

# We value people and technology, and will promote sustainability management that realizes sustainable growth and increased corporate value.



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## ▶ Pursuing our vision for Toyo Denki Seizo

### Sustainability management that we aim to get fully embraced throughout the Group

The Group has been committed to growing its business, earning the confidence of shareholders and stakeholders, and sharing joy with our employees, by practicing its business principles of “prioritizing ethics and contributing to the prosperity of customers and society as a whole,” “encouraging creativity and an enterprising spirit to meet the challenges of the future,” and “building trust by focusing on quality first.”

To achieve these goals, we have consistently been supplying high-quality products and services globally, leveraging our technologies while responding to the changing needs of the times, since our founding. We believe that we have successfully carved out a history of more than 100 years by continuing to refine our technologies and quality and contributing to the realization of a sustainable society through manufacturing.

The Sustainability Policy established in 2021 reaffirms our past contribution to the realization of a sustainable society and our commitment to continuing to contribute in the future.

We repeatedly communicated such policy of sustainability to the Group’s employees, and worked to get the concept of sustainability management, which aims to increase corporate value while having the entire Group to contribute to the realization of a sustainable society, fully embraced. In the process, we realized the need to reorganize and communicate what we must value in order to continue to achieve sustainable growth and increase corporate value, with an eye to future changes in the environment.

## ▶ “People, Technology, Quality, Environment, Governance”

### Determined five material issues that the Group focuses on

Five material issues (key challenges) determined this year are the result of many internal discussions based on this policy. Assuming a wide range of changes in the future society and market environment, what are the key challenges that must be addressed in order for the Group to continue to be needed by stakeholders as a company that supports social and industrial infrastructure and to achieve sustainable growth and increased corporate value? What should we value for the future? We had many discussions led by the Sustainability Committee to determine five material issues after the resolution of the Board of Directors in May 2024.

The five material issues, detailed information on which is also included in this Integrated Report, are about “People, Technology, Quality, Environment, and Governance,” which the Group has been valuing.

In order for the Company as an entity that has been contributing to the realization of social and industrial infrastructure, including railways, to achieve sustainable growth and increased corporate value over the medium- to long-term, it is *people* that we should value above everything else. People, who are the important management resources of the Group, are

empowered to provide customers with products and services accompanied with “technology” and “quality,” which will contribute to the realization of an environmentally friendly, sustainable society. Such corporate activities are to be overseen with a solid *governance* system for us to move forward into the future.

We have already started implementing initiatives for the material issues by incorporating them into the measures in the business plan for each fiscal year. We believe that this makes it easier for employees to understand and become familiar with it,

and will help it to be fully embraced throughout the Group. Similarly, we established key performance indicators (KPIs) together with target values to help employees to link their daily work with improvements in corporate value.

We also conduct sustainability training for the entire Group on an ongoing basis. I myself joined the training sessions held this year, where I communicated the significance and purpose of material issues and sustainability management, the meaning of KPIs, as well as my thoughts on the initiatives.

## ▶ Human resources are the most important management asset

### Aiming for an organization/climate where people across the group can find their job fulfilling and play an active role

As I mentioned earlier, we recognize that human resources are the most important management asset to support our efforts to sustainably enhance corporate value and fulfill our social mission. In order to revitalize the organization and human resources by securing and retaining diverse human resources, fostering and assigning them to the right jobs, we started to work on the reform of our human resource system in the first year of Medium-Term Management Plan 2026.

Specifically, we are reviewing evaluation and compensation, human resource development, and workstyles and support for balancing work and life. In working on these efforts, we conducted an employee engagement survey, believing that it was necessary to first understand the current situation as to what the employees have high expectations for and the degree of satisfaction with respect to those expectations.

I believe that engagement is an indication of the degree of trust between the employee and a company. We are convinced that the Group can grow even further by enabling our employees to feel satisfaction from and pride in and be energized by their work. The engagement survey we conducted this time had the Company’s current state visualized and quantified to provide us with a lot of insights.

Based on the results of the engagement survey, we already started improvement efforts at the organizational level. In the future we plan to expand the scope of the survey to include our

group companies, and regularly conduct semi-annual surveys, in principle, while promoting efforts to improve engagement. Further, we do not rely solely on engagement surveys, but rather practice management by directly listening to the real voices of our employees. I myself listen directly to the opinions of our employees at the roundtable meetings we regularly hold with them. We will also incorporate the feedback we receive there to improve employee engagement.

It is human resources that create and produce the Group’s products and services. I intend to develop an organization and climate in which each employee can make the most of their capabilities and grow every day while taking on new challenges. In terms of human resource development, we have various training programs in place; however, we place particular importance on passing on skills. In principle, regular hires involved in manufacturing and quality assurance undergo a one-year training period before being assigned to their duties.

Our manufacturing is closely related to people’s daily lives. In railways, which are used by many people on a daily basis, product defects can have a serious impact on safety and security. With this awareness, we will continue to manage our business by carefully nurturing people and encouraging them to play an active role, also to supply high-quality products and services.

## ▶ Results of the first two years of Medium-Term Management Plan 2026

### Steady progress toward achieving the targets

The first two years of Medium-Term Management Plan 2026 were completed in the fiscal year ended May 2024. Having gone through the COVID-19 pandemic, we saw a full-scale recovery in progress in the fiscal year ended May 2024, which is now reflected in the figures, partly thanks to our efforts for the three fundamental policies of Medium-Term Management Plan 2026, “expansion of new businesses and products,” “thorough improvement of the earnings structures of existing businesses,”

and “Improvement in asset efficiency with awareness of capital cost.”

Orders received remained firm both in Japan and overseas, and order backlog reached a record-high level due to the receipt of a large order for electrical equipment for railway vehicles in Indonesia and others.

Sales are also on a recovery trend, and we believe that we can further increase sales in the future by reliably producing and

## Message from the President, Representative Director

delivering for the order backlog that we have accumulated. From a profit perspective, operating income, ordinary income, and net income all significantly exceeded initial forecasts. We consider one of the reasons for this is an improvement in profit margins. We made progress in revising to appropriate selling prices in response to rising raw material prices and other factors, mainly in the Industry Business, where the order-to-sales cycle is relatively short. We believe that our efforts for “thorough improvement of the earnings structures of existing businesses,” including those to increase production efficiency aimed at improving factory profitability, are starting to bear fruit.

Next, I will explain the status of each business segment. In the Transportation Business, there were increased activities to newly construct and renew rolling stock among railway operators, especially some private railway companies whose business performance has recovered, including from inbound revenue which stayed strong, resulting in an increase in orders received and sales. For China, orders for maintenance parts for high-speed railways, which were delivered more than a decade ago, are increasing. For overseas markets other than China, there are an

increasing number of inquiries, including the large project for Indonesia that I mentioned earlier.

In the Industry Business, orders for testing machines with space-saving specifications that leverage in-wheel-well dynamo technology, the Company's proprietary automobile testing system, as well as trial and contract testing, increased. In-wheel-well dynamo has been attracting a great deal of attention at trade shows, etc. In addition, orders received and inquiries for Emergency power generators as a BCP response to large-scale disasters are increasing.

The ICT Solution Business mainly handles railway station operating equipment systems used by railway operators at their stations. For example, it develops Commuter pass issuing machine and software associated with services for railway users, such as a cashless service. While there were orders received for IoT terminals for remote monitoring to be installed on trucks and other mobile entities as a business in a new area, both orders received and sales decreased due to a reactionary decline from the previous fiscal year.

### ► Outlook for the latter two years of Medium-Term Management Plan 2026

## Group-wide implementation of three fundamental policies

Medium-Term Management Plan 2026 sets out targets of net sales of 40.0 billion yen, operating income ratio of 5%, and return on equity (ROE) of 8% for its final year, the fiscal year ending May 2026. The target of 40 billion yen in net sales means first returning to the pre-COVID-19 level, which we believe is well within our reach considering our order backlog which is at an all-time high. We consider “thorough improvement of the earnings structures of existing businesses” is the key to achieving an operating income ratio of 5%. What is important in this is revising selling prices to appropriate ones. We will continue to work to gain customers' understanding that our prices are fair, when the Group's technology and quality are taken into consideration, not only in the Industry Business, which has taken the lead, but also in the Transportation Business. Of course, we will strive to improve efficiency throughout production and reduce costs on various fronts through the Group's own efforts.

For the “expansion of new businesses and products,” we will continue our sales activities in Indonesia, where we successfully received a large order, in order to continue to win new orders. We will also promote the development of the in-wheel-well dynamo to make it a more attractive product, by reflecting the feedback received when we received inquiries.

As for the “Improvement in asset efficiency with awareness of capital cost,” we will work to divest cross-shareholdings while monitoring trends in the equity market. We will also strive to improve asset efficiency by promoting the sale of underutilized real estate and other actions.

We will accelerate these efforts to ensure that ROE of 8% will be achieved in the final year of Medium-Term Management Plan 2026.

### ► Future beyond Medium-Term Management Plan 2026

## Development for further growth

While Medium-Term Management Plan 2026 is an important target and we are making every effort to achieve it, we are also looking into the future beyond it.

The Development Center, which is responsible for the development of new products, is working on the development of “on-demand motors” by utilizing the technologies and know-how

cultivated through the development of car-mounted electric components. This involves providing motor components, including inverters, that are customized to meet customer needs, such as built-in types, and they are expected to be used in special-purpose vehicles and others.

We are also paying attention to the trend toward the adoption of cashless services by railway station operating equipment systems and others. As the trend toward cashless operations expands from railways to other businesses including buses, and from cities to rural areas, business related to digital systems and software, such as payment terminals and internal business process applications, is expected to expand. Accordingly, the Development Center and the ICT Solution Business Unit are working together on initiatives.

Regarding overseas development, I would like to draw attention to the Indonesian business, in particular. Although it may seem like a sudden and rapid expansion due to a large order last year, the Indonesian business has been accumulating track records for quite some time and expanding steadily. There are more than 1,000 Japanese used vehicles running locally. Since the Group's electrical products are installed in those vehicles, we have been receiving orders for maintenance and other services. As traffic congestion became a social issue due to population growth accompanying Indonesia's economic development, and amid efforts by the Indonesian government to improve the country's railway systems, we were awarded the order in recognition of the Group's technical capabilities. The order was received from a vehicle manufacturer under the state-owned

railway company this time. The subway Jakarta MRT, which started operation in 2019, also runs vehicles equipped with the Group's electrical equipment for railway vehicles, including Propulsion systems. I understand that our track records to date have led to the latest order.

Meanwhile, in China, we have been in business for more than 20 years and have acquired brand strength as well. Although the economy in China is currently somewhat stagnant and geopolitical risks are also persisting, it has a large market and the extension, etc. of railways and subways has been steadily progressing. Maintenance demand for many of the products that the Group has delivered to date is also expected. We believe it is important to take a long-term view in developing business in China.

All of the Group's businesses only become possible with the work of our employees. We will continue to emphasize investments in human capital that will lead to improved employee engagement. We intend to make capital investment from the perspective of introducing production equipment to increase orders received and improve production efficiency, rather than simply renewing aging equipment.

### ► Message to our stakeholders

## To enhance shareholder returns through growth and increased profits

Lastly, we have been promoting initiatives to ensure that ROE of 8% will be achieved in the remaining two years of Medium-Term Management Plan 2026, and I will explain our policy on how to return profits secured through such effort to shareholders.

The Group's basic policy is to pay dividends in a continuing and stable manner with a payout ratio of 30% or higher. To respond to the trust placed in us by shareholders, we are working to strengthen the earning capacity needed to ensure the source funds for dividends. Under such basic policy for dividend returns to shareholders, we paid a year-end dividend of 30 yen per share in the fiscal year ended May 2024. For the fiscal year ending May 31, 2025, we have increased the dividend forecast by 10 yen to 40 yen per share, taking into consideration the earnings forecast and the basic policy. In accordance with the basic policy, we will continue to aim to increase dividends through profit growth and further enhance shareholder returns. Retained earnings will be effectively injected into growth investments, including capital and R&D investments as well as investments in human capital.

At the Group, we have sent out into the world numerous pieces of electrical equipment for railway vehicles and general industry, based on the motor drive technologies that we have cultivated since our establishment. We believe that it is the result of our efforts to create value that is unique to the Company, centered on people and technology.

In order to further increase corporate value, we re-examined and reorganized what we should value for the future, and have established the five material issues. We will continue practicing sustainability management with the aim of achieving sustainable growth and continuing to contribute to society.

We hope that our stakeholders will look forward to further development and expansion of the Group's business and request continuing support.

