improve ROIC throughout the Group.

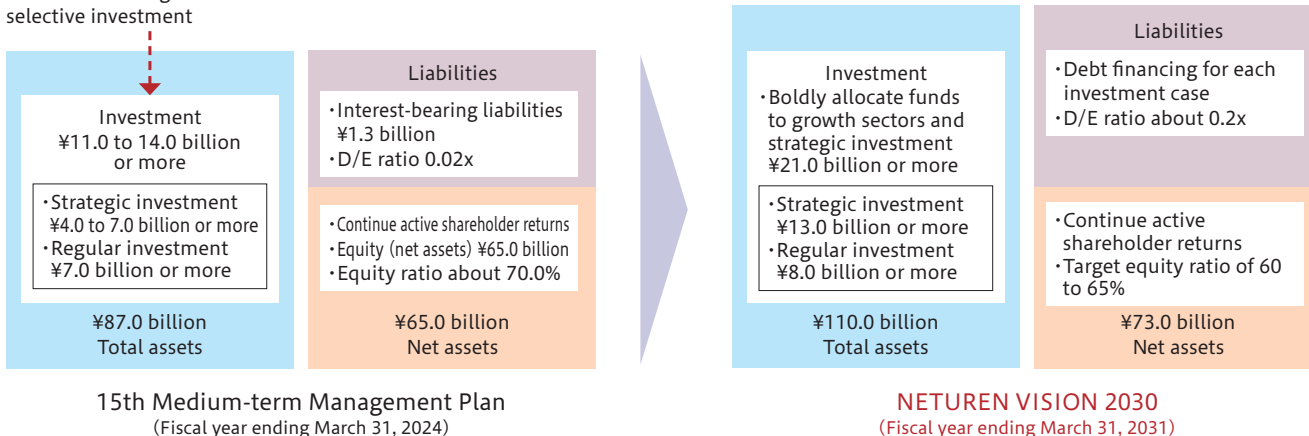
### Reduce assets and generate cash flow

In May 2022, we disclosed the target balance sheet in NETUREN VISION 2030, and revealed our capital allocation. We clarified our stance of boldly investing in growth sectors while taking business risks into consideration.

Regarding the balance sheet, we aim to reduce the equity ratio, which was 74.4% at the end of the previous Medium-term Management Plan period, to 70% during the period of the current 15th Medium-term Management Plan, and then to 60 to 65% by fiscal year 2030, the target of NETUREN VISION 2030. While paying attention to the balance between financial soundness and capital efficiency, we will control our equity and endeavor to achieve the targets ahead of schedule. Going forward, we will further reduce assets to generate cash flow and aggressively invest to growth sectors and strategic investment for the future. (Figure 1)

Figure 1: Target Balance Sheet

New investment guidelines established to ensure effective and selective investment





Regarding capital allocation during the period of the 15th Medium-term Management Plan, the total of cash-in from operating cash flows and sale of assets, and cash on hand is estimated to be approximately 18 billion yen. Sale of assets includes sale of cross-shareholdings. We will systematically reduce cross-shareholdings in accordance with the Corporate Governance Code to achieve the target of a 30% reduction in terms of the number of stocks and book value (compared to FY2020).

Cash-out is classified into three categories, regular investment, strategic investment, and shareholder returns. We plan to spend 4.5 billion yen for regular investment, such as production increase, labor saving and rationalization, seismic reinforcement, and equipment repairs, and 6.4 billion yen for growth investment, such as new product development, promotion of DX, and environment-related investment. For large-scale investment, such as M&A projects that are currently under consideration as a core of growth investment, we will procure funds through bank loans and corporate bonds as necessary. Regarding shareholder returns, we plan to pay 4.1 billion yen as dividends and a total of 3.0 billion yen for purchase of own shares, which consists of 1.5 billion yen in the previous fiscal year and 1.5 billion yen in the current fiscal year.

We are currently in discussions regarding the next 16th Medium-term Management Plan, and are in the process of analyzing our business portfolio in view of profitability and growth potential. At the same time, we have formulated investment guidelines that will serve as new investment decision criteria for the Group. Previously, we mainly used the payback period method (PPM), but now, we also consider internal rate of return (IRR) and net present value (NPV) to ensure that investments generate more returns than the cost of capital.

Investment to intangible assets, such as human capital and intellectual property, is also an important key to allowing stakeholders to have expectations for growth. Focusing mainly on development of human resources to be engaged in research and development, internal

discussions are being held to expand investments in systems for recruitment and training and strategic utilization of intellectual property. (Figure 2)

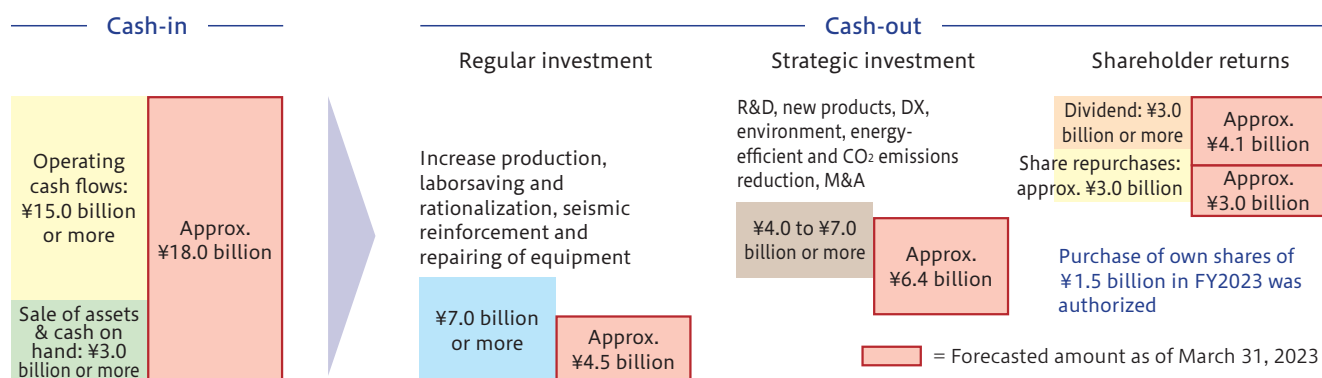
## Placing emphasis on communication with shareholders and investors

While enhancing investment in growth sectors for the future, we will continue to actively return profits to shareholders so that our shares will be held by shareholders and investors for many years to come. In May 2023, we revised our dividend policy and set the dividend on equity (DOE) ratio to be 3.0% or higher. This has enabled stable dividend payment not affected by business performance. Along with the resolution regarding repurchase of own shares, this revision has been received as a positive message by the stock market, and this is reflected in the rise in the stock price, traded volume, and PBR.

Placing emphasis on communication with shareholders and investors, we incorporate comments and opinions received from them into discussions at meetings of management, executive officers, the Board of Directors, thereby implementing the PDCA cycle. It was very nice for us to have a specific communication with shareholders concerning financial measures and timing to be taken after disclosing the capital allocation and the balance sheet.

We have set the fiscal year ending March 2031 as a milestone, and I hear some people complain that the time span is too long. However, what we are aiming for is the sustainable improvement of the corporate value of the Neturen Group. While sharing a long-term perspective and disclosing the contents and progress of what we have planned and implemented in the Medium-term Management Plan, we will move the plan ahead of schedule as much as possible. By doing so, I hope we can gain understanding. While communicating Neturen's technologies and brand to the world at large, we will continue to have frank talks with shareholders and investors, and strive to achieve sustainable growth and improve our corporate value.

Figure 2: **Capital Allocation** 15th Medium-term Management Plan (April 2021 to March 2024)



\* Sale of assets includes sale of cross-shareholdings  
\* Debt finance may be used if necessary

[Dividend] FY2021 to 2022: Consolidated dividend payout ratio of 40% or higher, setting the lower limit of dividend on equity (DOE) ratio of 1.5%  
FY2023: dividend on equity (DOE) ratio of 3.0% or higher

# Specialty Steel & Wire Products Division

### Major products and services

Steel bars for prestressed concrete (PC), high-strength shear reinforcement, high-strength spring steel wire ITW®, hollow rack bars, slewing bearings (construction equipment parts)

## Target and medium-term business strategy

The Specialty Steel & Wire Products Division has declared “We will develop unique branded products that meet new market needs with our superior production capabilities, and contribute to CO<sub>2</sub> reduction through such products” as the target of our division in NETRUEN VISION 2030. We focus particularly on the continuous launch of new products by strengthening development capabilities of products and business, ability of marketing to increase profit strategically. In the roadmap of the medium-term plan, everybody has an idea of borderless and globalization to increase profit, growth of overseas organizations with keeping safety and quality by superior frontline capabilities with N-DX covering from procurement to sales.



Director,  
Member of the Board,  
Managing Executive  
Officer  
General Manager,  
Specialty Steel & Wire  
Products Division  
Takashi Suzuki

## Review of fiscal year 2022

Net sales of civil engineering and construction-related products increased year on year mainly due to strong demand and the successful transfer of cost increases, such as of material costs and electricity costs, to selling prices.

Net sales of automobile-related products increased year on year due to increased sales volume mainly overseas, the successful passing of increased costs to selling prices, the depreciation of the yen, and other factors.

Net sales of construction equipment-related products increased year on year due to strong demand. As a result, net sales were 36,870 million yen (up 18.2% year on year). On the other hand, operating profit was 986 million yen (down 25.1% year on year), due to the delays in the transfer of the cost increase to prices to the customers in main construction-related products, reduced production of domestic automobile manufacturers, and the decline in our own productivity due to the unstable supply of some materials.

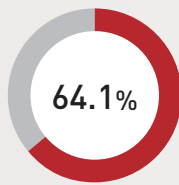
## Outlook for fiscal year 2023 and for the future

Approximately 40% of the customers of the Specialty Steel & Wire Products Division are in the civil engineering and construction industry and approximately 30% of them are in the automobile industry. Our overseas customers are mainly those related to automobiles. We saw an increase of EVs, which require further weight reduction of vehicle bodies, as a favorable trend for the Neturen Group. To expand sales of ITW® for cold forming spring in the United States, Neturen America completed the first stage of the expansion plan of its plant, and its production

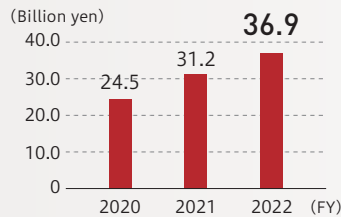
capacity is expected to increase by about 40% by the end of fiscal year 2023. We are also planning to increase induction heat treatment service at the same location.

In Japan, by developing new applications of our products, we will provide new value for not only the automobile industry but also the civil engineering and construction, and construction equipment and machine tools industries, which will result in the market share increase and further growth of the Group.

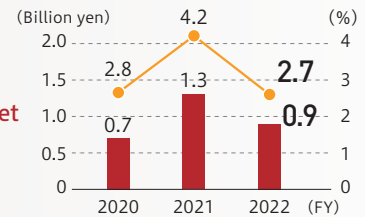
Sales constituent ratio



Net sales



Operating profit/operating profit to net sales



## Medium- to long-term growth strategy

### Global Business Expansion of ITW® for cold forming spring

High-strength spring steel wire ITW® is a product mainly used for the springs of suspensions of automobiles and motorcycles. It is the world's first commercial induction heat-treated spring steel wire for cold forming. In line with the ongoing shift to EVs, demand for ITW® and thick ITW®, which contribute to weight reduction, is expected to increase significantly. We are working to develop new customers in each region while developing the largest diameter ITW® in the world. We will further expand sales for applications other than automobiles, with the aim of achieving steady growth globally.

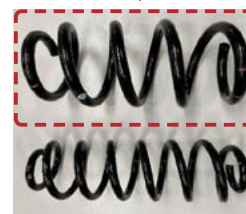
In China, our two bases in Shanghai and Chongqing, which cover the entire area of China, have recently started exporting products to outside China. In North America, the first stage of plant expansion plan was completed and mass production was started. With heat treatment equipment scheduled to be introduced in November 2023, their production capacity will increase by 40%, including production of thick ITW®. In Europe, deliveries to new customers are steadily increasing, and efforts for sales expansion are being made for the next model.

In Japan, the Ako Plant serves as the mother plant and supports other sites, and has also begun deliveries to new customers. A new program to increase production capacity by 1.5 times was also launched, which will be deployed to other bases.

### Reinforcing production facilities for ball screw shaft materials

Neturen's ball screw shaft materials used in semiconductor production equipment, industrial robots, and machine tools have achieved high strength and high linearity through induction heat treatment (tempering, surface quenching, surface tempering). They also have achieved outstanding roundness and straightness by centerless grinding.

Although demand will temporarily decline in fiscal year 2023 due to inventory adjustments, it is expected to increase substantially from fiscal year 2024 and continue to grow thereafter. We will make a capital investment of 200 million yen to double the production capacity by the reinforcement of polishing, chamfering, and straightening machines. Starting with reinforcing the production facilities of the Hiratsuka Plant, we will increase the overall manufacturing capacity.

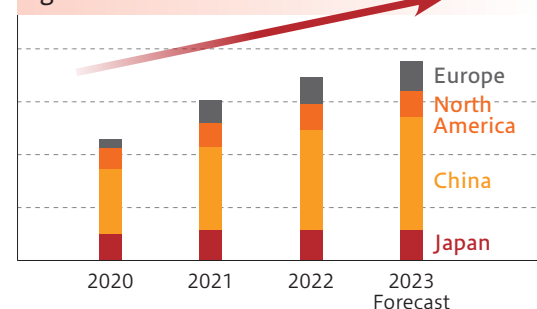


EV suspension spring using thick ITW® (wire diameter: 17.2mm)

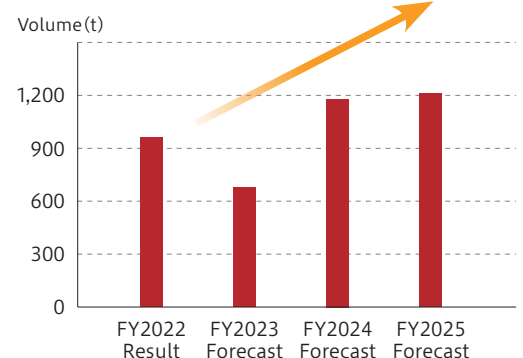
EV suspension spring using standard ITW® (wire diameter: 13.1mm)

### Sales volume of ITW® by region

We aim to continue steady worldwide growth in FY2023 onward.



### Sales volume expected by the Company



# IH (Induction Heating) Division

### Major products and services

Induction heat treatment service for parts of automobiles, construction equipment, industrial machinery and machine tools; design, manufacturing, sales and engineering of high-frequency quenching equipment and other induction heating equipment

## Target and medium-term business strategy

The IH Division has set its vision for 2030 as “We will supply state of art technologies to the customers through our superior production capabilities and thereby contribute to reducing CO<sub>2</sub> emissions.” To achieve this vision, we will focus on three initiatives. First, we will proactively apply the “inverted T-shaped model” (see p18), in which processes of multiple segments in the product development stage are performed simultaneously so that development time and costs can be saved a lot, and then, we will promptly transfer new ideas into commercial products. We can also evolve the plants into ones that are resilient to market changes. Furthermore, we will train the people to be able to think and act by their own idea and foster their mind with professionalism to achieve corporate growth.



Director,  
Member of the Board,  
Senior Managing  
Executive Officer  
General Manager,  
IH Division  
Nobumoto Ishiki

## Review of fiscal year 2022

Net sales of induction heat treatment-related services decreased significantly from the previous year due to the intermittent operation in the automobile industry, which could not be offset by stable orders for construction equipment and machine tools.

Net sales of induction heating equipment and related services decreased year on year despite stable orders received, mainly because the acceptance inspection was delayed for some projects due to longer delivery terms of parts and the effect of COVID-19. As a result, net sales were 20,514 million yen (down 5.3% year on year). Operating profit was 1,353 million yen (down 41.9% year on year), due to an increase in costs, mainly electricity,

as well as the decline in productivity due to intermittent operation of customers.

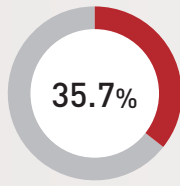
Transfer of the rise of electricity prices to selling prices became possible from the second half of fiscal year 2022 to fiscal year 2023. On the other hand, regarding the procurement of parts for equipment manufacturing, we have been implementing measures such as building a global procurement system by the cooperation among our bases in Japan, China, and South Korea, and obtaining parts from customers. In addition, backed by the trend of decarbonization, demand for equipment using IH, a heat treatment method with low CO<sub>2</sub> emissions, has been increasing.

## Outlook for fiscal year 2023 and for the future

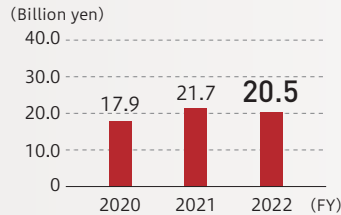
Until now, we have been working on “establishing flexible production system to cope with demand fluctuation coexisting with superior production capability.” As it is predicted that demand will continue to be uncertain, we will thoroughly eliminate useless process and try to change our product mix into a well-balanced one that is not dependent on any specific industry. In

response to the social trends toward sustainability and decarbonization, new demand has been emerging for using IH (induction heating) technology, which emits less CO<sub>2</sub>, for not only quenching but also heating. We will continue to explore ways to provide new value that meets the demand of the times.

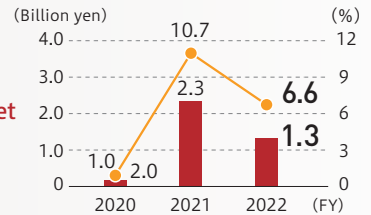
Sales constituent ratio



Net sales



Operating profit/ operating profit to net sales



In production and sales of equipment, our bases around the world work together to establish a global procurement system, and we are developing high performance new products that are recognized as world-class.

Moreover, in addition to securing revenues by factory operation under prediction of order fluctuation, we will level production, install plant automation and IoT as a part of N-DX to improve productivity and reduce cost.

## Medium- to long-term growth strategy

Increase production capacity for induction heat treatment service at overseas bases

Backed by Neturen's high technological and quality assurance capabilities, inquiries and orders for induction heat treatment service mainly for bearings for automobiles have been increasing at overseas bases. Neturen Indonesia, which is engaged in commercial induction heat treatment service for automobile bearings, will invest 300 million yen to construct additional two new heat treatment lines, doubling its production capacity. In Mexico, commercial production of parts for new vehicle models is scheduled to be added. In North America, investment in production increase of parts for existing vehicle models and also for new car manufacturers is being considered. We are planning to increase heat treatment service and equipment sales at new overseas bases.



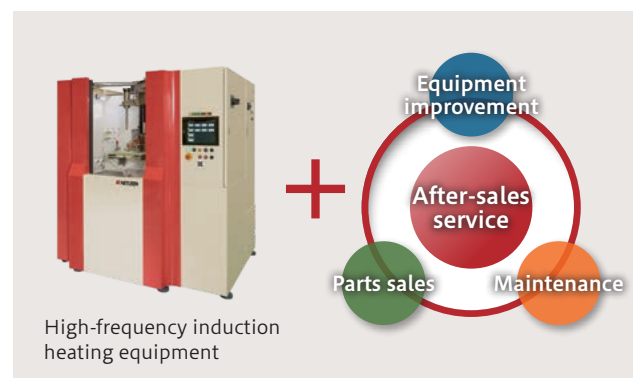
PT. Neturen Indonesia



Neturen Mexico, S.A. de C.V.

Fixed-price sales of packages including after-sales service

We have started sales of monthly fixed-price subscription packages comprising the latest-model induction heating equipment and after-sales service. The subscription package includes equipment, its transportation and starting up service, and after-sales service such as coil repair, water system cleaning and annual inspections. This new style of sales will increase our contacts with customers and help create an environment where customers can consult us on their problems. With this, we will accurately identify the needs of customers and aim to further increase customer satisfaction.



# Research and development / Technology development

## Research and development/technology development for the future

Research & development and technology development are essential for the development of new products and new technologies, which are the key to realizing NETUREN VISION 2030. In order to apply IH (induction heating) technology in various fields, we are working on everything from material development and basic research to technology development, manufacturing and evaluation in an integrated manner.

One of Neturen's strengths in research and development is its world top-class heat treatment simulation (CAE) technology. This technology, which we began researching 30 years ago and achieved ahead of competitors, has contributed greatly to improve product accuracy, shorten delivery term, and reduce resource consumption. The presence of a wide variety of material analysis equipment and specialized engineers to conduct material analysis is also a feature of our research and development sector. Our system for collaboration with research institutions is another strength. At present, we are collaborating with about 10 universities in joint research which targets to get result in next 5 to 10 years. This type of research helps our recruiting activity.

Furthermore, to enhance our fundamental technology IH heat treatment, we undertake trial production and improve function and strength of parts according to customer's request.

By proactively making growth investment with a view to development of next-generation technologies and technology advancement, we will steadily promote research and development from a medium- to long-term perspective.



Executive Officer  
General Manager,  
Research and Development  
Headquarters

Yoshitaka Misaka

## Neturen's fundamental technology and R&D perspectives

### R&D perspectives

#### (1) Further evolving and deepening IH technology

##### Enhancing fundamental technology

- Improving technology capabilities by developing core human resources for IH treatment.
- Deployment of advanced technologies (use of 3D printer/CAE, non-oxidation hardening, etc.)

##### Increasing added value

- Providing new value by IH surface modification to improve functionality
- Further increasing the efficiency and functionality of IH (power supply development, heating coil)

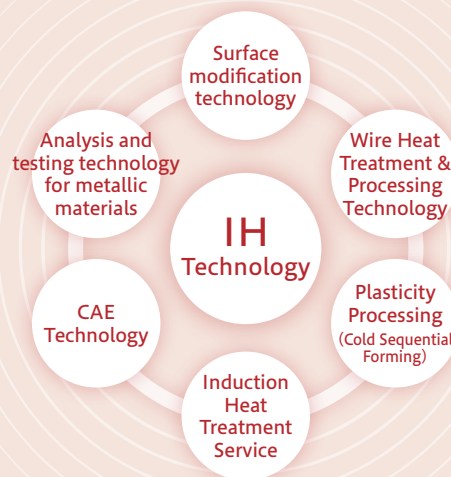
#### (2) Creating new technologies from a medium- to long-term perspective

##### Promoting research and development through collaboration with universities and research institutions

### Amount of investment in research & development and research equipment

FY2022 result: 600 million yen FY2023 plan: 1,000 million yen

Implementing active growth investments according to the 16th and 17th Medium-term Management Plans



▶ For more details of Neturen's technical information, please see below.

Neturen website > Technical Information <https://www.k-neturen.co.jp/en/technology.html>

## System for research and development/technology development

Neturen's system for research and development consists of three units. One is the unit for fundamental technology development. The Fine Techno Center (FTC), which plays the role of connecting customers, development site and production site, is included in this unit. The others are the unit for peripheral technology development and the unit for material development and basic research. These units, together with the Intellectual Property Section, are responsible for sophisticating our heat treatment technology,

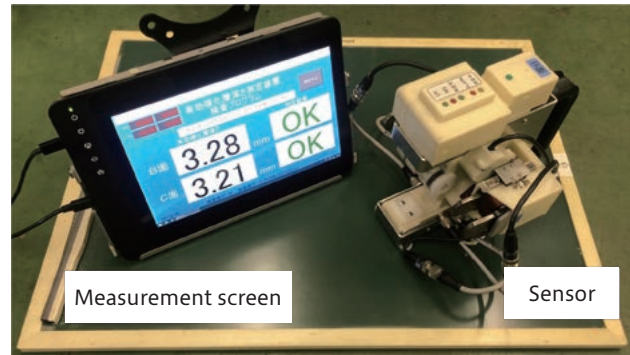
Neturen's fundamental technology.

With the establishment of the "inverted T-shaped model" (see p18) advocated in the 15th Medium-term Management Plan, collaboration between research and development and each Division or Headquarters has been reinforced, enabling research and development with a view to commercial production. By anticipating the needs of society and creating new value, we will increase our corporate value and expand our contribution to society.

## Latest research and technology development cases

### Nondestructive inspection technology

Neturen is developing and introducing nondestructive inspection technology. As an alternative to the conventional inspection/evaluation of the depth of hardened layer, which requires the destruction of test objects, nondestructive inspection technology enables to inspect uncut products thus make it possible to check all the products. Neturen has been conducting joint research on nondestructive inspection technology in collaboration with universities for about five years. Moving forward, we will seek to secure product reliability by improving the level of quality control and proceed with development toward commercial application of the technology.

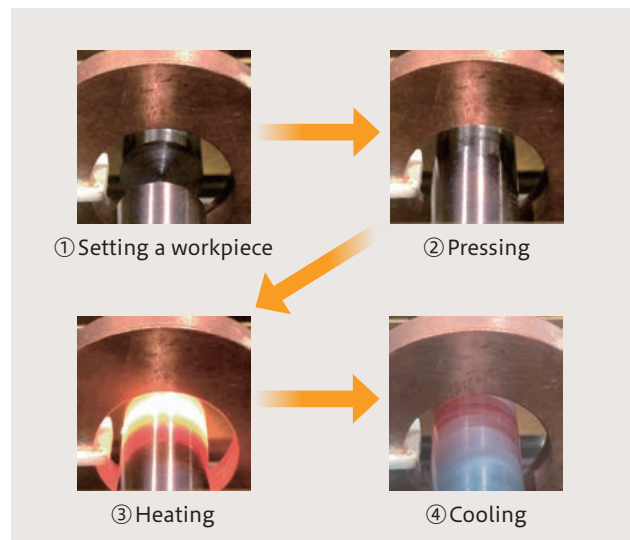


Nondestructive effective hardened layer depth measuring device

### Development of new bonding method

Neturen has developed a new bonding technique, the Neturen MB (Magic Bonding) method, by combining heating technology and the characteristics of steel materials, which is totally different from conventional welding. Bonding can be performed by pressing and heating the bonding surfaces that have undergone unique treatment.

The Neturen MB method is characterized by high strength and high dimensional accuracy, and few shape restrictions. Since it enables the bonding of materials of different shapes or different steel types, it is possible to use expensive materials only for necessary parts and thereby reduce material and processing costs compared to integrally formed products. In addition, due to its high dimensional accuracy, post-processes can be omitted. It is also possible to bond materials of complex shapes and perform bonding inside a part.



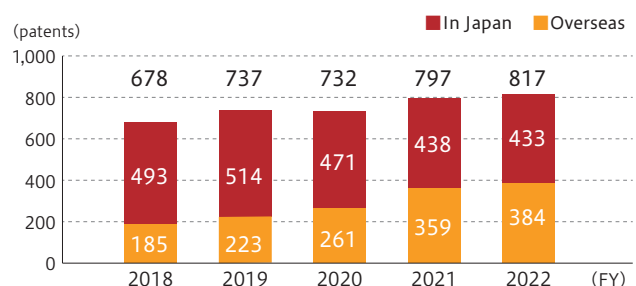
## Offensive and defensive intellectual property management

Neturen actively protects the results generated from our R&D and business activities with patents and other intellectual property rights. We formulate the optimal intellectual property strategy for each product group, such as automobiles and building materials, and protect the Group's technologies, thereby benefiting our business. We apply for intellectual property rights outside Japan as well, taking cost-effectiveness into account, for the benefit of our overseas businesses.

In addition, we are actively working on defensive patents, which cover rights around our own patents, as well as offensive patents, which cover rights to modify patents of other companies. While keeping expertise confidential and making efforts to prevent leakage outside the company, we respect the intellectual property rights of others and strive to prevent infringement. Within the

company, we are focusing on providing education on intellectual property, including practical training, for engineers at each plant. We will continue to promote both offensive and defensive intellectual property management.

### Number of patents (Japan/overseas)



# Material issues / Sustainability management

## Establishment of the Sustainability Basic Policy

Neturen places the SDGs at the core of its business management under NETUREN VISION 2030, our long-term management vision. In light of recent changes in the social environment and demands from society regarding sustainability, we have comprehensively reviewed the

themes of our past CSR activities and established the Neturen Group Sustainability Basic Policy, incorporating activities related to respect for human rights, in addition to consideration to climate change and the global environment.

### Establishment of the Sustainability Basic Policy

1. Coexistence with the global environment	We uphold our commitment to act with corporate social responsibility through our technologies and products centered on our core IH (induction heating) heat treatment technology, which is effective in CO <sub>2</sub> reduction, based on the principle of coexistence with the environment.
2. Contributing to build a sustainable society	We contribute to build a sustainable society by reducing environmental impact while increasing our corporate value.
3. Recognition of our social mission	All our executives and employees fully recognize that conservation of the environment, protection of human rights, and coexistence with local communities are part of the social mission of a company.
4. Aiming to be a trusted partner	We aim to be a trusted partner in society by superior quality and technology, outstanding customer satisfaction, and a transparent and fair corporate culture.
5. Collaboration with stakeholders	We disclose information regarding sustainability to our stakeholders in a timely and appropriate manner so as to foster relationships of trust with them.
6. Aspiring to become a dynamic corporate group	We strive to develop our employees and make ourselves to be a dynamic corporate group with taking priorities on safety and health.

## Sustainability promotion system



To promote sustainability activities, the Neturen Group has installed the Company-wide Sustainability Promotion Committee chaired by President and Chief Executive Officer and consisting of members including Directors and Audit & Supervisory Board Members (including outside), Executive Officers, and General Managers of relevant Divisions and Departments. The Committee generally takes place four times a year to supervise company-wide sustainability activities, formulate activity plans, promote initiatives, check progress, and evaluate results.

For environmental issues such as climate change actions, company-wide efforts are made to achieve the goals in cooperation with the environmental management promotion system (see p33).



## Material issues and targets (KPIs), and the progress status

Based on the Neturen Group Sustainability Basic Policy, we have identified and organized material issues that are of high importance to our business. We reviewed the activity themes in the basic CSR activity plan and

reevaluated the issues from various perspectives. From the viewpoint of sustainability management, we will review the material issues and integrate them with our management strategies.

	Material issues	Vision for 2030	Targets (KPIs)
Environment (E)	CO <sub>2</sub> reduction	To reduce greenhouse gas emissions, promote energy saving measures and reducing CO <sub>2</sub> emission by 30% in 2030 (compared to FY2013).	<ul style="list-style-type: none"> <li>• CO<sub>2</sub> reduction rate: 3% or more from previous fiscal year</li> <li>• CO<sub>2</sub> emissions intensity (kg-CO<sub>2</sub>/t): 3% or more reduction from the previous fiscal year</li> </ul>
	Appropriate operation of EMS (Environmental Management System)	Contributing to maintaining and improving the global environment.	<ul style="list-style-type: none"> <li>• Number of serious nonconformities: 0</li> <li>• Progress checking: once every half year</li> <li>• Comprehending the amounts of use of water and chemical substances, and implementing reduction activities.</li> </ul>
	Prevention of soil contamination, reduction of water usage		
	Reduction of use of chemical substances and their proper management		
Social (S)	Promotion of quality assurance activities	Reducing risks related to product quality and providing safe and reliable high-frequency quenched products.	<ul style="list-style-type: none"> <li>• Number of serious quality problems: not happening</li> <li>• Number of hardened layer defects: Not more than one case in two months</li> </ul>
	Promotion of supply chain management	Achieving targets through mutual trust and mutual development with global suppliers. Complying with relevant laws and regulations, paying attention to environmental conservation, and fulfilling our social responsibility as a company.	<ul style="list-style-type: none"> <li>• Compliance violations: zero</li> <li>• Dissemination and implementation of Neturen Procurement Policy</li> <li>• Procuring environmental-friendly products through collaboration with suppliers</li> </ul>
	Respect for human rights	Human Rights Policy is fully understood and corporate activities are well-balanced in terms of social value creation and sustainability.	<ul style="list-style-type: none"> <li>• Dissemination of Human Rights Policy to all Group companies</li> </ul>
	Human resources development	Acquiring heat treatment techniques and providing material modification solutions based on outstanding IH processing technology. Supplying high-strength components to the world and building the foundation to develop industrial and technological innovations.	<ul style="list-style-type: none"> <li>• Annual training implementation rate: 100%</li> <li>• Continuous education and training, installation of human developing system by the Human Resources Development System Committee, etc.</li> </ul>
	Promotion of work-life balance	Establishing work environment which everyone can feel job satisfactory and achieve work life balance with peace of mind.	<ul style="list-style-type: none"> <li>• Average number of days of annual paid leave taken: 10 days or more/year</li> <li>• Continuing to implement work-life balance support measures</li> </ul>
	Promotion of diversity	Creating a corporate culture where everybody can play an active role by demonstrating their abilities to the full regardless of nationality, race, gender or age.	<ul style="list-style-type: none"> <li>• Number of female managers: increased by 2</li> <li>• Ensuring and promoting diversity, including promotion of women in the company</li> <li>• Securing employment opportunities through the continuous employment system</li> <li>• Achieving the legal disabled employment rate of 2.3%</li> </ul>
	Occupational safety and health	Realizing a safe and comfortable workplace where is free from occupational accidents	<ul style="list-style-type: none"> <li>• Getting the Occupational Safety and Health Management System (OSHMS) certification</li> <li>• Stress check implementation rate: 100%</li> </ul>
	Prosperous coexistence with local communities	To help create communities where people can continue to live, participating in local community activities and ensuring prosperous coexistence with local communities.	<ul style="list-style-type: none"> <li>• Number of community exchange/social contribution activities implemented: more than 10/year</li> </ul>
Governance (G)	Disclosure of corporate information	Improving corporate value through timely, continuous, and proactive information disclosure. Becoming a company capable of flexibly responding to changes in the environment surrounding stakeholders.	<ul style="list-style-type: none"> <li>• Number of PR activities (other than timely disclosure): more than 20/year</li> <li>• Participation in various exhibitions: twice or more/year</li> </ul>
	Reinforcement of financial internal control	The independent and efficient evaluation system is working to ensure the reliability of financial reports.	<ul style="list-style-type: none"> <li>• Reporting by Internal Control Promotion Committee: twice a year</li> <li>• Reporting by Board of Directors: 3 times a year</li> </ul>
	Penetration and verification of compliance	Fostering a corporate culture free of compliance violations.	<ul style="list-style-type: none"> <li>• Education of compliance by study sessions and posters: 4 times a year</li> <li>• Positive result of understanding of basic knowledge: 90%</li> </ul>
	Information security	In addition to technical measures, establishing an effective system for information security in terms of organization and operation.	<ul style="list-style-type: none"> <li>• Conducting security tests: 4 times a year</li> <li>• Formulation of policy for developing countermeasures</li> <li>• Conducting security information training when joining the company (as needed)</li> </ul>
	Risk management	Accurate comprehension and management of business risks and fostering risk awareness and instilling corporate culture to the employee.	<ul style="list-style-type: none"> <li>• Number of risks identified: 3</li> <li>• Continuing risk management in normal times and responding to new risks</li> </ul>
	Measures to disseminate CSR activities	Instilling CSR activities among employees to make them feel committed to the SDGs.	<ul style="list-style-type: none"> <li>• Degree of understanding of CSR according to a survey: 80% or more</li> </ul>
	Stakeholder engagement	Continuing to have talks with our stakeholders, playing our part in realizing a more sustainable economy or society, and pursuing shared value.	<ul style="list-style-type: none"> <li>• Continuing talks with customers, suppliers, local communities, shareholders, and employees</li> <li>• Number of engagement activities conducted: 15/year</li> </ul>

▶ Detailed data is provided in “ESG Data.”  
<https://www.k-neturen.co.jp/ja/sustainability/report.html>

# Environment



## Appropriate operation of Environmental Management System

Sustainable development of corporate activities and society can only be achieved in a healthy global environment. Recognizing protecting the environment as its social mission, Neturen strives to reduce CO<sub>2</sub> emissions, conserve resources, and prevent pollution. At the same time, Neturen pursues the development of new technologies and products that will help reduce environmental impact to counter global environmental issues.

To carry out systematic initiatives for environmental conservation, we have established the Company-wide Environmental Conservation Committee chaired by the Director in charge of environment. The Company-wide Environmental Conservation Committee consists of three advisory committees: Energy Conservation Committee,

Logistics Improvement Committee, and Advisory Committee on CO<sub>2</sub> Emission Reduction, each of which promotes its own activities. At each business site, an environmental conservation committee consisting mainly of members of the Company-wide Environmental Conservation Committee is in place, promoting environmental conservation activities for each site. In addition, Neturen has acquired ISO 14001 certification, an international standard for environmental management systems, and is actively promoting the reduction of environmental impact of its products and services. We are also expanding the scope of our environmental activities by promoting to get the same certification by our Group companies in Japan, and we are promoting to get the certification at all of our plants.

### Philosophy

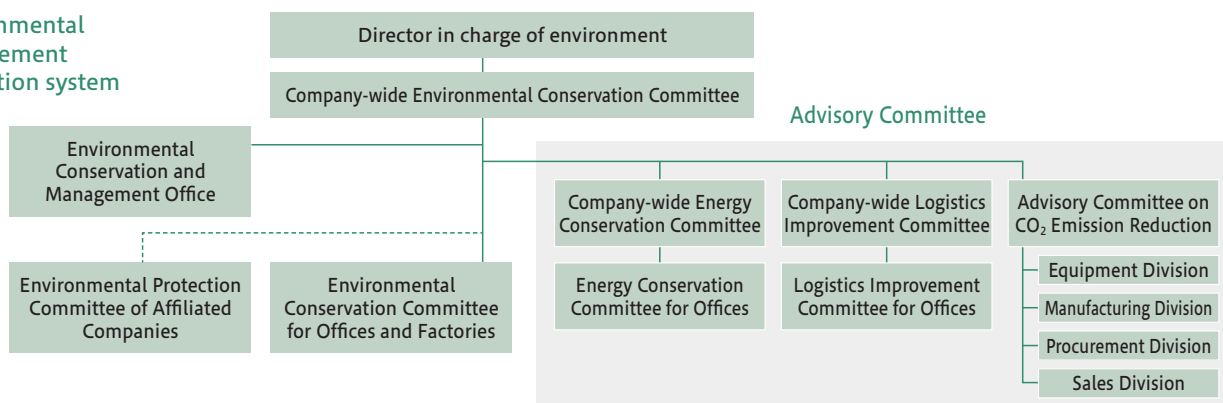
Neturen Co., Ltd. recognizes that conservation of the environment of our irreplaceable Earth is one of the highest priority issues common to all humankind, views it as a priority issue in its business management, and actively promotes the conservation of the environment of the Earth and the region.

### Environmental Policy

As a pioneer company in the field of clean high-frequency induction heating technology, we ensure the following:

1. At each stage of product development and production activities and in providing products and services, we strive to prevent environmental pollution and continually reduce environmental impact through creativity and ingenuity.
2. We promote energy conservation, resource saving, recycling, and waste reduction as our continual improvement efforts.
3. We comply with laws, regulations, agreements, and other requirements related to environmental conservation, and conduct environmental management.
4. We set specific environmental objectives and targets, strive to achieve them, review them regularly, and revise them as necessary.
5. To implement this environmental policy, all our employees or those working for our company comply with the environmental management system.

### Environmental management promotion system



## System to promote climate actions

In the company-wide environmental management promotion system illustrated above, the Advisory Committee on CO<sub>2</sub> Emission Reduction is an organization established in April 2022. Under this committee, four

cross-departmental subcommittees are placed to plan and deploy activities according to their respective roles, with the aim of achieving CO<sub>2</sub> reduction in a multifaceted way.

### Roles of the Advisory Committee on CO<sub>2</sub> Emission Reduction

Division	Chief supervisor	Role
Equipment Division	Nobumoto Ishiki Director, Member of the Board, Senior Managing Executive Officer; General Manager, IH Division	Responsible for the study and development of facilities that reduce CO <sub>2</sub> emissions. In FY2022, introduced solar power generation systems at the Amagasaki and Kobe Plants.
Manufacturing Division	Norio Tanaka Executive Officer; Deputy General Manager, Specialty Steel & Wire Products Division	Responsible for upgrading to energy-efficient and high-efficiency equipment at plants.
Procurement Division	Takashi Suzuki Director, Member of the Board, Managing Executive Officer; General Manager, Global Procurement Headquarters	Responsible for the purchase of energy from renewable sources, grasping Scope 3 (CO <sub>2</sub> emissions in the supply chain), and reducing CO <sub>2</sub> emissions in transportation.
Sales Division	Tomokatsu Yasukawa Director, Member of the Board, Executive Officer; General Manager, Administrative Headquarters	Responsible for market research and calculating how much content our products contributing to reduce CO <sub>2</sub> emission.

## CO<sub>2</sub> reduction

Toward achieving the target upheld by our long-term management vision NETUREN VISION 2030: 30% reduction in CO<sub>2</sub> emissions by 2030 (compared to FY2013) and net zero emissions by 2050, under the company-wide promotion system, plants and offices take the initiatives to reduce CO<sub>2</sub> emissions.

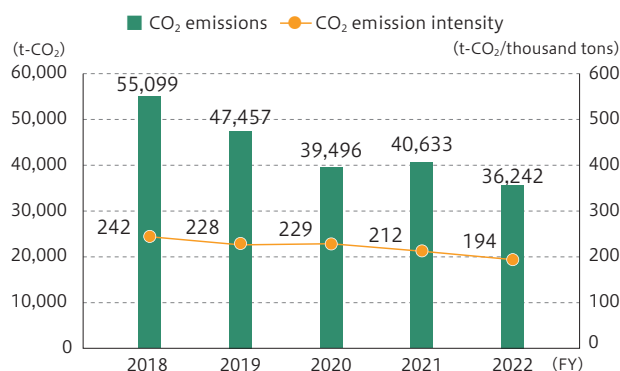
Energy use at each of Neturen's business sites was 91% of the previous year's level (total of Scopes 1 and 2, and Category 4 of Scope 3. For only Scopes 1 and 2, 98%). We will calculate the amount of emissions with the cooperation of external experts. Due to the nature of our business, which uses a large amount of electricity, plants implement measures to reduce energy consumption from all perspectives in their medium to long-term plans.

In FY2022, the intensity of energy use was 97.8% of the previous year's level, achieving the target of 1% improvement,

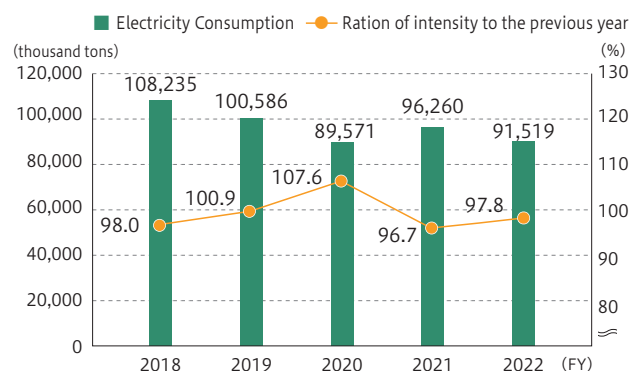
while the five-year average of the change in intensity was 100.7%, falling short of the target.

Neturen also delivers high-strength steel products for civil engineering and construction throughout Japan, and is designated as a specified shipper (30 million ton-kilometers/year or more). It is truck transportation that occupies almost 95% of the environmental impact of logistics. Measures such as improved loading rates, joint transportation (mixed loading of multiple suppliers), and use of relay warehouses were implemented cross organizationally. In FY2022, however, the intensity from transportation energy use was 101.0% of the previous year's level, and the target of 1% improvement was not achieved. The five-year average of the change in intensity was 101.7%, also falling short of the target. In FY2023, we will strengthen energy-saving activities and logistics improvements, aiming for a 1% reduction in intensity compared to the previous year.

### CO<sub>2</sub> emissions and CO<sub>2</sub> emissions intensity



### Changes in Electricity Consumption and Ratio of Intensity to Previous Year



## Project was launched to meet TCFD recommendations

Following the entry into force of the Paris Agreement in 2016, the importance of efforts by the entire international community to tackle climate change has rapidly been increasing. Neturen, a company that conducts business globally, recognizes that the transition to a decarbonized society is an important management issue, due to factors such as the rise in the frequency of abnormal weather and natural disasters caused by global warming, and changes in resource demand, and thus one of the main agenda of 15th Medium-term Management Plan is “contribution to the realization of a sustainable society through CO<sub>2</sub> emissions reduction, putting the SDGs at the core of our business.”

As part of the initiative to this end, we plan to declare support for the TCFD recommendations\* in fiscal year 2023, and launched a TCFD-related project in August 2023. Through the project, we will evaluate the risks and opportunities related to climate change based on our business environment, increase the flexibility of strategies to cope with climate change.

\* A report released by the TCFD (Task Force on Climate-Related Financial Disclosures) in 2017, which encourages companies to identify the financial impacts of “risks” and “opportunities” related to climate change and disclose the information

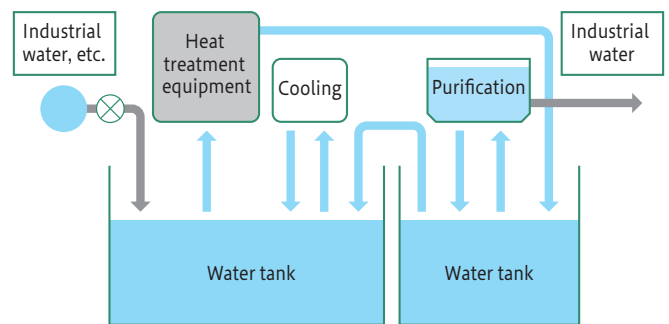
## Prevention of soil contamination, reduction of water usage

We are helping to create a recycling-oriented society and promote efforts to reduce waste, recycle, and prevent environmental pollution by conserving limited resources. Neturen's basic policy is to promote waste reduction and recycling by ensuring that waste is carefully sorted and properly disposed of by collection and disposal companies. We have established rules for industrial waste management and waste sorting and collection management standards, and each plant and business site are working to implement these rules.

The main uses of water at Neturen's plants and offices are to cool steel materials and manufacturing equipment during heat treatment and to clean the surface of steel materials. Various measures are being implemented so as to use water resources effectively. Mainly, water used for cooling and other purposes is circulated to reduce the amount of groundwater pumped and industrial water consumed. Furthermore, in the high-frequency quenching process, a quenching fluid mixed with a cooling agent is used to prevent quenching cracks caused by rapid cooling.

Since this cooling agent is used in a closed system, there is no contamination of soil. However, to prepare for the event of a cooling water leak, we have documented emergency response procedures and conduct prescribed training once a year to prevent soil contamination and contamination of public waters.

### Overview of the circulation system and the wastewater purification system



## Reduction of use of chemical substances and their proper management

Neturen aggregates and manages the amount of chemical substances used, emitted, and transferred during production at each plant. Although we are not subject to the PRTR system because the amount of chemical substances handled is less than the default amount, we aim to minimize the risk of damaging the global environment and harming human health in manufacturing products that are friendly to humans and the earth by appropriate chemical management regardless of the amount used.

The amount of chemical substances emitted and transferred is less than 10 kg, so the impact on the environment is relatively minor. However, since we handle chemical substances subject to the PRTR system, we will continue to strive for appropriate management.



Management of chemical substances

# Social

## Respect for human rights

In April 2022, the Neturen Group established the Neturen Group Human Rights Policy to promote respect for human rights in business. This policy was established based on the Guiding Principles on Business and Human Rights formulated by the United Nations Human Rights Council and advice from experts as part of our sustainability efforts.

We are planning to translate this Policy into 10 languages and work to disseminate awareness of human rights in business at all the Group's operation sites around the world. In addition, we will develop a system to gradually introduce human rights due diligence for the purpose of identifying, preventing, and mitigating adverse human rights-related impacts in our business activities.

### Neturen Group Human Rights Policy

The Neturen Group aims to revolutionize many industries and contribute to people's lives and safety through IH (induction heating) technology. We are keenly aware of the importance of respecting the human rights of people to achieve our goal, and we will work to respect human rights in all our business activities in accordance with the United Nations Guiding Principles on Business and Human Rights.

In addition, based on the concept of the "Neturen Group Standards of Business Conduct and Ethics," we shall comply with laws, regulations, and internal rules in all corporate activities, and respect social ethics. We will fulfill our corporate social responsibility by developing people and aiming to be a vibrant corporate group, while keeping safety and health as the foundation of our operations.

## Promotion of supply chain management

Neturen strengthens cooperation with suppliers and implements open and fair procurement that contributes to social development and reducing environmental burdens. We are preparing for the announcement of the Declaration of Partnership Building in fiscal year 2023.

In the transportation field, we are promoting CO<sub>2</sub> emissions reduction through initiatives to improve efficiency, such as expanding relay and joint transportation, modal shift, and introducing automatic vehicle dispatch systems. We also see the "2024 logistics problem" as a major challenge and are considering

countermeasures in collaboration with transportation suppliers.

The procurement meeting, which could not be held from fiscal year 2019 due to COVID-19, is scheduled to be held in fiscal year 2023 at three sites (Tokyo, Nagoya, Osaka). At the meeting, we plan to explain the progress from FY2021 in NETUREN VISION 2030, targets of the 15th Medium-term Management Plan (including, in particular, request for cooperation in reducing environmental impact), sales, capital investment plans, and the like.

## Recognized as Excellent Supplier in a customer evaluation system

On April 12, 2023, Neturen's Amagasaki Plant was awarded Excellent in the Supplier Excellence Recognition (SER), a supplier evaluation system of U.S. Caterpillar Inc., the world's largest construction machinery manufacturer. SER is a system in which Caterpillar Inc. comprehensively evaluates and approves suppliers based on its own standards. Suppliers are recognized in two levels of Certified and Excellent. The Excellent recognition is given to suppliers that are capable of continuously providing products and services of outstanding quality. In September, our representative attended the award ceremony held at the U.S. head office. We will continue to provide high-quality products and satisfy the expectations of our customers.



Amagasaki Plant tour and the SER award plaque

## Promotion of quality assurance activities

Neturen aims to improve customer satisfaction by providing high-quality products and services based on its advanced technological capabilities and by stimulating communication through such products and services.

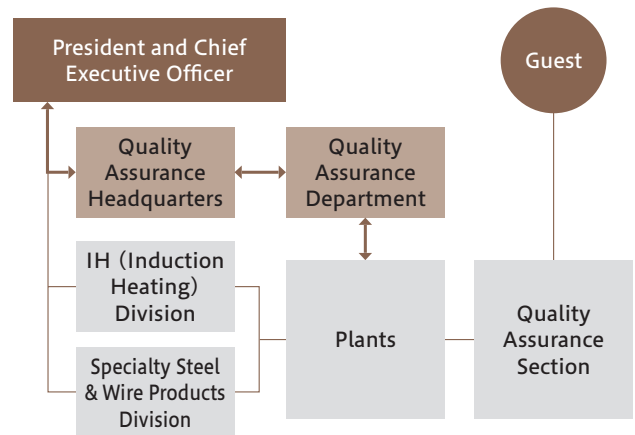
Many of Neturen’s products are high-end, high-strength products that support the security and safety of society, which include PC steel bars and high-strength shear reinforcement to reinforce concrete in the civil engineering and construction field, and steering, undercarriage parts, and suspensions to control safe driving in the automobile field. Based on the quality management system according to international standards such as ISO 9001, trend management is implemented in the Quality Assurance Headquarters and plants in an integrated manner to prevent from nonconformities. Moving forward, we aim to further expand the range, increase accuracy and speed of management through the introduction of N-DX.

In addition, to enable anyone to instantly grasp the heat treatment temperature, which has a significant effect on achieving higher strength, we have conducted visual temperature measurement training for all plant employees. The aim of this training is to have employees master visual temperature measurement techniques to an accuracy of ±25°C and also to raise their awareness of the quality of Neturen products.

### Quality Policy

1. We will always provide high-quality products and services to satisfy our customers.
2. To this end, all of us will continually strive to develop new technologies and improve to reach higher standards.

### Quality Assurance System Chart



## Coexistence with local communities

Neturen's basic CSR policy is “coexistence with local communities,” and we are striving for mutual understanding with local communities through information disclosure and activities at each of our plants and offices based on the basic concept of “becoming more open to the local community.” Academic research is conducted in cooperation with eight universities and technical colleges, and we accept university and technical college students for internships and practical work and training. We are also involved in the promotion of local sports, and continuously make donations to artistic and cultural organizations, as well as medical and social welfare organizations.

We will continue to actively collaborate with the community and fulfill our responsibilities as a company.

Development of the next generation	Internships for university and technical college students
	Accepting practical work trainees
	Accepting technical college students for practical work training
Community-based activities	Dialogue with local residents
	Organizing plant tours
	Community cleaning
Contribution through technologies	Lectures at various symposiums



Community cleaning



Blood donation at the Shonan Office

## Human resources development / Promotion of diversity / Promotion of work-life balance

Under Strategy 4 “Develop human resources to enhance the Group’s sales and global marketing capabilities” of its 15th Medium-term Management Plan, Neturen has set “Develop fully skilled human resources,” “Achieve diverse work styles,” and “Realize diversity” as three important target.

In developing fully skilled human resources, we have set development of multi-skilled human resources as the goal and are promoting the creation and utilization of a skill map for each department, and company-wide systematic utilization is scheduled in FY 2024.

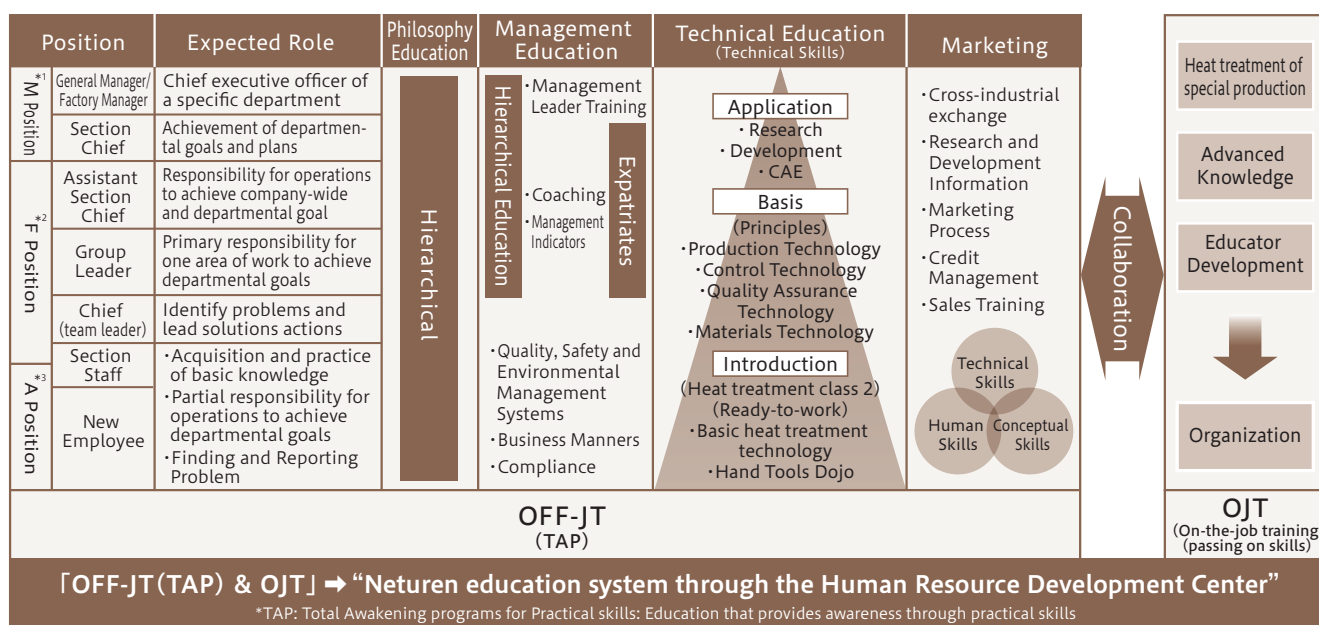
To achieve diversity, we are working to promote the active participation of women and enhance support systems for childcare and nursing care. We also undertake

overseas personal exchanges to develop engineers with global perspective.

Regarding the promotion of work-life balance through achieving diverse work styles, the range of work styles has been expanding as working from home has become familiar to employees. We are also working to create an environment where employees, including those at plants, are easily able to take paid leave. We will continue to implement various measures to improve a working environment in which employees can work actively with a motivation for voluntary contribution.

▶ For the progress and initiatives of 15th Medium-term Management Plan “Strategy 4,” please see pages 21-22.

### Human resource development that links learning to practice

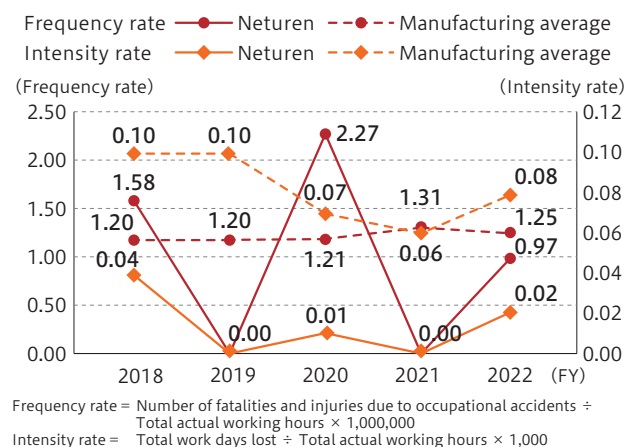


\*1 Middle Management \*2 Foreman \*3 Assistant

## Occupational safety and health

Neturen aims to create a safe workplace culture with the goal of zero accidents and zero illnesses, based on the Neturen Basic Policy on Occupational Safety and Health and the Basic Philosophy of Respect for Human Beings set forth by the Zero Accident Promotion Department of the Japan Industrial Safety and Health Association. In addition, to build a global safety and health management system as a mechanism for safety and health management, Occupational Safety and Health Management System(OSHMS) is introduced and widely implemented which is qualified under JISHA Method by the Japan Industrial Safety and Health Association. In FY2022, there were one case of serious injuries and ten cases of minor or slight injuries in occupational accidents.

### Occupational Accident Statistics



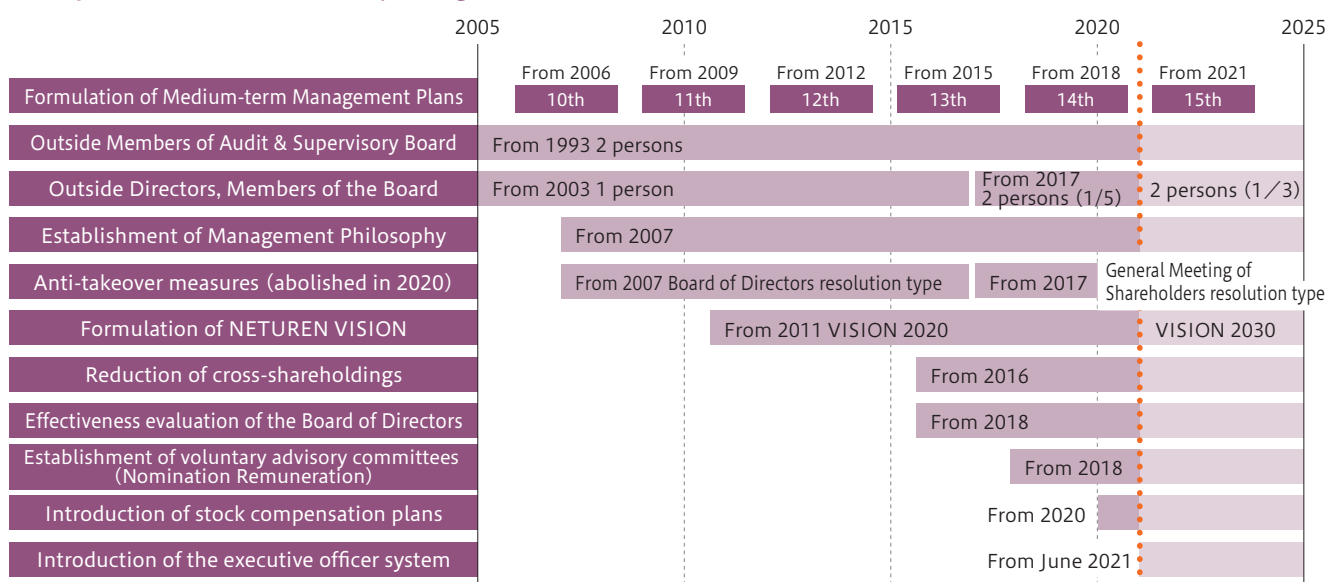
# Corporate Governance

## Basic approach to corporate governance

To "enhance corporate value through harmony and coexistence with shareholders, customers, employees, suppliers, and local communities," Neturen positions corporate governance as one of the most important management functions to ensure management transparency and fairness. Based on this recognition,

we will focus on speeding up and streamlining decision-making in management and developing a system to strengthen supervision of business execution, with the aim of becoming a company that can grow sustainably into the future.

### History of the enhancement of corporate governance



### Key points of governance reform during the 15th Medium-term Management Plan period

- Introduction of the executive officer system (June 2021)
- Disclosure of skills matrix of officers (December 2021)

To further strengthen our corporate governance, we have introduced an executive officer system effective in June 2021, with the objectives presented on the right.

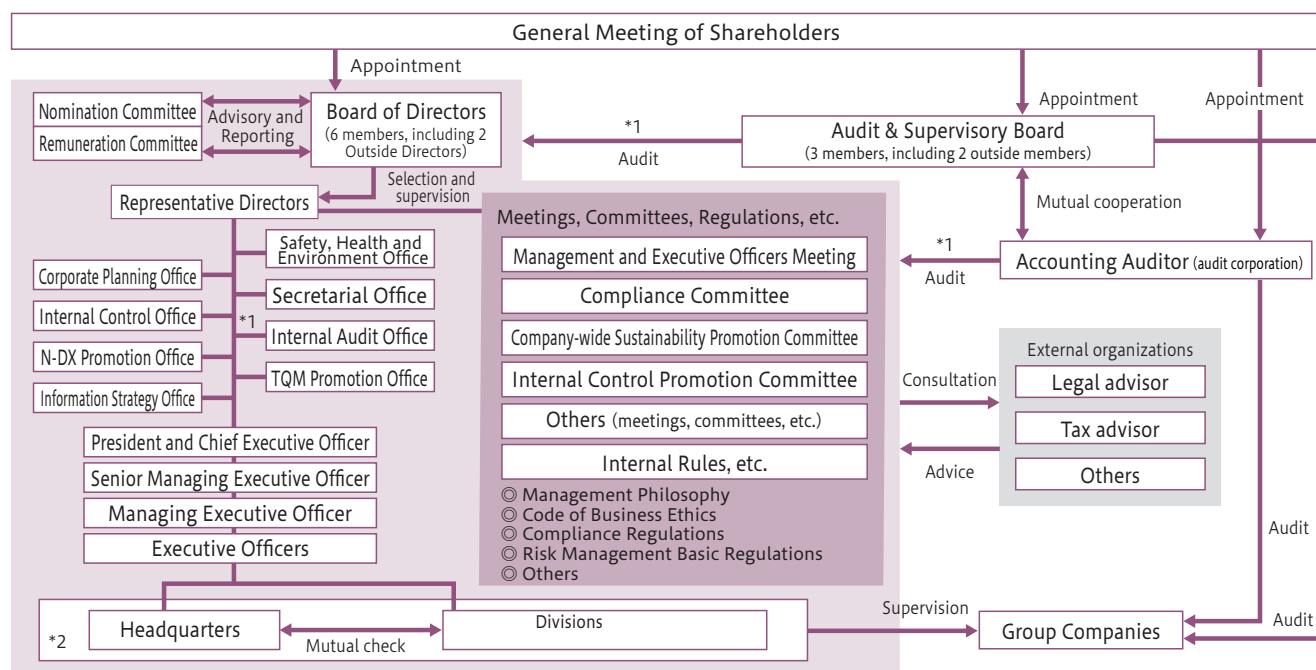
We also responded to the new disclosure items, etc. of the Corporate Governance Code revised in April 2021. In this context, a skills matrix of Directors, Audit & Supervisory Board Members and Executive Officers was published in December 2021 to ascertain the effectiveness of the Board of Directors (see p44).

#### Objectives of the introduction of executive officer system to strengthen governance

- (1) To increase management transparency, flexibility, and corporate value by separating the management decision-making and supervisory functions from the business execution functions
- (2) To review the number of members and composition of the Board of Directors, and increase the ratio of Outside Directors in order to enhance the depth, accuracy, and speed of decision-making and to further strengthen supervision of business execution
- (3) To clarify the authorities and responsibilities related to carrying out business and establish a system that can respond appropriately, quickly, and dynamically to changes in the business environment surrounding the Group



## Corporate Governance Structure



\*1 The Audit & Supervisory Board, Accounting Auditor, and Internal Audit Office have a system of mutual cooperation from audit planning to reporting.  
 \*2 Headquarters are the Administrative Headquarters, Human Resources Headquarters, Business Planning and Development Headquarters, Global Procurement Headquarters, Quality Assurance Headquarters, Research and Development Headquarters, and Product Engineering Headquarters.

## Status of the Board of Directors, Audit & Supervisory Board, and voluntary committees

The Board of Directors decides on important matters related to business management of the company and supervises the execution of duties by Directors. Neturen has adopted the Audit & Supervisory Board system, and has established the Nomination and Remuneration Committee as voluntary advisory organs to the Board of Directors.

Name	Overview	Meetings held	Major agenda items/Discussion subjects
Board of Directors	At the Board of Directors' meetings, company's management strategies and management plans are discussed from a medium- to long-term perspective. In addition, the performance results, status, problems, etc. of each Director's duties are checked, evaluated from an objective standpoint, and reflected in his/her evaluation and treatment. The Articles of Incorporation stipulate that the number of Directors shall be no more than 11. At present, we have six Directors (including two Outside Directors). To facilitate prompt response to rapid changes in the management environment, as well as flexible and efficient business operation, and to clarify the management responsibility of Directors for each fiscal year, the term of office of Directors is set as one year.	15 times	<ul style="list-style-type: none"> <li>Progress and issues of NETUREN VISION 2030 and 15th Medium-term Management Plan, and recovery measures</li> <li>Examination and specific measures for improving corporate value and growth strategies (business portfolio, M&amp;A strategy, etc.)</li> <li>Specific initiatives related to capital policies and financial strategies</li> <li>Sharing of topics and replies in dialogue with shareholders and institutional investors</li> <li>Specific initiatives and issues related to human resource development</li> </ul>
Audit & Supervisory Board	Audit & Supervisory Board Members audit the status of Directors' execution of their duties by attending the Board of Directors' meetings and other important meetings and reviewing important documents. They also cooperate with Accounting Auditor and the Internal Audit Office and receive reports from affiliated companies to check their management status in order to increase the effectiveness of their audits.	15 times	<ul style="list-style-type: none"> <li>Formulation of the audit plan for the current fiscal year</li> <li>Preparation of the audit report for the previous fiscal year</li> <li>Appointment of Accounting Auditor, consent to compensation of Accounting Auditor, confirmation of the Accounting Auditor's audit plan</li> <li>Check and review of details of internal audits (quarterly)</li> <li>Evaluation of internal control, and check and review of their execution detail (quarterly)</li> <li>Quarterly review of Accounting Auditor</li> <li>Director interviews, etc.</li> </ul>
Nomination Committee	The Nomination Committee has been established as a voluntary advisory organization to the Board of Directors, consisting of six members: one Representative Director, two Outside Directors, one Audit & Supervisory Board Member and two Outside Audit & Supervisory Board Members. The candidate of Directors and Executive Officers is appointed at the Nomination Committee meeting before being submitted to the Board of Directors.	Once	<ul style="list-style-type: none"> <li>Appointing candidate of Directors and Executive Officers for next fiscal year</li> <li>Recommending promotion to Senior Managing Executive Officer, appointment of Senior General Manager</li> <li>Report on management succession plan</li> </ul>
Remuneration Committee	The Remuneration Committee has been established as a voluntary advisory organization to the Board of Directors, consisting of six members: one Representative Director, two Outside Directors, one Audit & Supervisory Board Member and two Outside Audit & Supervisory Board Members. The remunerations of Directors and Executive Officers is deliberated at the Compensation Committee meeting before being submitted to and decided by the Board of Directors.	Twice	<ul style="list-style-type: none"> <li>Amounts of remunerations for Directors and Executive Officers</li> <li>Remuneration levels/table of Directors and Executive Officers</li> <li>Report on individual performance evaluation of Directors and Executive Officers</li> <li>Method of individual performance evaluation of Directors and Executive Officers</li> <li>Evaluation criteria for Directors and Executive Officers (setting targets)</li> </ul>

## Effectiveness evaluation of the Board of Directors

Once a year in March, we conduct a self-evaluation questionnaire survey for all members of the Board of Directors and the Audit & Supervisory Board regarding the effectiveness of the Board of Directors, and analyze and evaluate the results.

### Method of evaluation

Based on the results of the responses to the evaluation items below, members of the Board of Directors and the Audit & Supervisory Board, including independent members, held discussions at the Board of Directors' meeting and compiled the analysis and evaluation of the effectiveness of the Board of Directors.

\* Evaluation items: Roles and functions of the Board of Directors  
Operation of the Board of Directors  
Agenda of the Board of Directors' meetings  
General view

### Summary of analysis and evaluation results

Our Board of Directors has a system in place to properly make management decisions and supervise business execution. In addition to matters to be resolved and reported, matters for deliberation were newly added, which seemed to help substantially deepen discussions. On the other hand, further enhancement of discussions on growth strategies, including review of management strategies and the business portfolio, was found to be necessary.

### Initiatives for the future

Based on the above analysis and evaluation results, we set agenda items related to growth strategies, secure time for deliberation, and continue efforts to further enhance discussions at the Board of Directors' meetings. We also decided to improve effectiveness of Board of Directors to increase corporate value further.

## Remuneration for officers

### Basic policy

Remuneration for officers at Neturen is divided into that for Directors and that for Audit & Supervisory Board Members within the limit resolved at the General Meeting of Shareholders. In accordance with the standards provided by internal rules, the specific amount of remuneration for Directors is discussed by the voluntary Compensation Committee following an objective, transparent procedure and determined so that the remuneration may function as a sound incentive toward sustainable growth. The amount determined by the Committee is reported to and then officially decided by resolution of the Board of Directors.

Our policy for calculation of remunerations of officers is decided by the Board of Directors based on the reports by the Voluntary Remuneration Committee to be settled with fairness, transparency and objectivity and to meet

with sound management system. Specifically, remuneration for Directors other than Outside Directors is composed of fixed amount, performance-linked bonus (short-term bonus) as a short-term incentive, and restricted stock (RS) compensation and performance-linked stock compensation (PSU) as medium-term incentives. Remuneration for Outside Directors is decided based not on performance but on the degree of contribution to the company, etc. Remuneration of Audit & Supervisory Board Members is composed only of fixed compensation from the perspective of emphasizing independence and objectivity from management, and the amount of compensation for each Audit & Supervisory Board Member is decided through consultation among the Audit & Supervisory Board Members.

### Total amount of compensation, by officer category, by type, and number of eligible officers

Officer category	Total amount of compensation, etc. (million yen)	Total amount of compensation, etc. by type (million yen)				Number of eligible officers
		Basic compensation	Performance-linked compensation, etc.		Non-monetary compensation, etc. (RS)	
			Monetary compensation, etc.	Non-monetary compensation, etc. (PSU)		
Directors (excluding Outside Directors)	131	97	16	4	13	4
Audit & Supervisory Board Members (excluding outside members)	16	16	–	–	–	1
Outside officers	28	28	–	–	–	5

(Notes) 1. The amounts of performance-linked stock compensation (PSU) and restricted stock compensation (RS) are the figures recorded as expenses for the fiscal year under review.

2. The amount of performance-linked compensation, etc. includes performance-linked bonus (short-term bonus) as a short-term incentive and performance-linked stock compensation (PSU) as a medium-term incentive.

The performance indicators selected as the basis for calculation of these amounts are: for short-term bonus, results of the previous fiscal year (net sales, operating profit, ordinary profit, profit attributable to owners of parent), and for PSU, the average of the results for three consecutive years from previous fiscal year (net sales, operating profit, ordinary profit, profit attributable to owners of parent, and ROE).

The reason for adopting these performance indicators is to motivate officers to keep concern to medium- to long-term growth from the perspective of ensuring the implementation of the management vision and the medium-term management plan, in addition to sustainable performance improvement of each fiscal year.

# Compliance

## Basic approach

We developed Code of Business Ethics and Compliance Regulations to stipulate all the directors and employees working with high ethical standard. We are also working to foster their mind of compliance through various programs.

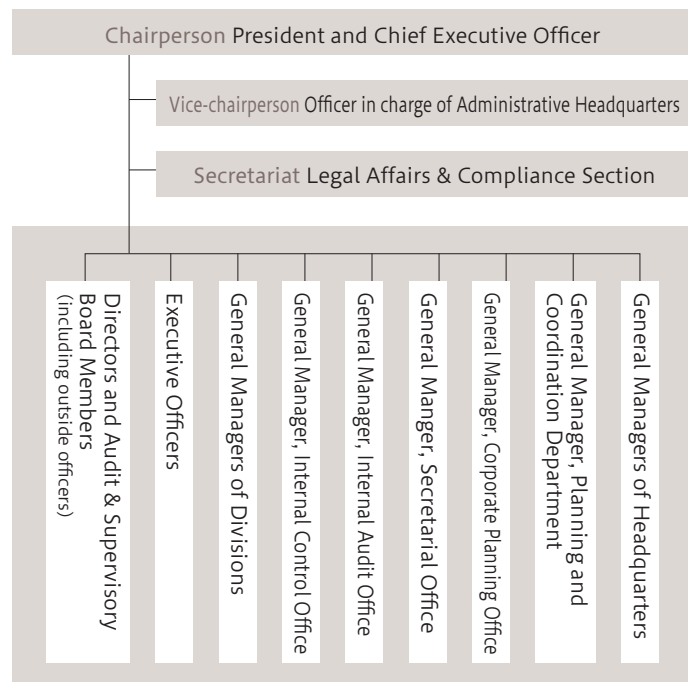
## Compliance Committee

We have established the Compliance Committee chaired by the President and Chief Executive Officer. The Committee meets regularly four times a year, attended by members of the Board of Directors and the Audit & Supervisory Board (including outside officers), General Managers of Divisions, audit departments, etc. As a countermeasure against compliance violations, if one occurs, we have built a system to immediately conduct a thorough fact-finding investigation, impose strict punishment, and decide appropriate measures to prevent recurrence.

## Compliance helpline consultation service

As a mechanism for early detection and correction of ethical violations and inappropriate acts in terms of compliance, we operate compliance helpline consultation desks set up both inside and outside the company, while strictly protecting the privacy of those who use them and eliminating any disadvantageous treatment of them.

Compliance Committee Structure Chart



## Providing compliance education

We provide compliance education for employees regularly to raise their awareness of compliance. We use posters and provide lectures on topics such as the importance of compliance, the effectiveness of ethical and legal compliance for organizations, interpersonal relationships, and punishments for violations. We also provide ongoing compliance education for our Group companies.

In fiscal year 2022, we provided education on four themes every quarter for Neturen and its Group companies in Japan to help them foster compliance awareness.

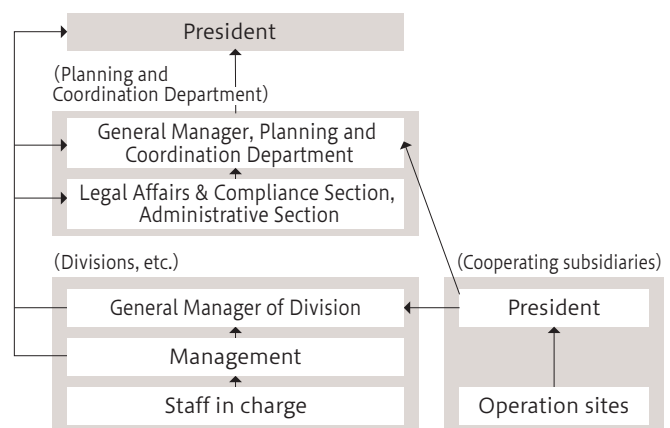
# Risk management

The Neturen Group has established "Risk Management Basic Regulations" and "Affiliate Company Management Regulations," and the Planning and Coordination Department of the Administrative Headquarters serves as the secretariat to promote company-wide risk management.

In fiscal year 2022, we continued monitoring top 40% of the total score of approximately 200 risk items, which were selected based on the magnitude of impact and frequency of occurrence, and reviewed the items and evaluations

Business risks are listed on page 15 of the 112th Annual Securities Report. (Only in Japanese)  
<https://www.k-neturen.co.jp/ja/ir/library/securities.html>

Communication route for crisis management information (initial stage)



# Directors, Audit & Supervisory Board Members, Executive Officers

## Director, Member of the Board

Representative Director, Member of the Board

### Katsumi Omiya

Attendance at the Board of Directors meetings: 15/15 times

#### Career summary

April 1983 Joined the Company  
June 2012 Director, Member of the Board  
June 2016 Managing Director, Member of the Board  
October 2020 Representative Director, Member of the Board and President  
June 2021 Representative Director, Member of the Board, President and Chief Executive Officer

Director, Member of the Board

### Nobumoto Ishiki

Attendance at the Board of Directors meetings: 15/15 times

#### Career summary

April 1982 Joined TRW Automotive Japan Co., Ltd. (currently, ZF Japan Co., Ltd.)  
February 2001 Joined Colin Corporation (currently, Fukuda Colin Co., Ltd.)  
April 2001 Joined the Company  
February 2006 Joined Toyo Fastener Co., Ltd.  
April 2007 Joined the Company  
June 2017 Director, Member of the Board  
April 2020 Managing Director, Member of the Board  
June 2021 Director, Member of the Board, Managing Executive Officer

Director, Member of the Board

### Takashi Suzuki

Attendance at the Board of Directors meetings: 15/15 times

#### Career summary

April 1985 Joined the Company  
June 2016 Director, Member of the Board  
April 2021 Managing Director, Member of the Board  
June 2021 Director, Member of the Board, Managing Executive Officer  
April 2023 Director, Member of the Board, Managing Executive Officer; supervising information strategies; General Manager, Specialty Steel & Wire Products Division; General Manager, Global Procurement Headquarters; General Manager, Information Strategy Office

Director, Member of the Board

### Tomokatsu Yasukawa

Attendance at the Board of Directors meetings: 15/15 times

#### Career summary

April 1986 Joined the Company  
June 2012 Director, Member of the Board  
June 2021 Director, Member of the Board, Executive Officer  
April 2022 Director, Member of the Board, Executive Officer; supervising safety, health and environmental affairs; General Manager, Administrative Headquarters

Outside Director, Member of the Board

### Mineo Hanai

Attendance at the Board of Directors meetings: 15/15 times

#### Career summary

April 1972 Joined Nippondenso Co., Ltd. (currently, Denso Corporation)  
March 2000 Earned a doctoral degree in Engineering at Nagoya Institute of Technology  
June 2006 Senior Managing Director, Denso Corporation  
June 2008 Representative Director and President, Asmo Co., Ltd. (currently, Denso Corporation)  
June 2017 Director, Member of the Board of the Company

Outside Director, Member of the Board

### Yoshiko Moriyama

Attendance at the Board of Directors meetings: 11/11 times

#### Career summary

April 1998 Registered as Attorney-at-Law (Daini Tokyo Bar Association)  
December 2004 Qualified as attorney, State of New York, U.S.  
July 2006 Joined TMI Associates  
January 2010 Partner, TMI Associates  
February 2015 Counsel, TMI Associates  
June 2022 Director, Member of the Board of the Company  
November 2022 Outside Director, YAMATO INTERNATIONAL INC.

## Audit & Supervisory Board Members

Audit & Supervisory Board Member (full-time)

### Yoshihiro Ikegami

Attendance at the Audit & Supervisory Board meetings: 15/15 times

Attendance at the Board of Directors meetings: 15/15 times

#### Career summary

April 1980 Joined the Company  
April 2009 General Manager, Sales Department, Specialty Steel & Wire Products Division  
June 2019 Commissioned Assistant to President  
June 2020 Audit & Supervisory Board Member (current position)

Outside Audit & Supervisory Board Member

### Takeshi Nakano

Attendance at the Audit & Supervisory Board meetings: 15/15 times

Attendance at the Board of Directors meetings: 15/15 times

#### Career summary

April 1995 Registered as Certified Public Accountant  
October 2006 Registered as Attorney-at-Law (Tokyo Bar Association)  
June 2011 Established NAKANO C.P.A. OFFICE as Representative (current position)  
December 2015 Partner, Ishizawa, Kami and Sato Law Office (currently Oku, Katayama and Sato Law Office) (current position)  
June 2016 Audit & Supervisory Board Member of the Company (current position)  
June 2019 Outside Audit & Supervisory Board Member, ARUHI Corporation (current position)

Outside Audit & Supervisory Board Member

### Minoru Enjitsu

Attendance at the Audit & Supervisory Board meetings: 15/15 times

Attendance at the Board of Directors meetings: 15/15 times

#### Career summary

April 1980 Joined The Mitsubishi Bank, Ltd. (currently MUFG Bank, Ltd.)  
April 2008 Executive Officer, The Mitsubishi Bank, Ltd.  
June 2010 Senior Executive Officer, Mitsubishi Research Institute DCS Co., Ltd.  
December 2010 Representative Senior Managing Director, Mitsubishi Research Institute DCS Co., Ltd.  
December 2011 Representative Director and Vice President, Mitsubishi Research Institute DCS Co., Ltd.  
May 2014 Representative Director and President, Mitsubishi Research Institute DCS Co., Ltd.  
October 2019 Corporate Advisor, Mitsubishi Research Institute DCS Co., Ltd.  
June 2020 Audit & Supervisory Board Member of the Company (current position)



## Executive Officers

Name	Position (title)	Name	Position (title)
Katsumi Omiya	Representative Director, Member of the Board President and Chief Executive Officer	Yoshitaka Misaka	Executive Officer General Manager, Research and Development Headquarters
Nobumoto Ishiki	Director, Member of the Board, Senior Managing Executive Officer, Supervising technology development and facilities General Manager, IH Division, General Manager, Production Engineering Development Department, Product Engineering Headquarters	Nobuhiro Murai	Executive Officer General Manager, Quality Assurance Headquarters
Takashi Suzuki	Director, Member of the Board, Managing Executive Officer; supervising information strategies; General Manager, Specialty Steel & Wire Products Division; General Manager, Global Procurement Headquarters; General Manager, Information Strategy Office	Naoki Hisada	Executive Officer Supervising business development; General Manager, Human Resources Headquarters; General Manager, Corporate Planning Office
Tomokatsu Yasukawa	Director, Member of the Board, Executive Officer Supervising safety, health and environment affairs General Manager, Administrative Headquarters	Norio Tanaka	Executive Officer, Supervising TQM promotion Deputy General Manager, Specialty Steel & Wire Products Division

## Skills matrix of Directors, Audit & Supervisory Board Members, and Executive Officers

Name	Position (title)	Outside	Executive Officer	Expertise and experience								
				Corporate management	Technology and research	Manufacturing and quality	Global	Marketing	Information strategies	CSR	Legal affairs	Financial affairs
				Comprehensive	Basic strategies			Management foundation				
Katsumi Omiya	Representative Director, Member of the Board, President and Chief Executive Officer		●	●	●	●	●	●				
Nobumoto Ishiki	Director, Member of the Board, Senior Managing Executive Officer		●	●	●	●	●			●		
Takashi Suzuki	Director, Member of the Board, Managing Executive Officer		●	●		●		●	●			
Tomokatsu Yasukawa	Director, Member of the Board, Executive Officer		●							●	●	●
Mineo Hanai	Director, Member of the Board	●		●	●	●	●	●		●	●	
Yoshiko Moriyama	Director, Member of the Board	●					●			●	●	
Yoshihiro Ikegami	Audit & Supervisory Board Member (full-time)					●		●			●	
Takeshi Nakano	Audit & Supervisory Board Member	●								●	●	●
Minoru Enjitsu	Audit & Supervisory Board Member	●		●			●		●			●
Yoshitaka Misaka	Executive Officer		●		●	●						
Nobuhiro Murai	Executive Officer		●		●	●		●				
Naoki Hisada	Executive Officer		●				●	●				●
Norio Tanaka	Executive Officer		●	●	●	●						

# Dialogue between Outside Directors



Outside Director  
Mineo Hanai

Outside Director  
Yoshiko Moriyama

## What is now required for Neturen to achieve “evolution and breakthrough”

Aiming to be a sustainable company that continues to grow, Neturen has been working to establish an appropriate governance system and reflect diverse recommendations from outside the company in management. Here is a discussion between the two Outside Directors on how they see the Board of Directors of Neturen, issues for the future development of the Company, and other matters from various perspectives.

### Deepen discussions from diverse perspectives to improve the effectiveness of the Board of Directors

**Moriyama:** This is my second year as an Outside Director. My impression of the Board of Directors' meetings is that each meeting is fruitful, with a lot of opinions expressed by the participants. For each meeting, detailed explanations and answers to questions are provided a few days prior to the meeting. On the day of the meeting, after a detailed management report is given, Outside Directors and the Audit & Supervisory Board Members provide advice based on their respective knowledge to deepen discussions. Our advice is fully taken into consideration and reflected in management. This cycle has been firmly established.

**Hanai:** As an Outside Director, it is very important to have a clear understanding of the current situation of the company. By hearing in detail what is going on in the company every month, I can discover problems. Also, it is of course not enough to just talk at the Board of Directors' meetings. It is also important to visit each site to deepen understanding on-site.

**Moriyama:** Since becoming an Outside Director, I have visited many plants in different locations to hear various

stories on-site. Besides the monthly Board of Directors' meeting, roundtable discussions are also held, which is unique to Neturen. Each month, Executive Officers and Directors take turns to talk with Outside Directors and the Audit & Supervisory Board Members.

**Hanai:** In fact, this started two years ago when I asked the President to establish a forum where we could freely talk with each Executive Officer and Director. We hear their forward-looking views on how they would like Neturen to develop in the future, thereby deepening our understanding. I feel that these roundtable discussions have added an open atmosphere to the Board of Directors' meetings, which was somewhat stiff in the past.

**Moriyama:** Indeed, I think there are not many boards of directors that can have discussions in such an open atmosphere. The agenda covers diverse themes, and the Group's important issues are addressed from various angles.

**Hanai:** The supervisory function is often emphasized as the role of Outside Directors. But I think we have more roles. It is important for Outside Directors to feed back the experience, knowledge and capabilities which one cannot get from inside and help fulfilling skills matrix and support creating long term management vision. If a company were a ship, the Board of Directors would be

responsible for steering the ship. I understand that our mission is to help determine the route for the Neturen ship carrying a crew of about 1,600 employees to achieve sustainable growth together with society, based on its founding spirit and management philosophy.

## Providing wide range of values to society with its own technologies and human resources

**Hanai:** I joined Neturen's management in 2017 after working in the manufacturing industry for a long time. I know that Neturen is a world leader in terms of the accumulation of its IH (induction heating) technology. It has basic research, applied research, and production technology departments that are comparable to those of major manufacturers, and covers everything from upstream to downstream, from contract treatment service to development of own products, and to manufacturing of induction heating equipment. Only the growth of such a company can revitalize Japan.

**Moriyama:** Neturen's technologies are friendly to the environment, as the amount of steel materials used and the weight of parts can be reduced by utilizing IH technology. I think there is a lot of room for these technologies to spread further throughout the world in various forms. To this end, it is necessary to improve the ability to make proposals on what to make and where to provide them, which requires the ability to think freely.

**Hanai:** In order to strengthen and expand its manufacturing, I recommended that Neturen adopt an "inverted T-shaped T-shaped model" (see p18). In this model, development processes are plotted on the vertical axis and daily operation is plotted on the horizontal axis from order processing to production and shipping. These elements are connected to respond to market needs. It is crucial to promptly reflect the information obtained from the horizontal axis to the vertical axis, and thereby enhance the development capabilities.

**Moriyama:** I also pay attention to how human resources are utilized to support business. It is the essential for Neturen's value creation to prepare the working atmosphere that employees love their work and do the job actively. I think it is necessary to further enhance human resources development, work-life balance, and diversity to incorporate a variety of perspectives.

**Hanai:** You are right. Diversity in human resources is essential to improve the fundamental capabilities of the company. Specifically, in addition to promoting women's empowerment, to which Neturen is strongly committed, the key is how to make effective use of senior human resources. Furthermore, when the company is undergoing major changes, past experience and the existing skills of individuals may no longer be useful. It is important to provide employees with opportunities for reskilling.

## Keep the core unchanged, but change it where needed to realize the Vision

**Hanai:** I am confident that Neturen has great potential to grow and become great. What is needed to them is to keep changing themselves ahead of the transformation of the society. In NETUREN VISION 2030, the slogan "evolution and breakthrough" was declared, and now, the goal of it was set in Medium term Management plan. Next thing to be done is execution of the Plan. I hope that by continuing to change, the Neturen ship will turn its engine, advance boldly, and become a company that contributes to the strength of Japan.

**Moriyama:** I also have high expectations regarding the potential of Neturen. It would be great if employees can feel that their work is useful to society while also getting feeling of their own growth. Creating such an environment will eventually help strengthen Neturen, which will lead to developing new products that in the end contribute to society. I hope such a meaningful cycle will be running constantly.

**Hanai:** As suggested by its name, Neturen is a company that has grown with induction heat treatment. However, I do not want the company to be self-limited because of its name. What Neturen is truly engaged in is making metals stronger with heat treatment, or "reforming" it. If we consider Neturen as a company of reforming, it can employ any means, whether it is induction heating, laser, or carburization. This widens the company's potential. It is crucial to decide what to change, while maintaining the core unchanged.

**Moriyama:** I completely agree with you. Ideas from similar people will inevitably become fixed minded. So as an Outside Director, I will try to provide advice from a different perspective. In particular, based on my experience of dealing with legal affairs both in Japan and overseas and from the standpoint of a female officer, I would like to take the initiative in promoting diversity, workstyle reform, and human resources development.

**Hanai:** As Outside Directors may have different opinions from those inside the company, I sometimes think it may be necessary to accept being disliked. Keeping this in mind, I will continue to fulfill my role. I hope that the employees will accumulate many small successes toward achieving a big vision. I expect they will turn their success into confidence to achieve another success, thereby spiraling up and growing significantly.

**Moriyama:** At the same time, it is also very important to learn from failures, which requires the fostering mind as a corporate culture that allows failures and encourages employees to take on challenges. A strong attitude of "just try" is required. We, as Outside Directors, will support Neturen in taking on challenges.

# Financial summary for past 11 years

## Financial data (consolidated)

		FY2012	FY2013	FY2014	FY2015
<b>Profit and loss</b>					
Net sales	(Million yen)	44,728	46,997	46,895	42,905
Operating profit	(Million yen)	3,826	3,686	3,001	2,145
Ordinary profit	(Million yen)	4,361	4,449	3,620	2,758
Profit attributable to owners of parent	(Million yen)	2,422	2,939	2,105	△687
Comprehensive income	(Million yen)	4,328	7,208	5,460	△3,203
<b>Financial position</b>					
Total assets	(Million yen)	70,583	78,374	81,828	76,610
Net assets	(Million yen)	55,376	61,658	66,176	62,202
Liabilities	(Million yen)	15,207	16,715	15,652	14,408
Balance of borrowings, etc.	(Million yen)	2,049	3,670	3,260	2,603
<b>Per share information</b>					
Net assets per share	(yen)	1,209.91	1,325.53	1,411.70	1,322.16
Basic earnings per share (EPS)	(yen)	56.83	68.96	49.41	△16.12
Dividend per share	(yen)	15	18	14	14
Payout ratio	(%)	26.4	26.1	28.3	–
<b>Cash flows</b>					
Cash flows from operating activities	(Million yen)	5,404	5,797	4,692	4,574
Cash flows from investing activities	(Million yen)	△4,679	△5,516	△3,017	△2,442
Cash flows from financing activities	(Million yen)	△1,006	581	△1,393	△1,393
Cash and cash equivalents at end of period	(Million yen)	10,843	12,684	13,422	14,054
<b>Other financial figures and indicators</b>					
Equity ratio	(%)	73.1	72.1	73.5	73.6
Return on equity (ROE)	(%)	4.8	5.4	3.6	△1.2
Operating profit to net sales	(%)	8.6	7.8	6.4	5.0
Ordinary profit to total assets (ROA)	(%)	6.3	6.0	4.5	3.5
Price earnings ratio (PER)	(times)	12.5	9.5	18.0	–
Price-book value ratio (PBR)	(times)	0.6	0.5	0.6	0.6
Capital expenditure	(Million yen)	4,627	4,091	3,232	3,088
R&D expenditures	(Million yen)	1,011	904	891	952
Depreciation	(Million yen)	2,669	2,651	2,967	2,930

## Non-financial data

Regular employees (consolidated)		1,248	1,302	1,312	1,329
Average number of temporary employees		(239)	(206)	(205)	(214)
Number of patent rights held (non-consolidated)		–	–	–	–
In Japan		–	–	–	–
Overseas		–	–	–	–
CO <sub>2</sub> emissions (Scopes 1+2) (non-consolidated)	(t-CO <sub>2</sub> )	–	54,480	54,408	51,492
CO <sub>2</sub> emission per unit of net sales	(t-CO <sub>2</sub> /1,000t)	–	–	–	–

- (Notes) 1. The significant decrease in profit attributable to owners of parent for fiscal years 2015, 2018, 2019, 2020, and 2022 was due mainly to recording of impairment losses on non-current assets.  
2. Price earnings ratio for the 105th period is not stated because loss per share was recorded.  
3. The loss attributable to owners of parent recorded for the 105th period was due mainly to recording of impairment losses on non-current assets.  
4. Applying the Accounting Standards for Business Combination (ASBJ Statement No. 21, September 13, 2013), "Profit" has been stated as "Profit attributable to owners of parent" since FY2015.



	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
	43,396	48,980	53,015	48,806	42,567	53,004	57,524
	3,003	3,656	3,569	2,087	920	3,704	2,396
	3,589	4,165	4,080	2,071	1,475	4,418	3,088
	2,834	3,003	950	250	268	2,690	381
	2,671	4,768	△127	△594	1,351	5,420	3,118
	76,230	82,571	80,650	76,277	75,574	82,003	79,888
	63,319	66,120	64,598	62,772	62,714	66,859	66,549
	12,911	16,450	16,052	13,505	12,860	15,144	13,338
	1,727	2,352	3,647	3,088	2,955	2,650	1,875
	1,381.64	1,458.40	1,427.94	1,379.16	1,410.69	1,494.67	1,575.08
	66.98	72.73	23.21	6.14	6.59	67.45	9.89
	25	22	25	22	14	30	30
	37.3	30.3	107.7	358.3	212.4	44.5	303.2
	4,985	6,483	4,622	6,298	3,969	6,335	3,888
	△3,263	△5,880	△5,510	△4,020	△758	△40	△1,203
	△2,589	△1,370	△130	△1,810	△1,595	△1,970	△4,286
	13,098	12,507	11,286	11,697	13,309	18,099	16,911
	75.5	72.4	72.2	73.8	74.4	72.7	74.3
	5.0	5.1	1.6	0.4	0.5	4.6	0.6
	6.9	7.5	6.7	4.3	2.2	7.0	4.2
	4.7	5.2	5.0	2.6	1.9	5.6	3.8
	13.5	15.0	38.4	114.7	92.4	8.8	70.3
	0.7	0.7	0.6	0.5	0.4	0.4	0.4
	3,167	4,766	4,872	4,177	1,426	1,377	1,296
	1,289	959	851	944	595	576	600
	2,739	2,897	3,267	3,189	3,034	2,954	2,705
	1,407	1,526	1,597	1,640	1,571	1,604	1,596
	(204)	(222)	(265)	(244)	(226)	(231)	(249)
	–	–	493	514	471	438	433
	–	–	185	223	261	359	384
	51,325	55,560	55,099	47,457	39,496	40,633	36,242
	–	262	242	228	229	212	194

5. We have applied the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) since the beginning of FY2018. Figures for major management indicators for FY2017 are those after applying the same accounting standard retrospectively.

6. We have applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) since the beginning of FY2021. Figures for major management indicators for FY2021 and thereafter are those after applying the same accounting standard.

7. The number of patent rights held has been calculated since FY2018.

8. CO<sub>2</sub> emissions per unit of net sales has been calculated since FY2017.

# Stock Information (as of March 31, 2023)

## Stock Status

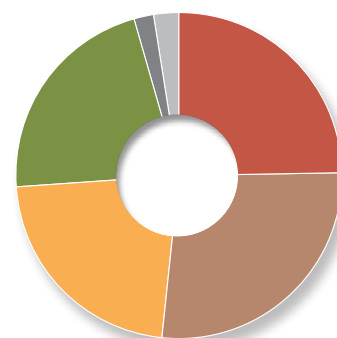
Total number of shares authorized to be issued	150,000,000 shares
Total number of shares issued	38,678,700 shares
Number of shareholders	23,032 persons

## Major Shareholders

Shareholder Name	Number of Shares Held (thousand shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd.	4,364	11.6
Nippon Steel Corporation	3,101	8.2
MUFG Bank, Ltd.	1,432	3.8
Custody Bank of Japan, Ltd. (Trust Account)	1,265	3.4
Chita Kogyo Co., Ltd.	1,029	2.7
Marubeni Itochu Sumisho Techno Steel Inc.	999	2.6
Sumitomo Mitsui Banking Corporation	907	2.4
NTN Corporation	836	2.2
Dai-ichi Life Insurance Company, Ltd.	826	2.2
DFA INTL SMALL CAP VALUE PORTFOLIO	783	2.1

(Notes) 1. The Company owns 970,000 shares of treasury stock which is not included in the list of major shareholders above.  
 2. Treasury shares are not included in the calculation of shareholding ratio.  
 3. The numbers of shares held by The Master Trust Bank of Japan, Ltd. (trust account) and Custody Bank of Japan, Ltd. (trust account) are for those related to trust business.

## Distribution of Shares by Shareholder



● Individuals and Others	9,635	24.9%
● Financial Institutions	10,384	26.8%
● Other Domestic Corporations	8,568	22.2%
● Foreigner (foreign individual/foreign corporation position)	8,405	21.7%
● Securities Companies	714	1.9%
● Treasury stock	970	2.5%
	38,678	100.0%

(thousand shares)

## Rating Information

Long-term Issuer Rating by Japan Credit Rating Agency, Ltd. **A-**  
(Stable)

## Constructive dialogue with investors and shareholders

Neturen places emphasis on constructive dialogue with investors, shareholders, and other stakeholders with a view to achieving sustainable growth and increasing its corporate value over the medium- to long-term. The officer in charge supervises all dialogues with investors and shareholders, in cooperation with relevant departments as necessary. The opinions and feedback received through the opportunities for dialogue are reflected in our business management so as to help us increase our corporate value.



Financial results briefing

### Major opportunities for dialogue with investors and shareholders (FY2022)

Item	Summary
Major participants	• Representative Director, Member of the Board, President and Chief Executive Officer; Corporate Planning Office (IR)
Overview of investors/ shareholders	• Investment style: value investing in Japan, value investing overseas • Participants: fund managers, analysts
Means of dialogue	• Financial results briefing for institutional investors (twice a year) • Briefing for individual investors (once a year) • Small meeting with institutional investors (as needed)
Major themes and interests	• Performance trends, full-year forecasts • Medium- to long-term outlook and initiatives
Feedback	• Reporting on IR activities in general to the Board of Directors (once a year) • Sharing with officers the opinions given at small meetings with institutional investors (as needed)
Activities introduced, etc.	• Disclosure of target B/S and capital allocation

## Corporate Profile (as of March 31, 2023)

Trade Name	Neturen Co., Ltd.	Date of Establishment	May 15, 1946 (With current company name)
Address	2-17-1 Higashi-Gotanda, Shinagawa-ku, Tokyo Oval Court Ohsaki Mark West	Capital	6,418,359,752 yen
TEL	03-3443-5441 (Main)	Number of Employees	Consolidated: 1,596 Unconsolidated: 896
FAX	03-3449-3969		

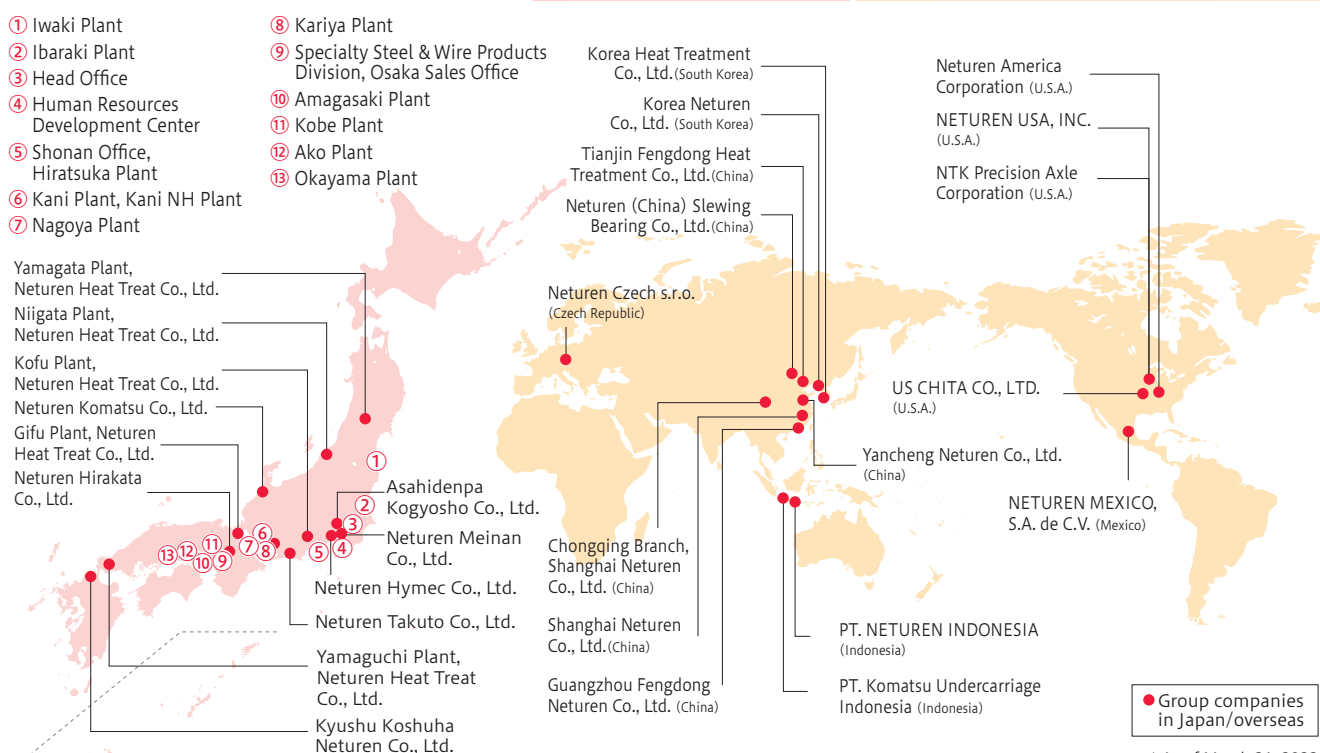
## Domestic and Overseas Bases

### Neturen operations in Japan

### Neturen Group

In Japan: 9 companies, 25 bases

Overseas: 15 companies, 16 bases in 6 countries



## Neturen's information disclosure media

### ◆ Company website

We renewed our company website in March 2023. In addition to basic information, information on our products, services and technologies, IR, sustainability, etc. is disclosed. (Supporting three languages: Japanese, English, and Chinese)

<https://www.k-neturen.co.jp/en/index.html>

### ◆ Other media

- Integrated Report (this document) <https://www.k-neturen.co.jp/ja/sustainability/report.html>
- Annual securities report <https://www.k-neturen.co.jp/ja/ir/library/securities.html>
- ESG Data <https://www.k-neturen.co.jp/ja/sustainability/report.html>
- Annual Report (English only) <https://www.k-neturen.co.jp/ja/ir/library/annual.html>





**NETUREN**

Neturen Co., Ltd.

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