Financial Report

Financial Report

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Financial Review

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2013 (from June 1, 2013 to May 31, 2014) are as follows:

Results of Operation

Orders received YoY **+25.4%**	Orders received increased 25.4% compared with the previous fiscal year to 42,568 million yen. This overall result reflected a surge in orders received in the Transportation Systems segment both in and outside Japan.
Net sales YoY **+14.3%**	Net sales increased 14.3% year on year to 34,957 million yen. Despite a slight decrease in the Industrial Systems segment, this overall result reflected a significant surge in the Transportation Systems segment both in and outside Japan, and a slight increase in the Information Equipment Systems segment.
Profit/Loss Net Income YoY **-10.8%**	From a profit perspective, operating income increased 575 million yen compared with the previous fiscal year to 1,076 million yen, mainly due to the increase in net sales and reductions in expenses. Ordinary income decreased 115 million yen to 1,035 million yen, which was partly attributable to foreign exchange losses, albeit small. Net income declined 78 million yen to 644 million yen.

Financial Position

Assets Total Assets **44,752 million yen**	Total assets as of May 31, 2014 stood at 44,752 million yen, an increase of 2,388 million yen compared with the end of the previous fiscal year. Despite a decrease in trade notes and accounts receivable of 578 million yen, the increase in total assets was largely attributable to increases in cash and cash equivalents of 1,695 million yen, inventories of 436 million yen, and investment securities of 944 million yen.
Liabilities Total liabilities **25,402 million yen**	Total liabilities amounted to 25,402 million yen, an increase of 1,558 million yen compared with the previous fiscal year end. While short-term debt contracted 2,308 million yen, this upswing in total liabilities reflected a 1,521 million yen increase in long-term debt and a 909 million yen increase in accrued expenses as well as an increase of 755 million yen in net defined benefit liability (deduction of decrease in the provision for employees' retirement benefits) as a result of application of the revised retirement benefits accounting standards.
Net Assets Total net assets **19,350 million yen**	Net assets as of May 31, 2014 stood at 19,350 million yen, an increase of 830 million yen compared with the previous fiscal year. This increase was largely attributable to a 355 million yen increase in retained earnings and a 622 million yen increase in unrealized holding gain on available-for-sale securities despite a decrease of 298 million yen from remeasurements of defined benefit plans.

Cash Flows

Cash flow from operating activities Net cash provided by operating activities **3,621 million yen**	Net cash provided by operating activities amounted to 3,621 million yen. Apart from accrued expenses, major cash outflows were an increase of 1,537 million yen in accrued expenses and trade notes and accounts payable. Principal cash inflows were income before income taxes and minority interests at 1,030 million yen and depreciation and amortization at 1,000 million yen.
Cash flow from investing activities Net cash used in investing activities **753 million yen**	Net cash used in investing activities totaled 753 million yen for the fiscal year under review and mainly comprised funds used for the purchases of property, plant and equipment at 635 million yen.
Cash flow from financing activities Net cash used in financing activities **1,199 million yen**	Net cash used in financing activities was 1,199 million yen. The principal cash inflow was an increase in long-term debt at 2,650 million yen, while major cash outflows were a decrease in short-term loans payable at 2,265 million yen and repayment of long-term debt at 1,172 million yen.

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Assets			
Current assets:			
Cash on hand and in banks (Notes 19 and 21)	¥ 2,998	¥ 1,302	$ 29,488
Trade notes and accounts receivable (Notes 4 and 19)	12,806	13,384	125,964
Inventories (Note 5)	7,101	6,665	69,855
Deferred tax assets (Note 14)	545	453	5,360
Other current assets	140	179	1,376
Allowance for doubtful accounts	(34)	(40)	(335)
Total current assets	23,556	21,943	231,708
Property, plant and equipment (Note 6):			
Buildings and structures	2,847	2,985	28,007
Machinery and vehicles	909	1,109	8,938
Land	289	289	2,848
Construction in progress	63	81	623
Other	548	548	5,386
Total property, plant and equipment	4,656	5,012	45,802
Investments and other assets (Note 7):			
Investment securities (Notes 7, 19 and 20)	14,263	13,318	140,301
Deferred tax assets (Note 14)	36	39	352
Intangible assets	268	322	2,636
Other	1,986	1,893	19,541
Allowance for doubtful accounts	(12)	(163)	(121)
Total investments and other assets	16,541	15,409	162,709
Total assets	¥44,753	¥42,364	$440,219

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Notes 4 and 19)	¥ 5,286	¥ 4,647	$ 51,993
Short-term borrowings and current portion of long-term debt (Notes 8 and 19)	1,988	4,296	19,555
Current portion of bonds payable (Note 9)	—	120	—
Income taxes payable (Note 14)	375	319	3,685
Accrued expenses	3,792	2,883	37,302
Accrued directors' bonuses	28	17	279
Accrued employees' bonuses	915	773	9,004
Reserve for losses on order acknowledgements (Note 5)	130	196	1,278
Other	983	1,029	9,666
Total current liabilities	13,497	14,280	132,762
Long-term liabilities:			
Long-term debt (Notes 8, 19 and 22)	6,934	5,413	68,208
Accrued retirement benefits (Note 10)	—	3,289	—
Deferred tax liabilities (Note 14)	653	615	6,424
Reserve for ecological countermeasures	44	44	431
Liability for retirement benefits (Note 10)	4,045	—	39,788
Long-term payables	146	165	1,433
Other	84	38	832
Total long-term liabilities	11,906	9,564	117,116
Commitments and contingencies (Note 17)			
Net assets (Notes 11 and 18):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 49,168
Capital surplus	3,178	3,178	31,256
Retained earnings	7,511	7,156	73,882
Treasury stock	(168)	(164)	(1,647)
Total shareholders' equity	15,519	15,168	152,659
Accumulated other comprehensive income:			
Unrealized holding gain on securities	3,990	3,367	39,247
Deferred loss on hedging instruments	(26)	—	(256)
Translation adjustments	166	(15)	1,631
Retirement benefits liability adjustments (Note 10)	(299)	—	(2,940)
Total accumulated other comprehensive income	3,831	3,352	37,682
Total net assets	19,350	18,520	190,341
Total liabilities and net assets	¥44,753	¥42,364	$440,219

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales (Note 23)	¥34,958	¥30,575	$343,869
Cost of sales (Note 5)	26,860	22,879	264,214
Gross profit	8,098	7,696	79,655
Selling, general and administrative expenses (Note 12)	7,022	7,195	69,069
Operating income	1,076	501	10,586
Non-operating income (expenses):			
Interest and dividend income	169	160	1,660
Interest expense	(182)	(215)	(1,790)
Equity in losses of unconsolidated subsidiaries and affiliates	(14)	(16)	(140)
Dividend income on life insurance	6	91	57
Foreign exchange gain (loss)	(15)	630	(144)
Loss on disposal of property, plant and equipment	(13)	(16)	(131)
Other income, net	9	16	93
	(40)	650	(395)
Ordinary income	1,036	1,151	10,191
Special gains (losses), net (Note 13)	(6)	122	(53)
Income before income taxes and minority interests	1,030	1,273	10,138
Income taxes (Note 14):			
Current	624	496	6,139
Deferred	(238)	55	(2,340)
	386	551	3,799
Income before minority interests	644	722	6,339
Minority interests	—	—	—
Net income	¥ 644	¥ 722	$ 6,339

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Income before minority interests	¥ 644	¥ 722	$ 6,339
Other comprehensive income (Note 15):			
Unrealized holding gain on securities	623	2,951	6,127
Deferred loss on hedging instruments	(26)	—	(256)
Translation adjustments	14	27	138
Share of other comprehensive income of affiliates accounted for by the equity method	167	61	1,637
Total other comprehensive income	778	3,039	7,646
Comprehensive income	¥1,422	¥3,761	$13,985
Comprehensive income attributable to:			
Owners of the parent	¥1,422	¥3,761	$13,985
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, 2012	¥4,998	¥3,178	¥6,722	¥(162)	¥14,736	¥ 415	—	¥(102)	—	¥ 313	¥15,049
Changes during the year											
Cash dividends paid	—	—	(288)	—	(288)	—	—	—	—	—	(288)
Net income	—	—	722	—	722	—	—	—	—	—	722
Purchase of treasury stock	—	—	—	(2)	(2)	—	—	—	—	—	(2)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	2,952	—	87	—	3,039	3,039
Total changes during the year	—	—	434	(2)	432	2,952	—	87	—	3,039	3,471
Balance as of May 31, 2013	¥4,998	¥3,178	¥7,156	¥(164)	¥15,168	¥3,367	—	¥ (15)	—	¥3,352	¥18,520
Balance as of June 1, 2013	¥4,998	¥3,178	¥7,156	¥(164)	¥15,168	¥3,367	—	¥ (15)	—	¥3,352	¥18,520
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

(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, 2013	$49,168	$31,256	$70,388	$(1,613)	$149,199	$33,120	—	$ (144)	—	$32,976	$182,175
Cash dividends paid	—	—	(2,845)	—	(2,845)	—	—	—	—	—	(2,845)
Net income	—	—	6,339	—	6,339	—	—	—	—	—	6,339
Purchase of treasury stock	—	—	—	(34)	(34)	—	—	—	—	—	(34)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	6,127	(256)	1,775	(2,940)	4,706	4,706
Total changes during the year	—	—	3,494	(34)	3,460	6,127	(256)	1,775	(2,940)	4,706	8,166
Balance as of May 31, 2014	$49,168	$31,256	$73,882	$(1,647)	$152,659	$39,247	$(256)	$1,631	$(2,940)	$37,682	$190,341

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3
Operating activities			
Income before income taxes and minority interests	¥ 1,030	¥ 1,273	$ 10,138
Depreciation and amortization	1,001	1,144	9,843
(Reversal of) provision for allowance for doubtful accounts	(157)	158	(1,544)
Provision for (reversal of) accrued employees' bonuses	143	(118)	1,400
(Reversal of) provision for accrued retirement benefits	(3,289)	153	(32,355)
Increase in liability for retirement benefits	3,580	—	35,219
Interest and dividends income	(169)	(160)	(1,660)
Interest expenses	182	215	1,790
Gain on sales of investment securities	—	(72)	—
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	586	231	5,766
Inventories	(430)	(1,123)	(4,231)
Trade notes and accounts payable	635	100	6,249
Reserve for losses on order acknowledgements	(68)	(6)	(671)
Advances received	(142)	201	(1,399)
Accrued expenses	902	(29)	8,876
Other, net	384	(243)	3,778
Subtotal	4,188	1,724	41,199
Interest and dividends income received	169	172	1,660
Interest expenses paid	(168)	(211)	(1,654)
Income taxes paid	(568)	(615)	(5,583)
Net cash provided by operating activities	3,621	1,070	35,622
Investing activities			
Purchases of property, plant and equipment	(635)	(1,426)	(6,251)
Purchases of investment securities	(13)	(13)	(131)
Proceeds from sales of investment securities	—	127	—
Other payments	(75)	(178)	(734)
Other receipts	4	124	40
Other, net	(34)	(92)	(338)
Net cash used in investing activities	(753)	(1,458)	(7,414)
Financing activities			
Decrease in short-term loans payable	(2,265)	(2,000)	(22,281)
Increase in long-term debt	2,650	3,800	26,067
Repayment of long-term debt	(1,172)	(1,196)	(11,529)
Redemption of bonds payable	(120)	(160)	(1,180)
Purchases of treasury stock	(3)	(1)	(34)
Cash dividends paid	(288)	(288)	(2,830)
Other, net	(1)	(0)	(9)
Net cash (used in) provided by financing activities	(1,199)	155	(11,796)
Effect of exchange rate change on cash and cash equivalents	27	46	264
Net increase (decrease) in cash and cash equivalents	1,696	(187)	16,676
Cash and cash equivalents at beginning of period	1,302	1,489	12,812
Cash and cash equivalents at end of period (Note 21)	¥ 2,998	¥ 1,302	$ 29,488

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, 2014, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 2 (6 and 3 in 2013). 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

Non-cancellable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets to the lessee are accounted for as finance leases. Leased assets capitalized under the finance lease arrangements 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 ¥(66) million ($(650) thousand) and ¥(2) million is included in cost of sales for the years ended May 31, 2014 and 2013, 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 straight-line 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 following 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

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and other related practical guidances, followed by partial amendments from time to time through 2009.

(1) Overview

The standard provides guidance for the accounting for unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for the retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

(2) Scheduled date of adoption

The revised accounting standard and guidance were adopted as of the end of the fiscal year ended May 31, 2014. However, revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending May 31, 2015.

(3) Impact of adopting revised accounting standard and guidance

The Company is currently evaluating what effect these modifications will have on its consolidated financial statements.

2. Accounting Changes

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012; hereinafter the "Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012; hereinafter the "Guidance") (excluding provisions described in the main clause of Paragraph 35 of the Standard and in the main clause of Paragraph 67 of the Guidance) as of the end of the fiscal year ended May 31, 2014. Accordingly, retirement benefit obligation has been changed to the method where it is recorded as liability for retirement benefits and unrecognized actuarial differences and unrecognized prior service cost are recorded under liability for retirement benefits. Concerning the application of the Standard, in accordance to the provisional treatments set out in Paragraph 37 of the Standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits liability adjustments included in accumulated other comprehensive income. As result of this change, liability for retirement benefits was recognized in the amount of ¥4,045 million ($39,788 thousand) and accumulated other comprehensive income decreased by ¥299 million ($2,940 thousand) as of May 31, 2014. The effect on per share information is described in Note 18.

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 ¥101.66=U.S.$1, the approximate rate of exchange prevailing at May 31, 2014. 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, 2014 falls 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, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Notes receivable	¥155	¥—	$1,520
Notes payable	66	—	652

5. Inventories

Inventories as of May 31, 2014 and 2013 were as follows:

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥1,483	¥1,465	$14,593
Work in process	3,459	3,082	34,027
Raw materials and supplies	2,159	2,118	21,235
	¥7,101	¥6,665	$69,855

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 ¥200 million ($1,968 thousand) and ¥55 million for the years ended May 31, 2014 and 2013, 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, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥ 18	¥ 8	$ 176
Work in process	147	30	1,447
	¥165	¥38	$1,623

6. Property, Plant and Equipment

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

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 7,076	¥ 6,973	$ 69,600
Machinery and vehicles	6,679	6,757	65,700
Other	3,171	3,025	31,198
	16,926	16,755	166,498
Accumulated depreciation	(12,623)	(12,113)	(124,167)
	¥ 4,303	¥ 4,642	$ 42,331

Depreciation of property, plant and equipment for the years ended May 31, 2014 and 2013 were as follows:

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
	¥1,001	¥1,144	$9,843

Accumulated depreciation of property, plant and equipment amounted to ¥12,623 million ($124,167 thousand) and ¥12,113 million as of May 31, 2014 and 2013, respectively.

The following amount of deferred gain was directly deducted from the acquisition costs of the related property, plant and equipment acquired during the year ended May 31, 2013:

Buildings and structures: ¥29 million
Other: 6 million
No deferred gain was recorded as of May 31, 2014.

7. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in “Investment securities” as of May 31, 2014 and 2013 were as follows:

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Equity securities	¥ —	¥ 59	$ —
Investments in capital	1,034	856	10,175

8. Short-Term Borrowings and Long-Term Debt

As of May 31, 2014 and 2013, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥ 915	¥3,180	$ 9,000
Current portion of long-term debt	1,073	1,116	10,555
	¥1,988	¥4,296	$19,555

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2014 were 1.125% and 1.847%, respectively.

As of May 31, 2014 and 2013, long-term debts were as follows:

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2015 through 2020	¥6,934	¥5,413	$68,208

The annual weighted average interest rate applicable to long-term debt as of May 31, 2014 was 1.312%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2015	¥1,073	$10,555
2016	794	7,810
2017	352	3,463
2018	4,002	39,367
2019 and thereafter	1,786	17,568
	¥8,007	$78,763

The assets pledged as collateral for short-term borrowings of ¥1,638 million ($16,112 thousand) and long-term debt of ¥1,929 million ($18,975 thousand) as of May 31, 2014 were as follows:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,731	$17,023
Machinery and vehicles	711	6,996
Other property, plant and equipment	399	3,923
Land	158	1,559
	¥2,999	$29,501

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	¥1,731	$17,023
Machinery and vehicles	711	6,996
Other property, plant and equipment	399	3,923
	¥2,841	$27,942

9. Bonds Payable

As of May 31, 2014 and 2013, bonds payable consisted of the following:

As of		May 31, 2014	May 31, 2013	May 31, 2014
Issued by:		(Millions of yen)		(Thousands of U.S. dollars)
The Company	5th unsecured bonds issued on Mar. 25, 2009 at 1.12%, due on Mar. 25, 2014	¥—	¥120	$—
		¥—	¥120	$—

10. Retirement Benefit Plans

For the year ended May 31, 2014

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 year ended May 31, 2014 are as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1, 2013	¥4,052	$39,860
Service cost	211	2,079
Interest cost	59	581
Actuarial loss	5	48
Retirement benefits paid	(282)	(2,780)
Retirement benefit obligation as of May 31, 2014	¥4,045	$39,788

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

	(Millions of yen)	(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,045	$39,788
Net liability (asset) for retirement benefits on the consolidated balance sheet	4,045	39,788
Liability for retirement benefits	¥4,045	$39,788
Net liability (asset) for retirement benefits on the consolidated balance sheet	4,045	39,788

Notes: The plan adopting the simplified method is included.

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

	(Millions of yen)	(Thousands of U.S. dollars)
Service cost	¥211	$2,079
Interest cost	59	581
Amortization of actuarial loss	44	430
Amortization of prior service cost	(10)	(99)
Amortization of net retirement benefit obligation at transition	270	2,653
Retirement benefit expenses	¥574	$5,644

Retirement benefits liability adjustments (before tax effect) as of May 31, 2014 are as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Unrecognized prior service cost	¥ (39)	$ (386)
Unrecognized actuarial loss	234	2,309
Unamortized net retirement benefit obligation at transition	269	2,646
Total	¥464	$4,569

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

Discount rate: 1.5%

The amount of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries was ¥109 million ($1,074 thousand) for the year ended May 31, 2014.

For the year ended May 31, 2013

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

The following table sets forth the components of the amounts recognized in the consolidated balance sheets as of May 31, 2013 for the Company and its consolidated subsidiaries' benefit plans:

	(Millions of yen)
Retirement benefit obligation	¥(4,052)
Unrecognized net retirement benefit obligation at transition	539
Unrecognized actuarial loss	273
Unrecognized prior service cost	(49)
Accrued retirement benefits	¥(3,289)

Consolidated subsidiaries adopted a simplified method in the calculation of their retirement benefit obligation.

The components of retirement benefit expenses for the year ended May 31, 2013 are outlined as follows:

	(Millions of yen)
Service cost	¥229
Interest cost	61
Amortization of net retirement benefit obligation at transition	270
Amortization of actuarial loss	44
Amortization of prior service cost	(10)
Other	112
Retirement benefit expenses	¥706

Notes: 1. Retirement benefit expenses for consolidated subsidiaries adopting the simplified method are included in "Service cost."
2. "Other" represents contributions paid to defined contribution pension plans.

The assumptions used in accounting for the above plans for the year ended May 31, 2013 were as follows:

Inter-period allocation method of estimated retirement benefits	Straight-line method
Discount rate	1.5%
Amortization period of actuarial loss	10 years
Amortization period of prior service cost	10 years
Amortization period of net retirement benefit obligation at transition	15 years

11. Net Assets

Information regarding changes in net assets for the years ended May 31, 2014 and 2013 are as follows:

a. Shares issued and outstanding/ Treasury stock

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

For the year ended May 31, 2013

Type of shares	Number of shares as of June 1, 2012	Increase	Decrease	Number of shares as of May 31, 2013
		(Shares)		
Shares issued:				
Common stock	48,675,000	—	—	48,675,000
Treasury stock:				
Common stock	458,570	4,996	—	463,566

Note:
Detail of the increase is as the following:
Increase due to purchase of shares of less than standard unit 4,996 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2014

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, 2013	Common stock	¥289	$2,845	¥6.00	$0.06	May 31, 2013	August 28, 2013

For the year ended May 31, 2013

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 28, 2012	Common stock	¥289	¥6.00	May 31, 2012	August 29, 2012

2) Dividends with the cut-off date in the year ended May 31, 2014 and the effective date in the year ending May 31, 2015

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, 2014	Common stock	¥289	$2,845	Retained earnings	¥6.00	$0.06	May 31, 2014	August 28, 2014

12. Selling, General and Administrative Expenses

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,849	¥1,760	$18,189
Provision for accrued directors' bonuses	28	17	279
Provision for accrued employees' bonuses	389	320	3,828
Retirement benefit expenses	317	347	3,121
Provision for allowance for doubtful accounts	(21)	165	(209)
Research and development expenses	666	917	6,550

13. Special Gains (Losses), net

The components of "Special Gains (Losses), net" for the years ended May 31, 2014 and 2013 were as follows:

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥—	¥ 72	$ —
Refund of temporary exceptional enterprise tax	—	65	—
Special losses:			
Office relocation costs	—	(15)	—
Loss on liquidation of an affiliate	(6)	—	(53)
Total	¥ (6)	¥122	$(53)

14. 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 38.0% for the years ended May 31, 2014 and 2013. 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, 2013 was as follows:

For the Year Ended	May 31, 2013
Effective statutory tax rate	38.0%
Effect of :	
Non-deductible expenses for income tax purpose	1.3
Non-taxable income such as dividends income, etc.	(1.7)
Per capita inhabitant tax	2.1
Valuation allowance	(4.4)
Income from affiliates accounted for by the equity method	0.5
Unrecognized tax benefits from losses of subsidiaries	5.2
Other	2.2
Effective tax rate	43.2%

The significant components of deferred tax assets and liabilities as of May 31, 2014 and 2013 were as follows:

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 140	¥ 177	$ 1,376
Accrued retirement benefits	—	1,187	—
Liability for retirement benefits	1,444	—	14,200
Accrued employees' bonuses	328	295	3,228
Reserve for losses on order acknowledgements	36	65	359
Other	854	776	8,402
Total gross deferred tax assets	2,802	2,500	27,565
Valuation allowance	(674)	(792)	(6,634)
Total deferred tax assets	2,128	1,708	20,931
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,196)	(1,828)	(21,602)
Other	(4)	(3)	(41)
Total deferred tax liabilities	(2,200)	(1,831)	(21,643)
Net deferred tax liabilities	¥ (72)	¥ (123)	$ (712)

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

"Act on Partial Revision, etc. of the Income Tax Act, etc." proclaimed on March 31, 2014 repealed the special reconstruction corporate tax from the year beginning on or after April 1, 2014. As a result, the effective statutory tax rate used in computing deferred tax assets and liabilities has been reduced from 38.0% to 35.6% for the temporary differences expected to be settled in the year beginning on June 1, 2014. The effects from this rate change were a decrease in net deferred tax assets (after deducting deferred tax liabilities) as of May 31, 2014 by ¥50 million ($494 thousand) and an increase in income taxes – deferred for the year ended May 31, 2014 by the same amount.

15. 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, 2014 and 2013:

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain on securities:			
Amount arising during the year	¥990	¥ 4,568	$9,741
Reclassification adjustments for gains and losses included in net income	—	(73)	—
Amount before tax effect	990	4,495	9,741
Tax effect	(367)	(1,544)	(3,614)
Unrealized holding gain on securities	623	2,951	6,127
Deferred gains or losses on hedging instruments:			
Amount arising during the year	(40)	—	(398)
Amount before tax effect	(40)	—	(398)
Tax effect	14	—	142
Deferred gains or losses on hedging instruments	(26)	—	(256)
Translation adjustments			
Amount arising during the year	14	27	138
Amount before tax effect	14	27	138
Translation adjustments	14	27	138
Share of other comprehensive income of affiliates accounted for by the equity method			
Amount arising during the year	167	61	1,637
Share of other comprehensive income in affiliates accounted for by the equity method	167	61	1,637
Total other comprehensive income	¥778	¥ 3,039	$7,646

16. 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.

17. Contingent Liabilities

As of May 31, 2014 and 2013, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Hunan Xiangyang Electric Co., Ltd.	¥138	¥198	$1,361
Changzhou Ruiyang Transmission Technology Co., Ltd.	185	187	1,817

18. Amounts Per Share

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥13.37	¥14.98	$0.13

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Yen)		(U.S. dollars)
Net assets	¥401.45	¥384.14	$3.95

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, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥644	¥722	$6,339
Net income not attributable to common shareholders	—	—	—
Net income attributable to common stock	644	722	6,339
	(Thousand shares)		
Average number of shares of common stock during the year	48,206	48,214	

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 decreased by ¥6.20 ($0.06) as of May 31, 2014.

19. 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 and issuance of corporate bonds. The Group manages temporary cash surpluses through low risk financial assets. The Group uses interest rate swaps for the purpose of reducing the interest rate fluctuation risk on long-term debt and fixing the interest expenses 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.

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 22, 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, 2014 and 2013 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, 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)	¥ —

As of May 31, 2014	Carrying value	Fair value	Difference
		(Thousands of U.S. dollars)	
Assets			
1) Cash on hand and in banks	$ 29,488	$ 29,488	$ —
2) Trade notes and accounts receivable	125,964	125,964	—
3) Investment securities	133,988	133,988	—
Total assets	$289,440	$289,440	$ —
Liabilities			
4) Trade notes and accounts payable	$ 51,993	$ 51,993	$ —
5) Short-term borrowings	9,000	9,000	—
6) Bonds payable	—	—	—
7) Long-term debt	78,763	78,889	(126)
Total liabilities	$139,756	$139,882	$(126)
8) Derivative transactions*	$ (397)	$ (397)	$ —

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

As of May 31, 2013	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
1) Cash on hand and in banks	¥ 1,302	¥ 1,302	¥—
2) Trade notes and accounts receivable	13,384	13,384	—
3) Investment securities	12,618	12,618	—
Total assets	¥27,304	¥27,304	¥—
Liabilities			
4) Trade notes and accounts payable	¥ 4,647	¥ 4,647	¥—
5) Short-term borrowings	3,180	3,180	—
6) Bonds payable	120	121	(1)
7) Long-term debt	6,529	6,494	35
Total liabilities	¥14,476	¥14,442	¥ 34
8) Derivative transactions	¥ —	¥ —	¥—

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 20 "Securities".

Liabilities:

Trade notes and accounts payable and short-term borrowings

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

Bonds payable

The fair value of bonds payable is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new bonds were issued.

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, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥642	¥700	$6,313

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, 2014 and 2013 are as follows:

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	¥—	¥—

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
	(Thousands of U.S. dollars)			
Cash on hand and in banks	$ 29,461	$ —	$—	$—
Trade notes and accounts receivable	107,540	18,424	—	—
	$137,001	$18,424	$—	$—

As of May 31, 2013	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	¥ 1,299	¥ —	¥—	¥—
Trade notes and accounts receivable	12,095	1,289	—	—
	¥13,394	¥1,289	¥—	¥—

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

20. Securities

As of May 31, 2014

(1) 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

As of May 31, 2014	Carrying value	Acquisition cost	Unrealized Gain (Loss)
	(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	$130,123	$68,479	$61,644
Subtotal	$130,123	$68,479	$61,644
Securities whose acquisition cost exceeds their carrying value:			
Stock	$ 3,865	$ 3,987	$ (122)
Subtotal	$ 3,865	$ 3,987	$ (122)
Total	$133,988	$72,466	$61,522

Note: 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) Impairment of investment securities
No impairment loss on investment securities was recognized for the year ended May 31, 2014.

(3) No securities classified as available-for-sale securities were sold for the year ended May 31, 2014

As of May 31, 2013

(1) Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2013	Carrying value	Acquisition cost	Unrealized Gain (Loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥12,083	¥6,777	¥5,306
Subtotal	¥12,083	¥6,777	¥5,306
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 535	¥ 575	¥ (40)
Subtotal	¥ 535	¥ 575	¥ (40)
Total	¥12,618	¥7,352	¥5,266

Note: 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) Impairment of investment securities
No impairment loss on investment securities was recognized for the year ended May 31, 2013.

(3) Sales of securities classified as available-for-sale securities and the aggregate gain and loss for the year ended May 31, 2013

For the Year ended May 31, 2013	Sales proceeds	Gain on sales	Loss on sales
	(Millions of yen)		
Stock	¥127	¥72	¥—

21. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2014 and 2013 are reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥2,998	¥1,302	$29,488
Cash and cash equivalents	¥2,998	¥1,302	$29,488

22. Derivative Transactions

Hedging policies

The Company utilizes interest rate swaps for the purpose of hedging its exposure to fluctuations in interest rates. 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 interest rate swaps to hedge against the adverse impact of fluctuations in interest rates on interest-bearing debt.

There is no derivative transaction to which hedge accounting is not applied.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

As of May 31, 2014	Major hedged item	Notional amount: Maturing within one year	Notional amount: Maturing after one year	Fair value
		(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

As of May 31, 2014	Major hedged item	Notional amount: Maturing within one year	Notional amount: Maturing after one year	Fair value
		(Thousands of U.S. dollars)		
Interest rate swaps accounted for by the normal method:				
Receive/floating and pay/fixed	Long-term debt	$14,755	$14,755	$(397)
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	$70,352	$62,847	Note 2

As of May 31, 2013	Major hedged item	Notional amount: Maturing within one year	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	¥5,789	¥4,988	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.

23. 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, 2014	Reportable segments: Transportation	Reportable segments: Industrial	Reportable segments: Information Equipment	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

For the year ended May 31, 2014	Reportable segments: Transportation	Reportable segments: Industrial	Reportable segments: Information Equipment	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	$218,358	$107,462	$17,988	$ 61	$343,869	$ —	$343,869
Inter-segment sales and transfers	348	13	—	4,818	5,179	(5,179)	—
	218,706	107,475	17,988	4,879	349,048	(5,179)	343,869
Segment profit	$ 23,357	$ 5,279	$ 3,426	$ 403	$ 32,465	$(21,879)	$ 10,586
Segment assets	$169,182	$ 77,941	$ 7,190	$5,164	$259,477	$180,742	$440,219
Other items:							
Depreciation	$ 5,839	$ 2,049	$ 232	$ 6	$ 8,126	$ 1,717	$ 9,843
Capital expenditures	$ 3,859	$ 1,188	$ 170	$ 20	$ 5,237	$ 785	$ 6,022

	For the year ended May 31, 2013						
	Reportable segments						
	Transportation	Industrial	Information Equipment	Other (Note)	Total	Adjustments	Consolidated
	(Millions of yen)						
Sales, profits or losses and asset by reportable segments							
Net sales							
Sales to third parties	¥17,325	¥11,543	¥1,701	¥ 6	¥30,575	¥ —	¥30,575
Inter-segment sales and transfers	37	2	—	545	584	(584)	—
	17,362	11,545	1,701	551	31,159	(584)	30,575
Segment profit	¥ 1,914	¥ 434	¥ 265	¥ 41	¥ 2,654	¥(2,153)	¥ 501
Segment assets	¥16,680	¥ 8,614	¥ 823	¥525	¥26,642	¥15,722	¥42,364
Other items:							
Depreciation	¥ 691	¥ 239	¥ 28	¥ 0	¥ 958	¥ 186	¥ 1,144
Capital expenditures	¥ 792	¥ 159	¥ 29	¥ —	¥ 980	¥ 316	¥ 1,296

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, 2014 and 2013 are summarized as follows:

For the Years Ended	May 31, 2014	May 31, 2013	May 31, 2014
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥25,399	¥23,341	$249,838
China	7,119	5,495	70,026
Other	2,440	1,739	24,005
Consolidated	¥34,958	¥30,575	$343,869

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

Major customer information

Major customer information for the years ended May 31, 2014 and 2013 is omitted since there was no customer to whom sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

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, 2014, 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, 2014, 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.

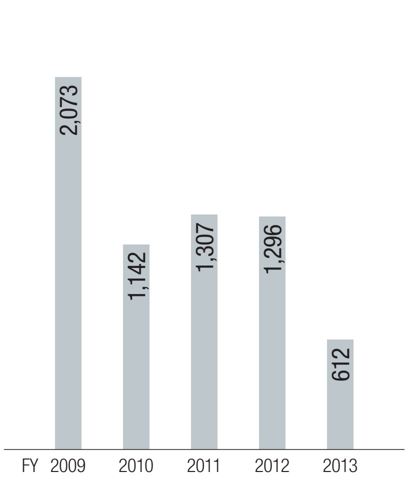
Ernst & Young ShinNihon LLC

August 28, 2014
Tokyo, Japan

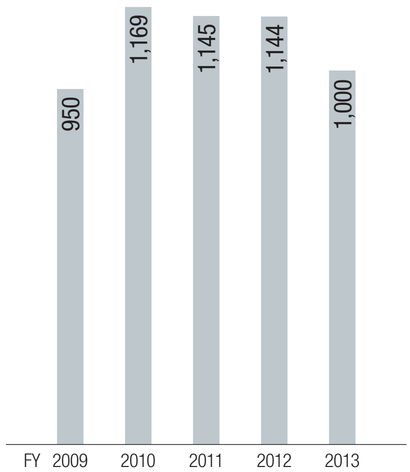
A member firm of Ernst & Young Global Limited

Reference Data for Management Indices

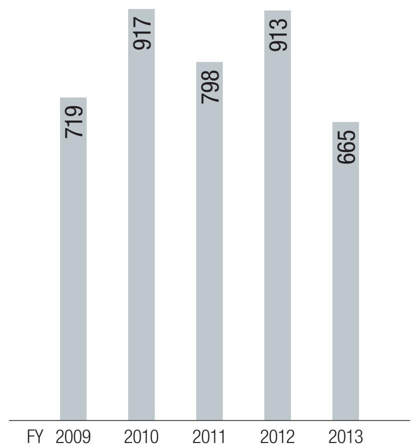
Capital investment (Unit: Million yen)



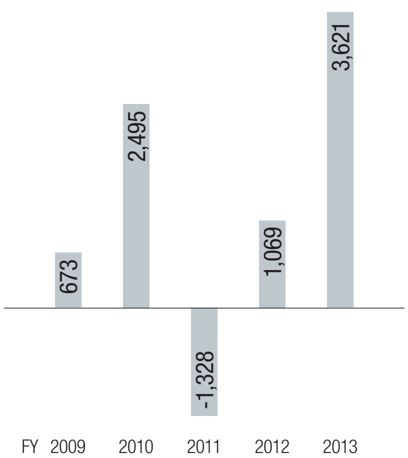
Depreciation and amortization (Unit: Million yen)



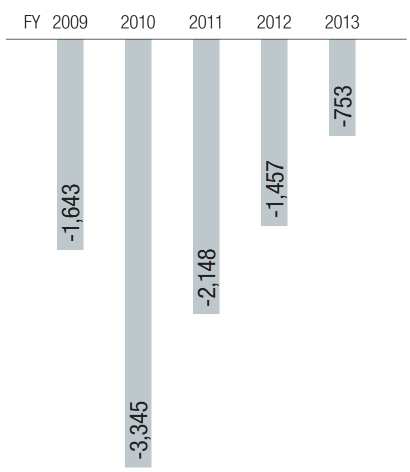
Research and development costs (Unit: Million yen)



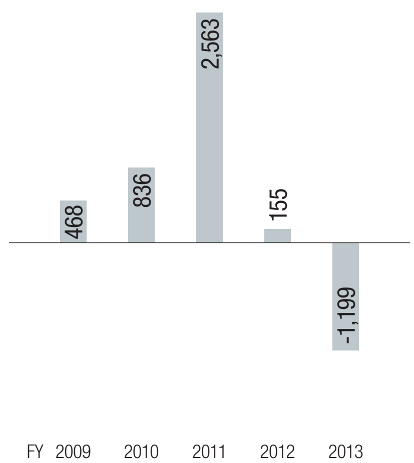
Cash flows from operating activities (Unit: Million yen)



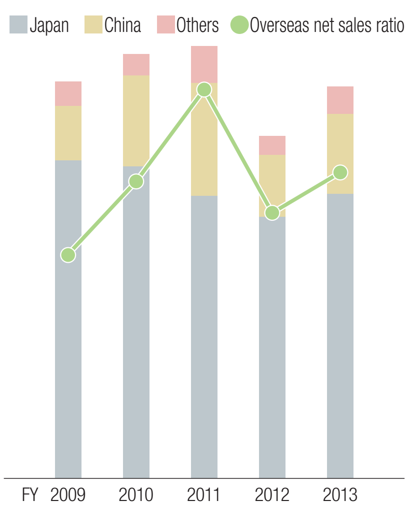
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	FY 2009	2010	2011	2012	2013
Japan	28,358	27,835	25,200	23,340	25,398
China*	4,873	8,110	10,081	5,495	7,118
Others	2,198	1,947	3,289	1,738	2,440
Total	35,429	37,893	38,570	30,575	34,957
Overseas net sales ratio	20.0%	26.5%	34.7%	23.7%	27.3%

*Reported classified as Asia from fiscal 2009 to fiscal 2010.