

Environment

## Initiatives to Protect the Environment

With a view to realizing an environment-friendly society, the Company will further strive to promote the reduction of environmental burden, while providing more efficient products that contribute to energy conservation.

|                                 |   |
|---------------------------------|---|
| <b>Environmental Philosophy</b> | The Toyo Denki Group sets initiatives to protect the global environment as its priority task and contributes to the development of a sustainable society.   |
| <b>Action Guidelines</b>        | <p>We will continue to provide products and services that are considerate of the burden on the global environment by drawing on our “future-oriented technologies friendly to the Earth and mankind.”</p> <ol style="list-style-type: none"> <li>We will comply with all environmental requirements including those under the relevant laws and regulations.</li> <li>We will strive to minimize environmental burden through a reduction of energy consumption and other measures at all stages of product lifecycle, namely planning, development, design, production, sales, use and disposal.</li> <li>We will establish and execute a system to continuously promote activities to protect the global environment.</li> <li>We will raise environmental awareness among individuals through enlightenment activities within the Group</li> </ol> |

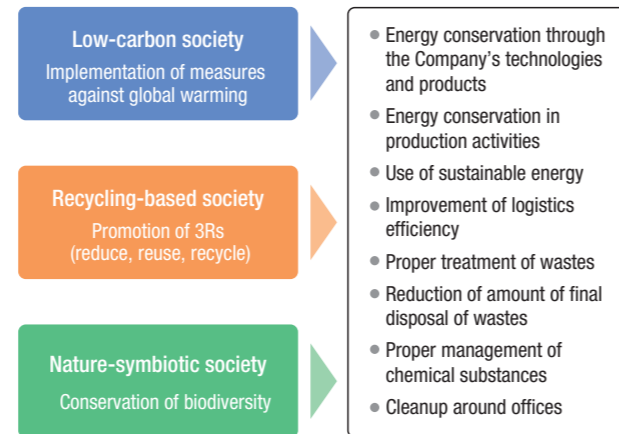
### Aiming for Realization of a Sustainable Society

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.

In addition, the Company is working on the development of products with lower levels of noise involved in their use to make them friendlier to the surrounding environment.

The Company will make further contribution to make society more sustainable, fully utilizing on its environmental technologies on a global scale, while carrying out various environmental actions at each of its bases.



### 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 Factory.

| Years of ISO 14001 certification |                |                         |
|----------------------------------|----------------|-------------------------|
| Yokohama Plant                   | Shiga Factory* | Extended to all offices |
| 2004                             | 2001           | 2010                    |

\*The Company is scheduled to undergo a transition assessment for the transfer and integration from the old Shiga Factory (Moriyama) to the Shiga Ryuo Plant in March 2019.

### Initiatives to Prevent Global Warming

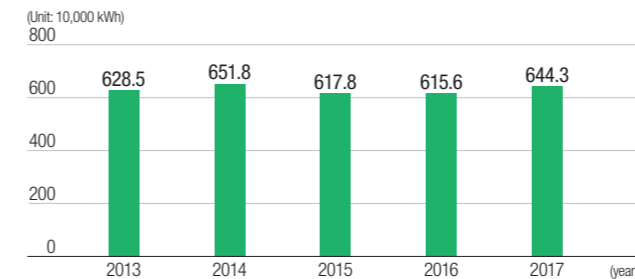
#### Initiatives to reduce greenhouse gas (CO<sub>2</sub>) emissions

The Company is promoting energy conservation at each of its production bases and offices to reduce its CO<sub>2</sub> 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.

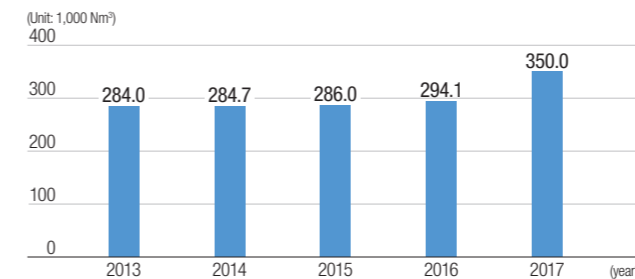
#### Targeted reduction of CO<sub>2</sub> emissions and progress status

Aiming to reduce CO<sub>2</sub> emissions per unit of production output by 1% year on year, the Company's main production base, the Yokohama Plant, reduced emissions by approximately 7% in fiscal 2017.

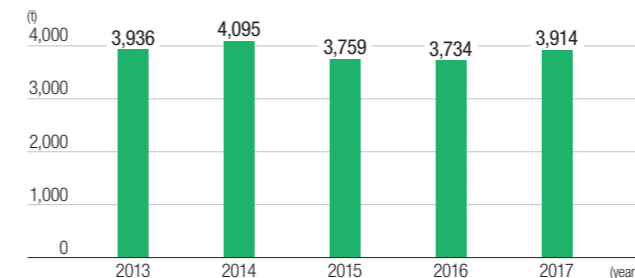
#### Total energy input (electricity)



#### Total energy input (gas)



#### Total CO<sub>2</sub> emissions



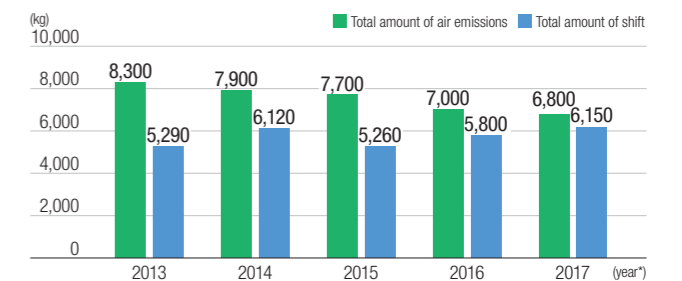
\*The fiscal year is from April to March of the following year.  
\*Figures in the graphs on this page are those of the Yokohama Plant.

### 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

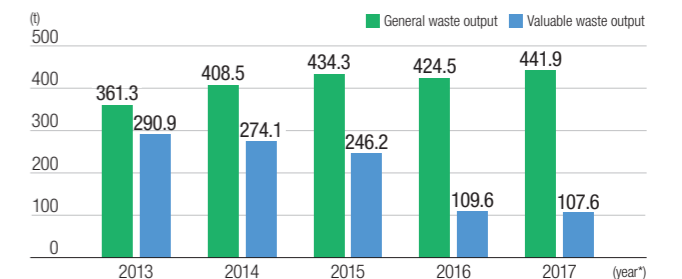


### Initiatives for Reducing Disposed Waste as Well as Recycling

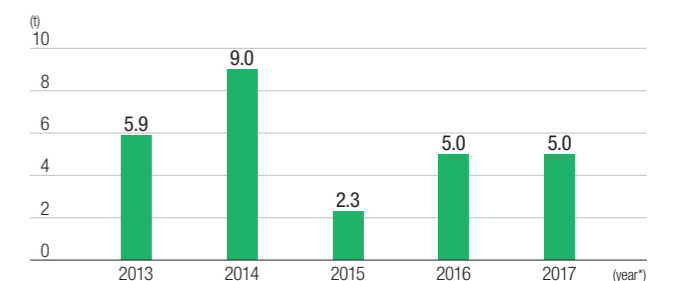
#### Main actions

The Company successfully reduced its landfill waste rate to 0.9% in fiscal 2017, as a result of thoroughly implementing waste processing rules, sorting of metal waste and recycling of paper resources.

#### Output of general and valuable waste



#### Volume of landfill waste



## Social

## With Our Customers

The Company makes it one of our business principles to “build trust by focusing on quality first.” As such, we strive to enhance customer satisfaction through our commitment to thorough-going quality control as we believe delivering safe and secure products and services to customers is the Company’s most important mission.

### 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 “Basic Policy on Quality Control” which is deployed at all production bases as we strive to maintain and improve our human resources education, compliance with rules, and our facilities.

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

### Quality management system

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

#### Year ISO 9001 certification obtained

| Yokohama Plant | Shiga Factory* | Extended companywide |
|----------------|----------------|----------------------|
| 1997           | 2000           | 2005                 |

\*The Company is scheduled to undergo a transition assessment for the transfer and integration from the old Shiga Factory (Moriyama) to the Shiga Ryuo Plant in March 2019.

### Responding to the Global Market

#### 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.

#### Acquisition of International Standards

The Company has acquired International Railway Industry Standard (IRIS)\* and China Railway Certification Center (CRCC) certification.

Going forward, we will continue to acquire international standards as we aim to further promote global expansion and sales growth.

\* Acquired for the first time in Japan with our auxiliary power supply (SIV).

### Towards Greater Customer Satisfaction

#### Good Relations with our Customers

Information based on customer opinions and requirements obtained by the sales department is periodically reported to the top management at the executives’ briefing sessions, and that information is shared within the Company. We strive to maintain good relations with our customers by identifying problems that need to be solved and swiftly addressing them in order to raise customer satisfaction.

## With Our Suppliers

The Company responds to the needs of our customers through the strong network we have built with suppliers in line with our unique characteristics as a business based on an individual build-to-order/multi-product small lot manufacturing model.

### 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 Cooperation Association” to which our leading suppliers belong.

#### Training for material procurement officers

The Company endeavors to maintain proper execution of operations by implementing a variety of training programs for material procurement officers to deepen their knowledge of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors and related laws and regulations and to cultivate awareness of legal compliance.

#### Handling of external whistle-blowing

The Company has established a contact center as stated below to receive consultations or reports on compliance from our suppliers, etc. The legal compliance department handles complaints and consultations about transactions, and the Company’s retained lawyer resolves issues when necessary.

### Formulation of “Procurement Action Guidelines” (formulated in February 2016)

#### Procurement Action Guidelines

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

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

\* Inquiries from outside are accepted via the following phone number and e-mail address:

Legal Compliance Department, General Affairs Division +81-3-5202-8121 email address for inquiries to Toyo Denki Seizo K.K.: [contact@toyodenki.co.jp](mailto:contact@toyodenki.co.jp)

## Social

## With Our Shareholders and Investors

We strive to ensure transparency of management through the timely and proper disclosure of information and various modes of communication in order to receive an appropriate evaluation of the Company from our shareholders and investors.

### ○ Towards Enhancement of Corporate Value

#### Basic philosophy

Through timely and appropriate disclosure of information to our shareholders and investors, the Company accurately conveys our management policy and business conditions while making use of IR tools such as our website to promote a full range of IR activities that contribute to the improvement of our corporate value.

#### Development of IR activities

##### 〈IR activities for institutional investors and securities analysts〉

The Toyo Denki management team holds a financial results briefing each quarterly period to provide opportunities for institutional investors and securities analysts to understand the summary of our financial results. The management team gives a report including the state of progress of the medium-term management plan and an overview and forecast for each segment as well as new orders received and other topics.

In addition, we strive to deepen understanding of the Company through individual visits to institutional investors or holding factory tours to provide opportunities for them to actually see our manufacturing sites, as well as participating in small meetings organized by securities companies, and taking other measures.

##### 〈IR activities for individual shareholders and individual investors〉

The Company website includes a “For Individual Investors” page which offers a clear introduction to our business activities and our results, as well as making available a variety of IR materials.

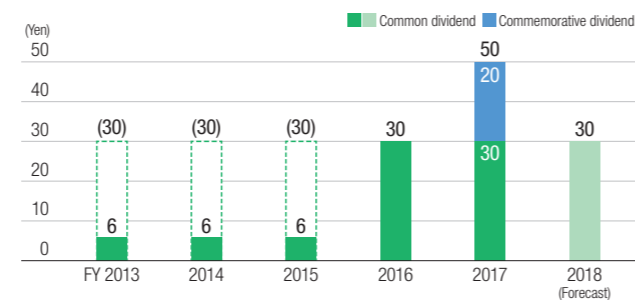
#### URL “For Individual Investors”

<https://www.toyodenki.co.jp/ir/individual.php>

#### Dividends

Maintenance of stable dividends forms the basis of the Company's distribution of profit. In commemoration of the 100th anniversary of our founding, and to express our gratitude to all our shareholders, we added a commemorative dividend of 20 yen to the common dividend of 30 yen per share, and the fiscal year-end dividend for the current fiscal year (fiscal year ended May 31, 2018) was 50 yen per share.

##### ▶ Dividend per share



\*Effective as of December 1, 2016, the Company implemented a stock consolidation of its common shares at the ratio of five shares to one share. For the status of dividends before fiscal 2016, the actual dividend amounts before the said stock consolidation are stated. The figures in parentheses are the amounts calculated based on the standard after the stock consolidation.

Record of 157th Ordinary General Meeting of Shareholders  
Date held: Tuesday, August 28, 2018  
Attendance: 77 people

## Contributions to Local Communities

We are committed to various social contribution activities, to contribute to society through our business while facilitating our own co-existence with communities and to foster young people who will represent the next generation.

### ○ To Convey the Mission and Appeal of Electrical Industry as Well as of Toyo Denki

#### Receiving interns

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

#### Participation in university endowment courses and hands-on courses

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

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



Endowment course at a university

#### Cooperation with Yokohama Kyodo no Mori Fund

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

#### Factory tours

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



A factory tour

#### Received the General Manager Prize for the “5th activity commendation that is kind to Kanazawa Ward environment”

In Kanazawa Ward, Yokohama, with the aim of protecting the environment of Kanazawa and passing it on to the next generation, an award is given for environmentally-friendly activities conducted in the ward that are pioneering, exemplary, and has achieved visible results.

This year, the “Joint Cleanup Activity” received the General Manager Prize. The activity has been held once a year since fiscal 2015 and jointly by companies, fire departments, the police, and universities, to collect litter on the streets and illegally disposed waste.

Last year, some 250 people participated and collected around 90 kg of trash.



Participants of Joint Cleanup Activity

Social

## With Our Employees

The Company seeks to cultivate a dynamic corporate culture and to create a pleasant and safe workplace where each and every employee can unleash his or her diverse capabilities.

### Towards the Development of Human Resources with Competitive Strengths

#### Human resources development policy

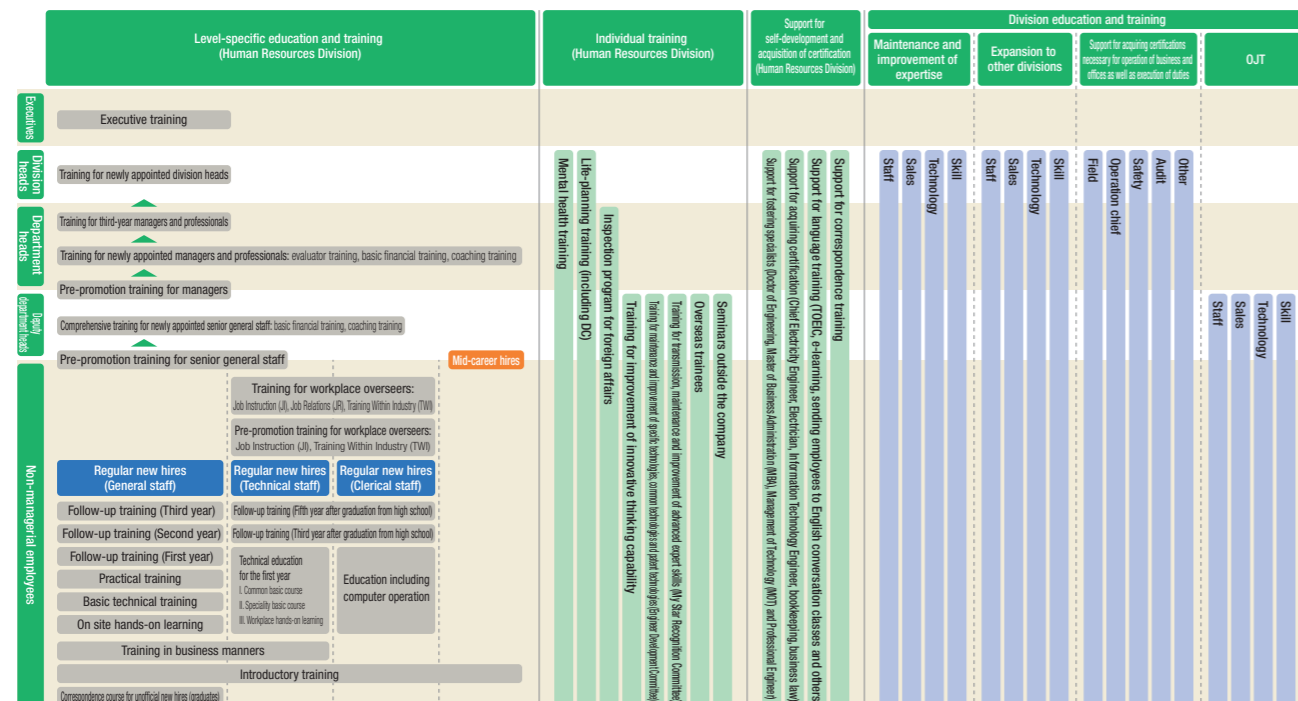
The Company has set the following policy on human resources development and carries out education and training under the education and training system diagram as shown below.

- (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.

#### Education and training system

Training programs at the Company are divided into several categories according to the employee's year of service, type of work

#### Education and training system diagram



and role, and training is carried out after clarifying what part each employee is expected to play.

Furthermore, for the purpose of developing human resources that support global development, we offer an overseas trainee program and support for language courses tailored to the level of participating employees.

To maintain high quality and pass on outstanding technologies and skills, the Company works on education on maintenance and improvement of expertise individually at each division and encourages employees on a company-wide basis to obtain public certifications.

Furthermore, employees with exceptional manufacturing skills or expertise are recognized as "Technical My Star" internally and given responsibility to instruct and train younger employees. At the Technical Training Center, established within the Yokohama Plant, we train our technical staff through lectures, practical training and hands-on workshops.



Training for new employees

### Creating a Pleasant Workplace

#### Safety and hygiene initiatives

Under the "Company-Wide Safety and Hygiene Management Policy," formulated every fiscal year, the Company holds the Safety and Hygiene Committee monthly at each office, where annual plans are drawn up and ongoing discussions are held in order to build a safe working environment, to reduce workplace injuries to zero and to find solutions to issues, including mental health. In addition, the Company holds the "Company-Wide Safety and Hygiene Committee" every quarter to promote sharing of information between offices as well as between Group companies.

#### Acquisition of the "Kurumin" certification logo (June 2014)

In recognition of our efforts as a "company that supports child-rearing," which includes a substantial childcare system, educational activities concerning a work-life balance, the creation of an environment in which it is easy to obtain childcare leave, and the acquisition record of childcare leave by male employees, we received the "Kurumin" certification logo from the Tokyo Labor Bureau in June 2014.



#### Initiatives for diverse work-styles

The Company has implemented a flexible work-style including a flextime system for sales staff and those involved in development. Furthermore, in order to encourage retention and utilization of employees with knowledge and skills, we have put in place the "System for Rehiring Employees" for employees who have resigned due to life events that occur in the course of their career (childbirth, childcare, family care, spouse's transfer, etc.), so that they can be rehired when they reach the stage when it is possible to return to work.

As for employees who wish to be rehired after they reach the mandatory retirement age (60), in principle, we continue to employ them until the age of 65.

#### Initiatives for employment of the disabled

The Company makes improvements to the workplace environment and carries out workplace training with the aim of creating a workplace where the disabled and those in normal health can work together energetically. We also hold on-site job experience sessions in collaboration with local governing agencies and special-needs schools regarding employment of the disabled.

#### Mental health measures

As measures to address mental health, the Company conducts "Line care training" for administrative professionals and "Self care training" for employees. In addition, we have partnered with an external medical institution to set up a telephone and e-mail consultation service to provide support for prevention, treatment, and return to work.

#### Implementation of employee satisfaction survey

The Company conducts an "employee satisfaction survey" once per year, and relevant departments work to resolve various issues extracted from the survey results. In addition, to create a "dynamic corporate culture," discussion meetings and such between executives and employees are regularly held.

#### Response to the Act on Promotion of Women's Participation and Advancement in the Workplace

In accordance with The Act on Promotion of Women's Participation and Advancement in the Workplace (Women's Advancement Promotion Act) that was enacted on April 1, 2016, the Company is formulating an action plan to create an environment where women can continue working with a sense of security as they advance their careers.

#### Taking childcare leave

We interviewed Mr. Shintaro Tanpo, an employee of the Design Division, Transportation Systems Works, who took about two months of childcare leave.



##### 1 Why did you decide to take childcare leave?

As my wife was not returning to her hometown for the labor, I decided to take the leave.

##### 2 Please tell us about how you felt when your child was born.

Although it is mundane, I felt extremely grateful that she was born safely and thought she was really precious.

##### 3 How did you spend the time during your childcare leave?

I changed my child's diapers, bathed her, bought groceries, cooked for my family and did other housework.

##### 4 Was there anything that you thought was especially hard for your wife?

In the first two months after our child was born, my wife had to breastfeed her every two to three hours. A newborn can't drink mother's milk very well, and most of all, because our daughter would wake up every two or three hours feeling hungry, my wife could not get much sleep, and I thought that must have been really hard on her.

##### 5 Did your mindset change in any way after taking the childcare leave?

Before I took the childcare leave, I did not realize how hard it would be to raise a child. However, after I took the childcare leave, I realized that there is no time to rest when you raise a child and it can be quite exhausting. Therefore, I strongly felt that our child should be raised through a joint effort between my wife and me.

##### 6 Were you worried about returning to work in any way?

My superior and colleagues assured me that they understood the need for me to take childcare leave, so I did not have any worries.

##### 7 After returning to work, how are you currently interacting with your child?

On weekdays, as my child's waking times are different from mine, I only get to see her sleeping before and after I go to work. On weekends, I read picture books to my child, and play with her using a rattle.

**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.

Business Principles

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

Established in June 2001

**Corporate Governance**

**Our philosophy of 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.

**Corporate governance**

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. In June this year, to strengthen corporate governance, the supervision and execution functions of the Board of Directors were separated, through the adoption of a structure where the Board of Directors is mainly in charge of governance, and Executive Officers are primarily in charge of business execution. At its regular monthly meetings as well as extraordinary meetings held when appropriate, the Board of Directors, which is composed of seven Directors including two Outside Directors, discusses and decides on important management matters such as reports on Executive Officers' business execution and matters to be decided solely at the discretion of the Board of

Directors, while supervising Executive Officers' business execution. In addition, the Company has meeting bodies including the Management Strategy Meeting and Executive 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 the general managers of business execution departments, deliberated and discussed preliminarily. 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.

**Internal audit and statutory auditor's audit**

Action plans and results of internal audits are reported to the Board of Directors and Statutory Auditors by the Audit Division, as part of an effort to reinforce corporate governance. Statutory Auditors hold preliminary meetings with Accounting Auditors after the Ordinary General Meeting of Shareholders to exchange opinions regarding the audit plan. Statutory Auditors receive the results of quarterly reviews from Accounting Auditors both verbally and in writing, and confirm their action plans (if required by the reviews) to be taken at a fiscal year-end audit. Statutory Auditors also receive the results of the reviews on the fiscal year-end audit from Accounting Auditors in a statutory document 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.

**External Statutory Auditors and Outside Directors**

The Company has established independence guidelines regarding independence required for a candidate for its Outside Executive, and appoints Outside Directors and External Statutory Auditors who have excellent insight in their areas of expertise. Currently, the Company appointed two Outside Directors and three External Statutory Auditors. Note that each of the External Statutory Auditors is playing a role to enhance audit functions required by laws and regulations while remaining independent from the Company.

Mr. Hirokazu Chinone, our Outside Director, 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. Takashi Yamagishi, our Outside Director, provides useful advice, drawing on his wealth of corporate management experience in Japan and overseas and his superior expertise. In addition, he is a member of the "Nomination and Remuneration Advisory Committee," an advisory body to the Board of Directors regarding the nomination and remuneration of Directors and Executive Officers.

Mr. Toshiaki Akechi, our External Statutory Auditor, was newly appointed as an External Statutory Auditor at the 157th Ordinary General Meeting of Shareholders (August 28, 2018). We look forward to his auditing activities, drawing on his wealth of corporate management experience developed thus far.

Mr. Yoshinori Kawamura, our External Statutory Auditor, is engaged in auditing activities, drawing on his expertise regarding corporate finance and accounting developed thus far. He serves as Professor of Faculty of Commerce, Waseda University, with 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. Koji Miki, our External Statutory Auditor, was newly appointed as an External Statutory Auditor at the 157th Ordinary General Meeting of Shareholders (August 28, 2018). We look forward to his auditing activities, drawing on his wealth of experience developed in service at financial institutions and his global perspective.

The Company has appointed Mr. Hirokazu Chinone, Mr. Takashi Yamagishi and Mr. Yoshinori Kawamura as independent directors and registered them as such at Tokyo Stock Exchange, Inc.

**Executive Remuneration**

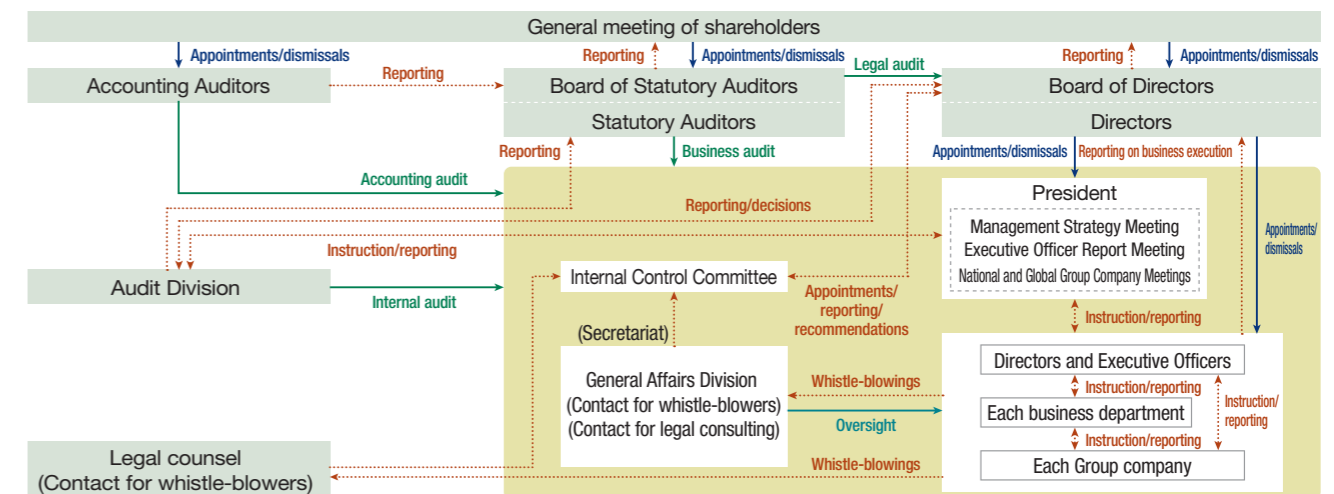
Total amounts of remuneration for Directors and Statutory Auditors are decided by a resolution at the General Meeting of Shareholders. Basic remuneration for Directors is a fixed salary while a bonus is payable as determined by each Director's contribution to management as well as business results of the Company. Basic remuneration for both Standing and Part-time Outside Directors and Statutory Auditors is a fixed salary without bonus payments.

(As of the end of May 2018)

| Category of executives   | Number of executives applicable | Total amount of remuneration (Unit: Million yen) |
|--|---------------------------------|--|
| Directors (excluding Outside Directors)                                | 7                               | 153  |
| Statutory Auditors (excluding External Statutory Auditors)             | 1                               | 14   |
| Outside Executives (Outside Directors and External Statutory Auditors) | 5                               | 40   |

(Note) The number of executives applicable mentioned above includes one Director and one Statutory Auditor who retired from office at the end of the 156th Ordinary General Meeting of Shareholders held on August 29, 2017.

**Corporate governance framework**



## Governance

### 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

The Company is organizing scheduled and systematic training sessions based on a compliance training master plan to enhance knowledge on compliance while promoting a conscious respect for corporate ethics.

### 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.

Furthermore, the committee is committed to enhancing the Group-wide risk management framework in accordance with the Basic Rules for Risk Management.

### 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.

### 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.

- (1) Business activities, business structure, economic trends, and other factors  
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) Production bases  
The great majority of the Group's production bases are located in the Kanto area. Production capacity may be severely affected by large-scale disasters in the area.
- (3) Intensifying competition  
The Japanese market for the Transportation Systems segment has matured and thus faces intensifying competition. The Industrial Systems segment is under pressure from intensifying competition for product development. The Group's business performance may be affected by such intensifying competition.
- (4) Product quality  
Defects in products may link to materialization of a risk that requires large-scale compensation for damages. The possibility exists that insurance may not be able to cover associated costs, which may affect the Group's business performance.
- (5) 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) Material procurement  
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 performance. In addition, disruptions to the entire supply chain caused by a large-scale disaster or other incidents could impact the Group's operations. Moreover, its business may be affected by the fluctuation in prices of raw materials, notably steel products and copper.

- (7) Overseas expansion  
The Group proactively pursues the expansion of overseas operations including the Chinese market. Its performance may be affected by major changes in situations overseas.
- (8) Intellectual property rights  
The Group attends to the protection of intellectual property rights. However, 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. If a dispute occurs, the Group's business may be affected.
- (9) Business alliances  
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.
- (10) Exchange rate fluctuations  
On the back of aggressive expansion into overseas markets, the Group will inevitably face heavier impact of foreign currency exchange rate fluctuations on its earnings as it increases foreign currency denominated transactions.
- (11) Holding assets  
Fluctuations in the fair value of assets held by the Group may affect its performance.
- (12) Financing  
The Group's financing programs may be affected by unexpected changes in financial conditions.
- (13) Information security  
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 performance.
- (14) Compliance  
The Group proactively pursues expansion in overseas operations, particularly the Chinese market; therefore its operations are subject to the laws and regulations of each country. Although the Group has established and conducts a robust compliance system, its operations are still at risk from the effects of unforeseeable events.
- (15) Litigation  
If the Group becomes the subject of any legal action or other legal procedures, its business may be affected.

