Financial Report

Financial Review

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

Results of Operation

Orders received YoY **+8.7%**	Orders received increased 8.7% compared with the previous fiscal year to 43,355 million yen due to an increase in orders received in the Transportation Systems segment, the Industrial Systems segment and the Information Equipment Systems segment.
Net sales YoY **+2.3%**	Net sales increased 2.3% compared with the previous fiscal year to 40,668 million yen due to an increase in the Transportation Systems segment and the Information Equipment Systems segment, despite a decrease in the Industrial Systems segment.
Profit/Loss Net Income attributable to owners of the parent YoY **+32.0%**	From a profit perspective, operating income decreased 4.1% compared with the previous fiscal year to 1,571 million yen due to decreased revenue in the Industrial Systems segment, despite increased revenue in the Transportation Systems segment and the Information Equipment Systems segment. However, ordinary income increased 11.5% compared with the previous fiscal year to 1,663 million yen due to a sharp decrease in foreign exchange losses, and net income attributable to owners of the parent increased 32.0% to 1,174 million yen.

Financial Position

Assets Total Assets **54,927 million yen**	Total assets as of May 31, 2017 stood at 54,927 million yen, an increase of 4,693 million yen compared with the end of the previous fiscal year. The increase in total assets was largely attributable to increases of 2,040 million yen in trade notes and accounts receivable, 3,261 million yen in property, plant and equipment and 758 million yen in investment securities.
Liabilities Total liabilities **30,324 million yen**	Total liabilities as of May 31, 2017 stood at 30,324 million yen, an increase of 3,767 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase in debts of 3,450 million yen.
Net Assets Total net assets **24,603 million yen**	Net assets as of May 31, 2017 stood at 24,603 million yen, an increase of 926 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase of 871 million yen from retained earnings and a 410 million yen increase in unrealized holding gain on available-for-sale securities.

Cash Flows

Cash flow from operating activities Net cash provided by operating activities **1,505 million yen**	Net cash provided by operating activities amounted to 1,505 million yen. A principal cash inflow was income before income taxes at 1,707 million yen, while a major cash outflow was depreciation and amortization at 801 million yen.
Cash flow from investing activities Net cash used in investing activities **4,691 million yen**	Net cash used in investing activities totaled 4,691 million yen, and mainly comprised funds used in for the purchases of property, plant and equipment at 3,901 million yen as well as funds used in for the purchases of intangible assets at 619 million yen.
Cash flow from financing activities Net cash provided by financing activities **2,868 million yen**	Net cash provided by financing activities was 2,868 million yen. A major cash inflow was an increase in long-term debt at 3,500 million yen, while a major cash outflow was purchases of treasury stock at 302 million yen.

Consolidated Balance Sheets

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

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

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

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

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net income	¥1,174	¥ 890	$10,582
Other comprehensive income (loss) (Note 14):			
Unrealized holding gain (loss) on securities	410	(1,848)	3,696
Translation adjustments	(12)	49	(106)
Retirement benefits liability adjustments	51	32	459
Share of other comprehensive loss of affiliates accounted for by the equity method	(109)	(48)	(989)
Total other comprehensive income (loss)	340	(1,815)	3,060
Comprehensive income (loss)	¥1,514	¥ (925)	$13,642
Comprehensive income (loss) attributable to:			
Owners of the parent	¥1,514	¥ (925)	$13,642
Non-controlling interests	—	—	—

See notes to consolidated financial statements.

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

	(Millions of yen)									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2015	¥4,998	¥3,178	¥ 8,698	¥(172)	¥16,702	¥ 8,317	¥ 260	¥(384)	¥ 8,193	¥24,895
Changes during the year										
Cash dividends paid	—	—	(289)	—	(289)	—	—	—	—	(289)
Net income attributable to owners of the parent	—	—	890	—	890	—	—	—	—	890
Purchase of treasury stock	—	—	—	(4)	(4)	—	—	—	—	(4)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(1,848)	1	32	(1,815)	(1,815)
Total changes during the year	—	—	601	(4)	597	(1,848)	1	32	(1,815)	(1,218)
Balance as of May 31, 2016	¥4,998	¥3,178	¥ 9,299	¥(176)	¥17,299	¥ 6,469	¥ 261	¥(352)	¥ 6,378	¥23,677
Balance as of June 1, 2016	¥4,998	¥3,178	¥ 9,299	¥(176)	¥17,299	¥ 6,469	¥ 261	¥(352)	¥ 6,378	¥23,677
Changes during the year										
Cash dividends paid	—	—	(289)	—	(289)	—	—	—	—	(289)
Net income attributable to owners of the parent	—	—	1,174	—	1,174	—	—	—	—	1,174
Change in scope of equity method application			(14)		(14)					(14)
Purchase of treasury stock	—	—	—	(302)	(302)	—	—	—	—	(302)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	411	(104)	51	358	358
Total changes during the year	—	—	871	(302)	569	411	(104)	51	358	927
Balance as of May 31, 2017	¥4,998	¥3,178	¥10,170	¥(478)	¥17,868	¥ 6,880	¥ 157	¥(301)	¥ 6,736	¥24,604

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

See notes to consolidated financial statements.

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

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. (the "Company") and consolidated subsidiaries (collectively the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements included the accounts of the Company and any significant companies controlled directly or indirectly by the Company.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. The Company applies the "Practical Solution of Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using Equity Method" (PITF No. 24). In accordance with these PITF, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including goodwill, actuarial differences and capitalized development costs.

As of May 31, 2017, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 2 in 2016). Beijing Jingche Shuangyang Traction System Co., Ltd. which was not accounted for by the equity method in the fiscal year ended May 31, 2016, is accounted for by the equity method from the fiscal year ended May 31, 2017 due to its increased importance. A subsidiary, TOYO DENKI USA, INC., whose fiscal year end is December 31, is consolidated by using their pro forma financial statements as of March 31 which are prepared solely for consolidation purposes and necessary adjustments are made to their financial statements to reflect any significant transactions from April 1 to May 31. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates which are neither consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

(c) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments in the consolidated financial statements.

(d) Cash and Cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less from the date of purchase, which can easily be converted to cash and are subject to little risk of change in value.

(e) Inventories

Inventories are stated principally at the lower of cost or market, cost being determined principally by the specific identification method for finished products and work in process and by the moving average cost method for raw material and supplies.

(f) Short-term investments and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities (available-for-sale securities). Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Available-for-sale securities with market quotation are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Available-for-sale securities without market quotation are carried at cost. Cost of securities sold is determined by the moving average method.

(g) Property, plant and equipment (except for leased assets) and depreciation
Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value, while buildings except for facilities attached to buildings acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after June 1, 2016 are depreciated by the straight-line method. The estimated useful lives of these assets are as follows:

Buildings and structures:	8 to 60 years
Machinery and vehicles:	3 to 12 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

(h) Intangible assets (except for leased assets)
Intangible assets are amortized using the straight-line method. Software for internal use is amortized over the internal available period (5 years) using the straight-line method.

(i) Leases
Leased assets capitalized under the finance lease arrangements which do not transfer ownership to the lessee are depreciated over the lease period without any residual value using the straight-line method.

All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

(j) Allowance for doubtful accounts
Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

(k) Accrued directors' bonuses
Accrued directors' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future for the performance incentive bonuses.

(l) Accrued employees' bonuses
Accrued employees' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future.

(m) Reserve for losses on order acknowledgements
Reserve for losses on order acknowledgements is provided based on the amounts expected to be incurred during the current fiscal year and which are able to estimate the losses reasonably to cover the future losses on order acknowledgements. Provision of reserve for losses on order acknowledgements in the amounts of ¥70 million ($628 thousand) and ¥1 million is included in cost of sales for the years ended May 31, 2017 and 2016, respectively.

(n) Retirement benefits
Retirement benefit obligation is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Prior service cost is amortized as incurred by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.

Actuarial differences are amortized in the year following the year in which gain or loss is recognized primarily by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.

(o) Income taxes
Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(p) Construction revenue and costs
Construction revenue and construction costs are recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The percentage of completion is measured based on the percentage of the costs incurred to the estimated total costs. For other construction contracts, the completed-contract method is applied.

(q) Research and development expenses
Research and development expenses are charged to income when incurred.

(r) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(s) Derivative financial instruments
The Company and certain consolidated subsidiaries enter into various derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for these which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Deferred hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions and hedged items are primarily interest on debts. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same.

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

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

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

4. U.S. Dollar Amounts
The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥110.96=U.S.$1, the approximate rate of exchange prevailing at May 31, 2017. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

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

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

Inventories are stated at the lower of cost or market and the Company recognized losses on write-down of inventories held for the ordinary sales purpose due to a decline in profitability in the amount of ¥11 million ($103 thousand) and ¥(205) million for the years ended May 31, 2017 and 2016, respectively. These amounts were included in "Cost of sales."

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

As of	May 31, 2017	May 31, 2016	May 31, 2017
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished products	¥46	¥ 4	$413
Work in process	41	68	375
	¥87	¥72	$788

6. Property, Plant and Equipment

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

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

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

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

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

7. Investments and Other Assets

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

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

8. Short-Term Borrowings and Long-Term Debt

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

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

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

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

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

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

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

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

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

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

The following assets included in the above are set by factory foundation fixed collateral security:

As of May 31	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures	¥1,759	$15,852
Machinery and vehicles	612	5,515
Other property, plant and equipment	346	3,118
	¥2,717	$24,485

9. Retirement Benefit Plans

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

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

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

The changes in the retirement benefit obligation during the years ended May 31, 2017 and 2016 are as follows:

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

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

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

Note: The plan adopting the simplified method is included.

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

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

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

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

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

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

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

For the Years Ended	May 31, 2017	May 31, 2016
Discount rate	0.4%	0.4%

Note: The Company does not use the expected rate of salary increase in computing retirement benefit obligation since the Company adopts the point system.

The amounts of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries were ¥117 million ($1,057 thousand) and ¥115 million for the years ended May 31, 2017 and 2016, respectively.

10. Net Assets

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

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2017

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

Notes: 1. The Company implemented a share consolidation of 5 shares of common stock into 1 share of common stock on December 1, 2016.
2. The decrease in the number of shares of common stock issued is due to the share consolidation.
Details of the changes in common stock under treasury stock are as the following:
Increase due to purchase of shares of less than standard unit before the share consolidation: 3,529 shares
Increase due to purchase of shares of less than standard unit after the share consolidation: 768 shares
Increase due to purchase of treasury stock based on the resolution of the Board of Directors' meeting: 952,000 shares
Decrease is due to the share consolidation.

For the year ended May 31, 2016

Type of shares	Number of shares as of June 1, 2015	Increase	Decrease	Number of shares as of May 31, 2016
	(Shares)			
Shares issued:				
Common stock	48,675,000	—	—	48,675,000
Treasury stock:				
Common stock	484,737	8,741	—	493,478

Note:
Detail of the increase is as the following:
Increase due to purchase of shares of less than standard unit 8,741 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2017

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 26, 2016	Common stock	¥289	$2,605	¥6.00	$0.05	May 31, 2016	August 29, 2016

For the year ended May 31, 2016

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 27, 2015	Common stock	¥289	¥6.00	May 31, 2015	August 28, 2015

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

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 29, 2017	Common stock	¥283	$2,553	Retained earnings	¥30.00	$0.27	May 31, 2017	August 30, 2017

11. Selling, General and Administrative Expenses

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

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

12. Special Gains (Losses), Net

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

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

13. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.9% and 33.1% for the years ended May 31, 2017 and 2016, respectively. Income taxes of a foreign consolidated subsidiary are based generally on the tax rates applicable in the country of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the year ended May 31, 2017 is omitted since the difference was less than 5% of the effective statutory tax rate.

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

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

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

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

14. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended May 31, 2017 and 2016:

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

15. Lease Transactions

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

16. Contingent Liabilities

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

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

17. Amounts Per Share

For the Years Ended	May 31, 2017 (Yen)	May 31, 2016 (Yen)	May 31, 2017 (U.S. dollars)
Net income:			
Basic	¥123.87	¥92.33	$1.12

As of	May 31, 2017 (Yen)	May 31, 2016 (Yen)	May 31, 2017 (U.S. dollars)
Net assets	¥2,605.09	¥2,457.05	$23.48

Notes: 1. Diluted net income per share is omitted since there is no dilution of equity.
2. The Company implemented a share consolidation of 5 shares of common stock into 1 share of common stock on December 1, 2016. Accordingly, above amounts per share are computed as if the share consolidation had been implemented at the beginning of the fiscal year ended May 31, 2016.

The bases for calculation are as follows:

Basic net income per share

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

18. Financial Instruments

Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

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

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

Regarding hedging instruments and hedged items in hedge accounting, hedging policy, and assessment of the effectiveness of hedging activities, etc., please see Note 1(s) “Derivative financial instruments.”

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

Investment securities are composed of mainly the shares of common stock of highly rated companies with which the Group has business relationships. Accordingly, the Group believes that the credit risk deriving from such investment securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

(b) Monitoring of market risks (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Group utilizes interest rate swap transactions to reduce interest rate fluctuation risk on long-term debt.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions. Monthly reports including actual transactions data are submitted to the Board of Directors for their review.

(c) Monitoring of liquidation risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidation risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 21, Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of May 31, 2017 and 2016 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below):

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

As of May 31, 2017	Carrying value	Fair value	Difference
		(Thousands of U.S. dollars)	
Assets			
1) Cash on hand and in banks	$ 18,846	$ 18,846	$ —
2) Trade notes and accounts receivable	142,673	142,673	—
3) Electronically recorded receivables	4,792	4,792	—
4) Investment securities	155,089	155,089	—
Total assets	$321,400	$321,400	$ —
Liabilities			
5) Trade notes and accounts payable	$ 30,161	$ 30,161	$ —
6) Electronically recorded payables	49,468	49,468	—
7) Short-term borrowings	8,721	8,721	—
8) Long-term debt	97,224	97,361	137
Total liabilities	$185,574	$185,711	$137
9) Derivative transactions*	$ —	$ —	$ —

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

As of May 31, 2016	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
1) Cash on hand and in banks	¥ 2,401	¥ 2,401	¥ —
2) Trade notes and accounts receivable	13,790	13,790	—
3) Electronically recorded receivables	966	966	—
4) Investment securities	16,757	16,757	—
Total assets	¥33,914	¥33,914	¥ —
Liabilities			
5) Trade notes and accounts payable	¥ 3,743	¥ 3,743	¥ —
6) Electronically recorded payables	5,278	5,278	—
7) Short-term borrowings	666	666	—
8) Long-term debt	7,640	7,724	84
Total liabilities	¥17,327	¥17,411	¥ 84
9) Derivative transactions*	¥ 43	¥ 43	¥ —

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

Notes:

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

Assets:

Cash on hand and in banks, trade notes and accounts receivable and electronically recorded receivables

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

However, if they are settled in a long period of time, the fair value of receivables is based on the present value of the receivables classified by definite periods discounted using interest rates on the corresponding period until settlement.

Investment securities

The fair value of stocks is based on quoted market prices. Investment securities held by the Group are classified as available-for-sale securities and please see Note 19 "Securities."

Liabilities:

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

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

Long-term debt

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

Derivative transactions

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

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

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

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

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

3. Redemption schedule for receivables and securities with maturities at May 31, 2017 and 2016 are as follows:

As of May 31, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 2,088	¥ —	¥—	¥—
Trade notes and accounts receivable	15,012	819	—	—
Electronically recorded receivables	532	—	—	—
	¥17,632	¥819	¥—	¥—

As of May 31, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Thousands of U.S. dollars)			
Cash on hand and in banks	$ 18,817	$ —	$—	$—
Trade notes and accounts receivable	135,290	7,383	—	—
Electronically recorded receivables	4,792	—	—	—
	$158,899	$7,383	$—	$—

As of May 31, 2016	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 2,398	¥ —	¥—	¥—
Trade notes and accounts receivable	12,942	848	—	—
Electronically recorded receivables	966	—	—	—
	¥16,306	¥848	¥—	¥—

4. The redemption schedule for long-term debt is disclosed in Note 8.

19. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2017	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥17,209	¥7,280	¥9,929
Subtotal	¥17,209	¥7,280	¥9,929
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ —	¥ —	¥ —
Subtotal	¥ —	¥ —	¥ —
Total	¥17,209	¥7,280	¥9,929

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

Notes: 1. Unlisted stocks are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.
2. Acquisition cost in the above table represents carrying value reflecting impairment losses.
If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

As of May 31, 2016	Carrying value	Acquisition cost	Unrealized Gain (Loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥16,744	¥7,416	¥9,328
Subtotal	¥16,744	¥7,416	¥9,328
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 13	¥ 15	¥ (2)
Subtotal	¥ 13	¥ 15	¥ (2)
Total	¥16,757	¥7,431	¥9,326

Notes: 1. Unlisted stocks are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.
2. Acquisition cost in the above table represents carrying value reflecting impairment losses.
If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

Information regarding available-for-sale securities sold

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

20. Supplementary Cash Flow Information

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

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

21. Derivative Transactions

Hedging policies

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

Types and purpose of derivative transactions

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

Derivative transactions to which hedge accounting is not applied:

Currency-related derivatives:

As of May 31, 2017, there were no currency-related derivatives.

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

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

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

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

As of May 31, 2017	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	$64,239	$28,983	Note

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

As of May 31, 2016	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Millions of yen)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥7,360	¥7,128	Note

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

22. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group establishes business units by product and each business unit designs domestic and overseas comprehensive strategies for its products and is developing business activities. Accordingly, the Group consists of the three reportable segments by product based on the business units, which are Transportation Systems, Industrial Systems and Information Equipment Systems.

The accounting policies of the segments are substantially same as those described in the significant accounting policies in Note 1. Segment profit is evaluated based on operating income.

Inter-segment sales are recorded at the same prices used in transactions with third parties.

For the year ended May 31, 2017 (Millions of yen)

	Reportable segments: Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥28,200	¥11,073	¥1,388	¥ 7	¥40,668	¥ —	¥40,668
Inter-segment sales and transfers	38	3	—	672	713	(713)	—
	28,238	11,076	1,388	679	41,381	(713)	40,668
Segment profit	¥ 3,079	¥ 747	¥ 305	¥ 60	¥ 4,191	¥(2,619)	¥ 1,572
Segment assets	¥19,926	¥11,791	¥ 817	¥601	¥33,135	¥21,793	¥54,928
Other items:							
Depreciation	¥ 516	¥ 172	¥ 18	¥ 1	¥ 707	¥ 95	¥ 802
Capital expenditures	¥ 518	¥ 3,520	¥ 21	¥ 3	¥ 4,062	¥ 544	¥ 4,606

For the year ended May 31, 2017 (Thousands of U.S. dollars)

	Reportable segments: Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	$254,142	$ 99,795	$12,512	$ 62	$366,511	$ —	$366,511
Inter-segment sales and transfers	345	28	—	6,050	6,423	(6,423)	—
	254,487	99,823	12,512	6,112	372,934	(6,423)	366,511
Segment profit	$ 27,749	$ 6,734	$ 2,747	$ 538	$ 37,768	$(23,602)	$ 14,166
Segment assets	$179,581	$106,258	$ 7,363	$5,415	$298,617	$196,406	$495,023
Other items:							
Depreciation	$ 4,649	$ 1,547	$ 168	$ 7	$ 6,371	$ 857	$ 7,228
Capital expenditures	$ 4,668	$ 31,724	$ 190	$ 25	$ 36,607	$ 4,906	$ 41,513

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

For the year ended May 31, 2016 (Millions of yen)

	Reportable segments: Transportation Systems	Industrial Systems	Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥26,758	¥12,027	¥955	¥ 6	¥39,746	¥ —	¥39,746
Inter-segment sales and transfers	30	4	—	597	631	(631)	—
	26,788	12,031	955	603	40,377	(631)	39,746
Segment profit	¥ 2,965	¥ 1,020	¥ 96	¥ 31	¥ 4,112	¥(2,473)	¥ 1,639
Segment assets	¥19,605	¥ 8,035	¥587	¥569	¥28,796	¥21,438	¥50,234
Other items:							
Depreciation	¥ 550	¥ 151	¥ 20	¥ 1	¥ 722	¥ 129	¥ 851
Capital expenditures	¥ 470	¥ 126	¥ 12	¥ 0	¥ 608	¥ 295	¥ 903

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

Geographical information

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended May 31, 2017 and 2016 are summarized as follows:

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

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

Major customer information

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

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

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

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

23. Significant Subsequent Events

There were no significant subsequent events to be noted.

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Independent Auditor's Report

The Board of Directors
TOYO DENKI SEIZO K.K.

We have audited the accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at May 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries as at May 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

August 30, 2017
Tokyo, Japan