Financial Statements

2017

For the fiscal year ended May 31, 2017

SATORI ELECTRIC CO.,LTD.

By maintaining a constant grasp of the precise needs of the market, the Satori Group — centered on SATORI ELECTRIC CO., LTD. — has served as an efficient distribution channel between manufacturers and users in the ever more sophisticated fields of electronics and automation. On the firm basis of our outstanding technological strength, we have now broken out of the confines of simple product distribution to develop in-house customization and solution proposal capabilities. By this means, we are able to mobilize the full strength of the Satori Group to offer a comprehensive service in the field of electronic components and equipment in line with the three catchwords that encapsulate our basic policies — "Technology," "Solutions," and "Global."

Consolidated Domestic Subsidiaries:
SATORI PINICS CO., LTD.
STAR ELECTRONICS CO., LTD.
SATORI S-TECH CO., LTD.
Consolidated Overseas Subsidiaries:
TAIWAN SATORI CO., LTD.
HONG KONG SATORI CO., LTD.
SHANGHAI SATORI CO., LTD.
KOREA SATORI CO., LTD.
SINGAPORE SATORI PTE., LTD.
SATORI E-TECHNOLOGY (AMERICA) INC.
SATORI ELECTRIC (GERMANY) GmbH
THAI SATORI CO., LTD.
Unconsolidated Subsidiaries:
SATORI PRODUCTION MANAGEMENT CONSULTING CO., LTD.
SHENZHEN SATORI CO., LTD.
Domestic Affiliate:
INSIGHT INTERNATIONAL CO., LTD.

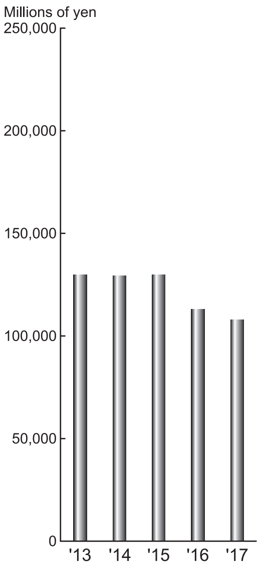
FINANCIAL HIGHLIGHTS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31

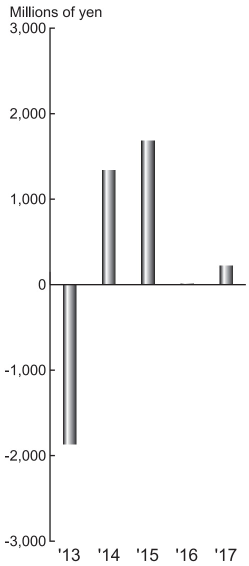
	Millions of yen					Thousands of U.S. dollars	Percent change between
	2013	2014	2015	2016	**2017**	**2017**	**2016 and 2017**
Operations Data:							
Net Sales	¥ 129,915	¥ 129,302	¥ 129,746	¥ 113,000	**¥ 107,982**	**$ 973,162**	**(4.4) %**
Income before Income Taxes	43	1,597	2,305	371	**484**	**4,362**	**30.5**
Profit (Loss) Attributable to Owners of Parent	(1,864)	1,339	1,684	12	**223**	**2,010**	**1,758.3**
Financial Data:							
Total Assets	63,677	61,510	67,420	59,759	**59,009**	**531,804**	**(1.3)**
Net Assets	28,309	29,483	33,510	31,227	**31,278**	**281,885**	**(0.2)**
	Yen					U.S. dollars	
Per Share Data:							
Earnings (Loss) — Basic	¥ (109.91)	¥ 78.98	¥ 99.31	¥ 0.73	**¥ 13.17**	**$ 0.12**	**1,704.1 %**
— Diluted	—	—	—	—	—	—	—
Cash Dividends	20.00	24.00	30.00	32.00	**34.00**	**0.31**	**6.3**
Net Assets	1,669	1,739	1,976	1,842	**1,845**	**16.63**	**0.2**
	Percent						
Financial Ratios:							
Return on Equity Ratio	(6.6)%	4.6%	5.3%	0.0%	**0.7%**		
Equity Ratio	44.5	47.9	49.7	52.3	**53.0**		

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥110.96= $1 as of May 31, 2017.
See Notes 1, 2 and 10 to the consolidated financial statements.

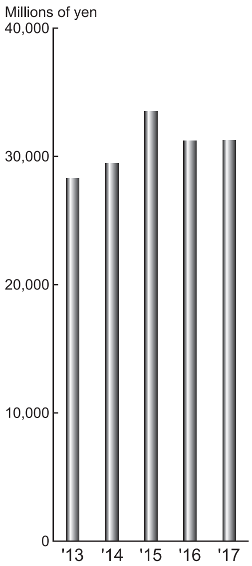
Net Sales



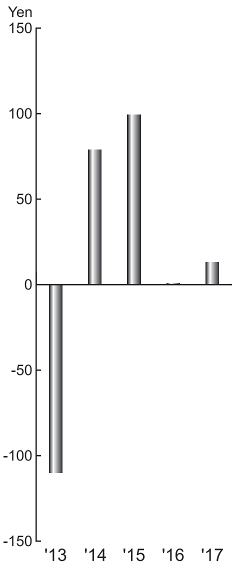
Profit (Loss) Attributable to Owners of Parent



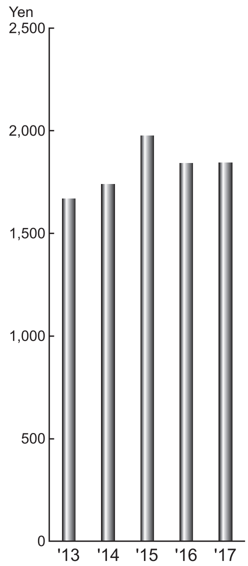
Net Assets



Earnings (Loss) per Share



Net Assets per Share



CONSOLIDATED BALANCE SHEETS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
As of May 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2016	2017	2017
Current assets:			
Cash and time deposits (Notes 5 and 17)	¥ 6,533	¥ 6,911	$ 62,284
Notes and accounts receivable — trade (Notes 3 and 5)	32,952	31,319	282,255
Allowance for doubtful accounts	(3)	(1)	(9)
Inventories (Note 4)	9,723	9,565	86,202
Deferred tax assets (Note 15)	308	412	3,713
Other current assets	734	743	6,696
Total current assets	50,247	48,949	441,141
Property, plant and equipment (Note 13):			
Land	1,339	1,334	12,022
Buildings and structures (Note 7)	4,397	4,459	40,186
Machinery and equipment	2,094	2,054	18,511
Lease assets	193	237	2,136
Construction in progress	6	6	54
	8,029	8,090	72,909
Less — accumulated depreciation	(3,795)	(3,861)	(34,796)
Net property, plant and equipment	4,234	4,229	38,113
Investments and other assets:			
Investment securities (Notes 5 and 6)	2,623	3,335	30,056
Investments in unconsolidated subsidiaries and affiliates (Note 5)	21	21	189
Guarantee deposits for trading	36	33	297
Leasehold rights	1,086	1,086	9,787
Deferred tax assets (Note 15)	52	63	568
Other assets	1,507	1,339	12,068
Allowance for doubtful accounts	(47)	(46)	(415)
Total investments and other assets	5,278	5,831	52,550
	¥ 59,759	¥ 59,009	$ 531,804

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term bank loans (Notes 5 and 8)	¥ 3,878	¥ 3,190	$ 28,749
Current portion of long-term debt (Notes 5 and 8)	2,000	1,900	17,123
Notes and accounts payable — trade (Notes 5 and 7)	15,230	14,583	131,426
Income taxes payable (Note 5)	156	189	1,703
Other current liabilities	899	1,182	10,653
Total current liabilities	22,163	21,044	189,654
Long-term liabilities:			
Long-term debt (Notes 5 and 8)	4,200	4,200	37,851
Liability for employees' severance and retirement benefits (Note 9)	1,605	1,585	14,285
Deferred tax liabilities (Note 15)	319	622	5,606
Deferred tax liabilities on revaluation gain for land (Note 15)	26	26	234
Other liabilities	219	254	2,289
Total long-term liabilities	6,369	6,687	60,265
Net assets:			
Shareholders' equity (Note 10):			
Common stock:			
Authorized — 69,000,000 shares			
Issued — 17,946,826 shares in 2016 and 2017	2,611	2,611	23,531
Capital surplus	3,608	3,608	32,516
Retained earnings	25,721	25,402	228,929
Treasury stock, at cost	(1,254)	(1,254)	(11,301)
Total shareholders' equity	30,686	30,367	273,675
Accumulated other comprehensive income:			
Unrealized holding gains on securities, net of income taxes	734	1,159	10,445
Losses on deferred hedge accounting, net of income taxes	(0)	(0)	(0)
Revaluation loss for land, net of income taxes	(173)	(173)	(1,559)
Foreign currency translation adjustments	(27)	(75)	(676)
Accumulated adjustments for retirement benefits	7	—	—
Total accumulated other comprehensive income	541	911	8,210
Total net assets	31,227	31,278	281,885
	¥ 59,759	¥ 59,009	$ 531,804

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2015, 2016 and 2017

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2015	2016	2017	2017
Net sales (Note 19)	¥ 129,746	¥ 113,000	¥ 107,982	$ 973,162
Cost of sales (Note 4)	119,011	103,583	98,701	889,519
Gross profit	10,735	9,417	9,281	83,643
Selling, general and administrative expenses (Note 11)	9,231	8,813	8,574	77,271
Operating income (Note 19)	1,504	604	707	6,372
Other income (expenses):				
Interest and dividend income	89	66	69	622
Interest expenses	(122)	(105)	(92)	(829)
Commission fee	8	5	21	189
Foreign exchange gains (losses)	814	(329)	(248)	(2,235)
Gains on sales of securities — net (Note 6)	—	95	8	72
Gains on liquidation of a subsidiary (Note 12)	—	31	—	—
Losses on disposal of fixed assets (Note 14)	(38)	(14)	(2)	(18)
Impairment losses on fixed assets (Note 13)	—	—	(5)	(45)
Other — net	50	18	26	234
	801	(233)	(223)	(2,010)
Income before income taxes	2,305	371	484	4,362
Income taxes (Note 15):				
Current	699	287	239	2,154
Deferred	(78)	72	22	198
	621	359	261	2,352
Profit	1,684	12	223	2,010
Profit attributable to:				
Non-controlling interests	—	—	—	—
Owners of parent	¥ 1,684	¥ 12	¥ 223	$ 2,010

	Yen			U.S. dollars (Note 1)
Per share data:				
Earnings — Basic	¥ 99.31	¥ 0.73	¥ 13.17	$ 0.12
— Diluted	—	—	—	—
Cash dividends applicable to the year	30.00	32.00	34.00	0.31

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2015, 2016 and 2017

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2015	2016	**2017**	**2017**
Profit	¥ 1,684	¥ 12	**¥ 223**	**$ 2,010**
Other comprehensive income (loss) (Note 16):				
Unrealized holding gains (losses) on securities	722	(670)	**425**	**3,830**
Gains (losses) on deferred hedge accounting	2	(2)	**0**	**0**
Revaluation gain for land, net of income taxes	3	2	**—**	**—**
Foreign currency translation adjustments	1,624	(1,038)	**(48)**	**(433)**
Adjustments for retirement benefits	(12)	(10)	**(7)**	**(63)**
Total	2,339	(1,718)	**370**	**3,334**
Comprehensive income (loss)	¥ 4,023	¥ (1,706)	**¥ 593**	**$ 5,344**
Comprehensive income (loss) attributable to:				
Owners of parent	¥ 4,023	¥ (1,706)	**¥ 593**	**$ 5,344**
Non-controlling interests	—	—	**—**	**—**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2015, 2016 and 2017

		Millions of yen				
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at June 1, 2014	17,946,826	¥ 2,611	¥ 3,608	¥ 24,597	¥ (1,253)	¥ 29,563
Cumulative effects of the accounting change		—	—	445	—	445
Restated balance		2,611	3,608	25,042	(1,253)	30,008
Profit attributable to owners of parent		—	—	1,684	—	1,684
Cash dividends paid		—	—	(441)	—	(441)
Treasury stock, at cost		—	—	—	(0)	(0)
Other		—	—	—	—	—
Balance at June 1, 2015	17,946,826	2,611	3,608	26,285	(1,253)	31,251
Profit attributable to owners of parent		—	—	12	—	12
Cash dividends paid		—	—	(576)	—	(576)
Treasury stock, at cost		—	—	—	(1)	(1)
Other		—	—	—	—	—
Balance at June 1, 2016	**17,946,826**	**2,611**	**3,608**	**25,721**	**(1,254)**	**30,686**
Profit attributable to owners of parent		**—**	**—**	**223**	**—**	**223**
Cash dividends paid		**—**	**—**	**(542)**	**—**	**(542)**
Treasury stock, at cost		**—**	**—**	**—**	**(0)**	**(0)**
Other		**—**	**—**	**—**	**—**	**—**
Balance at May 31, 2017	**17,946,826**	**¥ 2,611**	**¥ 3,608**	**¥ 25,402**	**¥ (1,254)**	**¥ 30,367**

	Millions of yen						
	Unrealized holding gains (losses) on securities, net of income taxes	Gains (losses) on deferred hedge accounting, net of income taxes	Revaluation loss for land, net of income taxes	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Total net assets
Balance at June 1, 2014	¥ 682	¥ (0)	¥ (178)	¥ (613)	¥ 29	¥ (80)	¥ 29,483
Cumulative effects of the accounting change	—	—	—	—	—	—	445
Restated balance	682	(0)	(178)	(613)	29	(80)	29,928
Profit attributable to owners of parent	—	—	—	—	—	—	1,684
Cash dividends paid	—	—	—	—	—	—	(441)
Treasury stock, at cost	—	—	—	—	—	—	(0)
Other	722	2	3	1,624	(12)	2,339	2,339
Balance at June 1, 2015	1,404	2	(175)	1,011	17	2,259	33,510
Profit attributable to owners of parent	—	—	—	—	—	—	12
Cash dividends paid	—	—	—	—	—	—	(576)
Treasury stock, at cost	—	—	—	—	—	—	(1)
Other	(670)	(2)	2	(1,038)	(10)	(1,718)	(1,718)
Balance at June 1, 2016	**734**	**(0)**	**(173)**	**(27)**	**7**	**541**	**31,227**
Profit attributable to owners of parent	**—**	**—**	**—**	**—**	**—**	**—**	**223**
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(542)**
Treasury stock, at cost	**—**	**—**	**—**	**—**	**—**	**—**	**(0)**
Other	**425**	**0**	**—**	**(48)**	**(7)**	**370**	**370**
Balance at May 31, 2017	**¥ 1,159**	**¥ (0)**	**¥ (173)**	**¥ (75)**	**¥ —**	**¥ 911**	**¥ 31,278**

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2015, 2016 and 2017

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at June 1, 2016	$ 23,531	$ 32,516	$ 231,804	$ (11,301)	$ 276,550
Profit attributable to owners of parent	—	—	2,010	—	2,010
Cash dividends paid	—	—	(4,885)	—	(4,885)
Treasury stock, at cost	—	—	—	(0)	(0)
Other	—	—	—	—	—
Balance at May 31, 2017	$ 23,531	$ 32,516	$ 228,929	$ (11,301)	$ 273,675

	Thousands of U.S. dollars (Note 1)						
	Unrealized holding gains on securities, net of income taxes	Gains (losses) on deferred hedge accounting, net of income taxes	Revaluation loss for land, net of income taxes	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Total net assets
Balance at June 1, 2016	$ 6,615	$ (0)	$ (1,559)	$ (243)	$ 63	$ 4,876	$ 281,426
Profit attributable to owners of parent	—	—	—	—	—	—	2,010
Cash dividends paid	—	—	—	—	—	—	(4,885)
Treasury stock, at cost	—	—	—	—	—	—	(0)
Other	3,830	0	—	(433)	(63)	3,334	3,334
Balance at May 31, 2017	$ 10,445	$ (0)	$ (1,559)	$ (676)	$ —	$ 8,210	$ 281,885

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries

Years ended May 31, 2015, 2016 and 2017

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2015	2016	2017	2017
Cash flows from operating activities:				
Income before income taxes	¥ 2,305	¥ 371	¥ 484	$ 4,362
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	369	359	362	3,262
Employees' severance and retirement benefits	42	145	(33)	(297)
Interest expenses incurred	122	105	92	829
(Gains) losses on sales of securities	—	(95)	(8)	(72)
Impairment losses on fixed assets	—	—	5	45
Change in receivables	(2,259)	4,092	1,767	15,925
Change in inventories	(1,325)	518	100	901
Change in payables	1,970	(3,228)	(734)	(6,615)
Interest paid	(121)	(108)	(98)	(883)
Income taxes refund (paid)	(670)	(568)	(199)	(1,793)
Other — net	23	(212)	119	1,072
Net cash provided by operating activities	456	1,379	1,857	16,736
Cash flows from investing activities:				
Payments for purchase of securities	(85)	(139)	(138)	(1,244)
Proceeds from redemption of securities	400	—	—	—
Proceeds from sales of securities	—	201	23	207
Payments for purchase of property, plant and equipment	(116)	(86)	(56)	(504)
Payments for purchase of intangible fixed assets	(842)	(36)	—	—
Other — net	23	(106)	94	847
Net cash used in investing activities	(620)	(166)	(77)	(694)
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans	(826)	(308)	(722)	(6,507)
Proceeds from long-term debt	1,000	1,300	1,900	17,123
Payments of long-term debt	(1,375)	(1,400)	(2,000)	(18,024)
Cash dividends paid	(440)	(575)	(542)	(4,885)
Other — net	(40)	(34)	(45)	(405)
Net cash used in financing activities	(1,681)	(1,017)	(1,409)	(12,698)
Effect of exchange rate changes on cash and cash equivalents	542	(293)	7	63
Net increase (decrease) in cash and cash equivalents	(1,303)	(97)	378	3,407
Cash and cash equivalents at beginning of year	7,933	6,630	6,533	58,877
Cash and cash equivalents at end of year (Note 17)	¥ 6,630	¥ 6,533	¥ 6,911	$ 62,284

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2015, 2016 and 2017

1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements have been translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law.

Some supplementary information included in the statutory consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the exchange rate as of May 31, 2017, which was ¥110.96 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and equity method

The accompanying consolidated financial statements include the accounts of the Company and its 11 significant subsidiaries (the "Group").

All significant intercompany accounts and transactions have been eliminated.

In addition, adjustments were made to the accounts of consolidated foreign subsidiaries to reconcile from the accounting principles of the respective countries of domicile to either IFRS or the United States generally accepted accounting principles ("U.S. GAAP") as necessary, plus adjustments for the certain items specified in Practical Issues Task Force ("PITF") No. 18, Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements, issued by the Accounting Standards Board of Japan ("ASBJ") on May 17, 2006 from IFRS or U.S. GAAP to Japanese GAAP as necessary in consolidation.

The Company has two unconsolidated subsidiaries (SATORI PRODUCTION MANAGEMENT CONSULTING CO., LTD. and SHENZHEN SATORI CO., LTD.), consolidation of which would not significantly affect total assets, net sales, profit or retained earnings reported in the accompanying consolidated financial statements.

The equity method was also not applied to those two unconsolidated subsidiaries and an affiliate (INSIGHT INTERNATIONAL CO., LTD.) for the years ended May 31, 2016 and 2017 as such application would not significantly change the consolidated profit or retained earnings.

The fiscal year end of the consolidated subsidiaries, except for SHANGHAI SATORI CO., LTD., is May 31. The fiscal year end of SHANGHAI SATORI CO., LTD. is December 31, and accordingly, it is consolidated using pro forma financial information as of May 31.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rate at the balance sheet date, and translation gains and losses are charged to income.

The balance sheets of foreign consolidated subsidiaries are translated into Japanese yen at the year-end rate except for net assets accounts which are translated at the historical rates. Statements of operations of consolidated foreign subsidiaries are translated at average rates except for statements of operations items resulting from transactions with the Group at the rates used by the Group.

Differences arising from translation are presented as "Foreign currency translation adjustments," which is included in the net assets section of the consolidated balance sheets.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(d) Securities

Equity securities issued by unconsolidated subsidiaries are stated at the moving-average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets section of the consolidated balance sheets. Realized gains and losses on sale of such securities are computed using the moving-average cost.

Available-for-sale securities with no available fair value are stated at the moving-average cost.

If the fair value of equity securities issued by unconsolidated subsidiaries and available-for-sale securities declines significantly, such securities are stated at fair value and the difference between the fair value and the carrying amount is recognized as a loss for the period of the decline. If the fair value of equity securities issued by unconsolidated subsidiaries is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Inventories

Inventories are stated at the lower of cost, determined mainly by the moving average method for merchandise, finished goods and raw materials, and mainly by the specific cost method for work in process, or net selling value.

(f) Allowance for doubtful accounts

The allowance for doubtful accounts is provided as amounts sufficient to cover possible losses on collection. The Group provided allowance for doubtful accounts using rates of actual losses on collection for receivables other than those subjected to individual collectibility analysis.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost except for revalued land. Depreciation is computed principally by the declining-balance method at rates based upon the estimated useful lives of assets, which are prescribed in the Japanese Corporation Tax Code, except buildings acquired by the Company and its domestic subsidiaries after March 31, 1998 which are depreciated using the straight-line method.

Property, plant and equipment acquired on or after April 1, 2007 are depreciated mainly by the declining-balance method at rates based upon the estimated useful lives of assets, which are prescribed in the Japanese Corporation Tax Code.

(Accounting change)

The Company applied "Practical Solution on a change in depreciation method due to Tax Reform 2016" (PITF No. 32 of June 17, 2016) and accordingly, changed its depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method at rates based upon the estimated useful lives of assets, which are prescribed in the Japanese Corporation Tax Code.

Effects on the consolidated financial statements and per share information for the year ended May 31, 2016 were immaterial.

Pursuant to the Law concerning Revaluation of Land (the "Law"), land used for business operations was revalued at fair value as of May 31, 2001. Due to the revaluation, the related unrealized loss is reported as a separate component of net assets, net of applicable income taxes as "Revaluation loss for land, net of income taxes." As of May 31, 2016 and 2017, the fair values exceeded the revalued amounts. According to the revised Law, the Company is not permitted to revalue the land.

Finance lease assets that are not deemed to transfer ownership of the lease assets are depreciated over the period of the lease using a straight-line method, with zero residual value.

(h) Software costs

The Group amortizes software costs using the straight-line method over the estimated useful lives. The estimated useful lives of the software for sales are three years.

(i) Accrued bonuses to directors

The Group provides allowance for directors' accrued bonuses based on the estimated amounts at the balance sheet date.

(j) Employees' severance and retirement benefits

All eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Group provides allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date.

In determining projected benefit obligation, the estimated amount of retirement benefits is attributed to periods on a benefit formula basis.

All of the actuarial differences are recognized as expenses in the year incurred.

Amortization of prior service cost is computed by the straight-line method at rates based upon the average remaining length of service, which is 5 years.

(k) Income taxes

The Group recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(l) Amounts per share

The computation of earnings per share of common stock is based on the weighted-average number of shares outstanding during each fiscal year.

Cash dividends per share represent dividends declared as applicable to the respective years.

(m) Lease transactions

Lease assets under finance lease arrangements which commenced after May 31, 2008, except for certain immaterial or short-term finance leases, are capitalized to recognize lease assets and lease obligations in the balance sheet in accordance with the revised accounting standard for leases issued on March 30, 2007.

Certain immaterial or short-term finance leases are still accounted for as operating leases as permitted by the revised accounting standard.

(n) Derivatives and hedge accounting

Derivative financial instruments are stated at fair value and changes in the fair value as gains or losses are charged to income unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

The Group uses forward foreign currency contracts, currency swaps and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange and increases in the interest rate.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed.

(o) Reclassifications

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

(p) Accounting change

The Company and its domestic consolidated subsidiaries applied "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised on September 13, 2013), etc. effective from June 1, 2015. As a result, under these revised accounting standards, the presentation method of profit was amended, and the presentation of "minority interests" was changed to "non-controlling interests." In order to reflect these changes in presentation, certain prior years' amounts in the consolidated financial statements were reclassified to conform to such changes in the current year presentation.

There were no effects on the consolidated financial statements and per share information for the year ended May 31, 2016.

(q) Additional information

The Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the year ended May 31, 2017.

3. Securitization of Notes and Accounts Receivable

The following notes and accounts receivable outstanding were transferred for securitization as of May 31, 2016 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Notes and accounts receivable	¥ 1,557	¥ 617	$ 5,561

4. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Merchandise	¥ 8,574	¥ 8,416	$ 75,847
Finished goods	468	407	3,668
Raw materials	256	399	3,596
Work in process	425	343	3,091
Total	¥ 9,723	¥ 9,565	$ 86,202

Inventories are stated at the lower of cost or market and the Company recorded valuation allowances for inventories held for the ordinary sales purpose due to a decline in profitability in the amount of ¥39 million and ¥(68) million ($(613) thousand) for the years ended May 31, 2016 and 2017, respectively. These amounts were included in "Cost of sales."

5. Financial Instruments

(a) Qualitative information on financial instruments

Policy for measures relating to financial instruments:
The Group raises funds through bank loans and bond issuances and invests temporary funds surplus in low-risk instruments.

The derivatives policy states that the Group utilizes derivatives only to mitigate the risks that are described below, and do not conduct speculative transactions for trading purposes.

Financial instruments and related risks:
Trade receivables such as trade notes and accounts are exposed to the credit risk in relation to customers and trading partners. Trade receivables and payables denominated in foreign currencies are exposed to the foreign exchange rate fluctuation risk. The Group mitigates such risks through forward exchange contracts.

Investment securities, which mainly consist of equity securities issued by the business partners, are exposed to the market risk.

Payment terms of payables such as trade notes and accounts and income taxes payable are less than one year.

Bank loans and corporate bonds are for the purpose of fund raising mainly in connection with operating activities. Certain loans are exposed to interest rate fluctuation risk. To mitigate the interest rate fluctuation risk of the debt, the Company and part of consolidated subsidiaries use interest rate swaps as hedging instruments for individual contracts.

Derivative transactions include forward exchange contracts to hedge foreign exchange risk associated with foreign currency denominated receivables and payables and interest rate swaps to hedge interest rate fluctuation risk associated with debts.

Please refer to Note 2 (n) regarding hedge accounting, hedging instruments and hedged items, hedging policy, assessment of hedge effectiveness and other matters.

Risk management for financial instruments:

Credit risk
Each sales department of the Group periodically reviews credit status of major customers and monitors due dates and balances of receivables for each customer to minimize uncollectable amounts in accordance with sales policies.

Derivative contracts are entered into only with highly credit rated financial institutions to mitigate the credit risk.

Market risk
The Company and part of consolidated subsidiaries use forward exchange contracts in principle for foreign currency denominated trade receivables and payables to mitigate foreign exchange risk identified by currency and by month. In addition, depending on the situation of foreign exchange markets, foreign currency denominated trade receivables and payables which are surely expected to arise from the forecast transactions on export and import transactions are hedged using forward exchange contracts. The Company also utilizes interest rate swaps to avoid interest rate fluctuation risk associated with debts and fix the interest expenses.

Regarding investment securities, the market values and financial positions of the issuers are monitored regularly, and are continuously reviewed for the holding status considering the market conditions and relationships with trading counterparties.

Derivative transactions entered into and managed by the Group are made in accordance with internal policies that regulate objectives, credit limit amount, scope, organization and others.

Liquidity risk
Each company within the Group monitors and manages liquidity risk by preparing monthly fund management plans.

(b) Fair value of financial instruments

Fair value of financial instruments includes the market prices and the reasonably calculated prices in case of no available market prices. Since variable factors are incorporated in calculating the fair value, such value may vary, if different assumptions were adopted.

Contracts amounts of derivative transactions described in Note 20 "Derivative Financial Instruments" do not present the market risk exposed to the derivative transactions by the contract amount.

Carrying amounts, fair values and unrealized gain (loss) of the financial instruments as of May 31, 2016 and 2017 were as follows:

	Millions of yen		
	2016		
	Carrying amount	Fair Value	Unrealized gain/(loss)
Cash and time deposits	¥ 6,533	¥ 6,533	¥ —
Notes and accounts receivable	32,952	32,952	—
Investment securities	2,481	2,481	—
Total	¥ 41,966	¥ 41,966	¥ —
Notes and accounts payable	¥ 15,230	¥ 15,230	¥ —
Short-term bank loans	3,878	3,878	—
Current portion of long-term debt	2,000	2,000	—
Income taxes payable	156	156	—
Long-term debt	4,200	4,233	33
Total	¥ 25,464	¥ 25,497	¥ 33
Derivatives	¥ (2)	¥ (2)	¥ —

	Millions of yen		
	2017		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	¥ 6,911	¥ 6,911	¥ —
Notes and accounts receivable	31,319	31,319	—
Investment securities	3,200	3,200	—
Total	¥ 41,430	¥ 41,430	¥ —
Notes and accounts payable	¥ 14,582	¥ 14,582	¥ —
Short-term bank loans	3,190	3,190	—
Current portion of long-term debt	1,900	1,900	—
Income taxes payable	189	189	—
Long-term debt	4,200	4,158	(42)
Total	¥ 24,061	¥ 24,019	¥ (42)
Derivatives	¥ 7	¥ 7	¥ —

	Thousands of U.S. dollars		
	2017		
	Carrying amount	Fair Value	Unrealized gain/(loss)
Cash and time deposits	$ 62,284	$ 62,284	$ —
Notes and accounts receivable	282,255	282,255	—
Investment securities	28,839	28,839	—
Total	$ 373,378	$ 373,378	$ —
Notes and accounts payable	$ 131,417	$ 131,417	$ —
Short-term bank loans	28,749	28,749	—
Current portion of long-term debt	17,123	17,123	—
Income taxes payable	1,703	1,703	—
Long-term debt	37,851	37,473	(378)
Total	$ 216,843	$ 216,465	$ (378)
Derivatives	$ 63	$ 63	$ —

Financial instruments whose fair value is extremely difficult to obtain are not included.

Cash and time deposits, and Notes and accounts receivable:
The carrying value of cash and time deposits, and notes and accounts receivable approximates fair value because of their short maturities.

Investment securities:
The fair value of marketable equity securities is measured at the quoted price of the stock exchange.

Notes and accounts payable, Short-term bank loans, Current portion of long-term debt and Income taxes payable:
The carrying value of notes and accounts payable, short-term bank loans, current portion of long-term debt and income taxes payable approximates fair value because of their short maturities.

Long-term debt:
Long-term debt comprises bonds and long-term bank loans.

The fair value of bonds and long-term bank loans is measured at the present value by discounting expected repayments of principal and interest in the remaining period using an assumed interest rate on an equivalent new loan.

The fair value of interest-rate swaps for which the special treatment is applied is included in the fair value of long-term bank loans, as such swaps are treated as a single item incorporating the hedged long-term bank loans.

The special treatment under Japanese GAAP may be applied for interest rate swap contracts that meet certain hedging criteria. In the special treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on debts for which the swap contract is executed.

Derivatives:
Information on fair value of derivatives is presented in Note 20.

The unlisted equity securities, shares in affiliates and investments in limited liability partnerships listed in the following table are not included in "Investment securities" above because there is no fair value available.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unlisted equity securities:			
Investment securities	¥ 48	¥ 48	$ 433
Shares in affiliates	21	21	189
Investments in limited liability partnerships	94	87	784

(c) Maturity analysis for financial assets and securities with contractual maturities

The maturity analysis for financial assets and securities with contractual maturities as of May 31, 2016 and 2017 was as follows:

	Millions of yen			
May 31, 2016:	Due within one year	Due after one year through five	Due after five year through ten	Due after ten years
Cash and time deposits	¥ 6,533	¥ —	¥ —	¥ —
Notes and accounts receivable	32,952	—	—	—
Total	¥39,485	¥ —	¥ —	¥ —

	Millions of yen			
May 31, 2017:	Due within one year	Due after one year through five	Due after five year through ten	Due after ten years
Cash and time deposits	**¥ 6,911**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable	**31,319**	**—**	**—**	**—**
Total	**¥ 38,230**	**¥ —**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
May 31, 2017:	Due within one year	Due after one year through five	Due after five year through ten	Due after ten years
Cash and time deposits	**$ 62,284**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable	**282,255**	**—**	**—**	**—**
Total	**$ 344,539**	**$ —**	**$ —**	**$ —**

6. Securities

(a) The following tables summarize carrying amounts and acquisition costs of securities with available fair values as of May 31, 2016 and 2017:

Available-for-sale securities

Securities whose carrying amount (fair value) exceeds acquisition cost

	Millions of yen		
May 31, 2016:	Carrying amount	Acquisition cost	Difference
Equity securities	¥ 2,283	¥ 1,243	¥ 1,040

	Millions of yen		
May 31, 2017:	Carrying amount	Acquisition cost	Difference
Equity securities	**¥ 3,189**	**¥ 1,562**	**¥ 1,627**

	Thousands of U.S. dollars		
May 31, 2017:	Carrying amount	Acquisition cost	Difference
Equity securities	**$ 28,740**	**$ 14,077**	**$ 14,663**

Securities whose fair value does not exceed acquisition cost

	Millions of yen		
May 31, 2016:	Carrying amount	Acquisition cost	Difference
Equity securities	¥ 198	¥ 208	¥ (10)

	Millions of yen		
May 31, 2017:	Carrying amount	Acquisition cost	Difference
Equity securities	**¥ 11**	**¥ 12**	**¥ (1)**

	Thousands of U.S. dollars		
May 31, 2017:	Carrying amount	Acquisition cost	Difference
Equity securities	**$ 99**	**$ 108**	**$ (9)**

(b) Sales of securities classified as available-for-sale securities for the years ended May 31, 2016 and 2017 are summarized as follows:

	Millions of yen		
May 31, 2016:	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 167	¥ 110	¥ 0
Other	34	—	15
	¥ 201	¥ 110	¥ 15

	Millions of yen		
May 31, 2017:	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	**¥ 23**	**¥ 8**	**¥ 0**
Other	**—**	**—**	**—**
	¥ 23	**¥ 8**	**¥ 0**

	Thousands of U.S. dollars		
May 31, 2017:	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	**$ 207**	**$ 72**	**$ 0**
Other	**—**	**—**	**—**
	$ 207	**$ 72**	**$ 0**

(c) Impairment losses on securities

No loss on devaluation of securities was recognized for the years ended May 31, 2015, 2016 and 2017.

The Company necessarily recognizes impairment losses on securities when the fair value (or net asset value) of the securities declines by 50 % or more of the acquisition cost. When the fair value declines between 30% and 50% of the acquisition cost, the Company determines the amount to be devaluated, taking into consideration the quantitative materiality and recoverability.

7. Pledged Assets

The following assets were pledged to secure notes and accounts payable amounting to ¥100 million ($901 thousand) as of May 31, 2016 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Buildings and structures	¥ 185	**¥ 173**	**$ 1,559**

8. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans bore interest at weighted-average rates of 0.74% and 0.83% as of May 31, 2016 and 2017, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unsecured:			
0.97% -1.15% loans from Japanese banks, due in 2017	¥ 2,000	¥ —	$ —
1.06% -1.35% loans from Japanese banks, due in 2018	1,400	1,400	12,617
0.85% - 0.86% loans from Japanese banks, due in 2020	1,000	1,000	9,012
0.65% - 0.90% loans from Japanese banks, due in 2021	1,300	1,300	11,716
0.51% loans from Japanese banks, due in 2022	—	900	8,111
0.94% Japanese yen bonds, due in 2018	500	500	4,506
0.38% Japanese yen bonds, due in 2021	—	1,000	9,012
	6,200	6,100	54,974
Less amount due within one year	(2,000)	(1,900)	(17,123)
	¥ 4,200	¥ 4,200	$ 37,851

The annual maturities of long-term debt as of May 31, 2017 were as follows:

Year ending May 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 1,900	$ 17,123
2019	—	—
2020	1,000	9,012
2021	1,300	11,716
2022	1,900	17,123
	¥ 6,100	$ 54,974

The Company has entered into commitment line agreements with three financial institutions to secure the mobility and stability of fund raising. The commitment lines amount to ¥9,000 million ($81,110 thousand) and the outstanding balance of the loans based on the agreements was ¥1,500 million ($13,518 thousand) as of May 31, 2017.

9. Employees' Severance and Retirement Benefits

(1) Overview of the severance and retirement benefit plans

The Group provides two types of severance and retirement benefit plans for employees including unfunded lump-sum payment plans based on the internal rule of the severance and retirement benefits and defined contribution pension plans. In addition, additional severance and retirement benefits may be paid which are not subject to the projected benefit obligations determined based on the actuarial method in accordance with the accounting for retirement benefits.

(2) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Projected benefit obligation at beginning of the year	¥ 1,449	¥ 1,605	$ 14,465
Service cost	105	112	1,009
Interest cost	12	—	—
Actuarial differences	150	(20)	(180)
Retirement benefits paid	(110)	(112)	(1,009)
Other	(1)	(0)	(0)
Projected benefit obligation at end of the year	¥ 1,605	¥ 1,585	$ 14,285

b. The changes in the plan assets during the years ended May 31, 2016 and 2017

There was no applicable information.

c. Reconciliation between the ending balance of projected benefit obligation and plan assets and liability for employees' severance and retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unfunded projected benefit obligation	¥ 1,605	¥ 1,585	$ 14,285
Net liability for employees' severance and retirement benefits recorded in the consolidated balance sheet	1,605	1,585	14,285
Liability for employees' severance and retirement benefits	¥ 1,605	¥ 1,585	$ 14,285
Net liability for employees' severance and retirement benefits recorded in the consolidated balance sheet	1,605	1,585	14,285

d. The components of retirement benefit expenses for the years ended May 31, 2015, 2016 and 2017 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2015	2016	2017	2017
Service cost	¥ 108	¥ 105	¥ 113	$ 1,018
Interest cost	12	12	—	—
Amortization of actuarial differences	12	150	(20)	(180)
Amortization of prior service cost	(17)	(14)	(13)	(117)
Other	9	37	42	379
Retirement benefit expenses on defined benefit plans	¥ 124	¥ 290	¥ 122	$ 1,100

e. The components of adjustments for retirement benefits (before tax effect) for the years ended May 31, 2015, 2016 and 2017 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2015	2016	2017	2017
Prior service cost	¥ (17)	¥ (14)	¥ (13)	$ (117)

f. The components of accumulated adjustments for retirement benefits (before tax effect) as of May 31, 2015, 2016 and 2017 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2015	2016	2017	2017
Unrecognized prior service cost	¥ (27)	¥ (13)	¥ —	$ —

g. Plan assets

There are no applicable matters to be noted.

h. Major actuarial assumption in accounting for the plans as of May 31, 2015 , 2016 and 2017 is as follows:

	2015	2016	2017
Discount rate	0.9%	0.0%	0.0%

The Group does not use a projected rate of salary increase in computing projected benefit obligation since it adopts mainly the point system.

(3) Defined contribution plans

The amount of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries was ¥171 million, ¥171 million and ¥164 million ($1,478 thousand) for the years ended May 31, 2015, 2016 and 2017, respectively.

10. Shareholders' Equity

Under the Company Law in Japan (the "Company Law"), at least 50% of the paid-up price of new shares, is required to be designated as common stock. The portion which is to be designated as common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as common stock are credited to additional paid-in capital which is included in capital surplus in the accompanying financial statements.

Under the Company Law, an amount equal to 10% of cash dividends shall be appropriated and set aside as legal earnings reserve or additional paid-in capital until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. Legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit or may be capitalized by resolution of the shareholders' meeting.

Legal earnings reserve and additional paid-in capital are available for distributions or certain other purposes by the resolution of shareholders' meeting. Under the Company Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital and retained earnings, respectively, which are potentially available for dividend.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Company Law.

11. Research and Development Expenses

Research and development expenses are expensed as incurred. Research and development expenses, which are included in selling, general and administrative expenses, totaled ¥76 million, ¥120 million and ¥69 million ($622 thousand) for the years ended May 31, 2015, 2016 and 2017, respectively.

12. Gains on liquidation of a subsidiary

Gains on liquidation of a subsidiary was incurred for the year ended May 31, 2016 due to the reversal of foreign currency translation adjustments associated with the liquidation of SATORI S-TECH HONG KONG CO., LTD.

13. Impairment Losses on Fixed Assets

For the purpose of identifying fixed assets that are impaired, the Company and its consolidated domestic subsidiaries group their fixed assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets or groups of assets.

There was no applicable amount for the years ended May 31, 2015 and 2016. Disclosure of impairment losses for the year ended May 31, 2017 was omitted since those amounts were immaterial for the year ended May 31, 2017

14. Losses on Disposal of Fixed Assets

The components of losses on disposal of fixed assets for the years ended May 31, 2015, 2016 and 2017 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2015	2016	2017	2017
Buildings and structures	¥ 0	¥ 2	¥ 2	$ 18
Other property, plant and equipment	22	12	0	0
Intangible fixed assets	16	—	—	—
Total	¥ 38	¥ 14	¥ 2	$ 18

15. Income Taxes

The Group is subject to corporate (national), inhabitants and enterprise (local) taxes based upon income. The aggregate normal effective tax rates on income before income taxes were approximately 35.6%, 33.1% and 30.9% in 2015, 2016 and 2017, respectively.

Consolidated foreign subsidiaries are subject to the income taxes of the countries in which they are domiciled. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended May 31, 2015, 2016 and 2017:

	2015	2016	2017
Statutory tax rate:	35.6 %	33.1 %	**30.9 %**
Different tax rates applied to consolidated foreign subsidiaries	(3.0)	15.9	**(9.7)**
Non-deductible expenses	1.5	11.3	**4.5**
Non-taxable dividend income	(1.5)	(3.2)	**(1.7)**
Foreign income taxes withheld	9.6	5.5	**1.1**
Per capita inhabitant taxes	0.9	7.4	**5.7**
Accumulated earnings of consolidated foreign subsidiaries	(8.2)	(7.5)	**(0.1)**
Changes in valuation allowance	(8.9)	27.1	**22.2**
Adjustments of deferred tax assets due to tax rate changes	1.5	6.5	—
Other	(0.6)	0.6	**1.0**
Effective tax rate	26.9 %	96.7 %	**53.9 %**

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Inventories	¥ 219	¥ 185	$ 1,667
Accrued bonuses	78	134	1,208
Liability for employees' severance and retirement benefits	490	481	4,335
Land	341	340	3,064
Amount of loss carried forward	520	518	4,668
Other	243	315	2,839
	1,891	1,973	17,781
Valuation allowance	(1,384)	(1,477)	(13,311)
Total deferred tax assets	507	496	4,470
Deferred tax liabilities:			
Accumulated earnings of consolidated foreign subsidiaries	(65)	(61)	(550)
Net unrealized holding gains on securities	(302)	(474)	(4,272)
Other	(125)	(134)	(1,207)
Total deferred tax liabilities	(492)	(669)	(6,029)
Net deferred tax assets (liabilities)	¥ 15	¥ (173)	$ (1,559)

Year ended May 31, 2016

Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate:

On March 29, 2016, "Partial Amendments to Income Tax Act, etc." (Act No. 15 of 2016) and "Partial Amendments to Local Tax Act, etc." (Act No.13 of 2016) were enacted at the Diet, and the corporate income tax rates have been reduced from the years beginning on or after April 1, 2016.

As a result, the statutory tax rate to be used in computing deferred tax assets and liabilities has been reduced from 32.30% to 30.86% for the temporary differences estimated to be settled in the years beginning on June 1, 2016 and 2017, and to 30.62% for the temporary differences estimated to be settled in the years beginning on or after June 1, 2018.

Due to this change in tax rates, deferred tax liabilities, net of deferred tax assets, decreased by ¥2 million and income taxes – deferred increased by ¥14 million.

16. Reclassification Adjustments and Tax Effects for Comprehensive Income

Amounts reclassified to profit in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen			Thousands of U.S. dollars
	2015	2016	**2017**	**2017**
Unrealized holding gains on securities:				
Increase during the year	¥ 1,015	¥ (890)	¥ **601**	$ **5,416**
Reclassification adjustments	(3)	(93)	**(4)**	**(36)**
Sub-total, before tax	1,012	(983)	**597**	**5,380**
Tax effects	(290)	313	**(172)**	**(1,550)**
Sub-total, net of tax	722	(670)	**425**	**3,830**
Gains on deferred hedge accounting:				
Increase during the year	5	(1)	**(3)**	**(27)**
Reclassification adjustments	(2)	(2)	**3**	**27**
Sub-total, before tax	3	(3)	**0**	**0**
Tax effects	(1)	1	**(0)**	**(0)**
Sub-total, net of tax	2	(2)	**0**	**0**
Revaluation gain for land:				
Tax effects	3	2	**—**	**—**
Foreign currency translation adjustments:				
Increase during the year	1,624	(1,007)	**(48)**	**(433)**
Reclassification adjustments	—	(31)	**—**	**—**
Sub-total, net of tax	1,624	(1,038)	**(48)**	**(433)**
Adjustments for retirement benefits:				
Reclassification adjustments	(17)	(14)	**(13)**	**(117)**
Sub-total, before tax	(17)	(14)	**(13)**	**(117)**
Tax effects	5	4	**6**	**54**
Sub-total, net of tax	(12)	(10)	**(7)**	**(63)**
Total other comprehensive income	¥ 2,339	¥(1,718)	¥ **370**	$ **3,334**

17. Cash and Cash Equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of May 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Cash and time deposits	¥ 6,533	¥ **6,911**	$ **62,284**
Time deposits with maturities exceeding three months	(0)	**—**	**—**
Cash and cash equivalents	¥ 6,533	¥ **6,911**	$ **62,284**

18. Leases

Lessee:

The Group leases certain machinery and equipment and other assets, mainly consisting of electronic computers and related peripheral devices.

As discussed in Note 2 (g) and (m), lease assets under finance lease arrangements are capitalized and depreciated over the lease period using the straight-line method with zero residual value.

Future minimum lease payments including interest expense under operating leases as of May 31, 2016 were as follows:

	Millions of yen
	2016
Due within one year	¥ 27
Due after one year	2
	¥ 29

Disclosure of the above information as of May 31, 2017 was omitted since the amounts were immaterial.

19. Segment Information
For the years ended May 31, 2015, 2016 and 2017

1. Descriptive information about reportable segments
The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's chief decision making body is being performed in order to decide how management resources are allocated among the Group.
The Group consists of domestic business and overseas business and develops its operating activities, designing comprehensive management strategies depending on the characteristics. Therefore, the Group consists of the geographical business segments, which are "Domestic" and "Overseas" business segments.
Outline of each reportable segment is as follows:
"Domestic" business consists of the Company and its domestic subsidiaries, which are engaged in business such as general electronic components and electronic equipment.
"Overseas" business consists of overseas subsidiaries located in Chinese area (China, Hong Kong and Taiwan), Asia, America and Europe, which are engaged in general electronic components and electronic equipment.

2. Measurement method of sales, profit or loss, assets and other items for each reportable segment
The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."
Segment profit by the reportable segment is based on operating income.
Inter-segment sales are based on the arm's length price.
As noted in Note 2 (g), the Company changed its depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method pursuant to Tax Reform 2016 and accordingly, the depreciation method of the reportable segments has been changed as well. The effect on segment profit (loss) for the year ended May 31, 2016 of each reportable segment was immaterial.

3. Information about sales, profit or loss, assets and other items is as follows:

	Millions of yen				
	Reportable segments				
For the year ended May 31, 2015:	Domestic	Overseas	Total	Reconciliation	Consolidated
Net sales:					
Outside customers	¥ 83,285	¥ 46,461	¥ 129,746	¥ —	¥ 129,746
Inter-segment	4,372	191	4,563	(4,563)	—
Total	87,657	46,652	134,309	(4,563)	129,746
Segment profit	1,216	261	1,477	27	1,504
Segment assets	¥ 50,904	¥ 18,538	¥ 69,442	¥ (2,022)	¥ 67,420
Other items:					
Depreciation	¥ 336	¥ 33	¥ 369	¥ —	¥ 369
Increase in tangible and intangible fixed assets	449	35	484	—	484

	Millions of yen				
	Reportable segments				
For the year ended May 31, 2016:	Domestic	Overseas	Total	Reconciliation	Consolidated
Net sales:					
Outside customers	¥ 74,793	¥ 38,207	¥ 113,000	¥ —	¥ 113,000
Inter-segment	5,014	143	5,157	(5,157)	—
Total	79,807	38,350	118,157	(5,157)	113,000
Segment profit (loss)	702	(110)	592	12	604
Segment assets	¥ 46,894	¥ 13,978	¥ 60,872	¥ (1,113)	¥ 59,759
Other items:					
Depreciation	¥ 332	¥ 27	¥ 359	¥ —	¥ 359
Increase in tangible and intangible fixed assets	202	13	215	—	215

For the year ended May 31, 2017:	Millions of yen Reportable segments Domestic	 Overseas	 Total	 Reconciliation (Note) 1	 Consolidated (Note) 2
Net sales:					
Outside customers	¥ 71,414	¥ 36,568	¥ 107,982	¥ —	¥ 107,982
Inter-segment	7,262	154	7,416	(7,416)	—
Total	78,676	36,722	115,398	(7,416)	107,982
Segment profit	689	0	689	18	707
Segment assets	¥ 46,623	¥ 13,645	¥ 60,268	¥ (1,259)	¥ 59,009
Other items:					
Depreciation	¥ 337	¥ 25	¥ 362	¥ —	¥ 362
Increase in tangible and intangible fixed assets	190	25	215	—	215

For the year ended May 31, 2017:	Thousands of U.S. dollars Reportable segments Domestic	 Overseas	 Total	 Reconciliation (Note) 1	 Consolidated (Note) 2
Net sales:					
Outside customers	$ 643,602	$ 329,560	$ 973,162	$ —	$ 973,162
Inter-segment	65,447	1,388	66,835	(66,835)	—
Total	709,049	330,948	1,039,997	(66,835)	973,162
Segment profit	6,210	0	6,210	162	6,372
Segment assets	$ 420,179	$ 122,972	$ 543,151	$ (11,347)	$ 531,804
Other items:					
Depreciation	$ 3,037	$ 225	$ 3,262	$ —	$ 3,262
Increase in tangible and intangible fixed assets	1,713	225	1,938	—	1,938

(Notes):

1. The reconciliation of segment profit in an amount of ¥18 million ($162 thousand) includes elimination of intersegment transactions. The reconciliation of segment assets in an amount of ¥ (1,259) million ($ (11,347) thousand) includes elimination of intersegment transactions and other reconciliations.
2. Segment profit is reconciled with "Operating income" in the consolidated statements of operations.

Related Information:

1. Information about product and service lines

For the year ended May 31, 2015:	Millions of yen Semi-conductor	 General electronic components	 Electronic equipment	 Products	 Total
Net sales to outside customers	¥ 56,193	¥ 50,909	¥ 16,563	¥ 6,081	¥ 129,746

For the year ended May 31, 2016:	Millions of yen Semi-conductor	 General electronic components	 Electronic equipment	 Products	 Total
Net sales to outside customers	¥ 39,028	¥ 47,432	¥ 21,843	¥ 4,697	¥ 113,000

For the year ended May 31, 2017:	Millions of yen Semi-conductor	 General electronic components	 Electronic equipment	 Products	 Total
Net sales to outside customers	¥ 31,969	¥ 46,151	¥ 25,450	¥ 4,412	¥ 107,982

For the year ended May 31, 2017:	Thousands of U.S. dollars Semi-conductor	 General electronic components	 Electronic equipment	 Products	 Total
Net sales to outside customers	$ 288,113	$ 415,925	$ 229,362	$ 39,762	$ 973,162

2. Information by region

Net sales:

	Millions of yen					
	Year ended May 31, 2015					
	Overseas					
Japan	China	Taiwan	Other Asia	Other	Total	Total
¥ 69,739	¥ 35,875	¥ 5,167	¥ 17,476	¥ 1,489	¥ 60,007	¥ 129,746

Net sales:

	Millions of yen					
	Year ended May 31, 2016					
	Overseas					
Japan	China	Taiwan	Other Asia	Other	Total	Total
¥ 64,538	¥ 28,444	¥ 4,657	¥ 13,379	¥ 1,982	¥ 48,462	¥ 113,000

Net sales:

	Millions of yen					
	Year ended May 31, 2017					
	Overseas					
Japan	China	Taiwan	Other Asia	Other	Total	Total
¥ 62,568	**¥ 26,041**	**¥ 3,557**	**¥ 11,657**	**¥ 4,159**	**¥ 45,414**	**¥ 107,982**

Net sales:

	Thousands of U.S. dollars					
	Year ended May 31, 2017					
	Overseas					
Japan	China	Taiwan	Other Asia	Other	Total	Total
$ 563,879	**$ 234,688**	**$ 32,057**	**$ 105,056**	**$ 37,482**	**$ 409,283**	**$ 973,162**

20. Derivative Financial Instruments

The Group enters into forward exchange contracts and interest rate swap contracts as derivative financial instruments. The Group deals with forward exchange transactions to hedge exchange rate risk of monetary receivables and payables denominated in foreign currencies. Interest rate swap transactions are made in order to minimize the risk of fluctuation of interest rate on borrowings.

The derivative financial instruments are executed with creditworthy financial institutions, and the Company's management believes there is little default risk of counterparties. Derivative transactions are controlled by the accounting departments of the Group in accordance with the internal rules, which specify risk controls, maximum transaction amounts, credit limits, reporting requirements of derivatives transactions, etc.

The Group evaluates hedge effectiveness quarterly by comparing the cumulative changes in cash flows or the changes in fair value of hedged items with the corresponding changes in the hedging derivative instruments.

(a) Forward foreign exchange contracts not accounted for as hedge

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts not accounted for as hedge as of May 31, 2016 and 2017 were as follows:

May 31, 2016: Millions of yen

Category	Types of derivatives transactions	Contract amount	Contract amount due after one year	Fair value (Note)	Unrealized gain (loss)
Items not traded on exchanges	Forward exchange contracts: To sell U.S. dollars	¥ 164	¥ —	¥ (2)	¥ (2)
	Forward exchange contracts: To buy Euro	19	—	0	0
Total		¥ 183	¥ —	¥ (2)	¥ (2)

May 31, 2017: Millions of yen

Category	Types of derivatives transactions	Contract amount	Contract amount due after one year	Fair value (Note)	Unrealized gain (loss)
Items not traded on exchanges	Forward exchange contracts: To sell U.S. dollars	¥ 802	¥ —	¥ 5	¥ 5
	Forward exchange contracts: To buy Euro	110	—	2	2
Total		¥ 912	¥ —	¥ 7	¥ 7

May 31, 2017: Thousands of U.S. dollars

Category	Types of derivatives transactions	Contract amount	Contract amount due after one year	Fair value (Note)	Unrealized gain (loss)
Items not traded on exchange	Forward exchange contracts: To sell U.S. dollars	$ 7,228	$ —	$ 45	$ 45
	Forward exchange contracts: To buy Euro	991	—	18	18
Total		$ 8,219	$ —	$ 63	$ 63

(Note)
The fair value of forward foreign exchange contracts is estimated by obtaining quotes from financial institutions.

(b) Forward foreign exchange contracts accounted for as hedge

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts accounted for as hedge as of May 31, 2016 and 2017 were as follows:

May 31, 2016:			Millions of yen		
Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
Basic accounting method (Deferred hedge accounting)	Forward exchange contracts: To sell U.S. dollars	Accounts receivable — trade	¥ 44	¥ —	¥ (0)
	Forward exchange contracts: To buy Euro	Accounts payable — trade	99	—	(0)
Total			¥ 143	¥ —	¥ (0)

May 31, 2017:			Millions of yen		
Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
Basic accounting method (Deferred hedge accounting)	Forward exchange contracts: To sell U.S. dollars	Accounts receivable — trade	**¥ 44**	**¥ —**	**¥ (0)**
	Forward exchange contracts: To buy Euro	Accounts payable — trade	**75**	**—**	**(0)**
Total			**¥ 119**	**¥ —**	**¥ (0)**

May 31, 2017:			Thousands of U.S. dollars		
Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
Basic accounting method (Deferred hedge accounting)	Forward exchange contracts: To sell U.S. dollars	Accounts receivable — trade	**$ 397**	**$ —**	**$ (0)**
	Forward exchange contracts: To buy Euro	Accounts payable — trade	**676**	**—**	**(0)**
Total			**$ 1,073**	**$ —**	**$ (0)**

(Note)

The fair value of forward foreign exchange contracts is estimated by obtaining quotes from financial institutions.

(c) Interest rate swap contracts accounted for as hedge

The aggregate amounts of interest rate swap contracts accounted for as hedge as of May 31, 2016 and 2017 were as follows:

May 31, 2016:			Millions of yen		
Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
Special treatment for interest rate swaps	Interest rate swap contracts: Interest swap fixed rate to floating rate	Long-term debt	¥ 3,200	¥ 2,300	¥ —

May 31, 2017:			Millions of yen		
Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
Special treatment for interest rate swaps	Interest rate swap contracts: Interest swap fixed rate to floating rate	Long-term debt	**¥ 2,300**	**¥ 1,300**	**¥ —**

May 31, 2017:			Thousands of U.S. dollars		
Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
Special treatment for interest rate swaps	Interest rate swap contracts: Interest swap fixed rate to floating rate	Long-term debt	**$ 20,728**	**$ 11,716**	**$ —**

(Note)

The fair value of interest rate swaps for which the special treatment is applied is disclosed in Note 5 (b) including the fair value of the underlying long-term debt, as such swaps are treated as a single item incorporating the hedged long-term debt.

21. Per Share Information

The weighted-average number of shares used in the computation was 16,956 thousand shares, 16,956 thousand shares and 16,955 thousand shares for the years ended May 31, 2015, 2016 and 2017, respectively.

Information about diluted earnings per share is omitted because there existed no potential share for the years ended May 31, 2015, 2016 and 2017.

22. Subsequent Events

(Cash dividends)

On July 14, 2017, the directors of the Company approved the following appropriations of retained earnings. Such appropriations have not been accrued in the consolidated financial statements as of May 31, 2017. Such appropriations are recognized in the period in which they were resolved.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥18.00 ($ 0.16) per share	**¥ 305**	**$ 2,749**

(Note)

The above year-end cash dividends per share include a commemorative dividend of ¥2 per share for the Company's 70th anniversary.

(Acquisition of treasury stock)

At the Board of Directors' meeting held on July 14, 2017, the Company resolved to acquire its own shares as follows based on the provision of the Articles of Incorporation in accordance with the Article 459, Paragraph 1 of the Companies Act:

1. Reason for acquiring its own shares
   In order to reinforce shareholder returns and enhance capital efficiency as well as to accomplish flexible capital policy in response to the changes in management environment
2. Details of acquisition
   (1) Type of shares to be acquired:
   The Company's common stock
   (2) Total number of shares to be acquired:
   500,000 shares at maximum
   (Ratio against total number of outstanding shares (excluding treasury shares): 2.95%)
   (3) Total amount of acquisition value of shares:
   ¥600 million ($5,407 thousand) at maximum
   (4) Period of acquisition:
   July 18, 2017 through December 29, 2017
   (5) Method of acquisition:
   Market purchase on the Tokyo Stock Exchange

CORPORATE DATA

As of May 31, 2017

Head Office	14-10, Shiba 1-chome, Minato-ku, Tokyo 105-0014, Japan Telephone: +81-3-3452-7171 Facsimile: +81-3-3455-4709 http://www.satori.co.jp
Established	July 10, 1947
Paid-in Capital	¥2,611 million (US$23,531 thousand)
Number of Shareholders	6,551
Shares Outstanding	17,946,826
Employees	465 (consolidated 674)

Board of Directors
(as of August 24, 2017)

Representative Director,
Chairman of the Board
Kazutoshi Ueda

Representative Director,
President & CEO
Hiroyuki Satori

Directors, Managing Executive Officers
Yasushi Aoki
Akihiko Sato
Masahiko Koga

Independent Directors
Shuichi Fukuda
Sadahiro Shimomura
Hidetoshi Tawada

Audit & Supervisory Board Members
Kenji Shimizu
Takeshi Nakazato
Shinichi Sato

SATORI ELECTRIC CO.,LTD.

Head Office
14-10, Shiba 1-chome, Minato-ku, Tokyo 105-0014, Japan
Telephone: +81-3-3452-7171 Facsimile: +81-3-3455-4709
http://www.satori.co.jp

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