

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.”

## 1945~

Contribution to postwar reconstruction and high economic growth



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

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)

### ● 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”

2010~

Enhancement of research and development system



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

1988~

Full-scale global expansion



Electric towing locomotives in Panama Canal (2000)

1958~

Contribution to development of technologies for high-speed railroads



Test operation of Tokaido Shinkansen (1962)

## 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

# 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

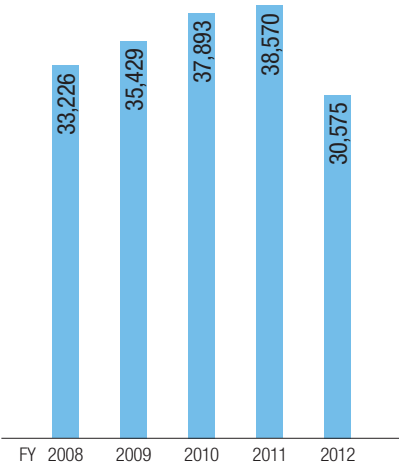
(Unit: Yen)

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

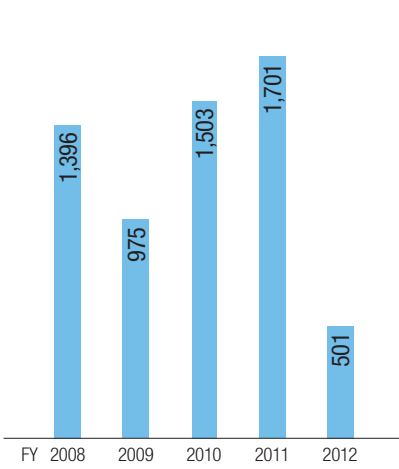
(Unit: %)

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

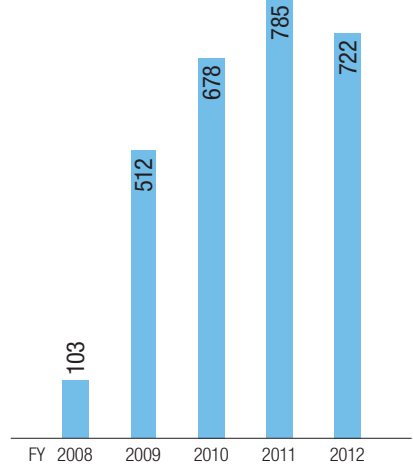
Net sales (Unit: Million yen)



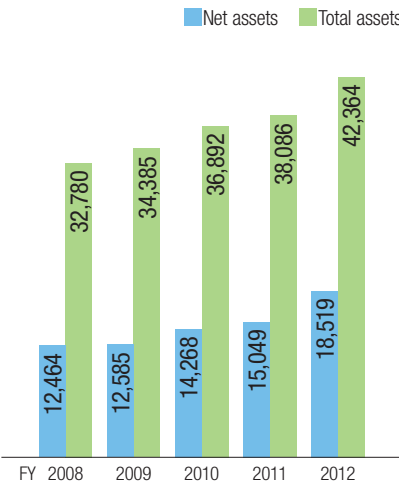
Operating income (Unit: Million yen)



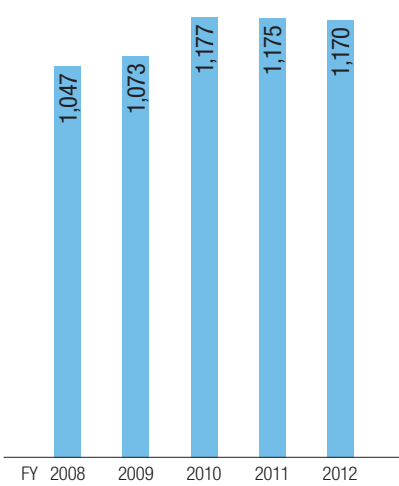
Net income (Unit: Million yen)



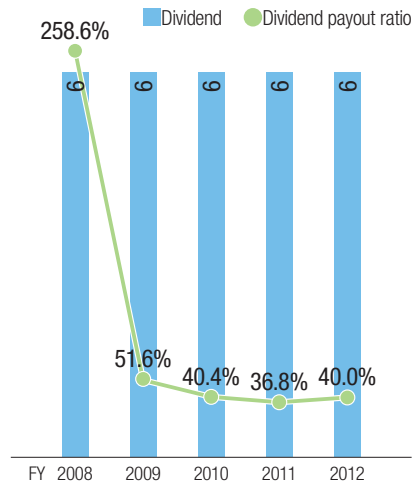
Net assets/Total assets (Unit: Million yen)



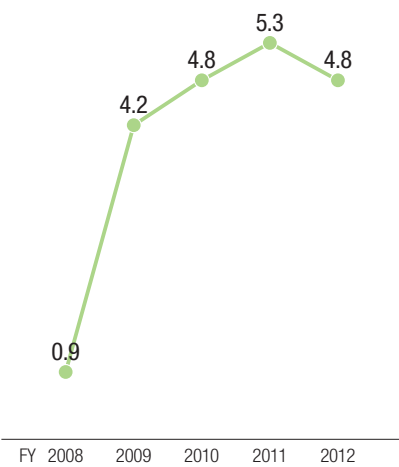
Number of employees (Unit: Persons)



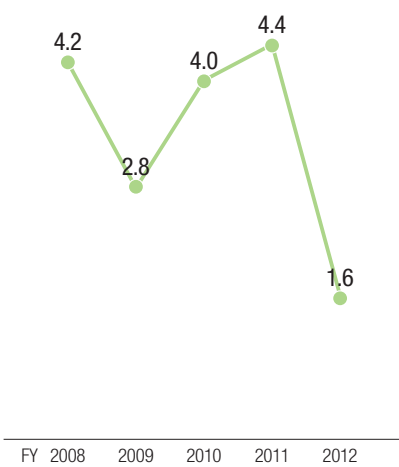
Dividend/Dividend payout ratio (Unit: Yen)



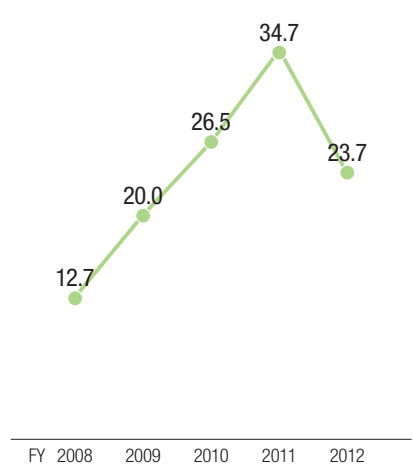
Return on equity (ROE) (Unit: %)



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.



Kenzo Terashima  
President



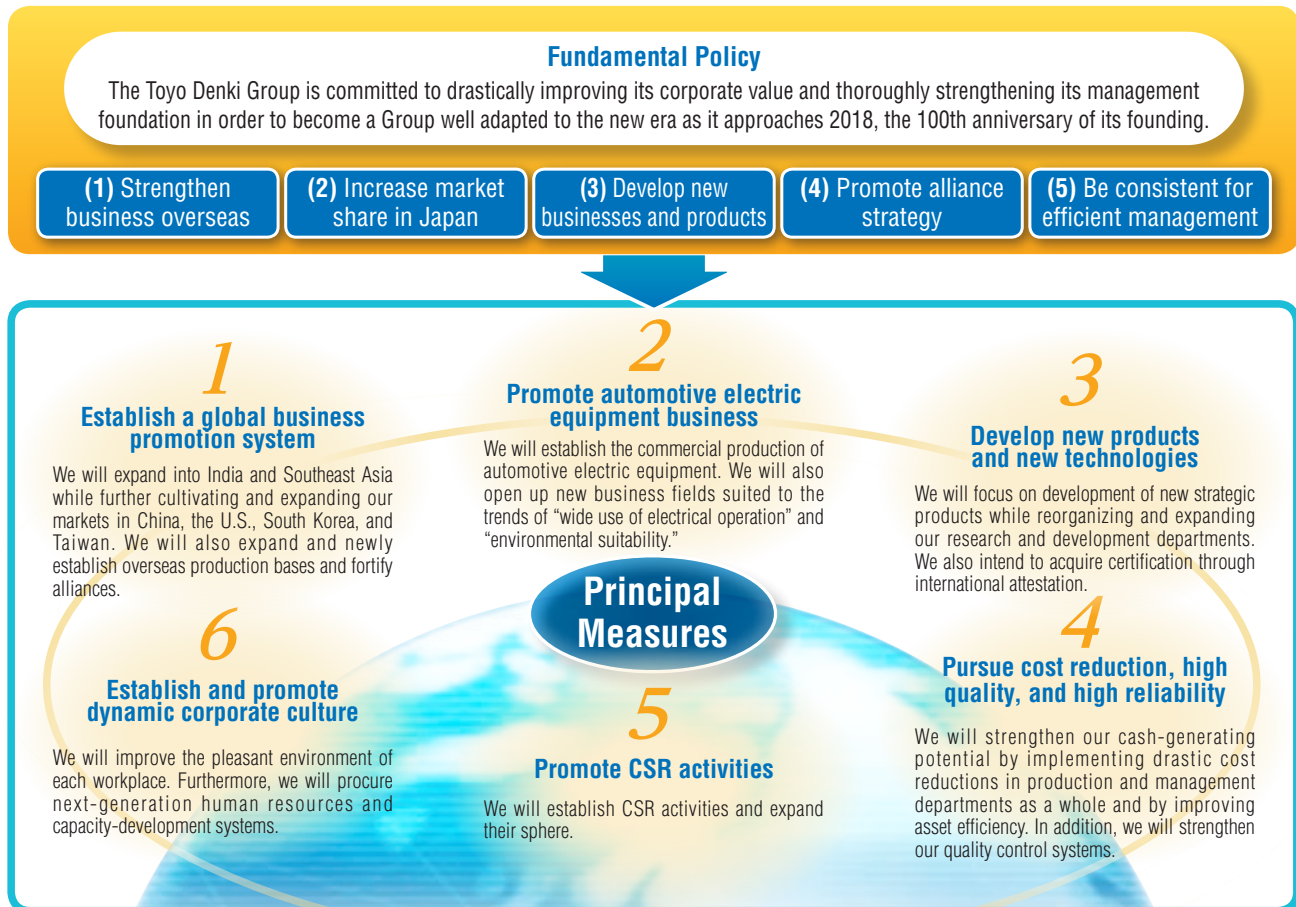
Hiroshi Tsuchida  
Chairman

## ■ Long-Term Vision

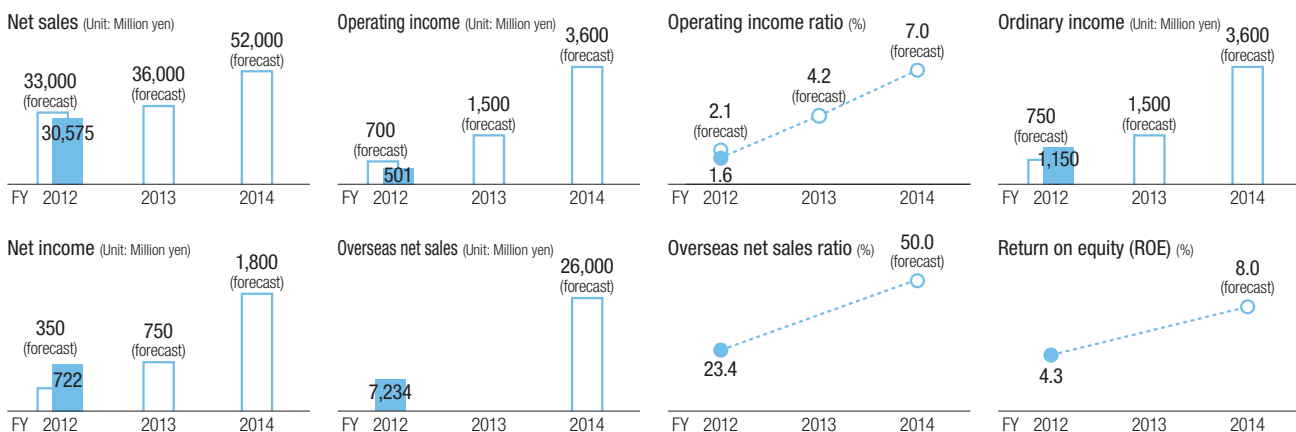
Integrating the exceptional motor drive technologies since establishment with our breakthrough advanced technologies to help build environmentally friendly societies through global business development.

## ■ 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



# 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



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

\* Photo courtesy : Central Japan Railway Company





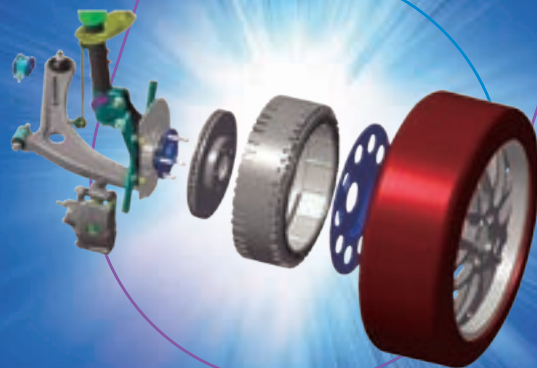
**Railway station  
operating equipment**

## 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**

# Business Report

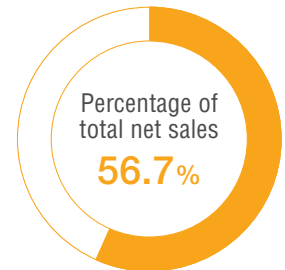


- 10** Transportation Systems segment
- 11** Industrial Systems segment
- 12** Information Equipment Systems segment
- 13** Expansion of EVs and HEVs
- 14** Research and Development/Intellectual Property

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

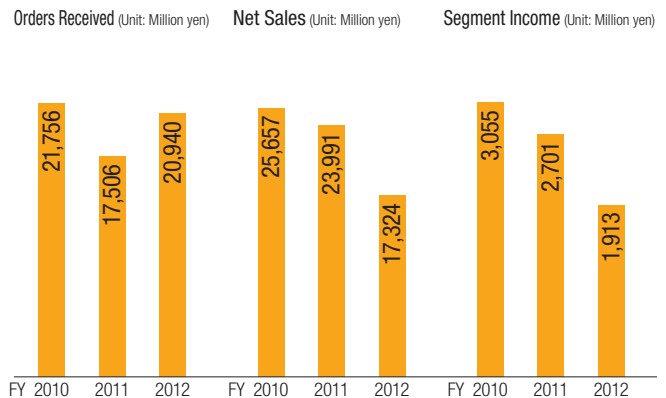
### Business Overview

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).

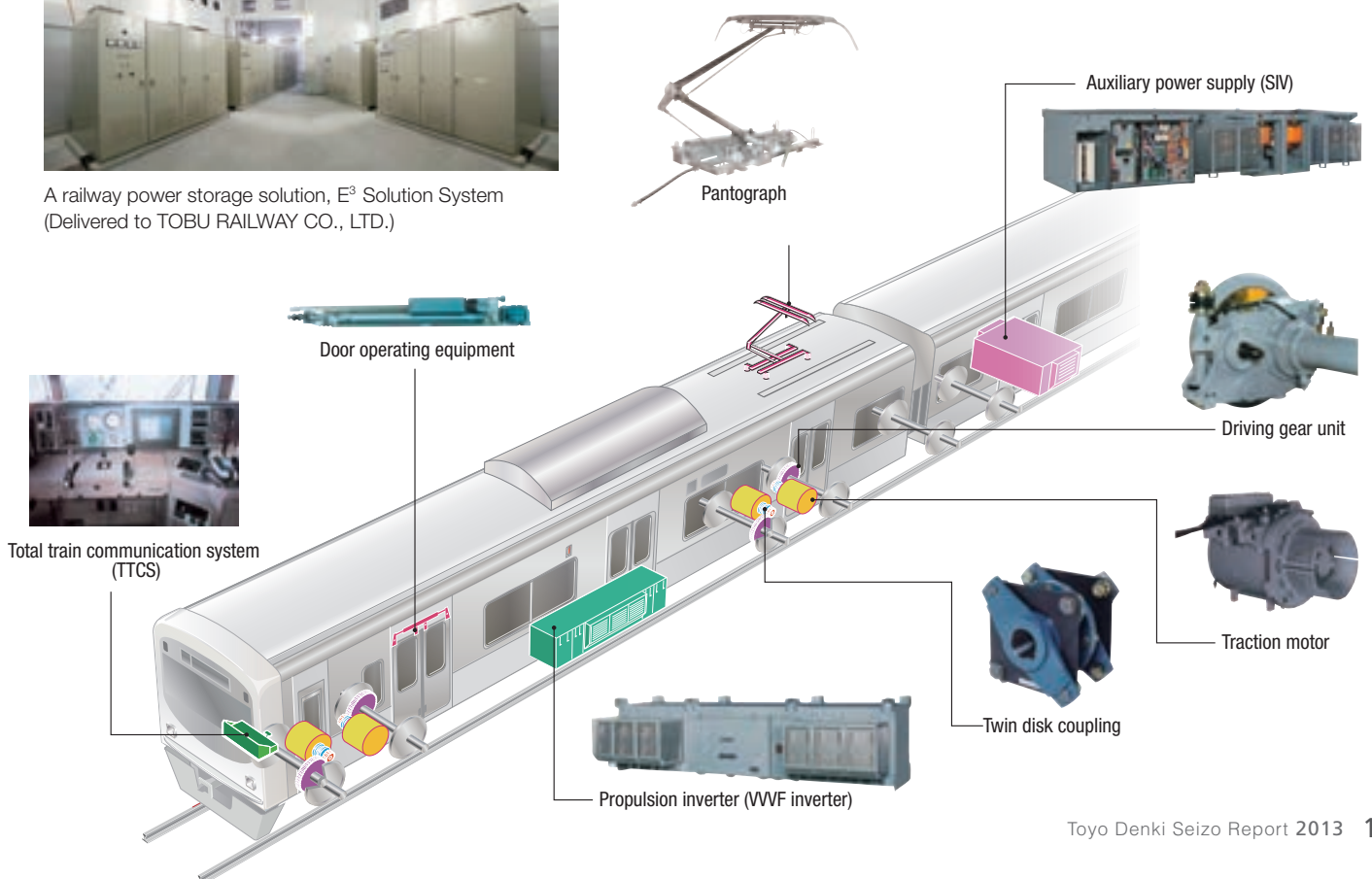


Results for fiscal 2012

<p>■ Orders Received</p> <p><b>20,940 million yen</b> (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><b>17,324 million yen</b> (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><b>1,913 million yen</b> (Down 29.2% year on year)</p>	<p>Profits fell due to the impact of reduced revenues.</p>



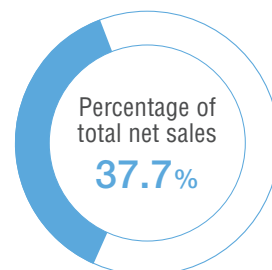
A railway power storage solution, E<sup>3</sup> Solution System (Delivered to TOBU RAILWAY CO., LTD.)



# 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)

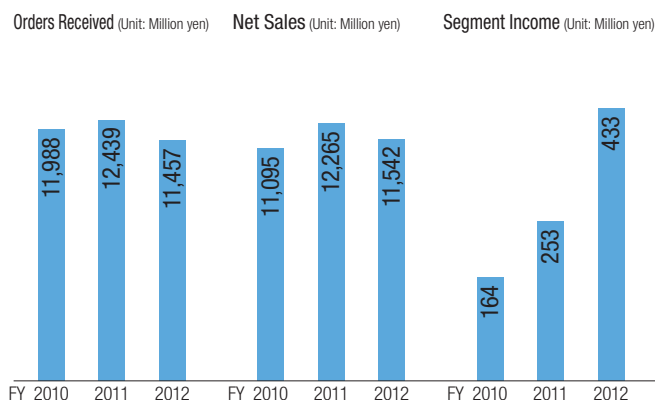
Despite strong orders of infrastructure related products such as testing equipment for automobile development and power generators, there was a large decrease in orders overseas.
- Net Sales

**11,542 million yen**  
(Down 5.9% year on year)

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

**433 million yen**  
(Up 71.1% year on year)

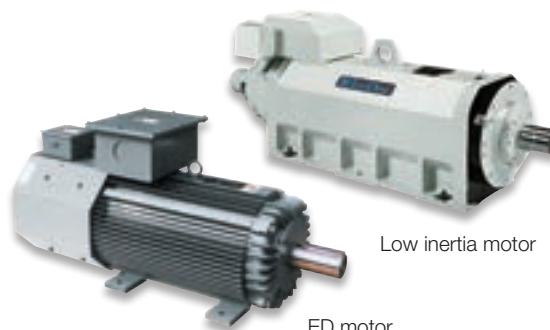
Profits increased due to improvements making plants more profitable.



Programmable controller (PLC)



Intelligent inverter



ED motor

Low inertia motor

Testing Equipment for Automobile Development

Power Generation Systems

Systems for Production Facilities

Water Supply Equipment Systems

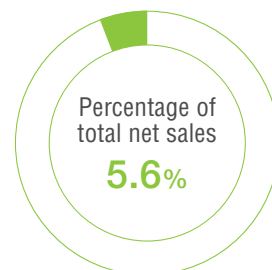
Systems for Printers

Electric Propulsion Ship Systems

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

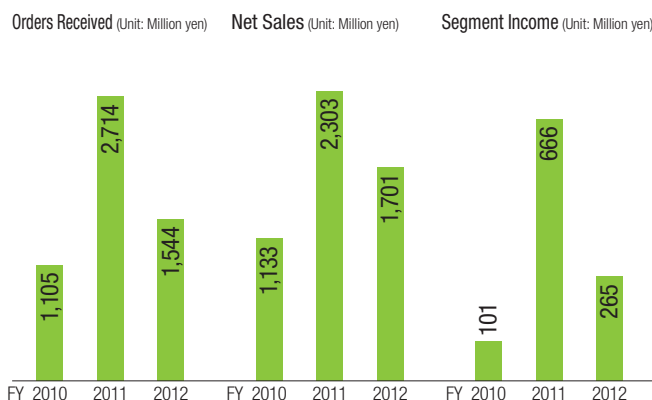
## Business Overview

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

<p>■ Orders Received</p> <p><b>1,544 million yen</b> (Down 43.1% year on year)</p>	<p>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.</p>
<p>■ Net Sales</p> <p><b>1,701 million yen</b> (Down 26.2% year on year)</p>	<p>Sales fell for the same reason as orders received.</p>
<p>■ Segment Income</p> <p><b>265 million yen</b> (Down 60.2% year on year)</p>	<p>Profits declined greatly due to the impact of reduced revenues and development costs for new products.</p>



### ● Railway station operating equipment



Commuter pass issuing machine



Ticket issuing handy terminal

### ● Remote monitoring systems



Remote monitoring system “μ-TOP”

Toyo Wireless Measurement System

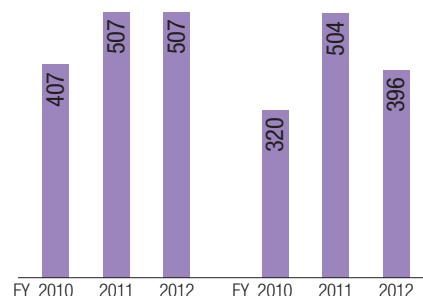
# Developing and manufacturing hybrid construction machinery and electric traction systems for EVs and HEVs

## 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.

Orders Received (Unit: Million yen)    Net Sales (Unit: Million yen)

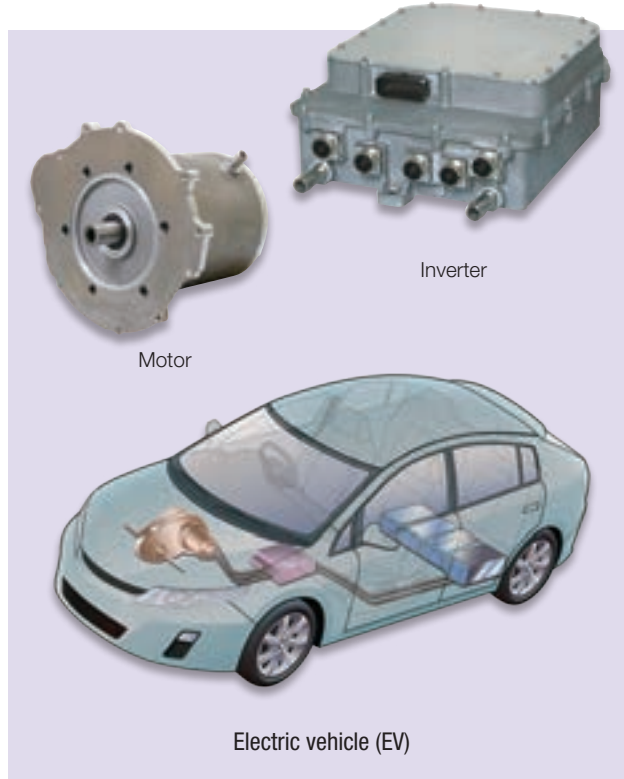
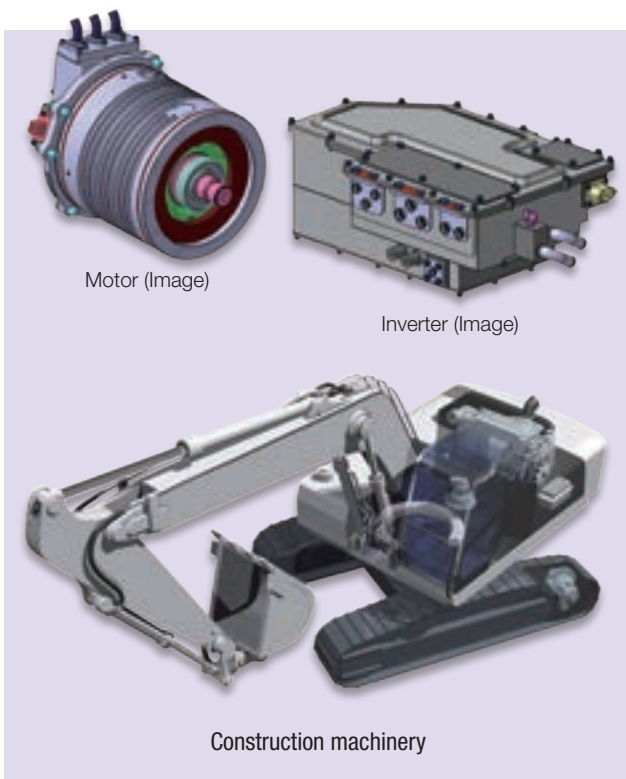


### Reference: Orders received and net sales

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.



# Research and Development/Intellectual Property

## 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

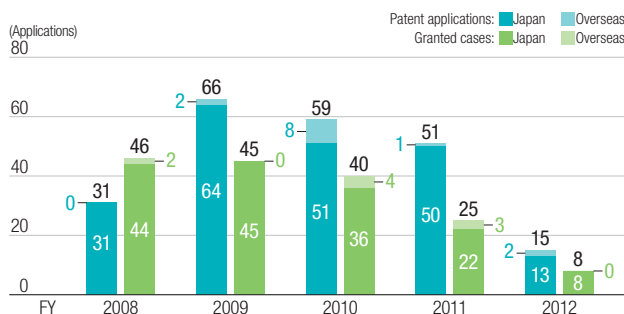
Segment	Project	Description
Transportation Systems	Fully enclosed induction traction motor	Commercialized traction motor that contributes to reduction of maintenance labor.
	Information control systems for rolling stock	Completed an information control system for next-generation rolling stock which was 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.
Information Equipment Systems	Expanded line of motors for automotive test equipment	Developed new models to expand lineup, including ultra-fast motors for EVs and HEVs.
	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



# CSR Report



## Management

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## Reports by Stakeholder

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- 22** With Our Shareholders and Investors
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## Actions to Deal with the Environment and Local Communities

- 26** Actions to Protect the Environment
- 30** Contributions to Local Communities



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

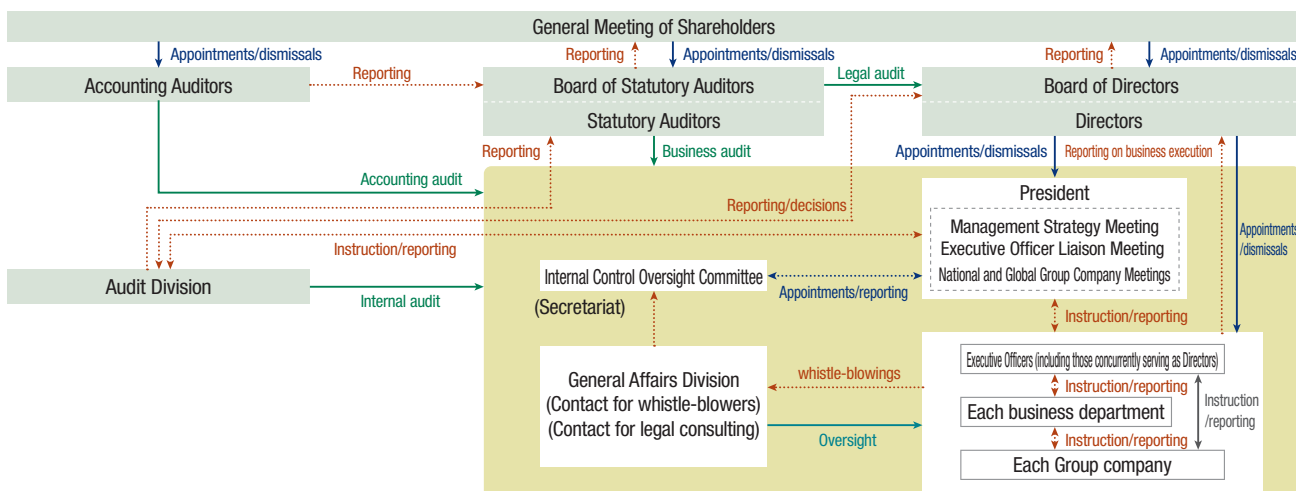
To focus on business principles and fulfill its social responsibility, the Company has provided all officers and employees with a copy of the Compliance Manual (Toyo Denki Seizo Ethical Standards) that stipulates its code of conduct. The move is part of an effort to have the code and the basic rules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



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## 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)

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## 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 FUJII 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](http://www.toyodenki.co.jp/html/ir_individual.html)

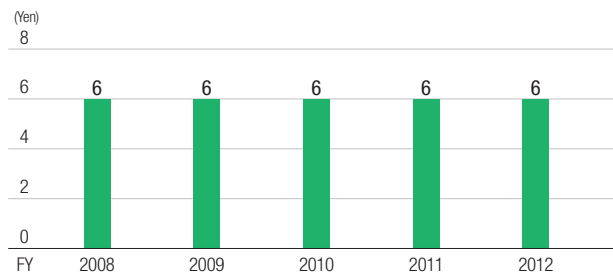


Financial results briefing for the fiscal year ended May 31, 2013 by former President Hiroshi Tsuchida (held in July 2013)

#### ● 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.



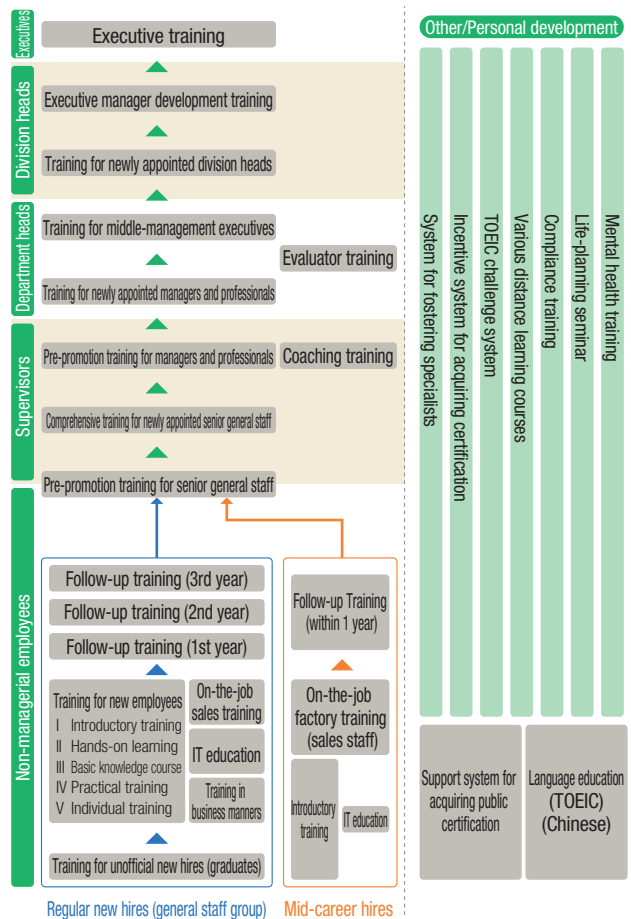
In-house exchange event “Area Night”

#### 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.

##### Training system





## 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 <sup>*1</sup>	700 <sup>*1</sup>	748 <sup>*2</sup>	744 <sup>*2</sup>	791 <sup>*3</sup>
	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		<sup>*1</sup> Number of regular employees excluding Executive Officers <sup>*2</sup> Number of regular employees including Executive Officers and number of special employees, temporary employees and temporary and part-time employees <sup>*3</sup> 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.
	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 related	Family care leave	A total of up to 3 years of family care leave may be taken per person needing care.
	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.
Other	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 ●

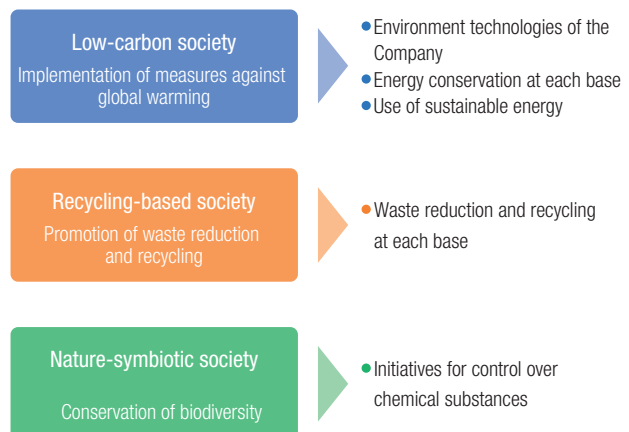
We will continue to provide products and services that are considerate of the burden on the global environment by drawing on our “future-oriented technologies friendly to the Earth and mankind.”

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 Prevent Global Warming

### Initiatives to reduce greenhouse gas (CO<sub>2</sub>) emissions

The Company is promoting energy conservation at each of its production bases and offices to reduce its CO<sub>2</sub> 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 CO<sub>2</sub> emissions and progress status

At the Company's main production base, the Yokohama Plant, the targeted 1% year-on-year reduction of CO<sub>2</sub> 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 CO<sub>2</sub> emission factor at the Tokyo Electric Power Company.

### Use of sustainable energy

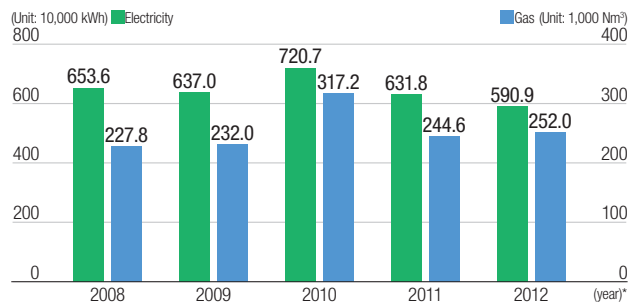
The Company in July 2012 installed a 500 kW solar power system on the roof of the Yokohama Plant for the purpose of cutting power use at peak times. Electricity generated by this system is used entirely within the plant. A more than 5% reduction in the use of externally supplied electricity was achieved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

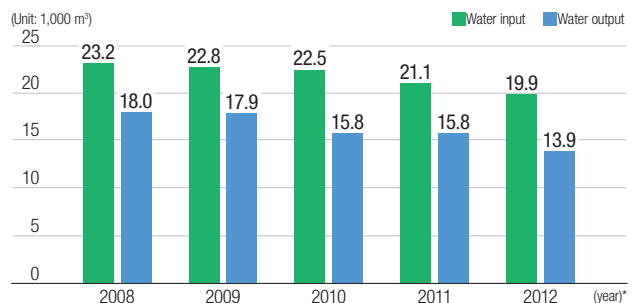


Solar power system at Yokohama Plant

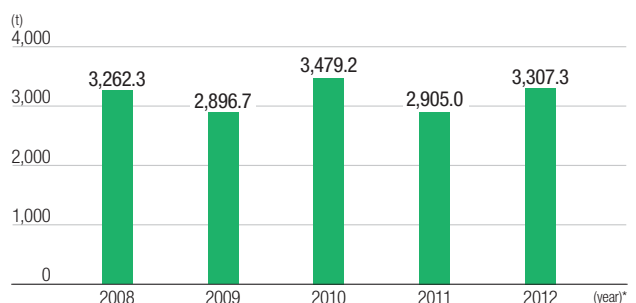
### Total energy input at Yokohama Plant (electricity and gas)



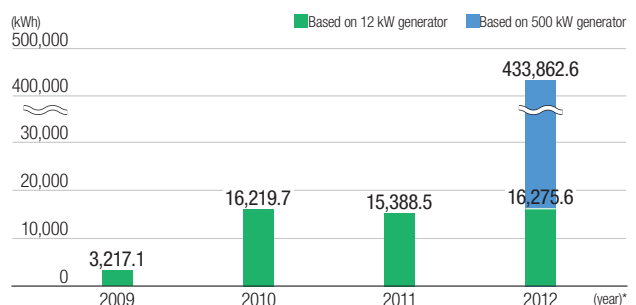
### Total water input/output at Yokohama Plant



### Total CO<sub>2</sub> emissions at Yokohama Plant



### Total solar power generation at Yokohama Plant

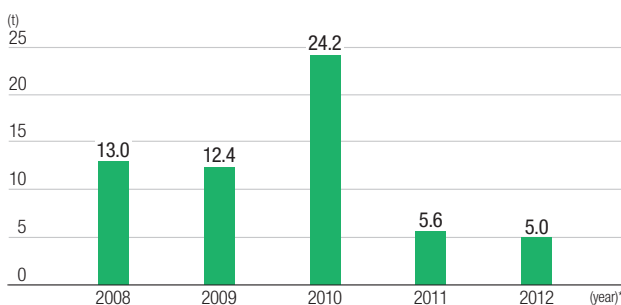


## Initiatives for Reducing Disposed Waste as Well as Recycling

### ● 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.

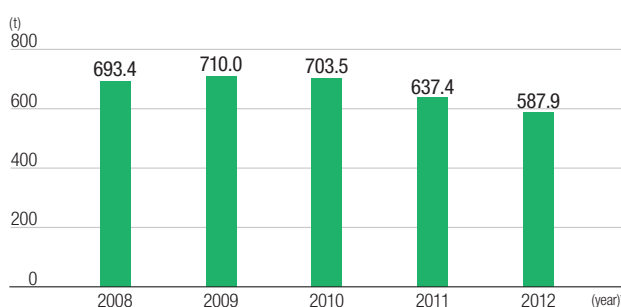
### ● Volume of landfill waste



### ● 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



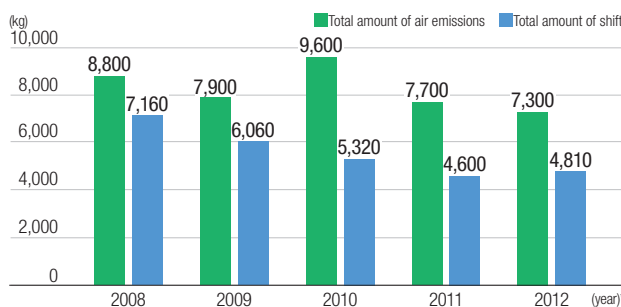
## Initiatives for Control over Chemical Substances

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 <sup>3</sup> )	Production bases total	227	232	317	244	252			
		Yokohama Plant	227	232	317	244	252			
		Shiga Factory	-	-	-	-	-			
	Water input (1,000 m <sup>3</sup> )	Production bases total	23	22	22	21	19			
		Yokohama Plant	23	22	22	21	19			
		Shiga Factory	0	0	0	0	0	*4		
	CO <sub>2</sub> 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			
Solar power generation (kWh)	Yokohama Plant	Total power generation	-	3,217	16,219	15,388	450,138			
		Based on 500 kW generator	-	-	-	-	433,862	*7		
		Based on 12 kW generator	-	3,217	16,219	15,388	16,275	*8		
Water output (1,000 m <sup>3</sup> )	Production bases total	18	17	15	15	13				
	Yokohama Plant	18	17	15	15	13				
	Shiga Factory	0	0	0	0	0	*9			
Output	Domestic	PRTR <sup>11</sup>	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	
		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	Wastes	① Industrial waste (tons)	Production bases total	198	242	319	316	266		
			Yokohama Plant	198	242	292	282	230		
			Shiga Factory	-	-	27	34	35	*11	
		② General waste (tons)	Production bases total	115	113	130	114	101		
			Yokohama Plant	115	113	130	114	101		
			Shiga Factory	-	-	-	-	-		
		③ Valuable metal waste (tons)	Production bases total	379	354	280	240	255		
			Yokohama Plant	379	354	280	240	255		
			Shiga Factory	-	-	-	-	-		
		Waste output (①+②+③) (tons)	Production bases total	693	710	730	671	623		
			Yokohama Plant	693	710	703	637	587		
			Shiga Factory	-	-	27	34	35	*11	
		Recycled amount (tons)	Production bases total	560	556	524	436	432		
			Yokohama Plant	560	556	524	436	432		
			Shiga Factory	-	-	-	-	-		
		Volume of landfill waste (tons)	Production bases total	13	12	51	39	40		
			Yokohama Plant	13	12	24	5	5		
			Shiga Factory	-	-	27	34	35	*11	
Percentage of landfill waste (%) Yearly comparison	Production bases total	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 CO<sub>2</sub> 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)
<b>Assets</b>			
<b>Current assets:</b>			
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)
<b>Total current assets</b>	<b>21,943</b>	<b>21,415</b>	<b>216,871</b>
<b>Property, plant and equipment (Note 4):</b>			
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
<b>Total property, plant and equipment</b>	<b>5,012</b>	<b>4,861</b>	<b>49,539</b>
<b>Investments and other assets (Note 5):</b>			
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)
<b>Total investments and other assets</b>	<b>15,409</b>	<b>11,810</b>	<b>152,293</b>
<b>Total assets</b>	<b>¥42,364</b>	<b>¥38,086</b>	<b>\$418,703</b>

As of	May 31, 2013	May 31, 2012	May 31, 2013
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
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
<b>Total current liabilities</b>	<b>14,280</b>	<b>16,720</b>	<b>141,136</b>
<b>Long-term liabilities:</b>			
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
<b>Total long-term liabilities</b>	<b>9,564</b>	<b>6,317</b>	<b>94,528</b>
<b>Commitments and contingencies (Note 15)</b>			
<b>Net assets (Notes 9 and 16):</b>			
<b>Shareholders' equity:</b>			
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)
<b>Total shareholders' equity</b>	<b>15,168</b>	<b>14,736</b>	<b>149,907</b>
<b>Accumulated other comprehensive income:</b>			
Unrealized holding gain on securities	3,367	415	33,277
Translation adjustments	(15)	(102)	(145)
<b>Total accumulated other comprehensive income</b>	<b>3,352</b>	<b>313</b>	<b>33,132</b>
<b>Total net assets</b>	<b>18,520</b>	<b>15,049</b>	<b>183,039</b>
<b>Total liabilities and net assets</b>	<b>¥42,364</b>	<b>¥38,086</b>	<b>\$418,703</b>

See notes to consolidated financial statements.

# TOYO DENKI SEIZO K.K.

## Consolidated Statements of Income

For the Years Ended	May 31,	May 31,	May 31,
	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Net sales</b> (Note 21)	¥30,575	¥38,571	\$302,185
<b>Cost of sales</b> (Note 3)	22,879	29,736	226,121
<b>Gross profit</b>	7,696	8,835	76,064
<b>Selling, general and administrative expenses</b> (Note 10)	7,195	7,134	71,110
Operating income	501	1,701	4,954
<b>Non-operating income (expenses):</b>			
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
<b>Special gains (losses), net</b> (Note 11)	122	(31)	1,209
Income before income taxes and minority interests	1,273	1,758	12,581
<b>Income taxes</b> (Note 12):			
Current	496	714	4,904
Deferred	55	258	537
	551	972	5,441
<b>Income before minority interests</b>	722	786	7,140
<b>Minority interests</b>	—	—	—
<b>Net income</b>	¥ 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,	May 31,	May 31,
	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Income before minority interests</b>	¥ 722	¥ 786	\$ 7,140
<b>Other comprehensive income</b> (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
<b>Comprehensive income</b>	¥3,761	¥1,072	\$37,176
<b>Comprehensive income attributable to:</b>			
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				Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Total accumulated other comprehensive income		
<b>Balance as of June 1, 2011</b>	¥4,998	¥3,178	¥6,226	¥(160)	¥14,242	¥ 124	¥ (97)	¥ 27	¥14,269	
<b>Changes during the year</b>										
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	
<b>Balance as of May 31, 2012</b>	¥4,998	¥3,178	¥6,722	¥(162)	¥14,736	¥ 415	¥(102)	¥ 313	¥15,049	
<b>Balance as of June 1, 2012</b>	¥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	
<b>Balance as of May 31, 2013</b>	¥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				Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Total accumulated other comprehensive income		
<b>Balance as of June 1, 2012</b>	\$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	
<b>Balance as of May 31, 2013</b>	\$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, 2013	May 31, 2012	May 31, 2013
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Operating activities</b>			
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
<b>Investing activities</b>			
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)
<b>Financing activities</b>			
(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:

<u>As of May 31</u>	(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:

<u>As of</u>		May 31, 2013	May 31, 2012	May 31, 2013
<u>Issued by:</u>		(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:

<u>Years ended May 31</u>	(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:

<u>As of</u>	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
<b>Retirement benefit expenses</b>	<b>¥706</b>	<b>¥719</b>	<b>\$6,977</b>

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)	—
<b>Total</b>	<b>¥122</b>	<b>¥(31)</b>	<b>\$1,209</b>

### 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
<b>Effective tax rates</b>	<b>43.2%</b>	<b>55.3%</b>

The significant components of deferred tax assets and liabilities 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)
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, 2013	May 31, 2012	May 31, 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, 2013	May 31, 2012	May 31, 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, 2013	May 31, 2012	May 31, 2013
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥14.98	¥16.29	\$0.15
<u>As of</u>	May 31, 2013	May 31, 2012	May 31, 2013
	(Yen)		(U.S. dollars)
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, 2013	May 31, 2012	May 31, 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)		
<b>Assets</b>			
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	¥ —
<b>Liabilities</b>			
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)		
<b>Assets</b>			
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	\$ —
<b>Liabilities</b>			
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)		
<b>Assets</b>			
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	¥—
<b>Liabilities</b>			
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:

<u>As of May 31, 2013</u>	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	¥—	¥—

<u>As of May 31, 2013</u>	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	\$—	\$—

<u>As of May 31, 2012</u>	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

<u>As of May 31, 2013</u>	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

<u>As of May 31, 2013</u>	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

<u>For the Year ended May 31, 2013</u>	Sales proceeds	Gain on sales	Loss on sales
	(Millions of yen)		
Stock	¥127	¥72	¥—
<u>For the Year ended May 31, 2013</u>	Sales proceeds	Gain on sales	Loss on sales
	(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**

<u>As of May 31, 2012</u>	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

<u>For the Year Ended</u>	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:

<u>As of</u>	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

For the year ended May 31, 2012

	Reportable segments				Total	Adjustments	Consolidated
	Transportation	Industrial	Information Equipment	Other (Note)			
(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
Major customer/ related reportable segment	(Millions of yen)
Meiji Sangyo K.K./ Transportation Systems	¥4,102



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Hibiya Kokusai Bldg.  
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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.

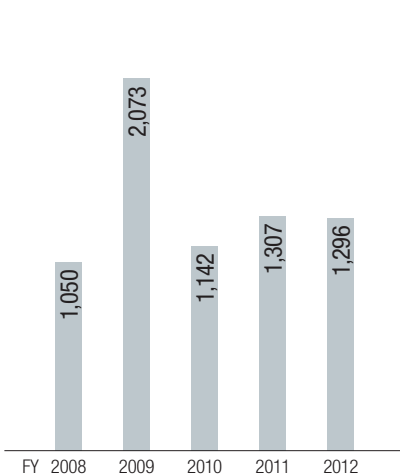
### *Convenience Translation*

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.

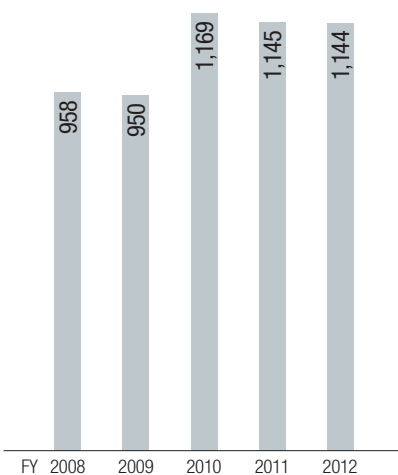
August 30, 2013  
Tokyo, Japan

# Reference Data for Management Indices

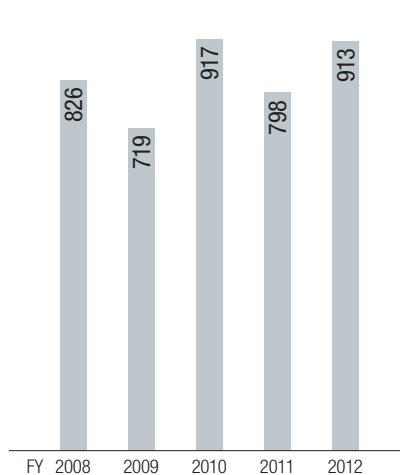
Capital investment (Unit: Million yen)



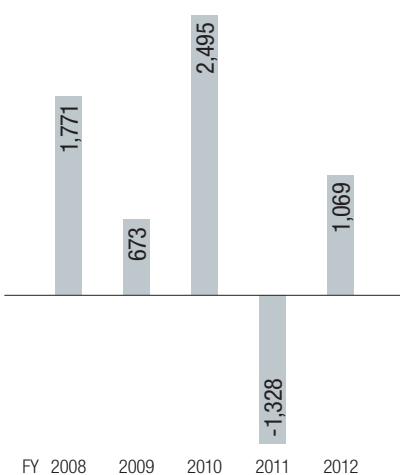
Depreciation and amortization (Unit: Million yen)



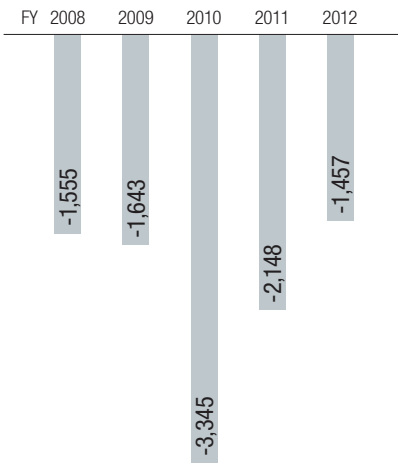
Research and development costs (Unit: Million yen)



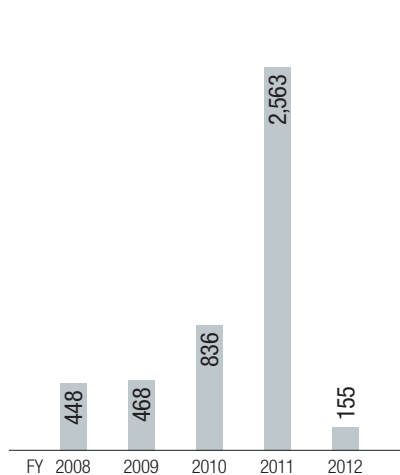
Cash flows from operating activities (Unit: Million yen)



Cash flows from investing activities (Unit: Million yen)

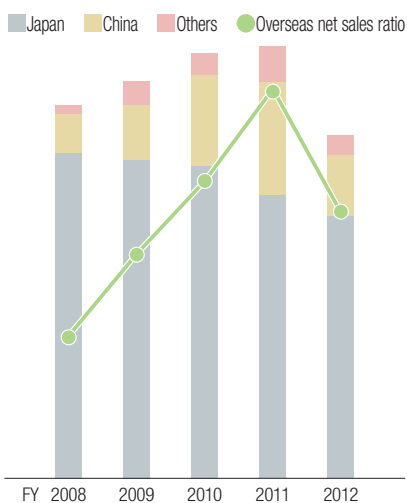


Cash flows from financing activities (Unit: Million yen)



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) <a href="http://www.toyodenki.co.jp/">http://www.toyodenki.co.jp/</a>
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

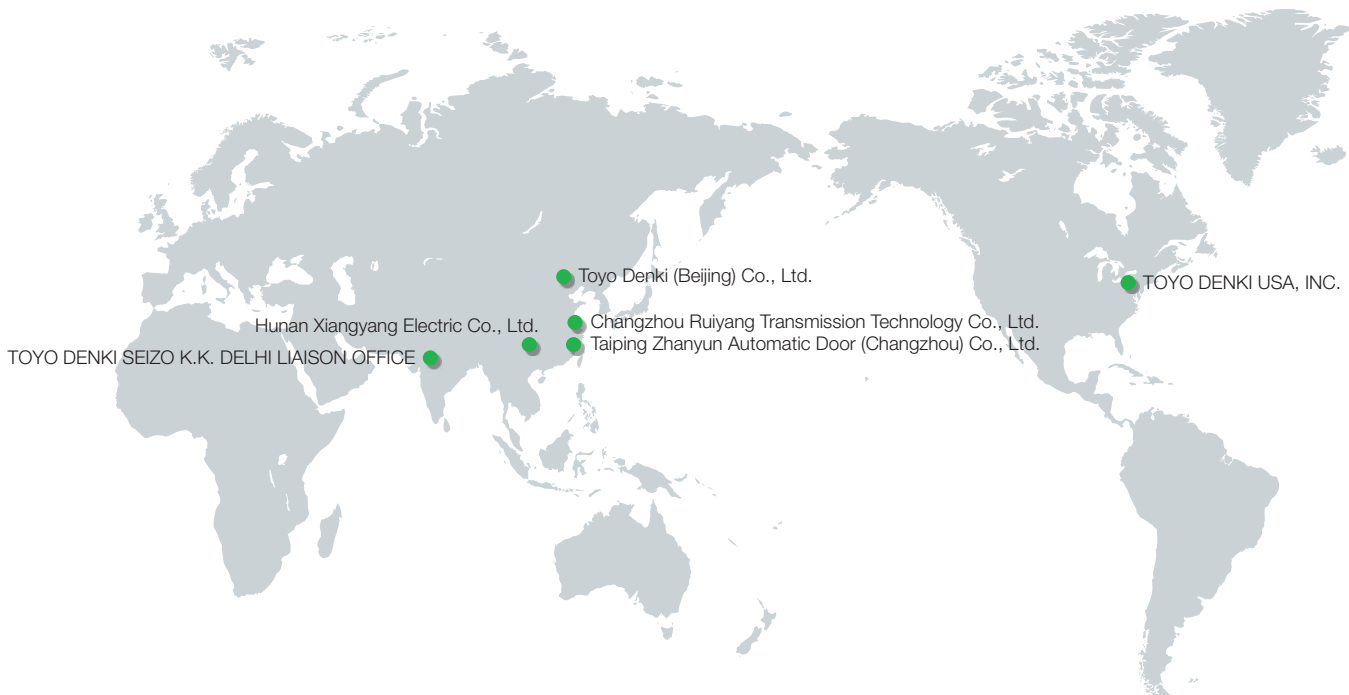


## Subsidiaries and Affiliates

- 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.



Yokohama Plant



## 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**

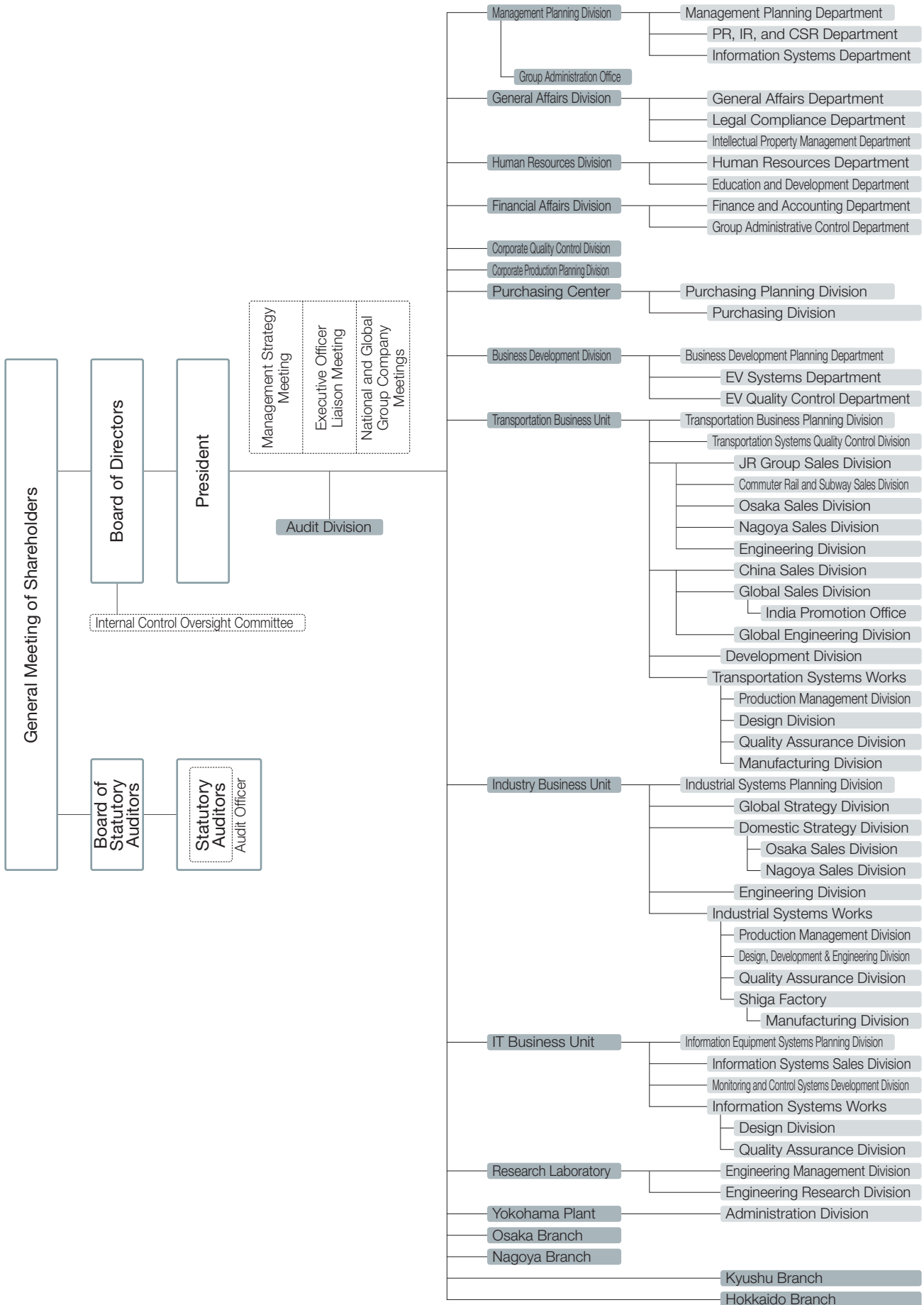
**Shinya Koizumi**  
**Ryoichi Kaneko**

**Hitoshi Katayama**  
**Isami Takase**

**Shuji Horie**  
**Akihiko Ishii**

**Yoshifumi Otsubo**

# Organization Chart



# Stock Related Information

## Number of shares (As of May 31, 2013)

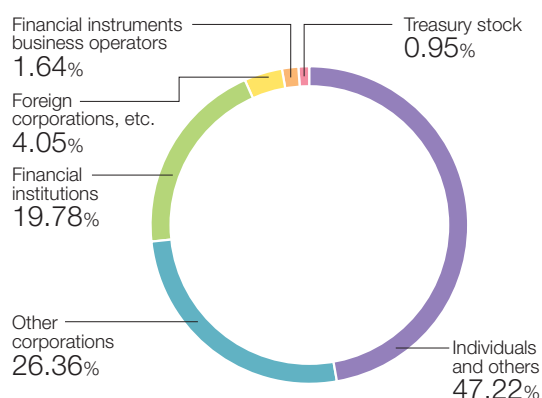
Number of shares authorized	180,000,000
Number of shares issued	48,675,000
Number of shareholders	7,365

### 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

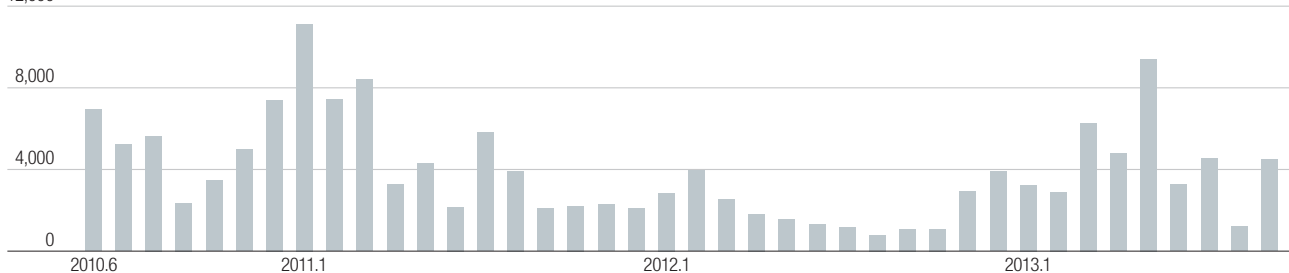
(Yen)  
600



### 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.





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<http://www.toyodenki.co.jp/>