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

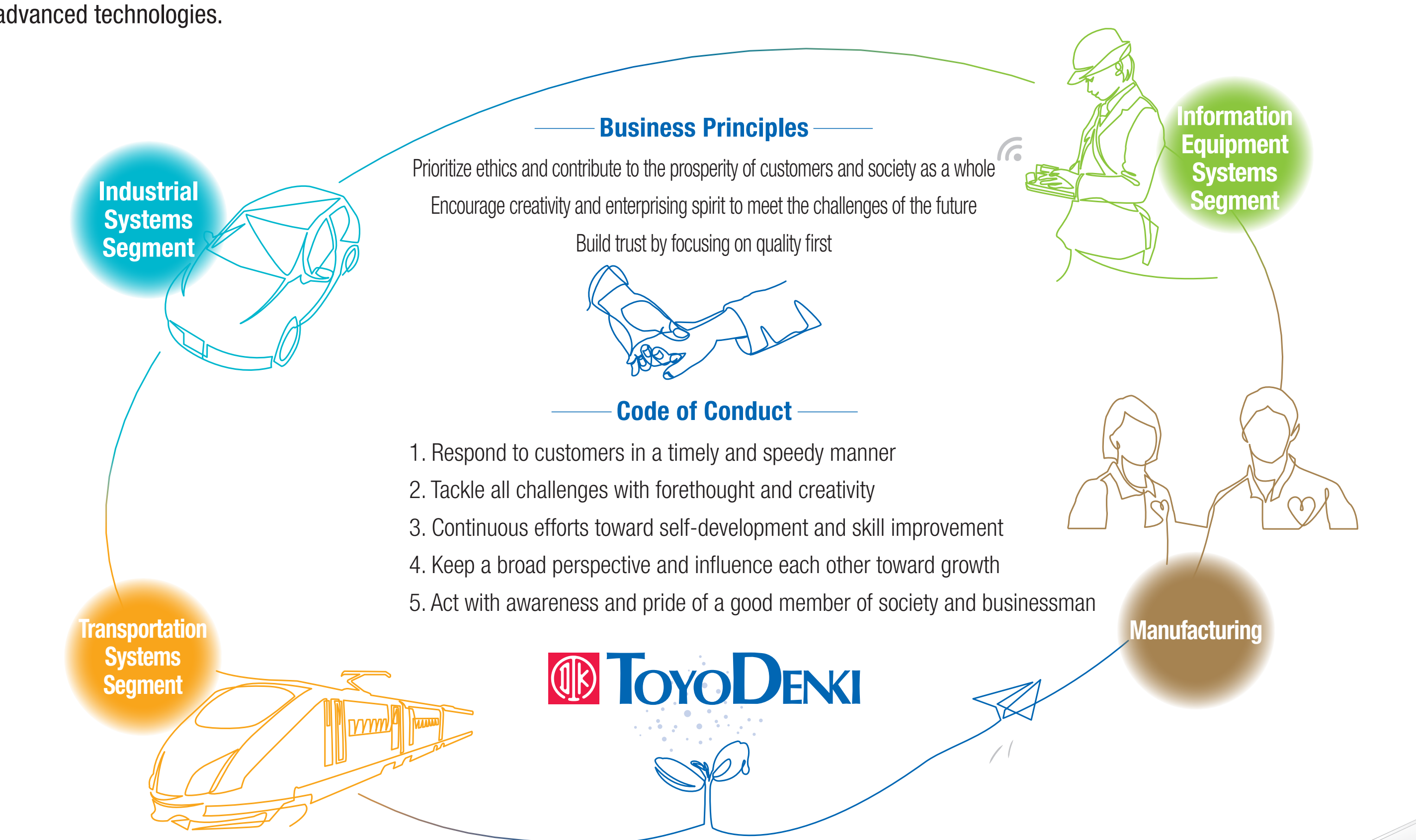
Toyo Denki Seizo Report 2019

Our Heart and Technology for the Future

Our Long-Term Vision

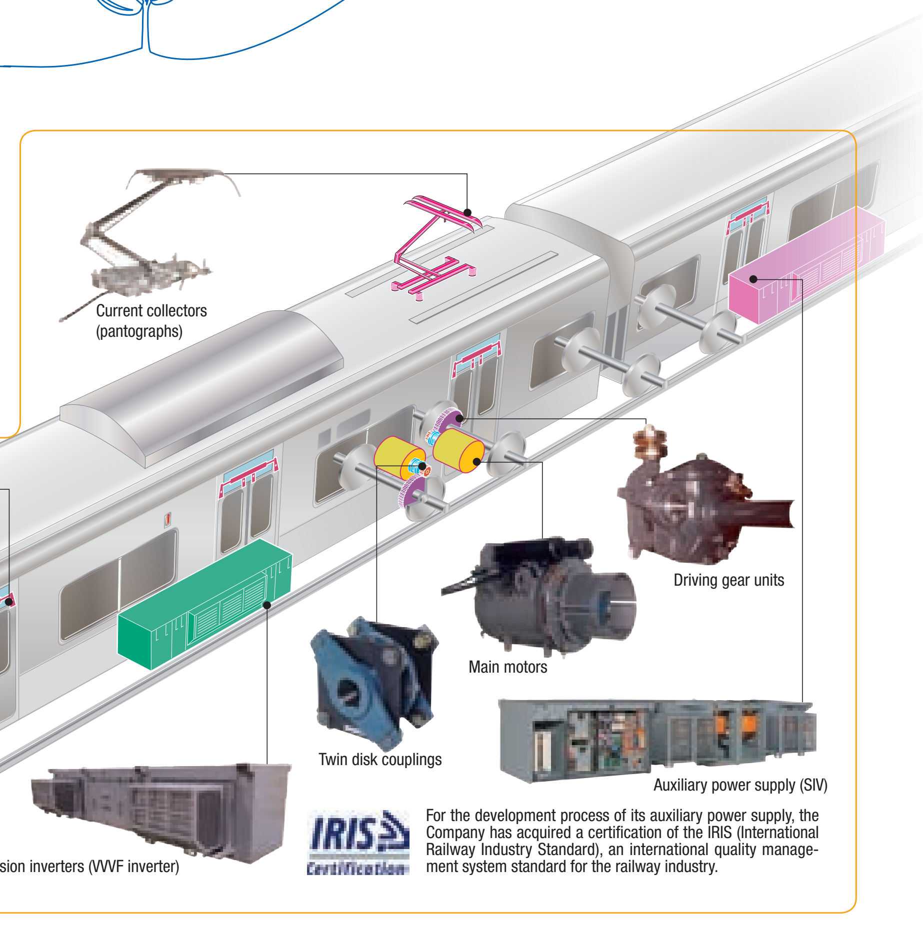
Toyo Denki Seizo K.K. Contributes to the Development of Social Infrastructure Systems

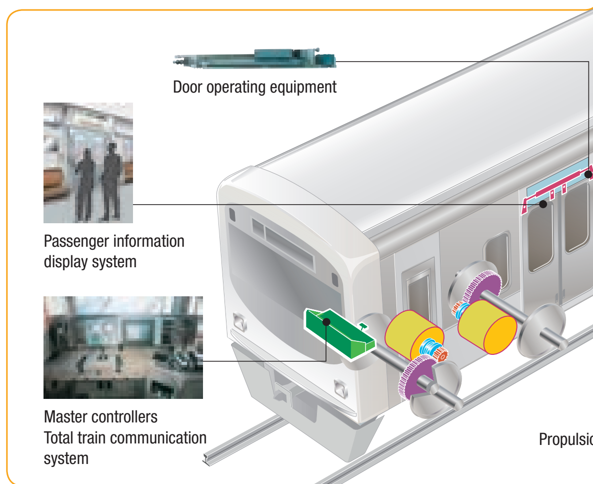
Based on a firm management foundation, we help build social infrastructure systems that are considerate of the global environment through the global provision of high-quality products that integrate our exceptional motor drive technologies since establishment with our breakthrough advanced technologies.



Transportation Systems Segment

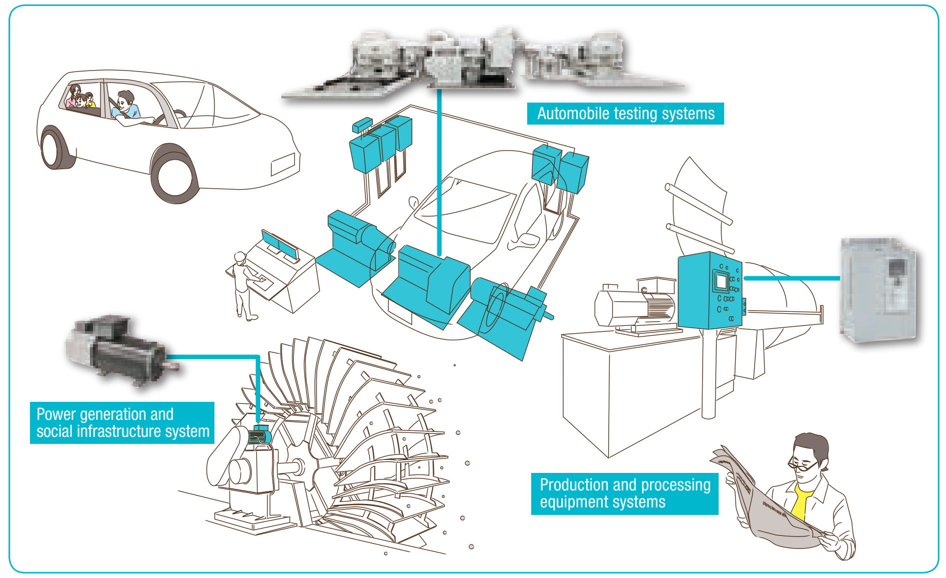
Electrical equipment for rail vehicles manufactured by the Company using its technological capability developed over 100 years covers a wide range of fields, including propulsion systems (drive systems), auxiliary power supply and door-closing units of trains, and we contribute to the maintenance and development of railway infrastructure overseas, not to mention in Japan, by pursuing safety and comfort of trains.





Industrial Systems Segment

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

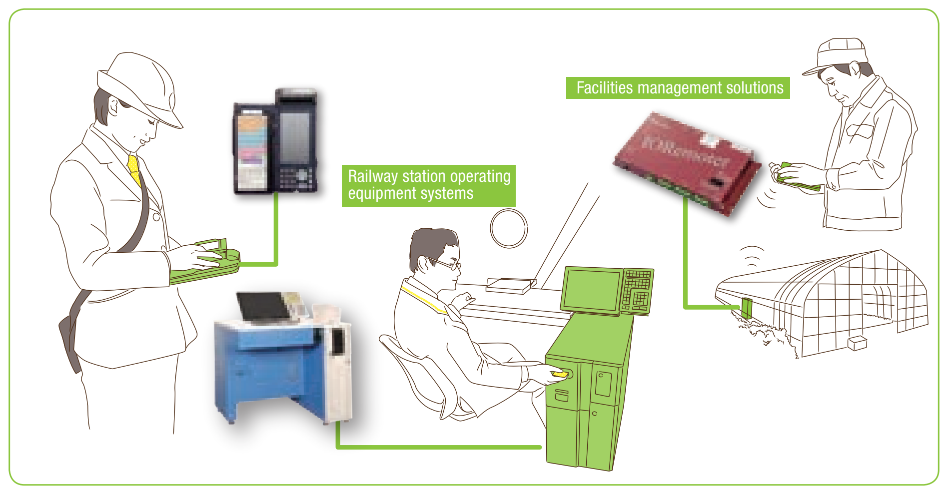


Information Equipment Systems Segment

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

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

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



CONTENTS

Editorial Policy

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

Period Covered by This Report

This report focuses on our activities in fiscal 2018 (from June 2018 to May 2019), but also contains some information from outside this period.

Organizations Covered by This Report

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

Reference Guidelines

The GRI Sustainability Reporting Standards (GRI Standards)

TOYO DENKI SEIZO K.K. 100 years history

On June 20, 2018,TOYO DENKI SEIZO K.K. celebrated its 100th anniversary.
Our company was founded in 1918 with the intention of "domestic production of electrical machinery for railway vehicles". A spectacular feeling that we want to export products to domestic as well as to many Orient countries and contribute to the development of the country has come from the name of "TOYO DENKI SEIZO K.K.". And this feeling has been handed down to successive employees, and now our products are contributing to the development of social infrastructure systems around the world.

1918~1949

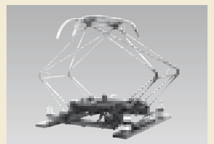
From foundation to postwar

Group photo of the first president, Kaichi Watanabe, and executives from the partner British Dick Kerr company.

- **1918** Technical cooperation with British Dick Kerr and establishment of the company with the capital of 3 million yen
- **1919** Operation started at Yokohama Factory

Yokohama factory at the start of operations (Hodogaya-ku, Yokohama)

- **1920** Control equipments and traction motors delivered directly to Keihan Electric Railway Co.
- **1921** Development of pantograph, first in Japan
- **1926** Start of manufacturing of three-phase commutator motor (AS motor)
- **1932** Development of electric equipment for trolleybus, first in Japan
  - Completion of controller with regeneration brake using compound motor, first in Japan
- **1935** Development of diesel electric railcar, first in our country, and delivered to Sagami Railway
- **1949** Our stocks was listed on Tokyo Stock Exchange



Early domestic pantograph

AS motor

1950~1989

From postwar reconstruction to high economic growth

- **1950** Development of ST type three-phase AC Commutator motor (patented)
- **1952** Development of Cardan shaft driving device, first in Japan
- **1958** Completion of traction motor and controller for the Japan National Railways "Kodama"limited express
- **1959** Completion of automatic train stop
- **1960** Completion of traction motor and drive for Shinkansen testing car
  - Order received for electric towing locomotive for the Panama Canal
  - Development of constant-speed operation controller for vehicle, first in Japan
  - Development of hydraulic winch for ship, first in Japan
- **1963** Delivery of pantograph for Shinkansen to Japanese National Railways

Cardan shaft driving device

Japan National Railway 151 series limited express train "Kodama"

Japan National Railway Series 0 Shinkansen

- **1965** Development of thyristor static Leonard equipment series, first in Japan
- **1972** Development of brushless motor generator (BLMG), first in the world
  - Development of 150kVA 440Hz static CVCF, first in Japan
- **1973** Completion of commutation ticket issuing system
- **1977** Completion of large high-speed automatic drafting machine
- **1978** Developed our proprietary AFE chopper device
- **1983** Completion of in-train ticket issuing system
- **1985** The current Yokohama Planmt was completed
- **1985** Delivery of world-first superimposed field excitation control for 205 series electric train of Japanese National Railways
- **1988** Completion of world-first heat-pipe type 8-unit motor batch control VVVF inverter and delivery of it to Tokyu Electric Railway Co
- **1989** Development of small VVVF inverter using reverse conductive GTO thyristor, first in Japan

Panama Canal Agency Electric Locomotive for Dredgers

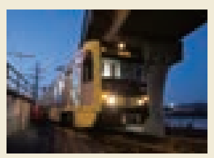
1990~2018

Global expansion and to the next 100 years

- **1990** Development of stroke switching type door closing machine, first in Japan
  - Development of intelligent door system, first in Japan
- **1991** Development of light-weight VVVF inverter using 1,500V mass-production type reverse conductive GTO thyristor, first in our Japan
- **1997** Completion of in-train ticket issuing machine corresponding to automatic ticket checker
- **1998** Delivery of electric equipment for Beijing subway east-west line train
- **2000** Completion of permanent-magnet motor (ED motor)
- **2004** Development of electrical equipment for the world's first micro gas turbine hybrid vehicle
  - Joint development of the first full-flat, super-low floor light rail vehicle (LRV) produced in Japan
  - Succeeded in development and running of in-wheel motor for car
- **2007** The new public transport smart card Pasmo goes into service (delivery of automatic commuter ticket vending machine with support for smart card passes and smart card charge machines to station facilities)
  - Start of commercial service of the new N700 series trains on the Tokaido and Sanyo Shinkansen lines (delivery of traction motors, gear units, pantographs, TD couplings, static conversion equipment, etc.)
  - Start of sales of the VF66 Series general purpose inverter
- **2009** Delivered electric machinery for Tohoku Shinkansen E5 series
- **2012** Order receipt of handsets for conductor for JR West
- **2018** May, Shiga Ryuo Plant completed
  - June, Toyo Denki Seizo K.K. 100th anniversary

Beijing subway east-west line train

In-wheel motor



Los Angeles County Metropolitan Transportation Bureau P3010 LRV

Consolidated Financial Highlights

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

		154th fiscal term	155th fiscal term	156th fiscal term	157th fiscal term	158th fiscal term
		Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Financial Data						
Fiscal Year						
Net sales	(million yen)	39,617	39,746	40,668	42,527	41,172
Gross profit	(million yen)	9,282	9,119	9,221	8,072	7,839
Operating income	(million yen)	1,596	1,638	1,571	366	557
Net income attributable to owners of the parent	(million yen)	1,105	889	1,174	692	690
Comprehensive income	(million yen)	5,468	(925)	1,513	2,009	(251)
Capital investment	(million yen)	969	902	4,606	4,772	1,090
Research and development costs	(million yen)	897	868	927	840	731
Fiscal Year-End						
Net assets	(million yen)	24,895	23,676	24,603	26,327	24,804
Total assets	(million yen)	53,041	50,233	54,927	63,291[*1]	58,001
Per Share Information						
Net assets	(yen)	2,583.04	2,457.05	2,605.09	2,788.01	2,773.87
Net income	(yen)	114.72	92.33	123.87	73.33	75.27
Dividend	(yen)	6	6	30	50[*2]	30
Major Management Indices						
Shareholders' equity ratio	(%)	46.9	47.1	44.8	41.6	42.8
Return on equity (ROE)	(%)	5.0	3.7	4.9	2.7	2.7
Operating income ratio	(%)	4.0	4.1	3.9	0.9	1.4
Overseas net sales ratio	(%)	38.0	31.8	31.1	25.3	22.9
Dividend payout ratio	(%)	26.2	32.5	24.2	68.2	39.9
Non-financial Data						
Number of officers	(non-consolidated)	12	12	13	12	11
Number of employees on a consolidated basis		1,216	1,245	1,262	1,267	1,226
Number of employees at Group companies in Japan and overseas		412	421	430	391	395
CO_2 emissions on a non-consolidated basis	(t)[*3]	4,265	3,924	3,895	4,097	4,905
Electricity consumption on a non-consolidated basis	(10,000 kWh)[*3]	684.3	648.8	647.2	680.3	839.2

Note: Effective as of December 1, 2016, the Company implemented a share consolidation (five shares consolidated into one share). Net assets and net income are calculated on the assumption that the share consolidation was implemented at the beginning of the 154th fiscal term.
Dividends are presented in the actual amounts paid.

*1 The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the 158th fiscal term. Accordingly, total assets as of the end of the 157th fiscal term have been calculated by retroactively applying the accounting standard.

*2 The dividend for the 157th fiscal term includes a commemorative dividend of 20 yen for the 100th anniversary.

*3 Aggregate amount of production bases per fiscal year beginning in April and ending in March of the following year
Figures for the Shiga Ryuo Plant since fiscal 2018 include those for TD Drive Co., Ltd.

Message from the President

The four-year medium-term management plan "Revitalize 2020" made a good start and is progressing as planned.

President **Kenzo Terashima**

The efforts made in the initial year for fully fledged operation of the Shiga Ryuo Plant and for strengthening the operational structure improved the profit structure of the Industrial Systems segment, providing a solid footing for the second year.

Net sales were 41.1 billion yen on a consolidated basis due to a negative rebound in the Information Equipment Systems segment from the previous fiscal year and a decrease in the Transportation Systems segment. Orders received were 40.6 billion yen, boosted by the growth of the Industrial Systems segment. Operating income was 550 million yen, positive growth almost as expected in the revised plan, due to dramatically improved efficiency and productivity through "Ryuo Integration," the integration of production sites to the Shiga Ryuo Plant. The first year of fully fledged operation at the Ryuo site was a great success. Ordinary income was 490 million yen, negatively affected by foreign exchange losses and a decrease in equity in profit of unconsolidated subsidiaries and affiliates, while net income attributable to owners of the parent was 690 million yen, unchanged from the previous fiscal year, as a result of efforts to reduce certain cross holdings. Overseas sales accounted for 22.9% of net sales amid the process of switching vehicle models for the high-speed railroads in China.

By segment, the Transportation Systems segment saw a YoY increase in orders received, boosted by those from both Japan and overseas excluding China. Net sales decreased due to a fall in sales in China and other overseas markets. Segment profit fell because the decrease in profit in China exceeded the increase in domestic profit.

The Industrial Systems segment saw a YoY increase in orders received, helped by an increase in orders for testing equipment for automobile development and for processing machinery. On a non-consolidated basis, orders received exceeded 10 billion yen for the first time in four years. Net sales increased YoY accordingly. Segment profit rose significantly despite an increase in depreciation and amortization expenses due to greater-than-expected improvements in efficiency and productivity resulting from the Ryuo Integration.

In the Information Equipment Systems segment, both orders received and net sales decreased YoY due to a rebound from a large-scale project in the previous fiscal year, but segment profit was unchanged, boosted by software improvement projects and others.

We will go further as planned with the aim of increasing our "earning power" and establish a "leaner" business operation structure that generates a stable profit.

We are implementing "Revitalize 2020," the medium-term management plan that runs for four years from June 2018, when the Company marked its 100th anniversary, until the end of the fiscal year ending May 2022.

During the first two years, we focus on enhancing profitability, and successfully increased operating income due mainly to a significant improvement in the Industrial Systems segment in the fiscal year ended May 2019, the first year of the plan. The earnings forecast for the year ending May 2020 is net sales of 42 billion yen, operating income of 900 million yen, and net income attributable to owners of the parent of 900 million yen. With this in mind, we will strive to gain a foothold for the latter half of the medium-term management plan.

Ryuo Integration effect by the Shiga Ryuo Plant which began operation in June 2018 and a shift to a business promotion system by product have brought about changes in the attitudes of employees. In fact, this was reflected in the improved profitability of the Industrial Systems segment. Amid sound orders received, we will take advantage of the integration effect so that we can meet greater production needs in the future. In addition, for the Yokohama Plant, a production site of the Transportation Systems and Information Equipment Systems segments, we have started modifying the layout for greater productivity.

Among overseas development, the Industrial Systems segment has started fully fledged operation of SIAM TOYO DENKI Co., Ltd., a local subsidiary that has been upgraded from a local representative office in Bangkok, Thailand, in response to increased demand for power generators and processing machinery in China and the ASEAN regions. Moreover, in China, we have established Chalco-Toyo Permanent Magnet Motor Co., Ltd., a three-way joint venture with Chinalco Rare Earth & Metals Co., Ltd., an affiliate of a primary state-owned enterprise Aluminum Corporation of China (CHINALCO), and Beijing Ling Yang Trading Co., Ltd., a local trading company. The aim is to begin manufacturing motors on a fully fledged basis in China starting from 2020. As for the Transportation Systems segment, we delivered electrical equipment for railway vehicles to Jakarta Mass Rapid Transit (MRTJ), the first subway construction project in Indonesia, where a group of Japanese companies was responsible for handling from facilities to vehicles. In China, we plan to further expand the maintenance business of electrical equipment for railway vehicles on Beijing Subway, so as to contribute to development of the railway infrastructure in Asia for years to come.

I believe we have made a good start toward creating a robust Toyo Denki Seizo Group.

The year-end dividends for the fiscal year under review are 30 yen per share in line with the Company's distribution policy based on a payout of stable dividends. We will continue to pay dividends on the basis of a payout ratio of 30% that is a management index given in the medium-term management plan. With the medium-term management plan progressing well in the first year, we will contribute to internal and external stakeholders for further growth.

From an ESG point of view, we revised the Operating Officer system to strengthen governance by having a Director responsible for governance, while transferring executive authority to Operating Officers for higher management flexibility. Moreover, we will reconsider the significance of our cross holdings in compliance with the Corporate Governance Code so that we make effective use of our assets. As for environmental contributions, we received the Yokohama Global Warming Countermeasures Award from Yokohama City for our global warming prevention activity.

We were particularly recognized for installing 500 kW PV solar power panels on the roof of the Yokohama Plant in 2012 with an output of approximately 600,000 kWh per year, achieving a plant-wide CO_2 emission reduction of approximately 330 tons (about 8%).

As for the succession of technologies and skills, one of the employees at the Yokohama Plant was honored to receive a Medal with Yellow Ribbon for the spring of 2019 for being a model employee endeavoring to manufacture electric motor coils for railway vehicles. Currently, he is engaged in coaching the younger members of the workforce so that they can succeed our manufacturer spirit and expert techniques.

I would highly appreciate our shareholders' understanding and continued support for further development of our business.

Numerical Management Targets of Medium-term Management Plan

(Unit: Billions of yen)

	Fiscal year ended May 31, 2019 (Results)	Fiscal year ending May 31, 2020 (Plan)	Fiscal year ending May 31, 2022 (Plan)
Net sales	41.17	43.0	Over 47.0
Operating income (Operating margin)	0.55 1.4%	0.9 2.1%	2 4.3%
Ordinary income	0.49	1.1	2.4
Net income	0.69	0.7	1.6
Equity in profit of unconsolidated subsidiaries and affiliates	0.01	0.12	0.4
ROE (Return on Equity)	2.7%	3.3%	5.0%
Dividend payout ratio	39.9%	30.0%	30.0%
Segment net sales			
Transportation Systems	27.23	29.0	31.0
Industrial Systems	12.33	13.0	15.0
Information Equipment Systems	1.58	1.0	1.0

Special Report 1

Full-scale Overseas Expansion into China and ASEAN

Industrial Systems Segment

Establishment of a joint venture Chalco-Toyo Permanent Magnet Motor Co., Ltd. in China

We established a joint venture company to engage primarily in the manufacture of industrial permanent-magnet synchronous motors in Changshu, Jiangsu Province in the People's Republic of China (hereinafter China) in a joint investment with companies including Chinalco Rare Earth & Metals Co., Ltd., a supplier of rare earth metal resources affiliated with Aluminum Corporation of China (CHINALCO). The Company has been primarily engaged in the manufacture of railway electrical equipment in China since the latter half of the 1990s. With the establishment of this joint venture company which has the first manufacturing site for the Industrial Systems segment, we will actively capture needs for energy conservation in the Chinese and ASEAN markets. The joint venture company will engage in the manufacture of permanent-magnet synchronous motors mainly for production and processing facilities.

Signing ceremony of the joint venture with three investing companies

中稀东洋永磁电机有限公司

Chalco-Toyo Permanent Magnet Motor Co., Ltd.

▶ Overview of the new joint venture

Company name	Chalco-Toyo Permanent Magnet Motor Co., Ltd.
Established	June 10, 2019
Capital	60 million Chinese yuan
Business activities	Manufacture and sale of permanent-magnet synchronous motors for industrial use
Equity ratio	Toyo Denki Seizo K.K. 35% Chinalco Rare Earth & Metals Co., Ltd. 35% Beijing Ling Yang Trading Co., Ltd. 30%

Establishment of SIAM TOYO DENKI Co., Ltd., an overseas affiliate in Thailand

With a view to expanding and strengthening business opportunities in the ASEAN region, we opened a representative office in Bangkok in September 2014. A new overseas affiliate was established in June 2019 against the backdrop of ongoing favorable conditions in the ASEAN macro environment. With this initiative, we will expand our business by reinforcing our operating structure and actively bolstering our sales activities.

Opening ceremony of SIAM TOYO DENKI Co., Ltd.

▶ Overview of the new overseas affiliates

Company name	SIAM TOYO DENKI Co., Ltd.
Established	June 4, 2019
Capital	4 million Thai baht
Business activities	Sale and service of general industrial electrical products in the ASEAN region
Equity ratio	Toyo Denki Seizo K.K. 49%, Bangkok MUFG Limited 48%, SBCS Co., Limited 3%

ジャカルタ都市高速鉄道
（Jakarta Mass Rapid Transit：MRTJ）車両

Special Report 2

Transportation Systems Segment

Opening of Jakarta MRT

Jakarta Mass Rapid Transit (MRTJ), Indonesia's first subway, opened in the spring of 2019, with 16 six-car trainsets installed. The project, financed by a yen loan provided by the Japanese government, became the first full turn-key railway construction project that was successfully launched, where Japanese companies oversaw all aspects ranging from ground facilities to vehicles and signals.

The vehicles used for the project were delivered by NIPPON SHARYO, LTD., and we provided propulsion systems (VVVF inverters and related equipment, main motors, driving gear units, pantographs, and master controllers), train information system (TIS), and data recorders for operation status.

We will continue to contribute to the development of railway infrastructure in Asia by leveraging our technology for rail vehicle electrical equipment accumulated over 100 years.

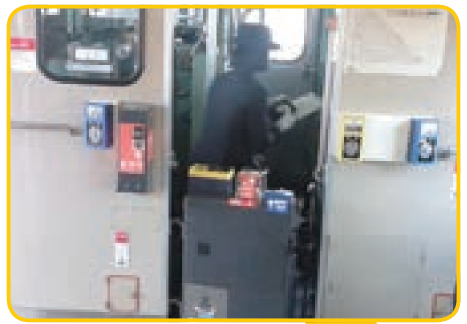
Special Report 3

Contributing to Local Communities with On-board IC Ticket Checking Machines

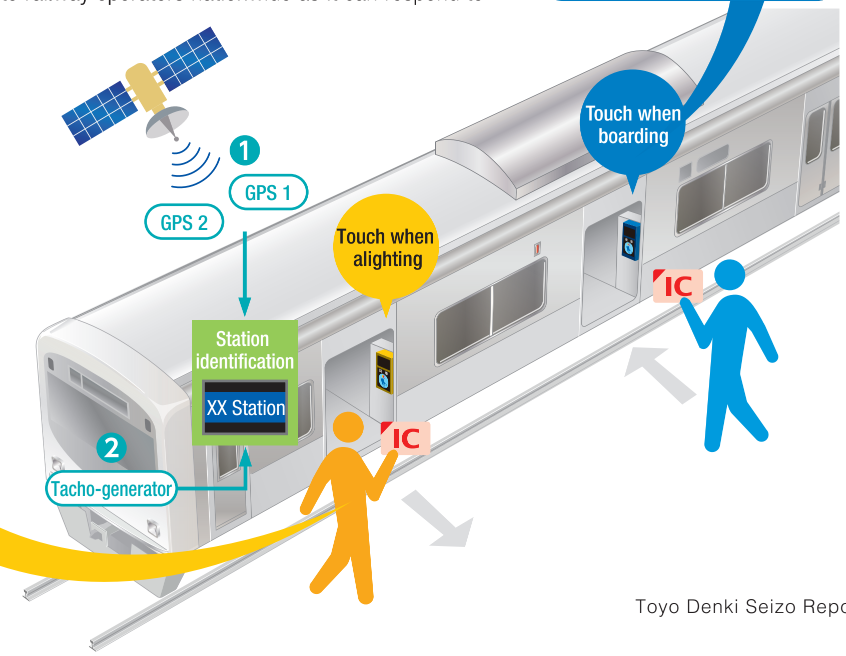
Information Equipment Systems Segment

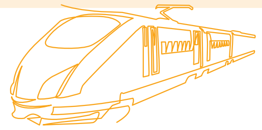
We supplied on-board IC ticket checking machines developed jointly with West Japan Railway Techsia Co., Ltd. to West Japan Railway Company. They started being used on the Sakai Line (between Yonago Station and Sakaiminato Station) in the spring of 2019. ICOCA, a rechargeable contactless card system, was introduced in the neighboring Yonago area at the end of 2016, and the on-board IC ticket checking machines installed for the Sakai Line enhanced convenience.

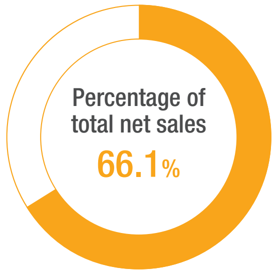
The on-board IC ticket checking machine can reliably identify stops by performing station identification based on (1) position data obtained from GPS (two systems) and (2) data obtained from the tacho-generator that measures travel distance by the number of wheel rotations and collates it with scheduled stops. Ticket checking machines that had to be installed at each station can now be placed on train vehicles, making it possible to introduce an IC system in any station environment. It is also hoped that the machine will be rolled out to railway operators nationwide as it can respond to the trend of cashless payments.



Blue device for boarding
Yellow device for alighting







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

Results for fiscal 2018

● Orders Received

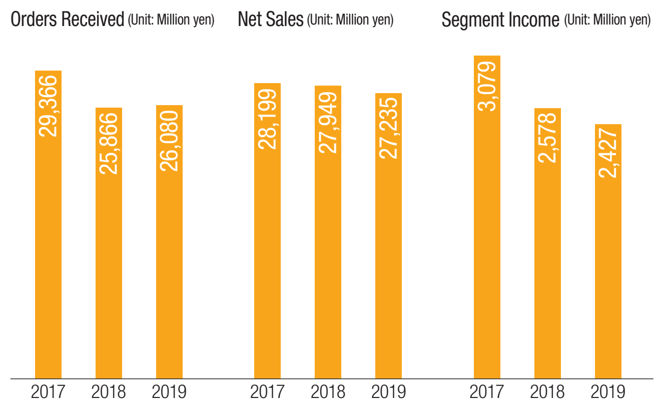
26,080 million yen (Up 0.8% year on year)

● Net Sales

27,235 million yen (Down 2.5% year on year)

● Segment Income

2,427 million yen (Down 5.9% year on year)



Orders received increased 0.8% compared with the previous fiscal year to 26,080 million yen, due to an increase in orders from domestic private railways and overseas customers excluding those in China, despite a decrease in orders from China caused by the impact of a production drop-off period resulting from model replacement of Chinese high-speed railways. Net sales totaled 27,235 million yen, a 2.5% decrease from the previous fiscal year, due to a decrease in sales in China and other overseas markets. Segment income decreased 5.9% compared with the previous fiscal year to 2,427 million yen, due to a decrease in China despite an increase in Japan.

VOICE

We will expand the Transportation Systems segment with three pillars of "expanding overseas business," "establishing a stable business earnings structure," and "restructuring production system."

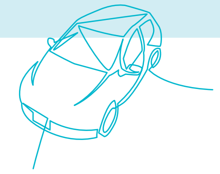
Akira Watanabe
General Manager of Transportation Business Unit

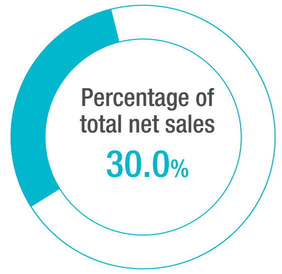
In the Transportation Systems segment, we will further push ahead with the expansion of overseas business that we have been working on since the early 2000s, while steadily carrying out the domestic business as a foundation for establishing a stable business earnings structure. At the same time, the production line at the Yokohama Plant will be bolstered as part of efforts to restructure production systems.

Specifically, we will expand the overseas business by reorganizing and strengthening overseas affiliates in accordance with local business environment and by developing a business scheme of providing maintenance for subway trains whose number is expected to rise sharply particularly in China. Furthermore, we aim to steadily capture demand for standard rail vehicles that will be newly built for the high-speed railway in China.

In the domestic business, while responding to demand for rail vehicles that will be newly built for the Tokyo Olympics, we plan to provide products and services that leverage our reliability based on the track record since our establishment and new technologies aimed at reducing environmental impact, such as energy-saving, maintenance-saving, and low noise technologies.

Bolstering the production line at the Yokohama Plant involves making good use of the old industrial plant sites that became empty following the consolidation of bases into the Shiga Ryuo Plant and reviewing the internal layout of the plant, with the aim of expanding production capacity and improving production efficiency.





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

Results for fiscal 2018

● Orders Received

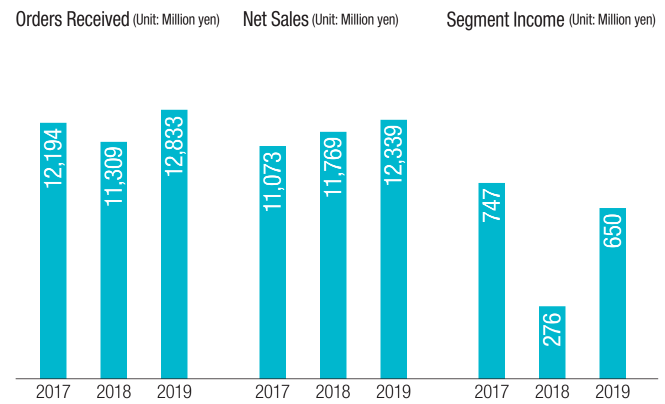
12,833 million yen (Up 13.5% year on year)

● Net Sales

12,339 million yen (Up 4.8% year on year)

● Segment Income

650 million yen (Up 135.2% year on year)



Orders received increased 13.5% compared with the previous fiscal year to 12,833 million yen, due to increased orders for testing equipment and processing equipment. Net sales increased 4.8% year on year to 12,339 million yen for a reason similar to that for the increase in orders received. Segment income totalled 650 million yen, a 135.2% increase compared with the previous fiscal year, due to efforts to strengthen cost control and process control and reduce expenses.

VOICE

We will grow the Industrial Systems segment along with the Transportation Systems segment as two pillars by further demonstrating the "Ryuo integration effect" and exploring the domestic and overseas markets.

Yoshifumi Otsubo
General Manager of Industry Business Unit

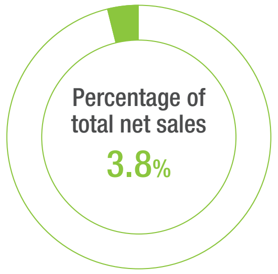
With the start of full operation of the Shiga Ryuo Plant in June 2018, the Industrial Systems segment has entered a period of dramatic growth. In the first year of operation, orders received, net sales, and profitability significantly increased, as a result of growing customer trust and inquiries, substantially higher productivity, and improved inter-departmental communication. We will further demonstrate the "Ryuo integration effect" and continue to improve our business performance.

By field, we will enhance added value and expand production capacity for testing equipment for automobile development in Japan by leveraging our strengths in the drive system. As for processing equipment, we aim to capture demand from machine manufacturers, using highly efficient permanent magnet synchronous motors and high-performance inverters as our strengths.

Overseas, SIAM TOYO DENKI Co., Ltd. (Thailand), which was set up in June 2019, and Chalco-Toyo Permanent Magnet Motor Co., Ltd. (China) will lead in developing new markets.

In addition, steady progress has been seen in the development of products, such as super-high-speed rotating dynamo and flat-type dynamo that are compatible with automobile electrification and automatic driving, and large-capacity inverters with a view to expanding overseas.

We will grow the Industrial Systems segment along with the Transportation Systems segment as two pillars through these efforts.



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

Results for fiscal 2018

● Orders Received

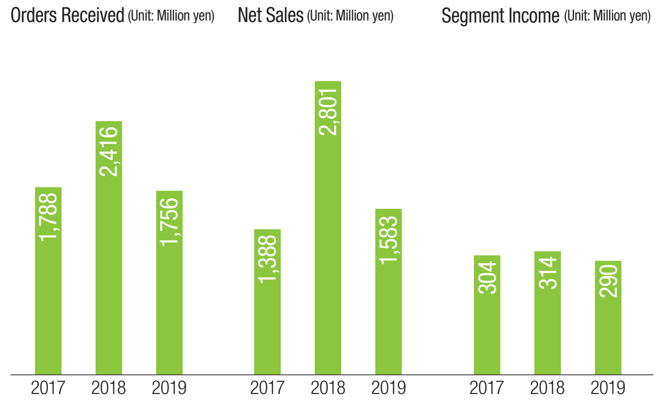
1,756 million yen (Down 27.3% year on year)

● Net Sales

1,583 million yen (Down 43.5% year on year)

● Segment Income

290 million yen (Down 7.7% year on year)



Orders received decreased 27.3% compared with the previous fiscal year to 1,756 million yen, due to a fall-back from the large-scale orders received in the previous fiscal year. Net sales decreased 43.5% year on year to 1,583 million yen for a reason similar to that for the decrease in orders received. Segment income decreased 7.7% compared with the previous fiscal year to 290 million yen due to the impact of lower net sales.

VOICE

We will work towards expanding the Information Equipment Systems segment through product development and solution that meet customer needs, with a focus on railway station operating equipment and remote monitoring systems.

In the Information Equipment Systems segment, apart from delivering on-board IC ticket checking machines to West Japan Railway Company during the previous fiscal year, we pressed ahead with system development to achieve multiple determination of the fare calculation system for automatic ticket gates. Furthermore, we won orders for commuter pass issuing machines and counter processing machines from TOKYU RAILWAYS and Kanto Railway. We will continue to expand our share in the railway station operating equipment market and provide solutions using remote monitoring systems.

Specifically, as on-board IC ticket checking machines are expected to be employed on rail lines where automatic ticket gates could not be installed in the past, they will be rolled out to railway operators across the country. Additionally, the commuter pass issuing machine ordered in the previous fiscal year will be our first machine compatible with IC credit cards, and the counter processing machine will be a new machine that satisfy the needs of small and medium-sized railway operators. As such, we aim to continue to develop and deliver these products firmly and to gain new market share based on the lineup of these products.

In product development, demand for cashless payments is accelerating following the consumption tax rate change in October 2019. Accordingly, we will work on the development of systems using QR codes.

Toshihiko Akihiro
General Manager of IT Business Unit

Order received for consigned research and development of superconducting flywheel power storage system for railways

The Company received an order from East Japan Railway Company to conduct operations related to equipment manufacturing and the preparation of test reports for verification tests of a superconducting flywheel power storage system for railways.

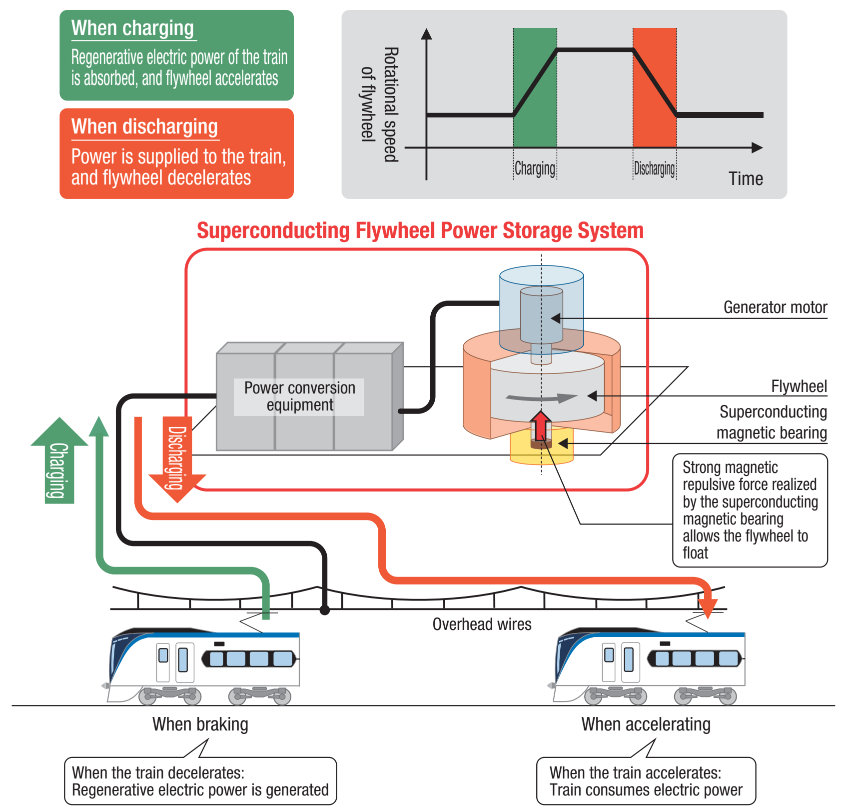
Based on the "Basic Agreement on Technology Development of Superconducting Flywheel Power Storage System for Railways" concluded on March 29, 2018 between Yamanashi Prefecture, the Railway Technical Research Institute, and East Japan Railway Company, this system is being developed for the world's first practical use in the railway field. The Company will conduct the design and manufacturing of the power conversion equipment, and will be responsible for the overall coordination of this power storage system's construction, in cooperation with MIRAPRO Co., Ltd. (Hokuto, Yamanashi Prefecture; President & CEO: Hiroyuki Tsugane).

Through this business, the Company will work on the construction of a new power storage system that contributes to the improvement of energy efficiency, the stable usage of renewable energy and technology development in the railway field.

Superconducting Flywheel Power Storage System for Railways

The flywheel power storage system is a system that, by rotating a large disk (flywheel) within the device, stores regenerative electric power as kinetic energy (charging), and converts kinetic energy back to electric power (discharging) as necessary.

The bearing portion of the superconducting flywheel power storage system adopts the superconductivity technology designed by the Railway Technical Research Institute, and established through verification tests conducted in Komekurayama, Yamanashi Prefecture. The technology allows the flywheel to float, reducing rotational loss as there is no contact, and realizes a reduction in maintenance efforts.



Announcement of new product IORemoterLTE: IoT terminal for Toyo IoT/M2M solutions/remote monitoring and control systems

The Company has announced IORemoterLTE, a new product that is an IoT terminal for remote monitoring and control systems, for Toyo IoT/M2M solutions.

The IORemoterLTE is a high-speed IoT terminal integrated in the LTE module. Through the use of the Toyo IoT/M2M solutions cloud service, the remote monitoring and control of various facilities, controllers, devices, and mobile entities can be conducted faster and at a larger capacity.

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

Research and Development

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

Results and topics from fiscal 2018

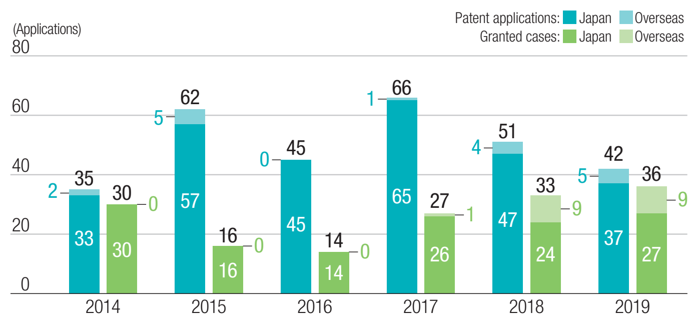
Segment	Project	Description
Transportation Systems	Development of a train information system based on ECN standards	Developed a train information system for Jakarta MRT rail vehicles in compliance with IEC 61375 Part 3-4 ECN
	Development of power storage system	Conducted a driving test for emergency on rheostatic control trains using a power storage system equipped with lithium-ion batteries. Also analyzed the results of emergency driving, and in case emergency running is necessary, studied a driving approach that suppresses power consumption so that emergency driving can be performed even when the SOC decreases.
Industrial Systems	Development of flat-type dynamo	Developed a frame equipped with a motor for dynamos and a steering function specific for flat-type dynamos that can fit inside the wheel well to be used for automobile testing. Since it can fit in the wheel well, we anticipate its application for testing equipment for automated driving.
	Development of compact and lightweight inverter	Developed a compact and lightweight inverter that minimizes installation space and simplifies maintenance such as replacement. Realized an about 39% reduction in volume and an about 25% reduction in mass compared to conventional products in the 75 kW class by reassessing the cooling structure and the current density for bus bars.
Information Equipment Systems	Development of IC-exclusive commuter pass issuing machine	Developed a compact and desktop IC-exclusive commuter pass issuing machine. Saved space by eliminating the magnetic ticket issuing section and supporting only transportation IC cards.
Expansion of New Businesses	Function expansion of remote monitoring unit	Obtained a communication equipment certification in Indonesia to expand sales of the currently available IORemoter. Also developed an IoT starter kit as a new item to increase sales and highlighted the easiness to get familiar with IoT.
	Efforts to reduce the size of eco-drive motors and mass produce them	Developed and commercialized a product that uses flat wires for stator windings in order to further reduce the size and weight of eco-drive (ED) motors. Succeeded in increasing current, which was difficult to achieve with conventional methods, and realized large torque output despite its small size.
Research Laboratory	Development of low-cost impregnating resin for main motors	The bottleneck of the high-heat resistant impregnating resin material used for rail vehicle main motors has been its high cost due to its special characteristics. Researching a new impregnating resin material to achieve both high-heat resistance and low cost.
	Reduction of motor manufacturing cost with square wire and laser welding	Targeting the reduction of man-hours for the winding process by investigating manufacturing automation of ED motor stator coils with square wires and laser welding. Also examining the feasibility by optimizing the number of motor poles and conductor size.
	Research on wireless power transmission	Researched a wireless and high-efficiency in-motion power transmission system with the goal of eliminating train overhead wires. Realized continuous traveling of a mini model train with over 95% efficiency, 30 kW power transmission at a stationary state and only with wireless power supply from the ground.

Intellectual Property

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

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

Patent applications granted



Initiatives to Protect the Environment

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

Environmental Philosophy

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

Action Guidelines

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

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

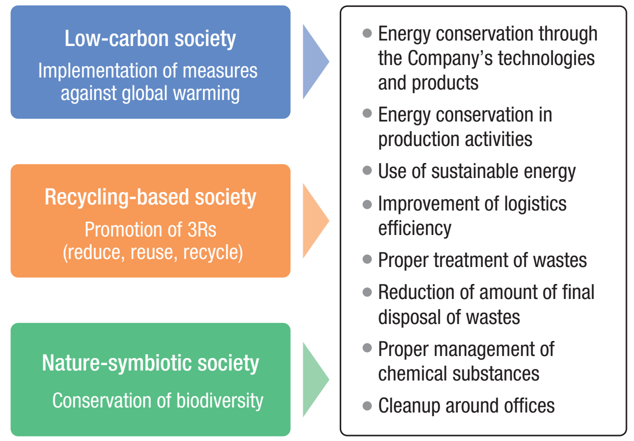
Aiming for Realization of a Sustainable Society

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

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

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

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



Environmental Management System

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

Years of ISO 14001 certification

Yokohama Plant	Shiga Ryuo Plant*	Extended to all offices
2004	2001	2010

*The Shiga Ryuo Plant was the Shiga Factory (Moriyama) when it obtained the certification.

Our Website

Information on the Company's environmental initiatives can be found at our website.

https://www.toyodenki.co.jp/esg_csr/

Initiatives to Prevent Global Warming

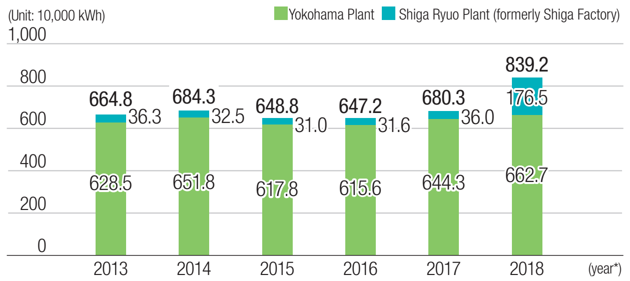
Initiatives to reduce greenhouse gas (CO_2) emissions

The Company is promoting energy conservation at each of its production bases and offices to reduce its CO_2 emissions. At the production bases in particular, we are promoting power-saving and streamlining at production facilities. In addition, the Yokohama Plant uses solar power generation for peak shaving of power demands.

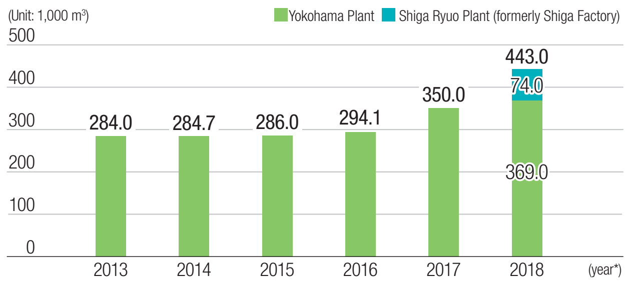
Targeted reduction of CO_2 emissions and progress status

Aiming to reduce CO_2 emissions per unit of production output by 1% year on year, the Company's main production base, the Yokohama Plant, increased emissions by 8% in fiscal 2018.

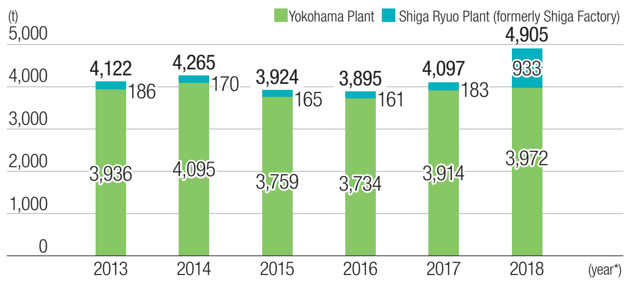
Total energy input (electricity)



Total energy input (gas)



Total CO_2 emissions

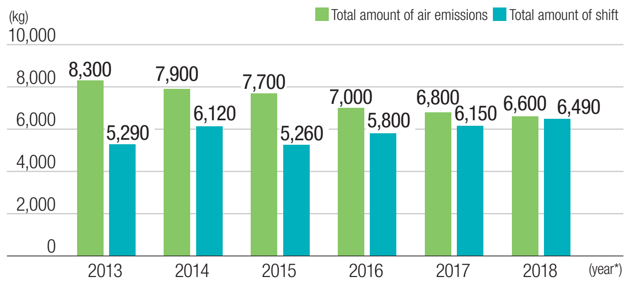


Initiatives for Control over Chemical Substances

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

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

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

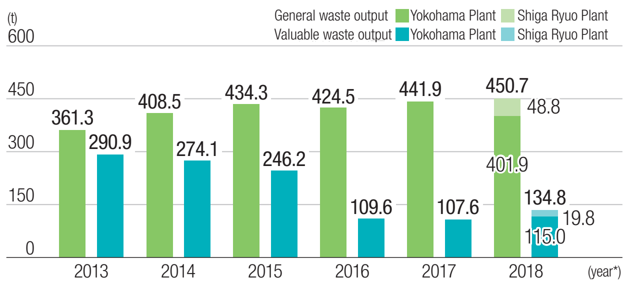


Initiatives for Reducing Disposed Waste as Well as Recycling

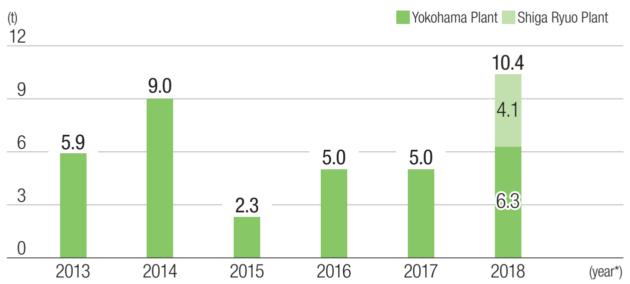
Main actions

The Company has been thoroughly implementing waste processing rules, sorting metal waste and recycling paper resources. As a result, its landfill waste rate was 1.8% in fiscal 2018.

Output of general and valuable waste



Volume of landfill waste



*The fiscal year is from April to March of the following year * The fiscal 2018 figures for the Shiga Ryuo Plant includes those of TD Drive Co., Ltd.
*Prior to fiscal 2017, total energy input (gas) data is available only for the Yokohama Plant due to zero input of the Shiga Plant.
*Prior to fiscal 2017, data on output of general and valuable waste and volume of landfill waste is presented only for the Yokohama Plant.

With Our Customers

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

Quality Control – Providing Safe and High-Quality Products

Basic policy on quality control

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

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

Promotion framework

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

Quality Management System

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

Year ISO 9001 certification obtained

Yokohama Plant	Shiga Ryuo Plant*	Extended to all offices
1997	2000	2005

*The Shiga Ryuo Plant was the Shiga Factory (Moriyama) when it obtained the certification.

Responding to the Global Market

Proper export controls

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

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

Acquisition of International Standards

High level of safety is essential for rail vehicles. UNIFE, the Association of European Rail Industry, established the International Railway Industry Standard (IRIS) in 2007 to ensure the quality of rail vehicles.

In 2013, we became the first company in Japan to obtain an IRIS certification for auxiliary power supply (SIV).

IRIS logo

In 2014, we were also accredited to the China Railway Certification Center's (CRCC) certification for driving gear units. CRCC, a state-owned enterprise set up in April 2003 after obtaining approval of the Certification and Accreditation Administration of the People's Republic of China, is an organization that mainly manages the quality of railway products. It is necessary to obtain this certification to sell high-speed rail products in China.

We will continue to acquire international standards and further expand our business globally.

CRCC logo

With Our Shareholders and Investors

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

Towards Enhancement of Corporate Value

Basic philosophy

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

Development of IR activities

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

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

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

URL "For Individual Investors"

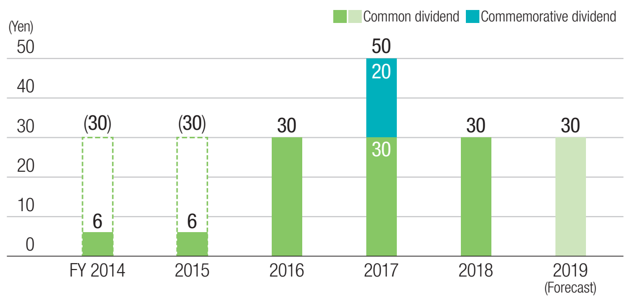
https://www.toyodenki.co.jp/ir/individual.php

Plant tour for shareholders

Dividends

In accordance with its profit return policy of maintaining stable dividends, the Company paid a year-end dividend of 30 yen per share for the current fiscal year. We continue to aim at paying a dividend with the 30% dividend payout ratio as a basis, which is a management index included in the medium-term management plan.

Dividend per share



*Effective as of December 1, 2016, the Company implemented a stock consolidation of its common shares at the ratio of five shares to one share. For the status of dividends before fiscal 2016, the actual dividend amounts before the said stock consolidation are stated. The figures in parentheses are the amounts calculated based on the standard after the stock consolidation.

Record of 158th Ordinary General Meeting of Shareholders
Date held: Wednesday, August 28, 2019

The Company issues Business Reports for shareholders once every six months. They are also available on the website.

Interim Business Report for Fiscal 2018

Business Report for Fiscal 2018

Contributions to Local Communities

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

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

Receiving interns

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

Participation in university endowment courses and hands-on courses

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

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

Endowment course at a university

Cooperation with Yokohama Kyodo no Mori Fund

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

Factory tours

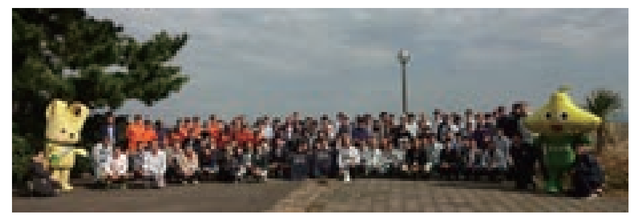
We are conducting "factory tours" to provide opportunities for members of local communities to actually see our manufacturing facilities and products in order to develop deeper understanding about the business operations of the Company. During these tours, we inform the participants of our products as well as our actions for environmental protection and factory facilities, in an effort to build up relationships built on trust with local communities.

A factory tour

Received the General Manager Prize for the "5th activity commendation that is kind to Kanazawa Ward environment"

In Kanazawa Ward, Yokohama, with the aim of protecting the environment of Kanazawa and passing it on to the next generation, an award is given for environmentally-friendly activities conducted in the ward that are pioneering, exemplary, and has achieved visible results.

The Company participates in the "Joint Cleanup Activity," which is held once a year jointly by companies, fire departments, the police, and universities, to collect litter on the streets and illegally disposed waste. The activity received the 2018 General Manager Prize.



Participants of Joint Cleanup Activity

Social

With Our Suppliers

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

Towards Just and Fair Procurement

Communication with suppliers

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

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

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

Procurement Action Guidelines

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

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

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

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

With Our Employees

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

Towards the Development of Human Resources with Competitive Strengths

Human resources development policy

The Company has set the following policy on human resources development and carries out education and training under the education and training system diagram as shown below.

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

Education and training system

The Company's education and training system is divided into level-specific trainings conducted at each occasion, individual trainings according to job types and roles, a support program aimed at helping employees to obtain academic degrees and official qualifications, and division education conducted independently by each division.

Training contents are reviewed based on actions expected of employees.

New employees who join the Company as technical staff receive lectures and practical training at the Technical Training Center in the Yokohama Plant for one year. The Technical Training Center dates back to 1937 and has an over 80-year history. Employees with exceptional manufacturing skills or expertise are recognized as "Technical My Star" internally and assigned to instruct and train younger employees. With these initiatives, three employees have accepted Contemporary Master Craftsman awards from the Minister of Health, Labour and Welfare and one has been awarded to the Medal with Yellow Ribbon by the Japanese government.

We continue to endeavor to pass on superior technologies and skills to maintain the high quality of our products.

Employee recognized as "Technical My Star" gets a special mark on his cap

Creating a Pleasant Workplace

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

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

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

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

Initiatives for diverse work-styles

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

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

Initiatives for employment of the disabled

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

Implementation of employee satisfaction survey

The Company conducts an "employee satisfaction survey" once per year, and relevant departments work to resolve various issues extracted from the survey results. In addition, to create a "dynamic corporate culture," discussion meetings and such between executives and employees are regularly held.

Mental health measures

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

Safety and hygiene initiatives

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

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

Item		Unit	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Number of employees	Total	Persons	804 *	824 *	832 *	843 *	831 *
	Men		740	761	768	771	762
	Women		64	63	64	72	69
Ratio of female employees		%	8.0	7.6	7.7	8.5	8.3
Number of administrative professionals	Total	Persons	151	155	150	140	143
	Men		149	151	146	136	139
	Women		2	4	4	4	4
Ratio of female administrative professionals		%	1.3	2.6	2.7	2.9	2.8
Average age	Overall	Age	40.5	40.4	40.4	40.2	40.8
	Men		40.7	40.4	40.4	40.3	40.8
	Women		38.7	39.5	40.1	39.5	40.9
Average years of employment	Overall	Years	15.8	15.4	15.2	14.9	15.4
	Men		15.9	15.5	15.2	15.1	15.5
	Women		14.5	14.1	14.8	12.7	14.1
Average annual salary		Yen	5,888,577	6,024,175	5,990,250	6,049,512	5,756,046
Turnover rate (within 3 years of joining the Company)		%	0.0	3.4	2.0	2.7	6.5
Number of employees taking childcare leave		Persons	5	7	9	4	6
Number of employees taking family care leave		Persons	0	0	0	0	0
Number of temporary staff (including part-timers)		Persons	153	160	152	130	119
Notes			*Number of regular employees including Operating Officers, and number of special employees, temporary employees, contract employees and staff on loan from other companies, etc.				

Governance

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

Corporate Governance

Our philosophy of corporate governance

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

Corporate governance

We have corporate bodies established in accordance with laws and regulations as well as the Articles of Incorporation, including the General Meeting of Shareholders, Directors and the Board of Directors, Statutory Auditors and the Board of Statutory Auditors, and Accounting Auditors. To strengthen corporate governance, the supervision and execution functions of the Board of Directors are separated, through the adoption of a structure where the Board of Directors is mainly in charge of governance, and Operating Officers are primarily in charge of business execution.

The Company strives to ensure that both the supervision function of the Board of Directors and the audit function of (the Board of) Statutory Auditors work effectively and believes that the current system is sufficiently running.

Specifically, each of the following bodies and meeting bodies is in place to function effectively.

1. Directors and the Board of Directors

At its regular monthly meetings as well as extraordinary meetings held when appropriate, the Board of Directors, which is composed of six Directors including two Outside Directors, discusses and decides on important management matters such as reports on Operating Officers' business execution and matters to be decided solely at the discretion of the Board of Directors, while supervising the execution of duties by Operating Officers.

2. Management Strategy Meeting and Operating Officer Report Meeting, etc.

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

3. Statutory Auditors and the Board of Statutory Auditors

The Board of Statutory Auditors is made up of four members including three External Statutory Auditors. Statutory Auditors oversee management by attending the Board of Directors' meetings, etc. and expressing appropriate opinions in the process of deliberating business execution reports from Operating Officers and matters to be decided solely at the discretion of the Board of Directors. In addition, Statutory Auditors audit the business activities and assets of the Company and Group companies in accordance with audit policies and division of duties set by the Board of Statutory Auditors.

4. Voluntary committees

a. Nomination and Compensation Advisory Committee

Under the Board of Directors, the Company has in place the Nomination and Compensation Advisory Committee, whose members include Outside Directors. Its purpose is to list candidates for Directors and Statutory Auditors and nominate Operating Officers, and to ensure transparency and objectivity regarding decisions on compensation for Directors and Operating Officers.

b. Internal Control Committee

The Internal Control Committee is in place under the Board of Directors to develop a system stipulated in the basic policy of internal control systems, check the operation status, and conduct constant reviews. The Committee meets quarterly, and the contents of deliberation are reported to the Board of Directors each time.

Internal audit and Statutory Auditor's audit

Internal audit

Internal audits of the Company are carried out by the Audit Division based on internal audit plans decided by the Board of Directors. The Audit Division has staff with qualifications such as the Certified Information Systems Auditor (CISA). It reports its action plans and internal audit results to the Board of Directors and the Board of Statutory Auditors.

Statutory Auditors' audit

Statutory Auditors work with the Audit Division and Accounting Auditors and exchange information on audit plans and contents of accounting audits to perform appropriate auditing tasks. Statutory Auditors receive the results of quarterly reviews from Accounting Auditors both verbally and in writing, and confirm their action plans to be taken at a fiscal year-end audit. Statutory Auditors also receive the results of fiscal year-end audits from Accounting Auditors in statutory documents along with verbal reviews. Furthermore, Statutory Auditors are in principle required to be present at inventory taking or on-site inspection at subsidiaries by Accounting Auditors.

Outside Directors and External Statutory Auditors

The Company's Outside Executives currently include two Outside Directors and three External Statutory Auditors as shown below. Each Outside Executive has excellent insight in each expertise and satisfies the independence guidelines for Outside Executives defined by the Company.

Mr. Hirokazu Chinone, Director (Outside Executive)

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

Mr. Takashi Yamagishi, Director (Outside Executive, member of the Nomination and Compensation Advisory Committee)

Mr. Takashi Yamagishi provides useful advice regarding management in general, drawing on his wealth of corporate management experience at Teijin Limited and his superior expertise.

Mr. Toshiaki Akechi, Statutory Auditor

Mr. Toshiaki Akechi is engaged in auditing activities, drawing on his wealth of corporate management experience at JR East Food Business Co., Ltd. and other places.

Mr. Yoshinori Kawamura, Statutory Auditor (Outside Executive)

Mr. Yoshinori Kawamura serves as Professor of Faculty of Commerce, Waseda University, and is engaged in auditing activities, drawing on his expertise regarding corporate finance and accounting developed thus far. He also has experiences as Secretary and Special Member of the Business Accounting Council of the Financial Services Agency, and an examiner of the Certified Public Accountant Examination, etc.

Mr. Yasushi Miki, Statutory Auditor

Mr. Yasushi Miki is engaged in auditing activities, drawing on his wealth of experience developed at a predecessor bank of MUFG Bank, Ltd. and other places and his global perspective.

Executive Remuneration

Directors

Remuneration for the Company's Directors consists of basic remuneration and bonuses, and the total remuneration amount is determined within the maximum remuneration, which was decided at the Ordinary General Meeting of Shareholders held in August 2006. To ensure the independence of Outside Directors, the Company provides no bonuses to them. Decisions on remuneration for Directors are made at the Nomination and Compensation Advisory Committee set up under the Board of Directors, with the participation of Outside Directors, in order to enhance objectivity and transparency of the decision process for executive remuneration.

Statutory Auditors

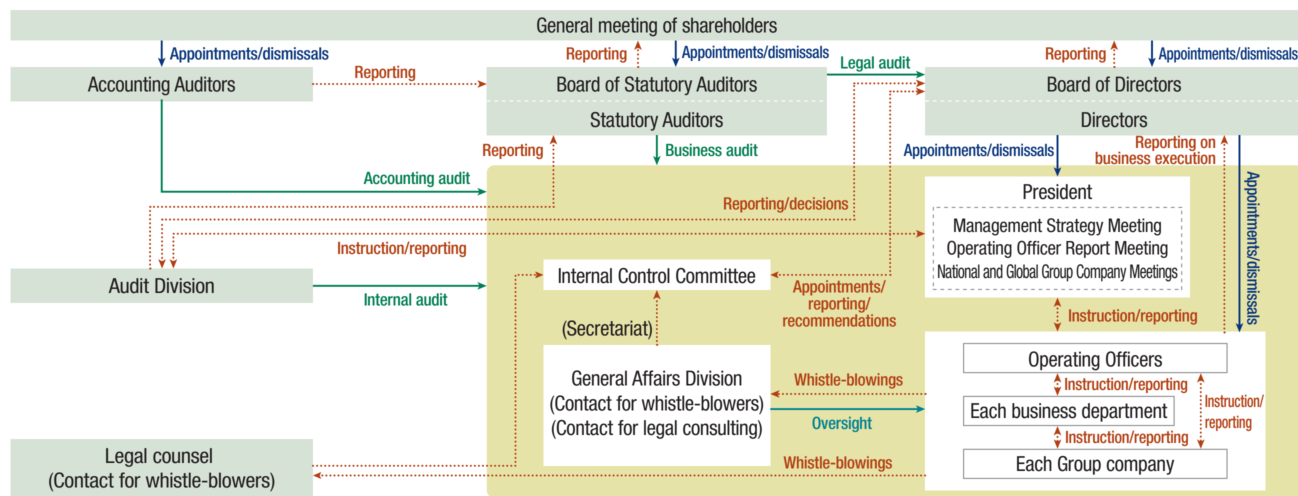
Remuneration for the Company's Statutory Auditors is determined through discussion among Statutory Auditors within the maximum total remuneration, which was fixed at the Ordinary General Meeting of Shareholders held in August 2006. It takes form of fixed remuneration for each standing and part-time position. There are no bonuses for Statutory Auditors.

<As of the end of May 2019>

Category of executives	Number of executives applicable	Total amount of remuneration (Unit: Million yen)
Directors (excluding Outside Directors)	6	164
Statutory Auditors (excluding External Statutory Auditors)	1	14
Outside Executives (Outside Directors and External Statutory Auditors)	7	41

(Note) The number of executives applicable mentioned above includes one Director and two Statutory Auditors who retired from office at the end of the 157th Ordinary General Meeting of Shareholders held on August 28, 2018.

Corporate governance framework



Executive Profiles (as of August 28, 2019)

President,
Representative Director
Kenzo Terashima

Director
Akihiko Ishii

Director
Akira Watanabe

Director
Yoshifumi Otsubo

Director (Outside)
Hirokazu Chinone

Director (Outside)
Takashi Yamagishi

Standing Statutory Auditor
Toshiaki Akechi

Standing Statutory Auditor
Kenji Ueda

Statutory Auditor
Yoshinori Kawamura

Statutory Auditor
Yasushi Miki

Senior Executive Officers	Hiroshi Shimotakahara	Akihiko Ishii	Akira Watanabe	
Executive Officers	Shuji Horie	Yoshifumi Otsubo	Kenji Tanimoto	Kenji Fujiwara
Operating Officers	Yukimasa Tanabe	Naoki Okuyama	Toshihito Nakanishi	Shini Furutsuki
	Takuya Hatakeyama	Toshiharu Takagi	Chiaki Nakano	

Messages from Outside Directors

Hirokazu Chinone

Role of Outside Director

The Companies Act stipulates that the authority of a board of directors is to make decisions on important business execution matters and oversee the execution of duties, and this also applies to directors who make up the board of directors.

Furthermore, the main role of outside directors is to oversee the execution of duties in particular. The reason for this is that it is thought to be beneficial to have independent outside directors who have no ties of obligation to internal directors and few stakes, in order to prevent illegal and unfair decisions with compliance issues.

I am a lawyer by profession. I don't have any experience in running a company, making it difficult to give useful and appropriate advice to improve the Company's business performance, but I believe monitoring business execution is my area of expertise to prevent the Company's scandals and various risks.

Points of discussion and advice at the Board of Directors

Since my appointment as Director, fortunately no agenda item or proposal that would become a compliance issue has been presented to the Board of Directors.

However, it is generally understood that even when a compliance issue emerges, that information rarely reaches the Board of Directors, and in many cases, it is too late when the problem is discovered. In order to avoid this, it is necessary to have mechanisms in place that allow negative information to be raised to executives. Such mechanisms include an internal audit department that is independent of business divisions and whistleblowing systems. I believe that it is important to ensure that such bodies function successfully and dot not end up just being a formality.

Takashi Yamagishi

Role of Outside Director

The functions of outside directors at a board of directors are said to be "supervision" and "advice." The former is to properly get across the opinions of stakeholders to the board of directors, and the latter is to maximize corporate value through strategy formulation and decision-making. While the presence of outside directors creates a tension at the board of directors and deepens discussions, strictly requiring independence of outside directors makes it difficult for them to contribute to strategy formulation. The Company has several Outside Directors. I view my role is participating in discussion for important decision-making from an early stage with an outsider's perspective, enhancing the transparency of decision-making at the Board of Directors by providing my expertise on occasion, and contributing to improving sustainable corporate value and the supervisory function.

Points of discussion and advice at the Board of Directors

My position at the Board of Directors is to provide support for achieving the Company's long-term vision of "providing high-quality products that combine motor drive technologies and advanced breakthrough technologies worldwide and contributing to the realization of environmentally friendly social infrastructure." It is not just approving what has been decided at management meetings, but also asking essential questions from an outsider's perspective and making correct management decisions through active discussion. Issues for which final decisions have been postponed will be discussed again at strategic meetings in which I participate as Outside Director. The Nomination and Compensation Advisory Committee and talks at research presentations provide good opportunities to learn about management and human capital. I believe that it is important for the Company to be always monitored by outsiders for maintaining high-level of management discipline.

Internal Control and Compliance

Internal Control

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

Principles of compliance

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

Compliance promotion framework

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

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

Compliance education

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

Risk Management

Basic policy

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

Promotion framework

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

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

Information Security

Basic policy

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

Information security training

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

Risk Factors

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

(1) Business activities, business structure, economic trends, and other factors

The Group’s sales heavily rely on the Transportation Systems and Industrial Systems segments. Its customers conduct business operations at home and overseas. As such, business climates and individual spending conditions in different countries may affect the Group’s business performance.

(2) Production bases

The great majority of the Group’s production bases are located in the Kanto area. Production capacity may be severely affected by large-scale disasters in the area.

(3) Intensifying competition

The Japanese market for the Transportation Systems segment has matured and thus faces intensifying competition. The Industrial Systems segment is under pressure from intensifying competition for product development. The Group’s business performance may be affected by such intensifying competition.

(4) Product quality

Defects in products may link to materialization of a risk that requires large-scale compensation for damages. The possibility exists that insurance may not be able to cover associated costs, which may affect the Group’s business performance.

(5) Product development

With a view to providing attractive products to customers, the Group applies itself to gathering information about customer needs and leverages it in the development of new products to support its future growth. However, delays in the development of new products to respond to rapid technological or environmental changes may affect the Group’s performance.

(6) Material procurement

Owing to the fact that the Group’s business has various distinctive characteristics, some of the materials it procures are not easily available due to factors such as a limited number of suppliers. Delays in supply or discontinuation in production of such materials may affect the Group’s performance. In addition, disruptions to the entire supply chain caused by a large-scale disaster or other incidents could impact the Group’s operations. Moreover, its business may be affected by the fluctuation in prices of raw materials, notably steel products and copper.

(7) Overseas expansion

The Group proactively pursues the expansion of overseas operations including the Chinese market. Its performance may be affected by major changes in situations overseas.

(8) Intellectual property rights

The Group attends to the protection of intellectual property rights. However, amid drastically advancing technical innovations and accelerating globalization of business, the Group is inevitably exposed to potential disputes with third parties over intellectual property rights. If a dispute occurs, the Group’s business may be affected.

(9) Business alliances

With the aim of business expansion and enhancing competitiveness, the Group proactively pursues various alliances with third parties. However, if these alliances do not deliver expected results due to a failure in forging favorable relationships with partners, the Group may face an impact on its performance.

(10) Exchange rate fluctuations

On the back of aggressive expansion into overseas markets, the Group will inevitably face heavier impact of foreign currency exchange rate fluctuations on its earnings as it increases foreign currency denominated transactions.

(11) Holding assets

Fluctuations in the fair value of assets held by the Group may affect its performance.

(12) Financing

The Group’s financing programs may be affected by unexpected changes in financial conditions.

(13) Information security

The Group retains customer information related to its business executions. Also, it possesses various types of confidential information concerning the Group’s proprietary technologies and operations. If these information assets leak outside the Group for unforeseeable reasons, it may impact its performance.

(14) Compliance

The Group proactively pursues expansion in overseas operations, particularly the Chinese market; therefore its operations are subject to the laws and regulations of each country. Although the Group has established and conducts a robust compliance system, its operations are still at risk from the effects of unforeseeable events.

(15) Litigation

If the Group becomes the subject of any legal action or other legal procedures, its business may be affected.

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.

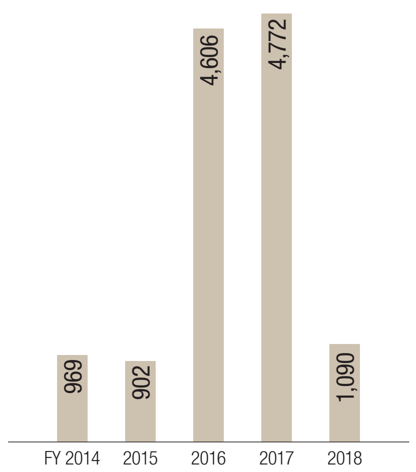
Cash flow from investing activities
Net cash used in investing activities 1,019 million yen

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.

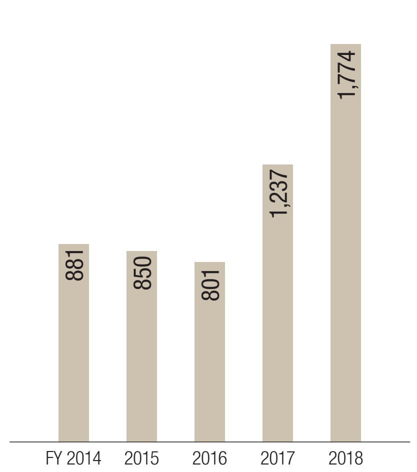
Cash flow from financing activities
Net cash used by financing activities 2,012 million yen

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.

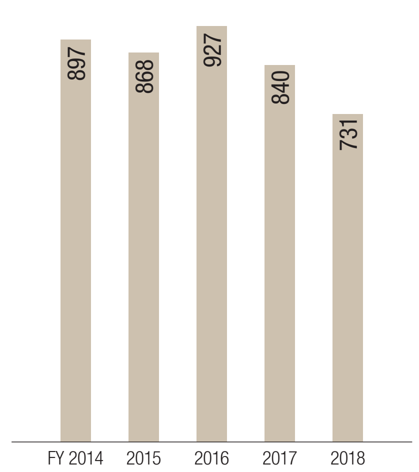
Capital investment (Unit: Million yen)



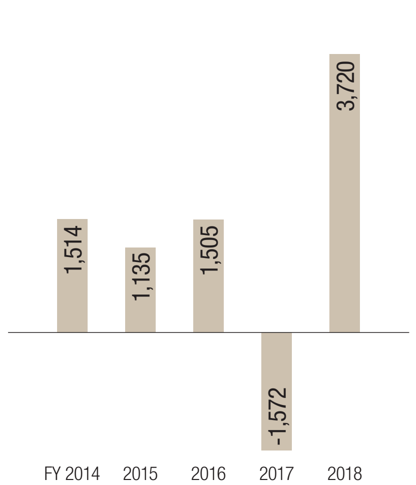
Depreciation and amortization (Unit: Million yen)



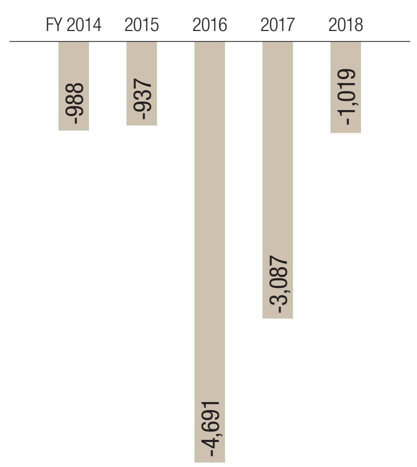
Research and development costs (Unit: Million yen)



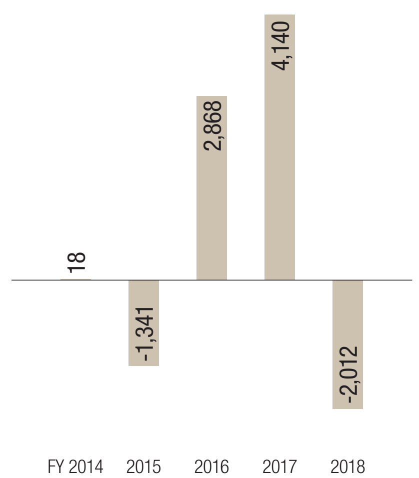
Cash flows from operating activities (Unit: Million yen)



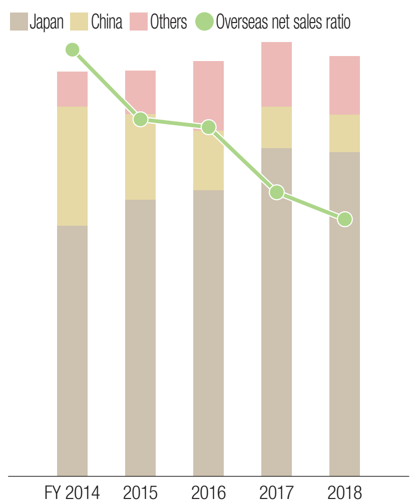
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	2015	2016	2017	2018	2019
Japan	24,547	27,094	28,006	32,124	31,745
China	11,634	8,374	5,882	4,085	3,663
Others	3,435	4,277	6,778	6,317	5,763
Total	39,617	39,746	40,668	42,527	41,172
Overseas net sales ratio	38.0%	31.8%	31.1%	25.3%	22.9%

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 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 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 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	May 31, 2018	May 31, 2019
	(Millions of yen)		(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	May 31, 2018	May 31, 2019
	(Millions of yen)		(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	May 31, 2018	May 31, 2019
	(Millions of yen)		(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	May 31, 2018	May 31, 2019
	(Millions of yen)		(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	May 31, 2018	May 31, 2019
	(Millions of yen)		(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	May 31, 2018	May 31, 2019
	(Millions of yen)		(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	May 31, 2018	May 31, 2019
	(Millions of yen)		(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 100th 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 (Millions of yen)	May 31, 2018 (Millions of yen)	May 31, 2019 (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 (Millions of yen)	May 31, 2018 (Millions of yen)	May 31, 2019 (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 (Millions of yen)	May 31, 2018 (Millions of yen)	May 31, 2019 (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	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
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	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*	¥ —	¥ —	¥—

*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: 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	¥104	¥32	Note

As of May 31, 2019	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	$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: 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

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						
	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	¥27,236	¥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						
	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	$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						
	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	¥23,147	¥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

Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
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Building a better working world

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

A member firm of Ernst & Young Global Limited

Stock Related Information

Number of shares (As of May 31, 2019)

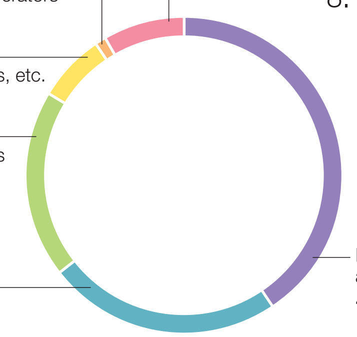
Number of shares authorized	36,000,000
Number of shares issued	9,735,000
Number of shareholders	5,719

Major shareholders

Shareholders	Number of shares held (Thousands)	% of total shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	588	6.57
East Japan Railway Company	480	5.36
Employees Stock Ownership Plan	435	4.87
NIPPON LIFE INSURANCE COMPANY	337	3.77
MUFG Bank, Ltd.	270	3.02
Sanshin Co., Ltd.	270	3.01
Toyo Denki Subcontractor Factories Shareholding Association	251	2.81
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/ JASDEC/JANUS HENDERSON HORIZON FUND BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/ JASDEC/JANUS HENDERSON HORIZON FUND	216	2.42
The Bank of Yokohama, Ltd.	207	2.32
Masayoshi Yamauchi	206	2.30

(Note) The percentages of total shares held are calculated excluding 792,000 treasury stocks.

Distribution of shares by type of shareholder

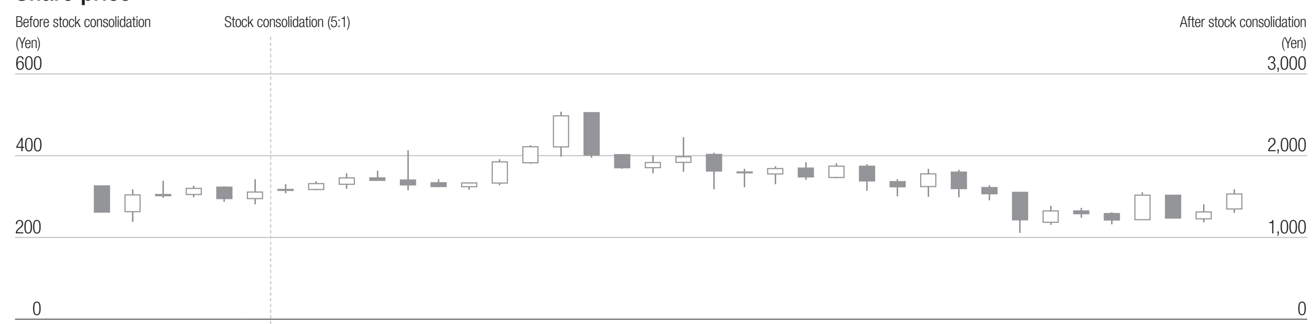


Share consolidation and change to the number of shares constituting one share unit

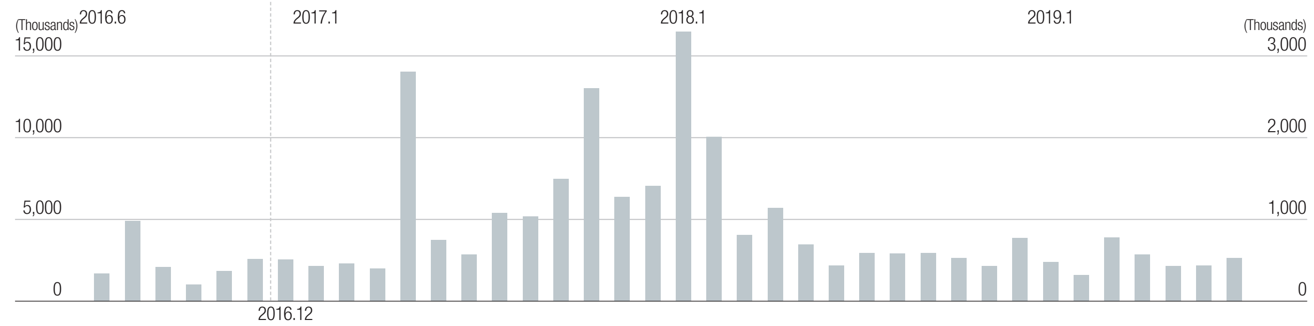
Effective as of December 1, 2016, the Company implemented a share consolidation (five shares consolidated into one share) and revised the number of shares constituting one share unit (from 1,000 shares to 100 shares).

Transition of share price

Share price



Trading volume



Disclaimer on the forward-looking statements

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

Company Profile

(as of May 31, 2019)

Company Profile

Company Name	TOYO DENKI SEIZO K.K. (TOYO ELECTRIC MFG. CO., LTD.)
Established	June 20, 1918
Capital	4,998,390,000 yen
Number of Employees	1,226 (Consolidated) 831 (TOYO DENKI SEIZO K.K.)
Head Office	Tokyo Tatemono Yaesu Building, 1-4-16, Yaesu, Chuo-ku, Tokyo, 103-0028, Japan TEL +81-3-5202-8121 (General Affairs Division) https://www.toyodenki.co.jp/
Stock Exchange Listing	The Tokyo Stock Exchange, First Section
Code Number	6505
Number of Shares Authorized	36,000,000 shares
Number of Shares Issued	9,735,000 shares
Number of Shareholders	5,719

Shiga Ryuo Plant

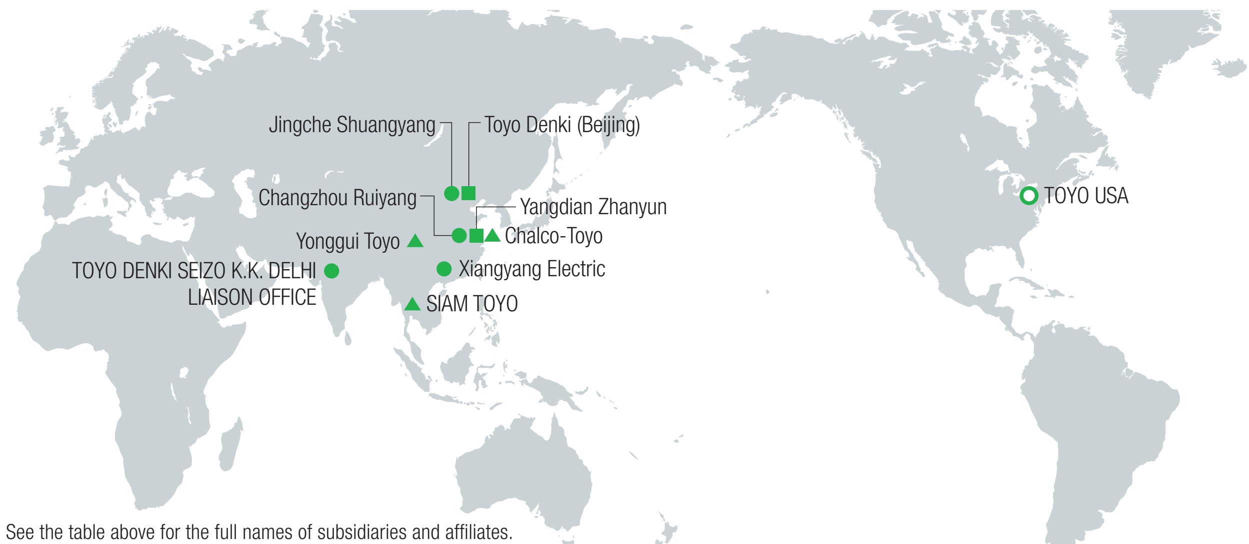
Head office building

Yokohama plant

Subsidiaries and Affiliates (as of September 1, 2019)

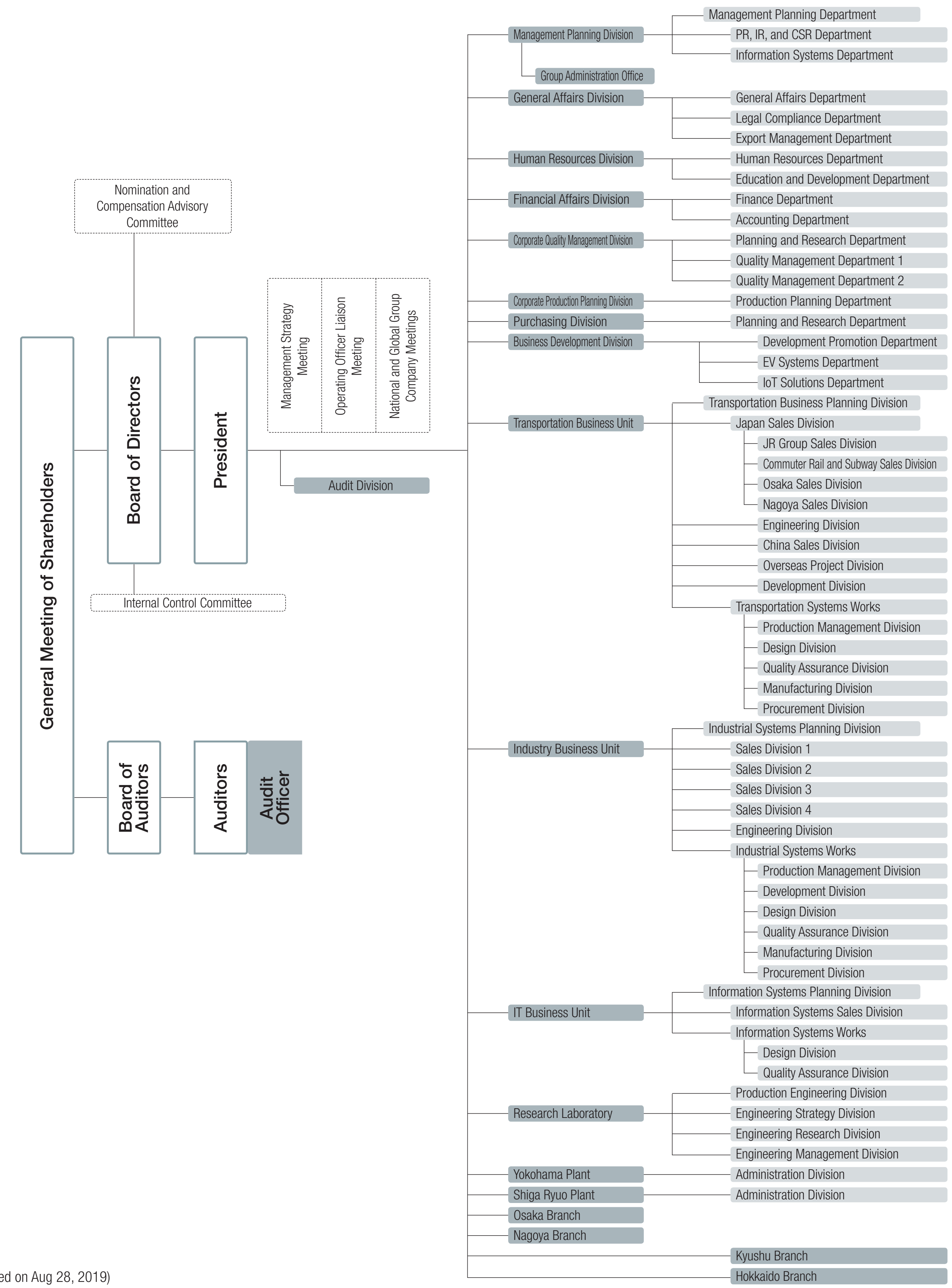
○ Consolidated subsidiaries ● Affiliates accounted for by the equity method ■ Non-consolidated subsidiaries ▲ Affiliates not accounted for by the equity method

	Transportation Systems	Industrial Systems	Information Equipment Systems	Others
Japan	○ TOYOKOUKI Co., Ltd. ○ Taihei Electric Co., Ltd.	○ Toyosangyo K.K. ○ TD Drive Co., Ltd.		○ Toyo Shoji Co., Ltd.
Overseas	■ Toyo Denki (Beijing) Co., Ltd. (China) ■ Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd. (China)			
	○ TOYO DENKI USA, INC. (U.S) ● Hunan Xiangyang Electric Co., Ltd. (China) ● Changzhou Ruiyang Transmission Technology Co., Ltd. (China) ● Beijing Jingche Shuangyang Traction System Co,. Ltd. (China) ▲ Chengdu Yonggui Toyo Rolling Stock Equipment Co., Ltd. (China)	▲ SIAM TOYO DENKI Co., Ltd. (Thailand) ▲ Chalco-Toyo Permanent Magnet Motor Co., Ltd. (China)		



* See the table above for the full names of subsidiaries and affiliates.

Organization Chart



(Revised on Aug 28, 2019)