

The 12th Fiscal Year

Interim Report

April 1, 2023 ▶ September 30, 2023



TAKAOKA TOKO CO., LTD.

Stock Exchange Code: 6617





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

I hereby present the 12th Fiscal Year Interim Report (from April 1, 2023 to September 30, 2023) of TAKAOKA TOKO (the “Company”) and report on the overview of our business.

Takashi Ichinose

President and Representative Director
TAKAOKA TOKO CO., LTD.

Progress and Results of Business Operations

In May 2023, we announced incidents of impropriety regarding transformer products (improper preparation of type test reports, improper labeling of country of origin, and preparation of false pre-shipment inspection reports). We would like to once again express our deepest apologies to our customers, shareholders, and other stakeholders for any inconvenience and concern this may have caused. Currently, we are moving forward with reconfiguring the way we perform investigations based on an analysis of factors that led to the oversight in the full inspection performed in light of the previous instance of impropriety (matters pertaining to inspections of gas-insulated switchgear discovered in August 2021) and carrying out a comprehensive investigation on all products of the Company. Furthermore, we will investigate the direct cause of the current incidents and look to identify the root of the problem, which has remained unidentified and unaddressed for a long time. We will also evaluate the effectiveness of the recurrence prevention measures that are currently being implemented and consider and put in place any additional measures deemed necessary as a result of this investigation. Please also note the impact of such incidents on the results for the six months ended September 30, 2023 is minimal.

Regarding the overall situation for the Group, the business environment is changing significantly and becoming increasingly severe in the electric power industry, which is our largest customer. Global fuel prices have risen rapidly due to the situation in Ukraine and competition has further intensified in the retail business amid growing demands for realizing carbon neutrality, ensuring stable electricity supply and demand, strengthening disaster prevention functions and resilience within local communities, and a revenue cap system—a new system for wheeling charges. Against this background, companies in the industry are working to improve productivity and thoroughly reduce business costs. Meanwhile, the Japanese government has declared its intention to make Japan carbon neutral by 2050 as part of its efforts to realize a decarbonized society. In Japan, that has encouraged the further spread of distributed energy-related equipment, including renewable energy, and there are signs of nascent demand for fast chargers for electric vehicles.

At the end of March 2023, the Tokyo Stock Exchange issued a notice titled, “Action to Implement Management that is Conscious of Cost of Capital and Stock Price.” The situation for the Company with regard to this as of March 31, 2023 was as follows: ROE = 5.5%, PBR = 0.7x. The stock price, ROE and PBR have been on an improving trend relative to March 31, 2019 (ROE = 2.1%, PBR = 0.4x), however, they fall short of the standards detailed in the aforementioned notice and we fully acknowledge that there are still issues.

Going forward, we will begin by analyzing the current situation with reference to the content of the above notice (form an accurate understanding of the Company's capital costs and returns on capital, and analyze and evaluate the current situation with regard to this and the market evaluation at meetings of the Board of Directors), then formulate and disclose our plans.

We will begin these efforts by analyzing metrics and identifying issues on a by business-segment or by model level, such that we may improve initiatives focused on ROIC metrics toward the realization of business management and operations that take into account capital costs and return on capital.

Furthermore, in order to improve ROS, we will accelerate kaizen and DX initiatives while also engaging in structural reforms of existing core businesses (selection and concentration, reform of supply chains, reshuffling of production bases, etc.), formulating takeoff strategies for new businesses, investing in growth, and creating intangible assets through investment in human capital and R&D. Each of these shall be disclosed in the form of easy-to-follow growth stories and we will actively work on improving dialogue with our investors.

Despite a decline in sales for general plant projects and 3D inspection systems, net sales for the six months ended September 30, 2023 totaled 43,774 million yen (up 3.6% year on year), mainly due to increases in sales across the entire Metering Business segment and power distribution equipment.

On the profit front, despite the increases in sales of power distribution equipment and smart meters, they were not enough to cover the decreases in sales for general plant projects and 3D inspection systems, with operating income totaling 2,253 million yen (down 2.1% year on year), ordinary income 2,406 million yen (down 3.4% year on year), and profit attributed to shareholders of the parent company 1,422 million yen (down 11.0% year on year).

Outlook for the Fiscal Year

The business forecast for the fiscal year ending on March 31, 2024 remains unchanged from that published on April 26, 2023, estimating net sales of 100,000 million yen, operating income of 4,500 million yen, ordinary income of 4,600 million yen, and profit attributed to shareholders of the parent company of 3,400 million yen.

The forecast for interim dividend also remains unchanged at 25 yen per share, based on the consolidated business results for the period under review, as well as the business forecast for the current fiscal year.

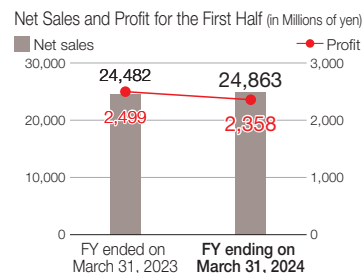
Status by Segment

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.

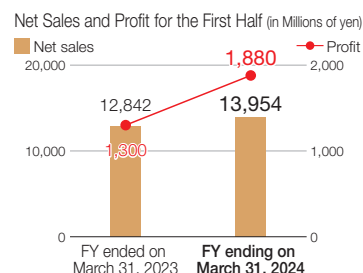
We achieved overall net sales of 24,863 million yen (a year-on-year increase of 1.6%) due to an increase in overseas construction projects and increases in sales of power distribution equipment as a result of price revisions. However, it was not enough to cover the decrease in sales from general plant projects, and segment profit decreased to 2,358 million yen (a year-on-year decrease of 5.6%).



Metering Business

Major products and services Transformers, various types of meters (for electricity, gas, and water services), undertaking replacement of expired meters (*), etc.
* "Replacement of expired meters" means the replacement work of electric meters conducted pursuant to the Measurement Act.

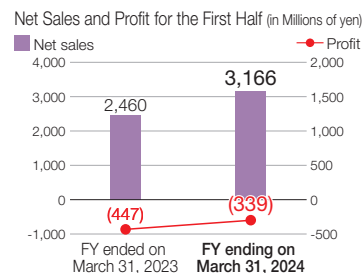
We achieved overall net sales of 13,954 million yen (a year-on-year increase of 8.7%) due to increases in the replacement of expired meters and sales of smart meters as a result of price revisions, and segment profit also increased to 1,880 million yen (a year-on-year increase of 44.6%).



GX Solution Business

Major products and services Energy metering and control equipment, quick chargers for electric vehicles, embedded software, thin client systems (*1), smart grid business, PPP(*2)/PFI(*3) business, etc.
(*1) 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.
(*2) Public Private Partnership (PPP) is a concept of utilizing wide-ranging private sector know-how and technologies to improve administrative services and achieve the efficient use of public financing through public-private partnerships.
(*3) Private Finance Initiative (PFI) is a method for the construction, maintenance, and operation of public facilities utilizing private financing, management capabilities, and technical abilities.

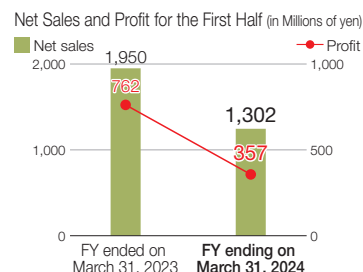
We achieved overall net sales of 3,166 million yen (a year-on-year increase of 28.7%) and an improvement in segment loss at 339 million yen (segment loss was 447 million yen in the previous fiscal year) due to an increase in sales from the data business-related project, which was newly launched, in addition to the recovery trend in the number of quick chargers for electric vehicles sold, which had been affected by the longer delivery lead time for parts procurement.



Applied Optics Inspection System Business

Major products and services 3D inspection systems (*), etc.
(*) A "3D inspection system" means a system to measure and inspect the external appearance (height, depth, and surface form) of electronic circuit substrates.

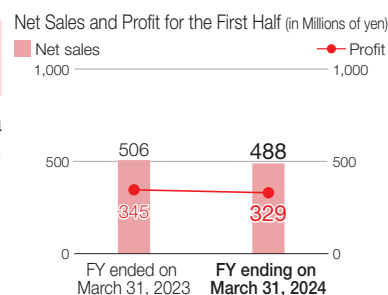
We achieved overall net sales of 1,302 million yen (a year-on-year decrease of 33.2%) and segment profit also decreased to 357 million yen (a year-on-year decrease of 53.1%), due to the decline in sales of 3D inspection systems in line with the sluggish demand for semiconductors.



Other Businesses

Major products and services Real estate leasing of office buildings, etc.

We achieved overall net sales of 488 million yen (a year-on-year decrease of 3.6%) due to a decrease in real estate leasing revenue. Segment profit also decreased to 329 million yen (a year-on-year decrease of 4.6%).



Initiatives of the Electric Vehicle Infrastructure Business

In June 2023, we received an encouragement award from the Japan Electrical Construction Association at the Product Contest of “JECA FAIR 2023 The 71st Electrical Construction Equipment and Materials Fair,” for our medium-volume quick charger for electrical vehicles (EV), which was launched in December 2022. This prize was given on account of the product being evaluated and chosen for its excellence from the standpoint of technology, contributions to society, conception, potential, marketability, etc.

In July 2023, we began wrap advertising of quick EV chargers on minibuses to transport employees at the Company’s Hasuda Area Office. These advertising initiatives mainly target local residents as we continue to aim to raise the profile of our EV infrastructure brand. We have also commenced wrap advertising on distribution ground equipment in Minato City, Tokyo from April 2023.

In September 2023, the Company and MintWave Co., Ltd. entered into a partnership with Mizuho Leasing Company, Limited to establish an “EV One-stop Service.” This service aims to provide integrated services from proposals for the adoption of EVs and charging infrastructure to maintenance services without initial costs, and is expected to contribute to the promotion and spread of EVs.

Going forward, we will contribute to achieving a sustainable society by making efforts to solve the social issue of spreading the use of EVs in an effort to realize a carbon-neutral society.



The certificate of “Encouragement Award by the Japan Electrical Construction Association”



Wrap advertising on a microbus at the Hasuda Area Office

Overseas business initiatives

In May 2023, the Company signed a technical cooperation agreement for large transformers with HANAKA 220-500kV POWER TRANSFORMER MANUFACTURING JOINT STOCK COMPANY (HANAKA-PTM) in Vietnam. The Company will provide HANAKA-PTM with its proprietary manufacturing technology of large transformers and contribute to infrastructure development in Vietnam and the stable supply of electricity in the country through domestic production of critical infrastructure equipment and high-quality products using Japanese technology, while at the same time achieve the Company’s management targets by forming a partnership with HANAKA-PTM, as a production partner that exports high-quality, low-price transformers around the world and by raising the percentage of the Company’s overseas sales.

During July and August 2023, Takaoka Engineering Co., Ltd. completed the project involving “Capacity Development Project for Improvement of Protection of Transmission Systems” in Uganda and the project for “Electricity Supply Stabilization Support” in Tuvalu and Kiribati. Both these projects will improve the stability of the electricity supply and contribute to developing economic activities in these countries. Takaoka Engineering Co., Ltd. has also received new orders for the “Hydroelectric Power Generation Facility Development Project” in Vanuatu. This project will bolster climate change measures by reducing the dependence on fossil fuels through hydroelectric power generation.

Going forward, the Group will further expand its overseas business and make efforts to solve social issues such as ensuring the stability of the global power supply.



Signing ceremony with HANAKA-PTM (President Ichinose is on the left, and Man Ngoc Anh, Chairman of the Board, General Director of HANAKA-PTM is on the right)

Initiatives towards our stakeholders

In April 2023, the Company renewed its corporate website (Company website) to better appeal to its stakeholders. We posted “TKTK STORIES,” a corporate introduction video, improved our “Products & Services” page, and added new content (“Strengths of Takaoka Toko,” “Takaoka Toko at a glance,” and the Investor Relation page for individual investors, etc.).

In August 2023, to materialize and accelerate our efforts to address “Respect for Human Rights,” one of the issues surrounding sustainability, we revised the “Takaoka Toko Charter of Corporate Behavior” and established the “Human Rights Policy of Takaoka Toko Group”¹. From now on, we plan on conducting human rights due diligence² on an ongoing basis.

In September 2023, we also published the “Integrated Report 2023”¹. The report includes an interview with the General Manager of the Human Resource Development Center, which was newly established as part of initiatives aiming to be a “comprehensive energy business provider,” as set forth in “2030 VISION” (announced in April 2021), as well as a panel discussion by the Independent Outside Directors under topics illustrating the effectiveness of the Company’s Board of Directors. The report also aims to improve disclosures by including the aforementioned “Human Rights Policy of Takaoka Toko Group,” the status of dialogue with shareholders, and the status of disclosures based on TCFD recommendations. The title of the report was also changed from the “Takaoka Toko Report” (the title used until FY2022) to the “Integrated Report.” The Cover features artwork by “Paralym Art,” an organization that supports the social participation and independence of persons with disabilities and for which the Company serves as a co-sponsor.

The Company will continue to pursue various initiatives to improve communications with our stakeholders.

¹: The “Takaoka Toko Group Charter of Corporate Behavior,” the “Human Rights Policy of Takaoka Toko Group” and the “Integrated Report” have been posted on the Company website.

²: To establish a system to periodically evaluate and prevent/mitigate overt or latent negative impacts on human rights that may occur in the course of business activities.



Integrated Report 2023

Overview of Consolidated Financial Statements

Consolidated Balance Sheets (in Millions of yen)

Item	Previous Fiscal Year As of March 31, 2023	First Half FY As of September 30, 2023
[Assets]		
Current Assets	65,780	62,428
Non-current Assets	40,542	40,532
Property, plants and equipment	34,742	34,581
Intangible assets	1,971	1,947
Investments and other assets	3,828	4,003
Total Assets	106,322	102,961
[Liabilities]		
Current Liabilities	29,015	24,874
Long-term Liabilities	18,847	18,228
Total Liabilities	47,862	43,103
[Net Assets]		
Shareholders' Equity	53,275	54,049
Accumulated other comprehensive income	509	812
Non-controlling interests	4,675	4,995
Total Net Assets	58,460	59,858
Total Liabilities and Net Assets	106,322	102,961

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

Consolidated Statements of Income (in Millions of yen)

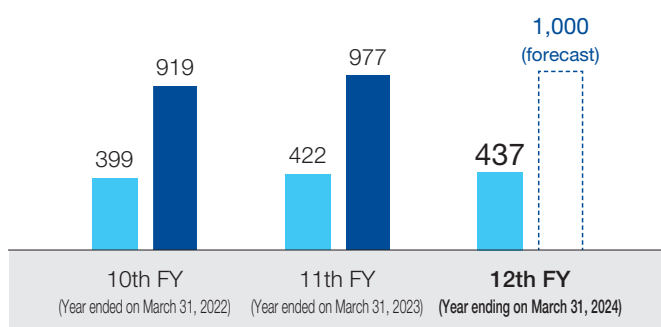
Item	Previous First Half FY From April 1, 2022 to September 30, 2022	Current First Half FY From April 1, 2023 to September 30, 2023
Net sales	42,243	43,774
Cost of sales	31,938	32,931
Gross profit	10,304	10,842
General and administrative expenses	8,002	8,589
Operating income	2,301	2,253
Non-operating income	283	214
Non-operating expenses	95	60
Ordinary income	2,489	2,406
Extraordinary income	0	3
Extraordinary loss	3	96
Income before taxes	2,486	2,313
Income taxes	639	575
Net income	1,847	1,737
Profit attributed to non-controlling interests	226	294
Profit attributed to shareholders of the parent company	1,620	1,442

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

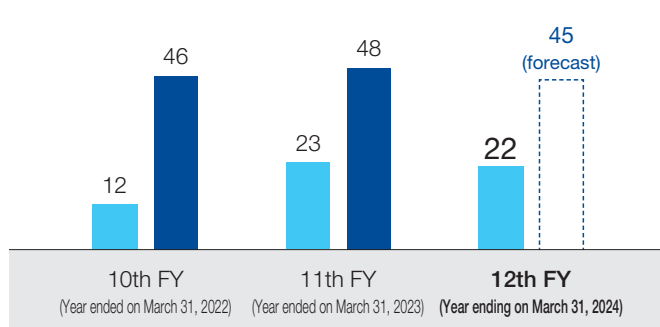
Consolidated Financial Highlights

■ First Half FY ■ Full FY

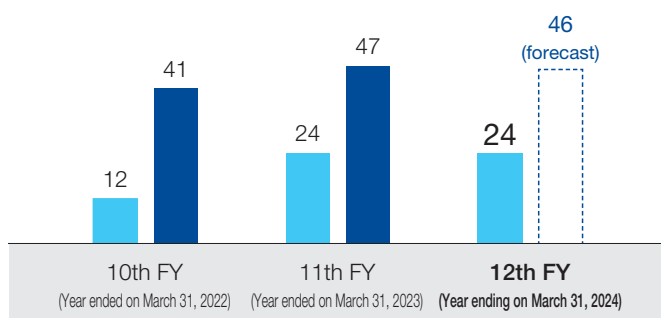
Net sales (in Hundred millions of yen)



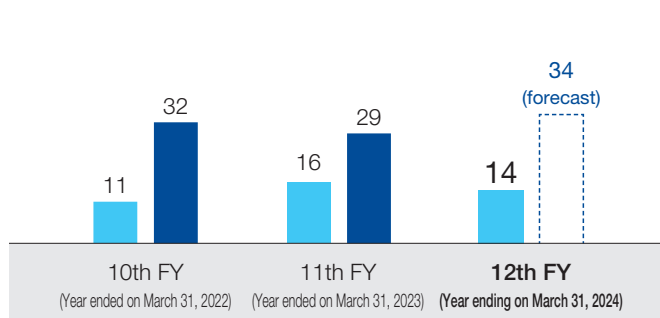
Operating income (in Hundred millions of yen)



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 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
 Group 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.
 DEXCO, LTD.
 MintWave Co., Ltd.

Directors

President and Representative Director	Takashi Ichinose	Director (Full-Time Audit and Supervisory Committee Member)	Yoshinori Kurosawa
Director	Tatsuya Wakayama	Director (Audit and Supervisory Committee Member)	Yuichiro Takada
Director	Kunihiko Mizumoto	Director (Audit and Supervisory Committee Member)	Kishiko Wada
Director	Yoshinori Kaneko		
Director	Yoshihito Morishita		
Director	Yasuhiro Mishima		
Director	Akira Uemura		

* Directors Yoshinori Kaneko, Yoshihito Morishita, Yasuhiro Mishima, Akira Uemura, Yuichiro Takada, and Kishiko Wada 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 16,215,536
 (Excluding 60,769 treasury shares)
 Number of shareholders 13,040

List of Major Shareholders (Top 10)

Name of Shareholder	Shares Held (shares)	Shareholding Ratio (%)
TEPCO Power Grid, Incorporated	5,671,260	34.97
The Master Trust Bank of Japan, Ltd. (Trust account)	1,442,500	8.89
Custody Bank of Japan, Ltd. (Trust account)	757,500	4.67
TAKAOKA TOKO Employees' Stock Holding Association	284,945	1.75
TAIJU LIFE INSURANCE COMPANY LIMITED	209,700	1.29
Meiji Yasuda Life Insurance Company	200,000	1.23
CACEIS BANK, LUXEMBOURG BRANCH / UCITS CLIENTS ASSETS	192,700	1.18
RE FUND 107-CLIENT AC	185,400	1.14
Custody Bank of Japan, Ltd. (Trust account E)	179,500	1.10
THE BANK OF NEW YORK MELLON 140042	164,222	1.01

Note: Shareholding ratios are calculated after deducting treasury stock (60,769 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 the 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.ttkk.co.jp/ir/stockinfo/publicnotice/>

Financial instruments exchange on which the Company's stock is listed:

Prime Market 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 accounts are also handled at the following URL:
<https://www.smtb.jp/personal/procedure/agency/>

Payment of unclaimed dividends:

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