Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2019 (from June 1, 2019 to May 31, 2020) are as follows:

Results of Operation

Orders received
YoY -5.3%

Orders received decreased 5.3% compared with the previous fiscal year to 38,527 million yen due to a decrease in orders received in the Transportation Systems segment, the Industrial Systems segment, and the Information Equipment Systems segment.

Net sales
YoY -5.1%

Net sales decreased 5.1% compared with the previous fiscal year to 39,071 million yen due to a decrease in the Transportation Systems segment.

Profit/Loss
Net Income attributable to owners of the parent YoY +56.7%

From a profit perspective, operating income increased 91.5% compared with the previous fiscal year to 1,068 million yen. Ordinary income increased 143.5% compared with the previous fiscal year to 1,207 million yen. Net income attributable to owners of the parent increased 56.7% to 1,081 million yen, as a result of efforts to cut some cross-shareholdings.

Financial Position

Assets
Total Assets 55,165 million yen

Total assets as of May 31, 2020 stood at 55,165 million yen, a decrease of 2,836 million yen compared with the end of the previous fiscal year. The decrease in total assets was largely attributable to a decrease of 758 million yen in property, plant and equipment and a decrease of 2,421 million yen in investment securities, offset by an increase of 1,053 million yen in cash on hand and in banks.

Liabilities
Total liabilities 30,981 million yen

Total liabilities as of May 31, 2020 stood at 30,981 million yen, a decrease of 2,215 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 871 million yen in debt and a decrease of 623 million yen in deferred tax liabilities.

Net Assets
Total net assets 24,183 million yen

Net assets as of May 31, 2020 stood at 24,183 million yen, a decrease of 620 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a 1,448 million yen decrease in unrealized holding gain on available-for-sale securities.

Cash Flows

Cash flow from operating activities
Net cash provided by operating activities 2,148 million yen

Net cash provided by operating activities amounted to 2,148 million yen (net cash of 3,720 million yen provided in the previous fiscal year), principally due to a decrease in inventories.

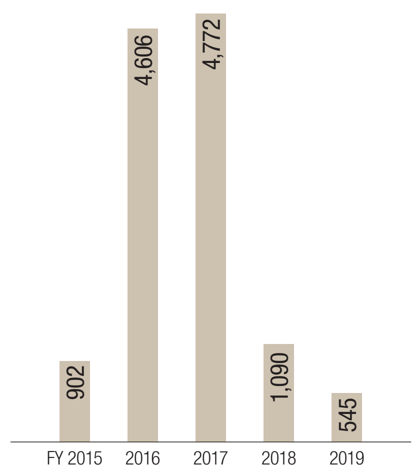
Cash flow from investing activities
Net cash provided by investing activities 41 million yen

Net cash provided by investing activities totaled 41 million yen (net cash of 1,019 million yen used in the previous fiscal year), principally due to 1,132 million yen of proceeds from sales of investment securities, offset by 647 million yen of purchases of property, plant and equipment.

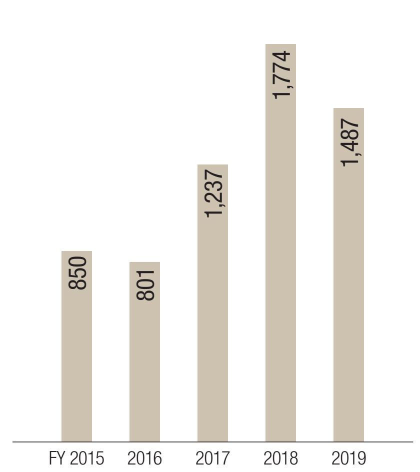
Cash flow from financing activities
Net cash used in financing activities 1,126 million yen

Net cash used in financing activities was 1,126 million yen (net cash of 2,012 million yen used in the previous fiscal year), primarily owing to repayment of debt.

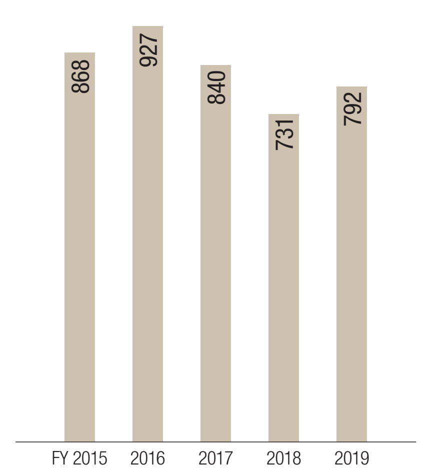
Capital investment (Unit: Million yen)



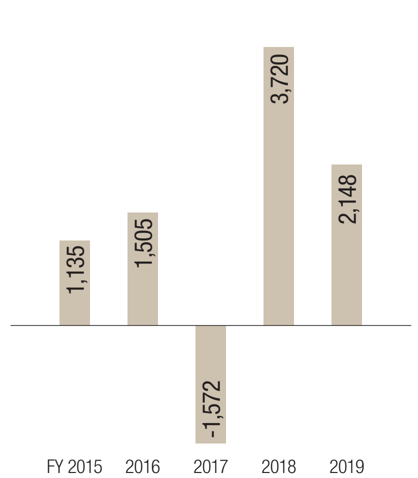
Depreciation and amortization (Unit: Million yen)



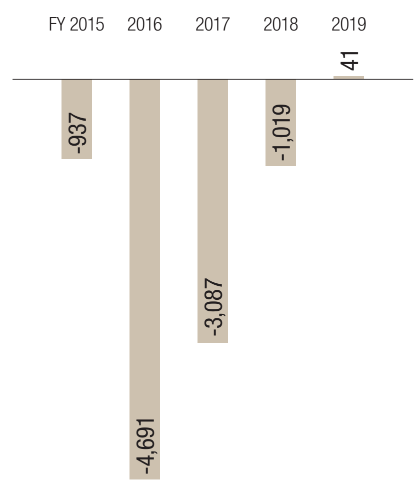
Research and development costs (Unit: Million yen)



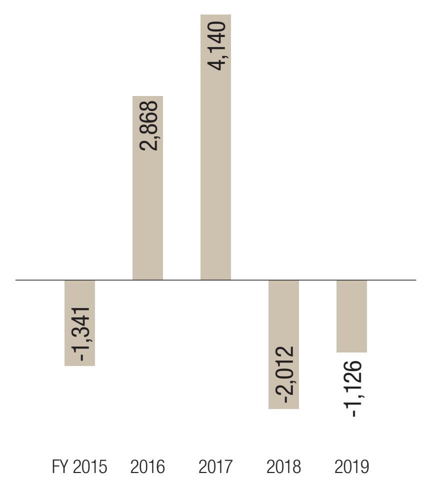
Cash flows from operating activities (Unit: Million yen)



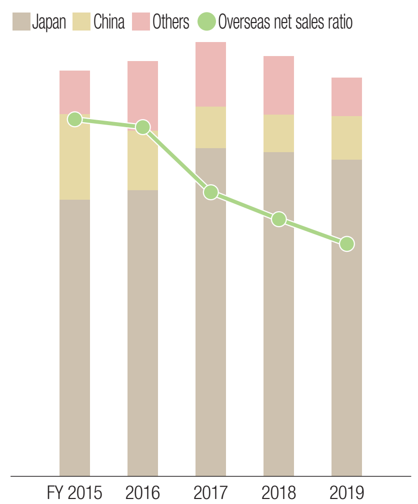
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	2016	2017	2018	2019	2020
Japan	27,094	28,006	32,124	31,745	30,997
China	8,374	5,882	4,085	3,663	4,282
Others	4,277	6,778	6,317	5,763	3,791
Total	39,746	40,668	42,527	41,172	39,071
Overseas net sales ratio	31.8%	31.1%	25.3%	22.9%	20.7%

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 16 and 18)	¥ 3,293	¥ 2,240	$ 30,632
Trade notes and accounts receivable (Notes 2 and 16)	14,135	14,192	131,453
Electronically recorded receivables (Note 16)	1,538	1,443	14,307
Inventories (Note 3)	7,178	7,571	66,755
Other current assets	139	573	1,294
Allowance for doubtful accounts	(0)	(1)	(0)
Total current assets	26,284	26,019	244,443
Property, plant and equipment (Note 4):			
Buildings and structures	6,753	7,090	62,809
Machinery and vehicles	1,059	1,441	9,855
Land	1,301	1,301	12,101
Construction in progress	86	31	799
Other	724	818	6,739
Total property, plant and equipment	9,925	10,683	92,305
Investments and other assets (Note 5):			
Investment securities (Notes 5, 16 and 17)	15,434	17,856	143,540
Deferred tax assets (Note 11)	170	164	1,583
Intangible assets	490	692	4,566
Other	2,865	2,598	26,647
Allowance for doubtful accounts	(6)	(12)	(63)
Total investments and other assets	18,954	21,299	176,273
Total assets (Note 20)	¥55,165	¥58,001	$513,022

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Notes 2 and 16)	¥ 2,224	¥ 2,670	$ 20,683
Electronically recorded payables (Note 16)	5,877	5,944	54,659
Short-term borrowings and current portion of long-term debt (Notes 6 and 16)	2,207	2,462	20,528
Income taxes payable (Note 11)	334	320	3,106
Accrued expenses	606	678	5,640
Accrued directors' bonuses	36	38	340
Accrued employees' bonuses	876	819	8,155
Reserve for losses on order acknowledgements (Note 3)	732	570	6,814
Other	773	1,258	7,191
Total current liabilities	13,669	14,763	127,118
Long-term liabilities:			
Long-term debt (Notes 6, 16 and 19)	12,344	12,961	114,799
Deferred tax liabilities (Note 11)	930	1,554	8,650
Liability for retirement benefits (Note 7)	4,010	3,893	37,292
Long-term payables	25	20	232
Other	3	4	28
Total long-term liabilities	17,312	18,433	161,003
Commitments and contingencies (Note 14)			
Net assets (Notes 8 and 15):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 46,483
Capital surplus	3,177	3,177	29,549
Retained earnings	11,610	10,797	107,978
Treasury stock	(1,280)	(1,280)	(11,911)
Total shareholders' equity	18,505	17,693	172,100
Accumulated other comprehensive income:			
Unrealized holding gain on securities	5,727	7,176	53,266
Translation adjustments	79	126	739
Retirement benefits liability adjustments (Note 7)	(129)	(192)	(1,206)
Total accumulated other comprehensive income	5,677	7,110	52,799
Total net assets	24,183	24,804	224,900
Total liabilities and net assets	¥55,165	¥58,001	$513,022

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Note 20)	¥39,071	¥41,172	$363,355
Cost of sales (Note 3)	30,828	33,333	286,700
Gross profit	8,242	7,839	76,654
Selling, general and administrative expenses (Note 9)	7,174	7,281	66,719
Operating income (Note 20)	1,068	557	9,935
Non-operating income (expenses):			
Interest and dividend income	235	244	2,188
Interest expense	(83)	(143)	(780)
Equity in (losses) earnings of unconsolidated subsidiaries and affiliates	(39)	10	(362)
Foreign exchange loss	(56)	(82)	(528)
Insurance claim income related to disaster	104	—	969
Subsidy income	40	—	371
Disaster recover expenses	(79)	—	(742)
Other income (expenses), net	19	(89)	182
	139	(61)	1,297
Ordinary income	1,207	495	11,232
Special gains, net (Note 10)	445	750	4,146
Income before income taxes	1,653	1,246	15,378
Income taxes (Note 11):			
Current	577	448	5,368
Deferred	(5)	107	(49)
	571	556	5,318
Net income	1,081	690	10,060
Net income attributable to non-controlling interests	—	—	—
Net income attributable to owners of the parent	¥ 1,081	¥ 690	$ 10,060

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net income	¥1,081	¥ 690	$ 10,060
Other comprehensive loss (Note 12):			
Unrealized holding loss on securities	(1,448)	(934)	(13,474)
Translation adjustments	(12)	19	(113)
Retirement benefits liability adjustments	62	54	583
Share of other comprehensive loss of affiliates accounted for by the equity method	(34)	(81)	(325)
Total other comprehensive loss	(1,433)	(941)	(13,330)
Comprehensive loss	¥ (351)	¥ (251)	$ (3,270)
Comprehensive loss attributable to:			
Owners of the parent	¥ (351)	¥ (251)	$ (3,270)
Non-controlling interests	—	—	—

See notes to consolidated financial statements.

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

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2018	¥4,998	¥3,177	¥10,579	¥(480)	¥18,274	¥8,111	¥188	¥(247)	¥8,052	¥26,327
Changes during the year										
Cash dividends paid	—	—	(472)	—	(472)	—	—	—	—	(472)
Net income attributable to owners of the parent	—	—	690	—	690	—	—	—	—	690
Purchases of treasury stock	—	—	—	(800)	(800)	—	—	—	—	(800)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(934)	(61)	54	(941)	(941)
Total changes during the year	—	—	218	(800)	(581)	(934)	(61)	54	(941)	(1,523)
Balance as of May 31, 2019	¥4,998	¥3,177	¥10,797	¥(1,280)	¥17,693	¥7,176	¥126	¥(192)	¥7,110	¥24,804
Balance as of June 1, 2019	¥4,998	¥3,177	¥10,797	¥(1,280)	¥17,693	¥7,176	¥126	¥(192)	¥7,110	¥24,804
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net income attributable to owners of the parent	—	—	1,081	—	1,081	—	—	—	—	1,081
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(1,448)	(47)	62	(1,433)	(1,433)
Total changes during the year	—	—	813	(0)	812	(1,448)	(47)	62	(1,433)	(620)
Balance as of May 31, 2020	¥4,998	¥3,177	¥11,610	¥(1,280)	¥18,505	¥5,727	¥ 79	¥(129)	¥5,677	¥24,183

(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 gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2019	$46,483	$29,549	$100,413	$(11,905)	$164,541	$66,741	$1,178	$(1,789)	$66,129	$230,670
Changes during the year										
Cash dividends paid	—	—	(2,494)	—	(2,494)	—	—	—	—	(2,494)
Net income attributable to owners of the parent	—	—	10,060	—	10,060	—	—	—	—	10,060
Purchases of treasury stock	—	—	—	(6)	(6)	—	—	—	—	(6)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(13,474)	(439)	583	(13,330)	(13,330)
Total changes during the year	—	—	7,565	(6)	7,559	(13,474)	(439)	583	(13,330)	(5,770)
Balance as of May 31, 2020	$46,483	$29,549	$107,978	$(11,911)	$172,100	$53,266	$739	$(1,206)	$52,799	$224,900

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
Income before income taxes	¥1,653	¥1,246	$15,378
Depreciation and amortization	1,487	1,774	13,836
Reversal of allowance for doubtful accounts	(7)	(0)	(66)
Provision for accrued employees' bonuses	57	5	531
Increase in liability for retirement benefits	138	37	1,291
Interest and dividend income	(235)	(244)	(2,188)
Interest expense	83	143	780
Insurance claim income related to disaster	(104)	—	(969)
Subsidy income	(40)	—	(371)
Disaster recover expenses	79	—	742
Gain on sales of investment securities	(447)	(804)	(4,163)
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(64)	2,527	(599)
Inventories	372	290	3,466
Trade notes and accounts payable	(481)	(1,790)	(4,479)
Reserve for losses on order acknowledgements	166	(134)	1,551
Advances received	(13)	(129)	(124)
Accrued expenses	(64)	(170)	(602)
Other, net	(164)	1,076	(1,526)
Subtotal	2,418	3,828	22,488
Interest and dividend income received	235	259	2,188
Interest expense paid	(91)	(146)	(851)
Proceeds from insurance income related to disaster	104	—	969
Subsidies received	40	—	371
Payments for disaster recover expenses	(79)	—	(742)
Income taxes paid	(477)	(221)	(4,441)
Net cash provided by operating activities	2,148	3,720	19,983
Investing activities			
Purchases of property, plant and equipment	(647)	(2,277)	(6,018)
Purchases of intangible assets	(33)	(49)	(310)
Purchases of investment securities	(14)	(260)	(133)
Proceeds from sales of investment securities	1,132	1,441	10,532
Payments of loans receivable	(26)	—	(247)
Collection of loans receivable	—	35	—
Payments for investments in capital of subsidiaries and affiliates	(338)	—	(3,149)
Other, net	(31)	92	(291)
Net cash provided by (used in) investing activities	41	(1,019)	381
Financing activities			
Decrease in short-term loans payable	(287)	(1,990)	(2,672)
Increase in long-term debt	—	4,600	—
Repayment of long-term debt	(568)	(3,355)	(5,286)
Purchases of treasury stock	(0)	(800)	(6)
Cash dividends paid	(268)	(471)	(2,495)
Other, net	(1)	4	(10)
Net cash used in financing activities	(1,126)	(2,012)	(10,471)
Effect of exchange rate change on cash and cash equivalents	(10)	(4)	(95)
Net increase in cash and cash equivalents	1,053	685	9,798
Cash and cash equivalents at beginning of period	2,240	1,555	20,834
Cash and cash equivalents at end of period (Note 18)	¥3,293	¥2,240	$30,632

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.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million yen and thousand U.S. dollars, respectively, in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

(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, 2020, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 3 in 2019). 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 ¥166 million ($(1,551) thousand) and ¥(134) million is included in cost of sales for the years ended May 31, 2020 and 2019, 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 effective
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.

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 ¥107.53=U.S.$1, the approximate rate of exchange prevailing at May 31, 2020. 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. Notes Receivable and Payable

As May 31, 2020 fell on a bank holiday, the following notes receivable and payable are deemed to have been settled on the maturity date:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Notes receivable	¥64	¥—	$602
Notes payable	6	—	64

Note 3. Inventories

Inventories as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥ 756	¥ 991	$ 7,035
Work in process	3,424	3,504	31,850
Raw materials and supplies	2,996	3,074	27,869
	¥7,178	¥7,571	$66,755

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 ¥212 million ($1,976 thousand) and ¥92 million for the years ended May 31, 2020 and 2019, 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, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥ 2	¥84	$ 26
Work in process	135	13	1,262
	¥138	¥97	$1,288

Note 4. Property, Plant and Equipment

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

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 12,269	¥ 12,210	$ 114,100
Machinery and vehicles	8,179	8,174	76,071
Other	4,654	4,410	43,287
	25,103	24,795	233,459
Accumulated depreciation	(16,565)	(15,444)	(154,054)
	¥ 8,538	¥ 9,351	$ 79,405

Depreciation of property, plant and equipment for the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
	¥1,487	¥1,774	$13,836

Accumulated depreciation of property, plant and equipment amounted to ¥16,565 million ($154,054 thousand) and ¥15,444 million as of May 31, 2020 and 2019, respectively.

Note 5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investment securities" as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in capital	¥2,158	¥1,893	$20,073

Note 6. Short-Term Borrowings and Long-Term Debt

As of May 31, 2020 and 2019, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥1,590	¥1,893	$14,787
Current portion of long-term debt	617	568	5,740
	¥2,207	¥2,462	$20,528

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2020 were 0.584% and 0.647%, respectively.

As of May 31, 2020 and 2019, long-term debts were as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2021 through 2032	¥12,344	¥12,961	$114,799

The annual weighted average interest rate applicable to long-term debt as of May 31, 2020 was 0.419%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2021	¥ 617	$ 5,740
2022	585	5,443
2023	585	5,443
2024	885	8,232
2025 and thereafter	10,288	95,680
	¥12,961	$120,540

The assets pledged as collateral for short-term borrowings of ¥2,147 million ($19,970 thousand) and long-term debt of ¥3,864 million ($35,938 thousand) as of May 31, 2020 were as follows:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥5,768	$53,644
Machinery and vehicles	588	5,469
Other property, plant and equipment	436	4,057
Land	1,232	11,461
	¥8,025	$74,632

The following assets included in the above are set by factory foundation fixed collateral security for short-term borrowings of ¥1,622 million ($15,085 thousand) as of May 31, 2020:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,542	$14,345
Machinery and vehicles	588	5,469
Other property, plant and equipment	436	4,057
	¥2,566	$23,871

Note 7. Retirement Benefit Plans

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

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

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

The changes in the retirement benefit obligation during the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥3,893	¥3,862	$36,204
Service cost	290	293	2,699
Interest cost	14	14	136
Actuarial loss	(21)	(7)	(204)
Retirement benefits paid	(166)	(270)	(1,544)
Retirement benefit obligation as of May 31	¥4,010	¥3,893	$37,292

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,010	¥3,893	$37,292
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,010	3,893	37,292
Liability for retirement benefits	¥4,010	¥3,893	$37,292
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,010	3,893	37,292

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥290	¥293	$2,699
Interest cost	14	14	136
Amortization of actuarial loss	68	71	637
Retirement benefit expenses	¥373	¥379	$3,473

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥90	¥78	$841
Total	¥90	¥78	$841

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥186	¥277	$1,738
Total	¥186	¥277	$1,738

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019
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 ($1,097 thousand) and ¥117 million for the years ended May 31, 2020 and 2019, respectively.

Note 8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2020 and 2019 was as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2020

Type of shares	Number of shares as of June 1, 2019	Increase	Decrease	Number of shares as of May 31, 2020
		(Shares)		
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	792,966	437	—	793,403

Details of the increase are as follows:
Increase due to purchase of shares of less than standard unit 437 shares

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

b. Dividends

1) Dividends paid

For the year ended May 31, 2020

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, 2019	Common stock	¥268	$2,495	¥30.00	$0.27	May 31, 2019	August 29, 2019

For the year ended May 31, 2019

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 28, 2018	Common stock	¥472	¥50.00	May 31, 2018	August 29, 2018

2) Dividends with the cut-off date in the year ended May 31, 2020 and the effective date in the year ending May 31, 2021

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 26, 2020	Common stock	¥268	$2,495	Retained earnings	¥30.00	$0.27	May 31, 2020	August 27, 2020

Note 9. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,931	¥1,979	$17,961
Provision for accrued directors' bonuses	36	38	340
Provision for accrued employees' bonuses	348	326	3,241
Retirement benefit expenses	216	216	2,013
Provision for allowance for doubtful accounts	(1)	(0)	(14)
Research and development expenses	792	731	7,373

Note 10. Special Gains (Losses), Net

The components of "Special gains (losses), net" for the years ended May 31, 2020 and 2019 were as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥447	¥804	$4,163
Special losses:			
Commemorative project cost for the 100th anniversary of foundation	—	(53)	—
Loss on valuation of investment securities	1	—	17
Total	¥445	¥750	$4,146

Note 11. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.6% for the years ended May 31, 2020 and 2019. 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, 2020 and 2019 was as follows:

For the Years Ended	May 31, 2020	May 31, 2019
Effective statutory tax rate	30.6%	30.6%
Effect of:		
Non-deductible expenses for income tax purpose	1.2	2.1
Non-taxable income such as dividends income, etc.	(0.9)	(1.1)
Per capita inhabitant tax	1.7	2.3
Valuation allowance	4.8	7.2
Income from affiliates accounted for by the equity method	0.7	(0.2)
Difference arising from the rates used by subsidiaries	1.5	2.1
Retained profit of affiliates	(0.2)	3.2
Research and development tax credit	(1.2)	(1.3)
Investment incentive tax credit	(2.5)	—
Other	(1.1)	(0.3)
Effective tax rate	34.6%	44.6%

The significant components of deferred tax assets and liabilities as of May 31, 2020 and 2019 were as follows:

As of	May 31, 2020 (Millions of yen)	May 31, 2019 (Millions of yen)	May 31, 2020 (Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 235	¥ 210	$ 2,192
Liability for retirement benefits	1,234	1,198	11,478
Accrued employees' bonuses	274	256	2,553
Reserve for losses on order acknowledgements	104	123	971
Net operating loss carryforwards (Note 1)	472	553	4,394
Other	333	258	3,102
Total gross deferred tax assets	2,655	2,600	24,693
Valuation allowance for net operating loss carryforwards (Note 1)	(466)	(382)	(4,335)
Valuation allowance for deductible temporary differences	(359)	(363)	(3,338)
Total valuation allowance	(825)	(745)	(7,674)
Total deferred tax assets	1,830	1,855	17,018
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,541)	(3,193)	(23,638)
Other	(48)	(50)	(447)
Total deferred tax liabilities	(2,589)	(3,244)	(24,085)
Net deferred tax liabilities	¥ (759)	¥(1,389)	$ (7,067)

(Note 1) The breakdown of net operating loss carryforwards and valuation allowance by expiry date is as follows:
Year ended May 31, 2020

(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)	¥—	¥—	¥5	¥—	¥39	¥427	¥472
Valuation allowance	—	—	(5)	—	(33)	(427)	(466)
Deferred tax assets	—	—	—	—	6	—	6(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)	$—	$—	$46	$—	$370	$ 3,977	$ 4,394
Valuation allowance	—	—	(46)	—	(311)	(3,977)	(4,335)
Deferred tax assets	—	—	—	—	59	—	59(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 ¥6 million ($59 thousand) is recognized on net operating loss carryforwards of ¥472 million ($4,394 thousand) (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥6 million ($59 thousand) is recognized on the net operating loss carryforwards of ¥6 million ($59 thousand) (amount multiplied by the effective statutory tax rate) of Toyo Koki Co., Ltd., which is a consolidated subsidiary of the Company.

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	¥—	¥540	¥553
Valuation allowance	—	—	—	(5)	—	(377)	(382)
Deferred tax assets	—	—	8	—	—	163	171(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 is recognized on net operating loss carryforwards of ¥553 million (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥171 million is recognized on the net operating loss carryforwards of ¥154 million (amount multiplied by the effective statutory tax rate) of the Company and that of ¥16 million (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 ¥551 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 12. Other Comprehensive Loss

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive loss for the years ended May 31, 2020 and 2019:

For the Years Ended	May 31, 2020 (Millions of yen)	May 31, 2019 (Millions of yen)	May 31, 2020 (Thousands of U.S. dollars)
Unrealized holding loss on securities:			
Amount arising during the year	¥(1,653)	¥ (533)	$(15,375)
Reclassification adjustments for gains and losses included in net income	(447)	(804)	(4,163)
Amount before tax effect	(2,100)	(1,337)	(19,538)
Tax effect	652	403	6,063
Unrealized holding loss on securities	(1,448)	(934)	(13,474)
Translation adjustments			
Amount arising during the year	(12)	19	(113)
Amount before tax effect	(12)	19	(113)
Translation adjustments	(12)	19	(113)
Retirement benefits liability adjustments			
Amount arising during the year	21	7	204
Reclassification adjustments for gains and losses included in net income	68	71	637
Amount before tax effect	90	78	841
Tax effect	(27)	(24)	(257)
Retirement benefits liability adjustments	62	54	583
Share of other comprehensive loss of affiliates accounted for by the equity method			
Amount arising during the year	(34)	(81)	(325)
Share of other comprehensive loss of affiliates accounted for by the equity method	(34)	(81)	(325)
Total other comprehensive loss	¥(1,433)	¥ (941)	$(13,330)

Note 13. Lease Transactions

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

Note 14. Contingent Liabilities

As of May 31, 2020 and 2019, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥334	¥327	$3,111
Beijing Jingche Shuangyang Traction System Co., Ltd.	181	78	1,684

Note 15. Amounts Per Share

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥120.98	¥75.27	$1.12
As of	**May 31, 2020**	**May 31, 2019**	**May 31, 2020**
	(Yen)		(U.S. dollars)
Net assets	¥2,704.61	¥2,773.87	$25.15

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, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥1,081	¥690	$10,060
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	1,081	690	10,060
	(Thousand shares)		
Average number of shares of common stock during the year	8,941	9,173	

Note 16. Financial Instruments

Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

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

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

Regarding hedging instruments and hedged items in hedge accounting, hedging policy, and assessment of the effectiveness of hedging activities, etc., please see “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 19, Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of May 31, 2020 and 2019 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, 2020	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
1) Cash on hand and in banks	¥ 3,293	¥ 3,293	¥—
2) Trade notes and accounts receivable	14,135	14,135	—
3) Electronically recorded receivables	1,538	1,538	—
4) Investment securities	14,369	14,369	—
Total assets	¥33,337	¥33,337	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 2,224	¥ 2,224	¥—
6) Electronically recorded payables	5,877	5,877	—
7) Short-term borrowings	1,590	1,590	—
8) Long-term debt	12,961	13,005	43
Total liabilities	¥22,653	¥22,696	¥43
9) Derivative transactions*	¥ —	¥ —	¥—

As of May 31, 2020	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
1) Cash on hand and in banks	$ 30,632	$ 30,632	$ —
2) Trade notes and accounts receivable	131,453	131,453	—
3) Electronically recorded receivables	14,307	14,307	—
4) Investment securities	133,634	133,634	—
Total assets	$310,028	$310,028	$ —
Liabilities			
5) Trade notes and accounts payable	$ 20,683	$ 20,683	$ —
6) Electronically recorded payables	54,659	54,659	—
7) Short-term borrowings	14,787	14,787	—
8) Long-term debt	120,540	120,944	404
Total liabilities	$210,670	$211,075	$404
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, 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	14,192	14,192	—
3) Electronically recorded receivables	1,443	1,443	—
4) Investment securities	16,790	16,790	—
Total assets	¥34,667	¥34,667	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 2,670	¥ 2,670	¥—
6) Electronically recorded payables	5,944	5,944	—
7) Short-term borrowings	1,893	1,893	—
8) Long-term debt	13,530	13,594	63
Total liabilities	¥24,039	¥24,103	¥63
9) Derivative transactions*	¥ —	¥ —	¥—

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

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

Assets:

Cash on hand and in banks, trade notes and accounts receivable and electronically recorded receivables
Since these items are settled in a short period of time, their carrying value approximates fair value.
However, if they are settled in a long period of time, the fair value of receivables is based on the present value of the receivables classified by definite periods discounted using interest rates on the corresponding period until settlement.

Investment securities
The fair value of stocks is based on quoted market prices. Investment securities held by the Group are classified as available-for-sale securities and please see Note 17 "Securities."

Liabilities:

Trade notes and accounts payable, electronically recorded payables and short-term borrowings
Since these items are settled in a short period of time, their carrying value approximates fair value.

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

Derivative transactions
The fair value of interest rate swaps accounted for by the hedge accounting is included in the fair value of the related long-term debt, since such interest rate swaps are accounted for together with long-term debt as hedged items.
The fair value of interest rate swaps accounted for by the normal method is determined based on the price, etc. provided by the financial institutions.

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

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥1,065	¥1,065	$9,905

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, 2020 and 2019 were as follows:

As of May 31, 2020	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 3,291	¥ —	¥—	¥—
Trade notes and accounts receivable	13,940	194	—	—
Electronically recorded receivables	1,538	—	—	—
	¥18,770	¥194	¥—	¥—

As of May 31, 2020	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	$ 30,608	$ —	$—	$—
Trade notes and accounts receivable	129,641	1,811	—	—
Electronically recorded receivables	14,307	—	—	—
	$174,557	$1,811	$—	$—

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	¥ 2,237	¥ —	¥—	¥—
Trade notes and accounts receivable	13,881	311	—	—
Electronically recorded receivables	1,443	—	—	—
	¥17,562	¥311	¥—	¥—

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

Note 17. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2020	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds acquisition cost:			
Stock	¥14,218	¥5,868	¥8,349
Subtotal	¥14,218	¥5,868	¥8,349
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 151	¥ 229	¥ (78)
Subtotal	¥ 151	¥ 229	¥ (78)
Total	¥14,369	¥6,098	¥8,271

As of May 31, 2020	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities for which carrying value exceeds acquisition cost:			
Stock	$132,226	$54,579	$77,646
Subtotal	$132,226	$54,579	$77,646
Securities for which acquisition cost exceeds carrying value:			
Stock	$ 1,407	$ 2,135	$ (727)
Subtotal	$ 1,407	$ 2,135	$ (727)
Total	$133,634	$56,715	$76,919

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, 2019	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds their acquisition cost:			
Stock	¥16,594	¥6,188	¥10,405
Subtotal	¥16,594	¥6,188	¥10,405
Securities for which acquisition cost exceeds their carrying value:			
Stock	¥ 196	¥ 231	¥ (35)
Subtotal	¥ 196	¥ 231	¥ (35)
Total	¥16,790	¥6,420	¥10,370

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, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥780	¥1,556	$7,256
Gain on sales	447	804	4,163
Loss on sales	—	—	—

Note 18. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2020 and 2019 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥3,293	¥2,240	$30,632
Cash and cash equivalents	¥3,293	¥2,240	$30,632

Note 19. Derivative Transactions

Hedging policies

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

Types and purpose of derivative transactions

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

Derivative transactions to which hedge accounting is not applied:

As of May 31, 2020 and 2019, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

As of May 31, 2020	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	¥32	¥—	Note

As of May 31, 2020	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	$297	$—	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, 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

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 20. 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, 2020						
	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	¥24,269	¥13,023	¥1,772	¥ 5	¥39,071	¥ —	¥39,071
Inter-segment sales and transfers	12	1	—	510	524	(524)	—
	24,282	13,024	1,772	516	39,595	(524)	39,071
Segment profit	¥ 2,474	¥ 1,008	¥ 460	¥ 5	¥ 3,948	¥ (2,880)	¥ 1,068
Segment assets	¥20,364	¥13,679	¥1,062	¥536	¥35,642	¥19,522	¥55,165
Other items:							
Depreciation	¥ 592	¥ 608	¥ 27	¥ 4	¥ 1,232	¥ 255	¥ 1,487
Capital expenditures	¥ 356	¥ 111	¥ 24	¥ 5	¥ 497	¥ 47	¥ 545

	For the year ended May 31, 2020						
	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	$225,700	$121,115	$16,486	$ 53	$363,355	$ —	$363,355
Inter-segment sales and transfers	118	10	—	4,746	4,874	(4,874)	—
	225,818	121,125	16,486	4,799	368,230	(4,874)	363,355
Segment profit	$ 23,008	$ 9,378	$ 4,278	$ 53	$ 36,719	$ (26,783)	$ 9,935
Segment assets	$189,385	$127,214	$ 9,880	$4,986	$331,467	$181,555	$513,022
Other items:							
Depreciation	$ 5,510	$ 5,661	$ 252	$ 41	$ 11,464	$ 2,371	$ 13,836
Capital expenditures	$ 3,315	$ 1,036	$ 226	$ 51	$ 4,629	$ 443	$ 5,072

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, 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	¥27,235	¥12,339	¥1,583	¥ 13	¥41,172	¥ —	¥41,172
Inter-segment sales and transfers	50	0	—	591	642	(642)	—
	27,285	12,340	1,583	605	41,814	(642)	41,172
Segment profit	¥ 2,427	¥ 650	¥ 290	¥ 34	¥ 3,401	¥ (2,843)	¥ 557
Segment assets	¥20,216	¥14,310	¥1,199	¥572	¥36,300	¥21,701	¥58,001
Other items:							
Depreciation	¥ 718	¥ 691	¥ 92	¥ 1	¥ 1,503	¥ 270	¥ 1,774
Capital expenditures	¥ 595	¥ 366	¥ 109	¥ 13	¥ 1,085	¥ 5	¥ 1,090

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, 2020 and 2019 were summarized as follows:

For the Years Ended	May 31, 2020	May 31, 2019	May 31, 2020
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥30,997	¥31,745	$288,272
China	4,282	3,663	39,823
Other	3,791	5,763	35,258
Consolidated	¥39,071	¥41,172	$363,355

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

Major customer information

Major customer information for the years ended May 31, 2020 and 2019 was omitted since there was no customer to whom sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

Note 21. Significant Subsequent Events

There were no significant subsequent events to be noted.

Note 22. Additional Information

In making accounting estimates such as impairment of property, plant and equipment, and recoverability of deferred tax assets, the Group has computed the amounts based on information available at the time of preparation of its consolidated financial statements. In computing those amounts, stable future cash flows obtained from continuous transactions with certain customers are used as significant assumptions in making such accounting estimates. The Group considers that the impacts from the spread of the new coronavirus infectious disease on the Group will continue for a certain period of time during the fiscal year ending May 31, 2021.

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Independent Auditor's Report

The Board of Directors
TOYO DENKI SEIZO K.K.

Opinion

We have audited the accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at May 31, 2020, and the consolidated statements of income, comprehensive loss, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at May 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditorsfor 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditorswith a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended May 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

August 27, 2020

磯貝 剛

Takeshi Isogai
Designated Engagement Partner
Certified Public Accountant

増田 晋一

Shinichi Masuda
Designated Engagement Partner
Certified Public Accountant