

Governance

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

Corporate Governance

Our basic policy on corporate governance

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

Overview of corporate governance structure and reasons for its adoption

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

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

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

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

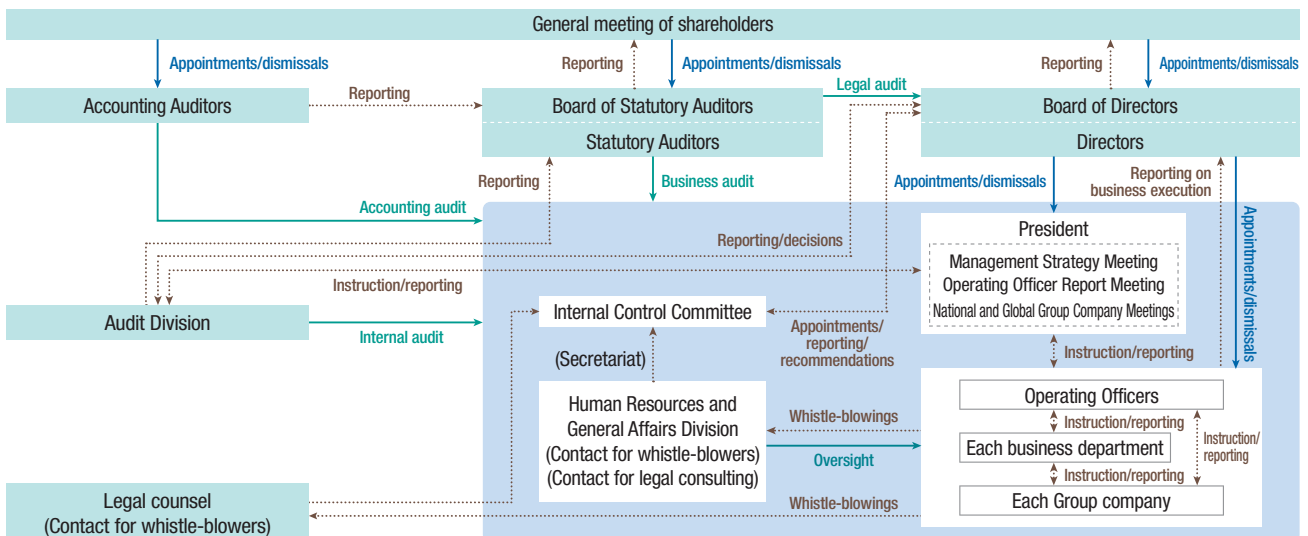
1 Directors and the Board of Directors

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

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

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

Corporate governance framework



3 Statutory Auditors and the Board of Statutory Auditors

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

4 Voluntary committees

a. Nomination and Compensation Advisory Committee

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

b. Internal Control Committee

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

c. Sustainability Committee

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

Internal audit and Statutory Auditor's audit

Internal audit

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

Statutory Auditors' audit

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

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

Outside Directors and External Statutory Auditors

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

Mr. Hirokazu Chinone, Director (Outside Executive)

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

Mr. Koji Mizumoto, Director (Outside Executive)

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

Mr. Taizo Makari, Director (Outside Executive)

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

Mr. Hitoshi Kobayashi, Statutory Auditor

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

Mr. Yoshinori Kawamura, Statutory Auditor (Outside Executive)

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

Mr. Koichi Abe, Statutory Auditor

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

Executive Remuneration

Directors

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

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

Statutory Auditors

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

Executive Profiles (as of August 25, 2022)

Directors



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

Statutory Auditors



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

Operating Officers

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

Director Skill Matrix

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

Messages from Outside Executives

Koji Mizumoto, Director (Outside)

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

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

Hitoshi Kobayashi, Standing Statutory Auditor (Outside)

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

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

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

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

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

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

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

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

Internal Control and Compliance

Internal Control

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

Principles of compliance

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

Compliance promotion framework

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

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

Compliance education

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

Proper export controls

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

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

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

Whistle-blowing system

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

Risk Management

Basic policy

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

Promotion framework

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

Risk Factors

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

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

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

(1) Changes in domestic and international economic trends

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

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

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

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

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

(3) Intensifying competition

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

(4) Effects caused by characteristics of the Company products

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

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

(5) Delays in product development

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

(6) Risks related to new business

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

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

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

(8) Changes in overseas situations

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

(9) Litigations and other legal proceedings

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

(10) Relationships with business alliance partners

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

(11) Exchange rate fluctuations

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

(12) Fluctuations in the value of holding assets

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

(13) Changes in financial conditions

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

(14) Breach of confidential information

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

(15) Domestic and foreign laws and regulations

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

Information Security

■ Basic policy

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

■ Information security training

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