

## 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>1. We will comply with all environmental requirements including those under the relevant laws and regulations.</li> <li>2. 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>3. We will establish and execute a system to continuously promote activities to protect the global environment.</li> <li>4. We will raise environmental awareness among individuals through enlightenment activities within the Group</li> </ol>

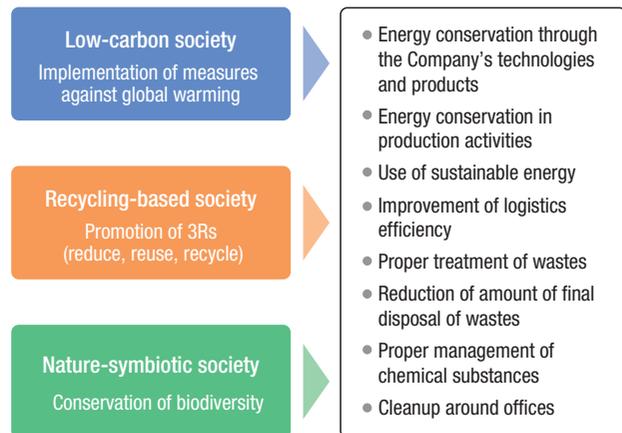
### Aiming for Realization of a Sustainable Society

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 Ryuo Plant.

**Years of ISO 14001 certification**

Yokohama Plant	Shiga Ryuo Plant*	Extended to all offices
2004	2001	2010

\*The Shiga Ryuo Plant was the Shiga Factory (Moriyama) when it obtained the certification.

**Our Website**



Information on the Company’s environmental initiatives can be found at our website.

[https://www.toyodenki.co.jp/esg\\_csr/](https://www.toyodenki.co.jp/esg_csr/)

## Initiatives to Prevent Global Warming

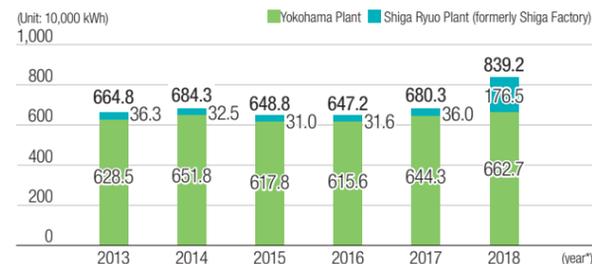
### Initiatives to reduce greenhouse gas (CO<sub>2</sub>) emissions

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.

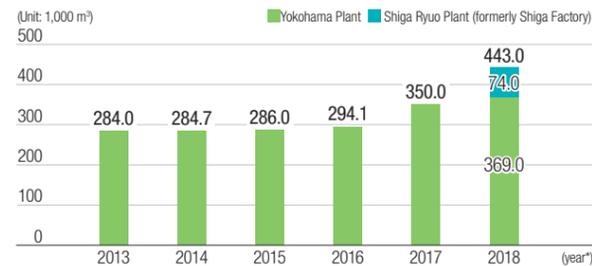
### Targeted reduction of CO<sub>2</sub> emissions and progress status

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, increased emissions by 8% in fiscal 2018.

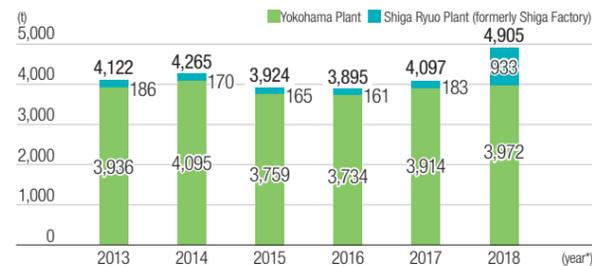
#### Total energy input (electricity)



#### Total energy input (gas)



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

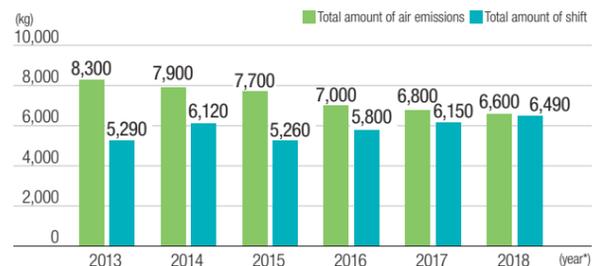


## Initiatives for Control over Chemical Substances

Volatile organic compounds (VOCs) emitted as a result of our business activities are adequately controlled and the amount of emission is monitored under the Pollutant Release and Transfer Register (PRTR).

We will further engage in the reduction of waste through such measures including using non-VOC materials and implementing recovery and reuse of solvents. PCB waste is also subject to adequate control, storage and disposal in accordance with Japan's Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.

#### Notification volume for Pollutant Release and Transfer Register (PRTR) substances

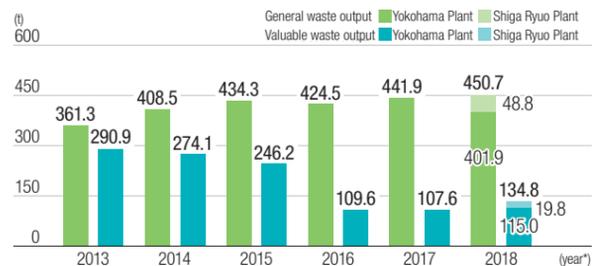


## Initiatives for Reducing Disposed Waste as Well as Recycling

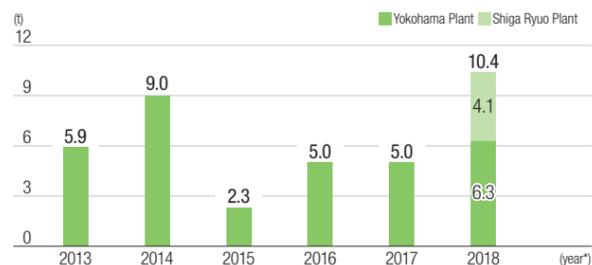
### Main actions

The Company has been thoroughly implementing waste processing rules, sorting metal waste and recycling paper resources. As a result, its landfill waste rate was 1.8% in fiscal 2018.

#### Output of general and valuable waste



#### Volume of landfill waste



\*The fiscal year is from April to March of the following year \* The fiscal 2018 figures for the Shiga Ryuo Plant includes those of TD Drive Co., Ltd.  
 \*Prior to fiscal 2017, total energy input (gas) data is available only for the Yokohama Plant due to zero input of the Shiga Plant.  
 \*Prior to fiscal 2017, data on output of general and valuable waste and volume of landfill waste is presented only for the Yokohama Plant.

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

## Quality Management System

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

#### Year ISO 9001 certification obtained

Yokohama Plant	Shiga Ryuo Plant*	Extended to all offices
1997	2000	2005

\*The Shiga Ryuo Plant was the Shiga Factory (Moriyama) when it obtained the certification.

## 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

High level of safety is essential for rail vehicles. UNIFE, the Association of European Rail Industry, established the International Railway Industry Standard (IRIS) in 2007 to ensure the quality of rail vehicles.

In 2013, we became the first company in Japan to obtain an IRIS certification for auxiliary power supply (SIV).



In 2014, we were also accredited to the China Railway Certification Center's (CRCC) certification for driving gear units. CRCC, a state-owned enterprise set up in April 2003 after obtaining approval of the Certification and Accreditation Administration of the People's Republic of China, is an organization that mainly manages the quality of railway products. It is necessary to obtain this certification to sell high-speed rail products in China.

We will continue to acquire international standards and further expand our business globally.



CRCC logo

## 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>

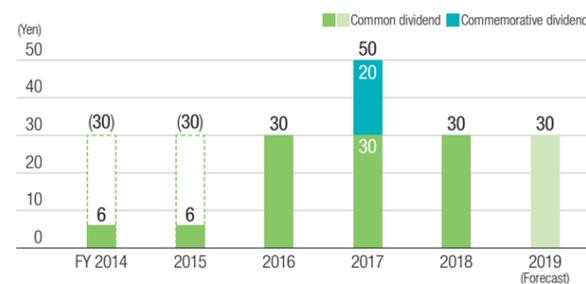


Plant tour for shareholders

#### Dividends

In accordance with its profit return policy of maintaining stable dividends, the Company paid a year-end dividend of 30 yen per share for the current fiscal year. We continue to aim at paying a dividend with the 30% dividend payout ratio as a basis, which is a management index included in the medium-term management plan.

#### 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 158th Ordinary General Meeting of Shareholders  
Date held: Wednesday, August 28, 2019

The Company issues Business Reports for shareholders once every six months. They are also available on the website.



Interim Business Report for Fiscal 2018



Business Report for Fiscal 2018

## 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.

The Company participates in the “Joint Cleanup Activity,” which is held once a year jointly by companies, fire departments, the police, and universities, to collect litter on the streets and illegally disposed waste. The activity received the 2018 General Manager Prize.



Participants of Joint Cleanup Activity

## 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.

#### 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

## 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

The Company's education and training system is divided into level-specific trainings conducted at each occasion, individual trainings according to job types and roles, a support program aimed at helping employees to obtain academic degrees and official qualifications, and division education conducted independently by each division.

Training contents are reviewed based on actions expected of employees.

New employees who join the Company as technical staff receive lectures and practical training at the Technical Training Center in the Yokohama Plant for one year. The Technical Training Center dates back to 1937 and has an over 80-year history. Employees with exceptional manufacturing skills or expertise are recognized as "Technical My Star" internally and assigned to instruct and train younger employees. With these initiatives, three employees have accepted Contemporary Master Craftsman awards from the Minister of Health, Labour and Welfare and one has been awarded to the Medal with Yellow Ribbon by the Japanese government.

We continue to endeavor to pass on superior technologies and skills to maintain the high quality of our products.



Employee recognized as "Technical My Star" gets a special mark on his cap

## Creating a Pleasant Workplace

### 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.

#### 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.

#### 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.

#### 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.

#### 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.

#### Data concerning personnel and labor (at Toyo Denki Seizo K.K.)

Item	Unit	Fiscal Year				
		Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Number of employees	Total	804 *	824 *	832 *	843 *	831 *
	Men	740	761	768	771	762
	Women	64	63	64	72	69
Ratio of female employees	%	8.0	7.6	7.7	8.5	8.3
Number of administrative professionals	Total	151	155	150	140	143
	Men	149	151	146	136	139
	Women	2	4	4	4	4
Ratio of female administrative professionals	%	1.3	2.6	2.7	2.9	2.8
Average age	Overall	40.5	40.4	40.4	40.2	40.8
	Men	40.7	40.4	40.4	40.3	40.8
	Women	38.7	39.5	40.1	39.5	40.9
Average years of employment	Overall	15.8	15.4	15.2	14.9	15.4
	Men	15.9	15.5	15.2	15.1	15.5
	Women	14.5	14.1	14.8	12.7	14.1
Average annual salary	Yen	5,888,577	6,024,175	5,990,250	6,049,512	5,756,046
Turnover rate (within 3 years of joining the Company)	%	0.0	3.4	2.0	2.7	6.5
Number of employees taking childcare leave	Persons	5	7	9	4	6
Number of employees taking family care leave	Persons	0	0	0	0	0
Number of temporary staff (including part-timers)	Persons	153	160	152	130	119
Notes		*Number of regular employees including Operating Officers, and number of special employees, temporary employees, contract employees and staff on loan from other companies, etc.				

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 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. 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 six Directors including two 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. 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.

#### 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.

### 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 two 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. Takashi Yamagishi, Director (Outside Executive, member of the Nomination and Compensation Advisory Committee)

Mr. Takashi Yamagishi provides useful advice regarding management in general, drawing on his wealth of corporate management experience at Teijin Limited and his superior expertise.

#### Mr. Toshiaki Akechi, Statutory Auditor

Mr. Toshiaki Akechi is engaged in auditing activities, drawing on his wealth of corporate management experience at JR East Food Business Co., Ltd. and other places.

#### 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. Yasushi Miki, Statutory Auditor

Mr. Yasushi Miki is engaged in auditing activities, drawing on his wealth of experience developed at a predecessor bank of MUFG Bank, Ltd. and other places and his global perspective.

### Executive Remuneration

#### Directors

Remuneration for the Company's Directors consists of basic remuneration and bonuses, and the total remuneration amount is determined within the maximum remuneration, which was decided at the Ordinary General Meeting of Shareholders held in August 2006. 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

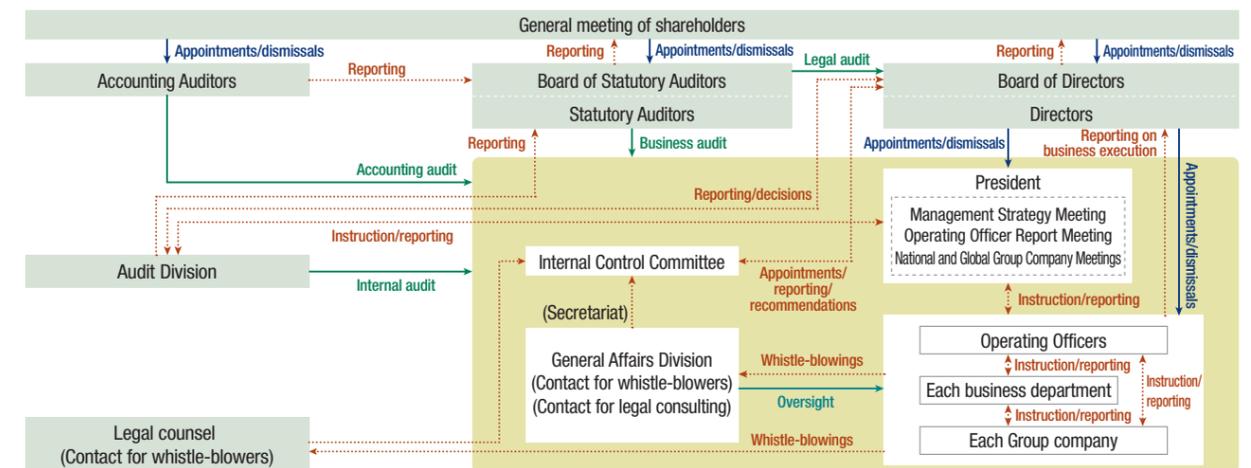
Remuneration for the Company's Statutory Auditors is determined through discussion among Statutory Auditors within the maximum total remuneration, which was fixed at the Ordinary General Meeting of Shareholders held in August 2006. It takes form of fixed remuneration for each standing and part-time position.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

<As of the end of May 2019>

Category of executives	Number of executives applicable	Total amount of remuneration (Unit: Million yen)
Directors (excluding Outside Directors)	6	164
Statutory Auditors (excluding External Statutory Auditors)	1	14
Outside Executives (Outside Directors and External Statutory Auditors)	7	41

(Note) The number of executives applicable mentioned above includes one Director and two Statutory Auditors who retired from office at the end of the 157th Ordinary General Meeting of Shareholders held on August 28, 2018.

### Corporate governance framework



**Executive Profiles** (as of August 28, 2019)



President,  
Representative Director  
**Kenzo Terashima**



Director  
**Akihiko Ishii**



Director  
**Akira Watanabe**



Director  
**Yoshifumi Otsubo**



Director (Outside)  
**Hirokazu Chinone**



Director (Outside)  
**Takashi Yamagishi**



Standing Statutory  
Auditor  
**Toshiaki Akechi**



Standing Statutory  
Auditor  
**Kenji Ueda**



Statutory Auditor  
**Yoshinori Kawamura**



Statutory Auditor  
**Yasushi Miki**

Senior Executive Officers	<b>Hiroshi Shimotakahara</b>	<b>Akihiko Ishii</b>	<b>Akira Watanabe</b>	
Executive Officers	<b>Shuji Horie</b>	<b>Yoshifumi Otsubo</b>	<b>Kenji Tanimoto</b>	<b>Kenji Fujiwara</b>
Operating Officers	<b>Yukimasa Tanabe</b>	<b>Naoki Okuyama</b>	<b>Toshihito Nakanishi</b>	<b>Shini Furutsuki</b>
	<b>Takuya Hatakeyama</b>	<b>Toshiharu Takagi</b>	<b>Chiaki Nakano</b>	

**Messages from Outside Directors**

**Hirokazu Chinone**

**Role of Outside Director**

The Companies Act stipulates that the authority of a board of directors is to make decisions on important business execution matters and oversee the execution of duties, and this also applies to directors who make up the board of directors.

Furthermore, the main role of outside directors is to oversee the execution of duties in particular. The reason for this is that it is thought to be beneficial to have independent outside directors who have no ties of obligation to internal directors and few stakes, in order to prevent illegal and unfair decisions with compliance issues.

I am a lawyer by profession. I don't have any experience in running a company, making it difficult to give useful and appropriate advice to improve the Company's business performance, but I believe monitoring business execution is my area of expertise to prevent the Company's scandals and various risks.

**Points of discussion and advice at the Board of Directors**

Since my appointment as Director, fortunately no agenda item or proposal that would become a compliance issue has been presented to the Board of Directors.

However, it is generally understood that even when a compliance issue emerges, that information rarely reaches the Board of Directors, and in many cases, it is too late when the problem is discovered. In order to avoid this, it is necessary to have mechanisms in place that allow negative information to be raised to executives. Such mechanisms include an internal audit department that is independent of business divisions and whistleblowing systems. I believe that it is important to ensure that such bodies function successfully and do not end up just being a formality.

**Takashi Yamagishi**

**Role of Outside Director**

The functions of outside directors at a board of directors are said to be "supervision" and "advice." The former is to properly get across the opinions of stakeholders to the board of directors, and the latter is to maximize corporate value through strategy formulation and decision-making. While the presence of outside directors creates a tension at the board of directors and deepens discussions, strictly requiring independence of outside directors makes it difficult for them to contribute to strategy formulation. The Company has several Outside Directors. I view my role is participating in discussion for important decision-making from an early stage with an outsider's perspective, enhancing the transparency of decision-making at the Board of Directors by providing my expertise on occasion, and contributing to improving sustainable corporate value and the supervisory function.

**Points of discussion and advice at the Board of Directors**

My position at the Board of Directors is to provide support for achieving the Company's long-term vision of "providing high-quality products that combine motor drive technologies and advanced breakthrough technologies worldwide and contributing to the realization of environmentally friendly social infrastructure." It is not just approving what has been decided at management meetings, but also asking essential questions from an outsider's perspective and making correct management decisions through active discussion. Issues for which final decisions have been postponed will be discussed again at strategic meetings in which I participate as Outside Director. The Nomination and Compensation Advisory Committee and talks at research presentations provide good opportunities to learn about management and human capital. I believe that it is important for the Company to be always monitored by outsiders for maintaining high-level of management discipline.

**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.