

**Suminoe Textile Co., Ltd.**

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# ANNUAL REPORT 2018

YEAR ENDED MAY 31, 2018



**Suminoe Textile Co., Ltd.**



ANNUAL REPORT 2018

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.

## 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.

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.



**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.



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.



Heisei Era **1994**

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

**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.

**2018**

Suminoe Koide (Thailand) Co., Ltd. starts up operations.

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

**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.



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	Millions of Yen					Thousands of U.S.Dollars
	2018	2017	2016	2015	2014	2018
<b>For the Year:</b>						
Net Sales	¥97,873	¥96,038	¥97,530	¥91,183	¥88,219	\$897,917
Operating Income	2,248	1,298	2,554	3,102	2,809	20,624
Net Income Attributable to Owners of the Parent	1,084	26	245	1,816	1,969	9,945
<b>At Year-End:</b>						
Total Assets	¥92,183	¥90,255	¥86,878	¥90,126	¥85,841	\$845,716
Total Equity	38,542	37,399	37,178	39,205	34,571	353,596
<b>Per Share (Yen and U.S. dollars):</b>						
Net Income Attributable to Owners of the Parent	¥143.66	¥3.50	¥32.52	¥240.67	¥260.94	\$1.32
Shareholder's Equity	4,515.26	4,412.34	4,416.08	4,661.45	4,097.72	41.42
Cash dividends applicable to the year	70.00	70.00	70.00	60.00	60.00	0.64
<b>Financial Ratios (%):</b>						
Equity Ratio	36.9%	36.9%	38.3%	39.0%	36.0%	
ROE (Net Income Attributable to Owners of the Parent Base)	3.2	0.1	0.7	5.5	6.6	
ROA (Ordinary Income Base)	2.6	1.5	3.3	4.2	4.1	

Note 1: U.S. dollar amounts are converted from Japanese yen amounts at the rate of U.S.\$1 to ¥109, the approximate rate on May 31, 2018.  
 Note 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.  
 Note 3: Suminoe Textile implemented a 1-for-10 reverse split of common shares, which took effect on December 1, 2017. We are calculating our net income attributable to owners of the parent per share, shareholder's equity per share and cash dividends applicable to the year per share based on the number of shares outstanding after the reverse stock split.



Chairman and President  
 Ichizo Yoshikawa 吉川一三

## Consolidated financial result

During the consolidated fiscal year ended May 31, 2018 under review, the Japanese economy continued recovering, supported by strong corporate earnings and a gradual improvement in employment and income. Meanwhile, the global economy recovered, but there remained uncertainty over the future due to the unpredictable policies of the Trump administration and rising geopolitical risks.

In accordance with the basic policy of its 5th three-year medium-term management plan, "2020," the Suminoe Textile Group implemented various measures to achieve its target for the initial year. Net sales increased from the previous year, since the Automotive Textiles and Traffic Facilities Segment performed solidly against the backdrop of steady automobile sales in Japan, China, and Thailand. Meanwhile, profits grew from the previous year despite the negative impact of soaring raw material prices and distribution costs.

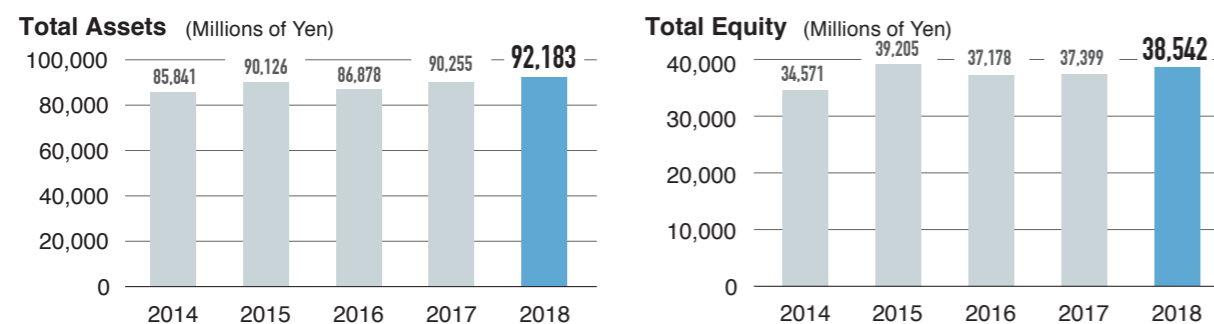
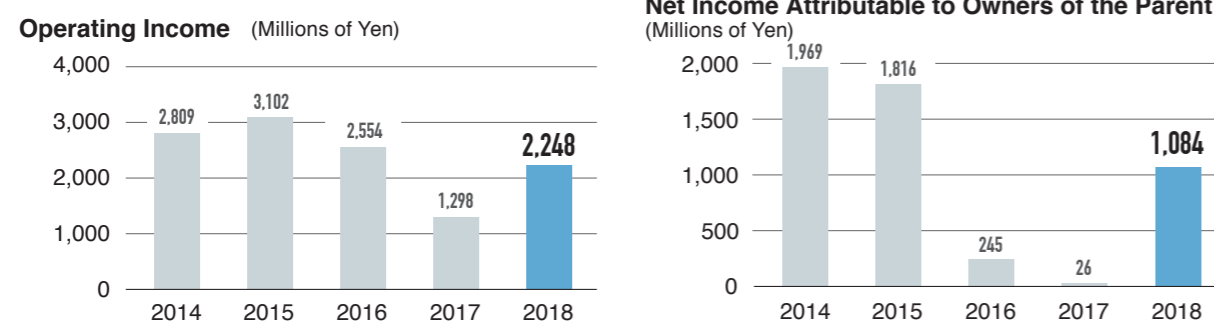
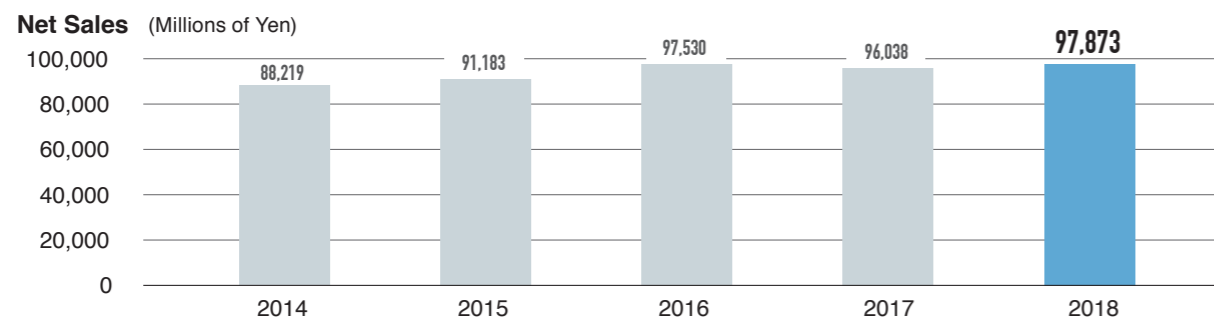
Consequently, our consolidated net sales for the fiscal year under review were ¥97,873 million (U.S.\$897,917 thousand,

up 1.9% year-on-year), with operating income of ¥2,248 million (U.S.\$20,624 thousand, up 73.2%), ordinary income of ¥2,359 million (U.S.\$21,639 thousand, up 72.9%), and profit attributable to owners of the parent of ¥1,084 million (U.S.\$9,945 thousand, profit attributable to owners of the parent of ¥26 million in the previous year).

## Consolidated Financial Results & Targets

	2019 (Target)	2018 (Result)	2017 (Result)
Net Sales	¥97,500	¥ 97,873	¥ 96,038
		\$897,917	\$865,207
Operating Income	¥ 3,100	¥ 2,248	¥ 1,298
		\$ 20,624	\$ 11,694
Net Income Attributable to Owners of the Parent	¥ 1,900	¥ 1,084	¥ 26
		\$ 9,945	\$ 234
Exchange Rate (Yen)	—	U.S.\$1=¥109	U.S.\$1=¥111

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

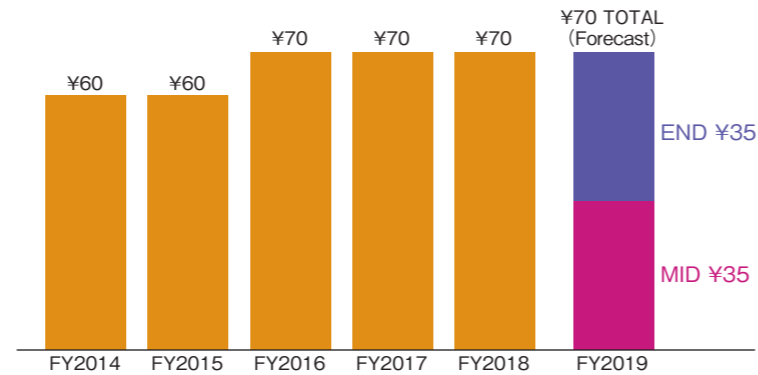


## Dividend policy

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 interim dividend of ¥3.5 (U.S.\$0.03) per share and year-end dividend of ¥35.0 (U.S.\$0.32) per share. The fiscal year-end dividend is ¥35.0 given the 1-for-10 reverse split of common shares, which took effect on December 1, 2017.

In addition, it plans to pay an annual dividend of ¥70.0 per share (an interim dividend of ¥35.0 and year-end dividend of ¥35.0) for the fiscal year ending May 2019.

Annual Cash Dividends Per Share



Note : The figures shown were calculated based on standards after the reverse stock split.

## Outlook for the next term

The fiscal year ending May 31, 2019 is the second year of “2020,” our 5th three-year medium-term management plan. Although the Japanese economy is expected to continue recovering gradually, there is growing uncertainty over the global economy due to the escalation of a trade dispute caused by the Trump administration’s commercial policies and the risk of changes in emerging-market currencies.

We forecast net sales to decrease from FY2018 due to the impact of restructuring in the Interior Fittings

Segment and foreign currency translation adjustments. However, we expect operating income to grow from FY2018 because of continued steady demand for automotive textiles.

Considering these circumstances, we plan to post net sales of ¥97,500 million, operating income of ¥3,100 million, ordinary income of ¥3,350 million, and net income attributable to owners of the parent of ¥1,900 million for the fiscal year ending May 31, 2019.

## Topic 1

### Start of 5th Three-Year Medium-Term Management Plan “2020”

In June 2017, we embarked on our 5th three-year medium-term management plan “2020.” Business growth and the restructuring of our corporate governance system are the leading priorities in this management plan given the improper accounting treatments uncovered at Suminoe Textile of America Corporation.

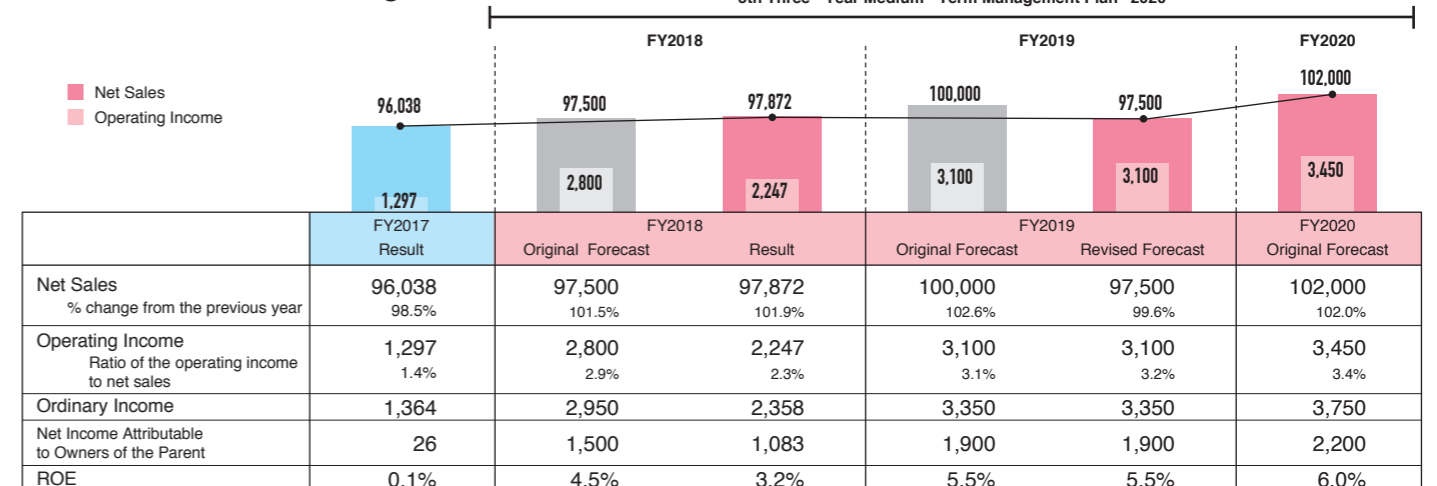
#### ► Restructuring of corporate governance

It is our belief that the first step to preventing a recurrence of this issue is to delve into the background of the issue and bring everything to light. Therefore our initial move to preventing human error is to rebuild our global core system to grasp earnings and inventory trends in a timely manner for use in decision-making by management. In addition, each department will be required to report on a weekly and monthly basis using a standard companywide format so that management executives and employees can share information and thereby promote mutual communication. Furthermore, we are implementing “management patrols.” This consists of executives going out and visiting the frontlines and business sites. Through these measures, we plan to build a globally-shared platform to foster a corporate culture with consistent information recognition and open communication.

#### ► Growth of business

We aim to flexibly address customer needs in a timely manner to grow our businesses. To this end, we are confidently tackling three themes: expansion of product lineups, strengthening of globalization, and development and sales of high value-added products. In particular, in the strengthening of globalization, we plan to rebuild our growth platform from a long-term perspective. In North America, production and quality were negatively impacted by excessive orders. As such, in this region we are pushing forward with preparations to foster an additional phase of rapid growth by implementing improvements that will create proper conditions that are conducive to securing consistent quality.

#### Consolidated Numerical Targets



Note: The figures in the results for the fiscal year 2017 and 2018 are based on Japanese GAAP.

## Topic 2

### New Company in Thailand Starts Up Operations

In the Automotive Textiles segment, we are actively expanding operations overseas. In 1994, we entered the market in Thailand. At present, there are 12 sites in six countries outside Japan. The ratio of overseas sales to overall sales in this segment is roughly 30% and around 50% of total segment employees are located overseas. In April 2018, we commenced car mat manufacturing operations in Chiang Mai, Thailand. We have already been carrying out the production of carpets and seat fabrics in Thailand. By adding the car mat business to our operations in Thailand, we now have sites in six countries (Japan, the U.S., Mexico, China, Indonesia, and Thailand) that handle the manufacturing of all of major automotive textiles.



As we move forward, it is our goal to fortify our international competitiveness by expanding our global order capacity.

#### ► Summary of New Company in Thailand

- Name: Suminoe Koide (Thailand) Co., Ltd.
- Office: 96/16 M.2 T.Sankampaeng A.Sankampaeng, Chiang Mai 50130 Thailand
- Operation Began: April 2018
- Capital: 16 million Baht (55 millions of yen)
- Investment Ratio: Suminoe Textile Co., Ltd. 65% KOIDEX Co., Ltd. 35%
- Business description: Manufacturing and sales of car mats



## Topic 3

### R&D Initiatives

In recent years, we have been pouring energies into the research and development of cutting-edge smart fabrics that will contribute to solving social issues. For example, we aim to incorporate fabric electrodes that detect faint electrical signals into apparel and other products for use as a biometric sensor. Other potential applications are in the field of sports and nursing care and monitoring of senior citizens as these electrodes can detect the faint electrical currents emitted by muscles making it possible to measure a pulse and body temperature. Moreover, Suminoe Textile was participating in the clean sensor network system technology development project sponsored by NEDO\* and jointly developed a solar-power generating textile with Tokyo Institute of Technology and Shinshu University. This is expected to be used as an independent power source for wearable sensors. We have completed the basic research for both of these technologies and going forward we plan to commercialize them while taking advantage of open innovation.

In addition to this, we are actively tackling R&D to find new business seeds, including the development of new products that utilize film and laminate technologies. We also jointly developed a supplement called *Kakidanomi* in partnership with Kindai University. *Kakidanomi* contains a high purity persimmon (kaki) polyphenol, which was put on the market on December 2017.



#### PH Film

Floor surface films are helpful for boarding announcements and arousing attention. In priority spaces in railway cars, pictograms or lettering is printed on film to designate areas for wheelchair or baby-stroller use.



#### Kakidanomi: Persimmon Polyphenol Supplements

We rolled out *Kakidanomi*, a supplement that contains a high purity persimmon (kaki) polyphenol. The persimmon polyphenol is extracted from persimmons grown in Nara Prefecture using a patented processing method. A self-awareness survey conducted with participants in a human clinical trial shows it is expected that the symptoms of intoxication, including sluggishness and nausea can be controlled and alleviated.

\*NEDO: A national research and development agency that shoulders part of the responsibility of the economic and industrial administration through the promotion of technological development aimed at solving energy and global environmental issues, and strengthening industrial technologies. As an institution that manages technological development, NEDO aims to solve social issues and create markets through the implementation of innovations in society by optimally combining the technological and research capabilities possessed by industries, academia and the government, and by verifying high risk innovative technological development.

### Topic 4

## Launch of High-performance, High-quality Hard Floor Materials, **BERRY ALLOC® PURE LVT**

We rolled out **BERRY ALLOC® PURE LVT**, a high-performance, high-quality hard floor material.

Luxury Vinyl Tile (LVT) is a novel hard flooring material, which has been exhibiting rapid growth in the United States and Europe. LVT can be used alone or in combination with carpets to produce diverse interiors. Going forward, we anticipate demand will expand for use in households, stores, hospitals, welfare facilities, education institutions, and offices.

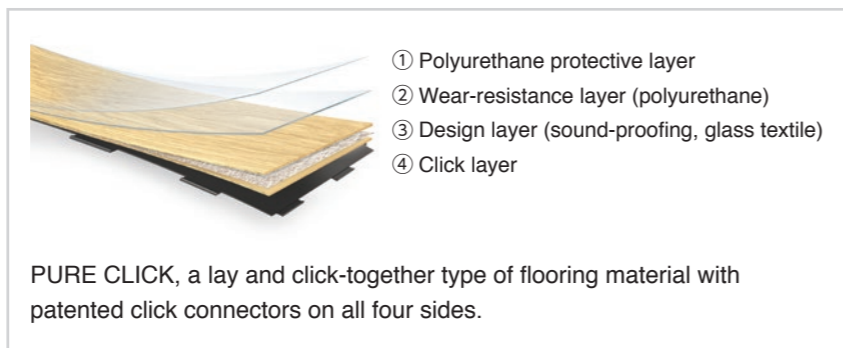


Features:

- ▶ Natural texture achieved through 3D printing technology
- ▶ Easy installation
- ▶ Highly durable owing to a 0.5 millimeter thick urethane wear-resistance layer
- ▶ Easy maintenance as it does not require waxing

Product composition:

- ▶ Design: Wood or stone texture surface
- ▶ Shape: Rectangular or square
- ▶ Installation method:
  - Lay and click-together type (PURE CLICK) : There are click connectors on all four sides making it possible to freely connect pieces horizontally and vertically. Wood and stone texture sections can be easily connected and installed.
  - Adhesive type (PURE Glue Down) : Installation using an adhesive.



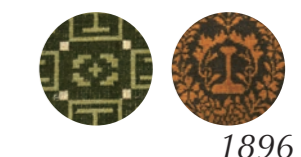
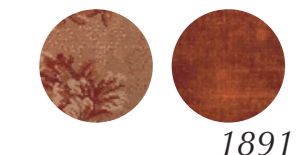
### Topic 5

## Tradition and Mission of Suminoe Textile

Suminoe Textile delivers high-quality lifestyles and stylish spaces through fabrics. This is the value the Company has continued to provide society since its founding in 1883.

In 1891, we delivered a hand-woven carpet for the opening of the Imperial Diet Building (currently the Diet Building). In 1896, we were the first in Japan to successfully produce a hand-woven moquette fabric, which was used in the seating upholstery for railway cars. In conjunction with the rise of motorization in post-war Japan, we embarked on the production of automotive seat fabrics. Then in 1980, we introduced the first Japanese-made carpet tiles, which at the time caught the market's attention as a ground-breaking product. Over the ages Suminoe Textile has always valued tradition while quickly grasping the needs of the time and our customers. Our ability to stand up and tackle these challenges is why we have achieved continued growth for the past 135 years.

Today we deliver fine art fabrics, including carpets, seating upholstery and wall coverings to various architectural structures that are within the framework of Japanese traditional arts and crafts. This includes buildings such as the Diet Building and Geihinkan, state guest houses for hosting VIPs from abroad. In today's world where emphasis is on productivity, protecting hand-weaving technologies is very difficult. However, it is our mission to protect these traditional techniques, as the production of hand-woven textiles is our founding business and also one of Japan's traditional industries. Through this, we also aim to contribute to culture. Going forward, we plan to respond to further challenges to achieve growth so that we can continue to protect these traditions.



Producing hand-woven carpets

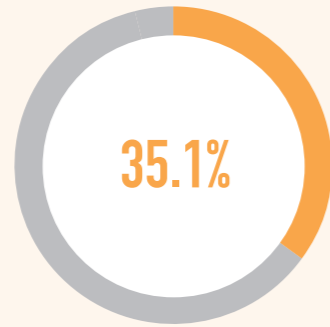


Plush hand-woven curtains

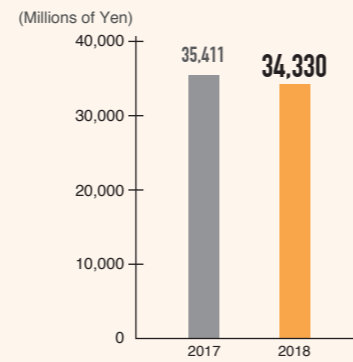
# Interior Fittings

▶ P 13

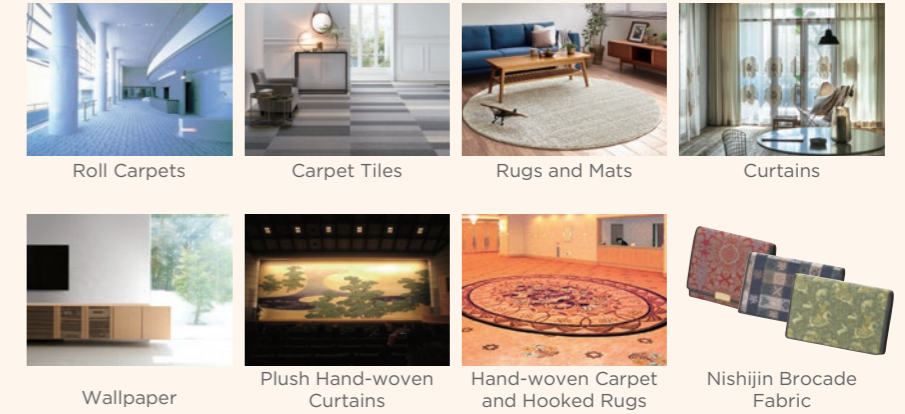
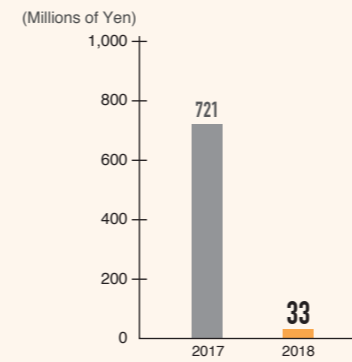
## Contribution to Total Net Sales



## Net Sales



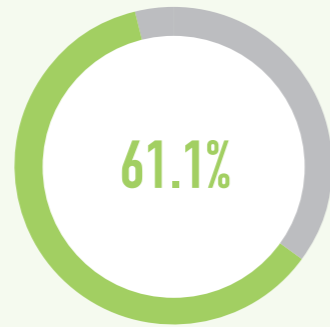
## Operating Income



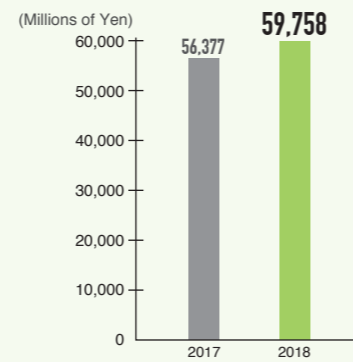
# Automotive Textiles and Traffic Facilities

▶ P 15

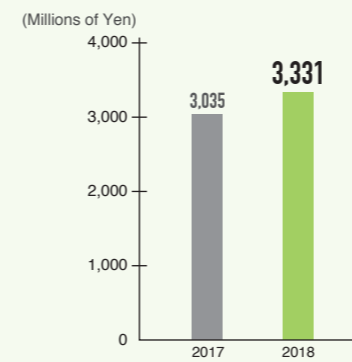
## Contribution to Total Net Sales



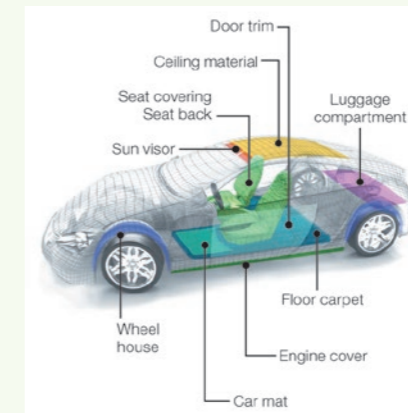
## Net Sales



## Operating Income



## Automotive Textiles



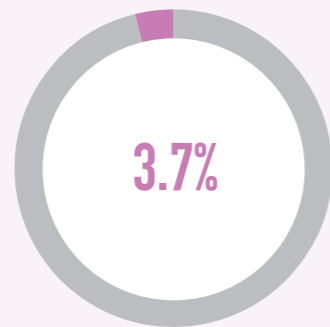
## Traffic Facilities



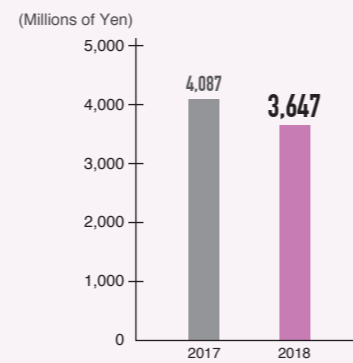
# Functional Materials

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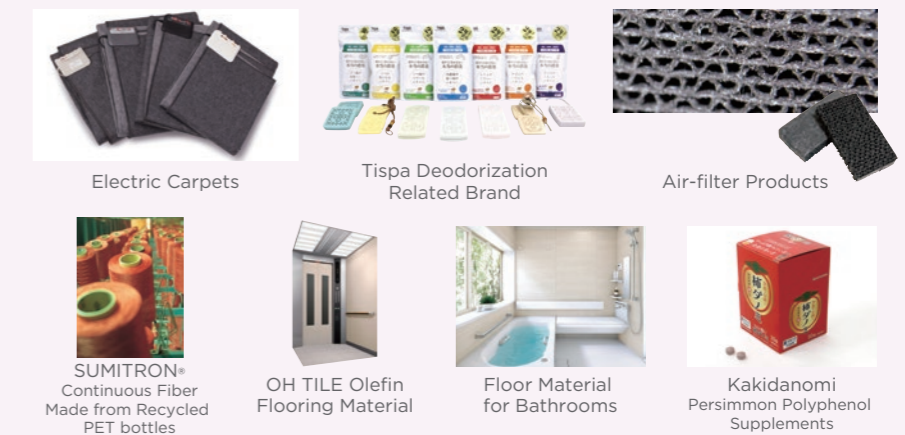
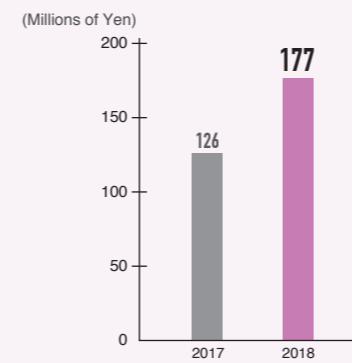
## Contribution to Total Net Sales



## Net Sales



## Operating Income



# Interior Fittings



## SUMINOE Co., Ltd.



Roll Carpets



Carpet Tiles



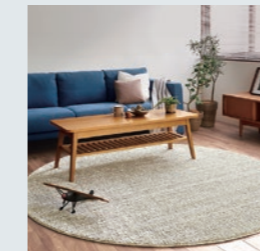
Wallpaper

## RUNON CO., LTD.

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



Nishijin Brocade Fabric

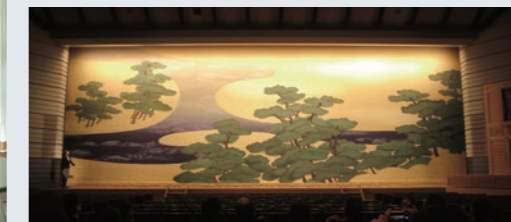


Rugs and Mats



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 84%.

Through our proprietary recycling system, recycled materials are created from old carpet tiles.



## Business Overview for the Fiscal Year ended May 31, 2018

Sales of commercial-use carpets declined from the previous year despite steady growth in the export of ECOS®, eco-friendly carpet tiles under the *horizontal recycling* system. The decrease was due to the dearth of large-scale projects in Japan, although we launched sales of BERRY ALLOC® PURE LVT, a quality, high functional hard floor material, and concentrated our efforts on obtaining orders for carpets related to new construction and remodeling of office buildings, commercial facilities, and hotels. Sales of curtains fell over the previous year because sales of Face, curtains for medical, welfare, and educational institutions, were sluggish due to fewer projects, although sales

of *mode S® Vol. 8* remained almost at the level of the previous year. Sales of carpets, rugs and mats for general households fell from the previous year, since consumer sentiment continued to be weak. Sales of wall coverings and materials increased from the previous year due to solid sales of *Runon Fresh Premium*.

Furthermore, we recorded a valuation loss on inventory as expenses for structural reform. Consequently, the Interior Fittings Segment posted operating income of ¥33 million (U.S.\$303 thousand, down 95.4% year-on-year) on net sales of ¥34,330 million (U.S.\$314,953 thousand, down 3.1%).



## Automotive Textiles and Traffic Facilities



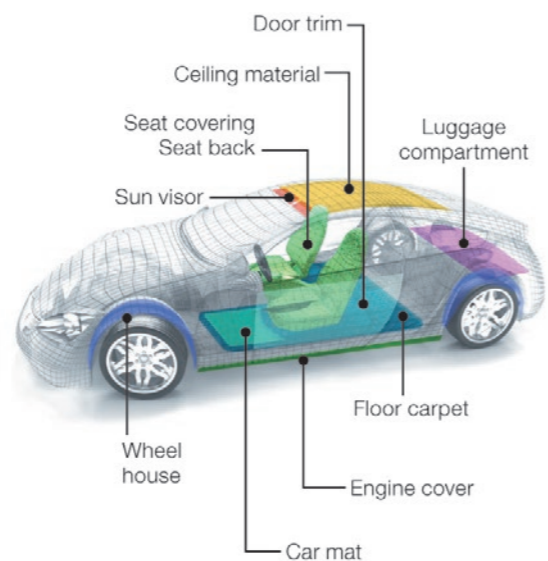
### Our Expertise in Proposing Optimal Solutions as a Total Supplier

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.

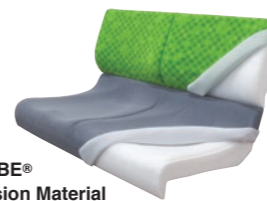
Outside Japan, the Suminoe Textile Group has now expanded its overseas presence by setting up 12 manufacturing and sales sites in six countries (the



United States, Mexico, China, Thailand, Indonesia, and India), aiming at the creation of a globally optimized supply system.

### 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

### Business Overview for the Fiscal Year ended May 31, 2018

In the area of automotive textiles, domestic sales increased from the previous year in the carpet, mat, and seat fabric businesses. In the seat fabric business, new fabric mixtures sold well due to the expansion of production supported by export demand. The carpet business experienced a growth in orders for exterior components as well as interior materials. In the mat business, sales were steady since high-grade mats were newly adopted by customers. Overseas, Suminoe Textile of America Corporation, a subsidiary in the U.S., continued to focus its efforts on improving its balance sheet. Meanwhile, our overseas sales rose from the previous year due to a rise in orders for new fabric mixtures in the seat fabric business in Asia, most notably China and Thailand, where production of Japanese cars was strong. In automotive textiles as a whole, both sales and operating income grew from the previous year.

In the area of traffic facilities, railway vehicle-related sales grew from the previous year since sales of non-textile products were steady, despite the lack of large

orders from the Japan Railways (JR) Group and private railway companies. Bus-related sales decreased from the previous year, since the production of new buses declined due to a fall in the use of large buses. This was because there was a change in the preferences of inbound tourists, who have been driving the travel industry in recent years. Specifically, the travel pattern of inbound tourists changed from traveling in large groups to small-group travel. Furthermore, orders for the remodeling of buses also declined. Meanwhile, airplane-related sales decreased from the previous year, since sales of seat covering materials and new materials that we had started supplying reached saturation point. In traffic facilities as a whole, sales and operating income fell from the previous year.

Consequently, the Automotive Textiles and Traffic Facilities Segment posted operating income of ¥3,331 million (U.S.\$30,559 thousand, up 9.8% year-on-year) on net sales of ¥59,758 million (U.S.\$548,239 thousand, up 6.0%).

## Functional Materials

### In Pursuit of Endless Business Possibilities

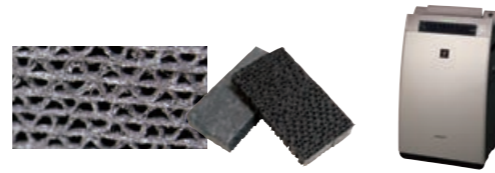
Transcending the boundaries of our traditional business segments, such as interior fittings and automotive textiles and traffic facilities, we have embarked on business targeting other fields and industries. Suminoe Textile has offered products that incorporate the unique technologies we have accumulated, 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, 2018

In the electric carpets business, sales and operating income decreased from the previous year due to a change in the product mix, although sales volume grew. In the deodorization and filter-related business, sales and operating income increased from the previous year, since deodorizing filters for air purifiers and heating equipment and the Tispa series, *Real odor deodorization without disguising with a scent* (a stationary deodorizer for home use) in a redesigned package, sold well. Although floor materials for bathrooms sold steadily, the business saw sales and operating income decrease from

the previous year. Sales of *Sumitron*®, polyester filament for dust mats, and carpets for airplanes were strong. Thus, both businesses saw sales and operating income grow from the previous year. Consequently, the Functional Materials Segment posted operating income of ¥177 million (U.S.\$1,624 thousand, up 40.2% year-on-year) on net sales of ¥3,647 million (U.S.\$33,459 thousand, down 10.8%). The exclusion of Suminoe Nakacho Device Technology Corporation from the scope of consolidation at the end of December 2016 also influenced the segment's results.

# Financial Section 2018

Year ended May 31, 2018

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## Consolidated Balance Sheet

Suminoe Textile Co., Ltd. and its Subsidiaries  
May 31, 2018

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 13)	¥ 9,411	¥ 6,930	\$ 86,339
Marketable securities (Notes 3 and 13)	8		73
Short-term investments (Note 13)	120	120	1,101
Receivables:			
Trade notes (Note 13)	3,776	4,379	34,642
Electronically-recorded monetary claims (Note 13)	5,607	4,720	51,440
Trade accounts (Note 13)	13,674	13,488	125,450
Income taxes receivable	125	379	1,147
Other	1,454	1,667	13,339
Allowance for doubtful receivables	(17)	(24)	(156)
Inventories (Note 4)	16,634	16,545	152,606
Deferred tax assets (Note 8)	622	529	5,706
Other	1,978	2,202	18,148
<b>Total current assets</b>	<b>53,392</b>	<b>50,935</b>	<b>489,835</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5):</b>			
Land	17,601	17,604	161,477
Buildings and structures	17,605	17,498	161,514
Machinery and equipment	21,464	21,324	196,917
Furniture and fixtures	2,699	2,662	24,761
Lease assets	2,174	2,029	19,945
Construction in progress	181	202	1,661
<b>Total</b>	<b>61,724</b>	<b>61,319</b>	<b>566,275</b>
Accumulated depreciation	(34,585)	(33,476)	(317,293)
<b>Net property, plant and equipment</b>	<b>27,139</b>	<b>27,843</b>	<b>248,982</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3, 5 and 13)	8,374	8,434	76,826
Investments in associated companies (Note 13)	611	604	5,606
Deferred tax assets (Note 8)	515	207	4,725
Intangibles	1,085	1,047	9,954
Other	1,216	1,329	11,155
Allowance for doubtful accounts	(149)	(144)	(1,367)
<b>Total investments and other assets</b>	<b>11,652</b>	<b>11,477</b>	<b>106,899</b>
<b>TOTAL</b>	<b>¥92,183</b>	<b>¥90,255</b>	<b>\$845,716</b>

\* Shares have been restated, as appropriate, to reflect a ten-to-one share consolidation effected on December 1, 2017.  
See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Notes 5 and 13)	¥12,243	¥11,252	\$112,321
Current portion of long-term debt (Notes 5 and 13)	1,873	1,746	17,183
Payables:			
Trade notes (Note 13)	3,181	4,328	29,183
Electronically-recorded obligations (Note 13)	4,784	3,855	43,890
Trade accounts (Note 13)	11,391	11,054	104,505
Construction and other	810	709	7,432
Income taxes payable	550	463	5,046
Accrued expenses	2,372	2,396	21,761
Provision for loss on litigation (Note 12)	473		4,339
Other (Note 8)	195	416	1,790
<b>Total current liabilities</b>	<b>37,872</b>	<b>36,219</b>	<b>347,450</b>
<b>LONG-TERM LIABILITIES:</b>			
Bonds payable (Note 13)	500	500	4,587
Long-term debt (Notes 5 and 13)	6,017	6,955	55,202
Liability for retirement benefits (Note 6)	4,066	4,048	37,303
Retirement allowances for retirement benefits for directors and Audit & Supervisory Board members	382	335	3,505
Deferred tax liabilities (Note 8)	549	520	5,037
Deferred tax liabilities related to land revaluation excess	3,761	3,761	34,505
Other	494	518	4,531
<b>Total long-term liabilities</b>	<b>15,769</b>	<b>16,637</b>	<b>144,670</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9, 14 and 16)</b>			
<b>EQUITY (Notes 5, 7 and 17):</b>			
Common stock – authorized, 30,000,000 shares; issued, 7,682,162 shares in 2018 and 2017*	9,554	9,554	87,651
Capital surplus	2,652	2,652	24,330
Retained earnings	10,823	10,267	99,294
Treasury stock – at cost; 139,368 shares and 138,462 shares in 2018 and 2017, respectively*	(365)	(362)	(3,349)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,155	3,036	28,945
Deferred (loss) gain on derivatives under hedge accounting	12	(10)	110
Land revaluation excess	7,797	7,797	71,532
Foreign currency translation adjustments	601	550	5,514
Defined retirement benefit plan	(171)	(199)	(1,568)
<b>Total</b>	<b>34,058</b>	<b>33,285</b>	<b>312,459</b>
Noncontrolling interests	4,484	4,114	41,137
<b>Total equity</b>	<b>38,542</b>	<b>37,399</b>	<b>353,596</b>
<b>TOTAL</b>	<b>¥92,183</b>	<b>¥90,255</b>	<b>\$845,716</b>

## Consolidated Statement of Income

Suminoe Textile Co., Ltd. and its Subsidiaries  
Year Ended May 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES	¥97,873	¥96,038	\$897,917
COST OF SALES	78,634	76,627	721,412
Gross profit	19,239	19,411	176,505
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	16,991	18,113	155,881
Operating income	2,248	1,298	20,624
OTHER INCOME (EXPENSES):			
Interest and dividend income	186	204	1,706
Rental income	233	109	2,138
Equity in earnings of associated companies	37	91	339
Gain on sales of investment securities	668	160	6,128
Interest expense	(275)	(240)	(2,523)
Sales discounts	(51)	(52)	(468)
Rental expense	(32)	(24)	(294)
Environmental expenses	(11)	(57)	(101)
Loss on sales and disposals of property, plant and equipment	(5)	(315)	(46)
Impairment loss for long-lived assets (Note 11)	(21)		(193)
Increase in provision for loss on litigation (Note 12)	(493)		(4,522)
Other - net	23	12	212
Other expenses - net	259	(112)	2,376
INCOME BEFORE INCOME TAXES	2,507	1,186	23,000
INCOME TAXES (Note 8):			
Current	1,058	833	9,707
Deferred	(441)	(294)	(4,046)
Total income taxes	617	539	5,661
NET INCOME	1,890	647	17,339
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	806	621	7,394
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,084	¥ 26	\$ 9,945
PER SHARE OF COMMON STOCK (Note 2.r):	Yen		U.S. Dollars
Basic net income*	¥143.66	¥3.50	\$1.32
Cash dividends applicable to the year**	38.50	7.00	0.35

\* Basic net income has been restated, as appropriate, to reflect a ten-to-one share consolidation effected on December 1, 2017.

\*\* Cash dividends applicable to the year have not been restated as a result of the ten-to-one share consolidation effected on December 1, 2017.

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Suminoe Textile Co., Ltd. and its Subsidiaries  
Year Ended May 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥1,890	¥ 647	\$17,339
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):			
Unrealized gain (loss) on available-for-sale securities	119	585	1,092
Deferred gain (loss) on derivatives under hedge accounting	(3)	28	(28)
Foreign currency translation adjustments	98	(105)	899
Remeasurements of defined benefit plans	28	(2)	257
Share of other comprehensive (loss) gain in associates	24	(43)	220
Total other comprehensive income (loss)	266	463	2,440
COMPREHENSIVE INCOME (LOSS)	¥2,156	¥1,110	\$19,779
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥1,303	¥499	\$11,954
Noncontrolling interests	853	611	7,825

See notes to consolidated financial statements.

### Consolidated Statement of Changes in Equity

Suminoe Textile Co., Ltd. and its Subsidiaries  
Year Ended May 31, 2018

	Millions of Yen				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, JUNE 1, 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)
Net income attributable to owners of the parent				1,084	
Cash dividends, ¥38.50 per share*				(528)	
Purchase of treasury stock	(3,485)				(3)
Consolidation of shares	(67,890,731)				
Net change in the year					
BALANCE, MAY 31, 2018	7,542,794	¥9,554	¥2,652	¥10,823	¥(365)

	Millions of Yen							
	Accumulated Other Comprehensive Income					Total	Noncontrolling Interests	Total Equity
	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, 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
Net income attributable to owners of the parent						1,084		1,084
Cash dividends, ¥38.50 per share*						(528)		(528)
Purchase of treasury stock						(3)		(3)
Consolidation of shares								
Net change in the year	119	22		51	28	220	370	590
BALANCE, MAY 31, 2018	¥3,155	¥12	¥7,797	¥ 601	¥(171)	¥34,058	¥4,484	¥38,542

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, MAY 31, 2017	\$87,651	\$24,330	\$94,193	\$(3,321)
Net income attributable to owners of the parent			9,945	
Cash dividends, \$0.35 per share*			(4,844)	
Purchase of treasury stock				(28)
Net change in the year				
BALANCE, MAY 31, 2018	\$87,651	\$24,330	\$99,294	\$(3,349)

	Thousands of U.S. Dollars (Note 1)							
	Accumulated Other Comprehensive Income					Total	Noncontrolling Interests	Total Equity
	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, 2017	\$27,853	\$ (92)	\$71,532	\$5,046	\$(1,825)	\$305,367	\$37,743	\$343,110
Net income attributable to owners of the parent						9,945		9,945
Cash dividends, \$0.35 per share*						(4,844)		(4,844)
Purchase of treasury stock						(28)		(28)
Net change in the year	1,092	202		468	257	2,019	3,394	5,413
BALANCE, MAY 31, 2018	\$28,945	\$ 110	\$71,532	\$5,514	\$(1,568)	\$312,459	\$41,137	\$353,596

\* Per share figures have not been restated as a result of the ten-to-one share consolidation effected on December 1, 2017.  
See notes to consolidated financial statements.

### Consolidated Statement of Cash Flows

Suminoe Textile Co., Ltd. and its Subsidiaries  
Year Ended May 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 2,507	¥ 1,186	\$ 23,000
Adjustments for:			
Income taxes – paid	(1,074)	(1,632)	(9,854)
Income taxes – refunds	428	3	3,927
Depreciation and amortization	1,726	1,620	15,835
Impairment loss for long-lived assets	21		193
Provision for doubtful receivables and accounts	(2)	(22)	(18)
Increase in provision for loss on litigation	493		4,522
Loss on sales and disposals of property, plant and equipment	5	315	46
Gain on sales of investment securities	(668)	(160)	(6,128)
Equity in earnings of associated companies	(37)	(91)	(339)
Changes in assets and liabilities:			
Increase in notes and accounts receivable – trade	(458)	(80)	(4,202)
Increase in inventories	(225)	(1,241)	(2,064)
Increase in notes and accounts payable – trade	80	1,164	734
Increase in liability for retirement benefits	104	150	954
(Increase) decrease in consumption tax receivable	264	(264)	2,422
Increase (decrease) in consumption tax payable	222	(236)	2,037
Other - net	134	272	1,229
Total adjustments	1,013	(202)	9,294
Net cash provided by operating activities	3,520	984	32,294
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant and equipment	9	77	83
Purchases of property, plant and equipment	(951)	(2,697)	(8,725)
Purchase of intangible assets	(221)	(26)	(2,028)
Proceeds from sales and redemption of securities	4,437	2,491	40,706
Purchases of marketable and investment securities	(3,534)	(2,017)	(32,422)
Proceeds from acquisition of subsidiaries	17		156
Other - net	(2)	2	(18)
Net cash used in investing activities	(245)	(2,170)	(2,248)
<b>FINANCING ACTIVITIES:</b>			
Net change in short-term bank loans	1,302	1,341	11,945
Proceeds from long-term debt	700	3,400	6,422
Repayments of long-term debt	(1,815)	(3,969)	(16,651)
Proceeds from issuance of bonds payable		483	
Purchase of treasury stock	(3)	(2)	(28)
Dividends paid	(528)	(528)	(4,844)
Dividends paid to noncontrolling interests	(555)	(372)	(5,092)
Other - net	55		505
Net cash provided by and used in financing activities	(844)	353	(7,743)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	50	(48)	458
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,481	(881)	22,761
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	6,930	7,811	63,578
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥ 9,411	¥ 6,930	\$ 86,339

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Suminoe Textile Co., Ltd. and its Subsidiaries  
Year Ended May 31, 2018

### 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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥109 to \$1, the approximate rate of exchange at May 31, 2018. 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, 2018 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 2017) 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) 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, 2018, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥3,491 million (\$32,028 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.

**I. 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.

**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.

On December 1, 2017, the Company effected a ten-to-one share consolidation based on the resolution of the shareholders' meeting held on August 30, 2017. All prior year share and per share figures except cash dividends per share have been restated to reflect the impact of the share consolidation, and to provide data on a basis comparable to the year ended May 31, 2018. Such restatements include calculations regarding the Company's weighted-average number of common shares and basic net income per share.

The computations of net income per share of common stock are based on the weighted-average number of shares outstanding of 7,543,303 shares and 7,544,113 shares for the years ended May 31, 2018 and 2017, 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.

Cash dividends per share applicable to the period for the fiscal year ended May 31, 2018, comprises interim dividends of ¥3.50 (before the consolidation) and year-end dividends of ¥35.00 (after the consolidation). If the consolidation had been taken into consideration, cash dividends per share applicable to the period for the fiscal year ended May 31, 2018, would be ¥70.00.

**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.

**t. New Accounting Pronouncements**

**Revenue Recognition** - On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition."

The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018. The Company expects to apply the accounting standard and guidance for annual periods beginning on or after June 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

**u. Changes in Presentation** - "(Increase) decrease in consumption tax receivable," and "Increase (decrease) in consumption tax payable," which had been included in "Other – net," under "Cash flows from operating activities" in the previous fiscal year, has been presented separately from the year ended May 31, 2018 due to its increased quantitative significance. In addition, "(Increase) decrease in other current assets," and "(Increase)

(decrease) in other current liabilities," of "Investments and other assets," which had previously been separately presented, is included in "Other – net," from the fiscal year ended May 31, 2018, because its quantitative significance has decreased, and prior period financial statements have been reclassified in accordance with the new presentation. "Dividends paid to noncontrolling interests," which had been included in "Other – net," under "Cash flows from investing activities" in the previous fiscal year, has been presented separately from the year ended May 31, 2018 due to its increased quantitative significance.

**3. MARKETABLE AND INVESTMENT SECURITIES**

Marketable and investment securities as of May 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Current:			
Marketable securities	¥ 8		\$ 73
Total	¥ 8		\$ 73
Non-current:			
Marketable equity securities	¥8,227	¥8,287	\$75,477
Unlisted equity securities	147	147	1,349
Total	¥8,374	¥8,434	\$76,826

The cost and aggregate fair values of marketable and investment securities as of May 31, 2018 and 2017 were as follows:

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥3,810	¥4,495	¥78	¥8,227
Marketable securities	8			8
Total	¥3,818	¥4,495	¥78	¥8,235

	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

	Thousands of U.S. Dollars			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	\$34,954	\$41,239	\$716	\$75,477
Marketable securities	73			73
Total	\$35,027	\$41,239	\$716	\$75,550





## 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.

On December 1, 2017, the Company effected a ten-to-one share consolidation based on the resolution of the shareholders' meeting held on August 30, 2017.

## 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 rate of approximately 30.8% for the years ended May 31, 2018 and 2017, respectively. The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of May 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Allowance for doubtful receivables and accounts	¥ 50	¥ 50	\$ 459
Liabilities for retirement benefits	1,350	1,323	12,385
Tax loss carryforwards	3,744	1,791	34,349
Investment securities	85	84	780
Inventories	473	282	4,339
Other	591	561	5,421
Less valuation allowance	(3,594)	(1,833)	(32,972)
Total deferred tax assets	¥ 2,699	¥ 2,258	\$ 24,761
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 1,249	¥ 1,192	\$ 11,459
Land	393	393	3,606
Other	468	457	4,293
Total deferred tax liabilities	¥ 2,110	¥ 2,042	\$ 19,358
Net deferred tax assets	¥ 1,138	¥ 736	\$ 10,440
Net deferred tax liabilities	¥ 549	¥ 520	\$ 5,037

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, 2018 and 2017 is as follows:

	2018	2017
Normal effective statutory tax rate	30.8%	30.8%
Change in valuation allowance	(19.4)	22.2
Expenses not deductible for income tax purposes	2.1	2.6
Per capita levy	1.8	3.8
Foreign tax credit	1.8	1.6
Difference of tax rates for foreign subsidiaries	3.6	(8.0)
Equity in earnings of associated companies	0.3	(2.3)
Tax exemption of foreign subsidiaries		(7.9)
Retained earnings of affiliated companies	0.5	3.2
Tax reconciliation	2.0	(0.9)
Other - net	1.1	0.3
Actual effective tax rates	24.6%	45.4%

At May 31, 2018, certain subsidiaries have tax loss carryforwards aggregating approximately ¥11,386 million (\$104,459 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	¥ 342	\$ 3,138
2020	2	18
2021	0	0
2022	0	0
2023	59	541
2024 and thereafter	10,983	100,762
Total	¥11,386	\$104,459

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted into law, which reduced corporate tax rates in the United States. There was no impact from the adoption of the TCJA for the year ended May 31, 2018.

## 9. RELATED PARTY DISCLOSURES

Transactions of the Company with associated companies for the years ended May 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Guarantees and similar items of loans payable to associates	¥2,339		\$21,459

## 10. R&D COSTS

R&D costs charged to income were ¥268 million (\$2,459 thousand) and ¥289 million for the years ended May 31, 2018 and 2017, respectively.

## 11. IMPAIRMENT LOSSES

For the year ended May 31, 2018, the Group recognized ¥21 million (\$193 thousand) of impairment losses as other expenses for a part of their operational assets because it was considered difficult to recover the investment amount of these investments due to a decline in profitability, etc.

The recoverable value of operational assets was measured based on the net selling price, but it was difficult to find an alternative use or sell to third parties, so it was valued based on the memorandum value.

## 12. PROVISION FOR LOSSES ON LITIGATION

Suminoe Textile of America Corporation, a subsidiary, is being litigated for compensation of losses. The Group booked an estimated amount for expected losses on litigation.

## 13. 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 14.

### (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 14 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



\*2.The portion 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 13 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.

### 15. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended May 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 852	¥ 941	\$ 7,817
Reclassification adjustments to profit or loss	(676)	(163)	(6,202)
Amount before income tax effect	176	778	1,615
Income tax effect	(57)	(193)	(523)
Total unrealized gain on available-for-sale securities	119	585	1,092
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	(4)	40	(37)
Income tax effect	1	(12)	9
Total deferred gain (loss) on derivatives under hedge accounting	(3)	28	(28)
Foreign currency translation adjustments:			
Adjustments arising during the year	98	(105)	899
Remeasurements of defined benefit plans:			
Losses arising during the year	(7)	(53)	(64)
Reclassification adjustments to profit	47	50	431
Amount before income tax effect	40	(3)	367
Income tax effect	(12)	1	(110)
Total remeasurements of defined benefit plans	28	(2)	257
Share of other comprehensive income in associates:			
Gains (losses) arising during the year	24	(43)	220
Total other comprehensive income	¥ 266	¥ 463	\$ 2,440

### 16. CONTINGENT LIABILITIES

At May 31, 2018, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items of loans payable to associates	¥2,339	\$21,459

### 17. SUBSEQUENT EVENT

#### Appropriation of Retained Earnings

The following appropriation of retained earnings as of May 31, 2018, was approved at the Company's shareholders' meeting held on August 30, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥35 (\$0.32) per share	¥264	\$2,422

### 18. 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								
	2018								
	Reportable Segments				Total	Others	Total	Reconciliations	Consolidated
Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total						
Sales:									
Sales to customers	¥34,330	¥59,758	¥3,647	¥97,735	¥138	¥97,873		¥97,873	
Intersegment sales	672	8	8	688	182	870	¥ (870)		
Total	¥35,002	¥59,766	¥3,655	¥98,423	¥320	¥98,743	¥ (870)	¥97,873	
Segment profit	¥ 33	¥ 3,331	¥ 177	¥ 3,541	¥ 68	¥ 3,609	¥(1,361)	¥ 2,248	
Segment assets	27,479	37,166	2,222	66,867	445	67,312	24,871	92,183	
Other:									
Depreciation and amortization	343	1,140	90	1,573	20	1,593	133	1,726	
Investments in associated companies accounted for by the equity method		611		611		611		611	
Increase in property, plant and equipment and intangible assets	186	764	27	977	32	1,009	263	1,272	

	Millions of Yen								
	2017								
	Reportable Segments				Total	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	

	Thousands of U.S. Dollars								
	2018								
	Reportable Segments				Total	Others	Total	Reconciliations	Consolidated
Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total						
Sales:									
Sales to customers	\$314,953	\$548,239	\$33,459	\$896,651	\$1,266	\$897,917		\$897,917	
Intersegment sales	6,166	73	73	6,312	1,670	7,982	\$ (7,982)		
Total	\$321,119	\$548,312	\$33,532	\$902,963	\$2,936	\$905,899	\$ (7,982)	\$897,917	
Segment profit	\$ 303	\$ 30,559	\$ 1,624	\$ 32,486	\$ 624	\$ 33,110	\$ (12,486)	\$ 20,624	
Segment assets	252,101	340,972	20,385	613,458	4,083	617,541	228,175	845,716	
Other:									
Depreciation and amortization	3,147	10,459	826	14,432	183	14,615	1,220	15,835	
Investments in associated companies accounted for by the equity method		5,606		5,606		5,606		5,606	
Increase in property, plant and equipment and intangible assets	1,706	7,009	248	8,963	294	9,257	2,413	11,670	

Note 1.Reconciliations of segment profit of ¥1,361 million (\$12,486 thousand) consist of elimination of intersegment transactions of ¥25 million (\$229 thousand) and corporate expenses unallocated to the respective reportable segments of ¥1,386 million (\$12,715 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 ¥24,871 million (\$228,175 thousand) consist of elimination of intersegment transactions of ¥266 million (\$2,440 thousand) and corporate assets unallocated to the respective reportable segments of ¥25,137 million (\$230,615 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				
	2018				
For the year ended May 31, 2018	Japan	North and Central America	Asia	Others	Total
Sales to customers	¥65,732	¥15,121	¥16,674	¥346	¥97,873
Property, plant and equipment	22,615	3,456	1,068		27,139

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

	Thousands of U.S. Dollars				
	2018				
For the year ended May 31, 2018	Japan	North and Central America	Asia	Others	Total
Sales to customers	\$603,046	\$138,725	\$152,972	\$3,174	\$897,917
Property, plant and equipment	207,478	31,706	9,798		248,982

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

	Millions of Yen						
	2018						
	Reportable Segments			Total	Others	Eliminations/ Corporate	Total
Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials					
For the year ended May 31, 2018							
		¥21		¥21			¥21

	Thousands of U.S. Dollars						
	2018						
	Reportable Segments			Total	Others	Eliminations/ Corporate	Total
Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials					
For the year ended May 31, 2018							
		\$193		\$193			\$193

**(6) Information about Goodwill by Reportable Segment**

Disclosure is omitted since the aggregate values for the years ended May 31, 2018 and 2017 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, 2018, 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, 2018 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, 2018

Member of  
 Deloitte Touche Tohmatsu Limited

Company Network

(as of May 31, 2018)

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 Teclath 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.  
Suminoe Koide (Thailand) Co., Ltd.

Indonesia

PT. Suminoe Surya Techno  
PT. Sinar Suminoe Indonesia

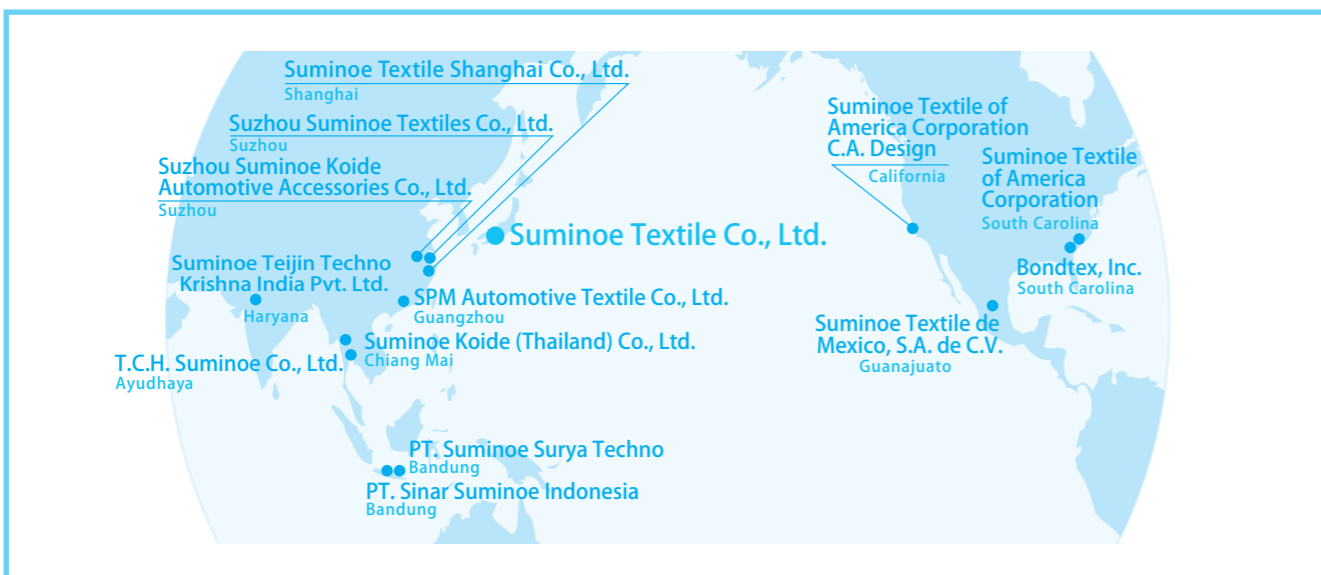
India

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, 2018)

Chairman and President

Ichizo Yoshikawa (Representative Director)

Senior Managing Directors

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

Directors

Katsuyuki Sawai  
Teppei Nagata  
Haruo Shimizu  
Takashi Yokota  
Kohei Nomura

Corporate Auditors

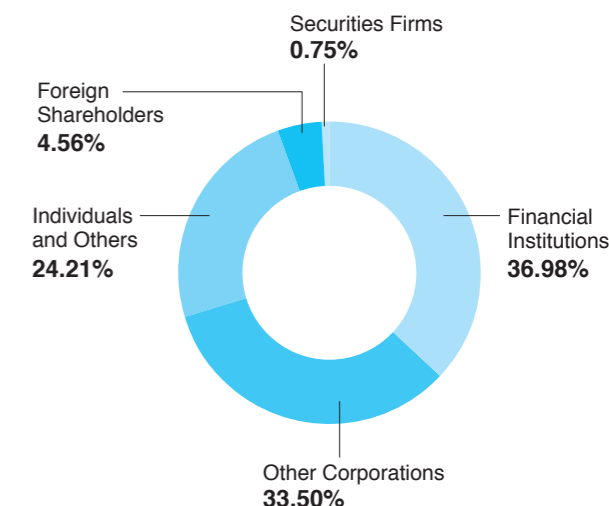
Kunihiko Kotaki  
Yasufumi Yamashita  
Masashi Hashimoto

Investor Information

(as of May 31, 2018)

**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:** 30,000,000  
**Issued Shares:** 7,682,162  
**Shareholders:** 4,605  
**Employees:** 251 (Parent Company)  
2,850 (Consolidated Basis)

Composition of Shareholders :



Major Shareholders:

(as of May 31, 2018)

Name	Number of Shares (Thousands)	Percentage of Total Shares Outstanding
Takashimaya Company, Limited	924	12.26
Nippon Life Insurance Company	501	6.65
The Nomura Trust and Banking Co., Ltd. (Trust account 2052197)	394	5.23
Marubeni Corporation	366	4.86
Mizuho Bank, Ltd.	234	3.11
TOYOTA MOTOR CORPORATION	224	2.97
The Master Trust Bank of Japan, Ltd. (as trustee for Retirement Benefit Trust of UNITIKA LTD.)	178	2.37
MUFG Bank, Ltd.	174	2.31
DFA INTL SMALL CAP VALUE PORTFOLIO	167	2.22
The Master Trust Bank of Japan, Ltd. (Trust account)	154	2.04