

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2017 (from June 1, 2018 to May 31, 2019) are as follows:

Results of Operation

Orders received
YoY +2.7%

Orders received increased 2.7% compared with the previous fiscal year to 40,684 million yen due to an increase in orders received in the Transportation Systems segment and the Industrial Systems segment.

Net sales
YoY -3.2%

Net sales decreased 3.2% compared with the previous fiscal year to 41,172 million yen due to a decrease in the Transportation Systems segment and the Information Equipment Systems segment.

Profit/Loss
Net Income attributable to owners of the parent
YoY -0.3%

From a profit perspective, operating income increased 52.0% compared with the previous fiscal year to 557 million yen. Ordinary income decreased 3.8% compared with the previous fiscal year to 495 million yen due to factors including the impact of foreign exchange loss and a decrease in equity in earnings of unconsolidated subsidiaries and affiliates. Net income attributable to owners of the parent decreased 0.3% to 690 million yen, as a result of efforts to cut some cross-shareholdings.

Financial Position

Assets
Total Assets
58,001 million yen

Total assets as of May 31, 2019 stood at 58,001 million yen, a decrease of 5,289 million yen compared with the end of the previous fiscal year. The decrease in total assets was largely attributable to decreases of 2,477 million yen and 1,825 million yen in trade notes and accounts receivable and investment securities, respectively.

Liabilities
Total liabilities
33,197 million yen

Total liabilities as of May 31, 2019 stood at 33,197 million yen, a decrease of 3,766 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 1,737 million yen in trade notes and accounts payable.

Net Assets
Total net assets
24,804 million yen

Net assets as of May 31, 2019 stood at 24,804 million yen, a decrease of 1,523 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a 934 million yen decrease in unrealized holding gain on available-for-sale securities and an 800 million yen decrease in net assets caused by purchases of treasury stock.

Cash Flows

Cash flow from operating activities
Net cash provided in operating activities
3,720 million yen

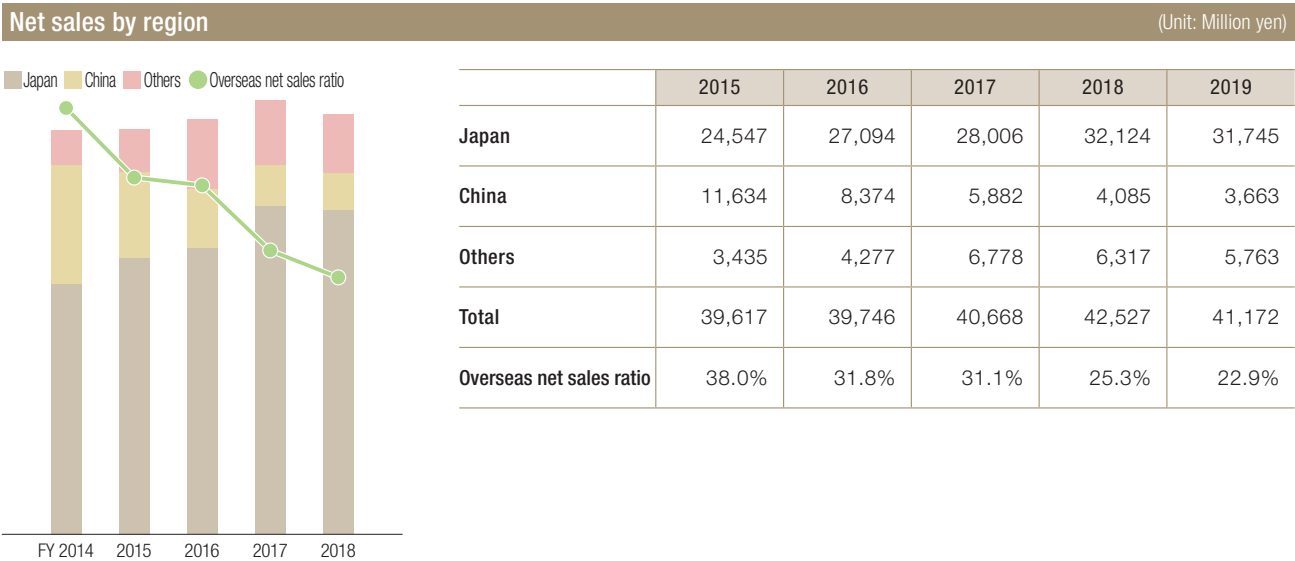
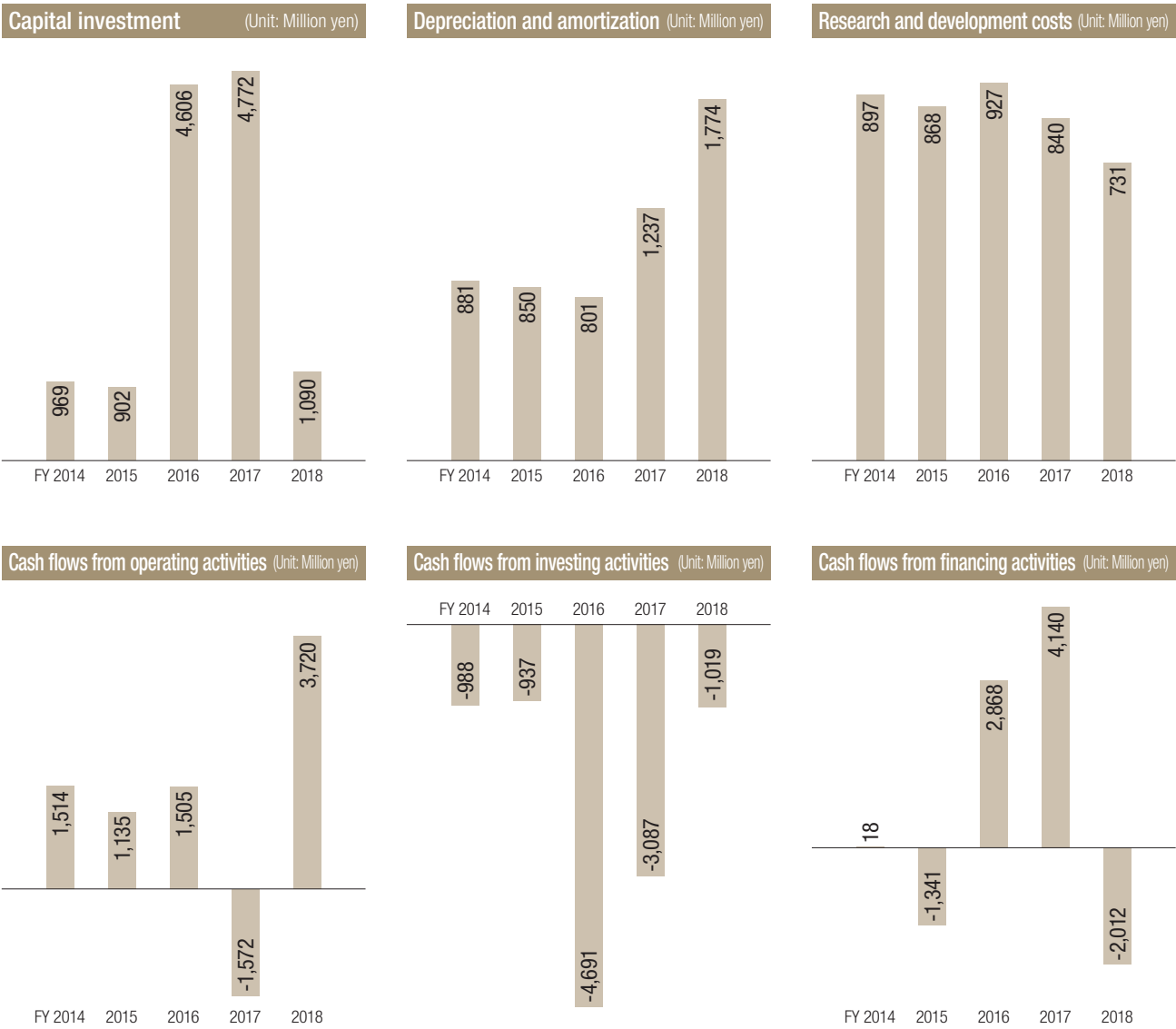
Net cash provided by operating activities amounted to 3,720 million yen (net cash of 1,572 million yen used in the previous fiscal year), principally due to decreases in trade notes and accounts receivable and inventories.

Cash flow from investing activities
Net cash used in investing activities
1,019 million yen

Net cash used in investing activities totaled 1,019 million yen (net cash of 3,087 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 used by financing activities
2,012 million yen

Net cash used in financing activities was 2,012 million yen (net cash of 4,140 million yen provided in the previous fiscal year), primarily owing to repayment of debt.



TOYO DENKI SEIZO K.K.

Consolidated Balance Sheets

As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 15 and 17)	¥ 2,240	¥ 1,555	\$ 20,486
Trade notes and accounts receivable (Note 15)	14,193	16,961	129,782
Electronically recorded receivables (Note 15)	1,443	1,153	13,198
Inventories (Note 2)	7,571	7,832	69,230
Other current assets	573	1,113	5,241
Allowance for doubtful accounts	(1)	(2)	(15)
Total current assets	26,019	28,612	237,922
Property, plant and equipment (Note 3):			
Buildings and structures	7,091	7,274	64,839
Machinery and vehicles	1,442	1,432	13,183
Land	1,301	1,301	11,899
Construction in progress	31	321	288
Other	819	838	7,484
Total property, plant and equipment	10,684	11,166	97,693
Investments and other assets (Note 4):			
Investment securities (Notes 4, 15 and 16)	17,856	19,681	163,277
Deferred tax assets (Note 10)	165	95	1,504
Intangible assets	692	904	6,332
Other	2,598	2,846	23,761
Allowance for doubtful accounts	(12)	(12)	(114)
Total investments and other assets	21,299	23,514	194,760
Total assets (Note 19)	¥58,002	¥63,292	\$530,375

As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Note 15)	¥ 2,671	¥ 4,057	\$ 24,423
Electronically recorded payables (Note 15)	5,945	6,295	54,359
Short-term borrowings and current portion of long-term debt (Notes 5 and 15)	2,462	7,242	22,513
Income taxes payable (Note 10)	320	181	2,929
Accrued expenses	679	841	6,208
Accrued directors' bonuses	39	26	352
Accrued employees' bonuses	820	815	7,496
Reserve for losses on order acknowledgements (Note 2)	570	690	5,215
Other	1,258	2,174	11,507
Total current liabilities	14,764	22,321	135,002
Long-term liabilities:			
Long-term debt (Notes 5, 15 and 18)	12,962	8,930	118,523
Deferred tax liabilities (Note 10)	1,554	1,757	14,211
Liability for retirement benefits (Note 6)	3,893	3,863	35,599
Long-term payables	21	36	191
Other	4	58	38
Total long-term liabilities	18,434	14,644	168,562
Commitments and contingencies (Note 13)			
Net assets (Notes 7 and 14):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	\$ 45,706
Capital surplus	3,178	3,178	29,055
Retained earnings	10,798	10,579	98,733
Treasury stock	(1,281)	(481)	(11,706)
Total shareholders' equity	17,693	18,274	161,788
Accumulated other comprehensive income:			
Unrealized holding gain on securities	7,177	8,112	65,624
Translation adjustments	126	188	1,159
Retirement benefits liability adjustments (Note 6)	(192)	(247)	(1,760)
Total accumulated other comprehensive income	7,111	8,053	65,023
Total net assets	24,804	26,327	226,811
Total liabilities and net assets	¥58,002	¥63,292	\$530,375

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Note 19)	¥41,173	¥42,527	\$376,486
Cost of sales (Note 2)	33,334	34,454	304,804
Gross profit	7,839	8,073	71,682
Selling, general and administrative expenses (Note 8)	7,281	7,706	66,582
Operating income (Note 19)	558	367	5,100
Non-operating income (expenses):			
Interest and dividend income	244	236	2,234
Interest expense	(143)	(148)	(1,313)
Equity in earnings of unconsolidated subsidiaries and affiliates	10	116	93
Foreign exchange (loss) gain	(83)	6	(757)
Other expenses, net	(90)	(61)	(822)
	(62)	149	(565)
Ordinary income	496	516	4,535
Special gains, net (Note 9)	751	449	6,864
Income before income taxes	1,247	965	11,399
Income taxes (Note 10):			
Current	449	333	4,103
Deferred	107	(60)	983
	556	273	5,086
Net income	691	692	6,313
Net income attributable to non-controlling interests	—	—	—
Net income attributable to owners of the parent	¥ 691	¥ 692	\$ 6,313

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 (loss) gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
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			—		—					—
Purchases 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
Balance as of June 1, 2018	¥4,998	¥3,178	¥10,579	¥ (481)	¥18,274	¥8,112	¥188	¥(247)	¥8,053	¥26,327
Changes during the year										
Cash dividends paid	—	—	(472)	—	(472)	—	—	—	—	(472)
Net income attributable to owners of the parent	—	—	691	—	691	—	—	—	—	691
Change in scope of equity method application			—		—					—
Purchases of treasury stock	—	—	—	(800)	(800)	—	—	—	—	(800)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(935)	(62)	55	(942)	(942)
Total changes during the year	—	—	219	(800)	(581)	(935)	(62)	55	(942)	(1,523)
Balance as of May 31, 2019	¥4,998	¥3,178	¥10,798	¥(1,281)	¥17,693	¥7,177	¥126	¥(192)	¥7,111	¥24,804

	(Thousands of U.S. dollars) (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding (loss) gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2018	\$45,706	\$29,055	\$96,737	\$ (4,391)	\$167,107	\$74,169	\$1,723	\$(2,259)	\$73,633	\$240,740
Changes during the year										
Cash dividends paid	—	—	(4,317)	—	(4,317)	—	—	—	—	(4,317)
Net income attributable to owners of the parent	—	—	6,313	—	6,313	—	—	—	—	6,313
Change in scope of equity method application	—	—	—	—	—	—	—	—	—	—
Purchases of treasury stock	—	—	—	(7,315)	(7,315)	—	—	—	—	(7,315)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(8,545)	(564)	499	(8,610)	(8,610)
Total changes during the year	—	—	1,996	(7,315)	(5,319)	(8,545)	(564)	499	(8,610)	(13,929)
Balance as of May 31, 2019	\$45,706	\$29,055	\$98,733	\$(11,706)	\$161,788	\$65,624	\$1,159	\$(1,760)	\$65,023	\$226,811

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net income	¥ 691	¥ 692	\$ 6,313
Other comprehensive (loss) income (Note 11):			
Unrealized holding (loss) gain on securities	(935)	1,232	(8,545)
Translation adjustments	19	(5)	177
Retirement benefits liability adjustments	55	54	499
Share of other comprehensive (loss) income of affiliates accounted for by the equity method	(81)	36	(741)
Total other comprehensive (loss) income	(942)	1,317	(8,610)
Comprehensive (loss) income	¥(251)	¥2,009	\$(2,297)
Comprehensive (loss) income attributable to:			
Owners of the parent	¥(251)	¥2,009	\$(2,297)
Non-controlling interests	—	—	—

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.

Consolidated Statements of Cash Flows

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
Income before income taxes	¥1,247	¥ 965	\$ 11,399
Depreciation and amortization	1,775	1,237	16,229
(Reversal of) provision for allowance for doubtful accounts	(0)	0	(1)
Provision for (reversal of) accrued employees' bonuses	5	(138)	48
Increase (decrease) in liability for retirement benefits	37	(46)	344
Interest and dividend income	(244)	(236)	(2,234)
Interest expense	143	148	1,313
Gain on sales of investment securities	(804)	(807)	(7,354)
Loss on sales of property, plant and equipment	—	2	—
Loss on consolidation of plants	—	66	—
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	2,527	(1,813)	23,109
Inventories	291	(1,370)	2,660
Trade notes and accounts payable	(1,791)	1,568	(16,374)
Reserve for losses on order acknowledgements	(134)	341	(1,228)
Advances received	(129)	69	(1,181)
Accrued expenses	(170)	(234)	(1,559)
Other, net	1,076	(670)	9,840
Subtotal	3,829	(918)	35,011
Interest and dividend income received	260	244	2,376
Interest expense paid	(146)	(148)	(1,337)
Income taxes paid	(222)	(751)	(2,029)
Net cash provided by (used in) operating activities	3,721	(1,573)	34,021
Investing activities			
Purchases of property, plant and equipment	(2,277)	(3,448)	(20,826)
Proceeds from sales of property, plant and equipment	—	79	—
Purchases of intangible assets	(49)	(132)	(452)
Purchases of investment securities	(261)	(171)	(2,385)
Proceeds from sales of investment securities	1,441	1,100	13,181
Payments of loans receivable	—	(70)	—
Collection of loans receivable	35	35	320
Payments for investments in capital of subsidiaries and affiliates	—	(491)	—
Other, net	92	11	842
Net cash used in investing activities	(1,019)	(3,087)	(9,320)
Financing activities			
(Decrease) increase in short-term loans payable	(1,990)	2,930	(18,198)
Increase in long-term debt	4,600	5,500	42,063
Repayment of long-term debt	(3,356)	(4,002)	(30,686)
Purchases of treasury stock	(800)	(3)	(7,316)
Cash dividends paid	(472)	(284)	(4,309)
Other, net	5	(1)	46
Net cash (used in) provided by financing activities	(2,013)	4,140	(18,400)
Effect of exchange rate change on cash and cash equivalents	(4)	(16)	(37)
Net increase (decrease) in cash and cash equivalents	685	(536)	6,264
Cash and cash equivalents at beginning of period	1,555	2,091	14,222
Cash and cash equivalents at end of period (Note 17)	¥2,240	¥1,555	\$ 20,486

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. (the “Company”) and consolidated subsidiaries (collectively the “Group”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (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 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, 2019, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 3 in 2018). A subsidiary, TOYO DENKI USA, INC., for which 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 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 ¥(134) million (\$ (1,228) thousand) and ¥152 million is included in cost of sales for the years ended May 31, 2019 and 2018, 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 temporary 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

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

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") of the U.S. have jointly developed a comprehensive accounting standard for revenue recognition. In May 2014, the IASB and the FASB each issued "Revenue from Contracts with Customers" (IASB: IFRS 15 and FASB: Topic 606). Considering that IFRS 15 has been applied from fiscal years beginning on or after January 1, 2018 and Topic 606 has been applied from fiscal years beginning after December 15, 2017, the ASBJ has developed a comprehensive accounting standard for revenue recognition, which was issued together with its implementation guidance.

As a basic policy in developing the accounting standard for revenue recognition, the ASBJ has incorporated the basic principles of IFRS 15 from the viewpoint of comparability between financial statements, a factor essential for facilitating consistency with IFRS 15. In addition, if there are any business practices in Japan for which consideration is required, alternative accounting treatments shall be added to the accounting standard to the extent that they do not impair comparability.

(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.

(u) Changes in presentation

Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) (hereinafter, the "Partial Amendments") from the beginning of the year ended May 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures in Note 10 "Income Taxes" have been expanded.

As a result, of the amounts previously presented in the consolidated balance sheets as of May 31, 2018, deferred tax assets in current assets decreased by ¥533 million and deferred tax assets in investments and other assets increased by ¥84 million, while deferred tax liabilities in long-term liabilities decreased by ¥449 million.

Deferred tax assets and deferred tax liabilities of the identical taxable entities are offset, and accordingly, total assets decreased by ¥449 million compared to those before the change.

Also, Note 10 "Income Taxes" in the Notes to the Consolidated Financial Statements has been expanded in accordance with Notes 8 and 9 of Interpretive Notes to the Accounting Standard for Tax Effect Accounting required in Paragraphs 3 to 5 of the Partial Amendments. However, comparative information for the year ended May 31, 2018 has not been disclosed in Note 10 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

2. Other Explanatory Information

Note 1. 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 ¥109.36=U.S.\$1, the approximate rate of exchange prevailing at May 31, 2019. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

Note 2. Inventories

Inventories as of May 31, 2019 and 2018 were as follows:

As of	May 31, 2019 (Millions of yen)	May 31, 2018	May 31, 2019 (Thousands of U.S. dollars)
Goods and finished products	¥ 992	¥1,006	\$ 9,069
Work in process	3,504	3,507	32,044
Raw materials and supplies	3,075	3,319	28,117
	¥7,571	¥7,832	\$69,230

Inventories were stated at the lower of cost or 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 ¥92 million (\$843 thousand) and ¥75 million for the years ended May 31, 2019 and 2018, 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, 2019 (Millions of yen)	May 31, 2018	May 31, 2019 (Thousands of U.S. dollars)
Goods and finished products	¥85	¥ 1	\$775
Work in process	13	57	119
	¥98	¥58	\$894

Note 3. Property, Plant and Equipment

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

As of	May 31, 2019 (Millions of yen)	May 31, 2018	May 31, 2019 (Thousands of U.S. dollars)
Buildings and structures	¥ 12,210	¥ 11,982	\$ 111,653
Machinery and vehicles	8,174	7,742	74,746
Other	4,411	3,954	40,332
	24,795	23,678	226,731
Accumulated depreciation	(15,444)	(14,134)	(141,225)
	¥ 9,351	¥ 9,544	\$ 85,506

Depreciation of property, plant and equipment for the years ended May 31, 2019 and 2018 were as follows:

For the Years Ended	May 31, 2019 (Millions of yen)	May 31, 2018	May 31, 2019 (Thousands of U.S. dollars)
	¥1,775	¥1,237	\$16,229

Accumulated depreciation of property, plant and equipment amounted to ¥15,444 million (\$141,225 thousand) and ¥14,134 million as of May 31, 2019 and 2018, respectively.

Note 4. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in “Investment securities” as of May 31, 2019 and 2018 were as follows:

As of	May 31, 2019 (Millions of yen)	May 31, 2018	May 31, 2019 (Thousands of U.S. dollars)
Investments in capital	¥1,894	¥1,980	\$17,318

Note 5. Short-Term Borrowings and Long-Term Debt

As of May 31, 2019 and 2018, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2019 (Millions of yen)	May 31, 2018	May 31, 2019 (Thousands of U.S. dollars)
Loans, principally from banks	¥1,894	¥3,886	\$17,315
Current portion of long-term debt	568	3,356	5,198
	¥2,462	¥7,242	\$22,513

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2019 were 2.134% and 0.725%, respectively.

As of May 31, 2019 and 2018, long-term debts were as follows:

As of	May 31, 2019 (Millions of yen)	May 31, 2018	May 31, 2019 (Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2020 through 2032	¥12,962	¥8,930	\$118,523

The annual weighted average interest rate applicable to long-term debt as of May 31, 2019 was 0.430%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2020	¥ 568	\$ 5,198
2021	618	5,644
2022	585	5,352
2023	585	5,352
2024 and thereafter	11,174	102,175
	¥13,530	\$123,721

The assets pledged as collateral for short-term borrowings of ¥2,462 million (\$22,513 thousand) and long-term debt of ¥4,362 million (\$39,884 thousand) as of May 31, 2019 were as follows:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥6,043	\$55,261
Machinery and vehicles	771	7,054
Other property, plant and equipment	436	3,988
Land	1,233	11,270
	¥8,483	\$77,573

The following assets included in the above are set by factory foundation fixed collateral security for short-term borrowings of ¥1,966 million (\$17,974 thousand) and long-term debt of ¥32 million (\$293 thousand) as of May 31, 2019:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,615	\$14,766
Machinery and vehicles	771	7,054
Other property, plant and equipment	436	3,988
	¥2,822	\$25,808

Note 6. 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, 2019 and 2018 were as follows:

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥3,863	¥3,913	\$35,322
Service cost	293	288	2,682
Interest cost	15	15	134
Actuarial loss	(7)	(4)	(67)
Retirement benefits paid	(271)	(349)	(2,472)
Retirement benefit obligation as of May 31	¥3,893	¥3,863	\$35,599

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥3,893	¥3,863	\$35,599
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,893	3,863	35,599
Liability for retirement benefits	¥3,893	¥3,863	\$35,599
Net liability (asset) for retirement benefits on the consolidated balance sheets	3,893	3,863	35,599

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2019 and 2018 were as follows:

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥293	¥288	\$2,682
Interest cost	15	15	134
Amortization of actuarial loss	71	74	653
Retirement benefit expenses	¥379	¥377	\$3,469

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2019 and 2018 were as follows:

As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥79	¥78	\$719
Total	¥79	¥78	\$719

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2019 and 2018 were as follows:

As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥277	¥356	\$2,537
Total	¥277	¥356	\$2,537

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2019 and 2018 were as follows:

For the Years Ended	May 31, 2019	May 31, 2018
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 (\$1,076 thousand) and ¥118 million for the years ended May 31, 2019 and 2018, respectively.

Note 7. Net Assets

Information regarding changes in net assets for the years ended May 31, 2019 and 2018 was as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2019

Type of shares	Number of shares as of June 1, 2018	Increase	Decrease	Number of shares as of May 31, 2019
		(Shares)		
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	291,907	501,059	—	792,966

Details of the increase are as follows:

Increase due to purchase of shares of less than standard unit	1,059 shares
Increase due to purchase of treasury stock based on the resolution of the Board of Directors' meeting	500,000 shares

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
Details of the increase are as follows:				
Increase due to purchase of shares of less than standard unit		1,338 shares		

b. Dividends

1) Dividends paid

For the year ended May 31, 2019

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 28, 2018	Common stock	¥472	\$4,317	¥50.00	\$0.46	May 31, 2018	August 29, 2018

For the year ended May 31, 2018

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 29, 2017	Common stock	¥283	¥30.00	May 31, 2017	August 30, 2017

2) Dividends with the cut-off date in the year ended May 31, 2019 and the effective date in the year ending May 31, 2020

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, 2019	Common stock	¥268	\$2,453	Retained earnings	¥30.00	\$0.27	May 31, 2019	August 29, 2019

Note 8. Selling, General and Administrative Expenses

The main components of “Selling, general and administrative expenses” for the years ended May 31, 2019 and 2018 were as follows:

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,980	¥2,006	\$18,105
Provision for accrued directors’ bonuses	38	26	351
Provision for accrued employees’ bonuses	327	333	2,989
Retirement benefit expenses	216	213	1,979
Provision for allowance for doubtful accounts	(0)	0	(3)
Research and development expenses	732	841	6,689

Note 9. Special Gains (Losses), Net

The components of “Special gains (losses), net” for the years ended May 31, 2019 and 2018 were as follows:

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of property, plant and equipment	¥ —	¥ 5	\$ —
Gain on sales of investment securities	804	807	7,354
Other	—	3	—
Special losses:			
Loss on consolidation of plants	—	(340)	—
Commemorative project cost for the 100 th anniversary of foundation	(53)	(18)	(490)
Loss on sales of property, plant and equipment	—	(8)	—
Total	¥ 751	¥ 449	\$ 6,864

Note 10. 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 30.6% and 30.9% for the years ended May 31, 2019 and 2018, respectively. Income taxes of a foreign consolidated subsidiary are based generally on the tax rates applicable in the country of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the years ended May 31, 2019 and 2018 was as follows:

For the Year Ended	May 31, 2019	May 31, 2018
Effective statutory tax rate	30.6%	30.9%
Effect of:		
Non-deductible expenses for income tax purpose	2.1	2.0
Non-taxable income such as dividends income, etc.	(1.1)	(1.5)
Per capita inhabitant tax	2.3	3.0
Valuation allowance	7.2	10.7
Income from affiliates accounted for by the equity method	(0.2)	(3.7)
Difference arising from the rates used by subsidiaries	2.1	2.2
Tax deductible loss on valuation of shares of affiliates	—	(17.5)
Retained profit of affiliates	3.2	1.1
Research and development tax credit	(1.3)	—
Other	(0.3)	1.0
Effective tax rate	44.6%	28.2%

Retained profit of affiliates, which had been included in “Other” in the previous fiscal years, has been separately presented from the year ended May 31, 2019 since its materiality increased. In order to reflect this change, items in the above table for the year ended May 31, 2018 have been restated.

As a result, 2.1% presented in “Other” for the year ended May 31, 2018 has been reclassified to 1.1% of retained profit of affiliates and 1.0% of “Other.”

The significant components of deferred tax assets and liabilities as of May 31, 2019 and 2018 were as follows:

As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 210	¥ 209	\$ 1,921
Liability for retirement benefits	1,198	1,188	10,955
Accrued employees' bonuses	257	255	2,349
Reserve for losses on order acknowledgements	123	156	1,129
Net operating loss carryforwards (Note 1)	554	509	5,063
Other	259	285	2,366
Total gross deferred tax assets	2,601	2,602	23,783
Valuation allowance for net operating loss carryforwards (Note 1)	(383)	—	(3,500)
Valuation allowance for deductible temporary differences	(363)	—	(3,320)
Total valuation allowance	(746)	(655)	(6,820)
Total deferred tax assets	1,855	1,947	16,963
Deferred tax liabilities:			
Unrealized holding gain on securities	(3,194)	(3,597)	(29,205)
Other	(50)	(11)	(465)
Total deferred tax liabilities	(3,244)	(3,609)	(29,670)
Net deferred tax liabilities	¥(1,389)	¥(1,662)	\$(12,707)

(Note 1) The breakdown of net operating loss carryforwards and valuation allowance by expiry date is as follows:

Year ended May 31, 2019

(Millions of yen)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
Net operating loss carry forwards (a)	¥—	¥—	¥8	¥ 5	¥—	¥541	¥554
Valuation allowance	—	—	—	(5)	—	(378)	(383)
Deferred tax assets	—	—	8	—	—	163	171(b)

(Thousands of U.S. dollars)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
Net operating loss carry forwards (a)	\$—	\$—	\$72	\$ 46	\$—	\$ 4,945	\$ 5,063
Valuation allowance	—	—	—	(46)	—	(3,454)	(3,500)
Deferred tax assets	—	—	72	—	—	1,491	1,563(b)

- (a) The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.
- (b) Deferred tax assets of ¥171 million (\$1,563 thousand) is recognized on net operating loss carryforwards of ¥554 million (\$5,063 thousand) (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥171 million (\$1,563 thousand) is recognized on the net operating loss carryforwards of ¥155 million (\$1,416 thousand) (amount multiplied by the effective statutory tax rate) of the Company and that of ¥16 million (\$147 thousand) (amount multiplied by the effective statutory tax rate) of Toyo Koki Co., Ltd., which is a consolidated subsidiary of the Company. The net operating loss carryforwards which resulted in deferred tax assets for the Company were generated from the devaluation loss on shares of subsidiaries of ¥552 million which became tax deductible for the year ended May 31, 2018, and the valuation allowance is not recognized because the management considered it to be recoverable considering the prospects of future taxable income and its plans of selling shares held for strategic purpose.

Note 11. Other Comprehensive (Loss) Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive (loss) income for the years ended May 31, 2019 and 2018:

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ (533)	¥2,587	\$ (4,877)
Reclassification adjustments for gains and losses included in net income	(804)	(807)	(7,354)
Amount before tax effect	(1,337)	1,780	(12,231)
Tax effect	402	(548)	3,686
Unrealized holding (loss) gain on securities	(935)	1,232	(8,545)
Translation adjustments			
Amount arising during the year	19	(5)	177
Amount before tax effect	19	(5)	177
Translation adjustments	19	(5)	177
Retirement benefits liability adjustments			
Amount arising during the year	7	4	67
Reclassification adjustments for gains and losses included in net income	72	74	652
Amount before tax effect	79	78	719
Tax effect	(24)	(24)	(220)
Retirement benefits liability adjustments	55	54	499
Share of other comprehensive (loss) income of affiliates accounted for by the equity method			
Amount arising during the year	(81)	36	(741)
Share of other comprehensive (loss) income of affiliates accounted for by the equity method	(81)	36	(741)
Total other comprehensive (loss) income	¥ (942)	¥1,317	\$ (8,610)

Note 12. 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.

Note 13. Contingent Liabilities

As of May 31, 2019 and 2018, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥327	¥198	\$2,993
Beijing Jingche Shuangyang Traction System Co., Ltd.	79	85	721

Note 14. Amounts Per Share

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥75.27	¥73.33	\$0.69
As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Yen)		(U.S. dollars)
Net assets	¥2,773.87	¥2,788.01	\$25.36

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

The bases for calculation are as follows:

Basic net income per share

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥691	¥692	\$6,313
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	691	692	6,313
	(Thousand shares)		
Average number of shares of common stock during the year	9,173	9,443	

Note 15. 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 “1. Summary of Significant Accounting Policies (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 18, 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, 2019 and 2018 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, 2019	Carrying value	Fair value	Difference
	(Millions of yen)		
Assets			
1) Cash on hand and in banks	¥ 2,240	¥ 2,240	¥—
2) Trade notes and accounts receivable	14,193	14,193	—
3) Electronically recorded receivables	1,443	1,443	—
4) Investment securities	16,791	16,791	—
Total assets	¥34,667	¥34,667	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 2,671	¥ 2,671	¥—
6) Electronically recorded payables	5,945	5,945	—
7) Short-term borrowings	1,894	1,894	—
8) Long-term debt	13,530	13,594	64
Total liabilities	¥24,040	¥24,104	¥64
9) Derivative transactions*	¥ —	¥ —	¥—

As of May 31, 2019

Assets

	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
1) Cash on hand and in banks	\$ 20,486	\$ 20,486	\$ —
2) Trade notes and accounts receivable	129,782	129,782	—
3) Electronically recorded receivables	13,198	13,198	—
4) Investment securities	153,535	153,535	—
Total assets	\$317,001	\$317,001	\$ —

Liabilities

5) Trade notes and accounts payable	\$ 24,423	\$ 24,423	\$ —
6) Electronically recorded payables	54,359	54,359	—
7) Short-term borrowings	17,315	17,315	—
8) Long-term debt	123,721	124,306	585
Total liabilities	\$219,818	\$220,403	\$585
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, 2018

Assets

	Carrying value	Fair value	Difference
	(Millions of yen)		
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*	¥ —	¥ —	¥—

*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 16 "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, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥1,065	¥946	\$9,742

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, 2019 and 2018 were as follows:

As of May 31, 2019	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	¥ 2,238	¥ —	¥—	¥—
Trade notes and accounts receivable	13,882	311	—	—
Electronically recorded receivables	1,443	—	—	—
	¥17,563	¥311	¥—	¥—

As of May 31, 2019

	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	\$ 20,464	\$ —	\$—	\$—
Trade notes and accounts receivable	126,935	2,847	—	—
Electronically recorded receivables	13,198	—	—	—
	\$160,597	\$2,847	\$—	\$—

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	¥—	¥—

4.The redemption schedule for long-term debt is disclosed in Note 5.

Note 16. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2019	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds acquisition cost:			
Stock	¥16,594	¥6,188	¥10,406
Subtotal	¥16,594	¥6,188	¥10,406
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 196	¥ 231	¥ (35)
Subtotal	¥ 196	¥ 231	¥ (35)
Total	¥16,790	¥6,419	¥10,371

As of May 31, 2019	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities for which carrying value exceeds acquisition cost:			
Stock	\$151,739	\$56,589	\$95,150
Subtotal	\$151,739	\$56,589	\$95,150
Securities for which acquisition cost exceeds carrying value:			
Stock	\$ 1,796	\$ 2,116	\$ (320)
Subtotal	\$ 1,796	\$ 2,116	\$ (320)
Total	\$153,535	\$58,705	\$94,830

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

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, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥1,556	¥1,230	\$14,231
Gain on sales	804	807	7,354
Loss on sales	—	—	—

Note 17. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2019 and 2018 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥2,240	¥1,555	\$20,486
Cash and cash equivalents	¥2,240	¥1,555	\$20,486

Note 18. 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:

As of May 31, 2019 and 2018, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

As of May 31, 2019	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	¥104	¥32	Note

As of May 31, 2019	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	\$951	\$293	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, 2018	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	¥3,216	¥104	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.

Note 19. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and 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 the same as those described in the significant accounting policies in “1. Summary of Significant Accounting Policies.” 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, 2019						
	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	¥27,236	¥12,339	¥1,584	¥ 14	¥41,173	¥ —	¥41,173
Inter-segment sales and transfers	50	1	—	591	642	(642)	—
	27,286	12,340	1,584	605	41,815	(642)	41,173
Segment profit	¥ 2,428	¥ 650	¥ 290	¥ 34	¥ 3,402	¥(2,844)	¥ 558
Segment assets	¥20,217	¥14,311	¥1,200	¥573	¥36,301	¥21,701	¥58,002
Other items:							
Depreciation	¥ 719	¥ 691	¥ 93	¥ 1	¥ 1,504	¥ 271	¥ 1,775
Capital expenditures	¥ 596	¥ 366	¥ 109	¥ 14	¥ 1,085	¥ 6	¥ 1,091

	For the year ended May 31, 2019						
	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	\$249,046	\$112,832	\$14,481	\$ 127	\$376,486	\$ —	\$376,486
Inter-segment sales and transfers	457	9	—	5,407	5,873	(5,873)	—
	249,503	112,841	14,481	5,534	382,359	(5,873)	376,486
Segment profit	\$ 22,194	\$ 5,945	\$ 2,652	\$ 313	\$ 31,104	\$ (26,004)	\$ 5,100
Segment assets	\$184,866	\$130,860	\$10,973	\$5,236	\$331,935	\$198,440	\$530,375
Other items:							
Depreciation	\$ 6,572	\$ 6,319	\$ 848	\$ 13	\$ 13,752	\$ 2,477	\$ 16,229
Capital expenditures	\$ 5,447	\$ 3,352	\$ 999	\$ 125	\$ 9,923	\$ 53	\$ 9,976

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

	For the year ended May 31, 2018						
	Reportable segments			Other (Note)	Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	Information Equipment Systems				
(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	¥23,147	¥63,292
Other items:							
Depreciation	¥ 649	¥ 290	¥ 24	¥ 1	¥ 964	¥ 273	¥ 1,237
Capital expenditures	¥ 747	¥ 3,844	¥ 23	¥ —	¥ 4,614	¥ 158	¥ 4,772

Note: “Other” represents business units which are not included in reportable segments and consists of worker dispatching services 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, 2019 and 2018 were summarized as follows:

For the Years Ended	May 31, 2019	May 31, 2018	May 31, 2019
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥31,746	¥32,125	\$290,285
China	3,664	4,085	33,502
Other	5,763	6,317	52,699
Consolidated	¥41,173	¥42,527	\$376,486

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

Major customer information

Major customer information for the years ended May 31, 2019 and 2018 was omitted since there was no customer to whom sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

Note 20. Significant Subsequent Events

There were no significant subsequent events to be noted.

Report of Independent Auditors



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Independent Auditor's Report

The Board of Directors
TOYO DENKI SEIZO K.K.

We have audited the accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at May 31, 2019, 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, 2019, 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, 2019
Tokyo, Japan