Annual Report 2012

TOSHIBA MACHINE

Contents

An Outline of the Toshiba Machine Group

A highly respected integrated machine building group, internationally respected for its total capability in the production of quality plastic processing machinery, die-casting machines, machine tools, precision machinery, hydraulic equipment, and electronic controls.

Based on their highly innovative technology, expertise, and experience nurtured over decades as one of the world's leading machine builders, the Toshiba Machine Group's global-type solution business provides customers, in such various industries as nano-technology, optics, electronics and automotives with total satisfaction by careful analysis and the recommendation of optimum-type solutions to their requirements.

Corporate Information (as of March 31, 2012)

Company Name:	TOSHIBA MACHINE CO., LTD.
Headquarters:	2068-3, Ooka, Numazu-shi, Shizuoka-ken 410-8510, Japan
Established:	1938
Capital:	¥12,484million (US$152million)
Shares of Common Stock Issued and Outstanding:	166,885,530 shares
Number of Shareholders:	13,612
Number of Employees:	1,837 (Consolidated: 3,157)

Foreword 2012

The Toshiba Machine Group focused on midterm management plan, “TM AC Plan (Toshiba Machine Adapt to the Change Plan)”, begun April 1st, 2010. In the TM AC Plan, we aim to promote "advancement strategies" and "expansion strategies" in tandem.

The "advancement strategies" focus on advanced products using our core technologies to contribute to the new industrial pyramid aiming at "energy" and "ecology" using our core technologies whereas the "expansion strategies "revitalize our existing products to expand the markets in developing countries that are in the skirt of the current industrial pyramid.

Fiscal year 2012 was characterized by a gradual recovery of the global economy against a background of firming demand in China, Southeast Asia, and U.S.A., though influenced by Europe’s financial crisis and China’s monetary policy in overseas markets. The domestic economy was greatly influenced by the yen’s long-term appreciation, as well as the beginnings of economic relief in the wake of the Great East Japan Earthquake.

The outlook for machinery firms in general is one of recovery due to demand in China, other developing countries, and U.S.A.

Under these severe management circumstances and the changing industrial structure, from April 1st, 2011 we initiated TM AC Plan2, and worked hard on developing new products for domestic and overseas markets, expanding markets, gaining orders, and reforming our financial structure.

As a result, in this fiscal year, consolidated orders received totaled 123,075million (US$1,479million), a 18.2% increase over the previous term. Consolidated net sales totaled \119,519million (US$1,454million), a 24.9% increase over the previous term, and, end of this fiscal year, consolidated backlog totaled \59,915million (US$729million), a 6.3% increase over the previous term.

With respect to profit and loss, consolidated operating profit totaled \7,411million (US$90million), a 83.9% increase over the previous term, income before income taxes and minority interests totaled \9,149million (US$111million), a 144% increase over the previous term, and consolidated net profit of current term totaled \6,721million (US$ 82million), a 104.9% increase over the previous term.

The year-end dividend for this term, \5.0(US$0.06) per share, was distributed to our stockholders for the period ending on March 31, 2012, resulting in a total annual dividend of \9.0(US$0.1) per share.

Key factors affecting the domestic and overseas outlook include; the lengthening of Europe’s financial crisis, the slow-down in economic growth in developing overseas markets, the yen’s long-term appreciation, continuing power shortages, rising oil prices, and more intense competition among domestic and overseas companies. However, we will make every effort to pioneer new markets, introduce new products corresponding to changing market needs, and further reduce costs through efficiency, to improve profit.

In April 1st 2012 we initiated “TM AC Plan”, with action plans designed around "advancement strategies" and "expansion strategies" as a basis concept to drive us forward as a genuine global company. We will gather the power of the Toshiba Machine Group behind this basic policy, to change and reinforce our business foundation, and drive the expansive business strategy and expanding business strategy.

We will make every effort to realize complete management of quality and the environment based on ISO9001 and ISO14001 standards while, as a responsible corporate citizen, training and educating our workforce to forge the future of our Company in observance of all rules and regulations, and in fulfillment of all social responsibilities.

Yukio Iimura
President
July, 2012

FINANCIAL HIGHLIGHTS (consolidated)

	2012	2011	2010	2009	2008
Net sales	¥119,519	¥95,653	¥74,694	¥121,890	¥148,779
	$1,454,179				
Cost of sales	¥88,312	¥69,997	¥56,470	¥84,760	¥101,628
	$1,074,486				
Selling, general and	¥23,796	¥21,628	¥20,040	¥25,594	¥28,180
administrative expenses	**$289,524**				
Operating income (loss)	¥7,411	¥4,028	¥(1,816)	¥11,536	¥18,971
	$90,169				
Income (loss) before income	¥9,149	¥3,749	¥(2,032)	¥9,866	¥20,520
taxes and minority interests	**$111,315**				
Income taxes	¥2,428	¥469	¥2,499	¥4,563	¥6,610
	$29,541				
Net income (loss)	¥6,721	¥3,280	¥(4,531)	¥5,303	¥13,910
	$81,774				
Comprehensive income	¥6,840	¥2,410	—	—	—
	$83,222				
Per common share:					
Net income (loss)	¥44.21	¥21.57	¥(29.80)	¥34.18	¥86.79
	$0.54				
Cash dividends	¥9.00	¥4.50	¥4.50	¥12.00	¥15.00
	$0.11				
Total assets	¥142,297	¥131,203	¥115,806	¥132,734	¥157,998
	$1,731,318				
Net assets	¥71,101	¥65,325	¥63,372	¥68,712	¥70,004
	$865,081				
Capital expenditure	¥1,052	¥2,044	¥625	¥5,550	¥3,098
(property, plant and equipment)	**$12,800**				
Depreciation	¥2,276	¥2,322	¥2,514	¥2,561	¥2,170
	$27,692				
R & D Cost	¥1,582	¥1,399	¥1,567	¥1,684	¥1,742
	$19,248				
Number of employees	3,157	3,140	3,067	3,148	3,246

In millions of yen (thousands of U.S. dollars) except for number of employees and per-share data.

Overseas Operations for Fiscal 2012

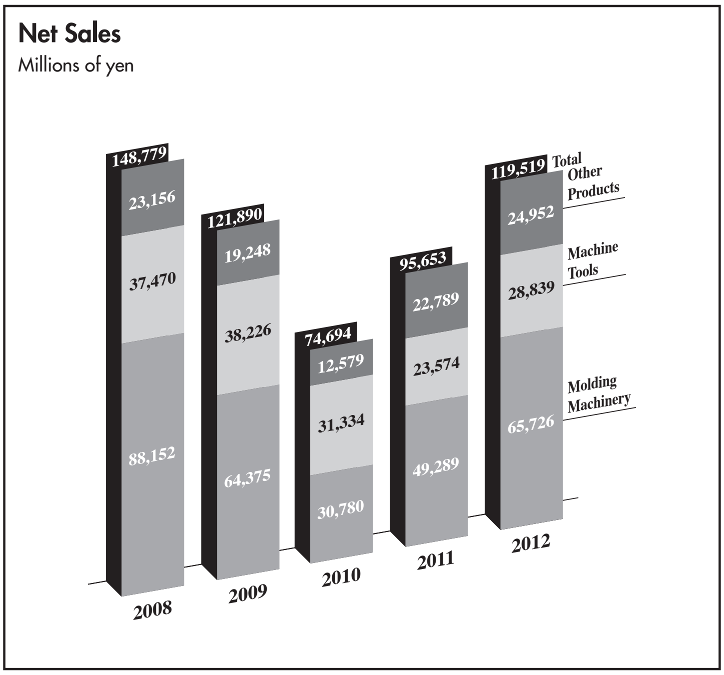
Fiscal year 2012 was characterized by a gradual recovery of the global economy against a background of firming demand in China, Southeast Asia, and U.S.A., though influenced by Europe's financial crisis and China's monetary policy in overseas markets. The domestic economy was greatly influenced by the yen's long-term appreciation, as well as the beginnings of economic relief in the wake of the Great East Japan Earthquake. The outlook for machinery firms in general is one of recovery due to demand in China, other developing countries, and U.S.A.

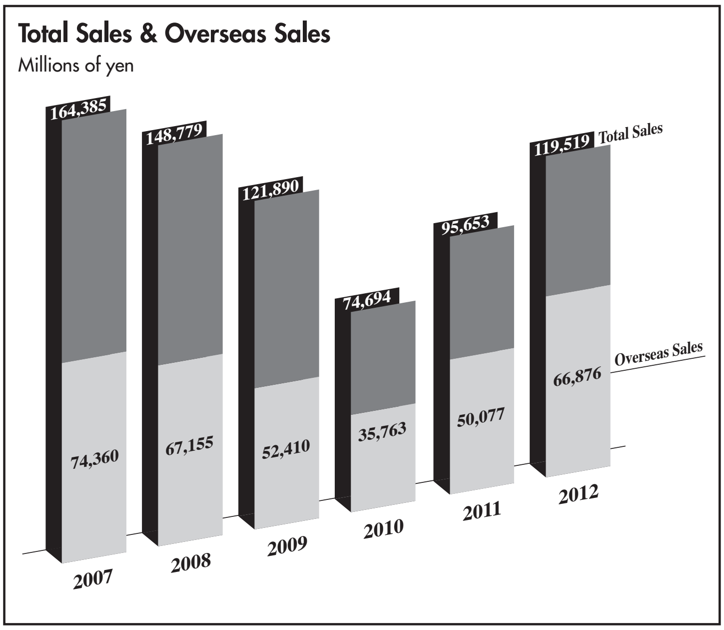
Under these severe management circumstances, the Toshiba Machine Group focused on midterm management plan, "TM AC Plan (Toshiba Machine Adapt to Change Plan)", and made an intensive effort to develop products, explore new markets, secure orders in Japan and overseas, and improve our financial structure.

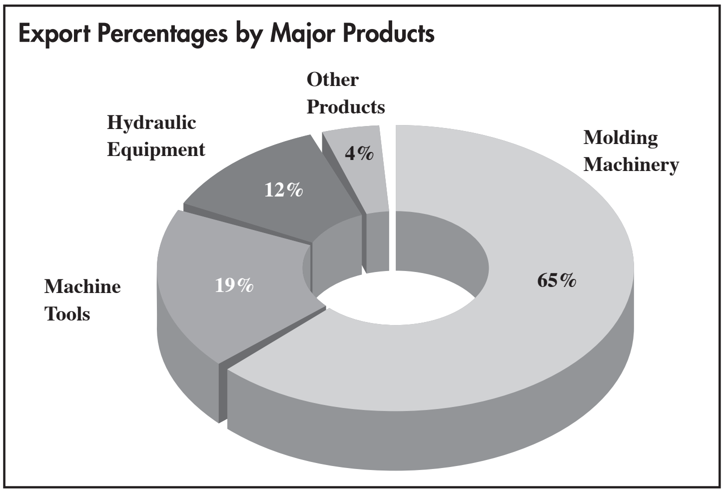
Total consolidated overseas sales for this term was ¥66,876 million (US$814million), which is a 33.5% increase over the previous term. This growth was led by capital investment in the automobile, consumer electronics, and hydraulic equipment industries in China, Southeast Asia, and U.S.A.

More specifically, injection molding machines, die-casting machines, machine tools, and hydraulic equipment were our leading products, and the most common destination was the Asian region.

During 2011, we focused on business structural reformation designed to best ensure the success of the TM AC Plan. From April of 2012 we began "TM AC Plan iii". This plan establishes "advancement strategies" and "expansion strategies" as our core business concept; reinforcing the business structure of our sales, technologies, and production, and creating universal recognition of the Toshiba Machine brand. We will gather the power of the Toshiba Machine Group to ensure our emergence as a genuine global company.







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Financial Review

CONSOLIDATED BALANCE SHEET

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2012

	Millions of yen		Thousands of U.S. dollars
ASSETS	**2012**	2011	**2012**
Current assets:			
Cash and time deposits (Notes 11 and 15)	**¥20,689**	¥18,513	**$251,722**
Marketable securities (Notes 5 and 11)	**13,500**	17,500	**164,254**
Notes and accounts receivable, trade (Note 11)	**45,730**	35,195	**556,394**
Allowance for doubtful receivables	**(173)**	(171)	**(2,105)**
Net receivables	**45,557**	35,024	**554,289**
Inventories:			
Finished products	**5,008**	4,785	**60,932**
Work in process	**21,287**	20,935	**258,997**
Raw materials and supplies	**81**	78	**986**
Total inventories	**26,376**	25,798	**320,915**
Deferred tax assets (Note 14)	**3,158**	2,535	**38,423**
Other current assets	**1,895**	1,792	**23,055**
Total current assets	**111,175**	101,162	**1,352,658**
Property, plant and equipment, net (Notes 6, 10 and 13)	**21,120**	22,241	**256,966**
Intangible assets	**434**	468	**5,280**
Investments and other assets:			
Investments in:			
Unconsolidated subsidiaries and affiliates	**4,222**	2,358	**51,369**
Other securities (Notes 5 and 11)	**4,201**	3,886	**51,113**
Long-term loans	**84**	105	**1,022**
Deferred tax assets (Note 14)	**446**	343	**5,426**
Other investments	**615**	640	**7,484**
Total investments and other assets	**9,568**	7,332	**116,414**
Total assets	**¥142,297**	¥131,203	**$1,731,318**

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Current liabilities:			
Short-term bank loans (Notes 7, 11 and 13)	**¥11,410**	¥10,713	**$138,825**
Current portion of long-term debt (Notes 7 and 11)	**700**	700	**8,517**
Notes and accounts payable, trade (Note 11)	**30,676**	27,340	**373,233**
Income taxes payable (Note 14)	**2,616**	711	**31,829**
Accrued expenses	**5,562**	4,627	**67,672**
Warranty reserve	**351**	208	**4,271**
Other current liabilities (Note 7)	**5,041**	5,944	**61,333**
Total current liabilities	**56,356**	50,243	**685,680**
Long-term liabilities:			
Long-term debt (Notes 7 and 11)	**6,100**	6,800	**74,218**
Long-term accounts payable, other	**42**	99	**511**
Accrued employees' retirement benefits (Note 8)	**8,238**	8,439	**100,231**
Accrued directors' retirement benefits	**50**	56	**608**
Asset retirement obligations	**51**	50	**621**
Deferred tax liabilities (Note 14)	**324**	146	**3,942**
Other long-term liabilities (Note 7)	**35**	45	**426**
Total long-term liabilities	**14,840**	15,635	**180,557**
Total liabilities	**71,196**	65,878	**866,237**
Contingent liabilities (Note 9)			
Net assets:			
Shareholders' equity: (Note 19)			
Common stock Authorized – 360,000,000 shares Issued – 166,885,530 shares	**12,485**	12,485	**151,904**
Additional paid-in capital	**19,601**	19,601	**238,484**
Retained earnings	**49,408**	43,751	**601,144**
Treasury stock, at cost (14,852,644 shares in 2012, 14,851,270 shares in 2011)	**(10,039)**	(10,039)	**(122,144)**
Total shareholders' equity	**71,455**	65,798	**869,388**
Accumulated other comprehensive income			
Unrealized holding gain on securities, net of tax	**1,530**	1,236	**18,615**
Deferred gains or losses on hedge, net of tax	**(13)**	1	**(158)**
Foreign currency translation adjustments	**(1,871)**	(1,710)	**(22,764)**
Total accumulated other comprehensive income	**(354)**	(473)	**(4,307)**
Total net assets	**71,101**	65,325	**865,081**
Total liabilities and net assets	**¥142,297**	¥131,203	**$1,731,318**

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF INCOME

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2012

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Net sales	**¥119,519**	¥95,653	**$1,454,179**
Cost of sales (Note 17)	**88,312**	69,997	**1,074,486**
Gross profit	**31,207**	25,656	**379,693**
Selling, general and administrative expenses (Notes 16 and 17)	**23,796**	21,628	**289,524**
Operating income	**7,411**	4,028	**90,169**
Other income:			
Interest and dividend	**217**	136	**2,640**
Rent income	**179**	179	**2,178**
Foreign exchange gain	**160**	—	**1,947**
Equity in earnings of affiliates	**1,889**	305	**22,983**
Gain on sales of property, plant and equipment	**6**	—	**73**
Gain on sales of investments in other security	**217**	—	**2,640**
Others	**198**	336	**2,409**
	2,866	956	**34,870**
Other expenses and losses:			
Interest	**215**	174	**2,616**
Loss on sales of notes receivable	**3**	13	**37**
Foreign exchange loss	**—**	119	**—**
Amortization of transitional obligation for employees' retirement benefits (Note 8)	**463**	466	**5,633**
Brand fee expense	**224**	185	**2,725**
Loss on disposal of property, plant and equipment	**14**	25	**170**
Loss on amendment of retirement benefit plan	**—**	32	**—**
Loss on application of accounting standard for asset retirement obligations	**—**	24	**—**
Loss on devaluation of investment securities (Note 5)	**8**	5	**97**
Others	**201**	192	**2,446**
	1,128	1,235	**13,724**
Income before income taxes and minority interests	**9,149**	3,749	**111,315**
Income taxes (Note 14)			
Current	**2,916**	987	**35,479**
Deferred	**(488)**	(518)	**(5,937)**
	2,428	469	**29,541**
Net income before minority interests	**6,721**	3,280	**81,774**
Net income	**¥6,721**	¥3,280	**$81,774**

	Yen		U.S. dollars
	2012	2011	**2012**
Net income per share of common stock	**¥44.21**	¥21.57	**$0.52**

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2012

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Net income before minority interests	**¥6,721**	¥3,280	**$81,774**
Other comprehensive income:			
Unrealized holding gain on securities, net of tax	**294**	(281)	**3,577**
Deferred gains or losses on hedge, net of tax	**(14)**	(2)	**(170)**
Foreign currency translation adjustments	**(161)**	(587)	**(1,959)**
Total other comprehensive income	**119**	(870)	**1,448**
Total comprehensive income	**¥6,840**	¥2,410	**$83,222**
Total comprehensive income attributable to parent company's interest	**¥6,840**	¥2,410	**$83,222**
Total comprehensive income attributable to minority interests	**—**	—	**—**

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2012

	Millions of yen							
	Number of shares	Common stock	Additional paid in capital	Retained earnings	Treasury stock	Unrealized gain on securities, net of tax	Deferred gains or losses on hedge, net of tax	Translation adjustments
Balance at March 31, 2010	166,885,530	¥12,485	¥19,601	¥40,927	¥(10,038)	¥1,517	¥3	¥(1,123)
Net income				3,280				
Purchases of treasury stock					(1)			
Cash dividends				(456)				
Net changes in items other than shareholders' equity						(281)	(2)	(587)
Balance at March 31, 2011	**166,885,530**	**12,485**	**19,601**	**43,751**	**(10,039)**	**1,236**	**1**	**(1,710)**
Net income				**6,721**				
Purchases of treasury stock					**(0)**			
Cash dividends				**(1,064)**				
Net changes in items other than shareholders' equity						**294**	**(14)**	**(161)**
Balance at March 31, 2012	**166,885,530**	**¥12,485**	**¥19,601**	**¥49,408**	**¥(10,039)**	**¥1,530**	**¥(13)**	**¥(1,871)**

	Thousands of U.S. dollars						
	Common stock	Additional paid in capital	Retained earnings	Treasury stock	Unrealized gain on securities, net of tax	Deferred gains or losses on hedge, net of tax	Translation adjustments
Balance at March 31, 2011	**$151,904**	**$238,484**	**$532,315**	**$(122,144)**	**$15,038**	**$12**	**$(20,805)**
Net income			**81,774**				
Purchases of treasury stock				**(0)**			
Cash dividends			**(12,945)**				
Net changes in items other than shareholders' equity					**3,577**	**(170)**	**(1,959)**
Balance at March 31, 2012	**$151,904**	**$238,484**	**$601,144**	**$(122,144)**	**$18,615**	**$ (158)**	**$ (22,764)**

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2012

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Operating activities:			
Income before income taxes and minority interests	¥9,149	¥3,749	$111,315
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	2,276	2,322	27,692
Allowance for doubtful receivables	(91)	(244)	(1,107)
Warranty reserve	143	135	1,740
Employees' retirement benefit	(201)	(559)	(2,446)
Directors' retirement benefit	(6)	(30)	(73)
Interest and dividend income	(217)	(136)	(2,640)
Interest expense	215	174	2,616
Loss on sales and disposal of property, plant and equipment	8	24	97
Gain on sale of investments in other security	(217)	—	(2,640)
Equity in earnings of affiliates	(1,889)	(305)	(22,983)
Changes in operating assets and liabilities:			
Notes and accounts receivable, trade	(10,536)	(6,562)	(128,191)
Inventories	(578)	(6,109)	(7,032)
Notes and accounts payable, trade	3,336	10,027	40,589
Advances received	(1,491)	2,830	(18,141)
Accrued expenses	940	1,022	11,437
Long-term accounts payable, other	(57)	53	(694)
Others	590	(887)	7,178
Sub total	1,374	5,504	16,717
Interest and dividend income received	242	136	2,944
Interest paid	(220)	(180)	(2,677)
Income taxes paid	(1,025)	189	(12,471)
Others	(3)	(14)	(35)
Net cash provided by operating activities	368	5,635	4,478
Investing activities:			
Acquisition of investment in other security	(100)	—	(1,217)
Proceeds from sales of investments in other security	293	—	3,565
Acquisition of investment in unconsolidated subsidiary	(28)	(31)	(341)
Proceeds from sales of investments in unconsolidated subsidiaries	—	612	—
Payments for contributions in capital of unconsolidated subsidiaries	(24)	—	(292)
Purchases of property, plant and equipment	(1,122)	(1,326)	(13,651)
Proceeds from sales of property, plant and equipment	41	4	499
Purchases of intangible assets	(64)	(106)	(779)
Increase (decrease) in short- term loans receivable	(0)	0	(0)
Payments of long-term loans receivable	—	(6)	—
Repayments for long-term loans receivable	21	33	256
Others	36	(21)	438
Net cash used in investing activities	(947)	(841)	(11,522)
Financing activities:			
Increase in short-term bank loans	698	206	8,493
Repayments for long-term loans payable	(700)	—	(8,517)
Purchases of treasury stock	(0)	(1)	(0)
Cash dividends paid	(1,064)	(456)	(12,945)
Others	(28)	(57)	(342)
Net cash used in financing activities	(1,094)	(308)	(13,311)
Effect of exchange rate changes on cash and cash equivalents	(151)	(466)	(1,837)
Net increase (decrease) in cash and cash equivalents	(1,824)	4,020	(22,192)
Cash and cash equivalents at beginning of year	36,013	31,993	438,168
Cash and cash equivalents at end of year (Note 15)	¥34,189	¥36,013	$415,976

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of TOSHIBA MACHINE CO., LTD. (the “Company”) and its consolidated subsidiaries 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 Law of Japan. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

The consolidated balance sheet, and consolidated statements of income, changes in net assets, cash flows and comprehensive income incorporate certain reclassifications and rearrangements in order to present these statements in forms which are more familiar to readers of these statements outside of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (together the “Companies”). Certain immaterial subsidiaries are not consolidated, in which the investments are stated at cost.

All significant intercompany transactions and accounts and unrealized intercompany profits among consolidated entities are eliminated in consolidation.

The cost in excess of underlying interest in net assets of consolidated subsidiaries at the time of acquisition, which is included in intangible assets of the accompanying consolidated balance sheet, is deferred and amortized within the five-year period.

Investments in affiliates (15 to 50 percent-owned companies) in which the ability to exercise significant influence exist, except immaterial investments, are accounted for using the equity method.

Immaterial investments in affiliates are stated at cost.

(b) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet dates except for those perfectly hedged by forward contracts, which are translated using the contracted rate.

The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by foreign exchange derivatives.

All assets and liabilities of foreign consolidated subsidiaries are translated at the current rates at the respective balance sheet dates and all income and expense accounts are translated at the current rates at end of the term. The components of shareholders’ equity are translated at their historical exchange rates. Differences in transaction are directly charged to foreign currency translation adjustments in new assets.

(c) Securities

Securities owned by the Companies have been classified into two categories, held-to-maturity debt securities or other securities, in accordance with the accounting standard for financial instruments.

Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized gain or loss, net of income taxes, directly included in net assets.

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(d) Inventories

Finished products and work in process are stated at the lower of cost, determined by the individual identification method, or their net realizable value. Raw materials and supplies are stated at the lower of cost, determined by the moving average method, or their net realizable value.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is stated at the amount determined based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount determined based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

(f) Warranty reserve

Warranty reserve has been provided for warranty costs to be incurred during the warranty period based on the historical experience.

(g) Employees bonuses

The bonuses to the employees are paid twice a year and accrued based on the estimated amounts incurred and to be paid in the subsequent period.

(h) Depreciation of property, plant and equipment (excluding leased assets)

Depreciation of buildings is principally computed by the straight-line method and depreciation of other property, plant and equipment is computed by the declining balance method over the estimated useful lives of respective assets, principally ranging from 3 - 60 years for buildings and structures, and from 3 - 22 years for machinery, equipment and vehicles.

(i) Amortization of intangible assets

Computer software held for internal use is amortized by the straight-line method over the relevant economic useful life (5 years). The other intangible assets, including patent rights, are amortized by the straight-line method over the estimated useful lives of respective assets.

(j) Leased assets

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated by the straight-line method over the lease term with no residual value.

However, finance lease transactions, commencing on or before March 31, 2008, that do not transfer ownership to the lessee, are accounted for as operating lease transactions.

(k) Derivative financial instruments

All derivatives are stated at fair value. Gains or losses arising from changes in fair value are charged or credited to income for the period in which they arise, except for derivatives that are designated as hedging instruments. Gains or losses arising from changes in fair value of the derivatives designated as cash flow hedging instruments, net of the applicable income taxes, are reported as a component of net assets.

(l) Income taxes

The Companies accrue current income taxes based on taxable income.

The Companies include many temporary difference items for financial reporting purpose which, in the case of expenses, are not currently deductible and in the case of income, are not currently taxable.

Income tax effects on such temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(m) Employees' retirement benefits

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the fair value of plan assets at year-end.

The unrecognized transitional obligation is being amortized over 15 years. Actuarial gain or loss is amortized by the straight-line method over the average remaining years of service of employees.

(n) Directors' retirement benefits

Domestic consolidated subsidiaries accrued an estimated amount calculated in accordance with its internal rule for retirement benefits for directors.

(o) Amounts per share of common stock

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during a year.

Diluted net income per share is not presented since the Company has never issued any securities with a dilutive effect, such as bonds with warrants and convertible bonds. Cash dividends per share represent the actual amount declared as applicable to the respective years.

(p) Cash equivalents

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

(q) Reclassifications

Certain accounts in the consolidated financial statements as of and for the year ended March 31, 2011 have been reclassified to conform to the year ended March 31, 2012 presentation.

3. U.S. Dollar Amounts

U.S. dollar amounts are included solely for the convenience of the readers and have been translated at the rate of ¥82.19=U.S.$1, the approximate exchange rate prevailing in the Japanese foreign exchange market on March 31, 2012. This translation should not be construed as a representation that the yen amounts actually represent, have been, or could be converted into U.S. dollars.

4. Accounting Changes

(a) Accounting standard for accounting changes and error corrections

Effective from the year ended March 31, 2012, the Companies adopted the new accounting standard "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, issued December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, issued December 4, 2009).

5. Securities

Information regarding marketable securities classified as other securities included in investment securities were as follows:

	Millions of yen					
	2012			2011		
	Acquisition cost	Carrying value	Unrealized gains	Acquisition cost	Carrying value	Unrealized gains
Equity securities	**¥1,716**	**¥4,031**	**¥2,315**	¥1,700	¥3,716	¥2,016
	¥1,716	**¥4,031**	**¥2,315**	¥1,700	¥3,716	¥2,016

	Thousands of U.S. dollars		
	2012		
	Acquisition cost	Carrying value	Unrealized gains
Equity securities	**$20,878**	**$49,045**	**$28,167**
	$20,878	**$49,045**	**$28,167**

Losses on devaluation of investment securities for the years ended March 31, 2012 and 2011 were ¥8 million ($97 thousand) and ¥5 million, respectively.

Negotiable certificates are classified as non-marketable securities of deposit of ¥13,500 million ($164,254 thousand) and ¥17,500 million as of March 31, 2012 and 2011, respectively. Non-marketable equity securities as other securities primary consist of ¥170 million ($2,068 thousand) and ¥170 million as of March 31, 2012 and 2011, respectively.

6. Property, Plant and Equipment

Property, plant and equipment at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Land	**¥6,203**	¥6,224	**$75,471**
Buildings and structures	**34,248**	34,179	**416,693**
Machinery and equipment	**29,832**	30,539	**362,964**
Vehicles	**388**	462	**4,721**
Tools, furniture and fixtures	**6,895**	6,779	**83,891**
Lease assets	**140**	118	**1,704**
Construction in progress	**188**	469	**2,287**
	77,894	78,770	**947,731**
Less accumulated depreciation	**(56,774)**	(56,529)	**(690,765)**
	¥21,120	¥22,241	**$256,966**

Depreciation expense for the years ended March 31, 2012 and 2011 were ¥2,276 million ($27,692 thousand) and ¥2,322 million, respectively.

7. Short-term Bank Loans and Long-term Debt

The annual interest rates applicable to the short-term bank loans outstanding on March 31, 2012 and 2011 ranged principally from 0.61% to 5.94% and 0.84% to 4.75%, respectively. Long-term debt on March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Loans, principally from Japanese banks and insurance companies maturing 2012 – 2013, interest 0.94 % - 1.95 %	**¥6,800**	¥7,500	**$82.735**
	6,800	7,500	**82,735**
Less current portion	**700**	—	**8,517**
	¥6,100	¥6,800	**$74,218**

The aggregate annual maturities of long-term debt at March 31, 2012 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2013	**¥700**	**$8,517**
2014	**6,100**	**74,218**
2015	**—**	**—**
2016	**—**	**—**
2017 and later	**—**	**—**
Total	**¥6,800**	**$82,735**

The aggregate annual maturities of finance lease obligations at March 31, 2012 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2013	**¥30**	**$365**
2014	**19**	**231**
2015	**8**	**98**
2016	**6**	**73**
2017 and later	**2**	**24**
Total	**¥65**	**$791**

8. Employees' Retirement Benefits

The severance indemnity regulations of the Company and certain subsidiaries provides for benefit payments based on the employees' current basic rate of pay and length of service.

The Company and certain subsidiaries have a non-contributory funded pension plan for employees. The Company and certain subsidiaries pay the full cost of the benefits to a trust bank which act as the trustees.

The liability for employees' retirement benefits at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Projected benefit obligation	**¥13,752**	¥13,794	**$167,320**
Fair value of plan assets	**(3,452)**	(3,315)	**(42,001)**
Unfounded status	**10,300**	10,479	**125,319**
Unrecognized transitional obligation	**(1,389)**	(1,852)	**(16,900)**
Unrecognized actuarial loss	**(673)**	(188)	**(8,188)**
Accrued retirement benefits obligation	**¥8,238**	¥8,439	**$100,231**

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Service cost	**¥733**	¥748	**$8,918**
Interest cost	**221**	227	**2,689**
Expected return on plan assets	**(60)**	(47)	**(730)**
Amortization of transitional obligation	**463**	466	**5,633**
Recognized actuarial loss	**70**	191	**852**
Total	**¥1,427**	¥1,585	**$17,362**

Certain consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation.

Assumptions used in the accounting for the projected benefit obligation were as follows:

	2012	2011
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.0%**	2.0%
Amortization period of transitional obligation	**15 years**	15 years
Amortization period of actuarial loss/gain	**10 years**	10 years

9. Contingent Liabilities

On March 31, 2012, contingent liabilities for loans guaranteed by the Company, principally on behalf of non-consolidated subsidiaries and affiliated companies, amounted to ¥547 million ($6,655 thousand).

10. Leases

The Companies adopted the amended “Accounting standard for lease transactions”. However, finance leases of the Companies other than those where ownership of the leased assets is transferred to the lessee, commencing on or before March 31, 2008 continue to be accounted for as operating leases. The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets accounted for as operating leases at March 31, 2012 and 2011, which would have been reflected in the consolidated balance sheet if these arrangements had been accounted for as finance leases:

	Millions of yen		Thousands of U.S. dollars
Acquisition Costs	**2012**	2011	**2012**
Machinery, equipment and vehicles	**¥273**	¥394	**$3,322**
Tools, furniture and fixtures	**399**	569	**4,855**
Less-Accumulated depreciation	**(631)**	(823)	**(7,678)**
Net book value	**¥41**	¥140	**$499**

Future lease payments (including the interest portion thereon) subsequent to March 31, 2012 and 2011 for finance leases accounted for as operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Due within one year	**¥38**	¥81	**$462**
Due after one year	**3**	59	**37**
Total	**¥41**	¥140	**$499**

Periodic lease expenses, as a lessee, charged to income for the years ended March 31, 2012 and 2011 were ¥97 million ($1,180 thousand) and ¥166 million, respectively. The pro forma amounts of depreciation for the years ended March 31, 2012 and 2011 would be calculated at ¥97 million ($1,180 thousand) and ¥166 million by using the straight-line method over the lease term with no salvage value.

11. Financial Instruments

Overview

(a) Policy for financial instruments

The Companies invest in short-term deposits for fund management, where temporally cash surplus is invested in low-risk financial instruments. The Companies raise a fund by bank borrowings. The Companies use derivatives only to reduce risk, and don’t use derivatives for speculative trading purposes.

(b) Contents of financial instruments, related risk and risk management system

Operating receivables such as notes and accounts receivable, trade are exposed to customer credit risk. The Companies try to reduce this risk by the Companies’ sales management rules. Investments, consisting of marketable securities of corporations, are exposed to stock price fluctuation risk in market. To address this risk, the Companies monitor their stock price in every quarter. Operating payables such as notes and accounts payable, trade are almost due within six months. Debts are mainly used in normal operations and capital investments. The maturity date of the debts is up to 2 years from the balance sheet date at the maximum.

Derivative transactions consist of foreign exchange forward contracts used for the purpose of hedging foreign exchange risk associated with certain assets and liabilities denominated in foreign currency, and are managed under the internal management policies, to the extent deemed necessary. Note 12. Derivative Financial Instruments explains hedge accounting, hedging instruments and methods, hedging policy, hedge items and assessment of hedge effectiveness.

The Finance Department of the Companies prepares and updates its cash flow plan to manage liquidity risk. A part of bank borrowings are subject to terms of financial covenants. If the Companies violate the terms of financial covenants, the terms of borrowings may be possibly revised.

The terms of financial covenants incident to syndicated loan (¥6,300 million ($76,652 thousand) at March 31, 2012) contract are as follows:

① March 31 and September 30 every year, the Company must keep the amount of net assets in the consolidated balance sheet over ¥50,949 million ($619,893 thousand).

② In the consolidated statement of income for the fiscal year ending March 31, the Company must not record operating loss for the two consecutive years.

(c) Supplemental information on the fair value of financial instruments

Fair value of financial instruments are calculated based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to the change in underlying assumptions. The contract amounts of derivatives are discussed in Note 12. Derivative financial instruments below are not an indicator of the market risk associated with derivative transactions.

Fair value of financial instructions

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2012 and 2011, and their fair value were as follows:

(Financial instruments whose fair value was extremely difficult to determine were not included.)

	Millions of yen					
	2012			2011		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and time deposits	**¥20,689**	**¥20,689**	**—**	¥18,513	¥18,513	—
Notes and accounts receivable, trade	**45,730**	**45,724**	**¥(6)**	35,195	35,191	¥(4)
Marketable securities and investment securities	**21,356**	**29,994**	**8,638**	23,177	24,683	1,506
Total assets	**¥87,775**	**¥96,407**	**¥8,632**	¥76,885	¥78,387	¥1,502
Short-term bank loans	**¥12,110**	**¥12,110**	**—**	¥11,413	¥11,413	—
Notes and accounts payable, trade	**30,676**	**30,676**	**—**	27,340	27,340	—
Long-term debt	**6,100**	**6,100**	**¥(0)**	6,800	6,799	¥(1)
Total liabilities	**¥48,886**	**¥48,886**	**¥(0)**	¥45,553	¥45,552	¥(1)
Derivatives	**¥(20)**	**¥(20)**	**—**	¥2	¥2	—

	Thousands of U.S. dollars		
	2012		
	Carrying value	Fair value	Difference
Cash and time deposits	**$251,722**	**$251,722**	**—**
Notes and accounts receivable, trade	**556,394**	**556,321**	**$(73)**
Marketable securities and investment securities	**259,233**	**364,934**	**105,098**
Total assets	**$1,067,952**	**$1,172,977**	**$105,025**
Short-term bank loans	**$147,342**	**$147,342**	**—**
Notes and accounts payable, trade	**373,233**	**373,233**	**—**
Long-term debt	**74,218**	**74,218**	**$(0)**
Total liabilities	**$594,793**	**$594,793**	**$(0)**
Derivatives	**$(243)**	**$(243)**	**—**

*Derivatives are presented as net amounts receivable or payable with net amounts payable in parentheses.

(a) Method for calculating fair value of financial instruments, short-term investments and derivative transactions

① Cash and deposits

The carrying value approximate fair value because these are due within short-term.

② Notes and accounts receivable, trade

The amount of notes and accounts receivable, trade is classified based on certain terms and discounted using a rate which reflects safety interest and credit risk

③ Marketable securities and investment securities

For negotiable certificate of deposit, the carrying value approximate fair value because it is due within short-term.

Investment securities are based on quoted market prices.

④ Short-term bank loans; ⑤ Notes and accounts payable, trade

The carrying value approximate fair value because these are due within short-term.

⑥ Long-term debt

The fair value of long-term debt is determined based on the present value of principles and interest, discounted by the interest rate that would be applied if similar new borrowings were entered into.

⑦ Derivatives

Please refer to Note 12. Derivative Financial Instruments.

(b) Financial instruments whose fair value was extremely difficult to determine at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Investment securities for which the market prices are not available	**¥567**	¥567	**$6,899**

Market prices don't exist for these items, or the cost of estimating cash flow is considered prohibitive. These items are not included in ③ Marketable securities and investment securities in the above, because their fair value are not readily determinable.

(c) The aggregate annual maturities of financial assets at March 31, 2012 and 2011 were as follows:

	Millions of yen							
	2012				2011			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**¥20,680**	**—**	**—**	**—**	¥18,498	—	—	—
Notes and accounts receivable, trade	**45,210**	**¥520**	**—**	**—**	35,060	¥135	—	—
Marketable securities and investment securities:								
Negotiable certificate of deposit	**13,500**	**—**	**—**	**—**	17,500	—	—	—
Total	**¥79,390**	**¥520**	**—**	**—**	¥71,058	¥135	—	—

	Thousands of U.S. dollars			
	2012			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**$251,612**	**—**	**—**	**—**
Notes and accounts receivable, trade	**550,067**	**$6,327**	**—**	**—**
Marketable securities and investment securities:				
Negotiable certificate of deposit	**164,254**	**—**	**—**	**—**
Total	**$965,933**	**$6,327**	**—**	**—**

(d) Annual maturities of long-term debt

Please refer to Note 7. Short-term Bank Loans and Long-term Debt

12. Derivative Financial Instruments

The Company has entered into derivative transactions (foreign exchange contract, interest rate swap and currency option transaction) in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rate and in interest rate. The Company doesn't hold or issue derivative financial instruments for the purpose of speculative trading. Derivative transactions are entered into by the Finance Department under the rules approved by the Board of Directors. Derivative transactions are inspected validity of the operation by the Corporate Auditing Office.

Derivatives designated as hedging instruments at March 31, 2012 and 2011 were as follows:

	Millions of yen						
		2012			2011		
	Hedged item	Contract amount	Contract amount due after one year	Fair value	Contract amount	Contract amount due after one year	Fair value
Accounting in principle							
Foreign exchange forward contracts:							
To sell foreign currencies:							
U.S. dollars	accounts receivable	**¥375**	**—**	**¥(20)**	—	—	—
Euro	accounts receivable	**1**	**—**	**0**	¥180	—	¥2
British pound	accounts receivable	**—**	**—**	**—**	10	—	(0)
To buy foreign currencies:							
U.S. dollars	accounts payable	**—**	**—**	**—**	10	—	0
Appropriated accounting for foreign currency							
Foreign exchange forward contracts:							
To sell foreign currencies:							
U.S. dollars	accounts receivable	**4,968**	**—**	**—**	1,773	—	—
Euro	accounts receivable	**47**	**—**	**—**	408	—	—
Canadian dollars	accounts receivable	**123**	**—**	**—**	—	—	—
British pound	accounts receivable	**—**	**—**	**—**	11	—	—
To buy foreign currencies:							
U.S. dollars	accounts payable	**400**	**—**	**—**	781	—	—
Total		**¥5,914**	**—**	**—**	¥3,173	—	—

	Thousands of U.S. dollars			
		2012		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Accounting in principle				
Foreign exchange forward contracts:				
To sell foreign currencies:				
U.S. dollars	accounts receivable	**$4,563**	**—**	**$(243)**
Euro	accounts receivable	**12**	**—**	**0**
British pound	accounts receivable	**—**	**—**	**—**
To buy foreign currencies:				
U.S. dollars	accounts payable	**—**	**—**	**—**
Appropriated accounting for foreign currency				
Foreign exchange forward contracts:				
To sell foreign currencies:				
U.S. dollars	accounts receivable	**60,445**	**—**	**—**
Euro	accounts receivable	**572**	**—**	**—**
Canadian dollars	accounts receivable	**1,497**	**—**	**—**
British pound	accounts receivable	**—**	**—**	**—**
To buy foreign currencies:				
U.S. dollars	accounts payable	**4,867**	**—**	**—**
Total		**$71,956**	**—**	**—**

13. Pledged Assets

The following assets were pledged as collateral at March 31, 2012 and 2011 to secure short-term bank loans amounting to ¥2 million ($24 thousand). (See Note 7):

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Land	**¥581**	¥581	**$7,069**
Machinery and equipment, net	**13**	95	**158**
Buildings and structures, net	**2,040**	2,190	**24,821**
Total	**¥2,634**	¥2,866	**$32,048**

14. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The statutory tax rates for the years ended March 31, 2012 and 2011 were approximately 39.7%.

Following the promulgations on December 2, 2011, of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act on Special Measure for Securing Financial Resources Necessary to implement Measures for Reconstruction Following the Great East Japan Earthquake" (Act No.117 of 2011), effective from fiscal year beginning on and after April 1, 2012, Corporation Tax rates will be reduced and the Special Reconstruction Corporation Tax will be imposed. In accordance with this tax reform, the effective statutory tax rate, used to measure deferred tax assets and deferred tax liabilities, will be reduced from 39.7% to 37.2% for temporary differences expected to be realized between fiscal year beginning on April 1, 2012 and fiscal year beginning on April 1, 2014, to 34.8% for the temporary differences expected to be realized after fiscal year beginning on April 1, 2015.

This change of tax rate decreased net deferred tax assets (after netting deferred tax liabilities), deferred gains or losses on hedge by ¥117 million ($1,424 thousand), ¥1 million ($12 thousand), ¥227 million ($2,762 thousand), respectively, and income taxes-deferred holding gain on securities by ¥111 million ($1,351 thousand).

The reconciliation between the statutory rate and effective tax rate of income taxes for the year ended March 31, 2012 and 2011 were as follows:

	2012	2011
Statutory tax rate	**39.7%**	39.7%
Per-capita portion of Inhabitant Tax	**0.4**	0.9
Permanently non-taxable revenue	**(0.4)**	(0.3)
Permanently non-deductible expenses	**0.6**	1.6
Effects of elimination	**(3.3)**	(8.4)
Utilization of tax loss carry forwards	**(9.7)**	(19.7)
Change in valuation allowance	**(6.9)**	4.6
Difference in tax rates of consolidated subsidiaries	**(0.9)**	(2.0)
Effect of amount of deferred tax assets by tax rate change	**7.5**	—
Other	**(0.5)**	(3.9)
Effective tax rate	**26.5%**	12.5%

The significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred tax assets:			
Accrued employees' bonuses	**¥972**	¥923	**$11,826**
Allowance for doubtful receivables	**21**	89	**256**
Devaluation of inventories	**655**	636	**7,969**
Devaluation of securities	**455**	516	**5,536**
Accrued employees' retirement benefits	**2,942**	3,375	**35,795**
Amount not shifted to defined contribution pension plan	**21**	33	**256**
Unrealized intercompany profit on inventories	**359**	112	**4,368**
Enterprise tax payable	**37**	30	**450**
Other	**2,043**	1,771	**24,857**
Total deferred tax assets	**¥7,505**	¥7,485	**$91,313**
Valuation allowance	**(3,098)**	(3,728)	**(37,693)**
Net deferred tax assets	**¥4,407**	¥3,757	**$53,620**
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	**(144)**	(170)	**(1,752)**
Unrealized gain on securities	**(785)**	(779)	**(9,551)**
Gain on deferred hedging	**—**	(1)	**—**
Asset retirement obligations	**(7)**	(9)	**(85)**
Foreign consolidated subsidiaries' retained earning	**(191)**	(66)	**(2,325)**
Total deferred tax liabilities	**¥(1,127)**	¥(1,025)	**$(13,713)**
Net deferred tax assets	**¥3,280**	¥2,732	**$39,907**

15. Cash and Cash Equivalents

Reconciliation between cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2012 and 2011 were presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash and time deposits	**¥20,689**	¥18,513	**$251,722**
Marketable securities	**13,500**	17,500	**164,254**
Cash and cash equivalents	**¥34,189**	¥36,013	**$415,976**

16. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Sales commission	**¥2,109**	¥1,475	**$25,660**
Delivering expenses	**3,181**	2,431	**38,703**
Reserve for warranty	**306**	255	**3,723**
Personnel-expenses	**9,814**	8,949	**119,406**
Retirement benefit expense	**545**	613	**6,631**
Depreciation	**590**	667	**7,178**
Rent expenses	**689**	755	**8,383**
Traveling expenses	**1,110**	1,025	**13,505**
Research and development expenses	**1,052**	847	**12,800**
Outside order expenses	**400**	386	**4,867**
Others	**4,000**	4,225	**48,668**
Total	**¥23,796**	¥21,628	**$289,524**

17. Research and Development Costs

Research and development costs charged to income were ¥1,582 million ($19,248 thousand) and ¥1,399 million for the years ended March 31, 2012 and 2011, respectively.

18. Other comprehensive income

The components of other comprehensive income for the years ended March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	**2012**
Unrealized holding gain on securities:		
Current period changes in unrealized gain (loss)	**¥509**	**$6,193**
Reclassification adjustment	**(209)**	**(2,543)**
Total unrealized holding gain on securities before tax effects	**300**	**3,650**
Tax effects	**(6)**	**(73)**
Unrealized holding gain on securities, net of tax effects	**294**	**3,577**
Deferred gains or losses on hedge:		
Current period changes in unrealized gain (loss)	**(22)**	**(268)**
Total deferred gains or losses on hedge, before tax effects	**(22)**	**(268)**
Tax effects	**8**	**98**
Deferred gains or losses on hedge, net of tax effects	**(14)**	**(170)**
Foreign currency translation adjustments:		
Current period changes	**(161)**	**(1,959)**
Total other comprehensive income	**¥119**	**$1,448**

19. Shareholders' Equity

The Corporation Law of Japan (the "Law"), which went into effect on May 1, 2006, provides that an amount equal to 10% of the amount to be distributed as distribution of additional paid in capital (other than the capital reserve) and retained earning (other than the legal reserve) be transferred to the capital reserve and legal reserve, respectively, until the sum of the capital reserve and legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

20. Related Party Transactions

During the years ended March 31, 2012 and 2011, the Companies had operational transactions with Toshiba Corporation, a 22.1% shareholder of the Company, Toshiba Machine (Thailand) Co., Ltd., a 100% unconsolidated subsidiary, and NuFlare Technology, Inc., a 21.3% affiliate of the Company.

A summary of the significant transactions with Toshiba Corporation for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
For the years ended March 31:			
Payment of brand fee	**¥224**	¥185	**$2,725**
Note: Brand fee rate was contracted beforehand.			

A summary of the significant transactions with Toshiba Machine (Thailand) Co., Ltd. for the years ended March 31, 2012 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	**2012**
For the year ended March 31, 2012:		
Notes and accounts receivable, trade	**¥1,761**	**$21,426**
Note: Trading price was market price.		

A summary of the significant transactions with NuFlare Technology, Inc. for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
For the years ended March 31:			
Rent income for land, buildings and structures	**¥120**	¥125	**$1,460**
Note: Rent price was market price.			

21. Net Income and Net Assets per Share

Net income and net assets per share for the years ended March 31, 2012 and 2011 were as follows:

	Yen		U.S. dollars
	2012	2011	**2012**
Net income per share	**¥44.21**	¥21.57	**$0.54**
Net assets per share	**467.67**	429.67	**5.69**

Basic information for calculation of net income per share was as follows:

	Thousands of shares	
	2012	2011
Weighted-average number of shares of common stock	**152,034**	152,035

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Net income	**¥6,721**	¥3,280	**$81,774**
Net income not applicable to shareholders of common stock	**—**	—	**—**
Net income applicable to shareholders of common stock	**¥6,721**	¥3,280	**$81,774**

Basic information for calculation of net assets per share was as follows:

	Thousands of shares	
	2012	2011
Number of shares at year-end	**152,033**	152,034

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Net assets	**¥71,101**	¥65,325	**$865,081**
Minority interests in consolidated subsidiaries	**—**	—	**—**
Net assets applicable to shareholders of common stock	**¥71,101**	¥65,325	**$865,081**

22. Segment Information

Effective from the year ended March 31, 2011, the Companies adopted the new accounting standard "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No.17, revised March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Guidance No.20, issued March 21, 2008). Under the standard and the guidance, disclosures about segments of an enterprise and related information are required to report based on management approach.

(A) General information about reportable segments

The reportable segments of the Companies are the business units for which the Company is able to obtain respective financial information separately in order for Executive Officer to conduct periodic investigation to determine distribution of management resources and evaluate their business results.

The Companies' business is classified into certain segments based on the type of products and services. The Companies' segments are categorized into the following three reportable segments, "Molding Machinery", "Machine Tools" and "Hydraulic Equipment" based on the similarities of economical nature, contents and manufacturing method:

Molding Machinery: Injection molding machines, Die casting machines, Plastic extrusion

Machine Tools: Large size machine tools, Portal type machine tools, Machining centers, Horizontal

boring machines, High-precision machines
Hydraulic Equipment: Hydraulic motors, Control valves, Piston pumps

(B) Basis of measurement for reportable segment profit or loss, segment assets and other material items

The accounting treatment method for the reportable business segment is generally the same as described in "2. Summary of Significant Accounting Policies". Reportable segment income is calculated on the basis of operating income. The prices of intersegment transactions and transfers are calculated based on the market prices.

(C) Reportable segment information

Reportable segment information of the Companies for the years ended March 31, 2012 and 2011 were as follows:

Year ended March 31, 2012

	Millions of yen							
	Reportable segments				Other Products	Total	Adjustments	Consolidated
	Molding Machinery	Machine Tools	Hydraulic Equipment	Sub total				
Net Sales:								
External customers	**¥65,727**	**¥28,839**	**¥13,854**	**¥108,420**	**¥11,099**	**¥119,519**	**—**	**¥119,519**
Inter-segment	**—**	**130**	**233**	**363**	**2,570**	**2,933**	**¥ (2,933)**	**—**
Total	**65,727**	**28,969**	**14,087**	**108,783**	**13,669**	**122,452**	**(2,933)**	**119,519**
Segment income	**¥4,396**	**¥1,451**	**¥1,040**	**¥6,887**	**¥189**	**¥7,076**	**¥335**	**¥7,411**
Segment assets	**¥66,963**	**¥33,941**	**¥7,806**	**¥108,710**	**¥19,415**	**¥128,125**	**¥14,172**	**¥142,297**
Others								
Depreciation	**¥1,018**	**¥585**	**¥388**	**¥1,991**	**¥285**	**¥2,276**	**—**	**¥2,276**
Capital expenditure	**213**	**183**	**559**	**955**	**97**	**1,052**	**—**	**1,052**

Year ended March 31, 2011

	Millions of yen							
	Reportable segments				Other Products	Total	Adjustments	Consolidated
	Molding Machinery	Machine Tools	Hydraulic Equipment	Sub total				
Net Sales:								
External customers	¥49,289	¥23,575	¥11,316	¥84,180	¥11,473	¥95,653	—	¥95,653
Inter-segment	1	43	66	110	2,066	2,176	¥ (2,176)	—
Total	49,290	23,618	11,382	84,290	13,539	97,829	(2,176)	95,653
Segment income	¥1,338	¥1,037	¥945	¥3,320	¥456	¥3,776	¥252	¥4,028
Segment assets	¥54,862	¥29,154	¥7,538	¥91,554	¥24,441	¥115,995	¥15,208	¥131,203
Others								
Depreciation	¥1,205	¥535	¥221	¥1,961	¥360	¥2,321	—	¥2,321
Capital expenditure	893	409	527	1,829	215	2,044	—	2,044

Year ended March 31, 2012 — Thousands of U.S. dollars

	Reportable segments				Other Products	Total	Adjustments	Consolidated
	Molding Machinery	Machine Tools	Hydraulic Equipment	Sub total				
Net Sales:								
External customers	$799,696	$350,882	$168,561	$1,319,139	$135,040	$1,454,179	—	$1,454,179
Inter-segment	—	1,582	2,834	4,416	31,270	35,686	$ (35,686)	—
Total	799,696	352,464	171,395	1,323,555	166,310	1,489,865	(35,686)	1,454,179
Segment income	$53,486	$17,654	$12,653	$83,793	$2,300	$86,093	$4,076	$90,169
Segment assets	$814,734	$412,958	$94,975	$1,322,667	$236,221	$1,558,888	$172,430	$1,731,318
Others								
Depreciation	$12,385	$7,118	$4,721	$24,224	$3,468	$27,692	—	$27,692
Capital expenditure	2,591	2,227	6,801	11,619	1,181	12,800	—	12,800

Note: ”Other products” is a business segment that is not included in reportable segments. It included business activities of electronic controls, etc.

(D) Difference between total reportable segments and consolidated financial statements

The main differences between total reportable segments and consolidated financial statements for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
Sales	**2012**	2011	**2012**
Total reportable segments	**¥108,783**	¥84,290	**$1,323,555**
Other products	**13,669**	13,539	**166,310**
Eliminations	**(2,933)**	(2,176)	**(35,686)**
Net sales on consolidated financial statements	**¥119,519**	¥95,653	**$1,454,179**

	Millions of yen		Thousands of U.S. dollars
Income	**2012**	2011	**2012**
Total reportable segments	**¥6,887**	¥3,320	**$83,793**
Other products	**189**	456	**2,300**
Eliminations	**335**	252	**4,076**
Operating income on consolidated financial statements	**¥7,411**	¥4,028	**$90,169**

	Millions of yen		Thousands of U.S. dollars
Assets	**2012**	2011	**2012**
Total reportable segments	**¥108,710**	¥91,554	**$1,322,667**
Other products	**19,415**	24,441	**236,221**
Company-wide assets	**20,278**	22,131	**246,721**
Eliminations	**(6,106)**	(6,923)	**(74,291)**
Net assets on consolidated financial statements	**¥142,297**	¥131,203	**$1,731,318**

Note: Company-wide assets are mainly cash and cash equivalents, securities and investment securities that don’t belong to the reportable segments

(E) Related segment information

① Information about products and services

Information about products and services is not disclosed, because reportable segment information is based on products and services.

② Information about geographical areas

Sales information about geographical areas for the years ended March 31, 2012 and 2011 were follows:

Millions of yen				
2012				
Japan	North America	Asia	Other	Total
¥52,642	**¥10,918**	**¥52,695**	**¥3,264**	**¥119,519**

Millions of yen				
2011				
Japan	North America	Asia	Other	Total
¥45,576	¥7,536	¥39,774	¥2,767	¥95,653

Thousands of U.S. dollars				
2012				
Japan	North America	Asia	Other	Total
$640,492	**$132,839**	**$641,136**	**$39,712**	**$1,454,179**

Note: Sales figures are classified based on the customer locations.

Property, plant and equipment information about geographical areas for the years ended March 31, 2012 and 2011 were follows:

Millions of yen			
2012			
Japan	North America	Asia	Total
¥20,098	**¥177**	**¥845**	**¥21,120**

Millions of yen			
2011			
Japan	North America	Asia	Total
¥21,181	¥199	¥861	¥22,241

Thousands of U.S. dollars			
2012			
Japan	North America	Asia	Total
$244,531	**$2,154**	**$10,281**	**$256,966**

③ Information about major customers

Information about major customers is not disclosed, because net sales to any customer did not exceed 10% of the consolidated net sales for the years ended March 31, 2012 and 2011.

(F) Information about impairment loss on long-lived assets for each reportable segment

There was no applicable matter for the years ended March 31, 2012 and 2011.

(G) Information about amortization of goodwill and unamortized balance for each reportable segment

There was no applicable matter for the years ended March 31, 2012 and 2011.

(H) Information about gain on negative goodwill for each reportable segment

There was no applicable matter for the years ended March 31, 2012 and 2011.

23. Subsequent Event

Cash Dividends

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2012, were approved at the meeting of the Board of Directors held on April 27, 2012:

Cash dividends (¥4.50 = $0.05 per share) ¥684 million ($8,322 thousand)

Report of Independent Auditors

ERNST & YOUNG

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We have audited the accompanying consolidated financial statements of TOSHIBA MACHINE Co., Ltd. and consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, 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 TOSHIBA MACHINE Co., Ltd. and consolidated subsidiaries as at March 31, 2012, 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 3.

Ernst & Young ShinNihon LLC

June 27, 2012

Tokyo, Japan

Directors & Auditors

Directors

President

Yukio Iimura

Senior Managing Director

Akinori Ide

Managing Directors

Hiroshi Hanai

Yoshihiro Kishimoto

Directors

Satoshi Hironaka

Masayuki Yagi

Shigetomo Sakamoto

Makoto Tsuji

Kazuo Takamura

Auditors

Masahiro Suzuki

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