



Isamu Oguni President and CEO

OPTEX GROUP CO., LTD.(6914)



Company Information

Market	TSE Prime Market
Industry	Electric equipment (manufacturer)
President and CEO	Isamu Oguni
HQ Address	4-7-5, Nionohama, Otsu, Shiga Prefecture
Year-end	December
Homepage	https://www.optexgroup.co.jp/en/

Financial information

Sales	Operating profit	Ordinary profit	Net profit	Total assets	Net assets	ROA	ROE
¥45,866 million	¥4,630 million	¥5,130 million	¥3,762 million	¥57,769 million	¥35,360 million	9.8%	11.2%

*Results for the term ended Dec. 2021. Net profit means profit attributable to owners of parent. ROA stands for return on asset.

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1. Company Overview

OPTEX GROUP CO., LTD. is a holding company centered around OPTEX CO., LTD. that manufactures and sells outdoor sensors (top share of 40% in the global market), automatic door sensors (30% share of the global market and 50% share of the domestic market) and environment related products.

OPTEX GROUP CO., LTD. holds subsidiaries including OPTEX FA CO., LTD., which deals with FA related sensing business; CCS Inc., which holds the global top share in the LED lighting business for image processing; Sanritz Automation Co., Ltd., which has a wealth of results in the development, manufacturing computers and sales of industrial computers, MITSUTEC CO., LTD., which plans, develops, manufactures, and sells image processing, inspection, and measuring equipment and automated machinery and equipment, contributing to the improvement in quality of manufacturing with its advanced technologies (included in the scope of consolidation from the fiscal year ending December 2022), THREE ACE CO., LTD., which specializes in the development of various systems, applications, and digital content; OPTEX MFG CO., LTD., which is responsible for manufacturing Group products, RAYTEC LIMITED. (UK), which has attained the largest global share (about 50 %) for supplemental lights for CCTV; and FIBER SENSYS INC. (US), which deals with optical fiber intrusion detection systems.

As of December 31, 2021, the company operates in 84 locations worldwide, including 28 overseas companies.

OPTEX CO., LTD.	Develops and sells sensors for various uses, such as security sensors and sensors for automatic doors
OPTEX FA CO., LTD.	Development and sales of photoelectric sensors, image inspection systems, displacement sensors and measuring instruments
CCS Inc.	Development, manufacturing computer and sales of LED lighting devices, and systems for image processing
Sanritz Automation Co., Ltd.	Development, manufacturing and sales of industrial computers
MITSUTEC CO., LTD. (Included in the scope of consolidation from the fiscal year ending December 2022)	Development, manufacturing, and sale of image processing, inspection, and measuring equipment and automated machinery and equipment
THREE ACE CO., LTD.	Development of various systems, applications, and digital content
OPTEX MFG CO., LTD.	Manufactures products for the Group and provides contract manufacturing service for electronic equipment
SICK OPTEX CO., LTD.	Development of general-purpose photoelectric sensors. A joint venture of SICK AG (Germany) and OPTEX FA CO., LTD.
GIKEN TRASTEM CO., LTD.	Development, manufacturing and sales of people counting systems, customer traffic counting/management systems
ZENIC INC.	Contracted development of IC and LSI for image processing, and design and sales of FA systems
O'PAL OPTEX CO., LTD.	Management of outdoor activities and environmental hands-on learning programs
FIBER SENSYS INC. (US)	Development, manufacturing and sales of fiber-optic intrusion detection systems
FARSIGHT SECURITY SERVICES LTD. (UK)	Security company providing remote video surveillance services
RAYTEC LIMITED. (UK)	Development, manufacturing and sales of supplemental lighting for surveillance cameras
GARDASOFT VISION LIMITED. (UK)	Development, manufacturing, and sale of LED lighting controllers for machine vision

1-1 Corporate History

In May 1979, Mr. Toru Kobayashi (currently serving as a director and senior corporate adviser), who was developing security sensors in a manufacturer of anti-crime devices in Kyoto, established OPTEX CO., LTD. with the spirit of the endeavor to “make their products recognized in the world as much as possible.”

In November 1979, the company developed “the world’s first far-infrared sensor for automatic doors.” Around that time, pressure-sensitive rubber mats were used for automatic doors, and an automatic door sensor that utilizes far-infrared light was epoch-making. OPTEX CO., LTD. was unrivaled in maintenance and installation services and seized the largest share in the market of automatic door sensors in the third year after inauguration (currently occupying about 50% of the Japanese market).

Since then, the company has developed a wide array of products for security, automatic doors, and industrial equipment with its unique ideas and technologies that embodies them.

In the 1980s, the company entered overseas markets. While it had been considered impossible to set a far-infrared sensor outdoors because external factors, such as light, would cause errors, the company developed the outdoor far-infrared sensor “VX-40” with its original technology, and that sensor was highly evaluated mainly in the European market, and occupied the largest share in the global market of outdoor intrusion detection sensors.

Through business expansion, the company became an over-the-counter company (equivalent to being listed in the JASDAQ market) in 1991. Then, it was listed in the second section of Tokyo Stock Exchange (TSE) in 2001, and in the first section of TSE in 2003.

Recently, the company has been strengthening solutions based on image processing technologies and high-end security systems. In 2008, it reorganized ZENIC INC., which undertakes the development of ICs and LSI for image processing, etc., into a subsidiary. In 2010, it acquired FIBER SENSYS INC. (US), which has plenty of experience handling high-end security systems (optical fiber intrusion detection systems) for important facilities in Europe and the U.S., as a subsidiary. In 2012, it acquired RAYTEC LIMITED. (UK), which handles supplemental lighting for cameras of high-end security systems for important large-scale facilities, as a subsidiary.

In May 2016, it acquired CCS Inc., which has the world’s largest share in the market of LED lighting for image processing, as a subsidiary, and transformed it into a 100% subsidiary in July 2018.

With the aim of adopting next-generation business administration and pursuing group synergy, it shifted to the holding company system on January 1, 2017.

Mr. Isamu Oguni was appointed as President and CEO in March 2019.

In December 2020, the company acquired Sanritz Automation Co., Ltd., which has an abundance of experience in developing, manufacturing, and selling industrial computer systems, as a subsidiary. Furthermore, the company made MITSUTEC CO., LTD. into a subsidiary in November 2021. MITSUTEC CO., LTD. is a company that plans, develops, manufactures, and sells image processing inspection / measuring equipment and automated machinery and equipment. In February 2022, it announced its three-year mid-term management plan with the final year being the fiscal year ending December 2024. To achieve this plan, the company aims for further growth as the global niche No. 1 company by promoting business model reforms and strengthening solution proposal capabilities. In April 2022, following the reorganization of the Tokyo Stock Exchange market, the market was shifted to the new market classification “TSE Prime.”

1-2. Corporate Ethos

Group Philosophy	<p>“We aim to become a corporate group full of venture spirit!”</p> <p>The venture spirit is the ability to create new value, a strong desire for growth and speed, and an attitude to face challenges without giving up.</p>
Behavioral Guidelines	<p>Enhance the capabilities, vitality and efficiency of people and organizations to maximize the corporate value of the Optex Group.</p> <p>Appreciate the people of all ages, genders and races as they contribute to each unique organization to optimize our true corporate power by valuing our diversity.</p> <p>Promote the autonomy of people and organizations to nurture a positive company culture of which we can all be proud.</p>

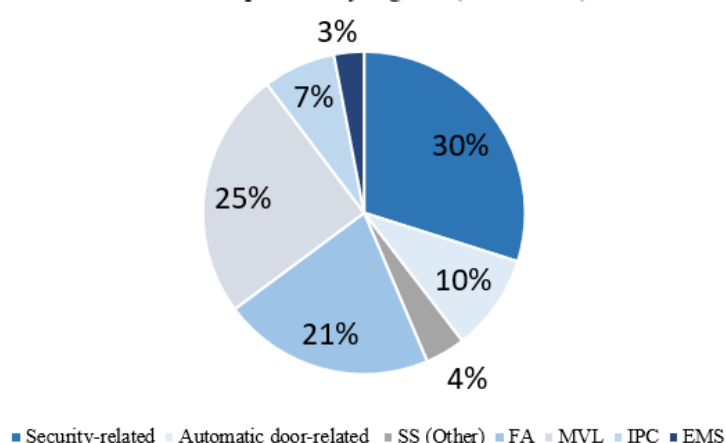
As the company commemorated the 40th anniversary of inauguration in 2019, the most emphasized evaluation item is to exert its venture spirit, and the company is developing an environment for fostering the venture spirit in order to strengthen human capital, which is the largest intangible asset for the company.

1-3. Business description

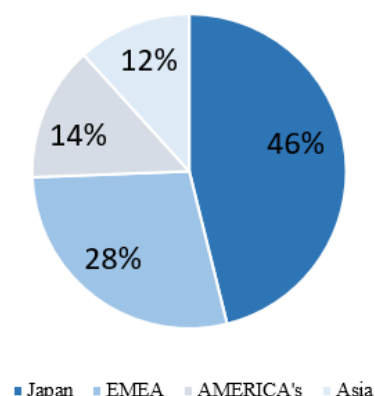
The Company's business is composed of its main "SS business (security sensor segment and automatic door sensor segment)", the "IA Business" which works towards the automation, labor saving, and optimization of the production line using sensors for industrial machinery, LED lighting device and system for image processing and industrial computers, "EMS business," which provides contract manufacturing services for electronic equipment in China, and "Other business", which operates programs for outdoor activities and experiencing and learning of the environment and develops apps and digital content.

From FY12/2022, the automated machinery equipment-related business of MITSUTEC CO., LTD. acquired in November 2021, is added to the IA business.

Sales composition by segment(FY12/2021)



Sales composition by region (FY12/2021)

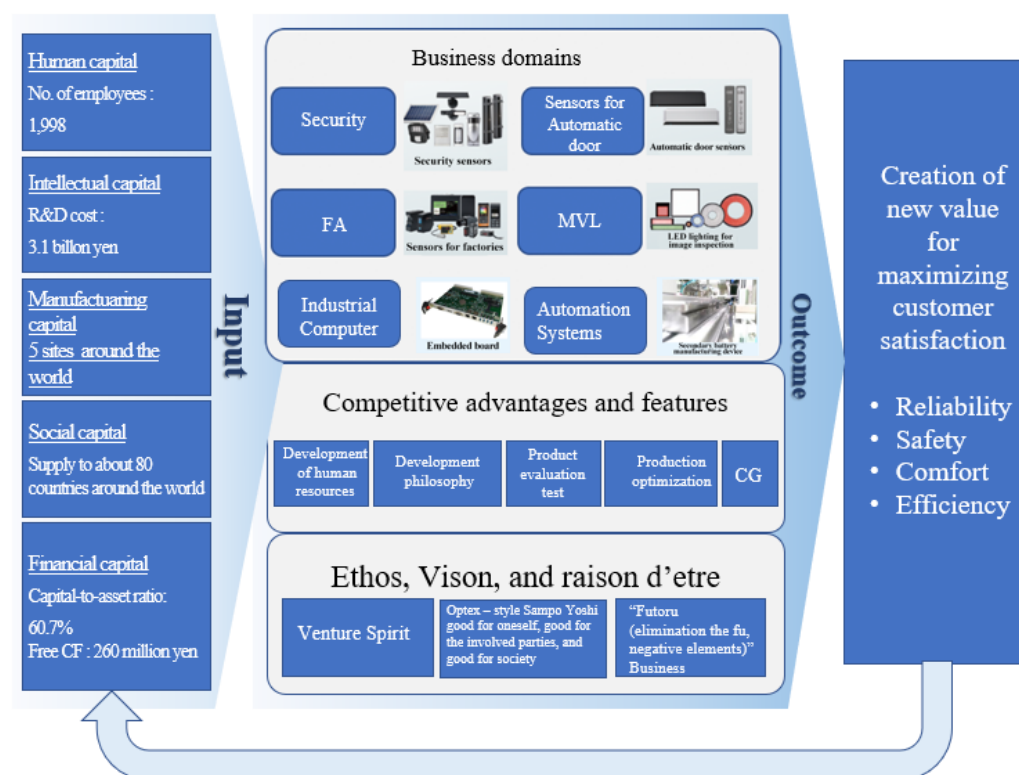


Segment		Business Description
SS*Business	Security Sensor segment	Main products include various indoor and outdoor sensors, wireless security systems and LED lighting control systems, etc. For outdoor sensors, the company has the leading share in the global market. Recently, it focuses on development of the automobile detection sensor using microwave technologies.
	Automatic Door Sensor segment	The company developed the world's first automatic door sensor using infrared rays. Main products are automatic door opening/closing sensors, shutter sensors for factories, wireless touch switches, etc.
	Other	Equipment for measuring water quality. Transportation safety products, Customer traffic counting/management systems, developing/marketing of image processing-related products.
IA*Business	FA*segment	Main products include photoelectric sensors used for quality control and automation of production lines, displacement sensors, image sensors, LED lights, etc. In Japan, these products are provided to a wide range of industries such as food or pharmaceutical for quality control of production lines. In Europe, its products on an OEM basis through its technological partner SICK AG (Germany) that has the largest share in industrial sensor market. Also, its house-brand products have been launched in Asia and North America.
	MVL*segment	The business of LED lighting for image processing has a lion's share in the global market. The company cooperates with enterprises related to peripheral devices and software, etc. to offer the "best solution."

	IPC*segment	Has shown great results in the development, manufacturing, and sale of industrial computers. Specializes in the development of devices and systems that require both “hardware” and “software” of industrial built-in computers.
	MECT*segment	The company is involved in the planning, development, manufacturing, sales, and maintenance services of image processing inspection/measuring equipment, and automated machinery of equipment for secondary battery manufacturing, etc. for various industrial fields.
EMS*Business		Contract manufacturing services for electronic equipment, developed at a factory in China.
Other Business		Operating outdoor activities and environmental hands-on learning programs and development of applications and digital content.

* SS: Sensing Solution, IA: Industrial Automation, FA: Factory Automation, MVL: Machine Vision Lighting, IPC: Industrial PC, MECT: Mechatronics, EMS: Electronics Manufacturing Service

1-4. Flowchart for value creation



* The amounts of human capital, intellectual capital, and financial capital are the results for the term ended Dec, 2021.

* Automation Systems are added from the term ending Dec, 2022.

Based on ethos, vision, and raison d'etre since its foundation, the Optex Group develops unique products in six business domains, by utilizing its competitive advantages, including excellent human capital.

They offer value, such as “safety, reliability, comfort, and efficiency,” to society as the No.1 enterprise in the global niche market.

2. Interview with President Oguni

●Corporate Philosophy, Vision and Social Significance

Q. In recent years, the entire society has been striving for sustainable growth. As your company is one of society's important players, its corporate philosophy, vision, mission, and social significance are very important. Firstly, could you tell us about your corporate philosophy?

Our philosophy is “aiming to become a corporate group full of venture spirit!” and “endeavoring to do new things.”

When our founder established the company in 1979, he believed that for society to accept the company he established from scratch, the company must benefit the world by making wholly new and different products instead of rehashing existing ones. That is why he decided to attempt new challenges and endeavor to create new products.

This led to the development of “the world's first automatic door sensor that uses far-infrared rays,” which is an original product that achieved high market shares in Japan and overseas.

In 2017, we transitioned to a holding company structure.

As this marked our second start-up phase, we went back to the starting point again, which made us decide to reestablish “aiming to become a corporate group full of venture spirit!” as our corporate philosophy.

We started to value our initial corporate philosophy again by trying to add more value not only by endeavoring to do new things in product development but also in our daily routine work.



Isamu Oguni,
President and CEO

Q. Optex Group follows an “Optex-style Sampo Yoshi” business philosophy as well, right?

I think many people are familiar with Ohmi merchants' “Sampo Yoshi (good for all three sides)” philosophy, which means “good for the seller, good for the buyer, and good for society.”

This philosophy entails that although it is important for businesses to increase their profits, they should not pursue only their gains, but also satisfy the sellers and the buyers. This philosophy is that by doing so, they will contribute to society, which would benefit their businesses.

For example, if we apply this to our business, when we purchase parts, no one will sell us molds when we order it unless they trust us. So, if you want to expand a business sustainably, you should not think “the person buying the product is the most important,” but you should value both the buyer and the seller in the same way.

Our Group, headquartered in Shiga Prefecture, has added its unique interpretation to the Ohmi merchants' “Sampo Yoshi,” which is “the Optex-style Sampo Yoshi: good for oneself, good for the involved parties, and good for society.”

This is a belief we have cherished since our founding. First, we want to make the “involved parties” happy, and that leads to our own (the company's) profit.

For our group, “parties involved” do not only include customers who directly buy our products and services, but also suppliers and partner companies. Our stance is “Let's grow together!”

Also, the “parties involved” includes rival companies.

That is because our group is always pursuing highly unique ideas and technologies. When our group and rival companies engage in positive rivalry, we could create a product no one has ever created before. Then, there will be no futile and mutually detrimental price

competition. Groundbreaking products will expand the market, offering more choices to users. That, in turn, will be “good for society.”

We also believe that the M&A that we are actively pursuing will also lead to "good for society" by creating synergy between the buyer (our Group) and the seller (e.g., CCS Inc., Sanritz Automation Co., Ltd., MITSUTEC CO., LTD. etc.) and developing system solution sales that go beyond mere product sales, thereby expanding the range of proposals to customers and users.



Optex-style Sampo Yoshi

Therefore, the spirit of “Optex-style Sampo Yoshi” that emphasizes the relationship of trust with all stakeholders is an important philosophy that underpins the foundation of the Group.

Q. What is the “Futuru (eliminating the fu) Business” concept, which is one of the guidelines for your Group's business activities?

The “Futuru Business” concept is our striving to become a global niche No.1 sensor manufacturer.

The “Futuru Business” means eliminating the customers' “anxieties”, “inconvenience,” and “dissatisfaction” (不安 “fuan,” 不便 “fuben” and 不満 “fuman,”) and replacing them with “reliability,” “safety,” “convenience” and “satisfaction,” respectively. In other words, it means eliminating all the “不 (fu)” that the clients have by developing and providing products and services.

We believe that the purpose of the Optex Group's business is to contribute to society by providing comfort and efficiency through this “Futuru Business” concept.

However, even though our group is a technology company, what our customers are seeking is “solving problems,” and achieving that does not necessarily have to be through cutting-edge technology and high technology. That is why we believe that we must always examine the essence of what our customers are seeking.

And so, “aiming to become a corporate group full of venture spirit!” “Optex-style Sampo Yoshi” and “Futuru Business” are our Group's corporate culture and DNA since its founding.

●Recognition and Perspectives of ESG

Q. Could you tell us about the relationship between the philosophy you have just explained and ESG?

In recent years, the perspective of Environment, Society, and Governance (ESG) has been considered essential in corporate growth.

Environmental and social issues are also part of the “不 (fu)” that exists in the world.

Since its establishment, our group has been developing its business to contribute to a safe, secure, and comfortable society and industry by making full use of its competitive sensing technology. In other words, as I said earlier, engaging more in eliminating various

anxieties, discomfort and inconvenience (不安 “fuan,” 不快 “fukai” and 不便 “fuben”) that exist in the world [=Futuru (eliminating “fu”) Business] .

In that sense, we are confident that by continuing to promote this “Futuru Business,” we will be able to contribute to the resolution of environmental and social problems, as well as expand all our businesses and increase corporate value.

Also, we believe that “Optex-style Sampo Yoshi” represents our attitude towards the ESG as it aims to build relationships with diverse stakeholders.

“Introduction of Specific Products of the Futuru Business”

① Outdoor security sensors

OPTEX CO., LTD. was quick to focus on the importance of outdoor pre-crime security "alerting before an intrusion." In 1996, the company developed the Outdoor Security Sensors for Detecting Intrusion VX-40 that operates accurately, even in the outdoor environment where there are many malfunction factors such as rain, sunlight, and wind.

Especially in Europe and other overseas countries, "pre-crime" security, which is the detection and reporting of intruders before they enter the building, is spreading among ordinary households.

Since there are cases of illegal intrusions and crimes occurring regardless of whether the inhabitants are at home or not, this product can help you recognize the presence of intruders early, so that you can ensure your safety by reporting and defending yourself. Currently, these products are used in buildings and facilities around the world as they have been recognized for their high reliability, and the company has about 40% share of the global market.



Various Outdoor security sensors (image)



Installation example (image)

② Automatic door sensors

The sensors for automatic doors provided by OPTEX CO., LTD. are used to detect people's movement more accurately and use automatic doors more safely.

In particular, the e-Smooth Sensor is equipped with sensors and imaging technologies to perceive the walking speed and the direction of pedestrians, reducing unnecessary opening by pedestrians passing by the automatic door. By operating the doors only when necessary, it improves air conditioning efficiency in buildings and leads to power consumption that is approximately



e-Smooth Sensor monitors the direction of people walking to reduce the unnecessary opening operations for automatic doors



Optex Automatic Door Viewer
A smart device application where you can check the contribution rate to the environment

Application example of "e-Smooth Sensor" (image)

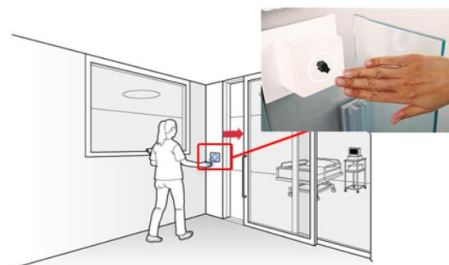
30% lower than that of conventional automatic door sensors.

③ Contact-free switch for automatic doors

OPTEX CO., LTD. has developed the "Clean Switch," a non-contact switch that is ideal for locations where hygiene and reduced risk of viral and bacterial infections are important.

Doors can be opened and closed simply by holding the hand over the door without directly touching the doorknob or switch. It is ideal for food factories, medical facilities, and other places where hygiene control is required, such as public facilities and commercial facilities used by an indefinite number of people.

The company will continue to contribute to hygiene management at all kinds of workplaces by expanding its lineup of non-contact switches.



Application example of "non-contact switch" (image)



The recommended locations for installation (image)

④ Sensors for factory automation

Sensors for factory automation from OPTEX FA CO., LTD. are used in the manufacturing process of factory product making.

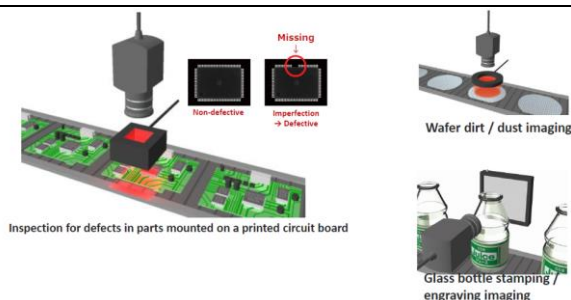
In particular, the image sensor for "print inspection," which boasts the world's largest shipment volume, inspects expiration dates, lot numbers, etc. printed on the packaging, thereby reducing food loss and supporting the supply of safe and secure food. In 2021, the company received the "Nisshoku Excellent Food Machinery Award" sponsored by the Japan Food Journal. This is a highly competitive product that can meet new print inspection needs in the food industry, such as revisions to the Food Labeling Law and enhanced traceability.



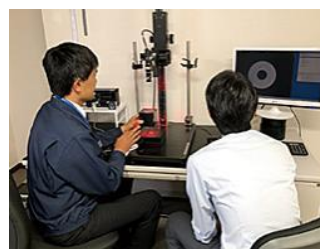
"GVS-OCR" image sensor for print inspection (image)

⑤ LED lighting for image inspection

CCS Inc.'s LED lighting for image inspection is used to capture images of objects to be inspected to determine whether they are good or defective in the factory product manufacturing inspection process. The company is a pioneer in the industry, with a strong track record of over 50,000 imaging projects and the design, development, and production of approximately 10,000 models of custom-made lighting. In addition, the company has 15 domestic and 12 overseas test facilities, and its "comprehensive solution" proposals, including lenses, cameras, and other peripheral products, are highly evaluated by customers.



Application example of LED lighting for image inspection (image)



Proposal at the experimental facility (image)

• Characteristics, Strengths and Competitive Advantage

Q. What are the characteristics, strengths, and competitive advantages of your company?

By incorporating our sensing technologies with lighting technologies and various elemental technologies, our group advanced the technologies that allow them to look at changes and conditions, examine the invisible, and observe and judge. By doing so, we have made valuable proposals and offered solutions to diversifying customer needs.

It is crucial to have multiple elemental technologies, know-how, and algorithms that control physical changes to realize reliable and stable sensing.

The technologies, know-how, and the unique sensing algorithms which are suitable for such applications are our group's major strength and competitive advantage. Thus, I believe they are behind the group's brand power as it is the reason for achieving a large market share in all product categories of the SS business.

“Main Technologies”

Anti-noise technology	<ul style="list-style-type: none"> • Hardware design to minimize various noises • Commercialization only for products that have passed numerous independently-determined environmental assessments
Meticulous optical design	<ul style="list-style-type: none"> • Full coverage of high-density areas using optical simulation • Packaging technology for miniaturization
Compliant to public standards for reliability	<ul style="list-style-type: none"> • Conformance and compliance with all types of global standards • Conformance and compliance with standards and guidelines stipulated in each industry (CE marking, EN standard [TUV certified], ANSI, JIS, etc.)
Eco-friendly design	<ul style="list-style-type: none"> • Stipulating 15 types of restricted-use materials and 10 types of voluntary-control materials, and ensuring all components are harmless • Compliant to RoHS directive, lead-free solder alloy • Design that minimizes the impact of CO₂ during usage
Security and safety control	<ul style="list-style-type: none"> • Using self-diagnosis and fail-safe functions when sensors malfunction or break down, to ensure that systems keep functioning • Proposing preventative maintenance measures for maintaining functionality
Original sensing algorithm	<ul style="list-style-type: none"> • Original algorithm for cutting off the noise that cannot be suppressed by hardware, as well as detecting, scrutinizing and analyzing only the events meant to be detected • Various automatic correction functions to maintain field performance

It is extremely important to pursue the question “what is essentially required?” to accumulate such technologies and know-how.

For example, OPTEX CO., LTD. has established its development philosophy, “Optex Katachi,” which has been handed down through many years. This philosophy focuses on manufacturing our products by using ideas from the standpoint of customers. We also carry out various product evaluation tests to achieve high reliability and performance that meet customer requirements.

In the outdoor environment where our sensors are used, many unexpected factors such as rain, wind, temperature changes, lightning, and small animals will affect the performance of our sensors daily. Therefore, in order to create a highly reliable sensor, our sensors need to pass tests that ensure that such factors do not affect their performance. Moreover, it is essential to manufacture products that comply with the laws and public standards that vary among the countries in which they are sold. Thus, it is crucial to carry out numerous product evaluation tests.

While these measures are very straightforward, they are not easy to apply.

That is because in the niche field, delving deep into one topic for an extended period leads to the creation of a strong invisible entry barrier.

● **Initiatives regarding major Key Issues (Materiality)**

Q. Your group has selected 16 key issues (materiality). (Refer to 3. Issues, Materiality, and Measures)

Of these, I would like to ask you about your thoughts on the key issues (materiality) that are particularly important for your company's sustainable growth.

The first is “human capital.” Please tell us about supporting employee work satisfaction, education and training systems, the corporate culture that respects diversity, etc.

The environment surrounding companies is undergoing major changes in response to environmental challenges, the rapid evolution of AI and other technologies, and stakeholder relations.

For a company to respond to these changes and sustainably increase its corporate value, it is necessary to view human resources as "capital" and maximize their value by securing and developing human resources that generate innovation and added value, and by establishing an organization.

Since its founding, our group has focused on creating an environment in which employees can thrive, based on the belief that employees' growth leads to corporate growth, and it will focus even more on improving the environment and strengthening human capital in the future.

As the American psychologist Abraham Maslow argues in his “Maslow's hierarchy of needs”, the highest need for humans is “the need for self-fulfillment.” I believe that what motivates people to move is having something they want to do, being able to achieve it, being praised and appreciated for it.

For that reason, we wanted to be the world's best company to achieve self-fulfillment since our group's founding. That is why we see our company as the stage for our employees.

Each employee plays the leading role, and it is up to them how to perform and dance on that stage. So, we certainly want them to make their dreams come true on the stage, which is our company.

Of course, the reward is also an essential factor in work satisfaction, but it is not the only one.

Therefore, the management interviews employees to get to know what kind of dreams they have and what they want to do, and strives to support them to realize them.



Let's talk about the evaluation criteria of our group.

The most valued person in our group is the person who took up a challenge and succeeded. In the second place comes the person who took on a challenge but failed, and in the third place comes the person who supported others in their endeavors. As for the least valued employee, it is the one who does not take on any challenges.

This criteria that does not focus only on results but also on the process is a part of the Optex Group's management philosophy that we have cherished since our founding. As for my own experience, I don't really remember that much of my successes. On the contrary, my failures are what helped me grow.

The group also attaches great importance to its “respect for diversity.”

Based on the notion that “having a variety of choices is the evidence of an affluent society,” we believe that it is the role of the Optex Group to contribute to social diversity through product development. That is why we include our rival companies as part of the “parties involved” in our “Optex-style Sampo Yoshi” Philosophy as a manifestation of our focus on diversity.

Of course, we respect the diversity of each and every employee as well. Also, we want all our employees to demonstrate their individuality and always continue to take on challenges.

We have established various systems to support the employees’ “self-fulfillment” and “taking on challenges,” and we will further enhance our competitiveness by creating a corporate culture where employees can maximize their abilities.

Q. Next, tell us about research and product development, which is the source of your company's competitive advantage and about the future challenges in this area.

As I mentioned earlier, our group tries to solve the customer's problems one by one in a straightforward manner by thoroughly understanding how the customer will use the product and the environment it will be used in. Through this process, we create new ideas, and as a result, we can offer services with high added value that our rival companies cannot match. This is a significant strength of the Optex Group.

We visit the actual sites to test the sensing property of the sensors in various environments and circumstances and conduct evaluation tests by creating similar environments. Using this steady approach to conduct accurate performance evaluation is our group's competitive power.

We will also continue to further strengthen our competitive power in the future by delving deep into one topic for an extended period.

Meanwhile, although we have been providing various products, we have not created any new products like our outdoor security sensor that has been highly recognized worldwide and has achieved a high market share. In other words, we do recognize that improving our new product launching rate is a challenge that our group is facing.

This is because the range of products expands as the size of the company grows, and the company has to work on both the development of entirely new products and maintenance and improvement of existing products and in some cases, the company focuses on the latter more. That is why I think we need to take on more challenges.

Therefore, we switched to a holding company structure in 2017 to overcome this situation and for each operating company to delve deeper into their own specialized fields.

Each company has been working on product development with a focus on individual optimization rather than overall optimization and depth rather than breadth, and it has become very clear what each operating company should do. So, I think we will have more new products in the future.

Under these circumstances, we believe it is necessary to further demonstrate and strengthen our leadership as a holding company.

Q. What are the company's measures to maintain and expand its competitive advantage for its businesses which have a high market share in all industries?

As for the outdoor security sensors, in which we hold a 40% share of the global market, we will further expand our business by enhancing the sales of sensors with cameras and increase spreading the “visual verification solution” that can link outdoor sensors and cameras in the North American market, where we have a lower market share than in the European market.

In the automatic door sensor segment, in which we possess a 30% share of the global market, we will expand our business further by using an OEM strategy for major automatic door manufacturers in the Western markets, where we have a lower market share than in the domestic market, to promote the expansion of the sales of the highly safe sensors that prevent passersby from colliding with automatic doors or being caught in them.

Regarding the LED lighting for image inspection, in which the company holds a 30% share of the global market, in the European market, where we have a lower market share than in the domestic market, we aim to increase our market share centered on a controlling company in the European region to strengthen cooperation among European companies and develop total solutions.

Q: What are your thoughts on initiatives for environmental issues, GHG (greenhouse gas) reduction, and securing safe water?

To achieve a sustainable society, solving the problem of climate change to preserve the global environment is an issue of international importance.

Japan ratified the Paris Agreement in 2015, which sets two common global long-term goals: "to keep the global average temperature increase well below 2°C above pre-industrial levels and limit it to 1.5°C" and "to peak out global greenhouse gas (GHG) emissions and achieve a balance between GHG emissions and absorption in the second half of the 21st century." The Japanese government has also declared "2030 GHG emissions: 46% reduction from 2013 levels" and "achieving carbon neutrality by 2050."

We believe that the transition to a decarbonized society is an important issue that we, as a company that recognizes the protection of the global environment as one of our corporate social responsibilities, must take responsibility for addressing.

Regarding GHG reduction, since our group mainly develops and sells small sensors and software, we can say that our environmental impact is lower than that of general manufacturers. In our business activities, we also contribute to CO₂ emissions reduction by our customers through their use of our environmentally friendly products, such as sensors to detect people and objects and operate machines and systems only when necessary, or using sensors to help improve the efficiency and quality of factory lines.

Nowadays, we are aware that many customers are using our products for both its economic efficiency and environmental performance, and that is why we will continue to reduce greenhouse gas emissions further in the future by using our products.

Also, our group has been working for a long time on water quality measuring equipment with sensors. One of the equipment we developed is "WATER it." It is a simple water quality measuring device and system which has dramatically reduced the labor, time, and cost required for water quality measurement. Thus, in the future, we aspire to continue to contribute to overcoming the global challenge of "securing safe water" by supplying products.

As a listed company in the prime market, we recognize the importance and necessity of enhancing the quality and quantity of our climate change disclosure based on the TCFD (Task Force on Climate-related Financial Disclosure).

Currently, we are building a system to prepare data on Group-wide CO₂ reductions, identify risks and profit opportunities related to climate change, and analyze the impact of climate change on our business activities, earnings, etc. Thus, we are preparing for disclosure as soon as possible. Specifically, we established an internal project team in November 2021, and have been collecting and managing information from January 2022, with a contact person at each business company in the Group.

Q: What are your thoughts and measures regarding corporate governance?

One of the points our group has placed great importance on since its founding is "the freedom to discuss anything."

Our desire to be a company with a culture of openness where we always discuss whether our decisions are truly right or not without hiding anything remains unchanged.

Our group, which has an open and flat culture and respects diversity, is increasing the number of its subsidiaries in Japan and overseas and expanding its business scale. Amid these circumstances, in 2016, we transitioned from being a company with a board of auditors to a company with an audit and supervisory committee to improve management transparency, maintain a management system that involves fair and prompt decision-making, and strengthen management monitoring.

At present, there are four independent external directors accounting for more than one-third of the 11 directors and auditors, and one is a female outside director.

We will continue to build a corporate governance system that further emphasizes diversity.

● Medium-Term Management Plan 2024

Q. Could you please tell us about the key points of the medium-term management plan 2024.

Under the Group philosophy of "We aim to become a corporate group full of venture spirit!" we are currently implementing the three-year "Medium-Term Management Plan 2024," starting with the fiscal year ending December 31, 2022, with the goal of achieving "operating income of 10 billion yen or more and an operating margin of 15%" by 2025.

As strategies to achieve the plan, we have set forth three arrows: "growth of existing businesses," "growth of M&A targets," and "synergy with M&A targets."

In terms of "growth of existing businesses," the SS business (Security Sensors), SS business (Automatic Door Sensors), IA business (Factory Automation), and IA business (Machine Vision Lighting) will shift from "selling products," which is mainly sensor sales, to "selling solutions," which provides solutions to customers' issues, and concentrate our efforts on providing system solutions.

In terms of "growth of M&A targets," we will aim to expand our core business in a favorable market environment by leveraging the advantages and characteristics of both Sanritz Automation Co., Ltd. and MITSUTEC CO., LTD., which have been recently acquired as subsidiaries.

In terms of "synergies with M&A partners," the entire group, including these two companies and CCS Inc., will generate significant synergies. Synergies with CCS Inc., which became a wholly-owned subsidiary in 2018, are expanding, including the sharing of customer bases, and we believe this will make an even greater contribution to earnings growth in the future.

* For details on the medium-term management plan, refer to "4. Medium-term Management Plan 2024"

● ROE

Q. What are your thoughts on your company's ROE?

We place great importance on meeting the expectations of our shareholders and investors, and that is why one of our management indicators is having ROE of 10% or higher.

We will continue to invest while concentrating on new businesses by further growing the core businesses promoted by each operating company and effectively utilizing management resources from the standpoint of total optimization.

At the same time, we continuously aim to achieve our business indicators by constantly improving the efficiency of our indirect operations and our ingenuity and giving top priority to profit while focusing on enhancing productivity.

● Other risks and challenges

Q. How are the labor-management relations and management system at your factories in China and the production contractors in Vietnam?

The current labor relations at our factories in China and Vietnam are good. In particular, we are focusing on enhancing welfare programs at our Chinese factories. We provide commendation according to the employee's years of service, hold employee trips and seasonal events (sports days, new year parties, and birthday parties), provide employee dormitories and a vacation system, and enhance the after-school care. These efforts have been well received by the employees.

In recent years, forced labor and child labor at overseas production bases have become a problem. However, child labor and forced labor are prohibited at our factories in China and production contractors in Vietnam under the Labor Law and the Underage Protection Law. Under these laws, we require potential employees to show us their IDs at the interview at the time of hiring, and we do not hire anyone under 16 years old. In addition, due to our compliance with the laws of each country, we do not allow illegal labor such as forced labor.

Q. Looking at the size of the market in each region of the world, I feel that the composition of sales in the Americas is insufficient. What are your efforts regarding the U.S. market?

Optex Group has strong sales overseas in Europe for security, automatic doors, and industrial sensors.

The low sales composition in the Americas does not mean that we have failed to enter the market. The main reason behind the low sales composition was that since we have been focusing on developing our business in Europe, we did not have the time to put our full efforts into it.

However, at the moment, sales to North, Central, and South Americas are low, making out 12% of our Group's sales. Thus, we recognize that it is an important challenge for our group to improve this ratio promptly.

Our success in Europe indicates that our products will also succeed in the United States, so the biggest challenge for us is how to expand our sales network in the vast U.S. and how to strengthen our sales force.

Although the situation varies from one business to another, there are some cases in which sales agents cannot take the business seriously, so it is still necessary to establish a direct sales system.

A certain amount of human resources investment will be necessary, such as establishing local subsidiaries and hiring human resources who are familiar with the industry. So, from here on, we will sincerely work on this issue.

To this end, we have established local subsidiaries and strengthened certain human resource investments, such as hiring industry-savvy personnel.

In the area of crime prevention, we are promoting the "image verification business" based on the partnership with a local venture company. In 2021, the results have fallen short of our forecast figures due to the stagnation of sales activities caused by the novel coronavirus pandemic, but we are now steadily increasing the number of contracts, partly due to the resumption of economic activities as a result of the wider use of vaccines. In addition, the direct marketing strategy that the company has been working on for the past several years has been successful in projects for large critical facilities, and sales of "laser scan sensors," a highly profitable product, have increased significantly.

In the field of automatic door sensors, we will accelerate the OEM supply of automatic door sensors to major local automatic door manufacturers.

In the field of factory automation, we established OPTEX FA INC. in 2018, and we are in the process of switching to a direct sales system to accelerate sales.

In the MVL field, as CCS Inc. already has a base, we would like to take on the challenge of strengthening collaboration between operating companies and expanding synergies.

Besides, we will take the lead in proactively considering local M&A.

● Message to Stakeholders

Q. Thank you for discussing various points with me during this interview. Finally, could you please give a message to the stakeholders?

Since its founding in 1979, our group has been striving to expand its business based on its basic principles of "demonstrating the venture spirit," "Optex-style Sampo Yoshi," and "promoting Futoru Business." I believe that this approach to ESG management is what the companies should undertake to build a genuinely sustainable society.

Based on these basic principles, the products and services created in each of our businesses provide the world and customers with "safety, security, comfort, and efficiency." This is the role that our group plays and its social significance.

Although there was a delay due to the impact of the novel coronavirus crisis, the group's growth strategy is steadily progressing, and the results are gradually improving. As a "corporate group full of venture spirit", Optex Group will continue to proactively take on challenges to meet the expectations of all of its stakeholders, aiming for sustainable growth and providing value to society. On the other hand, we think that the concrete measures regarding ESG and data disclosure are not sufficiently comprehensive, and we will tackle this critical issue with a focus on the improvement of the internal system.

Finally, we would like to thank all our stakeholders for their continuous and warm support.

3. Issues, Materiality, and Measures

The Optex Group currently recognizes the following issues and materiality.

For materiality selection, they interviewed external personnel, too.

Issues	Materiality
Environment	Reduction of greenhouse gas emissions
	Securing of safe water
	Use of renewable energy
Social capital	Securing of quality and safety of products
	Safe data management
	Utilization of geographical capital and cooperation with local communities
Human capital	Improvement in employees' satisfaction with their jobs
	Educational and training systems
	Corporate culture that respects diversity
	Employee health and safety
Business models & innovation	Reform of business models
	Appropriate supply chain management
	Procurement of materials and parts
Competitiveness and governance	Research and product development systems for enhancing competitiveness
	Expansion of the corporate governance system
	Risk control

*Produced with reference to SASB Materiality Map, etc.

3-1 Materiality for the “environmental” issues

Recognizing the protection of the global environment as one of its corporate social responsibilities, the corporate group has made all employees aware of the Optex Group Code of Conduct, complies with various environment-related laws, regulations, and standards, and operates its business in an environmentally friendly manner. The company also develops, manufactures, and sells sensors (for security, automatic doors, and industrial equipment), LED lighting for factory inspections, and software, and offers a wide range of products that help reduce CO₂ emissions by detecting people and objects, operating machinery and systems only when necessary, and improving the efficiency of factory lines.

The company's basic approach to the environment is to provide products and services that help customers reduce CO₂ emissions in addition to reducing CO₂ emissions in its own business activities.

The company will continue to contribute to the protection of the global environment, including climate change, by providing products and services that are both economical and environmentally friendly.

Under the commitment of the top management, the company has begun to build a system for sustainability initiatives centered on environmental issues. The company is also preparing for climate change disclosure based on the TCFD (Task Force on Climate-related Financial Disclosure) by preparing data on CO₂ emissions reduction for the entire group, identifying risks and profit opportunities related to climate change, and analyzing the impact on business activities, earnings, etc., and intends to disclose this information as soon as possible.

(1) Reduction of greenhouse gas emissions

Since the company is mainly engaged in the development and sale of small sensors and software, its environmental impact, including GHG emissions, is lower than that of a typical manufacturer. As mentioned above, the company contributes to both GHG emission reductions in its own business activities and those of its customers using its products and services.

The CO₂ emissions of the major bases are as follows.

Electricity consumption at major locations (MWh)

	FY2020	FY2021
Domestic offices (8 companies)	1,870	2,034
Domestic manufacturing plants (1 locations)	468	602
Overseas manufacturing plants (1 locations)	3,063	3,299
Total	5,401	5,935

Electricity consumption per sales unit (MWh/100 million yen)

	FY2020	FY2021
Electricity consumption per unit of sales	18	15

CO₂ emissions (tonsCO₂) at main location (t-CO₂)

	FY2020	FY2021
Domestic offices (8 companies)	965	925
Domestic manufacturing plants (1 locations)	241	268
Overseas manufacturing plants (1 locations)	1,581	1,428
Total	2,787	2,621

Calculated based on electricity consumption at major locations (Scope2)

CO₂ emissions per sales unit (tons/100 million yen)

	FY2020	FY2021
CO ₂ emissions per sales unit	9.3	6.5

(Note) Subject locations :

Domestic offices (OPTeX Group Co., Ltd., OPTeX Co., Ltd., OPTeX FA Co., Ltd., CCS Inc., OPTeX MFG Co., Ltd., Three Ace Co., Ltd., O'PAL OPTeX Co., Ltd., Sanritz Automation Co. Ltd. (Added 2021))

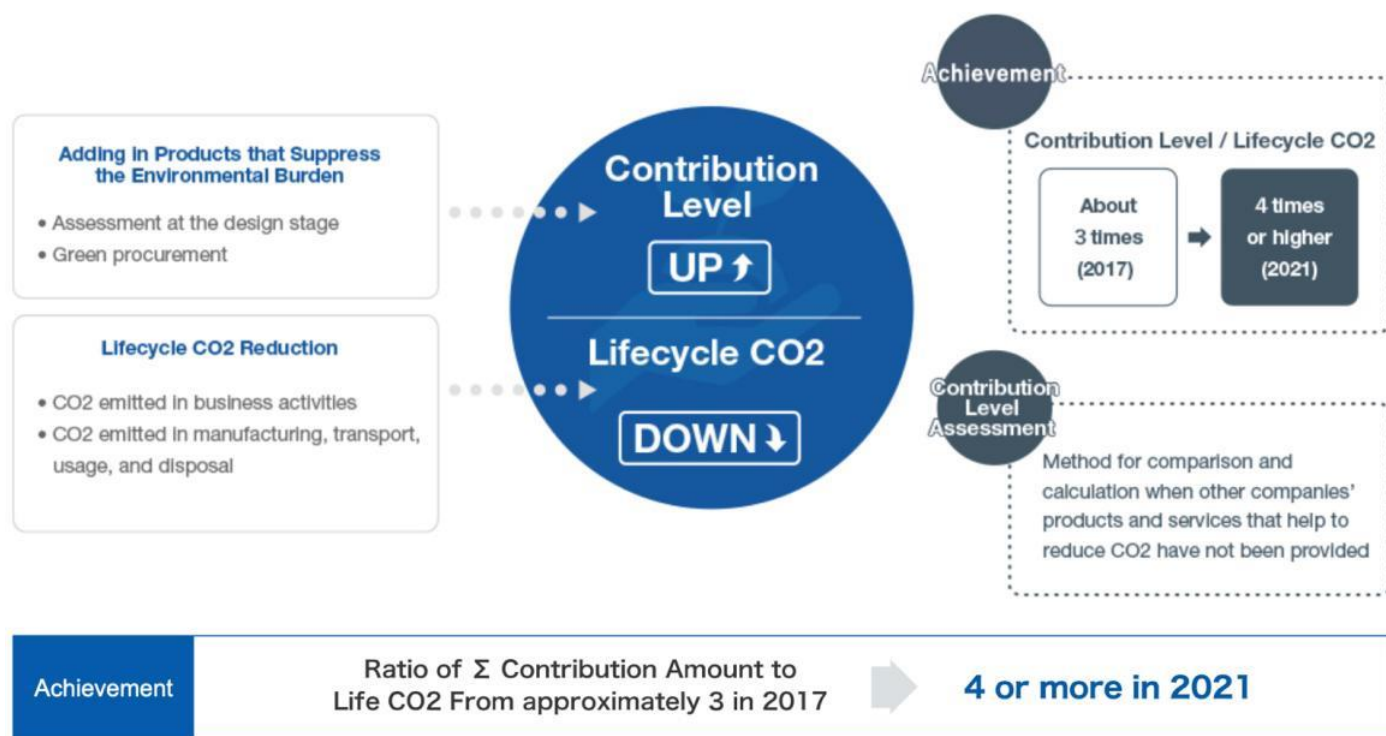
Domestic manufacturing plants (CCS Inc.)

Overseas manufacturing plants (OPTeX(DONGGUAN)CO.,LTD.)

Two domestic subcontract factories and an overseas subcontract factory are not included in the target locations.

To actively reduce CO₂ emissions "when using Optex products," Optex continues to conduct "environmental assessment evaluations" for all new product plans.

In FY2019, the company started activities to contribute to the reduction of CO₂ emissions by customers through the use of Optex products, and by 2021, the company has achieved its goal of increasing the "total amount of CO₂ reduction contribution by customers" to more than four times the "total CO₂ emitted by Optex's business activities."



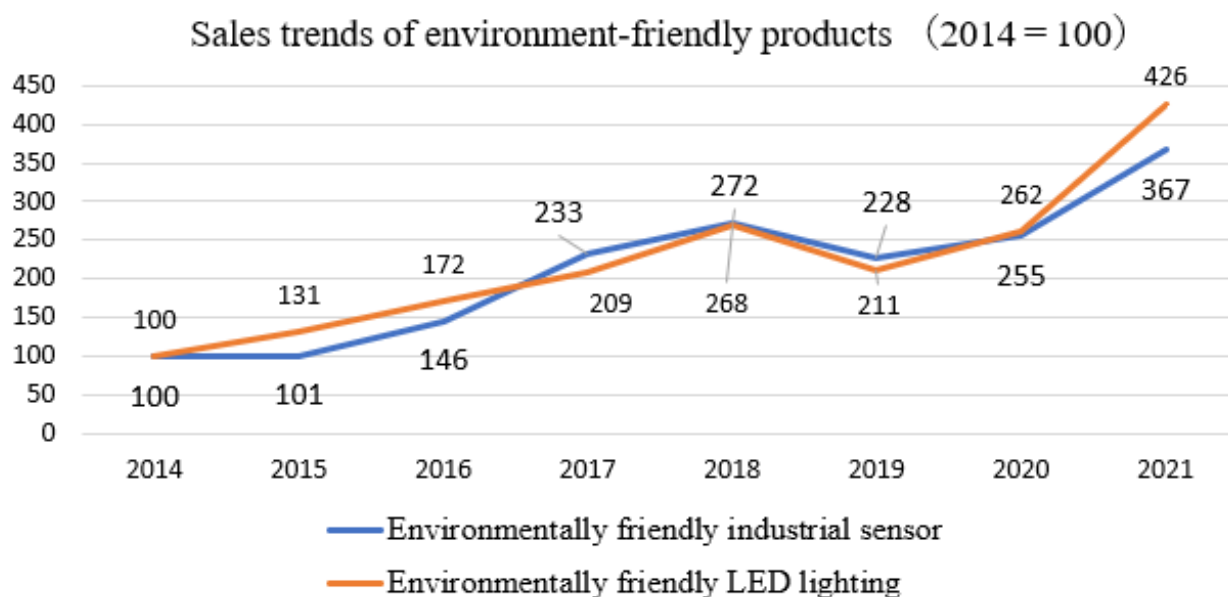
(Taken from the website of the company)

OPTEX FA CO., LTD. and CCS Inc. are also focusing on sales of environmentally friendly industrial sensors and environmentally-friendly LED lighting, and are steadily building up a track record.

*OPTEX FA CO., LTD.

The company has set a target for the number of units of its industrial sensors and LED lighting for image inspection that it sells as "environmentally conscious products," which have a particularly low impact on the environment.

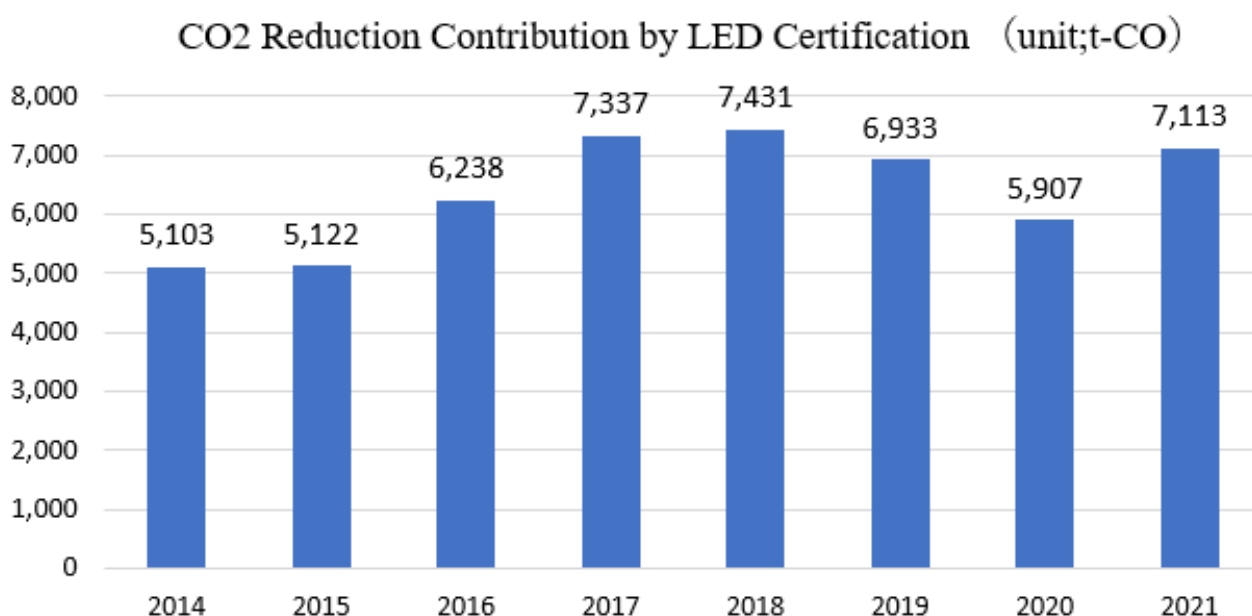
Environmentally Conscious Industrial Sensor	Compact housing and original circuits save energy
Environmentally friendly LED lighting	Energy saving is realized by feedback control that automatically manages brightness



* Charts are created by Investment Bridge based on OPTEX's material

*CCS Inc.

The CO₂ reduction effect achieved by expanding sales of LED lighting for image inspection is estimated. The CO₂ reduction effect in FY2021 is estimated to be 7,113 tons per year, with the reduction effect expanding by 39% from FY2014.



* The chart is created by Investment Bridge based on OPTEX's material

We are currently in the process of constructing an implementation system for a database on CO₂ reduction for the entire group, and we are preparing to make its disclosure as early as possible. Specifically, an internal project team was established in November 2021, and information has been collected and managed since January 2022, with a contact person at each operating company in the Group.

(2) Securing of safe water

One of Sustainable Development Goals (SDGs) is “to supply safe water and toilets to around the world”, and number 6 is assigned for this goal. This indicates that securing safe water is a global issue.

“WATER it,” which is a simplified water quality gauging equipment and system developed by the company, can measure the contents of substances in sampled water on the spot, when the sampled water is made react with an exclusive reagent (test kit) and it is set at a portable measurement device (multimeter).

Measurement data are transferred to a smartphone via Bluetooth, and uploaded automatically from an exclusive smartphone app to the cloud.

This system considerably reduces labor, time, and costs for water quality measurement, allowing administrators to swiftly browse and manage measurement results.

The company aims to supply this system to Asian countries where "securing safe water" is an important issue. The company was commissioned by the Japan International Cooperation Agency (JICA) in October 2019 to conduct a verification test as a fluvial water environment inspection in Vietnam.

The demonstration project was completed in October 2021, and WATER it pilot activities are currently being continued at the Ministry of Natural Resources and Environment under the JICA project "Information Collection and Confirmation Study for Worldwide DX Mainstreaming (Phase 2).



(Taken from the website of the company)

(3) Use of renewable energy

Currently, the rooftop of the headquarters' west building of OPTEX CO., LTD. is covered with solar panels.

In 2021, they generate about 23,000 kWh, covering 3.6% of the total power consumption of the western building: about 642,000 kWh. Solar panels will also be installed on the roof of the new building of Sanritz Automation Co., Ltd. (operational in April 2021), which will generate approximately 22,000 kWh per year (estimated), covering 2.2% of the total electricity consumption of the company's head office and business sites, which is approximately 973,000 kWh. From now on, the company plans to use renewable energy at production sites.

Renewable energy is used also for developing products.

After the Great East Japan Earthquake, the company developed solar-powered sensitive lighting devices. When a sensor does not detect any person, the light remains off, and when a sensor detects a person, the light is turned on. Also, solar panels (solar cells) convert solar energy into electricity and recharge batteries during daytime, and turn the light on with the energy stored in the batteries at night. Since they do not require commercial power sources, wiring is unnecessary, and lighting can be secured even at places where it is difficult to supply electricity and during a power outage. During times of disaster, they can support anti-disaster measures, healthcare and medical-aid activities at hospitals, etc.

3-2 Materiality for the “social capital” issues

The company, which has developed its business with the goal of contributing to a safe, secure, and comfortable society and industry, believes that building relationships of trust with all stakeholders, including customers, business partners, employees, society, and shareholders, is essential for sustainable growth and increased corporate value. By using its products, the company contributes to solving a wide range of social issues by eliminating various concerns, discomforts, and inconveniences that exist in the world, besides addressing environmental issues.

(1) Securing of quality and safety of products

In order to secure reliability, which provides all products with absolute value, the company satisfied the international standards at the highest level. Accordingly, their products are so safe that they can be used without worry for a long period of time. In addition, for commercialization, not only advanced functions, but also installation environments, purposes of use, cost balances, etc. are considered, so as to actualize performance that can satisfy customer needs.

(Major activities)

Anti-noise technology	Hardware design that minimizes various noises. Commercialization only for products that have passed numerous independently-determined environmental assessments.
Optical design	With optical simulation, sensors have a full coverage of high-density detection area. For downsizing, the company possesses the packaging technology.
Compliant to public standards	Conformance and compliance with all types of global standards, also conformance and compliance with standards and guidelines stipulated in each industry. (CE marking, EN standard [TUV certified], ANSI, JIS, etc.)
Eco-friendly design	The company has made all components harmless, while specifying 15 substances for limited use and 10 substances for voluntary management. While following the RoHS Directive, the company adopted lead-free solder alloy and designs that minimize the effects of CO ₂ at the time of use.
Security and safety control	The company adopted self-diagnosis and fail-safe features to keep systems functioning even when sensors malfunction or break down, and proposed preventive measures for maintaining functions.

(2) Safe data management

In order to thoroughly manage a wide range of important confidential information on business administration, the company specified requirements for management policies, basic measures, and procedures for actualizing an information security environment in the regulations for information security management, and educates employees thoroughly.

(3) Utilization of geographical capital and cooperation with local communities

—Contributive activities utilizing the Lake Biwa

Utilizing the geographical condition that OPTEX CO., LTD., which is the subsidiary that operates the core business, is located in the vicinity of the Lake Biwa in Shiga Prefecture, the company makes efforts to communicate with local communities through activities for supporting local sports and cultural development, including sponsoring all kinds of events related to the Lake Biwa, and engages in various social contribution activities.

The central activity is “Lake Biwa Active Learning Program,” which has been held on a full-scale basis since 2002, based on the office building of OPTEX CO., LTD. and the facilities of OPAL OPTEX CO., LTD., which are located Biwa Lakefront.

Its purpose is to provide children with opportunities to learn things based on experiences by the Lake Biwa and support their activities. It includes the experience-based learning of sports (canoeing, dragon boat racing, raft making, etc.) and the experience-based learning of the water environment (research of living organisms on the lakeside, making a wind instrument by using Yoshigami, which is the name of paper made from a reed, research of the lakeside environment, research of non-native fish, observation of planktons, etc.). Especially, the company supports school subjects (science, social studies, physical education, etc.), school trips, field trips, etc. to bring inspiring experiences to children by supporting their activities. This activity is fee-charging, but there are participants not only from Shiga Prefecture, but also from other prefectures mainly in the Kinki region, and the number of participants is increasing year by year.

ESG Bridge Report



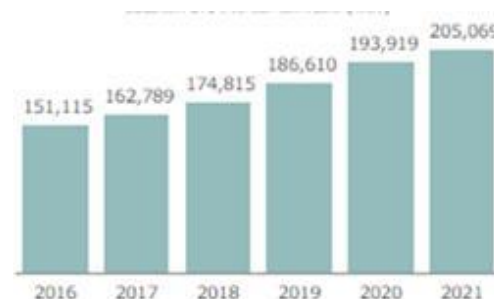
Experience-based learning of canoeing



Experience-based learning of living organism surveys



Number of participants in Lake Biwa Outdoor Education Program (Total)



(Taken from the website of the company)

In addition, the company sponsors the canoeing team of O'PAL OPTEX CO., LTD., Peiron competition, and the dragon boat race.

—Giving cooperative lectures in college —

The executives of the company offer cooperative lectures at a college in Kyoto.

Since 2018, they have given 15 lectures using Optex Group as a case study for success in corporate management under the theme of "management" at Ritsumeikan University Faculty of Business Administration and Ryukoku University Faculty of Economics.

Hundreds of students attended the class every time. In addition, in FY2021, due to the novel coronavirus pandemic, the company used a hybrid method of "online lectures" and "lectures in classrooms on the university campus."



Online lectures at Ryukoku University



Lecture in a classroom on the Ritsumeikan University campus

The enhancement of popularity among students and college staff that could become stakeholders, is expected to lead to the improvement in corporate value and recruitment.

3-3 Materiality for the "human capital" issues

The environment surrounding companies is undergoing major changes, including responses to environmental challenges and the rapid evolution of technology.

For companies to cope with these changes and sustainably increase their corporate value, they are required to view human resources as "capital" and maximize their value by securing and developing human resources who can generate innovation and added value, and by establishing organizations.

Since its founding, the corporate group has focused on creating an environment in which employees can feel satisfaction in their work, and it intends to focus even more on improving the environment and strengthening human capital.

(1) Improvement in employees' mindset and satisfaction with their jobs

Since business start-up, the company has embraced the hope of "being a company that can achieve self-actualization the most in the world."

The company can be likened to a “stage” for employees, and employees determine how they perform and dance there. It is hoped that each employee, who plays a leading role, makes their stage changeeful and impressive by taking advantage of the company as a stage, and the company concentrates on the development of an environment for realizing it.



Diagram that classifies human desires into 5 stages. Proposed by Maslow, an American psychologist.

(Taken from the reference material of the company)

(2) Educational and training systems

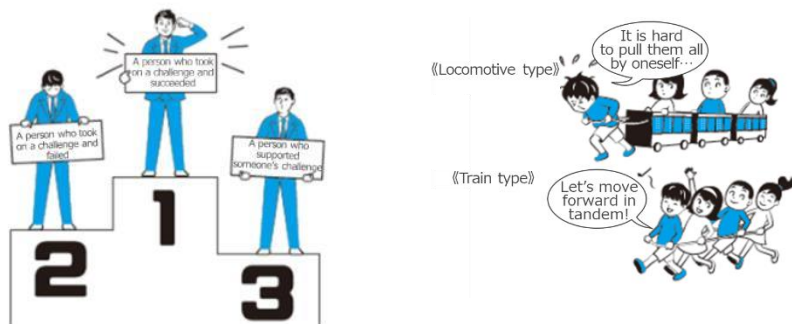
One of the management principles of the Optex Group, which have been emphasized since inauguration, is the respect for “challenges.”

The most esteemed are “those who took on challenges and succeed,” the second most esteemed are “those who took on challenges and failed,” and the third most esteemed are “those who supported challenges,” while “those who do not take on challenges” receive the lowest evaluation.

The company aims to become a company where the diversity of employees is respected, and each employee can take action voluntarily. This is reflected in the “rule of casual communication by using San,” in which employees do not use a job title but refer to the president as “Oguni-san” rather than “President Oguni,” and “train-like management,” in which all of staff members join hands to proceed.

While the working environment is open, equitable, and comfort, there exists rigor as “just following orders is not tolerated.” Employees are required to exert their abilities voluntarily and keep “the stance of taking on challenges.”

Even if they fail after taking on a challenge, they will be esteemed the second most as mentioned above, and they are required to overcome a sense of failure and continue their challenges.



(Taken from the reference material of the company)

With the aim of becoming “a company where employees can self-actualize the most in the world,” the company has various systems so that respective employees can exert their autonomy and creativity and work while being proud of their jobs and feeling their jobs worthwhile.

Educational and training systems	Training for new employees, young employees, and mid-career employees. Basic training for managers. Training for newly appointed management staff.
OPTEX Business School (OBS)	Candidates for managerial positions are selected from each group company to study Drucker's management theory throughout the year. OBS-N (N = New Business)" is held for the purpose of creating a system to promote new business and to continuously demonstrate synergy among group companies by recruiting from the next generation of leaders. OBS-J (J = Junior)" is held for young employees (up to 30 years old) to learn "marketing techniques" and "management basics," the foundation of product strategy formulation, with the aim of creating a corporate culture to realize a "corporate group full of venture spirit."
Dream design sheet	All employees envision ideal selves and dreams once a year, share them with their superiors and companies, and aim to actualize their ideal career paths.
Goal management system	Based on the corporate policies and directions, the goals for each employee are set. Employees review the goals with their superiors regularly, and aim to attain the goals.
In-company recruitment system	Each section looks for employees who possess necessary skills for positions that is a shortage of manpower, and interviews applicants. Then, personnel reshuffles are determined.
In-company free agent (FA) system	Employees can apply for a job or a section inside the company that they would like to do. Sections interview applicants, and personnel reshuffles are determined.
Invention rewards	The company evaluates each inventor's contribution to business, and pays rewards to them according to their contribution levels.

Director and senior corporate adviser Kobayashi give a lecture at OPTEX Business School



(3) Corporate culture that respects diversity

The value cherished in the Optex Group is “the understanding of diversity.”

While considering that “the existence of various options proves an affluent society,” they believe that the mission of the Optex Group is to develop unprecedented new products and differentiated products, to contribute to the diversity in society.

The Optex-style Sampo Yoshi includes even competitors. This is based on the recognition that “just imitating competitors’ products and waging a price-cutting war would make it difficult to create something new and exhaust both the company and its competitors.”

The understanding of and respect for diversity are utilized for not only product development, but also global business operation and post-merger integration (PMI), and competitiveness is enhanced through the development of a corporate culture in which all employees can exert their abilities to the maximum degree.

(4) Employees' health and safety

OPTEX CO., LTD. and OPTEX FA CO., LTD. have been certified as "Excellent Corporations for Health Management 2022" in the "Large Corporations Category" of the Excellent Corporations for Health Management System implemented by the Ministry of Economy, Trade and Industry in collaboration with the Japan Health Council.

◎OPTEX CO., LTD.

Health Declaration	<p>OPTEX CO., LTD. believes that the health of each and every employee is an important management foundation for the realization of our management philosophy, "As a creative group for the future, we take on the challenge of I. F. C. S. comfortable living," and for the growth of our company.</p> <p>We are committed to creating a workplace where employees can work with peace of mind, health, and vitality.</p> <p>*I.F.C.S.: Individual, Family, Company, Society</p> <p style="text-align: right;">OPTEX CO., LTD. President Toru Kamimura Health Promotion Manager Takayuki Imai</p>
Action Targets	<ol style="list-style-type: none"> 1. All employees will receive periodic health checkups within the period. (100% of employees receive general periodic health checkups) 2. Actively encourage employees to receive a second medical checkup after their health checkup. 3. The company will conduct health-themed training to raise employees' health awareness. 4. Thoroughly prevent infectious diseases (group vaccination to prevent influenza, etc.) 5. Ensure that employees take at least five days of annual paid leave. 6. Reduce long working hours. 7. Reduce the smoking rate.
Promotion Structure	<p>The company has established a promotion system in which the director in charge of labor affairs is the "health promotion manager." In addition, the company is collaborating internally and externally to implement initiatives, verify their effectiveness, and improve issues on an ongoing basis.</p>

◎OPTEX FA CO., LTD.

Health Declaration	<p>We aim to create a "healthier and more vibrant" company.</p> <p><Basic Philosophy></p> <p>To realize our corporate philosophy of "customer satisfaction, company growth, and employee happiness," we at Optex FA actively support the health of our employees and the creation of a comfortable work environment, which is the foundation of our corporate philosophy.</p> <p>We believe that creating a workplace environment in which each and every employee can work vigorously and in good health, both physically and mentally, will bring high productivity and vitality to the company and organization, and will deliver value that will satisfy our customers; The entire company is united in our efforts to maintain and promote good health.</p> <p><Concrete Initiatives></p> <p>First, we will continue to work on these "things that are obvious" and "things that can be done if we try," and while steadily building up the practices one by one, we will actively invest and focus on "things that should be done" as they emerge.</p> <ul style="list-style-type: none"> • Achieve 100% of health checkups and improve the rate of reexaminations and thorough examinations (target: 100%). • Disseminate information and conduct educational activities related to health promotion.
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	<ul style="list-style-type: none"> •Improve productivity by devising ways of working (reduce overtime work, create an environment that facilitates the use of paid leave). •Prevention of infectious diseases (mass vaccination to prevent influenza) •Establishment of health consultation desks
Promotion Structure	The company has established a system in which the board of directors, health committee, industrial physicians, and health insurance association can effectively collaborate and function together to develop and promote various initiatives and measures to improve employee health.

3-4 Materiality for the “Business models & innovation” issue

For sustainable growth, we believe it is necessary to build a robust business model and a strong value chain. As a manufacturer, the company is also keenly aware of its social responsibility in procuring raw materials and parts.

(1) Reform of business models

The group has a high market share in security sensors, automatic door sensors, and LED lighting for image processing, but for further growth, the company believes it is necessary to reform its business model and strengthen its ability to propose solutions.

Under the Medium-Term Management Plan 2024, which the company is currently implementing, the SS business aims to shift from the traditional "mono-sales" approach of mainly selling sensors to a "solution-oriented business" (i.e., selling solutions to solve customers' problems), the FA-related business aims to grow by strengthening high-value-added products, and the MVL-related business aims to transform into a "total solution vendor. In FA-related business, the company aims to grow by strengthening high-value-added products.

In particular, in the SS business, the company aims to build a subscription model through an alliance with a U.S. venture company and is pushing forward with the development of the huge North American market. In FY2021, sales activities fell short of the forecast figures due to the stagnation of sales activities caused by the novel coronavirus pandemic, but the number of contracts is currently increasing steadily with the resumption of economic activities thanks to the distribution of vaccines.

(2) Appropriate supply chain management

The supply chain of the Optex Group covers the entire world.

In order to swiftly deliver high-quality products to customers in over 80 countries, the company conducts a series of logistics activities in an integrated manner for procuring reliable materials stably, manufacturing products as planned, and delivering them swiftly.

Also, as the ratio of overseas sales exceeds 50%, the company built warehousing hubs in 4 major regions: Europe, Hong Kong, Japan, and North America, and established a unique supply chain that has flexibility and extensibility, in order to supply products to customers around the world swiftly and smoothly.

The company improved reliability by shortening lead time and reducing distribution costs, and offers high added value to customers in global business fields.

(3) Procurement of materials and parts

The manufacturing function of the Optex Group is maintained mainly by OPTEX MFG CO., LTD., which was founded for the purpose of separating and integrating the manufacturing functions of OPTEX CO., LTD. and OPTEX FA CO., LTD. to enhance the production of the Optex Group. In March 2021, the group is changing the system to a system that can centrally manage production and procurement strategies by relocating the production divisions of OPTEX MFG CO., LTD. and CCS Inc. to the same base. In the future, Optex Group will also supervise the production functions of CCS Inc. to pursue the synergy of the entire group.

OPTEX MFG CO., LTD. considers that in order to attain the goals regarding QCD (quality, cost, and delivery) of products as soon as possible, it is necessary to work on them from the development/design stage. The mother factory is located inside Japan at a production site, where products are planned and developed and the most appropriate production site is determined while considering

conditions of products such as the functions, characteristics, production amounts, logistics costs, and integrated manufacturing is carried out.

The mother factory promotes research of mass-production technologies, systemization of management technologies, and visualization of production sites. Also, the mother factory plays a role to “establish and grow” global production sites.

In addition, the company has a production site in China, to manufacture products while considering costs, and also started manufacturing in Vietnam, while considering country risks. In the medium to long term, the company is promoting decentralization by adjusting the production ratio to 40% in Japan (cooperating factories: OFROM Co., Ltd. and SUNOCT Co., Ltd.), 40% in China (the company's factory: OPTEX (DONGGUAN) CO., LTD.) and 20% in Vietnam (production contractor: RHYTHM PRECISION VIETNAM CO., LTD.).



(Taken from the website of the company)

For procurement of parts, the company engages in purchase activities under the following policies based on the group ethos “Sampo Yoshi (to be beneficial for buyers, sellers, and society)” in order to realize sustainable procurement.

<p>Chemical Substance Management Compliance with Chemical Substance Regulations</p>	<p>Due to concerns about the impact of chemical substances on the environment and ecosystems, laws and regulations governing the use of chemical substances are being strengthened worldwide.</p> <p>To provide products that comply with the laws and standards of the countries and regions where they are sold, the company has established a system that prevents the use of applicable parts and materials from the product design stage.</p> <p>The group has adopted an industry-standard format to collect information on chemical substances to ensure a reliable grasp of chemical substances and to facilitate communication and disclosure of information. It has also established a system to provide this information to interested parties as needed and in a timely manner. Furthermore, with the aim of procuring parts and raw materials with minimal environmental impact, the company has established "Green Procurement Standards" that are shared with all suppliers.</p> <p>Regarding the selection of new parts, OPTEX CO., LTD. and OPTEX FA CO., LTD. select RoHS compliant parts at the design stage, obtain all chemical substance information from suppliers before mass production, and store it in the chemical substance information management system. When appropriate, the company determines whether there are any problems with the regulations based on its own standards (Green Standards) and guarantees the chemical substances in its products.</p>
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	<p>In addition, OPTEX CO., LTD., OPTEX FA CO., LTD. and OPTEX MFG CO., LTD. have created a common "Guideline for the Management of Chemical Substances Contained in Products" and have made it known internally and to their suppliers.</p> <p>CCS Inc. has created the "CCS Product Environmental Regulation Compliance Policy" to ensure internal compliance with new regulations, and has also created the "Green Procurement Guidelines" to ensure that its suppliers are aware of its policies regarding the reduction of environmentally hazardous substances and procurement of conflict minerals.</p>
Fostering of trusting relationships	The company fosters trusting relationships with business partners, including suppliers, to actualize co-prosperity (win-win results).
Promotion of global procurement	The company aims to actualize optimal procurement at the global level while considering QCD, and strives to optimize the supply chain for supplying parts, including local procurement, and reduce total costs.

Optical components and sensor parts, which determine basic properties, are mostly customized, so the cooperation with suppliers in the technical aspect is indispensable.

The company fostered “win-win” relationships through efforts for improving product performance and quality, such as holding meetings for discussing technical trends, etc. and technical exchange sessions involving engineers.



(Taken from the website of the company)

Throughout the lifecycles of products and services, the company is striving to reduce environmental burdens in cooperation with suppliers and manufacturing outsources.

In order to achieve the quality of developed products as designed and maintain quality in a stable manner, the company developed a factory environment and systems for educating and training personnel to nurture technical skills and bolster morale, and safe, efficient production systems.

In addition, they apply the production technology to the EMS business, and comprehensively support clients' production processes, including development, design, procurement, and mass production.

Responsible Mineral Procurement

There are concerns about child labor, other human rights violations, and environmental destruction occurring in the Democratic Republic of the Congo (DRC) and its adjoining countries related to the minerals mined there, and also fear that these minerals may be a source of funding for armed groups, further aggravating the conflict.

The goal of responsible sourcing initiatives is to avoid the procurement of minerals connected to these issues. These initiatives include initiatives being conducted in line with the U.S. Dodd-Frank Act which reformed financial regulations in 2010.

The Optex Group positions initiatives on this matter as important tasks for the fulfillment of its corporate social responsibility. It is moving forward with initiatives to ensure more responsible sourcing, including the examination of procured materials and components to ensure they do not contain conflict minerals and the establishment of agreements with suppliers that they will not procure conflict minerals.

3-5 Materiality for the “competitiveness and governance” issue

The company group, which has achieved a high market share in each product field by leveraging its competitive advantage in sensing technology, knowledge, and proprietary sensing algorithms, and has a strong brand, is taking steps to further strengthen its competitiveness.

The company is also focusing on improving its corporate governance to enhance its corporate value by strengthening its competitiveness.

(1) Research and product development systems for enhancing competitiveness

① Manufacturing from customers’ viewpoints (human-centered design)

—Philosophy for development “Optex Katachi”

OPTEX CO., LTD., which is one of major operating companies, explicitly expresses their ambitions and mindsets for manufacturing with common words as “Optex Katachi,” in order to create reliable products consistently.

“Optex Katachi,” which is composed of “Through the eyes of the user,” “Absolute attention to detail,” “Designed to perfection,” “Delivering the WOW! factor,” and “Innovation, but with consistency” as five slogans, means the company’s philosophy for manufacturing that has been inherited since the past, including the grasping of actual business sites and problems that have not been discovered by customers, fine-tuned quality, sophisticated forms, ingenuity that impresses customers, and the pursuit of the never-changing technological capability as a sensor manufacturer while responding to the changes in needs and markets. The company aims to make it shared by all employees in the sections of development, planning, marketing, production, quality control, and management, etc.

—Manufacturing with human-centered design

In order to create unique products that will be cherished for a long period of time, OPTEX CO., LTD. engages in manufacturing from the viewpoints of various customers related to products (human-centered design).

The concrete processes for commercialization are as follows:

1: (Survey) to grasp the state of use and have sympathy	<p>The staff of the development and marketing sections visit the sites together where their products are used around the world, to check what kinds of people use them, the situation of use, and how they are used, and receive candid comments from customers.</p> <p>Through this process, they understand the situations of customers and actual sites accurately, and seek what could satisfy real needs.</p>
2: (Analysis) to clarify the problems with customers and their needs	<p>By understanding and visualizing how customers feel and behave at the phases of recognition, selection, and use of products of the company, they find problems and share information.</p> <p>In addition, they clarify and summarize the value provided to customers and demanded quality, to reflect them in product development.</p>
3: (Design) Embodiment of solutions by producing prototypes	<p>By producing prototypes to embody designs repeatedly, they view them objectively, think over them more deeply, and follow the cycle of hypothesis setting and testing, to produce better products.</p>
4: (Evaluation) Evaluation of designs that meet requirements	<p>Inside the company, subjects (acting as customers) are chosen, and they conduct evaluation to check the usability, understandability, and conformity of products, by seeing how they are operated and listening to the comments of the subjects when the company sets the products.</p> <p>The staff in the development and marketing sections carry out the evaluation, analyze the results of the evaluation quantitatively and qualitatively, and give feedback to the production development section.</p>

② Product evaluation test for actualizing “reliability” and “performance”

OPTEX CO., LTD. conducts a variety of product evaluation tests, in order to achieve “reliability,” which gives absolute value to all products, and “performance,” which satisfies customer needs.

The outdoor environment, where the sensors of the company are used, is always exposed to unexpected phenomena, including rain, wind, air temperature fluctuations, thunder, and small animals.

In order to create a highly reliable sensor, it is indispensable to overcome such phenomena one by one. According to purposes of use, the company conducts over 150 evaluation tests.

Since the company sells its products broadly around the world, the company adopted global standards that comply with laws, regulations, and public standards in each country, and aims to develop products that can be used by customers around the world without worry.

To check whether the sensing property can be exerted in various environments and scenes, they visit the site where products are used, to conduct experiments, and reproduce the same environment and carry out evaluation tests. Such down-to-earth activities enable accurate performance evaluation, which is a strength of the OPTEX CO., LTD..

(Major evaluation tests)

Heavy snow test	There are a variety of snowfalls, including ordinary snows, snowstorms, and snow drifting, which is a storm of snow blown up from the ground by the wind. The company conducts experiments under the harsh outdoor natural environment, where products are actually set.
Mist test	So that sensors will detect a person without fail even in mist with poor visibility, the company conducts field tests in a mountainous area and reproduces an extraordinary man-made environment for evaluation.
Long rain test	Natural environment tests are conducted for all outdoor sensors as the required items under various conditions. These tests are conducted under bad conditions, such as the long rain surpassing a record-high rainfall amount per day and the water drops adhering to the sensor lens.
Human detection test	So that sensors will detect a person without fail regardless of how he/she moves or his/her characteristics, the company conducts tests under various conditions, such as a person crawling or spinning and different height, hairstyle, or gait speed.
Durability test	So that sensors will be used without worry for a long period of period, the company conducts tests for limitations, durability, impact resistance, etc. For example, the company carries out a test of turning switches on and off repeatedly and a severe “impact test,” in which destructive loads are applied relentlessly.
Ball test	Sensors are evaluated not only in the natural environment, but also by using objects. For example, the company conducts a performance test so that an automatic door will not open even if a ball rolls in front of the door.

③ Patents and Intellectual Property

The Optex Group regards patents and intellectual property created through various R&D activities as its important management resources, and is actively acquiring intellectual property rights, including patents and design rights.

The YK Value* of the Optex Group was 284.14, ranking first in the "Electrical Equipment" industry sector of the TSE Prime Market with a two-year YK Value growth rate of 382.57%. (Source: As of March 31, 2022, from "PATWARE," a patent value evaluation web service provided by Ichiro Kudo International Patent Office and Acrosoft Corporation)

*YK value

This is an index measuring the strength of a patent's monopoly exclusivity, as calculated by Ichiro Kudo International Patent Office. Once an invention is filed and registered as a patent, the patentee has a monopoly on the working of the invention. In other words, no one else can use the invention without the patentee's consent. This is the "exclusivity" of a patent (Article 68 of the Patent Law).

For a company, a patent held by a competitor with a strong "monopoly exclusivity" is a threat. The greater the risk that this will restrict their business activities, the more money they will spend to search for or try to invalidate the patent. In other words, the more interference and attacks (i.e., actions) a patent receives from third parties, the stronger the "exclusivity" of the patent and the more valuable the patent is to the business.

Therefore, if we calculate the cost of such actions taken by third parties, we can measure the exclusivity of the patent and quantify its value. The index born from this concept is the YK value (patent technology competitiveness index).

(Quoted from the website of Ichiro Kudo International Patent Office)

(2) Corporate governance

They recognize that their primary mission is to keep improving corporate value while winning the trust of shareholders, investors, customers, and society. To do so, they set the enhancement of corporate governance as an important objective for business administration, and aim to improve the transparency of business administration, maintain a management system for fair, swift decision making, and strengthen the overseeing of business administration.

For the purposes of fortifying the auditing and supervising functions and further enhancing corporate governance, they transformed the company from a company with a board of auditors into a company with an audit and supervisory committee in 2016.

At present, they appoint four independent external directors (a person who has the experience of serving as an engineer of a leading electronics manufacturer in Japan, a person who has the experience of serving as an executive of a leading electronics manufacturer in Japan, two certified public accountants, and 1 lawyer), who account for over one-third of the 11 directors and auditors. Based on decision making through active discussions at meetings of the board of directors, they improve the quality of strategies and aim to improve corporate value further.

◎ Corporate Governance Report: Last updated on March 25, 2022

<Basic Policy>

Our corporate group recognizes that our primary mission is to continuously raise the corporate value while earning the trust of customers and society, as well as shareholders and investors. In order to fulfill the mission, considering enrichment of our corporate governance framework to be one of our most important business issues, we aim to increase transparency in the corporate management, maintain the business system involving fair and swift decision-making, and enhance the corporate management monitoring function.

<Reasons for Non-Compliance with the Principles of the Corporate Governance Code (Excerpts)>

The following information is based on the Corporate Governance Code revised in June 2021 (including matters specified for the Prime Market that will be applied on or after April 4, 2022):

【Supplementary Principle 3-1-3 Initiatives on Sustainability】

Our corporate group's efforts have been stated in "3. Issues, Materiality, and Measures" of our ESG Report posted on our website: <https://www.optexgroup.co.jp/shareholder/library/index.html#esgreport>

Regarding the internationally established disclosure methods and enrichment of the quality and quantity of equivalent disclosure, a project team that we have formed is currently holding discussions.

【Supplementary Principle 4-2-2 Basic Policy on Our Sustainability Initiatives】

Our corporate group's efforts have been stated in "3. Issues, Materiality, and Measures" of our ESG Report posted on our website: <https://www.optexgroup.co.jp/shareholder/library/index.html#esgreport>

Regarding the establishment of a system and basic policies on sustainability from the perspective of medium- and long-term improvement in the corporate value, a project team that we have formed is currently holding discussions.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

【Principle 1-4 Strategically Held Shares】

Our company acquires and holds shares of other listed companies as strategically held shares through deliberations and resolutions by the board of directors only when we have judged that doing so will contribute to cementing business relationships and raising the corporate value. Concerning the shares so held, our board of directors carries out annual examination on the significance of holding

them, and our company strives to sell strategically held shares by taking such factors as the market trend into account when we have decided that the rationality of their value is poor, and reduce the number of such shares.

Our company currently holds shares of a listed company at 54 million yen (as recorded in the balance sheet dated December 31, 2021). We determine whether or not to exercise the voting rights as to the strategically held shares based on comprehensive judgement through close individual examination according to various criteria, including whether doing so will contribute to sustainable business growth and medium- and long-term improvement in the corporate value of the company, and whether the shareholder value will not be damaged significantly.

【Supplementary Principle 2-4-1 Ensuring Diversity in Promotion to Core Human Resources】

Since the establishment, cherishing a belief that we should be a company that enables employees to pursue self-realization and our company should serve as a stage for them, our corporate group has been concentrating on creating a workplace environment that allows our employees themselves to make their respective stages changeful and impressive regardless of gender, nationality, or whether they are employed as new graduates or mid-career workers.

The ratios of employees at our group companies in Japan (12 companies including our company) are as follows:

- Male-to-female ratio: 77 : 23
- Ratio of mid-career workers: 62%
- Ratio of employees with foreign nationalities: 2%
- Male-to-female ratio of employees in managerial positions: 97 : 3
- Ratio of mid-career workers in managerial positions: 64%

As shown above, the number of female employees and that of employees with foreign nationalities are potentially small due to the characteristics of our corporate group's business domain and business details, and accordingly, the ratios of women and foreign nationals in managerial positions are low.

Meanwhile, the percentage of mid-career workers who have been promoted to managerial positions exceeds 60%, based on which we believe that diverse human resources with a multitude of experiences and skills occupy the key management positions.

Our corporate group has consolidated subsidiaries all over the world, and we are certain that diversity is ensured adequately in our corporate group as a whole including the overseas subsidiaries.

While taking into consideration the characteristics of each of the operating companies under our corporate group in their respective business fields, our company will continuously and proactively promote and discuss creation of a working environment in which each of our employees can perform at their full potential so that we can ensure diversity in our employees more than now.

【Supplementary Principle 4-11-1 Balance, Diversity, and Size of the Board of Directors as a Whole】

Our company's board of directors consists of eight directors (seven men and a woman) who efficiently utilize their respective experience in corporate management, business administration, technological development, production, sales, marketing, and working overseas, and expertise on accounting (the number shall be a maximum of nine) and three directors (three men) who serve as audit and supervisory committee members with profound insight and knowledge, such as extensive experience with audits and qualifications of lawyers, and certified public accountants and tax accountants (the number shall be a maximum of four). We consider that the balance of our board of directors is appropriate for propelling forward our medium- and long-term business strategies based on the current size of our company and our corporate group and other relevant factors.

We will continue discussion about the balance of diversity and that of expertise to optimize them.

Please see the last section of this report regarding the skill matrix of our current management team.

【Supplementary Principle 4-11-3 Analysis and Evaluation of the Effectiveness of the Board of Directors】

Our company conducts an annual survey covering all our directors with the aim of further boosting the effectiveness of the board of directors, and performs analysis and evaluation through constructive discussion by the board based on the survey results.

The result of the survey carried out in March of this year (responded to by all the 11 directors) has confirmed that our board of directors' functions generally effectively considering its roles and responsibilities. We have a shared recognition that we can make the board function more effectively by further enriching the environment for opinion exchange between the outside directors and

opportunities for deepening understanding of new businesses to focus on. We will endeavor to make improvements regarding these matters, and continuously ensure and enhance the effectiveness of the board of directors as a whole.

【Principle 5-1 Policy on Constructive Dialogue with Shareholders】

Our company has set up a public relations and investor relations department to provide understandable explanations about our business policies and situations so that we can engage in proactive and constructive dialogue with our shareholders. The president, the directors in charge, and the employees in charge of investor relations hold explanatory meetings for institutional investors and ones for individual investors in a planned manner, and they deal with requests from institutional investors for interviews at any time.

Regarding general shareholder meetings, we arrange venues that foster participation by diverse shareholders, and after the meetings, we host shareholder briefing sessions and shareholder social gatherings for facilitating their understanding of our company's future policies.

*We cancelled a shareholder social gathering at the 43rd general shareholder meeting to prevent further spread of the novel coronavirus infection.

【Skills Matrix】 **Updated**

	Name	corporate management / Management Strategy	International Experience	Audit/ Internal Control	Technology/ Research and Development	Sales / Marketing	Financial / accounting	Legal Affairs/ Risk Management
Directors	Isamu Oguni	●	●			●	●	●
	Hiroyuki Onishi	●				●	●	●
	Toru Kobayashi	●	●		●	●	●	
	Toru Kamimura	●			●	●		
	Tatsuya Nakajima	●	●			●		
	Akira Higashi	●			●	●	●	●
	Kazuhiro Yoshida	●	●		●	●		
	Nanako Aono	●		●			● (certified public accountants)	●
Directors who are members of the Audit and Supervisory Committee	Yukio Kuroda		●	●			●	●
	Yasushi Sakemi			●				● (lawyers)
	Minoru Kida		●	●			● (certified tax accountants- certified public accountants)	●

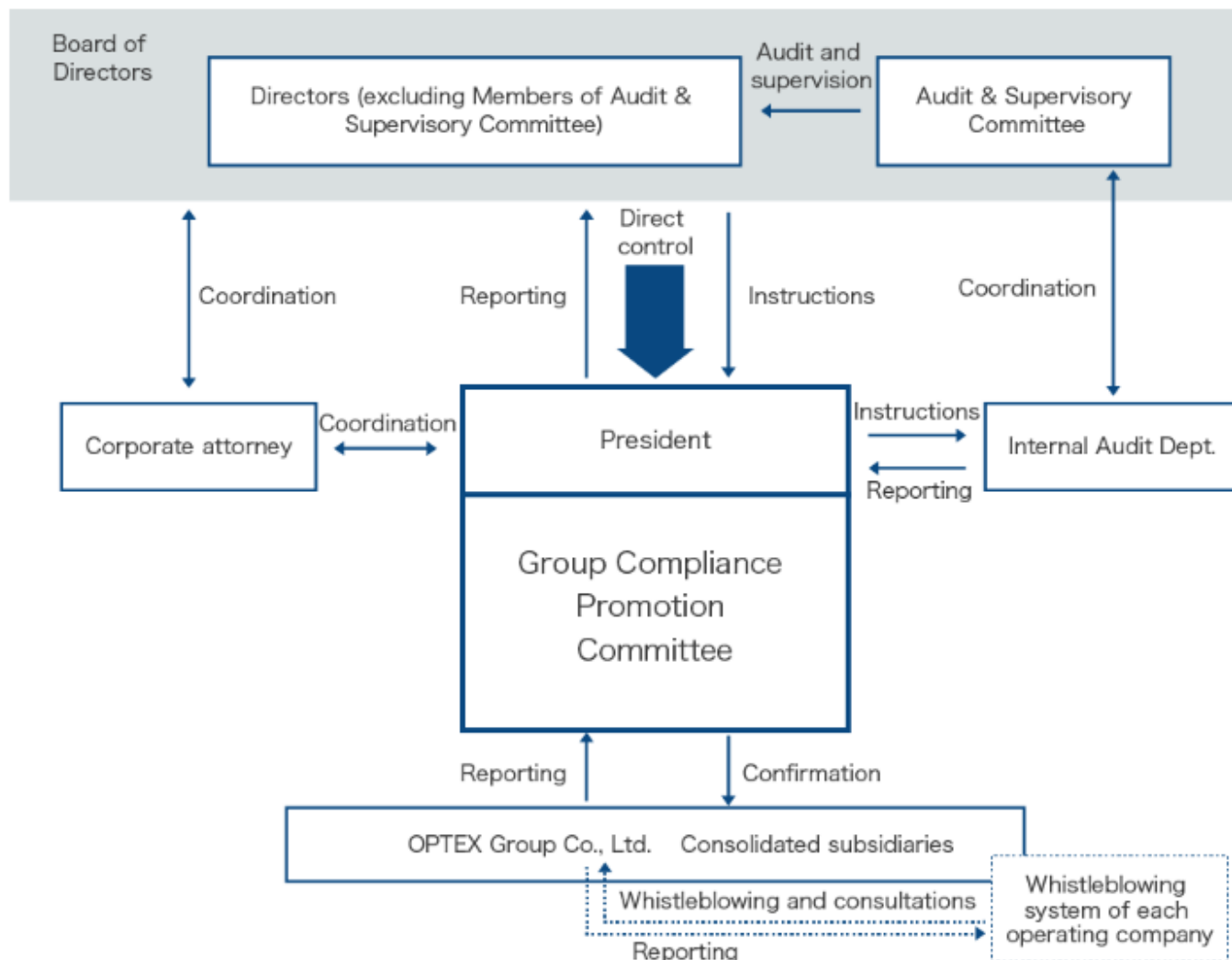
(3) Risk control

Optex Group has formed the Optex Group Compliance Promotion Committee for ensuring that the officers and employees of our company and our group companies engage in business activities and act based on a law-abiding spirit. With the president serving as the chair and the members being elected from the operating companies under our corporate group, the Optex Group Compliance Promotion Committee has developed a system that enhances understanding and awareness of our company's initiatives on compliance, and effectively shares compliance-related matters with each of the group companies.

The Committee conducts such activities as checking the compliance with laws and regulations within our corporate group, sharing and discussing matters related to compliance, and managing risks. In addition, our company has drawn up the Optex Group Code of Conduct, of which the Committee has charge, for maintaining and improving the awareness and action of all the officers and employees regarding compliance in our corporate group.

Furthermore, we have developed an internal reporting system that is intended to collect risk information at an early stage and deal with risks properly, and the Compliance Regulations explicitly specify that whistle-blowers shall not be treated disadvantageously, and all of the employees of our company and our group companies are thoroughly informed in this regard.

Structure of Group Compliance



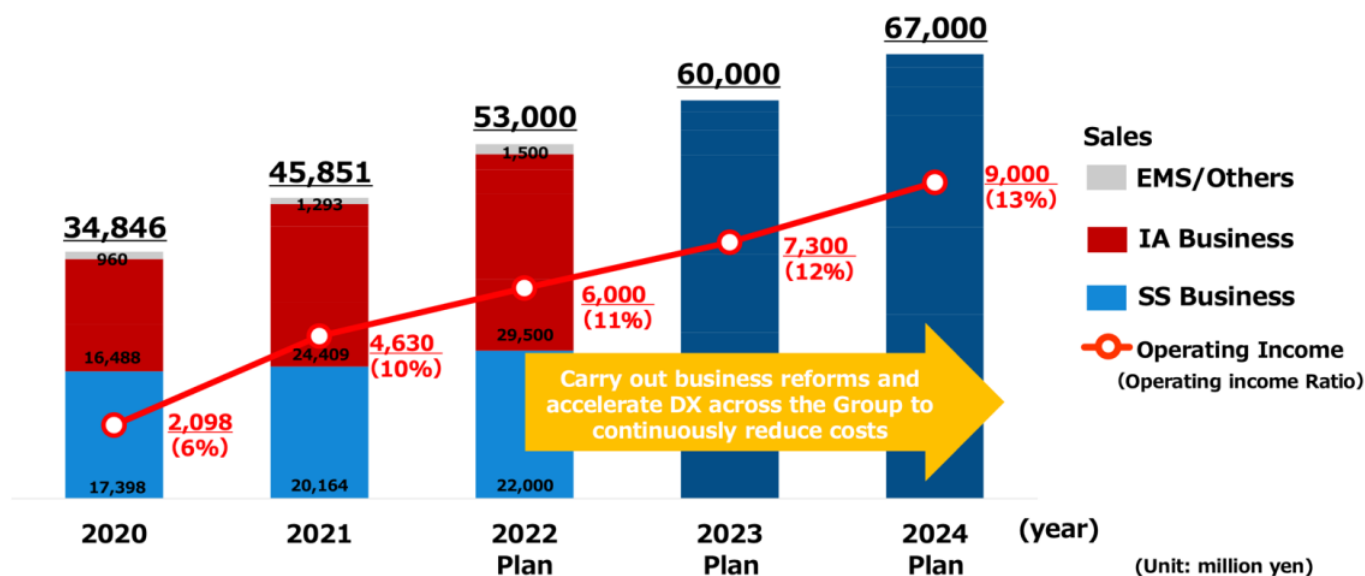
4. Medium-Term Management Plan 2024

(1) Outline of "Medium-Term Management Plan 2024"

Under the Group philosophy of "We aim to become a corporate group full of venture spirit!," the company aims to achieve operating income of 10 billion yen or more and an operating margin of 15% in 2025.

The company consider the promotion of cost efficiency to be an important issue.

Numerical Targets in Medium-Term Management Plan 2024

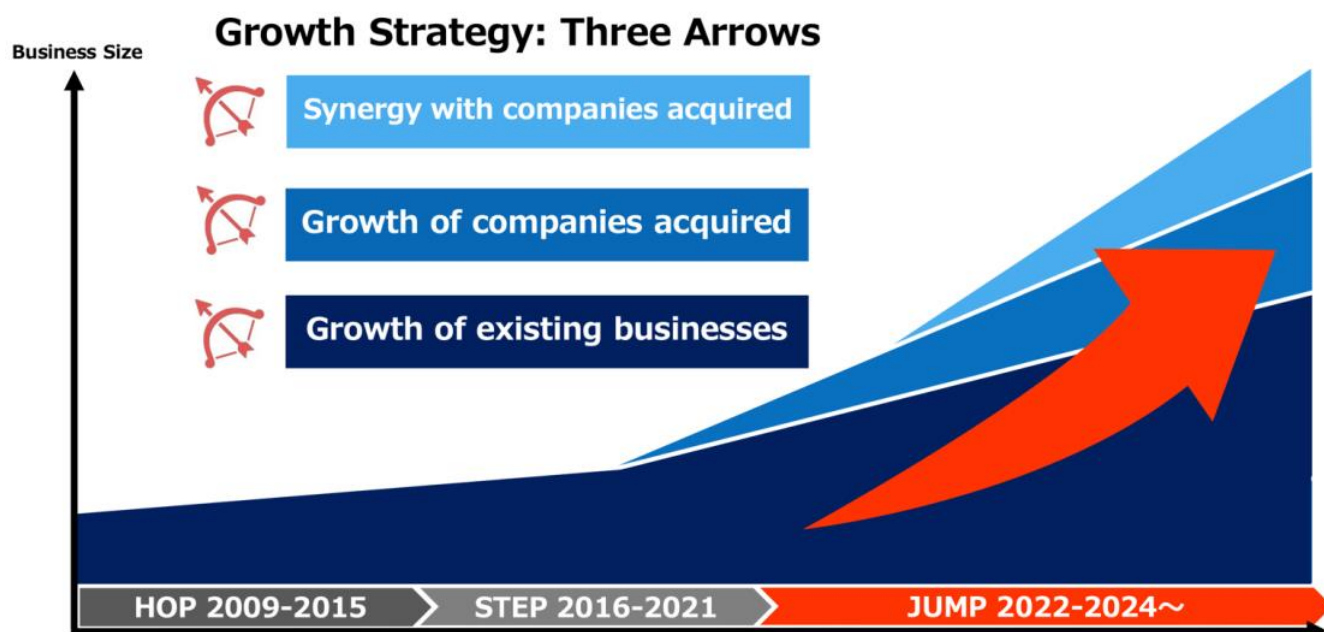


(Taken from the reference material of the company)

(2) Strategies to achieve goals

As strategies to achieve the plan, the company has set forth three arrows: "growth of existing businesses," "growth of M&A targets," and "synergy with M&A targets."

Strategies for Accomplishing Medium-Term Management Plan 2024



(Taken from the reference material of the company)

①Growth of existing business: Providing system solutions

* SS Business(Security Sensors)

Expanded image confirmation solutions in Europe and the United States. It provides a system as well as a sensor.

* SS business (Automatic Door Sensors)

We will develop a data service business by taking advantage of our domestic market share of 50%. The sharing service "OMNICITY" was launched in February 2021.

* IA business (Factory Automation)

We will further promote collaboration with SICK, the world's No. 1 sensor manufacturer, and provide a system that enables "remote monitoring and predictive maintenance." Contribute to the IoT of factories.

* IA business (Machine Vision Lighting)

Utilizing AI and robots, we will accumulate data in the visual inspection area that is performed visually by humans and propose a total solution.

Growth of Existing Businesses_Offering System Solutions



(Taken from the reference material of the company)

②Growth of Companies Acquired: The main business of M&A companies expands due to the tailwind of the market environment.

* IA business: Sanritz Automation

"Embedded boards" that control semiconductor manufacturing equipment and medical equipment are indispensable parts.

Sanritz Automation has been highly evaluated in terms of environmental resistance, noise resistance, and long-term supply (long-term continuous support, maintenance), and we are aiming for further sales expansion in the future.

Growth of Companies Acquired



(Taken from the reference material of the company)

* IA business: MITSUTEC CO., LTD.

Since its establishment, MITSUTEC CO., LTD. has been involved in secondary battery manufacturing equipment, and as a system integrator for factory automation, it is utilizing advanced mechatronics technology and image processing technology for battery manufacturing equipment that is indispensable for a carbon-free society.

We aim to expand sales of secondary battery manufacturing equipment, which is expected to grow significantly in EVs, etc., by leveraging advanced mechatronics technologies such as high-speed, high-precision filling technology and high-speed transfer technology.

Growth of Companies Acquired



(Taken from the reference material of the company)

③ Synergy with Companies Acquired

* Sanritz Automation Co., Ltd.

In addition to traffic control (ETC), Sanritz Automation Co., Ltd. also handles parking lot management and surveillance cameras for important facilities.

We believe that we can create great synergies by promoting system sales that utilize the strengths of each of the Optex Group's SS businesses (Security sensors), such as automobile license plate management and surveillance cameras.

* MITSUTEC CO., LTD.

MITSUTEC CO., LTD. works as a system integrator of factory automation for various industrial fields and has many customers, but it does not manufacture and sell sensors and cameras by itself.

Therefore, by collaborating with the IA business, we can provide cameras, LED lighting, various measuring instruments, etc. according to the customer's issues, and build and provide an image processing inspection system that combines them to generate synergies.

* CCS Inc.

We are promoting business with OPTEX FA CO., LTD.. CCS Inc. has excellent customers in the electronics and semiconductor industries and is efficiently expanding sales channels that OPTEX FA CO., LTD. alone could not develop.

Synergy with Companies Acquired



(Taken from the reference material of the company)

(3) Management indicators

"Sales growth rate of 10% or more", "Operating profit rate of 15% or more" and "ROE of 10% or more" are listed as management indicators.

Since the profit margins of Sanritz Automation Co., Ltd. and MITSUTEC CO., LTD. are not relatively high within the Optex Group, the operating profit margin for the final year of the "Medium-Term Management Plan 2024" is expected to be only 13% in the fiscal year ending December 2024. Work to improve the profitability of the entire group by expanding system solutions in existing businesses and promoting cost efficiency.

Optex Group's Management Indicator



(Taken from the reference material of the company)

5. Financial and non-financial data

(1) Financial data

◎BS/PL

	FY 12/2017	FY 12/2018	FY 12/2019	FY 12/2020	FY 12/2021
Sales	37,504	40,113	37,517	34,846	45,866
Operating profit	4,885	4,989	2,856	2,098	4,630
Ordinary profit	5,036	5,038	2,876	2,176	5,130
Net profit	3,386	3,775	2,197	1,395	3,762
EPS [yen]	97.63	104.85	60.02	38.59	104.18
ROE [%]	12.6	12.3	6.8	4.3	11.2
ROA [%]	12.7	11.9	6.6	4.8	9.8
Total assets	41,569	43,291	43,967	47,390	57,769
Net assets	32,006	32,345	32,372	32,625	35,360
Capital-to-asset ratio [%]	70.1	74.5	73.2	68.4	60.7

*Unit: million yen

◎CF

	FY 12/2017	FY 12/2018	FY 12/2019	FY 12/2020	FY 12/2021
Operating CF	4,404	2,034	3,621	3,894	3,102
Investing CF	-328	-1,666	-992	-3,228	-2,845
Free CF	4,076	368	2,629	666	257
Financing CF	-2,067	-762	-1,721	1,578	1,793
Cash and cash equivalents	12,293	11,563	12,396	14,583	17,120

*Unit: million yen

(2) Non-financial data

① Environment-related data

◎Variation in sales volume of environmentally friendly products (OPTEX FA CO., LTD.)

	2014	2015	2016	2017	2018	2019	2020	2021
Environmentally friendly industrial sensors	100	101	146	233	272	228	255	367
Environmentally friendly LED lighting equipment	100	131	172	209	268	211	262	426

*Sales volume in 2014 = 100

◎Reduction of CO₂ emissions with LED lighting (CCS Inc.)

	2014	2015	2016	2017	2018	2019	2020	2021
Reduction of CO ₂ emissions	5,103	5,122	6,238	7,337	7,431	6,933	5,907	7,113

*Unit: t-CO₂

② Social capital-related data

◎No. of registrations for patents/designs

Region	Patent	Design
Japan	98	28
The U.S.	46	15
Europe	79	38

ESG Bridge Report



Asia	11	34
Other	3	15

*2021, OPTEX CO., LTD.

③ Employee-related data

◎Consolidated Number of Employees

	FY 12/2017	FY 12/2018	FY 12/2019	FY 12/2020	FY 12/2021
Number of domestic employees	762	931	941	1,123	1,191
Number of overseas employees	823	890	834	758	807
Of which, EMEA	197	225	236	236	224
Of which, ASIA	554	575	512	439	506
Of which, AMERICAs	72	90	86	83	77
Total number of employees	1,585	1,821	1,775	1,881	1,998
% of overseas employees	51.9%	48.9%	47.0%	40.3%	40.4%

*As of December 31, of each fiscal year. Unit: employees. The total number of employees does not include temporary or part-time employees.

◎Employee composition of group companies in Japan (as of December 31, 2021)

	Total No. of employees	Male	Ratio	Female	Ratio
Number of employees	1,127	949	77%	278	23%
Of which, the number of mid-career employees	758	542	72%	216	28%
Of which, the number of foreign nationals	24	16	67%	8	33%

*Unit: people

◎Management Position Composition of group companies in Japan (As of December 31, 2021)

	Total number	Male	Ratio	Female	Ratio
Number of managers	295	286	97%	9	3%
Of which, the number of mid-career hires	193	187	97%	6	3%
Ratio of mid-career hires	65%	65%	-	67%	-

*Unit: people

◎Those who took a childcare leave

Year	Total	Male	Female
2021	10	3	7
2020	8	1	7
2019	17	0	17

*Unit: people

◎No. of employees who resumed work after prenatal, postnatal and childcare leave

No. of employees who resumed work after a childcare leave in the past 3 years (cumulative)	Return-to-work rate
27	93%

**Unit: people. Results in the past 3 years (2019 to 2021)

◎Employees working for shorter hours for childcare

Fiscal year	Total number	Male	Female
2021	20	0	20
2020	18	0	18
2019	12	0	12

*Unit: people

◎No. of employees reemployed after the retirement age

Period	No. of employees who retired during the period (cumulative)	No. of employees reemployed during the period (cumulative)	Reemployment ratio
FY2019~FY2021	45	40	89%
FY2018~FY2020	52	47	90%
FY2017~FY2019	23	22	96%

*Unit: people

◎State of retention of new graduates employed

	New graduates who joined the company in Apr. 2017	Remaining employees in Apr. 220	New graduates who joined the company in Apr. 2018	Remaining employees in Apr. 221	New graduates who joined the company in Apr. 2019	Remaining employees in Apr. 2022
No. of employees	21	17	40	33	32	29
Retention rate		81%		83%		91%
Retention rate (3-year average)	82%					

*Unit: people

* Companies considered for employee-related data: OPTEx GROUP CO., LTD., OPTEx CO., LTD., OPTEx FA CO., LTD., CCS Inc., Sanritz Automation Co., Ltd., MITSUTEC CO., LTD., OPTEx MFG CO., LTD., THREE ACE CO., LTD., OPAL OPTEx CO., LTD., GIKEN TRASTEM CO., LTD., ZENIC INC., and Tokyo Opto-Electronics Co., Ltd.

<For reference>

For publishing ESG Bridge Report, the company enlisted significant cooperation from Mr. Ryohei Yanagi (PhD. in economics from Kyoto University, Executive Vice President and CFO of Eisai Co., Ltd., and a visiting professor of Graduate School of Accountancy, Waseda University).

This section mentions the purpose of publishing ESG Bridge Report and outlines the “ROESG model” proposed by Mr. Yanagi, while citing a passage from his literature “CFO Policy.”

(1) Regarding ESG Bridge Report

While ESG investment became mainstream, investors demand that Japanese companies disclose ESG information proactively.

Accordingly, an increasing number of companies produce integrated reports.

However, the production of integrated reports requires the understanding and involvement of executives, some human resources and some budgets. Accordingly, many companies still cannot produce integrated reports.

Also, for producing integrated reports, it is necessary to take many steps, including the summarization of various data, the identification of materiality, and the setting of indicators and goals. It seems that many companies are not prepared enough, so they are reluctant.

However, Mr. Yanagi mentioned, in “CFO Policy,” that “if Japanese enterprises shed light on their potential ESG value, their PBR will probably be at least the same level (around 2x) as that of companies in the UK” and “by actualizing ROESG, it is possible to double the value of Japanese companies, probably improving investment, employment, and pensions and maximizing national wealth, which have a high probability.” Investment Bridge Co., Ltd. considers that the provision of ESG information of Japanese companies is meaningful for the entire Japan and should be promoted actively.

Under these circumstances, for companies who deeply recognize the necessity to disclose ESG information although they still cannot produce integrated reports, our company cooperatively produces “ESG Bridge Report” based on currently available data and resources, to provide investors with ESG information as needed by investors as much as possible.

Japan Exchange Group actively encourages Japanese companies to disclose ESG information, and published “Practical Handbook for ESG Disclosure.” Page 6 of this handbook mentions “We do not mean that you cannot disclose information unless all of the elements mentioned here are covered. We expect that this handbook will provide you with some clues when you start with what you can do while considering your situation for disclosing ESG information to communicate with investors and proceed with more initiatives.” We believe that “ESG Bridge Report” is a tool for “starting with what you can do for disclosing ESG information.”

Mr. Yanagi mentioned that in order to achieve full-scale ROESG, it is necessary to conduct empirical research indicating positive correlation between ESG and corporate value and disclose concrete cases in which companies’ contribution to society helps increase long-term economic value. Accordingly, the actual hurdle is high, but we would like to explicitly describe how ESG initiatives of each company lead to the improvement in corporate value.

Based on the feedback from many investors who have read our reports, we would like to improve the quality of our reports. We would appreciate your candid opinions.

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(2) Regarding “ROESG Model”

(Increasing value of non-financial capital, rapid increase of ESG investment, and production of a conceptual framework for connecting ESG and corporate value)

Recently, many empirical studies have verified the increase of importance of non-financial information in corporate value evaluation, and it can be inferred that invisible value (intangible assets) and non-financial capital value account for about 80% of corporate value. In addition, it can be considered, from the results of many empirical studies on the relation between non-financial information and corporate value, that ESG may be positively correlated with corporate value.

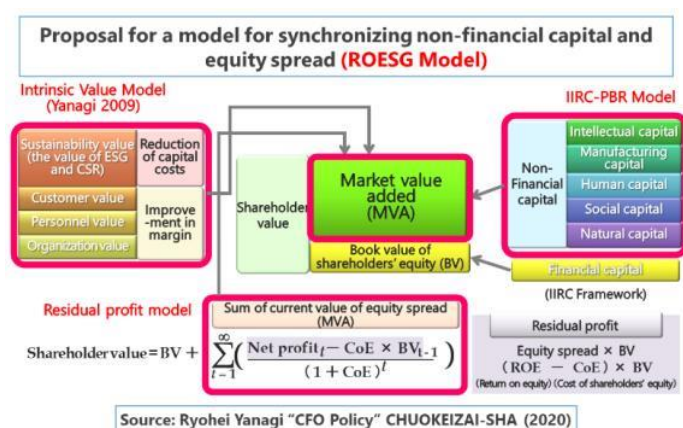
On the other hand, as ESG investment is becoming mainstream globally, Japanese enterprises, whose PBR is less than one or stagnant in many cases although they have latent ESG value, need to transform non-financial capital into future financial capital with the “ROESG model” for raising PBR, or produce and disclose a conceptual framework for connecting ESG and corporate value.

(Overview of the “ROESG Model”)

Out of shareholder value, the book value of shareholders’ equity, which corresponds to “the part where PBR = 1,” is composed of current financial capital and financial value.

On the other hand, out of shareholder value, market value added, which corresponds to “the part where PBR exceeds 1,” is composed of non-financial capital (which can be said to be future financial capital), and the sum of current value of cash flow of equity spread (= ROE – Cost of shareholders’ equity) in the residual profit model.

Therefore, Mr. Yanagi proposed “the synchronization model of non-financial capital and equity spread” = “ROESG Model” as a conceptual framework for synchronizing ESG and corporate value, as a result of non-financial strategy.



In the “ROESG Model,” non-financial capital has a mutually complementary relation with equity spread, which is the sum of current value of residual profit through “market value added.” Namely, the value creation with equity spread is consistent in the long term because of the delay, via the creation of value of non-financial capital, including ESG, and market value added.

Therefore, ESG management can be synchronized with long-term investors, who demand capital efficiency, via marked value added, and cooperation is possible.

According to Mr. Yanagi’s survey on investors for supporting the model, many investors around the world demand that “the relation between ESG and ROE values is explained” and answered that “100% or a significant proportion of the value of ESG is taken into account in PBR.” It can be considered that the “ROESG model” is supported directly or indirectly by most of long-term investors. (For details about his “ROESG Model,” refer to “CFO Policy” authored by Ryohei Yanagi, CHUOKEIZAI-SHA (2020).)

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