Financial Report

Financial Report

Financial Review

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2014 (from June 1, 2014 to May 31, 2015) are as follows:

Results of Operation

Orders received
YoY **-8.2%**

Orders received decreased 8.2% compared with the previous fiscal year to 39,070 million yen. This overall result reflected a decrease in orders received in the Transportation Systems segment and the Information Equipment Systems segment, despite a surge in orders in the Industrial Systems segment.

Net sales
YoY **+13.3%**

Net sales increased 13.3% year on year to 39,617 million yen. Despite a decrease in the Information Equipment Systems segment, this result reflected a significant surge in the Transportation Systems segment outside Japan as well as an increase in the Industrial Systems segment.

Profit/Loss
Net income
YoY **+71.6%**

From a profit perspective, operating income increased 48.3% compared with the previous fiscal year to 1,596 million yen, mainly due to increased revenue in the Transportation Systems segment and the Industrial Systems segment. Ordinary income grew by 98.5% to 2,056 million yen as a result of recording foreign exchange gains from a progressively weaker yen, and net income increased 71.6% to 1,105 million yen.

Financial Position

Assets
Total assets
53,041 million yen

Total assets as of May 31, 2015 stood at 53,041 million yen, an increase of 8,288 million yen compared with the end of the previous fiscal year. The increase in total assets was largely attributable to an increase in investment securities of 6,063 million yen, which was the result of an increase in the market price of held listed securities, in addition to an increase in trade notes and accounts receivable of 2,033 million yen, which reflected an increase in net sales.

Liabilities
Total liabilities
28,145 million yen

Total liabilities amounted to 28,145 million yen, an increase of 2,743 million yen compared with the previous fiscal year end. Despite a 2,799 million yen decrease in accrued expenses, the increase in total liabilities was largely attributable to increases in electronically recorded obligations – operating of 3,022 million yen, deferred tax liabilities of 1,965 million yen, and long-term debt of 706 million yen.

Net assets
Total net assets
24,895 million yen

Net assets as of May 31, 2015 stood at 24,895 million yen, an increase of 5,545 million yen compared with the previous fiscal year. This increase was largely attributable to a 4,327 million yen increase in unrealized holding gain on available-for-sale securities and a 93 million yen increase in foreign currency translation adjustments despite a decrease of 84 million yen from remeasurements of defined benefit plans.

Cash Flows

Cash flow from operating activities
Net cash provided by operating activities
1,514 million yen

Net cash provided by operating activities amounted to 1,514 million yen. Major cash outflow was a decrease of 2,802 million yen in accrued expenses. Principal cash inflows were income before income taxes and minority interests at 2,014 million yen and an increase of 2,765 million yen in trade notes and accounts payable.

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

Net cash used in investing activities totaled 988 million yen for the fiscal year under review and mainly comprised funds used for the purchases of property, plant and equipment at 830 million yen, which included 111 million yen as a deposit for the acquisition of land for the new Shiga Factory.

Cash flow from financing activities
Net cash provided by financing activities
18 million yen

Net cash provided by financing activities was 18 million yen. The principal cash inflow was an increase in long-term debt at 1,500 million yen, while major cash outflows were repayment of long-term debt at 1,073 million yen and cash dividends paid at 287 million yen.

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Assets			
Current assets:			
Cash on hand and in banks (Notes 18 and 20)	¥ 3,571	¥ 2,998	$ 28,861
Trade notes and accounts receivable (Notes 4 and 18)	14,839	12,806	119,930
Inventories (Note 5)	6,395	7,101	51,686
Deferred tax assets (Note 13)	660	545	5,335
Other current assets	169	140	1,365
Allowance for doubtful accounts	(40)	(34)	(324)
Total current assets	25,594	23,556	206,853
Property, plant and equipment (Note 6):			
Buildings and structures	2,738	2,847	22,127
Machinery and vehicles	862	909	6,970
Land	289	289	2,340
Construction in progress	227	63	1,837
Other	487	548	3,931
Total property, plant and equipment	4,603	4,656	37,205
Investments and other assets (Note 7):			
Investment securities (Notes 7, 18 and 19)	20,327	14,263	164,282
Deferred tax assets (Note 13)	7	36	59
Intangible assets	349	268	2,820
Other	2,174	1,986	17,568
Allowance for doubtful accounts	(13)	(12)	(100)
Total investments and other assets	22,844	16,541	184,629
Total assets (Note 22)	¥53,041	¥44,753	$428,687

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(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)	¥ 5,116	¥ 5,286	$ 41,348
Electronically recorded payables (Note 18)	3,023	—	24,429
Short-term borrowings and current portion of long-term debt (Notes 8 and 18)	1,784	1,988	14,417
Income taxes payable (Note 13)	652	375	5,274
Accrued expenses	992	3,792	8,022
Accrued directors' bonuses	41	28	335
Accrued employees' bonuses	928	915	7,497
Reserve for losses on order acknowledgements (Note 5)	301	130	2,435
Reserve for ecological countermeasures	65	—	526
Other	1,077	983	8,701
Total current liabilities	13,979	13,497	112,984
Long-term liabilities:			
Long-term debt (Notes 8, 18 and 21)	7,640	6,934	61,747
Deferred tax liabilities (Note 13)	2,619	653	21,167
Liability for retirement benefits (Note 9)	3,726	4,045	30,111
Reserve for ecological countermeasures	—	44	—
Long-term payables	141	146	1,142
Other	41	84	328
Total long-term liabilities	14,167	11,906	114,495
Commitments and contingencies (Note 16)			
Net assets (Notes 10 and 17):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 40,397
Capital surplus	3,178	3,178	25,681
Retained earnings	8,698	7,511	70,300
Treasury stock	(172)	(168)	(1,389)
Total shareholders' equity	16,702	15,519	134,989
Accumulated other comprehensive income:			
Unrealized holding gain on securities	8,317	3,990	67,221
Deferred loss on hedging instruments	—	(26)	—
Translation adjustments	260	166	2,096
Retirement benefits liability adjustments (Note 9)	(384)	(299)	(3,098)
Total accumulated other comprehensive income	8,193	3,831	66,219
Total net assets	24,895	19,350	201,208
Total liabilities and net assets	¥53,041	¥44,753	$428,687

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales (Note 22)	¥39,617	¥34,958	$320,189
Cost of sales (Note 5)	30,335	26,860	245,168
Gross profit	9,282	8,098	75,021
Selling, general and administrative expenses (Note 11)	7,686	7,022	62,120
Operating income (Note 22)	1,596	1,076	12,901
Non-operating income (expenses):			
Interest and dividend income	204	169	1,648
Interest expense	(138)	(182)	(1,118)
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	50	(14)	407
Dividend income on life insurance	8	6	64
Foreign exchange gain (loss)	364	(15)	2,940
Loss on disposal of property, plant and equipment	—	(13)	—
Other income, net	(27)	9	(221)
	461	(40)	3,720
Ordinary income	2,057	1,036	16,621
Special gains (losses), net (Note 12)	(42)	(6)	(338)
Income before income taxes and minority interests	2,015	1,030	16,283
Income taxes (Note 13):			
Current	954	624	7,712
Deferred	(45)	(238)	(366)
	909	386	7,346
Income before minority interests	1,106	644	8,937
Minority interests	—	—	—
Net income	¥ 1,106	¥ 644	$ 8,937

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Income before minority interests	¥1,106	¥ 644	$ 8,937
Other comprehensive income (Note 14):			
Unrealized holding gain on securities	4,327	623	34,974
Deferred loss on hedging instruments	26	(26)	210
Translation adjustments	(11)	14	(91)
Retirement benefits liability adjustments	(85)	—	(682)
Share of other comprehensive income of affiliates accounted for by the equity method	105	167	847
Total other comprehensive income	4,362	778	35,258
Comprehensive income	¥5,468	¥1,422	$44,195
Comprehensive income attributable to:			
Owners of the parent	¥5,468	¥1,422	$44,195
Minority 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, 2013	¥4,998	¥3,178	¥7,156	¥(164)	¥15,168	¥3,367	¥—	¥ (15)	¥ —	¥3,352	¥18,520
Changes during the year											
Cash dividends paid	—	—	(289)	—	(289)	—	—	—	—	—	(289)
Net income	—	—	644	—	644	—	—	—	—	—	644
Purchase of treasury stock	—	—	—	(4)	(4)	—	—	—	—	—	(4)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	623	(26)	181	(299)	479	479
Total changes during the year	—	—	355	(4)	351	623	(26)	181	(299)	479	830
Balance as of May 31, 2014	¥4,998	¥3,178	¥7,511	¥(168)	¥15,519	¥3,990	¥(26)	¥166	¥(299)	¥3,831	¥19,350
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 effect of changes in accounting policies (Note 2)			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
Cash dividends paid	—	—	(290)	—	(290)	—	—	—	—	—	(290)
Net income	—	—	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

(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, 2014	$40,397	$25,681	$60,703	$(1,353)	$125,428	$32,247	$(210)	$1,340	$(2,416)	$30,961	$156,389
Cumulative effect of changes in accounting policies (Note 2)			2,997		2,997						2,997
Restated balance as of June 1, 2014	40,397	25,681	63,700	(1,353)	128,425	32,247	(210)	1,340	(2,416)	30,961	159,386
Cash dividends paid	—	—	(2,337)	—	(2,337)	—	—	—	—	—	(2,337)
Net income	—	—	8,937	—	8,937	—	—	—	—	—	8,937
Purchase of treasury stock	—	—	—	(36)	(36)	—	—	—	—	—	(36)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	34,974	210	756	(682)	35,258	35,258
Total changes during the year	—	—	6,600	(36)	6,564	34,974	210	756	(682)	35,258	41,822
Balance as of May 31, 2015	$40,397	$25,681	$70,300	$(1,389)	$134,989	$67,221	$ —	$2,096	$(3,098)	$66,219	$201,208

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Operating activities			
Income before income taxes and minority interests	¥ 2,015	¥ 1,030	$ 16,283
Depreciation and amortization	882	1,001	7,127
Provision for (reversal of) allowance for doubtful accounts	6	(157)	50
Provision for accrued employees' bonuses	13	143	99
Increase in reserve for ecological countermeasures	21	—	172
Reversal of accrued retirement benefits	—	(3,289)	—
(Decrease) increase in liability for retirement benefits	(106)	3,580	(861)
Interest and dividends income	(204)	(169)	(1,648)
Interest expenses	139	182	1,118
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(1,926)	586	(15,564)
Inventories	737	(430)	5,958
Trade notes and accounts payable	2,765	635	22,349
Reserve for losses on order acknowledgements	171	(68)	1,385
Advances received	(15)	(142)	(118)
Accrued expenses	(2,803)	902	(22,652)
Impairment loss	31	—	248
Other, net	391	384	3,161
Subtotal	2,117	4,188	17,107
Interest and dividends income received	220	169	1,777
Interest expenses paid	(140)	(168)	(1,131)
Income taxes paid	(682)	(568)	(5,511)
Net cash provided by operating activities	1,515	3,621	12,242
Investing activities			
Purchases of property, plant and equipment	(830)	(635)	(6,709)
Purchases of investment securities	(14)	(13)	(108)
Other payments	(76)	(75)	(617)
Other receipts	6	4	51
Other, net	(75)	(34)	(605)
Net cash used in investing activities	(989)	(753)	(7,988)
Financing activities			
Decrease in short-term loans payable	(115)	(2,265)	(929)
Increase in long-term debt	1,500	2,650	12,123
Repayment of long-term debt	(1,073)	(1,172)	(8,672)
Redemption of bonds payable	—	(120)	—
Purchases of treasury stock	(4)	(3)	(36)
Cash dividends paid	(288)	(288)	(2,327)
Other, net	(1)	(1)	(8)
Net cash provided by (used in) financing activities	19	(1,199)	151
Effect of exchange rate change on cash and cash equivalents	28	27	228
Net increase in cash and cash equivalents	573	1,696	4,633
Cash and cash equivalents at beginning of period	2,998	1,302	24,228
Cash and cash equivalents at end of period (Note 20)	¥ 3,571	¥ 2,998	$ 28,861

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, 2015, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 2 (6 and 2 in 2014). 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 minority 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 ¥171 million ($1,385 thousand) and ¥(66) million is included in cost of sales for the years ended May 31, 2015 and 2014, 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 (straight-line method in 2014) 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.

Net retirement benefit obligation at transition is amortized principally over a period of 15 years by the straight-line method.

(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

Accounting standards for business combinations

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10), and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4).

(1) Overview

Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non-controlling interests," and accounting treatment for adjustments to provisional amount during measurement period was also changed.

(2) Scheduled date of adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending May 31, 2016.

(3) Impact of adopting revised accounting standards and guidance

The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

2. Accounting Changes

The Company and its domestic subsidiaries adopted Section 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) effective from June 1, 2014. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed to use a single weighted-average discount rate reflecting the expected timing and amount of benefit payments.

The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at June 1, 2014, in accordance with the transitional treatment provided in Paragraph 37 of Accounting Standard for Retirement Benefits.

As a result, liability for retirement benefits decreased by ¥576 million ($4,657) and retained earnings increased by ¥371 million ($2,997). The effects on operating income, ordinary income and income before income taxes and minority interests were immaterial.

The effect on per share information is described in Note 17.

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 ¥123.73=U.S.$1, the approximate rate of exchange prevailing at May 31, 2015. 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 and 2014 fall 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, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Notes receivable	¥184	¥155	$1,488
Notes payable	20	66	160

5. Inventories

Inventories as of May 31, 2015 and 2014 were as follows:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥1,283	¥1,483	$10,371
Work in process	2,962	3,459	23,942
Raw materials and supplies	2,150	2,159	17,373
	¥6,395	¥7,101	$51,686

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 ¥191 million ($1,541 thousand) and ¥200 million for the years ended May 31, 2015 and 2014, 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, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥172	¥ 18	$1,392
Work in process	21	147	166
	¥193	¥165	$1,558

6. Property, Plant and Equipment

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

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 7,058	¥ 7,076	$ 57,045
Machinery and vehicles	6,793	6,679	54,901
Other	3,273	3,171	26,449
	17,124	16,926	138,395
Accumulated depreciation	(13,037)	(12,623)	(105,367)
	¥ 4,087	¥ 4,303	$ 33,028

Depreciation of property, plant and equipment for the years ended May 31, 2015 and 2014 were as follows:

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
	¥882	¥1,001	$7,127

Accumulated depreciation of property, plant and equipment amounted to ¥13,037 million ($105,367 thousand) and ¥12,623 million as of May 31, 2015 and 2014, respectively.

7. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investment securities" as of May 31, 2015 and 2014 were as follows:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in capital	¥1,174	¥1,034	$9,485

8. Short-Term Borrowings and Long-Term Debt

As of May 31, 2015 and 2014, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥ 990	¥ 915	$ 8,000
Current portion of long-term debt	794	1,073	6,417
	¥1,784	¥1,988	$14,417

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2015 were 1.091% and 1.712%, respectively.

As of May 31, 2015 and 2014, long-term debts were as follows:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2016 through 2020	¥7,640	¥6,934	$61,747

The annual weighted average interest rate applicable to long-term debt as of May 31, 2015 was 1.271%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2016	¥ 794	$ 6,417
2017	352	2,845
2018	4,002	32,345
2019	3,182	25,717
2020 and thereafter	104	840
	¥8,434	$68,164

The assets pledged as collateral for short-term borrowings of ¥1,479 million ($11,952 thousand) and long-term debt of ¥1,440 million ($11,638 thousand) as of May 31, 2015 were as follows:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,713	$13,844
Machinery and vehicles	628	5,072
Other property, plant and equipment	373	3,017
Land	158	1,281
	¥2,872	$23,214

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	¥1,713	$13,844
Machinery and vehicles	628	5,072
Other property, plant and equipment	373	3,017
	¥2,714	$21,933

9. Retirement Benefit Plans

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

Under defined contribution plans and 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, 2015 and 2014 are as follows:

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥4,045	¥4,052	$32,691
Cumulative effect of changes in accounting policies	(576)	—	(4,657)
Restated balance as of June 1	3,469	4,052	28,034
Service cost	257	211	2,079
Interest cost	50	59	406
Actuarial loss	364	5	2,938
Retirement benefits paid	(414)	(282)	(3,346)
Retirement benefit obligation as of May 31	¥3,726	¥4,045	$30,111

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2015 and 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥3,726	¥4,045	$30,111
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,726	4,045	30,111
Liability for retirement benefits	¥3,726	¥4,045	$30,111
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,726	4,045	30,111

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2015 and 2014 are as follows:

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥257	¥211	$2,079
Interest cost	50	59	406
Amortization of actuarial loss	31	44	254
Amortization of prior service cost	(39)	(10)	(318)
Amortization of net retirement benefit obligation at transition	269	270	2,174
Retirement benefit expenses	¥568	¥574	$4,595

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2015 and 2014 are as follows:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Prior service cost	¥ (39)	¥—	$ (318)
Actuarial loss	(332)	—	(2,685)
Unamortized net retirement benefit obligation at transition	269	—	2,174
Total	¥(102)	¥—	$ (829)

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2015 and 2014 are as follows:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized prior service cost	¥ —	¥ (39)	$ —
Unrecognized actuarial loss	567	234	4,582
Unamortized net retirement benefit obligation at transition	—	269	—
Total	¥567	¥464	$4,582

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2015 and 2014 were as follows:

For the Years Ended	May 31, 2015	May 31, 2014
Discount rate	0.4%	1.5%

The amounts of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries were ¥113 million ($914 thousand) and ¥109 million for the years ended May 31, 2015 and 2014, respectively.

10. Net Assets

Information regarding changes in net assets for the years ended May 31, 2015 and 2014 is as follows:

a. Shares issued and outstanding/ Treasury stock

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

For the year ended May 31, 2014

Type of shares	Number of shares as of June 1, 2013	Increase	Decrease	Number of shares as of May 31, 2014
		(Shares)		
Shares issued:				
Common stock	48,675,000	—	—	48,675,000
Treasury stock:				
Common stock	463,566	10,961	—	474,527

Note:
Detail of the increase is as the following:
Increase due to purchase of shares of less than standard unit 10,961 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2015

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, 2014	Common stock	¥290	$2,337	¥6.00	$0.05	May 31, 2014	August 28, 2014

For the year ended May 31, 2014

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, 2013	Common stock	¥289	¥6.00	May 31, 2013	August 28, 2013

2) Dividends with the cut-off date in the year ended May 31, 2015 and the effective date in the year ending May 31, 2016

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 27, 2015	Common stock	¥289	$2,337	Retained earnings	¥6.00	$0.05	May 31, 2015	August 28, 2015

11. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2015 and 2014 were as follows:

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,882	¥1,849	$15,211
Provision for accrued directors' bonuses	41	28	335
Provision for accrued employees' bonuses	397	389	3,205
Retirement benefit expenses	313	317	2,532
Provision for allowance for doubtful accounts	6	(21)	49
Research and development expenses	898	666	7,258

12. Special Gains (Losses), net

The components of "Special gains (losses), net" for the years ended May 31, 2015 and 2014 were as follows:

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of intangible assets (land leasehold right)	¥ 13	¥ —	$ 104
Special losses:			
Impairment loss (Note)	(31)	—	(248)
Provision of reserve for ecological countermeasures	(24)		(194)
Loss on liquidation of an affiliate	—	(6)	—
Total	¥(42)	¥ (6)	$(338)

Note: The Group recognized an impairment loss on the following assets for the year ended May 31, 2015:

Location	Use	Type	(Millions of yen)	(Thousands of U.S. dollars)
Hiratsuka Plant of the Company (Hiratsuka city, Kanagawa Pref.)	Plant	Buildings and structures	¥31	$248

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 ($248 thousand) 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 35.6% and 38.0% for the years ended May 31, 2015 and 2014, respectively. Income taxes of a foreign consolidated subsidiary are based generally on the tax rates applicable in the country of incorporation.

The information for the year ended May 31, 2014 is omitted since the difference between the effective statutory tax rate and effective tax rate is less than 5% of the effective statutory tax rate.

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

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

The significant components of deferred tax assets and liabilities as of May 31, 2015 and 2014 were as follows:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 193	¥ 140	$ 1,557
Liability for retirement benefits	1,209	1,444	9,771
Accrued employees' bonuses	309	328	2,501
Reserve for losses on order acknowledgements	100	36	805
Other	932	854	7,532
Total gross deferred tax assets	2,743	2,802	22,166
Valuation allowance	(774)	(674)	(6,252)
Total deferred tax assets	1,969	2,128	15,914
Deferred tax liabilities:			
Unrealized holding gain on securities	(3,919)	(2,196)	(31,674)
Other	(2)	(4)	(13)
Total deferred tax liabilities	(3,921)	(2,200)	(31,687)
Net deferred tax liabilities	¥(1,952)	¥ (72)	$(15,773)

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. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was reduced from 35.6% to 33.1% for the temporary differences expected to be realized or settled in the year beginning June 1, 2015 and to 32.3% for the temporary differences expected to be realized or settled in the years beginning on and after June 1, 2016. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax liabilities, net of deferred tax assets, and retirement benefits liability adjustments by ¥269 million ($2,173 thousand) and ¥18 million ($149 thousand), respectively and increase unrealized holding gain on securities and income taxes – deferred by ¥447 million ($3,615 thousand) and ¥160 million ($1,293 thousand), respectively.

14. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended May 31, 2015 and 2014:

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain on securities:			
Amount arising during the year	¥6,050	¥990	$48,899
Amount before tax effect	6,050	990	48,899
Tax effect	(1,723)	(367)	(13,925)
Unrealized holding gain on securities	4,327	623	34,974
Deferred gains or losses on hedging instruments:			
Amount arising during the year	40	(40)	326
Amount before tax effect	40	(40)	326
Tax effect	(14)	14	(116)
Deferred gains or losses on hedging instruments	26	(26)	210
Translation adjustments			
Amount arising during the year	(11)	14	(91)
Amount before tax effect	(11)	14	(91)
Translation adjustments	(11)	14	(91)
Retirement benefits liability adjustments			
Amount arising during the year	(364)	—	(2,939)
Reclassification adjustments for gains and losses included in net income	261	—	2,110
Amount before tax effect	(103)	—	(829)
Tax effect	18	—	147
Retirement benefits liability adjustments	(85)	—	(682)
Share of other comprehensive income of affiliates accounted for by the equity method			
Amount arising during the year	105	167	847
Share of other comprehensive income of affiliates accounted for by the equity method	105	167	847
Total other comprehensive income	¥4,362	¥778	$35,258

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 March 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, 2015 and 2014, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Hunan Xiangyang Electric Co., Ltd.	¥196	¥138	$1,580
Changzhou Ruiyang Transmission Technology Co., Ltd.	200	185	1,620

17. Amounts Per Share

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥22.94	¥13.37	$0.19

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Yen)		(U.S. dollars)
Net assets	¥516.61	¥401.45	$4.18

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, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥1,106	¥644	$8,937
Net income not attributable to common shareholders	—	—	—
Net income attributable to common stock	1,106	644	8,937
	(Thousand shares)		
Average number of shares of common stock during the year	48,195	48,206	

As noted in Note 2, the Company applied the Accounting Standard for Retirement Benefits, etc. and followed the provisional treatment set out in Paragraph 37 of the Accounting Standard for Retirement Benefits. As a result, net assets per share increased by ¥7.70 ($0.06) as of May 31, 2015. The effect on net income per share for the year ended May 31, 2015 is immaterial.

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—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, 2015 and 2014 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, 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	14,839	14,839	—
3) Investment securities	19,685	19,685	—
Total assets	¥38,095	¥38,095	¥ —
Liabilities			
4) Trade notes and accounts payable	¥ 5,116	¥ 5,116	¥ —
5) Electronically recorded payables	3,023	3,023	
6) Short-term borrowings	990	990	—
7) Long-term debt	8,434	8,484	(50)
Total liabilities	¥17,563	¥17,613	¥(50)
8) Derivative transactions*	¥ (22)	¥ (22)	¥ —

As of May 31, 2015	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
1) Cash on hand and in banks	$ 28,861	$ 28,861	$ —
2) Trade notes and accounts receivable	119,930	119,930	—
3) Investment securities	159,095	159,095	—
Total assets	$307,886	$307,886	$ —
Liabilities			
4) Trade notes and accounts payable	$ 41,348	$ 41,348	$ —
5) Electronically recorded payables	24,429	24,429	—
6) Short-term borrowings	8,000	8,000	—
7) Long-term debt	68,164	68,571	(407)
Total liabilities	$141,941	$142,348	$(407)
8) Derivative transactions*	$ (181)	$ (181)	$ —

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

As of May 31, 2014	Carrying value	Fair value	Difference
	(Millions of yen)		
Assets			
1) Cash on hand and in banks	¥ 2,998	¥ 2,998	¥ —
2) Trade notes and accounts receivable	12,806	12,806	—
3) Investment securities	13,621	13,621	—
Total assets	¥29,425	¥29,425	¥ —
Liabilities			
4) Trade notes and accounts payable	¥ 5,286	¥ 5,286	¥ —
5) Short-term borrowings	915	915	—
6) Bonds payable	—	—	—
7) Long-term debt	8,007	8,020	(13)
Total liabilities	¥14,208	¥14,221	¥(13)
8) Derivative transactions	¥ (40)	¥ (40)	¥ —

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 and trade notes and accounts receivable

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, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥642	¥642	$5,187

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, 2015 and 2014 are as follows:

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	13,145	1,694	—	—
	¥16,713	¥1,694	¥—	¥—

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
	(Thousands of U.S. dollars)			
Cash on hand and in banks	$ 28,836	$ —	$—	$—
Trade notes and accounts receivable	106,241	13,689	—	—
	$135,077	$13,689	$—	$—

As of May 31, 2014	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	¥ 2,995	¥ —	¥—	¥—
Trade notes and accounts receivable	10,933	1,873	—	—
	¥13,928	¥1,873	¥—	¥—

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

19. Securities

As of May 31, 2015

Information regarding securities classified as available-for-sale securities

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

As of May 31, 2015	Carrying value	Acquisition cost	Unrealized Gain (Loss)
	(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	$159,095	$60,200	$98,895
Subtotal	$159,095	$60,200	$98,895
Securities whose acquisition cost exceeds their carrying value:			
Stock	$ —	$ —	$ —
Subtotal	$ —	$ —	$ —
Total	$159,095	$60,200	$98,895

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. 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.

As of May 31, 2014

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2014	Carrying value	Acquisition cost	Unrealized Gain (Loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥13,228	¥6,962	¥6,266
Subtotal	¥13,228	¥6,962	¥6,266
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 393	¥ 405	¥ (12)
Subtotal	¥ 393	¥ 405	¥ (12)
Total	¥13,621	¥7,367	¥6,254

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. 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.

20. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2015 and 2014 are reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥3,571	¥2,998	$28,861
Cash and cash equivalents	¥3,571	¥2,998	$28,861

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, 2015	Contract amount	Maturing after one year	Fair value	Unrealized Gains (losses)
	(Millions of yen)			
Forward foreign exchange contracts:				
Sold:				
USD	¥596	¥—	¥(22)	¥(22)

As of May 31, 2015	Contract amount	Maturing after one year	Fair value	Unrealized Gains (losses)
	(Thousands of U.S. dollars)			
Forward foreign exchange contracts:				
Sold:				
USD	$4,817	$—	$(181)	$(181)

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

As of May 31, 2014, there were no currency-related derivatives to which hedge accounting is not applied.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

As of May 31, 2015	Major hedged item	Notional amount		Fair value
		Contract amount	Maturing after one year	
		(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

As of May 31, 2015	Major hedged item	Notional amount		Fair value
		Contract amount	Maturing after one year	
		(Thousands of U.S. dollars)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	$63,760	$59,484	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, 2014	Major hedged item	Notional amount		Fair value
		Contract amount	Maturing after one year	
		(Millions of yen)		
Interest rate swaps accounted for by the normal method:				
Receive/floating and pay/fixed	Long-term debt	¥1,500	¥1,500	¥(40)
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥7,152	¥6,389	Note 2

Notes: 1. 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. 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.

As noted in Note 2 "Accounting Changes," the methods for calculating the retirement benefit obligation and service cost have been revised effective from the year ended May 31, 2015 and accordingly, the methods for calculating benefit obligation and service cost of the reportable segments have been changed as well. The effect on segment profit of each reportable segment was immaterial.

	For the year ended May 31, 2015						
	Reportable segments						
	Transportation Systems	Industrial Systems	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

	For the year ended May 31, 2015						
	Reportable segments						
	Transportation Systems	Industrial Systems	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	$217,165	$93,859	$9,116	$ 49	$320,189	$ —	$320,189
Inter-segment sales and transfers	333	17	—	4,753	5,103	(5,103)	—
	217,498	93,876	9,116	4,802	325,292	(5,103)	320,189
Segment profit	$ 25,196	$ 6,856	$ 576	$ 478	$ 33,106	$(20,205)	$ 12,901
Segment assets	$148,188	$66,071	$6,470	$4,745	$225,474	$203,213	$428,687
Other items:							
Depreciation	$ 4,415	$ 1,302	$ 208	$ 9	$ 5,934	$ 1,193	$ 7,127
Capital expenditures	$ 4,478	$ 1,660	$ 176	$ 6	$ 6,320	$ 1,513	$ 7,833

	For the year ended May 31, 2014						
	Reportable segments						
	Transportation Systems	Industrial Systems	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	¥22,198	¥10,925	¥1,829	¥ 6	¥34,958	¥ —	¥34,958
Inter-segment sales and transfers	35	1	—	490	526	(526)	—
	22,233	10,926	1,829	496	35,484	(526)	34,958
Segment profit	¥ 2,374	¥ 537	¥ 348	¥ 41	¥ 3,300	¥(2,224)	¥ 1,076
Segment assets	¥17,199	¥ 7,923	¥ 731	¥525	¥26,378	¥18,375	¥44,753
Other items:							
Depreciation	¥ 594	¥ 208	¥ 24	¥ 0	¥ 826	¥ 175	¥ 1,001
Capital expenditures	¥ 392	¥ 121	¥ 17	¥ 2	¥ 532	¥ 80	¥ 612

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, 2015 and 2014 are summarized as follows:

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥24,547	¥25,399	$198,395
China	11,634	7,119	94,028
Other	3,436	2,440	27,766
Consolidated	¥39,617	¥34,958	$320,189

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

Major customer information

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

Customer	Segment	(Millions of yen)	(Thousands of U.S. dollars)
Meiji Sangyo Co., Ltd.	Transportation Systems	¥5,489	$44,363

Major customer information for the year ended May 31, 2014 is omitted since there was no customer to whom sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

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, 2015 and 2014 is summarized as follows:

For the Years Ended	May 31, 2015	May 31, 2014	May 31, 2015
	(Millions of yen)		(Thousands of U.S. dollars)
Transportation Systems	¥31	¥—	$248
Industrial Systems	—	—	—
Information Equipment Systems	—	—	—
Reportable segment total	31	—	248
Other	—	—	—
Adjustments	—	—	—
Consolidated	¥31	¥—	$248

23. Significant Subsequent Events

There were no significant subsequent events to be noted.

Report of Independent Auditors

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, 2015, 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, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

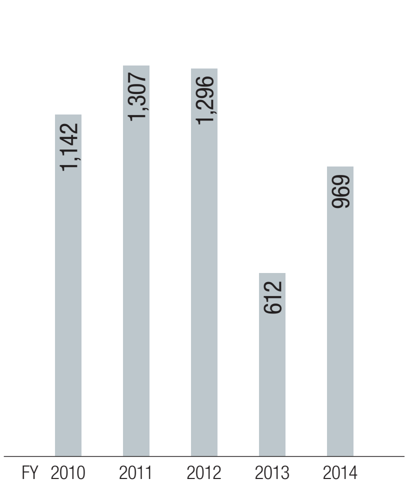
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

August 28, 2015 Ernst & Young ShinNihon LLC
Tokyo, Japan

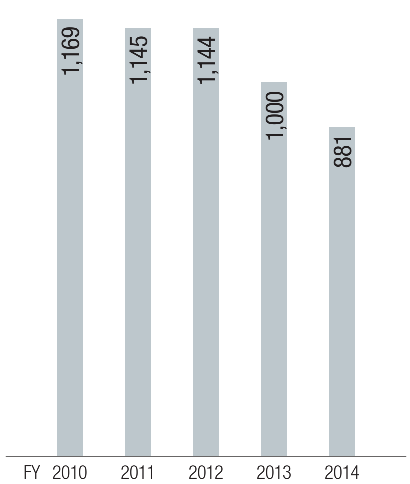
A member firm of Ernst & Young Global Limited

Reference Data for Management Indices

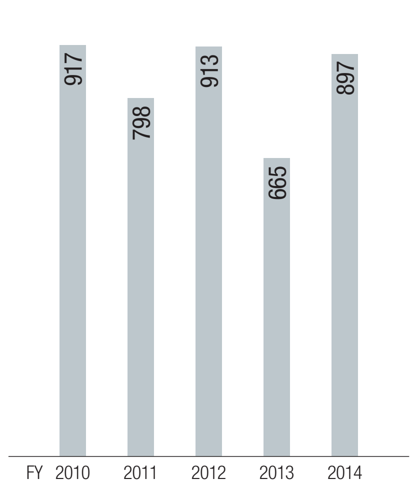
Capital investment (Unit: Million yen)



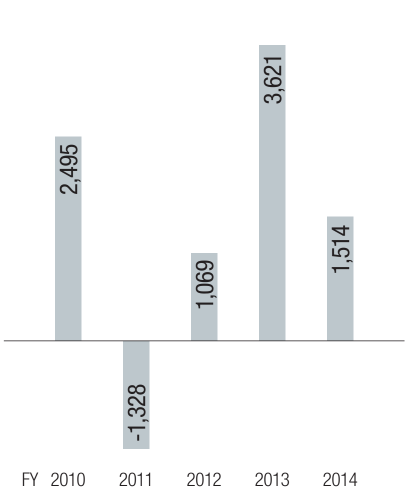
Depreciation and amortization (Unit: Million yen)



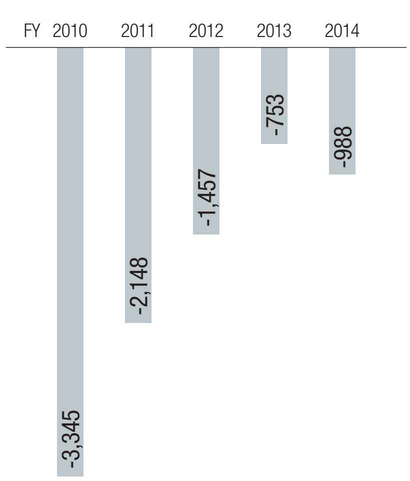
Research and development costs (Unit: Million yen)



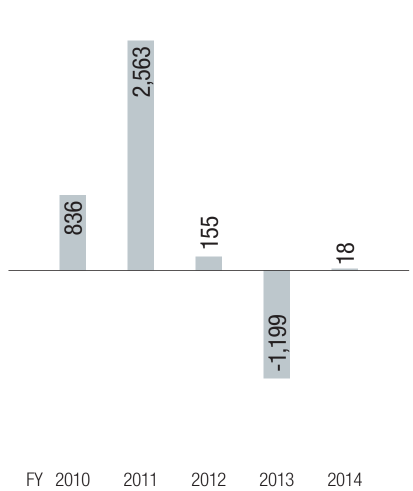
Cash flows from operating activities (Unit: Million yen)



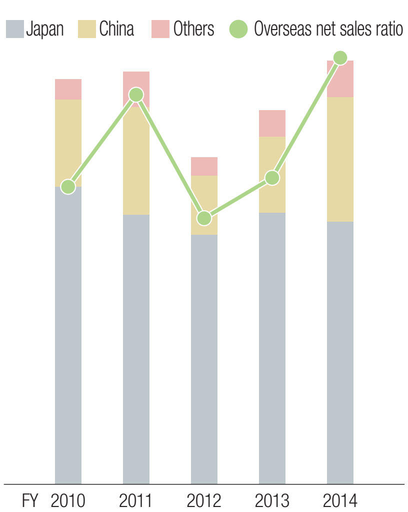
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	FY 2010	2011	2012	2013	2014
Japan	27,835	25,200	23,340	25,398	24,547
China*	8,110	10,081	5,495	7,118	11,634
Others	1,947	3,289	1,738	2,440	3,435
Total	37,893	38,570	30,575	34,957	39,617
Overseas net sales ratio	26.5%	34.7%	23.7%	27.3%	38.0%

* Classified under “Asia” for fiscal 2010.