Financial Report

Financial Report

Financial Review

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2015 (from June 1, 2015 to May 31, 2016) are as follows:

Results of Operation

Orders received
YoY **+2.1%**

Orders received increased 2.1% compared with the previous fiscal year to 39,890 million yen due to an increase in orders received in the Transportation Systems segment and the Information Equipment Systems segment, despite a decrease in orders in the Industrial Systems segment.

Net sales
YoY **+0.3%**

Net sales increased 0.3% compared with the previous fiscal year to 39,746 million yen, mainly due to an increase in the Industrial Systems segment.

Profit/Loss
Net income attributable to owners of the parent
YoY **-19.5%**

From a profit perspective, operating income increased 2.7% compared with the previous fiscal year to 1,638 million yen, mainly due to increased revenue in the Industrial Systems segment. However, ordinary income decreased 27.4% compared with the previous fiscal year to 1,492 million yen due to the recording of foreign exchange losses of 418 million yen caused by a progressively stronger yen. As a result, net income attributable to owners of the parent decreased 19.5% to 889 million yen.

Financial Position

Assets
Total assets
50,233 million yen

Total assets as of May 31, 2016 stood at 50,233 million yen, a decrease of 2,807 million yen compared with the end of the previous fiscal year. The decrease in total assets was largely attributable to a decrease of 2,930 million yen in investment securities, which was partly due to a fall in the market price of held listed securities, in addition to a decrease of 1,169 million yen in cash on hand and in banks, despite an increase of 924 million yen in inventories.

Liabilities
Total liabilities
26,556 million yen

Total liabilities as of May 31, 2016 stood at 26,556 million yen, a decrease of 1,589 million yen compared with the end of the previous fiscal year. Despite increases of 881 million yen in trade notes and accounts payable and 257 million yen in accrued expenses, the decrease in total liabilities was largely attributable to decreases in debts of 1,118 million yen, deferred tax liabilities of 982 million yen, and income taxes payable of 398 million yen.

Net assets
Total net assets
23,676 million yen

Net assets as of May 31, 2016 stood at 23,676 million yen, a decrease of 1,218 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a 1,847 million yen decrease in unrealized holding gain on available-for-sale securities, despite an increase of 600 million yen from retained earnings.

Cash Flows

Cash flow from operating activities
Net cash provided by operating activities
1,135 million yen

Net cash provided by operating activities amounted to 1,135 million yen. Principal cash inflows were income before income taxes at 1,404 million yen, an increase of 972 million yen in trade notes and accounts payable and an increase of 274 million yen in accrued expenses.

Cash flow from investing activities
Net cash used in investing activities
937 million yen

Net cash used in investing activities totaled 937 million yen, and mainly comprised funds used in for the purchase of property, plant and equipment at 451 million yen, as well as funds used in for the purchase of intangible assets at 336 million yen.

Cash flow from financing activities
Net cash used in financing activities
1,341 million yen

Net cash used in financing activities was 1,341 million yen. Major cash outflows were repayment of long-term debt at 794 million yen and cash dividends paid at 295 million yen.

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Assets			
Current assets:			
Cash on hand and in banks (Notes 18 and 20)	¥ 2,401	¥ 3,571	$ 21,645
Trade notes and accounts receivable (Notes 4 and 18)	13,790	14,233	124,302
Electronically recorded receivables (Note 18)	966	606	8,703
Inventories (Note 5)	7,320	6,395	65,982
Deferred tax assets (Note 13)	518	660	4,666
Other current assets	529	169	4,769
Allowance for doubtful accounts	(3)	(40)	(25)
Total current assets	25,521	25,594	230,042
Property, plant and equipment (Note 6):			
Buildings and structures	2,635	2,738	23,749
Machinery and vehicles	715	862	6,446
Land	289	289	2,610
Construction in progress	269	227	2,426
Other	453	487	4,079
Total property, plant and equipment	4,361	4,603	39,310
Investments and other assets (Note 7):			
Investment securities (Notes 7, 18 and 19)	17,396	20,327	156,808
Deferred tax assets (Note 13)	55	7	499
Intangible assets	544	349	4,906
Other	2,369	2,174	21,348
Allowance for doubtful accounts	(12)	(13)	(112)
Total investments and other assets	20,352	22,844	183,449
Total assets (Note 22)	¥50,234	¥53,041	$452,801

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Notes 4 and 18)	¥ 3,743	¥ 5,116	$ 33,736
Electronically recorded payables (Note 18)	5,278	3,023	47,573
Short-term borrowings and current portion of long-term debt (Notes 8 and 18)	1,018	1,784	9,173
Income taxes payable (Note 13)	254	652	2,289
Accrued expenses	1,250	992	11,268
Accrued directors' bonuses	37	41	335
Accrued employees' bonuses	928	928	8,368
Reserve for losses on order acknowledgements (Note 5)	295	301	2,659
Reserve for ecological countermeasures	—	65	—
Other	781	1,077	7,042
Total current liabilities	13,584	13,979	122,443
Long-term liabilities:			
Long-term debt (Notes 8, 18 and 21)	7,288	7,640	65,693
Deferred tax liabilities (Note 13)	1,637	2,619	14,753
Liability for retirement benefits (Note 9)	3,853	3,726	34,727
Long-term payables	158	141	1,424
Other	37	41	340
Total long-term liabilities	12,973	14,167	116,937
Commitments and contingencies (Note 16)			
Net assets (Notes 10 and 17):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 45,055
Capital surplus	3,178	3,178	28,642
Retained earnings	9,299	8,698	83,818
Treasury stock	(176)	(172)	(1,581)
Total shareholders' equity	17,299	16,702	155,934
Accumulated other comprehensive income:			
Unrealized holding gain on securities	6,469	8,317	58,313
Translation adjustments	261	260	2,344
Retirement benefits liability adjustments (Note 9)	(352)	(384)	(3,170)
Total accumulated other comprehensive income	6,378	8,193	57,487
Total net assets	23,677	24,895	213,421
Total liabilities and net assets	¥50,234	¥53,041	$452,801

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales (Note 22)	¥39,746	¥39,617	$358,267
Cost of sales (Note 5)	30,627	30,335	276,067
Gross profit	9,119	9,282	82,200
Selling, general and administrative expenses (Note 11)	7,480	7,686	67,427
Operating income (Note 22)	1,639	1,596	14,773
Non-operating income (expenses):			
Interest and dividend income	233	204	2,102
Interest expense	(127)	(138)	(1,149)
Equity in earnings of unconsolidated subsidiaries and affiliates	76	50	689
Dividend income on life insurance	70	8	629
Foreign exchange gain (loss)	(418)	364	(3,768)
Other income (expenses), net	20	(27)	177
	(146)	461	(1,320)
Ordinary income	1,493	2,057	13,453
Special gains (losses), net (Note 12)	(88)	(42)	(793)
Income before income taxes	1,405	2,015	12,660
Income taxes (Note 13):			
Current	369	954	3,324
Deferred	146	(45)	1,316
	515	909	4,640
Net income	890	1,106	8,020
Net income attributable to non-controlling interests	—	—	—
Net income attributable to owners of the parent	¥ 890	¥ 1,106	$ 8,020

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Comprehensive Income

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net income	¥ 890	¥1,106	$ 8,020
Other comprehensive income (loss) (Note 14):			
Unrealized holding gain (loss) on securities	(1,848)	4,327	(16,657)
Deferred gain on hedging instruments	—	26	—
Translation adjustments	49	(11)	440
Retirement benefits liability adjustments	32	(85)	285
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	(48)	105	(434)
Total other comprehensive income (loss)	(1,815)	4,362	(16,366)
Comprehensive income (loss)	¥ (925)	¥5,468	$ (8,346)
Comprehensive income (loss) attributable to:			
Owners of the parent	¥ (925)	¥5,468	$ (8,346)
Non-controlling interests	—	—	—

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Deferred loss on hedging instruments	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2014	¥4,998	¥3,178	¥7,511	¥(168)	¥15,519	¥ 3,990	¥(26)	¥166	¥(299)	¥ 3,831	¥19,350
Cumulative effects of changes in accounting policies			371		371						371
Restated balance as of June 1, 2014	4,998	3,178	7,882	(168)	15,890	3,990	(26)	166	(299)	3,831	19,721
Changes during the year											
Cash dividends paid	—	—	(290)	—	(290)	—	—	—	—	—	(290)
Net income attributable to owners of the parent	—	—	1,106	—	1,106	—	—	—	—	—	1,106
Purchase of treasury stock	—	—	—	(4)	(4)	—	—	—	—	—	(4)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	4,327	26	94	(85)	4,362	4,362
Total changes during the year	—	—	816	(4)	812	4,327	26	94	(85)	4,362	5,174
Balance as of May 31, 2015	¥4,998	¥3,178	¥8,698	¥(172)	¥16,702	¥ 8,317	¥—	¥260	¥(384)	¥ 8,193	¥24,895
Balance as of June 1, 2015	¥4,998	¥3,178	¥8,698	¥(172)	¥16,702	¥ 8,317	¥—	¥260	¥(384)	¥ 8,193	¥24,895
Changes during the year											
Cash dividends paid	—	—	(289)	—	(289)	—	—	—	—	—	(289)
Net income attributable to owners of the parent	—	—	890	—	890	—	—	—	—	—	890
Purchase of treasury stock	—	—	—	(4)	(4)	—	—	—	—	—	(4)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(1,848)	—	1	32	(1,815)	(1,815)
Total changes during the year	—	—	601	(4)	597	(1,848)	—	1	32	(1,815)	(1,218)
Balance as of May 31, 2016	¥4,998	¥3,178	¥9,299	¥(176)	¥17,299	¥ 6,469	¥—	¥261	¥(352)	¥ 6,378	¥23,677

(Thousands of U.S. dollars) (Note 3)

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Deferred loss on hedging instruments	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2015	$45,055	$28,642	$78,404	$(1,549)	$150,552	$ 74,970	$—	$2,338	$(3,455)	$ 73,853	$224,405
Changes during the year											
Cash dividends paid	—	—	(2,606)	—	(2,606)	—	—	—	—	—	(2,606)
Net income attributable to owners of the parent	—	—	8,020	—	8,020	—	—	—	—	—	8,020
Purchase of treasury stock	—	—	—	(32)	(32)	—	—	—	—	—	(32)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(16,657)	—	6	285	(16,366)	(16,366)
Total changes during the year	—	—	5,414	(32)	5,382	(16,657)	—	6	285	(16,366)	(10,984)
Balance as of May 31, 2016	$45,055	$28,642	$83,818	$(1,581)	$155,934	$ 58,313	$—	$2,344	$(3,170)	$ 57,487	$213,421

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Cash Flows

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Operating activities			
Income before income taxes	¥ 1,405	¥ 2,015	$ 12,660
Depreciation and amortization	851	882	7,669
(Reversal of) provision for allowance for doubtful accounts	(37)	6	(336)
Provision for accrued employees' bonuses	0	13	7
(Decrease) increase in reserve for ecological countermeasures	(65)	21	(587)
Increase (decrease) in liability for retirement benefits	116	(106)	1,048
Interest and dividends income	(233)	(204)	(2,102)
Interest expenses	127	139	1,149
Loss on sales of investment securities	12	—	105
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(3)	(1,926)	(31)
Inventories	(957)	737	(8,629)
Trade notes and accounts payable	972	2,765	8,762
Reserve for losses on order acknowledgements	1	171	9
Advances received	(206)	(15)	(1,856)
Accrued expenses	274	(2,803)	2,475
Impairment loss	—	31	—
Other, net	(87)	391	(784)
Subtotal	2,170	2,117	19,559
Interest and dividends income received	242	220	2,181
Interest expenses paid	(131)	(140)	(1,184)
Income taxes paid	(1,145)	(682)	(10,319)
Net cash provided by operating activities	1,136	1,515	10,237
Investing activities			
Purchases of property, plant and equipment	(452)	(830)	(4,071)
Purchases of intangible assets	(336)	(127)	(3,031)
Purchases of investment securities	(13)	(14)	(121)
Proceeds from sales of investment securities	19	—	174
Payments for investments in capital of subsidiaries and affiliates	(197)	—	(1,773)
Other, net	41	(18)	375
Net cash used in investing activities	(938)	(989)	(8,447)
Financing activities			
Decrease in short-term loans payable	(247)	(115)	(2,230)
Increase in long-term debt	—	1,500	—
Repayment of long-term debt	(794)	(1,073)	(7,157)
Purchases of treasury stock	(4)	(4)	(32)
Cash dividends paid	(295)	(288)	(2,662)
Other, net	(1)	(1)	(9)
Net cash (used in) provided by financing activities	(1,341)	19	(12,090)
Effect of exchange rate change on cash and cash equivalents	(27)	28	(243)
Net (decrease) increase in cash and cash equivalents	(1,170)	573	(10,543)
Cash and cash equivalents at beginning of period	3,571	2,998	32,188
Cash and cash equivalents at end of period (Note 20)	¥ 2,401	¥ 3,571	$ 21,645

TOYO DENKI SEIZO K.K.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. (the "Company") and consolidated subsidiaries (collectively the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements included the accounts of the Company and any significant companies controlled directly or indirectly by the Company.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. The Company applies the "Practical Solution of Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using Equity Method" (PITF No. 24). In accordance with these PITF, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including goodwill, actuarial differences and capitalized development costs.

As of May 31, 2016, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 2 (6 and 2 in 2015). A subsidiary, TOYO DENKI USA, INC., whose fiscal year end is December 31, is consolidated by using their pro forma financial statements as of March 31 which are prepared solely for consolidation purposes and necessary adjustments are made to their financial statements to reflect any significant transactions from April 1 to May 31. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates which are neither consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

(c) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments in the consolidated financial statements.

(d) Cash and Cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less from the date of purchase, which can easily be converted to cash and are subject to little risk of change in value.

(e) Inventories

Inventories are stated principally at the lower of cost or market, cost being determined principally by the specific identification method for finished products and work in process and by the moving average cost method for raw material and supplies.

(f) Short-term investments and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities (available-for-sale securities). Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Available-for-sale securities with market quotation are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Available-for-sale securities without market quotation are carried at cost. Cost of securities sold is determined by the moving average method.

(g) Property, plant and equipment (except for leased assets) and depreciation
Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value, while buildings except for leasehold improvements acquired on or after April 1, 1998 are depreciated by the straight-line method. The estimated useful lives of these assets are as follows:

Buildings and structures:	8 to 60 years
Machinery and vehicles:	3 to 12 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

(h) Intangible assets (except for leased assets)
Intangible assets are amortized using the straight-line method. Software for internal use is amortized over the internal available period (5 years) using the straight-line method.

(i) Leases
Leased assets capitalized under the finance lease arrangements which do not transfer ownership to the lessee are depreciated over the lease period without any residual value using the straight-line method.
All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

(j) Allowance for doubtful accounts
Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

(k) Accrued directors' bonuses
Accrued directors' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future for the performance incentive bonuses.

(l) Accrued employees' bonuses
Accrued employees' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future.

(m) Reserve for losses on order acknowledgements
Reserve for losses on order acknowledgements is provided based on the amounts expected to be incurred during the current fiscal year and which are able to estimate the losses reasonably to cover the future losses on order acknowledgements. Provision of reserve for losses on order acknowledgements in the amounts of ¥1 million ($9 thousand) and ¥171 million is included in cost of sales for the years ended May 31, 2016 and 2015, respectively.

(n) Reserve for ecological countermeasures
Reserve for ecological countermeasures is provided based on the amounts expected to be incurred in future to cover the costs on ecological countermeasures such as soil pollution countermeasures.

(o) Retirement benefits
Retirement benefit obligation is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.
Prior service cost is amortized as incurred by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.
Actuarial differences are amortized in the year following the year in which gain or loss is recognized primarily by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.

(p) Income taxes
Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(q) Construction revenue and costs
Construction revenue and construction costs are recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The percentage of completion is measured based on the percentage of the costs incurred to the estimated total costs. For other construction contracts, the completed-contract method is applied.

(r) Research and development expenses
Research and development expenses are charged to income when incurred.

(s) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(t) Derivative financial instruments
The Company and certain consolidated subsidiaries enter into various derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for these which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as a component of net assets.
Deferred hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions and hedged items are primarily interest on debts. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same.

(u) Standards issued but not yet adopted
Revised Implementation Guidance on Recoverability of Deferred Tax Assets
On March 28, 2016, the ASBJ issued "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).
(1) Overview
Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the JICPA Audit Committee Report No. 66 "Auditing Treatment on Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.
a. Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
b. Category requirements for (Category 2) and (Category 3)
c. Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
d. Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
e. Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)
(2) Scheduled date of adoption
The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending May 31, 2017.
(3) Effect of adopting revised implementation guidance
The Company is currently evaluating the effect of adopting the revised implementation guidance on its consolidated financial statements.

2. Accounting Changes
The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of September 13, 2013), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013), etc. effective from June 1, 2015. As a result, under these revised accounting standards, the presentation method of net income was amended, and the reference to "minority interests" was changed to "non-controlling interests." In order to reflect these changes in the presentation, the related amounts in the previous comparative financial information were reclassified to conform to such changes in the current fiscal year presentation.

3. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥110.94=U.S.$1, the approximate rate of exchange prevailing at May 31, 2016. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

4. Notes Receivable and Payable

As May 31, 2015 fell on a bank holiday, the following notes receivable and payable were accounted for as if they were settled on the maturity date:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Notes receivable	¥—	¥184	$—
Notes payable	—	20	—

5. Inventories

Inventories as of May 31, 2016 and 2015 were as follows:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥1,491	¥1,283	$13,438
Work in process	3,172	2,962	28,592
Raw materials and supplies	2,657	2,150	23,952
	¥7,320	¥6,395	$65,982

Inventories are stated at the lower of cost or market and the Company recognized losses on write-down of inventories held for the ordinary sales purpose due to a decline in profitability in the amount of ¥(205) million ($(1,850) thousand) and ¥191 million for the years ended May 31, 2016 and 2015, respectively. These amounts were included in "Cost of sales."

Inventories related to construction contracts which are estimated to make losses are stated after deducting the corresponding reserve for losses on order acknowledgements in the following amounts:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥ 4	¥172	$ 35
Work in process	68	21	615
	¥72	¥193	$650

6. Property, Plant and Equipment

The following table sets forth the acquisition costs and related accumulated depreciation:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 7,172	¥ 7,058	$ 64,645
Machinery and vehicles	6,729	6,793	60,651
Other	3,281	3,273	29,578
	17,182	17,124	154,874
Accumulated depreciation	(13,380)	(13,037)	(120,600)
	¥ 3,802	¥ 4,087	$ 34,274

Depreciation of property, plant and equipment for the years ended May 31, 2016 and 2015 were as follows:

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
	¥851	¥882	$7,669

Accumulated depreciation of property, plant and equipment amounted to ¥13,380 million ($120,600 thousand) and ¥13,037 million as of May 31, 2016 and 2015, respectively.

7. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investment securities" as of May 31, 2016 and 2015 were as follows:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in capital	¥1,390	¥1,174	$12,527

8. Short-Term Borrowings and Long-Term Debt

As of May 31, 2016 and 2015, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥ 666	¥ 990	$6,000
Current portion of long-term debt	352	794	3,173
	¥1,018	¥1,784	$9,173

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2016 were 1.415% and 1.535%, respectively.

As of May 31, 2016 and 2015, long-term debts were as follows:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2017 through 2020	¥7,288	¥7,640	$65,693

The annual weighted average interest rate applicable to long-term debt as of May 31, 2016 was 1.258%.

The maturities of long-term debt are summarized as follows:

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2017	¥ 352	$ 3,173
2018	4,002	36,074
2019	3,182	28,682
2020	72	649
2021 and thereafter	32	288
	¥7,640	$68,866

The assets pledged as collateral for short-term borrowings of ¥858 million ($7,731 thousand) and long-term debt of ¥1,248 million ($11,249 thousand) as of May 31, 2016 were as follows:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,643	$14,806
Machinery and vehicles	558	5,030
Other property, plant and equipment	355	3,203
Land	158	1,429
	¥2,714	$24,468

The following assets included in the above are set by factory foundation fixed collateral security:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,643	$14,806
Machinery and vehicles	558	5,030
Other property, plant and equipment	355	3,203
	¥2,556	$23,039

9. Retirement Benefit Plans

The Company and its consolidated subsidiaries have retirement benefit plans combined by defined contribution plans and lump-sum payment plans.

The Company and its consolidated subsidiaries introduced the point system in the lump-sum payment plans, under which retirement benefit amounts are computed based on the accumulated points granted according to the job ranking and performances.

Under the lump-sum payment plans held by certain consolidated subsidiaries, the liability for retirement benefits and retirement benefit expenses are calculated using a simplified method.

The changes in the retirement benefit obligation during the years ended May 31, 2016 and 2015 are as follows:

For the Years Ended	May 31, 2016 (Millions of yen)	May 31, 2015 (Millions of yen)	May 31, 2016 (Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥3,726	¥4,045	$33,583
Cumulative effect of changes in accounting policies	—	(576)	—
Restated balance as of June 1	3,726	3,469	33,583
Service cost	287	257	2,583
Interest cost	14	50	129
Actuarial loss	10	364	95
Retirement benefits paid	(184)	(414)	(1,663)
Retirement benefit obligation as of May 31	¥3,853	¥3,726	$34,727

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2016 and 2015 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2016 (Millions of yen)	May 31, 2015 (Millions of yen)	May 31, 2016 (Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥3,853	¥3,726	$34,727
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,853	3,726	34,727
Liability for retirement benefits	¥3,853	¥3,726	$34,727
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,853	3,726	34,727

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2016 and 2015 are as follows:

For the Years Ended	May 31, 2016 (Millions of yen)	May 31, 2015 (Millions of yen)	May 31, 2016 (Thousands of U.S. dollars)
Service cost	¥287	¥257	$2,583
Interest cost	14	50	129
Amortization of actuarial loss	70	31	632
Amortization of prior service cost	—	(39)	—
Amortization of net retirement benefit obligation at transition	—	269	—
Retirement benefit expenses	¥371	¥568	$3,344

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2016 and 2015 are as follows:

As of	May 31, 2016 (Millions of yen)	May 31, 2015 (Millions of yen)	May 31, 2016 (Thousands of U.S. dollars)
Prior service cost	¥—	¥ (39)	$—
Actuarial loss	60	(332)	537
Unamortized net retirement benefit obligation at transition	—	269	—
Total	¥60	¥(102)	$537

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2016 and 2015 are as follows:

As of	May 31, 2016 (Millions of yen)	May 31, 2015 (Millions of yen)	May 31, 2016 (Thousands of U.S. dollars)
Unrecognized prior service cost	¥ —	¥ —	$ —
Unrecognized actuarial loss	507	567	4,573
Unamortized net retirement benefit obligation at transition	—	—	—
Total	¥507	¥567	$4,573

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2016 and 2015 were as follows:

For the Years Ended	May 31, 2016	May 31, 2015
Discount rate	0.4%	0.4%

Note: The Company does not use the expected rate of salary increase in computing retirement benefit obligation since the Company adopts the point system.

The amounts of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries were ¥115 million ($1,039 thousand) and ¥113 million for the years ended May 31, 2016 and 2015, respectively.

10. Net Assets

Information regarding changes in net assets for the years ended May 31, 2016 and 2015 is as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2016

Type of shares	Number of shares as of June 1, 2015	Increase	Decrease	Number of shares as of May 31, 2016
		(Shares)		
Shares issued:				
Common stock	48,675,000	—	—	48,675,000
Treasury stock:				
Common stock	484,737	8,741	—	493,478

Note:
Detail of the increase is as the following:
Increase due to purchase of shares of less than standard unit 8,741 shares

For the year ended May 31, 2015

Type of shares	Number of shares as of June 1, 2014	Increase	Decrease	Number of shares as of May 31, 2015
		(Shares)		
Shares issued:				
Common stock	48,675,000	—	—	48,675,000
Treasury stock:				
Common stock	474,527	10,210	—	484,737

Note:
Detail of the increase is as the following:
Increase due to purchase of shares of less than standard unit 10,210 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2016

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 27, 2015	Common stock	¥289	$2,606	¥6.00	$0.05	May 31, 2015	August 28, 2015

For the year ended May 31, 2015

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 27, 2014	Common stock	¥290	¥6.00	May 31, 2014	August 28, 2014

2) Dividends with the cut-off date in the year ended May 31, 2016 and the effective date in the year ending May 31, 2017

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 26, 2016	Common stock	¥289	$2,606	Retained earnings	¥6.00	$0.05	May 31, 2016	August 29, 2016

11. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2016 and 2015 were as follows:

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,966	¥1,882	$17,723
Provision for accrued directors' bonuses	37	41	335
Provision for accrued employees' bonuses	392	397	3,532
Retirement benefit expenses	196	313	1,771
Provision for allowance for doubtful accounts	(37)	6	(336)
Research and development expenses	868	898	7,828

12. Special Gains (Losses), Net

The components of "Special gains (losses), net" for the years ended May 31, 2016 and 2015 were as follows:

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of intangible assets (land leasehold right)	¥—	¥ 13	$ —
Special losses:			
Impairment loss (Note)	—	(31)	—
Provision of reserve for ecological countermeasures	—	(24)	—
Removal expenses for property, plant and equipment	(72)	—	(650)
Loss on sales of investment securities	(12)	—	(105)
Other	(4)	—	(38)
Total	¥(88)	¥(42)	$(793)

Note: The Group recognized no impairment loss for the year ended May 31, 2016.
The Group recognized an impairment loss on the following assets for the year ended May 31, 2015:

Location	Use	Type	(Millions of yen)
Hiratsuka Plant of the Company (Hiratsuka city, Kanagawa Pref.)	Plant	Buildings and structures	¥31

In determining an impairment loss, the Group is grouping assets based on the minimum unit generating cash flows independently from other assets or asset groups.

For the year ended May 31, 2015, the Group reduced the carrying amount of an asset group expected to be removed at the time of repairing and expansion of Hiratsuka Plant down to the recoverable amount and recognized such reduced amount as an impairment loss in an amount of ¥31 million under "Special losses."

In calculating the recoverable amount, it is measured by the value in use based on the future cash flows, but the discount rate is not considered, because the removal will be conducted in the near future and the monetary effect is immaterial.

13. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 33.1% and 35.6% for the years ended May 31, 2016 and 2015, respectively. Income taxes of a foreign consolidated subsidiary are based generally on the tax rates applicable in the country of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the years ended May 31, 2016 and 2015 was as follows:

For the Year Ended	May 31, 2016	May 31, 2015
Effective statutory tax rate	33.1%	35.6%
Effect of:		
Non-deductible expenses for income tax purpose	2.0	1.4
Non-taxable income such as dividends income, etc.	(1.1)	(1.5)
Per capita inhabitant tax	1.9	1.4
Valuation allowance	(11.4)	(0.4)
Income from affiliates accounted for by the equity method	(1.8)	(0.9)
Unrecognized tax benefits from losses of subsidiaries	7.0	2.4
Effect of income tax rate change	5.6	7.9
Other	1.4	(0.8)
Effective tax rate	36.7%	45.1%

The significant components of deferred tax assets and liabilities as of May 31, 2016 and 2015 were as follows:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 153	¥ 193	$ 1,375
Liability for retirement benefits	1,186	1,209	10,690
Accrued employees' bonuses	292	309	2,632
Reserve for losses on order acknowledgements	105	100	948
Tax loss carryforwards	312	345	2,809
Other	448	587	4,043
Total gross deferred tax assets	2,496	2,743	22,497
Valuation allowance	(684)	(774)	(6,159)
Total deferred tax assets	1,812	1,969	16,338
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,857)	(3,919)	(25,755)
Other	(19)	(2)	(171)
Total deferred tax liabilities	(2,876)	(3,921)	(25,926)
Net deferred tax liabilities	¥(1,064)	¥(1,952)	$ (9,588)

Adjustments of deferred tax assets and liabilities due to a change in the income tax rate:

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted at the Diet on March 29, 2016. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was reduced from 32.3% to 30.9% for the temporary differences expected to be realized or settled in the years beginning June 1, 2016 and 2017 and to 30.6% for the temporary differences expected to be realized or settled in the years beginning on and after June 1, 2018. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, net of deferred tax liabilities, and retirement benefits liability adjustments by ¥66 million ($596 thousand) and ¥8 million ($74 thousand), respectively and increase unrealized holding gain on securities and income taxes – deferred by ¥154 million ($1,386 thousand) and ¥79 million ($716 thousand), respectively.

14. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended May 31, 2016 and 2015:

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥(2,921)	¥ 6,050	$(26,333)
Reclassification adjustments for gains and losses included in net income	11	—	105
Amount before tax effect	(2,910)	6,050	(26,228)
Tax effect	1,062	(1,723)	9,571
Unrealized holding gain (loss) on securities	(1,848)	4,327	(16,657)
Deferred gain on hedging instruments:			
Amount arising during the year	—	40	—
Amount before tax effect	—	40	—
Tax effect	—	(14)	—
Deferred gain on hedging instruments	—	26	—
Translation adjustments			
Amount arising during the year	49	(11)	440
Amount before tax effect	49	(11)	440
Translation adjustments	49	(11)	440
Retirement benefits liability adjustments			
Amount arising during the year	(10)	(364)	(95)
Reclassification adjustments for gains and losses included in net income	70	261	632
Amount before tax effect	60	(103)	537
Tax effect	(28)	18	(252)
Retirement benefits liability adjustments	32	(85)	285
Share of other comprehensive income (loss) of affiliates accounted for by the equity method			
Amount arising during the year	(48)	105	(434)
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	(48)	105	(434)
Total other comprehensive income (loss)	¥(1,815)	¥ 4,362	$(16,366)

15. Lease Transactions

The information about finance leases that do not transfer ownership of the leased property to the lessee is omitted since there is no materiality in terms of value.

In addition, finance leases that do not transfer ownership of the leased property to the lessee and whose lease inception was on or before May 31, 2008 are permitted to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements, but such information is omitted since there is no materiality in terms of value.

16. Contingent Liabilities

As of May 31, 2016 and 2015, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Hunan Xiangyang Electric Co., Ltd.	¥ 30	¥196	$ 273
Changzhou Ruiyang Transmission Technology Co., Ltd.	169	200	1,525

17. Amounts Per Share

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥18.47	¥22.94	$0.17

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Yen)		(U.S. dollars)
Net assets	¥491.41	¥516.61	$4.43

Diluted net income per share is omitted since there is no dilution of equity.

The bases for calculation are as follows:

Basic net income per share

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥890	¥1,106	$8,020
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	890	1,106	8,020
	(Thousand shares)		
Average number of shares of common stock during the year	48,185	48,195	

18. Financial Instruments

Overview

(1) Policy for financial instruments
The Group raises its necessary funds for capital investments to reinforce and renew production facilities and working capital principally through bank borrowings. The Group manages temporary cash surpluses through low risk financial assets. The Group uses derivatives in order to avoid the following risks and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk
Trade receivables—trade notes and accounts receivable and electronically recorded receivables—are exposed to credit risk in relation to customers. Trade receivables denominated in foreign currencies arising from international business are exposed to foreign exchange fluctuation risk, but the Group utilizes forward foreign exchange contracts to reduce such risk as a hedging instrument.

Investment securities are composed of mainly the shares of common stock of other companies with which the Group has business relationships and exposed to market risk.

Certain long-term debt raised for the purpose of making capital investments with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions as a hedging instrument.

Regarding hedging instruments and hedged items in hedge accounting, hedging policy, and assessment of the effectiveness of hedging activities, etc., please see Note 1(t) "Derivative financial instruments."

(3) Risk management for financial instruments
(a) Monitoring of credit risk (the risk that customers or counterparties may default)
In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

Investment securities are composed of mainly the shares of common stock of highly rated companies with which the Group has business relationships. Accordingly, the Group believes that the credit risk deriving from such investment securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

(b) Monitoring of market risks (the risk arising from fluctuations in foreign exchange rates, interest rates and others)
The Group utilizes interest rate swap transactions to reduce interest rate fluctuation risk on long-term debt.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions. Monthly reports including actual transactions data are submitted to the Board of Directors for their review.

(c) Monitoring of liquidation risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)
Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidation risk.

(4) Supplementary explanation of the estimated fair value of financial instruments
The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 21, Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of May 31, 2016 and 2015 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below):

As of May 31, 2016	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
1) Cash on hand and in banks	¥ 2,401	¥ 2,401	¥—
2) Trade notes and accounts receivable	13,790	13,790	—
3) Electronically recorded receivables	966	966	—
4) Investment securities	16,757	16,757	—
Total assets	¥33,914	¥33,914	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 3,743	¥ 3,743	¥—
6) Electronically recorded payables	5,278	5,278	—
7) Short-term borrowings	666	666	—
8) Long-term debt	7,640	7,724	84
Total liabilities	¥17,327	¥17,411	¥84
9) Derivative transactions*	¥ 43	¥ 43	¥—

As of May 31, 2016	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
1) Cash on hand and in banks	$ 21,645	$ 21,645	$ —
2) Trade notes and accounts receivable	124,302	124,302	—
3) Electronically recorded receivables	8,703	8,703	—
4) Investment securities	151,051	151,051	—
Total assets	$305,701	$305,701	$ —
Liabilities			
5) Trade notes and accounts payable	$ 33,736	$ 33,736	$ —
6) Electronically recorded payables	47,573	47,573	—
7) Short-term borrowings	6,000	6,000	—
8) Long-term debt	68,866	69,626	760
Total liabilities	$156,175	$156,935	$760
9) Derivative transactions*	$ 383	$ 383	$ —

*Derivative transactions are presented in a net amount of receivables and payables and net payables are shown in parenthesis.

As of May 31, 2015	Carrying value	Fair value	Difference
	(Millions of yen)		
Assets			
1) Cash on hand and in banks	¥ 3,571	¥ 3,571	¥ —
2) Trade notes and accounts receivable	14,233	14,233	—
3) Electronically recorded receivables	606	606	—
4) Investment securities	19,685	19,685	—
Total assets	¥38,095	¥38,095	¥ —
Liabilities			
5) Trade notes and accounts payable	¥ 5,116	¥ 5,116	¥ —
6) Electronically recorded payables	3,023	3,023	—
7) Short-term borrowings	990	990	—
8) Long-term debt	8,434	8,484	(50)
Total liabilities	¥17,563	¥17,613	¥(50)
9) Derivative transactions*	¥ (22)	¥ (22)	¥ —

*Derivative transactions are presented in a net amount of receivables and payables and net payables are shown in parenthesis

Notes:
1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets:

Cash on hand and in banks, trade notes and accounts receivable and electronically recorded receivables

Since these items are settled in a short period of time, their carrying value approximates fair value.
However, if they are settled in a long period of time, the fair value of receivables is based on the present value of the receivables classified by definite periods discounted using interest rates on the corresponding period until settlement.

Investment securities

The fair value of stocks is based on quoted market prices. Investment securities held by the Group are classified as available-for-sale securities and please see Note 19 "Securities."

Liabilities:

Trade notes and accounts payable, electronically recorded payables and short-term borrowings

Since these items are settled in a short period of time, their carrying value approximates fair value.

Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. The fair value of long-term debt with variable interest rates, which is hedged by the interest rate swaps and to which hedge accounting is applied (refer to the following paragraph), is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

Derivative transactions

The fair value of interest rate swaps accounted for by the hedge accounting is included in the fair value of the related long-term debt, since such interest rate swaps are accounted for together with long-term debt as hedged items.
The fair value of interest rate swaps accounted for by the normal method is determined based on the price, etc. provided by the financial institutions.

2. Financial instruments for which it is extremely difficult to determine the fair value

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥639	¥642	$5,757

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

3. Redemption schedule for receivables and securities with maturities at May 31, 2016 and 2015 are as follows:

As of May 31, 2016	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 2,398	¥ —	¥—	¥—
Trade notes and accounts receivable	12,942	848	—	—
Electronically recorded receivables	966	—	—	—
	¥16,306	¥848	¥—	¥—

As of May 31, 2016	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Thousands of U.S. dollars)			
Cash on hand and in banks	$ 21,611	$ —	$—	$—
Trade notes and accounts receivable	116,661	7,641	—	—
Electronically recorded receivables	8,703	—	—	—
	$146,975	$7,641	$—	$—

As of May 31, 2015	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 3,568	¥ —	¥—	¥—
Trade notes and accounts receivable	12,539	1,694	—	—
Electronically recorded receivables	606	—	—	—
	¥16,713	¥1,694	¥—	¥—

4. The redemption schedule for long-term debt is disclosed in Note 8.

19. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2016	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥16,744	¥7,416	¥9,328
Subtotal	¥16,744	¥7,416	¥9,328
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 13	¥ 15	¥ (2)
Subtotal	¥ 13	¥ 15	¥ (2)
Total	¥16,757	¥7,431	¥9,326

As of May 31, 2016	Carrying value	Acquisition cost	Unrealized Gain (Loss)
	(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	$150,928	$66,851	$84,077
Subtotal	$150,928	$66,851	$84,077
Securities whose acquisition cost exceeds their carrying value:			
Stock	$ 123	$ 132	$ (9)
Subtotal	$ 123	$ 132	$ (9)
Total	$151,051	$66,983	$84,068

Notes: 1. Unlisted stocks are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.
2. Acquisition cost in the above table represents carrying value reflecting impairment losses.
If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

Available-for-sale securities

As of May 31, 2015	Carrying value	Acquisition cost	Unrealized Gain (Loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥19,685	¥7,449	¥12,236
Subtotal	¥19,685	¥7,449	¥12,236
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ —	¥ —	¥ —
Subtotal	¥ —	¥ —	¥ —
Total	¥19,685	¥7,449	¥12,236

Notes: 1. Unlisted stocks are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.
2. Acquisition cost in the above table represents carrying value reflecting impairment losses.
If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

Information regarding available-for-sale securities sold

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥19	¥—	$174
Gain on sales	—	—	—
Loss on sales	12	—	105

20. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2016 and 2015 are reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥2,401	¥3,571	$21,645
Cash and cash equivalents	¥2,401	¥3,571	$21,645

21. Derivative Transactions

Hedging policies

The Company utilizes forward foreign exchange contracts and interest rate swaps for the purpose of hedging its exposure to fluctuations in foreign exchange rates and interest rates, respectively. However, based on internal management rules on financial market risk approved by the Company's Board of Directors, Group companies do not enter into transactions involving derivatives for speculative or trading purposes.

Types and purpose of derivative transactions

The Company primarily uses forward foreign exchange contracts to hedge against the fluctuations in foreign currency exchange rates on trade receivables denominated in foreign currencies and interest rate swaps to hedge against the adverse impact of fluctuations in interest rates on interest-bearing debt.

Derivative transactions to which hedge accounting is not applied:

Currency-related derivatives:

As of May 31, 2016	Contract amount	Maturing after one year	Fair value	Unrealized gain (loss)
	(Millions of yen)			
Forward foreign exchange contracts:				
Sold:				
USD	¥486	¥—	¥43	¥43

As of May 31, 2016	Contract amount	Maturing after one year	Fair value	Unrealized gain (loss)
	(Thousands of U.S. dollars)			
Forward foreign exchange contracts:				
Sold:				
USD	$4,377	$—	$383	$383

Note: Fair value is determined based on the forward foreign exchange rate.

As of May 31, 2015	Contract amount	Maturing after one year	Fair value	Unrealized gain (loss)
	(Millions of yen)			
Forward foreign exchange contracts:				
Sold:				
USD	¥596	¥—	¥(22)	¥(22)

Note: Fair value is determined based on the forward foreign exchange rate.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

As of May 31, 2016	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Millions of yen)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥7,360	¥7,128	Note

As of May 31, 2016	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Thousands of U.S. dollars)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	$66,342	$64,251	Note

Note: Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreement is recognized and included in interest expenses. Accordingly, the fair value of interest rate swaps is included in the fair value of long-term debt. The notional amount of long-term debt includes current portion of long-term debt.

As of May 31, 2015	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Millions of yen)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥7,889	¥7,360	Note

Note: Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreement is recognized and included in interest expenses. Accordingly, the fair value of interest rate swaps is included in the fair value of long-term debt. The notional amount of long-term debt includes current portion of long-term debt.

22. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group establishes business units by product and each business unit designs domestic and overseas comprehensive strategies for its products and is developing business activities. Accordingly, the Group consists of the three reportable segments by product based on the business units, which are Transportation Systems, Industrial Systems and Information Equipment Systems.

The accounting policies of the segments are substantially same as those described in the significant accounting policies in Note 1. Segment profit is evaluated based on operating income.

Inter-segment sales are recorded at the same prices used in transactions with third parties.

For the year ended May 31, 2016

	Reportable segments: Transportation Systems	Reportable segments: Industrial Systems	Reportable segments: Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥26,758	¥12,027	¥955	¥ 6	¥39,746	¥ —	¥39,746
Inter-segment sales and transfers	30	4	—	597	631	(631)	—
	26,788	12,031	955	603	40,377	(631)	39,746
Segment profit	¥ 2,965	¥ 1,020	¥ 96	¥ 31	¥ 4,112	¥(2,473)	¥ 1,639
Segment assets	¥19,605	¥ 8,035	¥ 587	¥569	¥28,796	¥21,438	¥50,234
Other items:							
Depreciation	¥ 550	¥ 151	¥ 20	¥ 1	¥ 722	¥ 129	¥ 851
Capital expenditures	¥ 470	¥ 126	¥ 12	¥ 0	¥ 608	¥ 295	¥ 903

For the year ended May 31, 2016

	Reportable segments: Transportation Systems	Reportable segments: Industrial Systems	Reportable segments: Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
				(Thousands of U.S. dollars)			
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	$241,192	$108,411	$8,605	$ 59	$358,267	$ —	$ 358,267
Inter-segment sales and transfers	272	34	—	5,377	5,683	(5,683)	—
	241,464	108,445	8,605	5,436	363,950	(5,683)	358,267
Segment profit	$ 26,722	$ 9,193	$ 862	$ 284	$ 37,061	$(22,288)	$ 14,773
Segment assets	$176,720	$ 72,423	$5,294	$5,127	$259,564	$193,237	$452,801
Other items:							
Depreciation	$ 4,957	$ 1,358	$ 182	$ 6	$ 6,503	$ 1,166	$ 7,669
Capital expenditures	$ 4,231	$ 1,137	$ 110	$ 1	$ 5,479	$ 2,659	$ 8,138

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching service related activities, etc.

For the year ended May 31, 2015

	Reportable segments: Transportation Systems	Reportable segments: Industrial Systems	Reportable segments: Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥26,870	¥11,613	¥1,128	¥ 6	¥39,617	¥ —	¥39,617
Inter-segment sales and transfers	41	2	—	588	631	(631)	—
	26,911	11,615	1,128	594	40,248	(631)	39,617
Segment profit	¥ 3,118	¥ 848	¥ 71	¥ 59	¥ 4,096	¥(2,500)	¥ 1,596
Segment assets	¥18,335	¥ 8,175	¥ 801	¥587	¥27,898	¥25,143	¥53,041
Other items:							
Depreciation	¥ 546	¥ 161	¥ 26	¥ 1	¥ 734	¥ 148	¥ 882
Capital expenditures	¥ 554	¥ 205	¥ 22	¥ 1	¥ 782	¥ 187	¥ 969

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching service related activities, etc.

Geographical information

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended May 31, 2016 and 2015 are summarized as follows:

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥27,094	¥24,547	$244,226
China	8,375	11,634	75,487
Other	4,277	3,436	38,554
Consolidated	¥39,746	¥39,617	$358,267

Note: Net sales information above is based on customers' location.

Major customer information

Major customer information for the year ended May 31, 2016 is as follows:

Customer	Segment	(Millions of yen)	(Thousands of U.S. dollars)
Meiji Sangyo Co., Ltd.	Transportation Systems	¥5,506	$49,626

Major customer information for the year ended May 31, 2015 is as follows:

Customer	Segment	(Millions of yen)
Meiji Sangyo Co., Ltd.	Transportation Systems	¥5,489

Information regarding an impairment loss on fixed assets by reportable segments

Impairment loss on fixed assets by reportable segments for the years ended May 31, 2016 and 2015 is summarized as follows:

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Transportation Systems	¥—	¥31	$—
Industrial Systems	—	—	—
Information Equipment Systems	—	—	—
Reportable segment total	—	31	—
Other	—	—	—
Adjustments	—	—	—
Consolidated	¥—	¥31	$—

23. Significant Subsequent Events

a. Share consolidation

At the meeting of the Board of Directors held on July 12, 2016, the Company resolved to submit the matter of the share consolidation (five shares into one share) to the 155th annual general meeting of the shareholders scheduled to be convened on August 26, 2016 and this proposal was approved at the meeting of the shareholders.

(1) Purpose of share consolidation

All securities exchanges in Japan announced an Action Plan for Consolidating Trading Units and under this action plan, trading units of shares (number of shares per share unit) for all domestic listed companies are to be uniformly set at 100 shares.

In light of the intent of this plan, and as a company listed on the Tokyo Stock Exchange, the Company decided to change the number of shares per share unit from 1,000 to 100 and also to undertake a share consolidation under which every 5 shares will be consolidated into 1 share to achieve the desirable share unit price level quoted by the stock exchanges, namely between ¥50,000 and ¥500,000.

(2) Particulars of the consolidation

(i) Type of shares to be consolidated: Common stock

(ii) Consolidation method and ratio: Shares held by shareholders recorded in the latest register of shareholders as of November 30, 2016 will be consolidated at the ratio of 5 shares to 1 share on December 1, 2016.

(iii) Number of shares reduced through consolidation:

Outstanding shares before consolidation (as of May 31, 2016) 48,675,000 shares
Number of shares reduced through consolidation 38,940,000 shares
Outstanding shares after consolidation 9,735,000 shares

Note: The number of shares reduced through consolidation and the outstanding shares after consolidation are theoretical values calculated by multiplying the number of outstanding shares before consolidation by the share consolidation ratio.

(3) Effect on per share information

Per share information for the year ended May 31, 2016 would have been as follows, assuming the share consolidation had been undertaken at June 1, 2015:

Net assets per share: ¥2,457.05 ($22.15)
Net income per share: ¥92.33 ($0.83)

b. Resolution regarding share repurchase and buyback of shares

At the meeting of the Board of Directors held on July 25, 2016, the Company resolved to acquire its own shares pursuant to Article 156 of the Companies Act of Japan applicable in lieu of Paragraph 3, Article 165 of the same act.

(1) Reason for the share repurchase

To implement capital policy in response to changes in the business and market environment and to return profits to shareholders

(2) Type of shares to be acquired: Common stock
(3) Total number of shares to be acquired: Up to 1,000,000 shares
(4) Total value of shares to be acquired: Up to ¥300 million ($2,704 thousand)
(5) Acquisition schedule: From July 26 to September 21, 2016
(6) Method of acquisition: Open market purchase using a trust
(7) Result of acquisition:

Total number of shares acquired: 952,000 shares
Total value of shares acquired: ¥299,860 thousand ($2,703 thousand)

Acquisition of own shares pursuant to the resolution was terminated on August 12, 2016.

EY
Building a better working world

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Independent Auditor's Report

The Board of Directors
TOYO DENKI SEIZO K.K.

We have audited the accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at May 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries as at May 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

August 29, 2016
Tokyo, Japan

Ernst & Young ShinNihon LLC