

For the Fiscal Year Ended March 31, 2014

Annual Select[®] 2014

TOKYO KEIKI INC.

2-16-46 Minami-Kamata, Ohta-ku, Tokyo

(Securities Code: 7721)

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Corporate Profile

Established in 1896 as Japan's first manufacturer of measuring instruments, TOKYO KEIKI INC. (the "Company") had its start as a producer of pressure gauges. For 118 years, we have embraced the themes of world-class technology, quality that responds to the expectations of our customers and creation of new value in the development and manufacture of numerous new products that are reflective of the times and dramatic advances in technology.

TOKYO KEIKI INC. is organized into five companies. The Marine Systems Company provides products to the marine market. The Measurement Systems Company provides products to the fluid measurement market. The Fluid Power & Control Systems Company provides products to the hydraulics and pneumatics market for industrial and mobile applications. It also designs and manufactures RFID systems equipment and dynamically reconfigurable processors for various commercial applications. With a primary focus on the defense market, the Electronics Systems Company manufactures systems that meet demand for advanced avionics and navigational equipment as well as maritime traffic systems that enhance safety and efficiencies, both critical functions in offshore transportation management. It also provides microwave devices that are the core components of commercial wireless communication equipment, helicopter broadcast systems that optimize television relay circuits, measurement control equipment for road and tunnel construction, and inertial sensors used in antenna stabilization systems on fast moving ground vehicles and aircraft. The Inspection Systems Company manufactures and supplies inspection systems for printing equipment.

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I. Summary of Selected Financial Data (Consolidated)

	79th fiscal year From April 1, 2009 to March 31, 2010	80th fiscal year From April 1, 2010 to March 31, 2011	81st fiscal year From April 1, 2011 to March 31, 2012	82nd fiscal year From April 1, 2012 to March 31, 2013	83rd fiscal year From April 1, 2013 to March 31, 2014
Net sales (Million yen)	39,243	37,247	41,055	40,217	46,016
Ordinary income (Million yen)	1,082	476	2,190	1,944	3,980
Net income (loss) (Million yen)	573	(898)	1,314	1,360	2,381
Comprehensive income (Million yen)	–	(1,070)	1,367	1,581	2,671
Net assets (Million yen)	20,385	19,055	19,997	21,319	24,047
Total assets (Million yen)	47,778	45,166	45,986	47,314	50,147
Net assets per share (Yen)	236.61	220.79	235.19	251.21	283.10
Net income (loss) per share (Yen)	6.73	(10.54)	15.58	16.20	28.37
Fully diluted net income per share (Yen)	–	–	–	–	–
Equity ratio (%)	42.21	41.66	42.92	44.56	47.38
Return on equity (ROE) (%)	2.89	(4.61)	6.82	6.66	10.62
Price earnings ratio (PER) (Times)	18.0	–	11.7	11.5	10.6
Net cash provided by (used in) operating activities (Million yen)	3,797	705	(108)	2,110	355
Net cash provided by (used in) investing activities (Million yen)	(527)	(390)	(263)	(679)	(1,142)
Net cash provided by (used in) financing activities (Million yen)	(2,227)	(1,796)	(1,300)	352	(195)
Cash and cash equivalents at end of period (Million yen)	11,876	10,387	8,713	10,515	9,574
Number of employees [Separately, average number of temporary employees] (Persons)	1,409 [320]	1,372 [350]	1,364 [362]	1,371 [364]	1,440 [372]

- Notes:
1. Net sales do not include consumption taxes.
 2. Fully diluted net income per share for the 79th and the 81st to the 83rd fiscal years is not described because no dilutive shares exist.
Fully diluted net income per share for the 80th fiscal year is not described since the Company posted net loss per share, and no dilutive shares exist.
 3. Price earnings ratio for the 80th fiscal year is not described since the Company posted net loss.

II. To Our Stakeholders



Kenichi WAKI
President & CEO

I would like to preface my comments in this Annual Select report by extending my sincerest appreciation for your patronage of TOKYO KEIKI.

In fiscal 2013 (ended March 31, 2014), the Japanese yen weakened, share prices rose and public-sector investment was firm, supported by the government's economic policies. This led to a significant improvement in the operating environment for companies in Japan, spurring a pickup in capital investment and an upturn in the employment market. These factors, together with an increase in consumer spending, which was partly driven by a rush in demand ahead of an increase in consumption tax, supported a moderate recovery in the domestic economy.

Against this backdrop, consolidated net sales were lower than our forecast at the start of the fiscal year, but operating income, ordinary income and net income were all higher than our forecasts. The operating margin, which shows the profitability of the Company's core operations, exceeded 8%, and ordinary income was the highest since the Company started preparing consolidated financial statements in fiscal 1978. Also, compared with fiscal 2012 (ended March 31, 2013), net sales were substantially higher, as were operating income, ordinary income and net income.

Consolidated net sales for the fiscal year under review increased ¥5.8 billion (up 14.4%) year on year to ¥46.02 billion. Sales in the Marine Systems Business declined due to a drop in the number of new ships built in Japan and overseas amid excess shipping tonnage in the market. However, in the public-sector market, the Defense and Communications Equipment Business supplied equipment used in F-15 upgrades, which were delayed from the previous fiscal year, and the Hydraulics and Pneumatics Business saw a recovery in overseas demand for components used in molding machines and growth in rebuilding demand in the construction machinery market. Also, the Fluid Measurement Equipment Business benefited from firm demand in the public sector for water

supply systems. These factors supported growth in consolidated net sales.

Regarding consolidated profits, operating income increased ¥2.00 billion (up 109.5%) year on year to ¥3.83 billion, ordinary income rose ¥2.04 billion (up 104.8%) to ¥3.98 billion, and net income increased ¥1.02 billion (up 75.1%) to ¥2.38 billion, mainly reflecting growth in net sales and reductions in selling, general and administrative expenses.

Net cash provided by operating activities totaled ¥0.36 billion, a decrease of ¥1.75 billion compared with the previous fiscal year. The main sources of cash were income before income taxes and minority interests of ¥4.01 billion, depreciation of ¥0.90 billion, decrease in inventories of ¥1.47 billion, and increase in notes and accounts payable - trade of ¥0.85 billion. The main uses of cash were decrease in net defined benefit liability of ¥0.75 billion, increase in notes and accounts receivable - trade of ¥5.43 billion, and income taxes paid of ¥0.66 billion.

Cash and cash equivalents at the end of the fiscal year under review totaled ¥9.57 billion, a decrease of ¥0.94 billion compared with the end of the previous fiscal year. The main factors behind the decline of ¥0.94 billion from ¥10.51 billion at the start of the fiscal year were net cash provided by operating activities of ¥0.36 billion, net cash used in investing activities of ¥1.14 billion, mainly due to the purchase of non-current assets, and net cash used in financing activities of ¥0.20 billion, reflecting increased borrowing and cash dividends paid.

Shareholders' equity increased ¥2.68 billion (up 12.7%) compared with the end of the previous fiscal year to ¥23.76 billion, due to a rise in retained earnings of ¥2.13 billion, while total assets increased ¥2.83 billion (up 6.0%) from the end of the previous fiscal year. As a result, the equity ratio improved 2.8 percentage points, from 44.6% to 47.4%. Return on equity (ROE) moved into double figures, improving 4.0 percentage points from 6.7% in the previous fiscal year to 10.6% in the fiscal year under review.

The Company has ten consolidated subsidiaries. TOKYO KEIKI PRECISION TECHNOLOGY CO., LTD., a manufacturing subsidiary established in Vietnam in fiscal 2012, started production in fiscal 2013, but the company booked losses due to start-up investment costs related to production equipment and other areas. TOKYO KEIKI POWER SYSTEMS INC. reported lower sales and profits year on year, reflecting a decline in new demand for hatch cover systems. Meanwhile, TOKYO KEIKI RAIL TECHNO INC. saw a sharp rise in sales on the back of strong sales of rail flaw detection vehicles and other equipment and firm demand for contractual maintenance services, moving back into profit after losses in the previous fiscal year. As a result, combined sales at the Group's subsidiaries increased ¥0.99 billion year on year and net income rose ¥0.03 billion.

In the Japanese economy in fiscal 2014 (ending March 31, 2015), it is likely to recover gradually, supported by the government's economic policies, in spite of risks such as a possible pullback in demand in reaction to the spike in demand before the consumption tax hike, persistently high crude oil prices, and increases in raw material prices. The domestic economy, however, could be affected by a downturn in the global economy caused by a number of factors, including further moves in the U.S. to taper monetary easing, lingering fiscal problems in European countries, protracted issues between Russia and Ukraine, financial risks in China, and a slowdown in India and other emerging markets.

Amid this less than optimistic outlook for economic conditions and the operating environment, we anticipate the Group to remain vulnerable to the impact of fluctuations in the external environment. However, we will remain focused on strengthening our crisis management capabilities while also stepping up the implementation of strategies to drive growth.

For fiscal 2014, we forecast consolidated net sales of ¥45.3 billion, a decrease of ¥0.72 billion (down 1.6%) from the fiscal year under review. Although we expect sales to rise in the Marine Systems Business, Hydraulics and Pneumatics Business and the Fluid Measurement Equipment Business, we forecast lower sales in the Defense and Communications Equipment Business due to the end of development work on new equipment for F-15 upgrades. We also project lower profits in fiscal 2014 due to the decline in sales and an increase in selling, general and administrative expenses, mainly reflecting a large rise in investment in research and development to support future growth, and in facilities and IT systems. We forecast operating income of ¥2.50 billion, down

¥1.33 billion (down 34.7%) year on year, ordinary income of ¥2.46 billion, down ¥1.52 billion (down 38.2 %), and net income of ¥1.55 billion, down ¥0.83 billion (down 34.9%).

Also, in fiscal 2015 (ending March 31, 2016), we will continue to focus on “strengthening existing businesses,” as well as “promoting globalization” and “expanding business areas,” aiming to generate consolidated net sales of at least ¥57 billion and achieve an operating margin of at least 8%. To realize these goals, we will ensure the company-based organizational structure introduced in April 2013 is well established. While allocating the Group’s limited business resources into optimum areas through timely and well-targeted investment, we look to further strengthen the unified control structure for each internal company and enhance our international competitiveness by stepping up efforts to launch new products, expand markets, develop new customers, reinforce sales channels, upgrade our service support network, and reduce manufacturing costs. Continued from the previous year, we will work to maximize each enterprise value through dynamic management that responds rapidly and flexibly to changes in the operating environment and customer needs. Concurrently, we will undertake group-wide optimization involving selectivity and focus on our existing businesses, and integrate technologies, products, sales channels and other assets of our companies in addressing issues important to society and customers. We will also promote the development of new markets and establishment of new businesses unconstrained by a compartmentalized structure in order to achieve sustained growth and increase corporate value and in the process, respond to the expectations and demands of our stakeholders.

On behalf of the senior management and workforce at TOKYO KEIKI, I would like to close by asking all investors for your ongoing support and cooperation.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Kenichi WAKI

President & CEO

III. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	As of March 31, 2013	As of March 31, 2014
Assets		
Current assets		
Cash and deposits	10,515	9,574
Notes and accounts receivable - trade	13,666	19,103
Merchandise and finished goods	1,177	1,214
Work in process	6,370	5,046
Raw materials and supplies	4,604	4,421
Deferred tax assets	824	722
Accounts receivable - other	163	121
Other	215	325
Allowance for doubtful accounts	(1)	(2)
Total current assets	37,533	40,523
Non-current assets		
Property, plant and equipment		
Buildings and structures	12,707	12,708
Accumulated depreciation	(10,901)	(10,974)
Buildings and structures, net	1,806	1,735
Machinery, equipment and vehicles	14,149	14,609
Accumulated depreciation	(13,380)	(13,350)
Machinery, equipment and vehicles, net	769	1,258
Tools, furniture and fixtures	10,378	10,426
Accumulated depreciation	(9,630)	(9,688)
Tools, furniture and fixtures, net	748	738
Land	1,926	1,912
Leased assets	94	94
Accumulated depreciation	(47)	(65)
Leased assets, net	47	28
Construction in progress	358	76
Total property, plant and equipment	5,654	5,747
Intangible assets		
Goodwill	4	-
Software	42	33
Other	146	86
Total intangible assets	192	119
Investments and other assets		
Investment securities	2,092	2,446
Deferred tax assets	1,127	560
Guarantee deposits	636	620
Other	132	186
Allowance for doubtful accounts	(53)	(54)
Total investments and other assets	3,935	3,758
Total non-current assets	9,781	9,624
Total assets	47,314	50,147

(Million yen)

	As of March 31, 2013	As of March 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,030	5,885
Short-term loans payable	8,675	10,806
Accounts payable - other	692	577
Income taxes payable	404	890
Provision for bonuses	996	1,071
Other	1,789	1,808
Total current liabilities	17,585	21,037
Non-current liabilities		
Long-term loans payable	4,080	2,089
Provision for retirement benefits	3,077	–
Provision for directors' retirement benefits	334	297
Asset retirement obligations	791	792
Net defined benefit liability	–	1,843
Other	128	42
Total non-current liabilities	8,409	5,063
Total liabilities	25,994	26,100
Net assets		
Shareholders' equity		
Capital stock	7,218	7,218
Capital surplus	14	14
Retained earnings	13,698	15,827
Treasury shares	(193)	(194)
Total shareholders' equity	20,736	22,864
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	448	549
Foreign currency translation adjustment	(102)	35
Remeasurements of defined benefit plans	–	310
Total accumulated other comprehensive income	346	894
Minority interests	237	289
Total net assets	21,319	24,047
Total liabilities and net assets	47,314	50,147

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Million yen)

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Net sales	40,217	46,016
Cost of sales	29,649	33,757
Gross profit	10,568	12,258
Selling, general and administrative expenses	8,739	8,427
Operating income	1,829	3,831
Non-operating income		
Interest income	11	7
Dividend income	46	49
Dividend income of life insurance	37	37
Rent income on facilities	11	10
Share of profit of entities accounted for using equity method	44	111
Subsidy income	23	–
Reversal of allowance for doubtful accounts	12	–
Foreign exchange gains	10	–
Other	72	90
Total non-operating income	264	303
Non-operating expenses		
Interest expenses	113	106
Rent expenses on facilities	16	16
Foreign exchange losses	–	4
Other	21	29
Total non-operating expenses	150	154
Ordinary income	1,944	3,980
Extraordinary income		
Gain on sales of non-current assets	–	45
Total extraordinary income	–	45
Extraordinary losses		
Loss on sales and retirement of non-current assets	18	12
Loss on sales of investment securities	1	–
Loss on valuation of investment securities	4	–
Total extraordinary losses	23	12
Income before income taxes and minority interests	1,920	4,014
Income taxes - current	557	1,141
Income taxes - deferred	18	440
Total income taxes	575	1,581
Income before minority interests	1,345	2,433
Minority interests in income (loss)	(15)	52
Net income	1,360	2,381

Consolidated Statements of Comprehensive Income

(Million yen)

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Income before minority interests	1,345	2,433
Other comprehensive income		
Valuation difference on available-for-sale securities	168	100
Foreign currency translation adjustment	67	134
Share of other comprehensive income of entities accounted for using equity method	0	3
Total other comprehensive income	236	237
Comprehensive income	1,581	2,671
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,596	2,619
Comprehensive income attributable to minority interests	(15)	52

(3) Consolidated Statements of Changes in Equity

Fiscal year ended March 31, 2013

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	7,218	14	12,590	(193)	19,628
Changes of items during period					
Dividends of surplus			(252)		(252)
Net income			1,360		1,360
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	1,108	(0)	1,108
Balance at end of current period	7,218	14	13,698	(193)	20,736

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	280	(169)	–	111	258	19,997
Changes of items during period						
Dividends of surplus						(252)
Net income						1,360
Purchase of treasury shares						(0)
Net changes of items other than shareholders' equity	168	67	–	236	(21)	215
Total changes of items during period	168	67	–	236	(21)	1,323
Balance at end of current period	448	(102)	–	346	237	21,319

Fiscal year ended March 31, 2014

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	7,218	14	13,698	(193)	20,736
Changes of items during period					
Dividends of surplus			(252)		(252)
Net income			2,381		2,381
Purchase of treasury shares				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	2,129	(1)	2,128
Balance at end of current period	7,218	14	15,827	(194)	22,864

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	448	(102)	-	346	237	21,319
Changes of items during period						
Dividends of surplus						(252)
Net income						2,381
Purchase of treasury shares						(1)
Net changes of items other than shareholders' equity	100	137	310	547	52	599
Total changes of items during period	100	137	310	547	52	2,727
Balance at end of current period	549	35	310	894	289	24,047

(4) Consolidated Statements of Cash Flows

(Million yen)

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Cash flows from operating activities		
Income before income taxes and minority interests	1,920	4,014
Depreciation	785	904
Amortization of goodwill	16	4
Amortization of guarantee deposits	12	12
Increase (decrease) in allowance for doubtful accounts	(13)	2
Increase (decrease) in provision for retirement benefits	(521)	–
Increase (decrease) in provision for bonuses	69	76
Increase (decrease) in provision for directors' retirement benefits	44	(37)
Interest and dividend income	(57)	(56)
Increase (decrease) in net defined benefit liability	–	(754)
Interest expenses	113	106
Share of (profit) loss of entities accounted for using equity method	(44)	(111)
Loss (gain) on sales of investment securities	1	–
Loss (gain) on valuation of investment securities	4	–
Loss (gain) on sales and retirement of non-current assets	18	(34)
Decrease (increase) in notes and accounts receivable - trade	1,199	(5,426)
Decrease (increase) in inventories	(338)	1,474
Increase (decrease) in notes and accounts payable - trade	(669)	853
Decrease (increase) in other assets	(36)	(113)
Increase (decrease) in other liabilities	94	132
Other, net	17	30
Subtotal	2,615	1,077
Interest and dividend income received	59	60
Interest expenses paid	(131)	(121)
Income taxes paid	(433)	(660)
Net cash provided by (used in) operating activities	2,110	355
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	5	–
Purchase of investment securities	(25)	(5)
Proceeds from sales of investment securities	2	–
Purchase of non-current assets	(816)	(1,205)
Proceeds from sales of non-current assets	1	68
Collection of loans receivable	157	2
Payments for lease and guarantee deposits	(17)	(6)
Proceeds from collection of lease and guarantee deposits	10	11
Other, net	5	(6)
Net cash provided by (used in) investing activities	(679)	(1,142)

(Million yen)

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	–	(30)
Proceeds from long-term loans payable	1,500	1,000
Repayments of long-term loans payable	(809)	(831)
Repayments of lease obligations	(81)	(81)
Purchase of treasury shares	(0)	(1)
Cash dividends paid	(252)	(252)
Cash dividends paid to minority shareholders	(6)	–
Net cash provided by (used in) financing activities	352	(195)
Effect of exchange rate change on cash and cash equivalents	19	41
Net increase (decrease) in cash and cash equivalents	1,802	(941)
Cash and cash equivalents at beginning of period	8,713	10,515
Cash and cash equivalents at end of period	10,515	9,574

IV. Company Information / Stock Information

Company Information (as of March 31, 2014)

Trade name:	TOKYO KEIKI INC.
Date of establishment:	May 1896
Listing date:	May 1949
Business year:	From April 1 to March 31
Paid-in capital:	¥7,218 million
Number of employees:	1,440 (excluding those seconded out of the Group and including those seconded into the Group) (Consolidated)
Head office:	2-16-46 Minami-Kamata, Ohta-ku, Tokyo
Telephone:	+81-3-3732-2111
Consolidated subsidiaries:	TOKYO KEIKI AVIATION INC. TOKYO KEIKI CUSTOMER SERVICE INC. TOKYO KEIKI POWER SYSTEMS INC. TOKYO KEIKI INFORMATION SYSTEMS INC. TOKYO KEIKI TECHNOPORT INC. TOKYO KEIKI RAIL TECHNO INC. MOCOS JAPAN CO., LTD. TOKYO KEIKI U.S.A., INC. TOKYO KEIKI (SHANGHAI) CO., LTD TOKYO KEIKI PRECISION TECHNOLOGY CO., LTD.

Directors and Corporate Auditors (as of June 30, 2014)

President	Kenichi WAKI	Corporate Auditor	Chiaki TAKANASHI
Executive Director	Hidemitsu YAMADA	Corporate Auditor	Haruki KAWAHIGASHI
Executive Director	Yukitoshi ATSUMI	Corporate Auditor**	Hiroshi SASA
Director	Motoshi MITOBE	Corporate Auditor**	Ryotaro KUGIMIYA
Director	Tsuyoshi ANDO		
Director	Yasuo ABE	* Outside Director	** Outside Corporate Auditor
Director	Makoto TSUCHIYA		
Director	Naoto OKAYASU		
Director	Hiroshi OKAJIMA		
Director*	Kenichi HORI		

Stock Status (as of March 31, 2014)

Total number of authorized shares:	250,000,000 shares
Total number of shares issued:	85,382,196 shares
Number of shareholders:	7,057
Major shareholders (Top 10)	

Shareholder name	Number of shares held (Thousands)	Share-holding ratio (%)
Japan Trustee Services Bank, Ltd.	5,467	6.40
TOKYO KEIKI ASSOCIATION	4,342	5.08
Sumitomo Mitsui Banking Corporation	4,179	4.89
TOKYO KEIKI EMPLOYEE SHAREHOLDING ASSOCIATION	3,063	3.59
Nippon Life Insurance Company	2,606	3.05
TOKYO KEIKI TRADING-PARTNER SHAREHOLDING ASSOCIATION	2,576	3.02
The Bank of Yokohama, Ltd.	2,329	2.73
Mitsubishi UFJ Trust and Banking Corporation	2,117	2.48
The Master Trust Bank of Japan, Ltd.	2,063	2.42
Aioi Nissay Dowa Insurance Co., Ltd.	1,894	2.22

(Source: Annual Securities Report)