

ANNUAL REPORT 2017

YEAR ENDED MAY 31, 2017



Suminoe Textile Co., Ltd.

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Suminoe Textile Co., Ltd.

History

Suminoe Textile supplied carpet to various major architectural structures during the Meiji era. We have thus advanced together with Japan from its start as a modern nation.

Meiji Era **1883**

At the age of 35 founder Denshichi Murata purchased 3 looms in 1883 and began manufacturing carpets.



1896

Successful production of hand-woven moquette in 1896, adopted by Japan National Railways for seat covering in 1899.



Showa Era **1930**

Suminoe Textile Co., Ltd. is established.

1949

Shares listed on the Tokyo, Osaka, and Kyoto stock exchanges.

1980

Nara Factory began production of Japan's first carpet tiles.



Company Purpose

We contribute to the improvement of society through production, sales of good products and prosperity of business.

Company Motto

We pride ourselves as a pioneer in the interior design and furnishing industry and persist in the spirit of cooperation, sincerity and resolution.

1998

TRIPLE FRESH® deodorant treatment technology developed.



2005

Subsidiary, SPM Automotive Textile Co., Ltd. is jointly established in China.

2011

ECOS® Recycled Carpet Tiles New Release.



2013

Consolidate Suminoe Koka Co., Ltd. and Suminoe Nara Co., Ltd., Suminoe Techno Co., Ltd. is established. Suminoe Textile de Mexico, S.A. de C.V. is established in Mexico. PT. Suminoe Surya Techno is established in Indonesia.



100th Anniversary

We celebrated the 130th anniversary of our founding and the 100th anniversary of our incorporation.

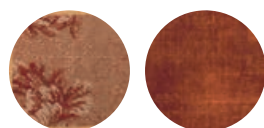
Taisho Era **1913**

Suminoe Textile Joint-Stock Company is established.



1891

In 1891, Suminoe Textile supplied carpet for the establishment of Japan's Imperial Diet Building in Hibiya. We have been serving as its supplier for 120 years since then.



Heisei Era **1994**

Current subsidiary, T.C.H.Suminoe Co., Ltd. is jointly established in Thailand.

2003

Suminoe Textile of America Corporation is established in the U.S. Current subsidiary, Suzhou Suminoe Textiles Co., Ltd. is established in China. Current subsidiary, Suzhou Suminoe Koide Automotive Accessories Co., Ltd. is jointly established in China. Current subsidiary, PT.Sinar Suminoe Indonesia is jointly established in Indonesia.

2010

Subsidiary, Suminoe Teijin Techno Krishna India Pvt. Ltd. is jointly established in India. Suminoe Textile Shanghai Co., Ltd. is established in China.

2012

ECOS® became the first product to obtain Eco Mark certification under the new certification criteria.

2015

Acquired Bondtex, Inc. and made it a consolidated subsidiary.

We are aiming for the creation of a globally optimized supply system.

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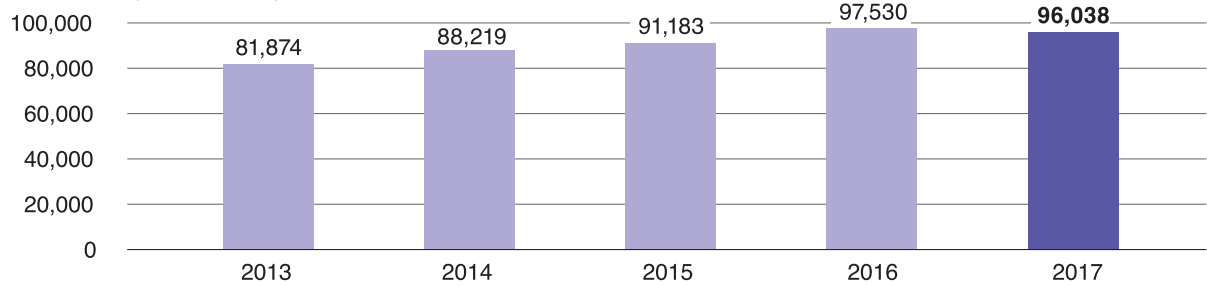
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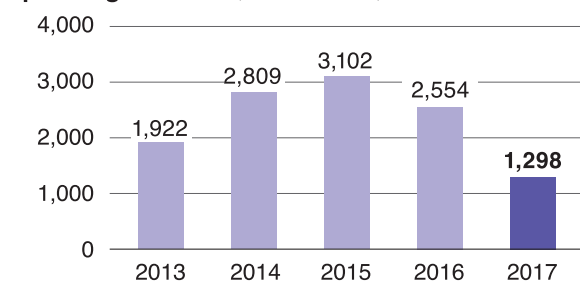
	Millions of Yen					Thousands of U.S.Dollars
	2017	2016	2015	2014	2013	2017
For the Year:						
Net Sales	¥96,038	¥97,530	¥91,183	¥88,219	¥81,874	\$865,207
Operating Income	1,298	2,554	3,102	2,809	1,922	11,694
Net Income Attributable to Owners of the Parent	26	245	1,816	1,969	1,046	234
At Year-End:						
Total Assets	¥90,255	¥86,878	¥90,126	¥85,841	¥79,902	\$813,108
Total Equity	37,399	37,178	39,205	34,571	32,267	336,928
Per Share (Yen and U.S. dollars):						
Net Income Attributable to Owners of the Parent	¥0.35	¥3.25	¥24.07	¥26.09	¥13.85	\$0.00
Shareholder's Equity	441.23	441.61	466.15	409.77	385.46	3.98
Cash dividends applicable to the year	7.00	7.00	6.00	6.00	5.00	0.06
Financial Ratios (%) :						
Equity Ratio	36.9%	38.3%	39.0%	36.0%	36.4%	
ROE (Net Income Attributable to Owners of the Parent Base)	0.1	0.7	5.5	6.6	3.8	
ROA (Ordinary Income Base)	1.5	3.3	4.2	4.1	2.9	

Notes:1. U.S. dollar amounts are converted from Japanese yen amounts at the rate of U.S.\$1 to ¥111, the approximate rate on May 31, 2017.
Notes:2. Net income attributable to owners of the parent per share of common stock is computed based on the weighted average number of shares outstanding.

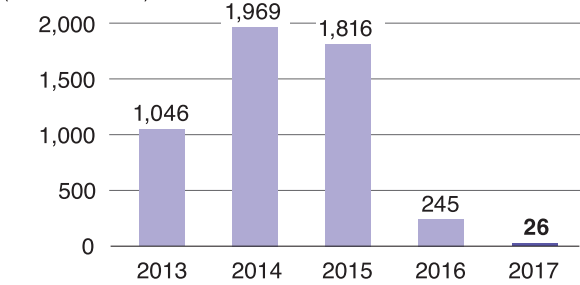
Net Sales (Millions of Yen)



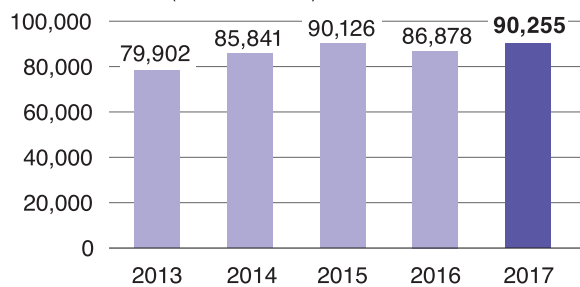
Operating Income (Millions of Yen)



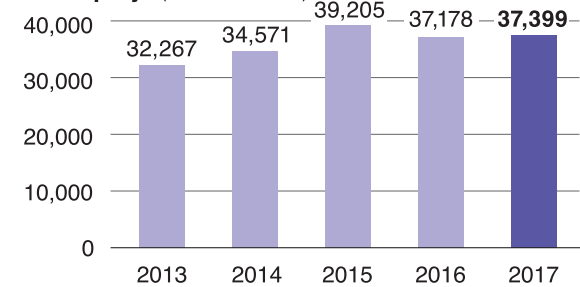
Net Income Attributable to Owners of the Parent (Millions of Yen)



Total Assets (Millions of Yen)



Total Equity (Millions of Yen)



Chairman and President
Ichizo Yoshikawa 吉川 一三

Consolidated Financial Result

During the consolidated fiscal year ended May 31, 2017 under review, the Japanese economy saw consumer spending lose momentum, although the employment and income environment gradually improved due to the government's economic policy, and the growth of corporate earnings stagnated due to the further appreciation of the yen. The global economy continued to be unstable and uncertain, due to economic slowdown in emerging countries in Asia, including China, Brexit (the U.K.'s withdrawal from the E.U.), and policy developments under a new administration in the U.S.

Meanwhile, Suminoe Textile substantially postponed the announcement of financial results for the previous year and the first quarter of the current year due to improper accounting treatments by Suminoe Textile of America Corporation (STA), a subsidiary in U.S. We deeply apologize for the inconvenience and anxiety caused to all our shareholders and other parties concerned including our customers and business partners. We are determined to thoroughly implement measures to prevent the recurrence of such improper accounting to become a valuable enterprise that is needed by society.

In the current fiscal year, sales decreased from the previous year due to the yen's appreciation. On the other hand, operating income, ordinary income, and net income attributable to owners

of the parent declined over the last year due to the following factors: expenses were incurred by STA for measures to prevent the recurrence of improper accounting and for improving productivity; expenses were incurred by us for relocating our offices and distribution center due to seismic retrofitting of our head office building; and share of profit of entities accounted for using equity method and real estate rent decreased.

Consequently, our consolidated net sales for the fiscal year under review were ¥96,038 million (U.S.\$865,207 thousand, down 1.5% year-on-year), with operating income, ordinary income and net income attributable to owners of parent of ¥1,298 million (U.S.\$11,694 thousand, down 49.2%), ¥1,365 million (U.S.\$12,293 thousand, down 52.7%), and ¥26 million (U.S.\$234 thousand, down 89.2%), respectively.

Consolidated Financial Results & Targets

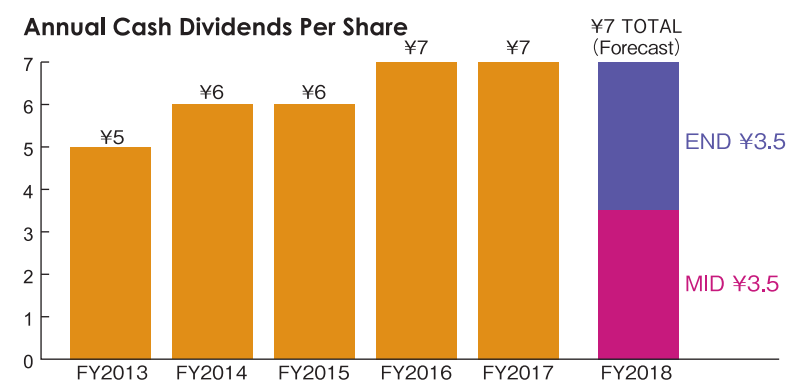
	2018 (Target)	2017 (Result)	2016 (Result)
Net Sales	¥97,500	¥ 96,038 \$865,207	¥ 97,530 \$878,649
Operating Income	¥ 2,800	¥ 1,298 \$ 11,694	¥ 2,554 \$ 23,009
Net Income Attributable to Owners of the Parent	¥ 1,500	¥ 26 \$ 234	¥ 245 \$ 2,207
Exchange Rate(Yen)	—	U.S.\$1=¥111	U.S.\$1=¥111

¥ : Millions of Yen \$: Thousands of U.S. Dollars

Dividend Policy

The Company has positioned shareholder return as a key management issue and distributes profits appropriately by taking into account stable dividend payments and business results. Based on this basic dividend policy, for this fiscal year, we have paid an annual dividend of ¥7.0 (U.S.\$0.06) per share (¥3.5 (U.S.\$0.03) per share for both year-end and interim dividends).

In addition, it plans to pay an annual dividend of ¥7.0 per share (an interim dividend of ¥3.5 and year-end dividend of ¥3.5) for the fiscal year ending May 2018.



Outlook for the Next Term

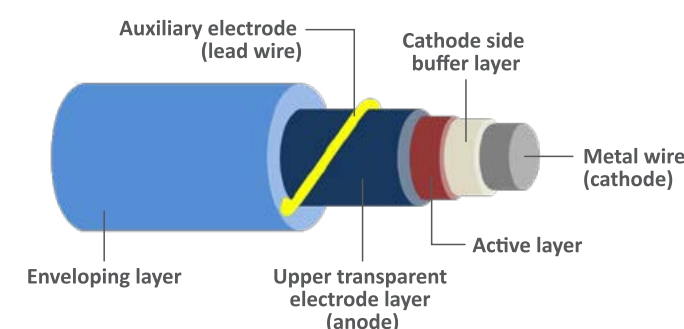
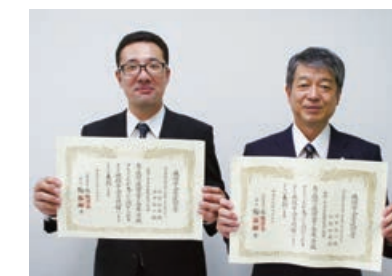
The fiscal year ending May 31, 2018 was scheduled to be the last year of “Advance Ahead 2018,” our three-year medium-term management plan, which started in June 2015. However, we reviewed the plan and formulated our 5th three-year medium-term management plan, “2020,” which started in June 2017, because the business environment had fundamentally changed. In FY2018, the initial year of our new management plan, we forecast sales and operating income to increase from FY2017, since the Interior Fittings and Automotive Textiles and Traffic Facilities Segments are expected to perform steadily. In addition, we project that operating income, ordinary income and net income attributable to

owners of the parent will be pushed up because there will be no special factors like those which weighed on FY2017, including expenses for measures to prevent the recurrence of improper accounting by STA and expenses for relocating our offices and distribution center due to seismic retrofitting of our head office building. Considering these circumstances, we plan to post net sales of ¥97,500 million, operating income of ¥2,800 million, ordinary income of ¥2,950 million, and net income attributable to owners of the parent of ¥1,500 million for the fiscal year ending May 31, 2018.

Winning the Technology Award of the Society of Fiber Science and Technology, Japan for Development of a Textile Solar Cell

In June 2017, two engineers of the Company’s Technical Center received the Technology Award of The Society of Fiber Science and Technology, Japan, for the development of a new type of textile solar cell. This award is presented to an individual or group that has conducted studies of significance, developed new inventions, or contributed to developments in the fiber industry. It has two sections, engineering and marketing. The two Suminoe employees were honored in the engineering section.

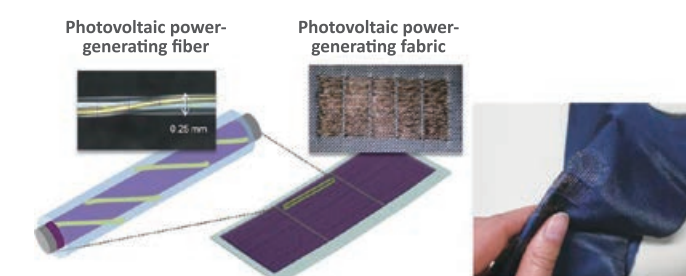
Textile solar cells use photovoltaic power-generating fiber. They are expected to be in demand as a stand-alone power source for indoor environment sensors or biological information sensors, despite their small power output capacity of 150 μW per 10 cm².



Structure of a fiber solar cell

Toward realizing commercial application of these textile solar cells, Suminoe Textile is working on joint development projects with various companies regardless of the type and field of industry, under the concept of open innovation.

These textile solar cells can find a wide variety of applications in our everyday life. For example, if embedded in curtains or other interior goods, they can be used as a power source for sensors for indoor environments to measure humidity, temperature, illuminance, CO₂, etc. Or if embedded in clothing or hats, taking advantage of their wearable function, together with biological information sensors, they may be used in nursing care and medicine, and also for monitoring health during exercise.



Textile solar cell

Three-Year Medium-Term Management Plan “2020”

This fiscal year was scheduled to be the last year of “Advance Ahead 2018,” the three-year medium-term management plan of Suminoe Textile Co., Ltd., which started in June 2015. However, the Company has reviewed the plan and formulated a new plan, since its business environment had fundamentally changed. The management is pleased to announce the formulation of its 5th three-year medium-term management plan, “2020,” which started in June 2017.

Summary

As a result of improper accounting treatments by Suminoe Textile of America Corporation (STA), its subsidiary in the U.S., Suminoe Textile experienced a series of negative events unprecedented since its foundation, including a substantial delay in announcement of financial results for the fiscal year ended May 2016, retrospective adjustment of financial statements for the prior four accounting periods, a delay in announcement of financial results for the first quarter of the fiscal year ended May 2017, and incurrence of expenses for preventing the recurrence of inappropriate accounting. Under its 5th three-year medium-term management plan, reflecting on STA’s improper accounting treatments, the Company will focus not only on expanding its business but also on thoroughly implementing measures to prevent the recurrence of improper accounting treatments, such as strengthening compliance with rules and laws, reviewing its management system, and restructuring its main system.

Themes	<ul style="list-style-type: none">• Restructuring of corporate governance• Growth of business
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Restructuring of Corporate Governance

Suminoe Textile believes that not only the growth of business but also fair business activities and transparent organizational operation based on corporate ethics are essential for the continuation of an enterprise. In the fiscal year ended May 2017, the Company invited outside experts, and the Recurrence Prevention Committee formulated a medium- and long-term plan for thorough compliance with rules and laws. Under its new three-year medium-term management plan, the Company will implement the following measures according to the roadmap.

(i) Review of financial results management system	<ul style="list-style-type: none">• The Company will restructure its main system for the entire group and improve its information infrastructure for efficient and effective monitoring.• The Company will strengthen its management system for local firms and physical inventories including on-site inspections of overseas subsidiaries.
(ii) Restructuring internal control system	<ul style="list-style-type: none">• The Company will enhance the appropriateness and effectiveness of its internal control system by reconfirming the operation and improvement of the internal control system, disseminating the whistle blowing system, and upgrading auditing functions.• The Company will promote interactive in-house communication, through top management’s frequent visits to workplaces, the enhanced communications between the management and workplaces, and the identification of risk factors initiated by middle management.

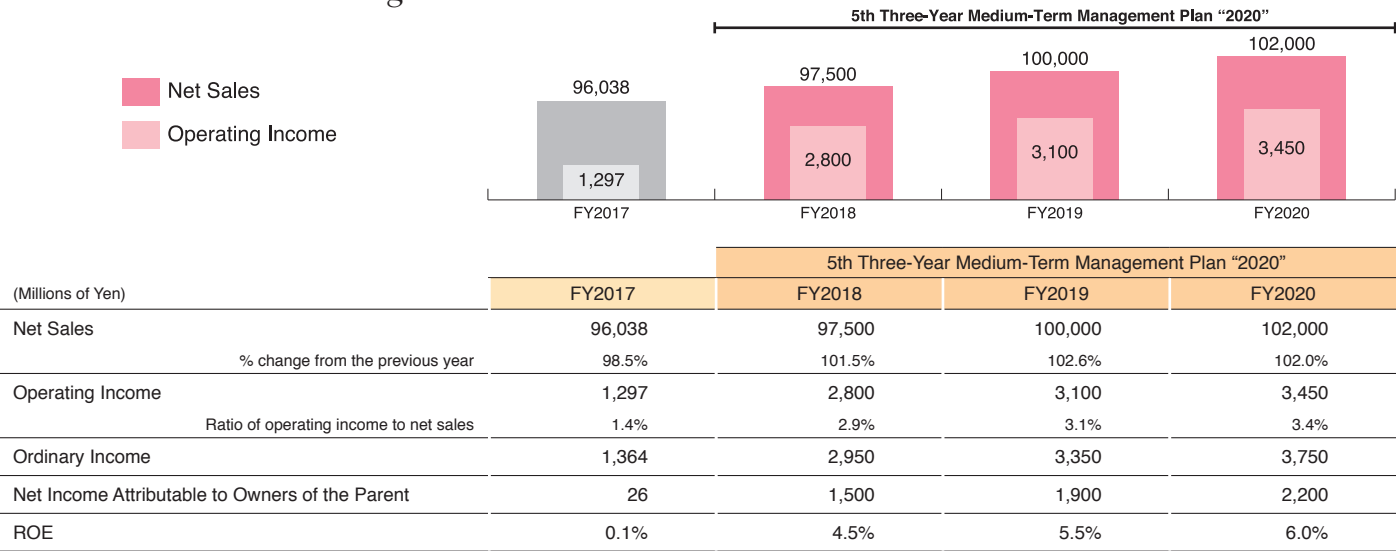
Growth of Business

In Japan, demand for the renovation of hotel rooms and remodeling of railway vehicles is expected to pick up in the short-term in preparation for the Tokyo 2020 Olympic and Paralympic Games. However, the market is forecast to shrink over the medium- and long-term because of the decreasing population, especially the decline in the working-age population caused by the falling birthrate. Overseas, the economies of emerging countries, mainly in the Asian region, are expected to continue to grow steadily. But, in recent years, the outlook for the global economy has become more uncertain, since protectionist political movements, which are rising in reaction to globalization, have cast a shadow over global economic activity.

Suminoe Textile will strengthen its foothold and wrestle with the undermentioned issues to grow business in the coming three years, since the management finds it difficult to expand business at home and abroad without a reform of the Company.

(i) Expansion of product lineups	<p>The Company will expand its product lineups for existing customers.</p> <ul style="list-style-type: none">• Expand the intake of orders for new automobile products and promote new components.• Expand sales of hard floor materials with high functionality and quality for the interior market that are scheduled to be launched in this fall.• Expand lineup of products for improvement of vehicle safety and ones with environmental performance including non-textile products.• Expand sales of all kinds of functional products through development of applications.
(ii) Strengthening of globalization	<p>The Company will horizontally promote existing business in the global market.</p> <ul style="list-style-type: none">• Expand the adoption of products in Japanese automobiles that are marketed globally.• Transplant know-how fostered in the domestic automotive textiles business to overseas subsidiaries.• Establish new cushion materials that satisfy combustion test standards of overseas railways.• Develop and export deodorizing filters that satisfy international standards.
(iii) Development and sales of high value-added products	<p>The Company will uncover needs, and develop and market high value-added products.</p> <ul style="list-style-type: none">• Expand sales of ECOS® at home and abroad, a recycled carpet tile, which has achieved one of the world’s highest material recycling rates (83%).• Produce small lots of a variety of products to meet diversified needs for general household carpets and curtains.• Add new functions to electric heating devices including electric carpets to develop and expand sales of differentiated products.• Develop new products using its film lamination technique.• Conduct research and development of smart fabrics.

Consolidated Numerical Targets



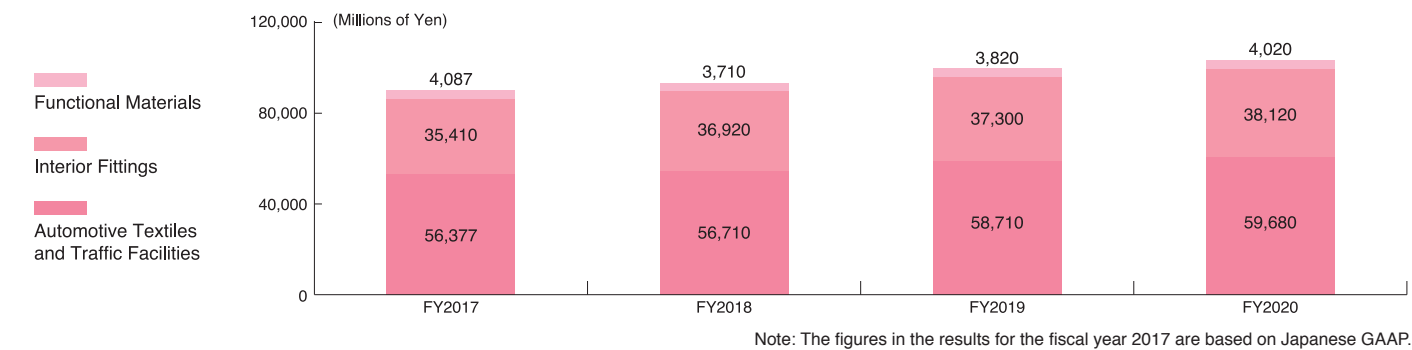
Note: The figures in the results for the fiscal year 2017 are based on Japanese GAAP.

In the medium- and long-term, the Company aims to achieve the following targets: ratio of operating income to net sales of 5% or higher and ROE of 8.5% or higher.

Targets of Each Business Segment

The Company has set the following targets for its main businesses.

Net Sales by Business Segment



Automotive Textiles and Traffic Facilities Segment

In the area of automotive textiles	<p>The Company will strengthen its internal control system including at its overseas bases to steadily promote global expansion.</p> <ul style="list-style-type: none"> Expand the intake of orders for new components and materials to promote the diversification of its business. Transplant know-how fostered in Japan to overseas subsidiaries with the aim for improving their quality, cost competitiveness, and delivery systems (QCD).
In the area of traffic facilities	<p>The Company will develop and expand sales of new products, including products for improvement of vehicle safety amid the growing demand for new vehicle production and remodeling of railway vehicles toward the Tokyo 2020 Olympic and Paralympic Games.</p>

(Millions of Yen)	5th Three-Year Medium-Term Management Plan “2020”			
	FY2017	FY2018	FY2019	FY2020
Net Sales	56,377	56,710	58,710	59,680
Operating Income	3,034	3,340	3,650	3,960

Note: The figures in the results for the fiscal year 2017 are based on Japanese GAAP.

Interior Fittings Segment

The Company will strive to improve profitability through enhancement of products and cost competitiveness.

- Actively capture demand from the construction of hotels toward the Tokyo 2020 Olympic and Paralympic Games.
- Strengthen the lineup of differentiated products to meet diversified needs for general household carpets and curtains.
- Expand sales of high value-added wall coverings to meet rising demand for home improvement.
- Promote sales through the Internet.
- Expand sales of hard floor materials with high functionality and quality for the interior market that are scheduled to be launched in this fall.

(Millions of Yen)	5th Three-Year Medium-Term Management Plan “2020”			
	FY2017	FY2018	FY2019	FY2020
Net Sales	35,410	36,920	37,300	38,120
Operating Income	720	620	640	670

Note: The figures in the results for the fiscal year 2017 are based on Japanese GAAP.

Functional Materials Segment

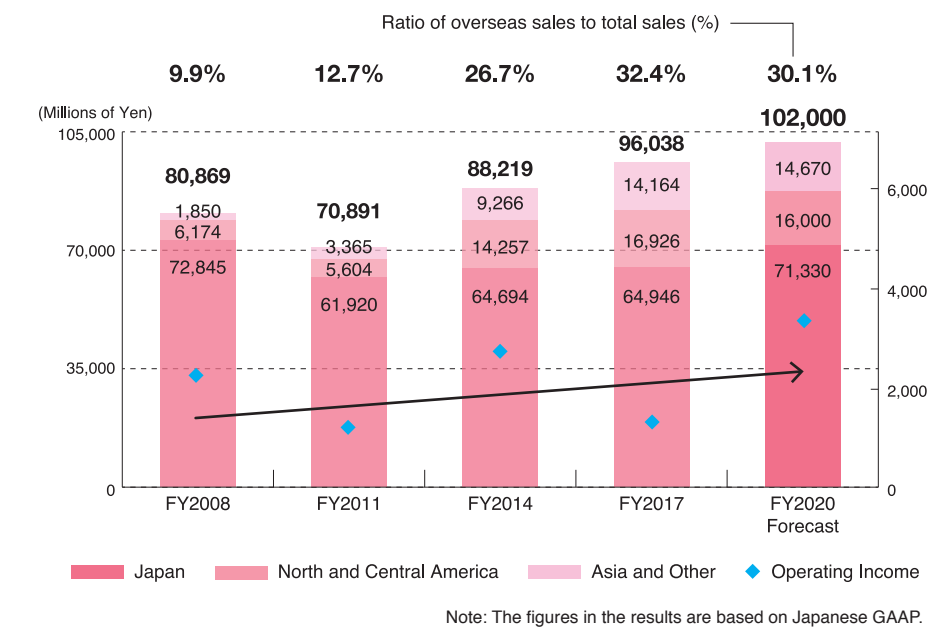
The Company will strengthen its existing businesses, while energetically exploring new markets both at home and abroad.

- Add new functions to electric heating devices including electric carpets to develop and expand sales of differentiated products.
- Develop and export deodorizing filters that satisfy international standards.
- Develop new products using its functional materials, and functional processing techniques, and film lamination techniques.
- Develop aircraft carpets that have international competitiveness with overseas marketing in view against the backdrop of the recent growing demand for air travel and freight around the world.
- Promote the functional food business.

	5th Three-Year Medium-Term Management Plan “2020”			
(Millions of Yen)	FY2017	FY2018	FY2019	FY2020
Net Sales	4,087	3,710	3,820	4,020
Operating Income	125	140	170	200

Note: The figures in the results for the fiscal year 2017 are based on Japanese GAAP.

Changes in Net Sales by Region



Net sales in Japan are projected to exceed 70,000 millions of yen, the level the Company recorded before the Lehman shock in September 2008.

With an eye toward overseas growth in the next period, the Company will restructure its main system to strengthen its foothold and to improve profitability.

The Company aims to achieve net sales of 100,000 millions of yen in the second year of its new management plan.

Capital Expenditure Plan

During the three-year period of its new management plan, the Company plans to invest 6,800 millions of yen in total to expand business and to restructure its main system.

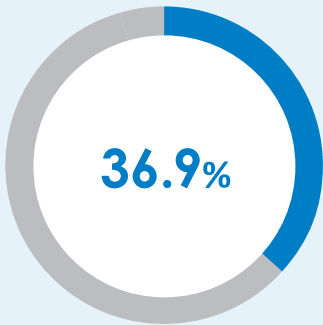
(Millions of Yen)	Japan	Overseas	IT
	3,100	2,200	1,500

The plan presented in this document was prepared on the basis of currently foreseeable and reasonable prospects. Actual results may differ from the plan, due to various factors.

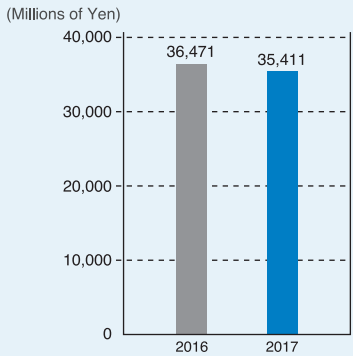
Interior
Fittings

▶ P 13

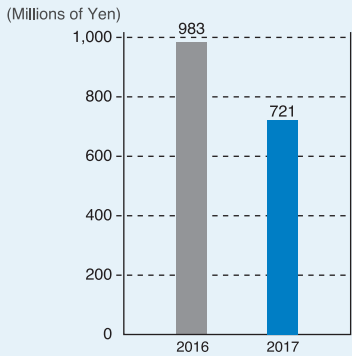
Contribution to Total Net Sales



Net Sales



Operating Income



Roll Carpets



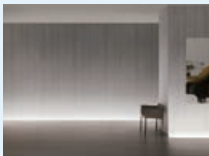
Carpet Tiles



Rugs and Mats



Curtains



Wallpaper



Plush Hand-woven
Curtains



Hand-woven Carpet
and Hooked Rugs

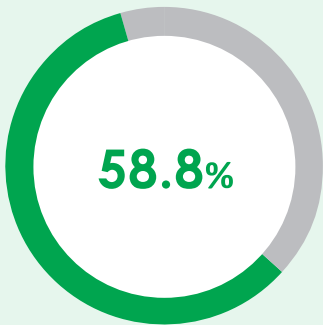


Nishijin Brocade
Fabric

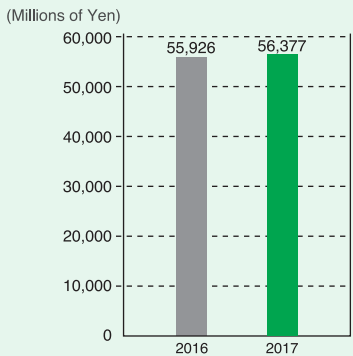
Automotive
Textiles and
Traffic
Facilities

▶ P 15

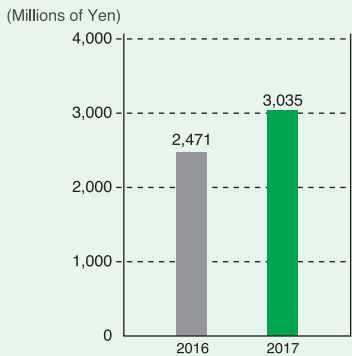
Contribution to Total Net Sales



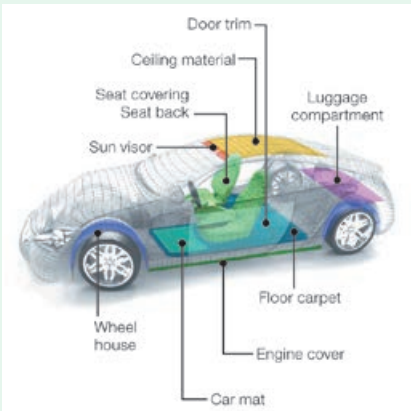
Net Sales



Operating Income



Automotive Textiles



Traffic Facilities



Train



Bus



Ship

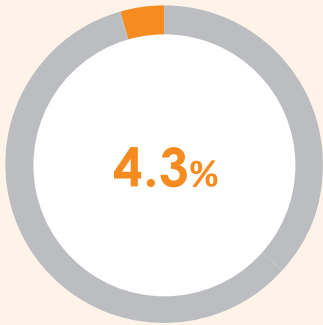


Aircraft

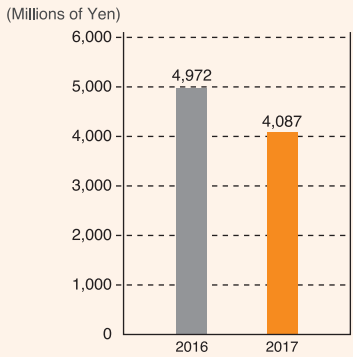
Functional
Materials

▶ P 17

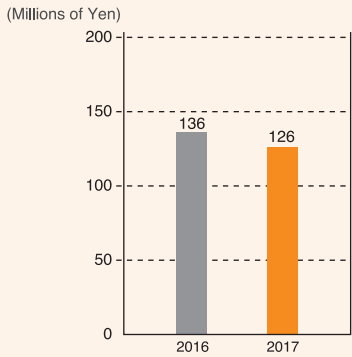
Contribution to Total Net Sales



Net Sales



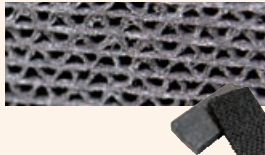
Operating Income



Electric Carpets



Tispa Deodorization
Related Brand



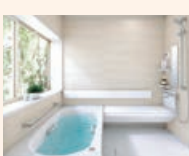
Air-filter Products



SUMITRON®
Continuous Fiber
Made from Recycled
PET bottles



OH TILE Olefin
Flooring Material



Floor Material
for Bathrooms



SUMINOE Co., Ltd.

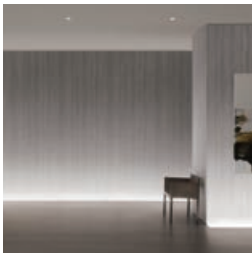


Roll Carpets

RUNON CO., LTD.



Carpet Tiles



Wallpaper

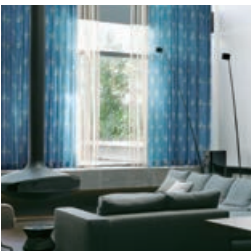
Suminoe Textile Co., Ltd.
Kyoto Traditional Art and Craft Factory



Nishijin Brocade Fabric



Rugs and Mats



Curtains

Tango Textile Co., Ltd.



Plush Hand-woven Curtains



Hand-woven Carpet and Hooked Rugs

At the Vanguard of Lifestyle Creation

Ever since 1891, when its carpets were supplied to the Imperial Diet Building on the occasion of its opening, the Suminoe Textile Group has created comfortable and safe living spaces as a pioneer in the Japanese interiors industry. Currently, our curtains and carpets are primarily marketed by SUMINOE Co., Ltd. and our wallpaper and paper for sliding doors by RUNON CO., LTD. The Suminoe Textile Group is committed to providing environmentally friendly products that feature both excellent design and functionality, and serving diverse customers by offering a wide variety of interior products for public facilities, hotels, schools, hospitals, and office buildings, as well as for general households.

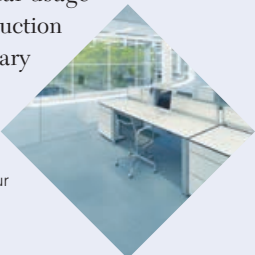
In recent years, we have worked on the production of

eco-friendly products, under the theme of KKR+A, or Kenko (Health), Kankyo (Environment), Recycle and Amenity.

Environmentally Friendly Product at the World's Highest Level

ECOS® is a series of recycled carpet tiles produced using horizontal recycling technology. ECOS® has achieved a post-consumption recycled material usage rate of 83% and a CO₂ emission reduction rate of 44%.* Through our proprietary recycling system, recycled materials are created from old carpet tiles.

*Figures for ECOS® EX-7000, in comparison to our conventional products, according to LCA results.



Business Overview for the Fiscal Year ended May 31, 2017

Sales of commercial-use carpets fell from the previous year due to the dearth of large-scale orders, although the export of ECOS®, eco-friendly carpet tiles under the horizontal recycling system, grew robustly and orders for carpets related to the construction and remodeling of hotels were strong in Japan. Sales of curtains as a whole (including ones for general households, such as *mode S® Vol. 8* and *U Life® Vol. 8*) decreased over the last year, although sales of *Face*, curtains for medical and welfare institutions, continued to increase steadily. Sales of carpets, rugs

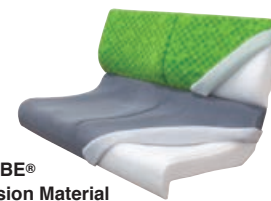
and mats for general households declined from the previous year since consumer spending hit a plateau. Sales of wall coverings remained flat from the last year due to poor sales of the mass-production type *Runon Mark II*, although *Runon Fresh Premium* sold strongly.

Consequently, the Interior Fittings Segment posted operating income of ¥721million (U.S.\$6,495 thousand, down 26.6% year-on-year) on net sales of ¥35,411 million (U.S.\$319,018 thousand, down 2.9%).



Confidence Based on Our Experience as a Pioneer

In 1896, we succeeded in producing hand-woven moquette as a seat covering for the first time in Japan. This domestic moquette was adopted by Japan National Railways (now JR) for its seat coverings in 1899. Since then, we have supplied our products to JR, private railways and publicly operated transportation services, maintaining the top market share for more than a century. Currently, Suminoe Textile offers total proposals for seat coverings, curtains, wall materials, flooring materials and other interior materials for public transportation systems, such as Shinkansen bullet trains and other trains, buses, ships, and aircraft. We also deliver environmentally friendly products, including SUMICUBE® seat cushion material, which excels in terms of both safety and environmental performance.



SUMICUBE®
Seat Cushion Material
East Japan Railway Company: E235 series



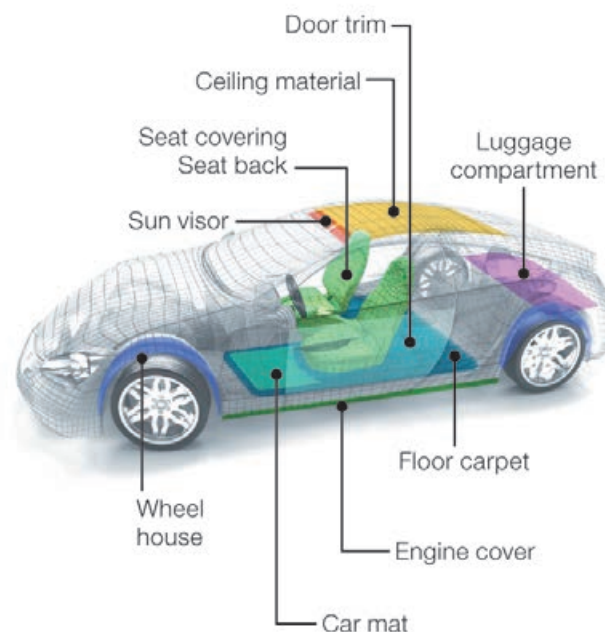
Central Japan Railway Company, West Japan Railway Company : Shinkansen N700 series

Our Expertise in Proposing Optimal Solutions as a Total Supplier

In 1931, Suminoe Textile supplied carpets and seat covering materials for automobiles assembled and manufactured in Japan for Ford Motor Company and General Motors. After World War II, the production of domestic automobiles increased, with our products adopted in these Japanese-made cars one after another. At present, Suminoe Textile supplies its products to all Japanese automobile manufacturers.

The greatest feature of our Company is that we can supply a total line of automotive textiles, from floors to ceilings, including headliners, seat covering materials, car mats, and floor carpets.

Outside Japan, the Suminoe Textile Group has now expanded its overseas presence by setting up 11



manufacturing and sales sites in six countries (the United States, Mexico, China, Thailand, Indonesia, and India), aiming at the creation of a globally optimized supply system.

Business Overview for the Fiscal Year ended May 31, 2017

In the area of automotive textiles, sales increased from the previous year in Japan, since sales of floor carpets and car mats grew robustly and we steadily received orders for new components and new models. Meanwhile, our overseas sales, mainly to China, Thailand, and Indonesia, grew against the backdrop of strong demand. STA saw their efforts to lower labor costs and to improve productivity pay off to some extent. In automotive textiles as a whole, sales exceeded those of the previous year, thanks to the expansion of sales channels for new products and the establishment of a global production system, despite the impact of the yen's appreciation.

In the area of traffic facilities, railway vehicle-related sales increased, supported by orders related to new vehicle production and remodeling from the Japan

Railways (JR) Group and other private railway companies, including orders for luxury sleeping limited express trains. Orders for new buses remained strong, along with a rise in demand for high value-added products for optional accessories and a growth in orders for floor display films, resulting in a sharp increase in both sales and operating income. Orders for seat covering materials for airplanes also grew steadily. In traffic facilities as a whole, both sales and operating income exceeded those of the previous year substantially.

Consequently, the Automotive Textiles and Traffic Facilities Segment posted operating income of ¥3,035 million (U.S.\$27,343 thousand, up 22.8% year-on-year) on net sales of ¥56,377 million (U.S.\$507,901 thousand, up 0.8%).

Functional Materials

In Pursuit of Endless Business Possibilities

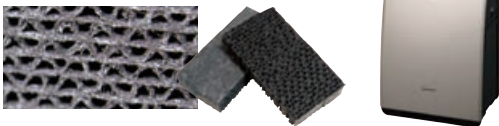
Transcending the boundaries of our traditional business segments, such as interior fittings and automotive textiles and traffic facilities, we have embarked on business targeting other fields and industries. Suminoe Textile has offered products that incorporate the unique technologies we have accumulated, such as *TRIPLE FRESH®* deodorizing filters and olefin bathroom flooring. In addition, the Company offers new value in the field of functional materials (SUMINOE BIOTECH®) based on biotechnology, in keeping with the theme of KKR+A, or Kenko (Health), Kankyo (Environment), Recycle and Amenity.

Tispa Deodorization Related Brand



The Tispa Series, Real Odor Deodorization without Disguising with a Scent, is stationary deodorizers for home use, making use of a deodorant filter.

Air-filter Products



TRIPLE FRESH® Bio is a concept of deodorizing filter where a biomimetic enzyme is invested in to a corrugate carrier. It continuously decomposes and deodorizes unpleasant odor components by oxidation-reduction reaction. This technology is incorporated into deodorizing filters used in air purifiers and other household appliances.

SUMITRON®

Continuous fiber made from recycled PET bottles



Electric Carpet

The main unit is produced by Suzhou Suminoe Textiles Co., Ltd.



Floor Material for Bathrooms

We have developed bath flooring made of eco-friendly olefin materials.



SUMINOE BIOTECH®

Functional materials based on biotechnology, and foods, processed foods, cosmetics, etc., making effective use of these materials.



Business Overview for the Fiscal Year ended May 31, 2017

In the electric carpet business, orders exceeded those in the previous year, while floor materials for bathrooms sold well. Therefore, both businesses saw sales and operating income grow from last year. In the areas of deodorizing filters for air conditioners, heating equipment, and refrigerators, carpets for airplanes, and mats for school children (on an OEM basis), both sales and operating income decreased from the previous year. In the current fiscal year under review, we excluded

Suminoe Nakacho Device Technology Corporation, which engages in slicing silicon ingots for solar cells, from the scope of consolidation, since we sold some of their shares held by us to Nakamura Choukou Co., Ltd., a partner in a joint venture. Consequently, the Functional Materials Segment posted operating income of ¥126 million (U.S.\$1,135 thousand, down 7.1% year-on-year) on net sales of ¥4,087 million (U.S.\$36,820 thousand, down 17.8%).

Financial Section 2017

Year ended May 31, 2017

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Consolidated Balance Sheet

Suminoe Textile Co., Ltd. and its Subsidiaries
May 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 10)	¥ 6,930	¥ 7,811	\$ 62,432
Marketable securities (Notes 3 and 10)		275	
Short-term investments (Note 10)	120	140	1,081
Receivables:			
Trade notes (Note 10)	4,379	4,580	39,450
Electronically-recorded monetary claims (Note 10)	4,720	3,982	42,523
Trade accounts (Note 10)	13,488	14,207	121,514
Income taxes receivable	379	31	3,414
Other	1,667	1,154	15,018
Allowance for doubtful receivables	(24)	(43)	(216)
Inventories (Note 4)	16,545	15,444	149,054
Deferred tax assets (Note 8)	529	415	4,766
Other	2,202	1,814	19,838
Total current assets	50,935	49,810	458,874
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land	17,604	17,277	158,595
Buildings and structures	17,498	16,724	157,640
Machinery and equipment	21,324	20,845	192,107
Furniture and fixtures	2,662	2,575	23,982
Lease assets	2,029	2,484	18,279
Construction in progress	202	189	1,820
Total	61,319	60,094	552,423
Accumulated depreciation	(33,476)	(33,808)	(301,585)
Net property, plant and equipment	27,843	26,286	250,838
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 5 and 10)	8,434	7,674	75,982
Investments in associated companies (Note 10)	604	555	5,441
Deferred tax assets (Note 8)	207	208	1,865
Intangibles	1,047	1,180	9,432
Other	1,329	1,313	11,973
Allowance for doubtful accounts	(144)	(148)	(1,297)
Total investments and other assets	11,477	10,782	103,396
TOTAL	¥90,255	¥86,878	\$813,108

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 5 and 10)	¥11,252	¥ 9,933	\$101,369
Current portion of long-term debt (Notes 5 and 10)	1,746	3,800	15,730
Payables:			
Trade notes (Note 10)	4,328	4,101	38,991
Electronically-recorded obligations (Note 10)	3,855		34,730
Trade accounts (Note 10)	11,054	14,109	99,586
Construction and other	709	660	6,387
Income taxes payable	463	890	4,170
Accrued expenses	2,396	2,290	21,586
Other (Note 8)	416	178	3,748
Total current liabilities	36,219	35,961	326,297
LONG-TERM LIABILITIES:			
Bonds payable (Note 10)	500		4,505
Long-term debt (Notes 5 and 10)	6,955	4,794	62,658
Liability for retirement benefits (Note 6)	4,048	3,904	36,468
Retirement allowances for retirement benefits for directors and Audit & Supervisory Board members	335	324	3,018
Deferred tax liabilities (Note 8)	520	497	4,685
Deferred tax liabilities related to land revaluation excess	3,761	3,761	33,883
Other	518	459	4,666
Total long-term liabilities	16,637	13,739	149,883
COMMITMENTS (Note 11)			
EQUITY (Notes 5, 7 and 13):			
Common stock - authorized, 300,000,000 shares; issued, 76,821,626 shares in 2017 and 2016	9,554	9,554	86,072
Capital surplus	2,652	2,652	23,892
Retained earnings	10,267	10,769	92,495
Treasury stock - at cost; 1,384,616 shares and 1,378,129 shares in 2017 and 2016, respectively	(362)	(360)	(3,261)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,036	2,450	27,351
Deferred (loss) gain on derivatives under hedge accounting	(10)	6	(90)
Land revaluation excess	7,797	7,797	70,243
Foreign currency translation adjustments	550	645	4,955
Defined retirement benefit plan	(199)	(197)	(1,792)
Total	33,285	33,316	299,865
Noncontrolling interests	4,114	3,862	37,063
Total equity	37,399	37,178	336,928
TOTAL	¥90,255	¥86,878	\$813,108

Consolidated Statement of Income

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥96,038	¥97,530	\$865,207
COST OF SALES	76,627	78,651	690,333
Gross profit	19,411	18,879	174,874
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	18,113	16,325	163,180
Operating income	1,298	2,554	11,694
OTHER INCOME (EXPENSES):			
Interest and dividend income	204	185	1,838
Rental income	109	238	982
Equity in earnings of associated companies	91	195	820
Gain on sales of investment securities	160		1,441
Interest expense	(240)	(242)	(2,162)
Sales discounts	(52)	(51)	(468)
Rental expense	(24)	(36)	(216)
Environmental expenses	(57)		(514)
Loss on sales and disposals of property, plant and equipment	(315)	(113)	(2,838)
Impairment losses for long-lived assets		(372)	
Other - net	12	40	108
Other expenses – net	(112)	(156)	(1,009)
INCOME BEFORE INCOME TAXES	1,186	2,398	10,685
INCOME TAXES (Note 8):			
Current	833	1,286	7,505
Deferred	(294)	602	(2,649)
Total income taxes	539	1,888	4,856
NET INCOME	647	510	5,829
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	621	265	5,595
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 26	¥ 245	\$ 234
PER SHARE OF COMMON STOCK (Note 2.r):			
Basic net income	¥0.35	¥3.25	\$0.00
Cash dividends applicable to the year	7.00	7.00	0.06

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥ 647	¥ 510	\$ 5,829
OTHER COMPREHENSIVE INCOME (LOSS) (Note 12):			
Unrealized gain (loss) on available-for-sale securities	585	(1,321)	5,270
Deferred gain (loss) on derivatives under hedge accounting	28	(43)	252
Land revaluation excess		209	
Foreign currency translation adjustments	(105)	(676)	(946)
Remeasurements of defined benefit plans	(2)	9	(18)
Share of other comprehensive (loss) gain in associates	(43)	52	(387)
Total other comprehensive income (loss)	463	(1,770)	4,171
COMPREHENSIVE INCOME (LOSS)	¥1,110	¥(1,260)	\$10,000
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥499	¥(1,361)	\$ 4,495
Noncontrolling interests	611	101	5,505

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2017

	Number of Shares of Common Stock Outstanding	Millions of Yen			
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, JUNE 1, 2015	75,446,644	¥9,554	¥2,652	¥11,014	¥(359)
Net income attributable to owners of the parent				245	
Cash dividends, ¥6.50 per share				(490)	
Purchase of treasury stock	(3,147)				(1)
Net change in the year					
BALANCE, MAY 31, 2016	75,443,497	9,554	2,652	10,769	(360)
Net income attributable to owners of the parent				26	
Cash dividends, ¥7.00 per share				(528)	
Purchase of treasury stock	(6,487)				(2)
Net change in the year					
BALANCE, MAY 31, 2017	75,437,010	¥9,554	¥2,652	¥10,267	¥(362)

	Millions of Yen						Total	Noncontrolling Interests	Total Equity
	Accumulated Other Comprehensive Income								
	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Excess	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan				
BALANCE, JUNE 1, 2015	¥3,771	¥ (3)	¥7,588	¥1,157	¥(205)	¥35,169	¥4,036	¥39,205	
Net income attributable to owners of the parent						245		245	
Cash dividends, ¥6.50 per share						(490)		(490)	
Purchase of treasury stock						(1)		(1)	
Net change in the year	(1,321)	9	209	(512)	8	(1,607)	(174)	(1,781)	
BALANCE, MAY 31, 2016	2,450	6	7,797	645	(197)	33,316	3,862	37,178	
Net income attributable to owners of the parent						26		26	
Cash dividends, ¥7.00 per share						(528)		(528)	
Purchase of treasury stock						(2)		(2)	
Net change in the year	586	(16)		(95)	(2)	473	252	725	
BALANCE, MAY 31, 2017	¥3,036	¥(10)	¥7,797	¥ 550	¥(199)	¥33,285	¥4,114	¥37,399	

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, MAY 31, 2016	\$86,072	\$23,892	\$97,018	\$(3,243)
Net income attributable to owners of the parent			234	
Cash dividends, \$0.06 per share			(4,757)	
Purchase of treasury stock				(18)
Net change in the year				
BALANCE, MAY 31, 2017	\$86,072	\$23,892	\$92,495	\$(3,261)

	Thousands of U.S. Dollars (Note 1)						Total	Noncontrolling Interests	Total Equity
	Accumulated Other Comprehensive Income								
	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Excess	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan				
BALANCE, MAY 31, 2016	\$22,072	\$ 54	\$70,243	\$5,811	\$(1,775)	\$300,144	\$34,793	\$334,937	
Net income attributable to owners of the parent						234		234	
Cash dividends, \$0.06 per share						(4,757)		(4,757)	
Purchase of treasury stock						(18)		(18)	
Net change in the year	5,279	(144)		(856)	(17)	4,262	2,270	6,532	
BALANCE, MAY 31, 2017	\$27,351	\$ (90)	\$70,243	\$4,955	\$(1,792)	\$299,865	\$37,063	\$336,928	

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 1,186	¥ 2,398	\$ 10,685
Adjustments for:			
Income taxes - paid	(1,632)	(1,064)	(14,703)
Income taxes - refunds	3	10	27
Depreciation and amortization	1,620	1,893	14,595
Impairment losses for long-lived assets		372	
Provision for doubtful receivables and accounts	(22)	27	(198)
Gain on sales and disposals of property, plant and equipment	315	113	2,838
Gain on sales of investment securities	(160)		(1,441)
Equity in earnings of associated companies	(91)	(195)	(820)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable - trade	(80)	1,011	(721)
Increase in inventories	(1,241)	(1,020)	(11,180)
Increase (decrease) in notes and accounts payable - trade	1,164	(1,793)	10,486
Increase in liability for retirement benefits	150	112	1,351
(Increase) decrease in other current assets	(576)	16	(5,189)
Increase (decrease) in other current liabilities	208	(722)	1,874
Other - net	140	296	1,261
Total adjustments	(202)	(944)	(1,820)
Net cash provided by operating activities	984	1,454	8,865
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	77	8	694
Purchases of property, plant and equipment	(2,697)	(742)	(24,297)
Proceeds from sales and redemption of securities	2,491	6,306	22,441
Purchases of marketable and investment securities	(2,017)	(6,649)	(18,171)
Purchases of investments in subsidiaries with changes in consolidation scope		(2,049)	
Other - net	(24)	(85)	(217)
Net cash used in investing activities	(2,170)	(3,211)	(19,550)
FINANCING ACTIVITIES:			
Net change in short-term bank loans	1,341	561	12,081
Proceeds from long-term debt	3,400	3,313	30,631
Repayments of long-term debt	(3,969)	(2,989)	(35,757)
Proceeds from issuance of bonds payable	483		4,351
Purchase of treasury stock	(2)	(1)	(18)
Dividends paid	(528)	(490)	(4,757)
Other - net	(372)	(275)	(3,351)
Net cash provided by financing activities	353	119	3,180
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(48)	(94)	(432)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(881)	(1,732)	(7,937)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,811	9,543	70,369
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 6,930	¥ 7,811	\$ 62,432

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2017

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Suminoe Textile Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥111 to \$1, the approximate rate of exchange at May 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a.Consolidation - The accompanying consolidated financial statements as of May 31, 2017 include the accounts of the Company and all subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in three associated companies (three associated companies in 2016) are accounted for using the equity method.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period not exceeding 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b.Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements - Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting

policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process, so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development (R&D); and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of cost model of accounting.

c.Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method - ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the GAAP in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d.Business Combinations - Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts

recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e.Cash Equivalents - Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits which mature within three months of the date of acquisition.

f.Inventories - Inventories are stated at the lower of cost, determined by the average cost method for finished products, purchased merchandise, and work in process, and by the moving-average method for raw materials and supplies, or net selling value.

g.Marketable and Investment Securities - Marketable and investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

h.Property, Plant and Equipment - Property, plant and equipment, except land, are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. The range of estimated useful lives is principally from 3 to 50 years for buildings and structures and from 4 to 17 years for machinery and equipment. The useful lives for lease assets are

the terms of the respective leases.

Under the "Law of Land Revaluation," promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of May 31, 2000. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income from this revaluation. Continuous readjustment is not permitted, unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities.

As of May 31, 2017, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,260 million (\$38,378 thousand).

i.Long-Lived Assets - The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable.

An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j.Retirement Benefits - The Company and certain subsidiaries have both lump-sum severance payments and defined contribution pension plans for employees' retirement benefits and account for the liability for retirement benefits based on the projected benefit obligations at the consolidated balance sheet date.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years no longer than the expected average remaining service period of the employees.

The Company provides for the liability for directors and Audit and Supervisory Board Members' retirement benefits at the amounts that would be required to be paid if all directors and Audit and Supervisory Board Members retired at the consolidated balance sheet date. Amounts payable to directors and Audit and Supervisory Board members upon retirement are left to the approval of the Board of Directors.

k.R&D Costs - R&D costs are charged to income as incurred.

l.Leases - Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

m.Construction Contracts - Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the consolidated balance sheet date can be reliably measured, the outcome of the construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

n.Income Taxes - The provision for current income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. The Company and its domestic subsidiaries applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective June 1, 2016. There was no impact from the adoption of this guidance for the year ended May 31, 2017.

o.Foreign Currency Transactions - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

p.Foreign Currency Financial Statements - The balance sheet accounts of foreign subsidiaries and associated companies are translated into Japanese yen at the current exchange rates as of the balance sheet date, except for equity, which is translated at historical rates. Revenue and expense accounts of the foreign subsidiaries and associated companies are translated into Japanese yen at the average exchange rates for the fiscal year. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

q.Derivatives and Hedging Activities - The Group uses foreign exchange forward contracts and interest rate swaps to

manage its exposures to fluctuations in foreign exchange and interest rates. The Group does not enter into derivatives for trading or speculative purposes. Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and the resulting gains or losses are recognized in the consolidated statement of income, and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions, "deferred hedge accounting method." Foreign currency forward exchange contracts are utilized to hedge foreign currency exposures on overseas transactions. Trade payables and receivables denominated in foreign currencies are translated at the contracted rates, "assigning method," if the forward contracts qualify for hedge accounting. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income, "exceptional method." Interest rate and currency swaps used to hedge long-term debts denominated in foreign currencies with variable interest rates, which qualify for hedge accounting and meet specific matching criteria, are not measured at market value. Rather, the long-term debts are recorded at yen amounts under the swap agreements and interest expense is calculated and recorded using fixed interest rates.

r.Per Share Information - Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The computations of net income per share of common stock are based on the weighted-average number of shares outstanding of 75,441,125 shares and 75,444,787 shares for the years ended May 31, 2017 and 2016, respectively. Diluted net income per share is not disclosed because the Company has not issued potentially dilutive securities. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

s.Accounting Changes and Error Corrections - Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the

revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of May 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current:			
Marketable securities		¥ 275	
Total		¥ 275	
Non-current:			
Marketable equity securities	¥ 8,287	¥ 7,425	\$74,658
Unlisted equity securities	147	249	1,324
Total	¥ 8,434	¥ 7,674	\$75,982

The cost and aggregate fair values of marketable and investment securities as of May 31, 2017 and 2016 were as follows:

	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Marketable equity securities	¥4,046	¥4,305	¥64	¥8,287
Total	¥4,046	¥4,305	¥64	¥8,287

	Millions of Yen			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Marketable equity securities	¥3,961	¥3,583	¥119	¥7,425
Other	275			275
Total	¥4,236	¥3,583	¥119	¥7,700

	Thousands of U.S. Dollars			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Marketable equity securities	\$36,450	\$38,784	\$576	\$74,658
Total	\$36,450	\$38,784	\$576	\$74,658

The information for available-for-sale securities which were sold during the years ended May 31, 2017 and 2016 is as follows:

	Millions of Yen		
	2017		
	Proceeds	Realized Gains	Realized Losses
May 31, 2017			
Available-for-sale:			
Equity securities	¥ 195	¥163	
Others	2,275		
Total	¥2,470	¥163	

May 31, 2016			
Available-for-sale:			
Equity securities	¥ 6	¥ 3	
Others	6,300		
Total	¥6,306	¥ 3	

	Thousands of U.S. Dollars		
	2017		
	Proceeds	Realized Gains	Realized Losses
May 31, 2017			
Available-for-sale:			
Equity securities	\$ 1,757	\$1,468	
Others	20,495		
Total	\$22,252	\$1,468	

4. INVENTORIES

Inventories as of May 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Finished products and purchased merchandise	¥10,449	¥ 9,753	\$94,135
Work in process	1,925	1,707	17,342
Raw materials and supplies	4,171	3,984	37,577
Total	¥16,545	¥15,444	\$149,054

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans are principally composed of bank overdrafts. The weighted-average annual interest rates for short-term bank loans and notes discounted at May 31, 2017 and 2016, were 1.43% and 1.33%, respectively.

Long-term debt as of May 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans from banks and other financial institutions: 2016 : 0.60% - 4.20% (due: years ending May 31, 2017 - 2033) 2017: 0.41% - 10.50% (due: years ending May 31, 2018 - 2033)			
Collateralized	¥ 977	¥ 999	\$ 8,802
Unsecured	6,217	6,027	56,009
Obligations under finance leases	1,507	1,568	13,577
Total	8,701	8,594	78,388
Less current portion	1,746	3,800	15,730
Long-term debt, less current portion	¥6,955	¥4,794	\$62,658

Annual maturities of long-term debt, less current portion, as of May 31, 2017 were as follows:

Years Ending May 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥1,612	\$14,523
2020	1,091	9,829
2021	608	5,477
2022	2,420	21,802
2023 and thereafter	1,224	11,027
Total	¥6,955	\$62,658

The assets pledged as collateral for short-term bank loans and long-term debt as of May 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Land	¥3,929	¥3,929	\$35,397
Buildings and structures, less accumulated depreciation	574	592	5,171
Machinery and equipment, less accumulated depreciation	476	265	4,288
Investment securities	3,570	3,320	32,162
Total	¥8,549	¥8,106	\$77,018

Of the above property, plant and equipment, provided as collateral for a factory foundation mortgage as of May 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Land	¥3,929	¥3,929	\$35,397
Buildings and structures, less accumulated depreciation	574	592	5,171
Machinery and equipment, less accumulated depreciation	476	265	4,288
Total	¥4,979	¥4,786	\$44,856

The Company concluded a syndicated loan agreement (balances at May 31, 2017 and 2016 were ¥2,474 million (\$22,288 thousand) and ¥2,474 million, respectively), with Mizuho Bank, Ltd. as the Company's agent. This agreement is subject to the following financial covenants:

- (1) Equity as of the year-end and the second quarter-end of each fiscal year shall be more than ¥30,100 million (\$271,171 thousand) and more than 75% of the balance of the corresponding period of the previous year, on a consolidated basis.
- (2) Equity as of the year-end and the second quarter-end of each fiscal year shall be more than ¥22,800 million (\$205,405 thousand) and more than 75% of the balance of the corresponding period of the previous year, on a nonconsolidated basis.
- (3) Ordinary income as presented in accordance with Japanese GAAP shall not be a loss for two consecutive financial years from the fiscal year ended May 31, 2016, on a consolidated basis.
- (4) Ordinary income as presented in accordance with Japanese GAAP shall not be a loss for two consecutive financial years from the fiscal year ended May 31, 2016, on a nonconsolidated basis.

6. RETIREMENT BENEFITS

The Company and certain consolidated subsidiaries mainly have unfunded defined benefit plans and defined contribution plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Some consolidated subsidiaries of the Company adopt the simplified method for computing liability for retirement benefits and periodic benefit costs.

Defined Benefits

- (1) The changes in defined benefit obligation for the years ended May 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥3,013	¥3,022	\$27,144
Current service cost	110	111	991
Interest cost	21	21	189
Actuarial losses	53	19	477
Benefits paid	(149)	(160)	(1,342)
Balance at end of year	¥3,048	¥3,013	\$27,459

- (2) The changes of the net defined benefit liability accounted for by the simplified method were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 892	¥834	\$8,036
Periodic benefit cost	174	151	1,568
Benefits paid	(88)	(88)	(793)
Employee pension fund dissolution loss	21		189
Others	1	(6)	9
Balance at end of year	¥1,000	¥891	\$9,009

- (3) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of the years ended May 31, 2017 and 2016 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unfunded defined benefit obligation	¥4,048	¥3,904	\$36,468
Net liability arising from defined benefit obligation	¥4,048	¥3,904	\$36,468

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥4,048	¥3,904	\$36,468
Net liability arising from defined benefit obligation	¥4,048	¥3,904	\$36,468

- (4) The components of net periodic benefit costs for the years ended May 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥110	¥111	\$ 990
Interest cost	21	21	189
Recognized actuarial losses	49	40	441
Periodic benefit cost calculated by the simplified method	174	151	1,569
Net periodic benefit costs	¥354	¥323	\$3,189

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of May 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Actuarial (gains) losses	¥(3)	¥21	\$ (27)
Total	¥(3)	¥21	\$ (27)

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of May 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized actuarial losses	¥286	¥283	\$2,577
Total	¥286	¥283	\$2,577

- (7) Assumptions used for the years ended May 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	0.8%	0.8%

The expected compensation increase rates are based on the age-specific compensation increase index as of May 31, 2017 and 2016.

Defined Contribution

The amounts of required contributions to the defined contribution plans of the Company and consolidated subsidiaries for the years ended May 31, 2017 and 2016 were ¥156 million (\$1,405 thousand) and ¥161 million, respectively.

7. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and the legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 30.8% and 33.1% for the years ended May 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of May 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for doubtful receivables and accounts	¥ 50	¥ 56	\$ 450
Liabilities for retirement benefits	1,323	1,280	11,919
Tax loss carryforwards	1,791	1,153	16,135
Investment securities	84	84	757
Inventories	282	452	2,541
Other	561	647	5,054
Less valuation allowance	(1,833)	(1,702)	(16,514)
Total deferred tax assets	¥ 2,258	¥ 1,970	\$ 20,342
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥1,192	¥1,000	\$ 10,739
Land	393	397	3,541
Other	457	447	4,116
Total deferred tax liabilities	¥ 2,042	¥ 1,844	\$ 18,396
Net deferred tax assets	¥ 736	¥ 623	\$ 6,631
Net deferred tax liabilities	¥ 520	¥ 497	\$ 4,685

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended May 31, 2017 and 2016 is as follows:

	2017	2016
Normal effective statutory tax rate	30.8%	33.1%
Change in valuation allowance	22.2	42.2
Expenses not deductible for income tax purposes	2.6	2.1
Per capita levy	3.8	1.9
Difference of tax rates for foreign subsidiaries	(8.0)	(1.9)
Equity in earnings of associated companies	(2.3)	(2.3)
Effect of corporate income tax rate reduction in Japan		2.3
Tax exemption of foreign subsidiaries	(7.9)	
Retained earnings of affiliated companies	3.2	
Other - net	1.0	1.3
Actual effective tax rates	45.4%	78.7%

At May 31, 2017, certain subsidiaries have tax loss carryforwards aggregating approximately ¥7,239 million (\$65,216 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending May 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 373	\$ 3,360
2020	2	18
2021	0	0
2022	21	189
2023 and thereafter	6,843	61,649
Total	¥7,239	\$65,216

9. R&D COSTS

R&D costs charged to income were ¥289 million (\$2,604 thousand) and ¥348 million for the years ended May 31, 2017 and 2016, respectively.

10. FINANCIAL INSTRUMENTS

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt, including bank loans, corporate bonds and lease obligations, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in Note 11.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes, trade accounts, and electronically-recorded monetary claims are exposed to customer credit risk. Receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates.

Marketable and investment securities, mainly the stocks of financial institutions, customers and suppliers of the Company, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes, trade accounts, and electronically-recorded obligations are less than one year. Payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates. Short-term bank loans are used to trade transactions. Long-term debt and obligations of finance leases are used to raise funds for capital investments.

A part of such payables is exposed to market risks from changes in variable interest rates, and trade liabilities and loans are exposed to liquidity risk.

Derivatives mainly include foreign currency forward contracts, interest rate swaps, and interest rate and currency swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates. Please see Note 11 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Company manages and mitigates its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business sales department to identify the default risk of customers at an early stage. Also, subsidiaries of the Company manage credit risk based on the same guidelines.

The Company believes it has limited credit risk on derivative agreement transactions because it transacts with highly-rated financial institutions.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk with forecasted transactions is hedged principally by forward foreign currency contracts. Interest rate swaps and interest rate and currency swaps are used to manage exposure to market risks from changes in interest rates of loans and bonds payable.

Marketable and investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

Derivatives have been utilized in accordance with internal guidelines that regulate the authorization and credit limit.

Liquidity risk management

The Company manages liquidity risk through adequate financial planning by the Finance Department of the Company.

Complementary information for fair value of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. The techniques include changing some factors and the fair values may be changed by adopting different assumptions. In addition, the contract amounts of derivatives in Note 11 do not directly indicate their market risk.

(4) Fair Values of Financial Instruments

(a) Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Net Unrealized Gains/Losses
May 31, 2017			
Cash and cash equivalents	¥ 6,930	¥ 6,930	
Short-term investments	120	120	
Notes receivable - trade	4,379	4,379	
Electronically-recorded monetary claims	4,720	4,720	
Accounts receivable - trade	13,488	13,488	
Marketable securities and investment securities	8,287	8,287	
Total	¥37,924	¥37,924	
Notes payable - trade	¥ 4,328	¥ 4,328	
Electronically-recorded obligations	3,855	3,855	
Accounts payable - trade	11,054	11,054	
Short-term bank loans	11,252	11,252	
Current portion of long-term debt	1,746	1,746	
Bonds payable	500	495	¥ 5
Long-term debt	6,955	6,899	56
Total	¥39,690	¥39,629	¥61
Derivatives	¥ (1)	¥ (1)	

	Millions of Yen		
	Carrying Amount	Fair Value	Net Unrealized Gains/Losses
May 31, 2016			
Cash and cash equivalents	¥ 7,811	¥ 7,811	
Short-term investments	120	120	
Notes receivable - trade	4,580	4,580	
Electronically-recorded monetary claims	3,982	3,982	
Accounts receivable - trade	14,207	14,207	
Marketable securities and investment securities	7,700	7,700	
Total	¥38,400	¥38,400	
Notes payable - trade	¥ 4,101	¥ 4,101	
Accounts payable - trade	14,109	14,109	
Short-term bank loans	9,933	9,933	
Current portion of long-term debt	3,800	3,800	
Long-term debt	4,794	4,771	¥23
Total	¥36,737	¥36,714	¥23
Derivatives	¥ (41)	¥ (41)	

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Net Unrealized Gains/Losses
May 31, 2017			
Cash and cash equivalents	\$ 62,432	\$ 62,432	
Short-term investments	1,081	1,081	
Notes receivable - trade	39,450	39,450	
Electronically-recorded monetary claims	42,523	42,523	
Accounts receivable - trade	121,514	121,514	
Marketable securities and investment securities	74,658	74,658	
Total	\$341,658	\$341,658	
Notes payable - trade	\$ 38,991	\$ 38,991	
Electronically-recorded obligations	34,730	34,730	
Accounts payable - trade	99,586	99,586	
Short-term bank loans	101,369	101,369	
Current portion of long-term debt	15,730	15,730	
Bonds payable	4,505	4,459	\$ 46
Long-term debt	62,658	62,153	505
Total	\$357,569	\$357,018	\$551
Derivatives	\$ (9)	\$ (9)	

Assets

Cash and cash equivalents, notes and accounts receivable - trade, and electronically-recorded monetary claims

The fair values of cash and cash equivalents, notes and accounts receivable - trade, and electronically-recorded monetary claims approximate their carrying amounts as these amounts are settled in a short period of time.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price at the stock exchange for equity instruments and at the quoted price obtained from financial institutions for certain debt instruments. Information on the fair value of the marketable and investment securities by classification is included in Note 3.

Liabilities

Notes and accounts payable - trade, electronically-recorded obligations, short-term bank loans and current portion of long-term debt

The fair values of notes and accounts payable - trade, electronically-recorded obligations, short-term bank loans and current portion of long-term debt approximate their carrying amounts as these amounts are settled in a short period of time.

Bonds payable

The fair values of bonds payable are determined by discounting the cash flows related to the bonds at the rates integrated of remaining term of the bonds and credit risk.

Long-term debt

The fair values of long-term loans and lease obligations at fixed interest rates are determined by discounting the cash flows related to the loans at the Company's assumed corporate borrowing rates. For the part of loans that is subjected to interest rate swaps, qualifies for hedge accounting, and meets specific matching criteria, fair value is determined by discounting the cash flows related to the loans with the interest rate swaps at the Company's assumed corporate borrowing rates.

Derivatives

Information on the fair value of derivatives is included in Note 11.
(b) Carrying amounts of financial instruments whose fair value cannot be reliably determined are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Investments in associated companies	¥604	¥555	\$5,441
Unlisted equity securities	147	249	1,324
Unlisted corporate bonds		20	

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen	
	Due in One Year or Less	Due after One Year through Five Years
May 31, 2017		
Cash and cash equivalents	¥ 6,930	
Short-term investments	120	
Notes receivable - trade	4,379	
Electronically-recorded monetary claims	4,720	
Accounts receivable - trade	13,488	
Total	¥29,637	

	Millions of Yen	
	Due in One Year or Less	Due after One Year through Five Years
May 31, 2016		
Cash and cash equivalents	¥ 7,811	
Short-term investments	140	
Notes receivable - trade	4,580	
Electronically-recorded obligations	3,982	
Accounts receivable - trade	14,207	
Total	¥30,720	

	Thousands of U.S. Dollars	
	Due in One Year or Less	Due after One Year through Five Years
May 31, 2017		
Cash and cash equivalents	\$ 62,432	
Short-term investments	1,081	
Notes receivable - trade	39,450	
Electronically-recorded monetary claims	42,523	
Accounts receivable - trade	121,514	
Total	\$267,000	

Please see Note 5 for annual maturities of long-term debt and obligations under finance leases.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instrument contracts, in the normal course of business, to reduce its exposure to fluctuations in interest rates and foreign exchange rates. The Group utilizes interest rate swaps and interest rate currency swaps to hedge interest exposure on long-term debt. The Group also enters into foreign exchange forward contracts to hedge market risk from changes in foreign exchange rates associated with assets and liabilities denominated in foreign currencies. The Group does not hold or issue derivatives for trading purposes. Because the counterparties to these derivatives are limited to major financial institutions, the Group does not anticipate any losses arising from credit risk. Derivatives have been utilized in accordance with internal guidelines that regulate the authorization and the credit limit. Derivative transactions to which hedge accounting is applied as of May 31, 2017 and 2016, are as follows:

At May 31, 2017	Millions of Yen			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts using assigning method:				
Selling U.S. dollar	Accounts receivable - trade	¥ 98		*1
Selling Euro	Accounts receivable - trade	18		*1
Buying U.S. dollar	Accounts payable - trade	184		*1
Buying Euro	Accounts payable - trade	20		*1
Foreign currency forward contracts using deferred hedge accounting method:				
Buying U.S. dollar	Accounts payable - trade	¥ 714		¥(1)
Interest rate swaps using exceptional method:				
(fixed-rate payment, floating-rate receipt)	Long-term loans	¥1,154	¥1,074	*2

At May 31, 2016	Millions of Yen			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts using assigning method:				
Selling U.S. dollar	Accounts receivable - trade	¥ 186		*1
Selling Euro	Accounts receivable - trade	33		*1
Buying U.S. dollar	Accounts payable - trade	53		*1
Buying Euro	Accounts payable - trade	40		*1
Foreign currency forward contracts using deferred hedge accounting method:				
Selling U.S. dollar	Accounts receivable - trade	¥ 3		¥ 0
Buying U.S. dollar	Accounts payable - trade	765		(41)
Buying Euro	Accounts payable - trade	10		(0)
Interest rate swaps using exceptional method:				
(fixed-rate payment, floating-rate receipt)	Long-term loans	¥2,814	¥1,174	*2

At May 31, 2017	Thousands of U.S. Dollars			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts using assigning method:				
Selling U.S. dollar	Accounts receivable - trade	\$ 883		*1
Selling Euro	Accounts receivable - trade	162		*1
Buying U.S. dollar	Accounts payable - trade	1,658		*1
Buying Euro	Accounts payable - trade	180		*1
Foreign currency forward contracts using deferred hedge accounting method:				
Buying U.S. dollar	Accounts payable - trade	\$ 6,432		\$(9)
Interest rate swaps using exceptional method:				
(fixed-rate payment, floating-rate receipt)	Long-term loans	\$10,396	\$9,676	*2

*1.Foreign currency forward contracts are accounted for as part of accounts receivable and accounts payable. Therefore, the fair value of the contracts are included in the fair value of underlying accounts receivable and accounts payable.

*2.The part of interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 10 is included with that of the hedged items (i.e., long-term debt).

The fair value of foreign currency forward contracts is measured using quoted prices obtained from financial institutions.

12. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended May 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 941	¥(1,931)	\$ 8,477
Reclassification adjustments to profit or loss	(163)	(3)	(1,468)
Amount before income tax effect	778	(1,934)	7,009
Income tax effect	(193)	613	(1,739)
Total unrealized gain (loss) on available-for-sale securities	585	(1,321)	5,270
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	40	(63)	360
Income tax effect	(12)	20	(108)
Total deferred gain (loss) on derivatives under hedge accounting	28	(43)	252
Land revaluation surplus:			
Income tax effect		209	
Foreign currency translation adjustments:			
Adjustments arising during the year	(105)	(676)	(946)
Remeasurements of defined benefit plans:			
Losses arising during the year	(53)	(19)	(477)
Reclassification adjustments to profit	50	40	450
Amount before income tax effect	(3)	21	(27)
Income tax effect	1	(12)	9
Total remeasurements of defined benefit plans	(2)	9	(18)
Share of other comprehensive income in associates:			
Gains (losses) arising during the year	(43)	52	(387)
Total other comprehensive income (loss)	¥ 463	¥(1,770)	\$ 4,171

13. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings as of May 31, 2017, was approved at the Company's shareholders' meeting held on August 30, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥3.5 (\$0.03) per share	¥264	\$2,378

Consolidation of Shares, Revision of the Number of Shares per Trading Unit and Amendment of the Articles of Incorporation
The Company resolved at the Board of Directors' meeting held on July 25, 2017, to submit a proposal for partial amendment of the Articles of Incorporation for the consolidation of shares and the revision of the number of shares per trading unit to the 128th Annual General Meeting of Shareholders held on August 30, 2017. The proposal was approved by resolution at the 128th Annual General Meeting of Shareholders held on August 30, 2017.

a.Reason for the consolidation of shares and revision of the number of shares per trading unit

The Japanese stock exchanges announced the "Action Plan for Consolidating Trading Units" and are pursuing the goal of consolidation of the trading units of listed companies at 100 shares. In accordance therewith, the Company proposed to change the number of shares per trading unit from 1,000 to 100 shares and consolidate its shares.

b.Details of the consolidation of shares

(1) Class of stock to be consolidated:

Common shares

(2) Method of consolidation and ratio:

The Company shall consolidate the shares on December 1, 2017, at a ratio of 10 to 1 held by the shareholders registered on November 30, 2017.

(3)Decrease in the number of common shares due to the consolidation

Number of common shares outstanding before the consolidation of shares (as of May 31, 2017)	76,821,626 shares
Number of common shares to be decreased by the consolidation of shares	69,139,464 shares
Number of common shares outstanding after the consolidation of shares	7,682,162 shares

Note: "Number of common shares to be decreased by the consolidation of shares" and "Number of common shares outstanding after the consolidation of shares" are theoretical values calculated based on the number of common shares outstanding before the consolidation of shares and the consolidation ratio.

c. Handling of fractional shares of less than one share unit

If any fractional shares arise as a result of the consolidation of shares, pursuant to the provisions of Article of the Companies Act, the Company will sell all such fractional shares and distribute the proceeds to shareholders having fractional shares in proportion to their respective fractions.

d. The total number of authorized shares on the effective day

Number of authorized shares before the consolidation of shares	300,000,000 shares
Number of authorized shares after the consolidation of shares (as of December 1, 2017)	30,000,000 shares

e. Impact on per share information

Per share information for the fiscal years ended May 31, 2017 and 2016 is as follows, assuming that the shares were consolidated as such at the beginning of the fiscal year ended May 31, 2016.

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Net asset per share of common stock	¥4,412.3	¥4,416.0	\$39.75
Net income per share of common stock	3.5	32.5	0.03

14. SEGMENT INFORMATION

In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are components for which separate financial information is available and whose operating results are reviewed regularly by the Board of Directors in order to determine allocation of resources and assess segment performance. The Group is organized by business operating units and subsidiaries which are separated based on the products and services they provide. Each of these units and subsidiaries plan comprehensive strategies for business and perform business activities. Therefore, based on these business operating units and also taking account of the types of products and the similarities in markets, the reportable segments of the Group are divided into three segments: the interior fittings segment, the automotive textile and traffic facilities segment and the functional materials segment. The interior fittings segment includes manufacturing and sales of carpets, curtains, wallpapers and other flooring materials. The automotive textile and traffic facilities segment includes manufacturing and sales of interior materials for automobiles, trains, buses, ships, aircraft and other conveyances. The functional materials segment includes manufacturing and sales of electric carpets and related products, such as deodorizers and processing of silicon wafers for solar cells.

(2) Methods of Measurement for the Amounts of Sales, Profit, Assets and Other Items for Each Reportable Segment

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 2. The profits of reportable segments correspond to operating income. The internal sales or transfers among segments are based on actual market prices.

(3) Information about Sales, Profit, Assets and Other Items by Reportable Segment

	Millions of Yen							
	2017							
	Reportable Segments				Others	Total	Reconciliations	Consolidated
	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total				
Sales:								
Sales to customers	¥35,411	¥56,377	¥4,087	¥95,875	¥163	¥96,038		¥96,038
Intersegment sales	581	16	5	602	246	848	¥ (848)	
Total	¥35,992	¥56,393	¥4,092	¥96,477	¥409	¥96,886	¥ (848)	¥96,038
Segment profit	¥ 721	¥ 3,035	¥ 126	¥ 3,882	¥ 96	¥ 3,978	¥(2,680)	¥ 1,298
Segment assets	28,682	36,276	2,369	67,327	469	67,796	22,459	90,255
Other:								
Depreciation and amortization	334	1,115	66	1,515	18	1,533	87	1,620
Investments in associated companies accounted for by the equity method		604		604		604		604
Increase in property, plant and equipment and intangible assets	1,000	782	176	1,958	14	1,972	1,605	3,577

	Millions of Yen							
	2016							
	Reportable Segments				Others	Total	Reconciliations	Consolidated
	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total				
Sales:								
Sales to customers	¥36,471	¥55,926	¥4,972	¥97,369	¥161	¥97,530		¥97,530
Intersegment sales	534	7	13	554	266	820	¥ (820)	
Total	¥37,005	¥55,933	¥4,985	¥97,923	¥427	¥98,350	¥ (820)	¥97,530
Segment profit	¥ 983	¥ 2,471	¥ 136	¥ 3,590	¥105	¥ 3,695	¥(1,141)	¥ 2,554
Segment assets	28,770	34,346	3,510	66,626	584	67,210	19,668	86,878
Other:								
Depreciation and amortization	311	1,249	214	1,774	17	1,791	102	1,893
Investments in associated companies accounted for by the equity method		555		555		555		555
Increase in property, plant and equipment and intangible assets	198	634	79	911	21	932	100	1,032

	Thousands of U.S. Dollars							
	2017							
	Reportable Segments				Others	Total	Reconciliations	Consolidated
	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total				
Sales:								
Sales to customers	\$319,018	\$507,901	\$36,820	\$863,739	\$1,468	\$865,207		\$865,207
Intersegment sales	5,234	144	45	5,423	2,217	7,640	\$ (7,640)	
Total	\$324,252	\$508,045	\$36,865	\$869,162	\$3,685	\$872,847	\$ (7,640)	\$865,207
Segment profit	\$ 6,495	\$ 27,343	\$ 1,135	\$ 34,973	\$ 865	\$ 35,838	\$ (24,144)	\$ 11,694
Segment assets	258,397	326,811	21,342	606,550	4,225	610,775	202,333	813,108
Other:								
Depreciation and amortization	3,009	10,045	595	13,649	162	13,811	784	14,595
Investments in associated companies accounted for by the equity method		5,441		5,441		5,441		5,441
Increase in property, plant and equipment and intangible assets	9,009	7,045	1,586	17,640	126	17,766	14,459	32,225

Note 1.Reconciliations of segment profit of ¥2,680 million (\$24,144 thousand) consist of elimination of intersegment transactions of ¥28 million (\$252 thousand) and corporate expenses unallocated to the respective reportable segments of ¥2,708 million (\$24,396 thousand). Corporate expenses unallocated to the respective reportable segments include the costs of the Administrative Department and the Development Department of the Company.

2.Reconciliations of segment assets of ¥22,459 million (\$202,333 thousand) consist of elimination of intersegment transactions of ¥277 million (\$2,496 thousand) and corporate assets unallocated to the respective reportable segments of ¥22,736 million (\$204,829 thousand). Corporate assets unallocated to the respective reportable segments mainly consist of surplus funds (cash, deposits and securities), long-term investments (investment securities) and assets of the Administrative Department of the Company.

(4) Information about Geographical Areas

	Millions of Yen				
	2017				
	Japan	North and Central America	Asia	Others	Total
For the year ended May 31, 2017					
Sales to customers	¥64,947	¥16,927	¥13,778	¥386	¥96,038
Property, plant and equipment	22,839	3,833	1,171		27,843

	Millions of Yen				
	2016				
	Japan	North and Central America	Asia	Others	Total
For the year ended May 31, 2016					
Sales to customers	¥66,074	¥18,711	¥12,399	¥346	¥97,530
Property, plant and equipment	20,962	3,983	1,341		26,286

	Thousands of U.S. Dollars				
	2017				
	Japan	North and Central America	Asia	Others	Total
For the year ended May 31, 2017					
Sales to customers	\$585,108	\$152,495	\$124,126	\$3,478	\$865,207
Property, plant and equipment	205,756	34,532	10,550		250,838

(5) Information about Impairment Losses of Fixed Assets by Reportable Segment

Not applicable for the year ended May 31, 2017.

	Millions of Yen					
	2016					
	Reportable Segments				Others	Eliminations/ Corporate
For the year ended May 31, 2016	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total		
Impairment losses of fixed assets	¥12	¥9	¥351	¥372		

(6) Information about Goodwill by Reportable Segment

Disclosure is omitted since the aggregate values for the years ended May 31, 2017 and 2016 are immaterial.

(7) Information about Negative Goodwill by Reportable Segment

Not applicable.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Suminoe Textile Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Suminoe Textile Co., Ltd. and its subsidiaries as of May 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity 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 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.

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. In making those risk assessments, the auditor considers internal control 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 Suminoe Textile Co., Ltd. and its subsidiaries as of May 31, 2017 and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

August 30, 2017

Member of
Deloitte Touche Tohmatsu Limited

Company Network

(as of May 31, 2017)

Offices

Head Office, Osaka Branch & Osaka Showroom
11-20, Minami-Semba 3-Chome, Chuo-ku, Osaka 542-8504
Phone: +81-6-6251-6801
Fax: +81-6-6251-0862

Tokyo Branch & Tokyo Showroom
BR Gotanda-Building, 30-4, Nishi-Gotanda 2-Chome, Shinagawa-ku, Tokyo 141-0031
Phone: +81-3-5434-2860
Fax: +81-3-5434-6542

Sales Offices

Sapporo, Sendai, Saitama, Chiba, Yokohama, Shizuoka, Kanazawa, Nagoya, Kyoto, Kobe, Okayama, Hiroshima, Fukuoka

Factories

Nara, Shiga, Kyoto, Aichi, Ishikawa

R&D Center

11-20, Minami-Semba 3-Chome, Chuo-ku, Osaka 542-8504
Phone: +81-6-6251-6839
Fax: +81-6-6251-6868

Technical Center

Kubota, Ando-cho, Ikoma-gun, Nara 639-1064
Phone: +81-743-57-5441
Fax: +81-743-57-6410

Subsidiaries

Japan
SUMINOE Co., Ltd.
RUNON CO., LTD.
Suminoe Logistics Co., Ltd.
Suminoe Works Co., Ltd.
Sewing Hyogo Co., Ltd.
Suminoe Teijin Techno Co., Ltd.
Marunaka Souei Co., Ltd.
Suminoe Techno Co., Ltd.
Tango Textile Co., Ltd.
Teijin Tecloth Ltd.
Owari Seisen Co., Ltd.
Kansai Laboratory Co., Ltd.

Subsidiaries

USA
Suminoe Textile of America Corporation
Bondtex, Inc.

Mexico
Suminoe Textile de Mexico, S.A. de C.V.

China
SPM Automotive Textile Co., Ltd.
Suzhou Suminoe Koide Automotive Accessories Co., Ltd.
Suminoe Textile Shanghai Co., Ltd.
Suzhou Suminoe Textiles Co., Ltd.

Thailand
T.C.H. Suminoe Co., Ltd.

Indonesia
PT. Suminoe Surya Techno
PT. Sinar Suminoe Indonesia

India
Suminoe Teijin Techno Krishna India Pvt. Ltd.

Associated Companies

Japan
Sumisho Airbag Systems Co., Ltd.
KST Co., Ltd.

Board of Directors and Corporate Auditors

(as of August 30, 2017)

Chairman and President

Ichizo Yoshikawa (Representative Director)

Senior Managing Directors

Yoshiaki Tanihara (Representative Director)
Hitoshi Iida (Representative Director)

Directors

Yoshiteru Mimura
Katsuyuki Sawai
Teppei Nagata
Haruo Shimizu
Takashi Yokota

Corporate Auditors

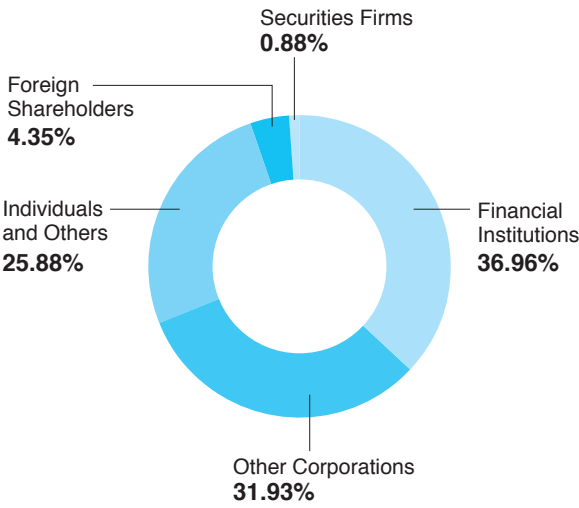
Kunihiko Kotaki
Hidenao Yoichi
Yasufumi Yamashita

Investor Information

(as of May 31, 2017)

Founded: 1883
Incorporated: December 25, 1913
(Suminoe Textile Joint-Stock Company)
Change of Organization: December 26, 1930
(Suminoe Textile Co., Ltd.)
Capital: ¥9,554,173,950
Authorized Shares: 300,000,000
Issued Shares: 76,821,626
Shareholders: 5,256
Employees: 243 (Parent Company)
2,830 (Consolidated Basis)

Composition of Shareholders :



Major Shareholders:

(as of May 31, 2017)

Name	Number of Shares (Thousands)	Percentage of Total Shares Outstanding
Takashimaya Company, Limited	9,249	12.26
Nippon Life Insurance Company	5,018	6.65
Marubeni Corporation	3,665	4.86
The Nomura Trust and Banking Co., Ltd. (Trust account 2052197)	3,500	4.64
Mizuho Bank, Ltd.	2,345	3.11
TOYOTA MOTOR CORPORATION	2,240	2.97
The Master Trust Bank of Japan Ltd. (Trust account)	1,806	2.39
The Master Trust Bank of Japan Ltd. (as trustee for Retirement Benefit Trust of UNITIKA LTD.)	1,788	2.37
Suminoe Textile Kyoeikai	1,774	2.35
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,742	2.31

Notice Regarding Consolidation of Shares, Revision of the Number of Shares per Trading Unit and Amendment of the Articles of Incorporation

The Company resolved at the Board of Directors' meeting held on July 25, 2017, to submit a proposal for partial amendment of the Articles of Incorporation for the consolidation of shares and the revision of the number of shares per trading unit to the 128th Annual General Meeting of Shareholders held on August 30, 2017. The proposal was approved by resolution at the 128th Annual General Meeting of Shareholders held on August 30, 2017. Please refer to page 34 No.13 of Financial Section in detail.