

# Seeking to further strengthen our management foundation as a manufacturer aiming for global growth

Although the Industrial Systems segment have been influenced by capital investment restraint, the Transportation Systems segment and Information Equipment Systems segment are expected to show growth both in Japan and overseas.

With regard to consolidated financial results for the fiscal year ended May 31, 2016, net sales remained at nearly the same level as the previous fiscal year, and we maintained a positive growth in operating income. However, due to exchange losses resulting from the appreciation of the yen, ordinary income and net income attributable to owners of the parent decreased.

In the Transportation Systems segment, increase in orders continued in Japan, and orders increased outside Japan as well, mainly for Chinese projects. However, net sales fell from the previous fiscal year due to a decrease in overseas deliveries. Profits declined due to an increase in design costs from new projects. The maintenance business for electrical equipment for railroads in Beijing, China, which was launched in the previous fiscal year, became fully operational.

In the Industrial Systems segment, reflecting the more cautious investment approach of Japanese corporations and the sluggish emerging economies, the situation for order-taking has become more severe. As a result, orders for testing equipment for automobile development, production facilities such as processing equipment, and social infrastructure decreased. Net sales and

profits were both higher than the previous fiscal year, but did not reach the target figures as planned.

In the Information Equipment Systems segment, due to demand for upgrades of in-train ticket issuing machines and new acquisition of orders of composite ticket vending machines, orders increased, but were not reflected in the recording of sales for the current fiscal year. As a result, the segment posted a decrease in sales. Profits turned positive from the slump of the previous fiscal year.

Looking at the future business environment, there is a growing uncertainty about the economic outlook due to factors such as the slowdown in economic growth in emerging countries and the progressive appreciation of the yen. However, in the Transportation Systems segment, investments in railway infrastructure are projected to remain at a high level in China and ASEAN countries, and increase in rail vehicles that responds to increase in number of foreign tourists and demand ahead of the Olympic Games is expected to continue in Japan as well. Furthermore, in the Industrial Systems segment, although there are concerns about further decline in capital expenditures, new initiatives such as orders received for small-scale hydropower generators using agricultural water are producing positive results.

Under these circumstances, based on the revisions to the medium-term management plan described below, we are committed to increase earnings potential, while ensuring further growth potential.

We have reformulated the two-year medium-term management plan “Ver. 2.” We will work to solve the issues on business earnings structure and production system.

Under the three-year medium-term management plan “Next 100: Beyond 100 years” launched in the previous fiscal year, we have been working to expand overseas net sales and strengthen the management foundation by restructuring production system in anticipation of the year of our 100th anniversary of founding in 2018 and beyond. However, after its announcement, new issues came to the fore in relation to our business earnings structure and production system. In particular, boosting the efficiency of design operations and promoting the productivity reform are required in order to increase earnings potential in the Transportation Systems segment. In addition, to expand the Industrial Systems segment and stabilize earnings structure, we need to expand production items in our lineup and specification zones.

To address these issues, we have formulated “Next 100:

Beyond 100 years, Ver. 2” to reset the period of the plan and forecast the numerical targets, while maintaining the fundamental policy of the previous medium-term management plan. The plan “Ver. 2” covers the two-year period from fiscal 2016 to fiscal 2017. We will promote “building a stable business earnings structure” and “restructuring production system” as key strategies in an aim to achieve numerical targets including net sales of 46.0 billion yen and operating income of 2.4 billion yen (operating income ratio of 5.2%).

In the first half of 2018, a new factory in the Shiga, Ryuoh region, where production of the Industrial Systems segment is to be consolidated, will start operations, thereby forming a production system with two bases including the Yokohama Plant which is responsible for production of the Transportation Systems segment. We will advance measures as we aim to address the issues completely under the plan “Ver. 2” in two years by this time.

In addition to utilizing diverse human resources and implementing diverse work-style, we will continue to enhance corporate governance.

The Act on Promotion of Women’s Participation and Advancement in the Workplace has come into force in April 2016, and we took it as our duty to formulate action plans, etc. We consider the utilization of diverse human resources and implementation of diverse work-style as key requirements for sustainable growth, and have

produced results in measures of promoting acquisition of child-care leave, return to work, etc. Female employees currently account for 7.2% of permanent employees which goes to show that the number of our female employees in the workplace is not high. As our point of focus for the future, in the new factory in the Ryuoh region, we will work to create a better working environment for women and promote opportunities for women.

On the other hand, in the development and design divisions, skilled employees start to retire, and our challenge is in how to transfer their expertise and skills. Hence, we will create a workplace which enables more effective utilization of human resource capabilities in order to increase technological capability of the entire organization by sharing, standardizing and systematizing the know-how.

In addition to Mr. Hirokazu Chinone who assumed office as Outside Director, Mr. Takashi Yamagishi who served as Vice President and Advisor of TEIJIN LIMITED was newly appointed as Outside Director. This brought the number of Outside Directors to two. We expect Mr. Yamagishi, who has been engaged in management of manufacturing companies for many years, to provide advice on various technical issues based on his extensive experience and technical insight.

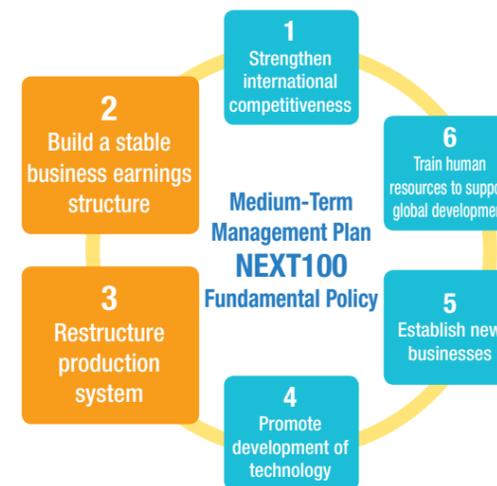
We will continue to enhance corporate governance, and establish a solid management foundation as a manufacturer aiming for global growth by consistently implementing the medium-term management plan “Ver. 2” described above. We would like to fulfill even more significant social contribution and live up to the expectations of stakeholders.



President  
Kenzo Terashima

## Medium-term management plan “NEXT 100: Beyond 100 years, Ver. 2”

### Fundamental Policy



### Numerical Targets (Consolidated)

(Unit: Billion yen)

	NEXT 100			
	Ver. 1		Ver. 2	
	Fiscal 2014 (Actual Results for the First Year)	Fiscal 2015 (Actual Results)	Fiscal 2016 (Forecast)	Fiscal 2017 (Forecast for the Final Year)
Net sales	39.61	39.74	43.00	46.00
Operating income (Operating income ratio)	1.59 (4.0%)	1.63 (4.1%)	1.90 (4.3%)	2.40 (5.2%)
Ordinary income	2.05	1.49	1.80	2.50
Net income	1.10	0.88	1.20	1.70
Overseas net sales (Overseas net sales ratio)	15.06 (38.0%)	12.65 (32.0%)	—	23.00 (50.0%)