Establishing a strong operating system by formulating the new medium-term management plan “Revitalize 2020”

While net sales were robust and increased year on year, profits decreased. In the fiscal year ending May 31, 2019, we will maintain the net sales level while striving to improve profits.

In the fiscal year ended May 31, 2018, net sales were 42.5 billion yen owing to increases in the Industrial Systems segment and the Information Equipment Systems segment, an all-time high since 2000. As a result of the close examination of profitability, orders received declined from the previous fiscal year to 39.5 billion yen. Operating income was 0.36 billion yen as the Transportation Systems segment and the Industrial Systems segment continued to have unprofitable projects.

Ordinary income and net income attributable to owners of the parent were 0.51 billion yen and 0.69 billion yen, respectively, due to the impact of expenses incurred for integrating all production bases in the Industrial Systems segment at the Shiga Ryuo Plant, despite a gain on sales of investment securities. The overseas net sales ratio was 25.3% due to a decrease in orders received for Chinese high-speed railways as it was the replacement period for rail vehicles.

As for performance by segment, in the Transportation Systems segment, orders received were 25.8 billion yen as orders decreased in Japan. Net sales were 27.9 billion yen due to the decrease in orders for Chinese high-speed railways. Segment income was 2.57 billion yen, owing to the additional treatment of engineering expenses for some overseas projects.

In the Industrial Systems segment, orders received decreased to 11.3 billion yen, as a result of the thorough implementation of the profitability-focused approach for testing equipment for automobile development and orders for power sources. Net sales were 11.7 billion yen, owing to increases in orders for electrical equipment such as processing equipment and printing machines as well as orders for power sources. Segment income was 0.27 billion yen, attributable to the depreciation and amortization of the Shiga Ryuo Plant that was incurred ahead of schedule, and costs of some testing equipment for automobile development that are in progress increasing more than initially expected. With the aim of improving profits, the following initiatives are conducted across all business units: review of the sales management system by model, restructuring of the supply chain, and the strengthening of process management.

In the Information Equipment Systems segment, orders received, net sales, and segment income all increased significantly to 2.4 billion yen, 2.8 billion yen, and 0.31 billion yen, respectively, owing to large-scale projects of composite commuter pass issuing machines that can singlehandedly issue a variety of tickets.

We will improve our earning power based on the new medium-term management plan and establish a strong operating system that generates steady profits.

In the medium-term management plan “Next 100: Beyond 100 years” that began in the fiscal year ended May 31, 2015, and the medium-term management plan “NEXT 100: Beyond 100 years, Ver. 2” that began in the fiscal year ended May 31, 2017, in view of the years after its 100th anniversary of foundation, the Company adopted a policy of focusing on initiatives aimed to “establish a stable business earnings structure” and to “restructure production system,” and promoted measures aimed at strengthening the management foundation, so as to create a Toyo Denki Group befitting of the new era.

As a result, we made progress in the restructuring of the production system in Japan, including consolidating bases in the Industrial Systems segment that were divided between a part of the Yokohama Plant and the former Shiga Factory (Moriyama, Shiga Prefecture) through the launch of the new “Shiga Ryuo Plant.” Furthermore, we advanced foundation building for the Transportation Systems segment in China, such as through the establishment of the joint venture “Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd.” as the pantograph production base in Chengdu, and making additional investments in “Taiping Zhanyun Automatic Door (Changzhou) Co., Ltd. (Current company name: CHANGZHOU YANGDIAN ZHANYUN TRANSPORT EQUIPMENT Co., Ltd.),” a production base of important components. In addition, the commercialization of products such as the following are in sight: the super-high-speed, 20,000 rpm dynamo with low-inertia that is compatible with testing equipment for electric vehicles (EVs) development, the flat-type dynamo applicable for autonomous cars development, and the large capacity inverter applicable for overseas markets. Meanwhile, regarding the numerical management targets listed in the medium-term management plan, factors that weaken our earning power remain as issues that we face, especially in terms of profitability improvement and the speed of product development.

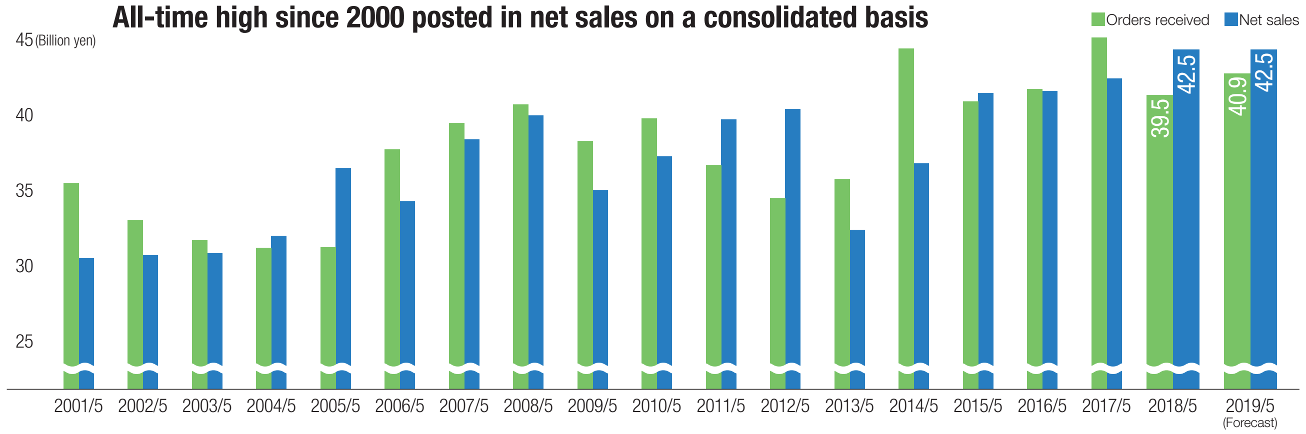
Using the above results and issues as our starting point, in line with the 100th anniversary of our founding, we reexamined our corporate resources once again and, with 2020 as our immediate target, formulated the four-year medium-term management plan “Revitalize 2020” with the fiscal year ending May 31, 2022 as the final year.

We have set the two-year period (fiscal 2018 to fiscal 2019) that forms the first half of the plan as the time to gain a firm footing, where we will focus on the pressing issue of profitability improvement. As for the second half of the plan, we have set the two-year period (fiscal 2020 to fiscal 2021) as the time to realize our growth with the aim of achieving net sales of more than 47.0 billion yen, where we will consider new alliances and M&As, and focus on strategically developing our business, including our overseas business.

In this plan, we have newly added equity in earnings of unconsolidated subsidiaries and affiliates, return on equity (ROE), and dividend payout ratio as numerical management targets. We will aim to achieve equity in earnings of unconsolidated subsidiaries and affiliates of 0.4 billion yen through the expansion of our overseas business, ROE of 5% through building a stable business earnings structure, and realize stable returns to shareholders with a target dividend payout ratio of 30%.

The Company will improve its earning power based on the fundamental policy of this new plan and take a new step towards establishing a strong operating system that generates steady profits.

All-time high since 2000 posted in net sales on a consolidated basis



The Shiga Ryuo Plant, the new production base of the Industrial Systems segment, began operations in June 2018. Visible results have begun to show immediately after the integration.

We consolidated bases in the Industrial Systems segment that were divided between a part of the Yokohama Plant and the former Shiga Factory (Moriyama, Shiga Prefecture) at the Shiga Ryuo Plant, which began operations in June 2018. By integrating the development, design, and manufacturing functions at this new base, to those outside the Company, our management policy of having Transportation Systems and Industrial Systems as our two main businesses becomes clear. As a result, the Industrial Systems segment has received greater recognition and expectations from customers, leading to an increase in inquiries and site inspections. Within the Company, communication between departments has increased, effects such as boosted employee motivation due to workplace environment improvements have appeared, and with closer cooperation between the design, manufacturing and quality assurance functions owing to the base consolidation, we expect productivity to improve.

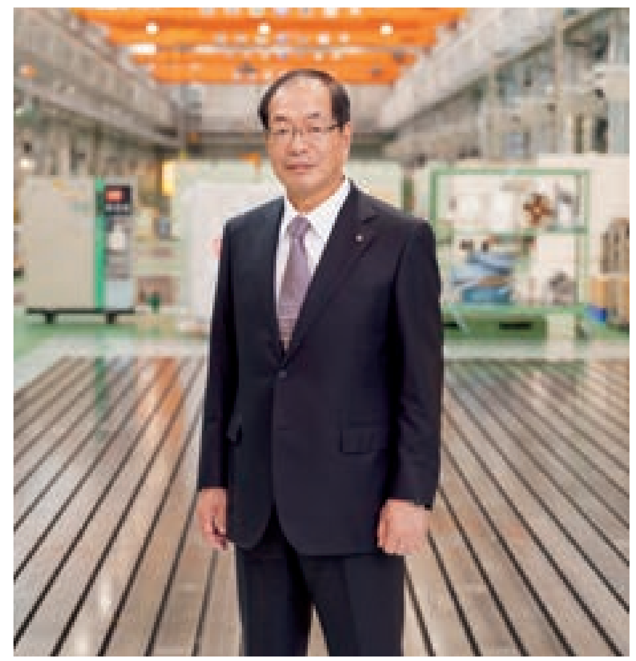
Going forward, we will further advance our research and development efforts in the new R&D building, and strive to provide products that meet the diverse needs of our customers.

The Company, which views contributing to social infrastructure as its mission, will focus on ESG measures to achieve long-term growth and further raise its position as a specialized manufacturer befitting the name of “Toyo as a technology company.”

Since the Company was founded in 1918 in an aim to “domestically manufacture electrical equipment for rail vehicles,” it has managed to overcome numerous difficulties and arrive at where it is today owing to the customers, business partners, shareholders, financial institutions, employees, local communities and other stakeholders who have guided and supported the Company tangibly or intangibly. We would like to take this opportunity to express our deepest gratitude to all the above parties.

We operate in the railway transportation business domain, which is of a highly public nature and requires a high level of safety. Through product development and innovation that contributes to environmental loading reduction, based on such keywords as “energy conservation,” “high efficiency” and “clean,” we aim to be a “company needed by society” and “build a solid position as a specialized manufacturer.” At the same time, we will enhance our foundation for growth by pushing forward with utilization of diverse human resources and diverse work styles in order to raise the job satisfaction of employees, those of which are the starting point of value creation cycle of the Company.

Looking ahead, using the motor drive technologies cultivated over a century since our establishment as the main pillar, we will realize a company that is trusted by all stakeholders and live up to their expectations by achieving sustainable development and further raising our position as a specialized manufacturer befitting the name of “Toyo as a technology company.”



President,
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Kenzo Terashima