

Toyo Denki Seizo Report **2017**

Our Heart and Technology for the Future



Toyo Denki Seizo K.K. Contributes to the Deve Social Infrastructure Sy

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.

CONTENTS

Contents / Editorial Policy / Long-Term Vision	1
Consolidated Financial Highlights	3
Message from the President	5
Construction of New Production Base in the Shiga, Ryuo Region	7
Business Report	9
CSR Report	15
Financial Report	31
Reference Data for Management Indices	58
Company Profile	59
Executive Profiles	60
Organization Chart	61
Stock Related Information	62

• 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 business, 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 2016 (from June 2016 to May 2017), 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"

Development of systems



Shiga Ryuo Plant (Conceptual drawing)
Completion is scheduled for January 2018
and full-scale operation for June 2018.

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.

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	152	153	154	155	156
	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016

(Unit: Million yen)

Fiscal Year					
Net sales	30,575	34,957	39,617	39,746	40,668
Gross profit	7,696	8,097	9,282	9,119	9,221
Operating income	501	1,076	1,596	1,638	1,571
Net income attributable to owners of the parent	722	644	1,105	889	1,174
Comprehensive income	3,761	1,421	5,468	(925)	1,513
Capital investment	1,296	612	969	902	4,606
Research and development costs	916	665	897	868	927
Fiscal Year-End					
Net assets	18,519	19,350	24,895	23,676	24,603
Total assets	42,364	44,752	53,041	50,233	54,927
Number of employees	1,170	1,201	1,216	1,245	1,262

(Unit: Yen)

Per Share Information					
Net assets	1,920.70	2,007.25	2,583.04	2,457.05	2,605.09
Net income	74.92	66.85	114.72	92.33	123.87
Dividend	6	6	6	6	30

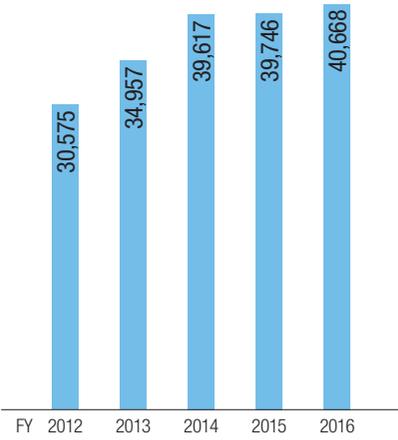
Note: Effective as of December 1, 2016, the Company implemented a share consolidation (five shares consolidated into one share). Net assets and net income are calculated on the assumption that the share consolidation was implemented at the beginning of the 152nd fiscal term.

Dividends are presented in the actual amounts paid.

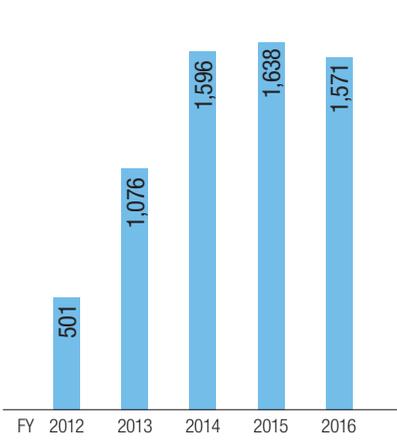
(Unit: %)

Major Management Indices					
Shareholders' equity ratio	43.7	43.2	46.9	47.1	44.8
Return on equity (ROE)	4.3	3.4	5.0	3.7	4.9
Operating income ratio	1.6	3.1	4.0	4.1	3.9
Overseas net sales ratio	23.7	27.3	38.0	32.0	31.1
Dividend payout ratio	40.0	44.9	26.2	32.5	24.2

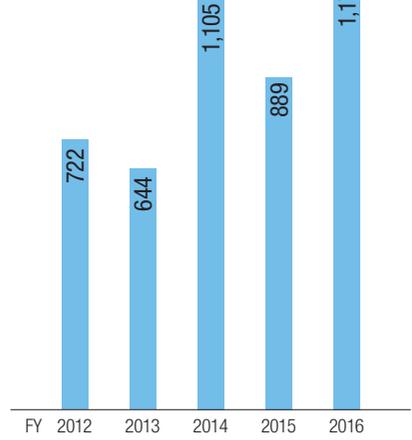
Net sales (Unit: Million yen)



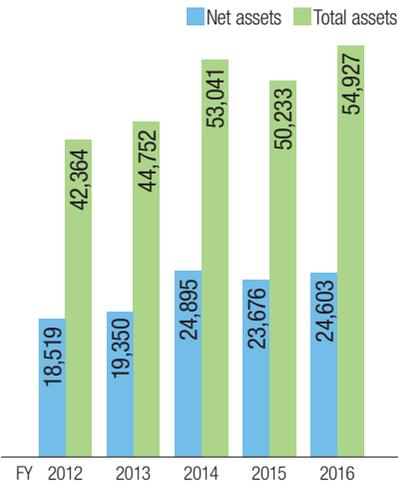
Operating income (Unit: Million yen)



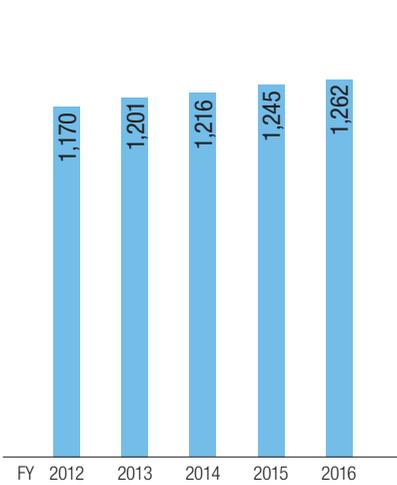
Net income attributable to owners of the parent (Unit: Million yen)



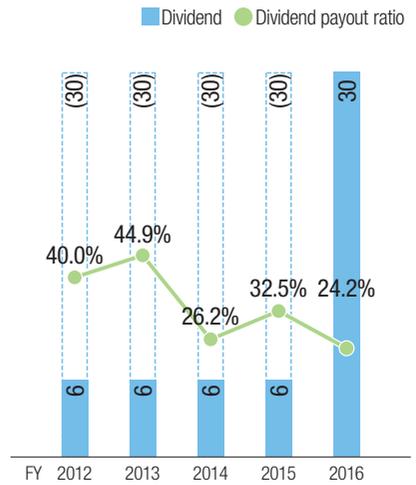
Net assets/Total assets (Unit: Million yen)



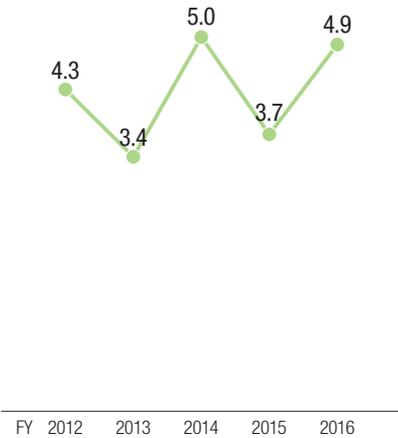
Number of employees (Unit: Persons)



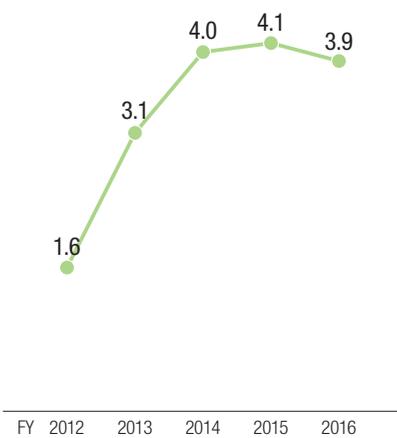
Dividend/Dividend payout ratio (Unit: Yen)



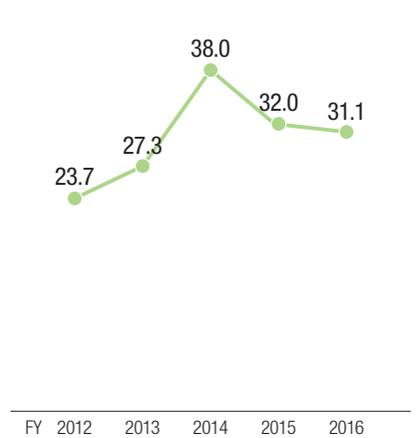
Return on equity (ROE) (Unit: %)



Operating income ratio (Unit: %)



Overseas net sales ratio (Unit: %)



Building a foothold for the next leap by steadily establishing a management foundation

Orders increased favorably and net sales topped 40.0 billion yen.

Both net sales and profits are expected to increase also in the fiscal year ending May 31, 2018.

In the fiscal year ended May 31, 2017, all three business segments secured more orders than the previous fiscal year and we achieved a year-on-year increase of 2.3% in net sales, mainly attributable to the Transportation Systems segment and the Information Equipment Systems segment. Orders of 43.3 billion yen and net sales of 40.6 billion yen are both all-time highs since 2000. Ordinary income increased 11.5% year on year and net income attributable to owners of the parent grew 32.0% year on year thanks to a sharp decrease in exchange losses, although operating income declined from the previous fiscal year due to decreased profits in the Industrial Systems segment.

In the Transportation Systems segment, orders received for Chinese high-speed railways decreased since it was not the timing for rail vehicles to be replaced with new models, but orders increased in Japan, mainly from private railway companies. Coupled with the robust performance of the business for domestic buses, operated by a subsidiary, both net sales and profits in this segment increased.

In the Industrial Systems segment, net sales decreased due to a decline in sales for testing equipment for automobile

development, despite increases in orders for processing equipment and for overseas, mainly Southeast Asian countries and South Korea. Profits decreased significantly as a result of a decline in profitability in addition to the impact of net sales decrease. The decline in profitability was temporary, resulting from a longer-than-expected man hours required for designing in relation to the high functionalization of testing equipment for automobile development and its expansion to automotive parts manufacturers. We believe that the technologies and knowledge acquired through this experience will fully contribute to future market expansion.

In the Information Equipment Systems segment, the increase in orders through acquisition of orders for large-scale projects of composite commuter pass issuing machines that can singlehandedly issue a variety of tickets resulted in sharp increases in net sales and profits.

Looking at the future business environment, the overall economy is expected to continue a gradual recovery in the near term. Investments in railway infrastructure are projected to continue expanding in China and the ASEAN countries and demands are increasing toward the hosting of the Tokyo 2020 Olympic and Paralympic Games. With regard to consolidated financial results for the fiscal year ending May 31, 2018, we project increases in both net sales and profits, since the order backlog has increased in all the three business segments and more orders are expected.

International competitiveness was strengthened and restructuring of production systems progressed.

Advancing in the initiatives for development of new businesses and technologies.

The medium-term management plan “NEXT 100: Beyond 100 years, Ver. 2,” which has been under way, is aimed at building a management foundation toward significant growth in the future through such basic policies as “strengthening international competitiveness,” “restructuring production system” and “developing new businesses and technologies,” with a focus on “building a stable business earnings structure,” in the two-year period from fiscal 2016 to fiscal 2017.

With regard to “strengthening international competitiveness,” we are accelerating development in China in the Transportation Systems segment. We have captured demands associated with the introduction of standard vehicles of high-speed railways and expanded the maintenance business for electrical equipment for subway vehicles in Beijing. Furthermore, to expand the subway-related business from Beijing to other regions, we will en-



President,
Representative Director
Kenzo Terashima

gage in local production of pantographs at Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd., which was established in Chengdu. Other than China, we will seize the opportunities for market expansion in India and the ASEAN region. In the Industrial Systems segment, orders for generators and processing machines are increasing in Asia due to the effect of establishing a representative office in Thailand in 2014. As for testing equipment for automobile development, we are currently strengthening our sales activities for parts manufacturers in addition to finished vehicle manufacturers.

Regarding “restructuring production system,” construction work of the Shiga Ryuo Plant is advancing steadily and full-scale operation of the plant is expected to start in June 2018. We will realize more than 30% improvement in productivity by consolidating the development, design and production functions of the Industrial Systems segment, which are now dispersed in Yokohama and Shiga, into the new plant. At the same time, we will expand business domains by expanding the lineup of motors and inverters and enhancing the competitive advantage of our products, such as by adding higher values to generators, and will thereby increase net sales. Meanwhile, we will push forward with the restructuring of the production lines at the Yokohama Plant to reinforce production capability of the Transportation Systems segment.

With regard to “developing new businesses and technologies,” we are working on development projects, with an eye on future growth domains in the Transportation Systems segment and the Industrial Systems segment, including “inverters adopting silicon carbide (SiC) elements” that contribute to space and energy saving for rail vehicles, multifunctional testing equipment applicable for tests for electric vehicles (EVs) and hybrid electric vehicles (HEVs) and generation systems that support effective use of natural energies.

Unfortunately, we are unlikely to achieve the initial performance targets of the plan. However, we will steadily establish a management foundation over the next year to build a foothold for the next leap.

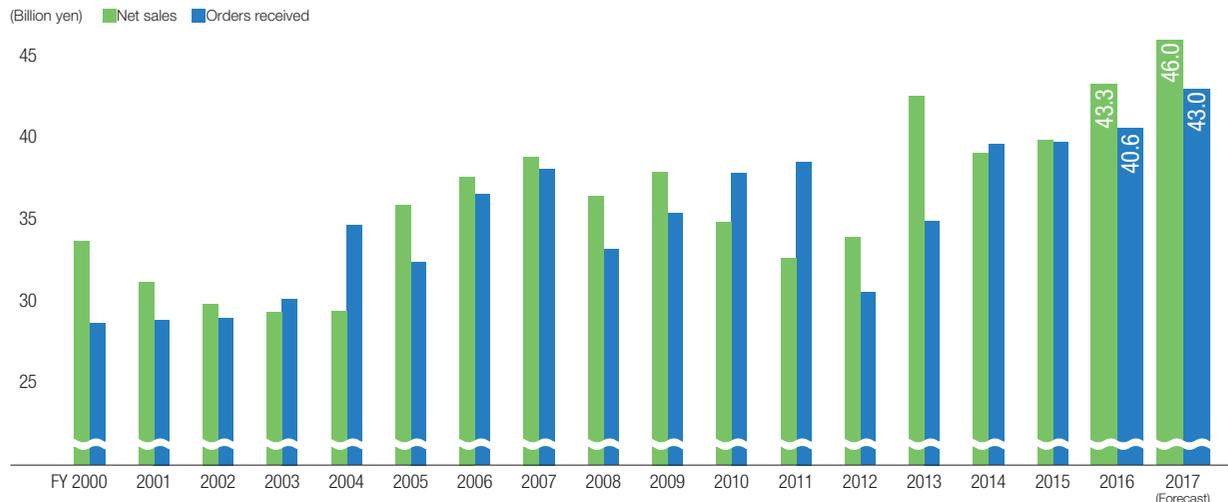
Understanding that contribution to the establishment of railway and industrial infrastructure is the mission of the Company and the basis of environmental, social and governance (ESG), we will strive to consolidate our position as a specialized manufacturer by taking on the challenge of innovation for providing further values.

The Company will continue product development that contributes to environmental loading reduction, based on such keywords as “energy conservation,” “high efficiency” and “clean.”

Since we operate in the railway transportation domain, which is of a highly public nature and requires a high level of safety, we are striving to improve and develop our business in the recognition that our business itself contributes to society. Therefore, we aim to be a “company needed by society” and “build a solid position as a specialized manufacturer” through development and innovation of environment-friendly products. At the same time, we will enhance our foundation for growth by pushing forward with utilization of diverse human resources and diverse work styles in order to raise the job satisfaction of employees, those of which are the starting point of value creation cycle of the Company.

We will realize a company that is trusted by all stakeholders and live up to their expectations by achieving sustainable development through the initiatives mentioned above.

All-time highs since 2000 posted in both orders received and net sales on a consolidated basis



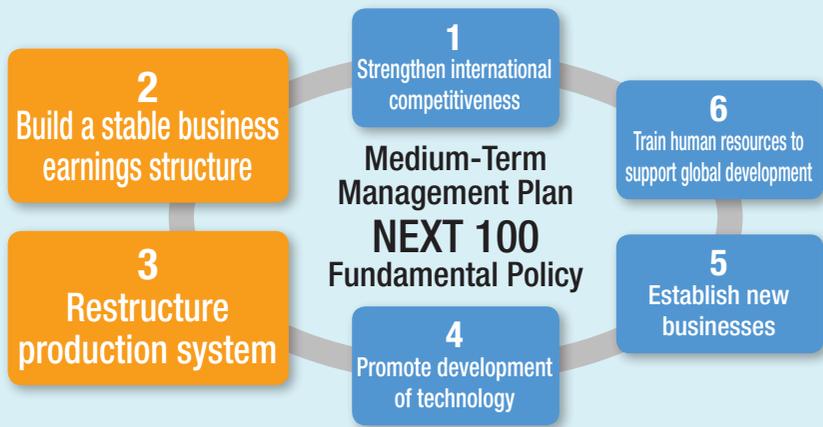


Restructuring production systems

Commencement of construction of a new production base in Ryuo Town, Shiga Prefecture

We commenced the construction of a new production base in Ryuo Town, Shiga Prefecture this March. Building this new production base is one of the core measures of our medium-term management plan, “NEXT 100: Beyond 100 years, Ver. 2,” implemented as a foothold to expand our business scale as well as to establish a stable business earnings structure.

At the new production base, we aim to increase production efficiency by grouping up the previously scattered production bases of the Industrial Systems segment, alongside working towards the expansion of our business areas and increase of sales through the strengthening of our research and development function.



Overview of the new factory

Name	TOYO DENKI SEIZO K.K. Shiga Ryuo Plant
Location	2911-6 Oaza Okaya Ryuo Town, Gamo District, Shiga Prefecture (Shiga Ryuo Industrial Park vicinity)
Land area	Approx. 32,706 m ²
Total floor area	Approx. 19,997 m ²
Total investment amount	Approx. ¥7.0 billion (Land, buildings, equipment)
Financing plan	Self-financing and loans
Products	Products for Industrial Systems segment (Industrial motors and inverters, etc.)

Schedule for Shiga Ryuo Plant

March 1, 2017:	Ground-breaking ceremony
May 26, 2017:	Column-setting ceremony
September 21, 2017:	Framework-raising ceremony
January 3, 2018:	Completion
March 2018:	Start of operation
June 2018:	Full-scale operation



Ground-breaking ceremony



Framework-raising ceremony



Inside the plant in September 2017

Main concepts of the Shiga Ryuo Plant



Our coming schedule

The construction of the new production base is progressing as planned, and we are smoothly reaching a turning point towards its completion in January 2018. We plan to start working on the relocation and installation of production equipment after completion, and commence partial operation in March 2018. Full-scale operation is expected in June of the same year, coinciding with our 100th anniversary of foundation.

At the same time, we plan to increase the productivity of Yokohama Works, the production base of the Transportation Systems segment. Through expanding both of our core segments, the Industrial Systems segment and the Transportation Systems segment, we plan to achieve further growth.



BUSINESS

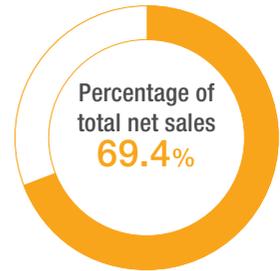


- 10** Transportation Systems segment
- 11** Industrial Systems segment
- 12** Information Equipment Systems segment
- 13** Expansion of New Businesses
- 14** Research and Development/
Intellectual Property

Support railway transportation that connects people and cities with safety and trust, through manufacturing that merges electronics technologies and mechanical technologies in a highly advanced manner

Business Overview

Electrical equipment for rail vehicles manufactured by the Company using its technological capability developed over about a century covers a wide range of fields, including propulsion systems (drive systems), auxiliary power supply and door-closing units of trains, and we contribute to the maintenance and development of railway infrastructure overseas, not to mention in Japan, by pursuing safety and comfort of trains.



Results for fiscal 2016

■ Orders Received
29,366 million yen
(Up 8.4% year on year)

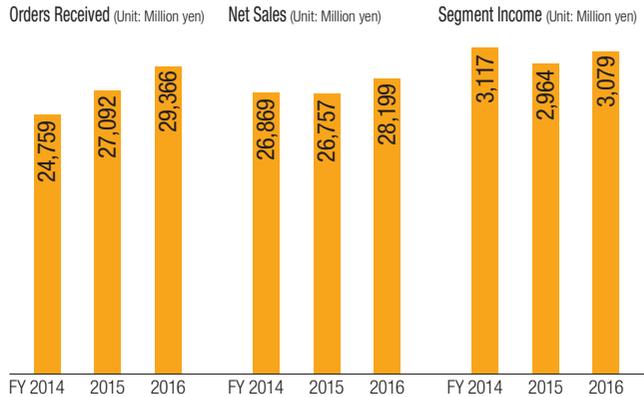
Orders received increased 8.4% compared with the previous fiscal year to 29,366 million yen, led by upturns in Japan mainly due to demand ahead of the Tokyo 2020 Olympic and Paralympic Games.

■ Net Sales
28,199 million yen
(Up 5.4% year on year)

Net sales totaled 28,199 million yen, a 5.4% increase from the previous fiscal year, due to an increase in Japan.

■ Segment Income
3,079 million yen
(Up 3.9% year on year)

Segment income increased 3.9% compared with the previous fiscal year to 3,079 million yen.



TOPICS

Development and Delivery of VVVF Inverter Using SiC Element^{*1}

With regard to the retrofit of main circuit device of Type 3900 trains for Hiroshima Electric Railway Co., Ltd., we delivered VVVF inverters using silicon carbide (SiC) elements instead of the conventional VVVF inverters using reverse conducting GTO elements^{*2}.



Hiroshima Electric Railway Co., Ltd. Type 3900 trains

Features of the retrofitted VVVF inverters are as follows:

- Reduction of 35% in both volume and mass compared with previous VVVF inverters
- Reduction of workload of train drivers through setting a new function that enables constant-velocity drive

Type 3900 trains for Hiroshima Railway are articulated vehicles of three bodies and four trucks, which made the debut in 1990, and directly run between inner-city lines (tracks) and the Miyajima Line (ordinary railway). Type 3900 trains equipped with the new VVVF inverters started commercial operation from the end of February 2017.

The Company will continue to contribute to realizing an energy-saving society by expanding the use of electrical equipment using SiC element.

*1: An element using silicon carbide (compound of carbon and silicon) as reflux diodes.

*2: An element that incorporates Gate Turn-Off thyristor and reflux diodes into one package.

Establishment of a new company in Chengdu, China

The Company has expanded its business in China, chiefly the delivery of electrical equipment for railway vehicles of urban transit and high-speed railway, since the late 1990s. The Company established a new production base in Chengdu, a major city in China, to further reinforce its business. The new company will mainly assemble and test pantographs for urban transit railway vehicles.



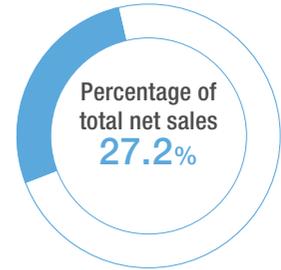
A pantograph

Company name:	Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd.
Location:	Chengdu, Sichuan Province
Establishment:	August 23, 2017
Business activities:	Manufacture, sales, etc. of electrical equipment (mainly pantographs) for urban transit railway vehicles
Investment ratio:	Zhejiang Yonggui Electric Equipment Co., Ltd.: 51% Toyo Denki Seizo K.K.: 49%

Deliver technologies and gratitude to customers with highly precise, highly responding and highly efficient power electronics, for realization of an environment-friendly society

Business Overview

The Company is extensively contributing to customers at home and abroad through general industrial machinery and equipment, testing equipment for automobile development and social infrastructure equipment that is indispensable to the daily lives of people. In addition, we address manufacturing that contributes to the prevention of global warming, while providing products manufactured through high system-building technologies that make full use of energy-saving motors, inverters, FA controllers and networks.



Results for fiscal 2016

Orders Received
12,194 million yen
(Up 6.8% year on year)

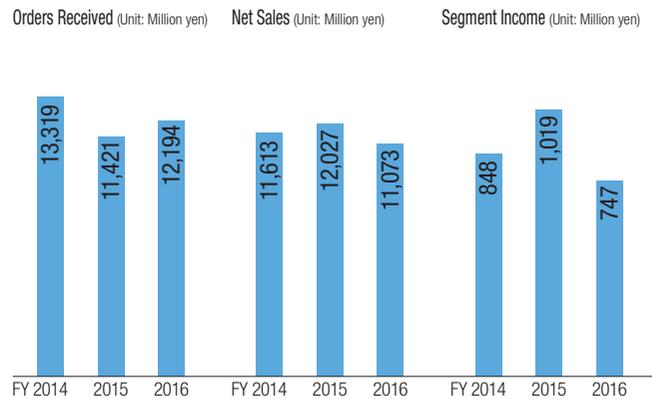
Orders received increased 6.8% compared with the previous fiscal year to 12,194 million yen, due to increased orders for processing equipment and outside Japan.

Net Sales
11,073 million yen
(Down 7.9% year on year)

Net sales decreased 7.9% year on year to 11,073 million yen, due to decreases in sales of testing equipment and processing equipment.

Segment Income
747 million yen
(Down 26.7% year on year)

Segment income totaled 747 million yen, a 26.7% decrease compared with the previous fiscal year, due to a decrease in sales and development costs of multi-functional testing equipment.



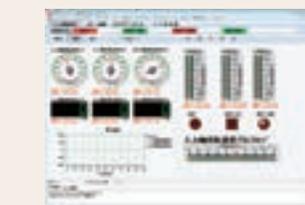
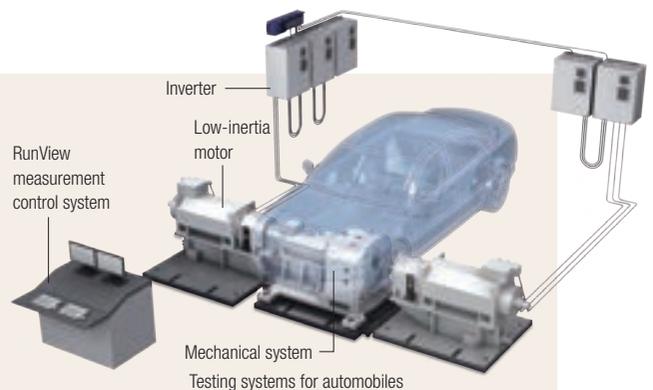
TOPICS

Further improvement of convenience and operability of testing equipment for automobile development ~ Development of measurement control system RunView

The newly developed measurement control system, RunView, enables customers who perform tests to conduct tests under wide-ranging conditions by freely customizing user interfaces, including intuitive operation, flexible composition and changes/revisions of monitor displays.

The Company has developed solution systems in which inverters and machines are combined, with a focus on the development of low-inertia, high-torque motors as well as dynamos. The addition of this measurement control system to such solutions will enable us to respond to a wider range of requests of customers in automobile development processes.

We will strengthen our proposal capabilities to parts manufacturers, in addition to automobile manufacturers, by further enhancing these comprehensive solutions.



Display example of RunView measurement control system

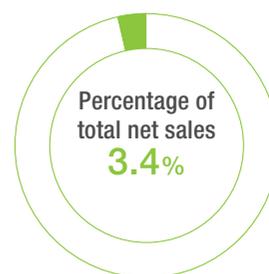
Provision of products that make the execution of operations on station premises and trains smooth and convenient and M2M solutions based on mobile phone networks and cloud servers using remote monitoring system

Business Overview

In the Information Equipment Systems segment, we operate in the two fields of railway station operating equipment and remote monitoring systems, by merging advanced telecommunication technologies and mechatronics.

With regard to railway station operating equipment systems, we develop and manufacture commuter pass issuing machines that quickly became IC card compliant and portable terminal devices for conductors, and provide systems for smooth toll collection and income management system to railway operators.

Our remote monitoring systems greatly contribute to labor saving and maintenance saving of customers through realization of various equipment monitoring and position monitoring, by leveraging cloud computing.



Results for fiscal 2016

■ Orders Received
1,788 million yen
(Up 30.6% year on year)

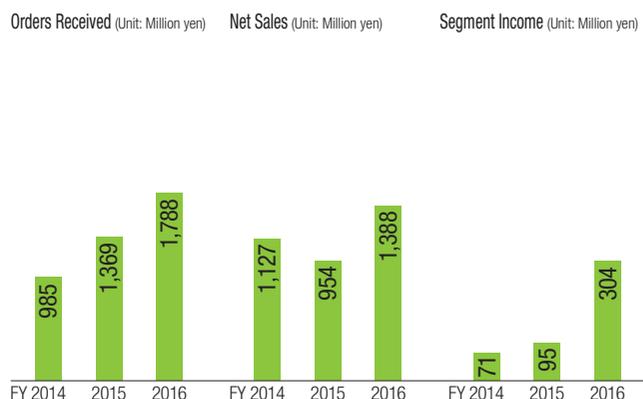
Orders received increased 30.6% compared with the previous fiscal year to 1,788 million yen, due to the receipt of a large-scale order for railway station operating equipment.

■ Net Sales
1,388 million yen
(Up 45.4% year on year)

Net sales increased 45.4% year on year to 1,388 million yen for a reason similar to that for increased orders received.

■ Segment Income
304 million yen
(Up 218.8% year on year)

Segment income increased 218.8% compared with the previous fiscal year to 304 million yen.



TOPICS

Order received for IC station terminal devices for the Bureau of Transportation of the Tokyo Metropolitan Government

We have received order for IC station terminal devices from the Bureau of Transportation of the Tokyo Metropolitan Government, following the order received for commuter pass issuing machines for the Transportation Bureau of the City of Yokohama last year. The hardware of this product is a composite ticket vending machine that can handle IC card-related business processing and singlehandedly issue a variety of tickets such as commuter passes, standard tickets, books of tickets and special tickets. However, the specification of the IC station terminal devices is limited to IC card-related business processing and issuance of special tickets.

The terminal devices conform 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.



Composite ticket vending machine (separate type)

Initiatives in distributed power source (small-scale hydropower, solar, 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, solar, 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

Data logger unit

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 "IORemoter," 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



IORemoter

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 2016

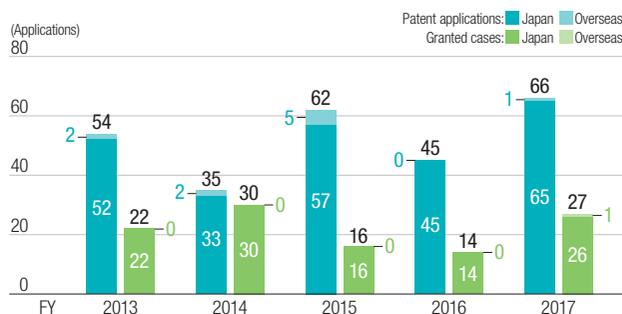
Segment	Project	Description
Transportation Systems	Development of VVVF inverter unit to which SiC semiconductor is applied	Developed our first VVVF inverter for commercial vehicles, to which silicon carbide (SiC) semiconductor is applied, for replacement of streetcars.
	Development of parallel cardan electrical equipment for super low floor type trains	Developed super small-diameter induction motor and drive unit, which enable the application of the parallel cardan drive method to super low floor type trains.
Industrial Systems	Development of high-torque, super low-inertia motor	With regard to high-torque motors used as alternative loads on the wheel side at automobile testing facilities, developed a high-torque, super low-inertia motor, whose inertia is lowered to as low as 45% of that of conventional motors.
	Development of dual bench	Developed a dual bench that can conduct evaluation tests both on torque converters and clutch packs, both of which are automotive parts, by using our proprietary transfer mechanism. This bench can singlehandedly conduct the two kinds of evaluation tests that previously required individual test devices for each test.
Information Equipment Systems	Development of software module for railway station operating equipment	Developed a common software module for various types of railway station operating equipment for the purpose of quality improvement. This module is also effective in reducing development costs at the time of repair.
	Improvement of various ticket issuing machines	With regard to composite ticket issuing machines and small ticket vending machines, realized addition of functions to hardware and standardization of control boards.
Research Laboratory	Basic development of control system for industrial use, compliant with IoT	To expand overseas development of industrial equipment, developed a system with basic IoT functions in consideration of IoT standards for plants, including "Industrie 4.0" of Germany and "Industrial Internet Consortium (IIC)" of the U.S., and built a prototype system modeled on a system in a small plant.
	Research on wireless power transmission	Succeeded for the first time in the world in power supplying from coils laid in roads to in-wheel motors during the actual vehicle run. With regard to this system, our research laboratory was responsible for the development of a converter and its controller that wirelessly transmits power via coils between the vehicle body and wheels and between the ground and wheels as well as an in-wheel motor mounted on wheels, and an inverter that controls the in-wheel motor. A joint paper on this research, which was mainly written by an employee of our research laboratory, won the 2017 IEEE Power Electronics Transactions First Paper Award of the Institute of Electrical and Electronics Engineers (IEEE).

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

Environment

16 Initiatives to Protect the Environment

Social

19 With Our Customers

20 With Our Suppliers

21 With Our Shareholders and Investors

22 Contributions to Local Communities

23 With Our Employees

Governance

25 Corporate Governance

27 Internal Control and Compliance

27 Risk Management

27 Information Security

28 Business Risk

29 Data

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

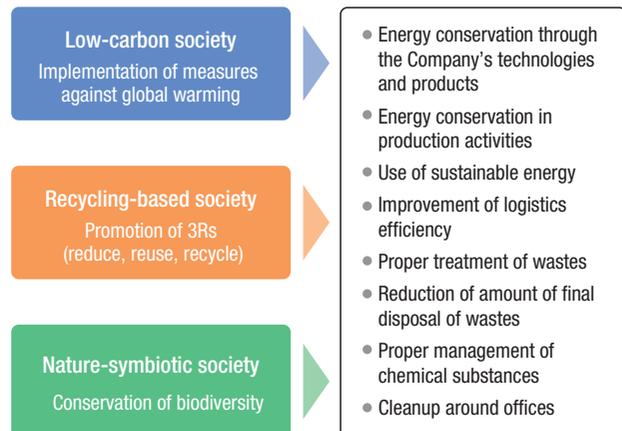
Aiming for Realization of a Sustainable Society

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

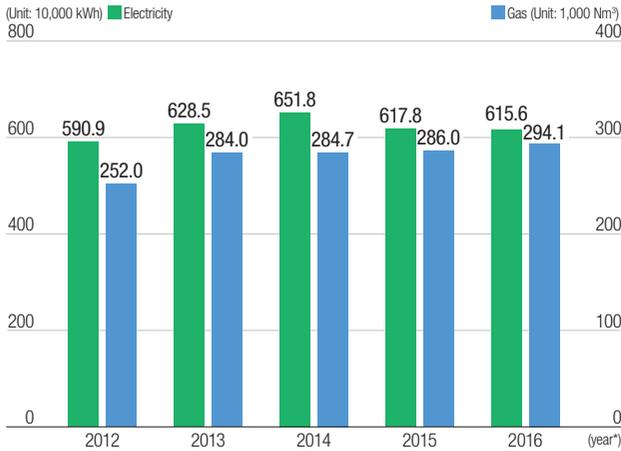
● Initiatives to reduce greenhouse gas (CO₂) emissions

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.

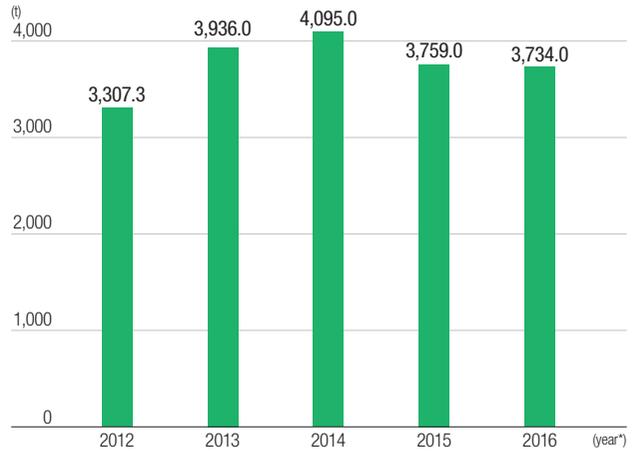
● Targeted reduction of CO₂ emissions and progress status

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 0.9% in fiscal 2016.

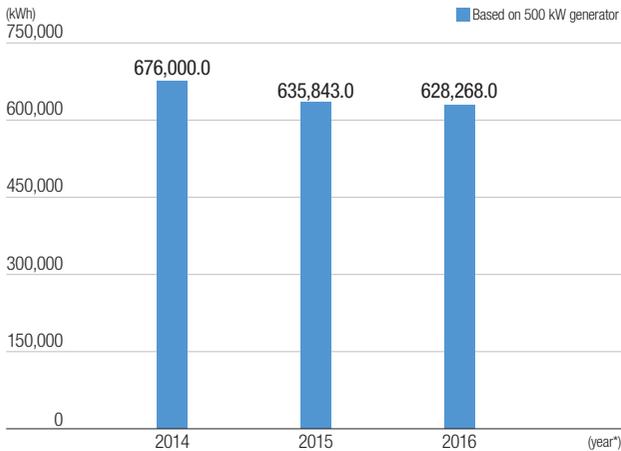
● Total energy input at Yokohama Plant (electricity and gas)



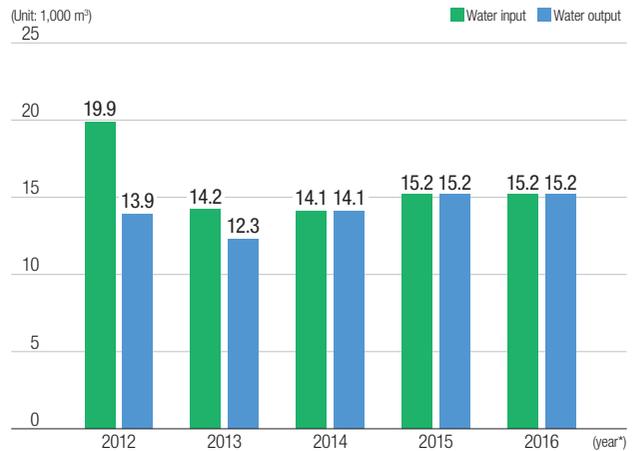
● Total CO₂ emissions at Yokohama Plant



● Total solar power generation at Yokohama Plant



● Total water input/output at Yokohama Plant



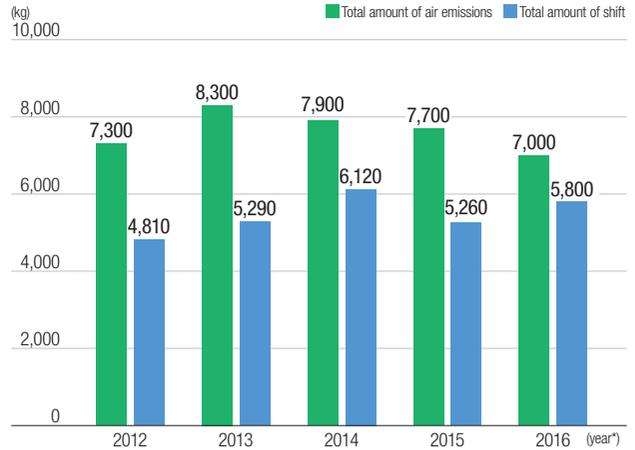
*The fiscal year is from April to March of the following year.

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.

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

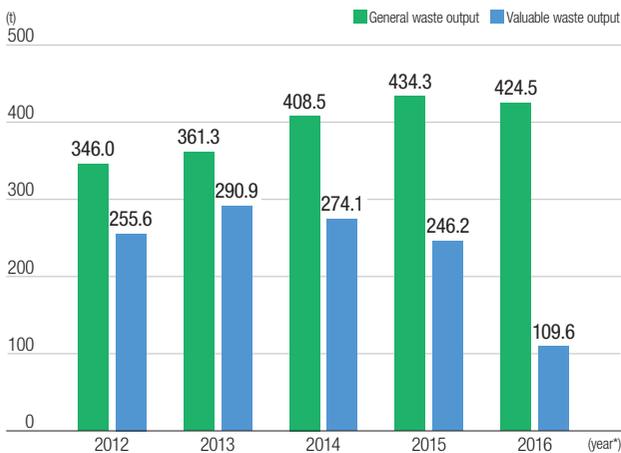


Initiatives for Reducing Disposed Waste as Well as Recycling

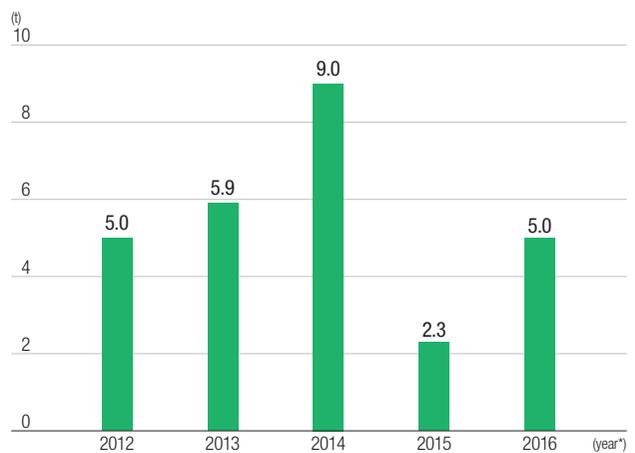
● Main actions

The Company successfully reduced its landfill waste rate to 0.9% in fiscal 2016, as a result of thoroughly implementing waste processing rules, sorting of metal waste and recycling of paper resources.

● Output of general and valuable waste



● Volume of landfill waste



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 (SIV).

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.

Formulation of "Procurement Action Guidelines" (formulated in February 2016)

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

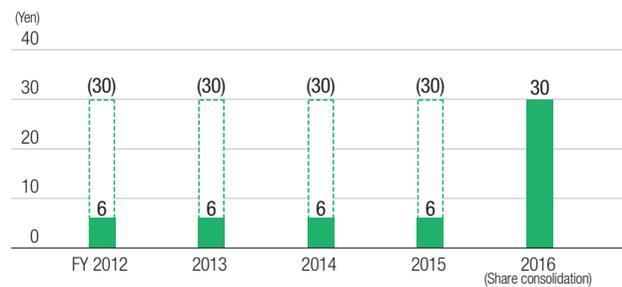
Friday, April 14, 2017 at the Yokohama Plant
Attendance: 32 people

● 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, 2017 was 30 yen per share (interim dividend of 0 yen, fiscal year-end dividend of 30 yen).

Effective as of December 1, 2016, the Company changed the number of shares constituting one share unit from 1,000 shares to 100 shares, and implemented a stock consolidation at the ratio of five shares to one share at the same time. Since the theoretical value per share has increased fivefold as a result of the share consolidation, we increased the dividend per share from 6 yen to 30 yen.

● Dividend per share



Record of 156th Ordinary General Meeting of Shareholders
Date held: Tuesday, August 29, 2017
Attendance: 127 people



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

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)

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 under the education and training system diagram as shown below.

Human Resources Development 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.



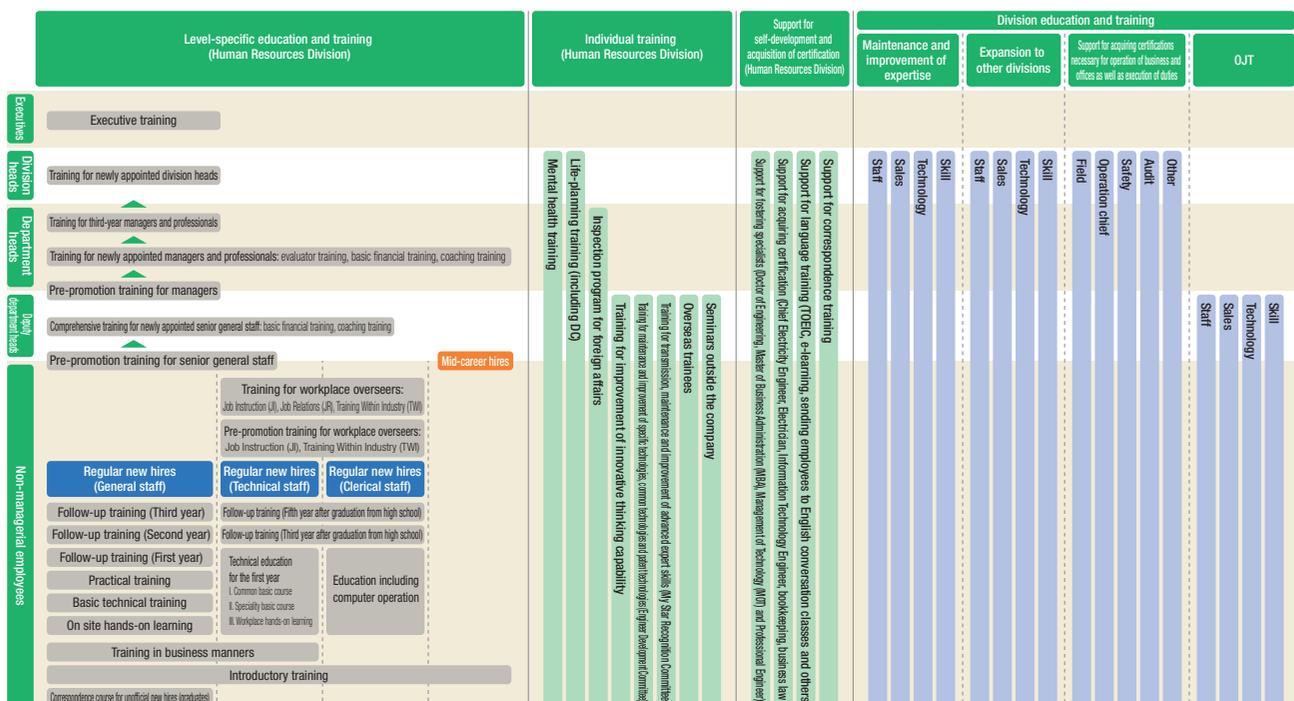
Training for new employees

Furthermore, for the purpose of developing human resources that support global development, we offer an overseas trainee program and various language programs tailored to the level of participating employees.

To maintain high quality and pass on outstanding technologies and skills, the Company works on education on maintenance and improvement of expertise individually at each division and encourages employees on a company-wide basis to obtain public certifications.

Furthermore, employees with exceptional manufacturing skills or expertise are recognized as "Technical My Star" internally and given responsibility to instruct and train younger employees. At the Technical Training Center, established within the Yokohama Plant, training is carried out for technical staff through lectures and various hands-on workshops.

Education and training system diagram



Creating a Pleasant Workplace

● Safety and hygiene initiatives

Under the “Company-Wide Safety and Hygiene Management Policy,” formulated every fiscal year, the Company holds the Safety and Hygiene Committee monthly at each office, where annual plans are drawn up and ongoing discussions are held in order to build a safe working environment, to reduce workplace injuries to zero and to find solutions to issues, including mental health. In addition, the Company holds the “Company-Wide Safety and Hygiene Committee” every quarter to promote sharing of information between offices as well as between Group companies.

● 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.

● 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.

Work and family life balance

I am struggling every day, feeling grateful for the understanding of colleagues at work.

Chika Yamaya (China Sales Division, Transportation Business Unit)

I returned to duties at the China Sales Division, where I had been assigned previously, in May 2017 after having taken maternity and childcare leaves of about one and a half years.

It was a natural choice for me to continue working after I had a child, probably because I had grown up looking at the back of my working mother. However, I had a rough time in finding a day nursery, and now I work by leaving my child in a non-certified nursery. At first, I was anxious about leaving her at a nursery for many hours. However, such anxiety was blown away as I watched my daughter pleasantly go to nursery with a smile every day. Now, both my daughter and I live each day to the fullest.

In fact, my husband is also an employee of the Company. Thanks to understanding at workplace of each other, we are tiding over

hard times. For example, when our daughter runs a fever, we take a leave by turns. With no relatives around to turn to, such cooperation from my husband is a great help as we both work. I will try my best in confronting the work, so that I can not only fulfill my roles as a parent but also contribute to society as a person, while continuing to cooperate with my husband in rearing our daughter.



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 eight 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 Manage-

ment 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.

● 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, provides useful advice regarding management in general, drawing on his wealth of corporate management experience in Japan and overseas and his superior expertise.

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

Mr. Yoshinori Kawamura, our External Statutory Auditor, was newly appointed as an External Statutory Auditor at the 156th Ordinary General Meeting of Shareholders (August 29, 2017). He serves as Professor of Faculty of Commerce, Waseda University, with experiences as Secretary and Special Member of the Business Accounting Council of the Financial Services Agency, and an examiner of the Certified Public Accountant Examination, etc. We look forward to his auditing activities,

drawing on his expertise regarding corporate finance and accounting developed thus far.

The Company has appointed Mr. Hirokazu Chinone, Mr. Takashi Yamagishi and Mr. Yoshinori Kawamura as independent directors and registered them as such at Tokyo Stock Exchange, Inc.

● Executive Remuneration

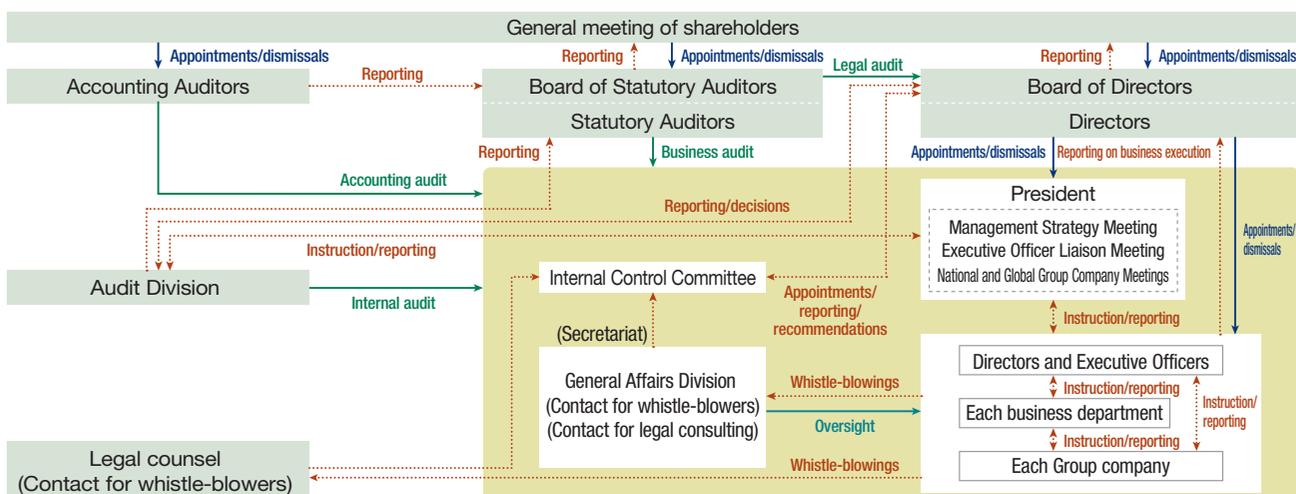
Total amounts of remuneration for Directors and Statutory Auditors are decided by a resolution at the General Meeting of Shareholders. Basic remuneration for Directors is a fixed salary while a bonus is payable as determined by each Director's contribution to management as well as business results of 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 2017)

Category of executives	Number of executives applicable	Total amount of remuneration (Unit: Million yen)
Directors (excluding Outside Directors)	8	145
Statutory Auditors (excluding External Statutory Auditors)	1	14
Outside Executives (Outside Directors and External Statutory Auditors)	5	38

(Note) The number of executives applicable mentioned above includes one Director who retired from office at the end of the 155th Ordinary General Meeting of Shareholders held on August 26, 2016.

● 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 pursuant to Article 362 of the Companies Act and Article 100 of the Ordinance for Enforcement of the Companies Act. The Internal Control Committee established under the Board of Directors reviews the operational status of the internal control system and will revise it as necessary.

● 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.

Data Concerning Personnel and Labor

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

Item	Unit	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Number of employees	Total	791 *	797 *	804 *	824 *	832 *
	Men	735	737	740	761	768
	Women	56	60	64	63	64
Ratio of female employees	%	7.1	7.5	8.0	7.6	7.7
Number of administrative professionals	Total	152	156	151	155	150
	Men	151	155	149	151	146
	Women	1	1	2	4	4
Ratio of female administrative professionals	%	0.7	0.6	1.3	2.6	2.7
Average age	Overall	41.0	41.1	40.5	40.4	40.4
	Men	41.1	41.2	40.7	40.4	40.4
	Women	38.9	39.0	38.7	39.5	40.1
Average years of employment	Overall	16.1	16.3	15.8	15.4	15.2
	Men	16.3	16.5	15.9	15.5	15.2
	Women	14.5	14.5	14.5	14.1	14.8
Average annual salary	Yen	5,885,559	5,750,453	5,888,577	6,024,175	5,990,250
Overturn rate (within 3 years of joining the Company)	%	3.8	7.7	0.0	3.4	2.0
Number taking childcare leave	Persons	3	4	5	7	9
Number taking family care leave	Persons	0	0	0	0	0
Number of temporary staff (including part-timers)	Persons	167	158	153	160	152
Notes		* 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 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Number of Officers	Total	10	11	12	13	13
	Men	10	11	12	13	13
	Women	0	0	0	0	0
Notes		For each fiscal year as of May 31 Executives include Directors and Statutory Auditors (including Internal and External)				

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 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Number of employees on a consolidated basis	Persons	1,170	1,201	1,216	1,245	1,262
Number of employees at Group companies in Japan and overseas	Persons	379	404	412	421	430
Number of temporary staff on a consolidated basis (including part-timers; stated in the Annual Securities Report)	Persons	256	255	214	274	233
Number of temporary staff (including part-timers)	Persons	89	97	61	114	81
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 the following day of 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 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 period of childcare leave 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 (by day or half day) may be taken per family member each leave year 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 subject family member, and the leave can be divided into up to 3 parts.
	Family care work hours	Separately from family care leave, employees may use short working hours for family care twice or more during the 3-year period from the starting of use (Working hours may be set at 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 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Remarks
Electric power (10,000 kWh)	Production bases total		624.1	664.8	684.3	648.8	647.2	
	Yokohama Plant		590.9	628.5	651.8	617.8	615.6	
	Shiga Factory		33.2	36.3	32.5	31.0	31.6	
	Non-production bases total		31.2	27.9	30.1	26.6	26.7	*1
Solar power generation (kWh)	Based on 500 kW generator	Yokohama Plant	43.4	67.5	67.6	63.6	62.8	*3
Urban gas (1,000 Nm ³)	Production bases total		252.0	284.0	284.7	286.0	294.1	
	Yokohama Plant		252.0	284.0	284.7	286.0	294.1	
	Shiga Factory		-	-	-	-	-	*2
	Production bases total		19.9	14.2	14.1	15.2	15.2	
Water input (1,000 m ³)	Yokohama Plant		19.9	14.2	14.1	15.2	15.2	
	Shiga Factory		0.0	0.0	0.0	0.0	0.0	*2
	Production bases total		13.9	12.3	14.1	15.2	15.2	
	Yokohama Plant		13.9	12.3	14.1	15.2	15.2	
Water output (1,000 m ³)	Shiga Factory		0.0	0.0	0.0	0.0	0.0	*4
	Production bases total		3,456.3	4,122.0	4,265.0	3,924.0	3,895.0	
	Yokohama Plant		3,307.3	3,936.0	4,095.0	3,759.0	3,734.0	
	Shiga Factory		149.0	186.0	170.0	165.0	161.0	
CO ₂ emissions (t)	Non-production bases total		169.0	168.0	180.0	152.0	158.0	

PRTR Data

Indices		Applicable premises	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Remarks	
PRTR ⁵	Total amount of air emissions (kg)		7,300	8,300	7,900	7,700	7,000		
	Total amount of shift (kg)		4,810	5,290	6,120	5,260	5,800		
	Ethylbenzene (kg)	Total amount of air emissions	Production bases total	1,800	2,000	2,000	2,200	2,400	
			Yokohama Plant	1,800	2,000	2,000	2,200	2,400	
			Shiga Factory	0	0	0	0	0	
		Total amount of shift	Production bases total	330	430	670	470	600	
			Yokohama Plant	330	430	670	470	600	
			Shiga Factory	0	0	0	0	0	
	Xylene (kg)	Total amount of air emissions	Production bases total	2,900	3,300	3,400	2,600	2,100	
			Yokohama Plant	2,900	3,300	3,400	2,600	2,100	
			Shiga Factory	0	0	0	0	0	
		Total amount of shift	Production bases total	280	360	550	390	400	
			Yokohama Plant	280	360	550	390	400	
			Shiga Factory	0	0	0	0	0	
	Tetrahydromethylphthalic anhydride (kg)	Total amount of air emissions	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	Production bases total	3,000	2,900	2,500	2,700	2,800	
			Yokohama Plant	3,000	2,900	2,500	2,700	2,800	
			Shiga Factory	0	0	0	0	0	
Toluene (kg)	Total amount of air emissions	Production bases total	2,600	3,000	2,500	2,900	2,500		
		Yokohama Plant	2,600	3,000	2,500	2,900	2,500		
		Shiga Factory	0	0	0	0	0		
	Total amount of shift	Production bases total	1,200	1,600	2,400	1,700	2,000		
		Yokohama Plant	1,200	1,600	2,400	1,700	2,000		
		Shiga Factory	0	0	0	0	0		

Waste Data

Indices		Applicable premises	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Remarks
Wastes	① Industrial waste (tons)	Production bases total	279.9	290.3	333.4	355.0	334.1	
		Yokohama Plant	244.1	262.0	303.1	335.9	308.7	
		Shiga Factory	35.8	28.3	30.3	19.1	25.4	
	② General waste (tons)	Production bases total	101.9	99.3	105.4	98.4	115.8	
		Yokohama Plant	101.9	99.3	105.4	98.4	115.8	
		Shiga Factory	-	-	-	-	-	
	③ Valuable metal waste (tons)	Production bases total	255.6	290.9	274.1	246.2	109.6	
		Yokohama Plant	255.6	290.9	274.1	246.2	109.6	
		Shiga Factory	-	-	-	-	-	*6
	Waste output (①+②+③) (tons)	Production bases total	637.3	680.5	712.9	699.6	559.5	
		Yokohama Plant	601.5	652.2	682.6	680.5	534.1	
		Shiga Factory	35.8	28.3	30.3	19.1	25.4	
	Recycled amount (tons)	Production bases total	435.2	462.4	598.2	584.0	477.2	
		Yokohama Plant	435.2	462.4	598.2	584.0	477.2	
		Shiga Factory	-	-	-	-	-	*6
	Volume of landfill waste (tons)	Production bases total	5.0	5.9	9.0	2.3	5.0	
		Yokohama Plant	5.0	5.9	9.0	2.3	5.0	
		Shiga Factory	-	-	-	-	-	*6
	Percentage of landfill waste (%) Yearly comparison	Production bases total	0.8	0.9	1.3	0.8	0.9	
		Yokohama Plant	0.8	0.9	1.3	0.8	0.9	
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

- 32** Financial Review
- 33** Consolidated Balance Sheets
- 35** Consolidated Statements of Income and Comprehensive Income
- 36** Consolidated Statements of Changes in Net Assets
- 37** Consolidated Statements of Cash Flows

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2016 (from June 1, 2016 to May 31, 2017) are as follows:

Results of Operation

Orders received
YoY **+8.7%**

Orders received increased 8.7% compared with the previous fiscal year to 43,355 million yen due to an increase in orders received in the Transportation Systems segment, the Industrial Systems segment and the Information Equipment Systems segment.

Net sales
YoY **+2.3%**

Net sales increased 2.3% compared with the previous fiscal year to 40,668 million yen due to an increase in the Transportation Systems segment and the Information Equipment Systems segment, despite a decrease in the Industrial Systems segment.

Profit/Loss
Net Income attributable to owners of the parent
YoY **+32.0%**

From a profit perspective, operating income decreased 4.1% compared with the previous fiscal year to 1,571 million yen due to decreased revenue in the Industrial Systems segment, despite increased revenue in the Transportation Systems segment and the Information Equipment Systems segment. However, ordinary income increased 11.5% compared with the previous fiscal year to 1,663 million yen due to a sharp decrease in foreign exchange losses, and net income attributable to owners of the parent increased 32.0% to 1,174 million yen.

Financial Position

Assets
Total Assets
54,927 million yen

Total assets as of May 31, 2017 stood at 54,927 million yen, an increase of 4,693 million yen compared with the end of the previous fiscal year. The increase in total assets was largely attributable to increases of 2,040 million yen in trade notes and accounts receivable, 3,261 million yen in property, plant and equipment and 758 million yen in investment securities.

Liabilities
Total liabilities
30,324 million yen

Total liabilities as of May 31, 2017 stood at 30,324 million yen, an increase of 3,767 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase in debts of 3,450 million yen.

Net Assets
Total net assets
24,603 million yen

Net assets as of May 31, 2017 stood at 24,603 million yen, an increase of 926 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase of 871 million yen from retained earnings and a 410 million yen increase in unrealized holding gain on available-for-sale securities.

Cash Flows

Cash flow from operating activities
Net cash provided by operating activities
1,505 million yen

Net cash provided by operating activities amounted to 1,505 million yen. A principal cash inflow was income before income taxes at 1,707 million yen, while a major cash outflow was depreciation and amortization at 801 million yen.

Cash flow from investing activities
Net cash used in investing activities
4,691 million yen

Net cash used in investing activities totaled 4,691 million yen, and mainly comprised funds used in for the purchases of property, plant and equipment at 3,901 million yen as well as funds used in for the purchases of intangible assets at 619 million yen.

Cash flow from financing activities
Net cash provided by financing activities
2,868 million yen

Net cash provided by financing activities was 2,868 million yen. A major cash inflow was an increase in long-term debt at 3,500 million yen, while a major cash outflow was purchases of treasury stock at 302 million yen.

TOYO DENKI SEIZO K.K.

Consolidated Balance Sheets

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Assets			
Current assets:			
Cash on hand and in banks (Notes 18 and 20)	¥ 2,091	¥ 2,401	\$ 18,846
Trade notes and accounts receivable (Note 18)	15,831	13,790	142,673
Electronically recorded receivables (Note 18)	532	966	4,792
Inventories (Note 5)	6,479	7,320	58,391
Deferred tax assets (Note 13)	577	518	5,198
Other current assets	291	529	2,626
Allowance for doubtful accounts	(2)	(3)	(15)
Total current assets	25,799	25,521	232,511
Property, plant and equipment (Note 6):			
Buildings and structures	2,705	2,635	24,377
Machinery and vehicles	791	715	7,130
Land	1,346	289	12,130
Construction in progress	2,337	269	21,061
Other	444	453	3,998
Total property, plant and equipment	7,623	4,361	68,696
Investments and other assets (Note 7):			
Investment securities (Notes 7, 18 and 19)	18,154	17,396	163,611
Deferred tax assets (Note 13)	66	55	596
Intangible assets	1,082	544	9,748
Other	2,216	2,369	19,971
Allowance for doubtful accounts	(12)	(12)	(110)
Total investments and other assets	21,506	20,352	193,816
Total assets (Note 22)	¥54,928	¥50,234	\$495,023

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Note 18)	¥ 3,347	¥ 3,743	\$ 30,161
Electronically recorded payables (Note 18)	5,489	5,278	49,468
Short-term borrowings and current portion of long-term debt (Notes 8 and 18)	4,970	1,018	44,788
Income taxes payable (Note 13)	437	254	3,941
Accrued expenses	1,069	1,250	9,640
Accrued directors' bonuses	33	37	300
Accrued employees' bonuses	953	928	8,587
Reserve for losses on order acknowledgements (Note 5)	366	295	3,296
Other	879	781	7,925
Total current liabilities	17,543	13,584	158,106
Long-term liabilities:			
Long-term debt (Notes 8, 18 and 21)	6,786	7,288	61,157
Deferred tax liabilities (Note 13)	1,793	1,637	16,154
Liability for retirement benefits (Note 9)	3,913	3,853	35,267
Long-term payables	158	158	1,423
Other	131	37	1,182
Total long-term liabilities	12,781	12,973	115,183
Commitments and contingencies (Note 16)			
Net assets (Notes 10 and 17):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	\$ 45,047
Capital surplus	3,178	3,178	28,636
Retained earnings	10,170	9,299	91,655
Treasury stock	(478)	(176)	(4,305)
Total shareholders' equity	17,868	17,299	161,033
Accumulated other comprehensive income:			
Unrealized holding gain on securities	6,880	6,469	61,999
Translation adjustments	157	261	1,413
Retirement benefits liability adjustments (Note 9)	(301)	(352)	(2,711)
Total accumulated other comprehensive income	6,736	6,378	60,701
Total net assets	24,604	23,677	221,734
Total liabilities and net assets	¥54,928	¥50,234	\$495,023

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K. Consolidated Statements of Income

For the Years Ended	May 31,	May 31,	May 31,
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales (Note 22)	¥40,668	¥39,746	\$366,511
Cost of sales (Note 5)	31,447	30,627	283,407
Gross profit	9,221	9,119	83,104
Selling, general and administrative expenses (Note 11)	7,649	7,480	68,938
Operating income (Note 22)	1,572	1,639	14,166
Non-operating income (expenses):			
Interest and dividend income	228	233	2,056
Interest expense	(123)	(125)	(1,105)
Equity in earnings of unconsolidated subsidiaries and affiliates	68	76	614
Dividend income on life insurance	48	70	428
Foreign exchange loss	(17)	(418)	(155)
Other income (expenses), net	(112)	18	(1,011)
	92	(146)	827
Ordinary income	1,664	1,493	14,993
Special gains (losses), net (Note 12)	44	(88)	396
Income before income taxes	1,708	1,405	15,389
Income taxes (Note 13):			
Current	663	369	5,968
Deferred	(129)	146	(1,161)
	534	515	4,807
Net income	1,174	890	10,582
Net income attributable to non-controlling interests	—	—	—
Net income attributable to owners of the parent	¥ 1,174	¥ 890	\$ 10,582

See notes to consolidated financial statements.

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

For the Years Ended	May 31,	May 31,	May 31,
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net income	¥1,174	¥ 890	\$10,582
Other comprehensive income (loss) (Note 14):			
Unrealized holding gain (loss) on securities	410	(1,848)	3,696
Translation adjustments	(12)	49	(106)
Retirement benefits liability adjustments	51	32	459
Share of other comprehensive loss of affiliates accounted for by the equity method	(109)	(48)	(989)
Total other comprehensive income (loss)	340	(1,815)	3,060
Comprehensive income (loss)	¥1,514	¥ (925)	\$13,642
Comprehensive income (loss) attributable to:			
Owners of the parent	¥1,514	¥ (925)	\$13,642
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	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
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
Balance as of June 1, 2016	¥4,998	¥3,178	¥ 9,299	¥(176)	¥17,299	¥ 6,469	¥ 261	¥(352)	¥ 6,378	¥23,677
Changes during the year										
Cash dividends paid	—	—	(289)	—	(289)	—	—	—	—	(289)
Net income attributable to owners of the parent	—	—	1,174	—	1,174	—	—	—	—	1,174
Change in scope of equity method application	—	—	(14)	—	(14)	—	—	—	—	(14)
Purchase of treasury stock	—	—	—	(302)	(302)	—	—	—	—	(302)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	411	(104)	51	358	358
Total changes during the year	—	—	871	(302)	569	411	(104)	51	358	927
Balance as of May 31, 2017	¥4,998	¥3,178	¥10,170	¥(478)	¥17,868	¥ 6,880	¥ 157	¥(301)	¥ 6,736	¥24,604

(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	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2016	\$45,047	\$28,636	\$83,803	\$(1,581)	\$155,905	\$58,303	\$2,344	\$(3,170)	\$57,477	\$213,382
Changes during the year										
Cash dividends paid	—	—	(2,605)	—	(2,605)	—	—	—	—	(2,605)
Net income attributable to owners of the parent	—	—	10,582	—	10,582	—	—	—	—	10,582
Change in scope of equity method application	—	—	(125)	—	(125)	—	—	—	—	(125)
Purchase of treasury stock	—	—	—	(2,724)	(2,724)	—	—	—	—	(2,724)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	3,696	(931)	459	3,224	3,224
Total changes during the year	—	—	7,852	(2,724)	5,128	3,696	(931)	459	3,224	8,352
Balance as of May 31, 2017	\$45,047	\$28,636	\$91,655	\$(4,305)	\$161,033	\$61,999	\$1,413	\$(2,711)	\$60,701	\$221,734

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.

Consolidated Statements of Cash Flows

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Operating activities			
Income before income taxes	¥ 1,708	¥ 1,405	\$ 15,389
Depreciation and amortization	802	851	7,228
Reversal of allowance for doubtful accounts	(1)	(37)	(11)
Provision for accrued employees' bonuses	24	0	220
Decrease in reserve for ecological countermeasures	—	(65)	—
Increase in liability for retirement benefits	61	116	547
Interest and dividends income	(228)	(233)	(2,057)
Interest expenses	123	125	1,105
(Gain) loss on sales of investment securities	(67)	12	(607)
Loss on sales of property, plant and equipment	23	—	211
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(1,618)	(3)	(14,578)
Inventories	829	(957)	7,471
Trade notes and accounts payable	(168)	972	(1,514)
Reserve for losses on order acknowledgements	70	1	628
Advances received	37	(206)	335
Accrued expenses	(182)	274	(1,642)
Other, net	158	(87)	1,433
Subtotal	1,571	2,168	14,158
Interest and dividends income received	236	242	2,124
Interest expenses paid	(118)	(129)	(1,062)
Income taxes paid	(183)	(1,145)	(1,649)
Net cash provided by operating activities	1,506	1,136	13,571
Investing activities			
Purchases of property, plant and equipment	(3,902)	(452)	(35,164)
Purchases of intangible assets	(619)	(336)	(5,583)
Purchases of investment securities	(321)	(13)	(2,889)
Proceeds from sales of investment securities	93	19	842
Payments for investments in capital of subsidiaries and affiliates	—	(197)	—
Other, net	58	41	518
Net cash used in investing activities	(4,691)	(938)	(42,276)
Financing activities			
Increase (decrease) in short-term loans payable	314	(247)	2,826
Increase in long-term debt	3,500	—	31,543
Repayment of long-term debt	(352)	(794)	(3,172)
Purchases of treasury stock	(302)	(4)	(2,724)
Cash dividends paid	(290)	(295)	(2,611)
Other, net	(1)	(1)	(9)
Net cash provided by (used in) financing activities	2,869	(1,341)	25,853
Effect of exchange rate change on cash and cash equivalents	6	(27)	57
Net decrease in cash and cash equivalents	(310)	(1,170)	(2,795)
Cash and cash equivalents at beginning of period	2,401	3,571	21,641
Cash and cash equivalents at end of period (Note 20)	¥ 2,091	¥ 2,401	\$ 18,846

See 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, 2017, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 2 in 2016). Beijing Jingche Shuangyang Traction System Co., Ltd. which was not accounted for by the equity method in the fiscal year ended May 31, 2016, is accounted for by the equity method from the fiscal year ended May 31, 2017 due to its increased importance. 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 facilities attached to buildings acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after June 1, 2016 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 ¥70 million (\$628 thousand) and ¥1 million is included in cost of sales for the years ended May 31, 2017 and 2016, respectively.

(n) 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.

(o) 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.

(p) 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.

(q) Research and development expenses

Research and development expenses are charged to income when incurred.

(r) Consumption taxes

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

(s) 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.

2. Accounting Changes

The Company and its consolidated subsidiaries in Japan has applied “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) effective June 1, 2016 and changed the depreciation method for facilities attached to buildings and structures acquired on or after June 1, 2016 from the declining-balance method to the straight-line method.

The effect on the operating income and income before income taxes for the year ended May 31, 2017 is immaterial.

3. Additional Information

The Company and its consolidated subsidiaries in Japan applied “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year ended May 31, 2017.

4. 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 ¥110.96=U.S.\$1, the approximate rate of exchange prevailing at May 31, 2017. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

5. Inventories

Inventories as of May 31, 2017 and 2016 were as follows:

As of	May 31,	May 31,	May 31,
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥ 871	¥1,491	\$ 7,849
Work in process	3,373	3,172	30,402
Raw materials and supplies	2,235	2,657	20,140
	¥6,479	¥7,320	\$58,391

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 ¥11 million (\$103 thousand) and ¥(205) million for the years ended May 31, 2017 and 2016, 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,	May 31,	May 31,
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥46	¥ 4	\$413
Work in process	41	68	375
	¥87	¥72	\$788

6. Property, Plant and Equipment

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

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 7,416	¥ 7,172	\$ 66,830
Machinery and vehicles	7,030	6,729	63,359
Other	3,364	3,281	30,313
	17,810	17,182	160,502
Accumulated depreciation	(13,870)	(13,380)	(124,998)
	¥ 3,940	¥ 3,802	\$ 35,504

Depreciation of property, plant and equipment for the years ended May 31, 2017 and 2016 were as follows:

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
	¥802	¥851	\$7,228

Accumulated depreciation of property, plant and equipment amounted to ¥13,870 million (\$124,998 thousand) and ¥13,380 million as of May 31, 2017 and 2016, respectively.

7. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investment securities" as of May 31, 2017 and 2016 were as follows:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in capital	¥1,345	¥1,390	\$12,121

8. Short-Term Borrowings and Long-Term Debt

As of May 31, 2017 and 2016, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥ 968	¥ 666	\$ 8,721
Current portion of long-term debt	4,002	352	36,067
	¥4,970	¥1,018	\$44,788

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2017 were 1.831% and 1.215%, respectively.

As of May 31, 2017 and 2016, long-term debts were as follows:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2018 through 2032	¥6,786	¥7,288	\$61,157

The annual weighted average interest rate applicable to long-term debt as of May 31, 2017 was 0.995%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2018	¥ 4,002	\$36,067
2019	3,356	30,244
2020	420	3,782
2021	379	3,421
2022 and thereafter	2,631	23,710
	¥10,788	\$97,224

The assets pledged as collateral for short-term borrowings of ¥960 million (\$8,649 thousand) and long-term debt of ¥4,676 million (\$42,141 thousand) as of May 31, 2017 were as follows:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,759	\$15,852
Machinery and vehicles	612	5,515
Other property, plant and equipment	346	3,118
Land	1,215	10,949
	¥3,932	\$35,434

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	¥1,759	\$15,852
Machinery and vehicles	612	5,515
Other property, plant and equipment	346	3,118
	¥2,717	\$24,485

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, 2017 and 2016 are as follows:

For the Years Ended	May 31,	May 31,	May 31,
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥3,853	¥3,726	\$34,720
Service cost	284	287	2,556
Interest cost	15	14	133
Actuarial loss	(1)	10	(0)
Retirement benefits paid	(238)	(184)	(2,142)
Retirement benefit obligation as of May 31	¥3,913	¥3,853	\$35,267

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥3,913	¥3,853	\$35,267
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,913	3,853	35,267
Liability for retirement benefits	¥3,913	¥3,853	\$35,267
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,913	3,853	35,267

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2017 and 2016 are as follows:

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥284	¥287	\$2,556
Interest cost	15	14	133
Amortization of actuarial loss	73	70	663
Retirement benefit expenses	¥372	¥371	\$3,352

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2017 and 2016 are as follows:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥74	¥60	\$663
Total	¥74	¥60	\$663

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2017 and 2016 are as follows:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥434	¥507	\$3,909
Total	¥434	¥507	\$3,909

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2017 and 2016 were as follows:

For the Years Ended	May 31, 2017	May 31, 2016
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 ¥117 million (\$1,057 thousand) and ¥115 million for the years ended May 31, 2017 and 2016, respectively.

10. Net Assets

Information regarding changes in net assets for the years ended May 31, 2017 and 2016 is as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2017

Type of shares	Number of shares as of June 1, 2016	Increase	Decrease	Number of shares as of May 31, 2017
		(Shares)		
Shares issued:				
Common stock	48,675,000	—	38,940,000	9,735,000
Treasury stock:				
Common stock	493,478	956,297	1,159,206	290,569

Notes: 1. The Company implemented a share consolidation of 5 shares of common stock into 1 share of common stock on December 1, 2016.

2. The decrease in the number of shares of common stock issued is due to the share consolidation.

Details of the changes in common stock under treasury stock are as the following:

Increase due to purchase of shares of less than standard unit before the share consolidation:	3,529 shares
Increase due to purchase of shares of less than standard unit after the share consolidation:	768 shares
Increase due to purchase of treasury stock based on the resolution of the Board of Directors' meeting:	952,000 shares
Decrease is due to the share consolidation.	

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)		
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
---	--------------

b. Dividends

1) Dividends paid

For the year ended May 31, 2017

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 26, 2016	Common stock	¥289	\$2,605	¥6.00	\$0.05	May 31, 2016	August 29, 2016

For the year ended May 31, 2016

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, 2015	Common stock	¥289	¥6.00	May 31, 2015	August 28, 2015

2) Dividends with the cut-off date in the year ended May 31, 2017 and the effective date in the year ending May 31, 2018

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 29, 2017	Common stock	¥283	\$2,553	Retained earnings	¥30.00	\$0.27	May 31, 2017	August 30, 2017

11. Selling, General and Administrative Expenses

The main components of “Selling, general and administrative expenses” for the years ended May 31, 2017 and 2016 were as follows:

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,975	¥1,966	\$17,801
Provision for accrued directors’ bonuses	33	37	299
Provision for accrued employees’ bonuses	404	392	3,640
Retirement benefit expenses	217	196	1,960
Provision for allowance for doubtful accounts	(1)	(37)	(10)
Research and development expenses	927	868	8,358

12. Special Gains (Losses), Net

The components of “Special gains (losses), net” for the years ended May 31, 2017 and 2016 were as follows:

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥ 67	¥—	\$ 607
Special losses:			
Loss on sales of property, plant and equipment	(23)	—	(211)
Removal expenses for property, plant and equipment	—	(72)	—
Loss on sales of investment securities	—	(12)	—
Other	—	(4)	—
Total	¥ 44	¥(88)	\$ 396

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 30.9% and 33.1% for the years ended May 31, 2017 and 2016, 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 year ended May 31, 2017 is omitted since the difference was less than 5% of the effective statutory tax rate.

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

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

The significant components of deferred tax assets and liabilities as of May 31, 2017 and 2016 were as follows:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 165	¥ 153	\$ 1,491
Liability for retirement benefits	1,204	1,186	10,854
Accrued employees' bonuses	301	292	2,709
Reserve for losses on order acknowledgements	115	105	1,035
Tax loss carryforwards	387	312	3,491
Other	431	448	3,884
Total gross deferred tax assets	2,603	2,496	23,464
Valuation allowance	(703)	(684)	(6,339)
Total deferred tax assets	1,900	1,812	17,125
Deferred tax liabilities:			
Unrealized holding gain on securities	(3,049)	(2,857)	(27,478)
Other	(1)	(19)	(6)
Total deferred tax liabilities	(3,050)	(2,876)	(27,484)
Net deferred tax liabilities	¥(1,150)	¥(1,064)	\$(10,359)

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, 2017 and 2016:

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 669	¥(2,921)	\$ 6,032
Reclassification adjustments for gains and losses included in net income	(67)	11	(607)
Amount before tax effect	602	(2,910)	5,425
Tax effect	(192)	1,062	(1,729)
Unrealized holding gain (loss) on securities	410	(1,848)	3,696
Translation adjustments			
Amount arising during the year	(12)	49	(106)
Amount before tax effect	(12)	49	(106)
Translation adjustments	(12)	49	(106)
Retirement benefits liability adjustments			
Amount arising during the year	0	(10)	0
Reclassification adjustments for gains and losses included in net income	74	70	663
Amount before tax effect	74	60	663
Tax effect	(23)	(28)	(204)
Retirement benefits liability adjustments	51	32	459
Share of other comprehensive loss of affiliates accounted for by the equity method			
Amount arising during the year	(109)	(48)	(989)
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	(109)	(48)	(989)
Total other comprehensive income (loss)	¥ 340	¥(1,815)	\$ 3,060

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.

16. Contingent Liabilities

As of May 31, 2017 and 2016, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Hunan Xiangyang Electric Co., Ltd.	¥ —	¥ 30	\$ —
Changzhou Ruiyang Transmission Technology Co., Ltd.	164	169	1,475
Beijing Jingche Shuangyang Traction Co., Ltd.	49	—	440

17. Amounts Per Share

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥123.87	¥92.33	\$1.12
As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Yen)		(U.S. dollars)
Net assets	¥2,605.09	¥2,457.05	\$23.48

Notes: 1. Diluted net income per share is omitted since there is no dilution of equity.

2. The Company implemented a share consolidation of 5 shares of common stock into 1 share of common stock on December 1, 2016. Accordingly, above amounts per share are computed as if the share consolidation had been implemented at the beginning of the fiscal year ended May 31, 2016.

The bases for calculation are as follows:

Basic net income per share

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥1,174	¥890	\$10,582
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	1,174	890	10,582
	(Thousand shares)		
Average number of shares of common stock during the year	9,479	9,636	

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(s) “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, 2017 and 2016 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):

<u>As of May 31, 2017</u>	Carrying value	Fair value	Difference
	(Millions of yen)		
Assets			
1) Cash on hand and in banks	¥ 2,091	¥ 2,091	¥—
2) Trade notes and accounts receivable	15,831	15,831	—
3) Electronically recorded receivables	532	532	—
4) Investment securities	17,209	17,209	—
Total assets	¥35,663	¥35,663	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 3,347	¥ 3,347	¥—
6) Electronically recorded payables	5,489	5,489	—
7) Short-term borrowings	968	968	—
8) Long-term debt	10,788	10,803	15
Total liabilities	¥20,592	¥20,607	¥15
9) Derivative transactions*	¥ —	¥ —	¥—

As of May 31, 2017

	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
1) Cash on hand and in banks	\$ 18,846	\$ 18,846	\$ —
2) Trade notes and accounts receivable	142,673	142,673	—
3) Electronically recorded receivables	4,792	4,792	—
4) Investment securities	155,089	155,089	—
Total assets	\$321,400	\$321,400	\$ —
Liabilities			
5) Trade notes and accounts payable	\$ 30,161	\$ 30,161	\$ —
6) Electronically recorded payables	49,468	49,468	—
7) Short-term borrowings	8,721	8,721	—
8) Long-term debt	97,224	97,361	137
Total liabilities	\$185,574	\$185,711	\$137
9) Derivative transactions*	\$ —	\$ —	\$ —

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

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	¥ —

*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

<u>As of</u>	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥946	¥639	\$8,523

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, 2017 and 2016 are as follows:

<u>As of May 31, 2017</u>	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	¥ 2,088	¥ —	¥—	¥—
Trade notes and accounts receivable	15,012	819	—	—
Electronically recorded receivables	532	—	—	—
	¥17,632	¥819	¥—	¥—

<u>As of May 31, 2017</u>	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	\$ 18,817	\$ —	\$—	\$—
Trade notes and accounts receivable	135,290	7,383	—	—
Electronically recorded receivables	4,792	—	—	—
	\$158,899	\$7,383	\$—	\$—

<u>As of May 31, 2016</u>	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	¥—	¥—

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, 2017	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥17,209	¥7,280	¥9,929
Subtotal	¥17,209	¥7,280	¥9,929
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ —	¥ —	¥ —
Subtotal	¥ —	¥ —	¥ —
Total	¥17,209	¥7,280	¥9,929

As of May 31, 2017	Carrying value	Acquisition cost	Unrealized Gain (Loss)
	(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	\$155,089	\$65,611	\$89,478
Subtotal	\$155,089	\$65,611	\$89,478
Securities whose acquisition cost exceeds their carrying value:			
Stock	\$ —	\$ —	\$ —
Subtotal	\$ —	\$ —	\$ —
Total	\$155,089	\$65,611	\$89,478

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.

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

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, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥232	¥ 19	\$2,090
Gain on sales	67	—	607
Loss on sales	—	12	—

20. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2017 and 2016 are reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥2,091	¥2,401	\$18,846
Cash and cash equivalents	¥2,091	¥2,401	\$18,846

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, 2017, there were no currency-related derivatives.

<u>As of May 31, 2016</u>	Contract amount	Maturing after one year	Fair value	Unrealized gain (loss)
	(Millions of yen)			
Forward foreign exchange contracts:				
Sold:				
USD	¥486	¥—	¥43	¥43

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

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

<u>As of May 31, 2017</u>	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	¥7,128	¥3,216	Note

<u>As of May 31, 2017</u>	Major hedged item	Notional amount		Fair value
		Contract amount	Maturing after one year	
		(Thousands of U.S. dollars)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	\$64,239	\$28,983	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.

<u>As of May 31, 2016</u>	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	¥7,360	¥7,128	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, 2017						
	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	¥28,200	¥11,073	¥1,388	¥ 7	¥40,668	¥ —	¥40,668
Inter-segment sales and transfers	38	3	—	672	713	(713)	—
	28,238	11,076	1,388	679	41,381	(713)	40,668
Segment profit	¥ 3,079	¥ 747	¥ 305	¥ 60	¥ 4,191	¥(2,619)	¥ 1,572
Segment assets	¥19,926	¥11,791	¥ 817	¥601	¥33,135	¥21,793	¥54,928
Other items:							
Depreciation	¥ 516	¥ 172	¥ 18	¥ 1	¥ 707	¥ 95	¥ 802
Capital expenditures	¥ 518	¥ 3,520	¥ 21	¥ 3	¥ 4,062	¥ 544	¥ 4,606

	For the year ended May 31, 2017						
	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	\$254,142	\$ 99,795	\$12,512	\$ 62	\$366,511	\$ —	\$366,511
Inter-segment sales and transfers	345	28	—	6,050	6,423	(6,423)	—
	254,487	99,823	12,512	6,112	372,934	(6,423)	366,511
Segment profit	\$ 27,749	\$ 6,734	\$ 2,747	\$ 538	\$ 37,768	\$(23,602)	\$ 14,166
Segment assets	\$179,581	\$106,258	\$ 7,363	\$5,415	\$298,617	\$196,406	\$495,023
Other items:							
Depreciation	\$ 4,649	\$ 1,547	\$ 168	\$ 7	\$ 6,371	\$ 857	\$ 7,228
Capital expenditures	\$ 4,668	\$ 31,724	\$ 190	\$ 25	\$ 36,607	\$ 4,906	\$ 41,513

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, 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

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, 2017 and 2016 are summarized as follows:

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥27,987	¥27,094	\$252,226
China	7,640	8,375	68,850
Other	5,041	4,277	45,435
Consolidated	¥40,668	¥39,746	\$366,511

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

Major customer information

Major customer information for the year ended May 31, 2017 is as follows:

Customer	Segment	(Millions of yen)	(Thousands of U.S. dollars)
Meiji Sangyo Co., Ltd.	Transportation Systems	¥4,640	\$41,816

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

Customer	Segment	(Millions of yen)
Meiji Sangyo Co., Ltd.	Transportation Systems	¥5,506

23. Significant Subsequent Events

There were no significant subsequent events to be noted.



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

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, 2017, 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, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

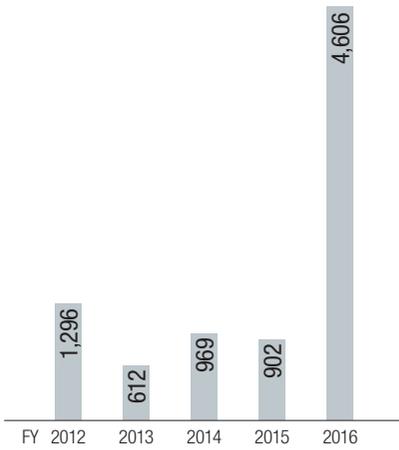
Convenience Translation

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.

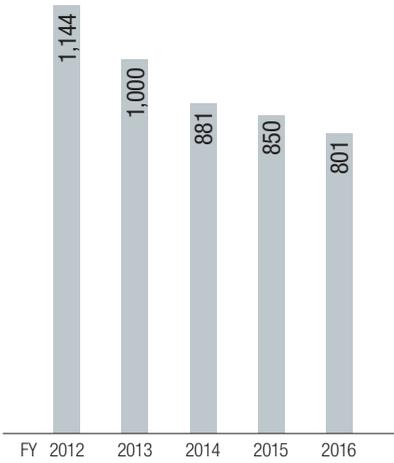
August 30, 2017
Tokyo, Japan

Reference Data for Management Indices

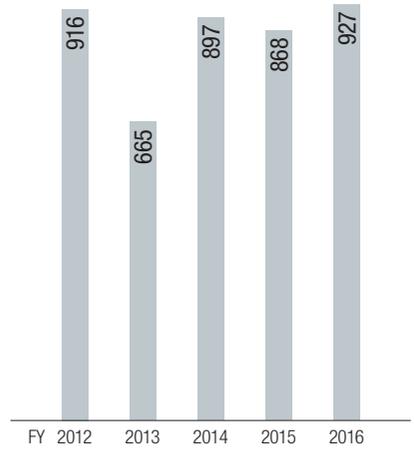
Capital investment (Unit: Million yen)



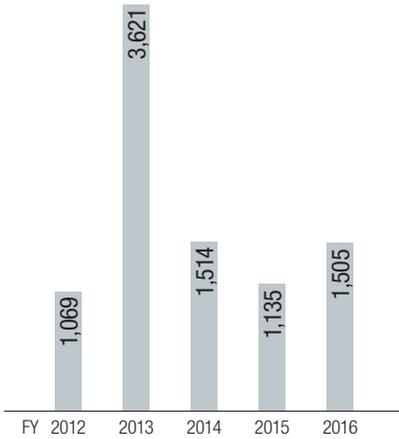
Depreciation and amortization (Unit: Million yen)



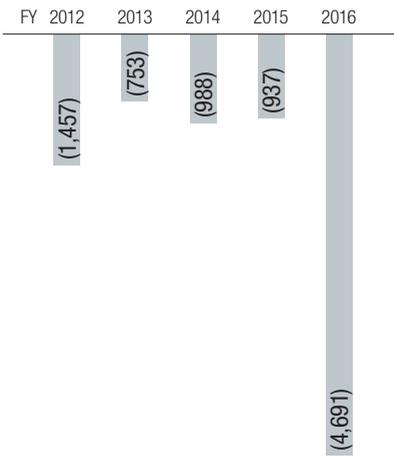
Research and development costs (Unit: Million yen)



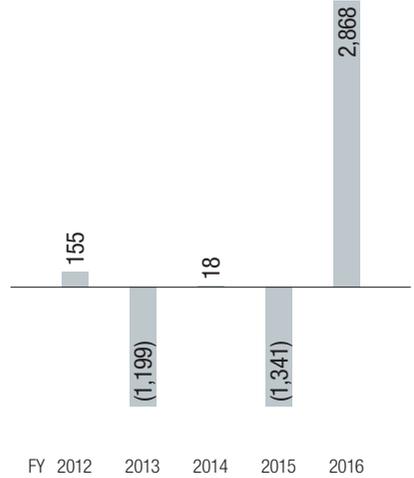
Cash flows from operating activities (Unit: Million yen)



Cash flows from investing activities (Unit: Million yen)

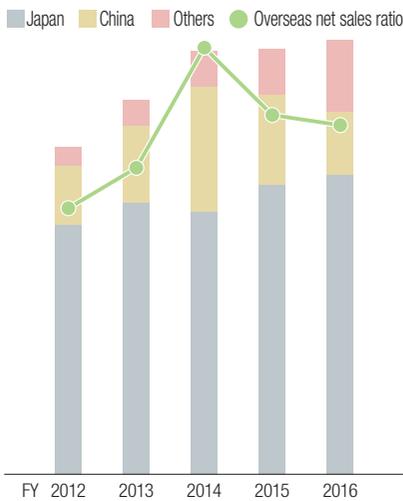


Cash flows from financing activities (Unit: Million yen)



Net sales by region

(Unit: Million yen)



	FY 2012	2013	2014	2015	2016
Japan	23,340	25,398	24,547	27,094	28,006
China	5,495	7,118	11,634	8,374	5,882
Others	1,738	2,440	3,435	4,277	6,778
Total	30,575	34,957	39,617	39,746	40,668
Overseas net sales ratio	23.7%	27.3%	38.0%	32.0%	31.1%

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	1,262 (Consolidated) 832 (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	36,000,000 shares
Number of Shares Issued	9,735,000 shares
Number of Shareholders	6,349



Head office building

Subsidiaries and Affiliates (as of September 1, 2017)

- 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.
- Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd.



Yokohama plant





President,
Representative Director
Kenzo Terashima



Senior Managing Director,
Representative Director
Masami Tsuchiya



Senior Managing
Director
Hiroshi Shimotakahara



Managing 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)
Eiichi Suzuki



Statutory Auditor
(External)
Yoshinori Kawamura

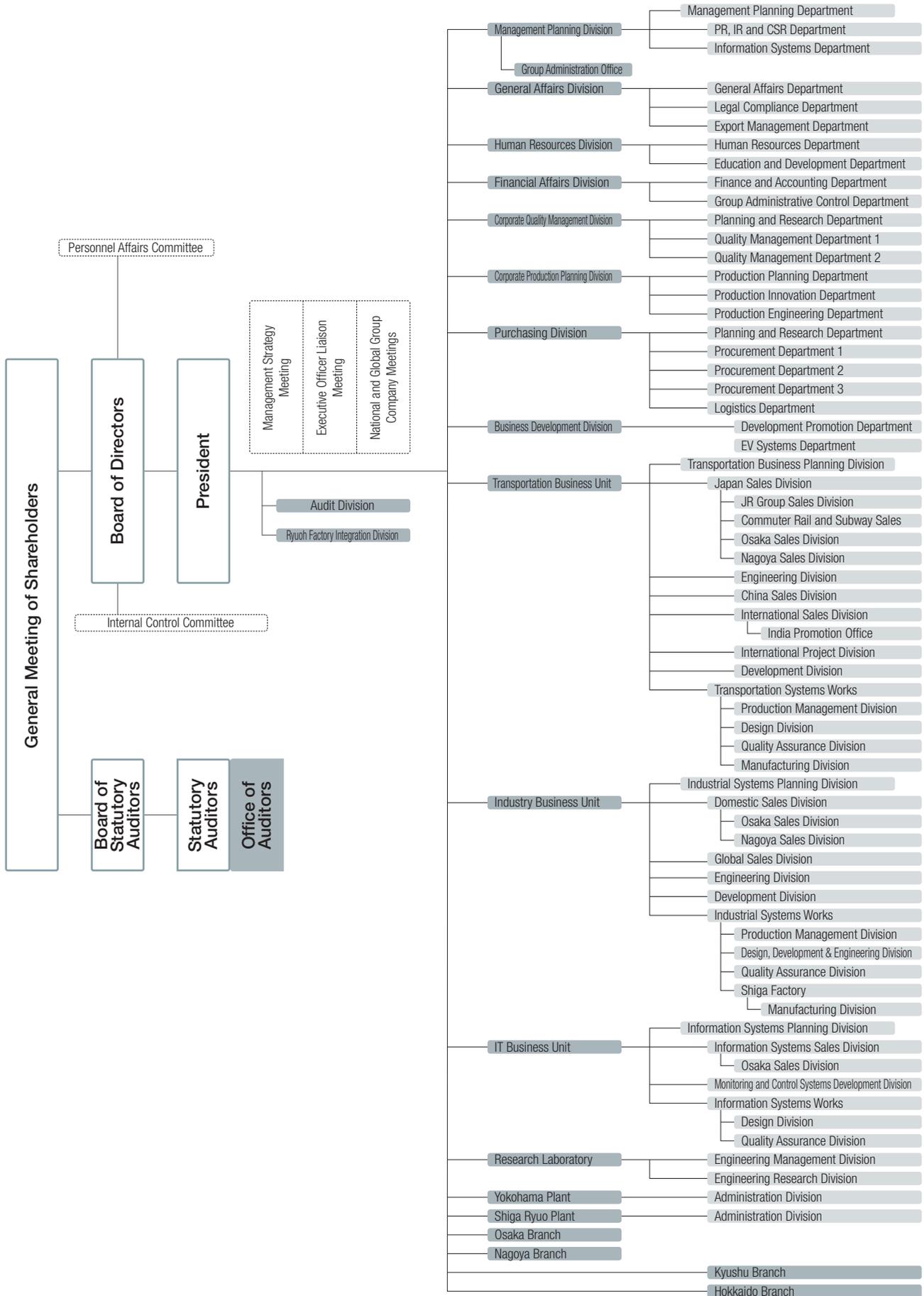
Senior Executive Officers **Shuji Horie**
Executive Officers **Toshihiko Akihiro**

Yoshifumi Otsubo
Tetsuto Iwaki

Kenji Tanimoto
Yukimasa Tanabe

Yuji Nagano
Kenji Fujiwara

Organization Chart (as of September 1, 2017)



Stock Related Information

Number of shares (As of May 31, 2017)

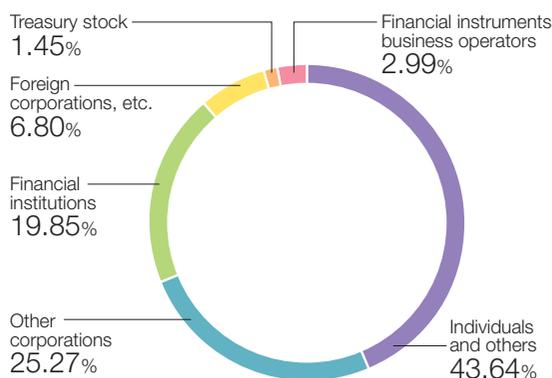
Number of shares authorized	36,000,000
Number of shares issued	9,735,000
Number of shareholders	6,349

Major shareholders

Shareholders	Number of shares held (Thousands)	% of total shares held
East Japan Railway Company	480	5.08
TOYOTA INDUSTRIES CORPORATION	420	4.44
Employees Stock Ownership Plan	409	4.33
NIPPON LIFE INSURANCE COMPANY	337	3.57
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	270	2.86
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/HENDERSON HHF SICAV	259	2.74
Masayoshi Yamauchi	246	2.60
Hitachi, Ltd.	220	2.32
Toyo Denki Subcontractor Factories Shareholding Association	217	2.29
The Bank of Yokohama, Ltd.	207	2.19

(Note) The percentages of total shares held are calculated excluding 290,000 treasury stocks held by the Company.

Distribution of shares by type of shareholder



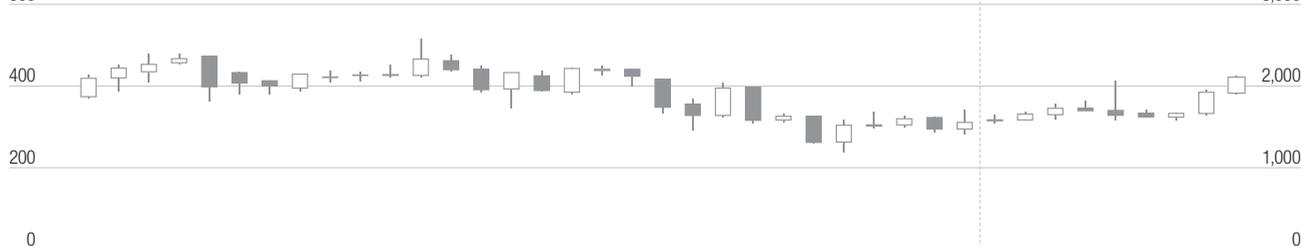
Share consolidation and change to the number of shares constituting one share unit

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

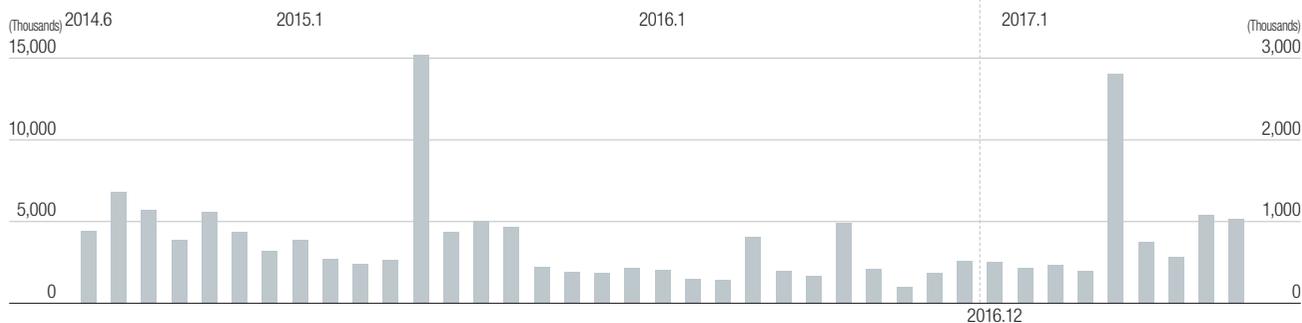
Transition of share price

Share price

Before stock consolidation
(Yen)
600



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.



Tokyo Tatemono Yaesu Building, 1-4-16, Yaesu, Chuo-ku, Tokyo 103-0028 Tel: +81-3-5202-8121 (General Affairs Division)

<https://www.toyodenki.co.jp/>