Financial Report

Financial Review

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

Results of Operation

Orders received
YoY **+3.9%**

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

Net sales
YoY **-20.7%**

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

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

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

Financial Position

Assets
Total assets
42,364 million yen

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

Liabilities
Total liabilities
23,844 million yen

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

Net assets
Total net assets
18,519 million yen

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

Cash Flows

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

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

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

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

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

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

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

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

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

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

(Millions of yen)

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

(Thousands of U.S. dollars) (Note 2)

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

See notes to consolidated financial statements.

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

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

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

1. Summary of Significant Accounting Policies

(a) Basis of presentation

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

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

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

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

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

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

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

(c) Foreign currency translation

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

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

(d) Cash and Cash equivalents

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

(e) Inventories

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

(f) Short-term investments and investment securities

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

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

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

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

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

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

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

(h) Intangible assets (except for leased assets)

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

(i) Leases

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

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

(j) Allowance for doubtful accounts

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

(k) Accrued directors' bonuses

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

(l) Accrued employees' bonuses

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

(m) Accrued retirement benefits

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

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

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

(n) Reserve for losses on order acknowledgements

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

(o) Reserve for ecological countermeasures

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

(p) Income taxes

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

(q) Construction revenue and costs

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

(r) Research and development expenses

Research and development expenses are charged to income when incurred.

(s) Consumption taxes

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

(t) Derivative financial instruments

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

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

(u) Standards issued but not yet adopted

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

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

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

2. U.S. Dollar Amounts

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

3. Inventories

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

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

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

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

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

4. Property, Plant and Equipment

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

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

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

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

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

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

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

5. Investments and Other Assets

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

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

6. Short-Term Borrowings and Long-Term Debt

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

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

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

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

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

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

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

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

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

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

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

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

7. Bonds Payable

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

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

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

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

8. Retirement Benefit Plans

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

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

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

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

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

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

Notes: 1. Retirement benefit expenses for consolidated subsidiaries adopting the simplified method are included in "Service cost."
2. "Other" represents contributions paid to defined contribution pension plans.

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

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

9. Net Assets

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

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2013

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

Note:
Detail of the increase is as the following:
Increase due to purchase of shares of less than standard unit 4,996 shares

For the year ended May 31, 2012

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

Note:
Detail of the increase is as the following:
Increase due to purchase of shares of less than standard unit 5,869 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2013

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

For the year ended May 31, 2012

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

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

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

10. Selling, General and Administrative Expenses

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

11. Special Gains (Losses), net

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

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

12. Income Taxes

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

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

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

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

As of	May 31, 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

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

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

As of May 31, 2012	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
1) Cash on hand and in banks	¥ 1,489	¥ 1,489	¥—
2) Trade notes and accounts receivable	13,729	13,729	—
3) Investment securities	8,164	8,164	—
Total assets	¥23,382	¥23,382	¥—
Liabilities			
4) Trade notes and accounts payable	¥ 4,544	¥ 4,544	¥—
5) Short-term borrowings	5,180	5,180	—
6) Bonds payable	280	283	(3)
7) Long-term debt	3,925	3,953	(28)
Total liabilities	¥13,929	¥13,960	¥(31)
8) Derivative transactions	¥ —	¥ —	¥—

Notes:

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

Assets:

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

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

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

Investment securities

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

Liabilities:

Trade notes and accounts payable and short-term borrowings

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

Bonds payable

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

Long-term debt

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

Derivative transactions

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

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

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

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

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

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

As of May 31, 2013	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Thousands of U.S. dollars)			
Cash on hand and in banks	$ 12,841	$ —	$—	$—
Trade notes and accounts receivable	119,538	12,742	—	—
	$132,379	$12,742	$—	$—

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

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

18. Securities

As of May 31, 2013

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

Available-for-sale securities

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

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

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

(2) Impairment of investment securities
No impairment loss on investment securities was recognized for the year ended May 31, 2013.

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

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

For the Year ended May 31, 2013	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

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

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

(2) Impairment of investment securities

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

(3) Sales of securities classified as available-for-sale securities and the aggregate gain and loss for the year ended May 31, 2012
No securities classified as available-for-sale securities were sold for the year ended May 31, 2012.

19. Supplementary Cash Flow Information

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

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

20. Derivative Transactions

Hedging policies

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

Types and purpose of derivative transactions

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

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

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:

As of May 31, 2013	Major hedged item	Notional amount: Maturing within one year	Notional amount: Maturing after one year	Fair value
		(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: Maturing within one year	Notional amount: Maturing after one year	Fair value
		(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: Maturing within one year	Notional amount: Maturing after one year	Fair value
		(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: Transportation	Reportable segments: Industrial	Reportable segments: Information Equipment	Other (Note)	Total	Adjustments	Consolidated
				(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: Transportation	Reportable segments: Industrial	Reportable segments: Information Equipment	Other (Note)	Total	Adjustments	Consolidated
				(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						
	Transportation	Industrial	Information Equipment	Other (Note)	Total	Adjustments	Consolidated
	(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

Report of Independent Auditors

Building a better working world

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

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.

Ernst & Young ShinNihon LLC

August 30, 2013
Tokyo, Japan

A member firm of Ernst & Young Global Limited