Aiming to realize net sales of 50.0 billion yen, we will accelerate measures to strengthen our management foundation.

The fiscal year ended May 31, 2015 served as the first fiscal year of the three-year medium-term management plan “NEXT 100: Beyond 100 years,” and we were able to make tangible progress during this year toward achieving our goals. President Kenzo Terashima hereby explains the results and plans for future development.

President Kenzo Terashima

Please tell us about the business conditions and results of fiscal 2014.

Consolidated business results for this fiscal year (fiscal year ended May 31, 2015) were led by the robust performance of the Transportation Systems segment and the Industrial Systems segment, achieving steady growth in both net sales and profits. Results were also produced in the areas of strengthening international competitiveness and restructuring the production system, which are part of the fundamental policy of the three-year medium-term management plan, and we feel that we have achieved a good start in the first fiscal year of the plan. Particularly, the overseas net sales ratio increased from 27.3% in the previous fiscal year to 34.9%, taking a significant step toward achieving the target of 50% in the final fiscal year of the plan (fiscal year ending May 31, 2017).

In the Transportation Systems segment, factors such as delays in scheduled overseas projects led to lower orders compared to the previous fiscal year, but net sales to overseas railroads increased significantly, especially in China and the United States, boosting profits. A subsidiary in the maintenance business for electrical equipment for railroads, established in August 2014 in Beijing, China, is also off to a steady start, demonstrating the strength of the relationships of trust we have built in China.

In the Industrial Systems segment, in addition to a greater number of orders of testing equipment for automobile development and infrastructure-related systems, increased orders of factory systems in Southeast Asia, centered on our representative office in Bangkok, Thailand, which was established in September 2014, led to higher revenue and profits.

In the Information Equipment Systems segment, the year marked a low point in demand for updates to railway station operating equipment, and coupled with a decreased number of orders for remote monitoring systems, net sales and profits were both lower than the previous fiscal year.

Please explain the restructuring of the production system.

In the "NEXT 100" medium-term management plan, we have set forth net sales of 50.0 billion yen as a goal for the fiscal year ending May 31, 2017. As we work toward achieving this target, our most important challenge is to establish a production system that can respond to expanded orders both domestically and overseas. Specifically, we will primarily advance measures to expand the capabilities of the Yokohama Plant, which is the mainstay production base for the Transportation Systems segment, and newly establish a factory and consolidate functions in the Shiga region, which is responsible for production of the Industrial Systems segment.

The Yokohama Plant currently has design, development, and quality assurance divisions for industrial systems products, and by consolidating these functions in the Shiga region, the production system for electrical equipment for railroads will be strengthened at the Yokohama Plant. Production lines will also be replaced with high-efficiency facilities and expanded, and through implementing optimizations at affiliates as well, we plan on achieving an increase of between 30% and 40% in production capacity as an end result.

Concerning the production system in the Industrial Systems segment, land has been acquired in Ryujin Town, Shiga Prefecture, which is near our existing Shiga Factory (Moriyama City), and our plans call for construction of a new factory that will begin operations in spring 2018. Aside from testing equipment for automobile development, we plan to establish a production system for creating high value-added products in industrial systems products, including control panels and motors. Also at the new factory, we will promote segmentation of production lines, striving to create the ideal next-generation production base model where female employees can play an even greater role.

Meanwhile, for future overseas production, we have already established local production systems in the Transportation Systems segment, centered on subsidiaries in China and the United States.

Concerning overseas orders in the Industrial Systems segment, centered on Southeast Asia, production will occur in Japan for the foreseeable future, but we will seek opportunities for local production in the future.

Please tell us about the outlook and measures for the current fiscal year.

The current fiscal year (fiscal year ending May 31, 2016), the second fiscal year where we work toward achieving 50.0 billion yen in net sales under the medium-term management plan, will be a year in which we must further accelerate strengthening our management foundation as part of the fundamental policy. As we steadily progress in the aforementioned restructuring of the production system, we will make the maintenance business in China for electrical equipment for railroads fully operational and establish an operational system. In the Industrial Systems segment, we will focus on industrial electric power generators as a new measure, entering new areas both domestically and overseas, such as the biomass power generation, waste disposal furnace, and power equipment markets. Furthermore, we plan on installing a new core system that will comprehensively manage operations from the sales stage to production processes and accounting processing. Preparations are underway to begin operation of this system in summer 2016.

Concerning the outlook for the current fiscal year, through maintaining favorable performance in the Transportation Systems segment and further recovery in the Industrial Systems segment, we forecast higher revenue and higher profits.
Regarding the restructuring of the production system

Details of reorganization plans for Yokohama and Shiga have been specified and the plans have started, as we work toward achieving net sales of 50.0 billion yen. By strengthening development and production capabilities of both production bases, we will respond to increased orders both domestically and overseas.

From June 1, 2014, we began a new three-year medium-term management plan, "NEXT 100: Beyond 100 years." As we work toward achieving the final goals of net sales of 50.0 billion yen and an overseas net sales ratio of 50%, we have set "restructure production system" as one part of the fundamental policy.

To respond to an anticipated expansion of orders in the future, we will further expand production capabilities of the Yokohama Plant, which is the main production base for the Transportation Systems segment, and optimize production at the Shiga Factory and affiliates, which are responsible for production of the Industrial Systems segment, in order to establish a structure to support net sales of 50.0 billion yen.

Specific measures for the restructuring of the production system

1. Rearrangement of layout of transportation systems factory at Yokohama Plant

Due to increased workloads in the Transportation Systems segment, an expansion of manufacturing space was required. By combining the industrial systems factories that were split into the Yokohama Plant and the Shiga Factory, and rearranging the layout of the transportation systems factory, we will work on achieving our production capability.

2. Improve productivity of the Industrial Systems segment by establishing a new base in Shiga

By establishing a new base in Shiga Prefecture, we will advance efficient development and creation centered on high-value-added system products at a base that combines development, design, manufacturing, and quality assurance divisions.

Regarding the acquisition of fixed assets (conclusion of purchase reservation agreement)

On March 23, 2015, to secure land for building a new factory with the aim of strengthening production capabilities and improving production efficiency, we concluded a purchase reservation agreement for a piece of industrial land.

- Details of industrial land to be acquired
  - Location: 9862 Aza-Tsutsumigatani, Aza-Okaya, Ryuoh-cho, Gamo-gun, Shiga and others
  - Prefecture: Shiga Prefecture
  - Area: 34,400 m² (tentative size)

- Schedule of acquisition
  - Date of land transfer: March 2018 (Scheduled completion date of construction)
  - TD. Drive Mfg. Co., Ltd. (Subsidiary)
Orders received in this segment decreased 41.1% compared with the previous fiscal year to 985 million yen, due to decreases in railway station operating equipment and remote monitoring systems.

Net sales in this segment decreased 38.3% year-on-year to 1,127 million yen, mainly for the same reasons underlying the decrease in orders received.

Segment income for this segment decreased 79.5% year-on-year to 71 million yen, which was attributable to lower revenue.

Centered on increases in orders for testing equipment for automobile equipment, along with infrastructure system related and overseas orders, orders received increased 20.0% compared with the previous fiscal year, to 13,319 million yen.

Although net sales for processing equipment decreased, increases were seen primarily in testing equipment for automobile equipment, leading to a 6.3% year-on-year increase, to 11,613 million yen.

Due to the effects of increased revenue, segment income increased 58.1% year-on-year, to 848 million yen.

Although orders received in Japan increased, factors such as delays in scheduled projects overseas caused a decrease outside Japan, yielding overall orders received of 24,759 million yen, a decrease of 16.9% compared with the previous fiscal year.

Net sales increased significantly outside Japan, totaling 26,869 million yen, a 21.0% year-on-year increase.

Due to the effects of increased revenue and improved profitability at factories, segment income totaled 3,117 million yen, representing a 31.3% year-on-year increase.

### Orders Received (Unit: Million yen)

<table>
<thead>
<tr>
<th>Segment</th>
<th>2013/5</th>
<th>2014/5</th>
<th>2015/5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation Systems</td>
<td>13,319</td>
<td>11,613</td>
<td>848</td>
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<tr>
<td>Industrial Systems</td>
<td>11,457</td>
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<td>11,613</td>
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<tr>
<td>Information Equipment</td>
<td>17,324</td>
<td>22,198</td>
<td>26,869</td>
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### Net Sales (Unit: Million yen)

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<th>2014/5</th>
<th>2015/5</th>
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<tbody>
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<td>Industrial Systems</td>
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<tr>
<td>Information Equipment</td>
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<td>10,924</td>
<td>11,613</td>
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</tbody>
</table>

### Segment Income (Unit: Million yen)

<table>
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<th>Segment</th>
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<th>2014/5</th>
<th>2015/5</th>
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</thead>
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<tr>
<td>Industrial Systems</td>
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<td>4,042</td>
<td>71</td>
</tr>
<tr>
<td>Information Equipment</td>
<td>2,904</td>
<td>4,042</td>
<td>71</td>
</tr>
</tbody>
</table>