



TAKAOKA TOKO CO., LTD.

Stock Exchange Code: 6617

The 8th Fiscal Year Business Report

April 1, 2019 >>> March 31, 2020

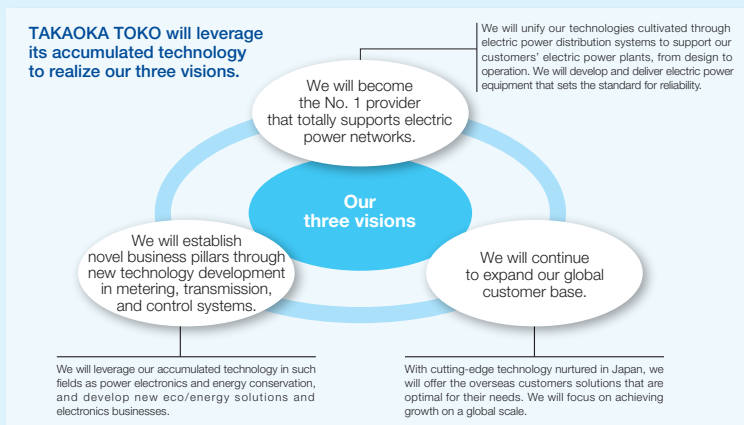


Toshiro Takebe

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 8th Fiscal Year Report (from April 1, 2019 to March 31, 2020) 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 experienced strong demand for investments in rationalization and labor-saving efforts, maintenance and renewal of equipment due to the aging of equipment against the backdrop of a shortage of labor, although weakness remained in exports. However, the spread of the novel coronavirus (COVID-19) has put significant downward pressure on the economy, and the situation is severe. The outlook remains uncertain due to the risk of further downturns in domestic and overseas economies as a result of the impact of the COVID-19.

In the electric power industry, the largest clientele of the TAKAOKA TOKO Group (the “Group”), efforts are being made towards improved productivity and thorough cost reductions as a result of the full liberalization of the electricity and gas retail market 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 domestic energy demand continues to decrease following advance in energy saving.

Meanwhile, demand remained steady for decentralized energy-related equipment, including renewable energy equipment, and the renewal of existing aging equipment in Japan and for electric power infrastructure overseas, mainly in Asia.

In such a business environment, the Group has been further advancing the improvement of profitability of its existing businesses through productivity improvements and cost reductions achieved by establishing a system to promote Kaizen (improvement). In addition, with the view to building bases for overseas business and coping with rapid advance in digitalization in domestic and overseas electric power fields, the Group added Applied Technical Systems Joint Stock Company, a Vietnamese firm, as a Group company in June 2019, and is striving to expand its business domains and reform business models.

As a result, for the consolidated fiscal year under review, we posted net sales of ¥93,341 million (a year-on-year increase of 2.7%) due to an increase in overseas construction projects, despite a decline in the smart meter sales.

In terms of profit, we posted operating income of 2,321 million yen (a year-on-year decrease of 15.1%), ordinary income of 2,253 million yen (a year-on-year decrease of 22.1%) and profit attributed to shareholders of the parent company of 843 million yen (a year-on-year decrease of 18.2%), due to a decrease in sales of smart meters despite positive factors such as cost reductions in equipment for power receiving and transformation equipment.

Although the impact from COVID-19 on the business results of the Group for the fiscal year under review were negligible, the outlook remains uncertain and we will closely monitor the situation.

Status of Capital Investment

We made capital investment of 2,520 million yen in total, mainly for facility renewal at leased buildings, new installations of control equipment-related facilities, and the renewal of power supply equipment at the Hasuda Division.

Issues to Be Addressed

1) Improved profitability of existing businesses

In the electric power industry, the largest clientele of the Group, efforts are being made towards improved productivity and thorough cost reductions as a result of the full liberalization of the electricity and gas retail market 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 domestic energy demand continues to decrease following advance in energy saving.

In addition, in view of the frequent occurrences of natural disasters in recent years, we must strengthen our resilience in order to provide a stable supply of electric power.

In order to address these type of changes in the market environment and the intensifying competition, the Group has been working on competitive product development by expanding overseas procurement through a review of the supply chain, reducing costs by reviewing product design, working on company-wide Kaizen activities, and improving productivity through investments in digitalization.

With regard to social infrastructure areas, demand is expected to continue for some time, including for the switch to large-capacity renewable energy-related facilities, such as solar power generation and wind power generation, and the renewal of equipment for power receiving and transformation equipment constructed during the “bubble” era. In addition to steadily securing demand for these products, we will strive to improve the profitability of existing businesses, including by expanding value-added, improved services such as maintenance, sensing, and operations.

2) Building new earnings bases

• Strengthening our foundation for expansion into overseas markets

Although the outlook for overseas markets is unclear due to the uncertainties surrounding overseas economies resulting from COVID-19, various business opportunities related to electric power infrastructure are expanding in the Asian and African regions, where demand for electricity is growing.

In order to strengthen our metering business, in addition to TAKAOKA TOKO KOREA CO., LTD. engaging in full-swing production of gas transformers, the Group added Applied Technical Systems Joint Stock Company, a Vietnamese firm, with strengths in the field of monitoring and control systems for substations, to the Group with a view to coping with rapid advance in digitalization in domestic and overseas electric power fields, and are working to strengthen our foundation for expansion into overseas markets.

In addition, steady progress is being made with, for example, the electric power infrastructure improvement project undertaken in the African region by Takaoka Engineering Co., Ltd., which was posted on a dedicated website, set up by the Japan Business Federation, for the Sustainable Development Goals (SDGs) as an example that falls under “Affordable and clean energy,” one of the SDGs. Going forward, the Group will continue to push forward with proactive overseas development and build new earnings bases.

• Initiatives for new business

Control technology for the efficient use of decentralized power sources is needed in Japan and overseas due to the diffusion of renewable energy against the backdrop of the growing awareness of environmental protection and energy saving.

The Group is working to expand new business by supplying EMS (Energy Management Systems), designed for optimized operation of renewable energy, to overseas off-the-grid communities and semi-off-the-grid communities in Japan.

In addition, there is a growing trend toward the development of various smart meters and the use of cloud systems in view of technological innovations such as IoT, AI, and the use of big data, which requires us to respond to the changes that are occurring, such as the advances in creating services from product functions (“as-a-service,” etc.).

Our Group company, Toshiba Toko Meter Systems Co., Ltd., will leverage its strengths in metering, transmission and control systems to work on the development of new solution businesses through new product development, strengthened VPP (Virtual Power Plant) functions and services and data sharing from various meters.

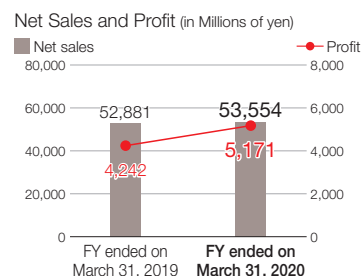
Status by Segment

The status of each segment is as follows.

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"> Reduction of all product costs and acceleration of the development of new products Sales expansion in social infrastructure areas and to regional electric power companies Building bases for overseas business

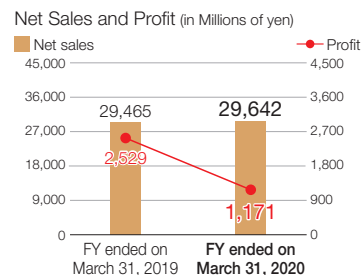
We achieved net sales of 53,554 million yen (a year-on-year increase of 1.3%) and segment profit of 5,171 million yen (a year-on-year increase of 21.9%), mainly due to an increase in overseas construction projects and cost reductions in equipment for power receiving and transformation equipment.



Metering Business

Major products and services	Transformers, various types of meters (for electricity, gas, and water services), undertaking replacement of expired meters ⁽¹⁾ , etc. <small>*"Replacement of expired meters" means the replacement work of electric meters conducted pursuant to the Measurement Act.</small>
Basic strategies of the segment	<ul style="list-style-type: none"> Enhancement of the product lineup of transformers compatible with the separation of electrical power production from power distribution and transmission. Establishment of efficient production systems in Japan, China and Korea.

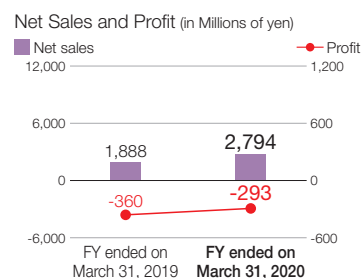
We achieved net sales of 29,642 million yen (a year-on-year increase of 0.6%) and segment profit of 1,171 million yen (a year-on-year decrease of 53.7%), due to a decline in sales of smart meters despite an increase in sales of transformers.



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"> Leading the market for quick chargers for electric vehicles Expansion of businesses related to smart grids

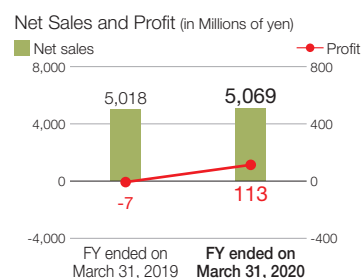
We achieved net sales of 2,794 million yen (a year-on-year increase of 48.0%) and segment loss of 293 million yen (segment loss of 360 million yen in the corresponding period of the previous fiscal year), due to an increase in EMS-related net sales.



Information System/Applied Optics Inspection System Business

Major products and services	3D inspection systems ⁽¹⁾ , thin client systems ⁽²⁾ , 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"> Promotion of cost reductions in inspection systems and strengthening of overseas sales New product development in solutions and communication systems

We achieved net sales of 5,069 million yen (a year-on-year increase of 1.0%) and segment profit of 113 million yen (segment loss of 7 million yen in the corresponding period of the previous fiscal year), due to an increase in sales of applied optics inspection systems, despite a decrease in sales of information systems.

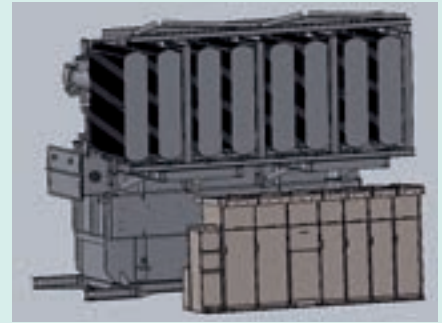


Promotion of digitalization

The Group is strongly promoting digitalization in order to improve operational efficiency and productivity.

Firstly, we promote the digitalization of operations overall. In the previous fiscal year, we promoted the digitalization of paper data using AI-OCR^(*), and combined this with robotic process automation (RPA) technology to reduce working hours by 6,700 hours for approximately 40 operations through automation. In addition, the companywide introduction of Teams, which is a communications tool, and by transmitting information to relevant parties, including relevant departments, resulted in strengthened inter-departmental collaboration and more rapid decision-making.

Secondly, we promote the digitalization of the entire value chain. Sales departments will undertake automated estimations based on specifications selected by the configurator. Furthermore, we are building a system that extends through to the manufacturing stage by performing automatic design operations using 3D-CAD based on that data, and linking the created model to collaborating companies and CAM^(**) production facilities. In addition, going forward, we will focus on improving profitability by promoting digitalization, including by utilizing product models and IoT to extend this process to maintenance using a digital twin^(***).



A 3D model of a Compact Distributing Super-Clad (SPC) created with 3D-CAD

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

(*2) An abbreviation for Computer Aided Manufacturing, this software creates data for mechanical parts processing based on design data, and is expected to reduce working hours for processes such as parts processing and shorten production lead time.

(*3) Refers to a method of conducting simulations in a virtual space while collecting information on the actual operating conditions of equipment and facilities in real time. This makes it possible to predict malfunctions based on information about equipment that is in actual operation.

Initiatives for overseas business

In June 2019, the Company acquired the shares of Applied Technical Systems Joint Stock Company (ATS), a Vietnamese company, and made it an affiliated company. In collaboration with ATS, we delivered a substation digitalized verification system to Tokyo Electric Power Company in March 2020. In addition, we delivered an Energy Management System (EMS) for semi-off-the-grid communities^(*) to RESOL SEIMEI NO MORI.

Going forward, we will also expand systems, etc. overseas using the technology of ATS.

Takaoka Engineering Co., Ltd. completed a substation under the Republic of Tajikistan's project to construct an electrical substation, and a solar power generation plant under the Oriental Republic of Uruguay's project to introduce clean energy. In addition, Takaoka Engineering also actively engaged in activities other than ODA for the Japanese government in order to expand its business, and for the first time received an order for the construction of a substation in Kigali city in the Republic of Rwanda, funded by the World Bank. It is expected that the construction of the substation will stabilize electric power supply, and contribute to the economic and social development of the country.

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



The completed substation in the Republic of Tajikistan

(*1) Refers to a power grid that is interconnected with a large-scale power grid of an electric power company, but that self-sufficiently supplies electric power by means of renewable energy generators, etc. and receives any shortfall in electric power supply from the large-scale power grid.

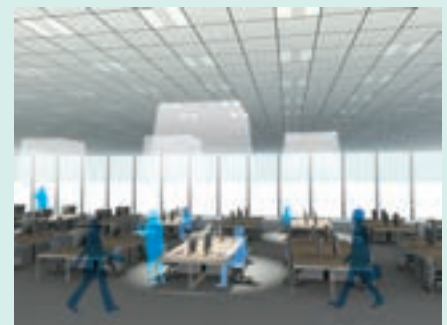
Initiatives for the energy management business

Attention is being focused on resolving energy-related issues in Japan and overseas, as evidenced by active initiatives to reduce the environmental burden through SDGs and ESG investments.

T-Zone Saver, one of the Company's products, is a system that contributes to energy conservation and energy savings by automatically controlling lighting and air conditioning according to how people are seated. The facility plan for Kyobashi MID Building, which uses this system, was awarded the Technology Promotion Award by The Society of Heating, Air-Conditioning and Sanitary Engineers of Japan. One of the reasons for receiving the award was that T-Zone Saver's technology for identifying stationary bodies was highly evaluated.

In March 2020, the Company entered into a basic agreement with Azbil Corporation, Azbil Kimmon Co., Ltd. and Toshiba Toko Meter Systems Co., Ltd. to collaborate in the energy management field. Beginning with this agreement, we aim to develop new products, strengthen VPP^(*) functions and services, and realize a new "as-a-service" model^(**) by sharing data from various meters.

Going forward, the Group will continue to focus on the realization of products and technologies aimed at resolving various energy-related issues.



Floor image following the introduction of T-Zone Saver

(*1) An abbreviation of Virtual Power Plant, which is a virtual power plant through the integrated control of small-scale decentralized energy resources in factories and homes, etc. using information and communication technologies. This mechanism is used to adjust the balance between electric power supply and demand.

(*2) The creation of services from product functions. Refers to a model that provides the value of "service" instead of the value of the "product" itself.

Overview of Consolidated Financial Statements

Consolidated Balance Sheets (in Millions of yen)

Item	Previous Fiscal Year As of March 31, 2019	Current Fiscal Year As of March 31, 2020
[Assets]		
Current Assets	55,130	56,108
Non-current Assets	44,092	44,484
Property, plants and equipment	37,681	37,154
Intangible assets	2,796	2,673
Investments and other assets	3,614	4,656
Total Assets	99,222	100,592
[Liabilities]		
Current Liabilities	26,210	28,091
Long-term Liabilities	21,157	21,054
Total Liabilities	47,367	49,146
[Net Assets]		
Shareholders' Equity	48,096	48,137
Accumulated other comprehensive income	(354)	(607)
Non-controlling interests	4,113	3,916
Total Net Assets	51,855	51,446
Total Liabilities and Net Assets	99,222	100,592

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

Consolidated Statements of Income (in Millions of yen)

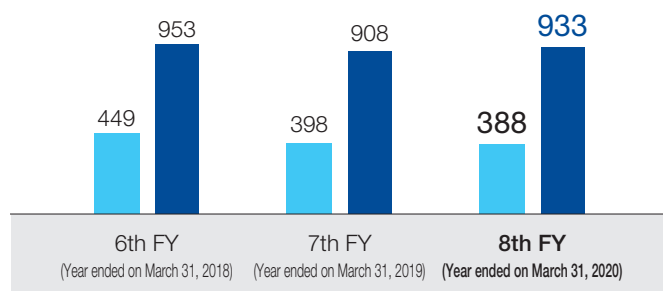
Item	Previous FY From April 1, 2018 to March 31, 2019	Current FY From April 1, 2019 to March 31, 2020
Net sales	90,883	93,341
Cost of sales	72,414	75,020
Gross profit	18,468	18,320
General and administrative expenses	15,732	15,998
Operating income	2,736	2,321
Non-operating income	310	237
Non-operating expenses	155	305
Ordinary income	2,891	2,253
Extraordinary income	154	15
Extraordinary loss	1,376	539
Income before taxes	1,668	1,728
Income taxes	590	1,078
Net income	1,077	650
Profit attributed to non-controlling interests	46	(192)
Profit attributed to shareholders of the parent company	1,031	843

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

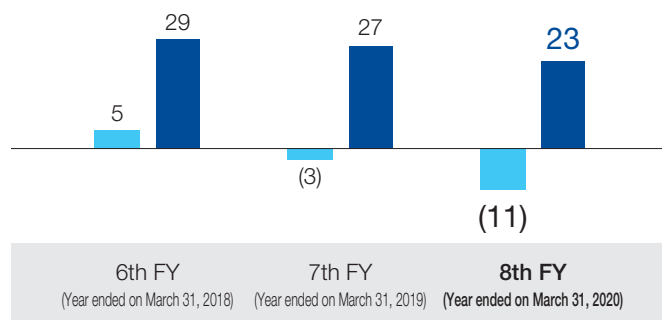
Consolidated Financial Highlights

■ First Half FY ■ Full FY

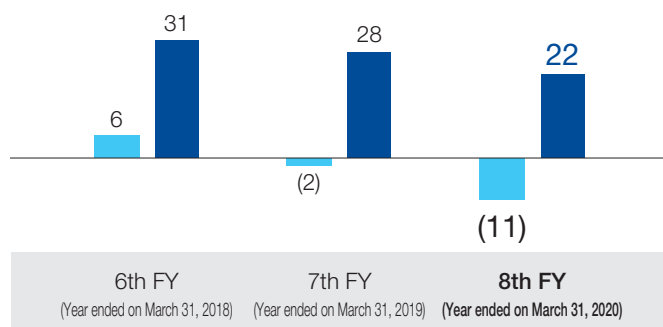
Net sales (in Hundred millions of yen)



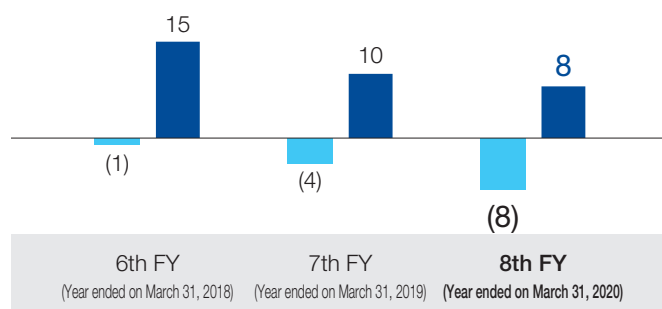
Operating income (in Hundred millions of yen)



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 million yen have been truncated.

Company Profile

Company Name: TAKAOKA TOKO CO., LTD.

Established on: October 1, 2012

Capital: 8 billion yen

Head Office: 8F 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
Applied Technical Systems Joint Stock Company
WATT LINE SERVICE Co., Ltd.
Toko Electric (Suzhou) Co., Ltd.
Toshiba Toko Meter Systems Co., Ltd.
TAKAOKA TOKO KOREA CO., LTD.
TACTICO, Ltd.
MintWave Co., Ltd.
UQUEST, LTD.

Directors (As of June 29, 2020)

President and Representative Director	Toshiro Takebe	Director	Akira Uemura
Director	Naoshi Nishikawa	Director (Full-Time Audit and Supervisory Committee Member)	Yoshinori Kurosawa
Director	Takenori Fujii	Director (Audit and Supervisory Committee Member)	Noriaki Taketani
Director	Yoshinori Kaneko	Director (Audit and Supervisory Committee Member)	Yuichiro Takada
Director	Harunobu Kameyama		
Director	Yasuhiro Mishima		

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

Share Information

Total number of authorized shares: 40,000,000

Total number of outstanding shares: 16,217,899
(Excluding 58,406 treasury shares)

Number of shareholders: 11,963

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)	1,081,400	6.66
Japan Trustee Services Bank, Ltd. (Trust account)	322,000	1.98
GOVERNMENT OF NORWAY	285,961	1.76
TAKAOKA TOKO Employees' Stock Holding Association	261,330	1.61
DFA INTL SMALL CAP VALUE PORTFOLIO	241,244	1.48
Japan Trustee Services Bank, Ltd. (Trust account 5)	218,500	1.34
TAIJU LIFE INSURANCE COMPANY LIMITED	209,700	1.29
Meiji Yasuda Life Insurance Company	200,000	1.23
Sumitomo Mitsui Trust Bank, Limited	178,700	1.10

Note: Shareholding ratios are calculated after deducting treasury stock (58,406 shares).

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.