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

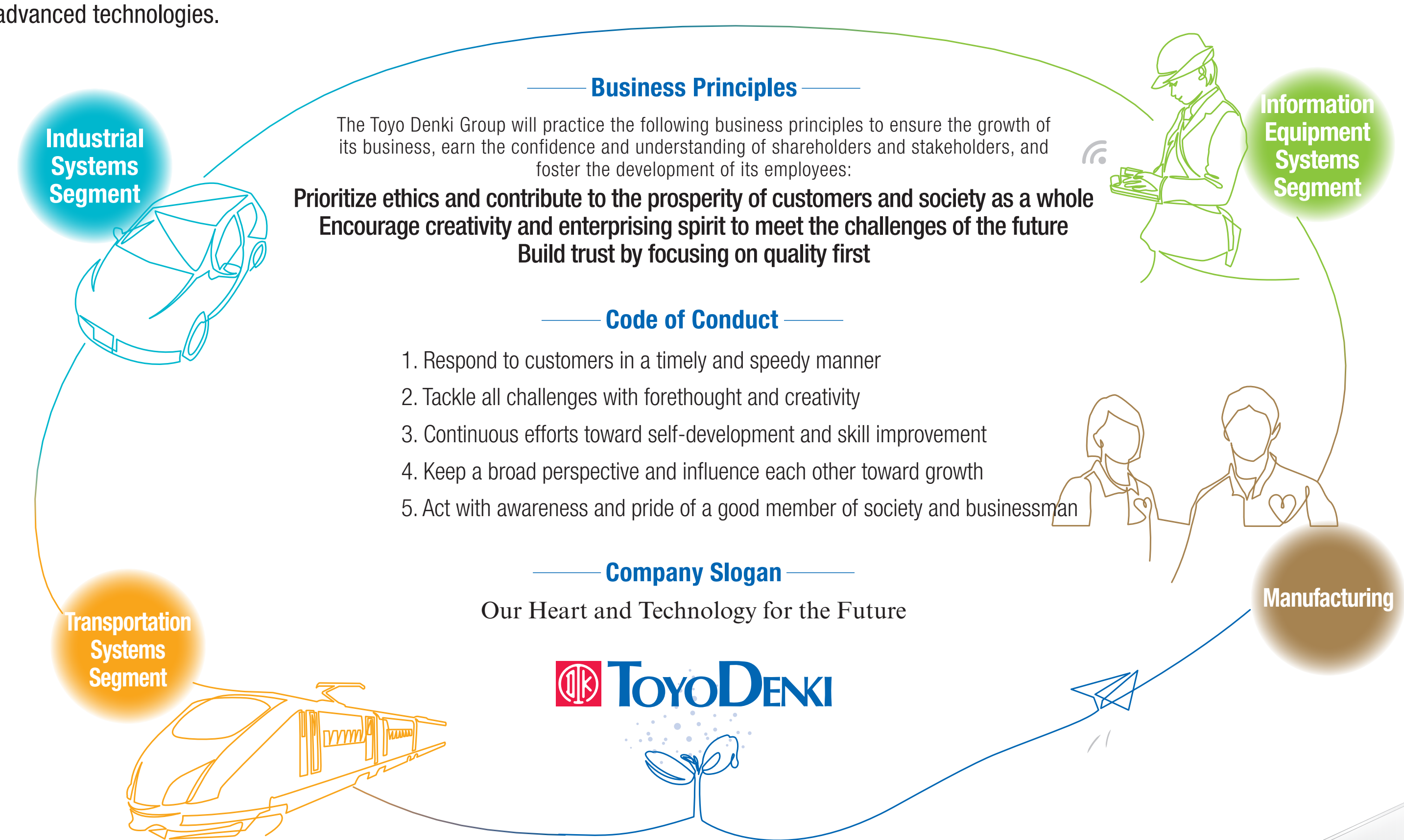
Toyo Denki Seizo Report 2021

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.



Business Principles

The Toyo Denki Group will practice the following business principles to ensure the growth of its business, earn the confidence and understanding of shareholders and stakeholders, and foster the development of its employees:

Prioritize ethics and contribute to the prosperity of customers and society as a whole
Encourage creativity and enterprising spirit to meet the challenges of the future
Build trust by focusing on quality first

Code of Conduct

1. Respond to customers in a timely and speedy manner
2. Tackle all challenges with forethought and creativity
3. Continuous efforts toward self-development and skill improvement
4. Keep a broad perspective and influence each other toward growth
5. Act with awareness and pride of a good member of society and businessman

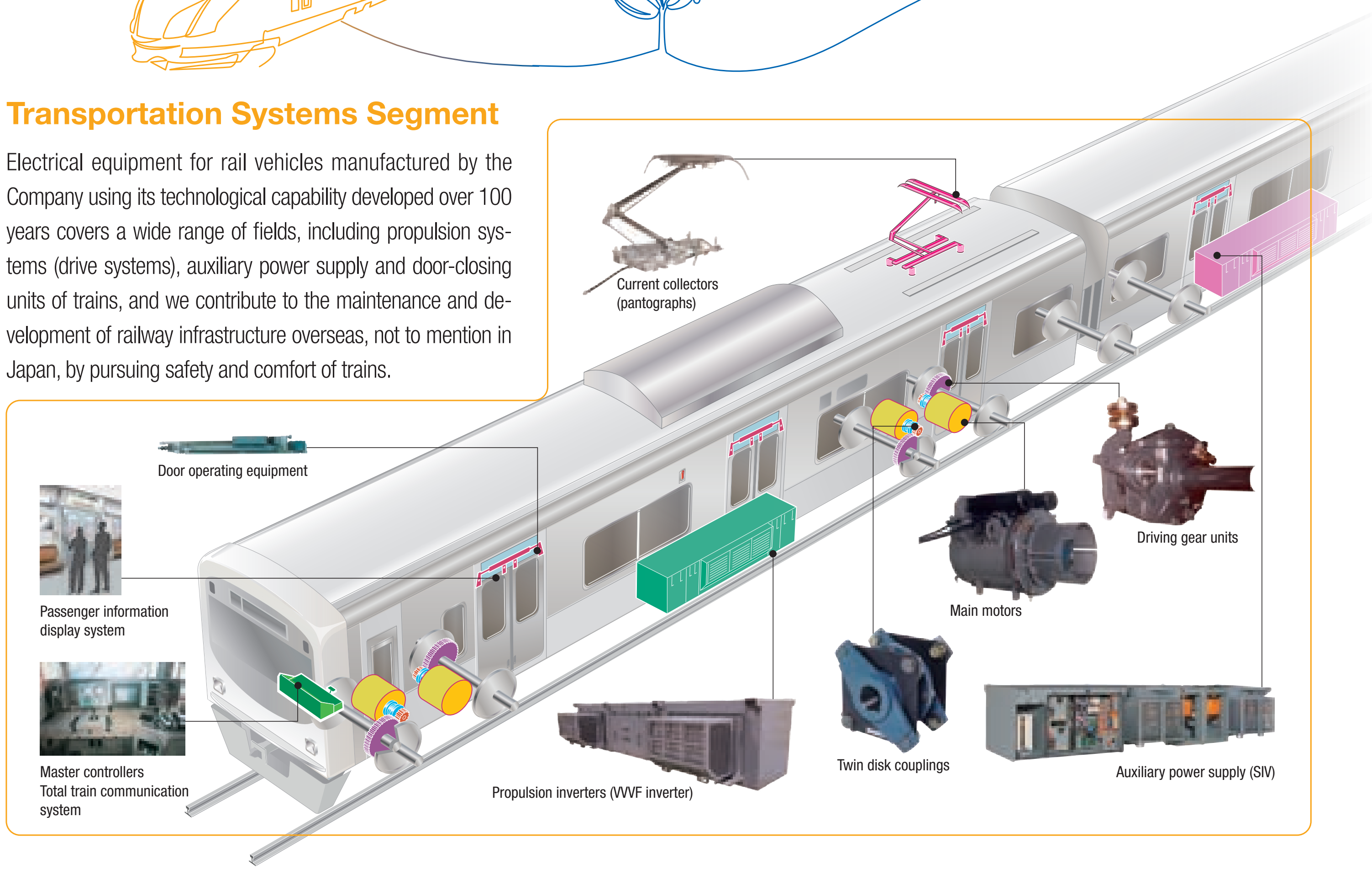
Company Slogan

Our Heart and Technology for the Future

TOYO DENKI

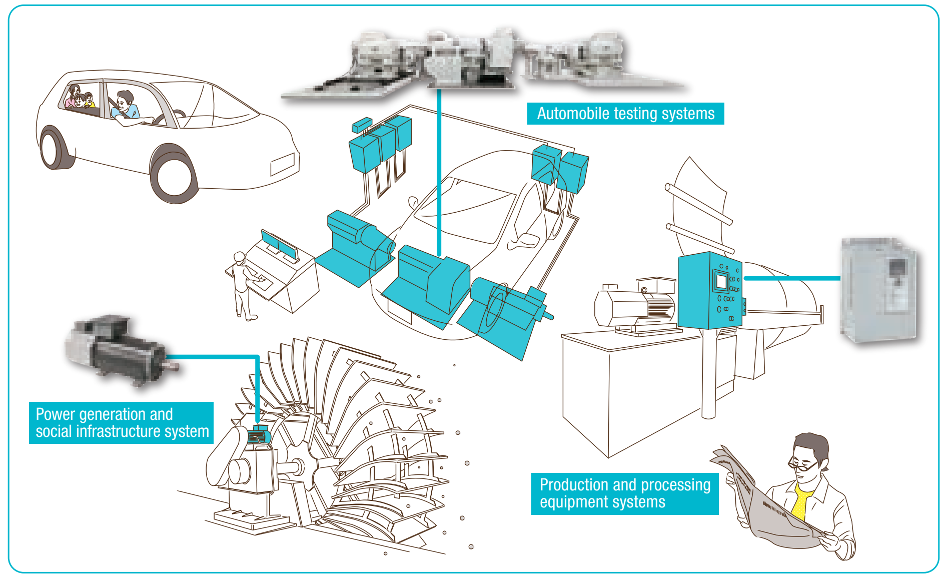
Transportation Systems Segment

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.

CONTENTS

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 2020 (from June 2020 to May 2021), 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

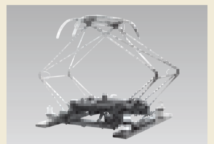
From foundation to postwar

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

- *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

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 Planmt 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

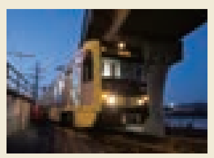
Panama Canal Agency Electric Locomotive for Dredgers

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 Pasmo goes 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.)
- *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 SIAM TOYO DENKI Co., Ltd. in Thailand
  - ● Establishment of Chalco-Toyo Permanent Magnet Motor Co., Ltd. in China
- *2020* ● Establishment of TOYO DENKI RAILWAY SERVICE, LLC. in the U.S.
- *2021* ● Order received for automobile vehicle testing equipment using in-wheel-well dynamo

Beijing subway east-west line train



Los Angeles County Metropolitan Transportation Bureau P3010 LRV

In-wheel-well dynamo

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

		156th fiscal term	157th fiscal term	158th fiscal term	159th fiscal term	160th fiscal term
		Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Financial Data						
Fiscal Year						
Net sales	(million yen)	40,668	42,527	41,172	39,071	33,143
Gross profit	(million yen)	9,221	8,072	7,839	8,242	7,338
Operating income	(million yen)	1,571	366	557	1,068	423
Net income attributable to owners of the parent	(million yen)	1,174	692	690	1,081	977
Comprehensive income	(million yen)	1,513	2,009	(251)	(351)	94
Capital investment	(million yen)	4,606	4,772	1,090	545	632
Research and development costs	(million yen)	927	840	731	792	819
Fiscal Year-End						
Net assets	(million yen)	24,603	26,327	24,804	24,183	24,008
Total assets	(million yen)	54,927	63,291[*1]	58,001	55,165	51,967
Per Share Information						
Net assets	(yen)	2,605.09	2,788.01	2,773.87	2,704.61	2,685.28
Net income	(yen)	123.87	73.33	75.27	120.98	109.38
Dividend	(yen)	30	50[*2]	30	30	30
Major Management Indices						
Shareholders' equity ratio	(%)	44.8	41.6	42.8	43.8	46.2
Return on equity (ROE)	(%)	4.9	2.7	2.7	4.4	4.1
Operating income ratio	(%)	3.9	0.9	1.4	2.7	1.3
Overseas net sales ratio	(%)	31.1	25.3	22.9	20.7	15.9
Dividend payout ratio	(%)	24.2	68.2	39.9	24.8	27.4
Non-financial Data						
Number of officers	(non-consolidated)	13	12	11	10	10
Number of employees on a consolidated basis		1,262	1,267	1,226	1,227	1,217
Number of employees at Group companies in Japan and overseas		430	391	395	386	371
CO_2 emissions on a non-consolidated basis	(t)[*3]	3,895	4,097	4,905	4,185	4,184
Electricity consumption on a non-consolidated basis	(10,000 kWh)[*3]	647.2	680.3	839.2	743.9	751.6

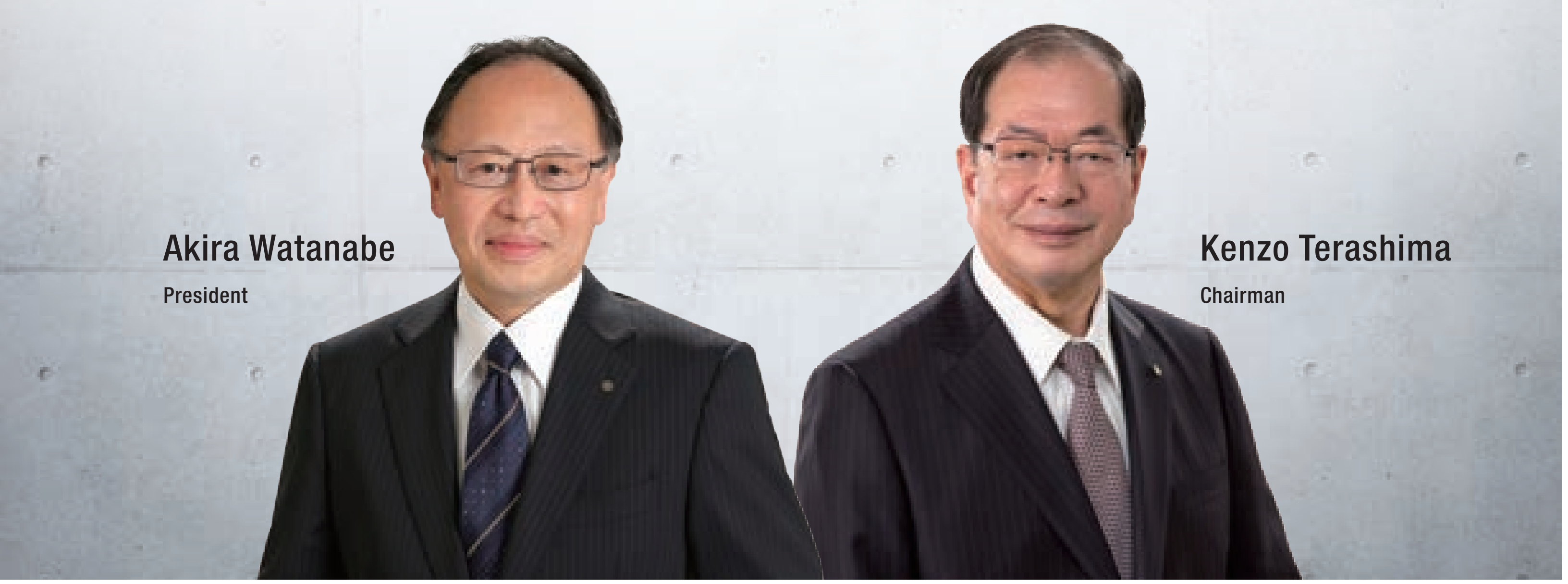
*1 The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the 158th fiscal term. Accordingly, total assets as of the end of the 157th fiscal term have been calculated by retroactively applying the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

We are pressing forward with our initiatives for the second two years of the medium-term management plan ("Revitalize 2022" for the period from fiscal 2020 to fiscal 2021) as "a period for accumulating earning power and returning to a growth path."



Results for the fiscal year ended May 2021

Although both net sales and profits decreased year on year due to the impact of COVID-19, profits exceeded the published forecasts.

The business environment for the fiscal year ended May 2021 remained harsh throughout the year due to the impact of COVID-19 and three declarations of a state of emergency triggered by it. Amid restrictions imposed on economic activities both in Japan and overseas, the significant decline in tourism demand as well as the spread of teleworking caused a sharp decrease in the number of passengers transported by railway operators. In addition, capital investments were called off in the manufacturing industry due to uncertain outlook. In the latter half of the year, some recovery was observed thanks to measures to prevent the spread of infection and large-scale economic packages both in and out of Japan. China, in particular, experienced an economic recovery as the impact of COVID-19 quickly subsided.

In such an environment, the Group's orders and sales were impacted as there were some revisions and postponements in railway operators' plans for rolling stock production and replacement as well as equipment renewal plans in the manufacturing industry. As a result, orders received, net sales, and operating income all decreased year on year to 30.0 billion yen, 33.1 billion yen, and 420 million yen, respectively. However, profits exceeded the published forecasts, helped by improved profitability. Ordinary income was 750 million yen mainly due to foreign exchange gains, and net income attributable to owners of the parent was 970 million yen as a result of efforts to reduce certain cross holdings.

By segment, the Transportation Systems segment saw a year-on-year decrease in both orders received and net sales due to lower sales to clients other than JR Group. Segment profit declined due to decreases in net sales and profits at subsidiaries despite efforts to step up cost and process control.

In the Industrial Systems segment, orders received fell below the previous fiscal year due to a decrease in orders for processing equipment. Net sales declined primarily due to lower sales for testing equipment and power supply. Segment profit decreased mainly owing to the impact of lower net sales, despite efforts to enhance cost control.

In the Information Equipment Systems segment, orders received, net sales, and segment profit all declined year on year mainly due to a negative rebound from the previous fiscal year's recording of large-scale orders, in addition to the impact of COVID-19.

Future outlook and message to our stakeholders

We will work on measures to establish a "muscular" business management system that can generate stable profits and to expand the scale of our business.

While the domestic and overseas economic conditions remain severe due to concerns over the resurgence of COVID-19 caused by mutant strains, there are signs of recovery in the form of visible effects of various policies and developments in the recovery of overseas economies such as China. Measures to prevent the spread of infection and vaccination are being rolled out both in Japan and overseas, and it is hoped that personal consumption and capital investment will recover as the easing of movement restrictions will progress with the subsiding of COVID-19.

In the Transportation Systems segment, the number of railway users in Japan is predicted not to return to the level seen in the past due to the decline in demand for transport as well as the intensifying population drop and increasingly aging population. However, in China, the number of passengers on trunk railways has generally recovered to the past level, raising expectations for a recovery in maintenance demand for high-speed railways and urban transport systems. Projects in overseas markets other than China, such as Southeast Asia, have also started to pick up.

In the Industrial Systems segment, production facilities and printing machines are returning to the levels seen in the past, and there has been an increasing number of inquiries from the United States, China, and South Korea. Furthermore, efforts toward the realization of a sustainable society, such as decarbonization, are gathering pace, and test equipment for the electrification of automobiles and autonomous driving as well as dispersed power source systems are projected to grow. There are also expectations for the expansion and reinforcement of infrastructure equipment, such as emergency power generators, as part of efforts to build national resilience.

In the Information Equipment Systems segment, with increasing demand for digitalization and contactless systems, there is a growing need for compatibility with IC train tickets, including those for local lines, and as such, demand for products such as IC car-mounted terminals is expected to rise.

As new customer needs are emerging in the wake of changes in behavior and values in a post-COVID society, we believe that the areas in which our business can make contribution will further expand.

In response to these changes in the business environment, the Group reviewed the medium-term management plan "Revitalize 2020," which will be completed in fiscal 2021, and relaunched it as "Revitalize 2022" in January 2021. Based on the achievements of efforts to improve profitability during the first two years (from fiscal 2018 to fiscal 2019), we conducted a review to address changes in the business environment and designated the second two years (from fiscal 2020 to fiscal 2021) as "a period for accumulating earning power and returning to a growth path." We are working on measures to establish a "muscular" business management system that can generate stable profits and to expand the scale of our business.

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

1

Special Report

Medium-Term Management Plan "Revitalize 2022"

The Group reviewed the medium-term management plan "Revitalize 2020" in light of changes in the business environment and issues to be addressed, and relaunched it as "Revitalize 2022" with new numerical management targets. Measures for the new plan are underway.

Achievements of the first two years and future issues

- For the first two years (fiscal 2018 through fiscal 2019), the Company focused on improving profitability and produced desired results, including hitting profit targets and improving ROE.
- Sales activities have begun to be affected by COVID-19, which poses a challenge for future sales expansion.

Changes in the business environment

- Domestic and overseas economic conditions are clouded by concerns over the resurgence of COVID-19.
  On the other hand, there are signs of recovery in the manufacturing industry's capital investment and demand related to high-speed railways and urban transport systems in China.
- Efforts to realize a decarbonized society are gathering pace, and digital transformation (DX) is advancing.
  ➡Possible areas for contribution by our business, which is deeply involved in social infrastructure development and global environmental conservation, will further expand.

Positioning of the second two years

- The second two years (fiscal 2020 through fiscal 2021) were revised from "a period for creating growth" to "a period for accumulating earning power and returning to a growth path."
- We will establish a foundation to achieve the initial target of "securing net sales of over 47 billion yen, operating income of 2 billion yen, and ROE of 5%" within the first two years of the next medium-term management plan.

Fundamental policies and major actions

- The existing seven fundamental policies remain in place.
- Major actions for each policy were revised by considering responses to changes in the business environment.

Major actions added or revised in the plan

Response to the impact of COVID-19

- Establish a business continuity plan (BCP) that can address the COVID-19 pandemic
- Improve business profitability with operating income in mind
- Reduce fixed costs through the united efforts of administration, sales and plants

Response to the realization of a decarbonized society and DX advancement

- Develop products that contribute to the realization of a decarbonized society and bring them to market at an early stage
- Promote the development of test equipment that contributes to the electrification of automobiles and autonomous driving
- Roll out industrial motors into the Chinese market
- Promote the application of IoT technology to the maintenance field
- Commercialize wireless power supply technology at an early stage
- Explore production methods that incorporate energy efficiency

Response to SDGs

- Establish a sustainability policy and roadmap

* For details of the fundamental policies and major actions, please see the IR Release section on the Company's website.

Numerical management targets (consolidated)

(Unit: 100 million yen)

Toyo Denki Group	Revitalize 2020		Revitalize 2022		
	FY ended May 2019 (Result)	FY ended May 2020 (Result)	FY ended May 2021 (Result)	FY ending May 2022 (Plan)	FY ending May 2022 (Revised plan)
Net sales	411.7	390.7	331.4	340.0	**360.0**
Operating income (Operating margin ratio)	5.5 (1.4%)	10.6 (2.7%)	4.2 (1.3%)	4.5 (1.3%)	**6.0 (1.7%)**
Ordinary income	4.9	12.0	7.5	7.0	**8.0**
Net income	6.9	10.8	9.7	8.0	**7.0**
Investment gain on equity method	0.1	(0.3)	(0.0)	1.7	**1.0**
ROE	2.7%	4.4%	4.1%	3.3%	**3.0%**
Payout ratio	39.9%	24.8%	27.4%	33.5%	**30.0%**
Net sales by segment					
Transportation Systems	272.3	242.6	215.2	205.0	**220.0**
Industrial Systems	123.3	130.2	105.4	127.0	**130.0**
Information Equipment Systems	15.8	17.7	10.6	8.0	**10.0**

2

Special Report

Establishment of Sustainability Policy

Considering efforts for the Sustainable Development Goals (SDGs) as an important management issue, the Group has formulated the Sustainability Policy as a guideline for specific actions.

Basic policy

The Toyo Denki Group states its commitment to contributing to society in the business principles and initiatives to protect the global environment as its priority task in the environmental philosophy. The Group has formulated the Sustainability Policy as a guideline for its efforts to realize these principles and contribute to the sustainable development of society.

Based on the Group's business principles, environmental philosophy, and slogan, relations between the Company's initiatives and the realization of SDGs were summarized from the following three perspectives: "Initiative in Products and Services," "Initiative in Production Activities," and "Initiative in Valuing People and Communities." While assessing the various impacts of the Group's businesses and activities, we will set out specific action targets as a roadmap and implement them.

Corporate principles

Business Principles

The Toyo Denki Group will practice the following business principles to ensure the growth of its business, earn the confidence and understanding of shareholders and stakeholders, and foster the development of its employees:

- Prioritize ethics and contribute to the prosperity of customers and society as a whole
- Encourage creativity and an enterprising spirit to meet the challenges of the future
- Build trust by focusing on quality first

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.

Company Slogan of the Toyo Denki Group

Our Heart and Technology for the Future

Specific initiatives

Initiative in Products and Services

- Supply of decarbonized energy, such as small hydroelectric power generation
- Popularization of energy-efficient transportation, such as railroads and electric vehicles
- Efficiency improvement of electrical equipment and the spread of power storage systems
- Improvement of safety through a shift to barrier-free transportation systems

etc.

Initiative in Production Activities

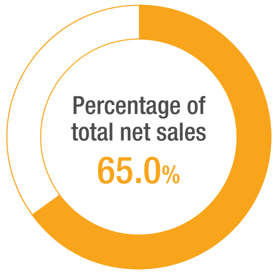
- Reduction of energy consumption in production
- Study of solar power generation and decarbonization of energy currently used
- Reduction of energy consumption during transportation of materials and products
- Recycling activities at production sites and offices

etc.

Initiative in Valuing People and Communities

- Support for school education by offering university endowed lectures and accepting school field trips in plants
- Promotion of gender equality initiatives and appointment of female managers
- Protection of the global environment to contribute to nature conservation

etc.



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 2020

● Orders Received

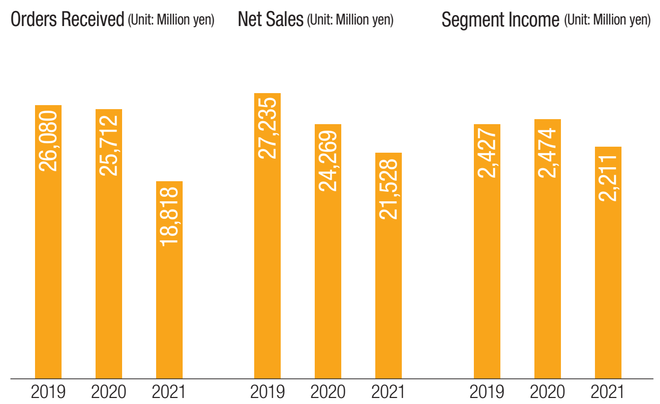
18,818 million yen (Down 26.8% year on year)

● Net Sales

21,528 million yen (Down 11.3% year on year)

● Segment Income

2,211 million yen (Down 10.6% year on year)



Orders received decreased 26.8% compared with the previous fiscal year to 18,818 million yen, due to a decrease in orders from private railways, Chinese customers, and overseas customers (excluding those in China), despite an increase in orders from the JR Group. Net sales totaled 21,528 million yen, an 11.3% decrease from the previous fiscal year, due to a decrease in sales for private railways, Chinese customers, and overseas customers (excluding those in China), offsetting an increase in sales for the JR Group. Segment income decreased 10.6% from the previous fiscal year to 2,211 million yen as a result of lower net sales and profits at subsidiaries, despite the efforts to step up cost and process control.

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.

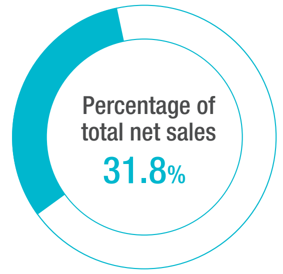
In the domestic business, there has been a growing number of customers who have chosen our new products, including driving inverters and auxiliary power supply units that realized smaller size and lighter weight as well as noise-reduced motor and driving gear units. Going forward, we anticipate more 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 been launched in China, and we will strive to expand the business and provide stable services to meet surging demand.

In North America, we reorganized our local subsidiaries in response to changes in the business environment and set up a new maintenance business, which has started operations.

We will also continue to 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 2020

● Orders Received

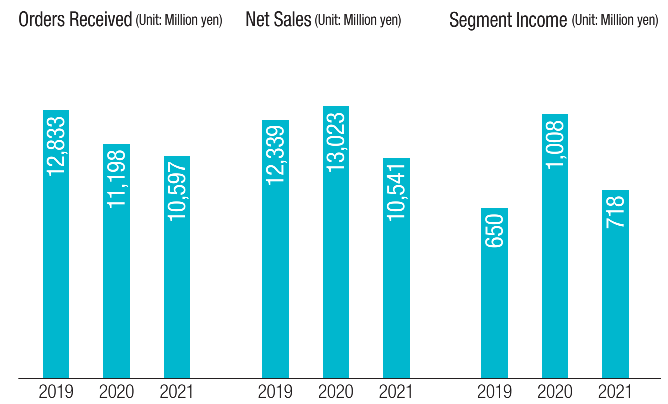
10,597 million yen (Down 5.4% year on year)

● Net Sales

10,541 million yen (Down 19.1% year on year)

● Segment Income

718 million yen (Down 28.8% year on year)



Orders received decreased 5.4% compared with the previous fiscal year to 10,597 million yen, due to a decrease in orders for processing equipment, despite orders for testing equipment maintaining the previous year's level. Net sales decreased 19.1% compared with the previous fiscal year to 10,541 million yen mainly as a result of lower sales for testing equipment and power supply. Segment income totaled 718 million yen, a 28.8% decrease compared with the previous fiscal year, mainly due to lower net sales, offsetting efforts to step up cost control.

VOICE

We will accelerate our business expansion both in Japan and overseas to achieve dramatic development in the new era.

While sales activities, local adjustment, and other aspects of the Industrial Systems segment have been affected by the COVID-19 pandemic that has been devastating the world from the beginning of 2020, efforts for a new era are producing steady results.

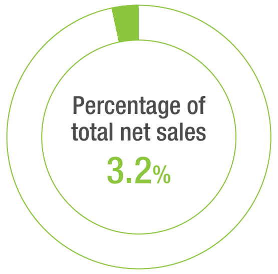
At the Shiga Ryuo Plant, we have been embedding thorough cost and process control and improving the quality control level, raising its maturity as our main plant in three years after it was newly built. In addition, the R&D center attached to the plant has been accumulating data for the practical application of in-wheel-well dynamo, and local adjustment of overseas test equipment now gets remotely completed, which confirm the increasing sophistication of the plant.

Overseas, the two local subsidiaries set up in 2019 are steadily developing their businesses for the future, despite harsh environments. SIAM TOYO DENKI, a Thai subsidiary, is producing results in expanding its customer base, while Chalco-Toyo Permanent Magnet Motor Co., Ltd., a Chinese motor production subsidiary, started operations in the fall of 2020 and is in full swing to capture the growing demand for high-efficiency motors in China.

In Japan, inquiries for our electrical equipment are growing as corporate capital investment recovers, and demand for products for small hydroelectric power generation, in which the Company has a strength, is also expanding sharply, as the world shifts towards carbon-neutrality.

We will continue to strive for dramatic development of the Industrial Systems segment, keeping pace with new trends in a new era.

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 2020

● **Orders Received**

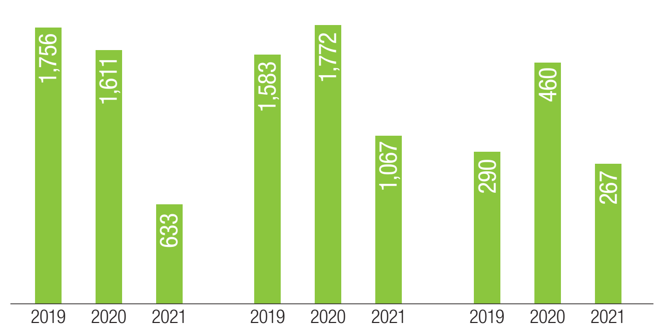
633 million yen (Down 60.7% year on year)

● **Net Sales**

1,067 million yen (Down 39.8% year on year)

● **Segment Income**

267 million yen (Down 41.9% year on year)



Orders received decreased 60.7% compared with the previous fiscal year to 633 million yen, due to the impact of COVID-19 as well as a negative rebound from demand for software improvement projects associated with the consumption tax amendment seen in the previous fiscal year. Net sales decreased 39.8% from the previous fiscal year to 1,067 million yen for the same reason as orders received. Segment income totaled 267 million yen, a 41.9% decrease from the previous fiscal year, as a result of lower 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.

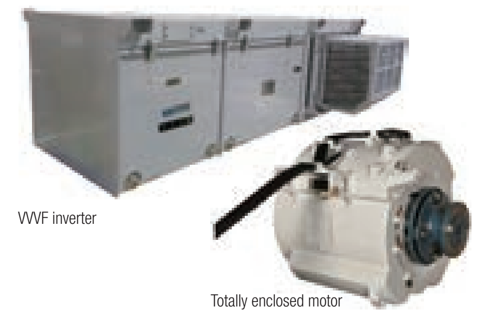
Capitalizing on the strengths in fare calculation and IC card processing technologies, the Information Equipment Systems segment provides products ranging from railway station operating equipment such as commuter pass issuing machines to portable terminal devices for conductors. In response to the spring timetable revision in March 2021, we modified the equipment we had already delivered and were able to complete the work without any major problems. In addition, more railway lines and zones started using on-board IC ticket checking machines that enable the processing of IC card entry and exit on trains. These machines are smoothly operating without disruption.

The prolonged COVID-19 pandemic has caused a slew of postponements and scalebacks in railway operators' plans for new and renewal projects as well as functional refurbishments, dragging out an extremely difficult situation. However, we will engage in product development with an eye on changes in the times and the post-COVID world and continue to provide products that satisfy our customers, with the keywords of non-contact, cashless, thin client, and competitive price.

Toshiaki Asakura
General Manager of IT Business Unit

Development of electrical equipment for rail vehicles with green credentials such as energy saving

The Company delivered VVVF inverter, totally enclosed motor, and other products for Keikyu Corporation's new 1000 series 20th-batch rolling stock. VVVF inverter uses SiC elements to achieve smaller size and lighter weight in comparison to the previous product (for Keikyu Corporation's 2100 series), with a mass reduction of approximately 37% and a volume reduction of approximately 44%. In addition, totally enclosed motor realizes maintenance saving, high efficiency, and noise reduction thanks to the totally enclosed structure. The Company will continue to develop products with green credentials such as energy saving with an aim to realize a sustainable society.



VVVF inverter

Totally enclosed motor

Promotion of the development of test equipment that contributes to the electrification of automobiles and autonomous driving

The Company is developing in-wheel-well dynamo, a new type of test equipment for automobile development, for the purposes of evaluating self-driving vehicles, which are predicted to become widespread in the future, and replacing chassis dynamos. This equipment can be attached to the tires of an actual vehicle to simulate an actual driving test. The Company has received the first order for test equipment using in-wheel-well dynamo. Going forward, development efforts will be carried out with a view to the applicability to self-driving vehicle tests inside a testing room. The Company will continue to contribute to the realization of a sustainable society, including decarbonization, by supporting automobile development.

Actual vehicle test with in-wheel-well dynamo

IORemoter II, IoT terminal for remote monitoring and control systems, enables connection with major clouds

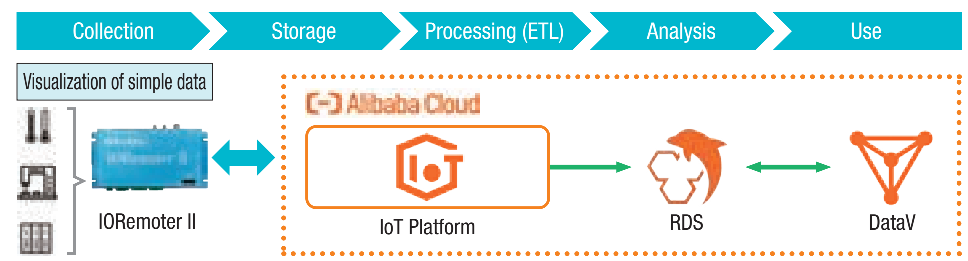
IORemoter II is a high-speed IoT terminal with a built-in 4G/LTE module. IoT remote monitoring and control of various facilities, controllers, devices, and mobile entities can be conducted faster and at a larger capacity.

IORemoter II is compatible with multi-carrier and dual SIM operation, enabling proposals for communication lines that are suitable for each customer's applications.

Our new initiative is to develop IORemoter II's connectivity with major cloud computing services. It now connects with Microsoft Azure, AWS, and Alibaba Cloud IoT Platform. We are also developing connectivity with Google Cloud Platform.

Enabling connection with each cloud computing service reduces the time required for connection verification and makes system provision quicker. In addition, more secure and high-quality systems can be built. The Company will respond to diverse needs of our customers and contribute to accelerating digital transformation.

◆ **System configuration (e.g. Alibaba Cloud IoT Platform)**



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 2020

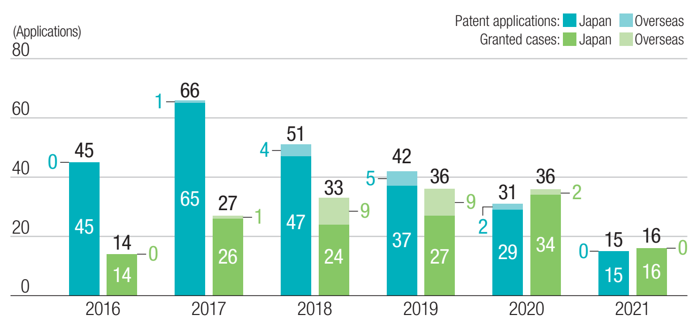
Segment	Project	Description
Transportation Systems	Development of anti-slip re-adhesion control considering three-dimensional bogie motions	To explain the effect of bogie dynamics on the adhesion and wheel slip phenomena of railway vehicles, by building a three-dimensional model, we recreated the phenomena of false detection of slip due to torque reduction during slip and re-adhesion as well as re-adhesion failure due to repeated slips caused by insufficient torque reduction.
	Development of VVVF inverter for vehicles with high-functioning control unit	We increased the performance of control unit to almost triple the processing speed compared to before and installed a large-capacity memory. The improvements enabled high-speed re-adhesion control during slipping and sliding, high-precision monitoring data recording, and long-term dynamic recording.
	Development of current collector with ADD for overseas markets	Building on pantographs for the Japanese market, we developed air-operated type pantograph fitted with ADD (Automatic Dropping Device).
Industrial Systems	Development of in-wheel-well dynamo	We are studying the application of in-wheel-well dynamo, which can fit inside the automobile's wheel well, to chassis dynamo. We conducted in-house production of parts and a review to improve the potential of assembly operation, with mass production in mind.
	Development of slender-type high-speed motor for EV/HEV system tests	We are developing a motor for testing the multi-axle drive systems of EV/HEV. Using the developed motor for dynamos with a 20,000 rpm speed, the development process involves reducing the diameter of the frame and changing a part of the frame to cutout construction. Once developed, the motor will enable tests to create the same layout as if it is installed in an actual vehicle.
	Development of 690V large capacity motor / inverter	We are developing motor and inverter for 690V power supply that can accommodate larger capacities of processing machine systems. A motor for 690V was developed based on the existing induction motor for 400V power supply. Inverter and converter are undergoing evaluation tests on prototypes.
Information Equipment Systems	Development of standardized data and programs for railway station operating equipment	Standardized data and programs, which unified fare data (stations, fare, etc.) and fare calculation programs necessary for fare calculation to be processed by various railway station operating equipment, were completed. Standardization is expected to reduce renewal costs associated with fare revision and to improve the processing quality.
Expansion of New Businesses	Development of IoT terminal and expansion of functions	In addition to the Company's own existing cloud, it is now possible to connect to major cloud services such as Amazon Web Service, Microsoft Azure, and Alibaba Cloud. We started developing a next-generation IoT terminal that supports 5G, evolving IORemoter II to a next-generation terminal.
	Distributed power source	In collaboration with the Industrial Systems segment, we developed software for grid interconnection inverter VF66G that has already been commercialized, to comply with the grid interconnection regulations for distributed power sources.
	Support for overseas EDM production	With the research laboratory and the Industrial Systems segment, we are assisting production to develop a range of permanent-magnet synchronous motors CTEDM that are mass-produced by Chalco-Toyo Permanent Magnet Motor Co., Ltd., a joint venture set up in China. Three models with IP55 protection and 1,500 rpm specifications, which meet Chinese standards, were released ahead of others.
Research Laboratory	Development of automatic deburring system for cast gear boxes	Cast gear boxes that house gear devices for railway vehicles come in a variety of types, each of which is produced in small quantity, so deburring is performed manually. This development project involved deploying a 3D sensor that acts as a human eye and automating deburring with a robotic arm.
	Development of synchronous operation system with high-speed Ethernet communication	In a system that operates multiple motors in synchronization without mechanically connecting them, communication between each inverter that drives motors was realized by a high-speed open network using Ethernet. Conventional optical fiber and other types of wiring can be replaced with one LAN cable, which is expected to save wiring, reduce man-hours, and lower costs.

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.

Low-carbon society
Implementation of measures against global warming

Recycling-based society
Promotion of 3Rs (reduce, reuse, recycle)

Nature-symbiotic society
Conservation of biodiversity

- Energy conservation through the Company's technologies and products
- Energy conservation in production activities
- Use of sustainable energy
- Improvement of logistics efficiency
- Proper treatment of wastes
- Reduction of amount of final disposal of wastes
- Proper management of chemical substances
- Cleanup around offices

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/

Initiatives to Prevent Global Warming

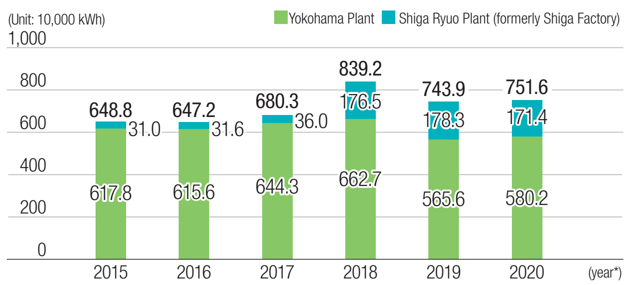
Initiatives to reduce greenhouse gas (CO_2) emissions

The Company is promoting energy conservation at each of its production bases and offices to reduce its CO_2 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.

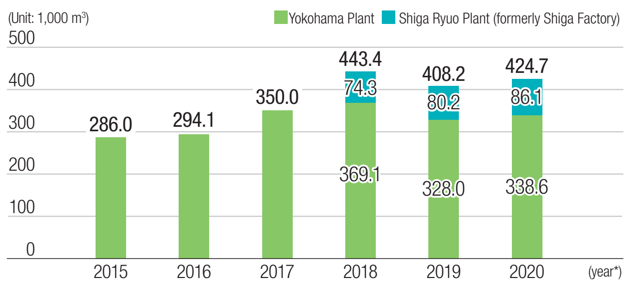
Targeted reduction of CO_2 emissions and progress status

Although the CO_2 reduction goal for the Company's production bases, the Yokohama Plant and Shiga Ryuo Plant, is to reduce CO_2 emissions per unit of production output by 1% year on year, CO_2 emissions on a per unit basis regrettably increased 8.4% at the Yokohama Plant and 27.9% at the Shiga Ryuo Plant in fiscal 2020, due to lower production output caused by COVID-19. The Company will make efforts to further reduce CO_2 emissions going forward.

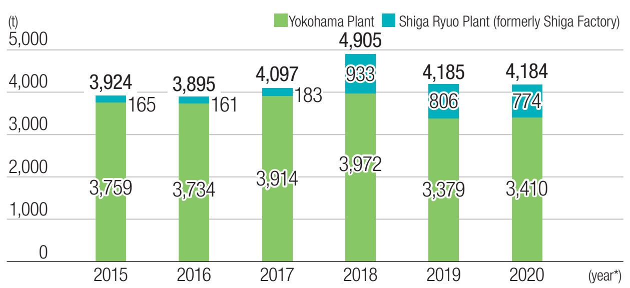
◆ Total energy input (electricity)



◆ Total energy input (gas)



◆ Total CO_2 emissions

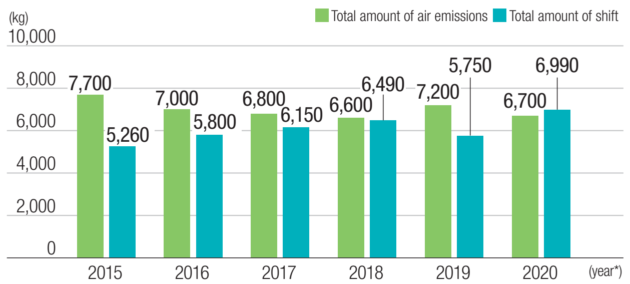


Initiatives for Control over Chemical Substances

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

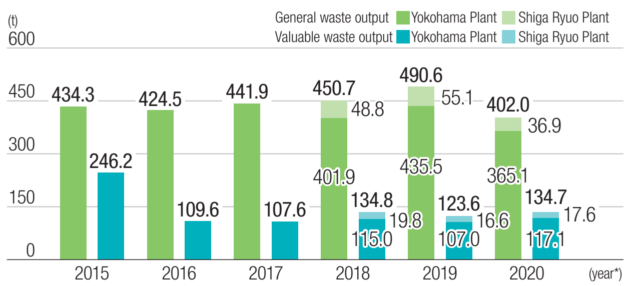


Initiatives for Reducing Disposed Waste as Well as Recycling

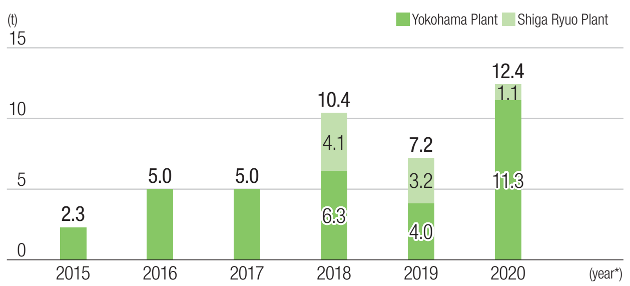
Main actions

The Company has been thoroughly implementing waste processing rules, sorting metal waste and recycling paper resources. As a result, its landfill waste rate was 2.3% in fiscal 2020. The increase in the volume of landfill waste at the Yokohama Plant is mainly due to sewage sludge generated from large-scale maintenance of water supply facilities.

◆ Output of general and valuable waste



◆ Volume of landfill waste



*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 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.

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.

Briefing sessions, which are aimed to help institutional investors to deepen their understanding of the Company, were held online during fiscal 2020 to prevent COVID-19 infection.

〈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"

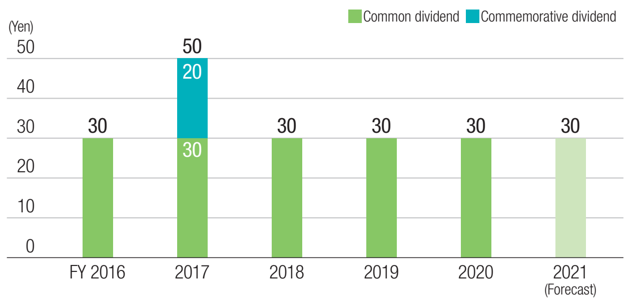
https://www.toyodenki.co.jp/ir/individual.php

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 fiscal 2020. We will continue to aim to pay dividends with reference to the dividend payout ratio of 30%, a management target outlined in the medium-term management plan.

Dividend per share



Record of 160th Annual General Meeting of Shareholders
Date held: Friday, August 27, 2021

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

Interim Business Report for Fiscal 2020

Business Report for Fiscal 2020

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. These courses were conducted online in fiscal 2020 to prevent COVID-19 infection.

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.

Material used for an endowment course

Installation of a solar power generation system at the Yokohama Plant

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_2 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

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

Although we had to cancel them in fiscal 2020 due to the impact of COVID-19, we normally conduct "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

Cleaning activities around the plants

As part of our efforts to respect people and local communities, employees at the Shiga Ryuo Plant regularly participate in river cleanup operations hosted by the Ryuo Clean River Community.

By carrying out river cleanup activities in cooperation with local governments and companies, we protect the local environment and contribute to nature conservation.

Cleanup activity

With Our Suppliers

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

Towards Just and Fair Procurement

Communication with suppliers

The Company's products possess various distinctive characteristics such as being individually built-to-order, manufactured in multi-product small lots, and demanding high reliability. Therefore, the Company can be affected by the performance of our suppliers as a result of issues such as delays in supply due to fluctuations in production quantity or delays in processing due to the quality of products received.

In order to reduce these risks as much as possible, the Company carries out instruction and support related to quality, technology, and skills for our suppliers, as well as guidance for improvement of manufacturing sites, in order to ensure stable procurement of even better quality products. In addition, we actively promote information sharing through the "Toyo Denki Cooperation Association" to which our leading suppliers belong.

Formulation of "Procurement Action Guidelines" (formulated in February 2016)

Procurement Action Guidelines

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

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

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

Legal Compliance Department, 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

To improve corporate value, we strive to be a company where each and every employee can unleash his or her capabilities in good health and in safe environments.

Promotion of "health and productivity management"

Striving to be a company where employees can play active roles in good physical and mental health, the Company promotes "health and productivity management" together with the health insurance association and labor union. With the "Health and Productivity Management Declaration" in place, our efforts focus on the following six priority items.

Health and Productivity Management Declaration

The Toyo Denki Group expresses in its business principles its commitment to "ensure the growth of its business, earn the confidence and understanding of shareholders and stakeholders, and foster the development of its employees." Recognizing that the realization of the commitment involves each employee to be physically and mentally healthy and able to play an active role with enthusiasm, the Company will support its employees to achieve good health.

❶ Disease prevention, prevention of illness aggravation

We will maintain a 100% participation rate for regular health checkups, improve the take up rate for specific health guidance aimed to prevent adult diseases, and support the attendance of follow-up examinations.

❷ Work-life balance

We are expanding systems that support flexible working styles to achieve a balance between work and home. In addition to a flextime system and annual leave on an hourly basis, we have a rehiring system for employees who have to leave their jobs due to childbirth, childcare, family care, spouse's transfer, and other life events. In addition, efforts are underway to establish staggered commuting and remote work that are currently in place to prevent COVID-19 infection as part of a permanent system.

In 2014, we were certified as a "company that supports child-rearing" and received the "Kurumin" certification logo from the Tokyo Labor Bureau, in recognition of our efforts including an extensive childcare-related scheme, educational activities related to work-life balance support, the creation of an environment in which it is easy to obtain childcare leave, and the track record of male employees taking childcare leave. We will continue to improve the child-rearing support program.

❸ Promotion of health and safety activities and realization of a comfortable working environment

To secure a safe working environment and achieve zero occupational accidents, we have in place the "Company-Wide Safety and Hygiene Management Policy," and the Safety and Hygiene Committee at each office addresses any issues at workplace. Information on the committees' actions is shared at the Company-Wide Safety and Hygiene Committee, which convenes quarterly, in order to raise the level of health and safety activities at each office.

❹ Improvement of employee health, communication promotion and support

We support employees' voluntary health maintenance and improvement efforts, internal club activities, and social events at each workplace. We also hold health events together with the health insurance association and labor union to improve the health of employees and promote communication.

❺ Prevention of mental health problems and support for returning to work

We annually carry out stress checks on our employees to prevent and detect mental health problems at an early stage. In addition, we provide line care training for managers so that they recognize the importance of communication and promptly coordinate with occupational health staff at each office.

❻ Health management of employees at overseas posts

In addition to properly conducting health checkups before overseas postings, we aim to regularly check the health conditions of employees and follow up on the results of health checkups after their postings.

Training and skill development of employees

We aim to grow the capabilities of our employees and be a company where each and every one works as a professional.

Education and training system

The Company's education and training system is divided into level-specific training, individual training according to job types and roles, a support program aimed at helping employees to obtain academic degrees and official qualifications, and division education conducted by each division. Furthermore, new employees in technical positions receive lectures and practical training at the Technical Training Center for one year. They are assigned to each workplace after receiving basic and specialized training for technical staff.

Skill transfer

Employees with exceptional manufacturing skills or expertise are recognized as "Technical My Star" and assigned to instruct and train younger employees. Three employees of the Company 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. Moreover, a large number of employees have become certified as special-grade skilled workers.

Initiatives for employment of the disabled

Aiming to be a company where both the disabled and nondisabled work together lively, the Company makes improvements to the workplace environment and carries out workplace training. We also offer work experience in collaboration with local support organizations and special-needs schools. The percentage of employees with disabilities at the Company is 2.67% (as of June 2021).

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

Item		Unit	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Number of employees	Total	Persons	832 *	843 *	831 *	841 *	847 *
	Men		768	771	762	773	766
	Women		64	72	69	68	81
Ratio of female employees		%	7.7	8.5	8.3	8.1	9.6
Number of administrative professionals	Total	Persons	150	140	143	136	139
	Men		146	136	139	133	136
	Women		4	4	4	3	3
Ratio of female administrative professionals		%	2.7	2.9	2.8	2.2	2.2
Average age	Overall	Age	40.4	40.2	40.8	41.0	41.7
	Men		40.4	40.3	40.8	40.9	41.6
	Women		40.1	39.5	40.9	41.7	42.8
Average years of employment	Overall	Years	15.2	14.9	15.4	15.4	16.0
	Men		15.2	15.1	15.5	15.5	16.2
	Women		14.8	12.7	14.1	14.1	13.9
Average annual salary		Yen	5,990,250	6,049,512	5,756,046	5,634,571	5,518,761
Turnover rate (within 3 years of joining the Company)		%	2.0	2.7	6.5	4.7	2.4
Number of employees taking childcare leave		Persons	9	4	6	2	8
Number of employees taking family care leave		Persons	0	0	0	0	0
Number of temporary staff (including part-timers)		Persons	152	130	119	106	86
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.				

Governance

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

Corporate Governance

Our 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.

❶ 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.

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

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

❸ 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.

❹ Voluntary committees

a. Nomination and Compensation Advisory Committee

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

b. Internal Control Committee

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

Internal audit and Statutory Auditor's audit

Internal audit

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

Statutory Auditors' audit

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

Outside Directors and External Statutory Auditors

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

Mr. Hirokazu Chinone, Director (Outside Executive)

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

Mr. Koji Mizumoto, Director (Outside Executive)

Mr. Koji Mizumoto 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. Taizo Makari, Director (Outside Executive)

Mr. Taizo Makari was newly appointed as Director at the 160th Annual General Meeting of Shareholders on August 27, 2021. He is expected to provide advice to ensure the legality and appropriateness of the Board of Directors of the Company, drawing on his extensive insight and global perspectives developed throughout his career.

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

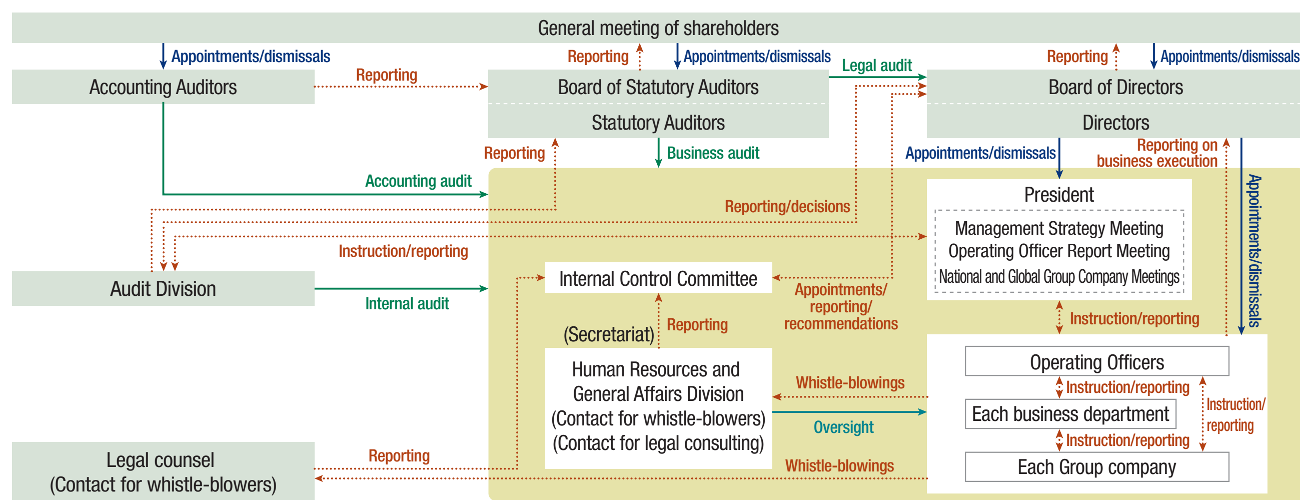
Directors

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

Statutory Auditors

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

◆ **Corporate governance framework**



Executive Profiles (as of October 1, 2021)

Chairman, Representative Director
Kenzo Terashima

President, Representative Director
Akira Watanabe

Director
Akihiko Ishii

Director
Yoshifumi Otsubo

Director (Outside)
Hirokazu Chinone

Director (Outside)
Koji Mizumoto

Director (Outside)
Taizo Makari

Director Skill Matrix

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

Standing Statutory Auditors
Toshiaki Akechi Kenji Ueda
Statutory Auditors
Yoshinori Kawamura Yasushi Miki
Senior Executive Officers
Akihiko Ishii Yoshifumi Otsubo
Executive Officers
Shuji Horie Kenji Tanimoto
Operating Officers
Naoki Okuyama Toshihito Nakanishi Shini Furutsuki
Takuya Hatakeyama Toshiharu Takagi Chiaki Nakano
Yuji Nagano Hiroyuki Imaizumi Jun Nukina

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 dot not end up just being a formality.

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

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

Taizo Makari

Role of Outside Director

The enforcement of the revised Companies Act has tightened the criteria for independence, and the application of the Corporate Governance Code has made it practically mandatory for listed companies to have a certain number of outside directors. My understanding is that outside directors are expected to fulfill the following three roles, from their external and objective viewpoints, without conflict of interest: monitoring and supervision of corporate governance; advice for and screening and approval of corporate strategies and plans; and appropriate incorporation of stakeholder opinions into business execution. There are strong calls for the appropriate involvement of outside directors in response to a number of scandals, including quality frauds in the manufacturing industry that still continue to occur. I will perform my job with a strong awareness of these three expected roles.

I am keenly aware that, to effectively fulfill these roles, it is necessary to not only harness various knowledge and insight gained from the experience of company management, but also make efforts to understand well the Company's business operations, history, culture, and feelings, and to continuously grasp the changes in social needs from the present to the future.

Points of discussion and advice at the Board of Directors

My experiences in business execution include roles for both business implementation and company-wide functions, such as capital investment for domestic and overseas production facilities and engineering in general for my company, engineering business for other companies, governance of overseas group companies as the president of an overseas supervisory company, director of an IT company, disaster prevention and safety management of important facilities, energy strategies as part of measures for SDGs, and utilization of ICT for production. In these roles, I experienced various failures, difficulties, and recoveries, and I think that I reasonably understand the main points and risks of each issue.

At the Board of Directors, I intend to discuss and advise on strategic direction in line with future needs and demands of society, particularly in terms of production technology, technology and product development, quality control, capital investment, safety management, measures for SDGs, development of technical human capital, and overseas expansion, which are important aspects for the manufacturing industry. By doing so, I would like to contribute to the sound development of the Company's business and the improvement of corporate value.

Internal Control and Compliance

Internal Control

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

Principles of compliance

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

Compliance promotion framework

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

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

Compliance education

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

Risk Management

Basic policy

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

Promotion framework

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

Risk Factors

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

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

(1) Changes in domestic and international economic trends

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

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

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

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

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

(3) Intensifying competition

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

(4) 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 2020 (from June 1, 2020 to May 31, 2021) are as follows:

Results of Operation

Orders received YoY -22.0%	Orders received decreased 22.0% compared with the previous fiscal year to 30,055 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 -15.2%	Net sales decreased 15.2% compared with the previous fiscal year to 33,143 million yen due to a decrease in the Transportation Systems segment.
Profit/Loss Net income attributable to owners of the parent YoY -9.6%	From a profit perspective, operating income decreased 60.3% compared with the previous fiscal year to 423 million yen. Ordinary income decreased 37.3% compared with the previous fiscal year to 757 million yen. Net income attributable to owners of the parent decreased 9.6% to 977 million yen, as a result of efforts to cut some cross-shareholdings.

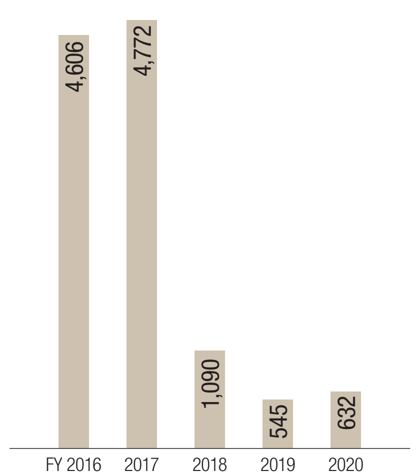
Financial Position

Assets Total assets 51,967 million yen	Total assets as of May 31, 2021 stood at 51,967 million yen, a decrease of 3,198 million yen compared with the end of the previous fiscal year. The decrease in total assets was largely attributable to a decrease of 1,554 million yen in trade notes and accounts receivable and a decrease of 1,602 million yen in investment securities, offset by an increase of 670 million yen in cash on hand and in banks.
Liabilities Total liabilities 27,958 million yen	Total liabilities as of May 31, 2021 stood at 27,958 million yen, a decrease of 3,023 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 1,727 million yen in trade notes and accounts payable and a decrease of 707 million yen in debt.
Net assets Total net assets 24,008 million yen	Net assets as of May 31, 2021 stood at 24,008 million yen, a decrease of 174 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 924 million yen in unrealized holding gain on available-for-sale securities, offset by an increase of 709 million yen in retained earnings.

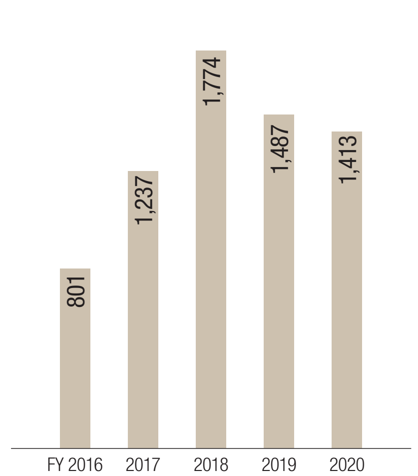
Cash Flows

Cash flow from operating activities Net cash provided by operating activities 1,776 million yen	Net cash provided by operating activities amounted to 1,776 million yen (net cash of 2,148 million yen provided in the previous fiscal year), principally due to a decrease in trade notes and accounts receivable.
Cash flow from investing activities Net cash used in investing activities 155 million yen	Net cash used in investing activities totaled 155 million yen (net cash of 41 million yen provided in the previous fiscal year), principally due to purchases of property, plant and equipment.
Cash flow from financing activities Net cash used in financing activities 971 million yen	Net cash used in financing activities was 971 million yen (net cash of 1,126 million yen used in the previous fiscal year), primarily owing to repayment of debt.

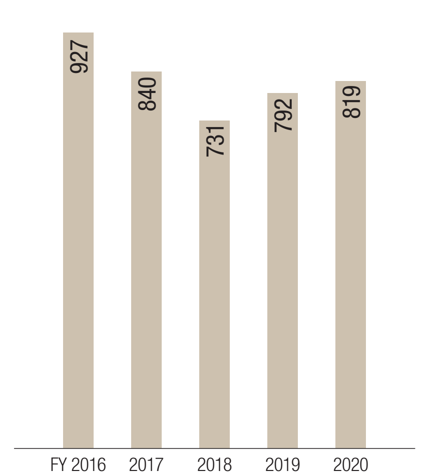
Capital investment (Unit: Million yen)



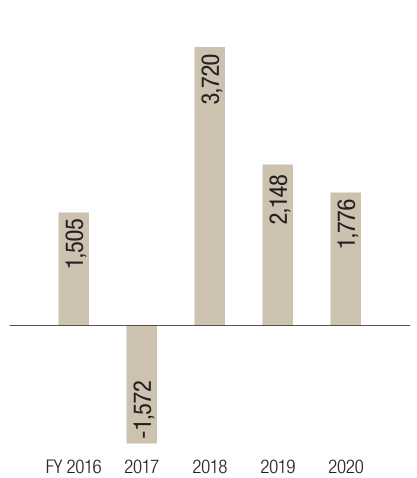
Depreciation and amortization (Unit: Million yen)



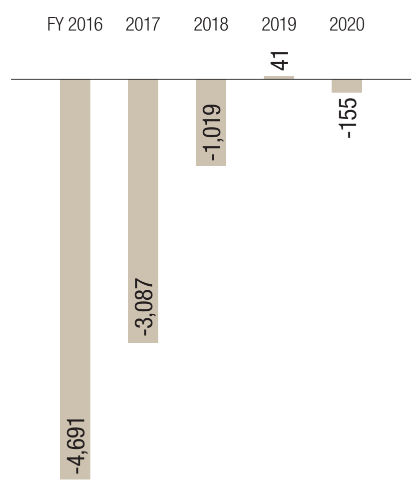
Research and development costs (Unit: Million yen)



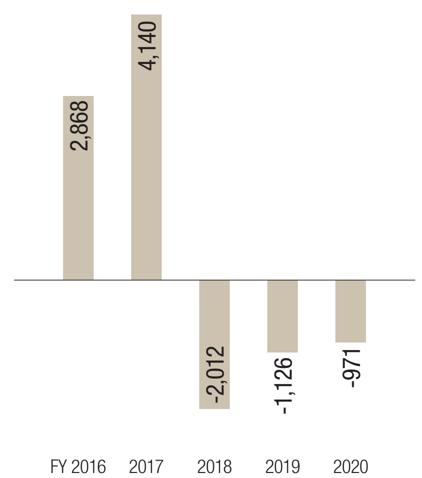
Cash flows from operating activities (Unit: Million yen)



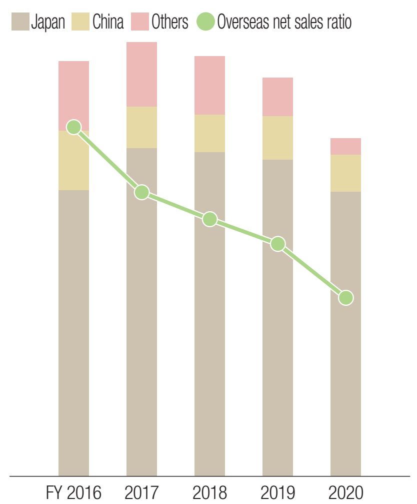
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	2017	2018	2019	2020	2021
Japan	28,006	32,124	31,745	30,997	27,876
China	5,882	4,085	3,663	4,282	3,628
Others	6,778	6,317	5,763	3,791	1,638
Total	40,668	42,527	41,172	39,071	33,143
Overseas net sales ratio	31.1%	25.3%	22.9%	20.7%	15.9%

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 16 and 18)	¥ 3,964	¥ 3,293	$ 36,118
Trade notes and accounts receivable (Notes 2 and 16)	13,218	14,135	120,426
Electronically recorded receivables (Note 16)	901	1,538	8,209
Inventories (Note 3)	6,901	7,178	62,877
Other current assets	318	139	2,898
Allowance for doubtful accounts	(2)	(0)	(24)
Total current assets	25,300	26,284	230,506
Property, plant and equipment (Note 4):			
Buildings and structures	6,410	6,753	58,401
Machinery and vehicles	966	1,059	8,805
Land	1,301	1,301	11,855
Construction in progress	24	86	227
Other	622	724	5,675
Total property, plant and equipment	9,325	9,925	84,964
Investments and other assets (Note 5):			
Investment securities (Notes 5, 16 and 17)	13,832	15,434	126,021
Deferred tax assets (Note 11)	223	170	2,037
Intangible assets	303	490	2,765
Other	2,988	2,865	27,230
Allowance for doubtful accounts	(6)	(6)	(62)
Total investments and other assets	17,341	18,954	157,992
Total assets (Note 20)	¥51,967	¥55,165	$473,462

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Notes 2 and 16)	¥ 1,668	¥ 2,224	$ 15,198
Electronically recorded payables (Note 16)	4,705	5,877	42,870
Short-term borrowings and current portion of long-term debt (Notes 6 and 16)	2,085	2,207	18,998
Income taxes payable (Note 11)	161	334	1,472
Accrued expenses	611	606	5,574
Accrued directors' bonuses	36	36	327
Accrued employees' bonuses	827	876	7,539
Reserve for losses on order acknowledgements (Note 3)	871	732	7,941
Other	660	773	6,018
Total current liabilities	11,628	13,669	105,942
Long-term liabilities:			
Long-term debt (Notes 6, 16 and 19)	11,759	12,344	107,134
Deferred tax liabilities (Note 11)	427	930	3,891
Liability for retirement benefits (Note 7)	4,124	4,010	37,579
Long-term payables	17	25	158
Other	1	3	17
Total long-term liabilities	16,330	17,312	148,782
Commitments and contingencies (Note 14)			
Net assets (Notes 8 and 15):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 45,539
Capital surplus	3,177	3,177	28,949
Retained earnings	12,320	11,610	112,251
Treasury stock	(1,281)	(1,280)	(11,677)
Total shareholders' equity	19,214	18,505	175,062
Accumulated other comprehensive income:			
Unrealized holding gain on securities	4,803	5,727	43,760
Translation adjustments	88	79	802
Retirement benefits liability adjustments (Note 7)	(97)	(129)	(887)
Total accumulated other comprehensive income	4,793	5,677	43,676
Total net assets	24,008	24,183	218,738
Total liabilities and net assets	¥51,967	¥55,165	$473,462

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Note 20)	¥33,143	¥39,071	$301,962
Cost of sales (Note 3)	25,805	30,828	235,106
Gross profit	7,338	8,242	66,856
Selling, general and administrative expenses (Note 9)	6,914	7,174	62,996
Operating income (Note 20)	423	1,068	3,860
Non-operating income (expenses):			
Interest and dividend income	202	235	1,848
Interest expense	(67)	(83)	(615)
Equity in losses of unconsolidated subsidiaries and affiliates	(4)	(39)	(41)
Foreign exchange gain (loss)	133	(56)	1,214
Insurance claim income related to disaster	34	104	318
Subsidy income	40	40	364
Disaster recover expenses	—	(79)	—
Other (expenses) income, net	(5)	19	(50)
	333	139	3,038
Ordinary income	757	1,207	6,899
Special gains, net (Note 10)	407	445	3,714
Income before income taxes	1,164	1,653	10,613
Income taxes (Note 11):			
Current	352	577	3,209
Deferred	(165)	(5)	(1,506)
	186	571	1,703
Net income	977	1,081	8,910
Net income attributable to non-controlling interests	—	—	—
Net income attributable to owners of the parent	¥ 977	¥ 1,081	$ 8,910

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Comprehensive Income (Loss)

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net income	¥ 977	¥ 1,081	$ 8,910
Other comprehensive loss (Note 12):			
Unrealized holding loss on securities	(924)	(1,448)	(8,423)
Translation adjustments	(6)	(12)	(55)
Retirement benefits liability adjustments	32	62	294
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	14	(34)	133
Total other comprehensive loss	(883)	(1,433)	(8,050)
Comprehensive income (loss)	¥ 94	¥ (351)	$ 859
Comprehensive income (loss) attributable to:			
Owners of the parent	¥ 94	¥ (351)	$ 859
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
Balance as of June 1, 2019	¥4,998	¥3,177	¥10,797	¥(1,280)	¥17,693	¥7,176	¥126	¥(192)	¥7,110	¥24,804
Changes during the year										
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)
Balance as of May 31, 2020	¥4,998	¥3,177	¥11,610	¥(1,280)	¥18,505	¥5,727	¥ 79	¥(129)	¥5,677	¥24,183
Balance as of June 1, 2020	¥4,998	¥3,177	¥11,610	¥(1,280)	¥18,505	¥5,727	¥ 79	¥(129)	¥5,677	¥24,183
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net income attributable to owners of the parent	—	—	977	—	977	—	—	—	—	977
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(924)	8	32	(883)	(883)
Total changes during the year	—	—	709	(0)	708	(924)	8	32	(883)	(174)
Balance as of May 31, 2021	¥4,998	¥3,177	¥12,320	¥(1,281)	¥19,214	¥4,803	¥ 88	¥ (97)	¥4,793	¥24,008

(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
Balance as of June 1, 2020	$45,539	$28,949	$105,784	$(11,669)	$168,603	$52,184	$724	$(1,181)	$51,726	$220,330
Changes during the year										
Cash dividends paid	—	—	(2,443)	—	(2,443)	—	—	—	—	(2,443)
Net income attributable to owners of the parent	—	—	8,910	—	8,910	—	—	—	—	8,910
Purchases of treasury stock	—	—	—	(7)	(7)	—	—	—	—	(7)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(8,423)	78	294	(8,050)	(8,050)
Total changes during the year	—	—	6,466	(7)	6,458	(8,423)	78	294	(8,050)	(1,592)
Balance as of May 31, 2021	$45,539	$28,949	$112,251	$(11,677)	$175,062	$43,760	$802	$ (887)	$43,676	$218,738

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
Income before income taxes	¥ 1,164	¥ 1,653	$ 10,613
Depreciation and amortization	1,413	1,487	12,874
Reversal of allowance for doubtful accounts	2	(7)	23
Provision for accrued employees' bonuses	(49)	57	(449)
Increase in liability for retirement benefits	97	138	890
Interest and dividend income	(202)	(235)	(1,848)
Interest expense	67	83	615
Insurance claim income related to disaster	(34)	(104)	(318)
Subsidy income	(40)	(40)	(364)
Disaster recover expenses	—	79	—
Gain on sales of investment securities	(407)	(447)	(3,714)
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	1,567	(64)	14,279
Inventories	274	372	2,497
Trade notes and accounts payable	(1,743)	(481)	(15,886)
Reserve for losses on order acknowledgements	142	166	1,298
Advances received	(11)	(13)	(101)
Accrued expenses	(14)	(64)	(136)
Other, net	(86)	(164)	(787)
Subtotal	2,138	2,418	19,487
Interest and dividend income received	210	235	1,919
Interest expense paid	(68)	(91)	(622)
Proceeds from insurance income related to disaster	34	104	318
Subsidies received	40	40	364
Payments for disaster recover expenses	—	(79)	—
Income taxes paid	(580)	(477)	(5,285)
Net cash provided by operating activities	1,776	2,148	16,182
Investing activities			
Purchases of property, plant and equipment	(548)	(647)	(5,001)
Purchases of intangible assets	(43)	(33)	(399)
Purchases of investment securities	(14)	(14)	(129)
Proceeds from sales of investment securities	693	1,132	6,318
Payments of loans receivable	(111)	(26)	(1,013)
Collection of loans receivable	11	—	103
Payments for investments in capital of subsidiaries and affiliates	(88)	(338)	(810)
Other, net	(53)	(31)	(484)
Net cash (used in) provided by investing activities	(155)	41	(1,415)
Financing activities			
Decrease in short-term loans payable	(83)	(287)	(762)
Repayment of long-term debt	(617)	(568)	(5,624)
Purchases of treasury stock	(0)	(0)	(7)
Cash dividends paid	(268)	(268)	(2,447)
Other, net	(1)	(1)	(10)
Net cash used in financing activities	(971)	(1,126)	(8,852)
Effect of exchange rate change on cash and cash equivalents	21	(10)	195
Net increase in cash and cash equivalents	670	1,053	6,108
Cash and cash equivalents at beginning of period	3,293	2,240	30,009
Cash and cash equivalents at end of period (Note 18)	¥ 3,964	¥ 3,293	$ 36,118

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, 2021, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 3 in 2020). 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 ¥142 million ($(1,298) thousand) and ¥166 million is included in cost of sales for the years ended May 31, 2021 and 2020, 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) Significant accounting estimates

(Impairment of certain assets or groups of assets in the Industrial Systems segment)

(1) The amount recorded in the consolidated financial statements for the year ended May 31, 2021

Property, plant and equipment, intangible assets and long-term prepaid expenses belonging to certain groups of assets in the Industrial Systems segment:

¥5,928 million ($54,011 thousand)

(2) Other information that is useful for the reader of the consolidated financial statements to understand the contents of accounting estimates

a. Calculation method for the amount recorded in the consolidated financial statements for the year ended May 31, 2021

In preparing the consolidated financial statements, the Group groups its assets so that the estimates on impairment of fixed assets appropriately reflect the Group's actual management condition, and assesses indication of impairment. Assessment of indication of impairment is carried out based on the information available to the Group on the status of profit or loss generated from operating activities using the assets, etc. and whether the business environment has deteriorated significantly in connection with the business using the assets or groups of assets. Whenever an indication of impairment is found, the Group determines whether the aggregated amount of undiscounted future cash flows exceeds the corresponding carrying value.

Certain groups of assets in the Industrial Systems segment have recorded ongoing operating loss for the year ended May 31, 2021 mainly because sales projects were postponed due to the impact of COVID-19, and indication of impairment has been identified. However, since the aggregated amount of undiscounted future cash flows generated from such groups of assets exceeds their corresponding carrying value, the Group has not recognized any impairment loss.

The aggregated amount of undiscounted future cash flows generated from such assets or groups of assets are computed based on the business plan approved by the management and the growth rate for the period that exceeds the business plan period.

b. Main assumptions used for computing the amount recorded in the consolidated financial statements for the year ended May 31, 2021

In the computation of undiscounted future cash flows, the main assumption is net sales based on the projection of future order acknowledgements. Net sales based on the projection of future order acknowledgements are computed based on the management's evaluation of future trends of the industry, historical performances and internal and external information.

The number of certain sales projects postponed due to the impact of COVID-19 in the year ended May 31, 2021 is expected to be reduced in the following fiscal year.

c. Effects on the consolidated financial statements for the following fiscal year

Estimates on undiscounted future cash flows involve uncertainties, since they are subject to changes of demand trends of some customers and unforeseeable events such as natural disasters. Accordingly, when the undiscounted future cash flows significantly differ from the assumption by the Group, the assessment of impairment might be significantly affected.

(Recoverability of deferred tax assets)
(1) The amount recorded in the consolidated financial statements for the year ended May 31, 2021
Deferred tax assets, before offsetting deferred tax liabilities: ¥1,983 million ($18,075 thousand)
(2) Other information that is useful for the reader of the consolidated financial statements to understand the contents of accounting estimates
a. Calculation method for the amount recorded in the consolidated financial statements for the year ended May 31, 2021
Regarding deductible temporary differences and the carryforward of unused tax losses, the Group determines the recoverability of deferred tax assets based on projected future taxable income and tax planning. Estimates of future taxable income of the Company are based mainly on its business plan.
b. Main assumptions used for computing the amount recorded in the consolidated financial statements for the year ended May 31, 2021
In preparing the business plan, which forms the basis for estimating future taxable income of the Group, the main assumption is net sales based on the projection of future order acknowledgements. Net sales based on the projection of future order acknowledgements are computed based on the management's evaluation of future trends of the industry, historical performances and internal and external information.
The number of certain sales projects postponed due to the impact of COVID-19 in the year ended May 31, 2021 is expected to be reduced in the following fiscal year.
c. Effects on the consolidated financial statements for the following fiscal year
Deferred tax assets already recorded are assessed for recoverability every fiscal year and the contents are reviewed. However, if the assessment of recoverability of deferred tax assets is changed based on changes in the estimated future taxable income or due to other factors, net income may fluctuate due to reversal of or additional provision for deferred tax assets.

(u) Accounting standards issued but not yet effective
(Accounting Standard for Revenue Recognition and Related Implementation Guidance)
The ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) on March 31, 2020 and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30) on March 26, 2021.
(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.
(Accounting Standard for Fair Value Measurement and Related Implementation Guidance)
On July 4, 2019, the ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), along with related updates to "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9), and "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10). In addition, on March 31, 2020, the ASBJ issued "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19).

(1) Overview
In light of the circumstances that the IASB and the FASB provide nearly identical guidance on fair value measurement, that is, IFRS 13 "Fair Value Measurement" and FASB Accounting Standards Codification ("ASC") Topic 820 "Fair Value Measurement," the ASBJ had been working to align Japanese accounting standards with international accounting standards mainly concerning guidance and disclosures about the fair value of financial instruments, and therefore issued "Accounting Standard for Fair Value Measurement" along with other standards and guidance.
As a basic policy of the ASBJ in developing accounting standards for fair value measurement, from the viewpoint of enhancing comparability of financial statements among domestic and foreign companies by using unified measurement methods, the ASBJ determined to incorporate substantially all of the provisions in IFRS 13, and defined other treatments for specific matters as long as they do not significantly impair the comparability among financial statements, in consideration for conventional practices prevailing in Japan.
(2) Scheduled date of adoption
The Company expects to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending May 31, 2022.
(3) Impact of adoption of revised accounting standard and related implementation guidance
The Company is currently evaluating the effect of the adoption of the accounting standards and related implementation guidance on its consolidated financial statements.

(v) Change in presentation
(Adoption of "Accounting Standard for Disclosure of Accounting Estimates")
The Company has adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 issued on March 31, 2020) for the consolidated financial statements as of May 31, 2021 and the note on significant accounting estimates is presented in the consolidated financial statements.
However, the note does not include the contents for the fiscal year ended May 31, 2020 pursuant to the transitional treatment prescribed in the proviso of the paragraph 11 of the Accounting Standard.

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 ¥109.76=U.S.$1, the approximate rate of exchange prevailing at May 31, 2021. 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, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Notes receivable	¥—	¥64	$—
Notes payable	—	6	—

Note 3. Inventories

Inventories as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Goods and finished products	¥ 514	¥ 756	$ 4,688
Work in process	3,565	3,424	32,480
Raw materials and supplies	2,821	2,996	25,708
	¥6,901	¥7,178	$62,877

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 ¥190 million ($1,737 thousand) and ¥212 million for the years ended May 31, 2021 and 2020, 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, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Goods and finished products	¥ 28	¥ 2	$ 259
Work in process	144	135	1,317
	¥173	¥138	$1,576

Note 4. Property, Plant and Equipment

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

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Buildings and structures	¥ 12,338	¥ 12,269	$ 112,410
Machinery and vehicles	8,397	8,179	76,503
Other	4,857	4,654	44,258
	25,593	25,103	233,172
Accumulated depreciation	(17,593)	(16,565)	(160,290)
	¥ 7,999	¥ 8,538	$ 72,881

Depreciation of property, plant and equipment for the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
	¥1,413	¥1,487	$12,874

Accumulated depreciation of property, plant and equipment amounted to ¥17,593 million ($160,290 thousand) and ¥16,565 million as of May 31, 2021 and 2020, respectively.

Note 5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investment securities" as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Investments in capital	¥2,249	¥2,158	$20,496

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

As of May 31, 2021 and 2020, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Loans, principally from banks	¥1,500	¥1,590	$13,666
Current portion of long-term debt	585	617	5,332
	¥2,085	¥2,207	$18,998

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2021 were 0.455% and 0.607%, respectively.

As of May 31, 2021 and 2020, long-term debts were as follows:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2022 through 2032	¥11,759	¥12,344	$107,134

The annual weighted average interest rate applicable to long-term debt as of May 31, 2021 was 0.416%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2022	¥ 585	$ 5,332
2023	585	5,332
2024	885	8,065
2025	4,525	41,228
2026 and thereafter	5,763	52,507
	¥12,344	$112,467

As of May 31, 2021 and 2020, the assets pledged as collateral for short-term borrowings and long-term debt were as follows:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥5,485	¥5,768	$49,974
Machinery and vehicles	596	588	5,439
Other property, plant and equipment	376	436	3,432
Land	1,232	1,232	11,228
	¥7,691	¥8,025	$70,075

The following assets included in the above are set by factory foundation fixed collateral security for short-term borrowings as of May 31, 2021 and 2020:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥1,474	¥1,542	$13,430
Machinery and vehicles	596	588	5,439
Other property, plant and equipment	376	436	3,432
	¥2,447	¥2,566	$22,301

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, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥4,010	¥3,893	$36,534
Service cost	284	290	2,596
Interest cost	15	14	136
Actuarial loss	16	(21)	154
Retirement benefits paid	(202)	(166)	(1,843)
Retirement benefit obligation as of May 31	¥4,124	¥4,010	$37,579

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2021 and 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,124	¥4,010	$37,579
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,124	4,010	37,579
Liability for retirement benefits	¥4,124	¥4,010	$37,579
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,124	4,010	37,579

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥284	¥290	$2,596
Interest cost	15	14	136
Amortization of actuarial loss	63	68	579
Retirement benefit expenses	¥363	¥373	$3,312

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥46	¥90	$424
Total	¥46	¥90	$424

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥140	¥186	$1,278
Total	¥140	¥186	$1,278

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020
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 ($1,075 thousand) and ¥118 million for the years ended May 31, 2021 and 2020, respectively.

Note 8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2021 and 2020 was as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2021

Type of shares	Number of shares as of June 1, 2020	Increase	Decrease	Number of shares as of May 31, 2021
		(Shares)		
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	793,403	725	—	794,128

Details of the increase are as follows:
Increase due to purchase of shares of less than standard unit 725 shares

For the year ended May 31, 2020

Type of shares	Number of shares as of June 1, 2019	Increase	Decrease	Number of shares as of May 31, 2020
		(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

b. Dividends

1) Dividends paid

For the year ended May 31, 2021

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 26, 2020	Common stock	¥268	$2,443	¥30.00	$0.27	May 31, 2020	August 27, 2020

For the year ended May 31, 2020

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, 2019	Common stock	¥268	¥30.00	May 31, 2019	August 29, 2019

2) Dividends with the cut-off date in the year ended May 31, 2021 and the effective date in the year ending May 31, 2022

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 27, 2021	Common stock	¥268	$2,443	Retained earnings	¥30.00	$0.27	May 31, 2021	August 30, 2021

Note 9. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,895	¥1,931	$17,265
Provision for accrued directors' bonuses	36	36	327
Provision for accrued employees' bonuses	322	348	2,934
Retirement benefit expenses	205	216	1,869
Provision for allowance for doubtful accounts	2	(1)	23
Research and development expenses	819	792	7,462

Note 10. Special Gains, Net

The components of "Special gains, net" for the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥407	¥447	$3,714
Special losses:			
Loss on valuation of investment securities	—	1	—
Total	¥407	¥445	$3,714

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, 2021 and 2020. 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, 2021 and 2020 was as follows:

For the Years Ended	May 31, 2021	May 31, 2020
Effective statutory tax rate	30.6%	30.6%
Effect of:		
Non-deductible expenses for income tax purpose	1.2	1.2
Non-taxable income such as dividends income, etc.	(1.9)	(0.9)
Per capita inhabitant tax	2.5	1.7
Valuation allowance	4.9	4.8
Income from affiliates accounted for by the equity method	(0.1)	0.7
Liquidation of an affiliate	(21.0)	—
Difference arising from the rates used by subsidiaries	1.1	1.5
Retained profit of affiliates	0.3	(0.2)
Research and development tax credit	(1.2)	(1.2)
Investment incentive tax credit	—	(2.5)
Other	(0.4)	(1.1)
Effective tax rate	16.0%	34.6%

The significant components of deferred tax assets and liabilities as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 270	¥ 235	$ 2,467
Liability for retirement benefits	1,269	1,234	11,562
Accrued employees' bonuses	258	274	2,353
Reserve for losses on order acknowledgements	157	104	1,437
The carryforward of unused tax losses (Note 1)	549	472	5,008
Other	361	333	3,292
Total gross deferred tax assets	2,867	2,655	26,120
Valuation allowance for the carryforward of unused tax losses (Note 1)	(536)	(466)	(4,886)
Valuation allowance for deductible temporary differences	(346)	(359)	(3,158)
Total valuation allowance	(883)	(825)	(8,045)
Total deferred tax assets	1,983	1,830	18,075
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,136)	(2,541)	(19,464)
Other	(50)	(48)	(464)
Total deferred tax liabilities	(2,187)	(2,589)	(19,928)
Net deferred tax liabilities	¥ (203)	¥ (759)	$ (1,853)

(Note 1) The breakdown of the carryforward of unused tax losses and valuation allowance by expiry date is as follows:
Year ended May 31, 2021

(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
The carryforward of unused tax losses (a)	¥ 435	¥ 5	¥—	¥—	¥—	¥109	¥ 549
Valuation allowance	(435)	(5)	—	—	—	(96)	(536)
Deferred tax assets	—	—	—	—	—	13	13(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
The carryforward of unused tax losses (a)	$ 3,964	$ 45	$—	$—	$—	$ 998	$ 5,008
Valuation allowance	(3,964)	(45)	—	—	—	(876)	(4,886)
Deferred tax assets	—	—	—	—	—	121	121(b)

(a) The amount is determined by multiplying the corresponding carryforward of unused tax losses by the effective statutory tax rate.
(b) Deferred tax assets of ¥13 million ($121 thousand) is recognized on the carryforward of unused tax losses of ¥549 million ($5,008 thousand) (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥13 million ($121 thousand) is recognized on the carryforward of unused tax losses of ¥13 million ($122 thousand) (amount multiplied by the effective statutory tax rate) of Toyo Shoji Co., Ltd., which is a consolidated subsidiary of the Company.

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
The carryforward of unused tax losses (a)	¥—	¥—	¥ 5	¥—	¥ 39	¥ 427	¥ 472
Valuation allowance	—	—	(5)	—	(33)	(427)	(466)
Deferred tax assets	—	—	—	—	6	—	6(b)

(a) The amount is determined by multiplying the corresponding carryforward of unused tax losses by the effective statutory tax rate.
(b) Deferred tax assets of ¥6 million is recognized on the carryforward of unused tax losses of ¥472 million (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥6 million is recognized on the carryforward of unused tax losses of ¥6 million (amount multiplied by the effective statutory tax rate) of Toyo Koki Co., Ltd., which is a consolidated subsidiary of the Company.

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, 2021 and 2020:

For the Years Ended	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Unrealized holding loss on securities:			
Amount arising during the year	¥(1,737)	¥(1,653)	$(15,831)
Reclassification adjustments for gains and losses included in net income	407	(447)	3,714
Amount before tax effect	(1,330)	(2,100)	(12,117)
Tax effect	405	652	3,694
Unrealized holding loss on securities	(924)	(1,448)	(8,423)
Translation adjustments			
Amount arising during the year	(6)	(12)	(55)
Amount before tax effect	(6)	(12)	(55)
Translation adjustments	(6)	(12)	(55)
Retirement benefits liability adjustments			
Amount arising during the year	(16)	21	(154)
Reclassification adjustments for gains and losses included in net income	63	68	579
Amount before tax effect	46	90	424
Tax effect	(14)	(27)	(129)
Retirement benefits liability adjustments	32	62	294
Share of other comprehensive income (loss) of affiliates accounted for by the equity method			
Amount arising during the year	14	(34)	133
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	14	(34)	133
Total other comprehensive loss	¥ (883)	¥(1,433)	$ (8,050)

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, 2021 and 2020, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥374	¥334	$3,408
Beijing Jingche Shuangyang Traction System Co., Ltd.	222	181	2,022

Note 15. Amounts Per Share

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥109.38	¥120.98	$0.99

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Yen)		(U.S. dollars)
Net assets	¥2,685.28	¥2,704.61	$24.46

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, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥977	¥1,081	$8,910
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	977	1,081	8,910
	(Thousand shares)		
Average number of shares of common stock during the year	8,941	8,941	

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, 2021 and 2020 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, 2021	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
1) Cash on hand and in banks	¥ 3,964	¥ 3,964	¥—
2) Trade notes and accounts receivable	13,218	13,218	—
3) Electronically recorded receivables	901	901	—
4) Investment securities	12,767	12,767	—
Total assets	¥30,851	¥30,851	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 1,668	¥ 1,668	¥—
6) Electronically recorded payables	4,705	4,705	—
7) Short-term borrowings	1,500	1,500	—
8) Long-term debt	12,344	12,373	29
Total liabilities	¥20,218	¥20,247	¥29
9) Derivative transactions*	¥ —	¥ —	¥—

As of May 31, 2021	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
1) Cash on hand and in banks	$ 36,118	$ 36,118	$ —
2) Trade notes and accounts receivable	120,426	120,426	—
3) Electronically recorded receivables	8,209	8,209	—
4) Investment securities	116,326	116,326	—
Total assets	$281,081	$281,081	$ —
Liabilities			
5) Trade notes and accounts payable	$ 15,198	$ 15,198	$ —
6) Electronically recorded payables	42,870	42,870	—
7) Short-term borrowings	13,666	13,666	—
8) Long-term debt	112,467	112,733	266
Total liabilities	$184,202	$184,468	$266
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, 2020	Carrying value	Fair value	Difference
	(Millions of yen)		
Assets			
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	¥—
Liabilities			
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*	¥ —	¥ —	¥—

*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, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥1,064	¥1,065	$9,694

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, 2021 and 2020 were as follows:

As of May 31, 2021	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	¥ 3,962	¥—	¥—	¥—
Trade notes and accounts receivable	13,189	29	—	—
Electronically recorded receivables	901	—	—	—
	¥18,052	¥29	¥—	¥—

As of May 31, 2021	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	$ 36,101	$ —	$—	$—
Trade notes and accounts receivable	120,162	264	—	—
Electronically recorded receivables	8,209	—	—	—
	$164,473	$264	$—	$—

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	¥—	¥—

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, 2021	Carrying value	Acquisition cost	Unrealized gain (loss)
		(Millions of yen)	
Securities for which carrying value exceeds acquisition cost:			
Stock	¥12,514	¥5,511	¥7,003
Subtotal	¥12,514	¥5,511	¥7,003
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 253	¥ 317	¥ (63)
Subtotal	¥ 253	¥ 317	¥ (63)
Total	¥12,767	¥5,828	¥6,939

As of May 31, 2021	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities for which carrying value exceeds acquisition cost:			
Stock	$114,015	$50,211	$63,804
Subtotal	$114,015	$50,211	$63,804
Securities for which acquisition cost exceeds carrying value:			
Stock	$ 2,310	$ 2,889	$ (579)
Subtotal	$ 2,310	$ 2,889	$ (579)
Total	$116,326	$53,101	$63,224

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

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, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥693	¥780	$6,318
Gain on sales	407	447	3,714
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, 2021 and 2020 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥3,964	¥3,293	$36,118
Cash and cash equivalents	¥3,964	¥3,293	$36,118

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, 2021 and 2020, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:
There were no derivatives as of May 31, 2021.

As of May 31, 2020	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Millions of yen)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥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, 2021 (Millions of yen)

	Reportable segments: Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥21,528	¥10,541	¥1,067	¥ 5	¥33,143	¥ —	¥33,143
Inter-segment sales and transfers	50	0	—	346	397	(397)	—
	21,579	10,542	1,067	352	33,541	(397)	33,143
Segment profit	¥ 2,211	¥ 718	¥ 267	¥ (39)	¥ 3,157	¥ (2,734)	¥ 423
Segment assets	¥17,151	¥13,838	¥ 674	¥479	¥32,144	¥19,822	¥51,967
Other items:							
Depreciation	¥ 607	¥ 527	¥ 25	¥ 4	¥ 1,165	¥ 247	¥ 1,413
Capital expenditures	¥ 454	¥ 113	¥ 10	¥ 2	¥ 580	¥ 51	¥ 632

For the year ended May 31, 2021 (Thousands of U.S. dollars)

	Reportable segments: Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	$196,145	$ 96,042	$9,723	$ 52	$301,962	$ —	$301,962
Inter-segment sales and transfers	457	7	—	3,161	3,625	(3,625)	—
	196,602	96,049	9,723	3,213	305,588	(3,625)	301,962
Segment profit	$ 20,152	$ 6,542	$2,433	$ (359)	$ 28,769	$ (24,909)	$ 3,860
Segment assets	$156,267	$126,079	$6,149	$4,367	$292,863	$180,599	$473,462
Other items:							
Depreciation	$ 5,534	$ 4,810	$ 228	$ 42	$ 10,616	$ 2,258	$ 12,874
Capital expenditures	$ 4,137	$ 1,034	$ 93	$ 22	$ 5,287	$ 473	$ 5,761

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, 2020 (Millions of yen)

	Reportable segments: Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
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

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, 2021 and 2020 were summarized as follows:

For the Years Ended	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Japan	¥27,876	¥30,997	$253,973
China	3,628	4,282	33,057
Other	1,638	3,791	14,932
Consolidated	¥33,143	¥39,071	$301,962

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

Major customer information

Major customer information for the years ended May 31, 2021 and 2020 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.

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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, 2021, and the consolidated statements of income, comprehensive income, 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, 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of certain assets or groups of assets in the Industrial Systems segment	
Description of Key Audit Matter	Auditor's Response
On the consolidated balance sheet of TOYO DENKI SEIZO K.K. as of May 31, 2021, the Company recorded property, plant and equipment, intangible assets, and long-term prepaid expenses totaling 9,657 million yen, accounting for 18.6% of total assets. Of this amount, property, plant and equipment, intangible	We mainly performed the following audit procedures with respect to the estimate of the total amount of undiscounted future cash flows used by management in determining whether to recognize impairment loss on the fixed assets belonging to certain groups of assets in the Industrial Systems segment.

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assets, and long-term prepaid expenses belonging to certain groups of assets in the Industrial Systems segment totaled 5,928 million yen, accounting for 11.4% of total assets. A majority of these fixed assets are depreciated or amortized on a systematic basis and, when there are indications of impairment, the Company must determine whether or not to recognize impairment loss. Indications of impairment include ongoing operating loss, significant decline in market value, significant deterioration in the operating environment, and change in use. The financial performance of the Industrial Systems segment is affected by net sales based on projected future orders received. Although the Company determined that there was an indication of impairment for the fiscal year ended May 31, 2021 due to ongoing operating loss, it did not recognize impairment loss since the total amount of undiscounted future cash flows from the fixed assets belonging to certain groups of assets in the Industrial Systems segment exceeded the carrying value of the corresponding assets. Estimates of future cash flows are based on business plans approved by the board of directors and, for periods of time that are longer than the periods covered by business plans, estimates are based on growth rates that take into account future uncertainty. As described in Significant accounting estimates in the notes to the consolidated financial statements, the key assumption underlying estimates of future cash flows is net sales based on projected future orders received, a factor which is subject to uncertainty. Given that net sales based on projected future orders received requires subjective judgment by management, we have determined that this is a key audit matter.	• Regarding future cash flows, we considered whether documents provided by the Company are consistent with business plans approved by the Company's board of directors. • We considered the feasibility of approved business plans by interviewing managers and others who are responsible for certain groups of assets in the Industrial Systems segment. • We considered whether the basis for approved business plans, i.e., actual orders received and forecasted orders received data, is consistent with related supporting documentation. • We compared prior year business plans with subsequent actual figures to evaluate the adequacy of estimates made by management. • Regarding growth rates for periods of time that are longer than the periods covered by business plans, we held discussions with management and considered the consistency between such growth rates and supporting documentation. • Regarding the effect of the COVID-19 pandemic, we made inquiries of management relating to the Company's assumptions and compared such assumptions to economic conditions and the recent business environment.

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 Auditorsregarding, 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.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

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Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended May 31, 2021 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 30, 2021

Takeshi Isogai
Designated Engagement Partner
Certified Public Accountant

Shinichi Masuda
Designated Engagement Partner
Certified Public Accountant

A member firm of Ernst & Young Global Limited

Stock Related Information

Number of shares (As of May 31, 2021)

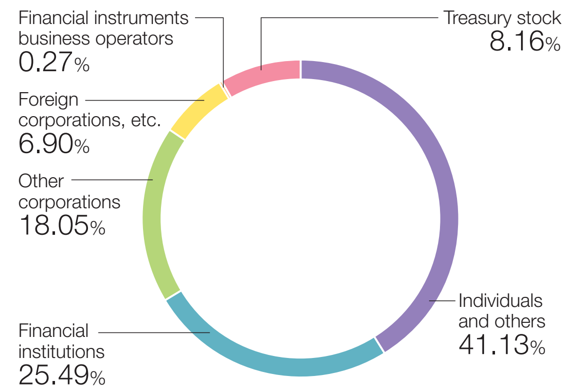
Number of shares authorized	36,000,000
Number of shares issued	9,735,000
Number of shareholders	5,572

Major shareholders

Shareholders	Number of shares held (Thousands)	% of total shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	589	6.59
East Japan Railway Company	480	5.36
Employees Stock Ownership Plan	451	5.05
NIPPON LIFE INSURANCE COMPANY	337	3.77
Toyo Denki Subcontractor Factories Shareholding Association	287	3.21
MUFG Bank, Ltd.	270	3.02
Sanshin Co., Ltd.	270	3.01
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/JANUS HENDERSON HORIZON FUND	216	2.42
Custody Bank of Japan, Ltd. (Trust account)	213	2.38
The Bank of Yokohama, Ltd.	207	2.32

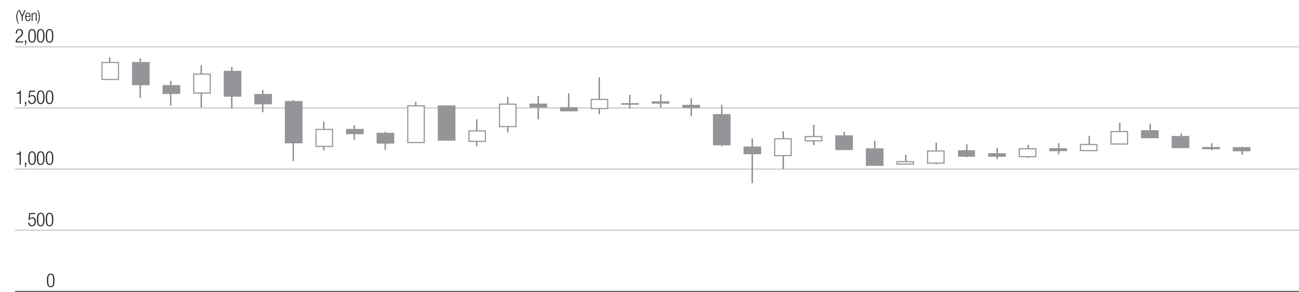
(Note) The percentages of total shares held are calculated excluding 794,128 treasury stocks.

Distribution of shares by type of shareholder

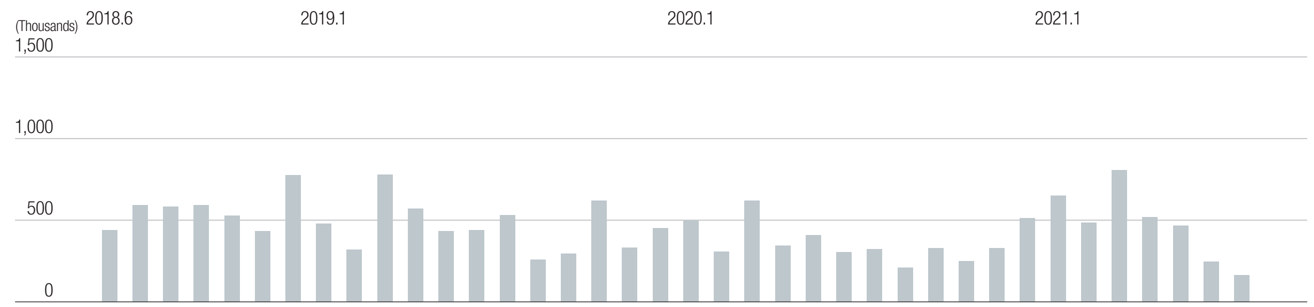


Transition of share price

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, 2021)

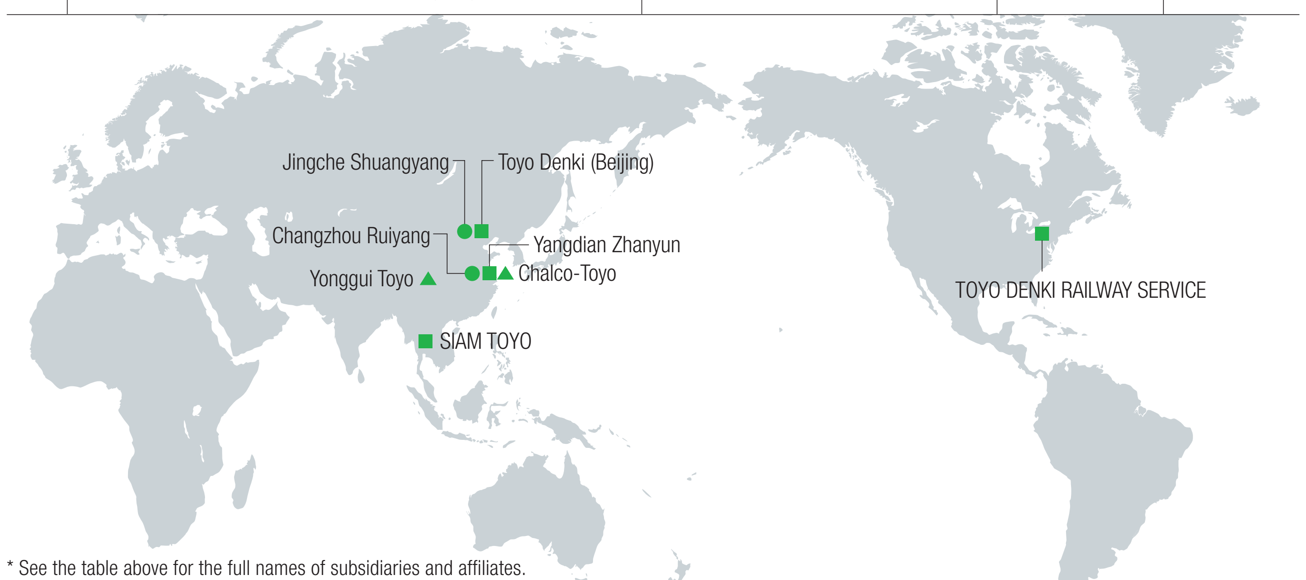
Company Profile

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	1,217 (Consolidated) 847 (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	5,572

Subsidiaries and Affiliates (as of September 1, 2021)

○ 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)			
	● Changzhou Ruiyang Transmission Technology Co., Ltd. (China) ● Beijing Jingche Shuangyang Traction System Co., Ltd. (China) ▲ Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd. (China) ■ TOYO DENKI RAILWAY SERVICE, LLC. (U.S.)	■ 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, 2021)