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Incidents of Impropriety Regarding Certain Instrument Transformer Products

Recently, with respect to certain instrument transformer products (*1) (voltage and current transformers, voltage transformers, and current transformers) of the Company (“**Relevant Products**”), incidents of impropriety (“**the Incidents**”) concerning type test reports (*2) submitted to some customers have been revealed. The details of matters identified in investigations to date and actions to be taken in the future in response to the Incidents are provided below.

As a result of the investigations, the Company believes that no problems will arise regarding the quality and safety of the Relevant Products themselves.

We deeply apologize for any inconvenience and concern this may have caused our customers and other stakeholders.

To ensure that such a situation never happens again in the future, the Company will strive to further strengthen its compliance systems to prevent a recurrence and to restore trust.

(*1) Instrument transformers are components that change directly immeasurable high voltage or high current into measurable low voltage or low current. They are attached to electrical power system equipment and users’ substation equipment and are used to measure voltage, current, and power, as well as for protection and control. A unique feature of transformers is the many product variations in terms of rated voltage, current, load, and gas pressure, even in the same type of product, that are available to accommodate the individual specifications required by the customer.

(*2) A type test is a test to verify whether a certain type of a certain product conforms to the standards and to the structure and performance set out in the specifications individually required by the customer.

1. Summary of the Incidents

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It has recently been discovered that inappropriate type test reports had been produced for the Company’s Relevant Products in which, 1) instead of conducting tests using verification devices (testing devices built for conducting type tests) for a portion of the testing criteria of the type test, employing the following methods:

- (i) re-using test results for similar products conducted in the past;
- (ii) using calculations and analysis values supplied by the design division; or
- (iii) using test results conducted under test conditions that differed from the standards and test conditions set out in the specifications individually required by the customer;

without obtaining the customer's approval.

It was further revealed that 2) details of the type test contained in these reports (quantity of verification devices, serial number, date and time of the test, test conditions, etc.) were factually incorrect.

To date, approximately 350 of these improperly prepared type test reports for some 170 types have been submitted to about 40 customers in Japan and overseas.

There have been no cases of false preparation of type test reports since the Incidents were uncovered.

(2) Background to the Incidents

When a customer requests the submission of a type test report for a product that is identical in type to a tested product but has different variations (“**Variation Product**”), it is standard practice for the Company to build a verification device for the Variation Product and actually conduct a type test. The Company may also prepare and issue type test reports in the manner described in 1) above, either after obtaining approval from the customer to do so or by including a clear statement to that effect in the type test report.

In the Incidents, however, based on a technical assessment that no quality problems would occur even if a type test was not conducted, type test reports were prepared in the manner described in 1) above without obtaining approval from customers or including a statement to that effect in the type test reports, and those reports were submitted to the customers.

As it continued with the Incidents in the manner described in 1) above, the Quality Assurance Department of the Company, which prepares the type test reports, became less conscious of accurately stating the facts in reports. It started to overlook errors in citations, and to ensure that customers would not become aware that the type test reports are being prepared in that manner, and started preparing type test reports in the manner described in 2) above.

(3) Background to discovery of the Incidents

In mid-October 2022, the Company became aware of suspicions of improper incidents (“**Related Incident(s)**”) with respect to the country of origin labeling and pre-shipment inspection (*3) reports of certain voltage transformer products that the Company delivers to overseas customers through its vendors. Accordingly, the Company promptly established a risk control headquarters and asked an external law firm (Yanagida & Partners) to review the evidence and conduct investigations through interviews with the people involved. It was in the course of this investigation that clues to the Incidents were uncovered. Subsequently, the Company conducted an internal investigation, which resulted in the discovery of the facts described above.

(*3) Pre-shipment inspection refers to inspections to verify the structure and performance of each product to be shipped.

The following is a summary of the Related Incidents:

A. Improper labeling of country of origin

Voltage transformer products manufactured and tested at the plants of the Company’s overseas subsidiaries are imported to Japan, where visual inspections are conducted, name plates attached, test results checked, and pre-shipment inspection reports issued by the Hasuda Division of the Company. It was found that some of these products were then being shipped to overseas customers labeled as a product of Japan.

When the Company was asked by its vendor, which serves as a contact point between the Company and its overseas customers, to label the voltage transformers in question as a product of Japan, the Company made the imprudent judgment that, as visual inspections were performed and pre-shipment inspection reports were prepared for the products in question after they were first imported into Japan, it should be possible to label them as a product of Japan. It was this imprudent judgment that led to the occurrence of this Related Incident.

After the discovery of this Related Incident, the Company promptly shifted the main

manufacturing processes of the voltage transformers in question to Japan so that they could properly be labeled as being a product of Japan.

B. False preparation of pre-shipment inspection reports

There was a confirmed case of pre-shipment inspection reports being falsely prepared and submitted for some voltage transformer products before the products in question had been completed, without conducting pre-shipment inspections.

The case was caused by the Company complying with a strong request from the Company's vendor, which serves as a contact point between the Company and overseas customers, to submit pre-shipment inspection reports before production is completed.

Regarding this Related Incident, the Company conducted pre-shipment inspection report after the completion for all products and shipped only those products that had passed the Inspection. The Company also prepared pre-shipment inspection reports based on the results of the inspections actually conducted and submitted them to the vendor. Accordingly, there is no problem with the quality and safety of the products in question.

Upon the discovery of this Related Incident, the Company immediately stopped preparing false pre-shipment inspection reports.

2. Policy on future responses

(1) Quality and safety of the Relevant Products

Although type tests were not conducted for certain categories on the Relevant Products that the Company has shipped to date, for the following reasons, the Company believes that a certain standard of quality and safety of the Relevant Products has been ensured:

- (i) they are Variation Products that are of the same type as products for which type tests were conducted;
- (ii) type test reports were prepared in the manner described in 1) of (1) in the preceding paragraph based on its technical assessment that no quality problems would occur; and
- (iii) pre-shipment inspections were actually conducted for the individual products before shipment.

In addition, no quality or safety issues arising from the Incidents have been identified to date.

Although the Company will continue to investigate and examine the technical basis for its belief that the quality and safety of the Relevant Products have been ensured, it does not believe that this incident will result in problems with the quality and safety of the Relevant Products themselves.

(2) Response to customers

The Company will provide customers with an explanation of the facts revealed to date and of the quality and safety of the Relevant Products delivered, and it will proceed promptly with discussions on how the Company will deal with this issue going forward.

(3) Investigation of true causes and preventive measures

Since 2021, the Company has been working on company-wide reforms from the four perspectives of "QMS" (Quality Management System), "human resource development," "communication," and "awareness and cultural environment," to further strengthen its quality compliance structure.

The Related Incidents that led to the discovery of the Incidents were revealed by an internal whistleblowing report by an employee in the course of these efforts. While recognizing this as a sign that progress is being made in awareness reform, the Company will thoroughly investigate the true causes, including the background factors, review the effectiveness of current reform

measures, and take additional measures as required.

The Company announced that the comprehensive investigation regarding the quality of its products was completed on May 24, 2022 and posted the results of that investigation on the Company's website*. However, this investigation failed to uncover the Incidents, a fact that the Company takes very seriously. Accordingly, the Company will re-examine its investigation methods, based on an analysis of the causes of that oversight, and conduct further comprehensive investigations of quality covering all products other than transformers.

Once again, we deeply apologize for the significant inconvenience and concern that we have caused to our customers and stakeholders. We will do all in our power to implement the above initiatives to prevent a recurrence and regain our customers' trust.

We will announce the progress of our initiatives in a timely manner.

* The Company's IR News: <https://www.tktk.co.jp/en/>

3. Impact on business performance

Currently, there are no revisions to the consolidated results forecast for the current fiscal year due to the Incidents. If it is anticipated that the consolidated results for the current fiscal year will be affected due to the Incidents, we will promptly make an announcement to that effect.