



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

Akira Watanabe
President

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

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

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

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

Results for the fiscal year ended May 2022

A year in which challenges surfaced amid a harsh business environment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Initiatives for our new path

Proceeding with initiatives based on the Sustainability Policy

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

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

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

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

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

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

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

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

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

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

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

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

Governance structure

Governance structure that separates supervisory and executive functions

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

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

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

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

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

Message to our stakeholders

“Our Heart and Technology for the Future”

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

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

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

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

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

