

Compliance/Risk Management

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 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.

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.

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.

Conducting export control audits

We conduct annual internal audit on all departments involved in export. Then, measures for improvement which was requested during audit are discussed with departments audited for one to three months after audit to correct nonconformities at an early stage. The next year's audit conducts follow-up to check if such measures are carried out on a continuous basis. It also checks for missing items and inadvertent errors such as in administration procedures in the entire process.

In addition, domestic and overseas group companies are audited according to an annual plan to strengthen global export control system.

Since FY2012, we have started field audit of overseas group companies jointly with in-house lawyers of a U.S. group company specialized in U.S. laws.

Providing export control educations

To raise employees' awareness about compliance, we provide training sessions for employees. We put some thought in training materials to make them easy to understand for employees. Furthermore, we provide mandate training for employees who will be assigned to overseas companies to raise their awareness of their leadership role in administrating export control in a region where they will work in order to "enhance a global export control system."

Developing export control specialists

To improve expertise of employees engaged in export control, Topcon Group recommends them to take a "certification exam on export control" held by the Center of Information on Security Trade Control (CISTEC).

Periodically holding export control promotion meetings

To share information on global trends and situations of export control in Topcon Group, we periodically hold export control promotion meetings to raise the awareness of employees within the group. To thoroughly practice export control in line with these changes, the information is shared and fed back internally.

Regions requiring special control

Topcon Group designates six countries/areas including Iran, Iraq, Cuba, Syria, North Korea, and Crimea Region of Ukraine which are subject to special regulations under the Foreign Exchange and Foreign Trade Act of Japan and relevant U.S. laws as "regions requiring special control" and applies the most stringent procedures for screening for trade and administration in the Topcon export control program.

Anti Corruption

As an initiative to combat corruption as stipulated in Principle 10 of the United Nation Global Compact, the Topcon Group prohibits giving out bribes or inappropriate profits in any form that violate laws, regulations or sound business practices. In addition, we prohibit employees from accepting inappropriate

personal benefits or profits in connection to their work or position.

We Prohibit Improper Payments

The Topcon Group will not offer or give bribes, or any other improper interests, in violation with laws, regulations, and/or sound customs of trade.

You must understand that bribes not only to government officials, but also to employees in private enterprises are prohibited in certain countries, and You must understand and comply with all applicable laws and regulations of the country or region in which You are involved in business.

What Is A Bribe?

In this Code, the term "Bribe" means anything of value offered or given for the purpose of gaining improper commercial interests, or in consideration of such improper interests and offered or given to the following persons:

- government officials, foreign government officials (including employees of state-owned enterprises and international organizations, also including ex-officials);
- politicians, candidates of politician, political parties and employees thereof;
- customers (legal or natural persons).

A bribe does not have to be cash. It can include rewards, entertainment, gifts, donations, gratuities and any other type of benefits. Even items of minimal value may constitute a wrongful bribe.

When using an intermediary (such as agent) in Our business, We must ensure that they will not engage in the corrupt practices designated above, and also clearly agree in advance on scope of the services as well as on the amount of compensation, and ensure that these conditions are reasonable.

We Do Not Demand or Accept Gifts and Entertainment as Business Inducements

Employees must not demand or accept any personal benefits in connection with his/her job.

However, receiving gifts and entertainment from customers, suppliers or contractors is permissible only if it is inexpensive in value and customary in nature and is consistent with applicable laws, regulations and sound customs of trade and only if it would not affect a particular business decision of the Topcon Group.

Any gifts or entertainment which are excessive or seem unreasonable must be refused.

We Do Not Accept Money Laundering and Participate to the Financing of Terrorism

The Topcon Group is firmly committed to full compliance with applicable anti-money laundering and counter terrorism laws and regulations. We conduct business only with reputable third parties who engage in legitimate business activities. This applies as well to our relations with trading partners such as suppliers, vendors and others sub-contractors.

Employees must not participate in any activity aimed at laundering money or financing terrorism. In addition, you

must not provide an assistance to any person or organization trying to benefit from the proceeds of a criminal act or illegal activity or controlling funds invested for the benefit of a terrorist organization.

Whistle Blowing System

Topcon has established a whistleblower hotline (Topcon Whistleblower System) in accordance with the Whistleblower Protection Act, which is available to directors and employees of Topcon and our domestic group company. The contact points are offered internally and externally (the contact points are independent of the Topcon Group), and reports can be made under real names, anonymously or semi-anonymously. The system also covers reports of bribery, corruption, discrimination, human rights, and harassment.

In addition, to ensure that whistleblowers are NOT treated unfairly, Topcon has put in place thorough measures such as "confidentiality and prohibition of retaliatory actions" to protect whistleblowers. Moreover, the content of the report is promptly reported to the corporate auditors followed by the results of the investigation in a timely manner. In terms of significant risk issues, the responses are reported to the Board of Directors as well. This system is operated to assure that the whistleblower system functions more effectively.

Personal Information

Topcon Corporation ("Topcon") will continue to seek to respect and protect each customer's personal data. Topcon will implement following Personal Data Protection Policy in its business activities.

Basic Policy

Topcon strictly observes the Personal Data and other relevant laws and regulations.

When Topcon obtains personal data from customers, in case without any individual explanation, Topcon uses personal data with the aim of providing the information of the products and services of Topcon or of its affiliated company, etc for the customer and also of showing new or useful information.

Topcon may provide and confide data to third parties with a view to analyzing or processing, feeding back, etc for our customer. The information will be handled appropriately in all these processes in accordance with the business activities and scale of Topcon.

Topcon takes rational safety measures against the risk of personal data in cases like unauthorized access and disclosure to personal data or the loss, destruction, alternation, etc.

Topcon has established management system relating to personal data protection and strives to continuously improve.

Topcon responds appropriately to questions, complaints and consultations regarding personal data from customers.

Business Risks

Business risks relating to business conditions, financial status, and other matters that may potentially have a significant impact on investor decisions include the following.

■ Economic Conditions Relating to Product Demand

The Topcon Group (hereinafter “the Group”) is primarily engaged in three businesses, namely the Positioning Company, the Smart Infrastructure Business, and the Eye Care Business. Product demand is impacted by trends in the markets to which the respective business segments belong (construction and civil engineering, agriculture, and ophthalmic/eyeglass markets), and should any major fluctuation occur in these markets, it may impact the financial position and business results of the Group.

Moreover, given the Group’s high ratio of overseas sales and its extensive marketing areas around the world, which include the U.S., Europe, Asia, and China, as well as Japan, the economic conditions in these areas may impact the financial position and business results of the Group.

■ Overseas Business Development

The Group is engaged in a wide range of overseas activities, including the export of its products and overseas production. Hence, the deterioration of political and economic conditions overseas, trade and currency restrictions, reforms of laws and tax systems, a deterioration of public security, conflicts and terrorism, wars, and natural disasters may impede the Group’s overseas activities, and impact the financial position and business results of the Group.

■ Intensifying Competition (Price and Non-price Competition)

The Group faces competition in the form of the supply of similar products by competitors, in each of its businesses. To maintain its competitive edge, the Group promotes the early market launch of new products, the development of new technologies, and cost reductions, among other efforts. However, should delays occur in new product development, the development of new technologies takes longer than expected, or the price of raw materials soars, it may impair the Group’s growth potential and profitability, and impact the financial position and business results of the Group.

■ Fluctuations in Interest Rates, Foreign Exchange Rates, and Other Conditions in the Financial Markets

The Group maintains a high ratio of overseas sales in its total consolidated sales. Since this presents exposure to exchange-rate fluctuation risk, the Group uses forward exchange contracts to maintain an appropriate level of exchange hedge within the scope of demand. Despite these precautions, volatility in exchange rates may impact the business results and financial position of the Group. The Group also borrows funds from financial institutions, which presents exposure to interest-rate fluctuation risk. Changes in financial market conditions could lead to sharp rises in interest rates. Such fluctuations could increase the Group’s interest payments, which may impact the business results and financial position of the Group.

■ Fund Procurement

The Group raises its necessary funds through borrowings from financial institutions, bond issues, and other means. Going forward, the Group may encounter situations in which loans cannot be continued or new loans cannot be taken out, due to a deterioration of the financial markets, poor business performance, and other reasons. Moreover, the Group’s fund procurement could become restricted or fund-raising costs could rise in the event that the Group’s credit rating by the rating agencies is downgraded. Should such a situation occur, it may impact the financial position and business results of the Group.

■ New Business Strategies

The Group considers initiatives for new businesses to ensure future growth, as appropriate. However, new businesses involve numerous uncertainties, and in the event that they are not achieved as planned, it may impact the financial position and business results of the Group.

■ Corporate Acquisitions

The Group strives to build a system that can foster optimal business forms suited for business characteristics, and at times takes steps such as corporate acquisitions to expand operations. Nonetheless, such actions can affect the Group’s business results and financial position if sharp changes in the market and competitive environment cause the acquired businesses to underperform or management resources cannot be put to effective use.

■ Fixed Assets

The Group holds tangible fixed assets and intangible fixed assets such as goodwill through corporate acquisitions. Should the value of these assets decrease due to a decline in profitability, fall in market prices, or other factors, it will lead to impairment losses or incurring of loss on sales at the time of disposal, which may impact the financial position and business results of the Group.

■ Procurement of Materials and Other Items

The Group needs to rely on a limited number of suppliers or those who are difficult to replace when using certain special materials in its production activities. In addition, various factors could disrupt the global supply chain, resulting in a shortage of parts and materials. The Group will take various measures in procurement, design, and manufacturing to minimize the impact. However, in the event that the impact is prolonged before the situation is resolved, that may result in soaring purchase prices and delays of production and potentially impact the financial position and business results of the Group.

■ Quality Issues

The Group makes a concerted effort into quality control to ensure optimal quality, in line with the attributes of each product. However, it is virtually impossible to eliminate quality issues completely due to unforeseen circumstances, which could lead to recalls, litigation, and other actions, and such a situation may impact the financial position and business results of the Group.

■ Intellectual Property Rights

The Group utilizes various intellectual property rights in its research and development activities, and recognizes these rights as the Group’s proprietary rights or rights under legal licensing agreements. However, the Group may unwittingly become the subject of litigation due to infringements of intellectual property rights by third parties. Should a dispute regarding intellectual property rights occur, it may impact the financial position and business results of the Group.

■ Laws and Regulations

Among the Group’s products, certain products in the Eye Care Business are regulated as medical devices by the Pharmaceutical Affairs Act of Japan, as well as the laws relating to medical devices of the countries in which the Group operates. Should these laws and regulations undergo changes, or the Group no longer be able to obtain the approvals and authorizations necessary to conduct business in a timely manner, it may impact the financial position and business results of the Group.

■ Risks Related to Climate Change Issues

In order to curb worsening global warming, the Group has two initiatives to reduce the environmental impact: “reducing environmental impact through products,” indicating promotion of energy and resource conservation through the use of our products, and “responding to climate change” to save energy and reduce greenhouse gas emissions in our business activities. In order to contribute to the realization of a sustainable society, we are committed to corporate social-responsibility management in the economic aspects of our business activities as well as in social and environmental aspects. However, if environment-related laws, regulations, and taxation systems are significantly strengthened and appropriate measures cannot be taken, that may impact the financial position and business results of the Group.

■ Natural Disaster and Accidents

Any unforeseen manmade or natural disasters such as fires, earthquakes, terrorism, wars, or epidemics, in the areas in which the Group conducts its business could result in human casualties and property damage, as well as suspension of business activities, and may impact the financial position and business results of the Group.

Risks Associated with the Spread of COVID-19

Although the situation regarding COVID-19 varies by region, a recovery trend in business performance from the pandemic has become evident, especially in the manufacturing industry. The Group expects the same situation to continue going forward. The Group has secured the capabilities to raise funds to meet its business and

working capital needs in order to strengthen its sustainability as a company and to grow its business after COVID-19 is contained. In addition, we have established a system to prevent the spread of infectious diseases. In preparation, we are fully implementing measures to minimize the impact, such as encouraging Group employees to refrain from unnecessary outings or trips and to use remote meetings. However, should the pandemic continue in the long term, it may cause a slowdown in demand and adversely impact the Group’s logistics, procurement of materials, production, and accounting estimates, which, in turn, may impact the financial position and business results of the Group.

■ Risks Related to the Situation in Ukraine

The Group is taking careful measures to minimize the impact of its business activities in the region (Russia and Ukraine) amid an uncertain outlook by comprehensively identifying possible risks. However, should the impact on the global economy increase due to tighter sanctions against Russia and other factors, that may cause a slowdown in demand and adversely impact the Group’s logistics, procurement of materials, and production, which, in turn, may impact the financial position and business results of the Group.

■ Seasonality

The Group’s performance tends to be weighted toward the fourth quarter.