



Toyo Denki Seizo Report **2016**
Our Heart and Technology for the Future

Toyo Denki Seizo K.K. Contributes to the Development of Social Infrastructure Systems

Integrating the exceptional motor drive technologies since establishment with our breakthrough advanced technologies to help build social infrastructure systems that are considerate of the global environment through global business development.

Toyo Denki Seizo K.K. has contributed with new technologies to the development of railways, industries and social infrastructure in Japan and the world. Toyo Denki Seizo K.K. was founded in 1918 in an aim to “domestically manufacture electrical equipment for rail vehicles” and will celebrate the 100th anniversary of its founding in June 2018. We are developing businesses in transportation, industry and information equipment sectors, and all the three sectors shares a high relevancy to society and the public interest. We contribute to the development of industry and enrichment of people’s lives through our manufacturing expertise by leveraging high technological skills. We will continue to promote global development and aggressively work to develop advanced technologies befitting the name of “Toyo as a technology company,” promote transfer of expertise and skills as well as training of human resources for supporting the development of advanced technologies, and create new businesses. Furthermore, through ensuring compliance and enhancing governance, we will strive to build a solid presence in the world as a manufacturer trusted by all stakeholders.

• Editorial Policy •

We have been publishing this report since 2013 with the goal of allowing a wide range of stakeholders to have a better understanding of the Company. This report combines our management policy with reports on our businesses, CSR and finances. We are committed to describing our initiatives during the year and our future direction in a manner that is easy to understand.

• Period Covered by This Report •

This report focuses on our activities in fiscal 2015 (from June 2015 to May 2016), but also contains some information from outside this period.

• Organizations Covered by This Report •

This report covers the Toyo Denki Group, including Toyo Denki Seizo K.K. and its consolidated subsidiaries.

• Reference Guidelines •

• Global Reporting Initiative (GRI) “Sustainability Reporting Guidelines Version 4”

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Consolidated Financial Highlights

Highlights of Toyo Denki Seizo K.K. and Consolidated Subsidiaries for the Consolidated Fiscal Year ended May 31 or as of May 31

Fiscal term	151	152	153	154	155
	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015

(Unit: Million yen)

Fiscal Year					
Net sales	38,570	30,575	34,957	39,617	39,746
Gross profit	8,834	7,696	8,097	9,282	9,119
Operating income	1,701	501	1,076	1,596	1,638
Net income attributable to owners of the parent	785	722	644	1,105	889
Comprehensive income	1,071	3,761	1,421	5,468	(925)
Capital investment	1,307	1,296	612	969	902
Research and development costs	797	916	665	897	868

Fiscal Year-End					
Net assets	15,049	18,519	19,350	24,895	23,676
Total assets	38,086	42,364	44,752	53,041	50,233
Number of employees	1,175	1,170	1,201	1,216	1,245

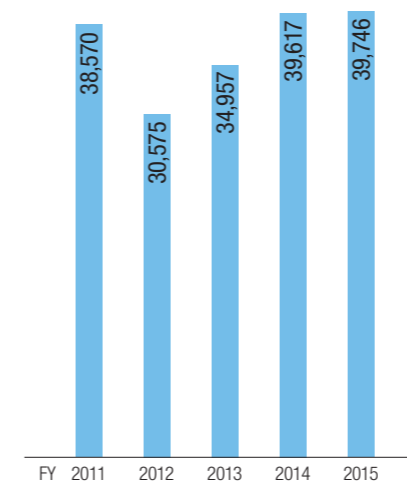
(Unit: Yen)

Per Share Information					
Net assets	312.12	384.14	401.45	516.61	491.41
Net income	16.29	14.98	13.37	22.94	18.47
Dividend	6	6	6	6	6

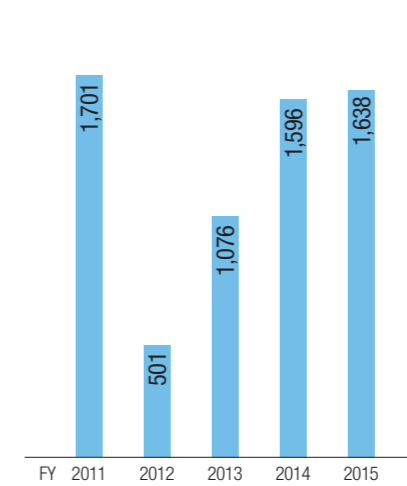
(Unit: %)

Major Management Indices					
Shareholders' equity ratio	39.5	43.7	43.2	46.9	47.1
Return on equity (ROE)	5.4	4.3	3.4	5.0	3.7
Operating income ratio	4.4	1.6	3.1	4.0	4.1
Overseas net sales ratio	34.7	23.7	27.3	38.0	32.0
Dividend payout ratio	36.8	40.0	44.9	26.2	32.5

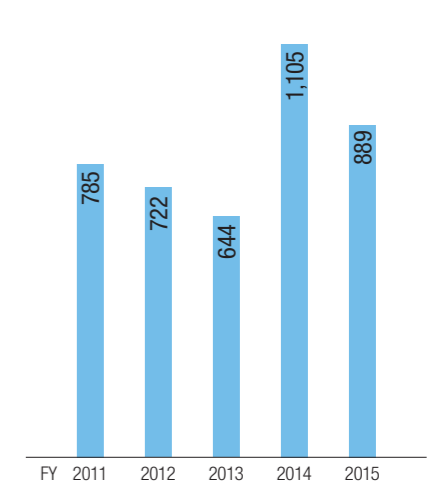
Net sales (Unit: Million yen)



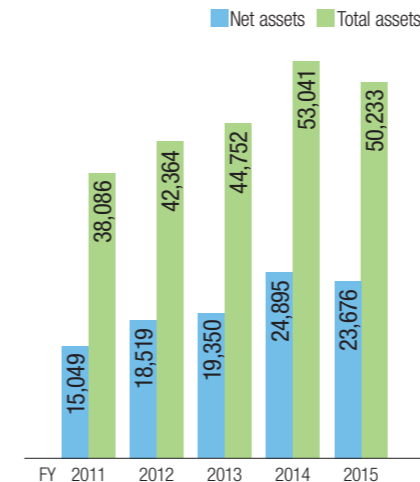
Operating income (Unit: Million yen)



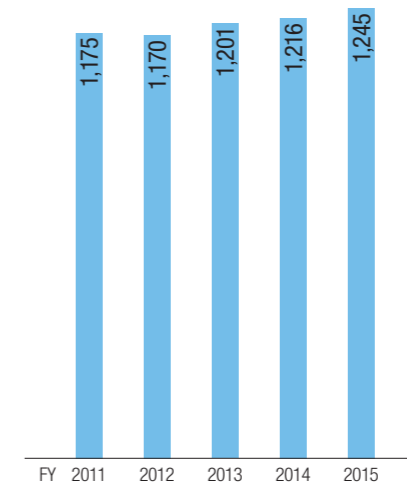
Net income attributable to owners of the parent (Unit: Million yen)



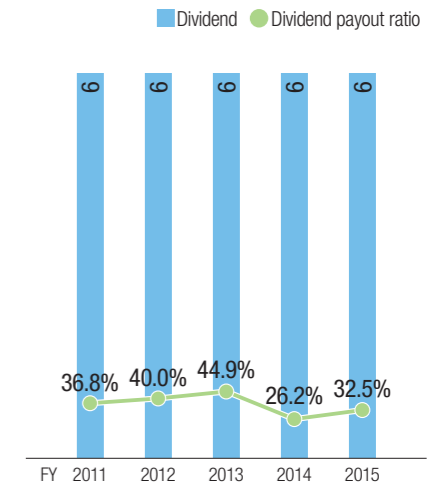
Net assets/Total assets (Unit: Million yen)



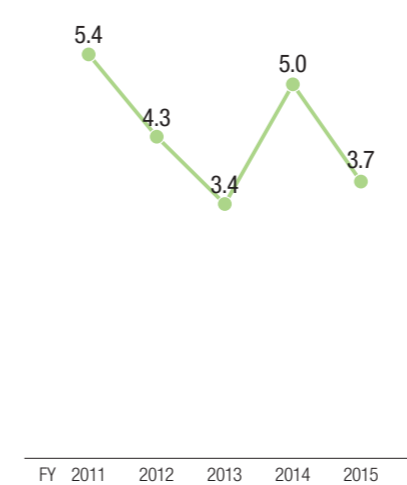
Number of employees (Unit: Persons)



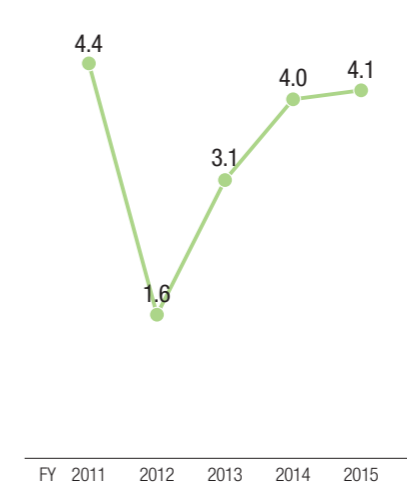
Dividend/Dividend payout ratio (Unit: Yen)



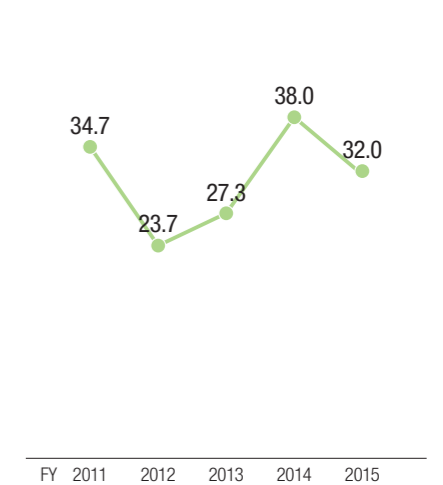
Return on equity (ROE) (Unit: %)



Operating income ratio (Unit: %)



Overseas net sales ratio (Unit: %)



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

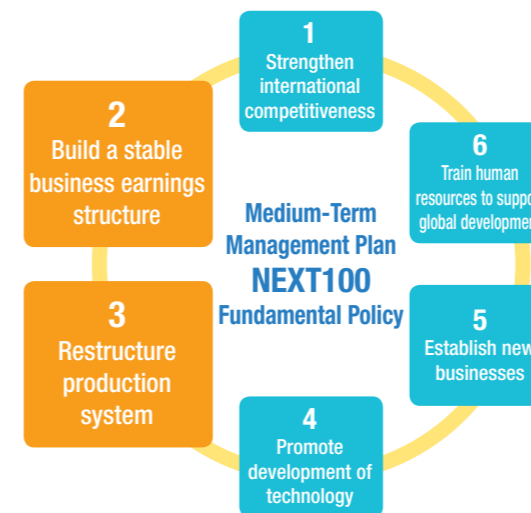
We will continue to enhance corporate governance, and establish a solid management foundation as a manufacturer aiming for global growth by consistently implementing the medium-term management plan “Ver. 2” described above. We would like to fulfill even more significant social contribution and live up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



President
Kenzo Terashima

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

Fundamental Policy



Numerical Targets (Consolidated)

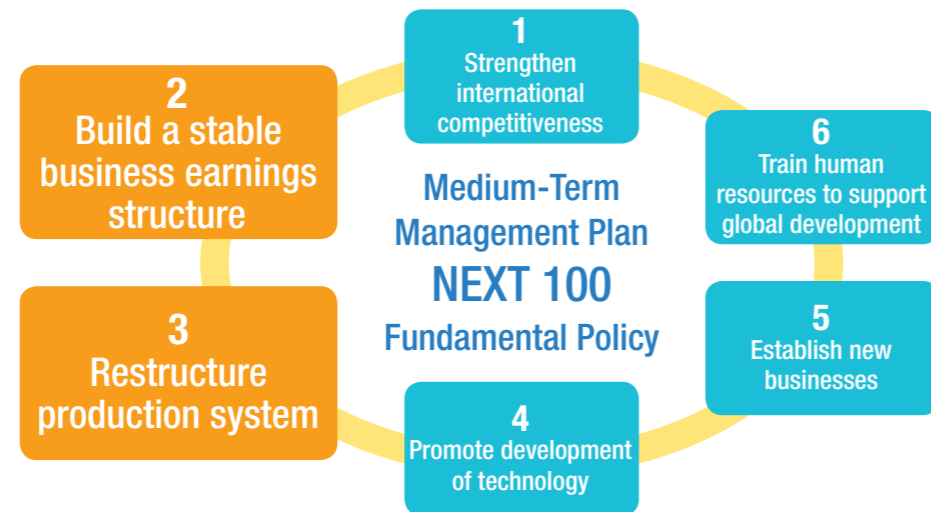
(Unit: Billion yen)

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

Revisions to Medium-Term Management Plan “NEXT 100: Beyond 100 years”

The Toyo Denki Group is committed to drastically enhancing its corporate value and thoroughly strengthening its 100th anniversary of founding in 2018 and beyond.

The Toyo Denki Group has decided to revise the medium-term management plan “NEXT 100: Beyond 100 years” covering the period from June 1, 2014 to May 31, 2017 to the medium-term management plan “NEXT 100: Beyond 100 years, Ver. 2,” in light of changing business conditions and issues to be addressed which emerged after the previously announced plan.



Details after Revision

Period of the plan

June 1, 2014 – May 31, 2018 (Period of Ver. 2: June 1, 2016 – May 31, 2018)

Main strategies newly added

Build a stable business earnings structure

- ▶ Increase earnings potential by strengthening promotion of productivity reform in Transportation Systems segment
- ▶ Stabilize earnings potential by establishing medium- to long-term vision of business structure in Industrial Systems segment

Restructure production system

- ▶ Strengthen production capacity based on productivity reform in Transportation Systems segment
- ▶ Integrate production system based on vision of business structure in Industrial Systems segment

Management Plan “NEXT 100: Beyond 100 years”

management foundation in order to become a Group well adapted to the new era in anticipation of the year of our

Gist

While maintaining the fundamental policy of the initially formulated plan, the Toyo Denki Group will set “building a stable business earnings structure” and “restructuring production system” as key policies, and newly add and promote strategies where both of these key policies are interrelated.

Furthermore, as a major pillar of “restructure production system,” New Shiga Factory is scheduled to start operations in the first half of 2018, the year of the 100th anniversary of Toyo Denki’s foundation. Aiming to complete the related strategies by this time, the Toyo Denki Group will revise the period of the plan.



Photo: Area around Shiga Ryuoh Industrial Facility. Planned location of construction of our new factory is indicated with the red line.

Numerical Management Targets (Consolidated)

(Unit: Billion yen)

	NEXT 100			
	Ver. 1		Ver. 2	
	Fiscal 2014 (Actual Results for the First Year)	Fiscal 2015 (Actual Results)	Fiscal 2016 (Forecast)	Fiscal 2017 (Forecast for the Final Year)
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BUSINESS

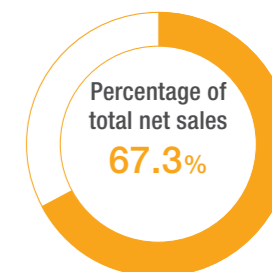
- 10 Transportation Systems segment
- 11 Industrial Systems segment
- 12 Information Equipment Systems segment
- 13 Expansion of New Businesses
- 14 Research and Development/Intellectual Property

Transportation Systems Segment

Electrical equipment for rail vehicles that responds to demand for railway infrastructure in Japan and worldwide

Business Overview

We delivered electrical equipment for the Hokkaido Shinkansen, which started its service in March 2016. Overseas, we received orders for subway contracts in Southeast Asia and the Middle East. In the future, we will promote overseas expansion even more aggressively as a driver of growth through means such as expansion of maintenance business in China.



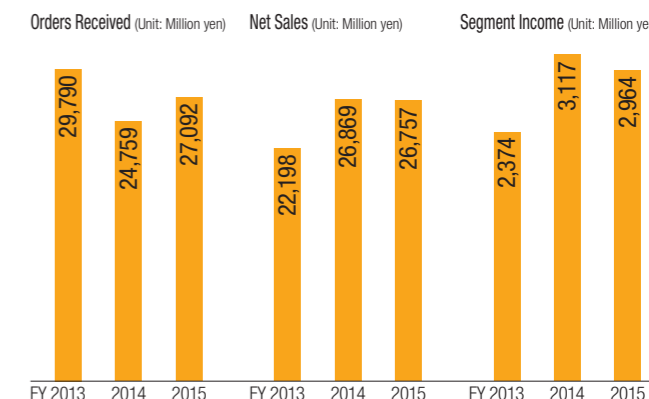
Results for fiscal 2015

- Orders Received**
27,092 million yen
 (Up 9.4% year on year)
- Net Sales**
26,757 million yen
 (Down 0.4% year on year)
- Segment Income**
2,964 million yen
 (Down 4.9% year on year)

Orders received increased 9.4% compared with the previous fiscal year to 27,092 million yen, led by upturns both in Japan and outside Japan.

Net sales totaled 26,757 million yen, a 0.4% decrease from the previous fiscal year, due to a decrease outside Japan, despite an increase in Japan.

Segment profit decreased 4.9% compared with the previous fiscal year to 2,964 million yen.



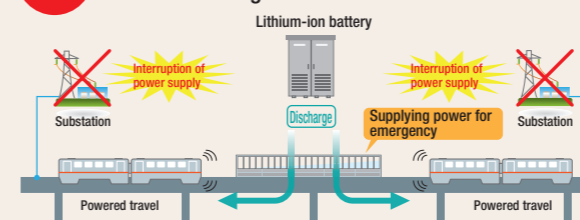
TOPICS

Development and Delivery of Regenerative Power Storage System "E³ Solution System" with Large Capacity

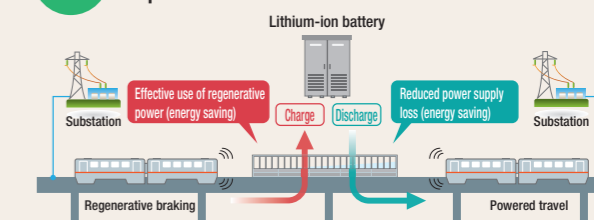
With regard to "E³ Solution System," our highly acclaimed regenerative power storage system, we developed the system with large capacity and delivered it for the Tokyo Tama Intercity Monorail. The system has an output of 1,000 kW per set, and realizes an output of 2,000 kW by providing two sets. In addition to the existing functions such as regenerative power absorption, the system has a function for emergency running when trains are stopped between stations due to power failures at substations, so that trains can safely evacuate to the nearest stations. We will continue to contribute to disaster countermeasures and an energy-saving society through the spread of the system.

Features of E³ Solution System

In emergency Supplying power as power source systems for train running



In normal conditions Storage of regenerative power and supply of power when needed

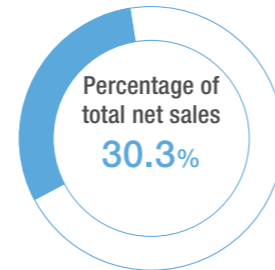


Enhance functions of high-efficiency inverters and contribute to upgrades, energy savings and space savings for production facilities

Business Overview

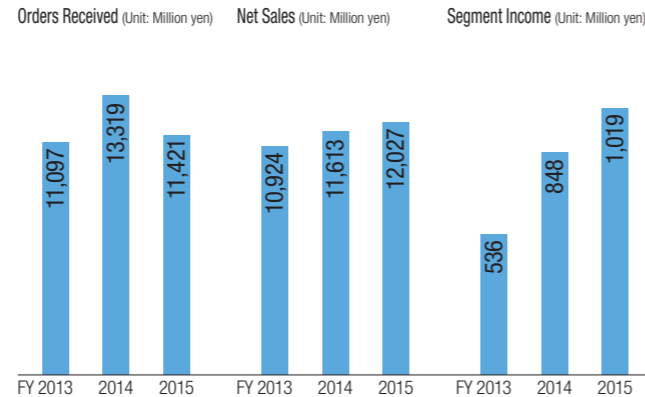
We develop and manufacture general industrial machinery and equipment, testing equipment for automobile development and infrastructure equipment.

For the "VF66 series" of intelligent inverters, we developed "VF66G" as a lineup that supports inter-connected systems, and strengthened support to small-scale hydropower generation, wind power generation and other distributed power source systems. In addition, we developed a 500 kW-class inverter configured with single unit, as compared to a previous configuration of units connected in parallel, thereby significantly reducing the space required for installation of a control panel. We will continue to respond to demands for upgrades, energy savings and space savings for production facilities, and work to expand the business in and outside Japan.



Results for fiscal 2015

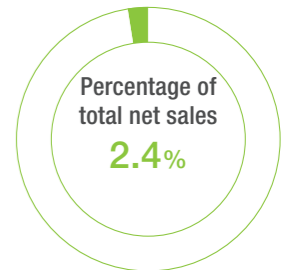
- Orders Received**
11,421 million yen
 (Down 14.2% year on year)
 Orders received decreased 14.2% compared with the previous fiscal year to 11,421 million yen due to decreased orders for testing equipment for automobile development, processing equipment, and social infrastructures.
- Net Sales**
12,027 million yen
 (Up 3.6% year on year)
 Net sales increased 3.6% year on year to 12,027 million yen due to increases in sales of testing equipment for automobile development and outside Japan, despite a decrease in those for social infrastructure.
- Segment Income**
1,019 million yen
 (Up 20.2% year on year)
 Segment profit totaled 1,019 million yen, a 20.2% increase compared with the previous fiscal year.



Provision of railway station operating equipment that achieves multi-functions and a compact size and IoT/M2M solutions in various fields

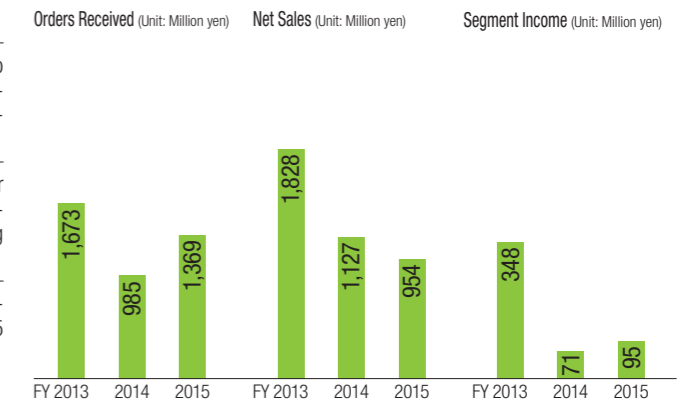
Business Overview

We develop and manufacture railway station operating equipment that can achieve mechanization and reduction of labor in railway station operations of railway operators. We also contribute to improvements of efficiency in operations through IoT/M2M solutions and power visualization solutions using mobile phone networks and cloud servers for monitoring and control.



Results for fiscal 2015

- Orders Received**
1,369 million yen
 (Up 39.0% year on year)
 Orders received increased 39.0% to 1,369 million yen, due to increased orders for railway station operating equipment.
- Net Sales**
954 million yen
 (Down 15.4% year on year)
 Net sales decreased 15.4% year on year to 954 million yen mainly due to a decrease in sales of remote monitoring systems.
- Segment Income**
95 million yen
 (Up 34.1% year on year)
 Segment profit increased 34.1% compared with the previous fiscal year to 95 million yen.



TOPICS DC drive mode of the intelligent inverter VF66B

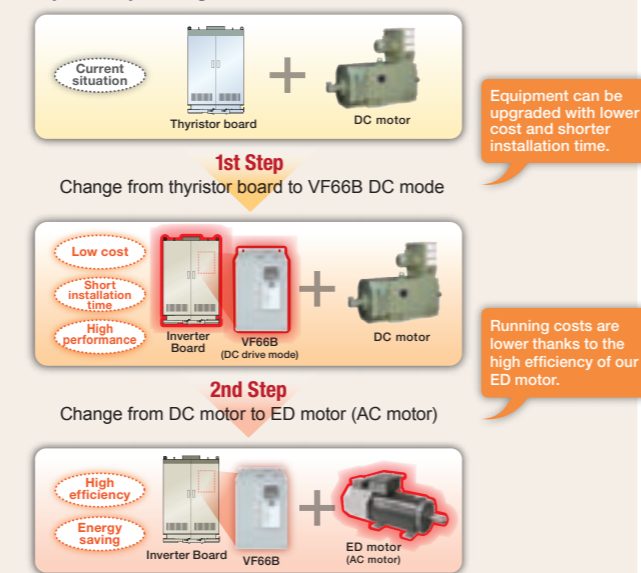
Direct current motors (DC motors) were used as the main type of variable-speed drive from the 1970s to the first half of the 1990s, and they were adopted in various production facility lines in combination with thyristor Leonard equipment.

The DC drive mode of the latest inverter "VF66B" helps to control investment costs as DC drive mode can convert control equipment into an inverter with the DC motors as is for equipment using DC motors that continues to operate. This can also lead to gradual updates to AC motors, which is the next step.

In addition, the introduction of the DC drive mode will not only enable digital control, but also enables construction of interface with various latest networks and PLC, thereby making equipment of higher performance.

Going forward, we will support the needs of customers with the products that leverage our advanced motor drive technologies.

Update steps through the introduction of the VF66B DC drive mode



* ED motor : Toyo Denki's permanent magnet high efficiency motor

TOPICS Order received for commuter pass vending machines for the Transportation Bureau of the City of Yokohama

We have received order for 50 commuter pass vending machines for the Transportation Bureau of the City of Yokohama. This product is a composite ticket vending machine that can singlehandedly issue a variety of tickets such as commuter passes, standard tickets, books of tickets and special tickets. This machine is compatible with tickets of various media such as smart cards, magnetic PET tickets, large magnetic tickets, and Edmondson old style tickets.

Furthermore, the machine enables reduction of power consumption and improved operability thanks to a color LCD with touchscreen, and conforms to the security authorization standards of the Congress of Japan Railway Cybernetics.

We will continue to develop and provide easier-to-use railway station operating equipment.



Expansion of New Businesses

Initiatives in distributed power source (small-scale hydro-power, wind power, biomass, wave power, tidal power, etc.)

We have been working to safely make the most of natural energy sources such as small-scale hydropower, wind power, biomass, wave power and tidal power, by leveraging the know-how of permanent magnet synchronous generators and interconnected systems we have developed over many years.

Take the small-scale hydropower generation system for instance. The system uses water as renewable energy, and effectively utilizes water resources which have not been utilized before, such as agricultural waterways and agricultural dams. We will continue working on effective utilization of various natural energy sources.

System upgrades of distributed power source systems of Toyo Denki Seizo K.K.

- Bountiful experience with power companies in Japan
- Interconnected system protective function
- Higher efficiency by combining with permanent magnet synchronous generators
- Islanding detection function is incorporated in inverters that support interconnected systems
- Switchable from interconnected system operation to self-supporting operation
- Black start in the absence of power source systems is possible
- System upgrades of overload protection, external signal input, etc.
- Output control function
- A wide range of lineup with output from 10 to 750 kW, in particular, bountiful experience with output from 10 to 200 kW



Power Conditioner



EDG Permanent magnet synchronous generator (supports 10 - 750kW)



Initiatives in remote monitoring (IoT/M2M solutions)

We contribute to improvements of efficiency in operations through IoT/M2M solutions using mobile phone networks and cloud servers for monitoring and control.

Joint development of data acquisition and analysis systems for fuel cell lift trucks

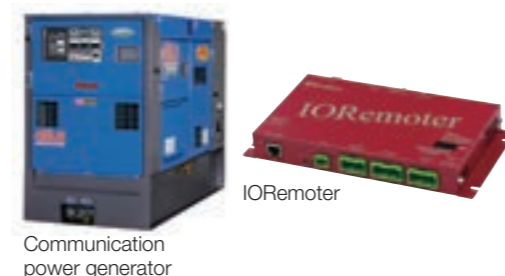
In cooperation with TOYOTA INDUSTRIES CORPORATION, we have developed data acquisition and analysis systems for fuel cell lift trucks. With this system, operation data is collected, stored in cloud servers using mobile phone communication systems, and analyzed. For the remote data management system owned by Toyo Denki Seizo K.K., we developed a data logger capable of on-board use, which enables real-time analysis of cloud servers and is equipped with information transmission function. This system analyses and visualizes data on location information and operation states, thereby contributing to optimization of maintenance services and improvement of merchantability.



Fuel cell lift trucks

Joint development of communication power generator mounted with remote monitoring system

In cooperation with Denyo Co., Ltd., we developed a communication power generator mounted with a remote monitoring system, and commenced its services. The communication power generator was developed by mounting "IORemotor," Toyo Denki Seizo K.K.'s remote monitoring terminal, to Denyo Co., Ltd.'s engine power generator. It enables sending email alerts in case of failure and remote monitoring through cloud services utilizing mobile phone lines. Customers can use various functions through ASP services. We will continue to contribute to operational efficiency through provision of easy-to-install and affordable IoT/M2M solutions.



Communication power generator

Research and Development/Intellectual Property

R&D to support the development of social infrastructure and supporting frameworks

Research and Development

The Group's R&D activities are based on seeking to create products that fully satisfy our customers and challenging the creation and expansion of these products, and we actively promote development of technologies of our existing businesses and basic

technology developments that support this development as well as development of new products that expand our businesses.

Results and topics from fiscal 2015

Segment	Project	Description
Transportation Systems	Delivery of "E ³ Solution System" with large capacity	Developed a system with large capacity for "E ³ Solution System," a regenerative power storage system, and delivered it for the Tokyo Tama Intercity Monorail. The system comes in two sets and has an output of 2000kW, or 1000kW per set.
	Development of electric door operating equipment	Developed electric door operating equipment, in addition to the conventional pneumatic door operating equipment, in an aim of higher performance and reduction of maintenance work.
Industrial Systems	Development of a 500 kW single inverter	Developed a 500 kW-class inverter configured with single unit (install panels), as compared to a previous configuration of units connected in parallel, thereby significantly reducing the space required for installation of a control panel.
	Development of VF66G, inverter that supports interconnected systems	Developed "VF66G" as an inverter that supports interconnected systems for distributed power source systems. In addition to the conventional self-supporting and linkage mode, governor control mode was added. In linkage operation, the inverter is adapted to FRT requirements*1 as a standard feature.
Information Equipment Systems	Enhanced security of composite ticket vending machine	Mounted the function of protecting internal data, etc. against tampering, such as surreptitious reading from operation screen and attacks from networks, in composite ticket vending machines which deal with smart cards.
	Zooming of monitoring items using remote terminals	In order to zoom monitoring items, coordination function of short range wireless (ZigBee) was added, and as the additional units, multiple battery-powered ZigBee sensors can be used.
Research Laboratory	Research on globally compatible insulation systems for motors	Conducted research on high-voltage insulation systems for traction motors for overseas railroads, high heat-resistance insulation systems for which materials of global standards are used, etc., in anticipation of further advancement of globalization and overseas development. We had clear idea of actually using such systems.

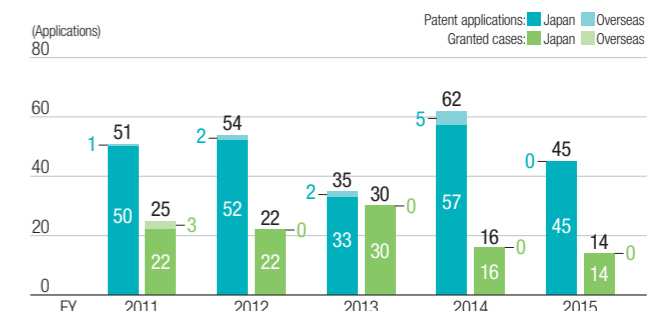
*1 FRT requirements: Fault Ride Through requirements

Intellectual Property

Our intellectual property is placed as a key corporate resource. Our intellectual property department is responsible for the management of intellectual property and our research laboratory and the development divisions in each business unit actively apply for patents and utility models.

In the overseas markets which we expect to further expand our businesses, we have started to actively engage in activities concerning our intellectual property in order to protect our technologies and brand.

Patent applications granted





CSR Report

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Management

In an effort to continuously enhance its corporate value, the Company is striving to ensure transparency of management and compliance, along with the maintenance and operation of an adequate governance framework while reinforcing its risk management framework.

Business Principles

Prioritize ethics and contribute to the prosperity of customers and society as a whole

Encourage creativity and enterprising spirit to meet the challenges of the future

Build trust by focusing on quality first

Code of Conduct

1. Respond to customers in a timely and speedy manner
2. Tackle all challenges with forethought and creativity
3. Continuous efforts toward self-development and skill improvement
4. Keep a broad perspective and influence each other toward growth
5. Act with awareness and pride of a good member of society and businessman

Established in June 2001

Corporate Governance

Our philosophy of corporate governance

The Group's business activities are based on the business principles that "prioritize ethics and contribute to the prosperity of customers and society as a whole." We therefore strive to attain sound corporate management through strengthening and reinforcing corporate governance, fully appreciating the significance of compliance based on corporate ethics. At the same time, we review as appropriate our management monitoring system to ensure its conformity to the changes in the business environment including social environment and relevant legislation.

Corporate governance

We have corporate bodies established in accordance with laws and regulations as well as the Articles of Incorporation, including the General Meeting of Shareholders, Directors and the Board of Directors, Statutory Auditors and the Board of Statutory Auditors, and Accounting Auditors. At its regular monthly meetings as well as extraordinary meetings held when appropriate, the Board of Directors, which is composed of nine Directors including two Outside Directors, discusses and decides on important management matters such as reports on Directors' business execution and matters to be decided solely at the discretion of the Board of Directors, while supervising Directors' business execution. In addition, the Company has meeting bodies including the Management

Strategy Meeting and Executive Officer Liaison Meeting. Through these bodies, specific matters related to their execution of duties are reported to the President by the general managers of business execution departments, and critical management matters including those subject to the deliberation of the Board of Directors are deliberated and discussed preliminarily. As for the matters discussed at meetings, matters subject to the deliberation of the Board of Directors are decided by the Board of Directors and other matters are decided by employees with business execution authority through means such as circulars based on the Management Authority Rules.

Internal audit and statutory auditor's audit

Action plans and results of internal audits are reported to the Board of Directors and Statutory Auditors by the Audit Division, as part of an effort to reinforce corporate governance. Statutory Auditors hold preliminary meetings with Accounting Auditors after the Ordinary General Meeting of Shareholders to exchange opinions regarding the audit plan. Statutory Auditors receive the results of quarterly reviews from Accounting Auditors both verbally and in writing, and confirm their action plans (if required by the reviews) to be taken at a fiscal year-end audit. Statutory Auditors also receive the results of the reviews on the fiscal year-end audit from Accounting Auditors in a statutory document along with verbal reviews. Furthermore, Statutory Auditors are in principle required to be present at inventory taking or on-site inspection at subsidiaries by Accounting Auditors.

Management

External Statutory Auditors and Outside Directors

The Company has established independence guidelines regarding independence required for a candidate for its Outside Executive, and appoints Outside Directors and External Statutory Auditors who have excellent insight in their areas of expertise. Currently, the Company appointed two Outside Directors and three External Statutory Auditors. Note that each of the External Statutory Auditors is playing a role to enhance audit functions required by laws and regulations while remaining independent from the Company.

Mr. Hirokazu Chinone, our Outside Director, is qualified as a lawyer and provides useful advice regarding management in general, drawing on his specialized knowledge regarding corporate law and his wealth of experience developed throughout his career.

Mr. Takashi Yamagishi our Outside Director, was newly appointed as an Outside Director at the 155th Ordinary General Meeting of Shareholders. We look forward to his useful advice and recommendations, drawing on his wealth of corporate management experience and his superior expertise gained in Japan and overseas.

Mr. Hiroshi Hamao and Mr. Eiichi Suzuki, our External Statutory Auditors, are engaged in the auditing activities for the Company, drawing on their wealth of experience and broad knowledge developed in corporate management and service at a financial institution.

Mr. Toshio Ikeda, our External Statutory Auditor, is a certified public accountant who utilizes his professional expertise in the area of corporate financial accounting for the Company's auditing work. Meanwhile,

the Company has appointed Mr. Chinone, Mr. Yamagishi and Mr. Ikeda as independent directors and registered them as such at stock exchanges.

Executive Remuneration

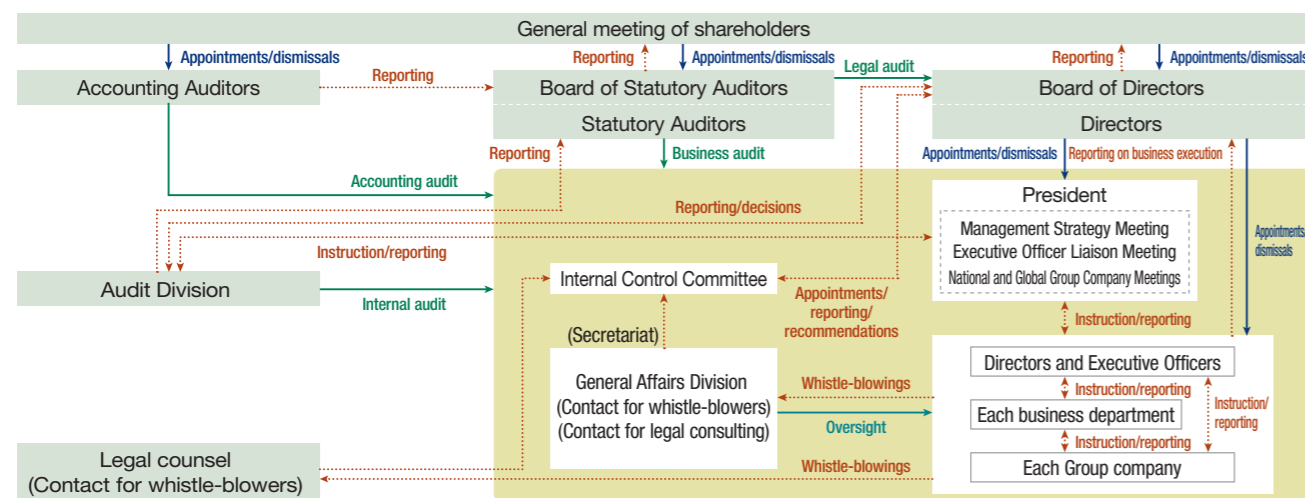
Total amounts of remuneration for Directors and Statutory Auditors are decided by a resolution at the General Meeting of Shareholders. Basic remuneration for Directors is a fixed salary while a bonus is payable as determined by each Director's contribution to management as well as business results of the Company. Basic remuneration for both Standing and Part-time Statutory Auditors is a fixed salary without bonus payments.

(As of the end of May 2016)

Category of executives	Number of executives applicable	Total amount of remuneration (Unit: Million yen)
Directors (excluding Outside Directors)	9	172
Statutory Auditors (excluding External Statutory Auditors)	2	14
Outside Executives (Outside Directors and External Statutory Auditors)	4	31

Note: The number of executives applicable mentioned above includes two Directors and one Statutory Auditor who respectively retired from their office at the end of the 154th Ordinary General Meeting of Shareholders held on August 27, 2015.

Corporate governance framework



Internal Control and Compliance

Internal control

The Company views the development and operation of an internal control system to be an important management issue, and it has developed an efficient, legal and appropriate business execution system whereby the Internal Control Committee established under the Board of Directors will review and revise the operational status of the internal control system in accordance with Article 362 of the Companies Act and Article 100 of the Ordinance for Enforcement of the Companies Act.

Principles of compliance

The Company has set "1. adherence to rules," "2. observance of confidentiality," "3. distinction between private and public matters," "4. strictness with money," "5. prohibition of side jobs," and "6. prohibition of discriminatory and sexually suggestive statements or behavior" as principles of compliance.

Compliance promotion framework

To focus on business principles and fulfill its social responsibility, the Company has provided all officers and employees with a copy of the Compliance Manual (Toyo Denki Seizo Ethical Standards) that stipulates its code of conduct. The move is part of an effort to have the code and the basic rules of work fully known.

The Company has also introduced a whistle-blowing system that allows employees to provide information directly to the management. The system is aimed at ensuring that any illegal or inappropriate conduct within the Company is detected at the earliest possible stage and that adequate measures are taken promptly and as needed so that such conduct is rectified.

Compliance education

The Company is organizing scheduled and systematic training sessions based on a compliance training master plan to enhance knowledge on compliance while promoting a conscious respect for corporate ethics.

Risk Management

Basic policy

The Company is engaged in developing rules and a framework for risk management according to the Basic Rules for Risk Management established in August 2006.

Promotion framework

The Company has established the Internal Control Committee under the Board of Directors, chaired by the President. It analyzes and assesses all the risks that exist in the Group and develops an effective risk management framework capable of dealing precisely with the risks of the types and degrees that the Group is exposed to. The committee specifically reviews risk verifications and countermeasures, and periodically reports details of its deliberations to the Board of Directors.

Furthermore, the committee is committed to enhancing the Group-wide risk management framework in accordance with the Basic Rules for Risk Management.

Information Security

Basic policy

The Company holds a vast amount of information assets including information presented by customers related to its business execution and confidential information concerning the Group's proprietary technologies and its trade. Each Group company is taking various measures in this respect based on an awareness of shared security under the Group's Information Security Guidelines, which have been established to adequately manage and use these information assets.

Information security training

The Company is conducting educational activities to develop information security awareness among all employees including various training sessions, some involving the use of educational DVDs.

Risk Factors

From the perspective of proactive information disclosure, the Group intends to disclose a wide range of recognizable risks. Major risks that may affect its earnings and financial position are set out below. The Group aims for thorough understanding of these risks in order to establish a necessary risk management framework designed to prevent the risks from materializing or minimize the impact of risks if they do materialize.

- (1) Business activities, business structure, economic trends, and other factors
The Group's sales heavily rely on the Transportation Systems and Industrial Systems segments. Its customers conduct business operations at home and overseas. As such, business climates and individual spending conditions in different countries may affect the Group's business performance.
- (2) Production bases
The great majority of the Group's production bases are located in the Kanto area. Production capacity may be severely affected by large-scale disasters in the area.
- (3) Intensifying competition
The Japanese market for the Transportation Systems segment has matured and thus faces intensifying competition. The Industrial Systems segment is under pressure from intensifying competition for product development. The Group's business performance may be affected by such intensifying competition.
- (4) Product quality
Defects in products may link to materialization of a risk that requires large-scale compensation for damages. The possibility exists that insurance may not be able to cover associated costs, which may affect the Group's business performance.
- (5) Product development
With a view to providing attractive products to customers, the Group applies itself to gathering information about customer needs and leverages it in the development of new products to support its future growth. However, delays in the development of new products to respond to rapid technological or environmental changes may affect the Group's performance.
- (6) Material procurement
Owing to the fact that the Group's business has various distinctive characteristics, some of the materials it procures are not easily available due to factors such as a limited number of suppliers. Delays in supply or discontinuation in production of such materials may affect the Group's performance. In addition, disruptions to the entire supply chain caused by a large-scale disaster or other incidents could impact the Group's operations.

Moreover, its business may be affected by the fluctuation in prices of raw materials, notably steel products and copper.

- (7) Overseas expansion
The Group proactively pursues the expansion of overseas operations including the Chinese market. Its performance may be affected by major changes in situations overseas.
- (8) Intellectual property rights
The Group attends to the protection of intellectual property rights. However, amid drastically advancing technical innovations and accelerating globalization of business, the Group is inevitably exposed to potential disputes with third parties over intellectual property rights. If a dispute occurs, the Group's business may be affected.
- (9) Business alliances
With the aim of business expansion and enhancing competitiveness, the Group proactively pursues various alliances with third parties. However, if these alliances do not deliver expected results due to a failure in forging favorable relationships with partners, the Group may face an impact on its performance.
- (10) Exchange rate fluctuations
On the back of aggressive expansion into overseas markets, the Group will inevitably face heavier impact of foreign currency exchange rate fluctuations on its earnings as it increases foreign currency denominated transactions.
- (11) Holding assets
Fluctuations in the fair value of assets held by the Group may affect its performance.
- (12) Financing
The Group's financing programs may be affected by unexpected changes in financial conditions.
- (13) Information security
The Group retains customer information related to its business executions. Also, it possesses various types of confidential information concerning the Group's proprietary technologies and operations. If these information assets leak outside the Group for unforeseeable reasons, it may impact its performance.
- (14) Compliance
The Group proactively pursues expansion in overseas operations, particularly the Chinese market; therefore its operations are subject to the laws and regulations of each country. Although the Group has established and conducts a robust compliance system, its operations are still at risk from the effects of unforeseeable events.
- (15) Litigation
If the Group becomes the subject of any legal action or other legal procedures, its business may be affected.

With Our Customers

The Company makes it one of our business principles to “build trust by focusing on quality first.” As such, we strive to enhance customer satisfaction through our commitment to thorough-going quality control as we believe delivering safe and secure products and services to customers is the Company's most important mission.

Quality Control – Providing Safe and High-Quality Products

Basic policy on quality control

The Company's electrical equipment for rail vehicles is installed in many rail vehicles. These extremely important products play a direct role in ensuring the safety of human life and property during rail transportation. In the Industrial Systems and Information Equipment Systems segments as well, the Company's products and services are used in customers' production facilities, development sites and in the field of social infrastructure, and they form the foundation supporting the sustainable development of a society that is safe and comfortable to live in.

In order to ensure the high quality of our products and services, the Company has established a “Basic Policy on Quality Control” which is deployed at all production bases as we strive to maintain and improve our human resources education, compliance with rules, and our facilities.

Promotion framework

With regard to quality control, each fiscal year the Company develops policies and the promotion framework aimed at further maintaining and improving quality in each business unit, along with specific policies pertaining to the reduction of flaws and other issues. The Company's Corporate Quality Control Division works together with the quality control department or the quality assurance department in each business unit to put together a report on the status of quality control and results in each unit. The report is delivered to top management at the monthly Executive Officer Liaison Meeting where measures are debated and decided. Furthermore, in the event that a flaw is discovered after a product has been shipped, the necessary steps are swiftly taken, mainly by the quality assurance department in each business unit, while at the same time the causes that led to the flaw and its mechanism are investigated, and this information is put into a database so that the information can be shared in-house in an effort to prevent recurrence.

Quality management system

The Company has created and operates a quality management system at its production bases, the Yokohama Plant and the Shiga Factory, and has obtained ISO 9001 certification.

Year ISO 9001 certification obtained

Yokohama Plant	Shiga Factory	Extended companywide
1994	2000	2007

Responding to the Global Market

Proper export controls

The Export Control Department at General Affairs Division is responsible for export management as the export management control department. We have created a system for the proper management of exports in order to ensure compliance with the laws and regulations concerning export management in the countries and regions where we engage in business activities as well as to avoid involvement in transactions that could hinder the maintenance of international peace and safety.

The Export Control Department handles cargo and technology parameters used in determining whether or not export permits are required, as well as investigation of transactions. In addition, the Department carries out employee education and guidance and support for Group companies.

Acquisition of International Standards

The Company has acquired International Railway Industry Standard (IRIS)* and China Railway Certification Center (CRCC) certification.

Going forward, we will continue to acquire international standards as we aim to further promote global expansion and sales growth.

* Acquired for the first time in Japan with our auxiliary power supply (APU).

Towards Greater Customer Satisfaction

Good Relations with our Customers

Information based on customer opinions and requirements obtained by the sales department is periodically reported to the top management at the executives' briefing sessions, and that information is shared within the Company. We strive to maintain good relations with our customers by identifying problems that need to be solved and swiftly addressing them in order to raise customer satisfaction.

With Our Suppliers

The Company responds to the needs of our customers through the strong network we have built with suppliers in line with our unique characteristics as a business based on an individual build-to-order/multi-product small lot manufacturing model.

Towards Just and Fair Procurement

Communication with suppliers

The Company's products possess various distinctive characteristics such as being individually built-to-order, manufactured in multi-product small lots, and demanding high reliability. Therefore, the Company can be affected by the performance of our suppliers as a result of issues such as delays in supply due to fluctuations in production quantity or delays in processing due to the quality of products received.

In order to reduce these risks as much as possible, the Company carries out instruction and support related to quality, technology, and skills for our suppliers, as well as guidance for improvement of manufacturing sites, in order to ensure stable procurement of even better quality products. In addition, we actively promote information sharing through the "Toyo Denki Cooperation Association" to which our leading suppliers belong.

Training for material procurement officers

The Company endeavors to maintain proper execution of operations by implementing a variety of training programs for material procurement officers to deepen their knowledge of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors and related laws and regulations and to cultivate awareness of legal compliance.

External whistle-blower system (for suppliers)

The Company has established an external whistle-blower system to receive consultations or reports on compliance from our suppliers. The legal compliance department handles complaints and consultations about transactions, and the Company's retained lawyer resolves issues when necessary.

TOPICS Establishment of "Procurement Action Guidelines"

In February 2016, the Company improved its procurement-related regulations and established the "Procurement Action Guidelines." The details of the guidelines are as follows.

Procurement Action Guidelines

These guidelines indicate the codes of conduct that the Toyo Denki Group's executives and employees should observe in the procurement of purchased parts and outsourced parts as required for the manufacturing of products ordered by customers ("procurement transactions").

1. Procurement transactions shall be carried out in observance of the laws of the relevant countries.
2. Information concerning suppliers in procurement transactions shall only be obtained within the scope necessary for conducting procurement activities in accordance with contracts. Furthermore, efforts shall be made to carefully manage and observe the confidentiality of information gained through procurement transactions.
3. Personal interests with suppliers shall be prohibited in procurement transactions, including the lending and borrowing of money.
4. Receiving of support beyond the socially accepted practices or receiving of money or inappropriate gifts or any other forms of personal rewards from suppliers shall be prohibited in personal transactions. In addition, forceful requests for any of the above from suppliers shall be prohibited in procurement transactions.

* Inquiries from outside are accepted via the following phone number and e-mail address:

Legal Compliance Department, General Affairs Division +81-3-5202-8121 email address for inquiries to Toyo Denki Seizo K.K.: contact@toyodenki.co.jp

With Our Shareholders and Investors

We strive to ensure transparency of management through the timely and proper disclosure of information and various modes of communication in order to receive an appropriate evaluation of the Company from our shareholders and investors.

Towards Enhancement of Corporate Value

Basic philosophy

Through timely and appropriate disclosure of information to our shareholders and investors, the Company accurately conveys our management policy and business conditions while making use of IR tools such as our website to promote a full range of IR activities that contribute to the improvement of our corporate value.

Development of IR activities

<IR activities for institutional investors and securities analysts>

The Toyo Denki management team holds a financial results briefing each quarterly period to provide opportunities for institutional investors and securities analysts to understand the summary of our financial results. The management team gives a report including the state of progress of the medium-term management plan and an overview and forecast for each segment as well as new orders received and other topics.

In addition, we strive to deepen understanding of the Company through individual visits to institutional investors or holding factory tours to provide opportunities for them to actually see our manufacturing sites, as well as participating in small meetings organized by securities companies, and taking other measures.

<IR activities for individual shareholders and individual investors>

The Company website includes a "For Individual Investors" page which offers a clear introduction to our business activities and our results, as well as making available a variety of IR materials.

URL "For Individual Investors"

<https://www.toyodenki.co.jp/ir/individual.php>

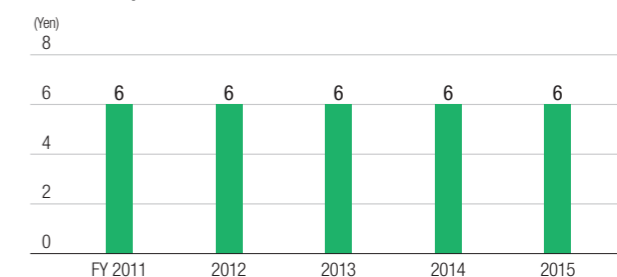
Holding of factory tour for shareholders

Thursday, April 14, 2016 at the Yokohama Plant
Attendance: 33 people (78 applicants)

Dividends

Maintenance of stable dividends forms the basis of the Company's distribution of profit, and the dividend for the fiscal year ended May 31, 2016 was 6 yen per share (interim dividend of 0 yen, fiscal year-end dividend of 6 yen). And as of December 1, 2016, the number of shares constituting one share unit will be changed from 1,000 shares to 100 shares, and a stock consolidation of five shares into one share will be carried out at the same time. This will allow the investment unit (price) of the Company's shares to be reduced to approximately one half of the current amount. We would like to ask for your understanding of this change, which has been made with the objective of increasing the liquidity of the Company's shares and allowing the potential for more investors.

Dividend per share



Record of 155th Ordinary General Meeting of Shareholders
Date held: Friday, August 26, 2016
Attendance: 114 people



President Terashima making a presentation (at the factory tour for shareholders)

With Our Employees

The Company seeks to cultivate a dynamic corporate culture and to create a pleasant and safe workplace where each and every employee can unleash his or her diverse capabilities.

Towards the Development of Human Resources with Competitive Strengths

Human resources development policy

The Company has set the following policy on human resources development and carries out education and training.

Fundamental policy

- (1) To develop human resources who understand and practice our business principles and code of conduct and who are of value both as company employees and as members of society.
- (2) To develop human resources who are professionals, each possessing a high degree of specialized expertise, by enhancing the knowledge, techniques, and skills they need to carry out their duties.
- (3) To provide a variety of educational opportunities in order to promote personal development, with emphasis on a self-directed approach to study and growth.

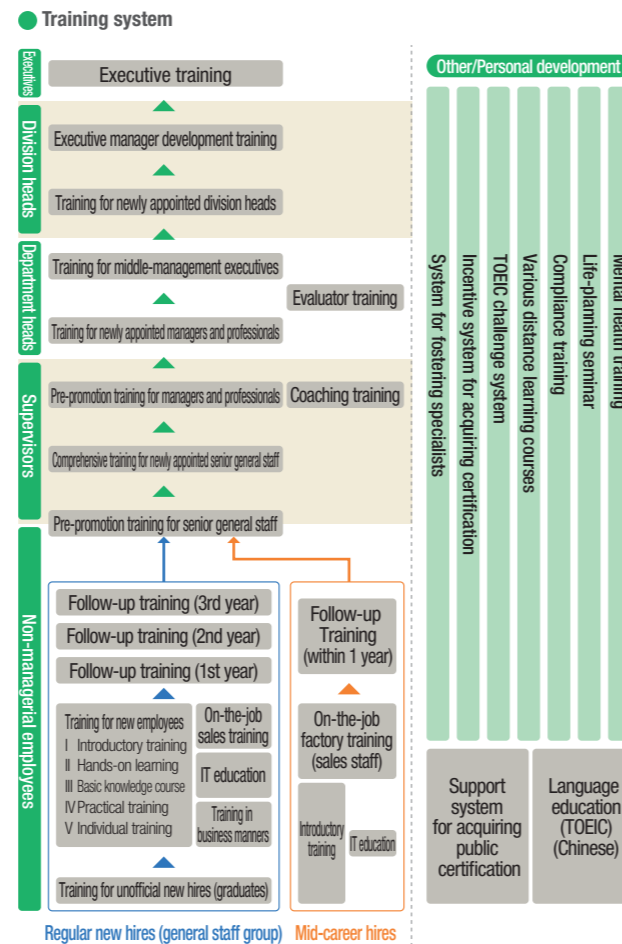
Education and training system

Training programs at the Company are divided into several categories according to the employee's year of service, type of work and role, and training is carried out after clarifying what part each employee is expected to play.

Furthermore, in response to globalization of the Company's operations, we offer English and Chinese language programs. The Company covers the full cost for a variety of courses tailored to the level of the participating employees, including distance learning, enrollment in schools, and classes provided by teachers in-house.



Training for new employees



Passing on skills

In order to proactively promote the transmission of outstanding skills to maintain high quality, the Company encourages employees to obtain official certifications. Furthermore, employees with exceptional manufacturing skills or expertise are recognized as "My Star" internally and given responsibility to instruct and train younger workers.

In April 2013, the Technical Training Center was newly established within the Yokohama Plant, where training is carried out for technical staff through lectures and various hands-on workshops.

Creating a Pleasant Workplace

Safety and hygiene initiatives

The Company holds monthly meetings of the Safety and Hygiene Committee jointly with labor and management, where ongoing discussions are held in order to build a safer working environment and to reduce workplace injuries to zero, and to find solutions to mental health issues at each of our bases. In particular, sub-committees are set up to address important topics related to safety and hygiene at production bases in an effort to create an even better workplace.

Acquisition of the "Kurumin" certification logo (June 2014)

In recognition of our efforts as a "company that supports child-rearing," which includes a substantial childcare system, educational activities concerning a work-life balance, the creation of an environment in which it is easy to obtain childcare leave, and the acquisition record of childcare leave by male employees, we received the "Kurumin" certification logo from the Tokyo Labor Bureau in June 2014.



Initiatives for diverse work-styles

The Company has implemented a flexible work-style including a flextime system for sales staff and those involved in development. Furthermore, in order to encourage retention and utilization of employees with knowledge and skills, we have put in place the "System for Rehiring Employees" for employees who have resigned due to life events that occur in the course of their career (childbirth, childcare, family care, spouse's transfer, etc.), so that they can be rehired when they reach the stage when it is possible to return to work.

As for employees who wish to be rehired after they reach the mandatory retirement age (60), in principle, we continue to employ them until the age of 65.

Work and family life balance

I returned to work after taking childcare leave twice, and have also been on an overseas business trip. Shiho Kajita (International Sales Division, Transportation Business Unit)

I returned to work after taking a childcare leave for about a year after my first child was born, and then doing the same after the birth of my second child. I think that partly due to the fact that it was my second time, I had less anxiety over leaving my child in daycare and it didn't take as long as the first time to get back into working mode. I was extremely thankful that I had a place to go back to after taking leave and that I was able to continue working. Although there are so much more things to do now that I have two children, such as getting them ready for daycare, the amount of laundry, and what to do when they are sick, which all-in-all is very time-consuming, I am somehow able to manage both work and child raising thanks to the understanding of my cowork-

Initiatives for employment of the disabled

The Company makes improvements to the workplace environment and carries out workplace training with the aim of creating a workplace where the disabled and those in normal health can work together energetically. We also promote collaboration with local governing agencies and special-needs schools regarding employment of the disabled.

Mental health measures

As measures to address mental health, the Company conducts "Line care training" for administrative professionals and "Self care training" for employees. In addition, we have partnered with an external medical institution to set up a telephone and e-mail consultation service to provide support for prevention, treatment, and return to work.

Implementation of employee satisfaction survey

The Company conducts an "employee satisfaction survey" once per year, and relevant departments work to resolve various issues extracted from the survey results. In addition, the company-wide "Dynamism Committee," whose purpose is to create a "dynamic corporate culture," leads various activities aimed at revitalizing internal communication.

Response to the Act on Promotion of Women's Participation and Advancement in the Workplace

In accordance with The Act on Promotion of Women's Participation and Advancement in the Workplace (Women's Advancement Promotion Act) that was enacted on April 1, 2016, the Company is formulating an action plan to create an environment where women can continue working with a sense of security as they advance their careers.



ers and the cooperation of my husband and parents.

At one point, I was given the opportunity to participate in an overseas exhibition. I felt anxious because I needed the cooperation of everyone around me if I was to be separated from my children during that time, but as a result we all gained new experiences. Although there are difficulties in working while raising children that remain, I still want to find the right path for myself. My children are growing up to be strong; motivating one another and staying involved with their friends from daycare and the various adults in their lives.

Initiatives to Deal with the Environment and Local Communities

Initiatives to Protect the Environment

With a view to realizing an environment-friendly society, the Company will further strive to promote the reduction of environmental burden, while providing more efficient products that contribute to energy conservation.

● Environmental Philosophy ●

The Toyo Denki Group sets initiatives to protect the global environment as its priority task and contributes to the development of a sustainable society.

● Action Guidelines ●

We will continue to provide products and services that are considerate of the burden on the global environment by drawing on our "future-oriented technologies friendly to the Earth and mankind."

1. We will comply with all environmental requirements including those under the relevant laws and regulations.
2. We will strive to minimize environmental burden through a reduction of energy consumption and other measures at all stages of product lifecycle, namely planning, development, design, production, sales, use and disposal.
3. We will establish and execute a system to continuously promote activities to protect the global environment.
4. We will raise environmental awareness among individuals through enlightenment activities within the Group

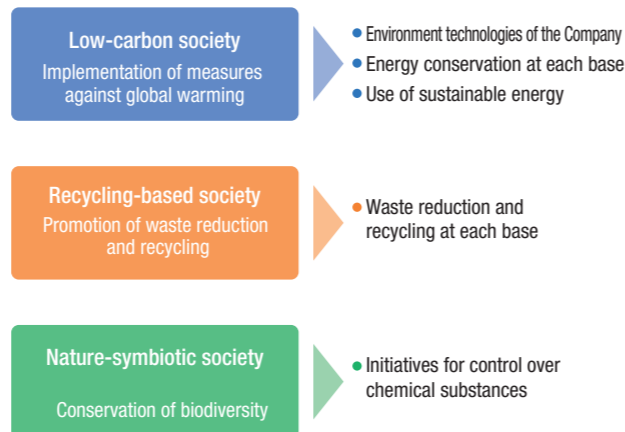
Aiming for Realization of a Sustainable Society

A sustainable society as envisaged by the Company is the combination of a "low-carbon society," a "recycling-based society" and a "nature-symbiotic society."

The environment technologies of the Company have produced numerous products that contribute to energy conservation, including high efficiency motors and inverters that capitalize on the amalgamation of our outstanding motor drive technology and other state-of-the-art technologies. In the meantime, the Company has been striving to conserve resources through not only the efficient use of energy but also the reduction of the size and weight of its products.

In addition, the Company is working on the development of products with lower levels of noise involved in their use to make them friendlier to the surrounding environment.

The Company will make further contribution to make society more sustainable, fully utilizing on its environmental technologies on a global scale, while carrying out various environmental actions at each of its bases.



Environmental Management System

In order to tackle environmental issues on an independent and continuous basis, the Company has developed and operates an environmental management system and thereby obtained ISO 14001 certification. This certification has been acquired for all offices and the production bases Yokohama Plant and Shiga Factory.

● Years of ISO 14001 certification

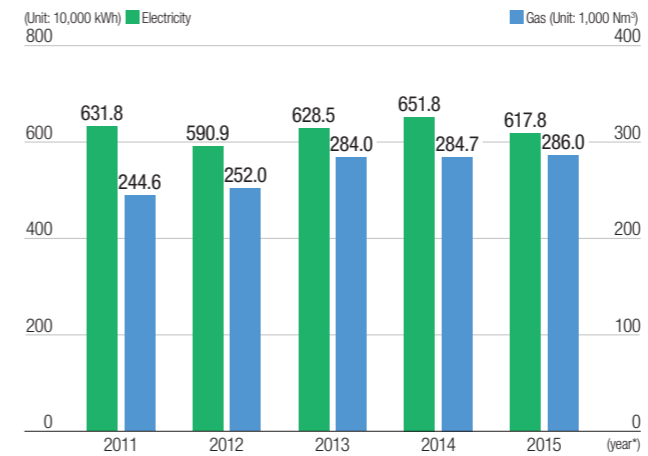
Yokohama Plant	Shiga Factory	Extended to all offices
2004	2001	2010

Initiatives to Prevent Global Warming

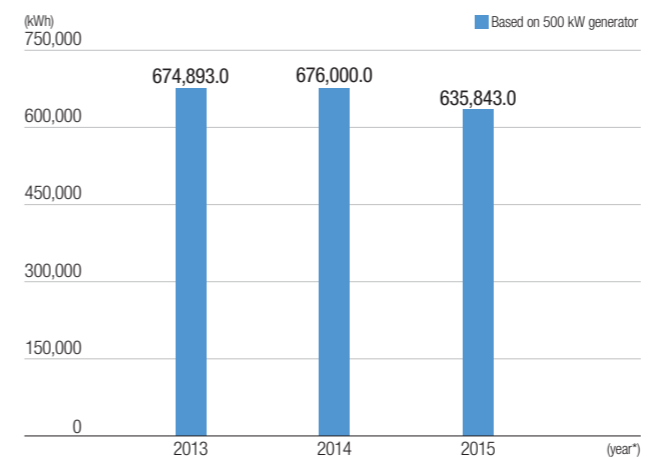
Initiatives to reduce greenhouse gas (CO₂) emissions

The Company is promoting energy conservation at each of its production bases and offices to reduce its CO₂ emissions. At the production bases in particular, we are promoting power-saving and streamlining at production facilities. In addition, the Yokohama Plant uses solar power generation for peak shaving of power demands.

● Total energy input at Yokohama Plant (electricity and gas)



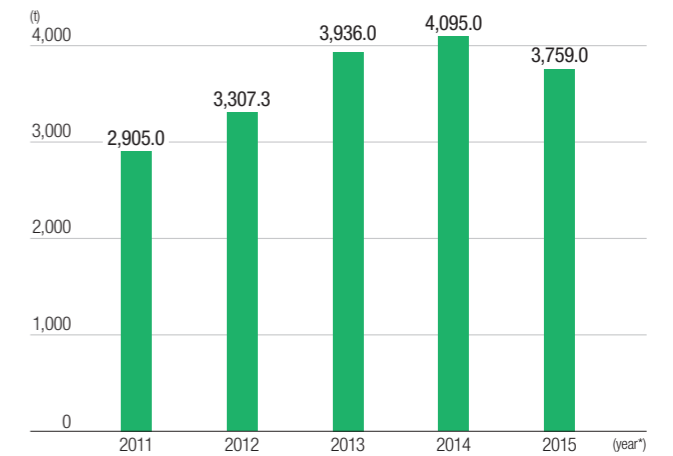
● Total solar power generation at Yokohama Plant



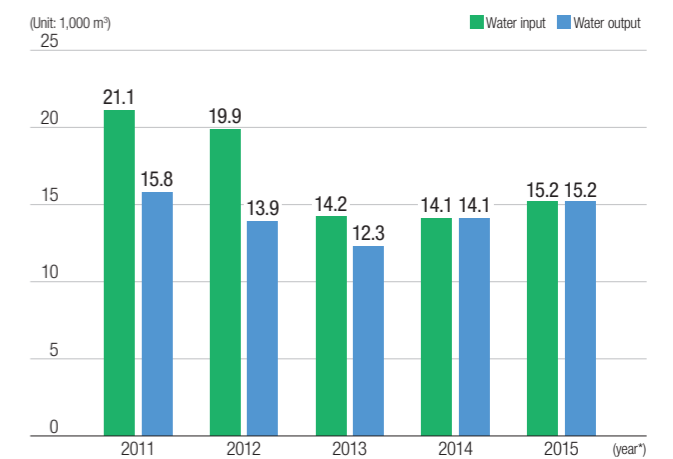
Targeted reduction of CO₂ emissions and progress status

Aiming to reduce CO₂ emissions per unit of production output by 1% year on year, the Company's main production base, the Yokohama Plant, reduced emissions by approximately 1.0% in fiscal 2015.

● Total CO₂ emissions at Yokohama Plant



● Total water input/output at Yokohama Plant



Initiatives to Deal with the Environment and Local Communities

Initiatives for Control over Chemical Substances

Volatile organic compounds (VOCs) emitted as a result of our business activities are adequately controlled and the amount of emission is monitored under the Pollutant Release and Transfer Register (PRTR).

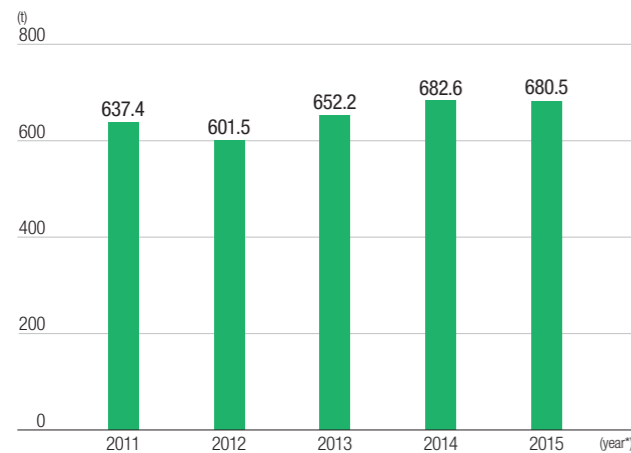
We will further engage in the reduction of waste through such measures including using non-VOC materials and implementing recovery and reuse of solvents. PCB waste is also subject to adequate control, storage and disposal in accordance with Japan's Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.

Initiatives for Reducing Disposed Waste as Well as Recycling

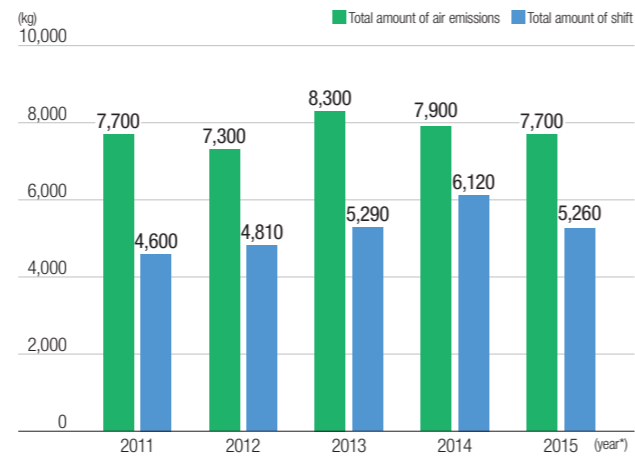
Main actions

The Company successfully reduced its landfill waste rate to 0.8% in fiscal 2015, as a result of thoroughly implementing waste processing rules, sorting of metal waste and recycling of paper resources.

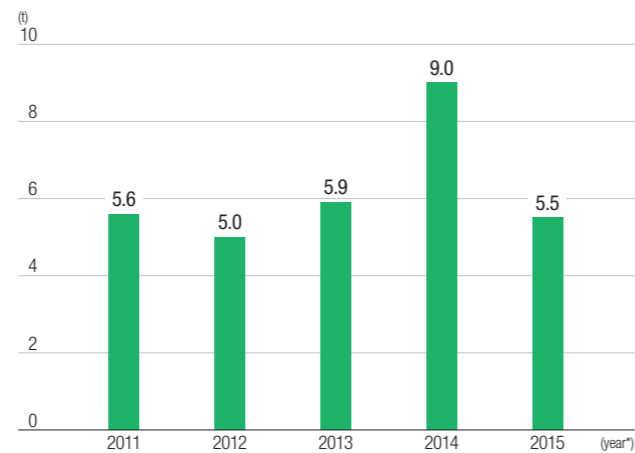
Output of general and valuable waste



Notification volume for Pollutant Release and Transfer Register (PRTR) substances



Volume of landfill waste



Contributions to Local Communities

We are committed to various social contribution activities, to contribute to society through our business while facilitating our own co-existence with communities and to foster young people who will represent the next generation.

To Convey the Mission and Appeal of Electrical Industry as Well as of Toyo Denki

Receiving interns

We are committed to activities that raise awareness and appreciation of our manufacturing expertise by accepting interns from local technical high schools and providing them with hands-on experience at manufacturing sites. This internship system serves as an effective means of recruiting outstanding technical staff on a consistent basis as some students from these schools apply for positions at the Company.

Participation in university endowment courses and hands-on courses

We participated in endowment courses sponsored by the Yokohama Green Purchasing Network so that participants can deepen their knowledge on history of railway and the environment through our business activities.

We conduct lectures leveraging the know-how fostered through operations and our business activities in on-site training courses held by educational institutions including universities.



Endowment course at a university

Factory tours

We are conducting "factory tours" to provide opportunities for members of local communities to actually see our manufacturing facilities and products in order to develop deeper understanding about the business operations of the Company. During these tours,

we inform the participants of our products as well as our actions for environmental protection and factory facilities, in an effort to build up relationships built on trust with local communities.



A factory tour

Cooperation with Yokohama Kyodo no Mori Fund

The Company cooperates in small woodlands conservation activities led mainly by the city of Yokohama by donating part of the proceeds from vending machines installed at the Engineering Center of the Yokohama Plant to the fund.

Cleanup campaigns within the vicinity of the production bases

In cooperation with neighboring companies, we conduct cleanup campaigns within the vicinity of the Yokohama Plant and the Shiga Factory.



Cleanup campaign (Yokohama Plant)



Cleanup campaign (Shiga Factory)

Data

Data Concerning Personnel and Labor

Data concerning personnel and labor (at Toyo Denki Seizo K.K.)

Item	Unit	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015
Number of employees	Total	744 *1	791 *2	797 *2	804 *2	824 *2
	Men	693	735	737	740	761
	Women	51	56	60	64	63
Ratio of female employees	%	6.9	7.1	7.5	8.0	7.6
Number of administrative professionals	Total	155	152	156	151	155
	Men	153	151	155	149	151
	Women	2	1	1	2	4
Ratio of female administrative professionals	%	1.3	0.7	0.6	1.3	2.6
Average age	Overall	41.1	41.0	41.1	40.5	40.4
	Men	41.4	41.1	41.2	40.7	40.4
	Women	38.2	38.9	39.0	38.7	39.5
Average years of employment	Overall	16.5	16.1	16.3	15.8	15.4
	Men	16.7	16.3	16.5	15.9	15.5
	Women	14.6	14.5	14.5	14.5	14.1
Average annual salary	Yen	6,039,332	5,885,559	5,750,453	5,888,577	6,024,175
Overturn rate (within 3 years of joining the Company)	%	13.5	3.8	7.7	0.0	3.4
Number taking childcare leave	Persons	2	3	4	5	7
Number taking family care leave	Persons	0	0	0	0	0
Number of temporary staff (including part-timers)	Persons	149	167	158	153	160
Notes		*1 Number of regular employees including Executive Officers and number of special employees, temporary employees and temporary part-time employees *2 Number of regular employees including Executive Officers, and number of special employees, temporary employees, contract employees and staff on loan from other companies, etc.				

Reference data I: Number of Officers (at Toyo Denki Seizo K.K.)

Item	Unit	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015
Number of Officers	Total	10	10	11	12	13
	Men	10	10	11	12	13
	Women	0	0	0	0	0
Notes		For each fiscal year as of May 31 (Executives include Directors, Internal Statutory Auditors, and External Statutory Auditors)				

Reference data II: Number of employees at the Group Companies in Japan and overseas (at the 6 consolidated subsidiaries of Toyo Denki Seizo K.K.)

Item	Unit	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015
Number of employees on a consolidated basis	Persons	1,175	1,170	1,201	1,216	1,245
Number of employees at Group companies in Japan and overseas	Persons	431	379	404	412	421
Number of temporary staff on a consolidated basis (including part-timers; stated in the Annual Securities Report)	Persons	235	256	255	214	274
Number of temporary staff (including part-timers)	Persons	86	89	97	61	114
Notes		As of May 31 for each fiscal year				

Reference data III: System for support of work-family balance (at Toyo Denki Seizo K.K.)

Maternity and childcare related	Prenatal leave	Can be taken from 8 weeks prior to due date (14 weeks prior in the case of multiple births). (6 weeks is required by law)
	Maternity leave	Can be taken for up to 8 weeks after birth.
	Childcare leave	In principle, childcare leave can be taken for a period as needed from the day after 8 weeks have elapsed since birth (completion of maternity leave), until the day before the child turns 1 year old. In cases where it is difficult to find a place in daycare, etc., it is possible to apply for an extension of childcare leave until the child is 1 year and 6 months, or until the last day of the month of March after the child has reached the age of 1 year, whichever is longer.
	Repeat childcare leave (Mom and Dad Childcare Leave Plus)	If an employee has taken childcare leave within the 8-week period after his spouse has given birth, he may take repeat childcare leave until the child reaches one year of age. Further, if the employee and spouse both take childcare leave, the childcare leave period can be extended until the child reaches 1 year and 2 months.
	Shorter working hours for childcare	Working hours may be set at 5 hours 45 minutes or 6 hours 45 minutes per day for a period as needed from the end of childcare leave until the child graduates from elementary school.
	Nursing leave	Up to 5 special days off may be taken per family member for nursing care for pre-elementary school age children.
Family care related	Family care leave	A total of up to 3 years of family care leave may be taken per person needing care.
	Family care work hours	Employees not taking family care leave may limit working hours to 5 hours and 45 minutes or 6 hours and 45 minutes per day.
Other	System for Rehiring Employees	Employees who have resigned due to marriage, infertility treatment, childbirth, childcare, family care, or spouse's transfer, etc., may be rehired when they are able to return to work depending on the employee's request and workplace needs.

Environmental Data

Indices	Applicable premises	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Remarks
Electric power (10,000 kWh)	Production bases total	667.1	624.1	664.8	684.3	648.8	
	Yokohama Plant	631.8	590.9	628.5	651.8	617.8	
	Shiga Factory	35.3	33.2	36.3	32.5	31.0	
	Non-production bases total	28.9	31.2	27.9	30.1	26.6	*1
Urban gas (1,000 Nm ³)	Production bases total	244.6	252.0	284.0	284.7	286.0	
	Yokohama Plant	244.6	252.0	284.0	284.7	286.0	
	Shiga Factory	-	-	-	-	-	*2
Water input (1,000 m ³)	Production bases total	21.1	19.9	14.2	14.1	15.2	
	Yokohama Plant	21.1	19.9	14.2	14.1	15.2	
	Shiga Factory	0.0	0.0	0.0	0.0	0.0	*2
CO ₂ emissions (t)	Production bases total	3,014.0	3,456.3	4,122.0	4,265.0	3,924.0	
	Yokohama Plant	2,905.0	3,307.3	3,936.0	4,095.0	3,759.0	
	Shiga Factory	109.0	149.0	186.0	170.0	165.0	
	Non-production bases total	231.0	169.0	168.0	180.0	152.0	
Solar power generation (kWh)	Based on 500 kW generator	-	433,862.6	674,891.0	676,000.0	635,843.0	*3
Water output (1,000 m ³)	Production bases total	15.8	13.9	12.3	14.1	15.2	
	Yokohama Plant	15.8	13.9	12.3	14.1	15.2	
	Shiga Factory	0.0	0.0	0.0	0.0	0.0	*4

PRTR Data

Indices	Applicable premises	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Remarks	
PRTR ^{*5}	Total amount of air emissions (kg)	7,700	7,300	8,300	7,900	7,700		
	Total amount of shift (kg)	4,600	4,810	5,290	6,120	5,260		
	Ethylbenzene (kg)	Production bases total	1,800	1,800	2,000	2,000	2,200	
		Yokohama Plant	1,800	1,800	2,000	2,000	2,200	
		Shiga Factory	0	0	0	0	0	
		Total amount of shift	550	330	430	670	470	
	Xylene (kg)	Production bases total	3,300	2,900	3,300	3,400	2,600	
		Yokohama Plant	3,300	2,900	3,300	3,400	2,600	
		Shiga Factory	0	0	0	0	0	
		Total amount of shift	450	280	360	550	390	
	Tetrahydromethylphthalic anhydride (kg)	Production bases total	0	0	0	0	0	
		Yokohama Plant	0	0	0	0	0	
Shiga Factory		0	0	0	0	0		
Total amount of shift		1,600	3,000	2,900	2,500	2,700		
Toluene (kg)	Production bases total	2,600	2,600	3,000	2,500	2,900		
	Yokohama Plant	2,600	2,600	3,000	2,500	2,900		
	Shiga Factory	0	0	0	0	0		
	Total amount of shift	2,000	1,200	1,600	2,400	1,700		

Waste Data

Indices	Applicable premises	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Remarks	
Wastes	① Industrial waste (tons)	Production bases total	316.7	279.9	290.3	333.4	355.0	
		Yokohama Plant	282.4	244.1	262.0	303.1	335.9	
		Shiga Factory	34.3	35.8	28.3	30.3	19.1	
	② General waste (tons)	Production bases total	114.9	101.9	99.3	105.4	98.4	
		Yokohama Plant	114.9	101.9	99.3	105.4	98.4	
		Shiga Factory	-	-	-	-	-	
	③ Valuable metal waste (tons)	Production bases total	240.1	255.6	290.9	274.1	246.2	
		Yokohama Plant	240.1	255.6	290.9	274.1	246.2	
		Shiga Factory	-	-	-	-	-	*6
	Waste output (①+②+③) (tons)	Production bases total	671.7	637.3	680.5	712.9	699.6	
		Yokohama Plant	637.4	601.5	652.2	682.6	680.5	
		Shiga Factory	34.3	35.8	28.3	30.3	19.1	
Recycled amount (tons)	Production bases total	436.4	435.2	462.4	598.2	584.0		
	Yokohama Plant	436.4	435.2	462.4	598.2	584.0		
	Shiga Factory	-	-	-	-	-	*6	
Volume of landfill waste (tons)	Production bases total	5.6	5.0	5.9	9.0	5.5		
	Yokohama Plant	5.6	5.0	5.9	9.0	5.5		
	Shiga Factory	-	-	-	-	-	*6	
Percentage of landfill waste (%) Yearly comparison	Production bases total	0.8	0.8	0.9	1.3	0.8		
	Yokohama Plant	0.9	0.8	0.9	1.3	0.8		
	Shiga Factory	-	-	-	-	-	*6	

*The fiscal year is from April to March of the following year. *Non-production bases: Toyo Denki Seizo Head Office, Osaka Branch, Nagoya Branch, Hokkaido Branch, Kyushu Branch, Hiroshima Branch

*1 ISO 14001 certification was obtained for non-production bases in June 2010.

*4 Production activities at Shiga Factory recorded close to zero water output.

*2 Production activities at Shiga Factory recorded close to zero water input.

*5 PPTR: Pollutant Release and Transfer Register

*3 500 kW solar panel became operational in July 2012.

*6 The recycled amount and the volume of landfill waste at the Shiga Factory are scheduled for investigation starting in fiscal 2015.

Financial Report

Financial Report

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Financial Review

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

Results of Operation

Orders received
YoY **+2.1%**

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

Net sales
YoY **+0.3%**

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

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

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

Financial Position

Assets
Total assets
50,233 million yen

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

Liabilities
Total liabilities
26,556 million yen

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

Net assets
Total net assets
23,676 million yen

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

Cash Flows

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

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

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

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

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

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

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

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

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

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K. Consolidated Statements of Income

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

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

See notes to consolidated financial statements.

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

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

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

1. Summary of Significant Accounting Policies

(a) Basis of presentation

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

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

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

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

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

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

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

(c) Foreign currency translation

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

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

(d) Cash and Cash equivalents

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

(e) Inventories

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

(f) Short-term investments and investment securities

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

(g) Property, plant and equipment (except for leased assets) and depreciation

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

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

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

(h) Intangible assets (except for leased assets)

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

(i) Leases

Leased assets capitalized under the finance lease arrangements which do not transfer ownership to the lessee are depreciated over the lease period without any residual value using the straight-line method.

All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

(j) Allowance for doubtful accounts

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

(k) Accrued directors' bonuses

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

(l) Accrued employees' bonuses

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

(m) Reserve for losses on order acknowledgements

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

(n) Reserve for ecological countermeasures

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

(o) Retirement benefits

Retirement benefit obligation is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Prior service cost is amortized as incurred by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.

Actuarial differences are amortized in the year following the year in which gain or loss is recognized primarily by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.

(p) Income taxes

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

(q) Construction revenue and costs

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

(r) Research and development expenses

Research and development expenses are charged to income when incurred.

(s) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(t) Derivative financial instruments

The Company and certain consolidated subsidiaries enter into various derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for these which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Deferred hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions and hedged items are primarily interest on debts. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same.

(u) Standards issued but not yet adopted

Revised Implementation Guidance on Recoverability of Deferred Tax Assets

On March 28, 2016, the ASBJ issued "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

(1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the JICPA Audit Committee Report No. 66 "Auditing Treatment on Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- a. Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- b. Category requirements for (Category 2) and (Category 3)
- c. Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- d. Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- e. Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending May 31, 2017.

(3) Effect of adopting revised implementation guidance

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

2. Accounting Changes

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

3. U.S. Dollar Amounts

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

4. Notes Receivable and Payable

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

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

5. Inventories

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

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

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

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

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

6. Property, Plant and Equipment

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

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

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

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

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

7. Investments and Other Assets

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

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

8. Short-Term Borrowings and Long-Term Debt

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

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

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

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

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

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

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

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

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

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

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

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

9. Retirement Benefit Plans

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

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

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

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

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

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

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

Note: The plan adopting the simplified method is included.

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

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

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

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

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

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

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

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

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

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

10. Net Assets

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

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2016

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

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

For the year ended May 31, 2015

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

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

b. Dividends

1) Dividends paid

For the year ended May 31, 2016

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

For the year ended May 31, 2015

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

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

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

11. Selling, General and Administrative Expenses

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

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

12. Special Gains (Losses), Net

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

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

Note: The Group recognized no impairment loss for the year ended May 31, 2016.

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

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

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

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

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

13. Income Taxes

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

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

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

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

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

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

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

14. Other Comprehensive Income (Loss)

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

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

15. Lease Transactions

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

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

16. Contingent Liabilities

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

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

17. Amounts Per Share

For the Years Ended	May 31, 2016	May 31, 2015	May 31, 2016
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥18.47	¥22.94	\$0.17
As of	May 31, 2016	May 31, 2015	May 31, 2016
	(Yen)		(U.S. dollars)
Net assets	¥491.41	¥516.61	\$4.43

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

The bases for calculation are as follows:

Basic net income per share

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

18. Financial Instruments

Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

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

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

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

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

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

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

(b) Monitoring of market risks (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Group utilizes interest rate swap transactions to reduce interest rate fluctuation risk on long-term debt.

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

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

(c) Monitoring of liquidation risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidation risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

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

Estimated Fair value of Financial Instruments

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

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

As of May 31, 2016

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

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

As of May 31, 2015

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

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

Notes:

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

Assets:

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

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

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

Investment securities

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

Liabilities:

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

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

Long-term debt

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

Derivative transactions

The fair value of interest rate swaps accounted for by the hedge accounting is included in the fair value of the related long-term debt, since such interest rate swaps are accounted for together with long-term debt as hedged items.

The fair value of interest rate swaps accounted for by the normal method is determined based on the price, etc. provided by the financial institutions.

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

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

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

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

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

As of May 31, 2016

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

As of May 31, 2015

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

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

19. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

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

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

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

Available-for-sale securities

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

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

Information regarding available-for-sale securities sold

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

20. Supplementary Cash Flow Information

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

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

21. Derivative Transactions

Hedging policies

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

Types and purpose of derivative transactions

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

Derivative transactions to which hedge accounting is not applied:

Currency-related derivatives:

As of May 31, 2016	Contract amount	Maturing after one year	Fair value	Unrealized gain (loss)
	(Millions of yen)			
Forward foreign exchange contracts:				
Sold:				
USD	¥486	¥—	¥43	¥43
As of May 31, 2016	Contract amount	Maturing after one year	Fair value	Unrealized gain (loss)
	(Thousands of U.S. dollars)			
Forward foreign exchange contracts:				
Sold:				
USD	\$4,377	\$—	\$383	\$383

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

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

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

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

As of May 31, 2016	Major hedged item	Notional amount	Maturing after one year	Fair value
		(Millions of yen)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥7,360	¥7,128	Note
As of May 31, 2016	Major hedged item	Notional amount	Maturing after one year	Fair value
		(Thousands of U.S. dollars)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	\$66,342	\$64,251	Note

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

As of May 31, 2015	Major hedged item	Notional amount		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

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

22. Segment Information

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

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

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

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

	For the year ended May 31, 2016						
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
(Millions of yen)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥26,758	¥12,027	¥955	¥ 6	¥39,746	¥ —	¥39,746
Inter-segment sales and transfers	30	4	—	597	631	(631)	—
	26,788	12,031	955	603	40,377	(631)	39,746
Segment profit	¥ 2,965	¥ 1,020	¥ 96	¥ 31	¥ 4,112	¥(2,473)	¥ 1,639
Segment assets	¥19,605	¥ 8,035	¥ 587	¥569	¥28,796	¥21,438	¥50,234
Other items:							
Depreciation	¥ 550	¥ 151	¥ 20	¥ 1	¥ 722	¥ 129	¥ 851
Capital expenditures	¥ 470	¥ 126	¥ 12	¥ 0	¥ 608	¥ 295	¥ 903

	For the year ended May 31, 2016						
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
(Thousands of U.S. dollars)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	\$241,192	\$108,411	\$8,605	\$ 59	\$358,267	\$ —	\$ 358,267
Inter-segment sales and transfers	272	34	—	5,377	5,683	(5,683)	—
	241,464	108,445	8,605	5,436	363,950	(5,683)	358,267
Segment profit	\$ 26,722	\$ 9,193	\$ 862	\$ 284	\$ 37,061	\$(22,288)	\$ 14,773
Segment assets	\$176,720	\$ 72,423	\$5,294	\$5,127	\$259,564	\$193,237	\$452,801
Other items:							
Depreciation	\$ 4,957	\$ 1,358	\$ 182	\$ 6	\$ 6,503	\$ 1,166	\$ 7,669
Capital expenditures	\$ 4,231	\$ 1,137	\$ 110	\$ 1	\$ 5,479	\$ 2,659	\$ 8,138

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

	For the year ended May 31, 2015						
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)			
(Millions of yen)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥26,870	¥11,613	¥1,128	¥ 6	¥39,617	¥ —	¥39,617
Inter-segment sales and transfers	41	2	—	588	631	(631)	—
	26,911	11,615	1,128	594	40,248	(631)	39,617
Segment profit	¥ 3,118	¥ 848	¥ 71	¥ 59	¥ 4,096	¥(2,500)	¥ 1,596
Segment assets	¥18,335	¥ 8,175	¥ 801	¥587	¥27,898	¥25,143	¥53,041
Other items:							
Depreciation	¥ 546	¥ 161	¥ 26	¥ 1	¥ 734	¥ 148	¥ 882
Capital expenditures	¥ 554	¥ 205	¥ 22	¥ 1	¥ 782	¥ 187	¥ 969

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

Geographical information

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

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

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

Major customer information

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

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

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

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

Information regarding an impairment loss on fixed assets by reportable segments

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

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

23. Significant Subsequent Events

a. Share consolidation

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

(1) Purpose of share consolidation

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

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

(2) Particulars of the consolidation

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

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

(iii) Number of shares reduced through consolidation:

Outstanding shares before consolidation (as of May 31, 2016) 48,675,000 shares

Number of shares reduced through consolidation 38,940,000 shares

Outstanding shares after consolidation 9,735,000 shares

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

(3) Effect on per share information

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

Net assets per share: ¥2,457.05 (\$22.15)

Net income per share: ¥92.33 (\$0.83)

b. Resolution regarding share repurchase and buyback of shares

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

(1) Reason for the share repurchase

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

(2) Type of shares to be acquired: Common stock

(3) Total number of shares to be acquired: Up to 1,000,000 shares

(4) Total value of shares to be acquired: Up to ¥300 million (\$2,704 thousand)

(5) Acquisition schedule: From July 26 to September 21, 2016

(6) Method of acquisition: Open market purchase using a trust

(7) Result of acquisition:

Total number of shares acquired: 952,000 shares

Total value of shares acquired: ¥299,860 thousand

(\$2,703 thousand)

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



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Independent Auditor's Report

The Board of Directors
 TOYO DENKI SEIZO K.K.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

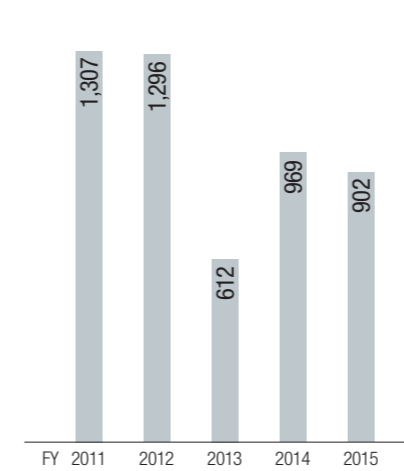
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

August 29, 2016
 Tokyo, Japan

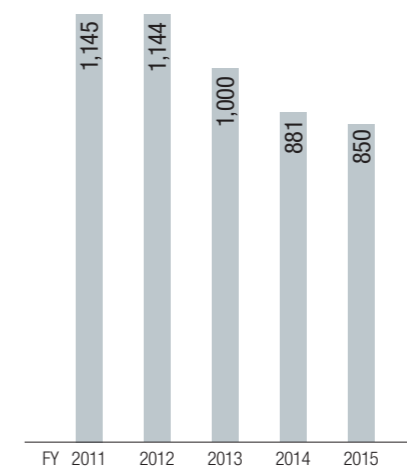
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Reference Data for Management Indices

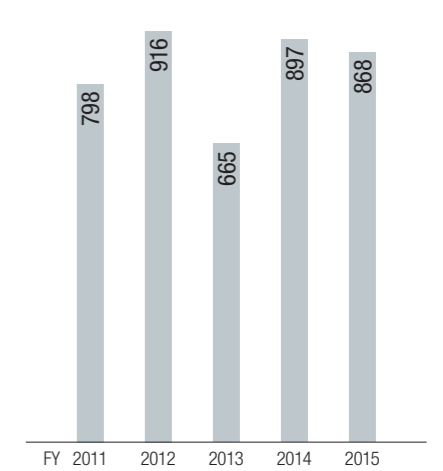
Capital investment (Unit: Million yen)



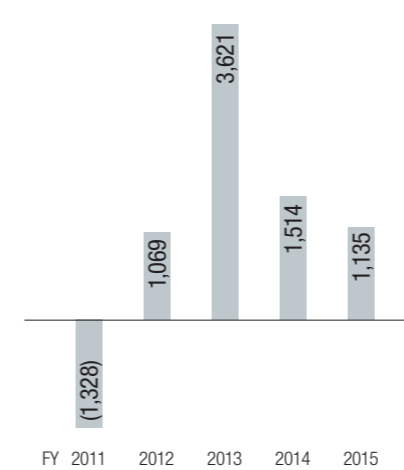
Depreciation and amortization (Unit: Million yen)



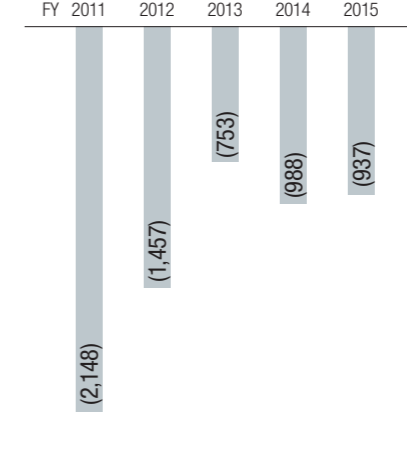
Research and development costs (Unit: Million yen)



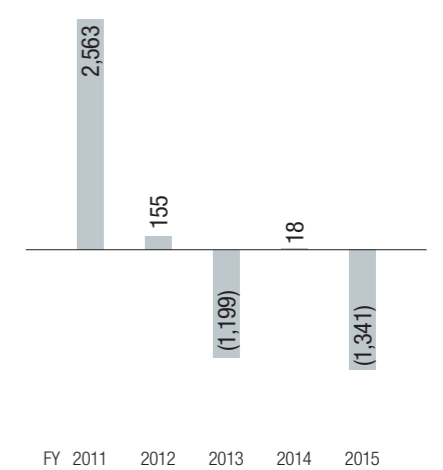
Cash flows from operating activities (Unit: Million yen)



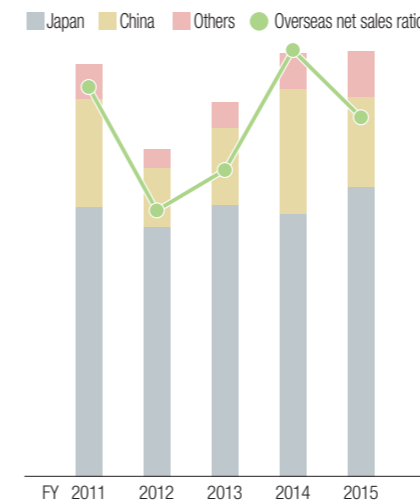
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	FY 2011	2012	2013	2014	2015
Japan	25,200	23,340	25,398	24,547	27,094
China	10,081	5,495	7,118	11,634	8,374
Others	3,289	1,738	2,440	3,435	4,277
Total	38,570	30,575	34,957	39,617	39,746
Overseas net sales ratio	34.7%	23.7%	27.3%	38.0%	32.0%

Company Profile (as of May 31, 2016)

Company Profile

Company Name	TOYO DENKI SEIZO K.K. (TOYO ELECTRIC MFG. CO., LTD.)
Established	June 20, 1918
Capital	4,998,390,000 yen
Number of Employees	1,245 (Consolidated) 824 (TOYO DENKI SEIZO K.K.)
Head Office	Tokyo Tatemono Yaesu Building, 1-4-16, Yaesu, Chuo-ku, Tokyo, 103-0028, Japan TEL +81-3-5202-8121 (General Affairs Division) https://www.toyodenki.co.jp/
Stock Exchange Listing	The Tokyo Stock Exchange, First Section
Code Number	6505
Number of Shares Authorized	180,000,000 shares
Number of Shares Issued	48,675,000 shares
Number of Shareholders	6,183

Subsidiaries and Affiliates

TOYOKOUKI Co., Ltd.
 Taihei Electric Co., Ltd.
 Toyo Sangyo Co., Ltd.
 TD Drive Co., Ltd.
 Toyo Shoji Co., Ltd.
 TOYO DENKI USA, INC.
 Toyo Denki (Beijing) Co., Ltd.
 Taiping Zhanyun Automatic Door (Changzhou) Co., Ltd.
 Hunan Xiangyang Electric Co., Ltd.
 Changzhou Ruiyang Transmission Technology Co., Ltd.
 Beijing Jingche Shuangyang Traction System Co., Ltd



Executive Profiles (as of August 26, 2016)



President,
Representative Director
Kenzo Terashima



Senior Managing Director,
Representative Director
Masami Tsuchiya



Senior Managing
Director
Hiroshi Shimotakahara



Director
Hiroyuki Arai



Director
Kenichi Gotoh



Director
Akihiko Ishii



Director
Akira Watanabe



Director (Outside)
Hirokazu Chinone



Director (Outside)
Takashi Yamagishi



Standing Statutory
Auditor (External)
Hiroshi Hamao



Standing Statutory
Auditor
Yoshihiko Yoshino



Statutory Auditor
(External)
Toshio Ikeda



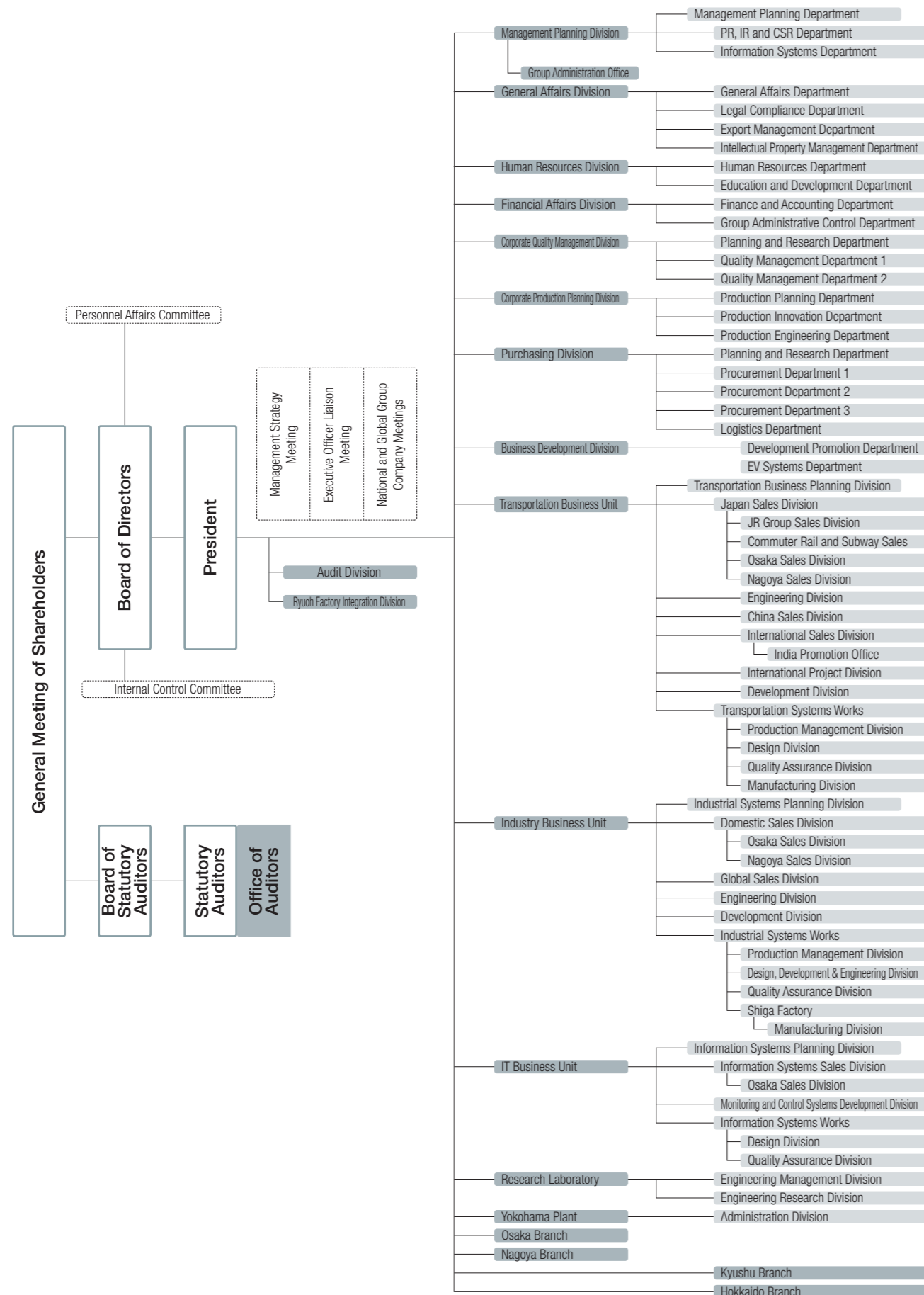
Statutory Auditor
(External)
Eiichi Suzuki

Senior Executive Officers
Executive Officers
Shuji Horie
Isami Takase

Yoshifumi Otsubo
Toshihiko Akihiro

Kenji Tanimoto
Tetsuto Iwaki

Yuji Nagano
Yukimasa Tanabe



Stock Related Information

Number of shares (As of May 31, 2016)

Number of shares authorized	180,000,000
Number of shares issued	48,675,000
Number of shareholders	6,183

Major shareholders

Shareholders	Number of shares held (Thousands)	% of total shares held
East Japan Railway Company	2,400	4.98
TOYOTA INDUSTRIES CORPORATION	2,100	4.35
Hitachi, Ltd.	2,100	4.35
Employees Stock Ownership Plan	1,887	3.91
NIPPON LIFE INSURANCE COMPANY	1,688	3.50
Japan Trustee Services Bank, Ltd. (Trust account)	1,403	2.91
Trust & Custody Services Bank, Ltd. (Pension trust account)	1,377	2.85
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,350	2.80
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/HENDERSON HHF SICAV	1,239	2.57
Toyo Denki Subcontract Factories Shareholding Association	1,086	2.25

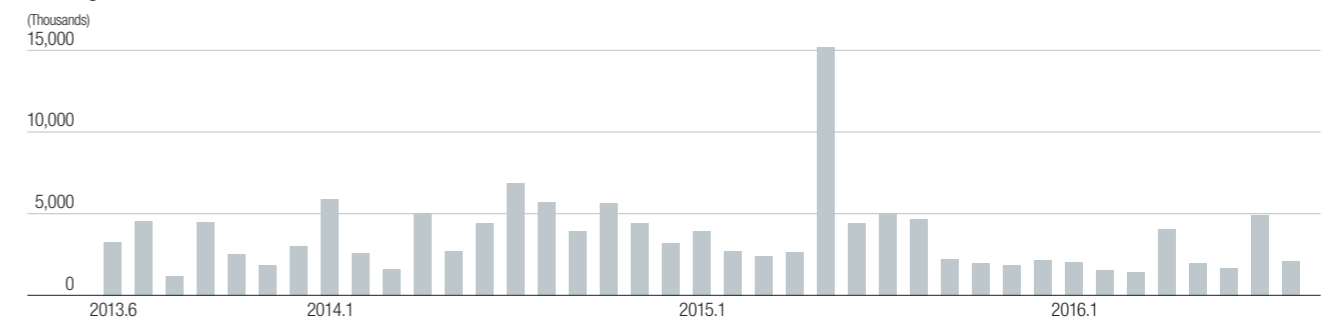
(Note) The percentages of total shares held are calculated excluding 493,000 treasury stocks held by the Company.

Transition of share price

Share price



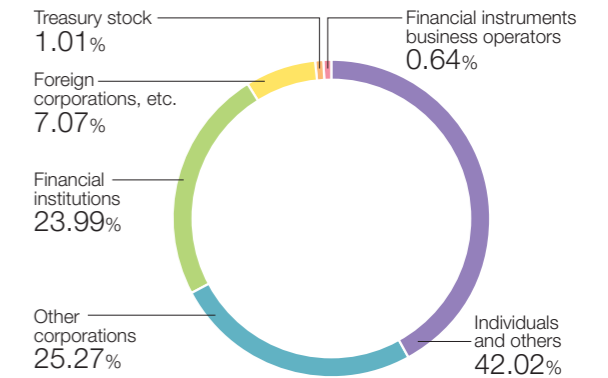
Trading volume



Disclaimer on the forward-looking statements

Information in this corporate report contains forward-looking statements. Such statements were developed based on the information available at the time when this report was prepared. These forward-looking statements may be largely revised in the future, and the actual outcome could significantly vary from the stated or implied contents of such statements subject to various factors. This report is not intended to solicit investment. Investors are kindly asked to make your investment decision at your own judgment and responsibility. Numbers presented in 100 million yen or million yen are rounded down to the nearest respective unit.

Distribution of shares by type of shareholder



Changes to share consolidation and the number of shares constituting one share unit

Effective as of December 1, 2016, the Company will implement a share consolidation (five shares consolidated into one share) and revise the number of shares constituting one share unit (from 1,000 shares to 100 shares).