Financial Review

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2017 (from June 1, 2017 to May 31, 2018) are as follows:

Results of Operation

Orders received
YoY **-8.7%**

Orders received decreased 8.7% compared with the previous fiscal year to 39,599 million yen due to a decrease in orders received in the Transportation Systems segment and the Industrial Systems segment, despite an increase in the Information Equipment Systems segment.

Net sales
YoY **+4.6%**

Net sales increased 4.6% compared with the previous fiscal year to 42,527 million yen due to an increase in the Industrial Systems segment and the Information Equipment Systems segment.

Profit/Loss
Net Income attributable to owners of the parent
YoY **-41.0%**

From a profit perspective, operating income decreased 1,204 million yen compared with the previous fiscal year to 366 million yen, and ordinary income decreased 1,148 million yen compared with the previous fiscal year to 515 million yen. Net income attributable to owners of the parent decreased 481 million yen to 692 million yen, due to the recording of 806 million yen in gain on sales of investment securities owing to the cutting of some cross-shareholdings, despite 339 million yen of factory integration expenses incurred for the integration between the Industrial Systems segment and TD Drive Co., Ltd.

Financial Position

Assets
Total Assets
63,740 million yen

Total assets as of May 31, 2018 stood at 63,740 million yen, an increase of 8,813 million yen compared with the end of the previous fiscal year. The increase in total assets was largely attributable to an increase of 3,543 million yen in property, plant and equipment in line with the construction of the Shiga Ryuo Plant, as well as increases of 1,750 million yen in trade notes and accounts receivable and 1,352 million yen in inventories.

Liabilities
Total liabilities
37,413 million yen

Total liabilities as of May 31, 2018 stood at 37,413 million yen, an increase of 7,089 million yen compared with the end of the previous fiscal year. This increase was largely attributable to increases of 4,416 million yen in debts and of 1,517 million yen in trade notes and accounts payable.

Net Assets
Total net assets
26,327 million yen

Net assets as of May 31, 2018 stood at 26,327 million yen, an increase of 1,723 million yen compared with the end of the previous fiscal year. This increase was largely attributable to a 1,231 million yen increase in unrealized holding gain on available-for-sale securities.

Cash Flows

Cash flow from operating activities
Net cash used in operating activities
1,572 million yen

Net cash used in operating activities amounted to 1,572 million yen (net cash of 1,505 million yen provided in the previous fiscal year), principally due to increases in trade notes and accounts receivable and inventories.

Cash flow from investing activities
Net cash used in investing activities
3,087 million yen

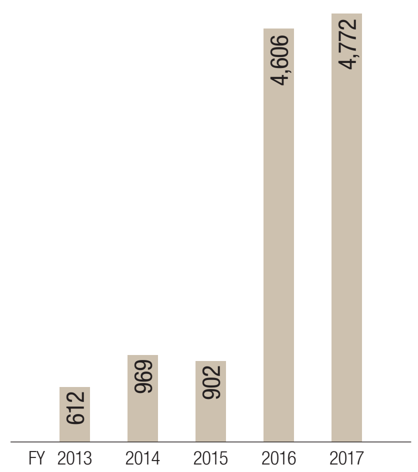
Net cash used in investing activities totaled 3,087 million yen (net cash of 4,691 million yen used in the previous fiscal year), mainly comprising funds used in the purchases of property, plant and equipment, despite an increase in proceeds from sales of investment securities.

Cash flow from financing activities
Net cash provided by financing activities
4,140 million yen

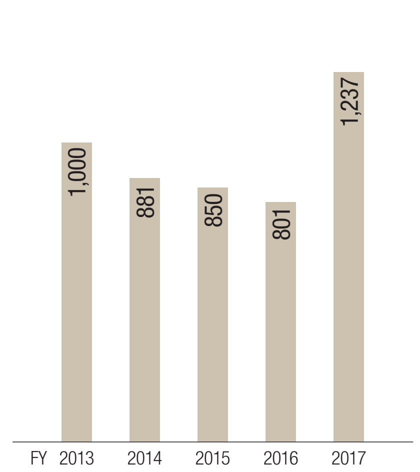
Net cash provided by financing activities was 4,140 million yen (net cash of 2,868 million yen provided in the previous fiscal year), owing to an increase in short-term loans payable.

Reference Data for Management Indices

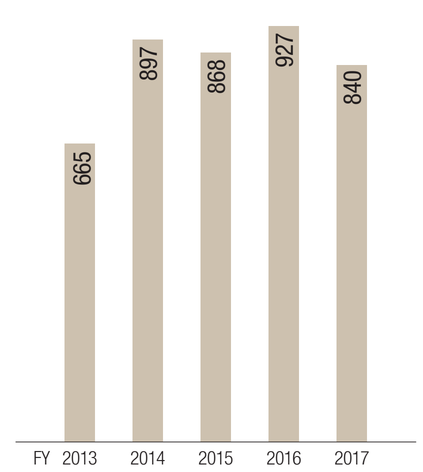
Capital investment (Unit: Million yen)



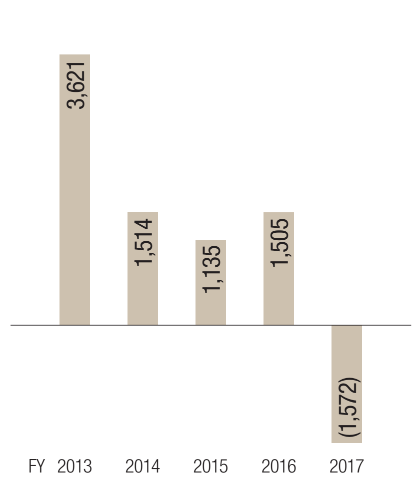
Depreciation and amortization (Unit: Million yen)



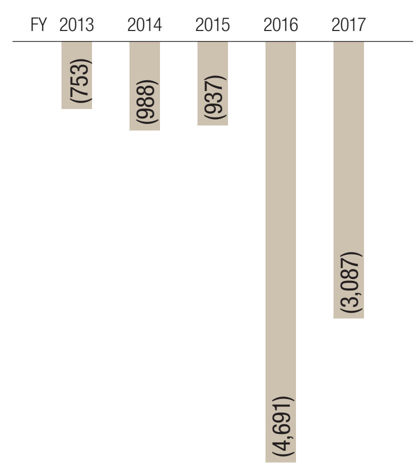
Research and development costs (Unit: Million yen)



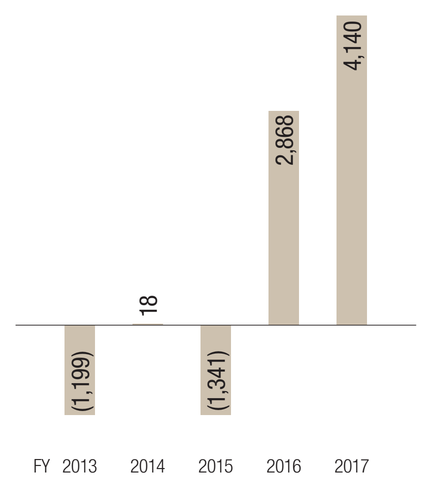
Cash flows from operating activities (Unit: Million yen)



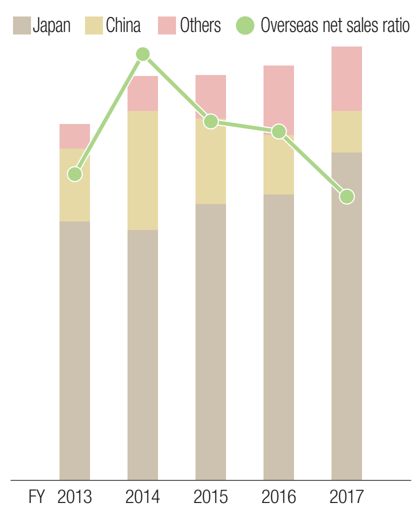
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	FY 2013	2014	2015	2016	2017
Japan	25,398	24,547	27,094	28,006	32,124
China	7,118	11,634	8,374	5,882	4,085
Others	2,440	3,435	4,277	6,778	6,317
Total	34,957	39,617	39,746	40,668	42,527
Overseas net sales ratio	27.3%	38.0%	32.0%	31.1%	25.3%

Consolidated Balance Sheets

As of	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars) (Note 2)
Assets			
Current assets:			
Cash on hand and in banks (Notes 16 and 18)	¥ 1,555	¥ 2,091	$ 14,308
Trade notes and accounts receivable (Note 16)	16,961	15,831	156,032
Electronically recorded receivables (Note 16)	1,153	532	10,604
Inventories (Note 3)	7,832	6,479	72,049
Deferred tax assets (Note 11)	533	577	4,906
Other current assets	1,113	291	10,237
Allowance for doubtful accounts	(2)	(2)	(17)
Total current assets	29,145	25,799	268,119
Property, plant and equipment (Note 4):			
Buildings and structures	7,274	2,705	66,918
Machinery and vehicles	1,432	791	13,177
Land	1,301	1,346	11,971
Construction in progress	321	2,337	2,951
Other	838	444	7,708
Total property, plant and equipment	11,166	7,623	102,725
Investments and other assets (Note 5):			
Investment securities (Notes 5, 16 and 17)	19,681	18,154	181,060
Deferred tax assets (Note 11)	11	66	103
Intangible assets	904	1,082	8,322
Other	2,846	2,216	26,178
Allowance for doubtful accounts	(12)	(12)	(114)
Total investments and other assets	23,430	21,506	215,549
Total assets (Note 20)	¥63,741	¥54,928	$586,393

As of	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars) (Note 2)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Note 16)	¥ 4,057	¥ 3,347	$ 37,327
Electronically recorded payables (Note 16)	6,295	5,489	57,913
Short-term borrowings and current portion of long-term debt (Notes 6 and 16)	7,242	4,970	66,623
Income taxes payable (Note 11)	181	437	1,663
Accrued expenses	841	1,069	7,741
Accrued directors' bonuses	26	33	236
Accrued employees' bonuses	815	953	7,493
Reserve for losses on order acknowledgements (Note 3)	690	366	6,344
Other	2,174	879	19,999
Total current liabilities	22,321	17,543	205,339
Long-term liabilities:			
Long-term debt (Notes 6, 16 and 19)	8,930	6,786	82,154
Deferred tax liabilities (Note 11)	2,206	1,793	20,292
Liability for retirement benefits (Note 7)	3,863	3,913	35,536
Long-term payables	36	158	331
Other	58	131	539
Total long-term liabilities	15,093	12,781	138,852
Commitments and contingencies (Note 14)			
Net assets (Notes 8 and 15):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 45,983
Capital surplus	3,178	3,178	29,232
Retained earnings	10,579	10,170	97,324
Treasury stock	(481)	(478)	(4,418)
Total shareholders' equity	18,274	17,868	168,121
Accumulated other comprehensive income:			
Unrealized holding gain on securities	8,112	6,880	74,619
Translation adjustments	188	157	1,734
Retirement benefits liability adjustments (Note 7)	(247)	(301)	(2,272)
Total accumulated other comprehensive income	8,053	6,736	74,081
Total net assets	26,327	24,604	242,202
Total liabilities and net assets	¥63,741	¥54,928	$586,393

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net sales (Note 20)	¥42,527	¥40,668	$391,235
Cost of sales (Note 3)	34,454	31,447	316,970
Gross profit	8,073	9,221	74,265
Selling, general and administrative expenses (Note 9)	7,706	7,649	70,890
Operating income (Note 20)	367	1,572	3,375
Non-operating income (expenses):			
Interest and dividend income	236	228	2,169
Interest expense	(148)	(123)	(1,366)
Equity in earnings of unconsolidated subsidiaries and affiliates	116	68	1,068
Foreign exchange gain (loss)	6	(17)	59
Other expenses, net	(61)	(64)	(562)
	149	92	1,368
Ordinary income	516	1,664	4,743
Special gains, net (Note 10)	449	44	4,132
Income before income taxes	965	1,708	8,875
Income taxes (Note 11):			
Current	333	663	3,059
Deferred	(60)	(129)	(554)
	273	534	2,505
Net income	692	1,174	6,370
Net income attributable to non-controlling interests	—	—	—
Net income attributable to owners of the parent	¥ 692	¥ 1,174	$ 6,370

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net income	¥ 692	¥1,174	$ 6,370
Other comprehensive income (Note 12):			
Unrealized holding gain on securities	1,232	410	11,331
Translation adjustments	(5)	(12)	(43)
Retirement benefits liability adjustments	54	51	495
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	36	(109)	335
Total other comprehensive income	1,317	340	12,118
Comprehensive income	¥2,009	¥1,514	$18,488
Comprehensive income attributable to:			
Owners of the parent	¥2,009	¥1,514	$18,488
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, 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
Balance as of June 1, 2017	¥4,998	¥3,178	¥10,170	¥(478)	¥17,868	¥6,880	¥ 157	¥(301)	¥6,736	¥24,604
Changes during the year										
Cash dividends paid	—	—	(283)	—	(283)	—	—	—	—	(283)
Net income attributable to owners of the parent	—	—	692	—	692	—	—	—	—	692
Change in scope of equity method application			—		—					—
Purchase of treasury stock	—	—	—	(3)	(3)	—	—	—	—	(3)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	1,232	31	54	1,317	1,317
Total changes during the year	—	—	409	(3)	406	1,232	31	54	1,317	1,723
Balance as of May 31, 2018	¥4,998	¥3,178	¥10,579	¥(481)	¥18,274	¥8,112	¥ 188	¥(247)	¥8,053	¥26,327

	(Thousands of U.S. dollars) (Note 2)									
	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, 2017	$45,983	$29,232	$93,561	$(4,394)	$164,382	$63,288	$1,442	$(2,767)	$61,963	$226,345
Changes during the year										
Cash dividends paid	—	—	(2,607)	—	(2,607)	—	—	—	—	(2,607)
Net income attributable to owners of the parent	—	—	6,370	—	6,370	—	—	—	—	6,370
Change in scope of equity method application	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	(24)	(24)	—	—	—	—	(24)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	11,331	292	495	12,118	12,118
Total changes during the year	—	—	3,763	(24)	3,739	11,331	292	495	12,118	15,857
Balance as of May 31, 2018	$45,983	$29,232	$97,324	$(4,418)	$168,121	$74,619	$1,734	$(2,272)	$74,081	$242,202

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars) (Note 2)
Operating activities			
Income before income taxes	¥ 965	¥ 1,708	$ 8,875
Depreciation and amortization	1,237	802	11,384
Provision for (reversal of) allowance for doubtful accounts	0	(1)	2
(Reversal of) provision for accrued employees' bonuses	(138)	24	(1,272)
(Decrease) increase in liability for retirement benefits	(46)	61	(428)
Interest and dividends income	(236)	(228)	(2,169)
Interest expenses	148	123	1,366
Gain on sales of investment securities	(807)	(67)	(7,422)
Loss on sales of property, plant and equipment	2	23	23
Loss on consolidation of plants	66	—	609
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(1,813)	(1,618)	(16,676)
Inventories	(1,370)	829	(12,607)
Trade notes and accounts payable	1,568	(168)	14,422
Reserve for losses on order acknowledgements	341	70	3,133
Advances received	69	37	631
Accrued expenses	(234)	(182)	(2,149)
Other, net	(670)	158	(6,162)
Subtotal	(918)	1,571	(8,440)
Interest and dividends income received	244	236	2,248
Interest expenses paid	(148)	(118)	(1,366)
Income taxes paid	(751)	(183)	(6,912)
Net cash (used in) provided by operating activities	(1,573)	1,506	(14,470)
Investing activities			
Purchases of property, plant and equipment	(3,448)	(3,902)	(31,725)
Proceeds from sales of property, plant and equipment	79	—	731
Purchases of intangible assets	(132)	(619)	(1,216)
Purchases of investment securities	(171)	(321)	(1,571)
Proceeds from sales of investment securities	1,100	93	10,121
Payments of loans receivable	(70)	—	(644)
Collection of loans receivable	35	—	322
Payments for investments in capital of subsidiaries and affiliates	(491)	—	(4,521)
Other, net	11	58	103
Net cash used in investing activities	(3,087)	(4,691)	(28,400)
Financing activities			
Increase in short-term loans payable	2,930	314	26,953
Increase in long-term debt	5,500	3,500	50,598
Repayment of long-term debt	(4,002)	(352)	(36,817)
Purchases of treasury stock	(3)	(302)	(24)
Cash dividends paid	(284)	(290)	(2,609)
Other, net	(1)	(1)	(9)
Net cash provided by financing activities	4,140	2,869	38,092
Effect of exchange rate change on cash and cash equivalents	(16)	6	(152)
Net decrease in cash and cash equivalents	(536)	(310)	(4,930)
Cash and cash equivalents at beginning of period	2,091	2,401	19,238
Cash and cash equivalents at end of period (Note 18)	¥ 1,555	¥ 2,091	$ 14,308

See notes to consolidated financial statements.

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 (IFRS), 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, 2018, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 3 in 2017). 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 and net realizable value, 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 ¥152 million ($1,398 thousand) and ¥70 million is included in cost of sales for the years ended May 31, 2018 and 2017, 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 by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees from the following year when incurred.

(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.

(t) Accounting standards issued but not yet adopted
Revised Implementation Guidance on Tax Effect Accounting and Revised Implementation Guidance on Recoverability of Deferred Tax Assets
On February 16, 2018, the ASBJ issued "Revised Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28) and "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).
(1) Overview
The accounting treatment for taxable temporary differences related to investments in subsidiaries in stand-alone financial statements and the treatment of recoverability of deferred tax assets for entities that fall under Category 1 have been revised.
(2) Scheduled date of adoption
The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending May 31, 2019.
(3) Effect of adopting the implementation guidance
The effect of adopting the revised implementation guidance on its consolidated financial statements is insignificant.

Accounting Standard and Implementation Guidance on Revenue Recognition
On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30).
(1) Overview
This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:
1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending May 31, 2022.
(3) Impact of the adoption of accounting standard and implementation guidance
The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

2. 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 ¥108.70=U.S.$1, the approximate rate of exchange prevailing at May 31, 2018. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

3. Inventories

Inventories as of May 31, 2018 and 2017 were as follows:

As of	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars)
Goods and finished products	¥1,006	¥ 871	$ 9,256
Work in process	3,507	3,373	32,257
Raw materials and supplies	3,319	2,235	30,536
	¥7,832	¥6,479	$72,049

Inventories were stated at the lower of cost and net realizable value 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 ¥75 million ($686 thousand) and ¥11 million for the years ended May 31, 2018 and 2017, respectively. These amounts were included in "Cost of sales."

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

As of	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars)
Merchandise and finished products	¥ 1	¥46	$ 7
Work in process	57	41	530
	¥58	¥87	$537

4. Property, Plant and Equipment

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

As of	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars)
Buildings and structures	¥ 11,982	¥ 7,416	$ 110,229
Machinery and vehicles	7,742	7,030	71,229
Other	3,954	3,364	36,375
	23,678	17,810	217,833
Accumulated depreciation	(14,134)	(13,870)	(130,030)
	¥ 9,544	¥ 3,940	$ 87,803

Depreciation of property, plant and equipment for the years ended May 31, 2018 and 2017 were as follows:

For the Years Ended	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars)
	¥1,237	¥802	$11,384

Accumulated depreciation of property, plant and equipment amounted to ¥14,134 million ($130,030 thousand) and ¥13,870 million as of May 31, 2018 and 2017, respectively.

5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investment securities" as of May 31, 2018 and 2017 were as follows:

As of	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars)
Investments in capital	¥1,980	¥1,345	$18,218

6. Short-Term Borrowings and Long-Term Debt

As of May 31, 2018 and 2017, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars)
Loans, principally from banks	¥3,886	¥ 968	$35,751
Current portion of long-term debt	3,356	4,002	30,872
	¥7,242	¥4,970	$66,623

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2018 were 1.243% and 1.274%, respectively.

As of May 31, 2018 and 2017, long-term debts were as follows:

As of	May 31, 2018 (Millions of yen)	May 31, 2017 (Millions of yen)	May 31, 2018 (Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2019 through 2032	¥8,930	¥6,786	$82,154

The annual weighted average interest rate applicable to long-term debt as of May 31, 2018 was 0.494%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2019	¥ 3,356	$ 30,872
2020	509	4,678
2021	557	5,127
2022	525	4,833
2023 and thereafter	7,339	67,517
	¥12,286	$113,027

The assets pledged as collateral for short-term borrowings of ¥5,132 million ($47,212 thousand) and long-term debt of ¥4,930 million ($45,356 thousand) as of May 31, 2018 were as follows:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥ 6,165	$ 56,717
Machinery and vehicles	689	6,338
Other property, plant and equipment	424	3,901
Land	1,233	11,339
Investment securities	3,468	31,904
	¥11,979	$110,199

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	¥1,673	$15,391
Machinery and vehicles	689	6,338
Other property, plant and equipment	424	3,901
	¥2,786	$25,630

7. 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, 2018 and 2017 were as follows:

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥3,913	¥3,853	$36,000
Service cost	288	284	2,650
Interest cost	15	15	137
Actuarial loss	(4)	(1)	(36)
Retirement benefits paid	(349)	(238)	(3,215)
Retirement benefit obligation as of May 31	¥3,863	¥3,913	$35,536

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥3,863	¥3,913	$35,536
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,863	3,913	35,536
Liability for retirement benefits	¥3,863	¥3,913	$35,536
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,863	3,913	35,536

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2018 and 2017 were as follows:

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥288	¥284	$2,650
Interest cost	15	15	137
Amortization of actuarial loss	74	73	679
Retirement benefit expenses	¥377	¥372	$3,466

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2018 and 2017 were as follows:

As of	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥78	¥74	$715
Total	¥78	¥74	$715

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2018 and 2017 were as follows:

As of	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥356	¥434	$3,275
Total	¥356	¥434	$3,275

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2018 and 2017 were as follows:

For the Years Ended	May 31, 2018	May 31, 2017
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 ¥118 million ($1,084 thousand) and ¥117 million for the years ended May 31, 2018 and 2017, respectively.

8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2018 and 2017 was as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2018

Type of shares	Number of shares as of June 1, 2017	Increase	Decrease	Number of shares as of May 31, 2018
		(Shares)		
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	290,569	1,338	—	291,907

Detail of the increase is as the following:
Increase due to purchase of shares of less than standard unit 1,338 shares

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.

b. Dividends

1) Dividends paid

For the year ended May 31, 2018

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 29, 2017	Common stock	¥283	$2,607	¥30.00	$0.28	May 31, 2017	August 30, 2017

For the year ended May 31, 2017

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 26, 2016	Common stock	¥289	¥6.00	May 31, 2016	August 29, 2016

2) Dividends with the cut-off date in the year ended May 31, 2018 and the effective date in the year ending May 31, 2019

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 28, 2018	Common stock	¥472	$4,344	Retained earnings	¥50.00	$0.46	May 31, 2018	August 29, 2018

9. Selling, General and Administrative Expenses

The main components of “Selling, general and administrative expenses” for the years ended May 31, 2018 and 2017 were as follows:

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥2,006	¥1,975	$18,458
Provision for accrued directors’ bonuses	26	33	236
Provision for accrued employees’ bonuses	333	404	3,063
Retirement benefit expenses	213	217	1,963
Provision for allowance for doubtful accounts	0	(1)	2
Research and development expenses	841	927	7,733

10. Special Gains (Losses), Net

The components of “Special gains (losses), net” for the years ended May 31, 2018 and 2017 were as follows:

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of property, plant and equipment	¥ 5	¥—	$ 46
Gain on sales of investment securities	807	67	7,422
Other	3	—	26
Special losses:			
Loss on consolidation of plants	(340)	—	(3,127)
Commemorative project cost for the 100th anniversary of foundation	(18)	—	(166)
Loss on sales of property, plant and equipment	(8)	(23)	(69)
Total	¥ 449	¥ 44	$ 4,132

11. 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% for the years ended May 31, 2018 and 2017. 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, 2018 was as follows:

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 was omitted since the difference was less than 5% of the effective statutory tax rate.

For the Year Ended	May 31, 2018
Effective statutory tax rate	30.9%
Effect of:	
Non-deductible expenses for income tax purpose	2.0
Non-taxable income such as dividends income, etc.	(1.5)
Per capita inhabitant tax	3.0
Valuation allowance	10.7
Income from affiliates accounted for by the equity method	(3.7)
Difference arising from the rates used by subsidiaries	2.2
Tax deductible loss on valuation of shares of affiliates	(17.5)
Other	2.1
Effective tax rate	28.2%

The significant components of deferred tax assets and liabilities as of May 31, 2018 and 2017 were as follows:

As of	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 209	¥ 165	$ 1,923
Liability for retirement benefits	1,188	1,204	10,933
Accrued employees’ bonuses	255	301	2,345
Reserve for losses on order acknowledgements	156	115	1,435
Tax loss carryforwards	509	387	4,684
Other	285	431	2,617
Total gross deferred tax assets	2,602	2,603	23,937
Valuation allowance	(655)	(703)	(6,030)
Total deferred tax assets	1,947	1,900	17,907
Deferred tax liabilities:			
Unrealized holding gain on securities	(3,597)	(3,049)	(33,092)
Other	(11)	(1)	(98)
Total deferred tax liabilities	(3,608)	(3,050)	(33,190)
Net deferred tax liabilities	¥(1,661)	¥(1,150)	$(15,283)

Adjustments to the amounts of deferred tax assets and deferred tax liabilities due to income corporation tax rate change:

As the Tax Reform Act was enacted on December 22, 2017 in the U.S., the federal corporation tax rate was reduced from the fiscal year beginning on or after January 1, 2018. Accordingly, the federal corporation tax rate applied to the Company’s subsidiaries in the U.S. has been changed from 35% to 21%.

The effect of this tax rate change is insignificant.

12. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended May 31, 2018 and 2017:

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain on securities:			
Amount arising during the year	¥2,587	¥ 669	$23,795
Reclassification adjustments for gains and losses included in net income	(807)	(67)	(7,422)
Amount before tax effect	1,780	602	16,373
Tax effect	(548)	(192)	(5,042)
Unrealized holding gain on securities	1,232	410	11,331
Translation adjustments			
Amount arising during the year	(5)	(12)	(43)
Amount before tax effect	(5)	(12)	(43)
Translation adjustments	(5)	(12)	(43)
Retirement benefits liability adjustments			
Amount arising during the year	4	0	36
Reclassification adjustments for gains and losses included in net income	74	74	679
Amount before tax effect	78	74	715
Tax effect	(24)	(23)	(220)
Retirement benefits liability adjustments	54	51	495
Share of other comprehensive income (loss) of affiliates accounted for by the equity method			
Amount arising during the year	36	(109)	335
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	36	(109)	335
Total other comprehensive income	¥1,317	¥ 340	$12,118

13. 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.

14. Contingent Liabilities

As of May 31, 2018 and 2017, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥198	¥164	$1,825
Beijing Jingche Shuangyang Traction System Co., Ltd.	85	49	782

15. Amounts Per Share

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥73.33	¥123.87	$0.67

As of	May 31, 2018	May 31, 2017	May 31, 2018
	(Yen)		(U.S. dollars)
Net assets	¥2,788.01	¥2,605.09	$25.65

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 were computed as if the share consolidation had been implemented at the beginning of the fiscal year ended May 31, 2017.

The bases for calculation are as follows:

Basic net income per share

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥692	¥1,174	$6,370
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	692	1,174	6,370
	(Thousand shares)		
Average number of shares of common stock during the year	9,443	9,479	

16. 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 19, 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, 2018 and 2017 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below):

As of May 31, 2018	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
1) Cash on hand and in banks	¥ 1,555	¥ 1,555	¥—
2) Trade notes and accounts receivable	16,961	16,961	—
3) Electronically recorded receivables	1,153	1,153	—
4) Investment securities	18,735	18,735	—
Total assets	¥38,404	¥38,404	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 4,057	¥ 4,057	¥—
6) Electronically recorded payables	6,295	6,295	—
7) Short-term borrowings	3,886	3,886	—
8) Long-term debt	12,286	12,272	14
Total liabilities	¥26,524	¥26,510	¥14
9) Derivative transactions*	¥ —	¥ —	¥—

As of May 31, 2018	Carrying value	Fair value	Difference
		(Thousands of U.S. dollars)	
Assets			
1) Cash on hand and in banks	$ 14,308	$ 14,308	$ —
2) Trade notes and accounts receivable	156,032	156,032	—
3) Electronically recorded receivables	10,604	10,604	—
4) Investment securities	172,360	172,360	—
Total assets	$353,304	$353,304	$ —
Liabilities			
5) Trade notes and accounts payable	$ 37,327	$ 37,327	$ —
6) Electronically recorded payables	57,913	57,913	—
7) Short-term borrowings	35,751	35,751	—
8) Long-term debt	113,027	112,896	131
Total liabilities	$244,018	$243,887	$131
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, 2017	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*	¥ —	¥ —	¥—

*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 17 “Securities.”

Liabilities:

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

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

Long-term debt

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

Derivative transactions

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

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

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

As of	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥946	¥946	$8,700

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 on May 31, 2018 and 2017 were as follows:

As of May 31, 2018	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 1,552	¥ —	¥—	¥—
Trade notes and accounts receivable	16,593	368	—	—
Electronically recorded receivables	1,153	—	—	—
	¥19,298	¥368	¥—	¥—

As of May 31, 2018	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	$ 14,279	$ —	$—	$—
Trade notes and accounts receivable	152,647	3,385	—	—
Electronically recorded receivables	10,604	—	—	—
	$177,530	$3,385	$—	$—

As of May 31, 2017	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	¥—	¥—

4. The redemption schedule for long-term debt is disclosed in Note 6.

17. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2018	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥18,618	¥6,906	¥11,712
Subtotal	¥18,618	¥6,906	¥11,712
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 117	¥ 121	¥ (4)
Subtotal	¥ 117	¥ 121	¥ (4)
Total	¥18,735	¥7,027	¥11,708

As of May 31, 2018	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	$171,281	$63,536	$107,745
Subtotal	$171,281	$63,536	$107,745
Securities whose acquisition cost exceeds their carrying value:			
Stock	$ 1,079	$ 1,113	$ (34)
Subtotal	$ 1,079	$ 1,113	$ (34)
Total	$172,360	$64,649	$107,711

Notes: 1. Unlisted stocks were not included in the above table because there were no quoted market prices available and they were 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, 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

Notes: 1. Unlisted stocks were not included in the above table because there were no quoted market prices available and they were 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, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥1,230	¥232	$11,320
Gain on sales	807	67	7,422
Loss on sales	—	—	—

18. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2018 and 2017 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥1,555	¥2,091	$14,308
Cash and cash equivalents	¥1,555	¥2,091	$14,308

19. 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, 2018 and 2017, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

As of May 31, 2018	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Millions of yen)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥3,216	¥104	Note

As of May 31, 2018	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Thousands of U.S. dollars)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	$29,586	$957	Note

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

As of May 31, 2017	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Millions of yen)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥7,128	¥3,216	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.

20. 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, 2018						
	Reportable segments						
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥27,950	¥11,770	¥2,801	¥ 6	¥42,527	¥ —	¥42,527
Inter-segment sales and transfers	13	2	—	712	727	(727)	—
	27,963	11,772	2,801	718	43,254	(727)	42,527
Segment profit	¥ 2,579	¥ 277	¥ 314	¥ 41	¥ 3,211	¥(2,844)	¥ 367
Segment assets	¥22,234	¥15,076	¥2,238	¥597	¥40,145	¥23,596	¥63,741
Other items:							
Depreciation	¥ 649	¥ 290	¥ 24	¥ 1	¥ 964	¥ 273	¥ 1,237
Capital expenditures	¥ 747	¥ 3,844	¥ 23	¥ —	¥ 4,614	¥ 158	¥ 4,772

	For the year ended May 31, 2018						
	Reportable segments						
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
				(Thousands of U.S. dollars)			
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	$257,127	$108,277	$25,771	$ 60	$391,235	$ —	$391,235
Inter-segment sales and transfers	125	17	—	6,542	6,684	(6,684)	—
	257,252	108,294	25,771	6,602	397,919	(6,684)	391,235
Segment profit	$ 23,725	$ 2,543	$ 2,890	$ 381	$ 29,539	$(26,164)	$ 3,375
Segment assets	$204,547	$138,697	$20,587	$5,491	$369,322	$217,071	$586,393
Other items:							
Depreciation	$ 5,966	$ 2,672	$ 218	$ 12	$ 8,868	$ 2,516	$ 11,384
Capital expenditures	$ 6,873	$ 35,363	$ 212	$ —	$ 42,448	$ 1,457	$ 43,905

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, 2017						
	Reportable segments						
	Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥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

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, 2018 and 2017 were summarized as follows:

For the Years Ended	May 31, 2018	May 31, 2017	May 31, 2018
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥32,125	¥27,987	$295,535
China	4,085	7,640	37,584
Other	6,317	5,041	58,116
Consolidated	¥42,527	¥40,668	$391,235

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

Major customer information

Major customer information for the year ended May 31, 2018 was omitted since there was no customer to whom sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

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

Customer	Segment	(Millions of yen)
Meiji Sangyo Co., Ltd.	Transportation Systems	¥4,640

21. Significant Subsequent Events

There were no significant subsequent events to be noted.

Building a better
working world

Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1506
ey.com

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, 2018, 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, 2018, 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 2.

Ernst & Young ShinNihon LLC

August 29, 2018
Tokyo, Japan