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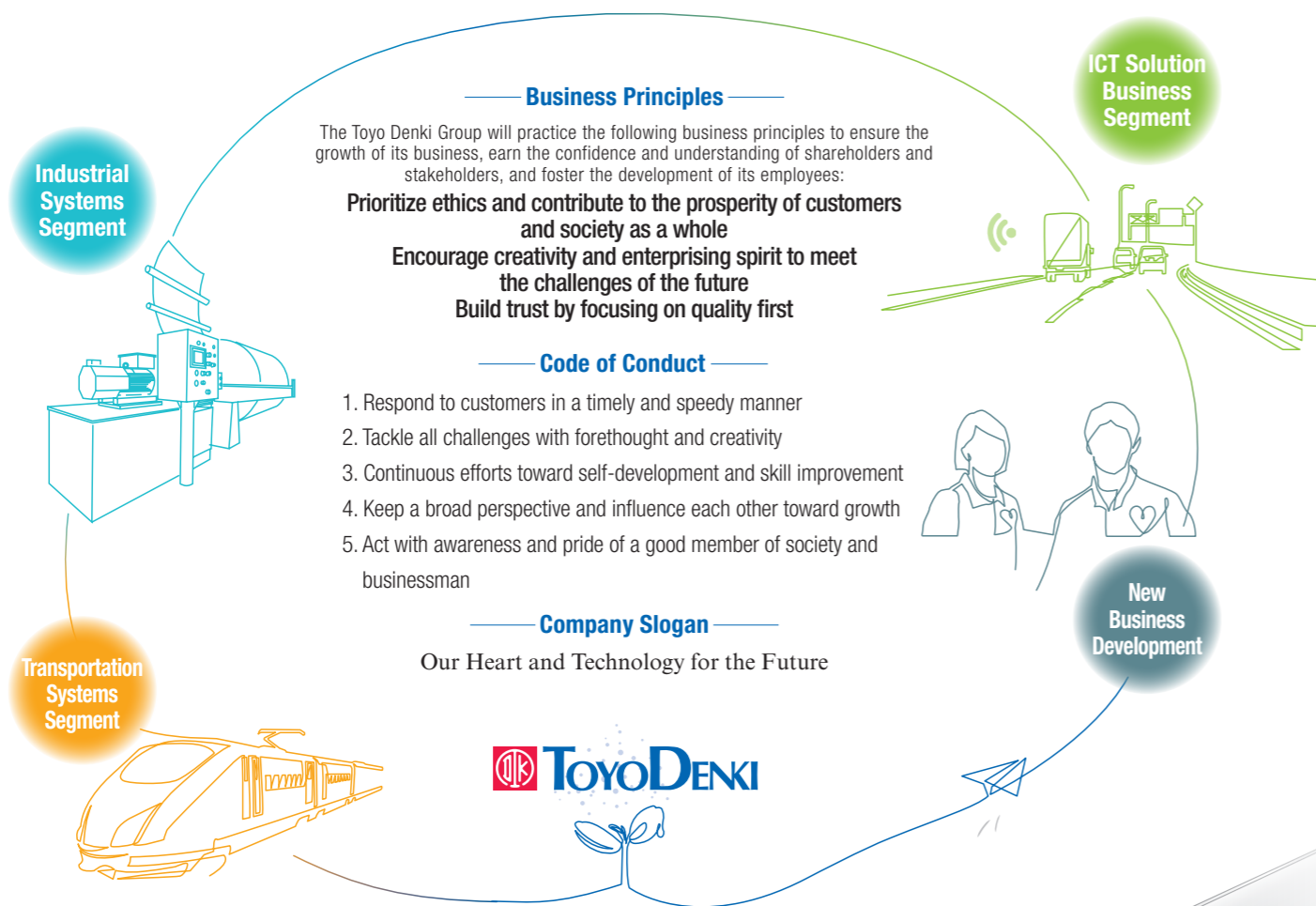
Integrated Report
Toyo Denki Seizo Report 2022

Our Heart and Technology for the Future



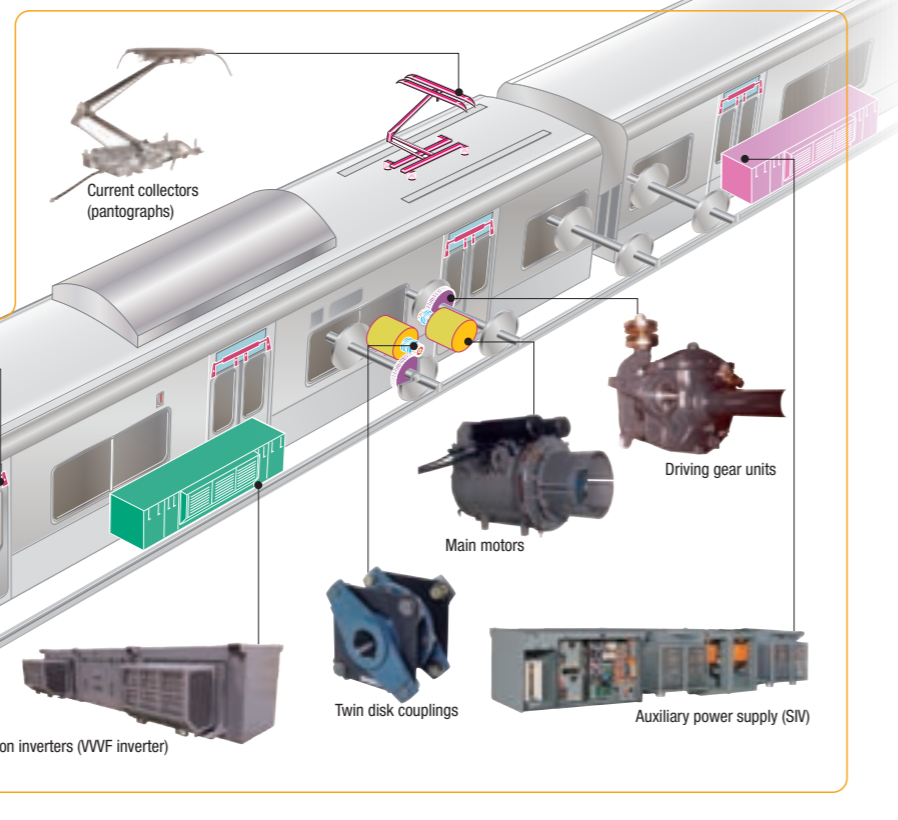
Our Long-Term Vision

Based on a firm management foundation, we help build social and industrial infrastructure systems that are considerate of the global environment through the global provision of high-quality products that integrate our breakthrough advanced technologies.



Transportation Systems Segment

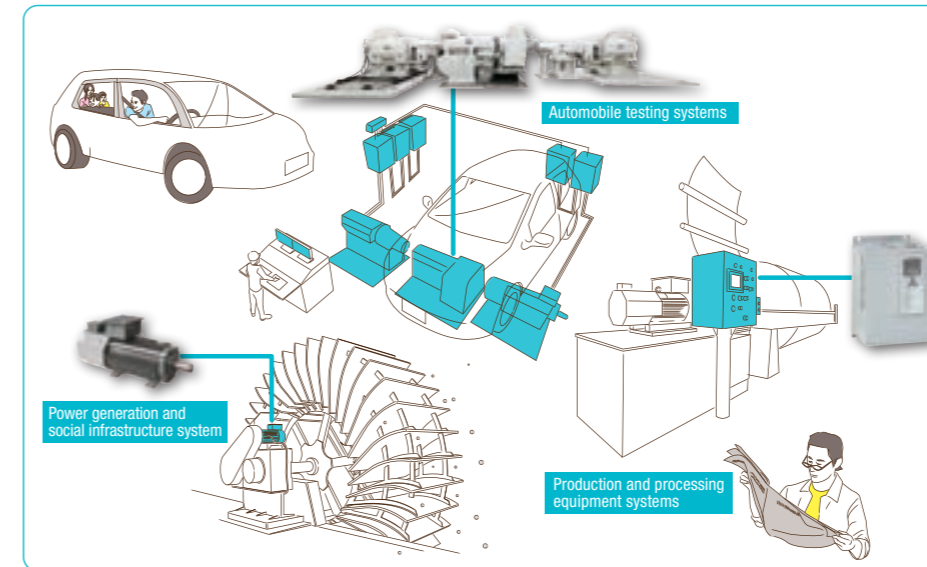
Electrical equipment for rail vehicles manufactured by the Company using its technological capability developed over 100 years covers a wide range of fields, including propulsion systems (drive systems), auxiliary power supply and door-closing units of trains, and we contribute to the maintenance and development of railway infrastructure overseas, not to mention in Japan, by pursuing safety and comfort of trains.



infrastructure systems that are considerate of the global environment exceptional motor drive technologies since establishment with our

Industrial Systems Segment

The Company is extensively contributing to customers at home and abroad through general industrial machinery and equipment, testing equipment for automobile development and social infrastructure equipment that is indispensable to the daily lives of people. In addition, we address manufacturing that contributes to the prevention of global warming, while providing products manufactured through high system-building technologies that make full use of energy-saving motors, inverters, FA controllers and networks.



ICT Solution Business Segment

In the ICT Solution Business segment, we operate in the two fields of railway station operating equipment systems and IoT solutions, by merging advanced telecommunications technologies and mechatronics. With regard to railway station operating equipment systems, we develop and manufacture commuter pass issuing machines that quickly became IC card compliant and portable terminal devices for conductors, and provide systems for smooth fare collection and income management system to railway operators. Our IoT solutions greatly contribute to labor saving and maintenance saving of customers through realization of various equipment monitoring and position monitoring, by leveraging cloud computing.



CONTENTS

Contents/Editorial Policy/Our Long-Term Vision ...	1
Over 100-Year History of Toyo Denki Seizo K.K. ...	3
Consolidated Financial Highlights	4
Message from the President	5
Value Creation Process at Toyo Denki Seizo ...	9
Special Report Medium-Term Management Plan ...	11
Message from the Executive Responsible for Management Planning	12
Business Report	
Business of the Toyo Denki Group	13
Transportation Business Segment	14
Industry Business Segment	15
ICT Solution Business Segment	16
New Business Development/Intellectual Property	17
Sustainability	
Sustainability Policy	19
Sustainability Roadmap	20
Initiative in Products and Services	21
Initiative in Production Activities	23
Initiative in Valuing People and Communities ...	26
With Our Employees	26
With Our Local Communities	27
Governance	
Governance	28
• Corporate Governance	28
• Directors, Statutory Auditors, and Operating Officers	30
• Messages from Outside Executives ...	31
• Internal Control and Compliance	32
• Risk Management	32
• Risk Factors	32
• Information Security	34
Financial Report	
Financial Review	35
Reference Data for Management Indices ...	36
Consolidated Balance Sheets	37
Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	39
Consolidated Statements of Changes in Net Assets	40
Consolidated Statements of Cash Flows ...	41
Information	
Stock Related Information	42
Company Profile	43
Organization Chart	44

• Editorial Policy •
We have been publishing this report since 2013 with the goal of allowing a wide range of stakeholders to have a better understanding of the Company. This report combines our management policy with reports on our businesses, sustainability, governance, finances, and other matters. We are committed to describing our initiatives during the year and our future direction in a manner that is easy to understand.

• Period Covered by This Report •
This report focuses on our activities in fiscal 2021 (from June 2021 to May 2022), but also contains some information from outside this period.

• Organizations Covered by This Report •
This report covers Toyo Denki Seizo K.K. and its subsidiaries and affiliates listed on Page XX.

• Reference Guidelines •
The GRI Sustainability Reporting Standards (GRI Standards) / IIRC / Guidance for Value Creation / TCFD / Human Capital Guidelines

Over 100-Year History of Toyo Denki Seizo K.K.

Our company was founded in 1918 with the intention of “domestic production of electrical machinery for railway vehicles”. A spectacular feeling that we want to export products to domestic as well as to many Orient countries and contribute to the development of the country has come from the name of “TOYO DENKI SEIZO K.K.”. And this feeling has been handed down to successive employees, and now our products are contributing to the development of social infrastructure systems around the world.

1918~1949



Group photo of our employees with technical advisors from the partner British Dick Kerr company.

1918 ● Technical cooperation with British Dick Kerr and establishment of the company with the capital of 3 million yen

1919 ● Operation started at Yokohama Factory



Yokohama factory at the start of operations (Hodogaya-ku, Yokohama)

1920 ● Control equipments and traction motors delivered directly to Keihan Electric Railway Co.

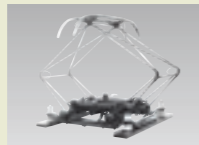
1921 ● Development of pantograph, first in Japan

1926 ● Start of manufacturing of three-phase commutator motor (AS motor)

1932 ● Development of electric equipment for trolleybus, first in Japan
● Completion of controller with regeneration brake using compound motor, first in Japan

1935 ● Development of diesel electric railcar, first in our country, and delivered to Sagami Railway

1949 ● Our stocks was listed on Tokyo Stock Exchange



Early domestic pantograph



AS motor

1950~1989

1950 ● Development of ST type three-phase AC Commutator motor (patented)

1952 ● Development of Cardan shaft driving device, first in Japan

1958 ● Completion of traction motor and controller for the Japan National Railways “Kodama” limited express

1959 ● Completion of automatic train stop

1960 ● Completion of traction motor and drive for Shinkansen testing car
● Order received for electric towing locomotive for the Panama Canal
● Development of constant-speed operation controller for vehicle, first in Japan
● Development of hydraulic winch for ship, first in Japan

1963 ● Delivery of pantograph for Shinkansen to Japanese National Railways

1965 ● Development of thyristor static Leonard equipment series, first in Japan

1969 ● Completion of automotive brake test equipment



Cardan shaft driving device



Japan National Railway 151 series limited express train “Kodama”



Electric towing locomotive for the Panama Canal



Japan National Railway Series 0 Shinkansen

1972 ● Development of brushless motor generator (BLMG), first in the world

● Development of 150kVA 440Hz static CVCF, first in Japan

1973 ● Completion of commutation ticket issuing system

1977 ● Completion of large high-speed automatic drafting machine

1978 ● Developed our proprietary AFE chopper device

1983 ● Completion of in-train ticket issuing system

1985 ● The current Yokohama Plant was completed

1985 ● Delivery of world-first superimposed field excitation control for 205 series electric train of Japanese National Railways

1988 ● Completion of world-first heat-pipe type 8-unit motor batch control VVVF inverter and delivery of it to Tokyu Electric Railway Co

1989 ● Development of small VVVF inverter using reverse conductive GTO thyristor, first in Japan

1990~2022

1990 ● Development of stroke switching type door closing machine, first in Japan
● Development of intelligent door system, first in Japan

1991 ● Development of light-weight VVVF inverter using 1,500V mass-production type reverse conductive GTO thyristor, first in our Japan

1997 ● Completion of in-train ticket issuing machine corresponding to automatic ticket checker

1998 ● Delivery of electric equipment for Beijing subway east-west line train

2000 ● Completion of permanent-magnet motor (ED motor)

2004 ● Development of electrical equipment for the world’s first micro gas turbine hybrid vehicle
● Joint development of the first full-flat, super-low floor light rail vehicle (LRV) produced in Japan
● Succeeded in development and running of in-wheel motor for car

2007 ● The new public transport smart card Pismo goes into service (delivery of automatic commuter ticket vending machine with support for smart card passes and smart card charge machines to station facilities)

2008 ● Start of sales of the VF66 inverter

2012 ● Order receipt of handsets for conductor for JR West

2014 ● Delivery of electrical machinery for Joetsu and Hokuriku Shinkansen E7

2018 ● May, Shiga Ryuo Plant completed
● June, Toyo Denki Seizo K.K. 100th anniversary
● Order received for consigned research and development of superconducting flywheel power storage system for railways

2019 ● Establishment of SIAMTOYO DENKI Co., Ltd. in Thailand

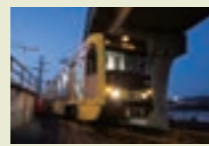
2020 ● Establishment of TOYO DENKI RAILWAY SERVICE, LLC. in the U.S.
● Delivery of electrical machinery for Tokaido and Sanyo Shinkansen N700S (mass-production model)

2022 ● Delivery of automobile testing system using in-wheel-well dynamo

● Transitioned to Standard Market of the Tokyo Stock Exchange



Beijing subway east-west line train



Los Angeles County Metropolitan Transportation Bureau P3010 LRV



In-wheel-well dynamo

to high economic growth

Global expansion and to the next 100 years

From postwar reconstruction

From foundation to postwar

Consolidated Financial Highlights

Highlights of Toyo Denki Seizo K.K. and Consolidated Subsidiaries for the Consolidated Fiscal Year ended May 31 or as of May 31

		157th fiscal term	158th fiscal term	159th fiscal term	160th fiscal term	161st fiscal term
		FYE May 2018	FYE May 2019	FYE May 2020	FYE May 2021	FYE May 2022
Financial Data						
Fiscal Year						
Net sales	(million yen)	42,527	41,172	39,071	33,143	30,158
Gross profit	(million yen)	8,072	7,839	8,242	7,338	6,815
Operating income	(million yen)	366	557	1,068	423	171
Net income attributable to owners of the parent	(million yen)	692	690	1,081	977	(930)
Comprehensive income	(million yen)	2,009	(251)	(351)	94	(1,727)
Capital investment	(million yen)	4,772	1,090	545	632	315
Research and development costs	(million yen)	840	731	792	819	712
Fiscal Year-End						
Net assets	(million yen)	26,327	24,804	24,183	24,008	22,012
Total assets	(million yen)	63,291 ^{*1}	58,001	55,165	51,967	46,916
Per Share Information						
Net assets	(yen)	2,788.01	2,773.87	2,704.61	2,685.28	2,462.17
Net income	(yen)	73.33	75.27	120.98	109.38	(104.02)
Dividend	(yen)	50 ^{*2}	30	30	30	30
Major Management Indices						
Shareholders' equity ratio	(%)	41.6	42.8	43.8	46.2	46.9
Return on equity (ROE)	(%)	2.7	2.7	4.4	4.1	(4.0)
Operating income ratio	(%)	0.9	1.4	2.7	1.3	0.6
Overseas net sales ratio	(%)	24.5	22.9	20.7	15.9	14.5
Dividend payout ratio	(%)	68.2	39.9	24.8	27.4	—
Non-financial Data						
Number of officers (non-consolidated)		12	11	10	10	11
Number of employees on a consolidated basis		1,267	1,226	1,227	1,217	1,193
Number of employees at subsidiaries in Japan (名)		391	395	386	371	363
CO ₂ emissions on a non-consolidated basis (t)		4,097	4,905	4,185	4,184	3,749
Electricity consumption on a non-consolidated basis (10,000 kWh) ^{*3}		680.3	839.2	743.9	751.6	712.5

^{*1} The Company has adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the 158th fiscal term. Accordingly, total assets as of the end of the 157th fiscal term have been calculated by retroactively applying the accounting standard.

^{*2} The dividend for the 157th fiscal term includes a commemorative dividend of 20 yen for the 100th anniversary.

^{*3} Aggregate amount of production bases per fiscal year beginning in April and ending in March of the following year. Figures for the Shiga Ryuo Plant since fiscal 2018 include those for TD Drive Co., Ltd.



By vigorously pressing ahead with our efforts towards the “revitalization and transformation of Toyo Denki,” we will demonstrate an unwavering commitment to drastically strengthen our management foundations so as to achieve our medium-term management plan that ends in the fiscal year ending May 2026.

Akira Watanabe
President

Future vision that returns to the starting point of Toyo Denki Seizo

A new Sustainability Policy established to propel us into our next 100 years

First established in 1918 with the intention of pursuing “domestic production of electrical machinery for railway vehicles,” the Toyo Denki Group marked the 100th anniversary of its establishment in 2018. Throughout that 100-year history, to embody our business principles that “prioritize ethics and contribute to the prosperity of customers and society as a whole,” we have engaged in the manufacture of various products that benefit the environment and society. In recent years, distortions in society, such as poverty and inequality, brought about by climate change, have become a

major social issue. In response, the Group formulated an environmental philosophy that views protection of the global environment as a priority. In April 2021, we announced a new Sustainability Policy based on the business principles we have cultivated since our establishment and the environmental philosophy that is in response to those social issues of recent years. With this, we have renewed our commitment to take a new path that will propel us forward into our next 100 years.

Results for the fiscal year ended May 2022

A year in which challenges surfaced amid a harsh business environment

The Toyo Denki Group has three segments: the Transportation Business segment, whose main products are electrical equipment for railway vehicles, the Industry Business segment, whose main products are production and processing equipment systems for industry and automobile testing systems, and the Information

Equipment Systems segment (now the ICT Solution Business segment), whose main areas are railway station operating equipment and IoT solutions.

The fiscal year ended May 2022 was the final year of the medium-term management plan (Revitalize 2020/2022).

However, in Japan, the business environment remained severe, with pandemic-related state of emergency declarations issued intermittently, and having to deal with the gradual easing of restrictions on activities since those declarations were lifted in October. Then, from January, we were struck by new adversity in the form of a sudden spike in Omicron variant infections and difficulties in procuring semiconductor chips and other components. Overseas, although some economic recovery was observed in the United States and many other countries, in China, where our Group has been doing business for over 20 years, the business environment was similarly harsh to Japan, due to urban lockdowns and tightened restrictions on activities imposed by the zero-COVID policy.

Among the railway operating companies that are the Group's major customers, delays and revisions of plans to build new rolling stock and investments in railway station operating equipment since 2020 have resulted in declines in orders received in the fiscal years ended May 2020 and May 2021. In the Transportation Business segment, which is the main pillar of the Group's business earnings, because most of our products have a long lead time from receipt of order to delivery and recording of revenue, net sales were sluggish, resulting in declines in both net sales and profit.

In the Industry Business segment, another of the Group's profit pillars, receipt of orders was sluggish due to the impact of restrictions on sales activities caused by requests to refrain from face-to-face marketing and restrictions on overseas travel. Further, with the progress in the shift to electric vehicles by the automotive manufacturers and re-examination of investment in testing systems for automobile development, net sales and profit both declined.

The Information Equipment Systems segment also suffered a similar impact to the Transportation Business segment from the railway operators' restraint in equipment renewal, resulting in falls in both net sales and profit.

As these results show, in the fiscal year ended May 2022, a major challenge surfaced in our ability to secure the earning capacity needed to withstand harsh changes in the business environment, and performance fell far short of the plan's projected figures.

Reflecting on the above results, we will redefine the strengths and sources of value creation that we have cultivated throughout our long history, and, on that basis, all of our employees will band together to promote the “revitalization and transformation of Toyo Denki.”

Outlook for the fiscal year ending May 2023 and new medium-term management plan

In the fiscal year ending May 2023, we will drastically strengthen our management foundations for the “revitalization and transformation of Toyo Denki”

Based on the results of the fiscal year ended May 2022, we have positioned the fiscal year ending May 2023 as a year in which we will thoroughly implement structural reforms to improve profitability, and will vigorously press ahead with our efforts towards the “revitalization and transformation of Toyo Denki.” The same harsh business environment of the fiscal year ended May 2022 continues into this fiscal year, making it impossible to take an optimistic view. Nevertheless, from a medium- to long-term perspective, we have formulated three basic policies to secure the earning capacity to withstand the challenges that surfaced during REVITALIZE 2022 and the harsh changes in the business environment and to drastically strengthen our management foundations. Then, based on the outcomes and progress as well as the business environment in the fiscal year ending May 2023, we plan to announce a complete plan that will include the numerical targets of our new medium-term management plan, which will end in the fiscal year ending May 2026.

The first of the three basic policies is the “expansion of new businesses and products.” This will entail the reorganization of the core technologies owned by the Group and the development and expansion of new businesses and products. We have already established a new development center in June 2022 and undertaken structural changes, including reorganizing the

Information Equipment Systems segment into the ICT Solution Business segment. Another outcome is the development of products that combine power electronics with ICT, including our first delivery of a remote monitoring system for the VVVF inverter equipment for the high-speed surface transport system (HSST) that we delivered to Aichi Rapid Transit Co., Ltd.

The second basic policy is “thorough improvement of the earnings structures of existing businesses.” The production and sales divisions are working together to pursue improvements in production efficiency and quality and to secure appropriate selling prices through the provision of high value-added products and services. They are also making efforts to increase the profitability of existing businesses.

The third basic policy is “improvement of asset efficiency with an awareness of capital costs.” So far, we have reduced our cross-shareholdings and taken moves to improve asset efficiency, and we will continue those efforts.

In conjunction with these basic policies, we have begun the reform of our personnel systems to strengthen the manpower that forms the core of our management resources and to reinvigorate our organizational culture.

Initiatives for our new path

Proceeding with initiatives based on the Sustainability Policy

In the medium-term management plan that will end in the fiscal year ending May 2026, we are stepping up our initiatives based on the Sustainability Policy. We have organized our business activities from three perspectives, namely “initiative in products and services,” “initiative in production activities,” and “initiative in valuing people and communities,” and are giving consideration to our material issues (materiality).

The greatest focus of our efforts is on initiative in products and services, which are the very essence of the Group’s business activities. Since the Group was founded, we have contributed widely to society through the manufacture of various products that benefit the environment and society. Railroads have always been a more energy efficient transportation system than automobiles and aircraft, and they also have a smaller environmental footprint. Nevertheless, over many years, the Group has continued to refine our technologies and pursue even further energy savings and efficiency improvements. In the medium-term management plan, we will promote the development and popularization of energy efficient transportation, such as railroads and electric vehicles, as well as production equipment with improved efficiency and the power storage systems. In doing so, we will contribute to the realization of social and industrial infrastructure that is considerate of the global environment.

In the Transportation Business segment, we are implementing initiatives that contribute to the further advancement of the railways such as by improving functionality, reliability, and energy-saving performance of electrical equipment for railway vehicles. We are also working on the design of environmentally friendly products and the introduction of maintenance methods that leverage data science. Other initiatives we are pursuing include the effective use of regenerative power using storage batteries, consideration of the introduction of solar power generation on railway track facilities, and the development of new power storage systems that use superconducting flywheels to realize higher efficiency and low maintenance.

In the Industry Business segment, in the area of CASE* that is progressing in the automotive industry, we have commercialized an in-wheel-well dynamo to be used for testing advanced driver-assistance systems (ADAS) and a high-speed slender dynamo for testing electric vehicles. In November 2021, in recognition of our achievements in small hydroelectric power generation, we received an order for a full suite of electrical equipment for recirculation pump-type wave-activated power generation. Recirculation pump-type wave-activated power generation is a ground-breaking method of distributed power generation with a small environmental footprint. It is the result of research and development aimed at solving all at once the current challenges facing wave power generation, namely, how to deal with marine life, typhoons and other high waves, and the balance with the fishing industry.

The ICT Solution Business segment, which was re-organized from the Information Equipment Systems segment, in cooperation with the Transportation Business Unit, took the IORemoter II, a Toyo Denki-developed IoT terminal for cloud-based remote monitoring and control systems, and adapted it for use in a VVVF inverter system for railway vehicles, commercializing it as an IoT system for electrical equipment for railway vehicles. This product will reduce downtime by monitoring in real time the condition of electrical equipment for railway vehicles and collect data for future condition-based maintenance (CBM). CBM is a method of maintenance in which the condition of machinery and other production equipment is monitored in real time and serviced based on that condition, to prevent equipment failures. We have been pursuing R&D in anticipation of the introduction of smart maintenance in a wide range of fields, and we are now at a stage where we can propose this product to many customers, including the railway operators.

Along with the improvement in capital investment intentions among railway operators, automotive manufacturers, and other companies, we will see progress in the introduction of the technologies developed by the Group. I am certain that this will then be reflected in the Group’s business performance.

In our initiatives in production activities, as well as focusing efforts on reducing energy consumed in production at individual plants, we are pursuing initiatives to replace some of their energy consumption with solar power and other renewable energies. Already, part of the power used in production at the Yokohama Plant is being supplied by a solar power system. We are also pursuing reductions in energy and CO2 in the transport of raw materials and finished products. In addition to improving the products themselves, we have also begun making improvements in packaging and other areas. Further, we will pursue resources recycling initiatives at our production sites and offices.

As well as contributing to the reduction of burdens on the environment, including the greenhouse gases (GHG) that are the cause of climate change, we believe that these initiatives will help to reduce costs and expenses, thus contributing to the strengthening of the Group’s business foundations.

Finally, our initiative in valuing people and communities includes support for education, such as participation in endowment courses at universities and factory tours for school children, as well as activities to protect regional environments, such as conducting cleanups near our plants. At our Shiga Ryuo Plant, we have endorsed the Mother Lake Goals (MLGs), which are the Lake Biwa version of the SDGs, and are actively participating in related activities.

For our employees, in our efforts toward diversity and inclusion, we are actively recruiting more women and promoting female employees to management positions, as well as

proactively making improvements to the working environment and engaging in health & productivity management. Our achievements include the elimination of excessive overtime, receipt of the “Kurumin” logo that certifies us as a company that

supports child-rearing, and our selection in the 2022 Certified Health & Productivity Management Organizations Recognition Program (Large Enterprise Category).

Governance structure

Governance structure that separates supervisory and executive functions

The starting point of the Toyo Denki Group is our business principles that “prioritize ethics and contribute to the prosperity of customers and society as a whole.” In the same way, in corporate governance, as well as recognizing the importance of compliance based on these business principles, our basic policy is to consider, when necessary, management monitoring structures that respond to changes in the social environment, legal systems, and other areas, with the aim of achieving sound management.

We have adopted an operating officer system, in which the Board of Directors has a supervision function and is mainly in charge of governance, while the Operating Officers are primarily in charge of business execution. Further, in addition to the Board of Directors’ supervision function, we have built a structure for the effective functioning of the auditing function of the Statutory Auditors and the Board of Statutory Auditors. Regarding Outside Directors, pursuant to our independence guidelines for Outside Executives, which have been established in line with the standards set forth by the Companies Act and the Tokyo Stock Exchange, we elect persons who are capable of providing frank and lively exchanges of opinions and who can be expected to contribute to constructive deliberations in the Board of Directors. Also, where necessary, we enable the Outside Executives to obtain the required knowledge and skills through such means as briefings from the individual

segments on the nature of their business and medium-to-long-term initiatives.

In the evaluation of the effectiveness of the Board of Directors in the fiscal year ended May 2022, the overall assessment was that effectiveness had been generally ensured. However, room for improvement was acknowledged in the areas of management and business strategies, performance monitoring and evaluation/remuneration of management, and dialogue with shareholders and other stakeholders. Based on this evaluation, we will strive to improve the effectiveness of the Board of Directors going forward. We will also provide executive training in the form of workshops for all executives by inviting outside lecturers.

Our challenge going forward will be the promotion of women to senior management positions, including to the Board of Directors, and their participation in management. The active participation of women is one of the focal points of our personnel system reforms included in the medium-term management plan, for which the fiscal year ending May 2026 will be the final year. Through the recruitment of female employees and human resources development, we will pursue efforts to ensure that we will eventually emerge as a corporate group in which women can flourish by advancing to senior management and onto the Board of Directors.

Message to our stakeholders

“Our Heart and Technology for the Future”

The Company’s basic policy is to conduct ongoing and stable dividends. To respond to the trust placed in us by shareholders, we

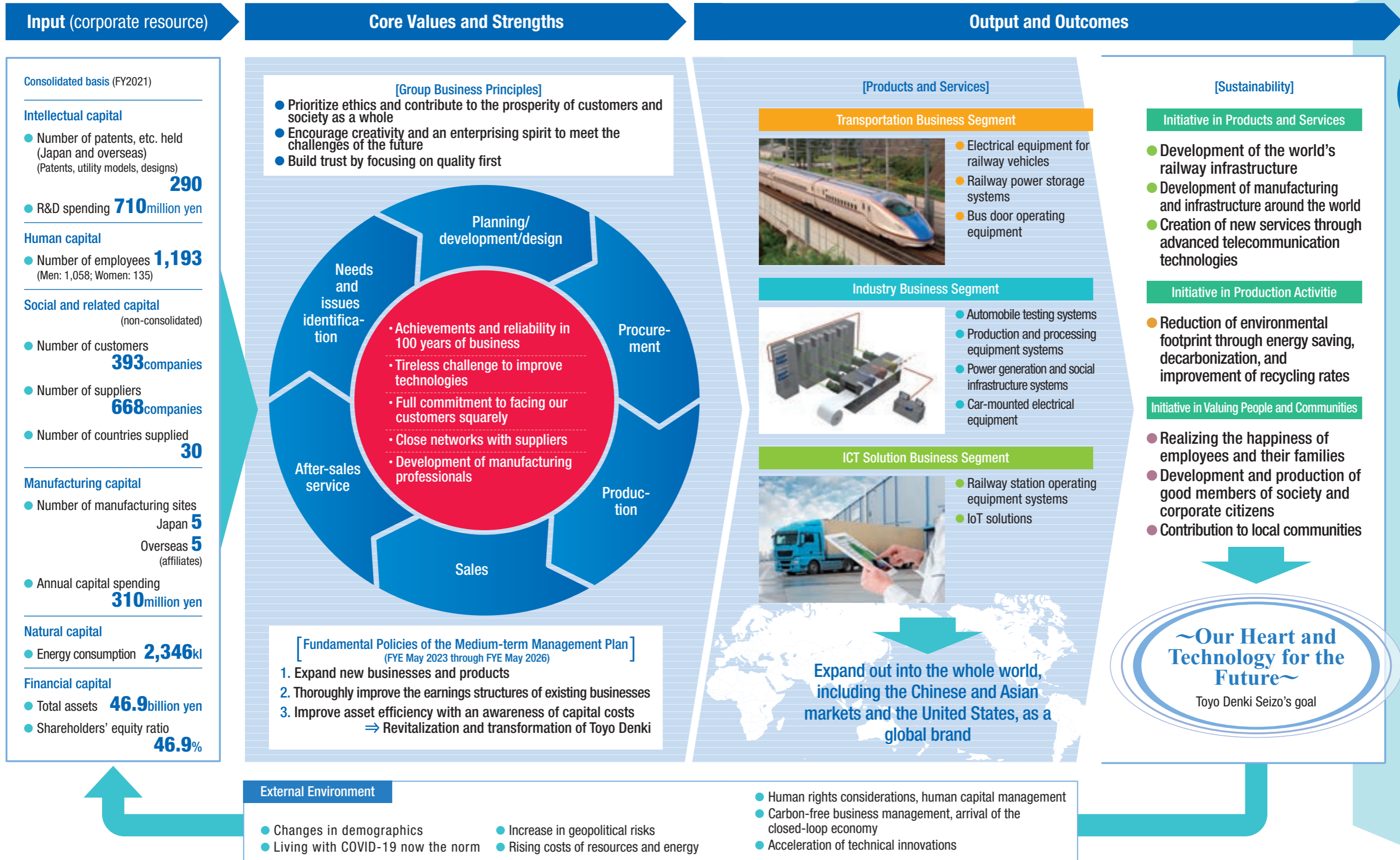
are working to strengthen the earning capacity needed to ensure the source funds for dividends and have declared a target payout ratio of 30%. In the fiscal year ended May 2022, under our basic policy for dividend returns to shareholders of “maintaining a stable

and continuous return of profits,” we paid a year-end dividend of 30 yen per share, the same as for the fiscal year ended May 2021. Retained earnings will be effectively injected into growth investments, including capital and R&D investments.

The Group has sent out into the world numerous electrical equipment for railway vehicles and general industry, with the motor drive technologies that we have cultivated since our establishment at its core. The company slogan of the Toyo Denki Group is “Our Heart and Technology for the Future.” We will continue to pursue business management that values people and technology into the future.

We hope that our stakeholders will look forward to the development and expansion of the Group’s business and would like to ask for their continued support.





Long-term Vision

Help build social and industrial infrastructure that is considerate of the global environment, with a focus on exceptional motor drive technologies

Medium-Term Management Plan

The Group has established the medium-term management plan (FYE May 2023 through FYE May 2026) as follows.

About the fundamental policies

Because we were unable to obtain sufficient earning capacity to cope with the major changes in the business environment, including the downturn in railway passenger numbers during the COVID-19 pandemic and the revision of testing equipment due to the electrification of automobiles, the result of the previous medium-term management plan "Revitalize 2020/2022" was a major shortfall from the plan's targets.

In light of the challenges faced by the Company that have been revealed by these results, for the next medium-term management plan (FYE May 2023 through FYE May 2026), we will pursue initiatives to accomplish the "revitalization and transformation of Toyo Denki," in our goal of the "recovery and improvement of corporate value."

fundamental policies

1. By expanding new businesses and products
2. and thoroughly improving the earnings structures of existing businesses
3. as well as improving asset efficiency with an awareness of capital costs, we will drastically strengthen our management foundations with the aim of achieving ROE of 8% or more as soon as possible.

About numerical target

Positioning this fiscal year, the first year of the plan, as a year in which we will thoroughly implement structural reforms to improve profitability, we will pursue initiatives for the "revitalization and transformation of Toyo Denki."

For the medium-term management period toward FYE May 2026, based on the business environment along with the progress and outcomes of structural reform initiatives this year, we will formulate numerical targets for management that we can commit to our valued stakeholders, which we intend to announce by July 2023.

About priority structural reform initiatives this fiscal year

1 Initiatives for the expansion of new businesses and products

- ① Strengthen and expedite development of new business areas across the company centered on the Development Center newly established this fiscal year
(Creation of technologies and products that contribute to a decarbonized and sustainable society and discovery of new business fields)
- ② Expand the business domain from railway station operating equipment to ICT in general through the ICT Solution Business segment reorganized this fiscal year
(Establishment of an ICT business area unique to the Company through the fusion of power electronics and ICT)

2 Thoroughly improving the earnings structures of existing businesses

- ① Drastically strengthen profitability of both factories and sales from the viewpoint of improving production efficiency and securing appropriate selling prices
- ② Strengthen the operation of existing businesses with a greater focus on profitability, in order to increase investment in R&D and human resources

3 Improving asset efficiency with an awareness of capital costs

- ① Continue to reduce cross-shareholdings and idle assets
- ② Review capital efficiency of each business and consider reallocation of corporate resource

The Company was impacted greatly by the prolonged COVID-19 pandemic, with both net sales and profits on a consolidated basis falling to their lowest level in 20 years in the fiscal year ended May 2022.

As the President mentioned in his message on previous pages, to solve the challenges facing the Company that were revealed by these results and to recover and improve corporate value, in the medium-term management plan (covering FYE May 2023 to FYE May 2026), which kicked off this fiscal year, we are pursuing initiatives under a basic policy founded on three pillars:

- (1) expansion of new businesses and products;
- (2) thorough improvement of the earnings structures of existing businesses; and
- (3) improvement of asset efficiency with an awareness of capital costs.

We are pursuing initiatives for the "revitalization and transformation of Toyo Denki" in this medium-term management plan as part of our renewed focus on efforts toward sustainability. In the production of this Toyo Denki Seizo Report 2022, our emphasis has been on conveying the details of these initiatives to our many stakeholders in a way that is as easy to understand as possible. In particular, we aimed to convey more concrete goals and roadmaps of our sustainability initiatives, while re-affirming the direction in which the Company is heading, such as what we want to capitalize on as our strengths and what kind of products, services, and value we want to provide to our customers and to society. I hope that our stakeholders offer frank opinions and help us to further enhance and improve the content of these reports.

Finally, I would like to explain our shareholder returns and the financial strategy on which our sustainable management will be based.

With our basic policy on shareholder returns to pay continuous and stable dividends, we are working to enhance returns with a target payout ratio of 30%. However, our greatest challenge will be to raise our ROE from its current low level of less than 5% to at least 5% and to the 8% level as soon as possible. To achieve this, we will forcefully pursue initiatives based on the three basic

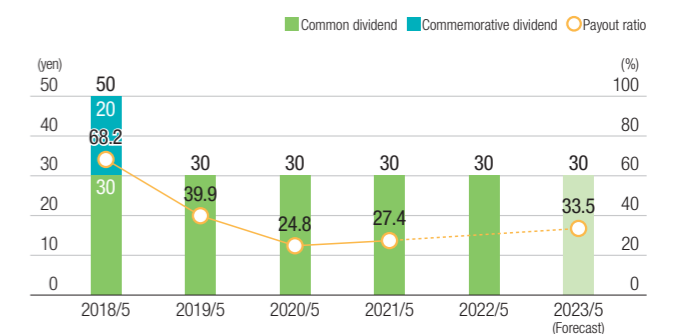


Kenji Tanimoto

Director

policies stated in the medium-term management plan. Regarding our financial strategy, while maintaining our sound financial foundations of shareholder's equity ratio of 46.9% and DE ratio of 0.53 in FYE May 2022, we will step up our investment, which had been curtailed since the large-scale investment (approx. ¥7 billion) in the Shiga Ryuo Plant (operations commenced in June 2018). Our particular focus will be on capital investments and R&D investments for the expansion of new products and businesses and investment in human resources.

Dividend/payout ratio per share



Business of the Toyo Denki Group

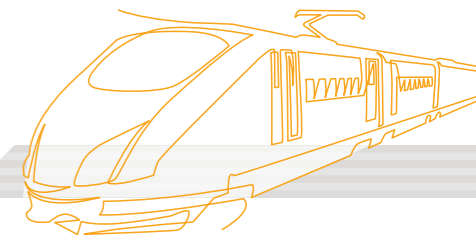
The Toyo Denki Group operates three businesses, namely, Transportation Business segment, Industry Business segment, and ICT Solution Business segment. We also conduct new business development in our Development Center.

In the Transportation Business segment, we are a leader in electrical equipment for railway vehicles. The Industry Business segment is centered on industrial electrical equipment such as motors and inverters for production equipment and machinery. The ICT Solution Business segment develops and manufactures railway station operating equipment and IoT solutions. The Development Center pursues initiatives for the expansion of new businesses and products.

The Group is contributing to the prevention of global warming and the realization of a recycling-based society through the manufacture of highly energy-efficient products.



Transportation Systems Segment



Support railway transportation that connects people and cities with safety and trust, through manufacturing that merges electronics technologies and mechanical technologies in a highly advanced manner



Naoki Okuyama
General Manager of Transportation Business Unit

Business environment and strategy

While some recovery of economic activity can be seen with the easing of restrictions on activities as part of infection countermeasures, there continue to be price rises of raw materials and supply shortages of semiconductor chips. Even further corporate efforts and activities to support the railway operators have become necessary.

In the domestic market, with the recovery in railway passenger transport, there is a certain level of demand for rolling stock production and equipment renewal, and receipt of orders remains firm. The production and sales divisions are working together to avoid the impact of our most pressing issue of the protraction of delivery times for parts and materials.

In overseas markets, recovery of demand can be seen in China, but we are keeping a close watch on the impact of the resurgence of infections after the easing of COVID-19 infection countermeasures. We continue to receive inquiries from Southeast Asian countries and the North American region, and the sales, engineering, and production divisions are working together to respond to them.

We support initiatives by the railway operators to achieve the SDGs and carbon neutrality. Specifically, we will strive to roll out the E3 Solution System, our railway power storage equipment that will realize energy saving and stable transport through the effective use of electric power.

Results for FYE May 2022

● **Orders Received**
18,800 million yen (Down 0.1% year on year)



● **Net Sales**
19,456 million yen (Down 9.6% year on year)



● **Segment Income**
2,190 million yen (Down 1.0% year on year)



Main actions

In addition to our ongoing pursuit of safety and reliability of electrical equipment for railway vehicles, which operate in harsh conditions, we will devote efforts to reducing our environmental footprint, including energy saving, maintenance saving, and noise reduction, and work to provide environmentally friendly products and services.

In the promotion of digital transformation (DX) in product maintenance, we have started providing remote monitoring systems for condition-based maintenance (CBM), which predicts product age-related deterioration and breakdown timing by monitoring conditions using AI and data science. We are also placing efforts into smart maintenance that aims for efficiency improvement and preventive maintenance with appropriate inspection cycles.

We have launched maintenance businesses for delivered products in both North America and China. By steadily capturing the growing demand for maintenance and servicing, we will strive for the expansion of our business and the stable provision of services.

Industrial Systems Segment

Deliver technologies and gratitude to customers with highly precise, highly responding and highly efficient power electronics, for realization of an environment-friendly society



Toshihito Nakanishi
General Manager of Industry Business Unit

Business environment and strategy

With the recovery in the economy after the COVID-19 pandemic, capital investment in the manufacturing industry is on a path to recovery. In fiscal 2021, although there was still visible impact of restrictions on sales activities, such as overseas travel restrictions and voluntary restraint from meetings with customers, those restrictions are easing, and we can expect new demand for capital investment. On the other hand, the effects of rising prices of raw materials and shortages of semiconductor chips and other components continue to be felt, and the production and sales divisions are keeping each other closely informed to handle this situation.

In the area of automobile testing systems, with the rapid shift toward electric vehicles, some automakers and parts manufacturers are considering revising the content of their conventional testing systems. Our unit is proceeding with proposals in response to these kinds of revisions.

Further, amid the trend toward carbon neutrality, expectations for power generation using natural energy are on the rise, and we are making proposals to meet those expectations.

Amid such changes in the environment, we will work together with the new Development Center that was established in June 2022 to actively engage in new areas with the prospect of contributing to sustainability.

Results for FYE May 2022

Orders Received

10,688 million yen (Up 0.9% year on year)



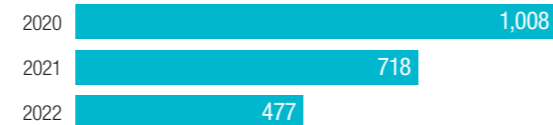
Net Sales

9,902 million yen (Down 6.1% year on year)



Segment Income

477 million yen (Down 33.4% year on year)



Main actions

We will expand into areas where we can contribute to sustainability, such as decarbonization.

In the area of automobile testing systems, to respond to the shift toward electric vehicles, in addition to working on increasing the output of battery simulators, we made our first delivery to a customer of the in-wheel-well dynamo that we had been developing. With representatives of the automakers who attended trade exhibitions and factory tours expressing an interest in this product as a tool for various testing of automobiles, we will make modifications in line with their feedback and aim for its use in the testing of driver-assistance systems.

Overseas, our Thai subsidiary, SIAM TOYO DENKI, which was established in 2019, is achieving results in the expansion of its customer base. Pandemic restrictions are easing, and we are proceeding with the commercialization of the 690V motor and inverter for overseas markets, with the aim of rolling them out in the Asian region. In Japan as well, we will respond to the increase in inquiries for our products accompanying the recovery in capital investments in energy saving and other areas by stepping up our efforts toward small hydropower generation and wave power generation, in which the Company has a strength.

ICT Solution Business Segment

Reorganized from the Information Equipment Systems segment in June 2022

Support the improvement of customers' operational efficiency, convenience, and added value and the construction and operation of DX-MaaS infrastructure with ICT solutions that combine advanced ICT and electronics.



Shingo Furuzawa
General Manager of ICT Solution Business Unit

Business environment and strategy

Although railway passenger numbers in Japan are not expected to return to pre-pandemic levels, they are gradually recovering as people learn to live with COVID-19, and capital investment related to railway station operating systems is starting to recover.

In particular, the market is expected to expand for systems that contribute to improved rail passenger services and for MaaS-related services

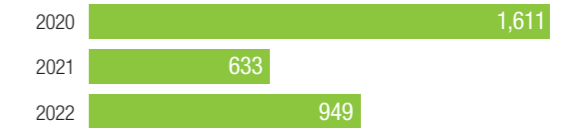
Against the backdrop of dramatic advances in technologies such as cloud computing, communications, data analysis, and AI, as well as working population shortages and value creation using big data, the IoT market is starting to expand into new areas. These include countermeasures against the deterioration of infrastructure equipment, particularly in the manufacturing, public, and transportation sectors, upgrades in transportation infrastructure, and supply chains.

The ICT Solution Business segment, which was reorganized in June 2022, will work toward the active expansion of business fields in these areas.

Results for FYE May 2022

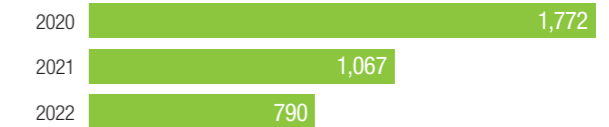
Orders Received

949 million yen (Up 49.8% year on year)



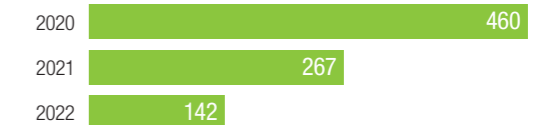
Net Sales

790 million yen (Down 26.0% year on year)



Segment Income

142 million yen (Down 46.5% year on year)



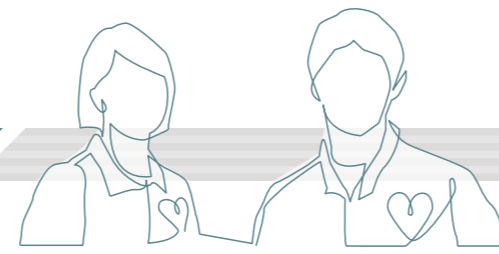
Main actions

The ICT Solution Business segment is a segment that integrates railway station operating systems and IoT solutions.

In railway station operating systems, the combination of advanced ICT and mechatronics will simultaneously achieve improved convenience for railway patrons and labor saving for railway operators. We will develop platforms, devices, and applications for the MaaS era with the keywords of contact-free, cashless, and thin client, and provide a seamless mobility environment.

In IoT solutions, we will provide solutions that monitor and control mobile entities and remote equipment to realize operational efficiency improvements, maintenance optimization, preventive maintenance, and condition-based maintenance (CBM) with cloud services and systems services for mobile communications.

We will strive to expand the ICT Solution Business segment by providing our customers with solutions that generate added value.



Development of new business fields across the entire company

The new Development Center established in June 2022 is playing a central role in our efforts to strengthen and expedite development of new business fields across the entire company.

Transportation Business × ICT Solution Business × Development Center

Real-time condition monitoring system for railways

We built and delivered a system that can monitor railway operational condition and behavior in real time over the public cloud by retrofitting our IORemoter to the railway vehicle's VVVF device. This system has realized the conversion of the equipment installed in railway vehicles to an IoT device with simple retrofitting.

Through assistance with energy consumption reductions achieved by data collection and analysis for the improvement of maintenance performance in the railway sector, we will work to realize energy- and maintenance-saving railway systems.

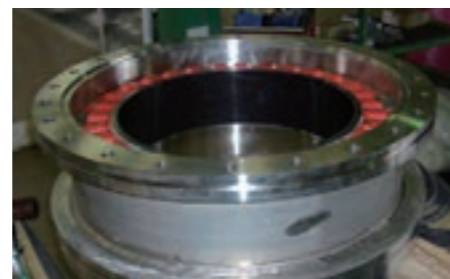


Industry Business × Development Center

Development and mass production of custom-made motors

Capitalizing on the power electronics technologies and production technologies we have cultivated for railway vehicles and general industry, we are pursuing the exclusive development of electric motors and invertors for mobile entities, optimal design of built-in electricals for motors, pumps, and production machinery, and other developments as motors tailored to customer needs.

By handling everything from customized prototyping to small-lot mass production for downsizing, weight reduction, inverter-converter control, environment resistance, efficiency optimization, and advanced functions, we will realize the development of products with higher added value.



ICT Solution Business × Transportation Business × Development Center

Cashless payment terminal solutions

We will provide terminals that offer a wide variety of payment methods, including touch payment, code payment, and e-money. Because these terminals have an inbuilt printer and are portable, they can be used in any location and for any situation.

These terminals can be used for various applications other than as conventional supplementary on-board ticket issuing devices, and we can provide logistical systems using cloud services. We will also build commercial applications in line with customers' preferences.



Industry Business × ICT Solution Business × Development Center

Power generation systems using recyclable energy

Amid the trend toward the realization of carbon neutrality worldwide, we will provide environmentally friendly distributed power generation systems (power generation + power conditioner panel) using natural energy generated by hydropower, wind power, ocean energy power, and such.

With our extensive track record of over 100 deliveries, we are able to provide electrical equipment suites that include power transforming equipment to meet new needs. Such needs include power supply for self-sustained operation during loss of grid power, such as in emergencies, and output control response to meet grid-side requirements, with optional demand monitoring and control solutions.



Industry Business × Development Center

Evaluation equipment compatible with advanced driver-assistance systems (ADAS)

Using the in-wheel-well dynamo that we developed in 2020, we are pursuing further development with the aim of providing next-generation vehicle testing devices that are suitable for testing autonomous driving and advanced driver-assistance systems.

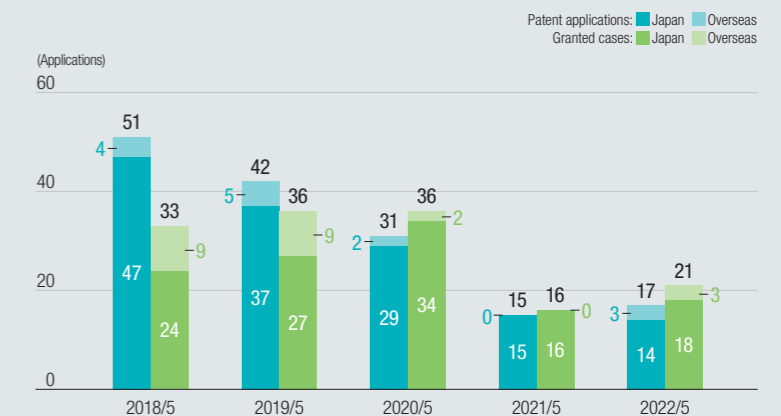
Through the ongoing development of new functions that incorporate the wishes of users to whom we have already delivered our products and people who have shown an interest at trade exhibitions and other events and that also reflect future market trends, we will support the development of automobiles and help to realize a decarbonized and sustainable society.



Intellectual Property

Our intellectual property is placed as a key corporate resource. Our intellectual property department is responsible for the management of intellectual property and the development divisions in each business unit and the Development Center actively apply for patents and utility models.

Patent applications granted



Establishment of Sustainability Policy

Considering efforts for the Sustainable Development Goals (SDGs) as an important management issue, the Group has formulated the Sustainability Policy as a guideline for specific actions.



Basic policy

The Toyo Denki Group states its commitment to contributing to society in the business principles and initiatives to protect the global environment as its priority task in the environmental philosophy. The Group has formulated the Sustainability Policy as a guideline for its efforts to realize these principles and contribute to the sustainable development of society.

Corporate principles

Business Principles

The Toyo Denki Group will practice the following business principles to ensure the growth of its business, earn the confidence and understanding of shareholders and stakeholders, and foster the development of its employees:

- Prioritize ethics and contribute to the prosperity of customers and society as a whole
- Encourage creativity and an enterprising spirit to meet the challenges of the future
- Build trust by focusing on quality first

Environmental Philosophy

The Toyo Denki Group sets initiatives to protect the global environment as its priority task and contributes to the development of a sustainable society.

<Action Guidelines>

We will continue to provide products and services that are considerate of the burden on the global environment by drawing on our "future-oriented technologies friendly to the Earth and mankind."

1. We will comply with all environmental requirements including those under the relevant laws and regulations.
2. We will strive to minimize environmental burden through a reduction of energy consumption and other measures at all stages of product lifecycle, namely planning, development, design, production, sales, use and disposal.
3. We will establish and execute a system to continuously promote activities to protect the global environment.
4. We will raise environmental awareness among individuals through enlightenment activities within the Group.

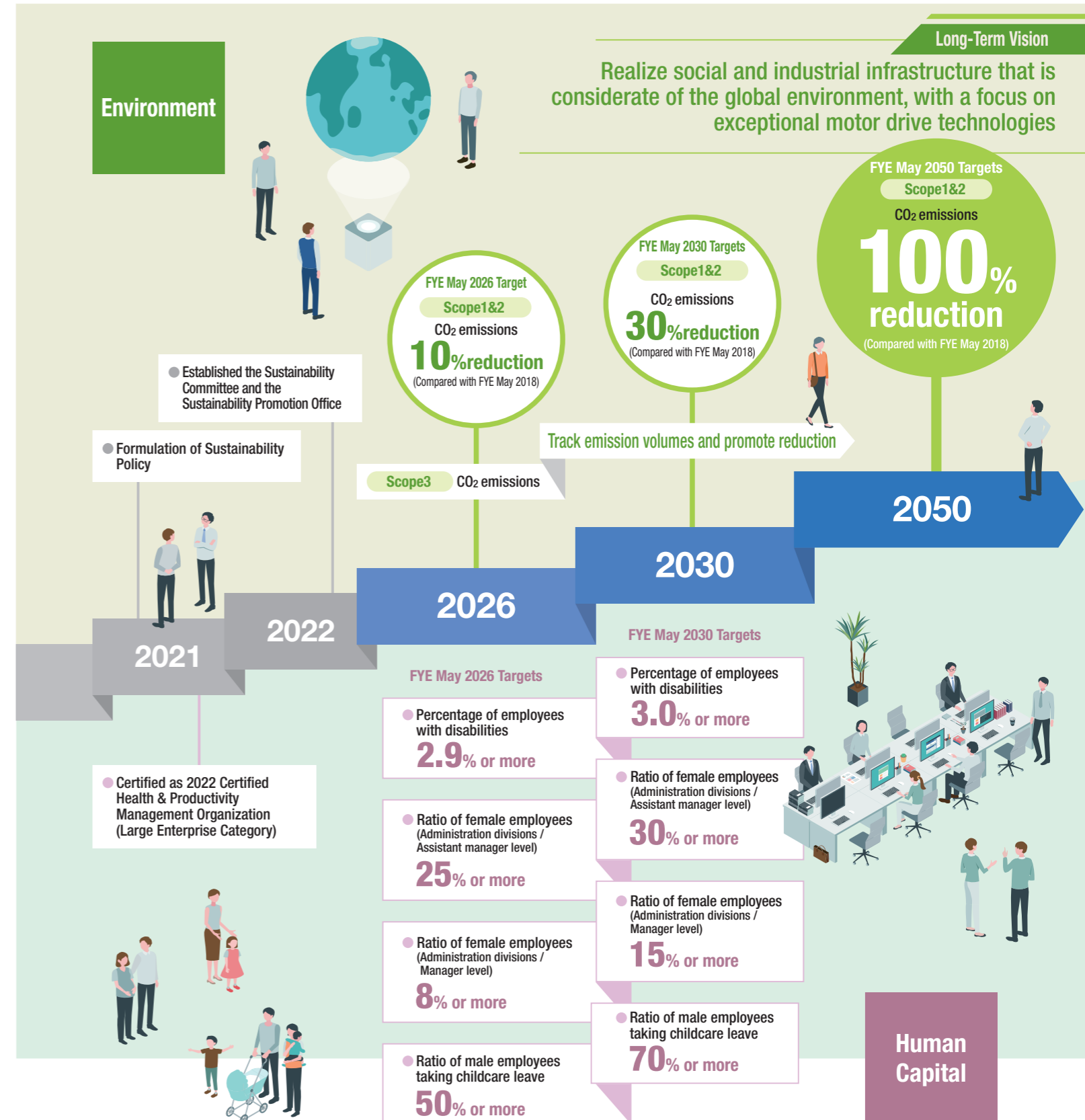
Company Slogan of the Toyo Denki Group

Our Heart and Technology for the Future

Sustainability Policy

















Three perspectives	Initiative in Products and Services	Initiative in Production Activities	Initiative in Valuing People and Communities
Policy	We will use the Group's exceptional technologies to provide products and services that contribute to the realization of a sustainable society.	We will strive to minimize environmental burden in production activities and continue to protect regional environments.	We will value our employees and the local communities and carry our aspirations into the future.
Specific actions	<ul style="list-style-type: none"> • Supply of decarbonized energy, such as small hydroelectric power generation • Popularization of energy-efficient transportation, such as railroads and electric vehicles • Efficiency improvement of electrical equipment and the spread of power storage systems • Improvement of safety through a shift to barrier-free transportation systems etc. 	<ul style="list-style-type: none"> • Reduction of energy consumption in production • Study of solar power generation and decarbonization of energy currently used • Reduction of energy consumption during transportation of materials and products • Recycling activities at production sites and offices etc. 	<ul style="list-style-type: none"> • Support for education through university endowment courses and offering factory tours for school students • Promotion of diversity and inclusion • Promotion of health and productivity management and well-being • Protection of regional environments and contributions to nature conservation, etc.

Sustainability Roadmap



Initiative in Products and Services

We will provide products and services that help build a sustainable society using the exceptional technologies of the Group.

Business Category	Business Description	Value We Offer	Focus SDGs	Examples
Transportation Business Segment	Electrical equipment for railway vehicles	Contribute to the world's railway infrastructure through the supply of high-quality electrical equipment for railway vehicles	   	<p>[Ongoing actions]</p> <ul style="list-style-type: none"> ● Adoption of highly efficient semi-conductors and smaller, lighter propulsion systems (drive systems such as VVVF inverters and low-noise motors) ● Establishment of condition-based maintenance (CBM) with real-time monitoring of product operation status and analysis of accumulated data to prevent product failure and save manpower and labor ● Shift to barrier-free transportation with various electrical equipment optimally designed for light rail vehicles (LRV), and ramp and door-step devices for railway vehicles <p>[Future actions]</p> <ul style="list-style-type: none"> ● Promote the development of autonomous driving technology for the realization of driverless driving ● Establish a new maintenance model using digital twin technology ● Improve recyclability and eliminate specified hazardous substances with promotion of environmentally conscious design
	Railway power storage systems	Contribute to energy-saving and stable railway transportation with the effective use of regenerative power		<p>[Ongoing actions]</p> <ul style="list-style-type: none"> ● Battery storage of regenerative power generated by train braking and supply of power to trains in emergencies <p>[Future actions]</p> <ul style="list-style-type: none"> ● Further reduce energy usage by introducing systems that are combined with solar power in railway track facilities ● Build new storage systems, such as a superconducting flywheel railway power storage system
Industry Business Segment	Automobile testing systems	Support the development of next-generation vehicles with testing systems that use industry-leading high-performance motors and inverters		<p>[Ongoing actions]</p> <ul style="list-style-type: none"> ● Popularization of next-generation automobile testing systems using in-wheel-well dynamo, which saves space and is quiet, suitable for various driving test evaluations ● Development and supply of testing equipment in response to the shift to automobile electrification, such as ultra-high-speed dynamos and high-capacity battery simulators <p>[Future actions]</p> <ul style="list-style-type: none"> ● Adapt in-wheel-well dynamo to advanced driver-assistance systems (ADAS) and popularize autonomous driving systems
	Production and processing equipment systems	Contribute to manufacturing around the world by providing customers with optimal control systems using a wealth of technologies and products	   	<p>[Ongoing actions]</p> <ul style="list-style-type: none"> ● Construction of advanced systems that capitalize on high-efficiency motors and invertors ● Improvement of energy-saving performance and maintainability of production facilities with economical and eco-friendly Eco-Drive Motor (ED motor) <p>[Future actions]</p> <ul style="list-style-type: none"> ● Design products with better recyclability and develop rare-earths-free motors and control systems for them ● Expand RoHS compliant products and promote responses to REACH regulations
	Power generation and social infrastructure systems	Supply power generation systems for continuous/emergency use and generators using natural energy to support public infrastructure	  	<p>[Ongoing actions]</p> <ul style="list-style-type: none"> ● Establishment of power generation infrastructure by providing continuous-use generators to developing countries ● Popularization of small hydroelectric power generation systems and biomass generators ● Contribution to BCP preparation by supplying emergency generators for government offices, financial institutions, etc. <p>[Future actions]</p> <ul style="list-style-type: none"> ● Realize small and highly efficient pumps using Eco-Drive Motor (ED motor) ● Develop emergency generators using hydrogen and biofuels ● Popularize distributed power supply systems (mechanism in which power is supplied by small-scale generators distributed near consumption areas) for local production and local consumption of energy ● Participate in the demonstration of wave power generation and consider its commercialization
	Car-mounted electrical equipment	Contribute to the development of electric vehicles (EVs) and hybrid electric vehicles (HEVs) with power electronics technologies		<p>[Ongoing actions]</p> <ul style="list-style-type: none"> ● Supply of on-board electrical equipment in response to the shift to electrification, such as for construction machinery <p>[Future actions]</p> <ul style="list-style-type: none"> ● Promote recycling of used invertors, motors, and batteries of EVs
ICT Solution Business Segment	Railway station operating equipment systems	Achieve greater convenience for railway patrons and labor-saving for railway operators by combining advanced ICT and mechatronics	 	<p>[Ongoing actions]</p> <ul style="list-style-type: none"> ● Improvement in convenience of railways by popularizing railway station operating equipment (commuter pass issuing machines and portable terminal devices for conductors) <p>[Future actions]</p> <ul style="list-style-type: none"> ● Provide low-price ticketless systems to areas where IC has not yet been introduced, using QR codes, touch payment credit cards, and facial recognition technology ● Provide QR code payment systems shared by private railway companies and online booking services for commuter passes
	IoT solutions	Realize monitoring and control of mobile entities and remote facilities with a variety of simple, inexpensive IoT/M2M solutions	 	<p>[Ongoing and future actions]</p> <ul style="list-style-type: none"> ● Provide train operation information systems and bus location systems to improve the convenience of transportation systems ● Status monitoring, alarm notification, and remote control of generators using IoT remote monitoring systems ● Prediction and early detection of natural disasters (heavy rains, flooding and inundation, landslides) using IoT remote monitoring systems ● Conduct remote monitoring and control of agricultural greenhouses, poultry farms, pig farms, and onshore aquaculture facilities to support stable agricultural production ● Conduct remote monitoring and control of frozen food trucks and refrigerated containers to support safe and stable distribution of foods

Initiative in Production Activities

We will strive to minimize environmental burden in production activities and continue to protect regional environments.

Environmental Philosophy

The Toyo Denki Group sets initiatives to protect the global environment as its priority task and contributes to the development of a sustainable society.

Action Guidelines

We will continue to provide products and services that are considerate of the burden on the global environment by drawing on our “future-oriented technologies friendly to the Earth and mankind.”

1. We will comply with all environmental requirements including those under the relevant laws and regulations.
2. We will strive to minimize environmental burden through a reduction of energy consumption and other measures at all stages of product lifecycle, namely planning, development, design, production, sales, use and disposal.
3. We will establish and execute a system to continuously promote activities to protect the global environment.
4. We will raise environmental awareness among individuals through enlightenment activities within the Group

Aiming for Realization of a Sustainable Society

A sustainable society as envisaged by the Company is the combination of a “low-carbon society,” a “recycling-based society” and a “nature-symbiotic society.”

The environment technologies of the Company have produced numerous products that contribute to energy conservation, including high efficiency motors and inverters that capitalize on the amalgamation of our outstanding motor drive technology and other state-of-the-art technologies. In the meantime, the Company has been striving to conserve resources through not only the efficient use of energy but also the reduction of the size and weight of its products.

Decarbonized society

Implementation of measures against global warming

- Energy conservation through the Company's technologies and products

Recycling-based society

Promotion of 3Rs (reduce, reuse, recycle)

- Energy conservation in production activities
- Use of sustainable energy
- Improvement of logistics efficiency
- Proper treatment of wastes
- Reduction of amount of final disposal of wastes

Nature-symbiotic society

Conservation of biodiversity

- Proper management of chemical substances
- Cleanup around offices

Environmental Management System

In order to tackle environmental issues on an independent and continuous basis, the Company has developed and operates an environmental management system and thereby obtained ISO 14001 certification. This certification has been acquired for all offices and the production bases Yokohama Plant and Shiga Ryuo Plant.

Years of ISO 14001 certification

Yokohama Plant	Shiga Ryuo Plant*	Extended to all offices
2004	2001	2010

*The Shiga Ryuo Plant was the Shiga Factory (Moriyama) when it obtained the certification.

Initiatives to Prevent Global Warming

Initiatives to reduce greenhouse gas (CO₂) emissions

The Company is promoting energy conservation at each of its production bases and offices to reduce its CO₂ emissions. At the production bases in particular, we are promoting power-saving and streamlining at production facilities. In addition, the Yokohama Plant uses solar power generation for peak shaving of power demands.

Targeted reduction of CO₂ emissions and progress status

As described in the sustainability roadmap (page 20), the Company has set a target of reducing CO₂ emissions at the Company's production bases, the Yokohama Plant and the Shiga Ryuo Plant, by 10% in fiscal 2026. CO₂ emissions per unit of production output in fiscal 2021 increased by 3.6% at the Yokohama Plant and 9.5% at the Shiga Ryuo Plant due to lower production output caused by COVID-19, against the target of 1% reduction year on year. The Company will continue to make efforts to reduce CO₂ emissions per unit of production output by 1% year on year in the next fiscal year.

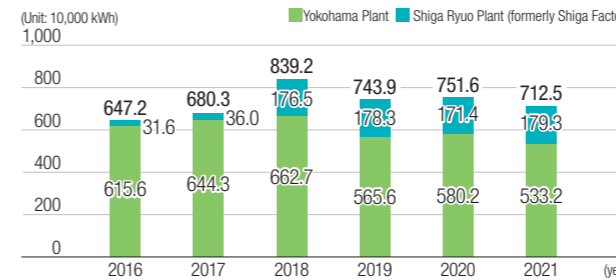
Installation of a solar power generation system at the Yokohama Plant

We installed a solar power generation system (500 kW) on the roof of the Yokohama Plant in 2012. In recent years, the system has generated 600,000 to 650,000 kWh of electricity annually, all of which is consumed internally. This contributes to reducing greenhouse gas emissions (equivalent to approximately 300 tons of CO₂ per year) and curbing global warming. The Company was awarded by Yokohama City in recognition of this accomplishment.

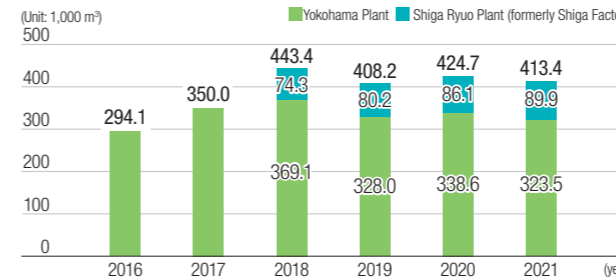


Solar power generation system at the Yokohama Plant

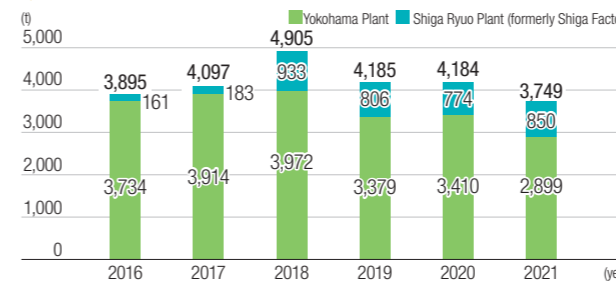
Total energy input (electricity)



Total energy input (gas)



Total CO₂ emissions



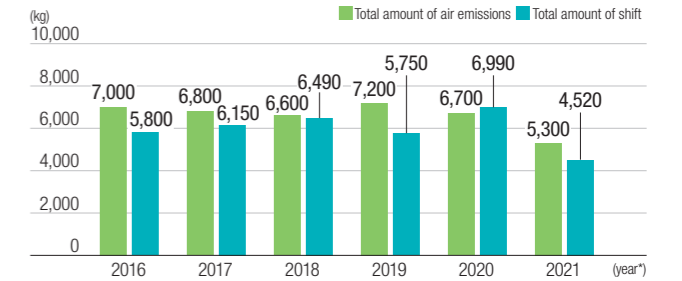
Initiatives for Control over Chemical Substances

Volatile organic compounds (VOCs) emitted as a result of our business activities are adequately controlled and the amount of emission is monitored under the Pollutant Release and Transfer Register (PRTR).

We will further engage in the reduction of waste through such measures including using non-VOC materials and implementing recovery and reuse of solvents. PCB waste is also subject to adequate control, storage and disposal in accordance with Japan's

Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.

Notification volume for Pollutant Release and Transfer Register (PRTR) substances

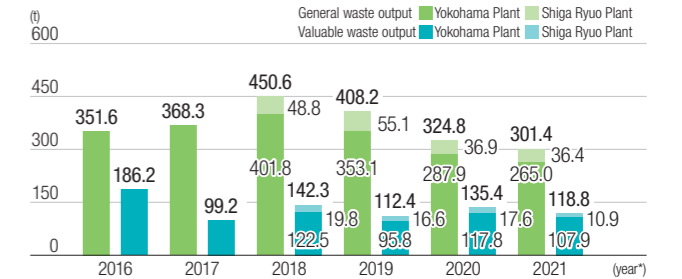


Initiatives for Reducing Disposed Waste as Well as Recycling

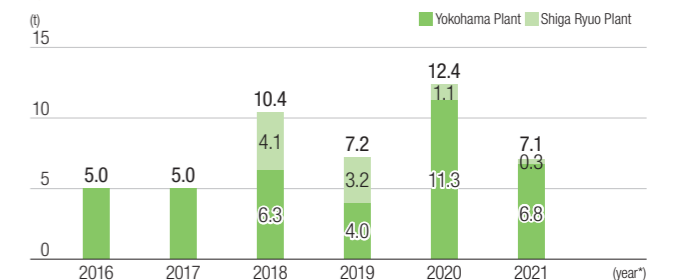
Main actions

The Company has been thoroughly implementing waste processing rules, sorting metal waste, and recycling paper resources. As a result, its landfill waste rate was 1.7% in fiscal 2021. The volume of landfill waste at the Yokohama Plant has been reduced to the previous level due to the completion of large-scale maintenance.

Output of general and valuable waste



Volume of landfill waste



Quality Control – Providing Safe and High-Quality Products

Basic policy on quality control

The Company's electrical equipment for rail vehicles is installed in many rail vehicles. These extremely important products play a direct role in ensuring the safety of human life and property

*The fiscal year is from April to March of the following year *Figures for the Shiga Ryuo Plant include those of TD Drive Co., Ltd. from fiscal 2018.
*Prior to fiscal 2017, total energy input (gas) data is available only for the Yokohama Plant due to zero input of the Shiga Plant.
*Prior to fiscal 2017, data on output of general and valuable waste and volume of landfill waste is presented only for the Yokohama Plant.

during rail transportation. In the Industrial Systems and Information Equipment Systems segments as well, the Company's products and services are used in customers' production facilities, development sites and in the field of social infrastructure, and they form the foundation supporting the sustainable development of a society that is safe and comfortable to live in.

In order to ensure the high quality of our products and services, the Company has established a quality policy, which is deployed at all production bases as we strive to maintain and improve our human resources education, compliance with rules, and our facilities.

Quality Policy

- ① Quality assurance to satisfy our customers.
- ② Challenge to achieve "zero" complaints.

Promotion framework

With regard to quality control, each fiscal year the Company develops policies and the promotion framework aimed at further maintaining and improving quality in each business unit, along with specific policies pertaining to the reduction of flaws and other issues.

The Company's Corporate Quality Control Division works together with the quality control department or the quality assurance department in each business unit to put together a report on the status of quality control and results in each unit. The report is delivered to top management at the monthly Operating Officer Liaison Meeting where measures are debated and decided.

Furthermore, in the event that a flaw is discovered after a product has been shipped, the necessary steps are swiftly taken, mainly by the quality assurance department in each business unit, while at the same time the causes that led to the flaw and its mechanism are investigated, and this information is put into a database so that the information can be shared in-house in an effort to prevent recurrence.

Quality Management System

The Company has created and operates a quality management system at its production bases, the Yokohama Plant and the Shiga Ryuo Plant, and has obtained ISO 9001 certification.

Year ISO 9001 certification obtained

Yokohama Plant	Shiga Ryuo Plant*	Extended to all offices
1997	2000	2005

*The Shiga Ryuo Plant was the Shiga Factory (Moriyama) when it obtained the certification.

Acquisition of International Standards

High level of safety is essential for rail vehicles. UNIFE, the Association of European Rail Industry, established the International Railway Industry Standard (IRIS) in 2007 to ensure the quality of rail vehicles.

In 2013, we became the first company in Japan to obtain an IRIS certification for auxiliary power supply (SIV).

In 2014, we were also accredited to the China Railway Certification Center's (CRCC) certification for driving gear units. CRCC, a state-owned enterprise set up in April 2003 after obtaining approval of the Certification and Accreditation Administration of the People's Republic of China, is an organization that mainly manages the quality of railway products. It is necessary to obtain this certification to sell high-speed rail products in China.

We will continue to acquire international standards and further expand our business globally.

Towards Just and Fair Procurement

Communication with suppliers

The Company's products possess various distinctive characteristics such as being individually built-to-order, manufactured in multi-product small lots, and demanding high reliability. Therefore, the Company can be affected by the performance of our suppliers as a result of issues such as delays in supply due to fluctuations in production quantity or delays in processing due to the quality of products received.

In order to reduce these risks as much as possible, the Company carries out instruction and support related to quality, technology, and skills for our suppliers, as well as guidance for improvement of manufacturing sites, in order to ensure stable procurement of even better quality products. In addition, we actively promote information sharing through the "Toyo Denki Seizo Cooperation Association" to which our leading suppliers belong.

Formulation of "Procurement Action Guidelines" (formulated in February 2016)

Procurement Action Guidelines

These guidelines indicate the codes of conduct that the Toyo Denki Group's executives and employees should observe in the procurement of purchased parts and outsourced parts as required for the manufacturing of products ordered by customers ("procurement transactions").

1. Procurement transactions shall be carried out in observance of the laws of the relevant countries.
2. Information concerning suppliers in procurement transactions shall only be obtained within the scope necessary for conducting procurement activities in accordance with contracts. Furthermore, efforts shall be made to carefully manage and observe the confidentiality of information gained through procurement transactions.
3. Personal interests with suppliers shall be prohibited in procurement transactions, including the lending and borrowing of money.
4. Receiving of support beyond the socially accepted practices or receiving of money or inappropriate gifts or any other forms of personal rewards from suppliers shall be prohibited in personal transactions. In addition, forceful requests for any of the above from suppliers shall be prohibited in procurement transactions.

Initiative in Valuing People and Communities

We will value our employees and the local communities and carry our aspirations into the future.

With Our Employees

Promotion of "health and productivity management"



Striving to be a company where employees can play active roles in good physical and mental health, the Company promotes "health and productivity management" together with the health insurance association and labor union. With the "Health and Productivity Management Declaration" in place, our efforts focus on the following six priority items.

Health and Productivity Management Declaration

The Toyo Denki Group expresses in its business principles its commitment to "ensure the growth of its business, earn the confidence and understanding of shareholders and stakeholders, and foster the development of its employees." Recognizing that the realization of the commitment involves each employee to be physically and mentally healthy and able to play an active role with enthusiasm, the Company will support its employees to achieve good health.

1 Disease prevention, prevention of illness aggravation

We will maintain a 100% participation rate for regular health checkups, improve the take up rate for specific health guidance aimed to prevent adult diseases, and support the attendance of follow-up examinations.

2 Work-life balance

We are expanding systems that support flexible working styles to achieve a balance between work and home. In addition to a

flextime system and annual leave on an hourly basis, we have a rehiring system for employees who have to leave their jobs due to childbirth, childcare, family care, spouse's transfer, and other life events. In addition, efforts are underway to establish staggered commuting and remote work that are currently in place to prevent COVID-19 infection as part of a permanent system.

In 2014, we were certified as a "company that supports child-rearing" and received the "Kurumin" certification logo from the Tokyo Labor Bureau, in recognition of our efforts including an extensive childcare-related scheme, educational activities related to work-life balance support, the creation of an environment in which it is easy to obtain childcare leave, and the track record of male employees taking childcare leave. We will continue to improve the child-rearing support program.



3 Promotion of health and safety activities and realization of a comfortable working environment

To secure a safe working environment and achieve zero occupational accidents, we have in place the "Company-Wide Safety and Hygiene Management Policy," and the Safety and Hygiene Committee at each office addresses any issues at workplace. Information on the committees' actions is shared at the Company-Wide Safety and Hygiene Committee, which convenes quarterly, in order to raise the level of health and safety activities at each office.

4 Improvement of employee health, communication promotion and support

We support employees' voluntary health maintenance and improvement efforts, internal club activities, and social events at each workplace. We also hold health events together with the health insurance association and labor union to improve the health of employees and promote communication.

Data concerning personnel and labor (at Toyo Denki Seizo K.K.)

Item	Unit	FYE May 2018	FYE May 2019	FYE May 2020	FYE May 2021	FYE May 2022
Number of employees	Total	843 *	831 *	841 *	847 *	830 *
	Men	771	762	773	766	746
	Women	72	69	68	81	84
Ratio of female employees	%	8.5	8.3	8.1	9.6	10.1
Number of administrative professionals	Total	140	143	136	139	134
	Men	136	139	133	136	132
	Women	4	4	3	3	2
Ratio of female administrative professionals	%	2.9	2.8	2.2	2.2	1.5
Average age	Overall	40.2	40.8	41.0	41.7	42.3
	Men	40.3	40.8	40.9	41.6	42.2
	Women	39.5	40.9	41.7	42.8	43.0
Average years of employment	Overall	14.9	15.4	15.4	16.0	16.5
	Men	15.1	15.5	15.5	16.2	16.7
	Women	12.7	14.1	14.1	13.9	14.0
Average annual salary	Yen	6,049,512	5,756,046	5,634,571	5,518,761	5,422,507
Turnover rate (within 3 years of joining the Company)	%	2.7	6.5	4.7	2.4	7.6
Number of employees taking childcare leave	Persons	4	6	2	8	4
Number of employees taking family care leave	Persons	0	0	0	0	1
Number of temporary staff (including part-timers)	Persons	130	119	106	86	81
Notes		*Number of regular employees including Operating Officers, and number of special employees, temporary employees, contract employees and staff on loan from other companies, etc.				

5 Prevention of mental health problems and support for returning to work

We annually carry out stress checks on our employees to prevent and detect mental health problems at an early stage. In addition, we provide line care training for managers so that they recognize the importance of communication and promptly coordinate with occupational health staff at each office.

6 Health management of employees at overseas posts

In addition to properly conducting health checkups before overseas postings, we aim to regularly check the health conditions of employees and follow up on the results of health checkups after their postings.

Initiatives for employment of the disabled

Aiming to be a company where both the disabled and nondisabled work together lively, the Company makes improvements to the workplace environment and carries out workplace training. We also offer work experience in collaboration with local support organizations and special-needs schools. The percentage of employees with disabilities at the Company is 2.84% (as of June 2022).

Training and skill development of employees

We aim to grow the capabilities of our employees and be a company where each and every one works as a professional.

Education and training system

The Company's education and training system is divided into level-specific training, individual training according to job types and roles, a support program aimed at helping employees to obtain academic degrees and official qualifications, and division education conducted by each division. Furthermore, new employees in technical positions receive lectures and practical training at the Technical Training Center for one year. They are assigned to each workplace after receiving basic and specialized training for technical staff.

Skill transfer

Employees with exceptional manufacturing skills or expertise are recognized as "Technical My Star" and assigned to instruct and train younger employees. Three employees of the Company have accepted Contemporary Master Craftsman awards from the Minister of Health, Labour and Welfare, and two have been awarded to the Medal with Yellow Ribbon by the Japanese government. Moreover, a large number of employees have become certified as special-grade skilled workers.

Contributions to Local Communities

To Convey the Mission and Appeal of Toyo Denki

Receiving interns

We are committed to activities that raise awareness and appreciation of our manufacturing expertise by accepting interns from local technical high schools and providing them with hands-on experience at manufacturing sites. This internship system serves as an effective means of recruiting outstanding technical staff on a consistent basis as some students from these schools apply for positions at the Company.

Participation in university endowment courses and hands-on courses

We participated in endowment courses sponsored by the Yokohama Green Purchasing Network so that participants can deepen their knowledge on history of railway and the environment through our business activities.

We conduct lectures leveraging the know-how fostered through operations and our business activities in on-site training courses held by educational institutions including universities.

Cooperation with Yokohama Kyodo no Mori Fund

The Company cooperates in small woodlands conservation activities led mainly by the city of Yokohama by donating part of the proceeds from vending machines installed at the Engineering Center of the Yokohama Plant to the fund.

Factory tours

We normally conduct "factory tours" to provide opportunities for members of local communities to actually see our manufacturing facilities and products in order to develop deeper understanding about the business operations of the Company. During these tours, we inform the participants of our products as well as our actions for environmental protection and factory facilities, in an effort to build up relationships built on trust with local communities.

Cleaning activities around the plants

As part of our "initiative in valuing people and communities," employees at the Yokohama Plant and the Shiga Ryuo Plant regularly conduct cleanup activities around the plants.

The Shiga Ryuo Plant also expressed its endorsement of the Shiga Prefecture's Mother Lake Goals (MLGs) and participates in river cleanup operations near Lake Biwa in cooperation with local communities.



Governance

In an effort to continuously enhance its corporate value, the Company is striving to ensure transparency of management and compliance, along with the maintenance and operation of an adequate governance framework while reinforcing its risk management framework.

Corporate Governance

Our basic policy on corporate governance

The Group's business activities are based on the business principles that "prioritize ethics and contribute to the prosperity of customers and society as a whole." We therefore strive to attain sound corporate management through strengthening and reinforcing corporate governance, fully appreciating the significance of compliance based on corporate ethics. At the same time, we review as appropriate our management monitoring system to ensure its conformity to the changes in the business environment including social environment and relevant legislation.

Overview of corporate governance structure and reasons for its adoption

We have corporate bodies established in accordance with laws and regulations as well as the Articles of Incorporation, including the General Meeting of Shareholders, Directors and the Board of Directors, Statutory Auditors and the Board of Statutory Auditors, and Accounting Auditors. To strengthen corporate governance, the supervision and execution functions of the Board of Directors are separated, through the adoption of a structure where the Board of Directors is mainly in charge of governance, and Operating Officers are primarily in charge of business execution.

The Company strives to ensure that both the supervision function of the Board of Directors and the audit function of (the Board

of) Statutory Auditors work effectively and believes that the current system is sufficiently running.

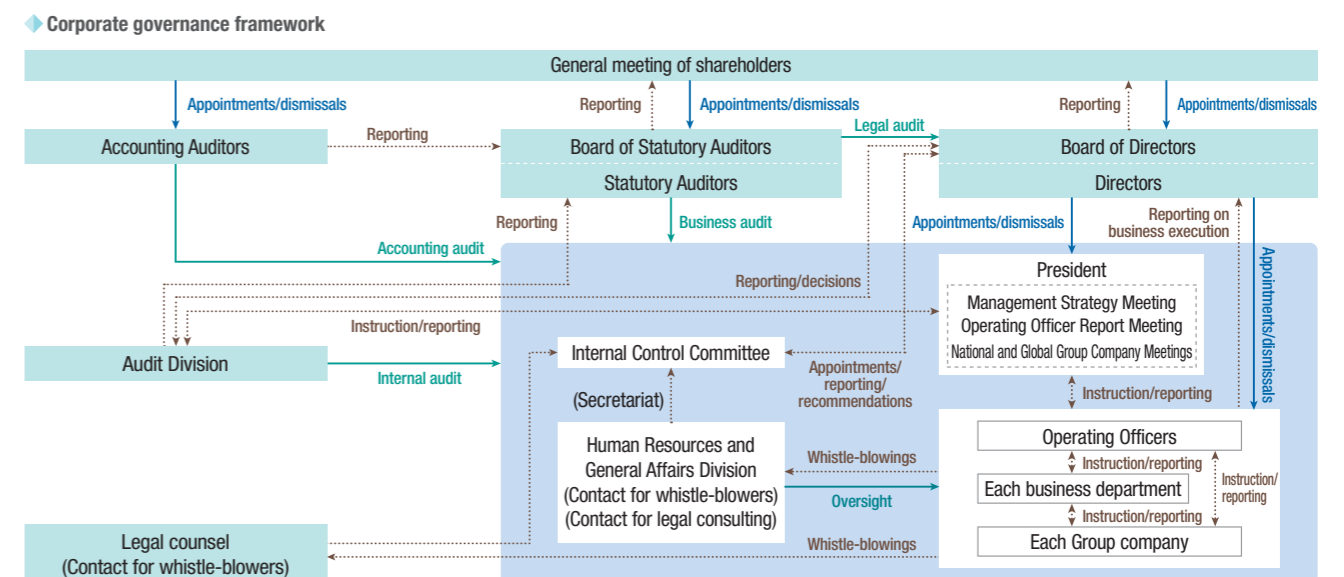
Specifically, each of the following bodies and meeting bodies is in place to function effectively.

1 Directors and the Board of Directors

At its regular monthly meetings as well as extraordinary meetings held when appropriate, the Board of Directors, which is composed of seven Directors including three Outside Directors, discusses and decides on important management matters such as reports on Operating Officers' business execution and matters to be decided solely at the discretion of the Board of Directors, while supervising the execution of duties by Operating Officers.

2 Management Strategy Meeting and Operating Officer Report Meeting, etc.

The Company has meeting bodies including the Management Strategy Meeting and Operating Officer Report Meeting. Through these bodies, specific matters related to their execution of duties and critical management matters including those subject to the deliberation of the Board of Directors are reported to the President by Operating Officers and the general managers of business execution departments, deliberated and discussed preliminarily. In addition, Outside Directors and Statutory Auditors attend these meeting bodies, as necessary. As for the matters discussed at meetings, matters subject to the deliberation of the Board of Directors are decided by the Board of Directors and other matters are decided by employees with business execution authority through means such as circulars based on the Management Authority Rules.



3 Statutory Auditors and the Board of Statutory Auditors

The Board of Statutory Auditors is made up of four members including three External Statutory Auditors. Statutory Auditors oversee management by attending the Board of Directors' meetings, etc. and expressing appropriate opinions in the process of deliberating business execution reports from Operating Officers and matters to be decided solely at the discretion of the Board of Directors. In addition, Statutory Auditors audit the business activities and assets of the Company and Group companies in accordance with audit policies and division of duties set by the Board of Statutory Auditors.

4 Voluntary committees

a. Nomination and Compensation Advisory Committee

Under the Board of Directors, the Company has in place the Nomination and Compensation Advisory Committee, whose members include Outside Directors. Its purpose is to list candidates for Directors and Statutory Auditors and nominate Operating Officers, and to ensure transparency and objectivity regarding decisions on compensation for Directors and Operating Officers.

b. Internal Control Committee

The Internal Control Committee is in place under the Board of Directors to develop a system stipulated in the basic policy of internal control systems, check the operation status, and conduct constant reviews. The Committee meets quarterly, and the contents of deliberation are reported to the Board of Directors each time.

c. Sustainability Committee

The Company has a Sustainability Committee in place under the Board of Directors for the identification of key issues based on the Sustainability Policy, goal setting and progress management. In principle, the Committee meets quarterly, and the contents of its deliberations are reported to the Board of Directors each time.

Internal audit and Statutory Auditor's audit

Internal audit

Internal audits of the Company are carried out by the Audit Division based on internal audit plans decided by the Board of Directors. The Audit Division has staff with qualifications such as the Certified Information Systems Auditor (CISA). It reports its action plans and internal audit results to the Board of Directors and the Board of Statutory Auditors.

Statutory Auditors' audit

Statutory Auditors work with the Audit Division and Accounting Auditors and exchange information on audit plans and contents of accounting audits to perform appropriate auditing tasks. Statutory

Auditors receive the results of quarterly reviews from Accounting Auditors both verbally and in writing, and confirm their action plans to be taken at a fiscal year-end audit. Statutory Auditors also receive the results of fiscal year-end audits from Accounting Auditors in statutory documents along with verbal reviews. Furthermore, Statutory Auditors are in principle required to be present at inventory taking or on-site inspection at subsidiaries by Accounting Auditors.

Outside Directors and External Statutory Auditors

The Company's Outside Executives currently include three Outside Directors and three External Statutory Auditors as shown below. Each Outside Executive has excellent insight in each expertise and satisfies the independence guidelines for Outside Executives defined by the Company.

Mr. Hirokazu Chinone, Director (Outside Executive)

Mr. Hirokazu Chinone is qualified as a lawyer and provides useful advice regarding management in general, drawing on his specialized knowledge regarding corporate law and his wealth of experience developed throughout his career.

Mr. Koji Mizumoto, Director (Outside Executive)

Mr. Koji Mizumoto provides useful advice on management in general, drawing on his wealth of corporate management experience at a predecessor firm to NIPPON STEEL CORPORATION and his knowledge of financial accounting as CFO.

Mr. Taizo Makari, Director (Outside Executive)

Mr. Taizo Makari provides useful advice on the Company's management in general, drawing on his extensive insight and global perspectives developed throughout his career at Teijin Group.

Mr. Hitoshi Kobayashi, Statutory Auditor

Mr. Hitoshi Kobayashi was newly appointed as Statutory Auditor at the 161st Annual General Meeting of Shareholders on August 25, 2022. He provides useful advice, drawing on his wealth of experience and knowledge as a statutory auditor for auditing activities.

Mr. Yoshinori Kawamura, Statutory Auditor (Outside Executive)

Mr. Yoshinori Kawamura serves as Professor of Faculty of Commerce, Waseda University, and is engaged in auditing activities, drawing on his expertise regarding corporate finance and accounting developed thus far. He also has experiences as Secretary and Special Member of the Business Accounting Council of the Financial Services Agency, and an examiner of the Certified Public Accountant Examination, etc.

Mr. Koichi Abe, Statutory Auditor

Mr. Koichi Abe was newly appointed as Statutory Auditor at the 161st Annual General Meeting of Shareholders on August 25, 2022. He provides useful advice, drawing on his wealth of experience at financial institutions and extensive knowledge regarding corporate management for auditing activities.

Executive Remuneration

Directors

Remuneration for the Company's Directors is determined within the maximum remuneration amount resolved at the Annual General Meeting of Shareholders held in August 2006, with reference to the policy for determining remuneration for Directors resolved by the Board of Directors. To ensure the independence of Outside Directors, the Company provides no bonuses to them. Decisions on remuneration for Directors are made at the Nomination and Compensation Advisory Committee set up under the Board of

Directors, with the participation of Outside Directors, in order to enhance objectivity and transparency of the decision process for executive remuneration.

Statutory Auditors

Remuneration for the Company's Statutory Auditors is determined through discussion among Statutory Auditors within the maximum total remuneration, which was fixed at the Ordinary General Meeting of Shareholders held in August 2006. It takes form of fixed remuneration for each standing and part-time position. There are no bonuses for Statutory Auditors.

Executive Profiles (as of August 25, 2022)

Directors



President, Representative Director Akira Watanabe; Chairman, Director Kenzo Terashima; Director Yoshifumi Otsubo; Director Kenji Tanimoto; Director (Outside) Hirokazu Chinone; Director (Outside) Koji Mizumoto; Director (Outside) Taizo Makari

Statutory Auditors



Standing Statutory Auditor (Outside) Hitoshi Kobayashi; Standing Statutory Auditors Kenji Ueda; Statutory Auditor (Outside) Yoshinori Kawamura; Statutory Auditor (Outside) Koichi Abe

Operating Officers

Senior Executive Officers: Yoshifumi Otsubo, Kenji Tanimoto; Executive Officers: Shuji Horie, Naoki Okuyama, Toshihito Nakanishi; Operating Officers: Takuya Hatakeyama, Toshiharu Takaki, Chiaki Nakano, Hiroyuki Imaizumi, Jun Nukina, Takatoshi Otsuka, Toshinori Yamai

Director Skill Matrix

Name	Outside Directors	Areas of expertise and experience						
		Corporate management	Sales/Marketing	Research and development/Technology	Manufacturing/Quality control	Global business	Accounting/Finance	Legal affairs
Akira Watanabe		●	●	●	●	●		
Kenzo Terashima		●	●	●	●	●		
Yoshifumi Otsubo		●	●			●	●	
Kenji Tanimoto		●	●				●	●
Hirokazu Chinone	●	●						●
Koji Mizumoto	●	●	●			●	●	
Taizo Makari	●	●		●	●	●		

Messages from Outside Executives

Koji Mizumoto, Director (Outside)

The Company has embarked on structural reforms to set and achieve the numerical targets of the medium-term management plan for the fiscal year ending May 2026. Based on my experience, I would propose that it is important to integrate the systems for managing the goals of individual employees with the medium-term management plan, so that, with all employees taking part, the achievement of those individual goals will be linked to the achievement of Medium-Term Management Plan goals.

Specifically, I propose setting “ratio of profits to sales x capital turnover ratio (productivity),” which is the formula for ROA, as the target for the individual business units, including the administration division, setting the increase in the profit margin as the period target for the individual salespeople in each business unit and raising productivity as the target for individuals working in engineering and production. The medium-term management plan’s targets would be broken down at each level into specific numerical and qualitative targets, and superiors and subordinates would mutually commit to these targets in interviews. Beginning, interim, and period-end evaluations would also be agreed in interviews. The accumulation of individual employees’ outcomes would become the outcomes for the individual business units, and these would be integrated to provide the entire company’s achievement of the medium-term management plan’s numerical targets. The

Hitoshi Kobayashi, Standing Statutory Auditor (Outside)

Management controlled by the executive entails a wide range of risks. Accidents and scandals aside, in addition to the risk-taking that accompanies challenges for growth, if we consider the risk of losing opportunities by not taking risks, and the risk of not recognizing risk, risk management is management itself. It is the same for governance that controls the executive, and the Statutory Auditors play a role as a beacon that shines a light on the future where risks lie in wait.

In my view, the mission of the Statutory Auditors is, firstly, to raise the quality of management decisions. In decision-making, it is essential to go through the process of adequate information gathering and reasonable judgment based on that information. The value criteria for reasonableness also requires a medium- to long-term perspective for sustainable growth with the global environment and social mission in mind.

One other important mission of the Statutory Auditors is to instill sincerity and good faith into the attitudes of the executive

evaluation of those results would be reflected in the allocation of source funds for bonuses. There are many possible methods of that allocation.

Of even greater importance than setting these targets is that interviews take place at each level. Such dialogue will serve as both manager education and human resources development, forming part of the Company’s HRD and leader development (manager education). The medium-term management plan will be seen as a company-wide undertaking, its targets will be managed by the entire company in the medium to long term, and systems will be operated openly and transparently.

Medium-term management plans tend to be seen as top-down matters for executive management and as not being the concern of general employees. To make them something in which everyone participates will require the creation and careful implementation of mechanisms. It is important that all employees have a sense that their own work and outcomes are directly linked to the medium-term management plan and that its outcomes are directly distributed to the individuals. It is also vital that it becomes part of the cycle of education and development in each position. The implementation of these systems will not happen overnight, but it is important to engage in it from a long-term perspective.

management team and into the organization’s culture, including the Statutory Auditors themselves. Even at times when the organization and work mechanisms, which are meant to compensate for human weakness, have unfortunately not functioned properly, or they have strayed off track even in light of laws and regulations, rules, and social norms, as long as there is sincerity and good faith deep in our hearts, we should be able to avoid falling into grave errors. There have been many occasions in which I have gained a real sense of the seriousness of Toyo Denki.

Many issues lie ahead for the Company as it seeks to capitalize on the strengths of its 100-year-plus corporate history, its attitude of thoroughly engaging with its customers, and its challenge to improve its technologies and connect those strengths to results. As Statutory Auditor, not only will I strive to forge that inner workings of management, I will also place importance on dialogue with the Company’s diverse stakeholders.

Internal Control and Compliance

Internal Control

The Company views the development and operation of an internal control system to be an important management issue, and it has developed an efficient, legal and appropriate business execution system pursuant to Article 362 of the Companies Act and Article 100 of the Ordinance for Enforcement of the Companies Act. The Internal Control Committee established under the Board of Directors reviews the operational status of the internal control system and will revise it as necessary.

Principles of compliance

The Company has set “1. adherence to rules,” “2. observance of confidentiality,” “3. distinction between private and public matters,” “4. strictness with money,” “5. prohibition of side jobs,” and “6. prohibition of discriminatory and sexually suggestive statements or behavior” as principles of compliance.

Compliance promotion framework

To focus on business principles and fulfill its social responsibility, the Company has provided all officers and employees with a copy of the Compliance Manual (Toyo Denki Seizo Ethical Standards) that stipulates its code of conduct. The move is part of an effort to have the code and the basic rules of work fully known.

The Company has also introduced a whistle-blowing system that allows employees to provide information directly to the management. The system is aimed at ensuring that any illegal or inappropriate conduct within the Company is detected at the earliest possible stage and that adequate measures are taken promptly and as needed so that such conduct is rectified.

Compliance education

We conduct compliance training every year for all employees of the Group in order to enhance knowledge of compliance and foster awareness to respect corporate ethics.

Proper export controls

The Export Control Department at Human Resources and General Affairs Division is responsible for export management as the export management control department. We have created a system for the proper management of exports in order to ensure compliance with the laws and regulations concerning export management in

the countries and regions where we engage in business activities as well as to avoid involvement in transactions that could hinder the maintenance of international peace and safety.

The Export Control Department handles cargo and technology parameters used in determining whether or not export permits are required, as well as investigation of transactions. In addition, the Department carries out employee education and guidance and support for Group companies.

Whistle-blowing system

The Group has established a whistle-blowing system that aims to ensure that any illegal, inappropriate, or unethical conduct by an individual or an organization is detected at the earliest possible stage and that risks are minimized, and to promote ethical and legal compliance. The Group has also established the necessary structures in response to the revision of the Whistleblower Protection Act in June 2022.

Risk Management

Basic policy

The Company is engaged in developing rules and a framework for risk management according to the Basic Rules for Risk Management established in August 2006.

Promotion framework

The Company has established the Internal Control Committee under the Board of Directors, chaired by the President. It analyzes and assesses all the risks that exist in the Group and develops an effective risk management framework capable of dealing precisely with the risks of the types and degrees that the Group is exposed to. The committee specifically reviews risk verifications and countermeasures, and periodically reports details of its deliberations to the Board of Directors.

Risk Factors

From the perspective of proactive information disclosure, the Group intends to disclose a wide range of recognizable risks. Major risks that may affect its earnings and financial position are set out below. The Group aims for thorough understanding of these risks in order to establish a necessary risk management framework

designed to prevent the risks from materializing or minimize the impact of risks if they do materialize.

Forward-looking statements below are based on the judgment of the Group as of the end of the fiscal year ended May 2020.

(1) Changes in domestic and international economic trends

The Group's sales heavily rely on the Transportation Systems and Industrial Systems segments. Its customers conduct business operations at home and overseas. As such, business climates and individual spending conditions in different countries may affect the Group's business performance.

(2) Large-scale disasters and outbreak of infectious diseases

The great majority of the Group's production bases for the Transportation Systems segment are located in the Kanto area and those for the Industrial Systems segment are in the Kansai area. Production capacity may be severely affected by large-scale disasters and the outbreak of infectious diseases in either of these areas. Furthermore, large-scale disasters and the outbreak of infectious diseases may hinder the entire supply chain and impact order trends, thus affecting the Company's production and earnings.

Since January 2020, COVID-19 has been spreading in Japan and overseas. The Group is taking actions to help prevent the spread of infections, while prioritizing the safety and health of employees through measures such as staggered commuting and working from home and minimizing hindrance to production. Although the impact on our business operations has been limited as a whole, orders and sales have been somewhat affected due to restrictions on movement and overseas travel.

The Company's earnings forecast announced already takes these effects into account. However, if infections spread more than expected in the future, the Company's business may be further affected.

(3) Intensifying competition

The Japanese market for the Transportation Systems segment has matured and thus faces intensifying competition. The Industrial Systems segment is also under pressure from intensifying competition for product development. The Group's business performance may be affected by such intensifying competition.

(4) Effects caused by characteristics of the Company products

Although the Group has made every effort to ensure the quality, safety, and reliability of its products, product defects may occur due to the parts used or other factors that cannot be detected during the inspection stage. If large-scale damages are incurred due to product defects and other causes and

cannot be covered by insurance, it may affect the Group's business performance.

(5) Delays in product development

With a view to providing attractive products to customers, the Group applies itself to gathering information about customer needs and leverages it in the development of new products to support its future growth. However, delays in the development of new products to respond to rapid technological or environmental changes may affect the Group's performance.

(6) Risks related to new business

As an initiative to expand its business domains, the Group aims to develop technologies and products that contribute to a decarbonized and sustainable society, generate new business fields, and create technological innovation using ICT that is unique to the Company. However, the withdrawal from new business for reasons such as a shrinking target market and delays in technological development may affect the Group's business performance.

(7) Delays and other problems in the supply of materials

Owing to the fact that the Group's business has various distinctive characteristics, some of the materials it procures are not easily available due to factors such as a limited number of suppliers. Delays in supply or discontinuation in production of such materials may affect the Group's production. Moreover, the Group's business performance may be affected by the fluctuation in prices of raw materials, notably steel products and copper.

(8) Changes in overseas situations

The Group proactively pursues the expansion of overseas operations including the Chinese market. Its business performance may be affected by major changes in situations overseas.

(9) Litigations and other legal proceedings

If the Group becomes the subject of any litigation or other legal proceeding, its business operations and performance may be affected. Although the Group particularly attends to the protection of intellectual property rights, amid drastically advancing technical innovations and accelerating globalization of business, the Group is inevitably exposed to potential disputes with third parties over intellectual property rights.

(10) Relationships with business alliance partners

With the aim of business expansion and enhancing competitiveness, the Group proactively pursues various alliances with third parties. However, if these alliances do not deliver expected results due to a failure in forging favorable relationships with partners, the Group may face an impact on its performance.

(11) Exchange rate fluctuations

As the Group is aggressively expanding into overseas markets, an increase in foreign currency denominated transactions will heighten the impact of exchange rate fluctuations on the Group's performance.

(12) Fluctuations in the value of holding assets

Fluctuations in the fair value of assets held by the Group may affect its performance.

(13) Changes in financial conditions

The Group's financing programs may be affected by unexpected changes in financial conditions.

(14) Breach of confidential information

The Group retains customer information related to its business executions. Also, it possesses various types of confidential information concerning the Group's proprietary technologies and operations. If these information assets leak outside the Group for unforeseeable reasons, it may impact its business operations and performance.

(15) Domestic and foreign laws and regulations

The Group proactively pursues expansion in overseas operations, particularly the Chinese market, and as such, its operations are subject to not only Japanese laws but also the laws and regulations of each country. Although the Group has established and operates a robust compliance system, its business operations and performance are still at risk from the effects of unforeseeable events.

Information Security

■ Basic policy

The Company holds a vast amount of information assets including information presented by customers related to its business execution and confidential information concerning the Group's proprietary technologies and its trade. Each Group company is taking various measures in this respect based on an awareness of shared security under the Group's Information Security Guidelines, which have been established to adequately manage and use these information assets.

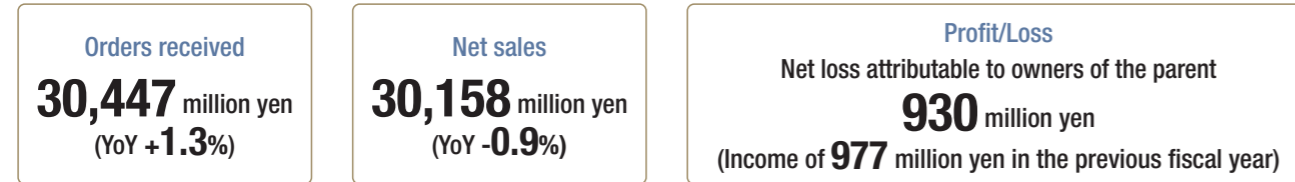
■ Information security training

The Company is conducting educational activities to develop information security awareness among all employees including various training sessions, some involving the use of educational DVDs.

Financial Review

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for FYE May 2022 (from June 1, 2021 to May 31, 2022) are as follows:

Results of Operation



Orders received increased 1.3% compared with the previous fiscal year to 30,447 million yen, with the Transportation Business segment, the Industry Business segment, and the Information Equipment Systems segment* all nearly on level with the previous fiscal year.

Net sales decreased 9.0% compared with the previous fiscal year to 30,158 million yen due to a decrease in net sales in the Transportation Business segment, the Industry Business segment, and the Information Equipment Systems segment*.

From a profit perspective, operating income decreased 59.4% compared with the previous fiscal year to 171 million yen. Ordinary income increased 1.2% compared with the previous fiscal year to 766 million yen mainly due to investment gain on equity method and foreign exchange gain. Net loss attributable to owners of the parent was 930 million yen (compared with an income of 977 million yen in the previous fiscal year), mainly due to the impact of a 2,256-million-yen impairment loss on business assets related to the Industry Business segment, despite gain on sales of investment securities.

* Reorganized to the ICT Solution Business segment in June 2022

Financial Position



Total assets as of May 31, 2022 stood at 46,916 million yen, a decrease of 5,051 million yen compared with the end of the previous fiscal year. The decrease in total assets was largely attributable to a decrease of 3,002 million yen in property, plant and equipment, a decrease of 1,360 million yen in investment securities, and a decrease of 891 million yen in trade notes and accounts receivable, partially offset by an increase of 485 million yen in cash on hand and in banks.

Total liabilities as of May 31, 2022 stood at 24,903 million yen, a decrease of 3,055 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 2,085 million yen in debt and a decrease of 557 million yen in trade notes and accounts payable.

Net assets as of May 31, 2022 stood at 22,012 million yen, a decrease of 1,996 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 1,198 million yen in retained earnings and a decrease of 889 million yen in unrealized holding gain on available-for-sale securities.

Cash Flows

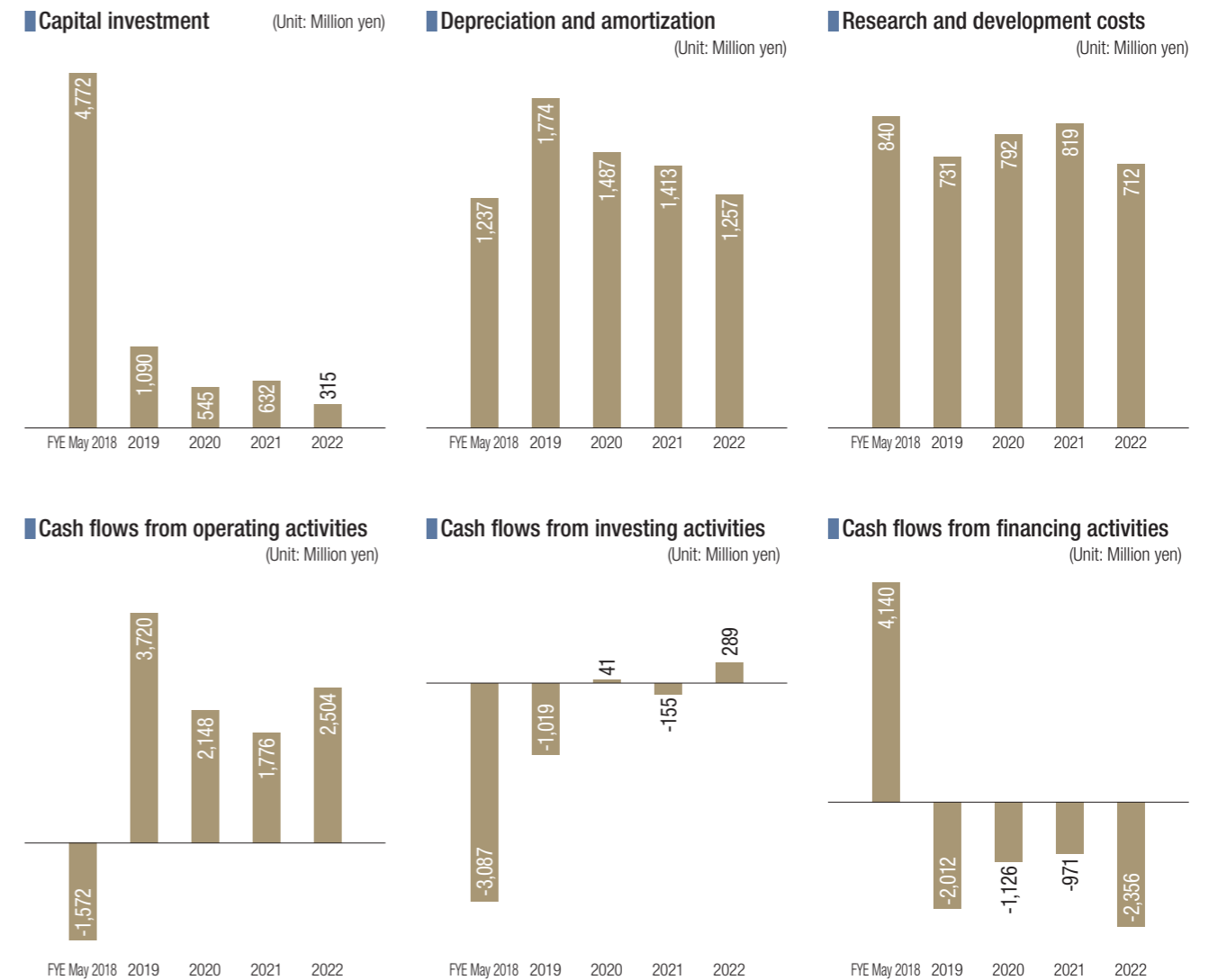


Net cash provided by operating activities amounted to 2,504 million yen (net cash of 1,776 million yen provided in the previous fiscal year), principally due to a decrease in trade notes and accounts receivable and a decrease in inventories.

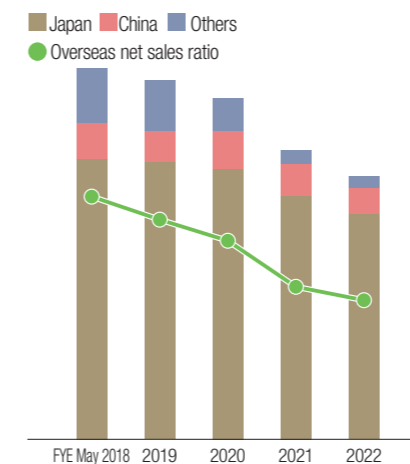
Net cash provided by investing activities totaled 289 million yen (net cash of 155 million yen used in the previous fiscal year), principally due to proceeds from sales of investment securities.

Net cash used in financing activities was 2,356 million yen (net cash of 971 million yen used in the previous fiscal year), primarily owing to repayment of debt.

Reference Data for Management Indices (For the Years Ended May 31 or As of May 31)



Net sales by region



	2018	2019	2020	2021	2022
Japan	32,124	31,745	30,997	27,876	25,779
China	4,085	3,663	4,282	3,628	3,015
Others	6,317	5,763	3,791	1,638	1,363
Total	42,527	41,172	39,071	33,143	30,158
Overseas net sales ratio	25.3%	22.9%	20.7%	15.9%	14.5%

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 16 and 18)	¥ 4,449	¥ 3,964	\$ 34,705
Trade notes, accounts receivable and contract assets (Notes 2, 16 and 20)	12,091	—	94,310
Trade notes and accounts receivable (Note 16)	—	13,218	—
Electronically recorded receivables (Note 16)	1,136	901	8,863
Inventories (Note 3)	6,267	6,901	48,885
Other current assets	246	318	1,919
Allowance for doubtful accounts	(1)	(2)	(13)
Total current assets	24,189	25,300	188,671
Property, plant and equipment (Notes 4 and 6):			
Buildings and structures	3,985	6,410	31,086
Machinery and vehicles	579	966	4,520
Land	1,270	1,301	9,907
Construction in progress	7	24	60
Other	479	622	3,742
Total property, plant and equipment	6,322	9,325	49,316
Investments and other assets :			
Investment securities (Notes 16 and 17)	12,471	13,832	97,272
Deferred tax assets (Note 11)	883	223	6,894
Intangible assets	101	303	789
Other (Note 5)	2,953	2,988	23,039
Allowance for doubtful accounts	(6)	(6)	(53)
Total investments and other assets	16,403	17,341	127,943
Total assets (Note 21)	¥46,916	¥51,967	\$365,932

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Note 16)	¥ 1,610	¥ 1,668	\$ 12,559
Electronically recorded payables	4,205	4,705	32,803
Short-term borrowings and current portion of long-term debt (Notes 6 and 16)	585	2,085	4,565
Income taxes payable (Note 11)	306	161	2,390
Contract liabilities (Note 20)	47	—	373
Accrued expenses	688	611	5,368
Accrued directors' bonuses	6	36	50
Accrued employees' bonuses	699	827	5,455
Reserve for losses on order acknowledgements (Note 3)	970	871	7,571
Other	449	660	3,504
Total current liabilities	9,569	11,628	74,642
Long-term liabilities:			
Long-term debt (Notes 6 and 16)	11,173	11,759	87,152
Deferred tax liabilities (Note 11)	—	427	—
Liability for retirement benefits (Note 7)	4,113	4,124	32,086
Long-term payables	38	17	304
Other	6	1	53
Total long-term liabilities	15,333	16,330	119,597
Commitments and contingencies (Note 14)			
Net assets (Notes 8 and 15):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	\$ 38,985
Capital surplus	3,177	3,177	24,783
Retained earnings	11,122	12,320	86,751
Treasury stock	(1,282)	(1,281)	(10,001)
Total shareholders' equity	18,016	19,214	140,519
Accumulated other comprehensive income:			
Unrealized holding gain on securities	3,913	4,803	30,526
Translation adjustments	144	88	1,126
Retirement benefits liability adjustments (Note 7)	(61)	(97)	(480)
Total accumulated other comprehensive income	3,996	4,793	31,172
Total net assets	22,012	24,008	171,692
Total liabilities and net assets	¥46,916	¥51,967	\$365,932

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Notes 20 and 21)	¥30,158	¥33,143	\$235,229
Cost of sales (Note 3)	23,343	25,805	182,073
Gross profit	6,815	7,338	53,155
Selling, general and administrative expenses (Note 9)	6,643	6,914	51,814
Operating income (Note 21)	171	423	1,340
Non-operating income (expenses):			
Interest and dividend income	154	202	1,201
Interest expense	(58)	(67)	(458)
Equity in earnings (losses) of affiliates accounted for by the equity method	242	(4)	1,892
Foreign exchange gain	227	133	1,775
Insurance claim income related to disaster	—	34	—
Subsidy income	20	40	155
Other income (expenses), net	8	(5)	68
	594	333	4,635
Ordinary income	766	757	5,976
Special (losses) gains, net (Note 10)	(1,996)	407	(15,570)
(Loss) income before income taxes	(1,230)	1,164	(9,593)
Income taxes (Note 11):			
Current	403	352	3,146
Deferred	(703)	(165)	(5,485)
	(299)	186	(2,339)
Net (loss) income	(930)	977	(7,254)
Net (loss) income attributable to owners of the parent	¥ (930)	¥ 977	\$ (7,254)

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Comprehensive Income

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net (loss) income	¥ (930)	¥ 977	\$(7,254)
Other comprehensive loss (Note 12):			
Unrealized holding loss on securities	(889)	(924)	(6,936)
Translation adjustments	2	(6)	22
Retirement benefits liability adjustments	35	32	278
Share of other comprehensive income of affiliates accounted for by the equity method	53	14	417
Total other comprehensive loss	(797)	(883)	(6,218)
Comprehensive (loss) income	¥(1,727)	¥ 94	\$(13,472)
Comprehensive (loss) income attributable to:			
Owners of the parent	¥(1,727)	¥ 94	\$(13,472)
Non-controlling interests	—	—	—

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Changes in Net Assets

	(Millions of yen)									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2020	¥4,998	¥3,177	¥11,610	¥(1,280)	¥18,505	¥5,727	¥ 79	¥(129)	¥5,677	¥24,183
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net income attributable to owners of the parent	—	—	977	—	977	—	—	—	—	977
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(924)	8	32	(883)	(883)
Total changes during the year	—	—	709	(0)	708	(924)	8	32	(883)	(174)
Balance as of May 31, 2021	¥4,998	¥3,177	¥12,320	¥(1,281)	¥19,214	¥4,803	¥ 88	¥ (97)	¥4,793	¥24,008
Balance as of June 1, 2021	¥4,998	¥3,177	¥12,320	¥(1,281)	¥19,214	¥4,803	¥ 88	¥ (97)	¥4,793	¥24,008
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net loss attributable to owners of the parent	—	—	(930)	—	(930)	—	—	—	—	(930)
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(889)	56	35	(797)	(797)
Total changes during the year	—	—	(1,198)	(0)	(1,198)	(889)	56	35	(797)	(1,996)
Balance as of May 31, 2022	¥4,998	¥3,177	¥11,122	¥(1,282)	¥18,016	¥3,913	¥144	¥ (61)	¥3,996	¥22,012

	(Thousands of U.S. dollars) (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2021	\$38,985	\$24,783	\$96,097	\$(9,997)	\$149,870	\$37,463	\$ 687	\$(759)	\$37,390	\$187,261
Changes during the year										
Cash dividends paid	—	—	(2,092)	—	(2,092)	—	—	—	—	(2,092)
Net loss attributable to owners of the parent	—	—	(7,254)	—	(7,254)	—	—	—	—	(7,254)
Purchases of treasury stock	—	—	—	(4)	(4)	—	—	—	—	(4)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(6,936)	439	278	(6,218)	(6,218)
Total changes during the year	—	—	(9,346)	(4)	(9,350)	(6,936)	439	278	(6,218)	(15,568)
Balance as of May 31, 2022	\$38,985	\$24,783	\$86,751	\$(10,001)	\$140,519	\$30,526	\$1,126	\$(480)	\$31,172	\$171,692

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Cash Flows

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
(Loss) income before income taxes	¥(1,230)	¥ 1,164	\$ (9,593)
Depreciation and amortization	1,257	1,413	9,804
Impairment loss	2,256	—	17,596
Reversal of allowance for doubtful accounts	(0)	2	(7)
Provision for accrued employees' bonuses	(128)	(49)	(999)
Increase in liability for retirement benefits	5	97	40
Interest and dividend income	(154)	(202)	(1,201)
Interest expense	58	67	458
Insurance claim income related to disaster	—	(34)	—
Equity in (earnings) losses of affiliates accounted for by the equity method	(242)	4	(1,892)
Subsidy income	(20)	(40)	(155)
Gain on sales of investment securities	(366)	(407)	(2,857)
Loss on valuation of investment securities	45	—	353
Gain on reversal of foreign translation adjustment	(94)	—	(733)
Loss on valuation of investments in capital of subsidiaries and affiliates	155	—	1,211
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	891	1,567	6,951
Inventories	633	274	4,943
Trade notes and accounts payable	(557)	(1,743)	(4,348)
Reserve for losses on order acknowledgements	99	142	772
Advances received	—	(11)	—
Contract liabilities	13	—	101
Accrued expenses	97	(14)	763
Other, net	(156)	(90)	(1,220)
Subtotal	2,562	2,138	19,986
Interest and dividend income received	162	210	1,270
Interest expense paid	(60)	(68)	(470)
Proceeds from insurance income related to disaster	—	34	—
Subsidies received	20	40	155
Income taxes paid	(180)	(580)	(1,404)
Net cash provided by operating activities	2,504	1,776	19,537
Investing activities			
Purchases of property, plant and equipment	(351)	(548)	(2,742)
Proceeds from sales of property, plant and equipment	14	—	113
Purchases of intangible assets	(18)	(43)	(146)
Purchases of investment securities	(73)	(14)	(575)
Proceeds from sales of investment securities	466	693	3,638
Proceeds from liquidation of an affiliate	283	—	2,207
Payments of loans receivable	—	(111)	—
Collection of loans receivable	15	11	116
Payments for investments in capital of subsidiaries and affiliates	—	(88)	—
Other, net	(45)	(53)	(355)
Net cash provided by (used in) investing activities	289	(155)	2,255
Financing activities			
Decrease in short-term loans payable	(1,500)	(83)	(11,699)
Repayment of long-term debt	(585)	(617)	(4,565)
Purchases of treasury stock	(0)	(0)	(4)
Cash dividends paid	(269)	(268)	(2,099)
Other, net	(1)	(1)	(14)
Net cash used in financing activities	(2,356)	(971)	(18,382)
Effect of exchange rate change on cash and cash equivalents	48	21	374
Net increase in cash and cash equivalents	485	670	3,784
Cash and cash equivalents at beginning of period	3,964	3,293	30,920
Cash and cash equivalents at end of period (Note 18)	¥ 4,449	¥ 3,964	\$ 34,705

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Notes to Consolidated Financial Statements
1. Summary of Significant Accounting Policies*(a) Basis of presentation*

The accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. (the "Company") and consolidated subsidiaries (collectively the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million yen and thousand U.S. dollars, respectively, in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements included the accounts of the Company and any significant companies controlled directly or indirectly by the Company.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. The Company applies the "Practical Solution of Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using Equity Method" (PITF No. 24). In accordance with these PITF, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with either IFRS or accounting principles generally accepted in the United States as adjusted for certain items including goodwill, actuarial differences and capitalized development costs.

As of May 31, 2022, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 5 and 2 (6 and 3 in 2021). TOYO DENKI USA, INC., which was a consolidated subsidiary in the year ended May 31, 2021, was liquidated in the year ended May 31, 2022 and excluded from the scope of consolidation. TOYO DENKI USA, INC., for which the fiscal year end was December 31, was consolidated by using its pro forma financial statements as of March 31 which are prepared solely for consolidation purposes and necessary adjustments were made to its financial statements to reflect any significant transactions from April 1 to May 31. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates which are neither consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

(c) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments in the consolidated financial statements.

(d) Cash and Cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less from the date of purchase, which can easily be converted to cash and are subject to little risk of change in value.

(e) Inventories

Inventories are stated principally at the lower of cost or net realizable value, cost being determined principally by the specific identification method for finished products and work in process and by the moving average cost method for raw material and supplies.

(f) Short-term investments and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities (available-for-sale securities). Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Available-for-sale securities with market quotation are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Available-for-sale securities without market quotation are carried at cost. Cost of securities sold is determined by the moving average method.

(g) Property, plant and equipment (except for leased assets) and depreciation

Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value, while buildings except for facilities attached to buildings acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after June 1, 2016 are depreciated by the straight-line method. The estimated useful lives of these assets are as follows:

Buildings and structures:	8 to 60 years
Machinery and vehicles:	3 to 12 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

(h) Intangible assets (except for leased assets)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized over the internal available period (5 years) using the straight-line method.

(i) Leases

Leased assets capitalized under the finance lease arrangements which do not transfer ownership to the lessee are depreciated over the lease period without any residual value using the straight-line method.

All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

(j) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

(k) Accrued directors' bonuses

Accrued directors' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future for the performance incentive bonuses.

(l) Accrued employees' bonuses

Accrued employees' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future.

(m) Reserve for losses on order acknowledgements

Reserve for losses on order acknowledgements is provided based on the amounts expected to be incurred during the current fiscal year and which are able to estimate the losses reasonably to cover the future losses on order acknowledgements. Provision of reserve for losses on order acknowledgements in the amounts of ¥99 million (\$772 thousand) and ¥142 million is included in cost of sales for the years ended May 31, 2022 and 2021, respectively.

(n) Retirement benefits

Retirement benefit obligation is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Prior service cost is amortized as incurred by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.

Actuarial differences are amortized by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees from the following year when incurred.

(o) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the temporary differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(p) Accounting for significant revenue and costs

The Group engages primarily in manufacturing and sale of electronic equipment and installation works.

Revenue from sales of products is recognized when the product is accepted by a customer as control of the products is transferred to the customer and performance obligations are satisfied upon the customer's acceptance of the products.

However, in the case of domestic sales of products, revenue is recognized upon shipment if the period between the shipment of the product and the transfer of control of the product to the customer is a normal time period.

In addition, with respect to construction contracts for which performance obligations are satisfied over time, revenue is recognized based on progress toward complete satisfaction of a performance obligation.

The percentage of completion is based on the costs incurred to the estimated total cost (input method).

(q) Research and development expenses

Research and development expenses are charged to income when incurred.

(r) Derivative financial instruments

The Company and certain consolidated subsidiaries conduct various derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for these which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Deferred hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred.

Hedging instruments are derivative transactions and hedged items are primarily interest on debts. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same.

(s) Significant accounting estimates

(Impairment of certain assets or groups of assets in the Industrial Systems segment)

(1) The amount recorded in the consolidated financial statements for the years ended May 31, 2022 and 2021

Property, plant and equipment, intangible assets and long-term prepaid expenses belonging to certain groups of assets in the Industrial Systems segment:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Impairment loss	¥2,256	¥ —	\$17,596
Property, plant and equipment, intangible assets and long-term prepaid expenses	3,325	5,928	25,934

(2) Other information that is useful for the reader of the consolidated financial statements to understand the contents of accounting estimates

a. Calculation method for the amount recorded in the consolidated financial statements for the year ended May 31, 2022

In preparing the consolidated financial statements, the Group groups its assets so that the estimates on impairment of fixed assets appropriately reflect the Group's actual management condition, and assesses indication of impairment. Assessment of indication of impairment is carried out based on the information available to the Group on the status of profit or loss generated from operating activities using the assets, etc. and whether the business environment has deteriorated significantly in connection with the business using the assets or groups of assets. If there is an indication of impairment, the Group will determine whether an impairment loss should be recognized. If the aggregated amount of undiscounted future cash flows is lower than the carrying amount, the carrying amount will be reduced to the recoverable value and an impairment loss will be recognized.

The future cash flows are estimated based on the business plan approved by the management and the growth rate for the period that exceeds the business plan period.

b. Main assumptions used for computing the amount recorded in the consolidated financial statements for the year ended May 31, 2022

In the computation of undiscounted future cash flows, the main assumption is net sales based on the projection of future order acknowledgements. Net sales based on the projection of future order acknowledgements are computed based on the management's evaluation of future trends of the industry, historical performances and internal and external information.

c. Effects on the consolidated financial statements for the following fiscal year

Estimates on undiscounted future cash flows involve uncertainties, since they are subject to changes in demand trends of some customers and unforeseeable events such as natural disasters. Accordingly, when the undiscounted future cash flows significantly differ from the assumption by the Group, the consolidated financial statements for the following year may be significantly affected.

(t) Changes in Accounting Policies

(Adoption of Accounting Standard for Revenue Recognition, etc.)

The Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Standard") and other standards from the beginning of the current fiscal year. The Company recognizes revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

In applying this standard, the Company applied the alternative treatment defined in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition, and recognizes revenue from domestic sales of products upon shipment if the period between the shipment of the product and the transfer of control of the product to the customer is a normal time period.

The Company previously applied the percentage-of-completion method for construction contracts whose percentage of completion can be reliably estimated, and the completed-contract method for other construction contracts. However, from the beginning of the year ended May 31, 2022, regarding contracts whose performance obligation is satisfied over time, the Company has changed the method of recognizing revenue to one where revenue is recognized over time as it satisfies its performance obligation. For contracts whose performance obligation is satisfied at a point in time, the Company has changed the method of recognizing revenue to one where revenue is recognized when the construction work has been completed. The progress toward complete satisfaction of the performance obligation is based on the costs incurred to the estimated total cost (input method).

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment provided for in the proviso to paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings at the beginning of the current fiscal year, with the new accounting policies applied from the beginning balance.

As a result of the above, there was no impact on profit or loss for the year ended May 31, 2022. In addition, there was no impact on the beginning balance of retained earnings nor on per share information.

With the application of the Revenue Recognition Standard, "Trade notes and accounts receivable," which was previously presented under "Current assets," has been included in "Trade notes, accounts receivable and contract assets" from the year ended May 31, 2022, and "Advances received," which was previously included in "Other," has been presented as "Contract liabilities" from the year ended May 31, 2022. Furthermore, "Advances received" under "Changes in operating assets and liabilities" in the consolidated statements of cash flows, has been included in "Contract liabilities" under "Changes in operating assets and liabilities" from the year ended May 31, 2022. In accordance with the transitional treatment set forth in paragraph 89-2 of the Revenue Recognition Standard, figures for the previous period have not been reclassified based on the new presentation method.

In accordance with the transitional treatment set forth in paragraph 89-3 of the Revenue Recognition Standard, notes on revenue recognition for the previous period have not been presented.

(Adoption of Accounting Standard for Fair Value Measurement, etc.)

The Company has adopted the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Standard") and other standards from the beginning of the current fiscal year, and will prospectively apply the new accounting policies stipulated in the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in paragraph 19 of the Fair Value Measurement Standard and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). There is no impact on consolidated financial statements.

In addition, the Company will include notes on fair value information by level within the fair value hierarchy in the notes on financial instruments. However, in accordance with the transitional treatment provided in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), notes pertaining to the previous period are not presented.

(u) Change in presentation

(Consolidated Statements of Cash Flows)

"Equity in (earnings) losses of affiliates accounted for by the equity method" which was included in "Other, net" under "Operating activities" for the year ended May 31, 2021 has been separately presented from the year ended May 31, 2022 due to an increase in its monetary materiality. In order to reflect this change in presentation, the consolidated financial statements for the year ended May 31, 2021 have been reclassified.

As a result, ¥(86) million presented as "Other, net" under "Operating activities" was reclassified to ¥4 million in "Equity in (earnings) losses of affiliates accounted for by the equity method" and ¥(90) million in "Other, net."

2. Other Explanatory Information

Note 1. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥128.21=U.S.\$1, the approximate rate of exchange prevailing at May 31, 2022. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

Note 2. Receivables and Contract Assets Arising from Contracts with Customers

Trade notes, accounts receivable and contract assets from contracts with customers as of May 31, 2022 were as follows:

As of	May 31, 2022	
	(Millions of yen)	(Thousands of U.S. dollars)
Notes receivable	¥ 586	\$ 4,577
Accounts receivable	7,088	55,289
Contract assets	4,415	34,442

Note 3. Inventories

Inventories as of May 31, 2022 and 2021 were as follows:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥ 501	¥ 514	\$ 3,910
Work in process	3,077	3,565	24,004
Raw materials and supplies	2,688	2,821	20,971
	¥6,267	¥6,901	\$48,885

Inventories were stated at the lower of cost or net realizable value and the Company recognized losses on write-down of inventories held for the ordinary sales purpose due to a decline in profitability in the amount of ¥134 million (\$1,048 thousand) and ¥190 million for the years ended May 31, 2022 and 2021, respectively. These amounts were included in "Cost of sales."

Inventories related to construction contracts which are estimated to make losses were stated after deducting the corresponding reserve for losses on order acknowledgements in the following amounts:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥ 0	¥ 28	\$ 5
Work in process	153	144	1,200
	¥154	¥173	\$1,205

Note 4. Property, Plant and Equipment

The following table sets forth the acquisition costs and related accumulated depreciation:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 10,326	¥ 12,338	\$ 80,544
Machinery and vehicles	8,185	8,397	63,841
Other	4,977	4,857	38,821
	23,488	25,593	183,206
Accumulated depreciation	(18,444)	(17,593)	(143,857)
	¥ 5,044	¥ 7,999	\$ 39,348

Depreciation of property, plant and equipment for the years ended May 31, 2022 and 2021 were as follows:

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
	¥1,257	¥1,413	\$9,804

Accumulated depreciation of property, plant and equipment amounted to ¥18,444 million (\$143,857 thousand) and ¥17,593 million as of May 31, 2022 and 2021, respectively.

Note 5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Other" under "Investments and other assets" as of May 31, 2022 and 2021 were as follows:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in capital	¥2,184	¥2,249	\$17,038

Note 6. Short-Term Borrowings and Long-Term Debt

As of May 31, 2022 and 2021, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥ —	¥1,500	\$ —
Current portion of long-term debt	585	585	4,565
	¥585	¥2,085	\$4,565

The annual weighted average interest rates applicable to current-portion of long-term debt as of May 31, 2022 were 0.601%.

As of May 31, 2022 and 2021, long-term debts were as follows:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2023 through 2032	¥11,173	¥11,759	\$87,152

The annual weighted average interest rate applicable to long-term debt as of May 31, 2022 was 0.405%.

The maturities of long-term debt are summarized as follows:

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2023	¥ 585	\$ 4,565
2024	885	6,905
2025	4,525	35,295
2026	4,525	35,295
2027 and thereafter	1,237	9,655
	¥11,759	\$91,717

As of May 31, 2022 and 2021, the assets pledged as collateral for short-term borrowings and long-term debt were as follows:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥3,170	¥5,485	\$24,729
Machinery and vehicles	368	596	2,870
Other property, plant and equipment	146	376	1,140
Land	1,201	1,232	9,371
	¥4,886	¥7,691	\$38,111

The following assets included in the above are set by factory foundation fixed collateral security for short-term borrowings as of May 31, 2022 and 2021:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥1,380	¥1,474	\$10,764
Machinery and vehicles	368	596	2,870
Other property, plant and equipment	146	376	1,140
	¥1,894	¥2,447	\$14,774

Note 7. Retirement Benefit Plans

The Company and its consolidated subsidiaries have retirement benefit plans combined by defined contribution plans and lump-sum payment plans.

The Company and its consolidated subsidiaries introduced the point system in the lump-sum payment plans, under which retirement benefit amounts are computed based on the accumulated points granted according to the job ranking and performances.

Under the lump-sum payment plans held by certain consolidated subsidiaries, the liability for retirement benefits and retirement benefit expenses are calculated using a simplified method.

The changes in the retirement benefit obligation during the years ended May 31, 2022 and 2021 were as follows:

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥4,124	¥4,010	\$32,171
Service cost	297	284	2,316
Interest cost	15	15	119
Actuarial (gain) loss	(16)	16	(125)
Retirement benefits paid	(287)	(202)	(2,242)
Other	(19)	—	(154)
Retirement benefit obligation as of May 31	¥4,113	¥4,124	\$32,086

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2022 and 2021 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,113	¥4,124	\$32,086
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,113	4,124	32,086
Liability for retirement benefits	¥4,113	¥4,124	\$32,086
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,113	4,124	32,086

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2022 and 2021 were as follows:

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥297	¥284	\$2,316
Interest cost	15	15	119
Amortization of actuarial loss	35	63	276
Other	11	—	93
Retirement benefit expenses	¥359	¥363	\$2,806

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2022 and 2021 were as follows:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥51	¥46	\$402
Total	¥51	¥46	\$402

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2022 and 2021 were as follows:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥88	¥140	\$692
Total	¥88	¥140	\$692

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2022 and 2021 were as follows:

For the Years Ended	May 31, 2022	May 31, 2021
Discount rate	0.4%	0.4%

Note: The Company does not use the expected rate of salary increase in computing retirement benefit obligation since the Company adopts the point system.

The amounts of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries were ¥116 million (\$911 thousand) and ¥118 million for the years ended May 31, 2022 and 2021, respectively.

Note 8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2022 and 2021 was as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2022

Type of shares	Number of shares as of June 1, 2021	Increase	Decrease	Number of shares as of May 31, 2022
	(Shares)			
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	794,128	480	—	794,608

Details of the increase are as follows:

Increase due to purchase of shares of less than standard unit 480 shares

For the year ended May 31, 2021

Type of shares	Number of shares as of June 1, 2020	Increase	Decrease	Number of shares as of May 31, 2021
	(Shares)			
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	793,403	725	—	794,128

Details of the increase are as follows:

Increase due to purchase of shares of less than standard unit 725 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2022

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 27, 2021	Common stock	¥268	\$2,092	¥30.00	\$0.23	May 31, 2021	August 30, 2021

For the year ended May 31, 2021

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 26, 2020	Common stock	¥268	¥30.00	May 31, 2020	August 27, 2020

2) Dividends with the cut-off date in the year ended May 31, 2022 and the effective date in the year ending May 31, 2023

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 25, 2022	Common stock	¥268	\$2,091	Retained earnings	¥30.00	\$0.23	May 31, 2022	August 26, 2022

Note 9. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2022 and 2021 were as follows:

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,868	¥1,895	\$14,574
Provision for accrued directors' bonuses	6	36	50
Provision for accrued employees' bonuses	315	322	2,463
Retirement benefit expenses	202	205	1,579
Provision for allowance for doubtful accounts	(0)	2	(7)
Research and development expenses	712	819	5,553

Note 10. Special (Losses) Gains, Net

The components of "Special (losses) gains, net" for the years ended May 31, 2022 and 2021 were as follows:

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥ 366	¥407	\$ 2,857
Gain on reversal of foreign translation adjustment	94	—	733
Special losses:			
Impairment loss	(2,256)	—	(17,596)
Loss on valuation of investment securities	(45)	—	(353)
Loss on valuation of investments in subsidiaries and affiliates	(155)	—	(1,211)
Total	¥(1,996)	¥407	\$(15,570)

Impairment loss

The Group recognized an impairment loss on the following group of assets for the year ended May 31, 2022:

Use	Location	Type of assets	Loss on impairment	
			(Millions of yen)	(Thousands of U.S. dollars)
Manufacturing equipment of Industrial Systems	Toyo Denki Seizo K.K. Shiga Ryuo plant (Ryuo-cho, Shiga Pref.)	Buildings, etc.	¥2,256	\$17,596

In assessing impairment losses, the Group groups its business assets based on business classification for management accounting purposes under which income and expenditure are managed on an ongoing basis.

Since the future cash flows were lower than the carrying value of the asset group due to a deterioration in the earnings environment, the value of various fixed assets was reduced to their recoverable amount and the reduced amount was recorded as an impairment loss under special losses. The recoverable amount is measured using the value in use and calculated by discounting the future cash flows at 4.8%.

The above assets consist of buildings and structures in the amount of ¥2,046 million (\$15,962 thousand), machinery, equipment and vehicles in the amount of ¥178 million (\$1,392 thousand) and land in the amount of ¥30 million (\$241 thousand).

Note 11. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.6% for the years ended May 31, 2022 and 2021. Income taxes of a foreign consolidated subsidiary are based generally on the tax rates applicable in the country of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the year ended May 31, 2022 is omitted since loss before income taxes was recorded for the year ended May 31, 2022.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the year ended May 31, 2021 was as follows:

For the Year Ended	May 31, 2021
Effective statutory tax rate	30.6%
Effect of:	
Non-deductible expenses for income tax purpose	1.2
Non-taxable income such as dividends income, etc.	(1.9)
Per capita inhabitant tax	2.5
Valuation allowance	4.9
Income from affiliates accounted for by the equity method	(0.1)
Liquidation of an affiliate	(21.0)
Difference arising from the rates used by subsidiaries	1.1
Retained profit of affiliates	0.3
Research and development tax credit	(1.2)
Other	(0.4)
Effective tax rate	16.0%

The significant components of deferred tax assets and liabilities as of May 31, 2022 and 2021 were as follows:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 307	¥ 270	\$ 2,398
Impairment loss	691	—	5,396
Liability for retirement benefits	1,266	1,269	9,877
Accrued employees' bonuses	252	258	1,967
Reserve for losses on order acknowledgements	131	157	1,028
The carryforward of unused tax losses (Note 1)	129	549	1,011
Other	498	361	3,889
Total gross deferred tax assets	3,278	2,867	25,569
Valuation allowance for the carryforward of unused tax losses (Note 1)	(129)	(536)	(1,008)
Valuation allowance for deductible temporary differences	(462)	(346)	(3,609)
Total valuation allowance	(592)	(883)	(4,617)
Total deferred tax assets	2,686	1,983	20,951
Deferred tax liabilities:			
Unrealized holding gain on securities	(1,736)	(2,136)	(13,544)
Other	(65)	(50)	(511)
Total deferred tax liabilities	(1,802)	(2,187)	(14,056)
Net deferred tax assets (liabilities)	¥ 883	¥ (203)	\$ 6,894

(Note 1) Valuation allowance decreased by ¥291 million (\$2,269 thousand) due primarily to a decrease in valuation allowance on tax loss carryforwards by ¥406 million (\$3,172 thousand).

(Note 2) The breakdown of the carryforward of unused tax losses and valuation allowance by expiry date is as follows:
Year ended May 31, 2022

(Millions of yen)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
The carryforward of unused tax losses (a)	¥ 5	¥—	¥—	¥—	¥ 12	¥ 111	¥ 129
Valuation allowance	(5)	—	—	—	(12)	(111)	(129)
Deferred tax assets	—	—	—	—	—	0	0(b)

(Thousands of U.S. dollars)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
The carryforward of unused tax losses (a)	\$ 39	\$—	\$—	\$—	\$ 98	\$ 873	\$ 1,011
Valuation allowance	(39)	—	—	—	(98)	(870)	(1,008)
Deferred tax assets	—	—	—	—	—	3	3(b)

(a) The amount is determined by multiplying the corresponding carryforward of unused tax losses by the effective statutory tax rate.
(b) Deferred tax assets of ¥0 million (\$3 thousand) is recognized on the carryforward of unused tax losses of ¥129 million (\$1,011 thousand) (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥0 million (\$3 thousand) is recognized on the carryforward of unused tax losses of ¥20 million (\$163 thousand) (amount multiplied by the effective statutory tax rate) of Toyo Shoji Co., Ltd., which is a consolidated subsidiary of the Company.

Year ended May 31, 2021

(Millions of yen)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
The carryforward of unused tax losses (a)	¥ 435	¥ 5	¥—	¥—	¥—	¥ 109	¥ 549
Valuation allowance	(435)	(5)	—	—	—	(96)	(536)
Deferred tax assets	—	—	—	—	—	13	13(b)

(a) The amount is determined by multiplying the corresponding carryforward of unused tax losses by the effective statutory tax rate.
(b) Deferred tax assets of ¥13 million is recognized on the carryforward of unused tax losses of ¥549 million (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥13 million is recognized on the carryforward of unused tax losses of ¥13 million (amount multiplied by the effective statutory tax rate) of Toyo Shoji Co., Ltd., which is a consolidated subsidiary of the Company.

Note 12. Other Comprehensive Loss

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive loss for the years ended May 31, 2022 and 2021:

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding loss on securities:			
Amount arising during the year	¥(1,655)	¥(1,737)	\$(12,912)
Reclassification adjustments for gains and losses included in net income	366	407	2,857
Amount before tax effect	(1,289)	(1,330)	(10,055)
Tax effect	399	405	3,118
Unrealized holding loss on securities	(889)	(924)	(6,936)
Translation adjustments			
Amount arising during the year	—	(6)	—
Reclassification adjustments for gains and losses included in net income	2	—	22
Amount before tax effect	2	(6)	22
Tax effect	(15)	(14)	(123)
Translation adjustments	2	(6)	22
Retirement benefits liability adjustments			
Amount arising during the year	24	(16)	194
Reclassification adjustments for gains and losses included in net income	26	63	207
Amount before tax effect	51	46	402
Tax effect	(15)	(14)	(123)
Retirement benefits liability adjustments	35	32	278
Share of other comprehensive income of affiliates accounted for by the equity method			
Amount arising during the year	53	14	417
Share of other comprehensive income of affiliates accounted for by the equity method	53	14	417
Total other comprehensive loss	¥ (797)	¥ (883)	\$ (6,218)

Note 13. Lease Transactions

Information on finance leases that do not transfer ownership of the leased property to the lessee is omitted since there is no materiality in terms of value.

Note 14. Contingent Liabilities

As of May 31, 2022 and 2021, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥316	¥374	\$2,469
Beijing Jingche Shuangyang Traction System Co., Ltd.	224	222	1,754

Note 15. Amounts Per Share

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Yen)		(U.S. dollars)
Net (loss) income:			
Basic	¥(104.02)	¥109.38	\$(0.81)
As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Yen)		(U.S. dollars)
Net assets	¥2,462.17	¥2,685.28	\$19.20

Note: Diluted net income per share is omitted for the year ended May 31, 2022 since there is no dilution of equity and the Company recorded net loss per share for the period. Diluted net income per share is omitted for the year ended May 31, 2021 since there is no dilution of equity.

The bases for calculation are as follows:

Basic net (loss) income per share

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Net (loss) income attributable to owners of the parent	¥(930)	¥977	\$(7,254)
Net (loss) income not attributable to common shareholders	—	—	—
Net (loss) income attributable to owners of the parent related to common stock	(930)	977	(7,254)
	(Thousand shares)		
Average number of shares of common stock during the year	8,940	8,941	

Note 16. Financial Instruments

Overview

(1) Policy for financial instruments

The Group raises its necessary funds for capital investments to reinforce and renew production facilities and working capital principally through bank borrowings. The Group manages temporary cash surpluses through low risk financial assets. The Group uses derivatives in order to avoid the following risks and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable and electronically recorded receivables—are exposed to credit risk in relation to customers. Trade receivables denominated in foreign currencies arising from international business are exposed to foreign exchange fluctuation risk, but the Group utilizes forward foreign exchange contracts to reduce such risk as a hedging instrument.

Investment securities are composed of mainly the shares of common stock of other companies with which the Group has business relationships and exposed to market risk.

Certain long-term debt raised for the purpose of making capital investments with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions as a hedging instrument.

Regarding hedging instruments and hedged items in hedge accounting, hedging policy, and assessment of the effectiveness of hedging activities, etc., please see “1. Summary of Significant Accounting Policies (r) Derivative financial instruments.”

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

Investment securities are composed of mainly the shares of common stock of highly rated companies with which the Group has business relationships. Accordingly, the Group believes that the credit risk deriving from such investment securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

(b) Monitoring of market risks (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Group utilizes interest rate swap transactions to reduce interest rate fluctuation risk on long-term debt.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions. Monthly reports including actual transactions data are submitted to the Board of Directors for their review.

(c) Monitoring of liquidation risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidation risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 19, Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Fair value of financial instruments

Carrying value and fair value of financial instruments on the consolidated balance sheets as of May 31, 2022 and 2021 and difference between the two are shown in the following table.

As of May 31, 2022	Carrying value	Fair value	Difference
	(Millions of yen)		
Assets			
Investment securities*1	¥11,408	¥11,408	¥—
Total assets	¥11,408	¥11,408	¥—
Liabilities			
Long-term debt*2	¥11,759	¥11,770	¥10
Total liabilities	¥11,759	¥11,770	¥10

As of May 31, 2022	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
Investment securities*1	\$88,984	\$88,984	\$—
Total assets	\$88,984	\$88,984	\$—
Liabilities			
Long-term debt*2	\$91,717	\$91,802	\$85
Total liabilities	\$91,717	\$91,802	\$85

*1 Investment securities
The fair value of investment securities is determined based on quoted prices on the stock exchange. Securities are held as available-for-sale securities. For notes on these securities, see Note 17 “Securities.”

*2 Long-term debt
The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. The fair value of long-term debt with variable interest rates, which is hedged by the interest rate swaps and to which hedge accounting is applied, is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. Current portion of long-term debt is included in the above table.

Notes:

- Cash on hand and in banks, trade notes and accounts receivable, electronically recorded receivables, trade notes and accounts payable, electronically recorded payables, short-term borrowings, income taxes payable, etc. are omitted since these items are settled in a short period of time and their carrying value approximates their fair value.
- Equity securities without market quotation, etc. are not included in the above investment securities. Carrying value of such financial instruments is as follows:

As of	May 31, 2022	
	(Millions of yen)	(Thousands of U.S. dollars)
Unlisted equity securities	¥1,062	\$8,288

As of May 31, 2021	Carrying value	Fair value	Difference
Assets			
Investment securities*1	¥12,767	¥12,767	¥—
Total assets	¥12,767	¥12,767	¥—
Liabilities			
Long-term debt*2	¥12,344	¥12,373	¥29
Total liabilities	¥12,344	¥12,373	¥29

*1 Investment securities
The fair value of investment securities is determined based on quoted prices on the stock exchange. Securities are held as available-for-sale securities. For notes on these securities, see Note 17 "Securities."

*2 Long-term debt
The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. The fair value of long-term debt with variable interest rates, which is hedged by the interest rate swaps and to which hedge accounting is applied, is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. Current portion of long-term debt is included in the above table.

Notes:

- Cash on hand and in banks, trade notes and accounts receivable, electronically recorded receivables, trade notes and accounts payable, electronically recorded payables, short-term borrowings, income taxes payable, etc. are omitted since these items are settled in a short period of time and their carrying value approximates their fair value.
- Carrying value of financial instruments for which it is extremely difficult to determine the fair value is as follows:

As of	May 31, 2021
	(Millions of yen)
Unlisted equity securities	¥1,064

- Redemption schedule for receivables and securities with maturities on May 31, 2022 and 2021 were as follows:

As of May 31, 2022	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash on hand and in banks	¥ 4,449	¥—	¥—	¥—
Trade notes and accounts receivable	7,643	32	—	—
Electronically recorded receivables	1,136	—	—	—
	¥13,229	¥32	¥—	¥—

As of May 31, 2022	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash on hand and in banks	\$ 34,705	\$ —	\$ —	\$ —
Trade notes and accounts receivable	59,615	252	—	—
Electronically recorded receivables	8,863	—	—	—
	\$103,184	\$252	\$—	\$—

As of May 31, 2021	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash on hand and in banks	¥ 3,962	¥—	¥—	¥—
Trade notes and accounts receivable	13,189	29	—	—
Electronically recorded receivables	901	—	—	—
	¥18,052	¥29	¥—	¥—

- The redemption schedule for long-term debt is disclosed in Note 6.

Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using (unadjusted) quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using significant unobservable inputs.

If multiple inputs that are significant to the fair value measurement are used, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

- Financial assets and liabilities measured at fair value

As of May 31, 2022	Fair value			
	Level 1	Level 2	Level 3	Total
(Millions of yen)				
Investment securities:				
Available-for-sale securities:				
Equity securities	¥11,408	¥—	¥—	¥11,408
Total financial assets	¥11,408	¥—	¥—	¥11,408
Not applicable for financial liabilities				

As of May 31, 2022	Fair value			
	Level 1	Level 2	Level 3	Total
(Thousands of U.S. dollars)				
Investment securities:				
Available-for-sale securities:				
Equity securities	\$88,984	\$—	\$—	\$88,984
Total financial assets	\$88,984	\$—	\$—	\$88,984
Not applicable for financial liabilities				

- Financial assets and liabilities other than those measured at fair value

As of May 31, 2022	Fair value			
	Level 1	Level 2	Level 3	Total
(Millions of yen)				
Not applicable for financial assets				
Long-term debt	¥—	¥11,770	¥—	¥11,770
Total financial liabilities	¥—	¥11,770	¥—	¥11,770

As of May 31, 2022	Fair value			
	Level 1	Level 2	Level 3	Total
	(Thousands of U.S. dollars)			
Not applicable for financial assets				
Long-term debt	\$—	\$91,802	\$—	\$91,802
Total financial liabilities	\$—	\$91,802	\$—	\$91,802

Note: A description of the valuation techniques and inputs used in the fair value measurements

Investment securities

The fair value of listed equity securities is based on quoted market prices. As listed equity securities are traded in active markets, their fair value is classified as Level 1.

Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. The fair value of long-term debt with variable interest rates, which is hedged by the interest rate swaps and to which hedge accounting is applied, is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. The fair value of long-term debt is classified as Level 2.

The fair value of long-term debt includes current portion of long-term debt.

Note 17. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2022	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities for which carrying value exceeds acquisition cost:			
Stock	¥11,205	¥5,539	¥5,666
Subtotal	¥11,205	¥5,539	¥5,666
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 202	¥ 218	¥ (15)
Subtotal	¥ 202	¥ 218	¥ (15)
Total	¥11,408	¥5,758	¥5,650

As of May 31, 2022	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities for which carrying value exceeds acquisition cost:			
Stock	\$87,402	\$43,207	\$44,195
Subtotal	\$87,402	\$43,207	\$44,195
Securities for which acquisition cost exceeds carrying value:			
Stock	\$ 1,582	\$ 1,706	\$ (123)
Subtotal	\$ 1,582	\$ 1,706	\$ (123)
Total	\$88,984	\$44,913	\$44,071

Note: Acquisition cost in the above table represents carrying value reflecting impairment losses. In the year ended May 31, 2022, the Company recognized loss on valuation of investment securities in the amount of ¥45 million (\$353 thousand). If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

As of May 31, 2021	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities for which carrying value exceeds their acquisition cost:			
Stock	¥12,514	¥5,511	¥7,003
Subtotal	¥12,514	¥5,511	¥7,003
Securities for which acquisition cost exceeds their carrying value:			
Stock	¥ 253	¥ 317	¥ (63)
Subtotal	¥ 253	¥ 317	¥ (63)
Total	¥12,767	¥5,828	¥6,939

Note: Acquisition cost in the above table represents carrying value reflecting impairment losses. If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

Information regarding available-for-sale securities sold

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥466	¥693	\$3,637
Gain on sales	366	407	2,857
Loss on sales	—	—	—

Note 18. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2022 and 2021 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥4,449	¥3,964	\$34,705
Cash and cash equivalents	¥4,449	¥3,964	\$34,705

Note 19. Derivative Transactions

Hedging policies

The Company utilizes forward foreign exchange contracts and interest rate swaps for the purpose of hedging its exposure to fluctuations in foreign exchange rates and interest rates, respectively. However, based on internal management rules on financial market risk approved by the Company's Board of Directors, Group companies do not enter into transactions involving derivatives for speculative or trading purposes.

Types and purpose of derivative transactions

The Company primarily uses forward foreign exchange contracts to hedge against the fluctuations in foreign currency exchange rates on trade receivables denominated in foreign currencies and interest rate swaps to hedge against the adverse impact of fluctuations in interest rates on interest-bearing debt.

Derivative transactions to which hedge accounting is not applied:

As of May 31, 2022 and 2021, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

As of May 31, 2022 and 2021, there were no interest-related derivatives.

Note 20. Revenue Recognition

1. Disaggregation of revenue from contracts with customers

Information about disaggregation of revenue arising from contracts with customers is as follows:

Year ended May 31, 2022		(Millions of yen)	(Thousands of U.S. dollars)
Reportable segment:			
Transportation Systems	Domestic railway	¥14,705	\$114,698
	Overseas railway	2,831	22,088
	Other	1,919	14,971
	Subtotal	¥19,456	\$151,757
Industrial Systems	Processing machine	¥ 2,719	\$ 21,210
	Testing machine	2,173	16,950
	Power generator/power source	2,187	17,059
	Other	2,822	22,016
	Subtotal	¥ 9,902	\$ 77,236
Information Equipment Systems	Information equipment	¥ 790	\$ 6,163
	Subtotal	¥ 790	\$ 6,163
Other (Note)		¥ 9	\$ 71
Total		¥30,158	\$235,229
Revenue arising from contracts with customers		¥30,158	\$235,229
Sales to third parties		¥30,158	\$235,229

(Note) "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.

2. Useful information in understanding revenue from contracts with customers

This information is as stated in (p) *Accounting for significant revenue and costs* under 1. Summary of Significant Accounting Policies. Consideration for performance obligation is usually received within one year from the satisfaction of performance obligations and does not include any significant financing component.

3. Balance of contract assets and liabilities and the transaction price allocated to the remaining performance obligations

(1) Balance of contract assets and liabilities

As of	May 31, 2022	
	(Millions of yen)	(Thousands of U.S. dollars)
Receivables from contracts with customers (beginning balance)	¥10,280	\$80,183
Receivables from contracts with customers (ending balance)	8,812	68,731
Contract assets (beginning balance)	3,838	29,941
Contract assets (ending balance)	4,415	34,442
Contract liabilities (beginning balance)	34	271
Contract liabilities (ending balance)	47	373

Contract assets relate to the right of the Group to consideration for contracts with customers which have been completed but an invoice has not yet been issued as of the end of the fiscal period. Once the Group has an unconditional right to consideration, it reclassifies contract assets to receivables from contracts with customers.

Contract liabilities primarily relate to advances received from customers based on the contracts with customers before the performance obligation is satisfied. Contract liabilities are reversed as revenue is recognized.

Revenue recognized in the year ended May 31, 2022 that was included in the contract liability balance at the beginning of the year was ¥27 million (\$212 thousand).

(2) Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the remaining performance obligations as of May 31, 2022 was ¥27,275 million (\$212,739 thousand) and the Group expects to recognize revenue mainly within a period of one to three years as performance obligations for such remaining performance obligations are satisfied.

Note 21. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group establishes business units by product and each business unit designs domestic and overseas comprehensive strategies for its products and is developing business activities. Accordingly, the Group consists of the three reportable segments by product based on the business units, which are Transportation Systems, Industrial Systems and Information Equipment Systems.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in "1. Summary of Significant Accounting Policies." Segment profit is evaluated based on operating income.

Inter-segment sales are recorded at the same prices used in transactions with third parties.

	For the year ended May 31, 2022						
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
	(Millions of yen)						
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	¥19,456	¥ 9,902	¥790	¥ 9	¥30,158	¥ —	¥30,158
Inter-segment sales and transfers	10	0	—	329	340	(340)	—
	19,467	9,903	790	338	30,499	(340)	30,158
Segment profit	¥ 2,190	¥ 477	¥142	¥(19)	¥ 2,791	¥(2,619)	¥ 171
Segment assets	¥16,276	¥10,068	691	¥434	¥27,471	¥19,444	¥46,916
Other items:							
Depreciation	¥ 513	¥ 470	¥ 21	¥ 3	¥ 1,008	¥ 248	¥ 1,257
Capital expenditures	¥ 164	¥ 115	¥ 4	¥ —	¥ 284	¥ 31	¥ 315

For the year ended May 31, 2022

	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
(Thousands of U.S. dollars)							
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	\$151,755	\$77,238	\$6,163	\$ 71	\$235,229	\$ —	\$235,229
Inter-segment sales and transfers	82	6	—	2,568	2,656	(2,656)	—
	151,838	77,244	6,163	2,639	237,886	(2,656)	235,229
Segment profit	\$ 17,081	\$ 3,727	\$1,114	\$ (149)	\$ 21,774	\$ (20,433)	\$ 1,340
Segment assets	\$126,955	\$78,532	\$5,393	\$3,391	\$214,272	\$151,659	\$365,932
Other items:							
Depreciation	\$ 4,003	\$ 3,667	\$ 170	\$ 26	\$ 7,869	\$ 1,935	\$ 9,804
Capital expenditures	\$ 1,282	\$ 900	\$ 37	\$ —	\$ 2,220	\$ 243	\$ 2,463

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.

For the year ended May 31, 2021

	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
(Millions of yen)							
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	¥21,528	¥10,541	¥1,067	¥ 5	¥33,143	¥ —	¥33,143
Inter-segment sales and transfers	50	0	—	346	397	(397)	—
	21,579	10,542	1,067	352	33,541	(397)	33,143
Segment profit	¥ 2,211	¥ 718	¥ 267	¥ (39)	¥ 3,157	¥ (2,734)	¥ 423
Segment assets	¥17,151	¥13,838	¥ 674	¥479	¥32,144	¥19,822	¥51,967
Other items:							
Depreciation	¥ 607	¥ 527	¥ 25	¥ 4	¥ 1,165	¥ 247	¥ 1,413
Capital expenditures	¥ 454	¥ 113	¥ 10	¥ 2	¥ 580	¥ 51	¥ 632

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.

Geographical information

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended May 31, 2022 and 2021 were summarized as follows:

For the Years Ended	May 31, 2022	May 31, 2021	May 31, 2022
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥25,779	¥27,876	\$201,072
China	3,015	3,628	23,521
Other	1,363	1,638	10,635
Consolidated	¥30,158	¥33,143	\$235,229

Note: Net sales information above is based on customers' location.

Major customer information

Major customer information for the years ended May 31, 2022 and 2021 was omitted since there was no customer to which sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

Information about impairment loss on property, plant and equipment

	For the year ended May 31, 2022						
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
Impairment loss	¥—	¥2,256	¥—	¥—	¥2,256	¥—	¥2,256
(Millions of yen)							
	For the year ended May 31, 2022						
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
Impairment loss	\$—	\$17,596	\$—	\$—	\$17,596	\$—	\$17,596
(Thousands of U.S. dollars)							

There was no applicable information for the year ended May 31, 2021.

Note 22. Significant Subsequent Events

There were no significant subsequent events to be noted.

Stock Related Information

Number of shares (As of May 31, 2022)

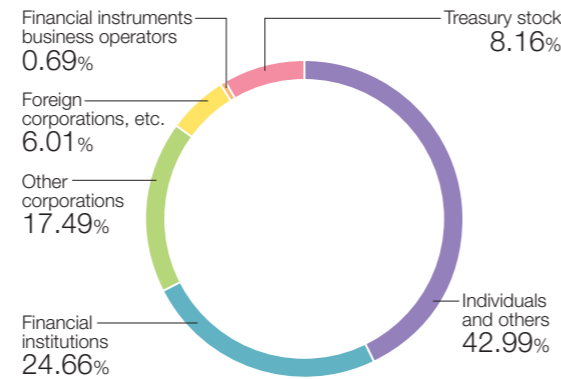
Number of shares authorized	36,000,000
Number of shares issued	9,735,000
Number of shareholders	5,891

Major shareholders

Shareholders	Number of shares held (Thousands)	% of total shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	978	10.94
East Japan Railway Company	480	5.36
Employees Stock Ownership Plan	475	5.31
NIPPON LIFE INSURANCE COMPANY	337	3.77
Toyo Denki Subcontractor Factories Shareholding Association	302	3.38
MUFG Bank, Ltd.	270	3.02
Sanshin Co., Ltd.	270	3.02
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/JANUS HENDERSON HORIZON FUND	212	2.37
The Bank of Yokohama, Ltd.	207	2.32
Ohkuraya jutaku Inc.	206	2.30

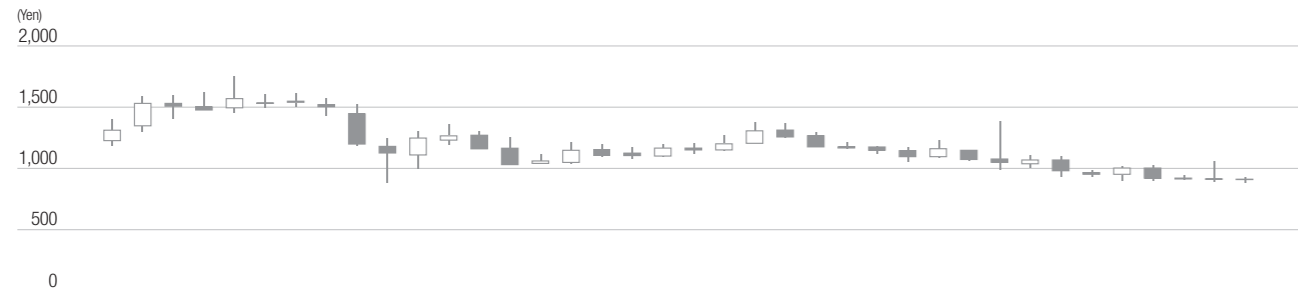
(Note) The percentages of total shares held are calculated excluding 794 treasury stocks.

Distribution of shares by type of shareholder

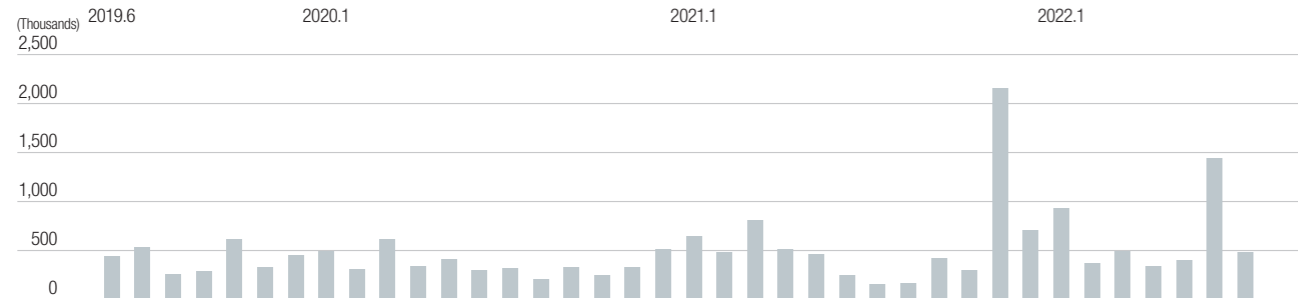


Transition of share price

Share price



Trading volume



Disclaimer on the forward-looking statements

Information in this corporate report contains forward-looking statements. Such statements were developed based on the information available at the time when this report was prepared. These forward-looking statements may be largely revised in the future, and the actual outcome could significantly vary from the stated or implied contents of such statements subject to various factors. This report is not intended to solicit investment. Investors are kindly asked to make your investment decision at your own judgment and responsibility. Numbers presented in 100 million yen or million yen are rounded down to the nearest respective unit.

Company Profile (as of May 31, 2022)

Company Profile

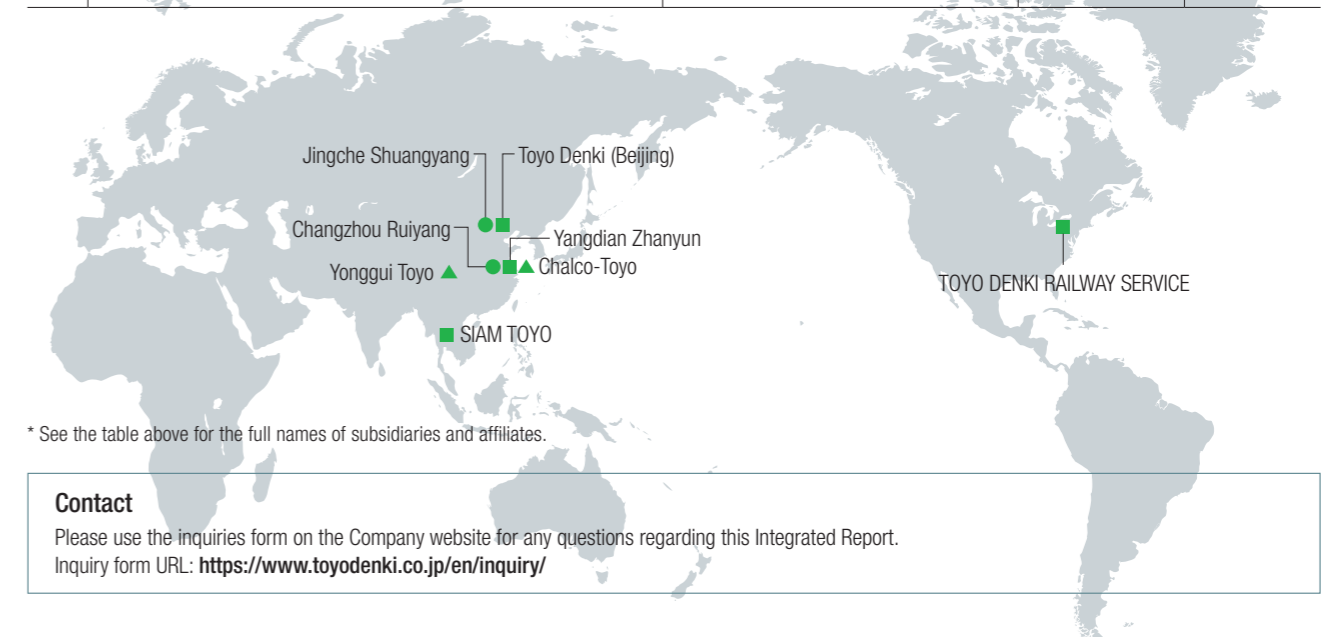
Company Name	TOYO DENKI SEIZO K.K. (TOYO ELECTRIC MFG. CO., LTD.)
Established	June 20, 1918
Capital	4,998,390,000 yen
Number of Employees	1,193 (Consolidated) 830 (TOYO DENKI SEIZO K.K.)
Head Office	1-4-16, Yaesu, Chuo-ku, Tokyo, 103-0028, Japan TEL +81-3-5202-8121 (General Affairs Division) https://www.toyodenki.co.jp/
Stock Exchange Listing	The Tokyo Stock Exchange, Standard Market
Code Number	6505
Number of Shares Authorized	36,000,000 shares
Number of Shares Issued	9,735,000 shares
Number of Shareholders	5,891



Subsidiaries and Affiliates

○ Consolidated subsidiaries ● Affiliates accounted for by the equity method ■ Non-consolidated subsidiaries ▲ Affiliates not accounted for by the equity method

	Transportation Systems	Industrial Systems	Information Equipment Systems	Others
Japan	○ TOYOKOUKI Co., Ltd. ○ Taihei Electric Co., Ltd.	○ Toyo Sangyo K.K. ○ TD Drive Co., Ltd.		○ Toyo Shoji Co., Ltd.
Over-seas	■ Toyo Denki (Beijing) Co., Ltd. (China) ■ Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd. (China)	● Changzhou Ruiyang Transmission Technology Co., Ltd. (China) ● Beijing Jingche Shuangyang Traction System Co., Ltd. (China) ▲ Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd. (China) ■ TOYO DENKI RAILWAY SERVICE, LLC. (U.S.)	■ SIAM TOYO DENKI Co., Ltd. (Thailand) ▲ Chalco-Toyo Permanent Magnet Motor Co., Ltd. (China)	

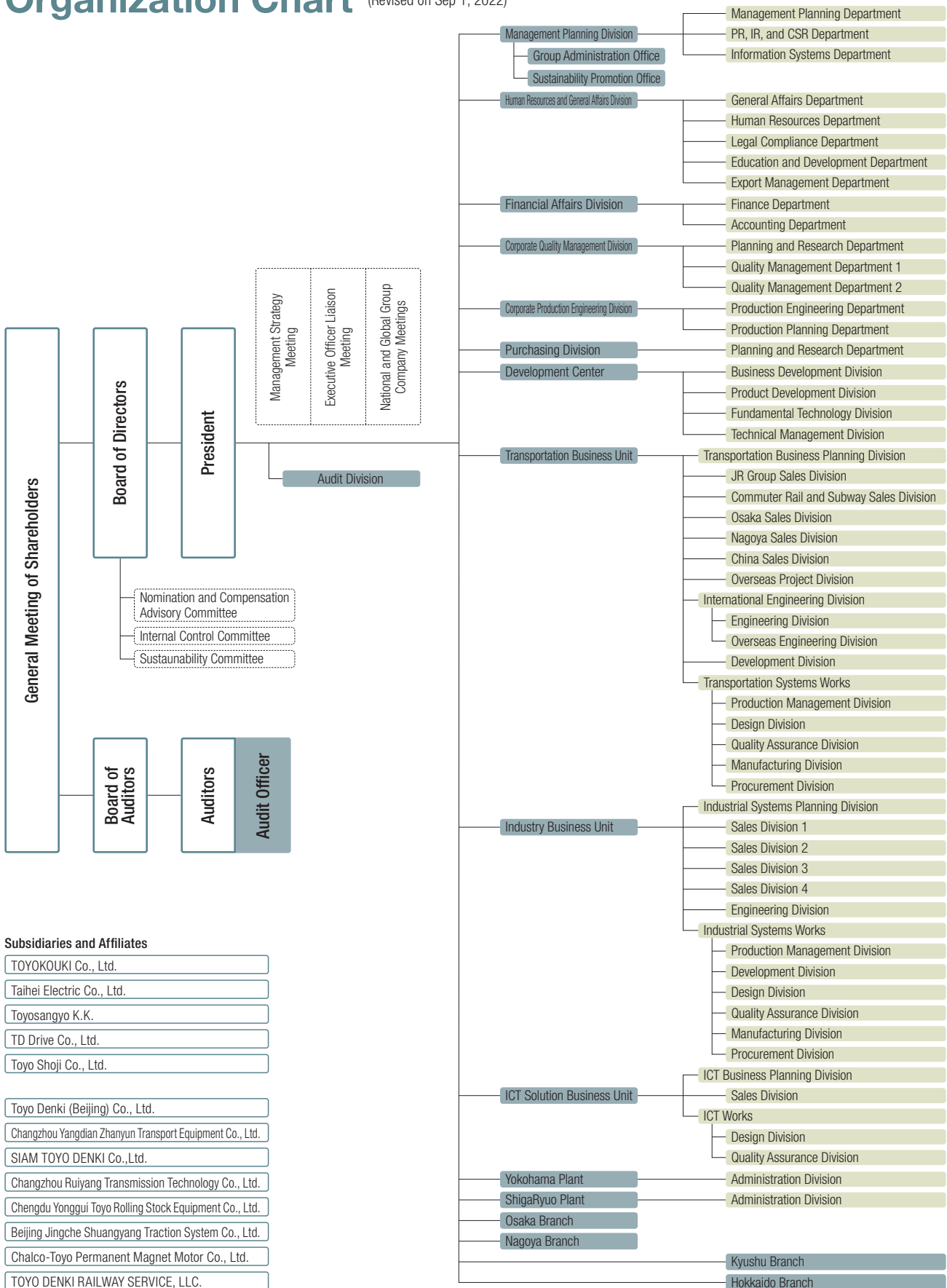


* See the table above for the full names of subsidiaries and affiliates.

Contact

Please use the inquiries form on the Company website for any questions regarding this Integrated Report.
Inquiry form URL: <https://www.toyodenki.co.jp/en/inquiry/>

Organization Chart (Revised on Sep 1, 2022)



Subsidiaries and Affiliates

- TOYOKOUKI Co., Ltd.
- Taihei Electric Co., Ltd.
- Toyosangyo K.K.
- TD Drive Co., Ltd.
- Toyo Shoji Co., Ltd.
- Toyo Denki (Beijing) Co., Ltd.
- Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd.
- SIAM TOYO DENKI Co., Ltd.
- Changzhou Ruiyang Transmission Technology Co., Ltd.
- Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd.
- Beijing Jingche Shuangyang Traction System Co., Ltd.
- Chalco-Toyo Permanent Magnet Motor Co., Ltd.
- TOYO DENKI RAILWAY SERVICE, LLC.