

# ESG at Topcon

The Topcon Group strives to fulfill its social responsibilities by promoting ESG activities through its core businesses, and to enhance its medium- to long-term corporate value.

The Group endorses the principles of the United Nations Global Compact (UNGC), and continues to strive to achieve profitable growth based on its spirit. We are working to expand our businesses and solve the societal challenges within the growing market of healthcare, agriculture and infrastructure. We pride ourselves in making a significant contribution to the Sustainable Development Goals (SDGs), while resolving these societal issues.

Topcon has established a basic policy for CSR that underpins all of its CSR-related activities. It also sets annual action plans based on this policy. In addition to providing products that help to address societal issues, we attach considerable importance to promoting communication with stakeholders and contributing to society through our business activities. We are also committed to global environmental solutions, CSR activities that contribute to society, optimal corporate governance structures, and compliance with all legal and regulatory requirements.



## UNGC and SDGs

While sales outside of Japan account for nearly 80% of the Topcon Group's sales, the group, as a global company, is actively involved in international frameworks, such as the United Nations Global Compact (UNGC) and the Sustainable Development Goals (SDGs).

Since joining the UNGC in October 2007, the Topcon Group has incorporated the 10 principles<sup>\*1</sup> proposed by the UNGC into its core policies and systems, including both the TOPCON WAY and its basic policy for CSR. The Group conducts various activities which embody and put in practice the spirit of the UNGC, with the aim of raising awareness.

Furthermore, the Group is committed to taking actions with respect to the SDGs adopted at the UN Summit in 2015. Companies are encouraged to participate in the SDGs to work toward the 17 goals<sup>\*2</sup> that are applied to all countries, including developed countries, which include reducing poverty and inequality, ensuring sustainable consumption and production, and combating climate change. Topcon is working to address priority issues, with this international backdrop in mind.

Given the many overlaps that exist between the SDGs and our social contributions, particularly in our core businesses of "healthcare," "agriculture," and "infrastructure," we strive to adapt to the SDGs by resolving the respective issues through our core businesses.

<sup>\*1</sup> <https://www.unglobalcompact.org/what-is-gc/mission/principles>

<sup>\*2</sup> <https://www.mofa.go.jp/policy/oda/sdgs/index.html>



## Basic Policy for CSR

- 1** Topcon will locate CSR activities in the center of business and work on it intentionally in order to build, share and implement the sense of values and standards suitable for global enterprise.
- 2** Topcon will, to the extent of our influence, support and implement the rules and regulations that are globally approved regarding Human Rights, Labor Standards, Environment and/or Anti-Corruption as declared in the Global Compact.
- 3** Topcon will make a social contribution voluntarily and actively through developments, production, sales and services of useful products.
- 4** Topcon will promote an environmental management through the creation of environmentally-conscious business process and through providing with environmentally-conscious products and services.
- 5** Topcon will strive to establish CSR activities in every officer and employee's daily work and to infiltrate and establish them within global Topcon Group companies.
- 6** Topcon will acquire understanding and confidence of all the stakeholders of Topcon Group companies by providing with information actively.

# Environmental Initiatives

The Topcon Group believes that its core businesses, which is based on our Corporate Identity of “contribute to enrich human life by solving the societal challenges within healthcare, agriculture and infrastructure,” can also contribute to the global environment. Although Topcon is not a manufacturer of construction or farming machinery, we provide IT solutions that realize improved efficiency and productivity in construction process and farm operations.

Our IT agriculture solutions contribute not only to stable production, but also to protection of the global environment by saving fuel, water, fertilizer, and pesticides through the efficient operation of farming machinery.

## FY2020 Highlights

### CO<sub>2</sub> emission reduction through automation technology

IT Construction machinery  
**600** thousand t-CO<sub>2</sub> / year

IT Agriculture  
**500** thousand t-CO<sub>2</sub> / year

Total  
**1.1** million t-CO<sub>2</sub> / year

### CO<sub>2</sub> Emission

FY2019  
**3,332.0** t-CO<sub>2</sub>

FY2020  
**3,243.8** t-CO<sub>2</sub>

## Topcon Group Environmental Vision 2030

As a corporate group that provides products to global markets, the Topcon Group aims to further enhance its corporate value by solving the societal challenges within healthcare, agriculture and infrastructure to enrich human life, and at the same time, tackling the two goals of reducing environmental impact through products and responding to climate change as below.

- 1 Reducing Environmental Impact through Products**  
We promote energy and resource conservation by further reducing the environmental impact of our products. We also work with our customers to offer products, technologies and services that contribute to the prevention of global warming, the effective use of resources, and the conservation of biodiversity. Furthermore, in our manufacturing-oriented environment, we endeavor to recycle and effectively use waste products generated from our business activities, including procurement, development, manufacturing, sales and services.

- 2 Responding to Climate Change**  
The Topcon Group regards response to climate change as the most important environmental protection task, and is striving to increase the use of renewable energy power. We seek to reduce greenhouse gas emissions from our business activities in Japan by 40% by the end of fiscal 2030 compared to the fiscal 2013 level. In accordance with this policy, we strive to reduce greenhouse gas emissions and increase the use of renewable energy power at overseas sites.

## Environmental Policy for Topcon and its domestic affiliated companies

We uphold the TOPCON WAY, which embodies our Corporate Identity of “contribute to enrich human life by solving the societal challenges within healthcare, agriculture and infrastructure.” We strive to reduce the environmental footprint of our business activities based on the Topcon Global Code of Conduct. Furthermore, we contribute to reductions in the environmental footprint through our products and services, with the aim of realizing a sustainable society.

- We promote the continued improvement of our environmental management system, in order to enhance the environmental performance of our business activities. To this end, we consider our environmental efforts as one of our important management tasks, and set environmental goals and targets involving all employees, including the top management.
- We comply with applicable laws and regulations, acts, guidelines, agreements, and other accepted requirements, and apply strict management and control.
- We strive to reduce our environmental footprint, conserve biodiversity, and prevent environmental pollution. We have set the following goals to reduce environmental risks.
  - (1) We will offer environmentally friendly products and services, with our product lifecycle in consideration.
  - (2) We will increase the level of control of chemical substances and the chemical substances contained in our products.
  - (3) We will focus on reducing waste emissions, and strive to enhance the value of waste as a recyclable resource.
  - (4) We will promote efforts to mitigate global warming, and strive to reduce greenhouse gas emissions.
- We strive to keep our premises and neighborhood clean and beautiful, and actively participate in local community activities, in order to exist in harmony with the local community.
- We raise the awareness of our employees through the enhancement of environmental education and PR activities, and improve environmental conservation activities, with the participation of all employees.
- We provide systematic and active guidance and support to subsidiaries and affiliates, in order to raise the awareness of the Topcon Group as a whole.

## Environmental Management System:

### ISO14001-related Initiatives


The Topcon Group has acquired ISO14001 certification, which is an international standard for environmental management systems, particularly among manufacturing related companies. The Group passed the transition audit for to ISO14001:2015 in August 2018, and maintains its certification.

## Green Procurement Activities

As part of the environmental protection activity process, recognizing our responsibility to maintain the health of the global environment as an irreplaceable asset for future generations, we at Topcon Corporation are engaging in environmental activities in close cooperation with our suppliers.

As one of our efforts, we are promoting the supply of products and services with 1 minimal environmental impacts. For this purpose, the concept of green procurement is essential.

We aim at procuring the parts, materials, units, products, secondary materials, etc. (hereinafter delivered items) with low environmental loads by promoting the business activities, being aware of the environmental loads and risks.

 [Green Procurement Guidelines](#)

<https://global.topcon.com/about/procurement/green/green-03/>

## Topcon's Environmental Footprint Report (FY2020)

- 1 Mitigating Global Warming (CO<sub>2</sub> Emissions Reduction)**  
Considering global warming as a top environmental priority, we sought to reduce our emissions to 4,710.0 t-CO<sub>2</sub>, which is equivalent to a 25% reduction in emissions below the benchmark (three-year average for FY2005 to FY2007) stipulated by an ordinance of the Tokyo Metropolitan Government. As a result, we reduced our emissions by 48.3%, to 3,243.8 t-CO<sub>2</sub>. We are also working to reduce our CO<sub>2</sub> emissions at overseas business bases, in accordance with this approach.

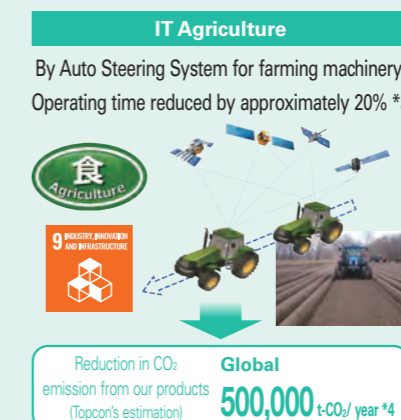
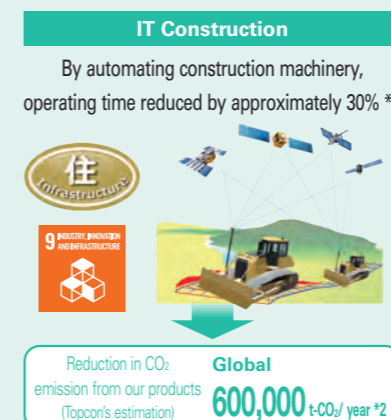
- 2 Effective Use of Resources (Total Emissions Reduction)**  
We strive to reduce our total emissions based on a zero emission initiative, in order to make effective use of the Earth's limited resources. In FY2020, the total emissions were 242.7 tons, which exceeded the total emissions target of 230.0 tons due to a higher-than-planned disposal of waste. We will make thorough efforts to control emissions, in order to achieve our target values.

- 3 Management of Chemical Substances (VOC Reduction)**  
We are working to reduce volatile organic compounds (VOC) as part of the management of chemical substances. In FY2020, whereas our total emissions target was 3,300 kg, which represents an 82.4% reduction below our FY2000 level, we were able to reduce VOC usage to 1,556 kg (91.7% reduction).  
In addition, we also switched from solvent paint to water paint to effectively reduce VOCs. The wear durability of conventional water-based paints tends to be lower than those of solvent paints. However, the developed water-based paints have wear durability equal to or better than those of solvent paints and are compatible with both environmental conservation and product durability.



## Initiatives for SDGs: Contribution to CO<sub>2</sub> emission reduction

Topcon's automation technologies for construction and farming machinery themselves contribute to reduce environmental impact



By leveraging the strength of vendor neutral strategy, penetrate automation technology for existing construction and farming machinery

Expecting further CO<sub>2</sub> reduction by spreading of the automation technologies

\*1: Source - Ministry of Land, Infrastructure, Transport and Tourism i-Construction promotion consortium "Progress of i-Construction" (2019)  
[https://www.mlit.go.jp/tec/i-construction/pdf/03\\_5\\_kikaku\\_siryou6.pdf](https://www.mlit.go.jp/tec/i-construction/pdf/03_5_kikaku_siryou6.pdf)

\*2: Basis of calculation  
Based on the numbers with multiplying the estimated annual CO<sub>2</sub> emissions per unit of construction machinery and the estimated reduction rate of working hours through the use of ICT, calculating the CO<sub>2</sub> emissions reduction multiplying the estimated number of ICT automated construction machinery in operation worldwide and the estimated share of our company.

\*3: Source: AEM "The Environmental Benefits of Precision Agriculture in the United States" (2020)  
[https://newsroom.aem.org/asset/977839/environmentalbenefitsofprecisionagriculture-2#\\_YBdQZR2Lc74Link](https://newsroom.aem.org/asset/977839/environmentalbenefitsofprecisionagriculture-2#_YBdQZR2Lc74Link)

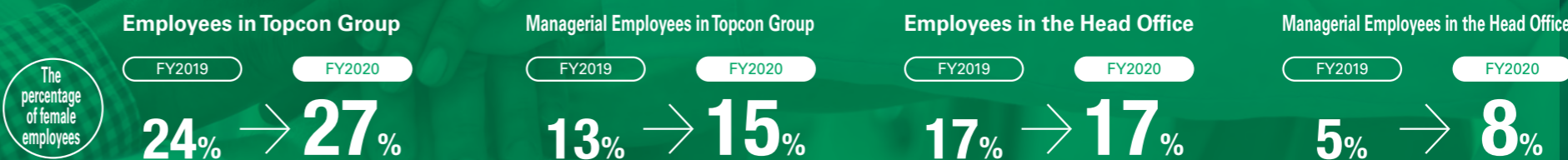
\*4: Basis of Calculation  
Based on the numbers with multiplying the estimated annual CO<sub>2</sub> emissions per unit of farming tractor and the estimated reduction rate of working hours through the use of Auto Steering System, calculating the CO<sub>2</sub> emissions reduction multiplying the estimated number of tractors with Auto Steering System in operation worldwide and the estimated share of our company.

\* i-Construction is a registered trademark of Ministry of Land, Infrastructure, Transport and Tourism's National Institute for Land and Technology Policy.

# Societal Initiatives

The Topcon Group, as a global company, respects human rights and diversity through the development of Topconians (our human resources who share the Group's values and contribute to value creation). We will diligently work together with various stakeholders to create an affluent society.

## FY2020 Highlights



## Valuing People (Respect for Human Rights)

The Topcon Group has a global, diverse workforce with a wide variety of backgrounds, origins, experiences, and cultures. We respect diverse values, fundamental human rights, and individual personalities and characters in light of human dignity, and seek to maintain a workplace where every individual is respected.

We are committed to providing equal opportunity in employment and business. We will not tolerate unlawful discrimination in the workplace, and ensure that all employees, job applicants, customers, and suppliers are treated equally and respectfully, regardless of race, religion, sex, nationality, age, physical or mental disability, sexual orientation, or other attributes. Our commitment to a safe and secure work environment means that we will not tolerate workplace violence or threats. Prohibited conduct includes not only physical violence or abuse, but also abusive, intimidating, or disorderly conduct and threatening language. Moreover, we will not allow for using child labor or forced labor.

The Topcon Group considers a direct exchange of views between labor and management as critical for protecting the rights of workers. In Japan, we have both the Topcon Labor Union and the Topcon Group Labor Union Council for affiliated group manufacturers. Topcon holds regular labor management gatherings and councils, where we explain the Company's business conditions to the Topcon Labor Union, in an effort to enhance communication.

## Diversity

### Respecting Diversity

The Topcon Group values communication with its employees, with the aim to be a company that employees with different personalities and values can make the most of their capabilities, and thrive with creativity and an innovative spirit, regardless of nationality, race, or sex. To this end, we disseminate and implement the Topcon Global Code of Conduct, which is an action guideline for all Topcon Group employees, and ensure compliance with applicable laws and regulations.

The Topcon Group is a company with overseas sales accounting for roughly 80% of sales, and non-Japanese employees accounting for roughly 70% of the total workforce. In addition, 8 out of 25 Executive Officers are

non-Japanese. The Group possesses a global business network with bases in 31 countries and regions. Accordingly, we have hired the right people from a highly diverse pool of talent, for the right jobs from a global perspective.

### Promoting the Active Participation of Women in the Workplace

To create a workplace culture that is conducive to leveraging the resources of a diverse workforce, we place great importance on creating an environment in which women are able to fully exercise their individuality and abilities, and realize their own careers.

In terms of specific measures, we aim to create a support system that enables women to build continuous, long-term careers, by providing an environment where women can play even more active roles, regardless of their line of work. In addition, we also create opportunities for female employees to work overseas. By granting opportunities to ambitious individuals regardless of sex or age, we provide a setting in which our female staff can develop a global mindset.

As of the end of fiscal 2020, the proportion of female employees in the group is 27% (24% in fiscal 2019) in total, 15% (13%) in management. In headquarters, it is 17% (17%) as a whole, 8% (5%) in managerial positions. In addition, there are 1 female Director (out of 9) and 2 female Executive Officers (out of 25).

### Providing Flexible Working Arrangements

Topcon supports Work Style Reform to help employees achieve a balance between work and private life, while boosting labor productivity. We have established a variety of support programs for childbirth and childrearing, as part of these efforts.

Our Maternity Work Exemption Program allows a pregnant employee or employee who has given birth within the past year to take leave for the time necessary for medical examinations at the direction of a physician or obstetric nurse. In addition, when the spouse of a male employee gives birth, that employee may take a spousal maternity leave of three days.

Through these programs, we have developed a system that supports our employees and their families who are having children. As for childrearing, a female employee raising a baby under a year old may use the Childcare Break Program to take two 30-minute breaks every workday, in addition to the normal break time. There is also a Child Care Leave available until the end of the month in which the child

reaches the age of two. In addition, we have expanded programs that allow employees to flexibly choose their work styles, including a Short-time, Shortday Work Program. We also offer a Child Nursing Leave Program that allows an employee raising an elementary school child or younger to take five days off per year for a single child, and ten days off per year for two or more such children. These programs help working parents raise their children and arrange flexible work styles.

## Human Resource Development

The Topcon Group provides employees and other personnel with fair and equitable opportunities to grow through independent learning, and strives to foster a workplace culture that is conducive to making the most of their qualities. We provide employees and other personnel with opportunities for self-improvement, to enable them to perform duties that are commensurate with their assigned areas, responsibilities, and authority, while improving their skills both in and outside of work.

The development of Topconians is Topcon Group's strategic human resource theme to realize its management vision. A Topconian possesses three qualities: 1) seeks to develop and maintain a high level of expertise, while utilizing their expertise to generate profits; 2) acts with universal values, including thinking globally and respecting cultural diversity; and 3) is a team player who makes the most of collaboration. We hold lectures and training regularly in order to further the development of such human resources.

## Ensuring the safety of group employees

The Topcon Group views ensuring safety and health as essential to enabling its employees to perform at their best and avoiding workplace accidents. The Group has adopted the necessary safety measures for buildings and facilities, and established work standards that prioritize employee safety and health based on this policy. Recognizing that safety comes first, employees are required to comply with laws, regulations, and internal company rules regarding safety and health.

We have established a crisis response system for unforeseen events, to ensure the safety of employees on business trips and overseas assignments, as well as that of their families, regardless of country or region. We are

working to establish and strengthen safety measures with the primary aim of preventing incidents and accidents.

## Strengthening Global Export Control System

Exports to several countries are subject to strict controls under relevant Japanese and U.S. laws. If our export control compliance were lax, this could result in situations that threaten the basis of our existence as a corporation. In the worst case, the company would be subject to penalties such as an export ban due to violations of applicable laws and regulations. For this reason, as a global company, the Topcon Group is committed to activities related to maintaining and bolstering the global system of export controls.

- 1 Conducting export control audits
- 2 Providing export control educations
- 3 Developing export control specialists
- 4 Periodically holding export control promotion meetings
- 5 Regions requiring special control

## Prevention of Corruption

The Topcon Group stipulates that employees shall not give inappropriate benefits or bribes that violate laws, regulations, or sound business practices. The Group's employees recognize that bribery is prohibited not only towards public-sector officials, but also employees at private-sector companies, depending on the countries involved. We require our employees to understand and comply with the contents of relevant laws and regulations in countries and regions related to their work.

The Group defines bribery as offering something valuable to third parties such as public-sector officials, either as a way to receive inappropriate benefits in business activities, or in exchange for providing such inappropriate benefits.

Bribery is not limited to monetary payments, but can include business entertainment, gifts, donations, gratuities, or other forms of benefit, regardless of the monetary value involved. In cases where active intermediaries such as agents are working on behalf of the Topcon Group, rules have been established to prohibit employees and others from coercing agents to commit any of the aforementioned actions, and to clearly determine in advance a reasonable set of boundaries regarding the services and compensation of such intermediaries.

## Societal Initiatives

### Internal Reporting System

Since establishing an internal reporting system in 2006, Topcon has worked to identify risks and compliance issues (such as known or suspected conduct that violates laws, regulations, or internal rules, or that runs counter to social norms) at an early stage, and to take corrective actions against them. The system enables whistleblowers to contact the Corporate Audit Division directly, as the responsible division, apart from the normal internal routes for information in the organizational structure.

The Corporate Audit Division takes prompt and appropriate actions to discover and address the involved risks at an early stage, in response to any information that is directly reported. We are working to promote compliance management on a Group-wide basis by expanding the adoption of the system every year, including the establishment of such systems at Group companies in Japan and overseas.

### Personal Information

The Topcon Group has established a basic policy for protecting personal information, and carefully handles and strives to protect personal information obtained in the course of its business activities. In this context, personal information refers to information that employees handle

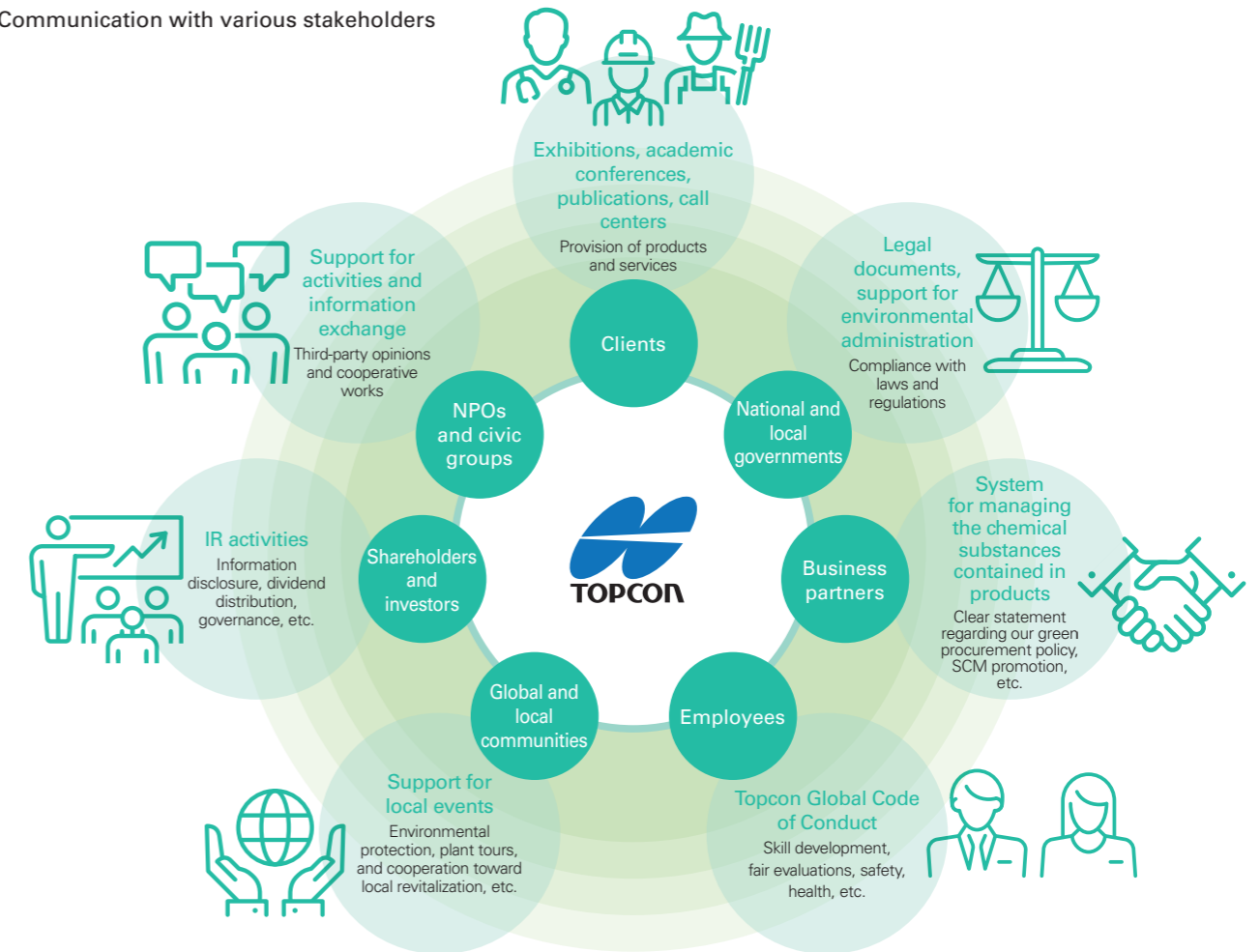
during work regarding customers, executives and staff of suppliers, job applicants, employees, or other individuals, which makes a specific individual identifiable by referring to such information. Our employees collect, manage, and use personal information properly and fairly, in compliance with all applicable laws and regulations regarding the protection of personal information, in countries and regions where the Topcon Group engages in business.

### Communication with Stakeholders

The Topcon Group offers products and services that address societal issues, based on its basic policy for CSR. At the same time, the Group attaches great importance to communications with its diverse stakeholders, and endeavors to make social contributions through its business activities.

The Group conducts checks and evaluations of the performance of its ESG activities each fiscal year, and draws on the results of these evaluations to set goals for the activities for each shareholder in the following fiscal year. Our website is our primary channel for disclosing information in our communications with stakeholders. In addition, we also utilize various other means, such as IR, local events, exhibitions, academic conferences, and publications, in order to disclose information and communicate with stakeholders, in a multifaceted and multilayered manner.

#### Communication with various stakeholders



#### Report on CSR Activities

##### Global

Each sales company in Topcon's Eye Care Business provided breath shields (transparent plates designed to prevent droplet infection during medical examinations) free of charge to help prevent the spread of COVID-19. The breath shields were donated to users of products such as slit lamps (a type of microscope that is used for observing the cornea and fundus, sometimes known as a stethoscope for the eye), who experience difficulties in practicing social distancing during medical examinations.



##### The U.S.

As part of its support for dairy farmers and people struggling with food insecurity due to the COVID-19 pandemic, Topcon Positioning Systems, Inc. donated one gallon of milk for every download of its TAP FEED app to a local food bank during Dairy Month in June.



##### Rwanda

Topcon Positioning Systems, Inc. donated surveying equipment to be used in a bridge project being conducted in the East African country of Rwanda by Bridges to Prosperity, an American non-profit organization. The use of the latest surveying equipment enhanced work efficiency, allowing the NPO to build more bridges for isolated communities, thereby contributing to a safer and more secure society.



##### China

Topcon Optical (Dongguan) Technology Ltd. conducted a major renovation of its wastewater treatment facility with the aim of protecting the environment. In order to reduce discharge risk, industrial water used in production, which is said to contain many impurities, is separated from water for domestic use for recycling.



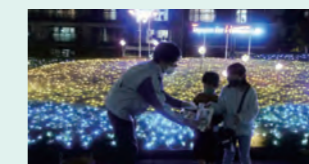
##### India

Mehra Eyetech Pvt. Ltd. made donations to two eye care centers in India, Shraddha Eye Care Trust and Vijaya Medical & Educational Trust. The company provides continuing support for people's eye health through the donations.



##### Japan

During the Happy Holiday season each year, Topcon decorates its grounds with colorful lighting and opens the grounds up to local residents. In 2020, as a new initiative, the company handed out some sweets made at a facility for the disabled as gifts to visiting children.



##### Other support activities

- Topcon Electronics GmbH & Co. KG donated a total of EUR 11,500 to charitable causes such as child support organizations, poverty support organizations, and local communities.
- Topcon Europe Medical B.V. made a donation of EUR 1,300 to Fight for Sight, an organization that provides eye education and support for the visually impaired.
- Topcon Sokkia India Pvt. Ltd. donated a total of INR 2 million to the Prime Minister's National Relief Fund. The proceeds are used to provide support for the bereaved families of those who passed away in natural disasters and for people in poverty, helping them cover living expenses and medical expenses.

# Corporate Governance Initiatives

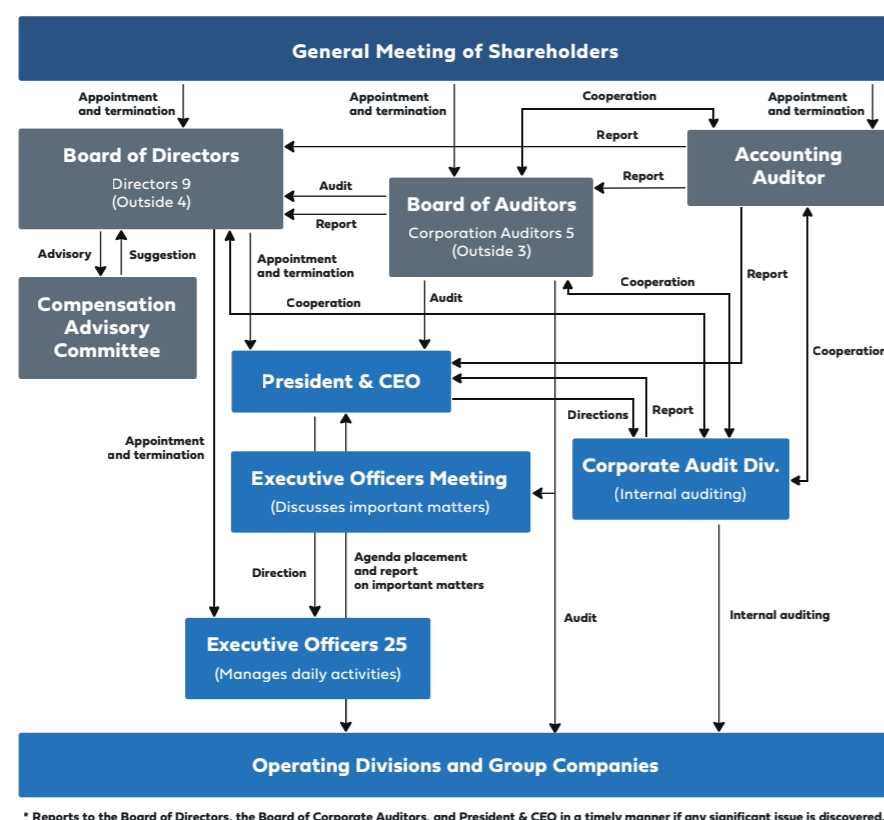
Topcon has established the TOPCON Corporate Governance Guidelines, in pursuit of the sustainable growth and medium- to long-term enhancement of the corporate value of the Topcon Group (hereinafter, referred to as the “Group”), comprising the Company and its affiliates. The Guidelines are based on the TOPCON WAY, which forms a set of fundamental values, evaluation standards, and basic principles of conduct that are to be shared by directors, executives, and all other employees of the Group to achieve effective corporate governance.

## Outline of Corporate Governance

### Outline of the Corporate Governance Structure

#### Corporate Organization

Topcon has adopted the corporate structure of a Company with a Board of Corporate Auditors under the Companies Act. The Board of Corporate Auditors and the Corporate Audit Division (internal audit department) mutually discuss audit plans and policies, and work in mutual cooperation by regularly sharing information throughout the fiscal year, in order to increase the efficiency and effectiveness of the work of the Corporate Auditors.



#### Board of Directors

##### Roles and responsibilities of the Board of Directors

The Board of Directors recognizes its fiduciary responsibility to the shareholders, towards the sustainable growth and medium- to long-term enhancement of the corporate value of the Group. Based on such recognition, the Board of Directors works to achieve improved management efficiency, in addition to maintaining management soundness, ensuring transparency in management, and fulfills its responsibilities towards all stakeholders of the Group.

- To fulfill the above-stated responsibilities, the Board of Directors conducts assessments of performance, appropriate development and implementation of the internal control system and the risk management system, and supervision of the overall business management of the Group, from an independent and objective standpoint.
- The Board of Directors makes decisions on matters provided for in laws and regulations, and the Articles of Incorporation, as well as on important matters relating to business management. The Board of Directors has adopted the Executive Officer System as a business execution system

based on its decision making, and delegates day-to-day business execution to Executive Officers. Executive Officers are appointed by a resolution of the Board of Directors, taking into account their level of knowledge and experience required by the business domains of the Group.

- The Board of Directors has established a system to respond to cases where a Corporate Auditor or the Accounting Auditor discovers misconduct and requests appropriate measures, or identifies any inadequacies or problems.
- The Board of Directors conducts an analysis and assessment of the overall effectiveness of the Board of Directors, and discloses a summary of the results.

##### Composition of the Board of Directors

- The Board of Directors of the Company comprises nine Directors (including four Outside Directors).  
(Members of the Board of Directors)  
Satoshi Hirano (Chairman, Representative Director), Takashi Eto (Representative Director), Haruhiko Akiyama (Director), Takayuki Yamazaki (Director), Kaoru Kumagai (Director), Kazuyuki Matsumoto (Outside Director), Ryo Sudo (Outside Director), Naoko Yamazaki (Outside Director), Yoshiharu Inaba (Outside Director)
- The Company ensures that there is a system in place to supervise the operation of the Company by appointing at least two Independent Outside Directors, who express their opinions from an independent and objective standpoint at the meetings of the Board of Directors.
- The Board of Directors is composed of Directors with different backgrounds in terms of expertise and experiences, and maintains an appropriate number of Directors to ensure that the Board of Directors can effectively exercise its decision-making and supervisory functions.

##### Internal control system

To ensure smooth business operations under appropriate controls, the Board of Directors sets forth basic policies regarding the development of the internal control system, and supervises the establishment of the Group's structure and its operational status in terms of compliance, ensuring appropriate financial reporting, and risk management.

- The Company has established the Corporate Audit Division as an internal audit department to validate the appropriateness and effectiveness of internal management systems, and maintains a system that facilitates the timely reporting of significant matters to the Board of Directors.
- The Company has established the Basic Rules for Risk and Compliance, for a risk management system capable of responding to any risk that arises within the Group in a timely and appropriate manner, depending on the nature of the risk.

- Competing transactions of Directors, transactions between Directors and the Company, and transactions that involve conflicts of interest between the parties shall be matters to be approved by the Board of Directors.

#### Board of Corporate Auditors

##### Roles and responsibilities of the Board of Corporate Auditors

The Board of Corporate Auditors recognizes its fiduciary responsibility to the shareholders, towards the sustainable growth and medium- to long-term enhancement of the corporate value of the Group. Based on this recognition, the Board of Corporate Auditors ensures corporate soundness and strives for the common interests of the shareholders.

- The Board of Corporate Auditors collaborates with Outside Directors and the internal audit department.

##### Composition of the Board of Corporate Auditors

- At least half of the Board of Corporate Auditors shall be Independent Outside Corporate Auditors, in order to ensure transparency and fairness.
- The Board of Corporate Auditors of the Company consists of five Corporate Auditors (including three Outside Corporate Auditors).  
(Members of the Board of Corporate Auditors)  
Shokyu Nakamura (Chairman, Full-time Corporate Auditor), Nobuyuki Ryu (Full-time Corporate Auditor), Tatsuya Kuroyanagi (Corporate Outside Auditor), Kiyoshi Suzuki (Corporate Outside Auditor)
- Corporate Auditors with the appropriate experience and skills have been appointed.
- The Board of Corporate Auditors appoints Corporate Auditors with the knowledge of finance, accounting, and legal matters necessary to serve on the Board of Corporate Auditors, and in particular, appoints at least one Corporate Auditor with sufficient knowledge of accounting.

##### Relationships with the Accounting Auditor and the internal audit department

The Board of Corporate Auditors has established a system to conduct sufficient and appropriate audits, in collaboration with the Accounting Auditor and the internal audit department.

- The Board of Corporate Auditors checks the independence and expertise of the Accounting Auditor, by formulating standards for the proper appointment and assessment of the Accounting Auditor.
- The Board of Corporate Auditors has established a system to respond to cases where the Accounting Auditor or the internal audit department discovers misconduct and requests appropriate measures, or identifies any inadequacies or problems.

Corporate Governance Initiatives

Accounting Auditor

The Accounting Auditor assumes an important role in guaranteeing the reliability of the financial information of the Group, and bears responsibility toward the shareholders and investors.

- A system has been secured under which the Accounting Auditor can conduct appropriate audits in collaboration with the Board of Corporate Auditors.
- The Accounting Auditor ensures independence and expertise.
- The Accounting Auditor complies with quality control standards for audits, to ensure that accounting audits are conducted properly.

Compensation Advisory Committee

The Company has established a Compensation Advisory Committee that is independent of the Board of Directors, in order to ensure objectivity and transparency in relation to the handling of director compensation.

- The Compensation Advisory Committee is chaired by an Independent Outside Director, and the majority of the committee members are Independent Outside Officers. (Members of the Committee)  
Kazuyuki Matsumoto (Chairman, Independent Outside Director), Satoshi Hirano (Representative Director, President & CEO), Tatsuya Kuroyanagi (Independent Outside Corporate Auditor)
- The Compensation Advisory Committee makes proposals to the Board of Directors upon receiving consultation from the Board of Directors.

Internal Audit Department, and Others

The Company has established the Corporate Audit Division consisting of seven members as an internal audit department. The Corporate Audit Division validates the appropriateness and effectiveness of the internal management systems, as described below.

- The Corporate Audit Division aims to contribute to the enhancement of the corporate governance and risk management of the Group. The Corporate Audit Division is responsible for the internal audit process, and develops a system under which the Division validates the appropriateness and effectiveness of the internal management system, including compliance, and reports to the Board of Directors, the Board of Corporate Auditors, and the President & CEO in a timely manner, if a significant issue arises.
- The Corporate Audit Division collaborates with Corporate Auditors and the Accounting Auditor.
- With respect to internal reports, the Corporate Audit Division contributes to the early discovery of risk information, and respond to whistleblower complaints in a prompt and appropriate manner.

Directors and Corporate Auditors

Directors

Directors recognize their fiduciary responsibility to the shareholders, and execute their duties as Directors towards the sustainable growth and medium- to long-term enhancement of the corporate value of the Group.

- Directors, as members of the Board of Directors, supervise the execution of business operations by Executive Directors and Executive Officers.
- Directors collect sufficient information to execute their duties, while requesting explanations on various matters, proactively expressing opinions, and holding open and constructive discussions at the Board of Directors' meetings.
- Directors proactively collect information to appropriately fulfill their roles and responsibilities, and if necessary, seek the advice of external experts at the expense of the Company.
- Directors set aside time to appropriately fulfill their roles and responsibilities in the Company, by limiting outside executive jobs to a reasonable extent when concurrently serving as executives at other companies.
- As an incentive for Directors (excluding Outside Directors), the Company offers compensation linked to its medium- to long-term business performance, towards the Group's sustainable growth and enhancement of the corporate value of the Group over the medium- to long-term.

Corporate Auditors

Corporate Auditors recognize their fiduciary responsibility to the shareholders and execute their duties as Corporate Auditors, thereby ensuring corporate soundness towards the sustainable growth and medium- to long-term enhancement of the corporate value of the Group.

- In accordance with the policies and assigned duties set forth by the Board of Corporate Auditors, Corporate Auditors conduct audits on the status of the execution of duties by the Directors and Executive Officers of the Company, through the following activities: attending important meetings of the Company, including the Board of Directors' meetings; receiving reports from Directors on the status of the execution of their duties; receiving materials and information on related matters; and, collaborating with the internal audit department and the Accounting Auditor.
- Corporate Auditors audit the decisions made by the Board of Directors, and the status of development and implementation of the internal control system.
- Corporate Auditors proactively collect the information necessary for audits through such as attending the Company's important meetings, and give appropriate feedback to Directors, as needed.
- Corporate Auditors proactively collect the information for appropriately fulfilling their roles and responsibilities, and if necessary, seek the advice of external experts at the expense of the Company.
- Corporate Auditors set aside time to appropriately fulfill their roles and responsibilities in the Company, by limiting outside executive jobs to a reasonable extent when concurrently serving as executives at other companies.

Independent Outside Directors and Independent Outside Corporate Auditors

Independent Outside Directors and Independent Outside Corporate Auditors supervise the execution of business operations, provide advice for the sustainable growth and the medium- to long-term enhancement of the corporate value of the Group, and manage conflicts of interest, while ensuring that the opinions of stakeholders, including minority shareholders, are reflected in the Board of Directors.

- The Company has four Independent Outside Directors and three Independent Outside Corporate Auditors.
- Independent Outside Directors share information regarding matters related to the business and corporate governance of the Group, and exchange opinions with each Director, Executive Officer, and Corporate Auditor.
- The Company appoints Outside Directors and Outside Corporate Auditors who meet the criteria for independence set forth by the Financial Instruments Exchange.
- Independent Outside Directors and Independent Outside Corporate Auditors strive to exchange information and share perspectives based on an independent and objective standpoint, by holding regular meetings and other occasions.

Support system for Directors and Corporate Auditors

The Company has established an effective and sufficient support system for Directors and Corporate Auditors, to assist them in fulfilling their roles and responsibilities, as described below.

- The Company runs the meetings of the Board of Directors to enable sufficient discussion at Board meetings, as follows.
  - 1) The Company prepares an annual schedule of the Board meetings and an annual plan of the matters for discussion.
  - 2) The Company sets aside time for sufficient discussion at the Board meetings.
  - 3) The Company distributes materials on matters for discussion of the Board meetings, well in advance.
  - 4) In addition to the above, the Company provides information that the Directors need for decision making and information that the Corporate Auditors need to execute their duties, as necessary.
- The Company appoints an assistant to help in the duties and other activities of the Corporate Auditors, as necessary, in order to provide the corporate information that the Corporate Auditors need, and to coordinate in-company collaboration.

Executive Compensation

Policy on Determining Details of Individual Compensation for Directors

Compensation for Directors (excluding Outside Directors) consists of fixed compensation and performance-linked compensation (short-term performance-linked compensation, medium-term performance-linked compensation, and stock options). Outside Directors and Corporate Auditors receive only fixed compensation.

The Company has established a Compensation Advisory Committee in order to ensure objectivity and transparency in relation to the handling of compensation for Directors. The Committee is chaired by an Independent Outside Director, and the majority of its members are Independent Outside Officers. The Committee makes proposals to the Board of Directors upon receiving consultation from the Board of Directors. The policy on compensation for Directors is determined by a resolution of the Board of Directors based on the discussions and proposals of the Compensation Advisory Committee.

The amount of compensation for each individual Director is determined within the total amount of compensation for

- The Company proactively provides information when Outside Directors and Outside Corporate Auditors request information necessary for the execution of their duties.
- The Company secures the budget necessary for the execution of duties by Directors and Corporate Auditors.

Training Policy for Directors and Corporate Auditors

The Company provides information and knowledge on business activities necessary for Directors and Corporate Auditors to fulfill their roles and responsibilities appropriately, as follows.

- When Directors or Corporate Auditors are newly appointed, the Company provides training on laws and regulations related to the business of the Group and corporate governance, and continues to provide such training even after they have assumed office.
- In addition to the above, when Outside Directors or Outside Corporate Auditors are newly appointed, the Company provides information regarding the Group's business and overall organization, as well as necessary information on an ongoing basis regarding the Group's business strategies and issues, even after they have assumed office.

Background for Adopting the Current Corporate Governance Structure

The Company appoints multiple Independent Outside Directors and obtains outside perspectives to enhance the supervisory function. The Company also appoints Corporate Auditors (including Outside Corporate Auditors), the Board of Corporate Auditors, and an Accounting Auditor. All of these Auditors conduct the Company's audits in collaboration with the Corporate Audit Division (internal audit department), in order to make full use of their supervisory function.

Directors determined by the resolution of a General Meeting of Shareholders, in accordance with the policy on compensation for Directors based on the discussions at the Compensation Advisory Committee. For stock options, the specific amount is determined by a resolution of the Board of Directors. For other compensation, the Board of Directors delegates determination of the specific amounts to the President and Representative Director (Satoshi Hirano, CEO), considering factors such as that the President and Representative Director has a full view of the Company's overall performance, and the procedures required to have discussions with and obtain proposals from the Compensation Advisory Committee in advance. The President and Representative Director determines the specific amounts of other compensation in accordance with the delegation. In addition, the Board of Directors has determined that the said compensation is in line with the policy on compensation for Directors, as the Compensation Advisory Committee has conducted in advance a multifaceted review of the compensation for Directors, including the assessment of its consistency with the policy on compensation for Directors.

Corporate Governance Initiatives

The Compensation Advisory Committee held a meeting to determine the amounts of compensation for Directors for the current fiscal year in May 2021, and the Board of Directors held meetings in June 2020 and February 2021, respectively.

The amount of compensation for each Corporate Auditor is determined by discussions among the Corporate Auditors, and is set within the amount of compensation for Corporate Auditors determined by a resolution of the General Meeting of Shareholders.

Fixed compensation

- Fixed compensation for Directors (excluding Outside Directors) is determined according to rank, and is paid monthly.
- Fixed compensation for Outside Directors is determined based on consideration of their roles and other factors, and is paid monthly.

Performance-linked compensation

- Performance-linked compensation for Directors (excluding Outside Directors) is calculated based on prescribed benchmarks for the relevant fiscal year. The indicators used for performance-linked compensation for Directors include consolidated profit attributable to owners of the parent and ROE, in order to boost the motivation and morale of Directors toward higher performance and to ensure the identity of interest between Directors and the shareholders.
- Short-term performance-linked compensation is calculated based on the results of the current fiscal year. Medium-term performance-linked compensation is calculated based on the cumulative results during the period of the mid-term business plan. Each compensation is paid after the end of the period to which it applies.
- Stock acquisition rights are granted as stock options to Directors (excluding Outside Directors) in order to boost motivation and morale toward the enhancement of long-term performance. The number of stock acquisition rights to be allotted to each Director is determined according to rank. Stock acquisition rights are issued by a resolution of the Board of Directors, on the condition that the rights to request compensation of the Directors whom the stock acquisition rights are allocated to shall be offset against the paid-in amount for the stock acquisition rights by an amount equal to the paid-in amount. Details of the stock acquisition rights are as described in “(2) Status of Stock Acquisition Rights,

etc.” in “1. Status of Shares, etc.” on pages 23 to 28 of the Annual Securities Report (Japanese language only).

- The results of indicators serving as the basis of performance-linked compensation for the current fiscal year are as follows: consolidated profit attributable to owners of the parent of ¥2,376 million and ROE of 3.6%. As for cumulative results for the third mid-term business plan, consolidated profit attributable to owners of the parent was ¥3,311 million, and average ROE was 2.5%.

Compensation composition ratio

- Compensation for Directors (excluding Outside Directors) consists of fixed compensation and performance-linked compensation. The ratio of performance-linked compensation to the total amount of compensation is designed to be a maximum of approximately 60% on average for each rank, depending on the performance indicators, in order to boost the motivation and morale of Directors toward higher performance.

Matters concerning Resolutions of the General Meeting of Shareholders regarding Compensation of Directors and Corporate Auditors

The compensation for the Company’s Directors set by the resolution at the 125th Annual General Meeting of Shareholders held on June 27, 2018 is as follows: a total annual amount of up to ¥800 million, consisting of fixed compensation of ¥400 million or less and performance-linked compensation determined by prescribed benchmarks for the relevant fiscal year of ¥400 million or less. The total annual compensation for the Outside Directors set by the resolution is ¥100 million or less (fixed compensation only). The number of Directors as of the close of that Annual General Meeting of Shareholders was nine (including three Outside Directors). In addition, at the 124th Annual General Meeting of Shareholders held on June 28, 2017, a resolution was made to allot stock acquisition rights as stock options to the Company’s Directors (excluding Outside Directors). The number of Directors as of the close of that Annual General Meeting of Shareholders was eight (including two Outside Directors).

Total annual compensation for the Company’s Corporate Auditors was set at ¥100 million or less, by the resolution at the 120th Annual General Meeting of Shareholders held on June 26, 2013. The number of Corporate Auditors as of the close of that Annual General Meeting of Shareholders was four (including two Outside Corporate Auditors).

Total Amount of Compensation by Category of Officers and by Type of Compensation, and Number of Officers Receiving such Compensation

Category of Officers	Total Compensation (Million yen)	Compensation by Type (Million yen)			Number of Eligible Recipients (Persons)
		Fixed Compensation	Short- to Medium-term Performance-linked Compensation	Non-monetary Compensation	
Directors (excluding Outside Directors)	281	193	66	21	6
Corporate Auditors (excluding Outside Corporate Auditors)	36	36	—	—	3
Outside Officers	60	60	—	◇	6

Notes: 1) Non-monetary compensation is the amount of expenses accrued during the fiscal year for the stock acquisition rights granted as stock options.  
2) One Director, who retired at the conclusion of the 127th Annual General Meeting of Shareholders held on June 25, 2020, is included in the number of Corporate Auditors (excluding Outside Corporate Auditors).  
3) One Corporate Auditor, who retired at the conclusion of the 127th Annual General Meeting of Shareholders held on June 25, 2020, is included in the number of Corporate Auditors (excluding Outside Corporate Auditors).

Directors, Corporate Auditors, and Executive Officers



Directors

- 1

Satoshi Hirano  
Representative Director  
President & CEO
- 2

Takashi Eto  
Representative Director  
Senior Managing Executive Officer
- 3

Haruhiko Akiyama  
Director  
Managing Executive Officer
- 4

Takayuki Yamazaki  
Director  
Managing Executive Officer
- 5

Kaoru Kumagai  
Director  
Senior Executive Officer
- 6

Kazuyuki Matsumoto  
Director (Outside Director)
- 7

Akira Sudo  
Director (Outside Director)
- 8

Naoko Yamazaki  
Director (Outside Director)
- 9

Yoshiharu Inaba  
Director (Outside Director)

Corporate Auditors

- 10

Shokyu Nakamura  
Corporate Auditor
- 11

Nobuyuki Ryu  
Corporate Auditor
- 12

Tatsuya Kuroyanagi  
Outside Corporate Auditor
- 13

Keiji Taketani  
Outside Corporate Auditor
- 14

Kiyoshi Suzuki  
Outside Corporate Auditor

Executive Officers

- Raymond O'Connor  
Senior Managing Executive Officer

Fumio Ohue  
Managing Executive Officer

David Alan Mudrick  
Senior Executive Officer

Ivan Di Federico  
Senior Executive Officer

Reiko Watanabe  
Senior Executive Officer
- Yoshikuni Ito  
Senior Executive Officer

Shigehiro Ogino  
Executive Officer

Takaaki Hirayama  
Executive Officer

Eric Franken  
Executive Officer

Hiroyuki Nishizawa  
Executive Officer
- Kinpui Chan  
Executive Officer

Yasuyuki Ninomiya  
Executive Officer

Akifumi Baba  
Executive Officer

Keijiro Asayama  
Executive Officer

Hideyuki Takizawa  
Executive Officer
- Arata Kimura  
Executive Officer

Tsuyoshi Yoshida  
Executive Officer

Jamie Williamson  
Executive Officer

Cindy Hudson  
Executive Officer

Raymond Vallejo  
Executive Officer

## Interview with an Outside Director



### The Future of Topcon through the Eyes of a Legend of the Manufacturing Industry

**Yoshiharu Inaba** Chairman (Representative Director) of FANUC CORPORATION, and Outside Director of TOPCON CORPORATION

Yoshiharu Inaba was born in 1948 in Ibaraki Prefecture. He graduated from the Department of Mechanical Engineering, School of Engineering, Tokyo Institute of Technology in 1973, and after working for Isuzu Motors, he joined FANUC in 1983. He created numerical control (NC) devices that improved the precision of machine tools and is still involved to this day in the development of a large number of industrial robots with an exceptionally large share of the global market. He became Senior Executive Vice President (Representative Director) at FANUC in 2001, President and CEO (Representative Director) in 2003, followed by Chairman and CEO in 2016, and then assumed his current position as Chairman (Representative Director) in 2019. In 2020, he assumed his current position of Outside Director at Topcon.

**FANUC CORPORATION**  
It is a pioneering company in CNC of machine tools (Factory Automation) market. In the field of FA, it has high market share of more than 50% in both global and domestic markets. It has net sales of ¥551.3 billion and operating income of ¥112.5 billion (for the fiscal year ended March 31, 2021).

In June 2020, a person hailed around the world as a legend in the development of industrial robots assumed an Outside Director at Topcon, namely Yoshiharu Inaba (Chairman of the Japan Machine Tool Builders' Association and a Doctor of Engineering) who concurrently serves as Chairman (Representative Director) of FANUC. What are his views on Topcon's governance? We spoke with him on various matters including his reasons for accepting the offer from Topcon's President Hirano to become an Outside Director.

### Topcon is Going to Change the State of the World's Future

I am so excited to think about the various roles I will play at Topcon.

For example, in the field of machine tools which is a strength of FANUC, our customers insist strongly not to stop production lines. All machines are destined to fail eventually. That is exactly why it is important to put in place a system that notifies an administrator before a machine fails and enables the machine to be repaired immediately when it does. At FANUC, I have worked for many years with automobile manufacturers and other corporate customers that operate high-volume production lines. For this reason, I believe I can foresee what the customers who use Topcon

products will require, and give advice on how to incorporate that into corporate governance.

Furthermore, I also think that I can assist Topcon in creating its future vision. For example, rather than only focusing on Japan, President Hirano and the rest of Topcon's top management are always sensitive to global trends when they make decisions. In order to discern what will happen in the world, it is important to bring together people who are knowledgeable about various fields and hold active discussions. At Topcon's Board of Directors meetings, all Directors, including Outside Directors, speak up freely and actively and hold constructive discussions. FANUC's Board

of Directors meetings also have an open atmosphere, but I feel that Topcon's are even more open. I would like to join that team and express a wide range of views.

One thing I have realized after participating in Board of Directors meetings is that Topcon is a very passionate company. Firstly, President Hirano and the rest of the top management are enthusiastic. Their passion is also evident in Topcon's corporate governance. I think that Topcon is very good at aggressively acquiring various venture companies, including those overseas, and building synergy with them while respecting their cultures. Rather than being controlling, they build a trust relationship and create a shared dream for the future together; this cannot be done without passionate leadership and appropriate governance. Topcon also partners and builds relationships with various manufacturers of construction and agricultural machinery and medical devices, and implements the latest technologies into the society. This

is also impossible to achieve without trusted partnership that both parties can express their ideal vision on occasion, and hold strong empathetic bond each other.

Moreover, the passion of the top management lights fires in the hearts of the employees as well. One example is lens polishing. Although Topcon is receiving attention for its automation and mechanization technologies, the lenses used in its high-precision optical devices are made with the finest craftsmanship. A high level of optical technology is indispensable for surveying instruments and ophthalmic medical instruments, where Topcon has built up global large market share as its core businesses. One of these is the aspherical lens used in fundus cameras. If these lenses are not polished accurately to the sub-micron level, it's unable to capture accurate fundus images. This precise lens processing technology is imbued with the passion of the manufacturing staff.

### The Innovation of Technology Draws Similar Shapes

I became an Outside Director at Topcon because FANUC and Topcon have overlapping histories. I believe it is well known that NC devices and industrial robots that FANUC invented have automated various factories around the world. Similarly, agriculture, building construction, civil engineering and healthcare worksites where Topcon operates businesses will become rapidly IT-oriented and automated going forward.

This is because the basic technology and concepts are the same. Various machine tools stand on "How to input and output." When parts are being made, the first step is to create a design using CAD and feed its data into a machine tool, and then measure the dimensions of the material to be processed. These are the "inputs." Next, the machine cuts or grinds the material precisely according to how it is programmed. This is the "output." This is the same as what Topcon is achieving in the fields of healthcare, agriculture and infrastructure. In the construction field, construction machinery will operate automatically if the design data is pre-loaded into the machinery, and GNSS and precision sensors are used to ascertain the topography shape while at the same time the position of the machinery is measured. In the case of machine tools, before numerical control became available, people would make parts by using general-purpose lathes to cut and grind materials by rule of thumb and checked dimensions with the caliper. Today, the machine tool cuts and grinds while measuring the dimensions precisely, and the finished part is removed by a robot.

Similar thing will happen not only for construction work process but also for agriculture job cycle. Combining Topcon's control technologies with existing tractor technologies will streamline entire farm job cycle such as planting, growing, and harvesting.

I think the history of humanity is at the same time also a history of tools. Iron plows and hoes dramatically improved the productivity of agriculture, and with population growth, increasing the number of people who were involved in work other than food production, and giving rise to various civilizations in each nation of the world. Similarly, the adoption of numerical control and industrial robots at factories around the world made consumer electronics, automobiles, and other goods widely used in the world. Throughout the history of technology, the evolutions of different technologies have traced similar paths. Even before President Hirano asked me to become an Outside Director, I was confident that automation and laborsaving would be realized in the fields of agriculture, civil engineering and building construction, and that the quality of these fields would also improve. That is exactly why I was very interested in President Hirano's offer.

Topcon is definitely a company that its shareholders can also trust. As with FANUC, I believe that Topcon will become a leading company that will dramatically drive the evolutions in the fields of healthcare, agriculture and infrastructure.