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<https://www.toyodenki.co.jp/>

# Toyo Denki Seizo Report 2020

Our Heart and Technology for the Future



## Our Long-Term Vision

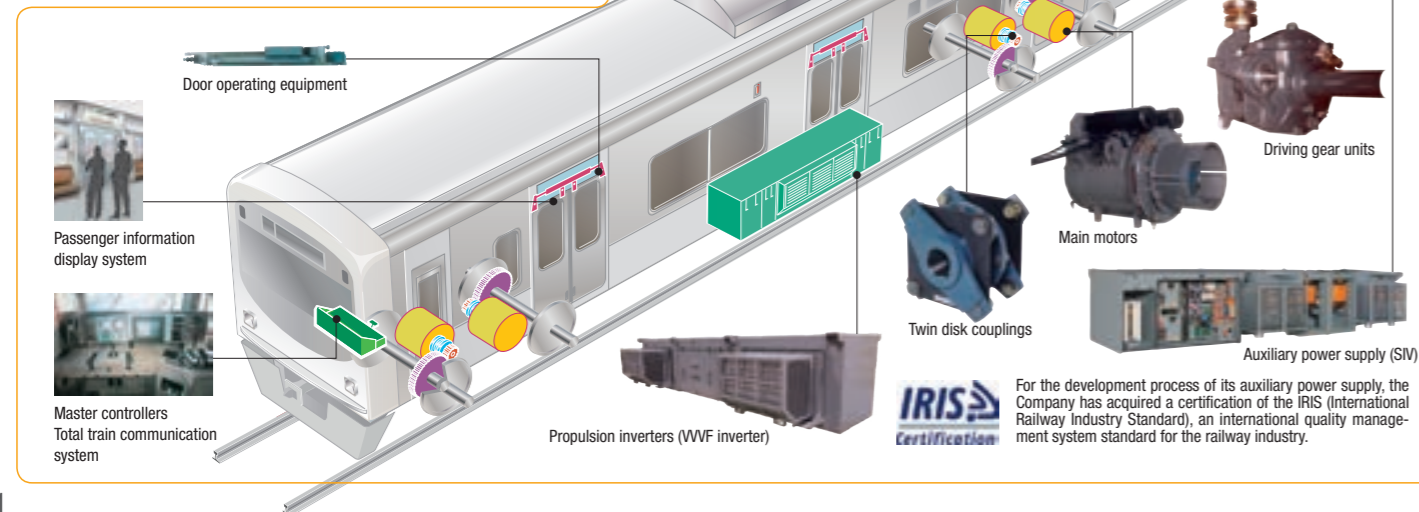
# Toyo Denki Seizo K.K. Contributes to the Development of Social Infrastructure Systems

Based on a firm management foundation, we help build social infrastructure systems that are considerate of the global environment through the global provision of high-quality products that integrate our exceptional motor drive technologies since establishment with our breakthrough advanced technologies.



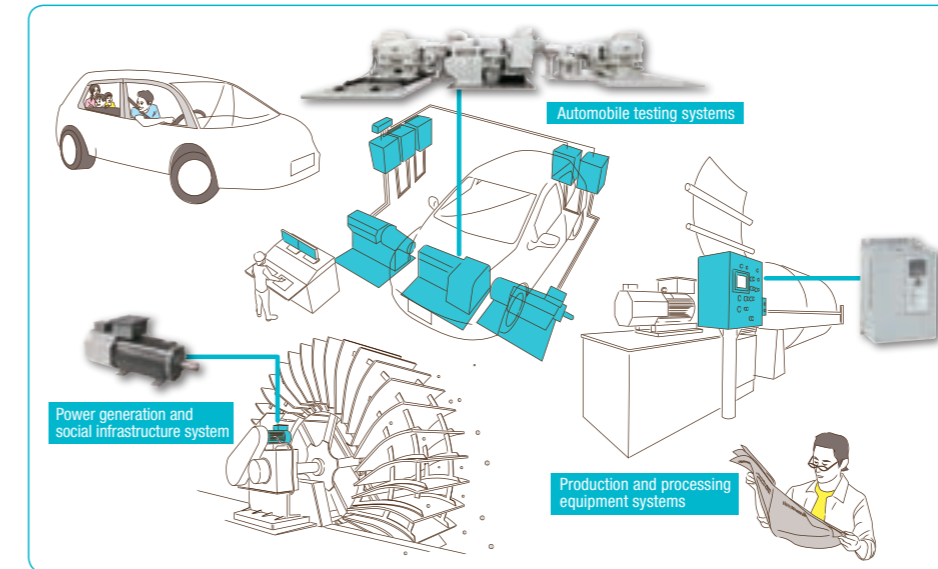
## Transportation Systems Segment

Electrical equipment for rail vehicles manufactured by the Company using its technological capability developed over 100 years covers a wide range of fields, including propulsion systems (drive systems), auxiliary power supply and door-closing units of trains, and we contribute to the maintenance and development of railway infrastructure overseas, not to mention in Japan, by pursuing safety and comfort of trains.



## Industrial Systems Segment

The Company is extensively contributing to customers at home and abroad through general industrial machinery and equipment, testing equipment for automobile development and social infrastructure equipment that is indispensable to the daily lives of people. In addition, we address manufacturing that contributes to the prevention of global warming, while providing products manufactured through high system-building technologies that make full use of energy-saving motors, inverters, FA controllers and networks.



## Information Equipment Systems Segment

In the Information Equipment Systems segment, we operate in the two fields of railway station operating equipment and remote monitoring systems, by merging advanced telecommunication technologies and mechatronics.

With regard to railway station operating equipment systems, we develop and manufacture commuter pass issuing machines that quickly became IC card compliant and portable terminal devices for conductors, and provide systems for smooth toll collection and income management system to railway operators.

Our remote monitoring systems greatly contribute to labor saving and maintenance saving of customers through realization of various equipment monitoring and position monitoring, by leveraging cloud computing.



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**Editorial Policy**

We have been publishing this report since 2013 with the goal of allowing a wide range of stakeholders to have a better understanding of the Company. This report combines our management policy with reports on our businesses, ESG/CSR and finances. We are committed to describing our initiatives during the year and our future direction in a manner that is easy to understand.

**Period Covered by This Report**

This report focuses on our activities in fiscal 2019 (from June 2019 to May 2020), but also contains some information from outside this period.

**Organizations Covered by This Report**

This report covers the Toyo Denki Group, including Toyo Denki Seizo K.K. and its consolidated subsidiaries.

**Reference Guidelines**

The GRI Sustainability Reporting Standards (GRI Standards)

# Over 100-Year History of Toyo Denki Seizo K.K.

Our company was founded in 1918 with the intention of “domestic production of electrical machinery for railway vehicles”. A spectacular feeling that we want to export products to domestic as well as to many Orient countries and contribute to the development of the country has come from the name of “TOYO DENKI SEIZO K.K.”. And this feeling has been handed down to successive employees, and now our products are contributing to the development of social infrastructure systems around the world.

## 1918~1949

### From foundation to postwar

**1918** ● Technical cooperation with British Dick Kerr and establishment of the company with the capital of 3 million yen

**1919** ● Operation started at Yokohama Factory



Group photo of our employees with technical advisors from the partner British Dick Kerr company.



Yokohama factory at the start of operations (Hodogaya-ku, Yokohama)

**1920** ● Control equipments and traction motors delivered directly to Keihan Electric Railway Co.

**1921** ● Development of pantograph, first in Japan

**1926** ● Start of manufacturing of three-phase commutator motor (AS motor)

**1932** ● Development of electric equipment for trolleybus, first in Japan  
● Completion of controller with regeneration brake using compound motor, first in Japan

**1935** ● Development of diesel electric railcar, first in our country, and delivered to Sagami Railway

**1949** ● Our stocks was listed on Tokyo Stock Exchange



Early domestic pantograph



AS motor

## 1950~1989

### From postwar reconstruction to high economic growth

**1950** ● Development of ST type three-phase AC Commutator motor (patented)

**1952** ● Development of Cardan shaft driving device, first in Japan

**1958** ● Completion of traction motor and controller for the Japan National Railways “Kodama” limited express

**1959** ● Completion of automatic train stop

**1960** ● Completion of traction motor and drive for Shinkansen testing car

● Order received for electric towing locomotive for the Panama Canal

● Development of constant-speed operation controller for vehicle, first in Japan

● Development of hydraulic winch for ship, first in Japan

**1963** ● Delivery of pantograph for Shinkansen to Japanese National Railways

**1965** ● Development of thyristor static Leonard equipment series, first in Japan

**1969** ● Completion of automotive brake test equipment



Cardan shaft driving device



Japan National Railway 151 series limited express train “Kodama”



Japan National Railway Series 0 Shinkansen

**1972** ● Development of brushless motor generator (BLMG), first in the world  
● Development of 150kVA 440Hz static CVCF, first in Japan

**1973** ● Completion of commutation ticket issuing system

**1977** ● Completion of large high-speed automatic drafting machine

**1978** ● Developed our proprietary AFE chopper device

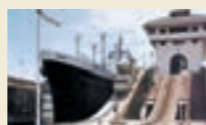
**1983** ● Completion of in-train ticket issuing system

**1985** ● The current Yokohama Plant was completed

**1985** ● Delivery of world-first superimposed field excitation control for 205 series electric train of Japanese National Railways

**1988** ● Completion of world-first heat-pipe type 8-unit motor batch control VVVF inverter and delivery of it to Tokyu Electric Railway Co

**1989** ● Development of small VVVF inverter using reverse conductive GTO thyristor, first in Japan



Panama Canal Agency Electric Locomotive for Dredgers

## 1990~2019

### Global expansion and to the next 100 years

**1990** ● Development of stroke switching type door closing machine, first in Japan  
● Development of intelligent door system, first in Japan

**1991** ● Development of light-weight VVVF inverter using 1,500V mass-production type reverse conductive GTO thyristor, first in our Japan

**1997** ● Completion of in-train ticket issuing machine corresponding to automatic ticket checker

**1998** ● Delivery of electric equipment for Beijing subway east-west line train

**2000** ● Completion of permanent-magnet motor (ED motor)

**2004** ● Development of electrical equipment for the world's first micro gas turbine hybrid vehicle

● Joint development of the first full-flat, super-low floor light rail vehicle (LRV) produced in Japan

● Succeeded in development and running of in-wheel motor for car

**2007** ● The new public transport smart card Pasmogoes into service (delivery of automatic commuter ticket vending machine with support for smart card passes and smart card charge machines to station facilities)

● Start of commercial service of the new N700 series trains on the Tokaido and Sanyo Shinkansen lines (delivery of traction motors, gear units, pantographs, TD couplings, static conversion equipment, etc.)

● Start of sales of the VF66 Series general purpose inverter

**2008** ● Start of sales of the VF66 inverter

**2009** ● Delivered electric machinery for Tohoku Shinkansen E5 series

**2012** ● Order receipt of handsets for conductor for JR West

**2018** ● May, Shiga Ryuo Plant completed

● June, Toyo Denki Seizo K.K. 100th anniversary

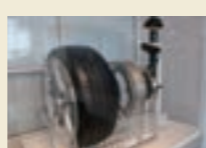
● Order received for consigned research and development of superconducting flywheel power storage system for railways

**2019** ● Establishment of SIAMTOYO DENKI Co., Ltd. in Thailand

● Establishment of Chalco-Toyo Permanent Magnet Motor Co., Ltd. in China



Beijing subway east-west line train



In-wheel motor



Los Angeles County Metropolitan Transportation Bureau P3010 LRV

# Consolidated Financial Highlights

Highlights of Toyo Denki Seizo K.K. and Consolidated Subsidiaries for the Consolidated Fiscal Year ended May 31 or as of May 31

		155th fiscal term	156th fiscal term	157th fiscal term	158th fiscal term	159th fiscal term
		Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
<b>Financial Data</b>						
<b>Fiscal Year</b>						
Net sales	(million yen)	39,746	40,668	42,527	41,172	39,071
Gross profit	(million yen)	9,119	9,221	8,072	7,839	8,242
Operating income	(million yen)	1,638	1,571	366	557	1,068
Net income attributable to owners of the parent	(million yen)	889	1,174	692	690	1,081
Comprehensive income	(million yen)	(925)	1,513	2,009	(251)	(351)
Capital investment	(million yen)	902	4,606	4,772	1,090	545
Research and development costs	(million yen)	868	927	840	731	792
<b>Fiscal Year-End</b>						
Net assets	(million yen)	23,676	24,603	26,327	24,804	24,183
Total assets	(million yen)	50,233	54,927	63,291 <sup>*1</sup>	58,001	55,165
<b>Per Share Information</b>						
Net assets	(yen)	2,457.05	2,605.09	2,788.01	2,773.87	2,704.61
Net income	(yen)	92.33	123.87	73.33	75.27	120.98
Dividend	(yen)	6	30	50 <sup>*2</sup>	30	30
<b>Major Management Indices</b>						
Shareholders' equity ratio	(%)	47.1	44.8	41.6	42.8	43.8
Return on equity (ROE)	(%)	3.7	4.9	2.7	2.7	4.4
Operating income ratio	(%)	4.1	3.9	0.9	1.4	2.7
Overseas net sales ratio	(%)	31.8	31.1	25.3	22.9	20.7
Dividend payout ratio	(%)	32.5	24.2	68.2	39.9	24.8
<b>Non-financial Data</b>						
Number of officers (non-consolidated)		12	13	12	11	10
Number of employees on a consolidated basis		1,245	1,262	1,267	1,226	1,227
Number of employees at Group companies in Japan and overseas		421	430	391	395	386
CO <sub>2</sub> emissions on a non-consolidated basis	(t) <sup>*3</sup>	3,924	3,895	4,097	4,905	4,185
Electricity consumption on a non-consolidated basis	(10,000 kWh) <sup>*3</sup>	648.8	647.2	680.3	839.2	743.9

Note: Effective as of December 1, 2016, the Company implemented a share consolidation (five shares consolidated into one share). Net assets and net income are calculated on the assumption that the share consolidation was implemented at the beginning of the 155th fiscal term. Dividends are presented in the actual amounts paid.

\*1 The Company has adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the 158th fiscal term. Accordingly, total assets as of the end of the 157th fiscal term have been calculated by retroactively applying the accounting standard.

\*2 The dividend for the 157th fiscal term includes a commemorative dividend of 20 yen for the 100th anniversary.

\*3 Aggregate amount of production bases per fiscal year beginning in April and ending in March of the following year. Figures for the Shiga Ryuo Plant since fiscal 2018 include those for TD Drive Co., Ltd.

## Message from the President

While following the basic policy of the medium-term management plan “Revitalize 2020,” we will add and carry out new measures to respond to changes in the business environment.



We would like to express our sincere gratitude to all of our stakeholders for their continued support.

First of all, we offer heartfelt condolences to those who lost their lives to COVID-19 and deepest sympathies to their families and the people affected by the loss. We also pray for the quickest recovery of coronavirus patients.

COVID-19 has caused a major impact on the entire Japanese industry, including our customers who are transportation operators and companies in the automobile industry and the equipment industry. We pray that the COVID-19 epidemic will be contained as quickly as possible and that economic activity will be revived again. The Company will continue its efforts to help to prevent the spread of infections, while prioritizing the safety and health of employees through measures such as working from home and staggered commuting and minimizing hindrance to production.

During the fiscal year ended May 2020, the spread of COVID-19 resulted in restrictions on sales activities in Japan due to voluntary refraining from going out and on traveling abroad from the latter half of the year. However, the Company did not suffer from any major hindrance to its production activities and achieved a higher profit that exceeded the initial target for the

fiscal year. This was attributable to the integration of production bases of the Industrial Systems segment to the Shiga Ryuo Plant, which was carried out on the occasion of the 100th anniversary of the Company’s founding, productivity improvement in the Transportation Systems segment, as well as new product development in the Information Equipment Systems segment.

Nevertheless, the global economic downturn caused by COVID-19 has made many customers cautious on capital investment during the fiscal year ending May 2021. Amid this environment, in terms of the Company’s earnings forecast for the fiscal year ending May 2021, it’s possible to make forecast to a certain extent for the Transportation Systems segment, which had a relatively large order backlog at the end of the previous fiscal year, but we think that it will take some time to assess coming developments for the Industrial Systems segment. We will promptly inform you once our earnings forecast can be produced.

Meanwhile, our business policy is to add and implement new measures in response to changes in the business environment that are becoming apparent these days, while reviewing the medium-term management plan and following the basic policy of the ongoing “Revitalize 2020.” In particular, regarding globalization

that the Company has been pursuing in recent years, the fully fledged operation of Chalco-Toyo Permanent Magnet Motor Co., Ltd., a joint venture responsible for manufacturing industrial permanent-magnet synchronous motors in China, as well as the expansion of the subway train maintenance business in Beijing, will be major pillars of that policy.

Based on the decisions of the 159th Ordinary General Meeting of Shareholders and a subsequent meeting of the Board of Directors, Mr. Kenzo Terashima was appointed Chairman, and Mr. Akira Watanabe was appointed President. Additionally, Mr. Koji Mizumoto assumed the new position of Outside Director with the objective of further strengthening governance.

We hope that our stakeholders will look forward to further development of the Company facilitated by the new management team and would like to ask for their continued support.

### Results for the fiscal year ended May 2020

In the fiscal year ended May 2020, orders received were 38.5 billion yen due to a negative rebound from the previous fiscal year, when we received large-scale orders in the Industrial Systems segment, and the stagnation of sales activities caused by the spread of COVID-19. Net sales were 39.0 billion yen, reflecting a YoY decrease in orders received in the Transportation Systems segment. Operating income reached 1.06 billion yen owing to improved profitability, exceeding one billion yen for the first time in three years. Ordinary income was 1.2 billion yen due to higher operating income. Net income attributable to owners of the parent was 1.08 billion yen as a result of efforts to reduce certain cross holdings. Overseas sales accounted for 20.7% of net sales, mainly due to lower net sales at overseas subsidiaries.

By segment, the Transportation Systems segment saw a YoY decrease in orders received, dragged down by lower orders in Japan and overseas excluding China. Net sales decreased due to a fall in sales in Japan. Segment profit was unchanged from the previous fiscal year as a result of efforts to step up cost control and reduce expenses.

In the Industrial Systems segment, orders received were lower than the previous fiscal year due to a negative rebound from the previous fiscal year, when we received large-scale orders, and the stagnation of sales activities caused by the spread of COVID-19. Net sales increased, helped by higher sales for testing equipment and power supply. Segment profit rose as a result of enhanced cost control and process control.

In the Information Equipment Systems segment, orders received were lower than the previous fiscal year without any major projects in the second half of the year. Both net sales and segment profit increased, boosted by software improvement projects and other factors associated with the consumption tax hike and revisions in train timetables in the spring.

Our dividend forecast for the fiscal year ending May 2021 is still pending. When it becomes possible to disclose our earnings forecast, we will promptly announce a dividend forecast as well.

### Profile of New President

Name	
Akira Watanabe	
Hometown	
Tokyo	
Date of birth	
November 22, 1959	
Education	
March 1982: Graduated from Department of Electrical Engineering, School of Engineering, Tohoku University	
Career	
April 1982	Joined Toyo Denki Seizo K.K.
August 2013	General Manager, Business Development Division
August 2015	Executive Officer, General Manager, Management Planning Division
August 2016	Director, Division Director, Transportation Business Unit
June 2018	Executive Director and Executive Officer; Division Director, Transportation Business Unit; General Manager, International Sales Division, Transportation Business Unit
August 2018	Executive Director and Executive Officer; Division Director, Transportation Business Unit
August 2019	Senior Executive Director and Executive Officer; Division Director, Transportation Business Unit; Plant Manager, Yokohama Plant
August 2020	Appointed as President, Representative Director
Memorable assignments	
<ul style="list-style-type: none"> <li>Involved in the development and design of propulsion unit of magnetic levitation train (high speed surface transport or HSST) systems (late 1980s)</li> <li>Involved in the development and mass production launch of electric components for hybrid construction machinery (early 2010s)</li> </ul>	
Motto	
Be both cautious and optimistic	
Hobbies	
Listening to and playing music, motorcycle	

# Connect to the Future

– What we can do for people, the environment and society

“Transportation Systems” to support the safety of railway infrastructure with electrical equipment such as pantographs and driving gear units.  
 “Industrial Systems” to help people’s lives and energy saving with automotive development, processing equipment, and electrical products for power generation infrastructure.

“Information Equipment Systems” to watch the work comfortably in the network such as terminals for stations and conductors, monitoring control of remote facilities, etc.

In our three businesses, we are manufacturing things that help the environment and society (ESG).

We will contribute to the realization of a sustainable society by further leveraging our accumulated technology and experience.

## Environment

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- Environmental stewardship activities (Environmental Philosophy and Action Guidelines)
- Implementation of environmental management

## Social

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- Initiatives for stakeholders
- Creating a pleasant workplace

## Governance

→ Page 21

- Corporate governance

The business activities of Toyo Denki Seizo are closely related to the environment and social infrastructure. By offering products and systems combining “environmental technology” and “IT technology,” we contribute to infrastructure development and sustainable development of a safe and secure society. We are endeavoring to proliferate energy-saving products toward the following specific goals of SDGs:

- 7 Affordable and Clean Energy
- 13 Climate Action



## Examples of initiatives

### Energy saving of railways

We have been supplying various electrical equipment for vehicles to railways around the world to support their development. Examples of our products accepted by customers in recent years include the supply of VVVF inverters using SiC elements and high-efficiency totally-enclosed motors for Keisei Electric Railway’s new 3100 series rolling stock. Energy consumption was reduced by about 18% compared to the conventional system, achieving energy savings.



### Energy saving with eco-drive (ED) motors and intelligent inverters

The Company’s permanent-magnet synchronous motors, “eco-drive (ED) motors,” and intelligent inverters are widely used for production and processing facility systems in Japan and overseas, facilitating energy-saving.



## Internal awareness-raising activities

We conduct awareness raising activities such as in-house newsletters to raise awareness and knowledge of SDGs and to encourage employees to think themselves about efforts to achieve SDGs through business.



# Plant Opening Ceremony of Chalco-Toyo Permanent Magnet Motor Co., Ltd.



Plant opening ceremony



Internal view of the plant

In June 2019, the Company established Chalco-Toyo Permanent Magnet Motor Co., Ltd., a joint venture company that primarily engages in the manufacture and sales of industrial permanent-magnet synchronous motors in Changshu, Jiangsu Province in the People’s Republic of China (hereinafter China). Preparations for the plant’s operation had been underway and were completed recently, with an opening ceremony held on September 10, 2020.

The opening ceremony was a grand affair and attended by the joint venture partner companies, senior officials of the Changshu government, business partners, local media, and many other guests.

We will continue to capitalize on our outstanding motor drive technology and globally expand our business in order to contribute to the realization of social infrastructure systems that are friendly to the global environment.

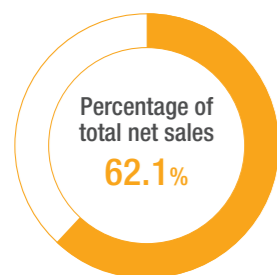
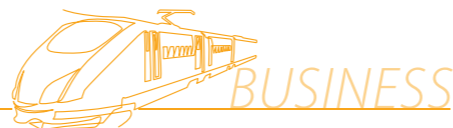
## Background to the establishment of Chalco-Toyo Permanent Magnet Motor Co., Ltd.

Chalco-Toyo Permanent Magnet Motor Co., Ltd. was established as a joint investment between Chinalco Rare Earth & Metals Co., Ltd., a supplier of rare earth metal resources affiliated with Aluminum Corporation of China (CHINALCO), a trading company Beijing Ling Yang Trading Co., Ltd., and the Company. The purpose of the joint venture is to manufacture highly efficient permanent-magnet synchronous motors for production and processing facilities as the Company’s first overseas manufacturing base for the Industrial Systems segment, and to capture energy-saving needs in the Chinese and ASEAN markets.



### Overview of the plant

Location	Block G, Jiadi (Changshu) International Industrial Park, No.1150 Southeast Avenue, Changshu Hi-tech Industrial Development Zone, Changshu City, Jiangsu Province
Site area	approx. 20,000 m <sup>2</sup>
Employees	42 people
Products	Industrial permanent-magnet synchronous motors
Applications	Factory lines, processing equipment, printing machines, compressors, pumps, etc.
Production capacity	Target production of 5,000 units in fiscal 2021



Support railway transportation that connects people and cities with safety and trust, through manufacturing that merges electronics technologies and mechanical technologies in a highly advanced manner

Results for fiscal 2019

Orders Received

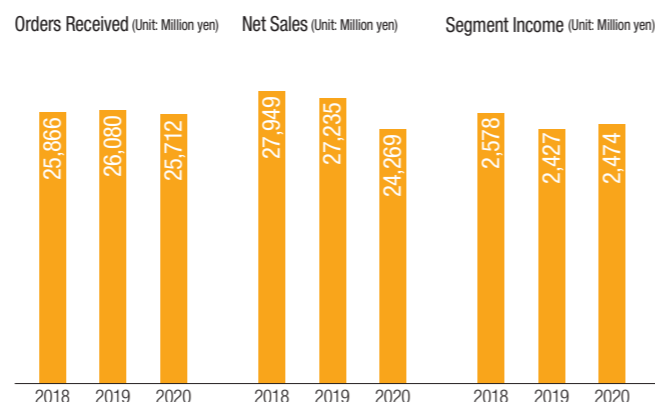
**25,712** million yen (Down 1.4% year on year)

Net Sales

**24,269** million yen (Down 10.9% year on year)

Segment Income

**2,474** million yen (Up 1.9% year on year)



Orders received decreased 1.4% compared with the previous fiscal year to 25,712 million yen, due to a decrease in orders from private railways and overseas customers excluding those in China. Net sales totaled 24,269 million yen, a 10.9% decrease from the previous fiscal year, due to a decrease in sales for JR Group and private railways. Segment income was almost unchanged from the previous fiscal year at 2,474 million yen, as a result of efforts to step up cost control and reduce expenses.

VOICE

We will introduce new environmentally friendly products to the market and expand the overseas maintenance business.

The Transportation Systems segment will naturally continue pursuing safety and reliability of electrical equipment for railway vehicles, which have to meet strict usage conditions, and at the same time pour our efforts on reducing environmental impact in the form of energy saving, maintenance saving, and noise reduction to provide new environmentally friendly products and services.

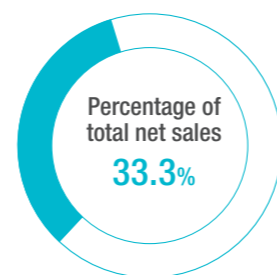
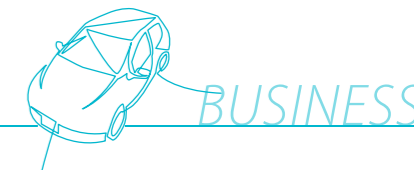
In the domestic business, there has been a growing number of customers who have chosen our new products, including driving inverters and auxiliary power supply units that realized smaller size and lighter weight as well as noise-reduced motor and driving gear units. Going forward, we anticipate more customers will choose our new products, together with pantographs and other highly reliable electrical equipment.

As for the overseas business, the maintenance business of electrical equipment for subway trains has already been launched in China, and we will strive to develop a structure and provide stable services to meet demand that will sharply increase. Particularly in North America, we are reorganizing our local subsidiaries in response to changes in the business environment and preparing to build a new maintenance business with a plan to start operations soon.

We will also work towards improving profitability of the production line at the Yokohama Plant, one of our production bases, by enhancing production capacity and efficiency.



**Naoki Okuyama**  
General Manager of Transportation Business Unit



Deliver technologies and gratitude to customers with highly precise, highly responding and highly efficient power electronics, for realization of an environment-friendly society

Results for fiscal 2019

Orders Received

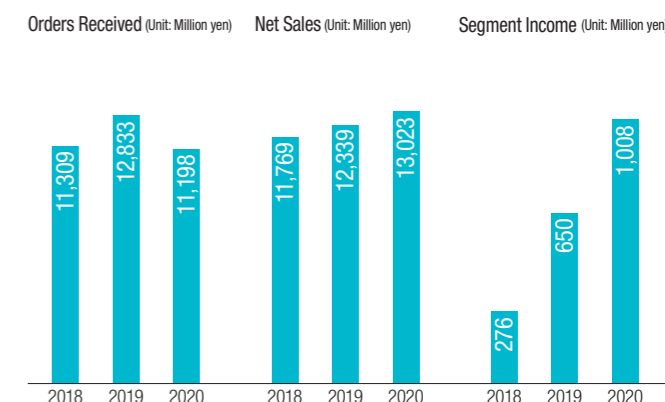
**11,198** million yen (Down 12.7% year on year)

Net Sales

**13,023** million yen (Up 5.5% year on year)

Segment Income

**1,008** million yen (Up 55.1% year on year)



Orders received decreased 12.7% compared with the previous fiscal year to 11,198 million yen, due to a negative rebound from the previous year, when we received large-scale orders for a new business (related to power supply), as well as the stagnation of sales activities caused by the spread of COVID-19. Net sales increased 5.5% compared with the previous fiscal year to 13,023 million yen on higher sales for testing equipment and power supply. Segment income totaled 1,008 million yen, a 55.1% increase compared with the previous fiscal year, due to efforts to step up cost control and process control, as well as to reduce expenses.

VOICE

We will strengthen the domestic business foundation and push for overseas expansion, while enhancing the Shiga Ryuo Plant.

In two years after the launch of the Shiga Ryuo Plant, the Industrial Systems segment has achieved a significant improvement in profitability while absorbing the increase in depreciation associated with the construction of the new plant. This is because factory productivity has increased, and we have significantly boosted the profitability of manufacturing through tighter cost control and process control, in addition to thorough cost management.

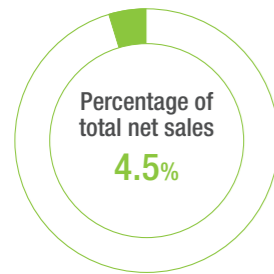
In our sales efforts, we expanded the user base with the introduction of super-high-speed rotating dynamo that can support the development of electric vehicles (EV) in the field of testing equipment for automobile development, and also offered system development and detailed services to thoroughly satisfy customer needs in the processing equipment field. With these efforts, we sought to expand sales to domestic and overseas machine manufacturers and users.

Meanwhile, 2020 has been hit by the coronavirus crisis, and we are now facing headwinds owing to customers pulling back from capital investments and restrictions on our sales activities and on-site actions. Despite the setbacks, we are steadily proceeding with steps to enhance the Shiga Ryuo Plant toward the future.

In addition to further improving product quality, we will expand the applications of in-wheel-well dynamo for testing equipment and implement actions for their full-scale production, while accelerating the development of large-capacity motor and inverter for overseas markets. Also, we will capitalize on SIAM TOYO DENKI, a Thai subsidiary established in 2019, and Chalco-Toyo Permanent Magnet Motor Co., Ltd., a Chinese motor production subsidiary that started operation this year, in order to strengthen the domestic business foundation and push for overseas expansion.



**Yoshifumi Otsubo**  
General Manager of Industry Business Unit



Provision of products that make the execution of operations on station premises and trains smooth and convenient and M2M solutions based on mobile phone networks and cloud servers using remote monitoring system

Results for fiscal 2019

Orders Received

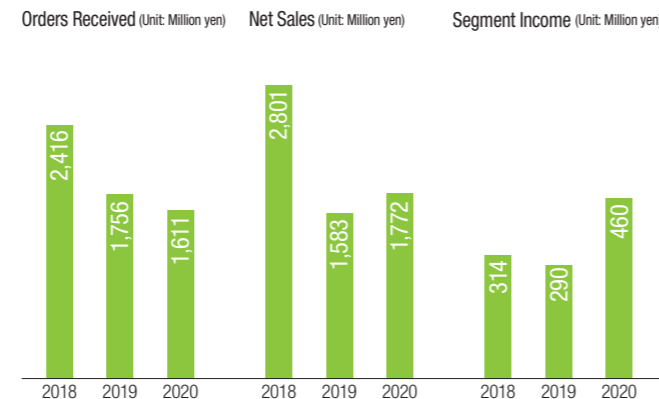
**1,611** million yen (Down 8.2% year on year)

Net Sales

**1,772** million yen (Up 11.9% year on year)

Segment Income

**460** million yen (Up 58.6% year on year)



Orders received decreased 8.2% compared with the previous fiscal year to 1,611 million yen without any major projects in the second half of the fiscal year, despite the boost from software improvement projects associated with the consumption tax hike and revisions in train timetables in the spring as well as higher orders of composite ticket vending machine in the first half. Net sales increased 11.9% year on year to 1,772 million yen, helped by software improvement projects associated with the consumption tax hike and the revisions in train timetables in the spring as well as higher sales of composite ticket vending machine. Segment income increased 58.6% compared with the previous fiscal year to 460 million yen for the same reason as net sales.

VOICE

We will work towards expanding the Information Equipment Systems segment through product development and solutions that meet customer needs, with a focus on railway station operating equipment.

To be prepared for the consumption tax hike scheduled for October 2019, the Information Equipment Systems segment updated all equipment already in use during the previous fiscal year. As part of the process, there were many functional refurbishments, creating a lot of work for us, but everything was completed without any major problems. In addition, we delivered renewal orders for commuter pass issuing machine to several customers. These machines are currently working smoothly. Commuter pass issuing machines that one of those companies ordered are exclusively for IC cards and no longer compatible with magnetic tickets. This is the first product of its kind that the Company supplied. Additionally, we received an order for and delivered software for IC card charging machines, which is a new product. We will continue to provide products that satisfy our customers by leveraging our strengths in products related to fare calculation and IC card processing.

We face extremely difficult conditions in the current fiscal year as business operators have postponed or cut back on their plans for renewal and new projects as well as functional refurbishments in light of the spread of COVID-19. We will press on with new product development with the keywords of non-contact, cashless, thin client, and competitive price in anticipation of coronavirus containment, while giving due consideration to the prevention of infection spread.



Toshihiko Akihiro  
General Manager of IT Business Unit

## Order received for consigned research and development of superconducting flywheel power storage system for railways

The Company received an order from East Japan Railway Company to conduct operations related to equipment manufacturing and the preparation of test reports for verification tests of a superconducting flywheel power storage system for railways.

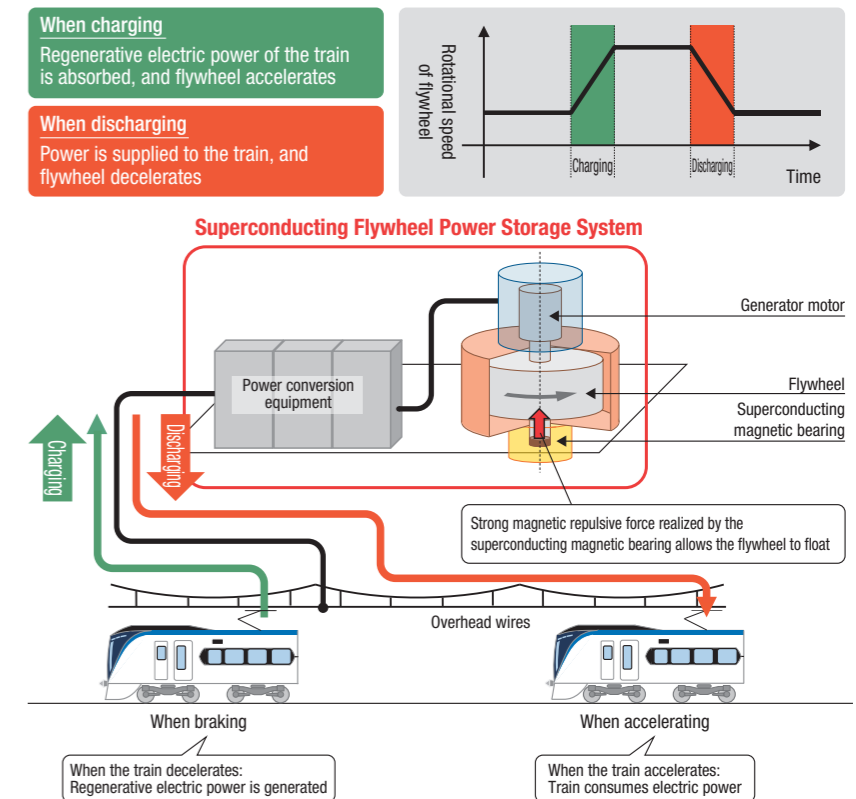
Based on the "Basic Agreement on Technology Development of Superconducting Flywheel Power Storage System for Railways" concluded on March 29, 2018 between Yamanashi Prefecture, the Railway Technical Research Institute, and East Japan Railway Company, this system is being developed for the world's first practical use in the railway field. The Company will conduct the design and manufacturing of the power conversion equipment, and will be responsible for the overall coordination of this power storage system's construction, in cooperation with MIRAPRO Co., Ltd. (Hokuto, Yamanashi Prefecture; President & CEO: Hiroyuki Tsugane).

Through this business, the Company will work on the construction of a new power storage system that contributes to the improvement of energy efficiency, the stable usage of renewable energy and technology development in the railway field.

### Superconducting Flywheel Power Storage System for Railways

The flywheel power storage system is a system that, by rotating a large disk (flywheel) within the device, stores regenerative electric power as kinetic energy (charging), and converts kinetic energy back to electric power (discharging) as necessary.

The bearing portion of the superconducting flywheel power storage system adopts the superconductivity technology designed by the Railway Technical Research Institute, and established through verification tests conducted in Komekura-yama, Yamanashi Prefecture. The technology allows the flywheel to float, reducing rotational loss as there is no contact, and realizes a reduction in maintenance efforts.



### IORemoter II: New IoT terminal for Toyo IoT/M2M solutions/remote monitoring and control systems

The Company has been developing IORemoter II, which is a further evolution of "IORemoterLTE," an IoT terminal for remote monitoring and control systems, for IoT/M2M solutions. Shipment of the first lot will start in November 2020.

IORemoter II is a high-speed IoT terminal with a built-in 4G/LTE module. IoT remote monitoring and control of various facilities, controllers, devices, and mobile entities can be conducted faster and at a larger capacity.

Furthermore, with multi-carrier and dual SIM operation enabled, we can now propose communication lines that are more suitable for each customer's applications.

The Company is considering collaboration with cloud service platforms in the future. We hope to contribute to operational efficiency by realizing the provision of faster, easier, lower-priced, and more secure IoT/M2M solutions for our customers.



## R&D to support the development of social infrastructure and supporting frameworks

### Research and Development

The Group's R&D activities are based on seeking to create products that fully satisfy our customers and challenging the creation and expansion of these products, and we actively promote development of technologies of our existing businesses and basic technology developments that support this development as well as development of new products that expand our businesses.

#### Results and topics from fiscal 2019

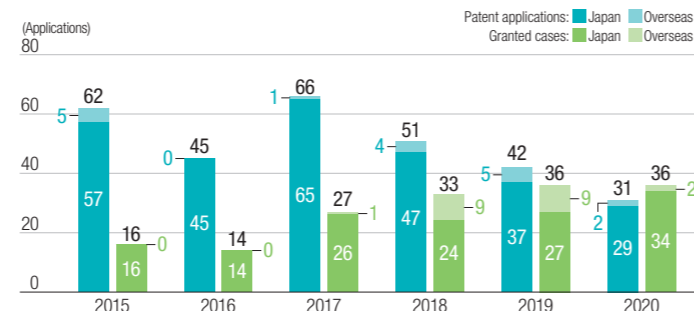
Segment	Project	Description
Transportation Systems	Development of high-frequency insulated auxiliary power supply (SIV)	Applying SiC elements to high-frequency insulated auxiliary power supply and taking advantage of low switching losses enabled higher frequency of the voltage applied to the transformer and the suppression of the increase in element losses, making the whole auxiliary power supply smaller and lighter.
	Development of VVVF inverters for vehicles with wheel slip stabilizing control	We introduced wheel slip stabilizing control using the slip acceleration feedforward control method. The method is aimed at keeping stable slipping and enabling self-re-adhesion without drastically reducing torque to restore adhesion during wheel spins.
Industrial Systems	Development of in-wheel-well dynamo	The name "in-wheel-well dynamo" was adopted for "flat-type dynamo" that can fit inside the automobile's wheel well and be an alternative to the conventional roller type chassis dynamo. We installed the product on real vehicles and conducted evaluation tests based on driving modes specified by the Ministry of Land, Infrastructure, Transport and Tourism and other organizations.
	Development of slender-type high-speed motor for EV/HEV system tests	We developed a slender-type high-speed motor with a maximum speed of 20,000 rpm for testing the drive systems of electric and hybrid vehicles.
Information Equipment Systems	Development of standardized data and programs for railway station operating equipment	We developed standardized fare software (data/programs) used for station operating equipment. This is expected to reduce renewal costs associated with fare revision and to improve the quality of the fare calculation processing.
Expansion of New Businesses	Function expansion of remote monitoring units	We developed and commercialized IORemoter II by evolving the remote monitoring terminal (IORemoter) currently on sale to expand and enhance functions. Its main enhanced function is support for SIM-free and dual SIM operation, making it possible to employ multiple communication carriers including overseas ones to build a monitoring system.
	Development of automotive step up/down converter	We developed a step up/down converter consisting of automotive electronic components. Adopting the interleaving method for power conversion circuit and controlling phase difference of switching achieved lower input and output ripple current, reducing the capacity of reactor and capacitor.
Research Laboratory	Reduction of motor manufacturing cost with square wire and laser welding	With the aim of reducing man-hours for the winding process by adopting square wires for ED motor coils and automating laser welding, we finished evaluation for the optimization of the number of motor poles and conductor size for medium- to large-size models.
	Improved sealability of lubrication for vehicle driving gear units	We worked on the analysis of lubrication pumping in the gearbox and the fluid analysis of the labyrinth structure, as well as the discovery of the mechanism of lubrication mist generation.

### Intellectual Property

Our intellectual property is placed as a key corporate resource. Our intellectual property department is responsible for the management of intellectual property and our research laboratory and the development divisions in each business unit actively apply for patents and utility models.

In the overseas markets which we expect to further expand our businesses, we have started to actively engage in activities concerning our intellectual property in order to protect our technologies and brand.

#### Patent applications granted



## 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.

### Environmental Philosophy

The Toyo Denki Group sets initiatives to protect the global environment as its priority task and contributes to the development of a sustainable society.

### Action Guidelines

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."

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

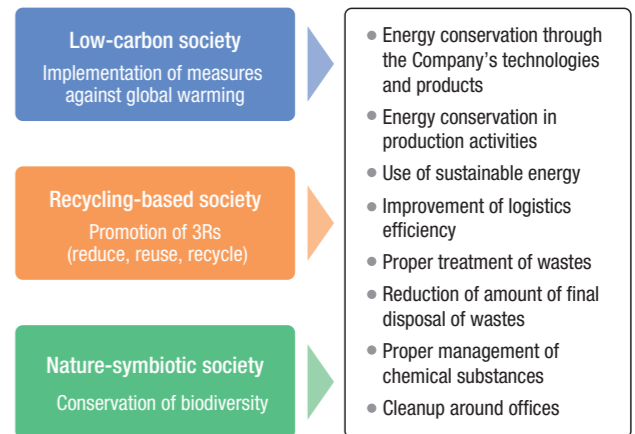
### Aiming for Realization of a Sustainable Society

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

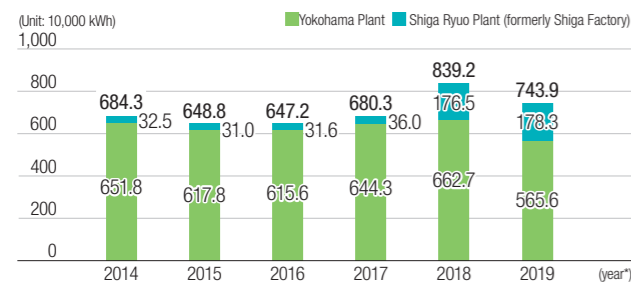
### Initiatives to reduce greenhouse gas (CO<sub>2</sub>) emissions

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.

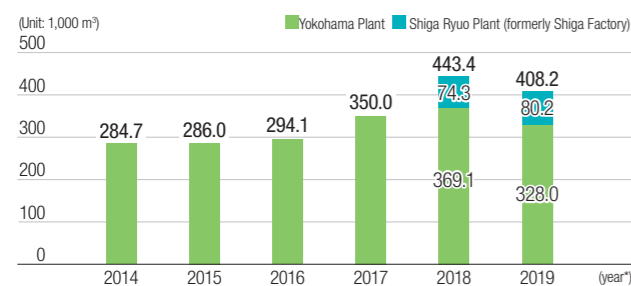
### Targeted reduction of CO<sub>2</sub> emissions and progress status

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, reduced emissions by 5.1% in fiscal 2019.

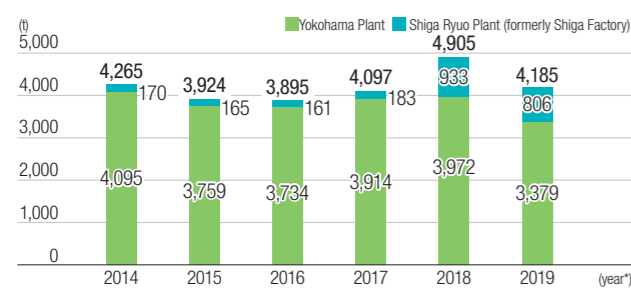
#### Total energy input (electricity)



#### Total energy input (gas)



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

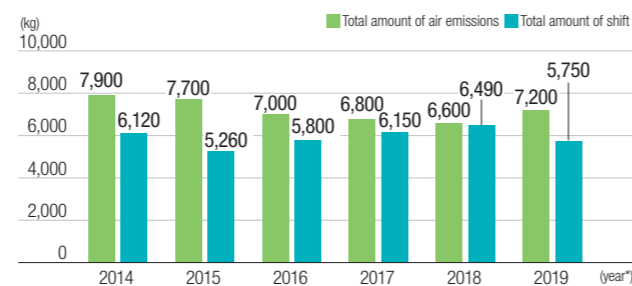


## Initiatives for Control over Chemical Substances

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

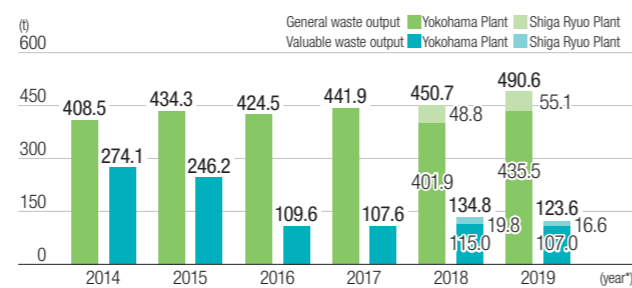


## Initiatives for Reducing Disposed Waste as Well as Recycling

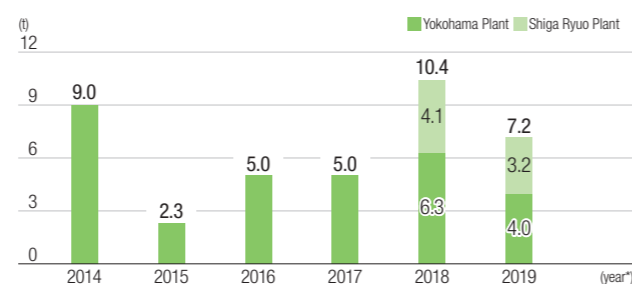
### Main actions

The Company has been thoroughly implementing waste processing rules, sorting metal waste and recycling paper resources. As a result, its landfill waste rate was 1.2% in fiscal 2019.

#### Output of general and valuable waste



#### Volume of landfill waste



## 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 quality policy, which is deployed at all production bases as we strive to maintain and improve our human resources education, compliance with rules, and our facilities.

### Quality Policy

- ① Quality assurance to satisfy our customers.
- ② Challenge to achieve “zero” complaints.

### 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 Human Resources and General Affairs Division is responsible for export management as the export management control department. We have created a system for the proper management of exports in order to ensure compliance with the laws and regulations concerning export management in the countries and regions where we engage in business activities as well as to avoid involvement in transactions that could hinder the maintenance of international peace and safety.

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

### 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.



\*The fiscal year is from April to March of the following year \*Figures for the Shiga Ryuo Plant include those of TD Drive Co., Ltd. from fiscal 2018.  
\*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 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>

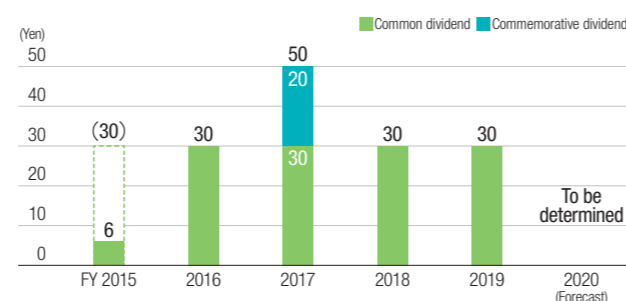


Plant tour for shareholders

#### Dividends

Based on a comprehensive consideration of factors such as maintaining a stable and continuous return of profits, and strengthening the corporate structure, the Company paid a year-end dividend of 30 yen per share for the current fiscal year. Our dividend forecast for the fiscal year ending May 2021 is still pending at this time.

#### 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 159th Ordinary General Meeting of Shareholders  
Date held: Wednesday, August 26, 2020

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



Interim Business Report for Fiscal 2019



Business Report for Fiscal 2019

## 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 2019 Yokohama Global Warming Countermeasures Award from Yokohama City

The Yokohama Global Warming Countermeasures Award is presented to businesses that have made outstanding efforts such as drastic reduction of greenhouse gas emissions under the Yokohama City Global Warming Action Plan Program implemented by the Environmental Planning Bureau of Yokohama City.

We installed a solar power generation system (500 kW) on the roof of the Yokohama Plant in 2012. In recent years, the system has generated 600,000 to 650,000 kWh of electricity annually, all of which is consumed internally. This contributes to reducing greenhouse gas emissions (equivalent to approximately 300 tons of CO<sub>2</sub> per year) and curbing global warming. The Company was awarded by Yokohama City in recognition of this accomplishment.



Solar power generation system at the Yokohama Plant

## 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, Human Resources and 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 two have 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 helmet

## 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 support employees' work-life balance, 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

In an effort to prevent and detect mental health problems at an early stage, we annually carry out stress checks and analyze the results for each department at all offices (including overseas ones). In addition to conducting "Line care training" for managers and supervisors, 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 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Number of employees	Total	824 *	832 *	843 *	831 *	841 *
	Men	761	768	771	762	773
	Women	63	64	72	69	68
Ratio of female employees	%	7.6	7.7	8.5	8.3	8.1
Number of administrative professionals	Total	155	150	140	143	136
	Men	151	146	136	139	133
	Women	4	4	4	4	3
Ratio of female administrative professionals	%	2.6	2.7	2.9	2.8	2.2
Average age	Overall	40.4	40.4	40.2	40.8	41.0
	Men	40.4	40.4	40.3	40.8	40.9
	Women	39.5	40.1	39.5	40.9	41.7
Average years of employment	Overall	15.4	15.2	14.9	15.4	15.4
	Men	15.5	15.2	15.1	15.5	15.5
	Women	14.1	14.8	12.7	14.1	14.1
Average annual salary	Yen	6,024,175	5,990,250	6,049,512	5,756,046	5,634,571
Turnover rate (within 3 years of joining the Company)	%	3.4	2.0	2.7	6.5	4.7
Number of employees taking childcare leave	Persons	7	9	4	6	2
Number of employees taking family care leave	Persons	0	0	0	0	0
Number of temporary staff (including part-timers)	Persons	160	152	130	119	106
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 seven Directors including three Outside Directors, discusses and decides on important management matters such as reports on Operating Officers' business execution and matters to be decided solely at the discretion of the Board of Directors, while supervising the execution of duties by Operating Officers.

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

The Company has meeting bodies including the Management Strategy Meeting and Operating Officer Report Meeting. Through these bodies, specific matters related to their execution of duties and critical management matters including those subject to the deliberation of the Board of Directors are reported to the President by Operating Officers and the general managers of business execution departments, deliberated and discussed

preliminarily. 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 Internal Auditor (CIA) and the Certified Information Systems Auditor (CISA). It reports its action plans and internal audit results to the Board of Directors and the Board of Statutory Auditors.

#### Statutory Auditors' audit

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

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

### Outside Directors and External Statutory Auditors

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

#### Mr. Hirokazu Chinone, Director (Outside Executive)

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

#### Mr. 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. Koji Mizumoto, Director (Outside Executive)

Mr. Koji Mizumoto was newly appointed as Director at the 159th Annual General Meeting of Shareholders on August 26, 2020. He is expected to provide useful advice, drawing on his wealth of corporate management experience at a predecessor firm to NIPPON STEEL CORPORATION and his knowledge of financial accounting as CFO.

#### Mr. Toshiaki Akechi, Statutory Auditor

Mr. Toshiaki Akechi is engaged in auditing activities, drawing on his wealth of corporate management experience at a predecessor firm to JR East Foods 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 to MUFG Bank, Ltd. and other places and his global perspective.

### Executive Remuneration

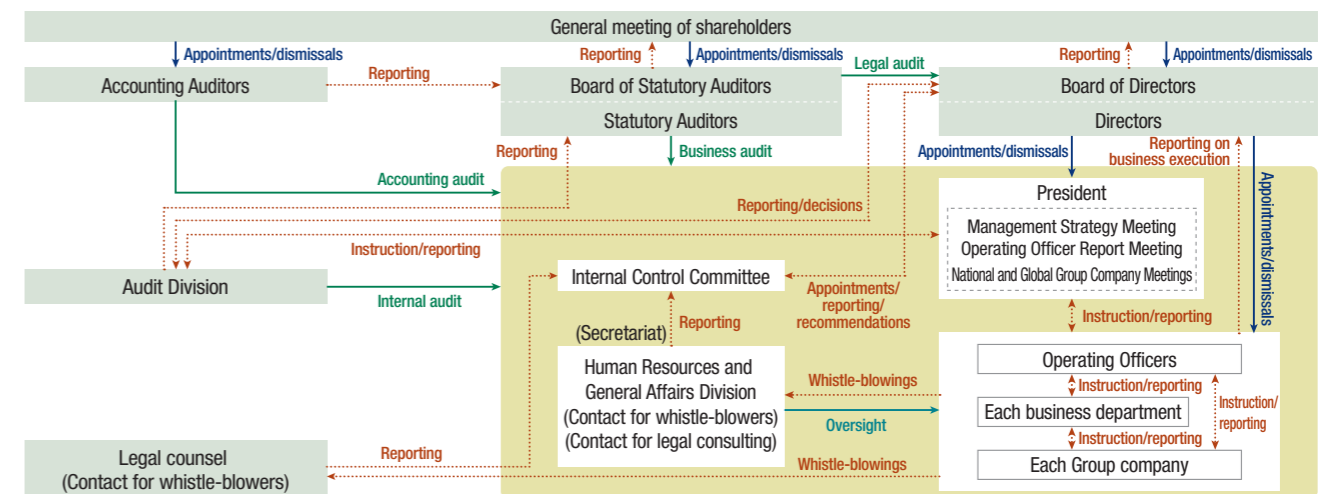
#### Directors

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.

### Corporate governance framework



## Executive Profiles (as of August 26, 2020)



Chairman, Representative Director  
**Kenzo Terashima**

President, Representative Director  
**Akira Watanabe**

Director  
**Akihiko Ishii**

Director  
**Yoshifumi Otsubo**

Director (Outside)  
**Hirokazu Chinone**

Director (Outside)  
**Takashi Yamagishi**

Director (Outside)  
**Koji Mizumoto**



Standing Statutory Auditor  
**Toshiaki Akechi**

Standing Statutory Auditor  
**Kenji Ueda**

Statutory Auditor  
**Yoshinori Kawamura**

Statutory Auditor  
**Yasushi Miki**

## Senior Executive Officers

**Hiroshi Shimotakahara** **Akihiko Ishii** **Yoshifumi Otsubo**

## Executive Officers

**Shuji Horie** **Kenji Tanimoto** **Kenji Fujiwara**

## Operating Officers

**Naoki Okuyama** **Toshihito Nakanishi** **Shini Furutsuki**  
**Takuya Hatakeyama** **Toshiharu Takagi** **Chiaki Nakano**  
**Yuji Nagano** **Hiroyuki Imaizumi**

## 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.

## Koji Mizumoto

## Role of Outside Director

The Ministry of Economy, Trade and Industry published practical guidelines on outside directors to strengthen corporate governance, raising expectation that the independent officer system will play more serious role.

I worked for a material manufacturer for more than 40 years, during which I experienced many good and bad things that happened in varying degrees to corporations. I recognize that it is my main mission entrusted by shareholders to supervise management effectively and positively with the eyes of an outsider while making the best use of my experience.

Specifically, I hope to give advice to the current executive team and management for the Company's future development based on my experience including past reflections and new studies. In particular, I would like to fulfill my role in the Company's efforts to survive and become highly profitable and future-oriented with everyone's participation through mechanisms (systems).

## 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 by the Management Strategy Meeting, 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 by the Directors' Strategy Meeting 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.

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

I think what is often lacking in the resolutions made by boards of directors is the viewpoints of outsiders and perspectives in terms of whether they meet the mandates given by various stakeholders. Below is a checklist that should be reviewed by members of boards of directors in my opinion. I will participate in discussions and give advice based on these points.

- Clarity of top management's instructions and responsibility for business earnings
- Level of targets, achievements, and internal dissemination of medium- and long-term management plans
- Measures to increase our stock price, awareness and actions for SDGs
- Information-gathering function and concrete actions for takeover defense
- Product pricing power, sales capabilities, material procurement capabilities, financial position
- Health and safety track records and measures at plants
- BCP and risk management
- Human resource development measures (development of staff and next management team) and management of personnel systems
- Future orientation of the company, new products and R&D status
- General management issues such as the operation status of computer systems

## 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.

## Risk Factors

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

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

### (1) Changes in domestic and international economic trends

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

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

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

Since January 2020, COVID-19 has been spreading in Japan and overseas. The Group is taking actions to help prevent the spread of infections, while prioritizing the safety and health of employees through measures such as staggered commuting and working from home and minimizing hindrance to production. The impact on our business operations has been limited so far. However, orders that the Company has received

are showing some effect, and since it is difficult to reasonably calculate the impact on earnings for the fiscal year ending May 2021, the Company has not released its earnings forecast yet. We will promptly announce it when it becomes possible to reasonably make earnings forecast.

### (3) Intensifying competition

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

### (4) Occurrence of large-scale damages

If large-scale damages are incurred due to product defects and other causes and cannot be covered by insurance, it may affect the Group's business performance.

### (5) Delays in product development

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

### (6) Delays and other problems in the supply of materials

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

### (7) Changes in overseas situations

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

### (8) Litigations and other legal proceedings

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

### (9) Relationships with business alliance partners

With the aim of business expansion and enhancing competitiveness, the Group proactively pursues various alliances with third parties. However, if these alliances do not deliver

expected results due to a failure in forging favorable relationships with partners, the Group may face an impact on its performance.

### (10) Exchange rate fluctuations

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

### (11) Fluctuations in the value of holding assets

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

### (12) Changes in financial conditions

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

### (13) Breach of confidential information

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

### (14) Domestic and foreign laws and regulations

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

## Information Security

### Basic policy

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

### Information security training

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

**Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2019 (from June 1, 2019 to May 31, 2020) are as follows:**

**Results of Operation**

**Orders received**  
YoY -5.3%

Orders received decreased 5.3% compared with the previous fiscal year to 38,527 million yen due to a decrease in orders received in the Transportation Systems segment, the Industrial Systems segment, and the Information Equipment Systems segment.

**Net sales**  
YoY -5.1%

Net sales decreased 5.1% compared with the previous fiscal year to 39,071 million yen due to a decrease in the Transportation Systems segment.

**Profit/Loss**  
**Net Income attributable to owners of the parent**  
YoY +56.7%

From a profit perspective, operating income increased 91.5% compared with the previous fiscal year to 1,068 million yen. Ordinary income increased 143.5% compared with the previous fiscal year to 1,207 million yen. Net income attributable to owners of the parent increased 56.7% to 1,081 million yen, as a result of efforts to cut some cross-shareholdings.

**Financial Position**

**Assets**  
**Total Assets**  
55,165 million yen

Total assets as of May 31, 2020 stood at 55,165 million yen, a decrease of 2,836 million yen compared with the end of the previous fiscal year. The decrease in total assets was largely attributable to a decrease of 758 million yen in property, plant and equipment and a decrease of 2,421 million yen in investment securities, offset by an increase of 1,053 million yen in cash on hand and in banks.

**Liabilities**  
**Total liabilities**  
30,981 million yen

Total liabilities as of May 31, 2020 stood at 30,981 million yen, a decrease of 2,215 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 871 million yen in debt and a decrease of 623 million yen in deferred tax liabilities.

**Net Assets**  
**Total net assets**  
24,183 million yen

Net assets as of May 31, 2020 stood at 24,183 million yen, a decrease of 620 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a 1,448 million yen decrease in unrealized holding gain on available-for-sale securities.

**Cash Flows**

**Cash flow from operating activities**  
**Net cash provided by operating activities**  
2,148 million yen

Net cash provided by operating activities amounted to 2,148 million yen (net cash of 3,720 million yen provided in the previous fiscal year), principally due to a decrease in inventories.

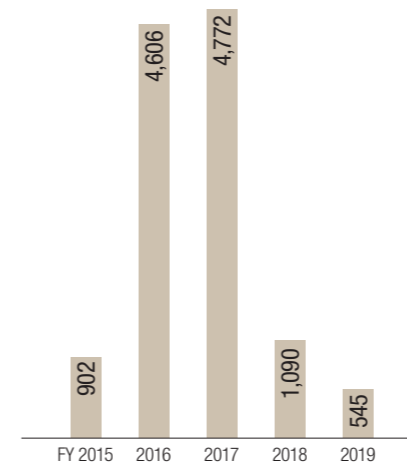
**Cash flow from investing activities**  
**Net cash provided by investing activities**  
41 million yen

Net cash provided by investing activities totaled 41 million yen (net cash of 1,019 million yen used in the previous fiscal year), principally due to 1,132 million yen of proceeds from sales of investment securities, offset by 647 million yen of purchases of property, plant and equipment.

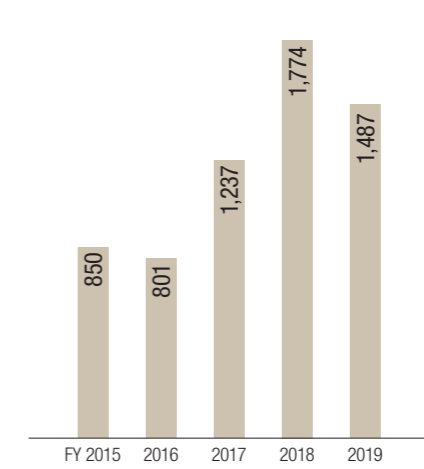
**Cash flow from financing activities**  
**Net cash used in financing activities**  
1,126 million yen

Net cash used in financing activities was 1,126 million yen (net cash of 2,012 million yen used in the previous fiscal year), primarily owing to repayment of debt.

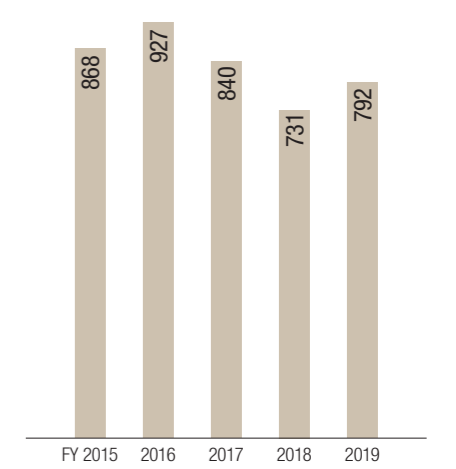
Capital investment (Unit: Million yen)



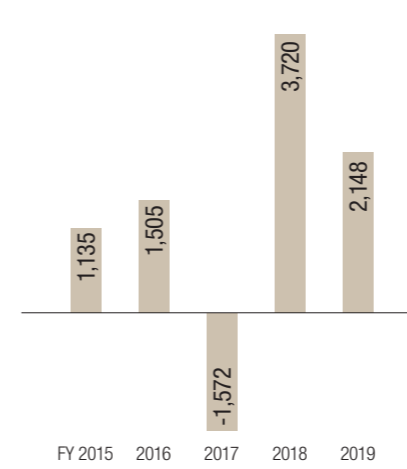
Depreciation and amortization (Unit: Million yen)



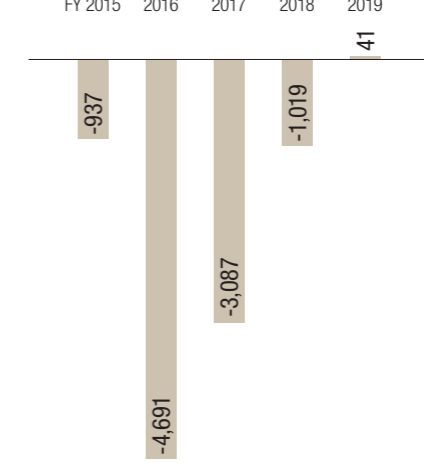
Research and development costs (Unit: Million yen)



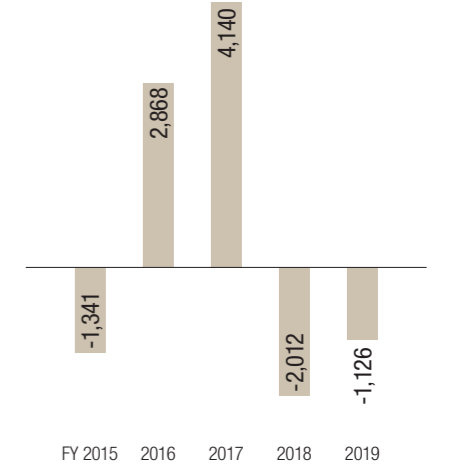
Cash flows from operating activities (Unit: Million yen)



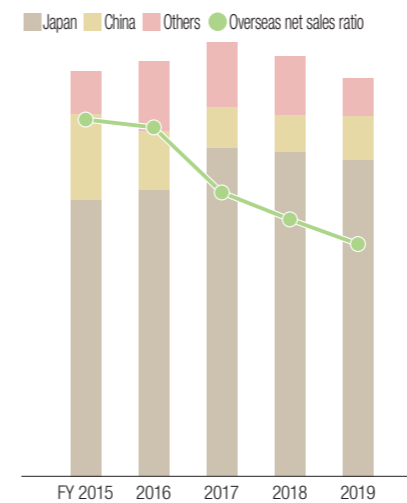
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	2016	2017	2018	2019	2020
Japan	27,094	28,006	32,124	31,745	30,997
China	8,374	5,882	4,085	3,663	4,282
Others	4,277	6,778	6,317	5,763	3,791
<b>Total</b>	<b>39,746</b>	<b>40,668</b>	<b>42,527</b>	<b>41,172</b>	<b>39,071</b>
Overseas net sales ratio	31.8%	31.1%	25.3%	22.9%	20.7%

**TOYO DENKI SEIZO K.K.**  
**Consolidated Balance Sheets**

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars) (Note 1)
<b>Assets</b>			
<b>Current assets:</b>			
Cash on hand and in banks (Notes 16 and 18)	¥ 3,293	¥ 2,240	\$ 30,632
Trade notes and accounts receivable (Notes 2 and 16)	14,135	14,192	131,453
Electronically recorded receivables (Note 16)	1,538	1,443	14,307
Inventories (Note 3)	7,178	7,571	66,755
Other current assets	139	573	1,294
Allowance for doubtful accounts	(0)	(1)	(0)
<b>Total current assets</b>	<b>26,284</b>	<b>26,019</b>	<b>244,443</b>
<b>Property, plant and equipment (Note 4):</b>			
Buildings and structures	6,753	7,090	62,809
Machinery and vehicles	1,059	1,441	9,855
Land	1,301	1,301	12,101
Construction in progress	86	31	799
Other	724	818	6,739
<b>Total property, plant and equipment</b>	<b>9,925</b>	<b>10,683</b>	<b>92,305</b>
<b>Investments and other assets (Note 5):</b>			
Investment securities (Notes 5, 16 and 17)	15,434	17,856	143,540
Deferred tax assets (Note 11)	170	164	1,583
Intangible assets	490	692	4,566
Other	2,865	2,598	26,647
Allowance for doubtful accounts	(6)	(12)	(63)
<b>Total investments and other assets</b>	<b>18,954</b>	<b>21,299</b>	<b>176,273</b>
<b>Total assets (Note 20)</b>	<b>¥55,165</b>	<b>¥58,001</b>	<b>\$513,022</b>

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars) (Note 1)
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Trade notes and accounts payable (Notes 2 and 16)	¥ 2,224	¥ 2,670	\$ 20,683
Electronically recorded payables (Note 16)	5,877	5,944	54,659
Short-term borrowings and current portion of long-term debt (Notes 6 and 16)	2,207	2,462	20,528
Income taxes payable (Note 11)	334	320	3,106
Accrued expenses	606	678	5,640
Accrued directors' bonuses	36	38	340
Accrued employees' bonuses	876	819	8,155
Reserve for losses on order acknowledgements (Note 3)	732	570	6,814
Other	773	1,258	7,191
<b>Total current liabilities</b>	<b>13,669</b>	<b>14,763</b>	<b>127,118</b>
<b>Long-term liabilities:</b>			
Long-term debt (Notes 6, 16 and 19)	12,344	12,961	114,799
Deferred tax liabilities (Note 11)	930	1,554	8,650
Liability for retirement benefits (Note 7)	4,010	3,893	37,292
Long-term payables	25	20	232
Other	3	4	28
<b>Total long-term liabilities</b>	<b>17,312</b>	<b>18,433</b>	<b>161,003</b>
<b>Commitments and contingencies (Note 14)</b>			
<b>Net assets (Notes 8 and 15):</b>			
<b>Shareholders' equity:</b>			
Common stock	¥ 4,998	¥ 4,998	\$ 46,483
Capital surplus	3,177	3,177	29,549
Retained earnings	11,610	10,797	107,978
Treasury stock	(1,280)	(1,280)	(11,911)
<b>Total shareholders' equity</b>	<b>18,505</b>	<b>17,693</b>	<b>172,100</b>
<b>Accumulated other comprehensive income:</b>			
Unrealized holding gain on securities	5,727	7,176	53,266
Translation adjustments	79	126	739
Retirement benefits liability adjustments (Note 7)	(129)	(192)	(1,206)
<b>Total accumulated other comprehensive income</b>	<b>5,677</b>	<b>7,110</b>	<b>52,799</b>
<b>Total net assets</b>	<b>24,183</b>	<b>24,804</b>	<b>224,900</b>
<b>Total liabilities and net assets</b>	<b>¥55,165</b>	<b>¥58,001</b>	<b>\$513,022</b>

See notes to consolidated financial statements.



**TOYO DENKI SEIZO K.K.**  
**Consolidated Statements of Income**

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Net sales</b> (Note 20)	¥39,071	¥41,172	\$363,355
<b>Cost of sales</b> (Note 3)	30,828	33,333	286,700
<b>Gross profit</b>	8,242	7,839	76,654
<b>Selling, general and administrative expenses</b> (Note 9)	7,174	7,281	66,719
Operating income (Note 20)	1,068	557	9,935
<b>Non-operating income (expenses):</b>			
Interest and dividend income	235	244	2,188
Interest expense	(83)	(143)	(780)
Equity in (losses) earnings of unconsolidated subsidiaries and affiliates	(39)	10	(362)
Foreign exchange loss	(56)	(82)	(528)
Insurance claim income related to disaster	104	—	969
Subsidy income	40	—	371
Disaster recover expenses	(79)	—	(742)
Other income (expenses), net	19	(89)	182
	139	(61)	1,297
Ordinary income	1,207	495	11,232
<b>Special gains, net</b> (Note 10)	445	750	4,146
Income before income taxes	1,653	1,246	15,378
<b>Income taxes</b> (Note 11):			
Current	577	448	5,368
Deferred	(5)	107	(49)
	571	556	5,318
<b>Net income</b>	1,081	690	10,060
<b>Net income attributable to non-controlling interests</b>	—	—	—
<b>Net income attributable to owners of the parent</b>	¥ 1,081	¥ 690	\$ 10,060

See notes to consolidated financial statements.

**TOYO DENKI SEIZO K.K.**  
**Consolidated Statements of Comprehensive Income**

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Net income</b>	¥1,081	¥ 690	\$ 10,060
<b>Other comprehensive loss</b> (Note 12):			
Unrealized holding loss on securities	(1,448)	(934)	(13,474)
Translation adjustments	(12)	19	(113)
Retirement benefits liability adjustments	62	54	583
Share of other comprehensive loss of affiliates accounted for by the equity method	(34)	(81)	(325)
Total other comprehensive loss	(1,433)	(941)	(13,330)
<b>Comprehensive loss</b>	¥ (351)	¥ (251)	\$ (3,270)
<b>Comprehensive loss attributable to:</b>			
Owners of the parent	¥ (351)	¥ (251)	\$ (3,270)
Non-controlling interests	—	—	—

See notes to consolidated financial statements.

**TOYO DENKI SEIZO K.K.**  
**Consolidated Statements of Changes in Net Assets**

	(Millions of yen)									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
<b>Balance as of June 1, 2018</b>	¥4,998	¥3,177	¥10,579	¥(480)	¥18,274	¥8,111	¥188	¥(247)	¥8,052	¥26,327
<b>Changes during the year</b>										
Cash dividends paid	—	—	(472)	—	(472)	—	—	—	—	(472)
Net income attributable to owners of the parent	—	—	690	—	690	—	—	—	—	690
Purchases of treasury stock	—	—	—	(800)	(800)	—	—	—	—	(800)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(934)	(61)	54	(941)	(941)
Total changes during the year	—	—	218	(800)	(581)	(934)	(61)	54	(941)	(1,523)
<b>Balance as of May 31, 2019</b>	¥4,998	¥3,177	¥10,797	¥(1,280)	¥17,693	¥7,176	¥126	¥(192)	¥7,110	¥24,804
<b>Balance as of June 1, 2019</b>	¥4,998	¥3,177	¥10,797	¥(1,280)	¥17,693	¥7,176	¥126	¥(192)	¥7,110	¥24,804
<b>Changes during the year</b>										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net income attributable to owners of the parent	—	—	1,081	—	1,081	—	—	—	—	1,081
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(1,448)	(47)	62	(1,433)	(1,433)
Total changes during the year	—	—	813	(0)	812	(1,448)	(47)	62	(1,433)	(620)
<b>Balance as of May 31, 2020</b>	¥4,998	¥3,177	¥11,610	¥(1,280)	¥18,505	¥5,727	¥ 79	¥(129)	¥5,677	¥24,183

	(Thousands of U.S. dollars) (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
<b>Balance as of June 1, 2019</b>	\$46,483	\$29,549	\$100,413	\$(11,905)	\$164,541	\$66,741	\$1,178	\$(1,789)	\$66,129	\$230,670
<b>Changes during the year</b>										
Cash dividends paid	—	—	(2,494)	—	(2,494)	—	—	—	—	(2,494)
Net income attributable to owners of the parent	—	—	10,060	—	10,060	—	—	—	—	10,060
Purchases of treasury stock	—	—	—	(6)	(6)	—	—	—	—	(6)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(13,474)	(439)	583	(13,330)	(13,330)
Total changes during the year	—	—	7,565	(6)	7,559	(13,474)	(439)	583	(13,330)	(5,770)
<b>Balance as of May 31, 2020</b>	\$46,483	\$29,549	\$107,978	\$(11,911)	\$172,100	\$53,266	\$739	\$(1,206)	\$52,799	\$224,900

See notes to consolidated financial statements.

**TOYO DENKI SEIZO K.K.**  
**Consolidated Statements of Cash Flows**

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Operating activities</b>			
Income before income taxes	¥1,653	¥1,246	\$15,378
Depreciation and amortization	1,487	1,774	13,836
Reversal of allowance for doubtful accounts	(7)	(0)	(66)
Provision for accrued employees' bonuses	57	5	531
Increase in liability for retirement benefits	138	37	1,291
Interest and dividend income	(235)	(244)	(2,188)
Interest expense	83	143	780
Insurance claim income related to disaster	(104)	—	(969)
Subsidy income	(40)	—	(371)
Disaster recover expenses	79	—	742
Gain on sales of investment securities	(447)	(804)	(4,163)
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(64)	2,527	(599)
Inventories	372	290	3,466
Trade notes and accounts payable	(481)	(1,790)	(4,479)
Reserve for losses on order acknowledgements	166	(134)	1,551
Advances received	(13)	(129)	(124)
Accrued expenses	(64)	(170)	(602)
Other, net	(164)	1,076	(1,526)
Subtotal	2,418	3,828	22,488
Interest and dividend income received	235	259	2,188
Interest expense paid	(91)	(146)	(851)
Proceeds from insurance income related to disaster	104	—	969
Subsidies received	40	—	371
Payments for disaster recover expenses	(79)	—	(742)
Income taxes paid	(477)	(221)	(4,441)
Net cash provided by operating activities	2,148	3,720	19,983
<b>Investing activities</b>			
Purchases of property, plant and equipment	(647)	(2,277)	(6,018)
Purchases of intangible assets	(33)	(49)	(310)
Purchases of investment securities	(14)	(260)	(133)
Proceeds from sales of investment securities	1,132	1,441	10,532
Payments of loans receivable	(26)	—	(247)
Collection of loans receivable	—	35	—
Payments for investments in capital of subsidiaries and affiliates	(338)	—	(3,149)
Other, net	(31)	92	(291)
Net cash provided by (used in) investing activities	41	(1,019)	381
<b>Financing activities</b>			
Decrease in short-term loans payable	(287)	(1,990)	(2,672)
Increase in long-term debt	—	4,600	—
Repayment of long-term debt	(568)	(3,355)	(5,286)
Purchases of treasury stock	(0)	(800)	(6)
Cash dividends paid	(268)	(471)	(2,495)
Other, net	(1)	4	(10)
Net cash used in financing activities	(1,126)	(2,012)	(10,471)
<b>Effect of exchange rate change on cash and cash equivalents</b>	(10)	(4)	(95)
<b>Net increase in cash and cash equivalents</b>	1,053	685	9,798
<b>Cash and cash equivalents at beginning of period</b>	2,240	1,555	20,834
<b>Cash and cash equivalents at end of period (Note 18)</b>	¥3,293	¥2,240	\$30,632

See notes to consolidated financial statements.

**TOYO DENKI SEIZO K.K.**  
**Notes to Consolidated Financial Statements**

**1. Summary of Significant Accounting Policies**

*(a) Basis of presentation*

The accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. (the "Company") and consolidated subsidiaries (collectively the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million yen and thousand U.S. dollars, respectively, in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

*(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates*

The accompanying consolidated financial statements included the accounts of the Company and any significant companies controlled directly or indirectly by the Company.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. The Company applies the "Practical Solution of Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using Equity Method" (PITF No. 24). In accordance with these PITF, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with either IFRS or accounting principles generally accepted in the United States as adjusted for certain items including goodwill, actuarial differences and capitalized development costs.

As of May 31, 2020, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 3 in 2019). A subsidiary, TOYO DENKI USA, INC., for which fiscal year end is December 31, is consolidated by using their pro forma financial statements as of March 31 which are prepared solely for consolidation purposes and necessary adjustments are made to their financial statements to reflect any significant transactions from April 1 to May 31. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates which are neither consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

*(c) Foreign currency translation*

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments in the consolidated financial statements.

*(d) Cash and Cash equivalents*

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less from the date of purchase, which can easily be converted to cash and are subject to little risk of change in value.

*(e) Inventories*

Inventories are stated principally at the lower of cost or net realizable value, cost being determined principally by the specific identification method for finished products and work in process and by the moving average cost method for raw material and supplies.

*(f) Short-term investments and investment securities*

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities (available-for-sale securities). Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Available-for-sale securities with market quotation are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Available-for-sale securities without market quotation are carried at cost. Cost of securities sold is determined by the moving average method.

*(g) Property, plant and equipment (except for leased assets) and depreciation*

Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value, while buildings except for facilities attached to buildings acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after June 1, 2016 are depreciated by the straight-line method. The estimated useful lives of these assets are as follows:

Buildings and structures:	8 to 60 years
Machinery and vehicles:	3 to 12 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

*(h) Intangible assets (except for leased assets)*

Intangible assets are amortized using the straight-line method. Software for internal use is amortized over the internal available period (5 years) using the straight-line method.

*(i) Leases*

Leased assets capitalized under the finance lease arrangements which do not transfer ownership to the lessee are depreciated over the lease period without any residual value using the straight-line method.

All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

*(j) Allowance for doubtful accounts*

Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

*(k) Accrued directors' bonuses*

Accrued directors' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future for the performance incentive bonuses.

*(l) Accrued employees' bonuses*

Accrued employees' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future.

*(m) Reserve for losses on order acknowledgements*

Reserve for losses on order acknowledgements is provided based on the amounts expected to be incurred during the current fiscal year and which are able to estimate the losses reasonably to cover the future losses on order acknowledgements. Provision of reserve for losses on order acknowledgements in the amounts of ¥166 million (\$1,551 thousand) and ¥(134) million is included in cost of sales for the years ended May 31, 2020 and 2019, respectively.

*(n) Retirement benefits*

Retirement benefit obligation is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Prior service cost is amortized as incurred by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.

Actuarial differences are amortized by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees from the following year when incurred.

*(o) Income taxes*

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the temporary differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

*(p) Construction revenue and costs*

Construction revenue and construction costs are recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The percentage of completion is measured based on the percentage of the costs incurred to the estimated total costs. For other construction contracts, the completed-contract method is applied.

*(q) Research and development expenses*

Research and development expenses are charged to income when incurred.

*(r) Consumption taxes*

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

*(s) Derivative financial instruments*

The Company and certain consolidated subsidiaries enter into various derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for these which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Deferred hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions and hedged items are primarily interest on debts. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same.

*(t) Accounting standards issued but not yet effective*

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30).

(1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") of the U.S. have jointly developed a comprehensive accounting standard for revenue recognition. In May 2014, the IASB and the FASB each issued "Revenue from Contracts with Customers" (IASB: IFRS 15 and FASB: Topic 606). Considering that IFRS 15 has been applied from fiscal years beginning on or after January 1, 2018 and Topic 606 has been applied from fiscal years beginning after December 15, 2017, the ASBJ has developed a comprehensive accounting standard for revenue recognition, which was issued together with its implementation guidance.

As a basic policy in developing the accounting standard for revenue recognition, the ASBJ has incorporated the basic principles of IFRS 15 from the viewpoint of comparability between financial statements, a factor essential for facilitating consistency with IFRS 15. In addition, if there are any business practices in Japan for which consideration is required, alternative accounting treatments shall be added to the accounting standard to the extent that they do not impair comparability.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending May 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

## 2. Other Explanatory Information

### Note 1. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥107.53=U.S.\$1, the approximate rate of exchange prevailing at May 31, 2020. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

### Note 2. Notes Receivable and Payable

As May 31, 2020 fell on a bank holiday, the following notes receivable and payable are deemed to have been settled on the maturity date:

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars)
Notes receivable	¥64	¥—	\$602
Notes payable	6	—	64

### Note 3. Inventories

Inventories as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars)
Goods and finished products	¥ 756	¥ 991	\$ 7,035
Work in process	3,424	3,504	31,850
Raw materials and supplies	2,996	3,074	27,869
	¥7,178	¥7,571	\$66,755

Inventories were stated at the lower of cost or net realizable value and the Company recognized losses on write-down of inventories held for the ordinary sales purpose due to a decline in profitability in the amount of ¥212 million (\$1,976 thousand) and ¥92 million for the years ended May 31, 2020 and 2019, respectively. These amounts were included in "Cost of sales."

Inventories related to construction contracts which are estimated to make losses were stated after deducting the corresponding reserve for losses on order acknowledgements in the following amounts:

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars)
Goods and finished products	¥ 2	¥84	\$ 26
Work in process	135	13	1,262
	¥138	¥97	\$1,288

### Note 4. Property, Plant and Equipment

The following table sets forth the acquisition costs and related accumulated depreciation:

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars)
Buildings and structures	¥ 12,269	¥ 12,210	\$ 114,100
Machinery and vehicles	8,179	8,174	76,071
Other	4,654	4,410	43,287
	25,103	24,795	233,459
Accumulated depreciation	(16,565)	(15,444)	(154,054)
	¥ 8,538	¥ 9,351	\$ 79,405

Depreciation of property, plant and equipment for the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars)
	¥1,487	¥1,774	\$13,836

Accumulated depreciation of property, plant and equipment amounted to ¥16,565 million (\$154,054 thousand) and ¥15,444 million as of May 31, 2020 and 2019, respectively.

### Note 5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investment securities" as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars)
Investments in capital	¥2,158	¥1,893	\$20,073

### Note 6. Short-Term Borrowings and Long-Term Debt

As of May 31, 2020 and 2019, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars)
Loans, principally from banks	¥1,590	¥1,893	\$14,787
Current portion of long-term debt	617	568	5,740
	¥2,207	¥2,462	\$20,528

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2020 were 0.584% and 0.647%, respectively.

As of May 31, 2020 and 2019, long-term debts were as follows:

As of	May 31, 2020 (Millions of yen)	May 31, 2019	May 31, 2020 (Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2021 through 2032	¥12,344	¥12,961	\$114,799

The annual weighted average interest rate applicable to long-term debt as of May 31, 2020 was 0.419%.

The maturities of long-term debt are summarized as follows:

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2021	¥ 617	\$ 5,740
2022	585	5,443
2023	585	5,443
2024	885	8,232
2025 and thereafter	10,288	95,680
	¥12,961	\$120,540

The assets pledged as collateral for short-term borrowings of ¥2,147 million (\$19,970 thousand) and long-term debt of ¥3,864 million (\$35,938 thousand) as of May 31, 2020 were as follows:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥5,768	\$53,644
Machinery and vehicles	588	5,469
Other property, plant and equipment	436	4,057
Land	1,232	11,461
	¥8,025	\$74,632

The following assets included in the above are set by factory foundation fixed collateral security for short-term borrowings of ¥1,622 million (\$15,085 thousand) as of May 31, 2020:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,542	\$14,345
Machinery and vehicles	588	5,469
Other property, plant and equipment	436	4,057
	¥2,566	\$23,871

#### Note 7. Retirement Benefit Plans

The Company and its consolidated subsidiaries have retirement benefit plans combined by defined contribution plans and lump-sum payment plans.

The Company and its consolidated subsidiaries introduced the point system in the lump-sum payment plans, under which retirement benefit amounts are computed based on the accumulated points granted according to the job ranking and performances.

Under the lump-sum payment plans held by certain consolidated subsidiaries, the liability for retirement benefits and retirement benefit expenses are calculated using a simplified method.

The changes in the retirement benefit obligation during the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥3,893	¥3,862	\$36,204
Service cost	290	293	2,699
Interest cost	14	14	136
Actuarial loss	(21)	(7)	(204)
Retirement benefits paid	(166)	(270)	(1,544)
Retirement benefit obligation as of May 31	¥4,010	¥3,893	\$37,292

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,010	¥3,893	\$37,292
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,010	3,893	37,292
Liability for retirement benefits	¥4,010	¥3,893	\$37,292
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,010	3,893	37,292

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Service cost	¥290	¥293	\$2,699
Interest cost	14	14	136
Amortization of actuarial loss	68	71	637
Retirement benefit expenses	¥373	¥379	\$3,473

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Actuarial gain	¥90	¥78	\$841
Total	¥90	¥78	\$841

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥186	¥277	\$1,738
Total	¥186	¥277	\$1,738

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019
Discount rate	0.4%	0.4%

Note: The Company does not use the expected rate of salary increase in computing retirement benefit obligation since the Company adopts the point system.

The amounts of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries were ¥118 million (\$1,097 thousand) and ¥117 million for the years ended May 31, 2020 and 2019, respectively.

#### Note 8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2020 and 2019 was as follows:

##### a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2020

Type of shares	Number of shares as of June 1, 2019	Increase		Number of shares as of May 31, 2020
		Increase	Decrease	
(Shares)				
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	792,966	437	—	793,403

Details of the increase are as follows:

Increase due to purchase of shares of less than standard unit

437 shares

For the year ended May 31, 2019

Type of shares	Number of shares as of June 1, 2018	Increase	Decrease	Number of shares as of May 31, 2019
<b>Shares issued:</b>				
Common stock	9,735,000	—	—	9,735,000
<b>Treasury stock:</b>				
Common stock	291,907	501,059	—	792,966
Details of the increase are as follows:				
Increase due to purchase of shares of less than standard unit		1,059 shares		
Increase due to purchase of treasury stock based on the resolution of the Board of Directors' meeting		500,000 shares		

b. Dividends

1) Dividends paid

For the year ended May 31, 2020

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 28, 2019	Common stock	¥268	\$2,495	¥30.00	\$0.27	May 31, 2019	August 29, 2019

For the year ended May 31, 2019

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 28, 2018	Common stock	¥472	¥50.00	May 31, 2018	August 29, 2018

2) Dividends with the cut-off date in the year ended May 31, 2020 and the effective date in the year ending May 31, 2021

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 26, 2020	Common stock	¥268	\$2,495	Retained earnings	¥30.00	\$0.27	May 31, 2020	August 27, 2020

**Note 9. Selling, General and Administrative Expenses**

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,931	¥1,979	\$17,961
Provision for accrued directors' bonuses	36	38	340
Provision for accrued employees' bonuses	348	326	3,241
Retirement benefit expenses	216	216	2,013
Provision for allowance for doubtful accounts	(1)	(0)	(14)
Research and development expenses	792	731	7,373

**Note 10. Special Gains (Losses), Net**

The components of "Special gains (losses), net" for the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Special gains:</b>			
Gain on sales of investment securities	¥447	¥804	\$4,163
<b>Special losses:</b>			
Commemorative project cost for the 100 <sup>th</sup> anniversary of foundation	—	(53)	—
Loss on valuation of investment securities	1	—	17
<b>Total</b>	<b>¥445</b>	<b>¥750</b>	<b>\$4,146</b>

**Note 11. Income Taxes**

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.6% for the years ended May 31, 2020 and 2019. Income taxes of a foreign consolidated subsidiary are based generally on the tax rates applicable in the country of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the years ended May 31, 2020 and 2019 was as follows:

For the Years Ended	May 31, 2020	May 31, 2019
Effective statutory tax rate	30.6%	30.6%
Effect of:		
Non-deductible expenses for income tax purpose	1.2	2.1
Non-taxable income such as dividends income, etc.	(0.9)	(1.1)
Per capita inhabitant tax	1.7	2.3
Valuation allowance	4.8	7.2
Income from affiliates accounted for by the equity method	0.7	(0.2)
Difference arising from the rates used by subsidiaries	1.5	2.1
Retained profit of affiliates	(0.2)	3.2
Research and development tax credit	(1.2)	(1.3)
Investment incentive tax credit	(2.5)	—
Other	(1.1)	(0.3)
<b>Effective tax rate</b>	<b>34.6%</b>	<b>44.6%</b>

The significant components of deferred tax assets and liabilities as of May 31, 2020 and 2019 were as follows:

As of	May 31,	May 31,	May 31,
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 235	¥ 210	\$ 2,192
Liability for retirement benefits	1,234	1,198	11,478
Accrued employees' bonuses	274	256	2,553
Reserve for losses on order acknowledgements	104	123	971
Net operating loss carryforwards (Note 1)	472	553	4,394
Other	333	258	3,102
Total gross deferred tax assets	2,655	2,600	24,693
Valuation allowance for net operating loss carryforwards (Note 1)	(466)	(382)	(4,335)
Valuation allowance for deductible temporary differences	(359)	(363)	(3,338)
Total valuation allowance	(825)	(745)	(7,674)
Total deferred tax assets	1,830	1,855	17,018
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,541)	(3,193)	(23,638)
Other	(48)	(50)	(447)
Total deferred tax liabilities	(2,589)	(3,244)	(24,085)
Net deferred tax liabilities	¥ (759)	¥(1,389)	\$ (7,067)

(Note 1) The breakdown of net operating loss carryforwards and valuation allowance by expiry date is as follows:  
Year ended May 31, 2020

(Millions of yen)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
Net operating loss carry forwards (a)	¥—	¥—	¥5	¥—	¥39	¥427	¥472
Valuation allowance	—	—	(5)	—	(33)	(427)	(466)
Deferred tax assets	—	—	—	—	6	—	6(b)

(Thousands of U.S. dollars)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
Net operating loss carry forwards (a)	\$—	\$—	\$46	\$—	\$370	\$ 3,977	\$ 4,394
Valuation allowance	—	—	(46)	—	(311)	(3,977)	(4,335)
Deferred tax assets	—	—	—	—	59	—	59(b)

(a) The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.  
(b) Deferred tax assets of ¥6 million (\$59 thousand) is recognized on net operating loss carryforwards of ¥472 million (\$4,394 thousand) (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥6 million (\$59 thousand) is recognized on the net operating loss carryforwards of ¥6 million (\$59 thousand) (amount multiplied by the effective statutory tax rate) of Toyo Koki Co., Ltd., which is a consolidated subsidiary of the Company.

Year ended May 31, 2019

(Millions of yen)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
Net operating loss carry forwards (a)	¥—	¥—	¥8	¥5	¥—	¥540	¥553
Valuation allowance	—	—	—	(5)	—	(377)	(382)
Deferred tax assets	—	—	8	—	—	163	171(b)

(a) The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.  
(b) Deferred tax assets of ¥171 million is recognized on net operating loss carryforwards of ¥553 million (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥171 million is recognized on the net operating loss carryforwards of ¥154 million (amount multiplied by the effective statutory tax rate) of the Company and that of ¥16 million (amount multiplied by the effective statutory tax rate) of Toyo Koki Co., Ltd., which is a consolidated subsidiary of the Company. The net operating loss carryforwards which resulted in deferred tax assets for the Company were generated from the devaluation loss on shares of subsidiaries of ¥551 million which became tax deductible for the year ended May 31, 2018, and the valuation allowance is not recognized because the management considered it to be recoverable considering the prospects of future taxable income and its plans of selling shares held for strategic purpose.

#### Note 12. Other Comprehensive Loss

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive loss for the years ended May 31, 2020 and 2019:

For the Years Ended	May 31,	May 31,	May 31,
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding loss on securities:			
Amount arising during the year	¥(1,653)	¥ (533)	\$(15,375)
Reclassification adjustments for gains and losses included in net income	(447)	(804)	(4,163)
Amount before tax effect	(2,100)	(1,337)	(19,538)
Tax effect	652	403	6,063
Unrealized holding loss on securities	(1,448)	(934)	(13,474)
Translation adjustments			
Amount arising during the year	(12)	19	(113)
Amount before tax effect	(12)	19	(113)
Translation adjustments	(12)	19	(113)
Retirement benefits liability adjustments			
Amount arising during the year	21	7	204
Reclassification adjustments for gains and losses included in net income	68	71	637
Amount before tax effect	90	78	841
Tax effect	(27)	(24)	(257)
Retirement benefits liability adjustments	62	54	583
Share of other comprehensive loss of affiliates accounted for by the equity method			
Amount arising during the year	(34)	(81)	(325)
Share of other comprehensive loss of affiliates accounted for by the equity method	(34)	(81)	(325)
Total other comprehensive loss	¥(1,433)	¥ (941)	\$(13,330)

#### Note 13. Lease Transactions

The information about finance leases that do not transfer ownership of the leased property to the lessee is omitted since there is no materiality in terms of value.

**Note 14. Contingent Liabilities**

As of May 31, 2020 and 2019, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥334	¥327	\$3,111
Beijing Jingche Shuangyang Traction System Co., Ltd.	181	78	1,684

**Note 15. Amounts Per Share**

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥120.98	¥75.27	\$1.12

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Yen)		(U.S. dollars)
Net assets	¥2,704.61	¥2,773.87	\$25.15

Note: Diluted net income per share is omitted since there is no dilution of equity.

The bases for calculation are as follows:

**Basic net income per share**

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥1,081	¥690	\$10,060
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	1,081	690	10,060

	(Thousand shares)	
Average number of shares of common stock during the year	8,941	9,173

**Note 16. Financial Instruments****Overview****(1) Policy for financial instruments**

The Group raises its necessary funds for capital investments to reinforce and renew production facilities and working capital principally through bank borrowings. The Group manages temporary cash surpluses through low risk financial assets. The Group uses derivatives in order to avoid the following risks and does not enter into derivatives for speculative or trading purposes.

**(2) Types of financial instruments and related risk**

Trade receivables—trade notes and accounts receivable and electronically recorded receivables—are exposed to credit risk in relation to customers. Trade receivables denominated in foreign currencies arising from international business are exposed to foreign exchange fluctuation risk, but the Group utilizes forward foreign exchange contracts to reduce such risk as a hedging instrument.

Investment securities are composed of mainly the shares of common stock of other companies with which the Group has business relationships and exposed to market risk.

Certain long-term debt raised for the purpose of making capital investments with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions as a hedging instrument.

Regarding hedging instruments and hedged items in hedge accounting, hedging policy, and assessment of the effectiveness of hedging activities, etc., please see “1. Summary of Significant Accounting Policies (s) Derivative financial instruments.”

**(3) Risk management for financial instruments****(a) Monitoring of credit risk (the risk that customers or counterparties may default)**

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

Investment securities are composed of mainly the shares of common stock of highly rated companies with which the Group has business relationships. Accordingly, the Group believes that the credit risk deriving from such investment securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

**(b) Monitoring of market risks (the risk arising from fluctuations in foreign exchange rates, interest rates and others)**

The Group utilizes interest rate swap transactions to reduce interest rate fluctuation risk on long-term debt.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions. Monthly reports including actual transactions data are submitted to the Board of Directors for their review.

**(c) Monitoring of liquidation risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)**

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidation risk.

**(4) Supplementary explanation of the estimated fair value of financial instruments**

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 19, Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

**Estimated Fair value of Financial Instruments**

Carrying value of financial instruments on the consolidated balance sheets as of May 31, 2020 and 2019 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below):

As of May 31, 2020	Carrying value	Fair value	Difference
	(Millions of yen)		
<b>Assets</b>			
1) Cash on hand and in banks	¥ 3,293	¥ 3,293	¥—
2) Trade notes and accounts receivable	14,135	14,135	—
3) Electronically recorded receivables	1,538	1,538	—
4) Investment securities	14,369	14,369	—
Total assets	¥33,337	¥33,337	¥—
<b>Liabilities</b>			
5) Trade notes and accounts payable	¥ 2,224	¥ 2,224	¥—
6) Electronically recorded payables	5,877	5,877	—
7) Short-term borrowings	1,590	1,590	—
8) Long-term debt	12,961	13,005	43
Total liabilities	¥22,653	¥22,696	¥43
9) Derivative transactions*	¥ —	¥ —	¥—



As of May 31, 2020

	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
<b>Assets</b>			
1) Cash on hand and in banks	\$ 30,632	\$ 30,632	\$ —
2) Trade notes and accounts receivable	131,453	131,453	—
3) Electronically recorded receivables	14,307	14,307	—
4) Investment securities	133,634	133,634	—
Total assets	\$310,028	\$310,028	\$ —
<b>Liabilities</b>			
5) Trade notes and accounts payable	\$ 20,683	\$ 20,683	\$ —
6) Electronically recorded payables	54,659	54,659	—
7) Short-term borrowings	14,787	14,787	—
8) Long-term debt	120,540	120,944	404
Total liabilities	\$210,670	\$211,075	\$404
9) Derivative transactions*	\$ —	\$ —	\$ —

\*Derivative transactions are presented in a net amount of receivables and payables and net payables are shown in parenthesis.

As of May 31, 2019

	Carrying value	Fair value	Difference
	(Millions of yen)		
<b>Assets</b>			
1) Cash on hand and in banks	¥ 2,240	¥ 2,240	¥—
2) Trade notes and accounts receivable	14,192	14,192	—
3) Electronically recorded receivables	1,443	1,443	—
4) Investment securities	16,790	16,790	—
Total assets	¥34,667	¥34,667	¥—
<b>Liabilities</b>			
5) Trade notes and accounts payable	¥ 2,670	¥ 2,670	¥—
6) Electronically recorded payables	5,944	5,944	—
7) Short-term borrowings	1,893	1,893	—
8) Long-term debt	13,530	13,594	63
Total liabilities	¥24,039	¥24,103	¥63
9) Derivative transactions*	¥ —	¥ —	¥—

\*Derivative transactions are presented in a net amount of receivables and payables and net payables are shown in parenthesis.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

**Assets:**

*Cash on hand and in banks, trade notes and accounts receivable and electronically recorded receivables*

Since these items are settled in a short period of time, their carrying value approximates fair value.

However, if they are settled in a long period of time, the fair value of receivables is based on the present value of the receivables classified by definite periods discounted using interest rates on the corresponding period until settlement.

*Investment securities*

The fair value of stocks is based on quoted market prices. Investment securities held by the Group are classified as available-for-sale securities and please see Note 17 "Securities."

**Liabilities:**

*Trade notes and accounts payable, electronically recorded payables and short-term borrowings*

Since these items are settled in a short period of time, their carrying value approximates fair value.

*Long-term debt*

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. The fair value of long-term debt with variable interest rates, which is hedged by the interest rate swaps and to which hedge accounting is applied (refer to the following paragraph), is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

*Derivative transactions*

The fair value of interest rate swaps accounted for by the hedge accounting is included in the fair value of the related long-term debt, since such interest rate swaps are accounted for together with long-term debt as hedged items.

The fair value of interest rate swaps accounted for by the normal method is determined based on the price, etc. provided by the financial institutions.

2. Financial instruments for which it is extremely difficult to determine the fair value

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥1,065	¥1,065	\$9,905

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

3. Redemption schedule for receivables and securities with maturities on May 31, 2020 and 2019 were as follows:

As of May 31, 2020	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 3,291	¥ —	¥—	¥—
Trade notes and accounts receivable	13,940	194	—	—
Electronically recorded receivables	1,538	—	—	—
	¥18,770	¥194	¥—	¥—

As of May 31, 2020	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Thousands of U.S. dollars)			
Cash on hand and in banks	\$ 30,608	\$ —	\$—	\$—
Trade notes and accounts receivable	129,641	1,811	—	—
Electronically recorded receivables	14,307	—	—	—
	\$174,557	\$1,811	\$—	\$—

As of May 31, 2019	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 2,237	¥ —	¥—	¥—
Trade notes and accounts receivable	13,881	311	—	—
Electronically recorded receivables	1,443	—	—	—
	¥17,562	¥311	¥—	¥—

4. The redemption schedule for long-term debt is disclosed in Note 6.

**Note 17. Securities**

Information regarding securities classified as available-for-sale securities

**Available-for-sale securities**

As of May 31, 2020	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds acquisition cost:			
Stock	¥14,218	¥5,868	¥8,349
Subtotal	¥14,218	¥5,868	¥8,349
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 151	¥ 229	¥ (78)
Subtotal	¥ 151	¥ 229	¥ (78)
Total	¥14,369	¥6,098	¥8,271

As of May 31, 2020	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities for which carrying value exceeds acquisition cost:			
Stock	\$132,226	\$54,579	\$77,646
Subtotal	\$132,226	\$54,579	\$77,646
Securities for which acquisition cost exceeds carrying value:			
Stock	\$ 1,407	\$ 2,135	\$ (727)
Subtotal	\$ 1,407	\$ 2,135	\$ (727)
Total	\$133,634	\$56,715	\$76,919

Notes: 1. Unlisted stocks were not included in the above table because there were no quoted market prices available and they were extremely difficult to determine the fair value.  
2. Acquisition cost in the above table represents carrying value reflecting impairment losses. If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

As of May 31, 2019	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds their acquisition cost:			
Stock	¥16,594	¥6,188	¥10,405
Subtotal	¥16,594	¥6,188	¥10,405
Securities for which acquisition cost exceeds their carrying value:			
Stock	¥ 196	¥ 231	¥ (35)
Subtotal	¥ 196	¥ 231	¥ (35)
Total	¥16,790	¥6,420	¥10,370

Notes: 1. Unlisted stocks were not included in the above table because there were no quoted market prices available and they were extremely difficult to determine the fair value.  
2. Acquisition cost in the above table represents carrying value reflecting impairment losses. If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

#### Information regarding available-for-sale securities sold

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥780	¥1,556	\$7,256
Gain on sales	447	804	4,163
Loss on sales	—	—	—

#### Note 18. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2020 and 2019 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥3,293	¥2,240	\$30,632
Cash and cash equivalents	¥3,293	¥2,240	\$30,632

#### Note 19. Derivative Transactions

##### Hedging policies

The Company utilizes forward foreign exchange contracts and interest rate swaps for the purpose of hedging its exposure to fluctuations in foreign exchange rates and interest rates, respectively. However, based on internal management rules on financial market risk approved by the Company's Board of Directors, Group companies do not enter into transactions involving derivatives for speculative or trading purposes.

##### Types and purpose of derivative transactions

The Company primarily uses forward foreign exchange contracts to hedge against the fluctuations in foreign currency exchange rates on trade receivables denominated in foreign currencies and interest rate swaps to hedge against the adverse impact of fluctuations in interest rates on interest-bearing debt.

*Derivative transactions to which hedge accounting is not applied:*

As of May 31, 2020 and 2019, there were no currency-related derivatives.

*Derivative transactions to which hedge accounting is applied:*

##### Interest-related derivatives:

As of May 31, 2020	Major hedged item	Notional amount		Fair value
		Contract amount	Maturing after one year	
(Millions of yen)				
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥32	¥—	Note

As of May 31, 2020	Major hedged item	Notional amount		Fair value
		Contract amount	Maturing after one year	
(Thousands of U.S. dollars)				
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	\$297	\$—	Note

Note: Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreement is recognized and included in interest expenses. Accordingly, the fair value of interest rate swaps is included in the fair value of long-term debt. The notional amount of long-term debt includes current portion of long-term debt.

As of May 31, 2019	Major hedged item	Notional amount		Fair value
		Contract amount	Maturing after one year	
(Millions of yen)				
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥104	¥32	Note

Note: Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreement is recognized and included in interest expenses. Accordingly, the fair value of interest rate swaps is included in the fair value of long-term debt. The notional amount of long-term debt includes current portion of long-term debt.

## Note 20. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group establishes business units by product and each business unit designs domestic and overseas comprehensive strategies for its products and is developing business activities. Accordingly, the Group consists of the three reportable segments by product based on the business units, which are Transportation Systems, Industrial Systems and Information Equipment Systems.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in "1. Summary of Significant Accounting Policies." Segment profit is evaluated based on operating income.

Inter-segment sales are recorded at the same prices used in transactions with third parties.

For the year ended May 31, 2020							
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
(Millions of yen)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥24,269	¥13,023	¥1,772	¥ 5	¥39,071	¥ —	¥39,071
Inter-segment sales and transfers	12	1	—	510	524	(524)	—
	24,282	13,024	1,772	516	39,595	(524)	39,071
Segment profit	¥ 2,474	¥ 1,008	¥ 460	¥ 5	¥ 3,948	¥(2,880)	¥ 1,068
Segment assets	¥20,364	¥13,679	¥1,062	¥536	¥35,642	¥19,522	¥55,165
Other items:							
Depreciation	¥ 592	¥ 608	¥ 27	¥ 4	¥ 1,232	¥ 255	¥ 1,487
Capital expenditures	¥ 356	¥ 111	¥ 24	¥ 5	¥ 497	¥ 47	¥ 545

For the year ended May 31, 2020							
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
(Thousands of U.S. dollars)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	\$225,700	\$121,115	\$16,486	\$ 53	\$363,355	\$ —	\$363,355
Inter-segment sales and transfers	118	10	—	4,746	4,874	(4,874)	—
	225,818	121,125	16,486	4,799	368,230	(4,874)	363,355
Segment profit	\$ 23,008	\$ 9,378	\$ 4,278	\$ 53	\$ 36,719	\$(26,783)	\$ 9,935
Segment assets	\$189,385	\$127,214	\$ 9,880	\$4,986	\$331,467	\$181,555	\$513,022
Other items:							
Depreciation	\$ 5,510	\$ 5,661	\$ 252	\$ 41	\$ 11,464	\$ 2,371	\$ 13,836
Capital expenditures	\$ 3,315	\$ 1,036	\$ 226	\$ 51	\$ 4,629	\$ 443	\$ 5,072

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.

For the year ended May 31, 2019							
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
(Millions of yen)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥27,235	¥12,339	¥1,583	¥ 13	¥41,172	¥ —	¥41,172
Inter-segment sales and transfers	50	0	—	591	642	(642)	—
	27,285	12,340	1,583	605	41,814	(642)	41,172
Segment profit	¥ 2,427	¥ 650	¥ 290	¥ 34	¥ 3,401	¥(2,843)	¥ 557
Segment assets	¥20,216	¥14,310	¥1,199	¥572	¥36,300	¥21,701	¥58,001
Other items:							
Depreciation	¥ 718	¥ 691	¥ 92	¥ 1	¥ 1,503	¥ 270	¥ 1,774
Capital expenditures	¥ 595	¥ 366	¥ 109	¥ 13	¥ 1,085	¥ 5	¥ 1,090

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.

## Geographical information

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended May 31, 2020 and 2019 were summarized as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥30,997	¥31,745	\$288,272
China	4,282	3,663	39,823
Other	3,791	5,763	35,258
Consolidated	¥39,071	¥41,172	\$363,355

Note: Net sales information above is based on customers' location.

## Major customer information

Major customer information for the years ended May 31, 2020 and 2019 was omitted since there was no customer to whom sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

## Note 21. Significant Subsequent Events

There were no significant subsequent events to be noted.

## Note 22. Additional Information

In making accounting estimates such as impairment of property, plant and equipment, and recoverability of deferred tax assets, the Group has computed the amounts based on information available at the time of preparation of its consolidated financial statements. In computing those amounts, stable future cash flows obtained from continuous transactions with certain customers are used as significant assumptions in making such accounting estimates. The Group considers that the impacts from the spread of the new coronavirus infectious disease on the Group will continue for a certain period of time during the fiscal year ending May 31, 2021.



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## Independent Auditor's Report

The Board of Directors  
TOYO DENKI SEIZO K.K.

### Opinion

We have audited the accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at May 31, 2020, and the consolidated statements of income, comprehensive loss, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at May 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.



### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



### Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan


Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended May 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

August 27, 2020

磯貝 剛   
Takeshi Isogai  
Designated Engagement Partner  
Certified Public Accountant

増田 晋   
Shinichi Masuda  
Designated Engagement Partner  
Certified Public Accountant

## Stock Related Information

### Number of shares (As of May 31, 2020)

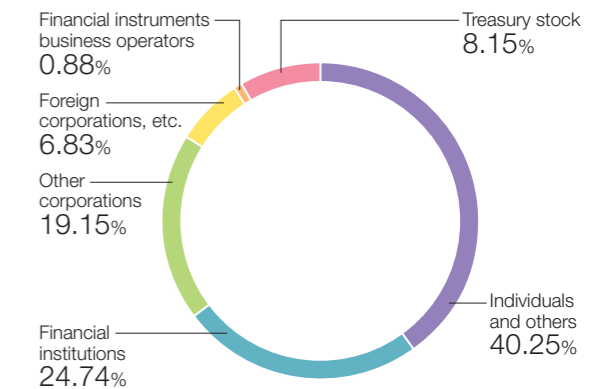
Number of shares authorized	36,000,000
Number of shares issued	9,735,000
Number of shareholders	5,614

### Major shareholders

Shareholders	Number of shares held (Thousands)	% of total shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	487	5.45
East Japan Railway Company	480	5.36
Employees Stock Ownership Plan	416	4.65
NIPPON LIFE INSURANCE COMPANY	337	3.77
MUFG Bank, Ltd.	270	3.02
Sanshin Co., Ltd.	270	3.01
Toyo Denki Subcontractor Factories Shareholding Association	257	2.87
Japan Trustee Services Bank, Ltd. (Trust account)	235	2.63
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/JANUS HENDERSON HORIZON FUND	216	2.42
Masayoshi Yamauchi	213	2.38

(Note) The percentages of total shares held are calculated excluding 793,403 treasury stocks.

### Distribution of shares by type of shareholder

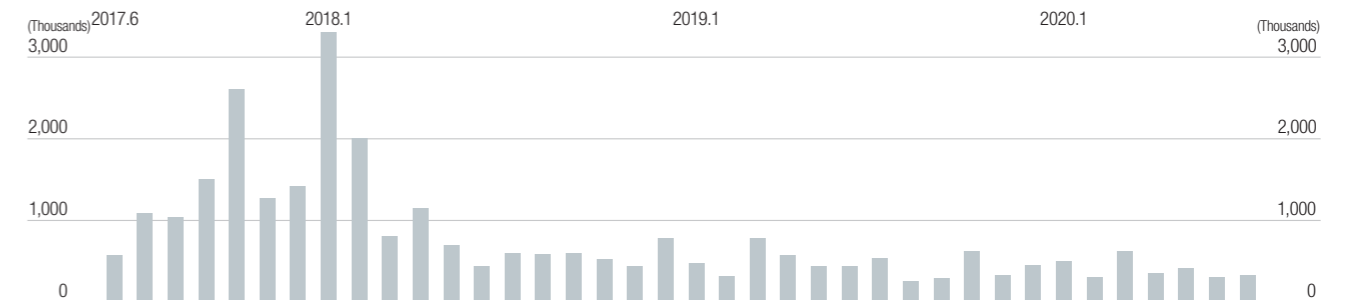


### Transition of share price

#### Share price



#### Trading volume



### Disclaimer on the forward-looking statements

Information in this corporate report contains forward-looking statements. Such statements were developed based on the information available at the time when this report was prepared. These forward-looking statements may be largely revised in the future, and the actual outcome could significantly vary from the stated or implied contents of such statements subject to various factors. This report is not intended to solicit investment. Investors are kindly asked to make your investment decision at your own judgment and responsibility. Numbers presented in 100 million yen or million yen are rounded down to the nearest respective unit.

# Company Profile

(as of May 31, 2020)

## Company Profile

**Company Name** TOYO DENKI SEIZO K.K. (TOYO ELECTRIC MFG. CO., LTD.)

**Established** June 20, 1918

**Capital** 4,998,390,000 yen

**Number of Employees** 1,227 (Consolidated) 841 (TOYO DENKI SEIZO K.K.)

**Head Office** Tokyo Tatemono Yaesu Building, 1-4-16, Yaesu, Chuo-ku, Tokyo, 103-0028, Japan  
TEL +81-3-5202-8121 (General Affairs Division)  
<https://www.toyodenki.co.jp/>

**Stock Exchange Listing** The Tokyo Stock Exchange, First Section

**Code Number** 6505

**Number of Shares Authorized** 36,000,000 shares

**Number of Shares Issued** 9,735,000 shares

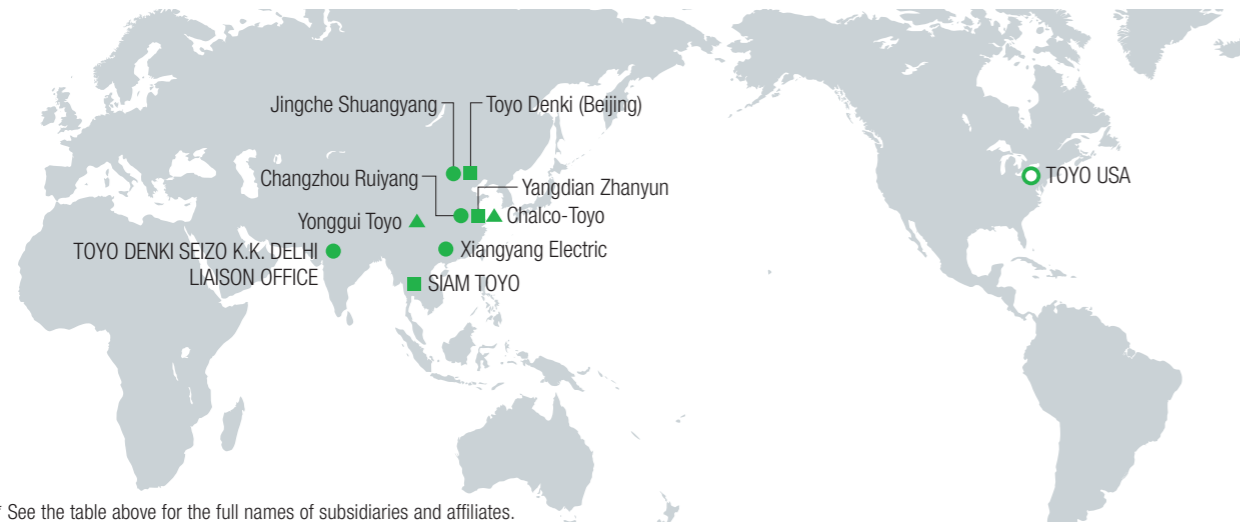
**Number of Shareholders** 5,614



## Subsidiaries and Affiliates (as of September 1, 2020)

○ Consolidated subsidiaries ● Affiliates accounted for by the equity method ■ Non-consolidated subsidiaries ▲ Affiliates not accounted for by the equity method

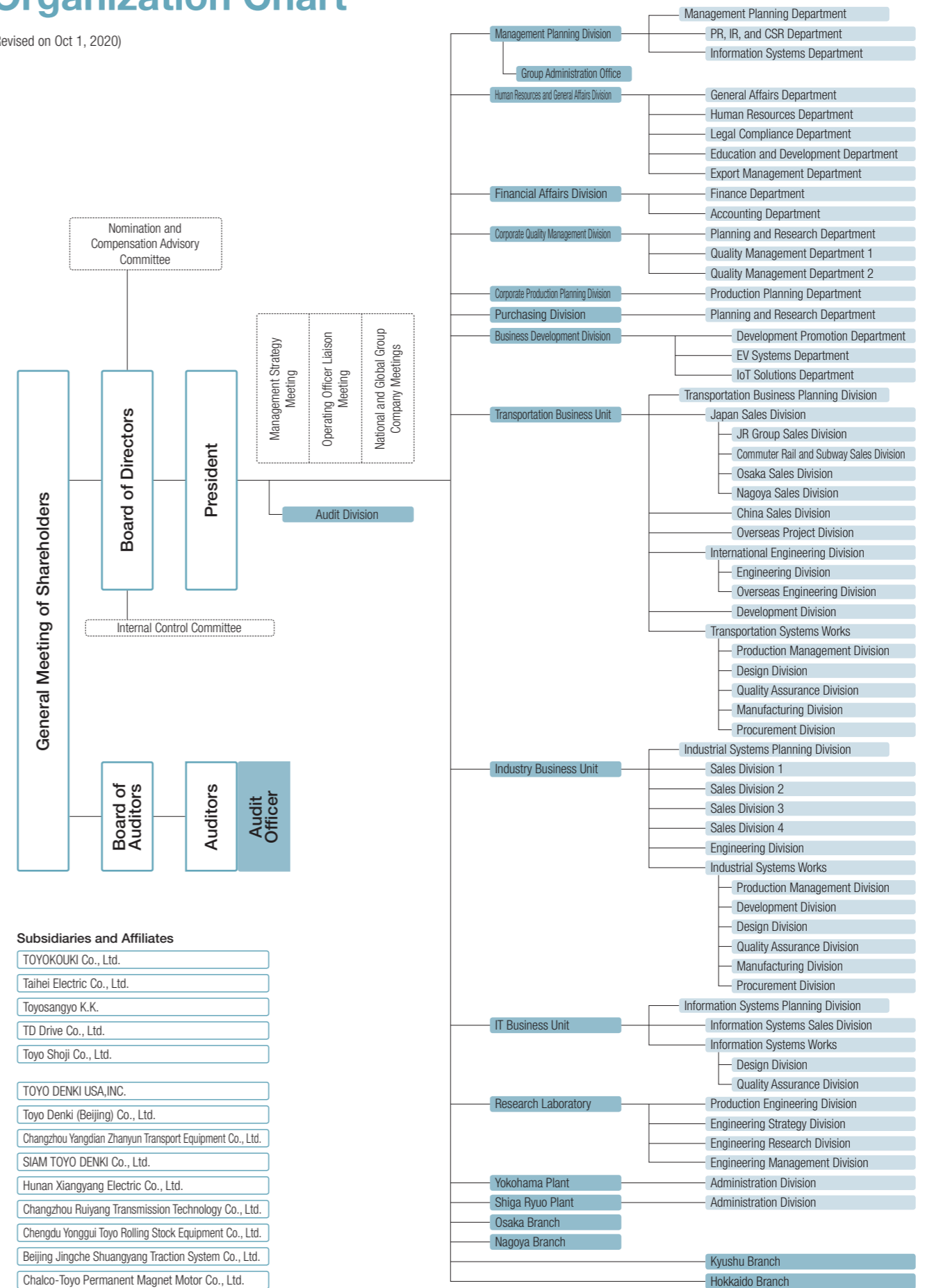
	Transportation Systems	Industrial Systems	Information Equipment Systems	Others
Japan	○ TOYOKOUKI Co., Ltd. ○ Taihei Electric Co., Ltd.	○ Toyosangyo K.K. ○ TD Drive Co., Ltd.		○ Toyo Shoji Co., Ltd.
Over-seas	■ Toyo Denki (Beijing) Co., Ltd. (China)			
	■ Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd. (China) ○ TOYO DENKI USA, INC. (U.S) ● Hunan Xiangyang Electric Co., Ltd. (China) ● Changzhou Ruiyang Transmission Technology Co., Ltd. (China) ● Beijing Jingche Shuangyang Traction System Co., Ltd. (China) ▲ Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd. (China)	■ SIAM TOYO DENKI Co., Ltd. (Thailand) ▲ Chalco-Toyo Permanent Magnet Motor Co., Ltd. (China)		



\* See the table above for the full names of subsidiaries and affiliates.

# Organization Chart

(Revised on Oct 1, 2020)



## Subsidiaries and Affiliates

- TOYOKOUKI Co., Ltd.
- Taihei Electric Co., Ltd.
- Toyosangyo K.K.
- TD Drive Co., Ltd.
- Toyo Shoji Co., Ltd.
- TOYO DENKI USA, INC.
- Toyo Denki (Beijing) Co., Ltd.
- Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd.
- SIAM TOYO DENKI Co., Ltd.
- Hunan Xiangyang Electric Co., Ltd.
- Changzhou Ruiyang Transmission Technology Co., Ltd.
- Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd.
- Beijing Jingche Shuangyang Traction System Co., Ltd.
- Chalco-Toyo Permanent Magnet Motor Co., Ltd.