



TAKAOKA TOKO CO., LTD.

Stock Exchange Code: 6617

# The 7<sup>th</sup> Fiscal Year Business Report

April 1, 2018 >>> March 31, 2019

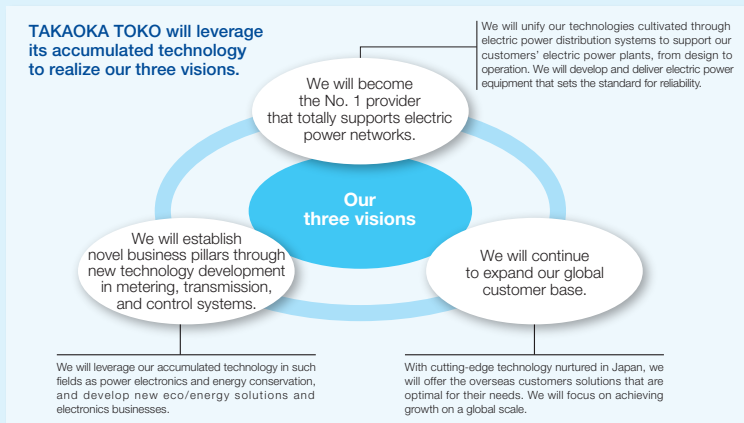


**Toshiro Takebe**

President and Representative Director  
TAKAOKA TOKO CO., LTD.

Let me express my heartfelt gratitude to all shareholders for their continued support.

I hereby present the 7th Fiscal Year Report (from April 1, 2018 to March 31, 2019) of TAKAOKA TOKO (the “Company”) and report on the overview of our business.



## Progress and Results of Business Operations

During the fiscal year under review, the Japanese economy remained on a gradual recovery trend due to factors such as an increase in capital investment mainly in rationalization and labor-saving efforts against the backdrop of a recovery in personal consumption and a shortage of labor amid continued improvements in the employment and income environment, despite signs of weakness in exports and production. On the other hand, the economic outlook is unclear partly due to the impact of trade issues on the global economy and uncertainty over overseas economies.

In the electric power industry, the largest clientele of the TAKAOKA TOKO Group (the “Group”), competition is intensifying across business fields and regions due to the full liberalization of the electricity and gas retail market, and efforts are being made towards improved productivity and thorough cost reductions as the industry prepares for the legal structural separation between the transmission business and the distribution business of electric power companies scheduled for 2020. Meanwhile, demand is increasing for renewable energy-related equipment, decentralized energy systems, and the renewal of aging equipment.

In such a business environment, the Group has established the “TAKAOKA TOKO Group Fiscal Year 2020 Medium-Term Management Plan,” and with all employees working together as one to take up the challenge of Kaizen (improvement), has been striving to expand its business domains and reform business models with a view to building new earnings bases, while further advancing the improvement of profitability of its existing businesses.

As a result, for the consolidated fiscal year under review, we posted net sales of ¥90,883 million (a year-on-year decrease of 4.6%) due to a reactionary decline in the smart meter sales and the sales of shares of Reliance Electric Limited held by the Company in the previous consolidated fiscal year.

In terms of profit, we posted operating income of 2,736 million yen (a year-on-year decrease of 7.2%), ordinary income of 2,891 million yen (a year-on-year decrease of 9.4%) and profit attributed to shareholders of the parent company of 1,031 million yen (a year-on-year decrease of 33.3%) due to the recording of product warranty costs to replace some faulty smart meters, in addition to a decrease in net sales despite our steady efforts to reduce costs for smart meters.

## Status of Capital Investment

We made capital investment of 2,210 million yen in total, mainly for expansion of business, such as reinforcing the capacity of large transformers and distribution equipment.

## Issues to Be Addressed

- 1) Response to reduced capital investment by domestic electric power companies**  
In the electric power industry, the largest clientele of the Group, the conventional market structure has changed and market competition has been intensifying due to the full liberalization of electricity retailing and power generation as well as reforms to electric power systems, including the legal structural separation between the transmission business and the distribution business of electric power companies. As a result, electric power companies have been reducing their capital investment and prices of our products for electric power companies (large transformers, switchgears, disconnectors, and small transformers, etc.) are expected to continue to decline. The Group will develop competitive products by promoting companywide productivity improvements through Toyota-style Kaizen (improvement) activities, and cost reductions through overseas procurement.
- 2) Response to intensifying price competition in social infrastructure products market**  
Demand from private sector companies and public infrastructure operators is expected to remain at a high level for some time especially for renewable energy products, such as solar power generation and wind power generation, and the renewal of facilities constructed during the “bubble” era. Price competition is, however, becoming increasingly severe. As well as increasing our production capacity by way of capital investment and accelerating reductions in production lead time and costs, the Group will expand its business in the social infrastructure area by strengthening its engineering functions.
- 3) Strengthening our foundation for expansion into overseas markets**  
The outlook for overseas markets is unclear, partly due to the impact of trade issues on the global economy and uncertainty over overseas economies. On the other hand, various business opportunities related to electric power infrastructure are expanding in the Asian region, where demand for electricity is growing. In addition to our two existing Group companies in China (Suzhou and Fushun), the Group completed construction of a plant of TAKAOKA TOKO KOREA CO., LTD in the Republic of Korea (Changwon) in fiscal 2018. The Group is accelerating overseas production and working on strengthening the foundations for overseas business expansion by opening a representative office in the Republic of the Philippines (Makati).
- 4) Initiatives for new business**  
We are working to expand new business by supplying EMS, designed for optimized operation of renewable energy, to overseas off-the-grid communities and semi-off-the-grid communities in Japan, leveraging the knowledge we obtained from the smart grid verification projects in Niijima. In addition, we will work toward the rapid expansion of our business by entering into alliances with overseas companies and actively making growth investments to respond to demand for electric power infrastructures in Asia, which has been expanding.

## Status by Segment

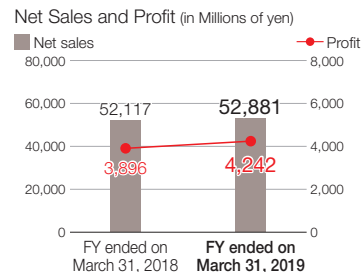
The status of each segment is as follows.

Mechatronics equipment, which was included in the Energy Solution Business segment, has been transferred to the Information System/Applied Optics Inspection System Business segment from the second quarter of the previous fiscal year. Consequently, year-on-year figures have been reclassified in line with the segment following the change.

### Electric Equipment Business

Major products and services	Equipment for power receiving, transforming and distribution, monitoring and control systems, control equipment, etc.
Basic strategies of the segment	<ul style="list-style-type: none"> <li>Reduction of all product costs and acceleration of the development of new products</li> <li>Sales expansion in social infrastructure areas and to regional electric power companies</li> <li>Building bases for overseas business</li> </ul>

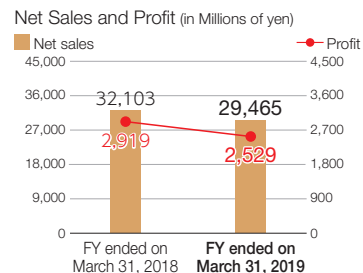
We achieved net sales of 52,881 million yen (a year-on-year increase of 1.5%) and segment profit of 4,242 million yen (a year-on-year increase of 8.9%), due to steady sales of equipment for power receiving and transformation equipment, despite a decrease in overseas construction projects.



### Metering Business

Major products and services	Transformers, various types of meters (for electricity, gas, and water service), undertaking of replacement of expired meters (*), etc. *Replacement of expired meters" means the replacement work of electric meters conducted pursuant to the Measurement Act.
Basic strategies of the segment	<ul style="list-style-type: none"> <li>Enhancement of the product lineup of transformers compatible with the separation of electrical power production from power distribution and transmission</li> <li>Establishment of efficient production systems in Japan, China and Korea</li> </ul>

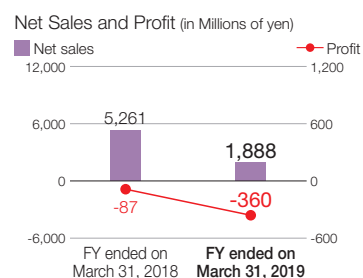
We achieved net sales of 29,465 million yen (a year-on-year decrease of 8.2%) and segment profit of 2,529 million yen (a year-on-year decrease of 13.4%), due to a reactionary decline in sales of smart meters.



### Energy Solution Business

Major products and services	Energy metering and control equipment, quick chargers for electric vehicles, etc.
Basic strategies of the segment	<ul style="list-style-type: none"> <li>Leading the market for quick chargers for electric vehicles</li> <li>Expansion of businesses related to smart grids</li> </ul>

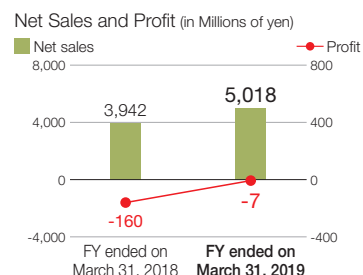
We achieved net sales of 1,888 million yen (a year-on-year decrease of 64.1%) and segment loss of 360 million yen (segment loss of 87 million yen in the corresponding period of the previous fiscal year), due to the sale of all shares of Reliance Electric Limited held by the Company in the previous consolidated fiscal year.



### Information System/Applied Optics Inspection System Business

Major products and services	3D inspection systems <sup>(1)</sup> , thin client systems <sup>(2)</sup> , embedded software, etc. *1 A "3D inspection system" means a system to measure and inspect external appearance (height, depth and surface form) of electronic circuit substrates. *2 A "thin client system" is a simple structured terminal for information networks with a simple structure, which has no application software or data, with no external memory devices or hard disks on the terminal side. It has superiority in preventing leakage of information, including personal information.
Basic strategies of the segment	<ul style="list-style-type: none"> <li>Promotion of cost reductions in inspection systems and strengthening of overseas sales</li> <li>New product development in solutions and communication systems</li> </ul>

We achieved net sales of 5,018 million yen (a year-on-year increase of 27.3%) and segment loss of 7 million yen (segment loss of 160 million yen in the corresponding period of the previous fiscal year), due to increased sales of information systems.

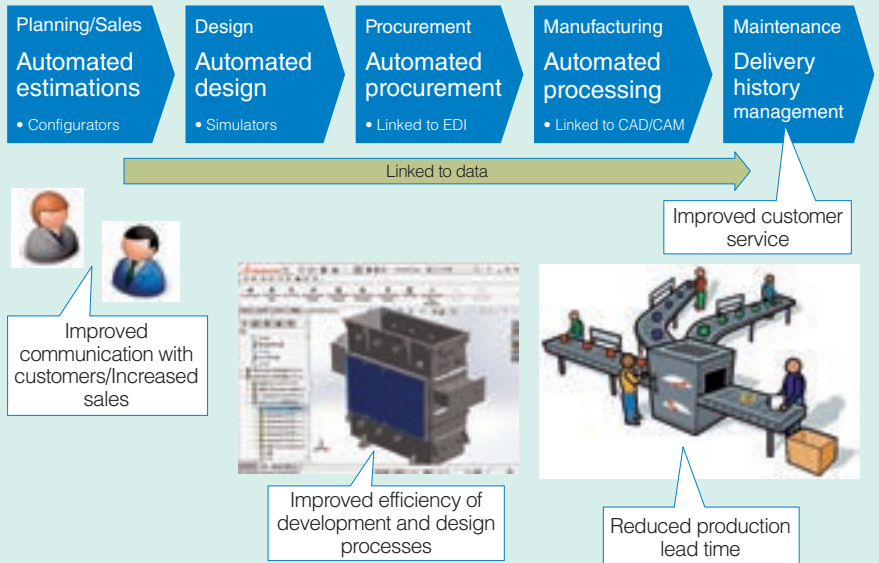


## Establishment of the DX Kaizen Promotion Division

In February 2019, we established the DX <sup>(\*)</sup> Kaizen Promotion Division, an organization to strongly promote productivity improvements from the perspectives of Kaizen and digitization.

We are undertaking Kaizen activities at all departments by using Toyota's production methods to solve problems.

For operational Kaizen activities using digitization, we are promoting the automation of indirect operations by combining robotic process automation (RPA) technology with AI-OCR <sup>(\*\*)</sup> technology and optimal work flow, etc. In addition, for individual products, we are working on mass customization <sup>(\*\*\*)</sup> with the aim of significantly reducing lead time and improving customer service by undertaking automated estimations, automated design, and automated arrangements from among a selection of specifications.



(\*) An abbreviation for “digital transformation,” referring to the creation of value and the establishment of a competitive advantage by way of new products, services and business models utilizing digital technology such as AI and IoT.

(\*\*) AI-OCR, an optical character recognition technology that utilizes AI technology, dramatically improved the OCR accuracy rate.

(\*\*\*) Mass customization is a process of delivering products and services tailored for each customer while maintaining productivity of mass production.

## Initiatives for overseas business

In April 2019, Toko Electric (Suzhou) Co., Ltd. moved its plant from Suzhou City's New District to the Wujiang District due to redevelopment plans for the area, and the new plant commenced operations as a new business base. The layout of the new plant, equipped with new testing facilities, was designed for improved productivity and quality.

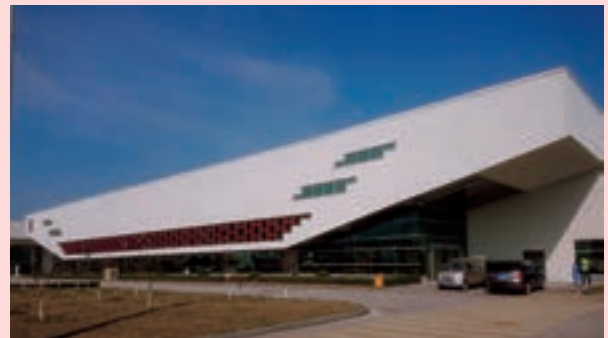
TAKAOKA TOKO KOREA CO., LTD. plans to start full-swing production of gas transformers in July 2019.

Takaoka Engineering Co., Ltd. has received orders for works on the Republic of Tajikistan's project to construct an electrical substation and the Republic of Guyana's project to introduce renewable energy and energy-saving systems.

Also, the Philippines Representative Office is engaged in activities proposing various products to local electric power companies.

In addition, we are working on initiatives to expand sales by exhibiting gas transformers, disconnectors, transformers, quick chargers and other products at exhibitions in India and China.

Going forward, the Group will continue to actively promote overseas expansion.



Relocated new plant of Toko Electric (Suzhou) Co., Ltd.

## Initiatives for diversity and work-style reforms

We are committed to promoting female career advancement. We aim to maintain the proportion of female employees in new proportion of new graduates we hire at 20%, and we are conducting diversity training for female employees.

As part of our initiatives for work-style reforms, we introduced the “time-based annual leave system” that enables flexible working style, and the “interval system” aimed at improving long working hours.

Our initiatives in promoting female career advancement have been recognized, and we received the “Jury's Special Award” in the “Accreditation Review of Companies Supporting Child-raising” of Nagoya City. In addition, we were named a “Gold-certified Company” in Ibaraki Prefecture's Certification System for Companies Utilizing the Power of Women.

Going forward, we will continue to strive to create a comfortable working environment.



# Overview of Consolidated Financial Statements

## Consolidated Balance Sheets (in Millions of yen)

Item	Previous Fiscal Year As of March 31, 2018	Current Fiscal Year As of March 31, 2019
<b>[Assets]</b>		
<b>Current Assets</b>	<b>51,614</b>	<b>55,130</b>
<b>Non-current Assets</b>	<b>45,095</b>	<b>44,092</b>
Property, plants and equipment	38,610	37,681
Intangible assets	2,988	2,796
Investments and other assets	3,496	3,614
<b>Total Assets</b>	<b>96,710</b>	<b>99,222</b>
<b>[Liabilities]</b>		
<b>Current Liabilities</b>	<b>25,483</b>	<b>26,210</b>
<b>Long-term Liabilities</b>	<b>18,935</b>	<b>21,157</b>
<b>Total Liabilities</b>	<b>44,418</b>	<b>47,367</b>
<b>[Net Assets]</b>		
<b>Shareholders' Equity</b>	<b>47,870</b>	<b>48,096</b>
<b>Accumulated other comprehensive income</b>	<b>345</b>	<b>(354)</b>
<b>Non-controlling interests</b>	<b>4,076</b>	<b>4,113</b>
<b>Total Net Assets</b>	<b>52,291</b>	<b>51,855</b>
<b>Total Liabilities and Net Assets</b>	<b>96,710</b>	<b>99,222</b>

Notes: 1. Amounts less than one million yen have been truncated.

2. Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (ASBJ Statement No. 28, February 16, 2018) have been applied from the beginning of the first quarter of the fiscal year; therefore, results for the fiscal year ended March 31, 2018 reflect the retroactive application of the standard.

## Consolidated Statements of Income (in Millions of yen)

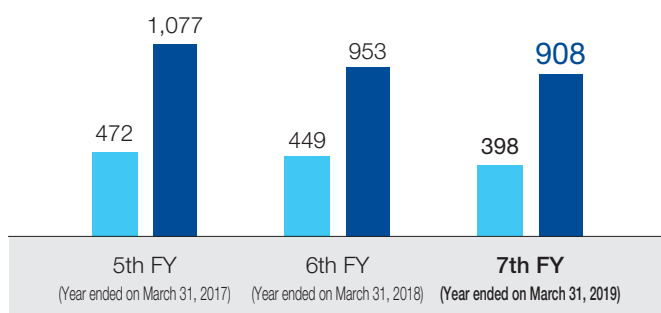
Item	Previous FY From April 1, 2017 to March 31, 2018	Current FY From April 1, 2018 to March 31, 2019
<b>Net sales</b>	<b>95,309</b>	<b>90,883</b>
<b>Cost of sales</b>	<b>76,467</b>	<b>72,414</b>
<b>Gross profit</b>	<b>18,841</b>	<b>18,468</b>
<b>General and administrative expenses</b>	<b>15,893</b>	<b>15,732</b>
<b>Operating income</b>	<b>2,947</b>	<b>2,736</b>
<b>Non-operating income</b>	<b>430</b>	<b>310</b>
<b>Non-operating expenses</b>	<b>188</b>	<b>155</b>
<b>Ordinary income</b>	<b>3,189</b>	<b>2,891</b>
<b>Extraordinary income</b>	<b>751</b>	<b>154</b>
<b>Extraordinary loss</b>	<b>877</b>	<b>1,376</b>
<b>Income before income taxes</b>	<b>3,063</b>	<b>1,668</b>
<b>Income taxes</b>	<b>541</b>	<b>590</b>
<b>Net income</b>	<b>2,521</b>	<b>1,077</b>
<b>Profit attributed to non-controlling interests</b>	<b>974</b>	<b>46</b>
<b>Profit attributed to shareholders of the parent company</b>	<b>1,546</b>	<b>1,031</b>

Note: Amounts less than one million yen have been truncated.

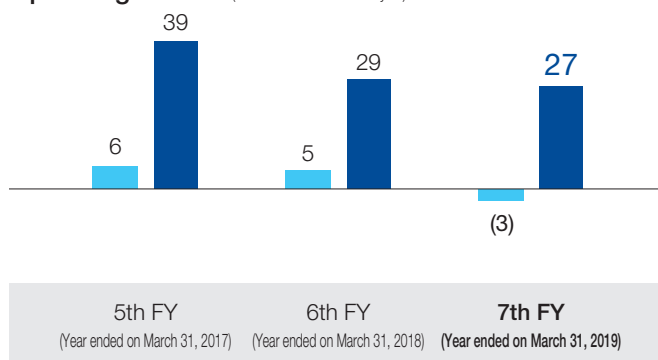
## Consolidated Financial Highlights

■ First Half FY ■ Full FY

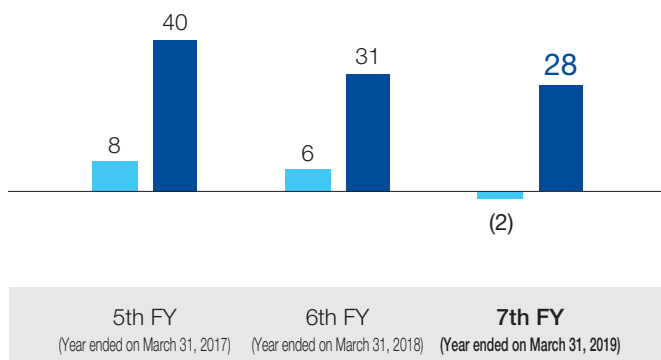
### Net sales (in Hundred millions of yen)



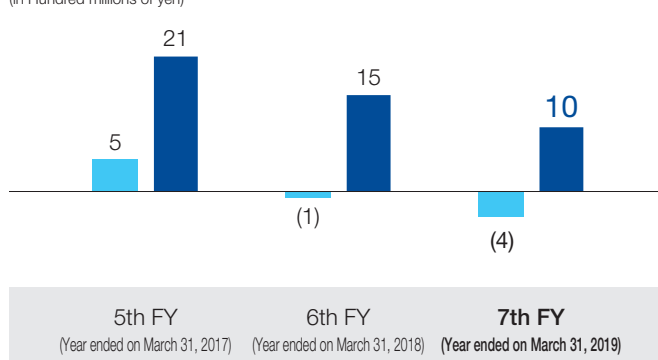
### Operating income (in Hundred millions of yen)



### Ordinary income (in Hundred millions of yen)



### Profit attributed to shareholders of the parent company (in Hundred millions of yen)



(Note) Amounts less than one hundred million yen are truncated.

## Company Profile

Company Name: TAKAOKA TOKO CO., LTD.

Established on: October 1, 2012

Capital: 8 billion yen

Head Office: 8F Hulic Toyosu Prime Square  
5-6-36 Toyosu, Koto-ku, Tokyo 135-0061 Japan  
TEL: +81-3-6371-5000  
FAX: +81-3-6371-5436

Affiliated Companies: Takaoka Engineering Co., Ltd.  
TAKAOKA CHEMICAL CO., LTD.  
Toko Kizai Corporation  
Takaoka Densetsu Co., Ltd.  
FUSHUN TAKAOKA SWITCHGEAR COMPANY LIMITED  
WATT LINE SERVICE Co., Ltd.  
Toko Electric (Suzhou) Co., Ltd.  
Toshiba Toko Meter Systems Co., Ltd.  
TAKAOKA TOKO KOREA CO., LTD.  
MintWave Co., Ltd.  
UQUEST, LTD.

## Directors and Corporate Auditors (As of June 24, 2019)

President and Representative Director	<b>Toshiro Takebe</b>	Director	<b>Yoshinori Kaneko</b>
Director	<b>Naoshi Nishikawa</b>	Director	<b>Harunobu Kameyama</b>
Director	<b>Shiro Odagiri</b>	Director	<b>Yasuhiro Mishima</b>
Director	<b>Shiro Odagiri</b>	Standing Statutory Auditor	<b>Yoshinori Kurosawa</b>
Director	<b>Takenori Fujii</b>	Standing Statutory Auditor	<b>Yoshihiro Wasekura</b>
Director	<b>Kunihiko Mizumoto</b>	Auditor	<b>Noriaki Taketani</b>
Director	<b>Kaoru Okame</b>	Auditor	<b>Yuichiro Takada</b>

\* Directors Yoshinori Kaneko, Harunobu Kameyama and Yasuhiro Mishima are Outside Directors as stipulated in Article 2, Item 15 of the Companies Act.  
\* Auditors Noriaki Taketani and Yuichiro Takada are Outside Auditors as stipulated in Article 2, Item 16 of the Companies Act.

## Share Information

Total number of authorized shares: 40,000,000

Total number of outstanding shares: 16,218,309  
(Excluding 57,996 treasury shares)

Number of shareholders: 11,209

### List of Major Shareholders (Top 10)

Name of Shareholder	Shares Held (shares)	Shareholding Ratio (%)
TEPCO Power Grid, Incorporated	5,671,260	34.96
The Master Trust Bank of Japan, Ltd. (Trust account)	955,100	5.88
Japan Trustee Services Bank, Ltd. (Trust account)	353,600	2.18
GOVERNMENT OF NORWAY	325,300	2.00
Japan Trustee Services Bank, Ltd. (Trust account 9)	251,300	1.54
DFA INTL SMALL CAP VALUE PORTFOLIO	236,644	1.45
TAKAOKA TOKO Employees' Stock Holding Association	228,270	1.40
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	212,027	1.30
MITSUI LIFE INSURANCE COMPANY LIMITED	209,700	1.29
Meiji Yasuda Life Insurance Company	200,000	1.23

Notes: 1. Shareholding ratios are calculated after deducting treasury stock (57,996 shares).  
2. MITSUI LIFE INSURANCE COMPANY LIMITED changed its trading name to TAIJU LIFE INSURANCE COMPANY LIMITED effective April 1, 2019.

## Shareholder Memo

Fiscal year: April 1 through March 31 of the following year

Annual general meeting of shareholders: Late June every year

Record date  
Voting rights at annual general meeting of shareholders: March 31  
Year-end dividends: March 31  
Interim dividends: September 30

Number of shares per unit: 100

Administrator of shareholder registry:  
Sumitomo Mitsui Trust Bank, Limited  
1-4-1 Marunouchi, Chiyoda-ku, Tokyo

Mailing address:  
(Contact for telephone inquiries)  
Stock Transfer Agency Department  
Sumitomo Mitsui Trust Bank, Limited  
2-8-4 Izumi, Suginami-ku, Tokyo 168-0063 Japan  
Tel. 0120-782-031 (toll-free in Japan)

Contact points: Sumitomo Mitsui Trust Bank, Limited  
Main office and branches across the country

Method of public notices:  
Public notices of the Company shall be published on its website described below: <https://www.tktk.co.jp/ir/stockinfo/publicnotice/>

Financial instruments exchange on which the Company's stock is listed:  
First Section of the Tokyo Stock Exchange

### ■ Contact information for changes in addresses, purchase of shares less than one unit and other requests:

Please contact the securities company where you have accounts.  
Shareholders who hold special accounts in lieu of accounts at securities companies are requested to contact Sumitomo Mitsui Trust Bank, Limited, the account manager for special accounts.  
Requests for forms pertaining to procedures for special account are also handled at the following URL:  
<https://www.smtb.jp/personal/agency/request/>

### ■ Payment of unclaimed dividends:

Please contact Sumitomo Mitsui Trust Bank, Limited, the administrator of the share registry.