

Our Heart and Technology for the Future

Toyo Denki Seizo Report 2013

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Together with the Trust We Have Built

Toyo Denki Seizo K.K. was founded in 1918 with a mission of domestically manufacturing electrical equipment for rail vehicles for which Japan relied on foreign imports at that time.

Since then, we have contributed to building social infrastructure and the development of industry, earning the trust of our many customers, and 2018 will mark the 100th anniversary of our founding.

Through our outstanding technologies and products, we will strive to achieve efficient energy usage and support the infrastructure for “a safe, secure, and comfortable society.”

History

1918

Establishment of the Company with the mission of domestically manufacturing electrical equipment for rail vehicles



Yokohama Factory at time of establishment (1919)



Pantograph (1922)

1945~

Contribution to postwar reconstruction and high economic growth



Electrical equipment for medium-sized shape steel rolling equipment (1961)

1958~

Contribution to development of technologies for high-speed railroads



Test operation of Tokaido Shinkansen (1962)

1988~

Full-scale global expansion



Electric towing locomotives in Panama Canal (2000)

2010~

Enhancement of research and development system



Completion of the R&D facility “Engineering Center” at Yokohama Plant (2010)

Business Principles

The Toyo Denki Group will practice the following business principles to ensure the growth of its business, earn the confidence and understanding of shareholders and stakeholders, and foster the development of its employees:

Prioritize ethics and contribute to the prosperity of customers and society as a whole

Encourage creativity and an enterprising spirit, to meet the challenges of the future

Build trust by focusing on quality first

Code of Conduct

1. Respond to customers in a timely and speedy manner
2. Tackle all challenges with forethought and creativity
3. Continuous efforts toward self-development and skill improvement
4. Keep a broad perspective and influence each other toward growth
5. Act with awareness and pride of a good member of society and businessman

Established: June 2001

● Editorial Policy

We began publication of this report in 2013 with the goal of allowing a wide range of shareholders to have a better understanding of the Company. This report combines our management policy with reports on our businesses, CSR and finances. We are committed to describing our initiatives during the year and our future direction in a manner that is easy to understand.

● Period Covered by This Report

This report focuses on our activities in fiscal 2012 (from June 2012 to May 2013), but also contains some information from outside this period.

● Organizations Covered by This Report

This report covers the Toyo Denki Group, including Toyo Denki Seizo K.K. and its consolidated subsidiaries.

● Reference Guidelines

- Global Reporting Initiative (GRI) “Sustainability Reporting Guidelines Version 3.1”
- Ministry of the Environment “Environmental Reporting Guidelines 2012”

Consolidated Financial Highlights

Highlights of Toyo Denki Seizo K.K. and Consolidated Subsidiaries for the Consolidated Fiscal Year ended May 31 or as of May 31

| Fiscal term | 148 | 149 | 150 | 151 | 152 |
|-------------|-------------|-------------|-------------|-------------|-------------|
| | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 |

(Unit: Million yen)

| Fiscal Year | | | | | |
|--------------------------------|--------|--------|--------|--------|--------|
| Net sales | 33,226 | 35,429 | 37,893 | 38,570 | 30,575 |
| Gross profit | 7,814 | 7,403 | 8,663 | 8,834 | 7,696 |
| Operating income | 1,396 | 975 | 1,503 | 1,701 | 501 |
| Net Income | 103 | 512 | 678 | 785 | 722 |
| Comprehensive income | - | - | 272 | 1,071 | 3,761 |
| Capital investment | 1,050 | 2,073 | 1,142 | 1,307 | 1,296 |
| Research and development costs | 826 | 719 | 917 | 797 | 913 |

| Fiscal Year-End | | | | | |
|---------------------|--------|--------|--------|--------|--------|
| Net assets | 12,464 | 12,585 | 14,268 | 15,049 | 18,519 |
| Total assets | 32,780 | 34,385 | 36,892 | 38,086 | 42,364 |
| Number of employees | 1,047 | 1,073 | 1,177 | 1,175 | 1,170 |

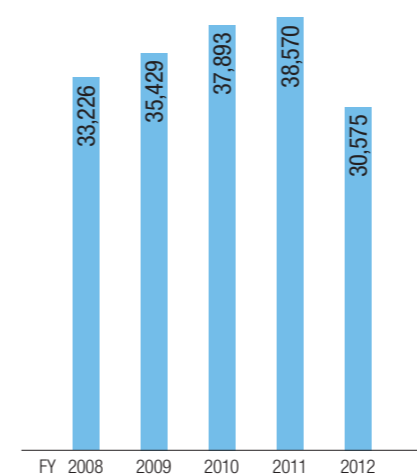
(Unit: Yen)

| Per Share Information | | | | | |
|-----------------------|--------|--------|--------|--------|--------|
| Net assets | 282.40 | 285.86 | 295.89 | 312.12 | 384.14 |
| Net income | 2.32 | 11.63 | 14.86 | 16.29 | 14.98 |
| Dividend | 6 | 6 | 6 | 6 | 6 |

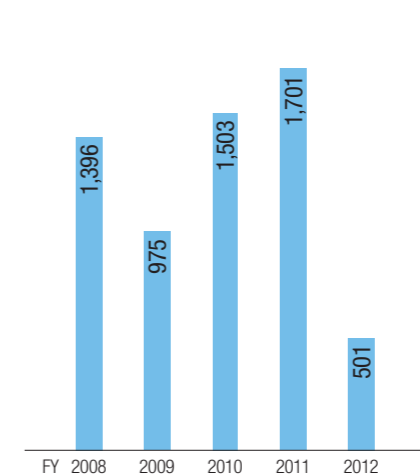
(Unit: %)

| Major Management Indices | | | | | |
|----------------------------|-------|------|------|------|------|
| Shareholders' equity ratio | 38.0 | 36.6 | 38.7 | 39.5 | 43.7 |
| Return on equity (ROE) | 0.9 | 4.2 | 4.8 | 5.3 | 4.8 |
| Operating income ratio | 4.2 | 2.8 | 4.0 | 4.4 | 1.6 |
| Overseas net sales ratio | 12.7 | 20.0 | 26.5 | 34.7 | 23.7 |
| Dividend payout ratio | 258.6 | 51.6 | 40.4 | 36.8 | 40.0 |

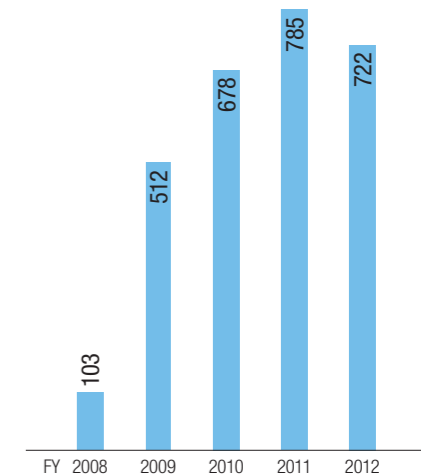
Net sales (Unit: Million yen)



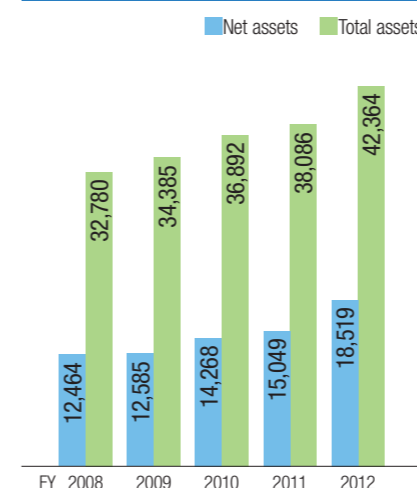
Operating income (Unit: Million yen)



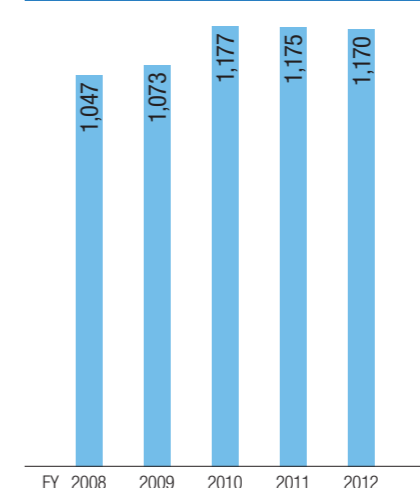
Net income (Unit: Million yen)



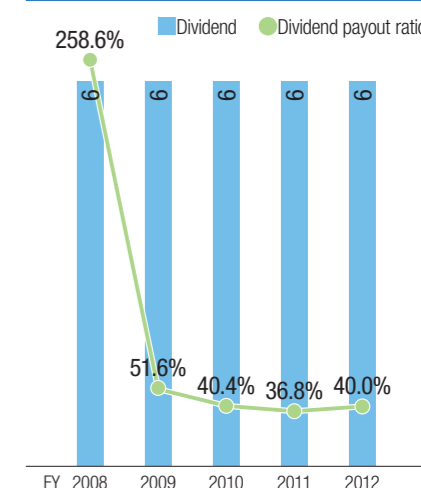
Net assets/Total assets (Unit: Million yen)



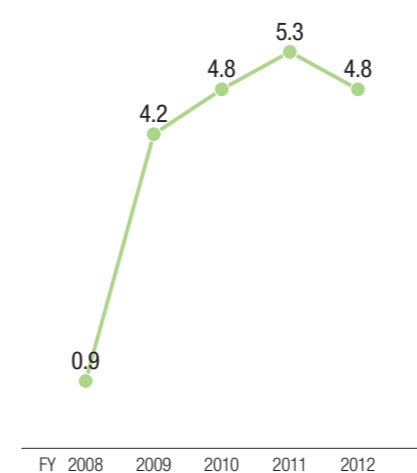
Number of employees (Unit: Persons)



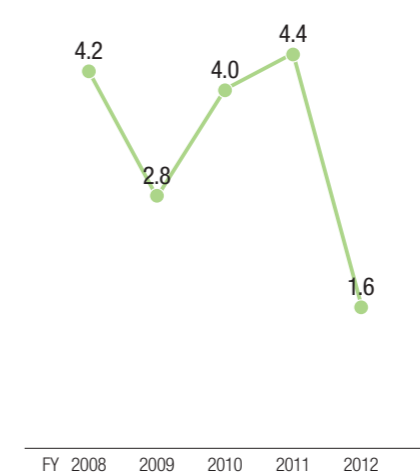
Dividend/Dividend payout ratio (Unit: Yen)



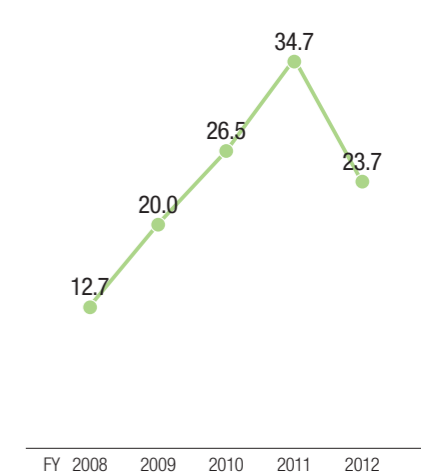
Return on equity (ROE) (Unit: %)



Operating income ratio (Unit: %)



Overseas net sales ratio (Unit: %)



Contributing to the maintenance and development of a safe, secure, and comfortable society as a global enterprise that continually creates new technologies

Following the General Meeting of Shareholders held in August 2013, Hiroshi Tsuchida was appointed as Chairman and Kenzo Terashima was appointed as President. Our new Chairman and President hereby explain our initiatives moving forward.

In the DASH 2015 three-year medium-term management plan launched in fiscal 2012, our targets for fiscal 2014 are set as follows: net sales of 52.0 billion yen; overseas net sales ratio of 50% or higher (26.0 billion yen); operating income of 3.6 billion yen (operating income margin of 7%); ordinary income of 3.6 billion yen; net income of 1.8 billion yen; and ROE of 8% or higher. Under an environment where the effect of "Abenomics" is expected to drive an economic recovery, in order to achieve our targets, we plan to further expand our Transportation Systems and Industrial Systems segments internationally, and in regard to profits, we will in particular strive to make our Industrial Systems segment profitable.

In fiscal 2013, demand for renewals in the domestic railway market has recovered. Overseas, we have started shipping aforementioned electrical equipment for the "LRV" in Los Angeles, and we have also won contracts for high-speed railroads and subway systems in China thanks to the steady market there. We can thus expect strong growth in sales in our Transportation Systems segment. China and North America will remain the key targets in our overseas sales activities, and we will also make a strategic move focusing on the Indian and Southeast Asian markets centering on the Delhi Liaison Office we have opened in India in August 2012.

In the Industrial Systems segment, we expect a large increase in orders for testing equipment for automotive development and a recovery in capital investment thanks to the upturn of the Japanese economy. During fiscal 2013, we also plan to open representative offices in Thailand and other countries in Southeast Asia, in order to strengthen our expansion in sales of motors and inverters for production facilities into this region. Meanwhile, we have begun full-scale entry into the market for motors and inverters for construction equipment around the summer of 2012. We believe that these initiatives will make our Industrial Systems segment profitable in this fiscal year.

In the Information Equipment Systems segment, we are actively committed to capturing the demand rising from the revision to the consumption tax on equipment relating to railway station operations by leveraging the growth in our customer base won through the development of ticket issuing handy terminals.

Through the above initiatives, we will strive to expand our business in all three segments, increase our corporate value as well as continuously contribute to the maintenance and development of a safe, secure, and comfortable society by continuing a tireless challenge to technological innovation and by offering high-quality products and services.

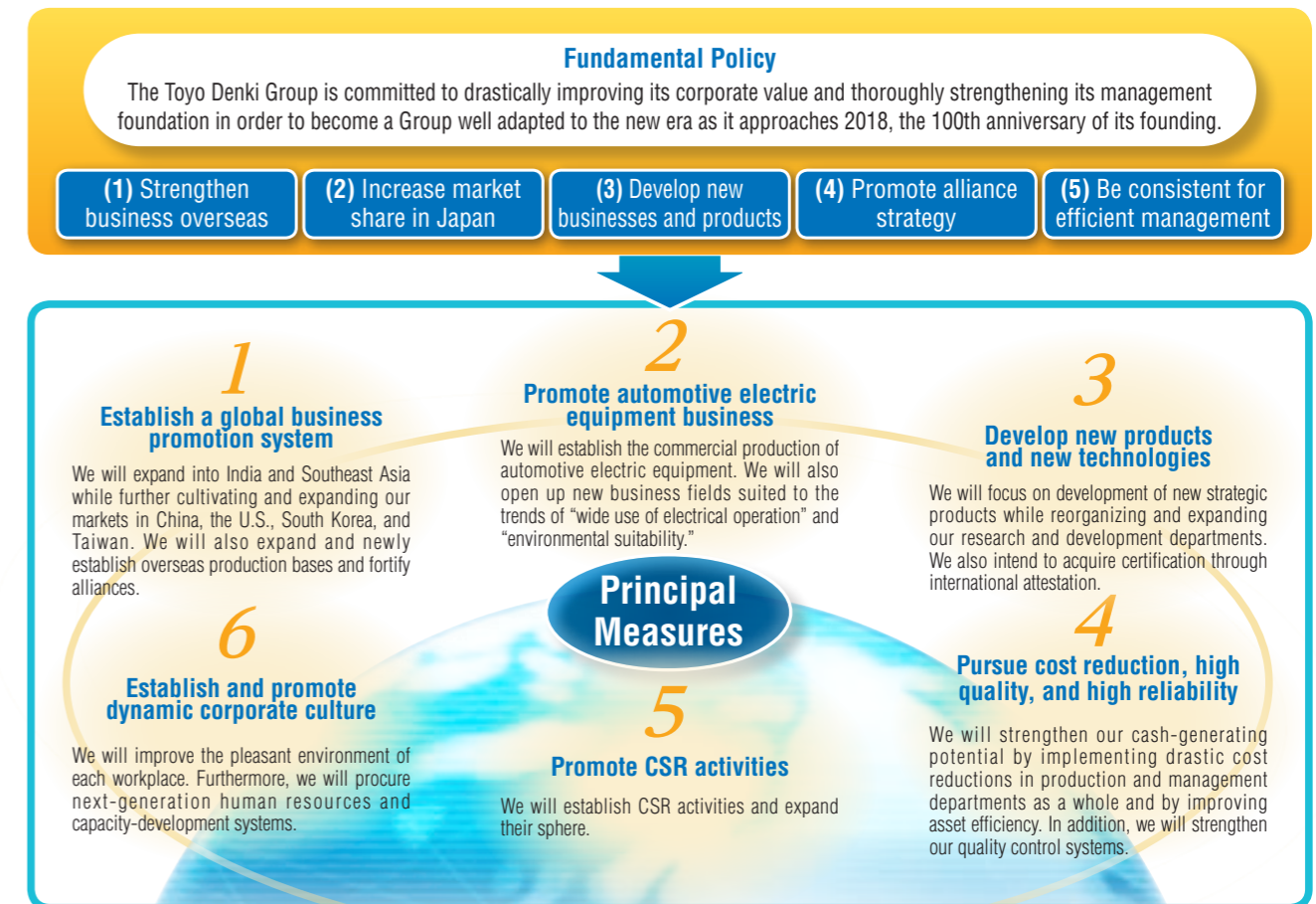
We ask for the continued understanding of our businesses of our stakeholders.

Long-Term Vision

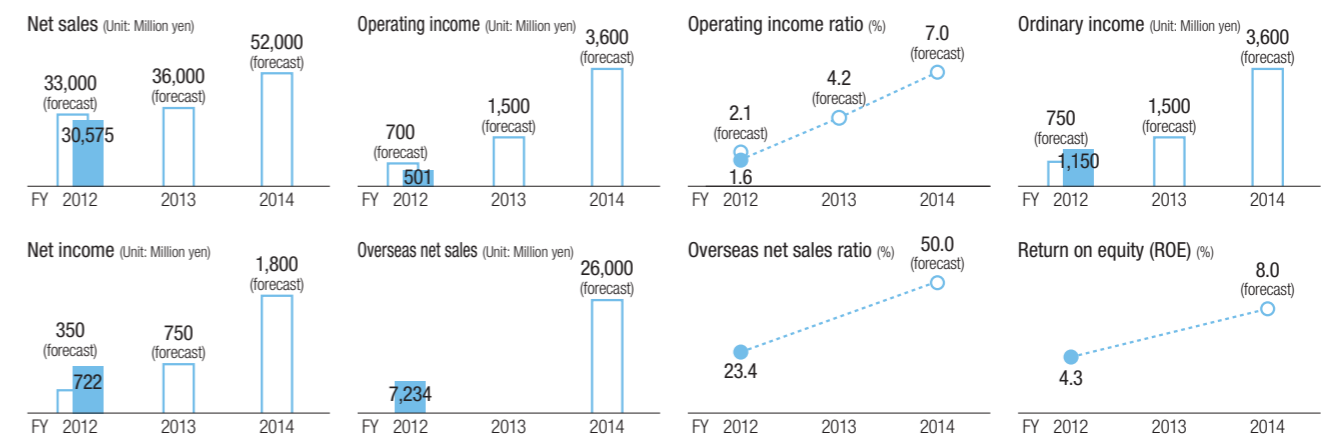
Integrating the exceptional motor drive technologies since establishment with our breakthrough advanced technologies to help build environmentally friendly societies through global business development.

The DASH 2015 Medium-Term Management Plan

In June 2012, we began our DASH 2015 three-year medium-term management plan. We will aim to achieve further growth chiefly by expanding overseas businesses.



Progress and Plans in the DASH 2015 Medium-Term Management Plan



Kenzo Terashima
President



Hiroshi Tsuchida
Chairman

Building Solutions That Make People's Lives Better

Delivering specialized solutions for industrial advancement and better living

Toyo Denki Seizo K.K. has been manufacturing electrical equipment for more than 90 years. Our areas of business share a high relevancy to society and the public interest, from railway and other transportation infrastructure solutions to manufacturing equipment used in general industry. These sectors are helping to make people's lives better, and Toyo Denki continues to leverage its sophisticated engineering to facilitate industrial advancement and better living.



N700A Shinkansen*

Electrical equipment for rail vehicles

Industrial motors, inverters and converters



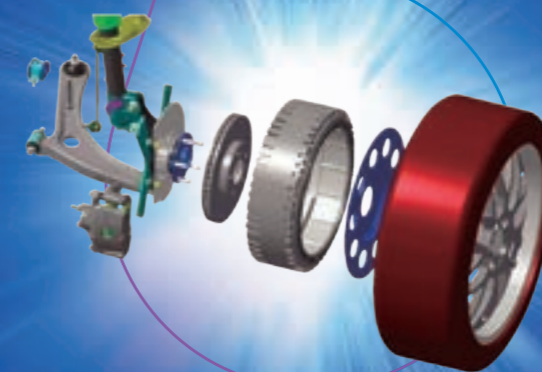
Railway station operating equipment

Growth driven by four core business segments and new business fields

Electrical equipment for rail vehicles to support the safe, smooth operation of trains for domestic and foreign railways; industrial systems for diverse manufacturing settings and testing equipment for the development of next-generation automobiles; and railway station operating equipment that leverages advanced engineering to improve amenity and deliver reliable service. In addition, we are expanding into new business segments such as electric vehicle (EV) systems and remote monitoring systems as future core business segments that will drive sustainable growth.



Remote monitoring systems and Toyo Wireless Measurement System



Traction systems for eco-friendly vehicles

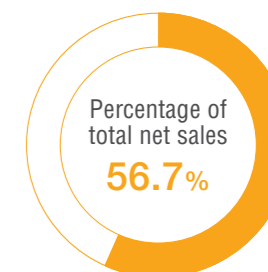
- Rail solutions
- Motor drive solutions
- Information equipment solutions
- New businesses

* Photo courtesy : Central Japan Railway Company

Supporting safe, secure, and comfortable rail transportation through a variety of products

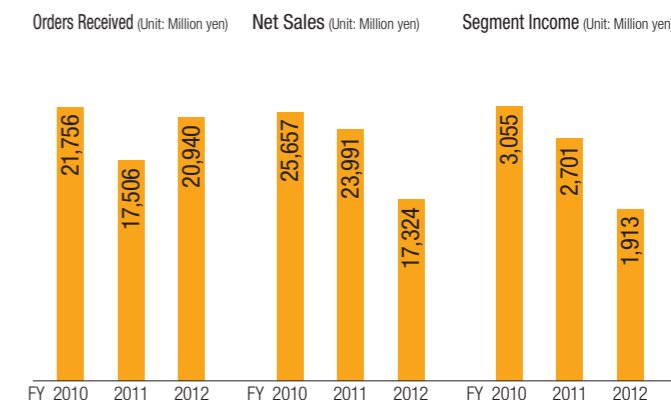
Business Overview

We contribute to the advancements of railway systems worldwide and to safe, secure, and comfortable rail transportation through the development and manufacture of electrical equipment for rail vehicles, including propulsion inverter (VVVF inverter), traction motor, driving gear unit and current collectors (pantographs).

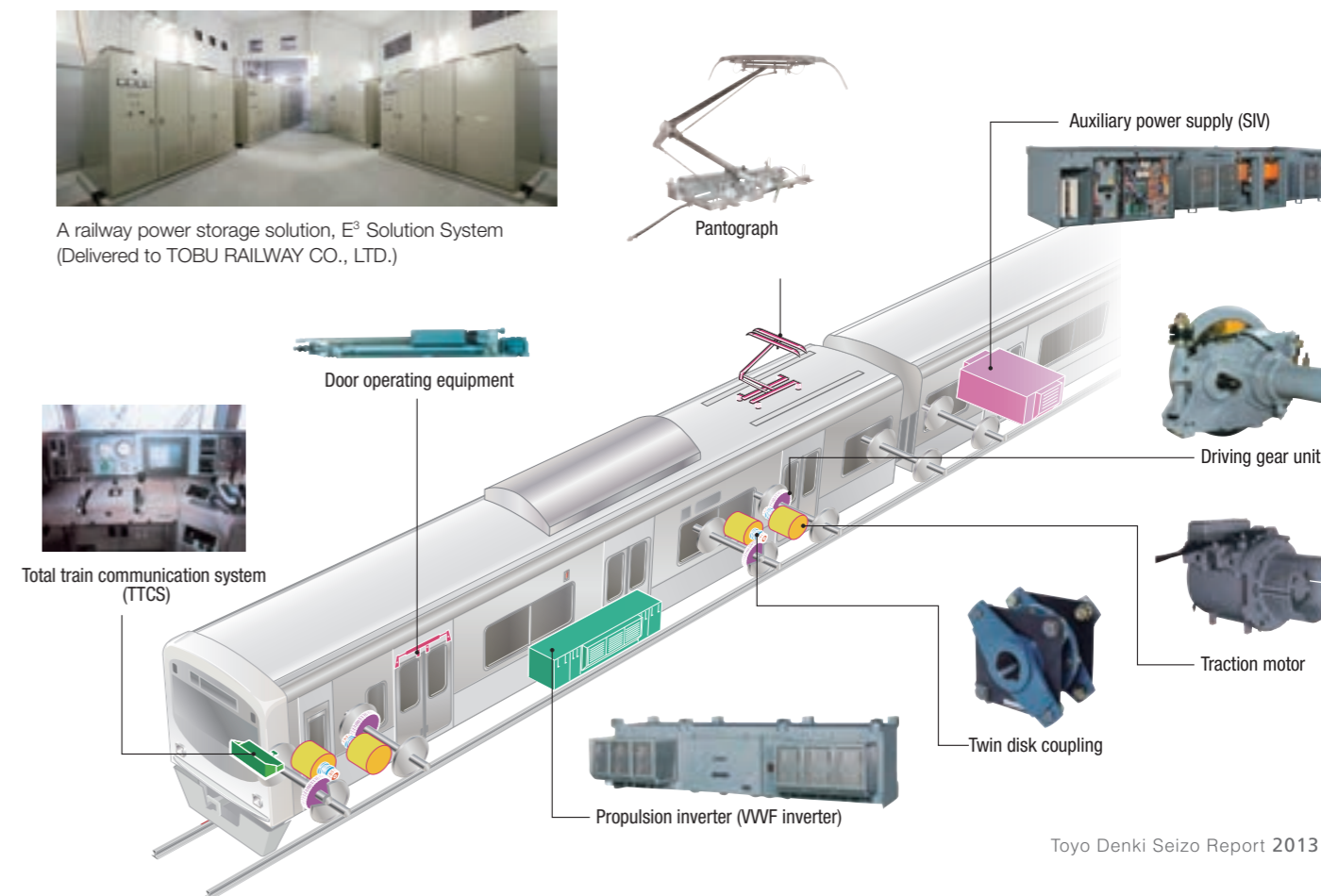


Results for fiscal 2012

| | |
|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>■ Orders Received</p> <p>20,940 million yen (Up 19.6% year on year)</p> | <p>Although domestic orders only grew slightly, overseas orders including electrical equipment for the LRV in Los Angeles, U.S. increased.</p> |
| <p>■ Net Sales</p> <p>17,324 million yen (Down 27.8% year on year)</p> | <p>A slowdown in demand for renewals reduced sales in Japan and there was a great decline in sales of products for high-speed railroads and subway systems in China.</p> |
| <p>■ Segment Income</p> <p>1,913 million yen (Down 29.2% year on year)</p> | <p>Profits fell due to the impact of reduced revenues.</p> |



A railway power storage solution, E³ Solution System (Delivered to TOBU RAILWAY CO., LTD.)

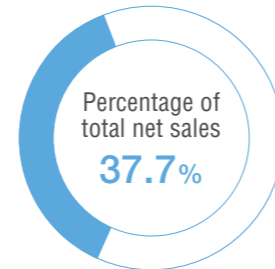


- 10 Transportation Systems segment
- 11 Industrial Systems segment
- 12 Information Equipment Systems segment
- 13 Expansion of EVs and HEVs
- 14 Research and Development/Intellectual Property

Achievement of efficient energy usage with our advanced power electronics

Business Overview

We leverage our advanced motor drive technology to develop and manufacture products and systems that achieve efficient energy usage and meet our customers' needs in a wide range of fields, including testing equipment for automobile development, systems for production facilities, and various power generation systems.



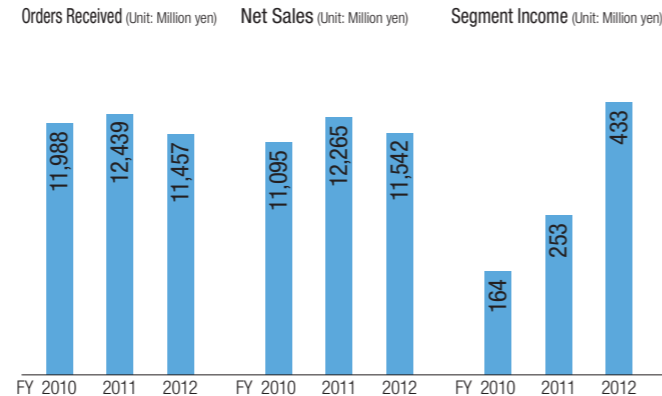
Results for fiscal 2012

- Orders Received**
11,457 million yen
 (Down 7.9% year on year)
- Net Sales**
11,542 million yen
 (Down 5.9% year on year)
- Segment Income**
433 million yen
 (Up 71.1% year on year)

Despite strong orders of infrastructure related products such as testing equipment for automobile development and power generators, there was a large decrease in orders overseas.

As with orders, despite the strong sales of products such as testing equipment for automobile development, sales for production facilities and overseas sales declined.

Profits increased due to improvements making plants more profitable.



Testing Equipment for Automobile Development

Power Generation Systems

Systems for Production Facilities

Water Supply Equipment Systems

Systems for Printers

Electric Propulsion Ship Systems

Developing and manufacturing railway station operating equipment and remote monitoring systems to contribute to improvement of operational efficiency

Business Overview

Our Information Equipment Systems segment helps our customers make their operations more efficient by developing and manufacturing advanced "railway station operating equipment" compatible with IC cards and "remote monitoring systems" that monitor status and position and facilitate visualization of power consumption.



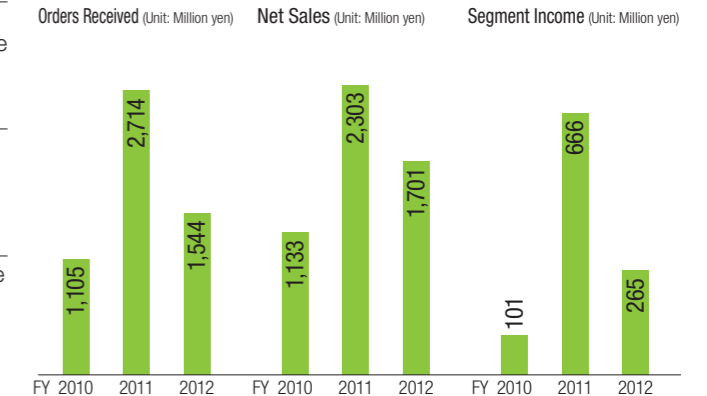
Results for fiscal 2012

- Orders Received**
1,544 million yen
 (Down 43.1% year on year)
- Net Sales**
1,701 million yen
 (Down 26.2% year on year)
- Segment Income**
265 million yen
 (Down 60.2% year on year)

Orders decreased in this fiscal year as a repercussion to increase in orders of ticket issuing handy terminal for railway companies in Japan for the previous year.

Sales fell for the same reason as orders received.

Profits declined greatly due to the impact of reduced revenues and development costs for new products.



Railway station operating equipment



Remote monitoring systems



Developing and manufacturing hybrid construction machinery and electric traction systems for EVs and HEVs

Business Overview

We develop and manufacture “automotive electrical equipment” such as motors and inverters which support electric vehicles (EVs), hybrid electric vehicles (HEVs), and electrification of construction machinery as a new core business for the Company alongside our Transportation Systems and Industrial Systems segments.

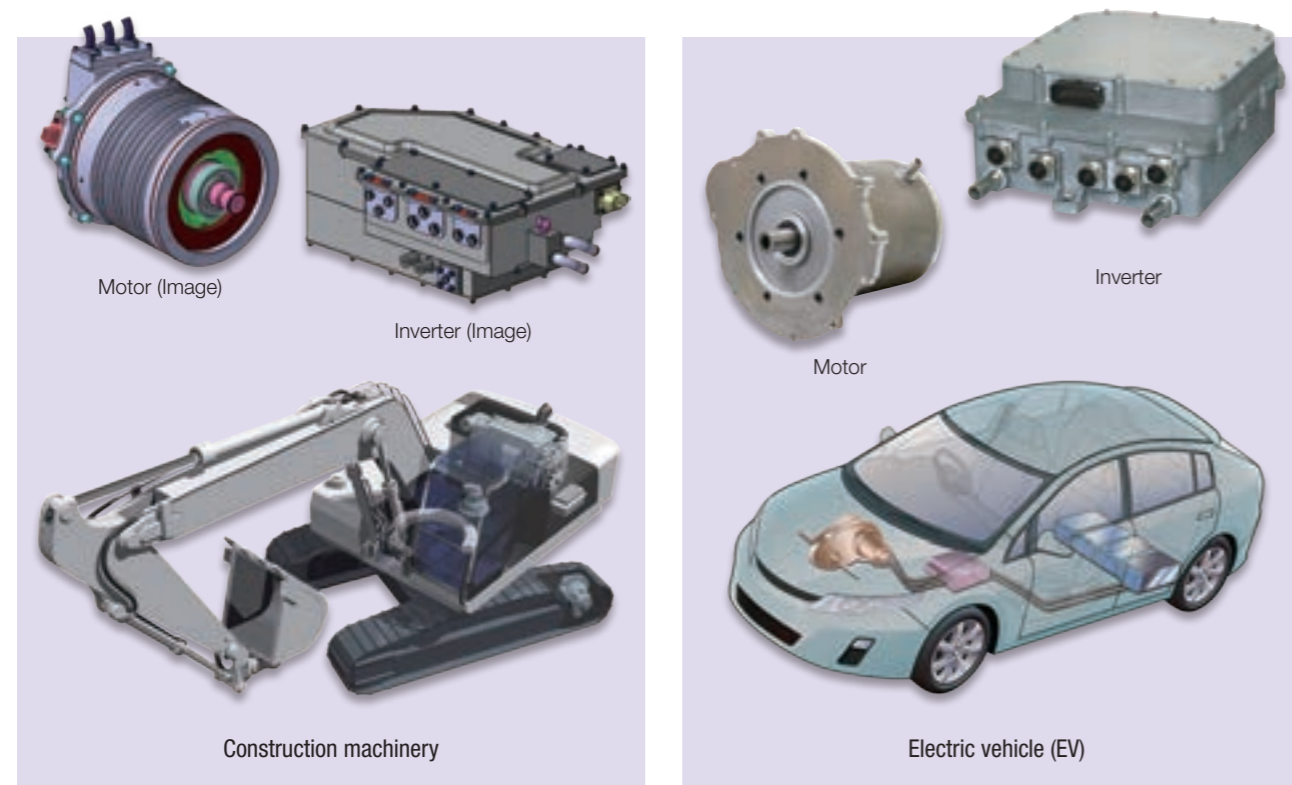
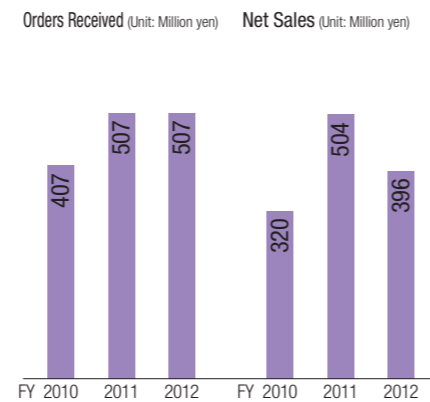
Currently, the orders received, net sales, and profits and losses of these products are included in our results for the Industrial Systems segment. As stated in the principal measures of the DASH 2015 Medium-Term Management Plan, this business will drive the expansion of our businesses by establishing a mass production structure for automotive electrical equipment, firmly capturing demand for a shift to hybrid construction machinery and quickly entering the international market for electric vehicles.

Reference: Orders received and net sales

Our automotive electrical equipment business starts with the receipt of orders of the development and design of prototypes from manufacturers of construction machinery, automobiles, industrial machinery, and other products.

After thorough testing, if the manufacturer decides to take the trial product into mass production, we begin manufacturing at our industrial motor and inverter factories in accordance with the mass production plan provided by the customer.

Below are our orders received and net sales for the past three years for reference.



Committed to technological innovation in the fields of railway and industry

Research and Development

Our research and development system consists of the research laboratory and the development divisions in each business unit. With regard to our R&D activities, we seek to create products that fully satisfy our customers in Japan and overseas and challenge the creation and expansion of these products. We actively develop technologies of our existing businesses and core technologies that support this development as well as new products

that expand our businesses.

Furthermore, we created a project team including people from our sales, development, and design divisions in April 2013. This team has studied the theme of “new businesses and products” in a cross-company manner and is committed to commercializing unique products in the future.

Results and topics from fiscal 2012

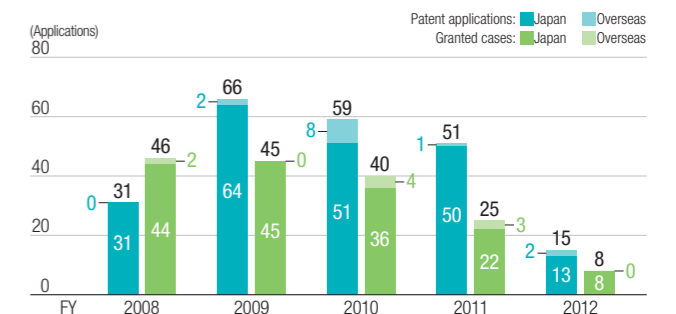
| Segment | Project | Description |
|-------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Transportation Systems | Fully enclosed induction traction motor | Commercialized traction motor that contributes to reduction of maintenance labor. |
| | Information control systems for rolling stock | Completed an information control system for next-generation rolling stock which was developed jointly with FUJI ELECTRIC. |
| | Compact and lightweight control system | Completed power supply for light rail cars. |
| Industrial Systems | Inverter with isolated control unit | Developed a unique inverter with separate control and power units. |
| | Programmable controller (PLC) with increased functionality | Made PLC with higher reliability by using dual-CPU architecture, and added Internet communication features. |
| | Expanded line of motors for automotive test equipment | Developed new models to expand lineup, including ultra-fast motors for EVs and HEVs. |
| Information Equipment Systems | Air conditioning instrumentation system (E-SAVE) | Developed energy management system for central air-conditioning systems. |
| | Next-generation all-in-one ticketing machines (railway station operating equipment) | Developed a ticketing machine that is more compact, more energy efficient, and issues tickets faster than current models. |

Intellectual Property

Our intellectual property is placed as a key corporate resource for the present and the future. Our intellectual property department is responsible for the management of intellectual property at our research laboratory and the development divisions in each business unit actively apply for patents and utility models.

In the overseas markets which we expect to further expand our businesses, we will actively engage in activities concerning our intellectual property in order to protect our technologies.

Patent applications



Management

16 Corporate Governance

17 Internal Control/Compliance

18 Risk Management

18 Information Security

Reports by Stakeholder

19 With Our Customers

21 With Our Suppliers

22 With Our Shareholders and Investors

23 With Our Employees

Actions to Deal with the Environment and Local Communities

26 Actions to Protect the Environment

30 Contributions to Local Communities

Management

In an effort to continuously enhance its corporate value, the Company is striving to ensure transparency of management and compliance, along with the maintenance and operation of an adequate governance framework while reinforcing its risk management framework.

Corporate Governance

Our philosophy of corporate governance

The Group's business activities are based on the business principles that "prioritize ethics and contribute to the prosperity of customers and society as a whole." We therefore strive to attain sound corporate management through strengthening and reinforcing corporate governance, fully appreciating the significance of compliance based on corporate ethics. At the same time, we review as appropriate our management monitoring system to ensure its conformity to the changes in the business environment including social environment and relevant legislation.

Corporate governance

We are a company with a board of statutory auditors, furnished with corporate bodies established in accordance with laws and regulations as well as the Articles of Incorporation, and include the Board of Directors, Statutory Auditors, the Board of Statutory Auditors, Accounting Auditors, along with the General Meeting of Shareholders and Directors. At its regular monthly meetings as well as extraordinary meetings held when appropriate, the Board of Directors discusses and decides on important management matters such as reports on Directors' business execution and matters to be decided solely at the discretion of the Board of Directors, while supervising Directors' business execution. In addition, the Company has meeting bodies including the Management Strategy Meeting and Executive Officer Liaison Meeting. Through these bodies, critical management matters including matters related to their execution of duties and/or those subject to the deliberation of the Board of Directors are reported to the President by the general managers of business execution departments, and are deliberated and discussed preliminarily.

Internal audit and statutory auditor's audit

Action plans and results of internal audits are reported to the Board of Directors and Statutory Auditors by the Audit Division under the direct control of the President as a function independent of all business operations subject to audit, as part of an effort to reinforce corporate governance. Statutory Auditors hold preliminary meetings with Accounting Auditors after the Ordinary General Meeting of Shareholders to exchange opinions regarding the audit plan. Statutory Auditors receive the results of quarterly reviews from Accounting Auditors both verbally and in writing, and confirm their action plans (if required by the reviews) to be taken at a fiscal year-end audit. Statutory Auditors also receive the results of the reviews on the fiscal year-end audit from Accounting Auditors in a

statutory document along with verbal reviews. Furthermore, Statutory Auditors are in principle required to be present at inventory taking or on-site inspection at subsidiaries by Accounting Auditors.

External Statutory Auditors and Outside Directors

Although the Company has established neither guidelines nor policies regarding the independence required for a candidate for its External Statutory Auditor, we used criteria for the independence of members of an independent committee established by stock exchanges as reference in appointing the two External Statutory Auditors, who both have excellent insight in their areas of expertise with no interest in the Company or in its major suppliers. One of them is engaged in the auditing activities for the Company, drawing on his wealth of experience and broad knowledge developed in his service at a financial institution. The other is a certified public accountant who utilizes his professional expertise in the area of corporate financial accounting for the Company's auditing work. Meanwhile, the Company has appointed Mr. Ikeda as a member of the Independent Committee and registered him as such at stock exchanges.

The Board of Directors consists of Directors who are familiar with the Company's business operations, so that maintenance and enhancement of management efficiency can be ensured. External Statutory Auditors are in place to thoroughly perform auditing functions to ensure management soundness. As such, the Company has not appointed Outside Directors as of this report's date of issue.

Executive remuneration

Amounts of remuneration for Directors and Statutory Auditors are decided by a resolution at the General Meeting of Shareholders. Basic remuneration for Directors is a fixed salary while a bonus is payable as determined by each Director's contribution to management as well as business results of the Company. Basic remuneration for both Standing and Part-time Statutory Auditors is a fixed salary without bonus payments.

| Category of executives | Number of executives applicable | Total amount of remuneration (Unit: Million yen) |
|------------------------------------------------------------|---------------------------------|--------------------------------------------------|
| Directors | 9 | 125 |
| Statutory Auditors (excluding External Statutory Auditors) | 2 | 27 |
| Outside Executives (External Statutory Auditors) | 2 | 11 |

Internal Control/Compliance

Internal control

The Company has developed an internal control system based on the Rules for the Internal Control Oversight Committee established in June 2006. The system reasonably ensures the achievement of objectives including effectiveness and efficiency of operations, reliability of financial reporting, compliance with relevant laws and regulations and protection of corporate assets. The Company has also introduced a self-inspection system to enhance monitoring so that an effective functioning of internal control can be ensured.

Furthermore, the Company has developed and operates an internal control system appropriately to ensure the reliability of its financial reporting, based on the Financial Instruments and Exchange Act (the so-called J-SOX Law). Accordingly, we determined that the internal control with respect to the Group's financial reporting was effective as of fiscal 2012, and we submitted an internal control report to the relevant authorities in August 2013. The report has been endorsed as adequate by an audit report submitted by the Accounting Auditor.

Principles of compliance

The Company has set "1. adherence to rules," "2. observance of confidentiality," "3. distinction between private and public matters," "4. strictness with money," "5. prohibition of side jobs," and "6. prohibition of discriminatory and sexually suggestive statements or behavior" as principles of compliance.

Compliance promotion framework

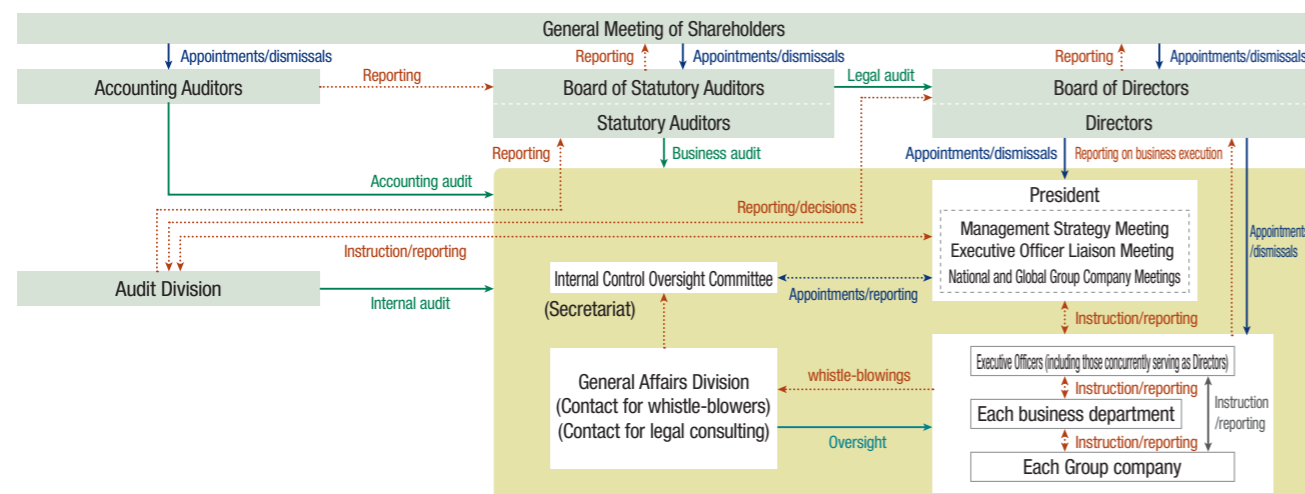
To focus on business principles and fulfill its social responsibility, the Company has provided all officers and employees with a copy of the Compliance Manual (Toyo Denki Seizo Ethical Standards) that stipulates its code of conduct. The move is part of an effort to have the code and the basic rules of work fully known.

The Company has also introduced a whistle-blowing system that allows employees to provide information directly to the management. The system is aimed at ensuring that any illegal or inappropriate conduct within the Company is detected at the earliest possible stage and that adequate measures are taken promptly and as needed so that such conduct is rectified.

Compliance education

The Company is organizing scheduled and systematic training sessions based on a compliance training master plan to enhance knowledge on compliance while promoting a conscious respect for corporate ethics.

Corporate governance framework



Risk Management

Basic policy

The Company is engaged in developing rules and a framework for risk management according to the Basic Rules for Risk Management established in August 2006.

Promotion framework

The Company has established the Internal Control Oversight Committee, an advisory body chaired by the President and has some of its authority delegated from the Board of Directors. It analyzes and assesses all the risks that exist in the Group and develops an effective risk management framework capable of dealing precisely with the risks of the types and degrees that the Group is exposed to. The committee specifically reviews the way such a risk management framework ought to be, and it reports periodically to the Board of Directors on the recommendations resulting from its deliberations.

Furthermore, the committee is committed to enhancing the Group-wide risk management framework in accordance with the Basic Rules for Risk Management.

Development of Business Continuity Plan (BCP)

In 2008, the Company developed a Business Continuity Plan (BCP) for its main production site, the Yokohama Plant. In the event of crises such as natural disasters, accidents or emerging pandemics, the BCP shall be launched without delay to ensure the continuity of minimum essential work while facilitating an early recovery of business operations.



Disaster drill by the company's fire brigade (Yokohama Plant)

Information Security

Basic policy

The Company holds a vast amount of information assets including information presented by customers related to its business execution and confidential information concerning the Group's proprietary technologies and its trade. Each Group company is taking various measures in this respect based on an awareness of shared security under the Group's Information Security Guidelines, which have been established to adequately manage and use these information assets.

Information security training

The Company is conducting educational activities to develop information security awareness among all employees including various training sessions, some involving the use of educational DVDs.



A training session

With Our Customers

The Company makes it one of our business principles to “build trust by focusing on quality first.” As such, we strive to enhance customer satisfaction through our commitment to thorough-going quality control as we believe delivering safe and secure products and services to customers is the Company’s most important mission.

Quality Control – Providing Safe and High-Quality Products

● Basic policy on quality control

The Company’s electrical equipment for rail vehicles is installed in many rail vehicles. These extremely important products play a direct role in ensuring the safety of human life and property during rail transportation. In the Industrial Systems and Information Equipment Systems segments as well, the Company’s products and services are used in customers’ production facilities, development sites and in the field of social infrastructure, and they form the foundation supporting the sustainable development of a society that is safe and comfortable to live in.

In order to ensure the high quality of our products and services, the Company has established a “Basic Policy on Quality Control” which is deployed at all production bases as we strive to maintain and improve our human resources education, compliance with rules, and our facilities.

● Promotion framework

With regard to quality control, each fiscal year the Company develops policies and the promotion framework aimed at further maintaining and improving quality in each business unit, along with specific policies pertaining to the reduction of flaws and other issues. The Company’s Corporate Quality Control Division works together with the quality control department or quality assurance department in each business unit to put together a report on the status of quality control and results in each unit. The report is delivered to top management at the monthly Executive Officer Liaison Meeting where measures are debated and decided. Furthermore, in the event that a flaw is discovered after a product has been shipped, the necessary steps are swiftly taken, mainly by the quality assurance department in each business unit, while at the same time the causes that led to the flaw and its mechanism are investigated, and this information is put into a database so that the information can be shared in-house in an effort to prevent recurrence.

● Quality management system

The Company has created and operates a quality management system at its production bases, the Yokohama Plant and the Shiga Factory, and has obtained ISO 9001 certification.

● Year ISO 9001 certification obtained

| | |
|----------------------|------|
| Yokohama Plant | 1994 |
| Shiga Factory | 2000 |
| Extended companywide | 2007 |

● Improvement activities

The Company promotes improvement activities focused on our production bases for the purpose of improving operational efficiency across the board, from the design and development stage through to manufacturing and quality assurance. These involve activities by groups or circles in which all employees participate, with targets set for each employee to carry out improvements and submit case reports. The Circle of Excellence is an activity we are implementing to raise employee motivation. Commendations are awarded twice a year, and a presentation and awards ceremony is held at the Yokohama Plant where individual improvement case studies are evaluated and cash bonuses are given.



Improvement Activities Presentation Ceremony (Yokohama Plant)

● Passing on skills

In order to maintain high quality, the Company actively promotes the transmission of outstanding skills. To this end, employees with exceptional manufacturing skills or expertise are recognized as “My Star” internally, and are given responsibility to instruct and train younger workers.

The Company’s tradition of technical education has continued unbroken since the establishment of the Toyo Denki School for Young People in 1937. In April 2013, the Technical Training Center was newly established within the Yokohama Plant, where training is carried out for technical staff through lectures and various hands-on workshops.



Technical Training Center



Hands-on technical training workshop

Responding to the Global Market

● Proper export control

The Corporate Quality Control Division is responsible for export management as an export management control department. We have created a system for the proper management of exports in order to ensure compliance with the laws and regulations concerning export management in the countries and regions where we engage in business activities as well as to avoid involvement in transactions that could hinder the maintenance of international peace and security.

The Corporate Quality Control Division handles cargo and technology parameters used in determining whether or not export permits are required, as well as investigation of transactions. In addition, the Division carries out employee education and instruction and support for Group companies.

Towards Greater Customer Satisfaction

● Customer satisfaction survey

Through its sales department, the Company regularly conducts surveys on topics such as customer requests and customer satisfaction. The results are reported to the top management at Executive Officer Liaison Meetings, and the information is shared within the Company. We strive to maintain good relations with our customers by identifying problems that need to be solved and swiftly addressing them in order to raise customer satisfaction.

TOPICS

Measures to prevent the recurrence of shipments of products containing asbestos

On March 4, 2013, the Company released an “Apology and Notice Concerning Shipment of Products Containing Asbestos.” Due to the inadequacy in some of our policies on asbestos, it was discovered that insulating sheets with asbestos backing had been used in some equipment for rail vehicles, namely “conductor’s switches,” that were manufactured and shipped by the Company.

In addition to offering an apology to our customers in the railway business that received the products in question, after consulting with the railway operators and based on the law and regulations, we implemented measures to

replace the relevant products with products in which asbestos was not used. Furthermore, we have repeatedly conducted thorough investigations into the situation with regard to use of asbestos-containing products within the Group, and as a result have confirmed that asbestos is not used in any of our products.

We offer our deepest apologies for the problems we caused for the railway operators and all others involved in this matter, while at the same time taking this accident as a lesson to take thorough steps to prevent a recurrence in the future.

With Our Suppliers

The Company responds to the needs of our customers through the strong network we have built with suppliers in line with our unique characteristics as a business based on an individual build-to-order/multi-product small lot manufacturing model.

Towards Just and Fair Procurement

Communication with suppliers

The Company's products possess various distinctive characteristics such as being individually built-to-order, manufactured in multi-product small lots, and demanding high reliability. Therefore, the Company can be affected by the performance of our suppliers as a result of issues such as delays in supply due to fluctuations in production quantity or delays in processing due to the quality of products received.

In order to reduce these risks as much as possible, the Company carries out instruction and support related to quality, technology, and skills for our suppliers, as well as guidance for improvement of manufacturing sites, in order to ensure stable procurement of even better quality products. In addition, we actively promote information sharing through the "Toyo Denki Cooperation Association" to which our leading suppliers belong.

Thorough incoming inspection

Many of the Company's products are related to railways or social infrastructure and a high degree of reliability is required of these products.

When procuring materials, we have in place a system in which procured items undergo a thorough incoming inspection, and only those that pass the strict inspection are accepted. The incoming inspection records are kept to provide a trail that can be used in quality checks later on.

When a variation occurs in a procured item, the nature of the variation is verified from the perspective of four management points, "the 4Ms": Man, Machine, Material, and Method. This mechanism allows us to confirm with

regard to the variation whether or not a problem arises during processing before making a change.



Incoming inspection

Training for material procurement officers

The Company endeavors to maintain proper execution of operations by implementing a variety of training programs for material procurement officers to deepen their knowledge of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors and related laws and regulations and to cultivate awareness of legal compliance.

External whistle-blower system (for suppliers)

The Company has established an external whistle-blower system to receive consultations or reports on compliance from our suppliers. The legal compliance department handles complaints and consultations about transactions, and the Company's retained lawyer resolves issues when necessary.

TOPICS

Efforts with regard to local procurement of materials overseas

As the Company's business development expands overseas, it has become more and more important to press ahead with local procurement of materials while striking a balance between reducing costs and ensuring quality. In particular, in the Transportation Systems segment, when submitting a tender for electrical equipment for rail vehicles used overseas, one of the conditions sometimes required is to meet a certain ratio of local procurement, and as such the Company is stepping up cultivation of local procurement sources and reinforcing the

quality check system for materials.

Furthermore, by moving ahead with measures such as central purchasing that also includes Group companies and joint purchasing with FUJI ELECTRIC and Hitachi with whom we have business alliances in the field of electrical equipment for rail vehicles for railways overseas, we are also advancing local procurement of materials in India and Southeast Asia where the Company will be expanding in the future.

With our Shareholders and Investors

Through the timely and proper disclosure of information and various modes of communication, we strive to receive an appropriate evaluation of the Company from our shareholders and investors.

Towards Enhancement of Corporate Value

Basic philosophy

Through timely and appropriate disclosure of information to our shareholders and investors, the Company accurately conveys our management policy and business conditions while making use of IR tools such as our website to promote a full range of IR activities that contribute to the improvement of our corporate value.

Development of IR activities

IR activities for institutional investors and securities analysts

The Toyo Denki management team holds a financial results briefing each quarterly period and gives a report including the state of progress of the medium-term management plan, an overview and forecast for each segment, major orders, and other topics.

In addition, we strive to deepen understanding of the Company through individual visits to institutional investors or holding factory tours, participating in small meetings organized by securities companies, and so on.

IR activities for individual shareholders and individual investors

The Company website includes a "For Individual Investors" page which offers a clear introduction to our business activities and our results, as well as making available a variety of IR materials.

URL "For Individual Investors"

http://www.toyodenki.co.jp/html/ir_individual.html

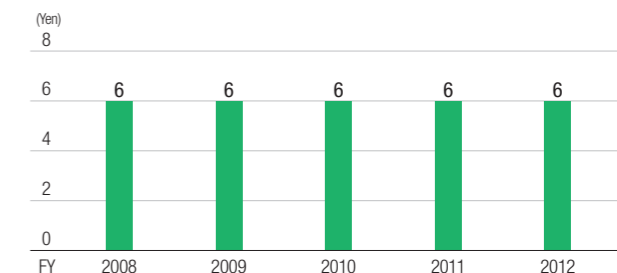


Financial results briefing for the fiscal year ended May 31, 2013 by former President Hiroshi Tsuchida (held in July 2013)

Dividends

Maintenance of stable dividends forms the basis of the Company's distribution of profit, and the dividend for the fiscal year ended May 31, 2013 was 6 yen per share (interim dividend of 0 yen, fiscal year-end dividend of 6 yen). The Company also intends to maintain dividends at 6 yen or more per share from the fiscal year ending May 31, 2014 onward.

Dividend per share



Record of 152nd Ordinary General Meeting of Shareholders
Date held: Tuesday, August 27, 2013
Attendance: 112 people

TOPICS

IR activities for individual investors

The Company received valuable comments from our shareholders through the Questionnaire to Shareholders inserted in the Interim Business Report for fiscal 2012 issued in early February 2013. Based on the valuable answers and opinions that were submitted, we will enhance our IR activities for individual investors as follows.

IR activities launched in response to the results of the questionnaire

- Establishment of a web page for individual investors (June 2013)
- Company presentation for individual investors (From September 2013)
- Hold factory tours for shareholders (Scheduled to be held in spring of 2014)

With Our Employees

The Company seeks to cultivate a dynamic corporate culture and to create a pleasant and safe workplace where each and every employee can unleash his or her diverse capabilities.

Towards the Development of Human Resources with Competitive Strengths

Human resources development policy

The Company has set the following policy on human resources development and carries out education and training.

Fundamental policy

- (1) To develop human resources who understand and practice our business principles and code of conduct and who are of value both as company employees and as members of society.
- (2) To develop human resources who are professionals, each possessing a high degree of specialized expertise, by enhancing the knowledge, techniques, and skills they need to carry out their duties.
- (3) To provide a variety of educational opportunities in order to promote personal development, with emphasis on a self-directed approach to study and growth.

Establishing and promoting a dynamic corporate culture

The Company engages in a range of communication activities to realize the “establishment and promotion of a dynamic corporate culture” set as a fundamental policy under the Dash 2015 medium-term management plan. These are implemented in-house through the Dynamism Committee and include initiatives such as exchanges between employees and between different business types as well as opportunities for personal development.

The Dynamism Committee, made up of members from the Company’s administrative professionals and general employees, draws up policies related to these activities and develops them independently.

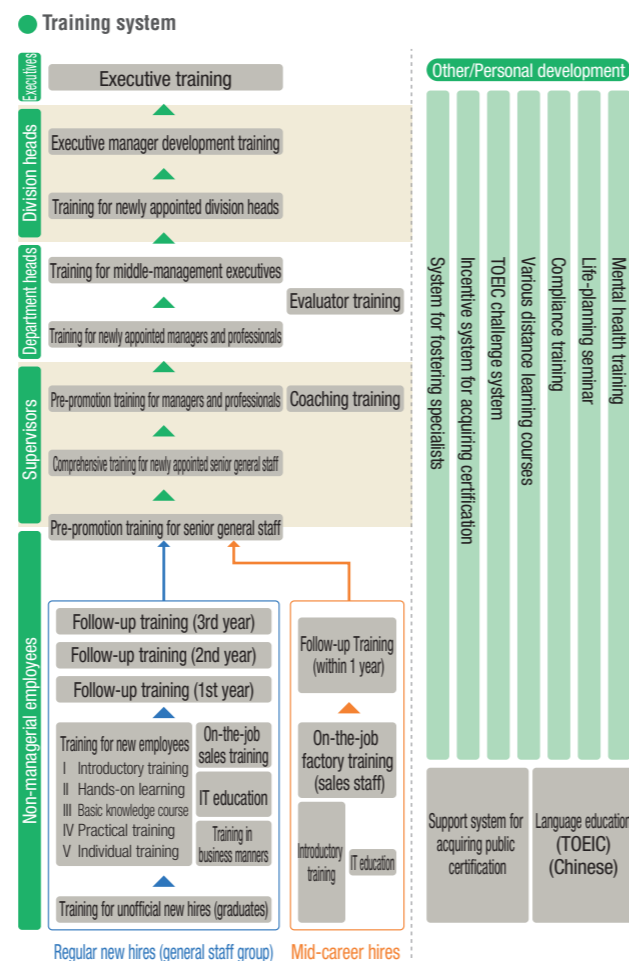


In-house exchange event “Area Night”

Education and training system

Training programs at the Company are divided into several categories according to the employee’s year of service, type of work and role, and training is carried out after clarifying what part each employee is expected to play.

Furthermore, in response to globalization of the Company’s operations, we offer English and Chinese language programs. The Company covers the full cost for a variety of courses tailored to the level of the participating employees, including distance learning, enrollment in schools, and classes provided by teachers in-house.



Creating a Pleasant Workplace

Safety and hygiene initiatives

The Company holds monthly meetings of the Safety and Hygiene Committee jointly with labor and management, where ongoing discussions are held in order to build a safer working environment and to reduce workplace injuries to zero, and to find solutions to mental health issues at each of our bases. In particular, sub-committees are set up to address important topics related to safety and hygiene at production bases in an effort to create an even better workplace.

Initiatives to support a balance between work and family

The Company has put in place a full range of systems in order to allow each and every employee to realize a balance between work and family. Details about the contents of these systems are published in a PR pamphlet for employees called the “Guidebook on Childcare and Family Care Leave,” and are posted on the company intranet where employees can consult them at any time.

Initiatives for diverse work-styles

The Company has implemented a flexible work-style including a flextime system for sales staff and those involved in development. Furthermore, in order to encourage retention and utilization of employees with knowledge and skills, we have put in place the “System for Rehiring Employees” for employees who have resigned

due to life events that occur in the course of their career (childbirth, childcare, family care, spouse’s transfer, etc.), so that they can be rehired when they reach the stage when it is possible to return to work.

As for employees who wish to be rehired after they reach the mandatory retirement age (60), in principle, we continue to employ them until the age of 65.

Initiatives for employment of the disabled

The Company makes improvements to the workplace environment and carries out workplace training with the aim of creating a workplace where the disabled and those in normal health can work together energetically. We also promote collaboration with local governing agencies and special-needs schools regarding employment of the disabled.

Mental health measures

As measures to address mental health, the Company conducts “Line care training” for administrative professionals and “Self care training” for employees. In addition, we have partnered with an external medical institution to set up a telephone and e-mail consultation service to provide support for prevention, treatment, and return to work.

Work and family life balance

Leading a busy but fulfilling life, encouraged by the smiling faces of my child and family

Asami Isaka (Financial Affairs Division), Tsutomu Isaka (Industry Business Unit)

I work in the Financial Affairs Division, and my husband is in the Sales Division of the same company. When our first child was born, I took maternity and childcare leave. My initial plan was to return to work when our child turned one, but I extended the childcare leave until our child was one and a half years old because we could not find a place in daycare, and then I went back to work.

After returning to work, my husband and I both took advantage of the system of shorter work hours for childcare, so my husband can drop the baby off at daycare in the mornings, and I handle the pickup in the evening. The three of us are making the effort to maintain a balance between childcare and work.

It can be tough to strike that balance when time is limited, for example, when I found out I was pregnant with our second baby after I returned to work, or when I get a sudden call from the daycare because our child is ill or not

feeling well. It is thanks to the people at my workplace who understand my situation, my husband who helps out with housework and child rearing, and my parents who lend a hand when the baby is sick that I am able to work, and I am grateful for that. It is pretty hectic when I get home, as I have to get dinner ready and prepare the bath, but I am leading a busy but fulfilling life, encouraged by the smiling faces of my child and family.



Reports by Stakeholder

Data Concerning Personnel and Labor

Data concerning personnel and labor (at Toyo Denki Seizo K.K.)

| Item | Unit | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 |
|-------------------------------------------------------|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Number of employees | Total | 673 ^{*1} | 700 ^{*1} | 748 ^{*2} | 744 ^{*2} | 791 ^{*3} |
| | Men | 629 | 649 | 697 | 693 | 735 |
| | Women | 44 | 51 | 51 | 51 | 56 |
| Ratio of female employees | % | 6.5 | 7.3 | 6.8 | 6.9 | 7.1 |
| Number of administrative professionals | Total | 163 | 170 | 171 | 155 | 152 |
| | Men | 162 | 169 | 170 | 153 | 151 |
| | Women | 1 | 1 | 1 | 2 | 1 |
| Ration of female administrative professionals | % | 0.6 | 0.6 | 0.6 | 1.3 | 0.7 |
| Average age | Overall | 39.7 | 39.7 | 40.8 | 41.1 | 41.0 |
| | Men | 40.0 | 40.0 | 41.1 | 41.4 | 41.1 |
| | Women | 35.7 | 35.7 | 36.5 | 38.2 | 38.9 |
| Average years of employment | Overall | 15.8 | 16.2 | 16.4 | 16.5 | 16.1 |
| | Men | 16.0 | 16.4 | 16.6 | 16.7 | 16.3 |
| | Women | 13.0 | 13.3 | 13.5 | 14.6 | 14.5 |
| Average annual salary | Yen | 5,899,196 | 5,831,972 | 5,953,210 | 6,039,332 | 5,885,559 |
| Overturn rate (within 3 years of joining the Company) | % | 0.0 | 5.9 | 5.9 | 13.5 | 3.8 |
| Number taking childcare leave | Persons | 1 | 0 | 1 | 2 | 3 |
| Number taking family care leave | Persons | 0 | 0 | 0 | 0 | 0 |
| Number of temporary staff (including part-timers) | Persons | 180 | 222 | 155 | 149 | 167 |
| Notes | | ^{*1} Number of regular employees excluding Executive Officers ^{*2} Number of regular employees including Executive Officers and number of special employees, temporary employees and temporary and part-time employees ^{*3} Number of regular employees including Executive Officers, and number of special employees, temporary employees, contract employees and staff on loan from other companies, etc. | | | | |

Reference data I: Number of Officers (at Toyo Denki Seizo K.K.)

| Item | Unit | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 |
|--------------------|-------|--------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
| Number of Officers | Total | 10 | 10 | 12 | 10 | 10 |
| | Men | 10 | 10 | 12 | 10 | 10 |
| | Women | 0 | 0 | 0 | 0 | 0 |
| Notes | | For each fiscal year as of May 31 (Executives include Directors, Internal Statutory Auditors, and External Statutory Auditors) | | | | |

Reference data II: Number of employees at the Group Companies in Japan and overseas (at the 6 consolidated subsidiaries of Toyo Denki Seizo K.K.)

| Item | Unit | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 |
|--------------------------------------------------------------|---------|-----------------------------------|-------------|-------------|-------------|-------------|
| Number of employees at Group companies in Japan and overseas | Persons | 374 | 373 | 429 | 431 | 379 |
| Number of temporary staff (including part-timers) | Persons | 154 | 131 | 107 | 86 | 89 |
| Notes | | As of May 31 for each fiscal year | | | | |

Reference data III: System for support of work-family balance (at Toyo Denki Seizo K.K.)

| | | |
|---------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Maternity and childcare related | Prenatal leave | Can be taken from 8 weeks prior to due date (14 weeks prior in the case of multiple births.) (6 weeks is required by law) |
| | Maternity leave | Can be taken for up to 8 weeks after birth. |
| | Childcare leave | In principle, childcare leave can be taken for a period as needed from the day after 8 weeks have elapsed since birth (completion of maternity leave), until the day before the child turns 1 year old. In cases where it is difficult to find a place in daycare, etc., it is possible to apply for an extension of childcare leave until the child is 1 year and 6 months, or until the last day of the month of March after the child has reached the age of 1 year, whichever is longer. |
| | Repeat childcare leave (Mom and Dad Childcare Leave Plus) | If an employee has taken childcare leave within the 8-week period after his spouse has given birth, he may take repeat childcare leave until the child reaches one year of age. Further, if the employee and spouse both take childcare leave, the childcare leave period can be extended until the child reaches 1 year and 2 months. |
| | Shorter working hours for childcare | Working hours may be set at 5 hours 45 minutes or 6 hours 45 minutes per day for a period as needed from the end of childcare leave until the child graduates from elementary school. |
| Family care related | Nursing leave | Up to 5 special days off may be taken per family member for nursing care for pre-elementary school age children. |
| | Family care leave | A total of up to 3 years of family care leave may be taken per person needing care. |
| Other | Family care work hours | Employees not taking family care leave may limit working hours to 5 hours and 45 minutes or 6 hours and 45 minutes per day. |
| | System for Rehiring Employees | Employees who have resigned due to marriage, infertility treatment, childbirth, childcare, family care, or spouse's transfer, etc., may be rehired when they are able to return to work depending on the employee's request and workplace needs. |

Initiatives to Deal with the Environment and Local Communities

Initiatives to Protect the Environment

With a view to realizing an environment-friendly society, the Company will further strive to provide more efficient and energy-saving products that generate lower noise, while promoting the reduction of environmental burden.

● Environmental Philosophy ●

The Toyo Denki Group sets initiatives to protect the global environment as its priority task and contributes to the development of a sustainable society.

● Action Guidelines ●

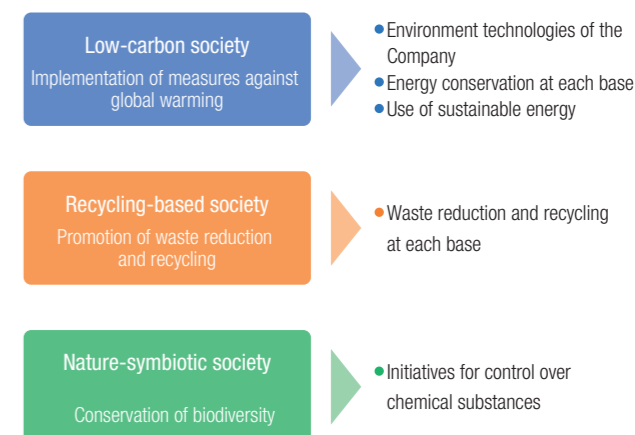
We will continue to provide products and services that are considerate of the burden on the global environment by drawing on our "future-oriented technologies friendly to the Earth and mankind."

1. We will comply with all environmental requirements including those under the relevant laws and regulations.
2. We will strive to minimize environmental burden through a reduction of energy consumption and other measures at all stages of product lifecycle, namely planning, development, design, production, sales, use and disposal.
3. We will establish and execute a system to continuously promote activities to protect the global environment.
4. We will raise environmental awareness among individuals through enlightenment activities within the Group

Aiming for realization of a Sustainable Society

A sustainable society as envisaged by the Company is the combination of a "low-carbon society," a "recycling-based society" and a "nature-symbiotic society."

The Company has produced numerous products that facilitate the efficient use of energy, including high efficiency motors and inverters that capitalize on the amalgamation of our outstanding motor drive technology and other state-of-the-art technologies. In the meantime, the Company has been striving to reduce the size and weight of its products as part of its efforts to conserve resources, while lowering the level of noise involved in their use to make them friendlier to the surrounding environment. As a member of society, the Company will make further contribution to make society more sustainable, fully utilizing on its environmental technologies on a global scale, while following through various environmental actions at each of its bases.



Environmental Management System

In order to tackle environmental issues on an independent and continuous basis, the Company has developed and operates an environmental management system and thereby obtained ISO 14001 certification. This certification has been acquired for all offices and the production bases Yokohama Plant and Shiga Factory.

● Years of ISO 14001 certification

| | |
|-------------------------|------|
| Shiga Factory | 2001 |
| Yokohama Plant | 2004 |
| Extended to all offices | 2010 |

Initiatives to Deal with the Environment and Local Communities

Initiatives to Prevent Global Warming

Initiatives to reduce greenhouse gas (CO₂) emissions

The Company is promoting energy conservation at each of its production bases and offices to reduce its CO₂ emissions.

At the production bases in particular, the progress of energy-saving efforts at workplaces is checked on a monthly basis to encourage an energy-saving awareness among employees, along with general power-saving and streamlining at production facilities.

Targeted reduction of CO₂ emissions and progress status

At the Company's main production base, the Yokohama Plant, the targeted 1% year-on-year reduction of CO₂ emissions per unit of production output has not been achieved this year, which is primarily attributable to a decrease in the production volume at the plant as well as an increase in the actual CO₂ emission factor at the Tokyo Electric Power Company.

Use of sustainable energy

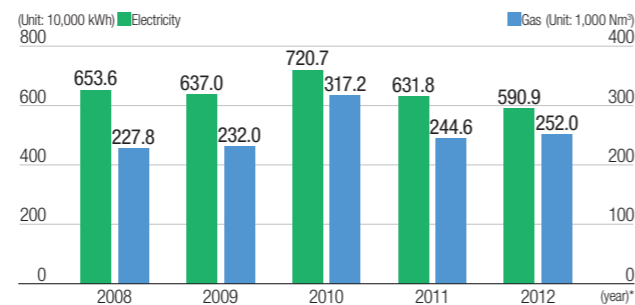
The Company in July 2012 installed a 500 kW solar power system on the roof of the Yokohama Plant for the purpose of cutting power use at peak times. Electricity generated by this system is used entirely within the plant. A more than 5% reduction in the use of externally supplied electricity was achieved in the one-year period following its installation.

Thanks to the in-house electricity generation by the solar power system, the plant is capable of securing a sufficient supply of power on its own during daytime to operate its communication infrastructure and maintain a minimum level of business execution, even in the event of major disasters such as earthquakes.

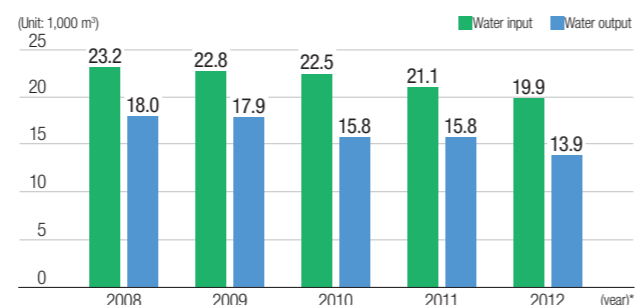


Solar power system at Yokohama Plant

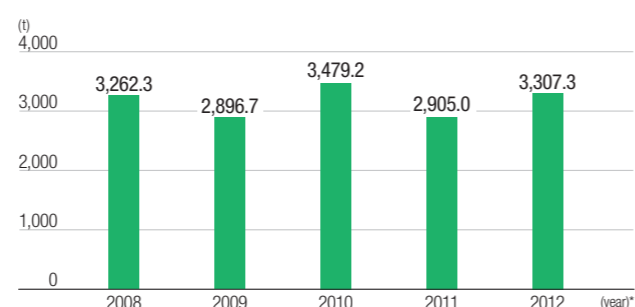
Total energy input at Yokohama Plant (electricity and gas)



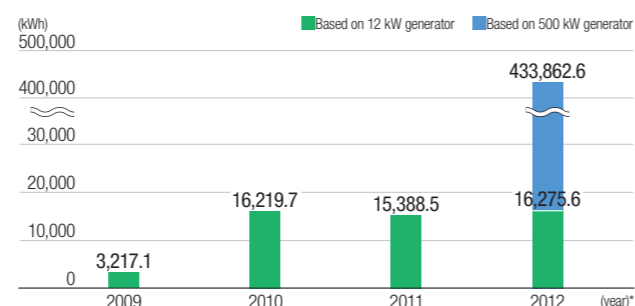
Total water input/output at Yokohama Plant



Total CO₂ emissions at Yokohama Plant



Total solar power generation at Yokohama Plant

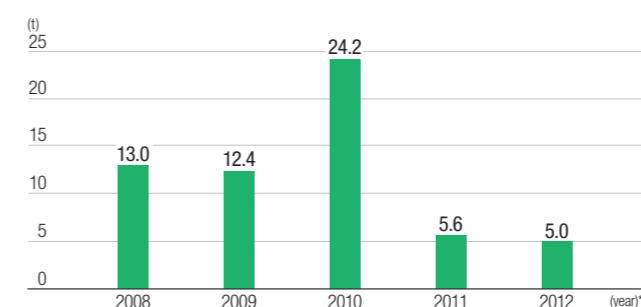


Initiatives for Reducing Disposed Waste as Well as Recycling

Main actions

The Company successfully reduced its landfill waste rate to 0.9% in fiscal 2012, as a result of thoroughly implementing waste processing rules, sorting of metal waste and recycling of paper resources.

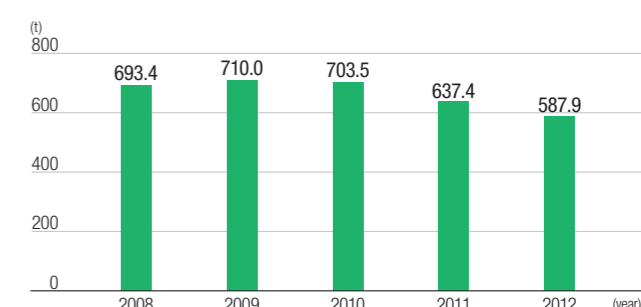
Volume of landfill waste



Promotion of green procurement

The Company is promoting green procurement with respect to office equipment and supplies, stationery and worker's clothes used at the Yokohama Plant. A 70% green procurement ratio was achieved in fiscal 2012 based on purchase value.

Output of general and valuable waste



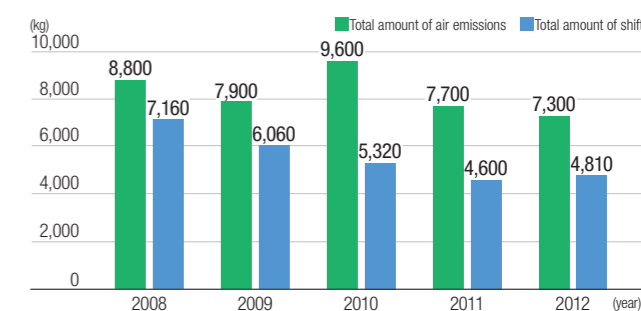
Initiatives for Control over Chemical Substances

Volatile organic compounds (VOCs) emitted as a result of our business activities are adequately controlled and the amount of emission is monitored under the Pollutant Release and Transfer Register (PRTR).

PCB waste is also subject to adequate control, storage and disposal in accordance with Japan's Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.

We will further engage in the reduction of waste through such measures including using non-VOC materials and implementing recovery and reuse of solvents.

Notification volume for Pollutant Release and Transfer Register (PRTR) substances



*Period from April to following March.

Initiatives to Deal with the Environment and Local Communities

Environment-Related Data

| Indices | | Applicable premises | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 | Remarks | | |
|-----------------------------------------|-------------------------------------|----------------------------|-------------------------|------------------------|-------------|-------------|-------------|---------|-------|--|
| Input | Electric power (10,000 kWh) | Production bases total | 653 | 662 | 756 | 667 | 624 | | | |
| | | Yokohama Plant | 653 | 637 | 720 | 631 | 590 | | | |
| | | Shiga Factory | - | 25 | 36 | 35 | 33 | *2 | | |
| | | Non-production bases total | - | - | 18 | 16 | 20 | *3 | | |
| | Urban gas (1,000 Nm ³) | Production bases total | 227 | 232 | 317 | 244 | 252 | | | |
| | | Yokohama Plant | 227 | 232 | 317 | 244 | 252 | | | |
| | | Shiga Factory | - | - | - | - | - | | | |
| | Water input (1,000 m ³) | Production bases total | 23 | 22 | 22 | 21 | 19 | | | |
| | | Yokohama Plant | 23 | 22 | 22 | 21 | 19 | | | |
| | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | *4 | | |
| | CO ₂ emissions (t) | Production bases total | 3,262 | 2,985 | 3,585 | 3,014 | 3,456 | | | |
| Yokohama Plant | | 3,262 | 2,896 | 3,479 | 2,905 | 3,307 | | | | |
| Shiga Factory | | - | 89 | 106 | 109 | 149 | *5 | | | |
| Non-production bases total | | - | - | 212 | 231 | 169 | *6 | | | |
| Total power generation | | - | 3,217 | 16,219 | 15,388 | 450,138 | | | | |
| Solar power generation (kWh) | Yokohama Plant | - | - | - | - | 433,862 | *7 | | | |
| | Based on 500 kW generator | - | - | - | - | 433,862 | | | | |
| | Based on 12 kW generator | - | 3,217 | 16,219 | 15,388 | 16,275 | *8 | | | |
| Water output (1,000 m ³) | Production bases total | 18 | 17 | 15 | 15 | 13 | | | | |
| | Yokohama Plant | 18 | 17 | 15 | 15 | 13 | | | | |
| | Shiga Factory | 0 | 0 | 0 | 0 | 0 | *9 | | | |
| Domestic Output | Total amount of air emissions (kg) | | 8,800 | 7,900 | 9,600 | 7,700 | 7,300 | | | |
| | Total amount of shift (kg) | | 7,160 | 6,060 | 5,320 | 4,600 | 4,810 | | | |
| | Bisphenol A (kg) | Amount of air emissions | Production bases total | 0 | 0 | 0 | 0 | 0 | **10 | |
| | | | Yokohama Plant | 0 | 0 | - | - | - | **10 | |
| | | | Shiga Factory | 0 | 0 | - | - | - | **10 | |
| | | Total amount of shift | Production bases total | 1,600 | 940 | 0 | 0 | 0 | **10 | |
| | | | Yokohama Plant | 1,600 | 940 | - | - | - | **10 | |
| | | | Shiga Factory | 0 | 0 | - | - | - | **10 | |
| | Ethylbenzene (kg) | Amount of air emissions | Production bases total | 2,100 | 1,700 | 2,300 | 1,800 | 1,800 | | |
| | | | Yokohama Plant | 2,100 | 1,700 | 2,300 | 1,800 | 1,800 | | |
| | | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | | |
| | | Total amount of shift | Production bases total | 150 | 230 | 450 | 550 | 330 | | |
| | | | Yokohama Plant | 150 | 230 | 450 | 550 | 330 | | |
| | | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | | |
| | PRTR*1 | Xylene (kg) | Amount of air emissions | Production bases total | 3,700 | 2,900 | 4,000 | 3,300 | 2,900 | |
| | | | | Yokohama Plant | 3,700 | 2,900 | 4,000 | 3,300 | 2,900 | |
| | | | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | |
| | | Total amount of shift | Production bases total | 120 | 190 | 370 | 450 | 280 | | |
| | | | Yokohama Plant | 120 | 190 | 370 | 450 | 280 | | |
| | | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | | |
| Tetrahydromethylphthalic anhydride (kg) | Amount of air emissions | Production bases total | 0 | 0 | 0 | 0 | 0 | | | |
| | | Yokohama Plant | 0 | 0 | 0 | 0 | 0 | | | |
| | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | | | |
| | Total amount of shift | Production bases total | 4,700 | 3,700 | 2,800 | 1,600 | 3,000 | | | |
| | | Yokohama Plant | 4,700 | 3,700 | 2,800 | 1,600 | 3,000 | | | |
| | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | | | |
| Toluene (kg) | Amount of air emissions | Production bases total | 3,000 | 3,300 | 3,300 | 2,600 | 2,600 | | | |
| | | Yokohama Plant | 3,000 | 3,300 | 3,300 | 2,600 | 2,600 | | | |
| | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | | | |
| | Total amount of shift | Production bases total | 590 | 1,000 | 1,700 | 2,000 | 1,200 | | | |
| | | Yokohama Plant | 590 | 1,000 | 1,700 | 2,000 | 1,200 | | | |
| | | Shiga Factory | 0 | 0 | 0 | 0 | 0 | | | |
| Wastes | ① Industrial waste (tons) | | 198 | 242 | 319 | 316 | 266 | | | |
| | Yokohama Plant | | 198 | 242 | 292 | 282 | 230 | | | |
| | Shiga Factory | | - | - | 27 | 34 | 35 | **11 | | |
| | ② General waste (tons) | | 115 | 113 | 130 | 114 | 101 | | | |
| | Yokohama Plant | | 115 | 113 | 130 | 114 | 101 | | | |
| | Shiga Factory | | - | - | - | - | - | | | |
| | ③ Valuable metal waste (tons) | | 379 | 354 | 280 | 240 | 255 | | | |
| | Yokohama Plant | | 379 | 354 | 280 | 240 | 255 | | | |
| | Shiga Factory | | - | - | - | - | - | | | |
| | Waste output (①+②+③) (tons) | | 693 | 710 | 730 | 671 | 623 | | | |
| | Yokohama Plant | | 693 | 710 | 703 | 637 | 587 | | | |
| | Shiga Factory | | - | - | 27 | 34 | 35 | **11 | | |
| | Recycled amount (tons) | | 560 | 556 | 524 | 436 | 432 | | | |
| Yokohama Plant | | 560 | 556 | 524 | 436 | 432 | | | | |
| Shiga Factory | | - | - | - | - | - | | | | |
| Volume of landfill waste (tons) | | 13 | 12 | 51 | 39 | 40 | | | | |
| Yokohama Plant | | 13 | 12 | 24 | 5 | 5 | | | | |
| Shiga Factory | | - | - | 27 | 34 | 35 | **11 | | | |
| Percentage of landfill waste (%) | | 1.9 | 1.7 | 7.0 | 5.9 | 6.5 | | | | |
| Yokohama Plant | | 1.9 | 1.7 | 3.4 | 0.9 | 0.9 | | | | |
| Shiga Factory | | - | - | 100.0 | 100.0 | 100.0 | **11 | | | |

*Non-production bases: Toyo Denki Seizo Head Office, Osaka Branch, Nagoya Branch, Hokkaido Branch, Kyushu Branch, Hiroshima Branch

*1 PRTR: Pollutant Release and Transfer Register
 *2 Data collection started at Shiga Factory in fiscal 2009 due to a revision of Japan's Act on the Rational Use of Energy, prior to which no data existed.
 *3 ISO14001 certification was acquired for non-production bases in June 2010.
 *4 Production activities at Shiga Factory recorded close to zero water input.
 *5 Data collection started at Shiga Factory in fiscal 2009 due to a revision of Japan's Act on the Rational Use of Energy, prior to which no data existed.

*6 Data collection started in fiscal 2010.
 *7 500 kW solar panel became operational in July 2012.
 *8 12 kW solar panel became operational in January 2010.
 *9 Production activities at Shiga Factory recorded nearly nil water output.
 *10 Bisphenol A has been inapplicable thus outside the scope of registration since fiscal 2010.
 *11 Data collection started at Shiga Factory in fiscal 2010, prior to which no data existed.

Contributions to Local Communities

We are committed to various social contribution activities, to facilitate our own co-existence with communities and to foster young people who will represent the next generation.

To Convey the Mission and the Appeal of Electrical Industry as Well as of Toyo Denki

As an electrical manufacturer that contributes to the development of railways and industries in general, the Company is committed to providing young people, who will represent the next generation, with various educational opportunities. The goal is to have them appreciate the role manufacturers must play in achieving a sustainable society, and thus to nurture an environmental awareness among them.

Receiving interns

We are committed to activities that raise awareness and appreciation of our manufacturing expertise by accepting interns from local technical high schools and providing them with hands-on experience at manufacturing sites. This internship system serves as an effective means of recruiting outstanding technical staff on a consistent basis as some students in the schools apply for positions at the Company.



An intern at work

Environmental workshops at schools

The Company engages in enlightenment activities by dispatching its employees to hold lectures on the environment at educational institutions such as elementary schools. The idea is to inform the public of the fact that railways, particularly those using electric trains, is a mode of transport that produces less CO₂ emission than other modes, and of the Company's profound historical commitment to the development of environmental technologies used by railways.



An environmental workshop at an elementary school

On-demand lectures on career workshops

The Company also dispatches its employees, primarily engineers, for a career workshop at educational institutions. The employees provide useful information to promote autonomous career choice among the students at junior high schools and high schools. We offer audience-friendly presentations that provide practical information on the design and development work at manufacturers.

Aiming to be a Factory Trusted by All Members of Local Communities

Factory tours

We are conducting "factory tours" to provide opportunities for members of local communities to actually see our manufacturing facilities and products in order to develop deeper understanding about the business operations of the Company. During these tours, we inform the participants of our products as well as our actions for environmental protection, in an effort to build up relationships built on trust with local communities.



A factory tour attended by elementary school pupils

Contributions to blood donation campaign

As a gesture of support for the blood donation campaign by the Japanese Red Cross Society, our Yokohama Plant welcomes blood donation buses onto its premises on a regular basis. Many employees offer their blood through cooperative promotional activities organized by the Company and the labor union.



A blood donation site

Financial Report

Financial Report

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Financial Review

Information on “results of operation,” “financial position” and “cash flows” for the consolidated fiscal year under review (from June 1, 2012 to May 31, 2013) are as follows.

Results of Operation

Orders received
YoY **+3.9%**

Orders received increased 3.9% compared with the previous fiscal year to 33,949 million yen. While orders received in the Information Equipment Systems segment dropped significantly from the surging levels of the previous year and orders received in the Industrial Systems segment remained on a declining trend due to environmental factors hindering incoming orders for production equipment and overseas sales, orders received in the Transportation Systems segment surged upward, particularly overseas.

Net sales
YoY **-20.7%**

Net sales decreased 20.7% year on year to 30,575 million yen. Net sales in the Transportation Systems segment decreased significantly, particularly overseas, and net sales in the Industrial Systems segment and Information Equipment Systems segment also decreased for the same reasons as orders received.

Profit/loss
Net Income
YoY **-8.1%**

Operating income decreased 70.5% compared with the previous fiscal year to 501 million yen, mainly due to the decrease in net sales. Ordinary income decreased 35.7% year on year to 1,150 million yen, partly due to the posting of foreign exchange gains of 629 million yen derived from the weakening yen. Net income decreased 8.1% compared with the previous fiscal year to 722 million yen.

Financial Position

Assets
Total assets
42,364 million yen

Total assets as of May 31, 2013 stood at 42,364 million yen, an increase of 4,278 million yen compared with the end of the previous fiscal year. Despite a decrease in trade notes and accounts receivable of 344 million yen, this increase was largely attributable to increases in inventories of 1,133 million yen and investment securities of 4,388 million yen.

Liabilities
Total liabilities
23,844 million yen

Total liabilities as of May 31, 2013 amounted to 23,844 million yen, an increase of 807 million yen compared with the end of the previous fiscal year. While short-term borrowings contracted 2,080 million yen, this upswing in total liabilities reflected a 2,684 million yen increase in long-term debt.

Net assets
Total net assets
18,519 million yen

Net assets as of May 31, 2013 stood at 18,519 million yen, an increase of 3,470 million yen compared with the end of the previous fiscal year. This increase was largely attributable to a 433 million yen increase in retained earnings and a 2,951 million yen increase in unrealized holding gain on securities.

Cash Flows

Cash flows from operating activities
Net cash provided by operating activities
1,069 million yen

Net cash provided by operating activities amounted to 1,069 million yen for the fiscal year under review. Major cash outflows included an increase of 1,122 million yen in inventories, while principal cash inflows were income before income taxes and minority interests at 1,272 million yen and depreciation and amortization at 1,144 million yen.

Cash flows from investing activities
Net cash used in investing activities
1,457 million yen

Net cash used in investing activities totaled 1,457 million yen for the fiscal year under review and mainly comprised funds used for the purchases of property, plant and equipment at 1,425 million yen.

Cash flows from financing activities
Net cash provided by financing activities
155 million yen

Net cash provided by financing activities was 155 million yen for the fiscal year under review. The principal cash inflow was an increase in long-term debt at 3,800 million yen, while major cash outflows were a decrease in short-term loans payable at 2,000 million yen and repayment of long-term debt at 1,196 million yen.

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|------------------------------------------------|-------------------|-----------------|--------------------------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| Assets | | | |
| Current assets: | | | |
| Cash on hand and in banks (Notes 17 and 19) | ¥ 1,302 | ¥ 1,489 | \$ 12,873 |
| Trade notes and accounts receivable (Note 17) | 13,384 | 13,729 | 132,280 |
| Inventories (Note 3) | 6,665 | 5,532 | 65,869 |
| Deferred tax assets (Note 12) | 453 | 517 | 4,476 |
| Other current assets | 179 | 177 | 1,772 |
| Allowance for doubtful accounts | (40) | (29) | (399) |
| Total current assets | 21,943 | 21,415 | 216,871 |
| Property, plant and equipment (Note 4): | | | |
| Buildings and structures | 2,985 | 2,374 | 29,507 |
| Machinery and vehicles | 1,109 | 1,230 | 10,960 |
| Land | 289 | 289 | 2,862 |
| Construction in progress | 81 | 495 | 795 |
| Other | 548 | 473 | 5,415 |
| Total property, plant and equipment | 5,012 | 4,861 | 49,539 |
| Investments and other assets (Note 5): | | | |
| Investment securities (Notes 5, 17 and 18) | 13,318 | 8,930 | 131,630 |
| Deferred tax assets (Note 12) | 39 | 960 | 386 |
| Intangible assets | 322 | 347 | 3,178 |
| Other | 1,893 | 1,590 | 18,709 |
| Allowance for doubtful accounts | (163) | (17) | (1,610) |
| Total investments and other assets | 15,409 | 11,810 | 152,293 |
| Total assets | ¥42,364 | ¥38,086 | \$418,703 |

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|------------------------------------------------------------------------------|-------------------|-----------------|--------------------------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities: | | | |
| Trade notes and accounts payable (Note 17) | ¥ 4,647 | ¥ 4,544 | \$ 45,923 |
| Short-term borrowings and current portion of long-term debt (Notes 6 and 17) | 4,296 | 6,376 | 42,459 |
| Current portion of bonds payable (Note 7) | 120 | 160 | 1,186 |
| Income taxes payable (Note 12) | 319 | 474 | 3,156 |
| Accrued expenses | 2,883 | 2,909 | 28,494 |
| Accrued directors' bonuses | 17 | 47 | 165 |
| Accrued employees' bonuses | 773 | 891 | 7,639 |
| Reserve for losses on order acknowledgements (Note 3) | 196 | 198 | 1,938 |
| Other | 1,029 | 1,121 | 10,176 |
| Total current liabilities | 14,280 | 16,720 | 141,136 |
| Long-term liabilities: | | | |
| Bonds payable (Notes 7 and 17) | — | 120 | — |
| Long-term debt (Notes 6, 17 and 20) | 5,413 | 2,729 | 53,499 |
| Accrued retirement benefits (Note 8) | 3,289 | 3,136 | 32,508 |
| Deferred tax liabilities (Note 12) | 615 | — | 6,077 |
| Reserve for ecological countermeasures | 44 | 44 | 433 |
| Long-term payables | 165 | 252 | 1,628 |
| Other | 38 | 36 | 383 |
| Total long-term liabilities | 9,564 | 6,317 | 94,528 |
| Commitments and contingencies (Note 15) | | | |
| Net assets (Notes 9 and 16): | | | |
| Shareholders' equity: | | | |
| Common stock | ¥ 4,998 | ¥ 4,998 | \$ 49,401 |
| Capital surplus | 3,178 | 3,178 | 31,404 |
| Retained earnings | 7,156 | 6,722 | 70,722 |
| Treasury stock | (164) | (162) | (1,620) |
| Total shareholders' equity | 15,168 | 14,736 | 149,907 |
| Accumulated other comprehensive income: | | | |
| Unrealized holding gain on securities | 3,367 | 415 | 33,277 |
| Translation adjustments | (15) | (102) | (145) |
| Total accumulated other comprehensive income | 3,352 | 313 | 33,132 |
| Total net assets | 18,520 | 15,049 | 183,039 |
| Total liabilities and net assets | ¥42,364 | ¥38,086 | \$418,703 |

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K. Consolidated Statements of Income

| For the Years Ended | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|---------------------------------------------------------------------------|-------------------|-----------------|--------------------------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| Net sales (Note 21) | ¥30,575 | ¥38,571 | \$302,185 |
| Cost of sales (Note 3) | 22,879 | 29,736 | 226,121 |
| Gross profit | 7,696 | 8,835 | 76,064 |
| Selling, general and administrative expenses (Note 10) | 7,195 | 7,134 | 71,110 |
| Operating income | 501 | 1,701 | 4,954 |
| Non-operating income (expenses): | | | |
| Interest and dividend income | 160 | 116 | 1,577 |
| Interest expense | (215) | (163) | (2,130) |
| Equity in (losses) earnings of unconsolidated subsidiaries and affiliates | (16) | 113 | (161) |
| Dividend income on life insurance | 91 | 48 | 898 |
| Foreign exchange gain (loss) | 630 | (23) | 6,225 |
| Loss on disposal of property, plant and equipment | (16) | (5) | (154) |
| Other income, net | 16 | 2 | 163 |
| | 650 | 88 | 6,418 |
| Ordinary income | 1,151 | 1,789 | 11,372 |
| Special gains (losses), net (Note 11) | 122 | (31) | 1,209 |
| Income before income taxes and minority interests | 1,273 | 1,758 | 12,581 |
| Income taxes (Note 12): | | | |
| Current | 496 | 714 | 4,904 |
| Deferred | 55 | 258 | 537 |
| | 551 | 972 | 5,441 |
| Income before minority interests | 722 | 786 | 7,140 |
| Minority interests | — | — | — |
| Net income | ¥ 722 | ¥ 786 | \$ 7,140 |

See notes to consolidated financial statements.

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

| For the Years Ended | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|--------------------------------------------------------------------------------------|-------------------|-----------------|--------------------------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| Income before minority interests | ¥ 722 | ¥ 786 | \$ 7,140 |
| Other comprehensive income (Note 13): | | | |
| Unrealized holding gain on securities | 2,951 | 291 | 29,169 |
| Translation adjustments | 27 | (6) | 262 |
| Share of other comprehensive income of affiliates accounted for by the equity method | 61 | 1 | 605 |
| Total other comprehensive income | 3,039 | 286 | 30,036 |
| Comprehensive income | ¥3,761 | ¥1,072 | \$37,176 |
| Comprehensive income attributable to: | | | |
| Owners of the parent | ¥3,761 | ¥1,072 | \$37,176 |
| Minority interests | — | — | — |

See notes to consolidated financial statements.

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

| | (Millions of yen) | | | | | | | | |
|---------------------------------------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|----------------------------------------|-------------------------|----------------------------------------------|------------------|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized holding gain on securities | Translation adjustments | Total accumulated other comprehensive income | Total net assets |
| Balance as of June 1, 2011 | ¥4,998 | ¥3,178 | ¥6,226 | ¥(160) | ¥14,242 | ¥ 124 | ¥ (97) | ¥ 27 | ¥14,269 |
| Changes during the year | | | | | | | | | |
| Cash dividends paid | — | — | (290) | — | (290) | — | — | — | (290) |
| Net income | — | — | 786 | — | 786 | — | — | — | 786 |
| Purchase of treasury stock | — | — | — | (2) | (2) | — | — | — | (2) |
| Net changes in items other than those in shareholders' equity | — | — | — | — | — | 291 | (5) | 286 | 286 |
| Total changes during the year | — | — | 496 | (2) | 494 | 291 | (5) | 286 | 780 |
| Balance as of May 31, 2012 | ¥4,998 | ¥3,178 | ¥6,722 | ¥(162) | ¥14,736 | ¥ 415 | ¥(102) | ¥ 313 | ¥15,049 |
| Balance as of June 1, 2012 | ¥4,998 | ¥3,178 | ¥6,722 | ¥(162) | ¥14,736 | ¥ 415 | ¥(102) | ¥ 313 | ¥15,049 |
| Cash dividends paid | — | — | (288) | — | (288) | — | — | — | (288) |
| Net income | — | — | 722 | — | 722 | — | — | — | 722 |
| Purchase of treasury stock | — | — | — | (2) | (2) | — | — | — | (2) |
| Net changes in items other than those in shareholders' equity | — | — | — | — | — | 2,952 | 87 | 3,039 | 3,039 |
| Total changes during the year | — | — | 434 | (2) | 432 | 2,952 | 87 | 3,039 | 3,471 |
| Balance as of May 31, 2013 | ¥4,998 | ¥3,178 | ¥7,156 | ¥(164) | ¥15,168 | ¥3,367 | ¥ (15) | ¥3,352 | ¥18,520 |

| | (Thousands of U.S. dollars) (Note 2) | | | | | | | | |
|---------------------------------------------------------------|--------------------------------------|-----------------|-------------------|----------------|----------------------------|----------------------------------------|-------------------------|----------------------------------------------|------------------|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized holding gain on securities | Translation adjustments | Total accumulated other comprehensive income | Total net assets |
| Balance as of June 1, 2012 | \$49,401 | \$31,404 | \$66,441 | \$(1,607) | \$145,639 | \$ 4,108 | \$(1,012) | \$ 3,096 | \$148,735 |
| Cash dividends paid | — | — | (2,859) | — | (2,859) | — | — | — | (2,859) |
| Net income | — | — | 7,140 | — | 7,140 | — | — | — | 7,140 |
| Purchase of treasury stock | — | — | — | (13) | (13) | — | — | — | (13) |
| Net changes in items other than those in shareholders' equity | — | — | — | — | — | 29,169 | 867 | 30,036 | 30,036 |
| Total changes during the year | — | — | 4,281 | (13) | 4,268 | 29,169 | 867 | 30,036 | 34,304 |
| Balance as of May 31, 2013 | \$49,401 | \$31,404 | \$70,722 | \$(1,620) | \$149,907 | \$33,277 | \$ (145) | \$33,132 | \$183,039 |

See notes to consolidated financial statements.

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

| For the Years Ended | May 31, | May 31, | May 31, |
|--------------------------------------------------------------------|-------------------|---------|-----------------------------------------|
| | 2013 | 2012 | 2013 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| Operating activities | | | |
| Income before income taxes and minority interests | ¥ 1,273 | ¥ 1,758 | \$ 12,581 |
| Depreciation and amortization | 1,144 | 1,146 | 11,308 |
| Provision for (reversal of) allowance for doubtful accounts | 158 | (12) | 1,562 |
| Reversal of accrued employees' bonuses | (118) | (43) | (1,169) |
| Provision for (reversal of) accrued retirement benefits | 153 | (72) | 1,512 |
| Interest and dividends income | (160) | (116) | (1,577) |
| Interest expenses | 215 | 163 | 2,130 |
| Gain on sales of investment securities | (72) | — | (719) |
| Loss on valuation of investment securities | — | 23 | — |
| Changes in operating assets and liabilities: | | | |
| Trade notes and accounts receivable | 231 | (3,399) | 2,278 |
| Inventories | (1,123) | 2,649 | (11,097) |
| Trade notes and accounts payable | 100 | (1,135) | 989 |
| Reserve for losses on order acknowledgements | (6) | 46 | (58) |
| Advances received | 201 | (493) | 1,985 |
| Accrued expenses | (29) | (951) | (284) |
| Reserve for ecological countermeasures | — | (89) | — |
| Other, net | (243) | (51) | (2,407) |
| Subtotal | 1,724 | (576) | 17,034 |
| Interest and dividends income received | 172 | 135 | 1,698 |
| Interest expenses paid | (211) | (163) | (2,079) |
| Income taxes paid | (615) | (724) | (6,080) |
| Net cash provided by (used in) operating activities | 1,070 | (1,328) | 10,573 |
| Investing activities | | | |
| Purchases of property, plant and equipment | (1,426) | (918) | (14,090) |
| Purchases of investment securities | (13) | (917) | (129) |
| Proceeds from sales of investment securities | 127 | — | 1,259 |
| Other payments | (178) | (73) | (1,760) |
| Other receipts | 124 | 31 | 1,224 |
| Other, net | (92) | (271) | (909) |
| Net cash used in investing activities | (1,458) | (2,148) | (14,405) |
| Financing activities | | | |
| (Decrease) increase in short-term loans payable | (2,000) | 1,500 | (19,767) |
| Increase in long-term debt | 3,800 | 2,300 | 37,557 |
| Repayment of long-term debt | (1,196) | (750) | (11,821) |
| Redemption of bonds payable | (160) | (200) | (1,581) |
| Purchases of treasury stock | (1) | (2) | (13) |
| Cash dividends paid | (288) | (284) | (2,840) |
| Other, net | (0) | — | (3) |
| Net cash provided by financing activities | 155 | 2,564 | 1,532 |
| Effect of exchange rate change on cash and cash equivalents | 46 | (9) | 454 |
| Net decrease in cash and cash equivalents | (187) | (921) | (1,846) |
| Cash and cash equivalents at beginning of period | 1,489 | 2,410 | 14,719 |
| Cash and cash equivalents at end of period (Note 19) | ¥ 1,302 | ¥ 1,489 | \$ 12,873 |

TOYO DENKI SEIZO K.K.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of presentation

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

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

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

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

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

As of May 31, 2013, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 3 in 2012). A subsidiary, TOYO DENKI USA, INC., whose fiscal year end is December 31, is consolidated by using their pro forma financial statements as of March 31 which are prepared solely for consolidation purposes and necessary adjustments are made to their financial statements to reflect any significant transactions from April 1 to May 31. All significant intercompany balances and transactions have been eliminated in consolidation.

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

(c) Foreign currency translation

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

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

(d) Cash and Cash equivalents

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

(e) Inventories

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

(f) Short-term investments and investment securities

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

(g) Property, plant and equipment (except for leased assets) and depreciation

Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value, while buildings except for leasehold improvements acquired on or after April 1, 1998 are depreciated by the straight-line method. The estimated useful lives of these assets are as follows:

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

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

(Accounting change which is difficult to distinguish from a change in accounting estimates)

Following the corporate income tax reform, the Company and its domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after June 1, 2012 to the depreciation method based on the amended Corporation Tax Act. The effect of this change was to increase operating income, ordinary income and income before income taxes and minority interests by ¥48 million (\$479 thousand) for the year ended May 31, 2013.

(h) Intangible assets (except for leased assets)

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

(i) Leases

Non-cancellable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets to the lessee are accounted for as finance leases. Leased assets capitalized under the finance lease arrangements are depreciated over the lease period without any residual value using the straight-line method.

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

(j) Allowance for doubtful accounts

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

(k) Accrued directors' bonuses

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

(l) Accrued employees' bonuses

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

(m) Accrued retirement benefits

Accrued retirement benefits for employees have been recorded at the amount calculated based on the retirement benefit obligation as of balance sheet date, as adjusted for unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss, and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition is being amortized principally over a period of 15 years by the straight-line method.

Actuarial gain or loss is amortized in the following year in which the gain or loss is recognized primarily by the straight-line method over periods (10 years) which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (10 years) which are shorter than the average remaining years of service of the employees.

(n) Reserve for losses on order acknowledgements

Reserve for losses on order acknowledgements is provided based on the amounts expected to be incurred during the current fiscal year and which are able to estimate the losses reasonably to cover the future losses on order acknowledgements. Provision of reserve for losses on order acknowledgements in the amounts of ¥(2) million (\$16 thousand) and ¥ 49 million is included in cost of sales for the years ended May 31, 2013 and 2012, respectively.

(o) Reserve for ecological countermeasures

Reserve for ecological countermeasures is provided based on the amounts expected to be incurred in future to cover the costs on ecological countermeasures such as soil pollution countermeasures.

(p) Income taxes

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

(q) Construction revenue and costs

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

(r) Research and development expenses

Research and development expenses are charged to income when incurred.

(s) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(t) Derivative financial instruments

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

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

(u) Standards issued but not yet adopted

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

Under the revised accounting standard, taking into accounts the viewpoints of improvement of financial reporting and international trends, accounting treatment for actuarial gains or losses and past service costs that are yet to be recognized in profit or loss, the calculation method for retirement benefit obligations and service costs and expansion of the related disclosure requirements have been revised.

The Company is going to apply the new accounting standard and implementation guidance from the end of the fiscal year ending on May 31, 2014, but the revision of the computation method for retirement benefit obligation and prior service cost will be adopted from the beginning of the fiscal year ending May 31, 2015. The Company is currently evaluating what effect these modifications will have on its consolidated financial statements.

2. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥101.18=U.S.\$1, the approximate rate of exchange prevailing at May 31, 2013. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

3. Inventories

Inventories as of May 31, 2013 and 2012 were as follows:

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|-----------------------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Merchandise and finished products | ¥1,465 | ¥1,598 | \$14,477 |
| Work in process | 3,082 | 2,243 | 30,457 |
| Raw materials and supplies | 2,118 | 1,691 | 20,935 |
| | ¥6,665 | ¥5,532 | \$65,869 |

Inventories are stated at the lower of cost or market and the Company recognized losses on write-down of inventories held for the ordinary sales purpose due to a decline in profitability in the amount of ¥55 million (\$542 thousand) and ¥166 million for the years ended May 31, 2013 and 2012, respectively. These amounts were included in "Cost of sales".

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

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|-----------------------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Merchandise and finished products | ¥ 8 | ¥ 69 | \$ 83 |
| Work in process | 30 | 71 | 293 |
| | ¥38 | ¥140 | \$376 |

4. Property, Plant and Equipment

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

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|--------------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Buildings and structures | ¥ 6,973 | ¥ 6,279 | \$ 68,922 |
| Machinery and vehicles | 6,757 | 6,405 | 66,782 |
| Other | 3,025 | 2,715 | 29,895 |
| | 16,755 | 15,399 | 165,599 |
| Accumulated depreciation | (12,113) | (11,322) | (119,717) |
| | ¥ 4,642 | ¥ 4,077 | \$ 45,882 |

Depreciation of property, plant and equipment for the years ended May 31, 2013 and 2012 were as follows:

| For the Years Ended | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|---------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| | ¥1,144 | ¥1,146 | \$11,308 |

Accumulated depreciation of property, plant and equipment amounted to ¥12,113 million (\$119,717 thousand) and ¥11,322 million as of May 31, 2013 and 2012, respectively.

The following amount of deferred gain was directly deducted from the acquisition costs of the related property, plant and equipment acquired during the year ended May 31, 2013:

| | |
|---------------------------|------------------------------|
| Buildings and structures: | ¥29 million (\$284 thousand) |
| Other: | 6 million (\$64 thousand) |

5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investment securities" as of May 31, 2013 and 2012 were as follows:

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|------------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Equity securities | ¥ 59 | ¥124 | \$ 582 |
| Investments in capital | 856 | 758 | 8,464 |

6. Short-Term Borrowings and Long-Term Debt

As of May 31, 2013 and 2012, short-term borrowings and the current portion of long-term debt consisted of the following:

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|-----------------------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Loans, principally from banks | ¥3,180 | ¥5,180 | \$31,429 |
| Current portion of long-term debt | 1,116 | 1,196 | 11,030 |
| | ¥4,296 | ¥6,376 | \$42,459 |

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2013 were 1.475% and 2.102%, respectively.

As of May 31, 2013 and 2012, long-term debts were as follows:

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|--------------------------------------------------------------------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Long-term debt, excluding current portion, serially due from 2014 through 2018 | ¥5,413 | ¥2,729 | \$53,499 |

The annual weighted average interest rate applicable to long-term debt as of May 31, 2013 was 1.430%.

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

| Years ended May 31 | (Millions of yen) | (Thousands of U.S. dollars) |
|--------------------|-------------------|-----------------------------|
| 2014 | ¥1,116 | \$11,030 |
| 2015 | 871 | 8,608 |
| 2016 | 592 | 5,851 |
| 2017 | 150 | 1,483 |
| 2018 | 3,800 | 37,557 |
| | ¥6,529 | \$64,529 |

The assets pledged as collateral for short-term borrowings of ¥3,751 million (\$37,073 thousand) and long-term debt of ¥1,188 million (\$11,741 thousand) as of May 31, 2013 were as follows:

| As of May 31 | (Millions of yen) | (Thousands of U.S. dollars) |
|-------------------------------------|-------------------|-----------------------------|
| Buildings and structures | ¥1,858 | \$18,358 |
| Machinery and vehicles | 919 | 9,087 |
| Other property, plant and equipment | 372 | 3,678 |
| Land | 159 | 1,566 |
| | ¥3,308 | \$32,689 |

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

| As of May 31 | (Millions of yen) | (Thousands of U.S. dollars) |
|-------------------------------------|-------------------|-----------------------------|
| Buildings and structures | ¥1,858 | \$18,358 |
| Machinery and vehicles | 919 | 9,087 |
| Other property, plant and equipment | 372 | 3,678 |
| | ¥3,149 | \$31,123 |

7. Bonds Payable

As of May 31, 2013 and 2012, bonds payable consisted of the following:

| As of | | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|-------------|----------------------------------------------------------------------------|-------------------|--------------|-----------------------------|
| Issued by: | | (Millions of yen) | | (Thousands of U.S. dollars) |
| The Company | 4th unsecured bonds issued on Sep. 28, 2007 at 1.33%, due on Sep. 28, 2012 | ¥ — | ¥ 40 | \$ — |
| The Company | 5th unsecured bonds issued on Mar. 25, 2009 at 1.12%, due on Mar. 25, 2014 | 120 | 240 | 1,186 |
| | | ¥120 | ¥280 | \$1,186 |

Annual maturity of bonds payable as of May 31, 2013 was as the following:

| Years ended May 31 | (Millions of yen) | (Thousands of U.S. dollars) |
|--------------------|-------------------|-----------------------------|
| 2014 | ¥120 | \$1,186 |
| | ¥120 | \$1,186 |

8. Retirement Benefit Plans

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

The following table sets forth the components of the amounts recognized in the consolidated balance sheets as of May 31, 2013 and 2012 for the Company and its consolidated subsidiaries' benefit plans:

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|--------------------------------------------------------------|-------------------|--------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Retirement benefit obligation | ¥(4,052) | ¥(4,199) | \$(40,049) |
| Unrecognized net retirement benefit obligation at transition | 539 | 808 | 5,324 |
| Unrecognized actuarial loss | 273 | 314 | 2,704 |
| Unrecognized prior service cost | (49) | (59) | (487) |
| Accrued retirement benefits | ¥(3,289) | ¥(3,136) | \$(32,508) |

Consolidated subsidiaries adopted a simplified method in the calculation of their retirement benefit obligation.

The components of retirement benefit expenses for the years ended May 31, 2013 and 2012 are outlined as follows:

| For the Years Ended | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|-----------------------------------------------------------------|-------------------|--------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Service cost | ¥229 | ¥215 | \$2,266 |
| Interest cost | 61 | 67 | 605 |
| Amortization of net retirement benefit obligation at transition | 270 | 270 | 2,666 |
| Amortization of actuarial loss | 44 | 74 | 437 |
| Amortization of prior service cost | (10) | (10) | (99) |
| Other | 112 | 103 | 1,102 |
| Retirement benefit expenses | ¥706 | ¥719 | \$6,977 |

Notes: 1. Retirement benefit expenses for consolidated subsidiaries adopting the simplified method are included in "Service cost."

2. "Other" represents contributions paid to defined contribution pension plans.

The assumptions used in accounting for the above plans were as follows:

| For the Years Ended | May 31, 2013 | May 31, 2012 |
|------------------------------------------------------------------------|----------------------|--------------|
| Inter-period allocation method of estimated retirement benefits | Straight-line method | |
| Discount rate | 1.5% | 1.5% |
| Amortization period of actuarial loss | 10 years | |
| Amortization period of prior service cost | 10 years | |
| Amortization period of net retirement benefit obligation at transition | 15 years | |

9. Net Assets

(1) Information regarding changes in net assets for the years ended May 31, 2013 and 2012 are as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2013

| Type of shares | Number of shares as of June 1, 2012 | Increase | Decrease | Number of shares as of May 31, 2013 |
|-----------------|-------------------------------------|----------|----------|-------------------------------------|
| (Shares) | | | | |
| Shares issued: | | | | |
| Common stock | 48,675,000 | — | — | 48,675,000 |
| Treasury stock: | | | | |
| Common stock | 458,570 | 4,996 | — | 463,566 |

Note:

Detail of the increase is as the following:

Increase due to purchase of shares of less than standard unit 4,996 shares

For the year ended May 31, 2012

| Type of shares | Number of shares as of June 1, 2011 | Increase | Decrease | Number of shares as of May 31, 2012 |
|-----------------|-------------------------------------|----------|----------|-------------------------------------|
| (Shares) | | | | |
| Shares issued: | | | | |
| Common stock | 48,675,000 | — | — | 48,675,000 |
| Treasury stock: | | | | |
| Common stock | 452,701 | 5,869 | — | 458,570 |

Note:

Detail of the increase is as the following:

Increase due to purchase of shares of less than standard unit 5,869 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2013

| Resolution | Type of shares | Total dividends (millions of yen) | Total dividends (thousands of U.S. dollars) | Dividends per share (yen) | Dividends per share (U.S. dollars) | Cut-off date | Effective date |
|---------------------------------------------------------------|----------------|-----------------------------------|---------------------------------------------|---------------------------|------------------------------------|--------------|-----------------|
| Annual general meeting of the shareholders on August 28, 2012 | Common stock | ¥289 | \$2,859 | ¥6.00 | \$0.06 | May 31, 2012 | August 29, 2012 |

For the year ended May 31, 2012

| Resolution | Type of shares | Total dividends (millions of yen) | Dividends per share (yen) | Cut-off date | Effective date |
|---------------------------------------------------------------|----------------|-----------------------------------|---------------------------|--------------|-----------------|
| Annual general meeting of the shareholders on August 26, 2011 | Common stock | ¥290 | ¥6.00 | May 31, 2011 | August 29, 2011 |

2) Dividends with the cut-off date in the year ended May 31, 2013 and the effective date in the year ending May 31, 2014

| Resolution | Type of shares | Total dividends (millions of yen) | Total dividends (thousands of U.S. dollars) | Source of dividends | Dividends per share (yen) | Dividends per share (U.S. dollars) | Cut-off date | Effective date |
|---------------------------------------------------------------|----------------|-----------------------------------|---------------------------------------------|---------------------|---------------------------|------------------------------------|--------------|-----------------|
| Annual general meeting of the shareholders on August 27, 2013 | Common stock | ¥289 | \$2,859 | Retained earnings | ¥6.00 | \$0.06 | May 31, 2013 | August 28, 2013 |

10. Selling, General and Administrative Expenses

| For the Years Ended | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|-----------------------------------------------|-------------------|--------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Salaries and allowances | ¥1,760 | ¥1,786 | \$17,391 |
| Provision for accrued directors' bonuses | 17 | 47 | 165 |
| Provision for accrued employees' bonuses | 320 | 357 | 3,158 |
| Retirement benefit expenses | 347 | 322 | 3,431 |
| Provision for allowance for doubtful accounts | 165 | (12) | 1,627 |
| Research and development expenses | 917 | 798 | 9,062 |

11. Special Gains (Losses), net

The components of "Special Gains (Losses), net" for the years ended May 31, 2013 and 2012 were as follows:

| For the Years Ended | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|------------------------------------------------|-------------------|--------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Special gains: | | | |
| Gain on sales of investment securities | ¥ 72 | ¥— | \$ 719 |
| Refund of temporary exceptional enterprise tax | 65 | — | 641 |
| Special losses: | | | |
| Office relocation costs | (15) | — | (151) |
| Loss on valuation of investment securities | — | (23) | — |
| Loss on natural disaster | — | (8) | — |
| Total | ¥122 | ¥(31) | \$1,209 |

12. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 38.0% and 40.7% for the years ended May 31, 2013 and 2012, respectively. Income taxes of a foreign consolidated subsidiary are based generally on the tax rates applicable in the country of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the years ended May 31, 2013 and 2012 were as follows:

| For the Years Ended | May 31, 2013 | May 31, 2012 |
|------------------------------------------------------------------|--------------|--------------|
| Effective statutory tax rate | 38.0% | 40.7% |
| Effect of : | | |
| Non-deductible expenses for income tax purpose | 1.3 | 1.2 |
| Non-taxable income such as dividends income, etc. | (1.7) | (1.0) |
| Per capita inhabitant tax | 2.1 | 1.6 |
| Valuation allowance | (4.4) | 2.8 |
| Income (loss) from affiliates accounted for by the equity method | 0.5 | (2.6) |
| Unrecognized tax benefits from losses of subsidiaries | 5.2 | 2.2 |
| Tax rate changes | — | 10.3 |
| Other | 2.2 | 0.1 |
| Effective tax rates | 43.2% | 55.3% |

The significant components of deferred tax assets and liabilities as of May 31, 2013 and 2012 were as follows:

| As of | May 31, | May 31, | May 31, |
|----------------------------------------------|-------------------|---------|-----------------------------|
| | 2013 | 2012 | 2013 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Deferred tax assets: | | | |
| Write-down of inventories | ¥ 177 | ¥ 160 | \$ 1,752 |
| Accrued retirement benefits | 1,187 | 1,144 | 11,736 |
| Accrued employees' bonuses | 295 | 341 | 2,919 |
| Reserve for losses on order acknowledgements | 65 | 67 | 640 |
| Other | 776 | 732 | 7,666 |
| Total gross deferred tax assets | 2,500 | 2,444 | 24,713 |
| Valuation allowance | (792) | (677) | (7,828) |
| Total deferred tax assets | 1,708 | 1,767 | 16,885 |
| Deferred tax liabilities: | | | |
| Unrealized holding gain on securities | (1,828) | (285) | (18,073) |
| Other | (3) | (6) | (27) |
| Total deferred tax liabilities | (1,831) | (291) | (18,100) |
| Net deferred tax assets (liabilities) | ¥ (123) | ¥1,476 | \$ (1,215) |

13. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended May 31, 2013 and 2012:

| For the Years Ended | May 31, | May 31, | May 31, |
|--------------------------------------------------------------------------------------|-------------------|---------|-----------------------------|
| | 2013 | 2012 | 2013 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unrealized holding gain on securities: | | | |
| Amount arising during the year | ¥4,568 | ¥ 437 | \$45,150 |
| Reclassification adjustments for gains and losses included in net income | (73) | 23 | (719) |
| Amount before tax effect | 4,495 | 460 | 44,431 |
| Tax effect | (1,544) | (169) | (15,262) |
| Unrealized holding gain on securities | 2,951 | 291 | 29,169 |
| Translation adjustments | | | |
| Amount arising during the year | 27 | (6) | 262 |
| Amount before tax effect | 27 | (6) | 262 |
| Translation adjustments | 27 | (6) | 262 |
| Share of other comprehensive income of affiliates accounted for by the equity method | | | |
| Amount arising during the year | 61 | 1 | 605 |
| Share of other comprehensive income in affiliates accounted for by the equity method | 61 | 1 | 605 |
| Total other comprehensive income | ¥3,039 | ¥ 286 | \$30,036 |

14. Lease Transactions

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

In addition, finance leases that do not transfer ownership of the leased property to the lessee and whose lease inception was on or before March 31, 2008 are permitted to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements, but such information is omitted since there is no materiality in terms of value.

15. Contingent Liabilities

As of May 31, 2013 and 2012, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

| As of | May 31, | May 31, | May 31, |
|-----------------------------------------------------|-------------------|---------|-----------------------------|
| | 2013 | 2012 | 2013 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Tianjin Toyodenki International Trade Co., Ltd. | ¥ — | ¥ 6 | \$ — |
| Hunan Xiangyang Electric Co., Ltd. | 198 | 249 | 1,958 |
| Changzhou Ruiyang Transmission Technology Co., Ltd. | 187 | 100 | 1,851 |

16. Amounts Per Share

| For the Years Ended | May 31, | May 31, | May 31, |
|---------------------|---------|---------|----------------|
| | 2013 | 2012 | 2013 |
| | (Yen) | | (U.S. dollars) |
| Net income: | | | |
| Basic | ¥14.98 | ¥16.29 | \$0.15 |
| As of | | | |
| Net assets | ¥384.14 | ¥312.12 | \$3.80 |

Diluted net income per share is omitted since there is no dilution of equity.

The bases for calculation are as follows:

Basic net income per share

| For the Years Ended | May 31, | May 31, | May 31, |
|----------------------------------------------------------|-------------------|---------|-----------------------------|
| | 2013 | 2012 | 2013 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Net income | ¥722 | ¥786 | \$7,140 |
| Net income not attributable to common shareholders | — | — | — |
| Net income attributable to common stock | 722 | 786 | 7,140 |
| | (Thousand shares) | | |
| Average number of shares of common stock during the year | 48,214 | 48,219 | |

17. Financial Instruments

Overview

(1) Policy for financial instruments

The Group raises its necessary funds for capital investments to reinforce and renew production facilities and working capital principally through bank borrowings and issuance of corporate bonds. The Group manages temporary cash surpluses through low risk financial assets. The Group uses interest rate swaps for the purpose of reducing the interest rate fluctuation risk on long-term debt and fixing the interest expenses and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers.

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

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

Regarding assessment of the effectiveness of hedging activities, it is omitted since these interest rate swaps qualify for hedge accounting and meet specific requirements.

(3) Risk management for financial instruments

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

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

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

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

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

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

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

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

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

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

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

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 20, Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of May 31, 2013 and 2012 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below):

| As of May 31, 2013 | Carrying value | Fair value | Difference |
|----------------------------------------|-------------------|------------|------------|
| | (Millions of yen) | | |
| Assets | | | |
| 1) Cash on hand and in banks | ¥ 1,302 | ¥ 1,302 | ¥ — |
| 2) Trade notes and accounts receivable | 13,384 | 13,384 | — |
| 3) Investment securities | 12,618 | 12,618 | — |
| Total assets | ¥27,304 | ¥27,304 | ¥ — |
| Liabilities | | | |
| 4) Trade notes and accounts payable | ¥ 4,647 | ¥ 4,647 | ¥ — |
| 5) Short-term borrowings | 3,180 | 3,180 | — |
| 6) Bonds payable | 120 | 121 | (1) |
| 7) Long-term debt | 6,529 | 6,494 | 35 |
| Total liabilities | ¥14,476 | ¥14,442 | ¥ 34 |
| 8) Derivative transactions | ¥ — | ¥ — | ¥ — |

| As of May 31, 2013 | Carrying value | Fair value | Difference |
|----------------------------------------|-----------------------------|------------|------------|
| | (Thousands of U.S. dollars) | | |
| Assets | | | |
| 1) Cash on hand and in banks | \$ 12,873 | \$ 12,873 | \$ — |
| 2) Trade notes and accounts receivable | 132,280 | 132,280 | — |
| 3) Investment securities | 124,705 | 124,705 | — |
| Total assets | \$269,858 | \$269,858 | \$ — |
| Liabilities | | | |
| 4) Trade notes and accounts payable | \$ 45,923 | \$ 45,923 | \$ — |
| 5) Short-term borrowings | 31,429 | 31,429 | — |
| 6) Bonds payable | 1,186 | 1,193 | (7) |
| 7) Long-term debt | 64,529 | 64,185 | 344 |
| Total liabilities | \$143,067 | \$142,730 | \$337 |
| 8) Derivative transactions | \$ — | \$ — | \$ — |

As of May 31, 2012

| | Carrying value | Fair value | Difference |
|----------------------------------------|-------------------|------------|------------|
| | (Millions of yen) | | |
| Assets | | | |
| 1) Cash on hand and in banks | ¥ 1,489 | ¥ 1,489 | ¥— |
| 2) Trade notes and accounts receivable | 13,729 | 13,729 | — |
| 3) Investment securities | 8,164 | 8,164 | — |
| Total assets | ¥23,382 | ¥23,382 | ¥— |
| Liabilities | | | |
| 4) Trade notes and accounts payable | ¥ 4,544 | ¥ 4,544 | ¥— |
| 5) Short-term borrowings | 5,180 | 5,180 | — |
| 6) Bonds payable | 280 | 283 | (3) |
| 7) Long-term debt | 3,925 | 3,953 | (28) |
| Total liabilities | ¥13,929 | ¥13,960 | ¥(31) |
| 8) Derivative transactions | ¥ — | ¥ — | ¥— |

Notes:

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

Assets:

Cash on hand and in banks and trade notes and accounts receivable

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

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

Investment securities

The fair value of stocks is based on quoted market prices. Investment securities held by the Group are classified as available-for-sale securities and please see Note 18 "Securities".

Liabilities:

Trade notes and accounts payable and short-term borrowings

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

Bonds payable

The fair value of bonds payable is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new bonds were issued.

Long-term debt

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

Derivative transactions

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

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

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|----------------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unlisted equity securities | ¥700 | ¥766 | \$6,925 |

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

3. Redemption schedule for receivables and securities with maturities at May 31, 2013 and 2012 are as follows:

| As of May 31, 2013 | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
|-------------------------------------|----------------------------|---------------------------------------------|----------------------------------------------|------------------------|
| | (Millions of yen) | | | |
| Cash on hand and in banks | ¥ 1,299 | ¥ — | ¥— | ¥— |
| Trade notes and accounts receivable | 12,095 | 1,289 | — | — |
| | ¥13,394 | ¥1,289 | ¥— | ¥— |

| As of May 31, 2012 | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
|-------------------------------------|-----------------------------|---------------------------------------------|----------------------------------------------|------------------------|
| | (Thousands of U.S. dollars) | | | |
| Cash on hand and in banks | \$ 12,841 | \$ — | \$— | \$— |
| Trade notes and accounts receivable | 119,538 | 12,742 | — | — |
| | \$132,379 | \$12,742 | \$— | \$— |

| As of May 31, 2012 | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
|-------------------------------------|----------------------------|---------------------------------------------|----------------------------------------------|------------------------|
| | (Millions of yen) | | | |
| Cash on hand and in banks | ¥ 1,486 | ¥ — | ¥— | ¥— |
| Trade notes and accounts receivable | 12,569 | 1,160 | — | — |
| | ¥14,055 | ¥1,160 | ¥— | ¥— |

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

18. Securities

As of May 31, 2013

(1) Information regarding securities classified as available-for-sale securities

Available-for-sale securities

| As of May 31, 2013 | Carrying value | Acquisition cost | Unrealized Gain (Loss) |
|-----------------------------------------------------------------|-------------------|------------------|------------------------|
| | (Millions of yen) | | |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock | ¥12,083 | ¥6,777 | ¥5,306 |
| Subtotal | ¥12,083 | ¥6,777 | ¥5,306 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock | ¥ 535 | ¥ 575 | ¥ (40) |
| Subtotal | ¥ 535 | ¥ 575 | ¥ (40) |
| Total | ¥12,618 | ¥7,352 | ¥5,266 |

| As of May 31, 2013 | Carrying value | Acquisition cost | Unrealized Gain (Loss) |
|-----------------------------------------------------------------|-----------------------------|------------------|------------------------|
| | (Thousands of U.S. dollars) | | |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock | \$119,416 | \$66,979 | \$52,437 |
| Subtotal | \$119,416 | \$66,979 | \$52,437 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock | \$ 5,289 | \$ 5,685 | \$ (396) |
| Subtotal | \$ 5,289 | \$ 5,685 | \$ (396) |
| Total | \$124,705 | \$72,664 | \$52,041 |

Note: Unlisted stocks are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.

(2) Impairment of investment securities

No impairment loss on investment securities was recognized for the year ended May 31, 2013.

(3) Sales of securities classified as available-for-sale securities and the aggregate gain and loss for the year ended May 31, 2013

| For the Year ended May 31, 2013 | Sales proceeds | Gain on sales | Loss on sales |
|---------------------------------|-----------------------------|---------------|---------------|
| | (Millions of yen) | | |
| Stock | ¥127 | ¥72 | ¥— |
| For the Year ended May 31, 2013 | | | |
| | (Thousands of U.S. dollars) | | |
| Stock | \$1,259 | \$719 | \$— |

As of May 31, 2012

(1) Information regarding securities classified as available-for-sale securities

Available-for-sale securities

| As of May 31, 2012 | Carrying value | Acquisition cost | Unrealized Gain (Loss) |
|-----------------------------------------------------------------|-------------------|------------------|------------------------|
| | (Millions of yen) | | |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock | ¥5,305 | ¥3,966 | ¥1,339 |
| Subtotal | ¥5,305 | ¥3,966 | ¥1,339 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock | ¥2,859 | ¥3,429 | ¥ (570) |
| Subtotal | ¥2,859 | ¥3,429 | ¥ (570) |
| Total | ¥8,164 | ¥7,395 | ¥ 769 |

Note: Unlisted stocks are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.

(2) Impairment of investment securities

| For the Year Ended | May 31, 2012 |
|--------------------|-------------------|
| | (Millions of yen) |
| Stock | ¥23 |

(3) Sales of securities classified as available-for-sale securities and the aggregate gain and loss for the year ended May 31, 2012

No securities classified as available-for-sale securities were sold for the year ended May 31, 2012.

19. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2013 and 2012 are reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

| As of | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|---------------------------|-------------------|--------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Cash on hand and in banks | ¥1,302 | ¥1,489 | \$12,873 |
| Cash and cash equivalents | ¥1,302 | ¥1,489 | \$12,873 |

20. Derivative Transactions

Hedging policies

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

Types and purpose of derivative transactions

The Company primarily uses interest rate swaps to hedge against the adverse impact of fluctuations in interest rates on interest-bearing debt.

There is no derivative transaction to which hedge accounting is not applied.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

| As of May 31, 2013 | Major hedged item | Notional amount | | Fair value |
|--------------------|-------------------|--------------------------|-------------------------|------------|
| | | Maturing within one year | Maturing after one year | |
| (Millions of yen) | | | | |

| | | | | |
|--------------------------------|----------------|--------|--------|------|
| Interest rate swaps: | | | | |
| Receive/floating and pay/fixed | Long-term debt | ¥5,789 | ¥4,988 | Note |

| As of May 31, 2013 | Major hedged item | Notional amount | | Fair value |
|-----------------------------|-------------------|--------------------------|-------------------------|------------|
| | | Maturing within one year | Maturing after one year | |
| (Thousands of U.S. dollars) | | | | |

| | | | | |
|--------------------------------|----------------|----------|----------|------|
| Interest rate swaps: | | | | |
| Receive/floating and pay/fixed | Long-term debt | \$57,215 | \$49,298 | Note |

| As of May 31, 2012 | Major hedged item | Notional amount | | Fair value |
|--------------------|-------------------|--------------------------|-------------------------|------------|
| | | Maturing within one year | Maturing after one year | |
| (Millions of yen) | | | | |

| | | | | |
|--------------------------------|----------------|--------|--------|------|
| Interest rate swaps: | | | | |
| Receive/floating and pay/fixed | Long-term debt | ¥2,870 | ¥1,989 | Note |

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

21. Segment Information

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

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

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

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

| | For the year ended May 31, 2013 | | | | | | |
|-----------------------------------------------------------|---------------------------------|------------|-----------------------|--------------|---------|-------------|--------------|
| | Reportable segments | | | Other (Note) | Total | Adjustments | Consolidated |
| | Transportation | Industrial | Information Equipment | | | | |
| (Millions of yen) | | | | | | | |
| Sales, profits or losses and asset by reportable segments | | | | | | | |
| Net sales: | | | | | | | |
| Sales to third parties | ¥17,325 | ¥11,543 | ¥1,701 | ¥ 6 | ¥30,575 | ¥ — | ¥30,575 |
| Inter-segment sales and transfers | 37 | 2 | — | 545 | 584 | (584) | — |
| | 17,362 | 11,545 | 1,701 | 551 | 31,159 | (584) | 30,575 |
| Segment profit | ¥ 1,914 | ¥ 434 | ¥ 265 | ¥ 41 | ¥ 2,654 | ¥(2,153) | ¥ 501 |
| Segment assets | ¥16,680 | ¥ 8,614 | ¥ 823 | ¥525 | ¥26,642 | ¥15,722 | ¥42,364 |
| Other items: | | | | | | | |
| Depreciation | ¥ 691 | ¥ 239 | ¥ 28 | ¥ 0 | ¥ 958 | ¥ 186 | ¥ 1,144 |
| Capital expenditures | ¥ 792 | ¥ 159 | ¥ 29 | ¥ — | ¥ 980 | ¥ 316 | ¥ 1,296 |

| | For the year ended May 31, 2013 | | | | | | |
|-----------------------------------------------------------|---------------------------------|------------|-----------------------|--------------|-----------|-------------|--------------|
| | Reportable segments | | | Other (Note) | Total | Adjustments | Consolidated |
| | Transportation | Industrial | Information Equipment | | | | |
| (Thousands of U.S. dollars) | | | | | | | |
| Sales, profits or losses and asset by reportable segments | | | | | | | |
| Net sales: | | | | | | | |
| Sales to third parties | \$171,229 | \$114,083 | \$16,813 | \$ 60 | \$302,185 | \$ — | \$302,185 |
| Inter-segment sales and transfers | 368 | 15 | — | 5,390 | 5,773 | (5,773) | — |
| | 171,597 | 114,098 | 16,813 | 5,450 | 307,958 | (5,773) | 302,185 |
| Segment profit | \$ 18,915 | \$ 4,287 | \$ 2,622 | \$ 408 | \$ 26,232 | \$(21,278) | \$ 4,954 |
| Segment assets | \$164,851 | \$ 85,132 | \$ 8,138 | \$5,189 | \$263,310 | \$155,393 | \$418,703 |
| Other items: | | | | | | | |
| Depreciation | \$ 6,823 | \$ 2,364 | \$ 276 | \$ 3 | \$ 9,466 | \$ 1,842 | \$ 11,308 |
| Capital expenditures | \$ 7,828 | \$ 1,576 | \$ 288 | \$ — | \$ 9,692 | \$ 3,120 | \$ 12,812 |

Report of Independent Auditors



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011
Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.ey.com

Independent Auditor's Report

The Board of Directors
TOYO DENKI SEIZO K.K.

We have audited the accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at May 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries as at May 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

August 30, 2013
Tokyo, Japan

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

For the year ended May 31, 2012

| | Reportable segments | | | Other (Note) | Total | Adjustments | Consolidated |
|-----------------------------------------------------------|---------------------|------------|--------------------------|-----------------|---------|-------------|--------------|
| | Transportation | Industrial | Information Equipment | | | | |
| (Millions of yen) | | | | | | | |
| Sales, profits or losses and asset by reportable segments | | | | | | | |
| Net sales | | | | | | | |
| Sales to third parties | ¥23,992 | ¥12,265 | ¥2,304 | ¥ 10 | ¥38,571 | ¥ — | ¥38,571 |
| Inter-segment sales and transfers | 36 | 1 | — | 852 | 889 | (889) | — |
| | 24,028 | 12,266 | 2,304 | 862 | 39,460 | (889) | 38,571 |
| Segment profit | ¥ 2,702 | ¥ 253 | ¥ 666 | ¥ 54 | ¥ 3,675 | ¥(1,974) | ¥ 1,701 |
| Segment assets | ¥15,338 | ¥ 8,712 | ¥1,119 | ¥567 | ¥25,736 | ¥12,350 | ¥38,086 |
| Other items: | | | | | | | |
| Depreciation | ¥ 691 | ¥ 257 | ¥ 30 | ¥ 2 | ¥ 980 | ¥ 166 | ¥ 1,146 |
| Capital expenditures | ¥ 869 | ¥ 193 | ¥ 8 | ¥ 0 | ¥ 1,070 | ¥ 238 | ¥ 1,308 |

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

Geographical information

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended May 31, 2013 and 2012 are summarized as follows:

| For the Years Ended | May 31, 2013 | May 31, 2012 | May 31, 2013 |
|---------------------|-------------------|-----------------|-----------------------------|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Japan | ¥23,341 | ¥25,200 | \$230,685 |
| China | 5,495 | 10,082 | 54,315 |
| Other | 1,739 | 3,289 | 17,185 |
| Consolidated | ¥30,575 | ¥38,571 | \$302,185 |

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

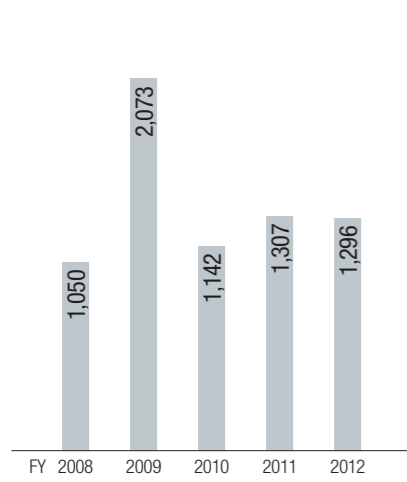
Major customer information

Major customer information for the year ended May 31, 2013 is omitted since there was no customer to whom sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

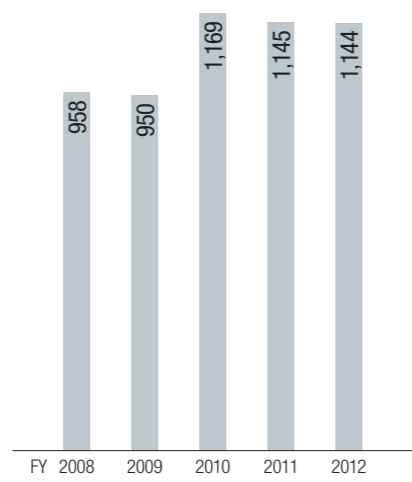
| For the Years Ended | May 31, 2012 |
|--------------------------------------------|-----------------|
| (Millions of yen) | |
| Major customer/ related reportable segment | |
| Meiji Sangyo K.K./ Transportation Systems | ¥4,102 |

Reference Data for Management Indices

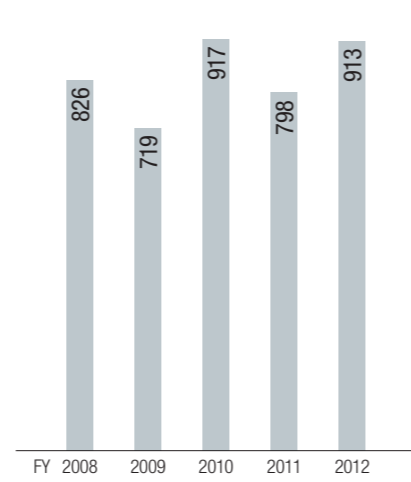
Capital investment (Unit: Million yen)



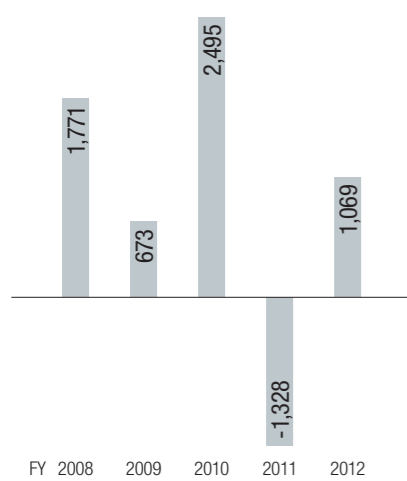
Depreciation and amortization (Unit: Million yen)



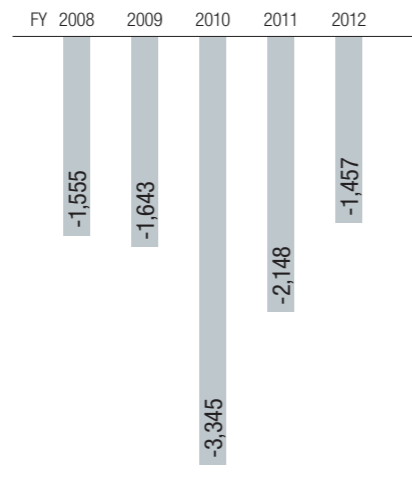
Research and development costs (Unit: Million yen)



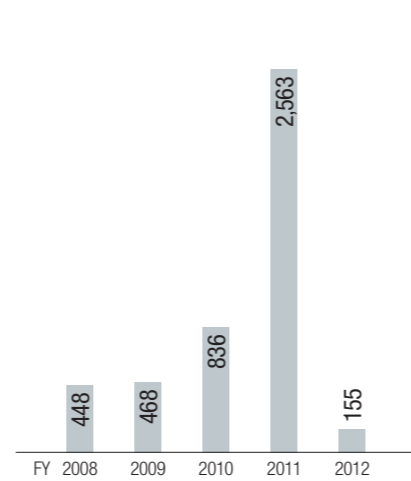
Cash flows from operating activities (Unit: Million yen)



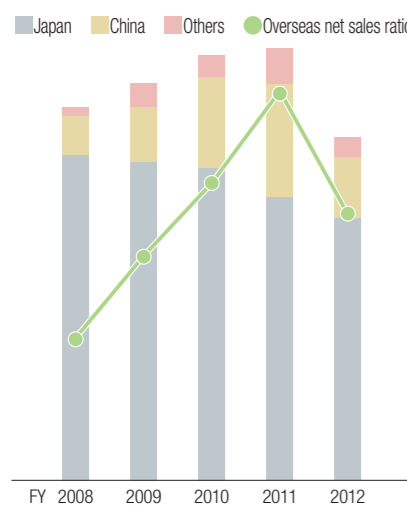
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



| | FY 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------------|---------|--------|--------|--------|--------|
| Japan | 29,023 | 28,358 | 27,835 | 25,200 | 23,340 |
| China* | 3,436 | 4,873 | 8,110 | 10,081 | 5,495 |
| Others | 767 | 2,198 | 1,947 | 3,289 | 1,738 |
| Total | 33,226 | 35,429 | 37,893 | 38,570 | 30,575 |
| Overseas net sales ratio | 12.7% | 20.0% | 26.5% | 34.7% | 23.7% |

*Reported classified as Asia from fiscal 2008 to fiscal 2010.

Company Profile

Company Profile

Company Name TOYO DENKI SEIZO K.K.
(TOYO ELECTRIC MFG. CO., LTD.)

Established June 20, 1918

Capital 4,998,390,000 yen

Number of Employees 1,170 (Consolidated) 791 (TOYO DENKI SEIZO K.K.)

Head Office Tokyo Tatemono Yaesu Building,
1-4-16, Yaesu, Chuo-ku, Tokyo, 103-0028, Japan
TEL +81-3-5202-8121 (General Affairs Division)
<http://www.toyodenki.co.jp/>

Stock Exchange Listing The Tokyo Stock Exchange, First Section

Code Number 6505

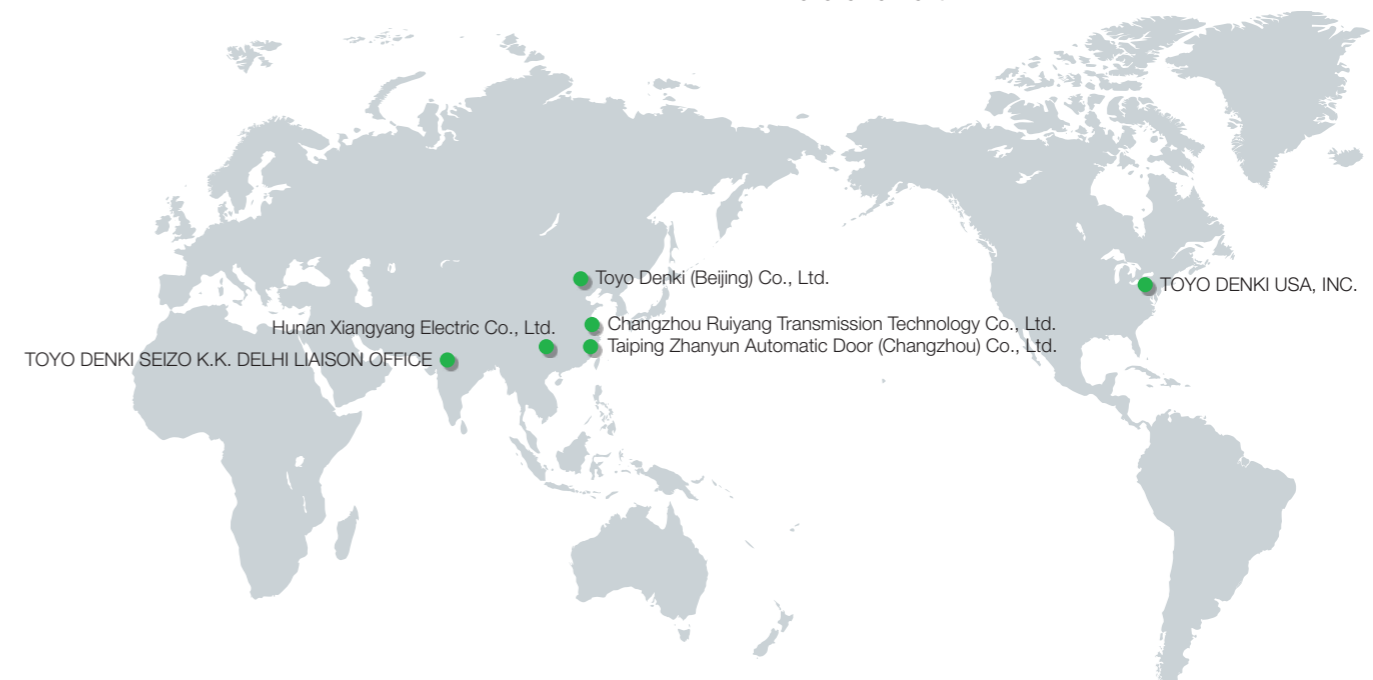
Number of Shares Authorized 180,000,000 shares

Number of Shares Issued 48,675,000 shares

Number of Shareholders 7,365

Subsidiaries and Affiliates

TOYOKOUKI Co., Ltd.
Taihei Electric Co., Ltd.
Toyo Sangyo Co., Ltd.
TD Drive Co., Ltd.
Toyo Shoji Co., Ltd.
ELETT CORPORATION
TOYO DENKI USA, INC.
Toyo Denki (Beijing) Co., Ltd.
Taiping Zhanyun Automatic Door (Changzhou) Co., Ltd.
Hunan Xiangyang Electric Co., Ltd.
Changzhou Ruiyang Transmission Technology Co., Ltd.



Executive Profiles



Chairman, Representative Director
Hiroshi Tsuchida



President, Representative Director
Kenzo Terashima



Managing Director
Yoshio Hosoda



Director
Hiroshi Shimotakahara



Director
Masami Tsuchiya



Director
Yoshihiko Yoshino



Director
Hiroyuki Arai



Standing Statutory Auditor
Kazuya Otake



Standing Statutory Auditor
Akira Isogai



Statutory Auditor
Rikio Takezawa



Statutory Auditor
Toshio Ikeda

Executive Officers

Hisashi Sone
Kenichi Gotoh

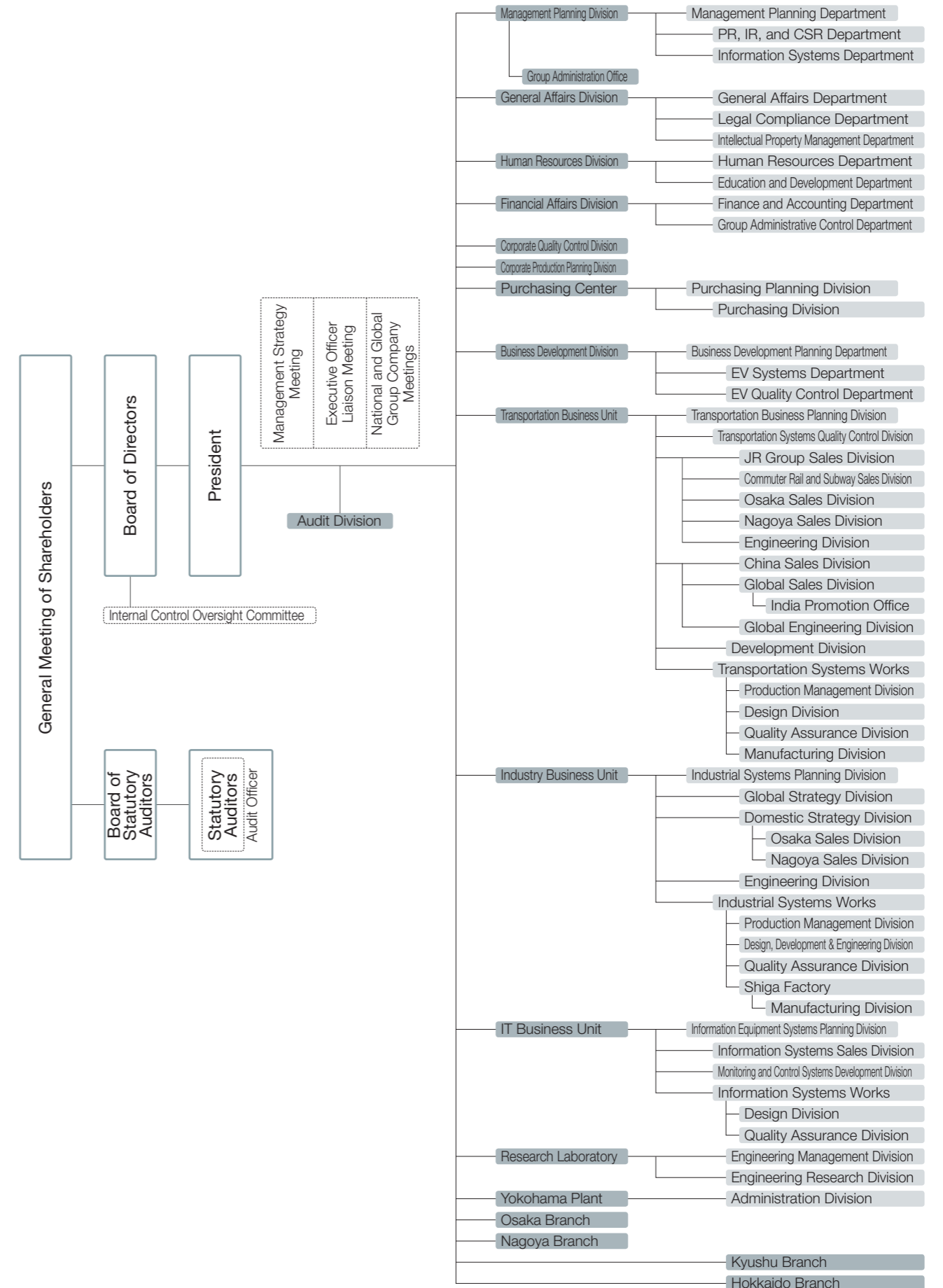
Shinya Koizumi
Ryoichi Kaneko

Hitoshi Katayama
Isami Takase

Shuji Horie
Akihiko Ishii

Yoshifumi Otsubo

Organization Chart



Stock Related Information

Number of shares (As of May 31, 2013)

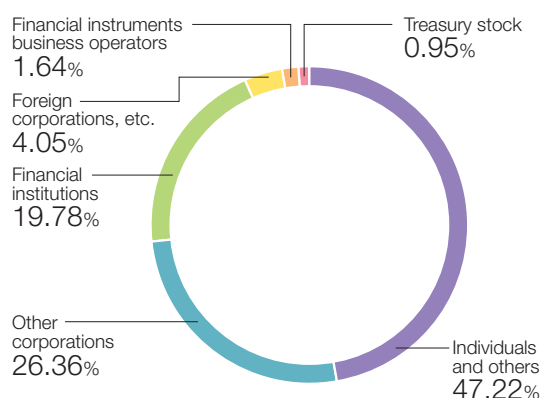
| | |
|-----------------------------|-------------|
| Number of shares authorized | 180,000,000 |
| Number of shares issued | 48,675,000 |
| Number of shareholders | 7,365 |

Major shareholders

| Shareholders | Number of shares held (Thousands) | % of total shares held |
|-----------------------------------------------------------|-----------------------------------|------------------------|
| NIPPON LIFE INSURANCE COMPANY | 2,533 | 5.25 |
| East Japan Railway Company | 2,400 | 4.98 |
| TOYOTA INDUSTRIES CORPORATION | 2,100 | 4.36 |
| Hitachi, Ltd. | 2,100 | 4.36 |
| Employees Stock Ownership Plan | 1,855 | 3.85 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 1,351 | 2.80 |
| The Bank of Yokohama, Ltd. | 1,038 | 2.15 |
| Ohkuraya Juutaku Co., Ltd. | 1,030 | 2.14 |
| Toyo Denki Subcontract factories shareholding Association | 896 | 1.86 |
| TSUKISHIMA KIKAI CO., LTD. | 798 | 1.66 |

(Note) The percentages of total shares held are calculated excluding 464,000 treasury stocks held by the Company.

Distribution of shares by type of shareholder



Transition of share price

Share price

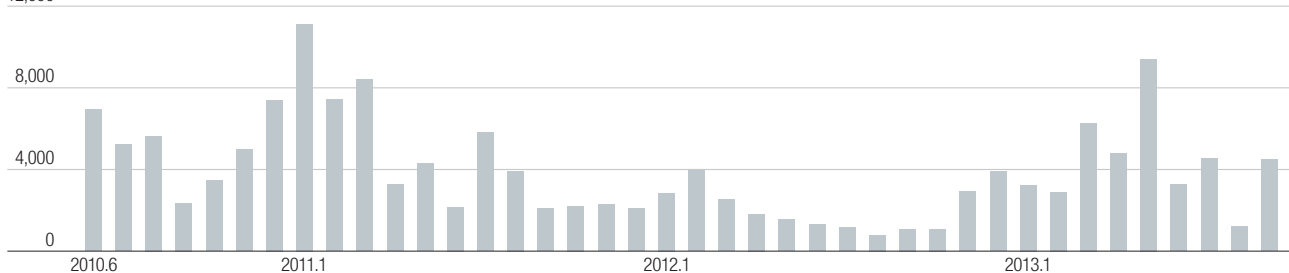
(Yen)
600



Trading volume

0

(Thousands)
12,000



Disclaimer on the forward-looking statements

Information in this corporate report contains forward-looking statements. Such statements were developed based on the information available at the time when this report was prepared. These forward-looking statements may be largely revised in the future, and the actual outcome could significantly vary from the stated or implied contents of such statements subject to various factors. This report is not intended to solicit investment. Investors are kindly asked to make your investment decision at your own judgment and responsibility. Numbers presented in 100 million yen or million yen are rounded down to the nearest respective unit.