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Establishment of the new TAKAOKA TOKO Group Management Philosophy and Formulation of Medium-term Management Plan 2027

The TAKAOKA TOKO Group (the “Group”) hereby announces that it has established the new TAKAOKA TOKO Group Management Philosophy. It also announces that it has formulated the Medium-term Management Plan 2027, which covers the three-year period from the fiscal year ending March 31, 2026 to the fiscal year ending March 31, 2028 (from FY2025 to FY2027).

1. Introduction

The Group sincerely regrets the great concerns and inconveniences caused to its stakeholders including its customers due to the discovery and announcement of repeated incidents of impropriety since the publication of the "Notice Regarding Inappropriate Incidents Related to Quality Control" in August 2021.

Based on reflections on and lessons learned from the series of incidents of impropriety, we have begun executing the "SQC First Reform," formulated and announced in October 2024, to revitalize the company with a priority on safety, quality, and compliance (hereinafter referred to as "SQC First"). On this occasion of re-launching as the new TAKAOKA TOKO under SQC First, we have established the "TAKAOKA TOKO Group Management Philosophy" (Purpose, Vision, and Credo) as a new compass and code of conduct. We will continue efforts to instill this new management philosophy as a guiding principle for our entire group's revival and growth.

Further, the Company has formulated the medium-term management plan 2027, " which is positioned as the period to lay the foundation for "Revitalization and Growth as the New SQC First TAKAOKA TOKO." Holding (1) SQC First Reform, (2) restoration and strengthening of core businesses, (3) rebuilding of a growth story, and (4) strengthening of a management base, as basic policies, the Company will achieve both revitalization and growth simultaneously by regaining the trust of stakeholders and focusing resources on re-establishing the foundation of our core business in power equipment and metering, as well as on smart meter-related businesses and EV infrastructure businesses that are expected to grow further.

2. Overview of the the "TAKAOKA TOKO Group Management Philosophy" and "2027 Medium-Term Management Plan"

(1) Review of business activities (FY2021 to FY2024)

- In the Electric Equipment Business, orders and sales for power reception and substation equipment related to factories and renewable energy were strong, while also the metering products, particularly smart meters, grew smoothly.

- Further, as a result of strategic price revisions and withdrawing from unprofitable products with a focus on securing appropriate profits for each project, profitability was greatly improved. Productivity also improved with advances in DX and enhancements in ongoing kaizen activities, leading to increased sales revenue and profits, achieving an ROE of over 8% in FY2023.
- However, in FY2024, both sales revenue and profits declined YoY due to the impact of inappropriate incidents (the costs of dealing with customers, loss of sales opportunities, and other factors).
- Due to the impact of a series of inappropriate incidents, coupled with recording a large loss, delays in various measures such as the reorganization of production bases and the reforms of business foundations through alliances, and delays in the selection and concentration of businesses resulting in dispersed resources, ROE lagged behind the industry average.

(Reference)

April 25, 2024 "Notice on the delay in formulation and announcement of the next mid-term management plan"

Due to repeated inappropriate incidents, our group has postponed the formulation and announcement of the mid-term management plan, which was scheduled to start from the fiscal year ending March 2025, by one year.

Results During Period of Medium-term Management Plan 2023 (Million yen)

	2023 Mid-Term Business Plan				Single year plan	
(FY)	2021	2022	2023		2024	
	Results	Results	Results	Plan*1	Results	Forecast *2
Consolidated net sales	91,900	97,700	107,300	95,000	106,600	106,000
Consolidated profit	4,600	4,800	8,200	5,000	6,000	5,000
Consolidated operating profit ratio (%)	5.0	5.0	7.7	5.3	5.7	4.7
Profit attributable to owners of parent	3,200	2,900	4,600	3,500	3,800	3,200
ROE (%)*2	6.5	5.5	8.3	6.4	6.4	5.4
ROA (%)*3	3.3	2.8	4.2	3.4	3.3	2.7

*1 Figures from "Notice of Amendment of Medium-term Management Plan" of April 27, 2022 (Japanese only)

*2 October 28, 2024, "FY2025 Q2 (Interim) earnings report (consolidation)"

(2) Establishment of TAKAOKA TOKO Group Management Philosophy

Based on reflections on and lessons learned from the series of incidents of impropriety, as a guiding compass for everyone in the Group to work together to restore and grow the Group into an SQC First organization, and also as a code for fostering a culture of thinking and acting with an SQC First mindset, uniting everyone from management to the frontlines, the Company has established the new TAKAOKA TOKO Group Management Philosophy, which comprises a Purpose, Vision, and Credo. The Company will continue efforts to instill this new management philosophy as a guiding principle for our entire group's revival and growth.

Purpose (our reasons for existence) —What are we? What do we exist for?—

To support the energy of people and society through certainty of technology and co-creation for a future brimming with smiles

Vision (our desirable future) —What are our goals ten years from now?—

To become a "SERA company" that designs the energy networks of tomorrow!

* SERA

In addition to its original meaning of "future existence," SERA embodies the desire to be an entity that seamlessly connects energy, activates it, and designs the energy network of the future.

Credo (our beliefs and values) —What beliefs and values do we hold dear?—

- Do the right things right
- Communication + Change × Challenge
- A tremendous sense of ownership
- Look at the three "*gens* (actuals)" × Look outside × Look ahead
- Pursue the essence

(3) Overview of Medium-term Management Plan 2027

■ **Changes in internal and external environment**

External environment

- With the increasing adoption of generative AI and the rapid expansion of data centres, forecasts of electricity demand in Japan have changed direction from a decline to an expansion.
- Additionally, transmission and distribution network infrastructure and power reception and substation equipment in factories and buildings—many of which were constructed during Japan's high economic growth era—are reaching the stage of replacement. Furthermore, we anticipate the further expansion of large-scale renewable energy plants, including offshore wind farms and mega-solar power projects.
- Under these circumstances, we envisage increased demand for the Group's power equipment business and metering business.
- We should also note that the needs for products and services are changing, including demand for environmentally friendly equipment to achieve carbon neutrality, as well as for advanced operational capabilities enabled by digital grid technology.
- The Company has not yet reached a level that fully meets investors' expectations for management with a focus on the cost of capital and stock price.

Internal environment

- Due to a series of inappropriate incidents, the Company has found itself in a situation where the trust of stakeholders in our group has been eroded, making it necessary to rebuild itself as an SQC-first company.
- The Company recognizes that it is urgent to establish a system to meet the strong product demand in the electric power equipment and metering businesses.
- While the Group has a wide range of technologies and business areas that will address future social issues, such as carbon neutrality and strengthening of resilience. They include power reception/transformation and distribution equipment, monitoring and control systems, smart meters and other devices and systems, EV infrastructure, energy management systems, automated metering systems, smart grids, and overseas engineering services, there is a lack of adequate business selection and concentration, leading to dispersed resources.
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■ **Positioning of Medium-term Management Plan 2027**

Restoration and growth as the revitalized SQC First TAKAOKA TOKO

➢ The Medium-term Management Plan 2027 shall be positioned as the foundation period for "Restoration and growth as the revitalized SQC First TAKAOKA TOKO."

- We will maintain the results targets of the 2030 VISION outlined in April 2021 and, as management targets for 2030, aim to achieve consolidated net sales of 150,000 million yen and operating profit of 15,000 million yen (operating profit ratio: 10%).

■ **Basic policies**

(a) SQC First Reform

(i) Foster a culture of thinking and acting "SQC First" in an integrated manner from management to work sites

(ii) Advance on-site capabilities and create "people and organizations" to support these

(iii) Secure "SQC First" in the structure and environment

(iv) Concentrate resources (people, money, technology) through business structure reforms

(b) Restoration and strengthening of core businesses

(i) Rebuild business processes

(ii) Promote optimal operations at a Group level

(c) Rebuilding of a growth story

(i) Identify and strengthen growth businesses

(d) Strengthening of a management base

(i) Strengthen sustainability initiatives

■ **Main priority measures in key segments**

Electric Equipment Business

- Business revitalization and growth through partnering in high-voltage power reception and substation equipment business
- Supply of power reception and substation equipment for large-scale facilities such as data centers
- Productivity enhancement by consolidation of dispersed production sites
- Development of environmentally friendly products to meet market needs
- Development of advanced sensing technology and expansion of service business
- Development of new services capable of accommodating next-generation networks

Metering Business

- Stable supply and increase in market share of next-generation smart meters
- Expansion of value chain for next-generation smart meters through meter equipment center business
- Reinforcement of manufacturing capacity and expansion of sales through expansion of oil-to-gas transformer plant
- Improvement of productivity through automation of manufacture and testing of molds and oil-to-gas transformers
- Expansion of gas VT business in growth markets of China and India
- Development and market launch of SF_6-alternative gas products

GX Solution Business

- Stabilization of earnings and early return to profitability by streamlining product portfolio and concentrating resources

◆ Expansion of product and service lineup in SERA series and expansion of customers

◆ Enter the next-generation Automatic Metering Infrastructure (AMI) business and development of data utilization business

◆ Ongoing receipt of orders and expansion of PPP/PFI business

◆ Expansion of energy management services for the realization of carbon neutrality

Applied Optics Inspection System Business

◆ Launch of products in response to increased demand for bump inspection resulting from evolution of leading-edge semiconductors

◆ Exploration and expansion of customers in Japan and overseas for the expansion of sales

■ Financial targets

	FY2024 (Results)	**FY2025 (Plan)**	**FY2027 (Plan)**
Consolidated net sales	106,600 million yen	**108,000 million yen**	**120,000 million yen**
Consolidated profit	6,000 million yen	**6,200 million yen**	**9,000 million yen**
Profit attributable to owners of parent	3,800 million yen	**3,900 million yen**	**5,500 million yen**
ROE*1	6.4%	**6.4%**	**8.0% or more**
ROIC*2	6.6%	**6.6%**	**8.0% or more**
Equity ratio	53.6%	**Around 53.0%**	**50.0% or more**

*1 Profit attributable to owners of parent ÷ Equity (average of term-beginning and term-end figures)
*2 Operating profit × (1 – Effective tax rate) ÷ (interest-bearing debt + Equity)

■ Action to implement management that is conscious of cost of capital and stock price

1. Analysis of current situation

・ The Group's PBR has been hovering between 0.5 and 0.7 and, while it is rising, it has remained below the target level of 1.0 (FY2024: 0.6).

・ The main cause of this is the low level of ROE, a component of PBR, with ROE remaining below 8%, with the exception of FY2023 (FY2024: 6.4%). We believe that this reflects an issue with the return on sales, a key component of ROE (FY2024: 3.6%)

・ In addition, regarding PER (FY2024: 8.8), another component of PBR, we recognize the importance of strengthening engagement by promoting dialogue with stakeholders.

2. Initiatives for improvement of PBR

・ To achieve ROE of 8.0% or more, we will increase the return on sales to 4.0% or more by thoroughly promoting of Kaizen (improvement) activities and DX, as well as reforms of earnings structure that are conscious of cost of capital.

・ Further, to increase PER, we will work to improve the market's assessment by promoting sustainability management, strengthening IR activities, and expanding shareholder returns.

・ By certainly implementing these measures, we will aim to achieve a PBR of 1.0 and more in FY2027.