Integrated Report
Toyo Denki Seizo Report 2023

Our Heart and Technology for the Future

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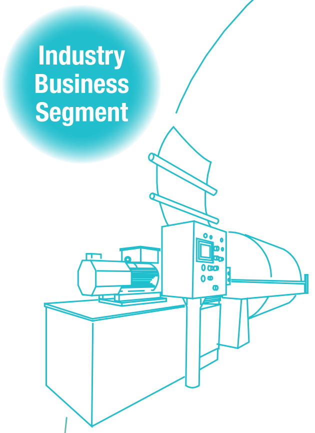
https://www.toyodenki.co.jp/

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 exceptional motor drive technologies since establishment with our breakthrough advanced technologies.



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:

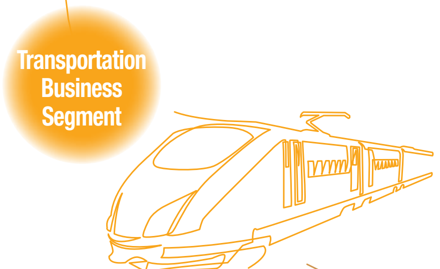
Prioritize ethics and contribute to the prosperity of customers and society as a whole
Encourage creativity and enterprising spirit to meet the challenges of the future
Build trust by focusing on quality first

Code of Conduct

1. Respond to customers in a timely and speedy manner
2. Tackle all challenges with forethought and creativity
3. Continuous efforts toward self-development and skill improvement
4. Keep a broad perspective and influence each other toward growth
5. Act with awareness and pride of a good member of society and businessman

Company Slogan

Our Heart and Technology for the Future

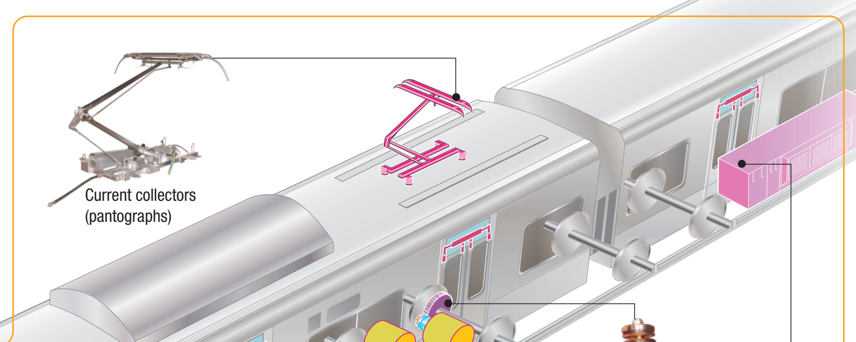


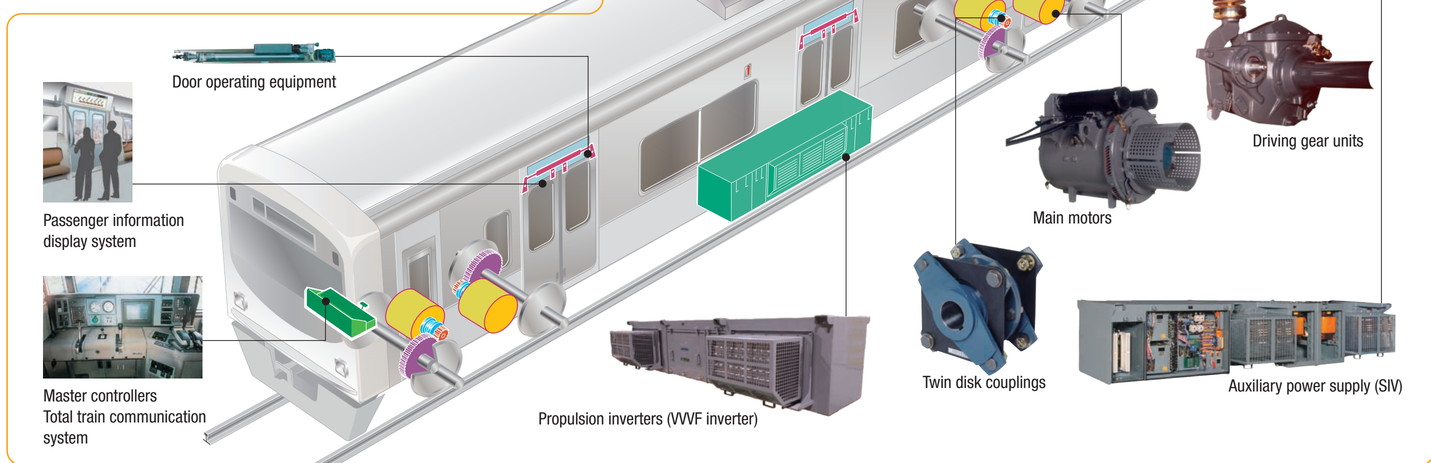
TOYO DENKI

Transportation Business Segment

Electrical equipment for rail vehicles manufactured by the Company using its technological capability developed since its founding covers a wide range of fields, including propulsion systems (drive systems), auxiliary power supply and total train communication systems, and is designed to enhance the safety and comfort of trains.

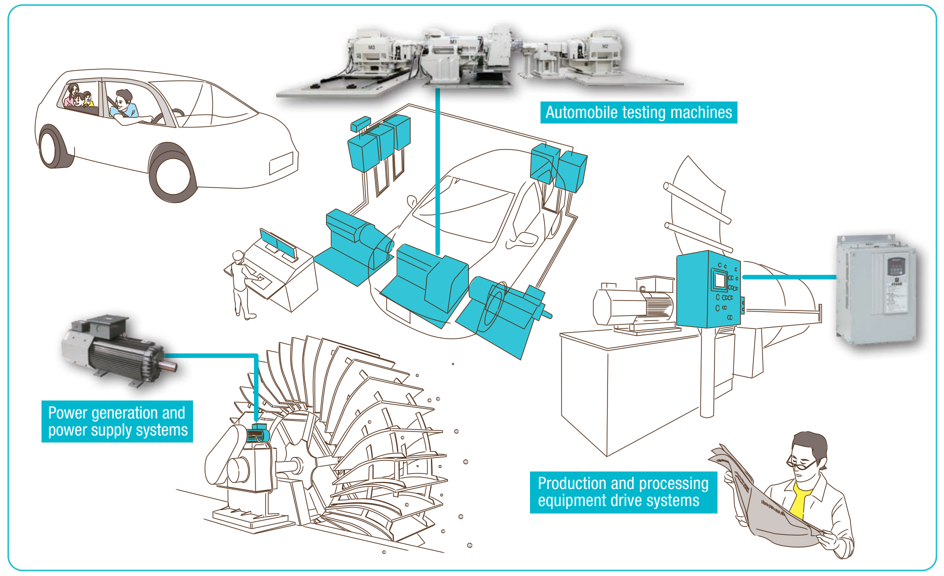
In addition, the provision of maintenance services by our Group companies contributes to the maintenance and development of railway infrastructure in Japan and overseas.





Industry Business Segment

The Company is extensively contributing to customers at home and abroad through drive systems for general industrial machinery and equipment, automobile testing machines and power supply systems that are 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 ICT and electronics. With regard to railway station operating equipment systems, we develop and manufacture commuter pass issuing machines that quickly became IC card compliant and supplementary on-board ticket issuing devices, and provide host systems by leveraging cloud and IoT technologies. In doing so, we supply railway operators with systems for smooth fare collection and income management.

Our IoT solutions enable monitoring and control of mobile entities and remote equipment through services that leverage cloud computing and mobile communication, and thus greatly contribute to customers' efforts to streamline operations and optimize equipment maintenance.

C O N T E N T S

● 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 2022 (from June 2022 to May 2023), 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.

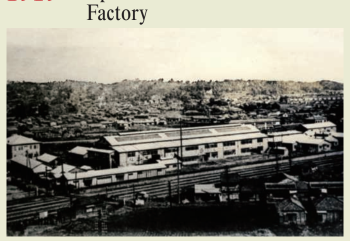
Our company was founded in 1918 with the intention of "domestic production of electrical machinery for railway vehicles". A spectacular feeling that we want to export products to domestic as well as to many Orient countries and contribute to the development of the country has come from the name of "TOYO 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

From foundation to postwar


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

From postwar reconstruction to high economic growth

- *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 Planmt was completed
  - ● 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

Global expansion and to the next 100 years

- *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 synchronous 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 Pasmo 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 SIAM TOYO 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

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

		158th fiscal term	159th fiscal term	160th fiscal term	161st fiscal term	162nd fiscal term
		FYE May 2019	FYE May 2020	FYE May 2021	FYE May 2022	FYE May 2023
Financial Data						
Fiscal Year						
Orders received	(million yen)	40,684	38,527	30,055	30,447	33,246
Net sales	(million yen)	41,172	39,071	33,143	30,158	31,025
Gross profit	(million yen)	7,839	8,242	7,338	6,815	7,197
Operating income	(million yen)	557	1,068	423	171	517
Net income attributable to owners of the parent	(million yen)	690	1,081	977	(930)	824
Comprehensive income	(million yen)	(251)	(351)	94	(1,727)	2,373
Capital investment	(million yen)	1,090	545	632	315	310
Research and development costs	(million yen)	731	792	819	712	755
Fiscal Year-End						
Net assets	(million yen)	24,804	24,183	24,008	22,012	24,582
Total assets	(million yen)	58,001	55,165	51,967	46,916	49,682
Per Share Information						
Net assets	(yen)	2,773.87	2,704.61	2,685.28	2,462.17	2,605.99
Net income	(yen)	75.27	120.98	109.38	(104.02)	91.85
Dividend	(yen)	30	30	30	30	30
Major Management Indices						
Shareholders' equity ratio	(%)	42.8	43.8	46.2	46.9	49.5
Return on equity (ROE)	(%)	2.7	4.4	4.1	(4.0)	3.5
Operating income ratio	(%)	1.4	2.7	1.3	0.6	1.7
Overseas net sales ratio	(%)	22.9	20.7	15.9	14.5	19.7
Dividend payout ratio	(%)	39.9	24.8	27.4	—	32.7
Non-financial Data						
Number of officers	(non-consolidated)	11	10	10	11	10
Number of employees on a consolidated basis		1,226	1,227	1,217	1,193	1,149
Number of employees at subsidiaries in Japan		395	386	370	363	357
CO_2 emissions on a non-consolidated basis	(t)*	5,037	4,274	4,251	3,836	3,767
Electricity consumption on a non-consolidated basis	(10,000 kWh)*	864.3	767.6	772.2	733.7	644.0

* Aggregate amount of production bases and head office/branches per fiscal year beginning in April and ending in March of the following year.

Message from the President, Representative Director

As we continue to steadily advance the "revitalization and transformation of Toyo Denki," we will push ahead with efforts to expand our core values and drastically strengthen our management foundations, aiming to restore sales to pre-COVID-19 pandemic levels in the fiscal year ending May 2026.

Akira Watanabe
President, Representative Director

Pursuing our vision for Toyo Denki

A commitment to propel us into our next 100 years from the starting point

For more than 100 years, the Toyo Denki Group has built up a history of manufacturing diverse products that have supported the environment and society. In April 2021 we announced our Sustainability Policy as an embodiment of one of our business principles: "prioritize ethics and contribute to the prosperity of customers and society as a whole." This policy outlines a vision for Toyo Denki based on the business principles that we have cultivated since our founding and on our environmental philosophy, and it declares our commitment to take a new path that will propel us forward into our next 100 years through three approaches: "initiative in products and services," "initiative in production activities," and "initiative in valuing people and communities." In addition, we have formulated Medium-Term Management Plan 2026 to achieve, in a true sense, our sustainable growth and the improvement of our corporate value, based on a renewed understanding of our purpose. The starting point for this plan is to address a challenge brought to the forefront by the COVID-19 pandemic, namely, the need to improve our profitability. We have started making steady progress in executing the plan.

Results for the fiscal year ended May 2023

A year of working toward "revitalization and transformation of Toyo Denki" and achieving steady results

We positioned the fiscal year ended May 2023, the first year of Medium-Term Management Plan 2026, as a year to thoroughly implement structural reforms to improve profitability, and took action toward the "revitalization and transformation of Toyo Denki."

Fortunately, in Japan, the lifting of the COVID-19 pandemic-related restrictions on public activity helped to bring social and economic activity back toward normal levels, as seen in the rebound of capital investment by businesses. Many other countries also experienced a gradual recovery of their economies, along with improvements in the business environment. At the same time, however, new sources of concern emerged, including heightened geopolitical risks, increases in raw material and energy prices, persistent shortages of parts, and uncertainties in financial and foreign exchange trends.

The Transportation Business segment saw increased demand for train equipment renewal as the improving business environment prompted domestic railway operating companies to resume the plans for building new rolling stock that they had put on hold due to the COVID-19 pandemic. Also, there was a rise in orders received in China for service parts and new projects. In the Industry Business segment, inquiries on our Group's products and services rose with growing capital investment in many industries. Trends in the ICT Solution Business segment included software upgrades for railway station operating equipment to accommodate fare revisions, software development for improving operational efficiency, and efforts to enhance passenger convenience and serve the needs of inbound visitors. Although our manufacturing processes were impacted by the persistent difficulty in procuring parts and materials—particularly in the case of the Industry Business segment, which has comparatively short lead times—all three segments achieved growth in their income and profits.

Medium-Term Management Plan 2026 lays out three basic policies: "Expansion of new businesses and products," which aims to restore sales to the pre-COVID-19 pandemic level of 40.0 billion yen in the fiscal year ending May 2026; "Thorough improvement of the earnings structures of existing businesses," which seeks to boost operating income ratio to 5% and ROE to 8%; and "Improvement of asset efficiency with an awareness of capital costs," which involves reviewing capital efficiency (mainly focusing on reducing cross-shareholdings) and considering reallocation of corporate resources. These three policies began producing results in the fiscal year ended May 2023.

Regarding "expansion of new businesses and products," our Group as a whole pursued cross-segment development of new businesses and products, mainly at the new development center we opened in June 2022. We delivered a system that can monitor railway operational conditions in real time over the public cloud by retrofitting our IORemoter to railway vehicle's VVVF device, and a cashless payment terminal app for use on the work smartphones carried by train crews. The app is a business process application that eliminates the need for crews to carry around the dedicated terminal traditionally used. It thus helps to improve safety, quality of service, and the working environment for crew members. In addition, we began developing and mass-producing evaluation equipment compatible with advanced driver-assistance systems (ADAS) and on-demand motors.

Our efforts for "thorough improvement of the earnings structures of existing businesses" included not only improvement of plant profitability, but also asking customers to agree to revision of our selling prices to appropriate levels reflecting the increases in raw material prices and other costs so that we could implement cost pass-through for renewed contracts and new relationships.

For "improvement of asset efficiency with an awareness of capital costs" we continued to further reduce our cross-shareholdings, and also sold off idle real estate such as the former sites of aging company housing.

Outlook for the fiscal year ending May 2024

Taking advantage of the business environment's upturn to drastically strengthen our management foundations

Our forecast for the fiscal year ending May 2024 anticipates that economic activity in Japan will further improve on the whole, buoyed by the business environment's upturn in the fiscal year ended May 2023. However, we also foresee a slowdown in economic recovery overseas, and the continuation of concerns such as limited part supplies and uncertainties in financial and foreign exchange trends.

As for our Group's core segment, the Transportation Business, domestic railway operating companies, which are likely to see further recovery from the COVID-19 pandemic's impact, including a return of inbound visitor-related demand, are planning to invest in sustainability initiatives. They can be expected to deploy newly built rolling stock and switch to energy-saving devices, among other actions. There are concerns that the Chinese market will enter a recession, but nevertheless it is likely that there will be demand for railway vehicle maintenance that had been delayed because of the COVID-19 pandemic, and that production of new rolling stock will grow. In regions such as Southeast Asia, there are signs of vigorous activity amid robust infrastructure demand.

In the Industry Business segment, we expect to see an influx of orders for production and processing equipment systems for increasing productivity or improving energy efficiency. Looking at automobile testing systems, it appears that companies are re-examining their investments in light of the rapid shift toward electric vehicles. In the medium to long run, demand will likely increase for testing equipment that supports the switch to electric vehicles, and for power supply equipment and distributed power supply generators that use renewable energy, in preparation toward a sustainable society. We are pursuing technological development to meet the expected growth in orders received.

We are expanding the ICT Solution Business segment to encompass not only railway station operating equipment systems that support cashless payment but also general ICT solutions such as cloud-based remote monitoring systems that enable monitoring and control of mobile entities, equipment, and facilities.

In May 2023, we acquired funding totaling 464 million yen through a third-party allotment of a portion of our treasury stock to East Japan Railway Company. We are using some of these funds to install new equipment to strengthen and accelerate the development of new business areas at our Yokohama Plant, which is a production base for electrical equipment for rail vehicles, as well as capital investments aimed at improving the productivity of the plant's existing businesses. We are also using the funds to invest in projects for reinforcing our IT platform, advancing DX (including leveraging drawing data), and implementing information security measures.

We anticipate that these actions will lead to growth in net sales and profit of at least 10% for orders received and net sales, and at least 15% for operating income.

Roadmap to greater growth potential and profitability

New steps toward achieving Medium-Term Management Plan 2026

We announced our Group's management indices under Medium-Term Management Plan 2026 in July 2023. Our goal for the fiscal year ending May 2026 is to achieve consolidated net sales of 40.0 billion yen, operating income ratio of 5%, and ROE of 8%, as well as segment net sales of 25.0 billion yen in the Transportation Business, 13.0 billion yen in the Industry Business, and 2.0 billion yen in the ICT Solution Business.

In the Transportation Business segment, demand has been rising for railway power storage systems that store the regenerative power generated by train braking, as railway operators seek to address a key concern for them, reduction of environmental burden (through reduction of power consumption). Our Group has a strong track record in delivering power storage systems, particularly the E3 Solution System, but we will continue pursuing development. We will strengthen our production system by adding more testing equipment for development projects, and will develop environmentally friendly products that save energy, reduce maintenance requirements, control noise, and realize other improvements.

In the Industry Business segment, we will work to further improve the in-wheel-well dynamo that we developed as testing equipment for the automotive industry, seeking to apply it to vehicle testing that also supports the shift to EVs, and ADAS support testing. In addition, we will respond to the recovery of demand for capital investment in energy-saving solutions by broadening our lineup of energy-saving devices and pursuing development of small hydroelectric power generation and wave power generation—both of which are expected to see increased demand going forward—with the aim of expanding the utilization of natural energy.

In the ICT Solution Business segment, we will provide railway operators and other customers with IoT solutions that enable them to streamline their operations and optimize maintenance. To this end we will develop railway station operating equipment apps for use on work smartphones and other general-purpose terminals, and supply systems for monitoring and controlling mobile entities and remote equipment through cloud services and mobile networks.

Promoting sustainability management

Accelerating development of our foundations through engagement

The Group established a Sustainability Committee and carries out company-wide initiatives to promote sustainability management. I preside over the committee, and its members, comprising mostly Operating Officers, generally meet once every quarter.

We consider climate change to be a particularly important topic and have set numerical targets for reducing greenhouse gas emissions. Specifically, the targets for reducing Scope 1 and 2 CO_2 emissions versus fiscal 2018 levels are 10% by fiscal 2026, 30% by fiscal 2030, and 100% by fiscal 2050. The Sustainability Committee is tracking progress toward those targets. The content of committee discussions is reported to the Board of Directors and reflected in the Group's management strategy. In July 2023 we also announced our support for the TCFD recommendations and began analyzing climate change-related risks and opportunities.

We view human capital as our most important corporate resource, as it supports the continuous improvement of our corporate value and the achievement of our social mission. Accordingly, we have begun to reform our personnel systems to reinvigorate our organization and talent.

As part of our actions to ensure diversity in our workforce, we are stepping up recruitment activities aimed at increasing the percentage of female permanent employees and are carrying out other initiatives such as career advancement seminars for female employees. Through these efforts we will raise female representation across our organization, with the aim of increasing female representation at the assistant manager level and manager level in administration divisions to at least 25% and 8%, respectively, by the fiscal year ending May 2026. Moreover, we will further ensure diversity through mid-career hiring, a program that enables fixed-term contract employees to switch to permanent employment, a program for recruiting people with disabilities, and other actions.

Our human resources development initiatives include level-specific training, OJT, support for acquisition of various degrees and certifications (such as engineering doctorates, MBA, MOT, professional engineer qualifications), and language training. Our Engineer Development Committee meets regularly to advance the training of technical personnel, the Technical My Star Committee certifies skill transfer processes and evaluates the results of those processes. As a result of these activities, to date three of our employees have been recognized with the Contemporary Master Craftsman award from the Minister of Health, Labour and Welfare. We will also implement a program for training female manager candidates to further support diversity, and will enhance our training program for upper management candidates.

We have established and enhanced various programs for supporting work-life balance, including the re-hiring of former employees, limiting the working location of employees caring for children or other family members to a defined region, diversifying the options for reduced working hours, and providing annual paid leave on an hourly basis. We are also communicating information for encouraging more male employees to take childcare leave, including by creating and distributing a guidebook on childbirth and childcare, and a collection of male employees' personal stories about their experiences in taking childcare leave. Going forward, we will further develop our programs for flextime, remote work, and other workstyle options.

In our efforts to further improve the working environment, we are striving to support the mental health of our employees by setting minimum rest periods between shifts and establishing in-house and external mental health consultation services. In addition, the management solicits and listens to the opinions of employees through opportunities such as a regular roundtable meeting that brings the President and employees together to share their values. Initiatives such as these earned us recognition as a Certified Health & Productivity Management Outstanding Organization by the Ministry of Economy, Trade and Industry in 2022 and 2023.

To further enhance our corporate governance, we have appointed Ms. Yukiko Machida as an Outside Director. Ms. Machida is a lawyer who brings deep insights into labor law gained through extensive experience, including her role as a Vice-Chairperson of the Daini Tokyo Bar Association's Labor Issue Committee. I would like to accelerate the enhancement of our Group's corporate value by referring to her advice and suggestions on how to ensure the legality and appropriateness of the Board of Directors' decision-making and on the HR and labor challenges faced by the Group.

Message to our stakeholders

We will push ahead with efforts to expand our core values and drastically strengthen our management foundations

The Group'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 made it our basic policy to maintain the payout ratio at 30% or higher. In the fiscal year ended May 2023, under our basic policy for dividend returns to shareholders, we paid a year-end dividend of 30 yen per share. We expect to pay a year-end dividend of 30 yen per share for the fiscal year ending May 2024 as well. 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. I consider this success to be the product of our constant pursuit of a value creation process that is driven by our core values encompassing a broad spectrum of shareholders: "achievements and reliability in 100 years of business," "tireless challenge to improve technologies," "full commitment to facing our customers squarely," "close networks with suppliers," and "development of manufacturing professionals." I believe that it is imperative for us to continue pursuing business management that values people and technology, in line with the Toyo Denki Group's company slogan of "Our Heart and Technology for the Future." I especially consider people to be a vital part of our commitment to sustainability and human capital management. 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, including with regard to sustainability.

Value Creation Process at Toyo Denki Seizo

Input (corporate resource)

Consolidated basis (FY2022)

Intellectual capital

- Number of patents, etc. held (Japan and overseas) (Patents, utility models, designs) **255**
- R&D spending **750** million yen

Human capital

- Number of employees **1,149** (Men: 1,011; Women: 138)

Social and related capital

(non-consolidated)

- Number of customers **394** companies
- Number of suppliers **655** companies
- Number of countries supplied **31**

Manufacturing capital

- Number of manufacturing sites Japan **5** Overseas **5** (affiliates)
- Annual capital spending **310** million yen

Natural capital

- Energy consumption **2,255** kl

Financial capital

- Total assets **49.6** billion yen
- Shareholders' equity ratio **49.5**%

Core Values and Strengths

[Group Business Principles]

- 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

Planning/ development/design

Procurement

Production

Sales

After-sales service

Needs and issues identification

- Achievements and reliability in 100 years of business
- Tireless challenge to improve technologies
- Full commitment to facing our customers squarely
- Close networks with suppliers
- Development of manufacturing professionals

[Fundamental Policies of the Medium-term Management Plan]
(FYE May 2023 through FYE May 2026)

1. Expand new businesses and products
2. Thoroughly improve the earnings structures of existing businesses
3. Improve asset efficiency with an awareness of capital costs

⇒ Revitalization and transformation of Toyo Denki

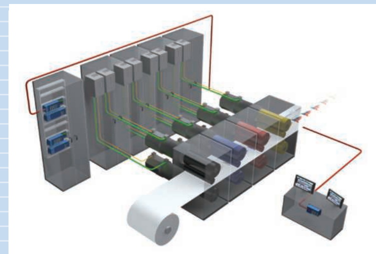
Output and Outcomes

[Products and Services]

Transportation Business Segment

- Electrical equipment for railway vehicles
- Railway power storage systems
- Door operating equipment for buses

Industry Business Segment



- Automobile testing machines
- Production and processing equipment drive systems
- Power generation and power supply systems
- Car-mounted electrical equipment
- Other

ICT Solution Business Segment

- Railway station operating equipment systems
- IoT solutions

Expand out into the whole world, including the Chinese and Asian markets and the United States, as a global brand

[Sustainability]

Initiative in Products and Services

- Development of the world's railway infrastructure
- Development of manufacturing and infrastructure around the world
- Creation of new services through advanced telecommunication technologies

Initiative in Production Activitie

- Reduction of environmental footprint through energy saving, decarbonization, and improvement of recycling rates

Initiative in Valuing People and Communities

- Realizing the happiness of employees and their families
- Development and production of good members of society and corporate citizens
- Contribution to local communities

~Our Heart and Technology for the Future~

Toyo Denki Seizo's goal

Long-term Vision

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

External Environment

- Changes in demographics
- Increase in geopolitical risks
- Rising costs of resources and energy
- Human rights considerations, human capital management
- Carbon-free business management, arrival of the closed-loop economy
- Acceleration of technical innovations

Medium-Term Management Plan 2026

Medium-Term Management Plan 2026 (FYE May 2023 to FYE May 2026) was launched last fiscal year. Based on the progress and results of the structural reforms carried out in the plan's first year, we have set management targets for the Group as indicated below.

Three Fundamental Policies

1 Expansion of new businesses and products

Strengthen and expedite development of new business areas across the Company, and respond to electrification, DX, and decarbonization

2 Thorough improvement of the earnings structures of existing businesses

Drastically strengthen profitability of both factories and sales from the viewpoint of improving production efficiency and securing appropriate selling price

3 Improvement of asset efficiency with an awareness of capital costs

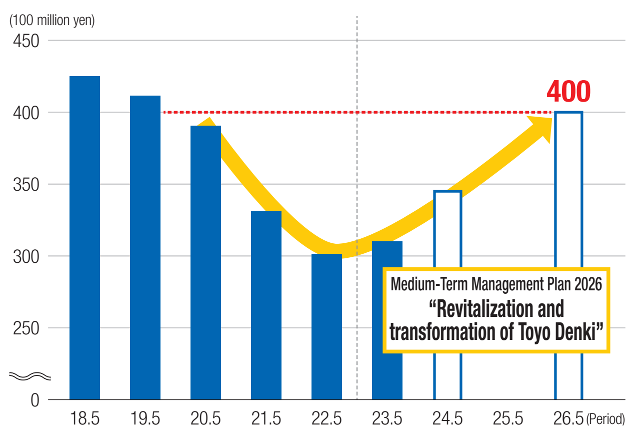
Continue to reduce cross-shareholdings, review capital efficiency of each business and consider reallocation of corporate resources

Consolidated financial targets for FYE May 2026

Net sales **40.0** billion yen	Operating income ratio **5**%	ROE **8**%

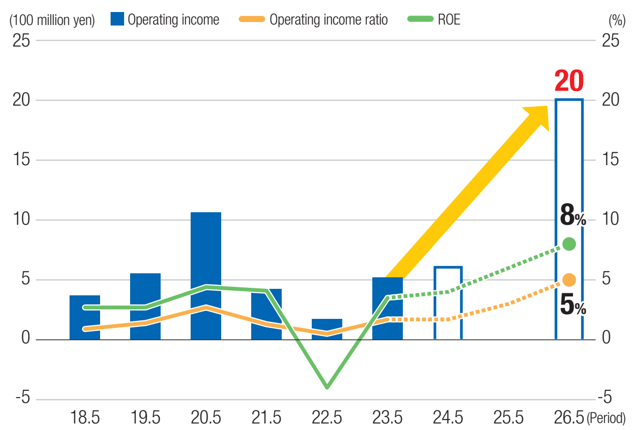
Net Sales

Return sales to the pre-COVID-19 level of 40.0 billion yen through "expansion of new businesses and products"



Operating income and ROE

Improve operating income and ROE significantly by "thorough improvement of the earnings structures of existing businesses" and "improvement of asset efficiency with an awareness of capital costs"



Kenji Tanimoto
Director, Senior Executive Officer

Toyo Denki Group is carrying out Medium-Term Management Plan 2026, the final year of which is the fiscal year ending May 2026. As mentioned earlier in the Message from the President, the plan involves implementing actions under three fundamental policies (1. growth strategy, 2. improvement in earnings structure, 3. improvement in asset efficiency) to achieve net sales of 40.0 billion yen, operating income ratio of 5%, and ROE (return on equity) of 8%, with the aim of restoring and improving our corporate value.

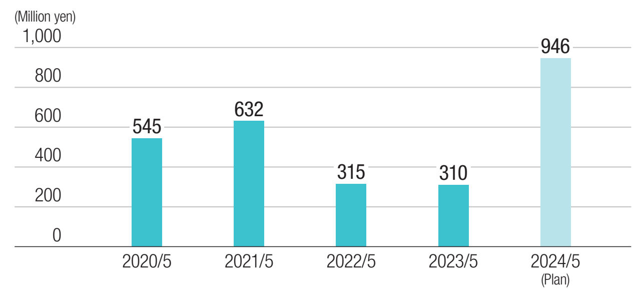
A key focus in the preparation of this integrated report, Toyo Denki Seizo Report 2023, was to clearly communicate the initiatives of Medium-Term Management Plan 2026 in the context of our business principles, long-term vision, and the values we cherish. In particular, this report highlights how we are laying the foundation for our future growth by leveraging our technologies to expand and enhance specific products and services. We have also added new sustainability-related content to further enrich the report, including information on our declaration of support for the TCFD (Task Force on Climate-Related Financial Disclosures) recommendations as part of our commitment to addressing climate change, and on various personnel system reforms for tackling human capital challenges such women's empowerment.

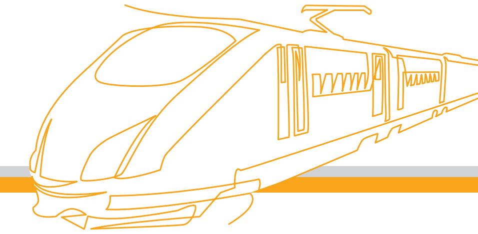
In order to carry out these new actions for achieving growth in the future, we will also expand our investments. During the long COVID-19 pandemic we limited capital investment to around 300 million yen (consolidated) for each of the past two fiscal years. For this fiscal year (FYE May 2024), however, we plan to invest over 900 million yen in development in new business areas, improvement of productivity in existing businesses, strengthening IT infrastructure, advancing our DX, and other targets. As for investment in people, we raised basic salaries by the largest margin to date this fiscal year, and we will expand our investments in talent, including for recruitment and training.

With our financial foundation in sound condition (as of FYE May 2023, shareholder's equity ratio was 49.5% and debt-to-equity ratio was 0.45), the funds for these investments will be procured by the right means at the right time, using a proper balance of debt and equity. We will also continue to invest in growth areas using funds sourced by reducing our cross-shareholdings and selling off underperforming assets.

As for shareholder returns, our basic course of action is implementing the Medium-Term Management Plan 2026 initiatives for raising ROE to 8%, with the aim of restoring and improving our corporate value. In terms of dividends, as we follow our basic policy of continually and stably paying dividends with a target payout ratio of at least 30%, we will utilize effective means to provide returns to our shareholders, including achieving larger profits to fund larger dividends.

▶ Capital investment (consolidated)





Transportation Business Segment

We support railway transportation that connects people and cities with safety and trust through the technologies we have cultivated since our founding and through our environmentally friendly manufacturing.

Naoki Okuyama
General Manager of Transportation Business Unit

Business environment and strategy

The easing of the COVID-19 pandemic-related restrictions has been accompanied by the return of social and economic activities to normal levels, including a recovery in capital investment by businesses. Meanwhile, however, rising raw material prices, longer delivery waits, and other changes in the post-COVID-19 pandemic business environment have continued to pose daunting challenges. I believe that we need to respond by stepping up our efforts as a corporation and strengthening our actions for addressing the needs of customers.

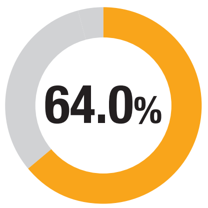
Looking at the domestic market, the improved business performance of railway operators has sparked an upward trend in their heretofore sluggish demand for new rolling stock production and equipment renewal. However, this bears close watching, as the demand in some areas is not on par with pre-COVID-19 pandemic levels.

As for overseas markets, demand has been significantly recovering in China, and we are working with our affiliates there to respond to this resurgence. Inquiries are streaming in from other Asian countries and global regions as well, and our production and sales teams are making a coordinated response.

Railway operators are showing a growing interest in initiatives for achieving the SDGs and carbon neutrality. In response, we will proactively offer our railway power storage equipment as a solution that can support those efforts.

Results for FYE May 2023

Percentage of total consolidated net sales



Orders Received
20,963 million yen (**Up 11.5%** year on year)

2021	18,818
2022	18,800
2023	20,963

Net Sales
19,857 million yen (**Up 2.1%** year on year)

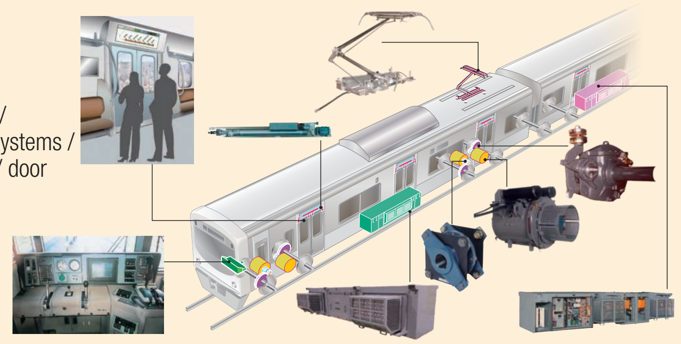
2021	21,528
2022	19,456
2023	19,857

Segment Income
2,259 million yen (**Up 3.2%** year on year)

2021	2,211
2022	2,190
2023	2,259

Main products

- Electrical equipment for railway vehicles
  Propulsion inverters / auxiliary power supplies / Main motors / driving gear units / pantographs / total train communication systems / passenger information display systems / twin disk couplings / door operating equipment / high speed circuit breakers, etc.
- Railway power storage systems
- Door operating equipment for buses



Main actions

◆ Totally enclosed induction motor with inner fan and grease-lubricated bearings

In addition to our existing model that lubricates bearings with oil, we have developed a model with grease lubrication.

This product optimizes the trade-offs between product cost and efficiency, noise, and maintenance requirements in order to enhance the performance of railway vehicles while also reducing maintenance and improving comfort through noise reduction.

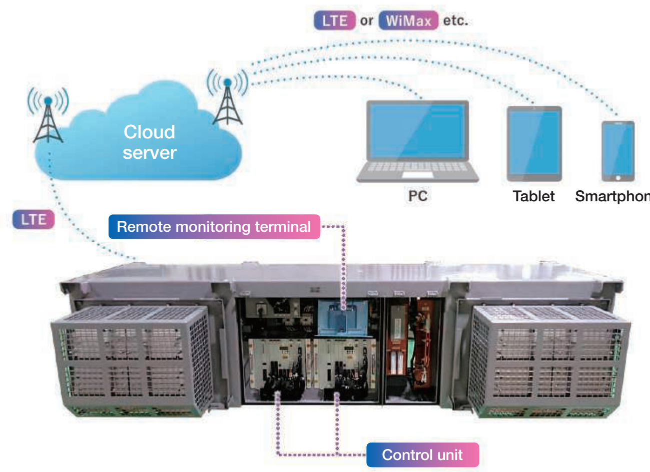
◆ Power storage system for Fukuoka City Transportation Bureau

Together with GS Yuasa Corporation, we supplied a power storage system for the Fukuoka City Subway's Nanakuma Line, which was extended in March 2023.

The regenerative power generated by train braking is stored in the system's batteries and can be discharged to compensate for voltage drops in the overhead lines, such as when many trains operate during rush hour. This enables effective utilization of regenerative power.

Moreover, the system can also function as an emergency power source for train movement. When trains get stopped between stations because a blackout or other issue has interrupted power transmission in the overhead lines, they can draw power from the system to travel to the nearest station.

◆ Vehicle condition monitoring system for realizing condition-based maintenance



We have begun testing a system for monitoring the condition of railway vehicles' electrical equipment to realize condition-based maintenance in the future. This project is being carried out with Keihan Holdings Co., Ltd. and KOTSU DENGYOSHA CO., LTD.

The project is proactively leveraging digital technology in order to expand the range of equipment that can be monitored. This will enable maintenance to be performed more efficiently and thus accommodate the labor shortages that are expected to occur from population shrinking in the coming years. The result will be safer and more stable railway vehicles.

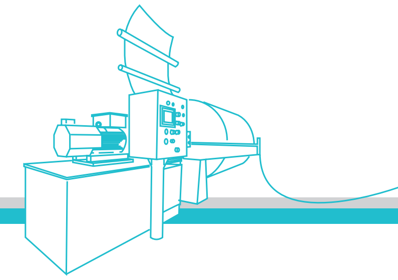
◆ Energy-saving solutions for existing railway vehicles

We have been commissioned by Keifuku Electric Railroad Co., Ltd. to add a regenerative braking function to their MOBO 2001 series through modification of the controller and a change of software.

In addition, Kagoshima City Transport Bureau has contracted us to replace the VVVF inverter controllers of their 2110 series to provide preventive maintenance and improve energy efficiency as they have been in use for approximately 30 years since the service began.

Since these projects will reduce power consumption and the use of worn parts while also extending the replacement cycle, they can help our clients to lower their environmental impact and thus contribute to achievement of the SDGs.

Industry Business Segment



We use our high-efficiency, high-precision power electronics technology to provide customers with environmentally friendly social/industrial infrastructure equipment, contributing to the realization of a sustainable society.

Toshihito Nakanishi
General Manager of Industry Business Unit

Business environment and strategy

We are seeing a stronger influx of inquiries as many industries vigorously pursue capital investments amid diverse efforts to bring forth a sustainable society. Although our manufacturing was impacted by shortages in semiconductor chips and other components in the fiscal year ended May 2023, I believe that our situation will improve going forward.

In our production and processing equipment business, demand for equipment renewal is rising along with growing needs for energy-saving and low-maintenance solutions.

In the automobile testing machines business, we need to respond to the rapid shift toward EVs by adding more battery simulators to testing systems, and develop e-Axles (EV drive units).

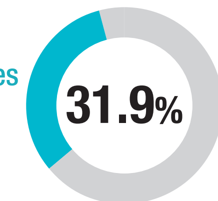
In the area of power generation and power supply, expectations are rising for the contributions to Japan's energy resilience that can be made by expansion of emergency power generation systems and renewable energy-based power generation.

Working in this business environment we will offer solutions that answer such expectations and can help realize a sustainable society.

In addition, we will collaborate with the Development Center to branch out into new fields, such as vehicle testing, where we could move into testing of advanced driver-assistance systems (ADAS) for automobiles.

Results for FYE May 2023

Percentage of total consolidated net sales



● **Orders Received**

10,855 million yen (**Up 1.6%** year on year)

● **Net Sales**

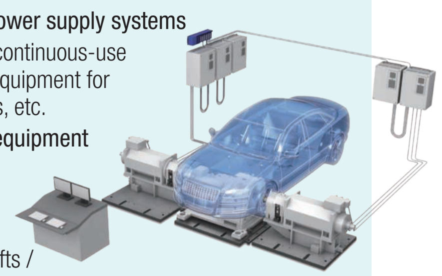
9,905 million yen (**Up 0.0%** year on year)

● **Segment Income**

479 million yen (**Up 0.2%** year on year)

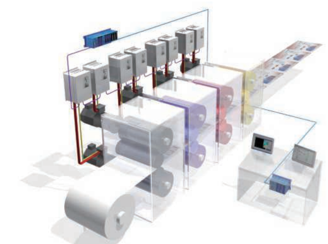
Main products

- **Automobile testing machines**
  Various testing devices (durability, vibration, noise, etc.) for automobile components (engine, transmission, differential gear, etc.) / testing devices for automobiles (efficiency, driver-assistance systems, etc.)
- **Production and processing equipment drive systems**
  For printing machinery / tire and rubber processing machinery / paper manufacturing machinery / films processing machinery, etc.
- **Power generation and power supply systems**
  Emergency generators / continuous-use generators / generating equipment for distributed power sources, etc.
- **Car-mounted electrical equipment**
  For passenger vehicles / construction machinery
- **Others**
  Electrical equipment for lifts / Water supply and sewage equipment systems, etc.



Main actions

◆ Expanding the lineup of production/processing equipment drive systems that help save energy and reduce maintenance



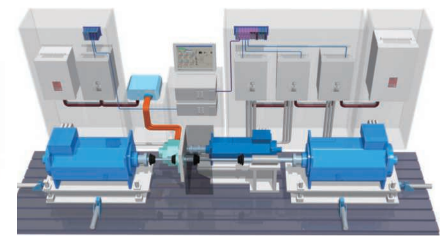
We leverage our ED (Eco-Drive) Motors that incorporate permanent magnets and our high-precision controllable inverters to supply production and processing equipment drive systems that offer excellent precision, energy efficiency, and maintainability. Also, we have made it possible to apply ED Motors to a broader range of equipment by conforming them with EU directives and expanding the lineup to include large-capacity water- and dust-proof models. Moreover, the cooling of ED Motors can be changed from air to water cooling, which reduces the noise of cooling fans and thus can help improve working environments.

Going forward, we will further contribute to sustainable manufacturing by providing products that reduce the energy and maintenance needs of production and processing equipment.

◆ Responding to the shift toward EVs with our automobile testing machines

We supply automakers and automotive part manufacturers with automobile testing machines, mainly for testing drive systems. In response to the shift toward EVs, we offer battery simulators for use in testing machines. Manufacturers are turning to high-capacity, high-voltage batteries to address EV challenges such as limited range and charging needs. We have responded by developing and supplying a battery simulator model whose direct current power source supports high voltages of up to 1,000 V. This realizes automobile testing machines that can also be used for e-Axles and other EV drive components.

We will continue using industry-leading technologies to contribute to the development of next-generation automobiles.



◆ Proposing vehicle testing devices that use in-wheel-well dynamos

The development of battery-powered EVs and other energy-efficient vehicles is picking up pace amid efforts to achieve carbon neutrality. To support the evaluation of these vehicles, we are proposing an approach to vehicle testing that replaces the traditional chassis dynamometer with the in-wheel-well dynamo we developed. Since this system directly connects to the hub in the vehicle's wheel well, it saves space and can be installed in a wider range of locations compared with the chassis dynamometer. As a result, it has potential for use in diverse types of vehicle testing, including running mode testing.

Since it enables steering to be done during running tests, it also has potential for application to testing of ADAS and autonomous driving. We will work with the Development Center to further expand its range of application.

◆ Approaches to power generation systems using renewable energy

We supply a distributed power supply system for small hydroelectric power generation as a power generation system that uses renewable energy. We are also exploring new ways to utilize renewable power, including marine energy power generation.

Our distributed power supply system is powered by our standard ED Motor, and this feature is leveraged to support a variety of applications, such as generation and sale of electricity to commercial power grids, and, with the addition of stand-alone functionality enabling operation during grid outages, service as an emergency power source.

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

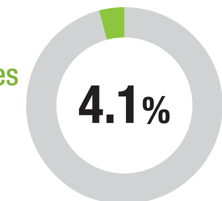
With the lifting of COVID-19 travel restrictions, the number of railway passengers, including inbound visitors, has been recovering and capital investment in railway station operating systems is showing signs of rebounding. As transportation service operators seek to improve user convenience with MaaS, cashless, ticketless, and other solutions, we are proactively developing systems that support such needs so that we can propose solutions that meet customer expectations.

Against the backdrop of dramatic advances in technologies such as cloud computing, communications, data analysis, and AI, as well as labor 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. We will leverage cloud services and systems/services utilizing IoT terminals and mobile communication to develop solutions that enable customers to monitor and control mobile entities and remote equipment so that they can improve operational efficiency, optimize maintenance, and carry out preventive and condition-based maintenance.

We will expand our business range as we strive to provide our customers with solutions that help to add value.

Results for FYE May 2023

Percentage of total consolidated net sales



● **Orders Received**

1,421 million yen (**Up 49.7%** year on year)

2021	633
2022	949
2023	1,421

● **Net Sales**

1,256 million yen (**Up 59.0%** year on year)

2021	1,067
2022	790
2023	1,256

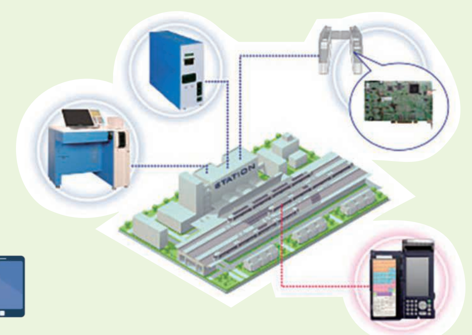
● **Segment Income**

413 million yen (**Up 189.6%** year on year)

2021	267
2022	142
2023	413

Main products

- Railway station operating equipment systems
  Commuter pass vending machines / composite ticket vending machines / in-train ticket issuing machines / compact vending machines / judgement engines, etc.
- IoT solutions
  (Cloud-based remote monitoring and control systems)

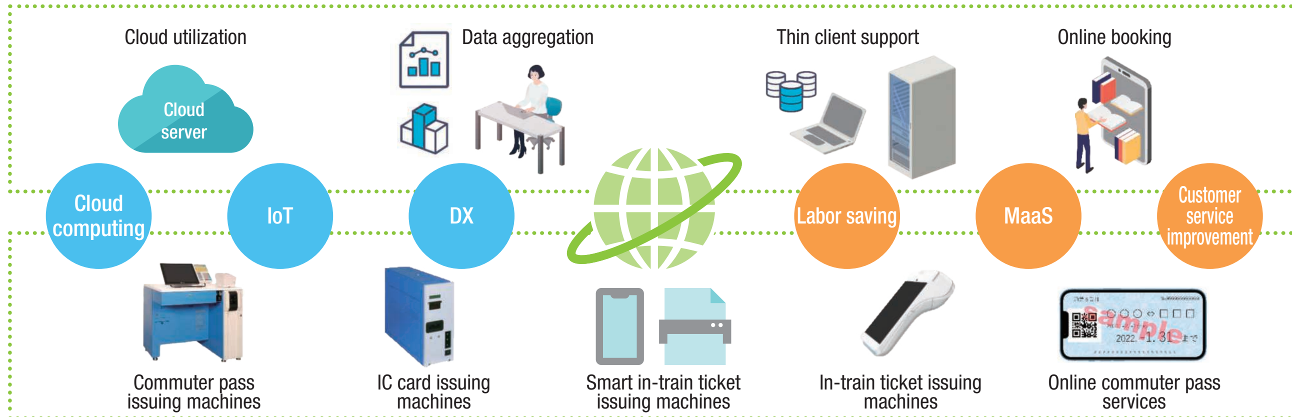


Main actions

◆ Railway station operating equipment systems

We combine our deep insights, reliable technologies, and extensive experience in the rail transport sector with advanced ICT to provide railway station operating equipment systems that improve passenger convenience and reduces the workload of railway operators.

Leveraging cutting-edge cloud computing and IoT technologies to respond to needs ranging from diverse station equipment to host systems and applications that run on smartphones already in use, we will continue supplying transport service operators with systems that help them to build their foundation for DX and MaaS, improve operational efficiency, reduce workloads, and improve customer service.

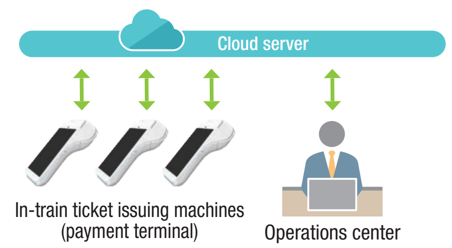


◆ In-train ticket issuing system using cashless payment terminals

Previously, our solutions for in-train ticket issuing systems focused on developing dedicated terminals, but now we have developed an in-train ticket issuing system in which an in-train ticket issuing app is used on portable general-purpose cashless payment terminals with a built-in printer function, as well as a sales data aggregation system that uses a cloud server.

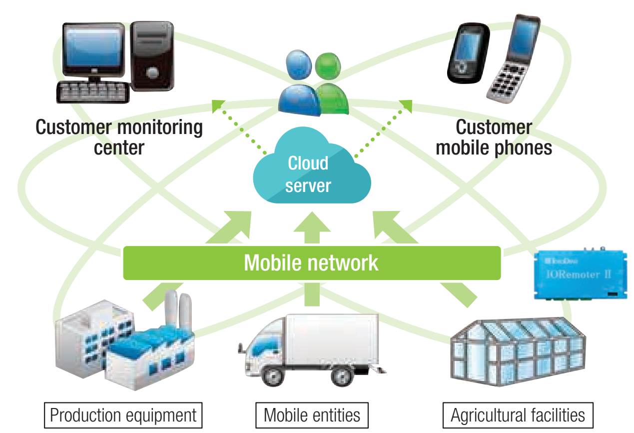
This use of general-purpose cashless payment terminals lowers costs, making it easier for customers to adopt the system, and thus helps to create a cashless society.

We will develop business apps tailored to customer needs so that the terminals can also be used for purposes other than in-train ticket issuing.



◆ IoT solutions

We offer diverse services with systems that utilize IoT terminals, mobile networks, and cloud servers. In doing so, we provide solutions that enable customers to monitor and control mobile entities and remote equipment so that they can improve operational efficiency, optimize maintenance, and carry out preventive and condition-based maintenance.



Development Center

TOPICS

Through collaboration with business units, the Development Center proactively explores and proposes new business areas and develops new products by employing technologies that contribute to the development of power electronics products, smart grid-supporting equipment, and autonomous driving systems for vehicles, and by utilizing monitoring systems that use sensor technology and information equipment that incorporate communication technology for greater sophistication.

Achievements in development of new businesses and products

Remote monitoring system for electrical equipment for railway vehicles

- We supplied Aichi Rapid Transit Co., Ltd. with a system for real-time remote monitoring of VVVF inverter equipment.

Smartphone-based in-train ticket issuing machines

- We developed an in-train ticket issuing app for Shikoku Railway Company that operates on iPhones. Going forward, we will create a lineup of in-train ticket issuing machine products that utilize general-purpose smartphones and tablets, such as Android devices and iPads.

VOICE

A first step toward realizing the 2030 energy mix

Located in Fujiyoshida City, Yamanashi Prefecture, the Fujino Shizuku Power Plant is a small hydroelectric power generation plant that makes effective use of unused energy in the form of water flowing through local agricultural irrigation channels. All the electricity generated is sold to an electric power company.

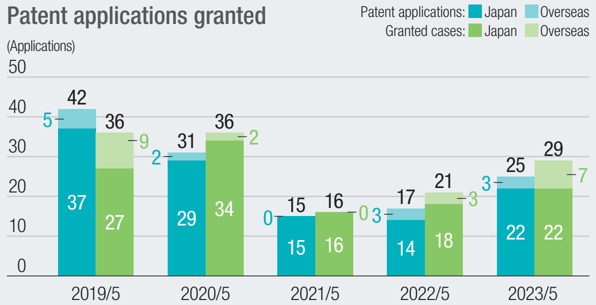
Also, a feature of this Toyo Denki product that contributes to local disaster resilience is that electric power can be supplied to charge smartphones, EVs, and so on during power outages.

We will continue to help promote the adoption of renewable energy and thus support the realization of the 2030 energy mix.

Yusuke Nakanishi
Business Development Division
Development Center

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.



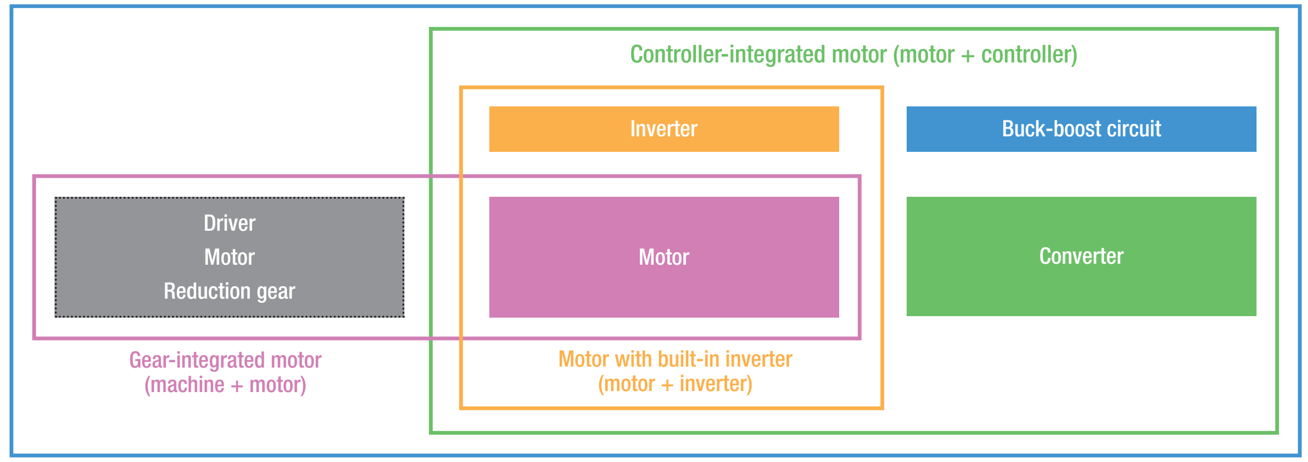
Main actions

◆ On-demand motors (BTO Motors)

Capitalizing on our fundamental technologies in power electronics and manufacturing, we supply motors and inverters optimally tailored to the customer's needs (on-demand products).

We have provided flat large-torque motors to replace engines in electrification efforts and compact high-speed motors, but we will now develop on-demand products such as built-in electricals for motors (a key technology going forward) and motors with built-in inverters.

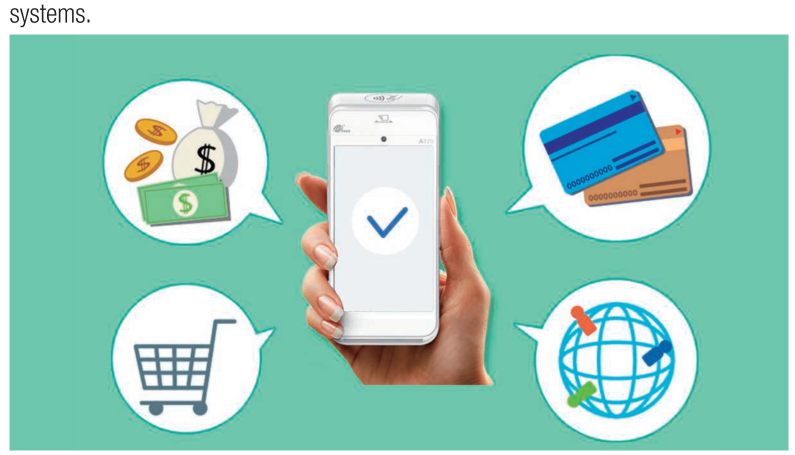
Example of product deployment

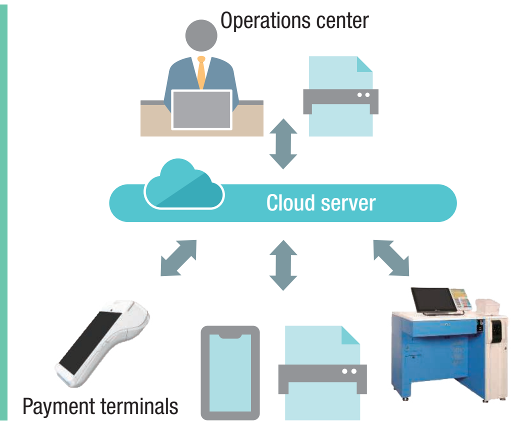


Gear and controller integrated motor (e Axel) (machine + motor + controller)

◆ Cloud-linked cashless payment terminal solutions with general-purpose terminals

We will collaborate with the ICT Solution Business Unit to develop diverse cashless payment systems that utilize devices such as general-purpose portable terminals and are customized for the customer's needs. We can also create business apps designed for use on these systems.





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, including responding to climate change, as its priority task and contributes to the development of a sustainable society.

<Action Guidelines>

1. We will strive to minimize environmental burden through a reduction of energy consumption and other measures across the entire product lifecycle, namely planning, development, design, procurement, production, sales, distribution, use and disposal.
2. We will protect the environment by responding to climate change, reducing waste, recycling resources, reducing hazardous chemicals, and taking other actions.
3. We will comply with laws and regulations concerning environmental protection, and with environmental protection-related requests to which the Group consents.
4. We will constantly strive to improve our environmental management system through a continuous PDCA cycle.
5. We will provide appropriate training to all Group employees to improve their awareness of the need to protect the environmental protection.

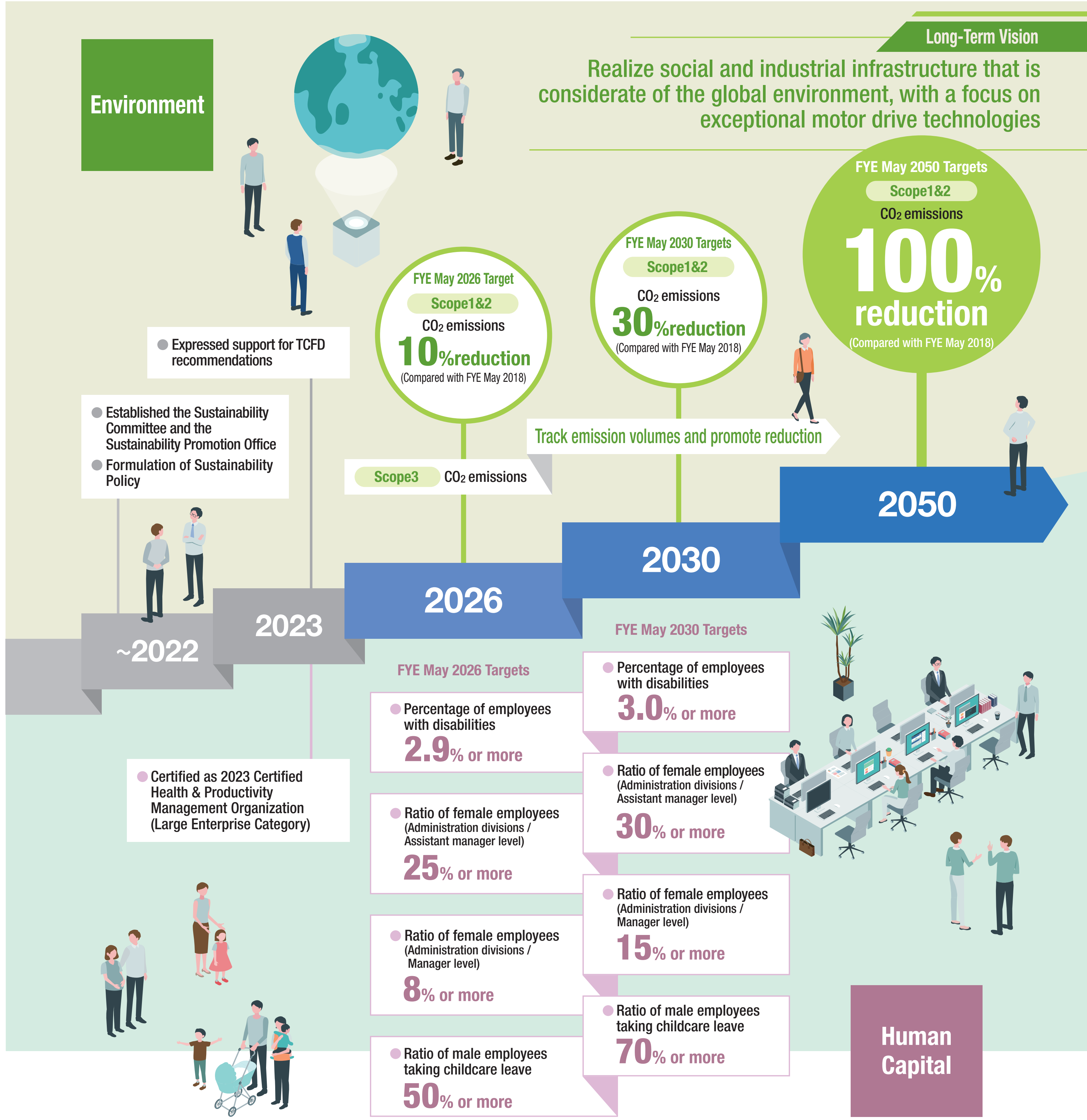
Company Slogan of the Toyo Denki Group

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	● 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.	● 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.	● 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



Disclosure based on TCFD recommendations

Recognizing that responding to climate change is an important management issue, we expressed our support for the TCFD (Task Force on Climate-Related Financial Disclosures) recommendations in June 2023. We will strive to further implement climate change initiatives and appropriately disclose information as part of our commitment to helping realize a sustainable society.

Governance

In order to promote sustainability management across the Group, we established a Sustainability Committee under the Board of Directors and carry out company-wide initiatives based on our Sustainability Policy. The committee, which generally meets once every quarter, is chaired by the President, and its members comprise mainly Operating Officers. We recognize climate change as a very important challenge and have set numerical targets for the reduction of greenhouse gases. Progress towards these targets is monitored by the committee, and the content of committee discussions is reported to the Board of Directors for incorporation in the Group's management strategy.

Examples of matters deliberated/reported at Board of Directors meetings

- Revision of our environmental philosophy
- Expression of support for the TCFD recommendations and related disclosures
- Formulation of a sustainability roadmap

Strategies

We have analyzed the future impact of climate change on our business activities under the 1.5°C/below 2°C and 4°C scenarios, identifying the associated risks and opportunities and calculating the degree of impact in each case. The focus time horizon was long-term (to 2050) and analysis was also done for the medium-term (to 2030) as a transitional point. The degree of financial impact on business activities was defined according to three levels: large (L), medium (M), and small (S).

● Scenarios

Scenario	Description
1.5°C/ below 2°C scenario	**Worldview:** A lower-carbon transition will take place across society and contain the temperature rise to a certain extent. Demand for energy-saving/eco-friendly products will grow. Legal, market, reputational, and other transition risks will increase. **Reference scenarios:** SSP1-1.9, SSP1-2.6 (IPCC AR6) / NZE2050 (IEA)
4°C scenario	**Worldview:** With priority placed on economic growth, the temperature rise will not be contained and the impacts of climate change will worsen. A lower-carbon transition will not be realized, and physical risks such as extreme weather events will increase. **Reference scenarios:** SSP5-8.5 (IPCC AR6)

Risk management

A working group made up of working-level employees engages in discussions for advancing a company-wide approach to sustainability challenges. Meanwhile, the Sustainability Committee identifies climate change risks, discusses countermeasures, and monitors progress in implementing those actions. It also tracks the progress of the medium- and long-term sustainability roadmaps formulated by each division.

Indices and targets

We have set the following targets for reducing CO_2 emissions associated with our business activities to help curb global warming.

Scope 1 & 2 CO_2 emissions (Compared with FYE May 2018)	FYE May 2026 targets	FYE May 2030 targets	FYE May 2050 targets
	10% reduction	30% reduction	100% reduction

Anticipated risks and opportunities

Transition Risks

		Anticipated Risks	Impact 1.5°C / below 2°C 2030	1.5°C / below 2°C 2050	4°C 2030	4°C 2050	Actions
Transition Risks	Policy & regulation	● Increase in procurement/shipping costs with adoption of carbon tax and more stringent regulations; increase in costs from equipment renewal and technological development	M	L	S	S	● Avoid carbon tax and lower production costs by reducing GHG emissions through renewable energy use and switching to energy-efficient equipment ● Consider adopting ICP
	Technology	● Increase in R&D costs of energy-saving products ● Loss of sales opportunities due to stalled development ● Decrease in demand for existing technologies and products	M	L	S	M	● Enhance design/development systems, including production methods, and increase sophistication of our environmental technologies ● Identify needs for existing technologies/products through customer engagement
	Market	● Decrease in railway product sales due to decline in railway ridership from population shrinkage and due to drop in relative environmental advantage of rail transport stemming from improvements in environmental performance of automobiles ● Stagnation of testing machines business due to delays in responding to the shift to EVs ● Decrease in equipment demand from manufacturers of printing machines, paper, and chemicals due to shift to paperless and plastic-free approaches	L	L	M	M	● Prevent failures through condition-based maintenance and increase value added through manpower-saving and labor-saving approaches ● Develop products and systems reflecting the shift to EVs and consider creating alliances with other companies
	Reputation	● Decline in reputation among stakeholders due to delays in responding to climate change ● Exclusion from supply chains; rise in financing costs; difficulty in securing human resources	L	L	M	M	● Enhance disclosure through dialogue with shareholders, investors, suppliers, communities, and other stakeholders
Physical Risks	Acute	● Suspension of operation, damage to production equipment, and stoppage of business site functions due to typhoons, flooding, etc. ● Difficulty in procuring parts and materials due to interruption of supply chain	S	M	M	L	● Reinforce disaster countermeasures of production bases by strengthening business continuity planning (BCP) ● Increase supply chain resilience by establishing multiple channels, using local suppliers, and taking other actions, and transfer risk by purchasing insurance
	Chronic	● Increase in factory energy costs, decline in employee productivity, and increase in incidence of heat stroke due to the temperature rise ● Increase in costs due to tidal flooding countermeasures taken in response to rising sea level ● Occurrence of malfunctions and failures in products and equipment due to the temperature rise	S	M	M	L	

Opportunities

	Anticipated Opportunities	Impact 1.5°C / below 2°C 2030	1.5°C / below 2°C 2050	4°C 2030	4°C 2050	Actions
Resource Efficiency	● Increase in maintenance opportunities driven by longer use and recycling of products ● Decrease in costs through streamlining of product processes, optimized use of materials, and streamlining of shipping	L	L	M	M	● Construct advanced production/processing systems that capitalize on high-efficiency motors and invertors ● Improve recyclability through environmentally conscious design
Energy Source	● Increase in demand for our products/services with shift to EVs and growth of demand for renewable energy and power storage technologies	L	L	M	M	● Promote battery storage of regenerative power, and build new storage systems, such as a superconducting flywheel railway power storage system ● Develop and supply testing equipment that support the shift to EVs
Products / Services	● Increase in demand for electrical equipment for railway vehicles driven by greater demand for highly environmentally advantageous railway service ● Increase in demand for high-efficiency motors and inverters, distributed power supply, and other energy-saving products/systems ● Increase in demand for new testing systems that support the shift to EVs	L	L	M	M	● Improve environmental friendliness of electrical equipment for railway vehicles by increasing efficiency and reducing size/weight ● Make improvements to motors and inverters that enhance energy efficiency and maintainability of production equipment ● Develop testing systems that support the shift to EVs ● Increase the sophistication of status monitoring, alarm notification, and remote control of generators using IoT remote monitoring systems
Markets	● Potential for opening up new markets by uncovering demand for power storage systems, small hydroelectric power generation, wave power generation, etc. ● Increase in demand for ICT remote monitoring and automatic control systems to avert climate change-related food shortages and impacts on agricultural and livestock industries ● Popularization of EV-related products	L	L	M	M	● Popularize power storage systems, small hydroelectric power generation systems, and biomass generators ● Participate in the demonstration of wave power generation and consider its commercialization ● Increase the sophistication of status monitoring, alarm notification, and remote control of generators using IoT remote monitoring systems
Resilience	● Increase in demand for solutions that strengthen resilience and BCP in response to increased severity of natural disasters	L	L	M	M	● Contribute to BCP preparation by supplying emergency generators for businesses and government offices ● Promote prediction and early detection of natural disasters using remote monitoring systems
Reputation	● Increased trading, improvement of stock price, and securing of human resources made possible by stronger reputation for environmental consciousness	L	L	M	M	● Enhance disclosure through dialogue with shareholders, investors, suppliers, communities, and other stakeholders

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	7 AFFORDABLE AND CLEAN ENERGY 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION	[Ongoing actions] ● Adoption of propulsion systems that are smaller, lighter, and highly energy efficient (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 [Future actions] ● 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		[Ongoing actions] ● Battery storage of regenerative power generated by train braking and supply of power to trains in emergencies [Future actions] ● Further reduction of energy consumption through adoption of systems combining solar power generation, hydrogen fuel use, etc. ● Build new storage systems, such as a superconducting flywheel railway power storage system
Industry Business Segment	Automobile testing machines	Support the development of next-generation vehicles with testing systems that use industry-leading high-performance motors and inverters	3 GOOD HEALTH AND WELL-BEING 6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION	[Ongoing actions] ● 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 [Future actions] ● Adapt in-wheel-well dynamo to advanced driver-assistance systems (ADAS) and popularize autonomous driving systems
	Production and processing equipment drive systems	Contribute to manufacturing around the world by providing customers with optimal control systems using a wealth of technologies and products		[Ongoing actions] ● 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) [Future actions] ● 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 power supply systems	Supply power generation systems for continuous/ emergency use and generators using natural energy to support public infrastructure		[Ongoing actions] ● 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. [Future actions] ● 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 electron-ics technologies		[Ongoing actions] ● Supply of on-board electrical equipment in response to the shift to electrification, such as for construction machinery [Future actions] ● 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	2 ZERO HUNGER 7 AFFORDABLE AND CLEAN ENERGY 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	[Ongoing actions] ● Improvement of rail service convenience through popularization of railway station operating equipment systems (commuter pass issuing machines and in-train ticket issuing machines) [Future actions] ● 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		[Ongoing and future actions] ● 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.

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

Recycling-based society
Promotion of 3Rs (reduce, reuse, recycle)

Nature-symbiotic society
Conservation of biodiversity

- Energy conservation through the Company's technologies and products
- 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
- 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 (CO_2) emissions

The Company is promoting energy conservation at each of its production bases and offices to reduce its CO_2 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 CO_2 emissions and progress status

As described in the sustainability roadmap (page 20), the Company has set a target of reducing CO_2 emissions at the Company's production bases, the Yokohama Plant and the Shiga Ryuo Plant, by 10% in fiscal 2026. CO_2 emissions per unit of production output in fiscal 2022 increased by 3.3% at the Yokohama Plant and dramatically decreased by 17.8% at the Shiga Ryuo Plant as a result of emissions control efforts, against the target of 1% reduction year on year.The Company will continue to make efforts to reduce CO_2 emissions per unit of production output by 1% year on year in the next fiscal year.

▶ Yokohama Plant initiatives

(1) Installation of a solar power generation system
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 CO_2 per year) and curbing global warming.

(2) Modal shift in logistics
The plant is expanding its shift of some outgoing customer shipments from truck transport to railway container transport, which places a smaller burden on the environment.

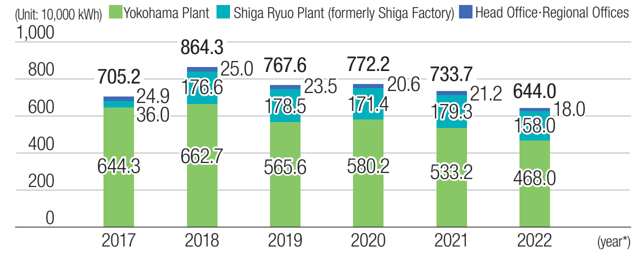
▶ Shiga Ryuo Plant initiatives

(1) Revision of compressor operation
The duration of compressor operation was revised based on the conditions of use.

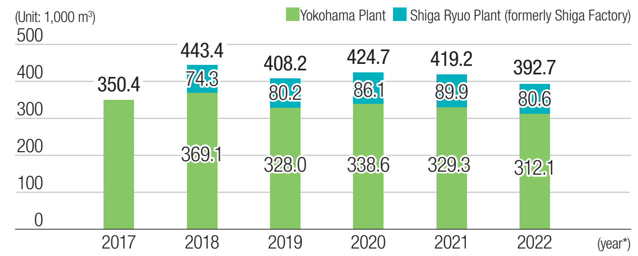
(2) Revision of air conditioning system operation

1. An automatic air conditioning control system was installed and the conditions of use were visualized. The air conditioning system's operating program was revised to reduce the duration of automatic operation.
2. Thermal barrier film was applied to windows in some areas significantly heated by sunlight.

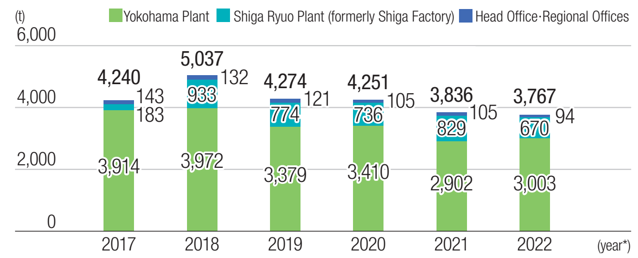
● Total energy input (electricity)



● Total energy input (gas)



● Total CO_2 emissions

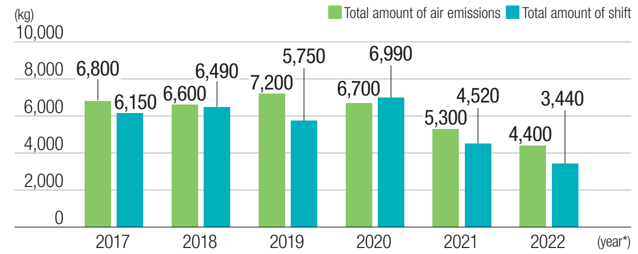


Initiatives for Control over Chemical Substances

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

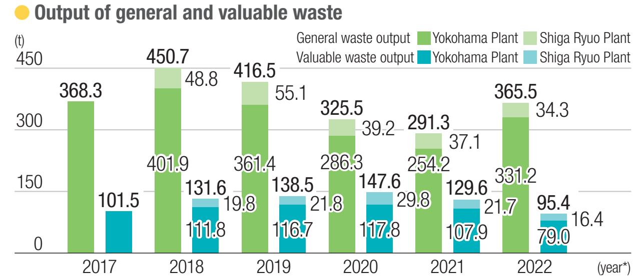


Initiatives for Reducing Disposed Waste as Well as Recycling

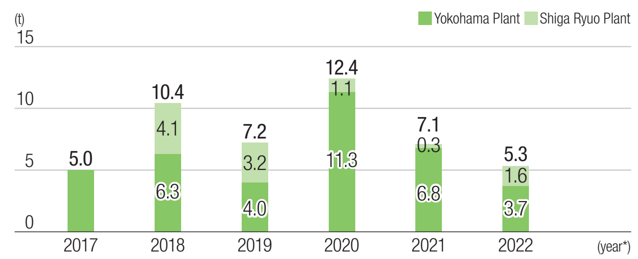
▶ Main actions

The Company has been thoroughly implementing waste processing rules, sorting metal waste, and recycling paper resources. As a result, its landfill waste volume rate was 1.1% in fiscal 2022, reduced to the previous level.

● Output of general and valuable waste



● Volume of landfill waste



VOICE

Shinsuke Suzuki
Production Management Division
Transportation Systems Works
Transportation Business Unit

Striving to be more environmentally conscious and address the 2024 logistics issue

We place top priority on quality for the transportation products we supply to railway operating companies.

Traditionally we relied mostly on trucks to make customer deliveries, but we have been shifting more toward railway container transport as part of our efforts to be more environmentally conscious (reduction of CO_2 emissions) and to address issues posed by the cap that will be placed on truck driver overtime hours in 2024. This approach is being applied particularly to shipments to the Kansai, Chugoku, and Kyushu regions.

Since the transportation efficiency and CO_2 emissions-reducing effect of rail freight shipping increase with distance, we are proactively utilizing this environmentally friendly mode of transport.

*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.

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 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 across the Group as we strive to maintain and improve our human resources education, compliance with rules, and our facilities.

Quality Policy

1. **The Toyo Denki Group's commitment to quality**
   Based on our commitment to make quality our top priority, we will contribute to society by reliably providing safe and high-quality products and services that satisfy our customers.
2. **Efforts to improve quality**
   We will make efforts to further improve quality, with the involvement of all Group employees and with the cooperation of partner companies.
3. **Compliance with laws and regulations**
   We will comply with quality-related laws and regulations, and with requirements to which the Group consents.
4. **Continuous improvement**
   We will set quality targets and continuously strive to improve our quality management system.

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 and has obtained ISO 9001 certification, including at its production bases, the Yokohama Plant and the Shiga Ryuo Plant.

● **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 (current international standard: ISO 22163) 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.

Policies and Guidelines for Procurement

The Toyo Denki Group will, in its procurement of raw materials, services, etc. for the products that it supplies to customers, engage in practices mindful of society's expectations concerning human rights and the environment, and in doing so will advance sustainability initiatives and will work together with suppliers to help realize a sustainable society.

*For details on the Policies and Guidelines for Procurement, please see our corporate website.
https://www.toyodenki.co.jp/en/procurement/

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

Ensuring diversity

Female empowerment

We have 792 employees, and women make up 7.2% of our permanent employees. The ratio of women in administrative professional positions is 1.5%, and raising female representation across the board is a challenge that we need to address.

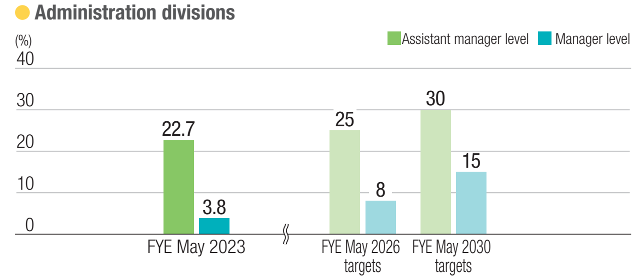
We have started tackling this challenge by setting targets for increasing the ratio of female employees in administration divisions for fiscal 2026 and fiscal 2030, and are working to meet those targets.

As part of our new graduate recruitment activities, we host company briefings for women that provide the opportunity for them to speak with female employees and gain a better idea of what it is like to work for Toyo Denki. We further strive to recruit diverse talent through mid-career hiring and a program that enables fixed-term contract employees to switch to permanent employment.

We will continue engaging in these efforts while also providing career development training targeted at female employees.

Ratio of female employees

● **Administration divisions**



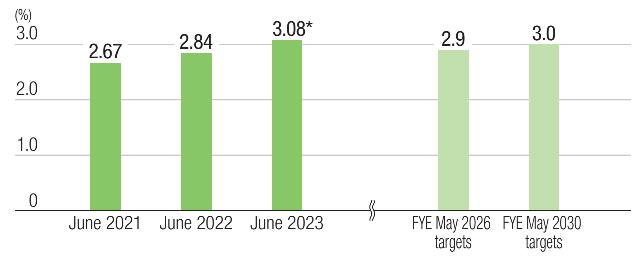
*As noted above, women make up 7.2% of our permanent employees, and work needs to be done to raise female representation across the board. We are initially targeting administration divisions in our efforts to increase the ratio of female managers.

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 have promoted the hiring of people with disability by offering hands-on workplace training opportunities in collaboration with local special-needs schools and support organizations. We will continue pursuing efforts to be a company where everyone can work vibrantly.

Percentage of employees with disabilities

● **Percentage of employees with disabilities**



*The percentage of employees with disabilities rose above the target for fiscal 2030 in conjunction with a year-on-year drop in the number of all employees. We will continue promoting the hiring of people with disabilities.

Improvement of working environment

Flexible workstyles

We are expanding our systems supporting flexible workstyles in order to help employees achieve a good work-life balance. In 2014, we were certified as a "company that supports child-rearing" and received the "Kurumin" certification logo from the Tokyo Labor Bureau. Since then, we have also implemented various support systems, including for: rehiring former employees who had to leave their jobs due to reasons such as childbirth, child-rearing, family care, or their spouse's reassignment; limiting the working location of employees caring for children or other family members to a defined region; offering diverse options for reduced working hours; and providing annual leave on an hourly basis.

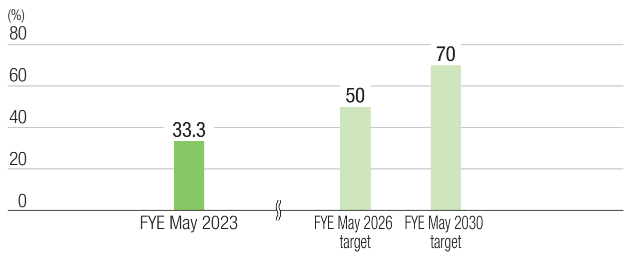
Our efforts to encourage more male employees to take childcare leave include providing information to those who are expecting a child. Specifically, we created and distribute a guidebook on childbirth and childcare, and a collection of male employees' personal stories about their experiences in taking childcare leave. Going forward, we will continue developing an environment that enables employees to work with peace of mind as they balance

子育てサポートしています
2014年認定事業主

their job and private life, including by further enhancing childcare support programs, expanding the range of flextime options, and establishing a remote work system.

▶ Ratio of male employees taking childcare leave

● Ratio of male employees taking childcare leave



*The above ratios were calculated for childcare leave, etc. as prescribed in Article 71-4, Item 1 of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of 1991), pursuant to the provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).
*The ratio of female employees taking childcare leave is 100%, and we will strive to maintain that level by further working to support work-life balance of women.

▶ Direct dialogue between the President and employees

Roundtable meetings have been held regularly since December 2022 to share values between the President and employees and to practice management that listens to employees' opinions. The President has visited each of our domestic bases and held the meetings 10 times so far, with a total of 46 employees participating. We will continue to place importance on two-way communication with employees.

Health management

▶ Promotion of "health and productivity management"

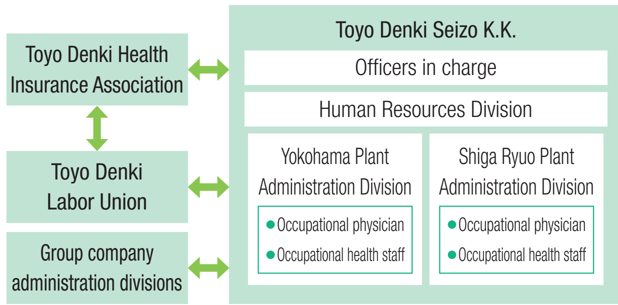
We promote health and productivity management with the health insurance association and labor union, with the aim of being a company where employees can play active roles in good physical and mental health. With the "Health and Productivity Management Declaration" in place, our efforts focus on the following six priority items.

2023 健康経営優良法人 Health and productivity

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.

● Health and productivity management promotion framework



Promotion framework members meet twice a year

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 at preventing lifestyle diseases, and support the attendance of follow-up examinations.

2 Work-life balance

We are expanding our systems supporting flexible workstyles to enable employees to balance their jobs with family life. Specific examples of our efforts in this regard are given under "Flexible workstyles" on the preceding page.

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 have established minimum rest periods between the end of each day's work and the start of the next day's work to ensure that employees can get sufficient rest and sleep. In addition, 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.

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

We annually carry out employee stress checks and analyze stress-related conditions of each organization 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.

Moreover, we have set up in-house and external mental health consultation services to further support mental health care for our employees.

6 Health management of employees at overseas posts

In addition to properly conducting health checkups before and after overseas postings, we manage employee health during those assignments by utilizing external healthcare services to provide access to medical care, including for emergencies.

Human resources development

Human resources development policy

Guided by the following policy, we strive to be a company that continuously develops the competencies of its employees so that everyone can make the most of their talents as professionals.

(1) To develop human resources who understand and practice our business principles and code of conduct and who are of value both as company employees and as members of society.

(2) To develop human resources who are professionals, each possessing a high degree of specialized expertise, by enhancing the knowledge, techniques, and skills they need to carry out their duties.

(3) To provide a variety of educational opportunities in order to promote personal development, with emphasis on a self-directed approach to study and growth.

● Workforce data (at Toyo Denki Seizo K.K.)*

Item		Unit	FYE May 2019	FYE May 2020	FYE May 2021	FYE May 2022	FYE May 2023
Number of employees	Total	Persons	831	841	847	830	792
	Men		762	773	766	746	708
	Women		69	68	81	84	84
Ratio of female employees		%	8.3	8.1	9.6	10.1	10.6
Number of administrative professionals	Total	Persons	143	136	139	134	133
	Men		139	133	136	132	131
	Women		4	3	3	2	2
Ratio of female administrative professionals		%	2.8	2.2	2.2	1.5	1.5
Average age	Overall	Age	40.8	41.0	41.7	42.3	42.6
	Men		40.8	40.9	41.6	42.2	42.5
	Women		40.9	41.7	42.8	43.0	43.5
Average years of employment	Overall	Years	15.4	15.4	16.0	16.5	16.9
	Men		15.5	15.5	16.2	16.7	17.2
	Women		14.1	14.1	13.9	14.0	14.2

* Number of permanent employees including Operating Officers, and number of special employees, temporary employees, contract employees and staff on loan from other companies, etc.

▶ Education and training system

Our education and training system is designed to closely support the growth of each employee. We provide level-specific training that develops the skills needed for each year, 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 to equip them with basic and specialized technical skills before their assignment to a workplace.

▶ 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 conduct lectures leveraging the know-how fostered through operations and our business activities in on-site training courses held by educational institutions including universities. This year, we continued to participate 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.

Donation to Yokohama Kyodo no Mori Fund

Our Yokohama Plant cooperates in small woodlands conservation activities led mainly by the city of Yokohama by donating part of the proceeds from its vending machines to the Yokohama Kyodo no Mori Fund.

Donations to Omi Victim Support Center

As part of its activities for giving back to the community, our Shiga Ryuo Plant donates a portion of the proceeds from charity-purpose vending machines to the Omi Victim Support Center.

Factory tours

We conduct "factory tours" that enable the public to gain a 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.

Conducting cleanup activities

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

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

Mother Lake Goals

Certification under the Shiga Businesses Supporting Facilities for People with Disabilities program

The Shiga Ryuo Plant's support for the employment of people with disabilities includes outsourcing site landscaping and other work to an agency that employs disabled people. This and other contributions were recognized in 2023 with the plant's certification under the Shiga Businesses Supporting Facilities for People with Disabilities program.

Yokohama Plant internships for people with disabilities

The Yokohama Plant provides internships for students of local special-needs schools as another initiative for promoting the employment of disabled people.

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.

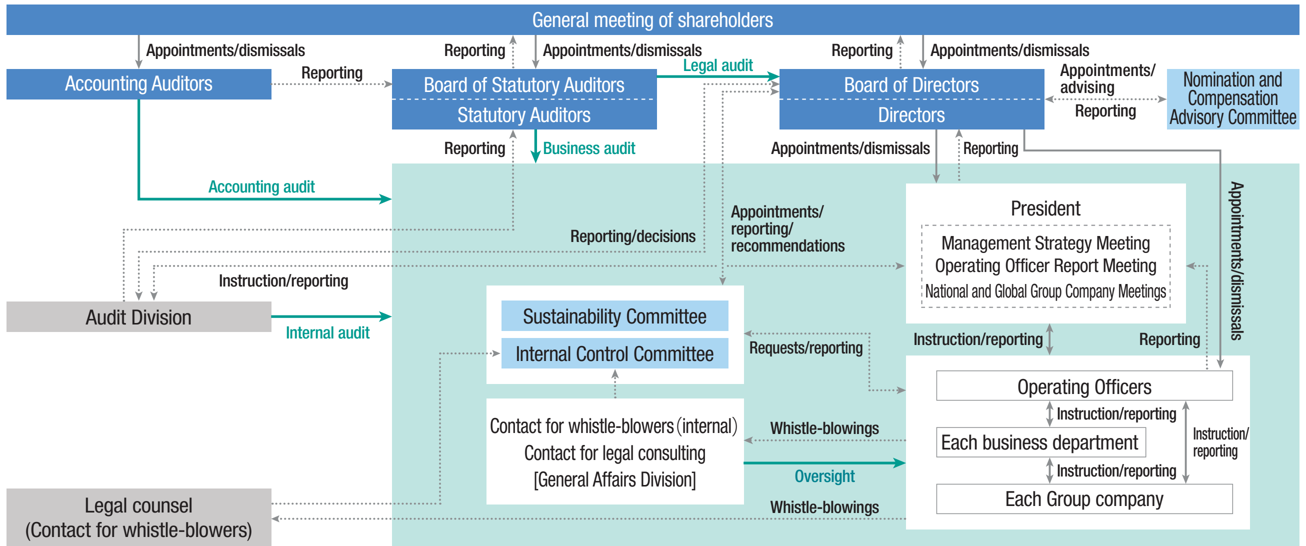
❶ Directors and the Board of Directors

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 Directors and Operating Officers.

❷ 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.

● Corporate governance framework



❸ 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 examine 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.

❹ 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. In principle, 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 tracking the progress of specific SDG initiatives and continually reviewing them. 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. 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.

Ms. Yukiko Machida, Director (Outside Executive)
Ms. Yukiko Machida was newly appointed as Director at the 162nd Annual General Meeting of Shareholders on August 29, 2023. She is a qualified lawyer and has a deep understanding of labor law gained through extensive experience, including her role as a Vice-Chairperson of the Daini Tokyo Bar Association's Labor Issue Committee. She leverages her experience to provide her advice and suggestions on how to ensure the legality and appropriateness of the Board of Directors' decision-making and on HR and labor challenges.

Mr. Hitoshi Kobayashi, Statutory Auditor
Mr. Hitoshi Kobayashi provides useful advice, drawing on his wealth of experience and knowledge as a statutory auditor to contribute to auditing activities.

Mr. Koichi Abe, Statutory Auditor
Mr. Koichi Abe provides useful advice, drawing on his wealth of experience at financial institutions and extensive knowledge regarding corporate management to contribute to auditing activities.

Mr. Keiichi Hasegawa, Statutory Auditor (Outside Executive)
Mr. Keiichi Hasegawa was newly appointed as Statutory Auditor at the 162nd Annual General Meeting of Shareholders on August 29, 2023. While concurrently serving as Professor for Waseda University's Faculty of Commerce, he utilizes his voluminous experience in corporate finance and accounting to provide helpful advice on maintaining the soundness of financial and accounting practices and on business management in general.

▶ 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 December 1, 2023)

▶ Directors


President, Representative Director
Akira Watanabe


Chairman, Director
Kenzo Terashima


Director, Senior Executive Officer
Yoshifumi Otsubo


Director, Senior Executive Officer
Kenji Tanimoto


Director (Outside)
Koji Mizumoto


Director (Outside)
Taizo Makari


Director (Outside)
Yukiko Machida

▶ Statutory Auditors


Full-time Audit and Supervisory Board Member (Outside)
Hitoshi Kobayashi


Full-time Audit and Supervisory Board Member
Toshiharu Takaki


Audit and Supervisory Board Member (Outside)
Koichi Abe


Audit and Supervisory Board Member (Outside)
Keiichi Hasegawa

▶ Operating Officers

Director, Senior Executive Officer
Yoshifumi Otsubo
Kenji Tanimoto

Executive Officers
Shuji Horie
Naoki Okuyama
Toshihito Nakanishi
Jun Nukina

Operating Officers
Takuya Hatakeyama
Chiaki Nakano
Hiroyuki Imaizumi
Takatoshi Otsuka
Toshinori Yamai
Akihiro Otsuka

● Director Skill Matrix

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

Messages from Outside Executives

Yukiko Machida
Director (Outside)

Koichi Abe
Audit and Supervisory Board Member (Outside)

Labor law, my area of expertise, has typically followed a regulatory approach—laws are written to clearly define the dos and don’ts for employers, and administrative agencies provide guidance and supervision to prevent violations and, when violations do occur, penalize the offenders. A classic example of this is the Labor Standards Act.

However, the enactment of the Act on the Promotion of Women’s Active Engagement in Professional Life in August 2015 marked a pivot from that traditional approach. This law enjoins employers to analyze their company’s response to various legal requirements and to disclose their findings, but it does not regulate the content of what is reported (for example, it does not specify a minimum percentage for female representation in management). At first glance, this approach may seem considerably looser than the traditional regulatory model, but is that actually the case?

The world of labor law is now being swept with a growing call for companies to (just) disclose certain information such as the percentage of male employees who take childcare leave. And, looking outside the realm of labor law, items such as human capital and diversity have been added to the list of disclosures expected for annual securities reports. This trend has made it easier to compare companies by creating a uniform measuring stick for evaluating them. More than ever, businesses need to seriously envision what it will take for them to remain companies that attract talent and shareholders on into the future, and to constantly strive to achieve that vision. Those that just keep looking at the rear-view mirror may end up getting left behind by the market. Compliance is more than just not doing illegal things; it means taking action aligned with the spirit of the law, with “law” here including soft law. I would like for Toyo Denki to remain mindful of the importance of staying abreast of the times and taking action with a forward-looking perspective.

It has been over a year since I was appointed Audit and Supervisory Board Member (Outside) for Toyo Denki. The Company has laid out a medium-term management plan toward the fiscal year ending May 2026 and is pursuing corporate activities for drastically strengthening its management foundations. I believe that Toyo Denki’s strength lies in its commitment to sincerely addressing the needs of customers while honestly striving to improve quality with the power of trust backed by more than 100 years of history.

The Japanese economy has been gradually recovering following the lifting of the COVID-19 pandemic restrictions, with many positive signs being seen, including growth in both wages and stock prices. As for the latter, the Nikkei average as of end-August had climbed roughly 25% since January—likely buoyed in part by the management reforms that businesses implemented in response to the Tokyo Stock Exchange’s call for improvement of lackluster price--book ratios—and average PBR on the TSE stood at 1.3 for the Prime Market index and at 0.99 for the Standard Market index. While Toyo Denki’s share price has likewise grown by around 23%, PBR nevertheless stands at 0.4. I believe that the share price can at least double if the Company leverages its potential.

Across its over 100-year history, Toyo Denki has cultivated to a high standard many different artisanal skills, know-how, technical expertise, and development capabilities in manufacturing processes. However, there are challenges that need to be addressed. Namely, the Company needs to drastically strengthen its management foundations and ability to do business, so as to realize the aims of the Medium-Term Management Plan’s basic policies and to raise ROE to 8% or higher. Statutory Auditors are tasked with helping to ensure the soundness of corporate management. I think that effective utilization of corporate resources and improvement of profitability are the cornerstones of governance. I hope to see the Company work as a team to tackle management challenges under the leadership of the senior management.

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 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. In addition, the number of whistle-blowing reports received is disclosed annually in the Business Report.

Risk Management

Risk management framework

The Group’s risk management framework is as follows.

Risks pertaining to management strategy challenges such as business strategies and new business development are discussed at the Management Strategy Meeting, which is generally held twice a month.

Risks concerning day-to-day business operations are reported to the President at the Operating Officer Report Meeting, which generally convenes at least three times a month, for three subjects: orders received, sales, inquiries, and other business activities; procurement, manufacturing, shipments, and other production activities; and quality control, R&D and other technical matters, production reforms, and adoption of IT. The progress of business plans and the status of business execution are checked on a monthly basis.

For Group company-related risks, the progress of each company’s business plan and the status of business execution are examined at semiannual national and global Group company meetings.

Of these various risks, matters deemed to be especially important are discussed by the Internal Control Committee under the Board of Directors, with the participation of the legal counsel. Reports and recommendations based on those discussions are made to the Board of Directors. Risks pertaining to climate change, human capital, and other sustainability issues are discussed by the Sustainability Committee under the Board of Directors, and are reported to the Board of Directors.

Risks and countermeasures

This section presents risks that may affect the Group's earnings and financial position, and countermeasures for them.

Forward-looking statements below are based on the judgment of the Group as of the end of the consolidated fiscal year ended May 2023.

1 Risks related to **quality and stable supply**	**Risks & scenarios:** Fatal/life-threatening accidents and large-scale failures in railways or other social/public infrastructure that stem from the Group's products could have a very serious impact on the Group's operation. Also, defects in quality and production delays that prevent the Group from fulfilling its responsibility and mission of stably supplying products could cause a loss of trust and adversely affect our earnings. **Countermeasures:** The Group's business principles include a commitment to build trust by focusing on quality first. The production bases Yokohama Plant and Shiga Ryuo Plant have constructed and operate quality management systems, and have acquired ISO 9001 certification. As part of the monthly sessions of the Operating Officer Report Meeting, information on quality control and production management is shared with upper management, risks are identified, and countermeasures are discussed and promptly implemented, so as to ensure quality standards and stably supply products. In preparation for the potential occurrence of product liability issues or recalls, the necessary insurance policies are in place so that the impact of quality issues on earnings can be minimized.
2 Risks related to **human resource**	**Risks & scenarios:** We consider human resources to be the most important management asset supporting the Group's growth. If retirement by experienced technicians, exodus of talent, slowdowns in human resource development, or other such issues make it impossible to secure and develop the human resources needed, quality could decline due to the resulting difficulty in transferring technical expertise, and the creation of new business areas and development of new products could be hindered. This could make it impossible to maintain our competitiveness in the industry, and thus adversely affect our earnings. **Countermeasures:** In line with the basic policy of our rules on human resource development, we pursue human resource development approaches aimed at continually increasing our corporate value. To support efforts for maintaining, improving, and transferring our unique technologies, we have established a Technical Staff Development Committee and implement measures for transferring advanced technical expertise for each high-priority specialized field. In addition, as a specific initiative of Medium-Term Management Plan 2026 we have begun to review the design and operation of our human resource systems to promote employee and organizational vitality. To further improve employee engagement, we have clearly defined our expectations for human resources and have started to re-examine our systems for fair evaluation and treatment and to implement various measures, including for talent/organizational development.
3 Risks related to **compliance and human rights**	**Risks & scenarios:** Violations of domestic/international laws and regulations in the Group's conduct of business could result in a loss of public trust and lead to suspension of trading and other serious impacts on our business activities. Also, failure to properly prevent or deal with harassment of employees could reduce employee motivation, prompt employees to quit, cause a loss of trust, and reduce our competitiveness. In addition, failure to appropriately deal with issues surrounding conflict minerals and forced labor could result in a loss of trust and thus lead to reduced trade and exclusion from supply chains. **Countermeasures:** The Group has included in its business principles a commitment to prioritize ethics and contribute to the prosperity of customers and society as a whole, and recognizes the importance of compliance aligned with the business principles. As a concrete action for this, the Group provides every officer and employee with training and a copy of the business principles and the Compliance Manual (Toyo Denki Seizo Ethical Standards), which lays out our code of conduct and basic rules on business operations, in order to ensure that everyone familiar with what constitutes compliant conduct. We have also established contacts for whistle-blowing and consultation on harassment and implemented other measures to construct the framework needed to detect and take action on issues at an early stage. With regard to conflict minerals and forced labor in supply chains, we will continue to assess the state of compliance through supplier surveys and other means, and carry out appropriate measures for ensuring respect for human rights.
4 Risks related to **changes in business environment**	**Risks & scenarios:** Our Group provides products and services that broadly support social/industrial infrastructure in Japan and abroad in all of our business segments—transportation, industry, and ICT solutions. Our business environment is undergoing a drastic transformation, as seen in the decline in railway ridership due to population shrinking and the spread of new lifestyle changes such as teleworking; the CASE* transformation in the automobile industry; the advancement of DX in products, services, and production equipment; and the transition to a decarbonized society. If we fall behind in our efforts to adapt to these changes, we could experience a decline in our competitiveness, orders received, sales, and profitability. *CASE: A concept expressing the mobility transformation in terms of four features, Connected, Automated/Autonomous, Shared & Service, and Electrification **Countermeasures:** Guided by the basic policies of Medium-Term Management Plan 2026 to expand new businesses and products and thoroughly improve the earnings structures of existing businesses, the Group is endeavoring to maintain and further strengthen its competitiveness through efforts such as developing new products and improving existing products and services. Key actions include exploring alliance and M&A opportunities, developing technologies and products that contribute to decarbonization and the realization of a sustainable society, incorporating automation and renewable energy use in automobiles, and leveraging ICT. We opened the Development Center in June 2022 to strengthen company-wide development of new business fields. With regard to trends among our competition, we are working to maintain and further strengthen our competitiveness by gathering information on tenders and markets, and by utilizing our extensive supplier network to collect client information.
5 Risks related to **technology/ product development**	**Risks & scenarios:** If we are unable launch products incorporating advanced technologies with the right timing or are slow to respond to the decarbonization movement, our product competitiveness could decline. Also, slowdowns in our adoption of new technologies for manufacturing processes could impair efforts to improve productivity and reduce costs, and thereby lead to a deterioration in our competitiveness. **Countermeasures:** We are working to supply customers with products that appeal to them by identifying their needs and incorporating new technologies in the products we develop. In addition to enhancing existing products and services, to expand new business and products, we are seeking to strengthen and accelerate company-wide development of new business domains, particularly by utilizing the Development Center that we opened in June 2022. To address the technical challenges standing in the way of new business development, we have formed project teams at the Development Center and are focusing our internal resources on these efforts. In addition, we are taking action to maintain and further strengthen our technical expertise and product development capabilities, including by pursuing R&D in collaboration with other businesses and academia and by exploring M&A opportunities.
6 Risks related to **procurement of raw materials, etc.**	**Risks & scenarios:** Our Group's products and services use many different types of raw materials. If supply of those materials is delayed or interrupted by shifts in the global economy, market trends, or natural disasters, or if suppliers of raw materials that are hard to substitute go bankrupt or suspend operation, we could experience slowdowns in our production and shipment, among other issues. Also, increases in our manufacturing costs due to raw material price hikes driven by rising energy prices could adversely affect the Group's earnings. **Countermeasures:** The Group is striving to ensure stable access to raw materials through approaches such as bulk purchasing and multivendor procurement. While there recently have been global shortages, price hikes, and longer delivery times for certain products such as semiconductors, our Group is implementing measures to mitigate the impact of those challenges, including by using our closely connected network of suppliers to establish multiple supply chains, and by switching the raw materials used to other alternatives. We also endeavor to regularly collect information on the risk for suppliers to fail or stop operating, and pursue permanent measures such as securing access to alternative suppliers. To address the risk of manufacturing costs being driven up by rising raw material prices, we are seeking to lower cost prices by improving the operational efficiency of our manufacturing equipment, and by reducing energy costs through energy-saving measures, including the use of solar energy.
7 Risks related to **intellectual property**	**Risks & scenarios:** The risk of violation of the Group's intellectual property rights by other parties is growing with the acceleration of technological innovation and business globalization. Conversely, if the Group is found to have violated the intellectual property rights of other parties, it could be subjected to expensive damage claims or other responses that adversely affect its earnings. **Countermeasures:** The Group recognizes the importance of intellectual property rights and carefully strives to protect those rights. Our R&D units are collaborating to acquire rights on our intellectual property through strategic patent applications and other means. We are committed to swiftly taking appropriate action in response to violations of our intellectual property, and to take appropriate measures to avoid violating the intellectual property rights of other parties.

8 Risks related to **environmental and climate change**	Risks & scenarios: Any violation of environmental laws and regulations or noncompliance with environmental regulations could lead to a loss of trust among our suppliers, local communities, and society as a whole. Also, our failure to make progress in climate change actions, such as decarbonization of our products and measures for reducing our environmental impact, could reduce the competitiveness of our products and thus cause orders received and sales to fall, and could harm our reputation among stakeholders as a whole. Countermeasures: The Group properly manages this area of risk by constantly monitoring our business operations' compliance with environmental laws and regulations and conformity with environmental regulations. In addition, senior management regularly discusses climate change actions at Sustainability Committee meetings, and we set targets, develop and implement measures, and monitor progress for our initiatives in products and services, in production activities, and in valuing people and communities in accordance with our Sustainability Policy.
9 Risks related to **natural disaster and infectious diseases**	Risks & scenarios: 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. Countermeasures: Our Internal Control Committee under the Board of Directors discusses and makes decisions on the policies and courses of action for developing preventive measures against large-scale disasters and building the emergency response formation for disasters that occur. We implement disaster mitigation measures and training at each production base, and will work to further strengthen company-wide business continuity planning and to increase resilience across our supply chains. In the event of a large-scale infectious disease outbreak occurs, we will apply the lessons learned from our response to the COVID-19 pandemic, which began in January 2020, and take action to prevent the spread of infection with an approach that prioritizes employee safety and health with measures such as staggered commuting and working from home, while aggressively minimizing hindrances to production.
10 Risks related to **work-related disasters and accidents**	Risks & scenarios: Occupational accidents (including those stemming from excessive working hours), fires, or equipment failures that lead to employee injuries/fatalities or production stoppages could harm our public trust and a deterioration of business performance. Countermeasures: In order to ensure a safe working environment and completely eliminate occupational accidents, the Group has instituted a Company-Wide Safety and Hygiene Management Policy, and the local Safety and Hygiene Committee of each workplace establishes and implements concrete measures. Information on these initiatives is shared at the quarterly meetings of the Company-Wide Safety and Hygiene Committee, with the aim of further raising the level of health and safety across the entire organization. Also, each workplace has a Time Management Optimization Committee that monitors the overtime work situation, compliance with rules for rest periods between shifts, and other such matters.
11 Risks related to **information security**	Risks & scenarios: In the event of a leakage of customers' personal information or corporate secrets related to business partners could not only harm our public trust, but also lead to damage claims, termination of trading relationships, and other impacts that could adversely affect our earnings. Moreover, destruction/alteration of important data and system stoppages caused by external cyberattacks or computer viruses could have serious impacts on our production and sales activities. Countermeasures: The Group has included information security among its key management challenges and has formulated an Information Security Declaration as a guideline. We recognize the safeguarding of information to be a major social responsibility, comply with related laws and regulations, and implement measures to protect the information assets we possess from destruction, tampering, leaks, and other threats. In order to increase the level of information security and strengthen the system of management, we have formed an Information Security Committee that is tasked with studying measures, providing training, auditing, and other responsibilities. The Information Security Committee regularly reports to the Internal Control Committee on matters such as the state of information security maintenance/management, and the occurrence of accidents and problems.
12 Risks related to **overseas businesses**	Risks & scenarios: The Group operates production bases and sales offices in China, Thailand, and the United States, and country risks such as political or economic changes and the outbreak of disasters could adversely affect our business activities and employee safety. Also, unforeseeable changes in laws or tax systems could negatively impact our overseas affiliates' business operations and by extension our earnings and assets. Countermeasures: We have established a formation for communication and cooperation between the head office and the overseas affiliates, and we strive to constantly remain aware of the situation in each location. We properly manage country risk in order to minimize the impact of risks that emerge, and when necessary, we seek the counsel of lawyers and other experts who are well-versed in the local legal system and business practices.
13 Risks related to **finance and accounting**	Risks & scenarios: Given that the Group is proactively expanding its business in overseas markets, we are exposed to the foreign exchange risk that comes with the increase in foreign currency-based transactions. Also, since we secure financing for our business operations through bank loans and other such sources, we face the risk that interest rate hikes will drive up the amount of interest we need to pay. There is also the risk that finance market instability or a decline in the Group's creditworthiness will make it difficult to acquire financing at the levels we seek. The fixed assets we own, such as shares, land, buildings, production equipment, etc., are subject to the risk of impairment due to a decline in their market value or the profitability of our businesses. Trade notes and accounts receivable entail the risk of becoming difficult to collect if the trading partner's credit situation significantly falters. Countermeasures: With regard to foreign exchange risks, we monitor foreign exchange sensitivity and impacts on our earnings, and implement risk management measures such as downsizing of our foreign currency-based assets. To manage interest rate and liquidity risks, we are working to optimize our methods of financing and to shrink our working capital by reviewing the turnover period of trade notes and accounts receivable, inventories, and trade notes and accounts payable. At the same time, we are striving to maintain an optimum level of liquidity on hand through monthly management of cash flows. The purpose and benefits of our share holdings are examined annually at the Management Strategy Meeting are reported to the Board of Directors, and we are in the process of reducing our holdings based on those reviews. As for business-related fixed assets, we regularly monitor the progress of business plans and endeavor to detect early warning signs of impairment. We manage the collection risk of trade notes and accounts receivable through efforts that strengthen credit management, including surveying of long-term debt and monitoring of trading partners' performance.

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 2023 (from June 1, 2022 to May 31, 2023) are as follows:

Results of Operation

Orders received
33,246 million yen
(YoY +**9.2**%)

Net sales
31,025 million yen
(YoY +**2.9**%)

Profit/Loss
Net income attributable to owners of the parent
824 million yen
(Loss of **930** million yen in the previous fiscal year)

Orders received increased 9.2% compared with the previous fiscal year to 33,246 million yen, buoyed by increases in the Transportation Business, Industry Business, and ICT Solution Business segments.

Net sales increased 2.9% compared with the previous fiscal year to 31,025 million yen, driven by increases in the Transportation Business, Industry Business, and ICT Solution Business segments.

From a profit perspective, operating income increased by 345 million yen to 517 million yen compared with the previous fiscal year. Ordinary income increased by 220 million yen to 987 million yen compared with the previous fiscal year. Net income attributable to owners of the parent improved by 1,754 million yen to 824 million yen, due to factors such as the end of the impact of the impairment loss on business assets related to the Industry Business segment that was recorded in the previous fiscal year.

Financial Position

Assets
Total assets **49,682** million yen

Liabilities
Total liabilities **25,099** million yen

Net assets
Total net assets **24,582** million yen

Total assets as of May 31, 2023 stood at 49,682 million yen, an increase of 2,765 million yen compared with the end of the previous fiscal year. The increase in total assets was largely attributable to an increase of 1,817 million yen in investment securities and an increase of 1,145 million yen in trade notes, accounts receivable and contract assets, partially offset by a decrease of 621 million yen in property, plant and equipment.

Total liabilities as of May 31, 2023 stood at 25,099 million yen, an increase of 195 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase of 1,012 million yen in trade notes and accounts payable and an increase of 63 million yen in provision for product warranties, partially offset by a decrease of 585 million yen in debt.

Net assets as of May 31, 2023 stood at 24,582 million yen, an increase of 2,569 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase of 1,456 million yen in unrealized holding gain on available-for-sale securities.

Cash Flows

Cash flow from operating activities
Net cash provided by operating activities
815 million yen

Cash flow from investing activities
Net cash provided by investing activities
635 million yen

Cash flow from financing activities
Net cash used in financing activities
390 million yen

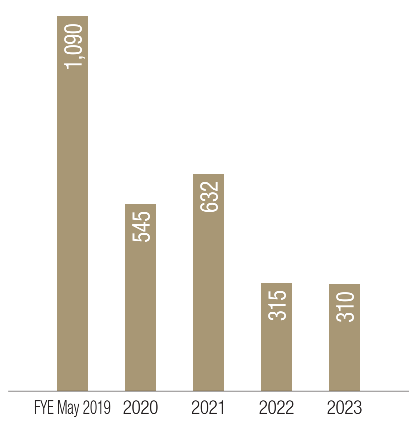
Net cash provided by operating activities amounted to 815 million yen (net cash of 2,504 million yen provided in the previous fiscal year), principally due to the recording of profit before income taxes and an increase in trade notes and accounts payable.

Net cash provided by investing activities totaled 635 million yen (net cash of 289 million yen provided in the previous fiscal year), principally due to proceeds from sales of investment securities.

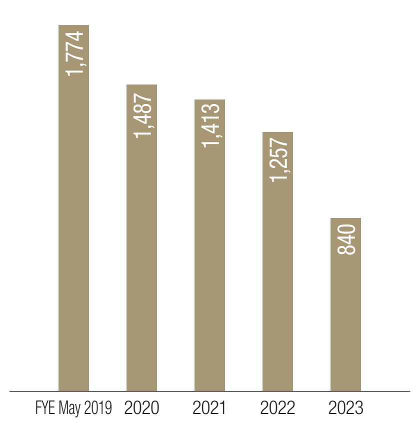
Net cash used in financing activities was 390 million yen (net cash of 2,356 million yen used in the previous fiscal year), primarily owing to repayment of debt.

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

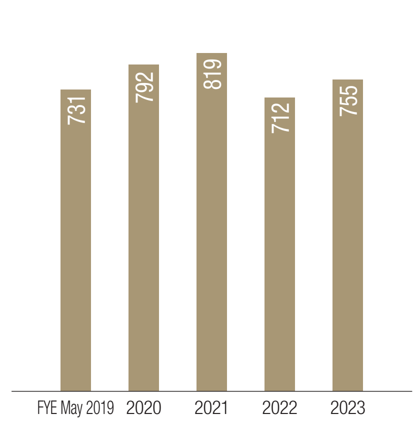
Capital investment (Unit: Million yen)



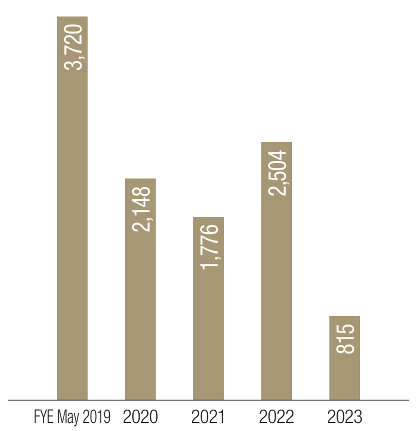
Depreciation and amortization (Unit: Million yen)



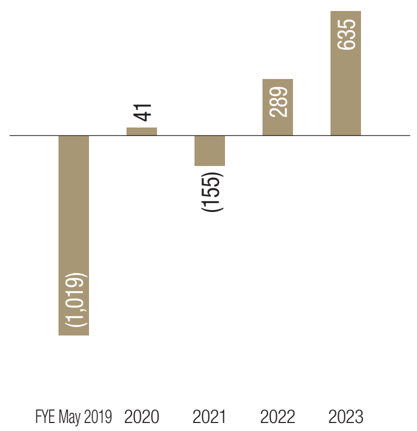
Research and development costs (Unit: Million yen)



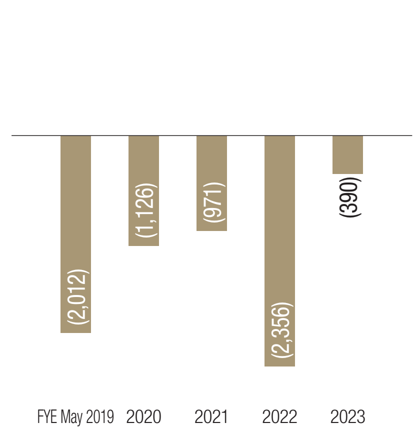
Cash flows from operating activities (Unit: Million yen)



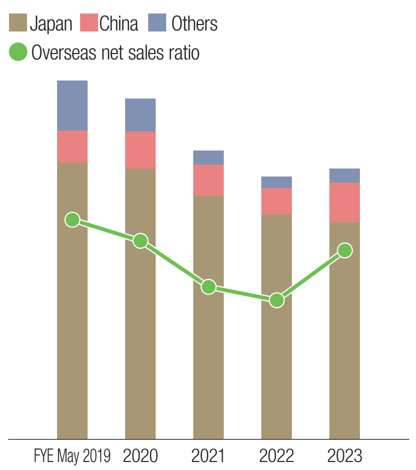
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	2019	2020	2021	2022	2023
Japan	31,745	30,997	27,876	25,779	24,915
China	3,663	4,282	3,628	3,015	4,536
Others	5,763	3,791	1,638	1,363	1,574
Total	41,172	39,071	33,143	30,158	31,025
Overseas net sales ratio	22.9%	20.7%	15.9%	14.5%	19.7%

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 16 and 18)	¥ 5,520	¥ 4,449	$ 39,493
Trade notes, accounts receivable and contract assets (Notes 2, 16 and 20)	13,236	12,091	94,702
Electronically recorded receivables (Note 16)	1,116	1,136	7,991
Inventories (Note 3)	6,319	6,267	45,212
Other current assets	555	246	3,976
Allowance for doubtful accounts	(10)	(1)	(72)
Total current assets	26,738	24,189	191,304
Property, plant and equipment (Notes 4 and 6):			
Buildings and structures	3,611	3,985	25,841
Machinery and vehicles	348	579	2,491
Land	1,269	1,270	9,086
Construction in progress	11	7	81
Other	459	479	3,290
Total property, plant and equipment	5,701	6,322	40,790
Investments and other assets:			
Investment securities (Notes 16 and 17)	14,288	12,471	102,231
Deferred tax assets (Note 11)	108	883	776
Intangible assets	77	101	552
Other (Note 5)	2,775	2,953	19,856
Allowance for doubtful accounts	(7)	(6)	(56)
Total investments and other assets	17,242	16,403	123,361
Total assets (Note 21)	¥49,682	¥46,916	$355,456

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Note 16)	¥ 2,060	¥ 1,610	$ 14,740
Electronically recorded payables	4,768	4,205	34,115
Short-term borrowings and current portion of long-term debt (Notes 6 and 16)	885	585	6,333
Income taxes payable (Note 11)	128	306	915
Contract liabilities (Note 20)	84	47	606
Accrued expenses	589	688	4,218
Accrued directors' bonuses	39	6	279
Accrued employees' bonuses	673	699	4,816
Reserve for losses on order acknowledgements (Note 3)	989	963	7,076
Provision for product warranties	70	6	504
Other	411	449	2,944
Total current liabilities	10,699	9,569	76,552
Long-term liabilities:			
Long-term debt (Notes 6 and 16)	10,288	11,173	73,610
Liability for retirement benefits (Note 7)	4,075	4,113	29,160
Long-term payables	30	38	221
Other	4	6	31
Total long-term liabilities	14,399	15,333	103,023
Commitments and contingencies (Note 14)			
Net assets (Notes 8 and 15):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 35,761
Capital surplus	3,177	3,177	22,733
Retained earnings	11,347	11,122	81,186
Treasury stock	(486)	(1,282)	(3,482)
Total shareholders' equity	19,036	18,016	136,199
Accumulated other comprehensive income:			
Unrealized holding gain on securities	5,370	3,913	38,422
Translation adjustments	202	144	1,445
Retirement benefits liability adjustments (Note 7)	(26)	(61)	(187)
Total accumulated other comprehensive income	5,546	3,996	39,680
Total net assets	24,582	22,012	175,879
Total liabilities and net assets	¥49,682	¥46,916	$355,456

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Notes 20 and 21)	¥31,025	¥30,158	$221,974
Cost of sales (Note 3)	23,828	23,343	170,481
Gross profit	7,197	6,815	51,492
Selling, general and administrative expenses (Note 9)	6,679	6,643	47,789
Operating income (Note 21)	517	171	3,703
Non-operating income (expenses):			
Interest and dividend income	191	154	1,370
Interest expense	(52)	(58)	(377)
Equity in earnings of affiliates accounted for by the equity method	221	242	1,581
Foreign exchange gain	104	227	750
Subsidy income	—	20	—
Other income, net	4	8	34
	469	594	3,359
Ordinary income	987	766	7,062
Special gains (losses), net (Note 10)	167	(1,996)	1,201
Income (loss) before income taxes	1,155	(1,230)	8,264
Income taxes (Note 11):			
Current	205	403	1,472
Deferred	124	(703)	892
	330	(299)	2,364
Net income (loss)	824	(930)	5,899
Net income (loss) attributable to owners of the parent	¥ 824	¥ (930)	$ 5,899

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net income (loss)	¥ 824	¥ (930)	$ 5,899
Other comprehensive income (loss) (Note 12):			
Unrealized holding gain (loss) on securities	1,456	(889)	10,420
Translation adjustments	—	2	—
Retirement benefits liability adjustments	35	35	252
Share of other comprehensive income of affiliates accounted for by the equity method	57	53	412
Total other comprehensive income (loss)	1,549	(797)	11,085
Comprehensive income	¥2,373	¥(1,727)	$16,984
Comprehensive income attributable to:			
Owners of the parent	¥2,373	¥(1,727)	$16,984
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, 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
Balance as of June 1, 2022	¥4,998	¥3,177	¥11,122	¥(1,282)	¥18,016	¥3,913	¥144	¥(61)	¥3,996	¥22,012
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net income attributable to owners of the parent	—	—	824	—	824	—	—	—	—	824
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Disposal of treasury stock	—	(331)	—	796	464	—	—	—	—	464
Transfer of loss on disposal of treasury stock	—	331	(331)	—	—	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—	1,456	57	35	1,549	1,549
Total changes during the year	—	—	225	795	1,020	1,456	57	35	1,549	2,569
Balance as of May 31, 2023	¥4,998	¥3,177	¥11,347	¥(486)	¥19,036	¥5,370	¥202	¥(26)	¥5,546	¥24,582

(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, 2022	$35,761	$22,733	$79,576	$(9,173)	$128,897	$28,001	$1,033	$(440)	$28,594	$157,492
Changes during the year										
Cash dividends paid	—	—	(1,918)	—	(1,918)	—	—	—	—	(1,918)
Net income attributable to owners of the parent	—	—	5,899	—	5,899	—	—	—	—	5,899
Purchases of treasury stock	—	—	—	(4)	(4)	—	—	—	—	(4)
Disposal of treasury stock	—	(2,370)	—	5,696	3,326	—	—	—	—	3,326
Transfer of loss on disposal of treasury stock	—	2,370	(2,370)	—	—	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—	10,420	412	252	11,085	11,085
Total changes during the year	—	—	1,610	5,691	7,301	10,420	412	252	11,085	18,387
Balance as of May 31, 2023	$35,761	$22,733	$81,186	$(3,482)	$136,199	$38,422	$1,445	$(187)	$39,680	$175,879

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2023 (Millions of yen)	May 31, 2022 (Millions of yen)	May 31, 2023 (Thousands of U.S. dollars) (Note 1)
Operating activities			
Income (loss) before income taxes	¥ 1,155	¥(1,230)	$ 8,264
Depreciation and amortization	840	1,257	6,010
Impairment loss	—	2,256	—
Reversal of allowance for doubtful accounts	9	(0)	67
Provision for accrued employees' bonuses	(26)	(128)	(188)
(Decrease) increase in liability for retirement benefits	(22)	5	(158)
Interest and dividend income	(191)	(154)	(1,370)
Interest expense	52	58	377
Equity in earnings of affiliates accounted for by the equity method	(221)	(242)	(1,581)
Subsidy income	—	(20)	—
Gain on sales of property, plant and equipment	(150)	—	(1,079)
Gain on sales of investment securities	(530)	(366)	(3,797)
Loss on valuation of investment securities	—	45	—
Gain on reversal of foreign translation adjustment	—	(94)	—
Business restructuring expenses	513	—	3,674
Loss on valuation of investments in capital of subsidiaries and affiliates	—	155	—
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(1,125)	891	(8,053)
Inventories	(51)	633	(370)
Trade notes and accounts payable	1,012	(557)	7,244
Reserve for losses on order acknowledgements	25	99	181
Provision for product warranties	63	(0)	455
Contract liabilities	36	13	263
Accrued expenses	(98)	97	(701)
Other, net	(193)	(156)	(1,387)
Subtotal	1,097	2,562	7,850
Interest and dividend income received	201	162	1,439
Interest expense paid	(53)	(60)	(381)
Subsidies received	—	20	—
Income taxes paid	(429)	(180)	(3,076)
Net cash provided by operating activities	815	2,504	5,832
Investing activities			
Purchases of property, plant and equipment	(324)	(351)	(2,319)
Proceeds from sales of property, plant and equipment	266	14	1,903
Purchases of intangible assets	(17)	(18)	(127)
Purchases of investment securities	(14)	(73)	(101)
Proceeds from sales of investment securities	818	466	5,858
Proceeds from liquidation of an affiliate	—	283	—
Payments of loans receivable	(50)	—	(357)
Collection of loans receivable	—	15	—
Other, net	(42)	(45)	(306)
Net cash provided by investing activities	635	289	4,549
Financing activities			
Decrease in short-term loans payable	—	(1,500)	—
Repayment of long-term debt	(585)	(585)	(4,187)
Purchases of treasury stock	(0)	(0)	(4)
Proceeds from disposal of treasury stock	464	—	3,326
Cash dividends paid	(267)	(269)	(1,911)
Other, net	(2)	(1)	(17)
Net cash used in financing activities	(390)	(2,356)	(2,795)
Effect of exchange rate change on cash and cash equivalents	10	48	72
Net increase in cash and cash equivalents	1,070	485	7,658
Cash and cash equivalents at beginning of period	4,449	3,964	31,835
Cash and cash equivalents at end of period (Note 18)	¥ 5,520	¥ 4,449	$39,493

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 gain (loss) and capitalized development costs.

As of May 31, 2023, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 5 and 2 (5 and 2 in 2022), respectively. All significant intercompany balances and transactions have been eliminated in consolidation. The closing date of all consolidated subsidiaries is consistent with that of the Company.

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 quotations 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 at the amount estimated to cover future losses on order acknowledgements for which losses are projected and reasonably estimable at the end of the current fiscal year. Provision of reserve for losses on order acknowledgements in the amounts of ¥78 million ($559 thousand) and ¥99 million is included in cost of sales for the years ended May 31, 2023 and 2022, respectively.

(n) Provision for product warranties

Provision for product warranties is provided at the amount estimated to cover the Company's stand-ready obligation for repair under product warranties for which future costs are projected and reasonably estimable at the end of the current fiscal year.

(o) 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 gain (loss) is 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.

(p) 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.

(q) Accounting for significant revenue and costs

The Group engages primarily in the manufacturing and sale of electronic equipment, and in 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 relative to the estimated total cost (input method).

(r) Research and development expenses

Research and development expenses are charged to income when incurred.

(s) 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.

(t) Significant accounting estimates

(Impairment of fixed assets in the Industrial Systems segment)

(1) The amount recorded in the consolidated financial statements for the years ended May 31, 2023 and 2022

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, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Impairment loss	¥ —	¥2,256	$ —
Property, plant and equipment, intangible assets and long-term prepaid expenses	3,055	3,325	21,859

(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 amounts recorded in the consolidated financial statements for the year ended May 31, 2023

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 groups of assets. In the current fiscal year, the Group identified an indication of impairment for some asset groups related to the Industrial Systems segment. The asset groups had recorded an operating loss mainly due to the impact on production processes caused by the prolonged difficulty in purchasing parts and materials, as well as the rapid electrification of testing machines for automobile development. However, the Group did not recognize an impairment loss as the aggregated amount of undiscounted future cash flows exceeded the carrying amount of the asset groups. The future cash flows are estimated based on the business plan approved by the management.

b. Main assumptions used for computing the amount recorded in the consolidated financial statements for the year ended May 31, 2023

In the computation of undiscounted future cash flows, the main assumption is future net sales. Future net sales are computed based on historical performance and projections of order acknowledgements made mainly considering industry trends.

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.

(u) New accounting pronouncements

• Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022)
• Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, October 28, 2022)
• Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

The standards prescribe the accounting category of income taxes when other comprehensive income is subject to taxation and the treatment of tax effect accounting for sale of shares of subsidiaries when the group taxation regime is applied.

(2) Scheduled date of application

The Company expects to apply these standards from the beginning of the year ending May 31, 2025.

(3) Impact of the application

The Company is currently evaluating the impact of applying these standards on the consolidated financial statements.

(v) Changes in accounting estimates

(Provision for product warranties)

After updating the core system, the Company has developed a method for accumulating and collecting the data necessary to determine future costs to repair delivered products under stand-ready obligations. As this development enables more precise estimates, the Company changed its accounting estimates for the year ended May 31, 2023.

As a result, compared to the previous method, operating income, ordinary income and income (loss) before income taxes decreased by ¥55 million ($399 thousand), respectively.

The amount had been included in "Reserve for losses on order acknowledgements" under "Current liabilities" in the consolidated financial statements as of May 31, 2022. However, due to increased materiality resulting from the change in estimates, it is presented separately as "Provision for product warranties" as of May 31, 2023. In order to reflect this change in presentation, the consolidated financial statements as of May 31, 2022, have been reclassified.

As a result, the ¥6 million formerly included in "Reserve for losses on order acknowledgements" under "Current liabilities" as of May 31, 2022, has been reclassified into ¥6 million in "Provision for product warranties." Further, the ¥(0) million formerly included in "Reserve for losses on order acknowledgements" under "Changes in operating assets and liabilities" for the year ended May 31, 2022, has been reclassified into ¥(0) million in "Provision for product warranties" under "Changes in operating assets and liabilities."

(w) Additional information

(Accounting under the group tax sharing system)

The Company and its domestic consolidated subsidiaries are shifting from the single tax filing system to the group tax sharing system from the year ending May 31, 2024. Accordingly, the Company has applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Solution No. 42, August 12, 2021) to account for and disclose tax effect accounting for national and municipal income taxes effective May 31, 2023.

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 ¥139.77=U.S.$1, the approximate rate of exchange prevailing on May 31, 2023. 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, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Notes receivable	¥ 377	¥ 586	$ 2,702
Accounts receivable	7,598	7,088	54,360
Contract assets	5,260	4,415	37,639

Note 3. Inventories

Inventories as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥ 376	¥ 501	$ 2,695
Work in process	3,106	3,077	22,224
Raw materials and supplies	2,836	2,688	20,293
	¥6,319	¥6,267	$45,212

Inventories were stated at the lower of cost or net realizable value, and the Company recognized losses on the write-down of inventories held for the ordinary sales purpose due to a decline in profitability in the amounts of ¥28 million ($202 thousand) and ¥134 million for the years ended May 31, 2023 and 2022, respectively. These amounts were included in "Cost of sales."

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

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥12	¥ 0	$ 88
Work in process	14	153	103
	¥26	¥154	$191

Note 4. Property, Plant and Equipment

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

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 9,952	¥ 10,326	$ 71,208
Machinery and vehicles	8,208	8,185	58,727
Other	5,138	4,977	36,763
	23,299	23,488	166,699
Accumulated depreciation	(18,879)	(18,444)	(135,075)
	¥ 4,420	¥ 5,044	$ 31,623

Depreciation of property, plant and equipment for the years ended May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Depreciation and amortization	¥840	¥1,257	$6,010

Accumulated depreciation of property, plant and equipment amounted to ¥18,879 million ($135,075 thousand) and ¥18,444 million as of May 31, 2023 and 2022, 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, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in capital	¥1,967	¥2,184	$14,074

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

As of May 31, 2023 and 2022, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥ —	¥ —	$ —
Current portion of long-term debt	885	585	6,333
	¥885	¥585	$6,333

The annual weighted average interest rate applicable to current-portion of long-term debt as of May 31, 2023 was 0.580%.

As of May 31, 2023 and 2022, long-term debt was as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2024 through 2032	¥10,288	¥11,173	$73,610

The annual weighted average interest rate applicable to long-term debt as of May 31, 2023 was 0.400%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2024	¥ 885	$ 6,333
2025	4,525	32,376
2026	4,525	32,376
2027	515	3,688
2028 and thereafter	722	5,168
	¥11,173	$79,944

As of May 31, 2023 and 2022, the assets pledged as collateral for short-term borrowings and long-term debt were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥2,961	¥3,170	$21,186
Machinery and vehicles	255	368	1,825
Other property, plant and equipment	121	146	866
Land	1,201	1,201	8,596
	¥4,538	¥4,886	$32,474

The following assets included in the above are set by factory foundation fixed collateral security for short-term borrowings as of May 31, 2023 and 2022:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥1,278	¥1,380	$ 9,146
Machinery and vehicles	255	368	1,825
Other property, plant and equipment	121	146	866
	¥1,654	¥1,894	$11,837

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 a points system in the lump-sum payment plans, under which retirement benefit amounts are computed based on the total number of points granted according to job ranking and performance.

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, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥4,113	¥4,124	$29,432
Service cost	311	297	2,229
Interest cost	15	15	108
Actuarial gain	(15)	(16)	(113)
Retirement benefits paid	(349)	(287)	(2,497)
Other	—	(19)	—
Retirement benefit obligation as of May 31	¥4,075	¥4,113	$29,160

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2023 and 2022 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,075	¥4,113	$29,160
Net liability for retirement benefits on the consolidated balance sheets	4,075	4,113	29,160
Liability for retirement benefits	¥4,075	¥4,113	$29,160
Net liability for retirement benefits on the consolidated balance sheets	4,075	4,113	29,160

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥311	¥297	$2,229
Interest cost	15	15	108
Amortization of actuarial loss	35	35	250
Extraordinary payment of increased retirement benefits	7	11	50
Retirement benefit expenses	¥368	¥359	$2,639

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥50	¥51	$364
Total	¥50	¥51	$364

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥37	¥88	$270
Total	¥37	¥88	$270

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022
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 ¥113 million ($813 thousand) and ¥116 million for the years ended May 31, 2023 and 2022, respectively.

Note 8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2023 and 2022 was as follows:

a. Shares issued and outstanding / treasury stock

For the year ended May 31, 2023

Type of shares	Number of shares as of June 1, 2022	Increase	Decrease	Number of shares as of May 31, 2023
		(Shares)		
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	794,608	735	493,500	301,843

Details of the increase are as follows:
Increase due to purchase of shares of less than standard unit 735 shares
Details of the decrease are as follows:
Decrease due to disposal of treasury stock through third-party allotment 493,500 shares

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

b. Dividends

1) Dividends paid

For the year ended May 31, 2023

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 25, 2022	Common stock	¥268	$1,918	¥30.00	$0.21	May 31, 2022	August 26, 2022

For the year ended May 31, 2022

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 27, 2021	Common stock	¥268	¥30.00	May 31, 2021	August 30, 2021

2) Dividends with the cut-off date in the year ended May 31, 2023, and the effective date in the year ending May 31, 2024

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 29, 2023	Common stock	¥282	$2,024	Retained earnings	¥30.00	$0.21	May 31, 2023	August 30, 2023

Note 9. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,811	¥1,868	$12,963
Provision for accrued directors' bonuses	39	6	279
Provision for accrued employees' bonuses	292	315	2,095
Retirement benefit expenses	199	202	1,427
Provision for allowance for doubtful accounts	0	(0)	0
Research and development expenses	755	712	5,402

Note 10. Special Gains (Losses), Net

The components of "Special gains (losses), net" for the years ended May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥ 530	¥ 366	$ 3,797
Gain on sales of property, plant and equipment	150	—	1,079
Gain on reversal of foreign translation adjustment	—	94	—
Special losses:			
Business restructuring expenses	(513)	—	(3,674)
Impairment loss	—	(2,256)	—
Loss on valuation of investment securities	—	(45)	—
Loss on valuation of investments in capital of subsidiaries and affiliates	—	(155)	—
Total	¥ 167	¥(1,996)	$ 1,201

Impairment loss

There was no applicable information for the year ended May 31, 2023.

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)
Manufacturing equipment of Industrial Systems	Toyo Denki Seizo K.K. Shiga Ryuo plant (Ryuo-cho, Shiga Pref.)	Buildings, etc.	¥2,256

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, machinery, equipment and vehicles in the amount of ¥178 million and land in the amount of ¥30 million.

Gain on sales of property, plant and equipment

This item consists of a gain of ¥150 million ($1,079 thousand) on the sale of a condominium (buildings and structures, land and other assets) held by the Company.

Business restructuring expenses

Business restructuring expenses were incurred for a loss on valuation of investments in capital, attorneys' fees and other items as part of the Company's restructuring of business development in China for Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd., the Company's unconsolidated subsidiary and Chalco-Toyo Permanent Magnet Motor Co., Ltd., the Company's affiliate not accounted for by the equity method.

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, 2023 and 2022. 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, 2023, was as follows:

For the Year Ended	May 31, 2023
Effective statutory tax rate	30.6%
Effect of:	
Non-deductible expenses for income tax purpose	1.5
Non-taxable income such as dividends income, etc.	(1.4)
Per capita inhabitant tax	2.4
Valuation allowance	(2.8)
Income from affiliates accounted for by the equity method	(5.9)
Difference arising from the rates used by subsidiaries	0.7
Retained profit of affiliates	5.2
Research and development tax credit	(1.2)
Other	(0.6)
Effective tax rate	28.6%

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 significant components of deferred tax assets and liabilities as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023 (Millions of yen)	May 31, 2022 (Millions of yen)	May 31, 2023 (Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 353	¥ 307	$ 2,532
Impairment loss	661	691	4,732
Liability for retirement benefits	1,255	1,266	8,980
Accrued employees' bonuses	243	252	1,744
Reserve for losses on order acknowledgements	123	131	883
Provision for product warranties	21	2	154
The carryforward of unused tax losses (Note 2)	121	129	868
Other	387	496	2,770
Total gross deferred tax assets	3,168	3,278	22,667
Valuation allowance for the carryforward of unused tax losses (Note 2)	(116)	(129)	(835)
Valuation allowance for deductible temporary differences	(442)	(462)	(3,168)
Total valuation allowance (Note 1)	(559)	(592)	(4,001)
Total deferred tax assets	2,608	2,686	18,666
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,371)	(1,736)	(16,968)
Other	(128)	(65)	(921)
Total deferred tax liabilities	(2,500)	(1,802)	(17,889)
Net deferred tax assets	¥ 108	¥ 883	$ 776

(Note 1) Valuation allowance decreased by ¥32 million ($231 thousand) due primarily to a decrease for tax loss carryforwards as well as a decrease due to an addition to deferred tax assets.

(Note 2) The breakdown of the carryforward of unused tax losses and valuation allowance by expiry date is as follows:
Year ended May 31, 2023

(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	¥ 47	¥ 68	¥ 121
Valuation allowance	—	—	—	(1)	(47)	(68)	(116)
Deferred tax assets	—	—	—	4	—	—	4(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)	$—	$—	$—	$ 41	$ 336	$ 490	$ 868
Valuation allowance	—	—	—	(8)	(336)	(490)	(835)
Deferred tax assets	—	—	—	33	—	—	33(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 ¥4 million ($33 thousand) are recognized for the carryforward of unused tax losses of ¥121 million ($868 thousand) (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥4 million ($33 thousand) are recognized for the carryforward of unused tax losses of ¥96 million (690 thousand) (amount multiplied by the effective statutory tax rate) of TD Drive Manufacturing Co., Ltd., which is a consolidated subsidiary of the Company.

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)

(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 are recognized for the carryforward of unused tax losses of ¥129 million (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥0 million are recognized for the carryforward of unused tax losses of ¥20 million (amount multiplied by the effective statutory tax rate) of Toyo Shoji Co., Ltd., which is a consolidated subsidiary of the Company.

(Accounting under the group tax sharing system)
The Company and its domestic consolidated subsidiaries are shifting from the single tax filing system to the group tax sharing system from the year ending May 31, 2024. Accordingly, the Company has applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Solution No. 42, August 12, 2021) to account for and disclose tax effect accounting for national and municipal income taxes effective May 31, 2023.

Note 12. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended May 31, 2023 and 2022:

For the Years Ended	May 31, 2023 (Millions of yen)	May 31, 2022 (Millions of yen)	May 31, 2023 (Thousands of U.S. dollars)
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥1,560	¥(1,655)	$11,166
Reclassification adjustments for gains and losses included in net income	530	366	3,797
Amount before tax effect	2,091	(1,289)	14,963
Tax effect	(635)	399	(4,543)
Unrealized holding gain (loss) on securities	1,456	(889)	10,420
Translation adjustments			
Amount arising during the year	—	—	—
Reclassification adjustments for gains and losses included in net income	—	2	—
Amount before tax effect	—	2	—
Translation adjustments	—	2	—
Retirement benefits liability adjustments			
Amount arising during the year	15	24	113
Reclassification adjustments for gains and losses included in net income	35	26	250
Amount before tax effect	50	51	364
Tax effect	(15)	(15)	(111)
Retirement benefits liability adjustments	35	35	252
Share of other comprehensive income of affiliates accounted for by the equity method			
Amount arising during the year	57	53	412
Share of other comprehensive income of affiliates accounted for by the equity method	57	53	412
Total other comprehensive income (loss)	¥1,549	¥ (797)	$11,085

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, 2023 and 2022, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥325	¥316	$2,327
Beijing Jingche Shuangyang Traction System Co., Ltd.	231	224	1,654

Note 15. Amounts Per Share

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Yen)		(U.S. dollars)
Net income (loss):			
Basic	¥91.85	¥(104.02)	$0.66

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Yen)		(U.S. dollars)
Net assets	¥2,605.99	¥2,462.17	$18.64

Note: Diluted net income per share is omitted for the year ended May 31, 2023 since there is no dilution of equity. 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.

The bases for calculation are as follows:

Basic net income (loss) per share

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Net income (loss) attributable to owners of the parent	¥824	¥(930)	$5,899
Net income (loss) not attributable to common shareholders	—	—	—
Net income (loss) attributable to owners of the parent related to common stock	824	(930)	5,899
	(Thousand shares)		
Average number of shares of common stock during the year	8,977	8,940	

Note 16. Financial Instruments

Overview

(1) Policy for financial instruments

The Group raises the necessary funds for capital investment 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 as hedging instruments to reduce such risk.

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 (s) 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 that have sound credit profiles.

(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 positions 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 position limits. Monthly reports including data on actual transactions are submitted to the Board of Directors for 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 reports 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 values. 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

The carrying value and fair value of financial instruments on the consolidated balance sheets as of May 31, 2023 and 2022, and differences between the two, are shown in the following table.

As of May 31, 2023	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
Investment securities*[1]	¥13,226	¥13,226	¥—
Total assets	¥13,226	¥13,226	¥—
Liabilities			
Long-term debt*[2]	¥11,173	¥11,178	¥ 4
Total liabilities	¥11,173	¥11,178	¥ 4

As of May 31, 2023	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
Investment securities*1	$94,629	$94,629	$—
Total assets	$94,629	$94,629	$—
Liabilities			
Long-term debt*2	$79,944	$79,978	$34
Total liabilities	$79,944	$79,978	$34

*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. The current portion of long-term debt is included in the above 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

*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. The current portion of long-term debt is included in the above table.

Notes:
1. 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.
2. Equity securities without market quotation, etc. are not included in the above investment securities. The carrying value of such financial instruments is as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥1,062	¥1,062	$7,602

3. Redemption schedule for receivables and securities with maturities on May 31, 2023 and 2022 were as follows:

As of May 31, 2023	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 5,520	¥—	¥—	¥—
Trade notes and accounts receivable	7,942	33	—	—
Electronically recorded receivables	1,116	—	—	—
	¥14,579	¥33	¥—	¥—

As of May 31, 2023	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Thousands of U.S. dollars)			
Cash on hand and in banks	$ 39,493	$ —	$—	$—
Trade notes and accounts receivable	56,825	237	—	—
Electronically recorded receivables	7,991	—	—	—
	$104,311	$237	$—	$—

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
	(Millions of yen)			
Cash on hand and in banks	¥ 4,449	¥—	¥—	¥—
Trade notes and accounts receivable	7,643	32	—	—
Electronically recorded receivables	1,136	—	—	—
	¥13,229	¥32	¥—	¥—

4. 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.

(1) Financial assets and liabilities measured at fair value

As of May 31, 2023	Fair value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Investment securities:				
Available-for-sale securities:				
Equity securities	¥13,226	¥—	¥—	¥13,226
Total financial assets	¥13,226	¥—	¥—	¥13,226
Not applicable to financial liabilities				

As of May 31, 2023	Fair value			
	Level 1	Level 2	Level 3	Total
	(Thousands of U.S. dollars)			
Investment securities:				
Available-for-sale securities:				
Equity securities	$94,629	$—	$—	$94,629
Total financial assets	$94,629	$—	$—	$94,629
Not applicable to financial liabilities				

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 to financial liabilities				

(2) Financial assets and liabilities other than those measured at fair value

As of May 31, 2023	Fair value Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Not applicable to financial assets				
Long-term debt	¥—	¥11,178	¥—	¥11,178
Total financial liabilities	¥—	¥11,178	¥—	¥11,178

As of May 31, 2023	Fair value Level 1	Level 2	Level 3	Total
	(Thousands of U.S. dollars)			
Not applicable to financial assets				
Long-term debt	$—	$79,978	$—	$79,978
Total financial liabilities	$—	$79,978	$—	$79,978

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

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 the 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, 2023	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds acquisition cost:			
Stock	¥13,162	¥5,411	¥7,751
Subtotal	¥13,162	¥5,411	¥7,751
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 63	¥ 72	¥ (9)
Subtotal	¥ 63	¥ 72	¥ (9)
Total	¥13,226	¥5,484	¥7,741

As of May 31, 2023	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities for which carrying value exceeds acquisition cost:			
Stock	$94,175	$38,717	$55,458
Subtotal	$94,175	$38,717	$55,458
Securities for which acquisition cost exceeds carrying value:			
Stock	$ 453	$ 521	$ (68)
Subtotal	$ 453	$ 521	$ (68)
Total	$94,629	$39,238	$55,390

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.

As of May 31, 2022	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
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

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.
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, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥818	¥466	$5,856
Gain on sales	530	366	3,797
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, 2023 and 2022 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥5,520	¥4,449	$39,493
Cash and cash equivalents	¥5,520	¥4,449	$39,493

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 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, 2023 and 2022, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

As of May 31, 2023 and 2022, 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:

For the Years Ended		May 31, 2023	May 31, 2022	May 31, 2023
		(Millions of yen)		(Thousands of U.S. dollars)
Reportable segment:				
Transportation Systems	Domestic railway	¥13,333	¥14,705	$ 95,393
	Overseas railway	4,492	2,831	32,144
	Other	2,031	1,919	14,531
	Subtotal	¥19,857	¥19,456	$142,069
Industrial Systems	Processing machine	¥ 3,321	¥ 2,719	$ 23,765
	Testing machine	2,341	2,173	16,753
	Power generator/power source	1,561	2,187	11,169
	Other	2,680	2,822	19,180
	Subtotal	¥ 9,905	¥ 9,902	$ 70,868
ICT Solution Systems	ICT solutions	¥ 1,256	¥ 790	$ 8,991
	Subtotal	¥ 1,256	¥ 790	$ 8,991
Other (Note)		¥ 6	¥ 9	$ 45
Total		¥31,025	¥30,158	$221,974
Revenue arising from contracts with customers		¥31,025	¥30,158	$221,974
Sales to third parties		¥31,025	¥30,158	$221,974

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.
From the year ended May 31, 2023, the Group has renamed the Information Equipment Systems segment as the "ICT Solution Systems" segment. Accordingly, the segment in the previous year is presented under the new name. This change does not have an impact on the information about disaggregation of revenue arising from contracts with customers by reportable segments.

2. Useful information in understanding revenue from contracts with customers

This information is as stated in *(q) Accounting for significant revenue and costs* under 1. Summary of Significant Accounting Policies.

Consideration for performance obligations is usually received within one year of satisfying the 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, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Receivables from contracts with customers (beginning balance)	¥8,812	¥10,280	$63,046
Receivables from contracts with customers (ending balance)	9,092	8,812	65,055
Contract assets (beginning balance)	4,415	3,838	31,594
Contract assets (ending balance)	5,260	4,415	37,639
Contract liabilities (beginning balance)	47	34	342
Contract liabilities (ending balance)	84	47	606

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 years ended May 31, 2023 and 2022 that was included in the contract liability balance at the beginning of the year was ¥45 million ($322 thousand) and ¥27 million, respectively.

(2) Transaction price allocated to the remaining performance obligations

The total transaction prices allocated to the remaining performance obligations as of May 31, 2023 and 2022 were ¥29,496 million ($211,034 thousand) and ¥27,275 million, respectively, and the Group expects to recognize revenue mainly within a period of one to three years as 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 whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and assess performance.

The Group establishes business units by product, and each business unit designs domestic and overseas comprehensive strategies for its products and develops 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 ICT Solution Systems.

From the year ended May 31, 2023, the Group has renamed the Information Equipment Systems segment as the "ICT Solution Systems" segment. This change does not have an impact on segment information.

Accordingly, the segment in the previous year is presented under the new name.

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, 2023 (Millions of yen)

	Reportable segments						
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)	Total	Adjustments	Consolidated
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	¥19,857	¥ 9,905	¥1,256	¥ 6	¥31,025	¥ —	¥31,025
Inter-segment sales and transfers	33	1	—	299	334	(334)	—
	19,890	9,906	1,256	306	31,359	(334)	31,025
Segment profit (loss)	¥ 2,259	¥ 479	¥ 413	¥ (14)	¥ 3,137	¥ (2,619)	¥ 517
Segment assets	¥15,395	¥11,579	¥ 835	¥427	¥28,237	¥21,444	¥49,682
Other items:							
Depreciation	¥ 416	¥ 337	¥ 18	¥ 2	¥ 775	¥ 64	¥ 840
Capital expenditures	¥ 168	¥ 68	¥ 3	¥ 1	¥ 242	¥ 67	¥ 310

For the year ended May 31, 2023 (Thousands of U.S. dollars)

	Reportable segments						
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)	Total	Adjustments	Consolidated
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	$142,069	$70,868	$8,991	$ 45	$221,974	$ —	$221,974
Inter-segment sales and transfers	240	7	—	2,144	2,392	(2,392)	—
	142,310	70,876	8,991	2,189	224,367	(2,392)	221,974
Segment profit (loss)	$ 16,164	$ 3,427	$2,960	$ (107)	$ 22,445	$ (18,742)	$ 3,703
Segment assets	$110,150	$82,847	$5,976	$3,055	$202,030	$153,426	$355,456
Other items:							
Depreciation	$ 2,979	$ 2,412	$ 134	$ 19	$ 5,546	$ 464	$ 6,010
Capital expenditures	$ 1,204	$ 489	$ 28	$ 14	$ 1,736	$ 482	$ 2,218

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

For the year ended May 31, 2022 (Millions of yen)

	Reportable segments						
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)	Total	Adjustments	Consolidated
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 (loss)	¥ 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

Note: "Other" represents business units that 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, 2023 and 2022 were summarized as follows:

For the Years Ended	May 31, 2023 (Millions of yen)	May 31, 2022 (Millions of yen)	May 31, 2023 (Thousands of U.S. dollars)
Japan	¥24,915	¥25,779	$178,257
China	4,536	3,015	32,455
Other	1,574	1,363	11,262
Consolidated	¥31,025	¥30,158	$221,974

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

Major customer information

Major customer information for the years ended May 31, 2023 and 2022 was omitted since there was no customer to which sales exceeded 10% of net sales recorded in the accompanying consolidated statements of income.

Information about impairment loss on property, plant and equipment

There was no applicable information for the year ended May 31, 2023.

	For the year ended May 31, 2022						
	Reportable segments						
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)	Total	Adjustments	Consolidated
				(Millions of yen)			
Impairment loss	¥—	¥2,256	¥—	¥—	¥2,256	¥—	¥2,256

Note 22. Significant Subsequent Events

There were no significant subsequent events to be noted.

Stock Related Information

Number of shares (As of May 31, 2023)

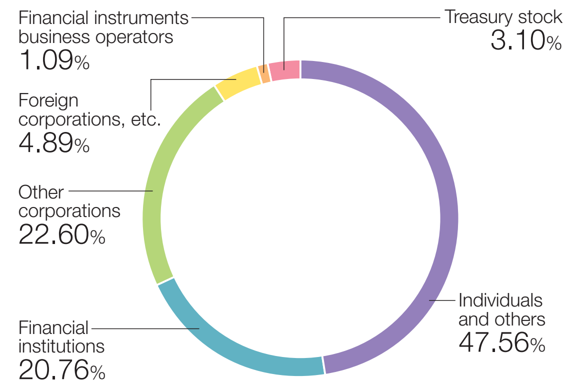
Number of shares authorized	36,000,000
Number of shares issued	9,735,000
Number of shareholders	6,100

Major shareholders

Shareholders	Number of shares held (Thousands)	% of total shares held
East Japan Railway Company	973	10.31
The Master Trust Bank of Japan, Ltd. (Trust account)	676	7.17
Employees Stock Ownership Plan	495	5.25
Toyo Denki Subcontractor Factories Shareholding Association	345	3.66
NIPPON LIFE INSURANCE COMPANY	337	3.57
MUFG Bank, Ltd.	270	2.86
Sanshin Co., Ltd.	270	2.86
The Bank of Yokohama, Ltd.	207	2.20
Ohkuraya jutaku Inc.	206	2.18
BNP PARIBAS LUXEMBOURG/2S/JASDEC/ JANUS HENDERSON HORIZON FUND	146	1.55

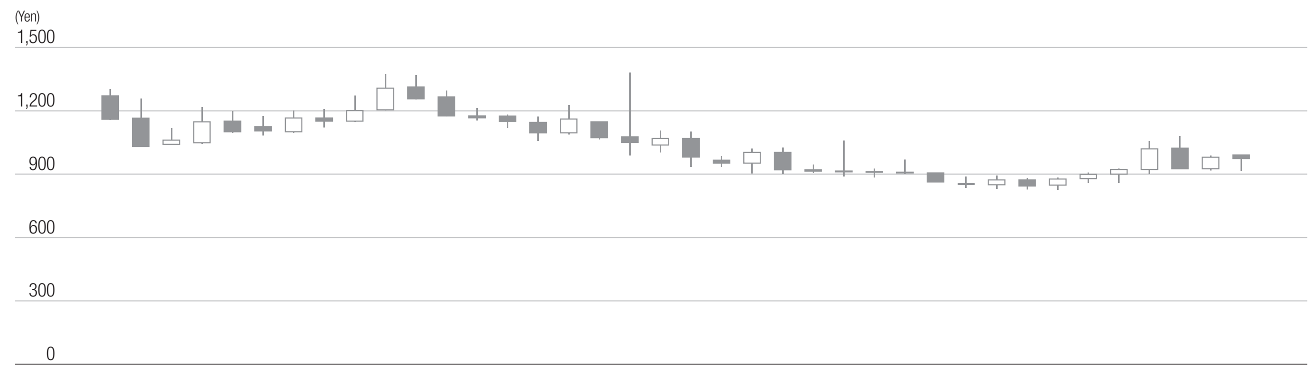
(Note) The percentages of total shares held are calculated excluding 301 treasury stocks.

Distribution of shares by type of shareholder

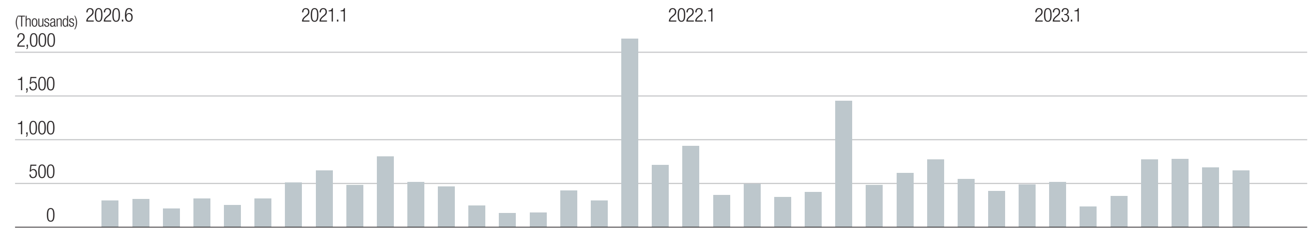


Transition of share price

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, 2023)

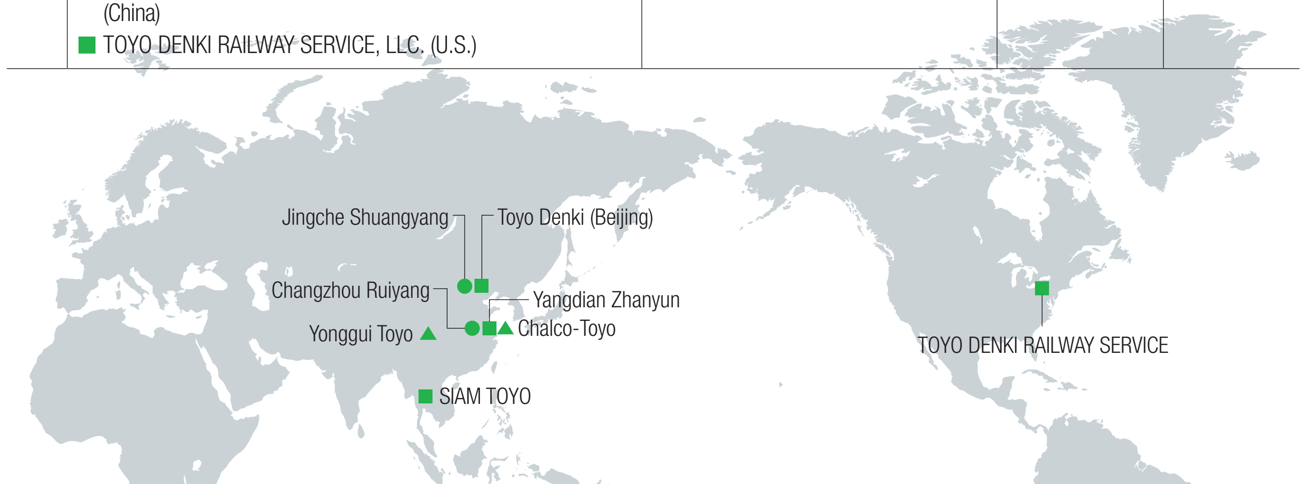
Company Profile

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	1,149 (Consolidated) 792 (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	6,100

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.	○ Toyosangyo K.K. ○ TD Drive Co., Ltd.		○ Toyo Shoji Co., Ltd.
Overseas	■ 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 December 1, 2023)