TOSHIBA MACHINE

Annual Report 2013

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, 2013)

Company Name:	TOSHIBA MACHINE CO., LTD.
Headquarters:	2068-3, Ooka, Numazu-shi, Shizuoka-ken 410-8510, Japan
Established:	1938
Capital:	¥12,485million (US$132,749thousands)
Shares of Common Stock Issued and Outstanding:	166,885,530 shares
Number of Shareholders:	12,989
Number of Employees:	1,842 (Consolidated: 3,197)

Foreword 2013

The Toshiba Machine Group focused on its 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". The "expansion strategies" revitalize our existing products in order to expand markets in developing countries which constitute the broad base of the current industrial pyramid.

In Fiscal Year 2012, while the upturn in the USA and developing nations such as those in Southeast Asia continued, overall, the severe climate generally persisted in the overseas market as a result of the effects of the economic slump caused by Europe's financial crisis and stagnated economic growth in China. On the other hand, amidst the underlying stagnancy of the domestic market, while there was some recovery of demand from the Great East Japan Earthquake, the situation continues to swing back and forth as a result of the export industry slowing down the world economy and the knock-on effect of the Yen's long-term appreciation. Similarly, within the machinery industry, while there was demand in the USA and developing countries such as those in Asia, the effects of the decelerating world economy make for an uncertain outlook and the sector continues to weaken.

Amidst the background of the severe economic climate and changing industrial structure, from April 1st, 2012, the Toshiba Machine Group continued to implement the policies of the "TM AC Plan III", and we made an intensive effort to develop new products for the domestic and overseas markets, explore new markets, secure orders, and improve our financial structure while creating universal recognition of the Toshiba Machine Brand.

As a result, consolidated orders received totaled ¥112,081 million (US$1,191,717 thousands), an 8.9% decrease on the previous term. Consolidated net sales totaled ¥120,859 million (US$1,285,051 thousands), a 1.1% increase on the previous term. Similarly, at the end of this fiscal year, the consolidated backlog totaled ¥52,514 million (US$558,363 thousands), a 12.4% decrease on the previous term.

With respect to profit and loss, consolidated operating profit totaled ¥8,038 million (US$85,465 thousands), an 8.5% increase on the previous term, and the current term's consolidated net profit totaled ¥7,891 million (US$83,902 thousands), a 17.4% increase on the previous term.

The year-end dividend for this term, ¥4.5 (US$0.05) per share, was distributed to our stockholders resulting in a total annual dividend of ¥9 (US$0.1) per share.

In terms of key factors affecting the domestic and overseas outlook, while the Yen continues to weaken due to the expectation of government policies designed to escape deflation, and export companies, primarily within the manufacturing industry, are forecasting recovery, the situation remains unpredictable and still requires caution. In overseas markets, Europe's financial crisis continues and economic growth in developing countries is slowing, while in the domestic market, the price of crude oil and raw material soars and competition intensifies among domestic and overseas companies. However, we will make every effort to improve profits through pioneering new markets, developing new technologies, introducing new products corresponding to changing market needs, building global procurement, continuing cost reduction, and constructing strong managerial foundations through greater efficiency.

Under the "TM AC Plan Advanced I" initiated April 1st, 2013, we are continuing the "advancement and expansion" which we established as our core business concepts, and by creating universal recognition of the Toshiba Machine brand, we will aim for the deep cultivation of global markets and gather the strength of the Toshiba Machine Group to ensure our emergence as a genuine global company. Among our management strategies to expand sales in overseas markets, we will market and develop a series of products suited to regional characteristics as WTP (Willingness To Pay) products. At the same time, by promoting the local incorporation of bases in Indonesia and Brazil and creating a group company for Indian Injection Molding Machine corporations, we will continue to make efforts to construct a framework to expand sales in the global market and primarily in developing countries.

Next, among our technical strategies, the Toshiba Machine Group will continue to tackle the development of new products installed with the latest technologies aimed at the group's 5 focus domains (optics, nanotechnology, electronics, energy, and automobiles). Furthermore, within systematized system engineering we are making efforts to incorporate the before and after processes from simple products and, in particular, we have ascertained the decorating business, providing in-line surface printing on molded products, is a market from which we can expect major growth in the future and is an area we plan to develop.

Finally, among our manufacturing strategies, we agreed on a procurement alliance with local manufacturers in China to manufacture products with highly competitive prices and expand mass-production at the Shanghai Plant. Likewise, to achieve multi-domestic production, we are pushing ahead with the installation of a production plant in Thailand based on the overseas strategy of establishing production plants for each area of regional administration. As a result, our overseas production plants will have three bases; the Shanghai Plant, Thailand Plant and India Plant, and through increasing overseas production, we will achieve overall optimum production capability.

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.

FINANCIAL HIGHLIGHTS (consolidated)

	2013	2012	2011	2010	2009
Net sales	¥120,859	¥119,519	¥95,653	¥74,694	¥121,890
	$1,285,051				
Cost of sales	¥87,294	¥88,312	¥69,997	¥56,470	¥84,760
	$928,166				
Selling, general and	¥25,527	¥23,796	¥21,628	¥20,040	¥25,594
administrative expenses	**$271,420**				
Operating income (loss)	¥8,038	¥7,411	¥4,028	¥(1,816)	¥11,536
	$85,465				
Income (loss) before income	¥12,239	¥9,149	¥3,749	¥(2,032)	¥9,866
taxes and minority interests	**$130,133**				
Income taxes	¥4,348	¥2,428	¥469	¥2,499	¥4,563
	$46,231				
Net income (loss)	¥7,891	¥6,721	¥3,280	¥(4,531)	¥5,303
	$83,902				
Comprehensive income	¥9,468	¥6,840	¥2,410	—	—
	$100,670				
Per common share:					
Net income (loss)	¥51.91	¥44.21	¥21.57	¥(29.80)	¥34.18
	$0.55				
Cash dividends	¥9.00	¥9.00	¥4.50	¥4.50	¥12.00
	$0.10				
Total assets	¥142,239	¥142,297	¥131,203	¥115,806	¥132,734
	$1,512,376				
Net assets	¥79,400	¥71,101	¥65,325	¥63,372	¥68,712
	$844,232				
Capital expenditure	¥770	¥1,052	¥2,044	¥625	¥5,550
(property, plant and equipment)	**$8,187**				
Depreciation	¥2,065	¥2,276	¥2,322	¥2,514	¥2,561
	$21,956				
R & D Cost	¥1,566	¥1,582	¥1,399	¥1,567	¥1,684
	$16,651				
Number of employees	3,197	3,157	3,140	3,067	3,148

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

Overseas Operations for Fiscal 2013

In Fiscal Year 2013, while business confidence was expected to improve at the beginning of 2013 due to the new administration's policies to escape deflation, in terms of the actual economy, the severe climate persisted. In overseas markets, while the upturn in the USA and developing nations such as those in Southeast Asia continued, overall, the severe climate persisted as a result of the effects of the economic slump caused by Europe's financial crisis and stagnated economic growth in China. On the other hand, amidst the underlying stagnancy of the domestic market, while there was some recovery of demand from the Great East Japan Earthquake, the situation continues to swing back and forth as a result of the export industry slowing down the world economy and the knock-on effect of the Yen's long-term appreciation. Similarly, within the machinery industry, while there was demand in the USA and developing countries such as those in Asia, the effects of the decelerating world economy make for an uncertain outlook and the sector continues to weaken.

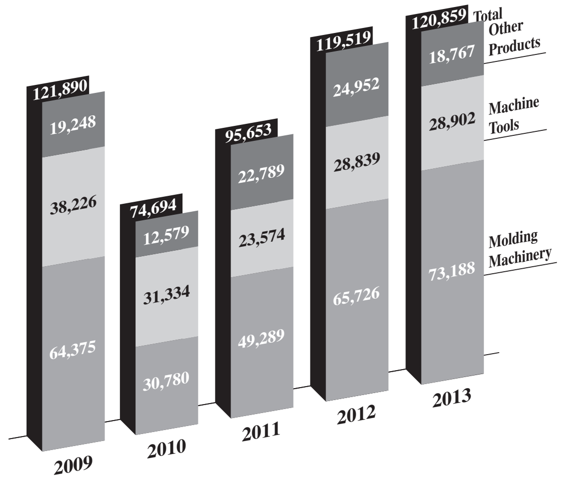
Under these severe management circumstances, the Toshiba Machine Group focused on midterm management plan, "TM AC Plan (*T*oshiba *M*achine *A*dapt to *C*hange Plan)", and made an intensive effort to develop products, explore new markets, and secure orders in Japan and overseas, and improve our financial structure.

With the effect of firmer capital investment in the automotive and consumer electronics industries of North America and developing countries such as China and in Southeast Asia, this term's consolidated overseas sales totaled ¥74,566 million (US$792,834 thousands), which was an 11.5% increase on the previous term.

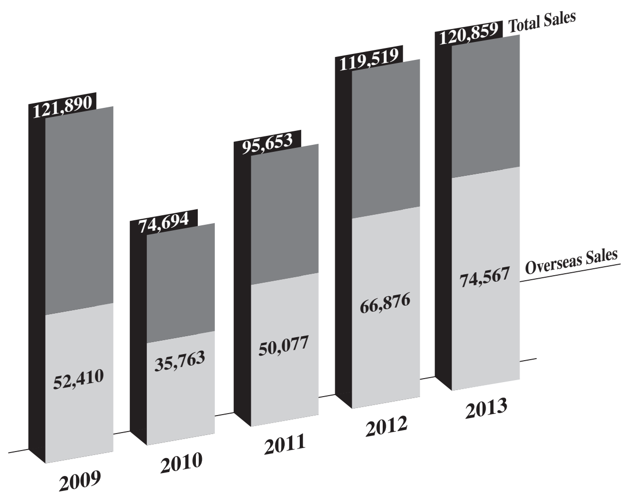
More specifically, injection molding machines, die-casting machines, and machine tools were our leading products, and the most common destination for exports was the Asian region.

During 2012, we focused on business structural reformation designed to best ensure the success of the TM AC Plan, and from April 2013 we newly developed and initiated the "TM AC Plan Ad I." We are continuing the "advancement and expansion" which we established as our core business concepts, and by creating universal recognition of the Toshiba Machine brand, we will aim for the deep cultivation of global markets and gather the strength of the Toshiba Machine Group to ensure our emergence as a genuine global company.

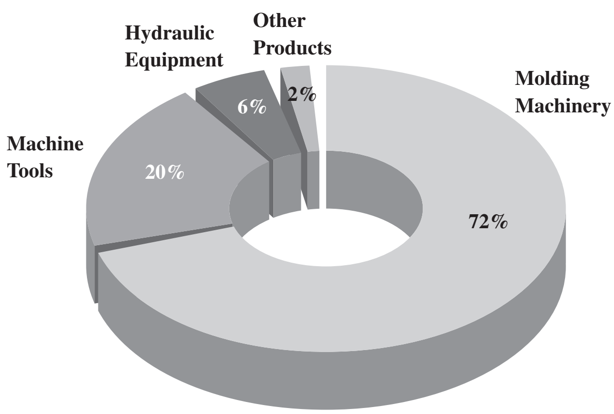
Net Sales
Millions of yen



Total Sales & Overseas Sales
Millions of yen



Export Percentages by Major Products



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Financial Review

CONSOLIDATED BALANCE SHEET

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2013

	Millions of yen		Thousands of U.S. dollars
ASSETS	2013	2012	2013
Current assets:			
Cash and deposits (Notes 12 and 16)	¥21,328	¥20,689	$226,773
Marketable securities (Notes 6 ,12 and 16)	17,000	13,500	180,755
Notes and accounts receivable, trade (Note 12)	40,006	45,730	425,369
Allowance for doubtful receivables	(142)	(173)	(1,510)
Net receivables	39,864	45,557	423,859
Inventories:			
Finished products	5,207	5,008	55,364
Work in process	18,570	21,287	197,449
Raw materials and supplies	67	81	712
Total inventories	23,844	26,376	253,525
Deferred tax assets (Note 15)	3,178	3,158	33,791
Other current assets	1,627	1,895	17,299
Total current assets	106,841	111,175	1,136,002
Property, plant and equipment, net (Notes 7, 11 and 14)	19,830	21,120	210,845
Intangible assets	400	434	4,253
Investments and other assets:			
Investments in:			
Unconsolidated subsidiaries and affiliates	9,198	4,222	97,799
Other securities (Notes 6 and 12)	5,240	4,201	55,715
Long-term loans	93	84	989
Deferred tax assets (Note 15)	65	446	691
Other investments	572	615	6,082
Total investments and other assets	15,168	9,568	161,276
Total assets	¥142,239	¥142,297	$1,512,376

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Current liabilities:			
Short-term bank loans (Notes 8, 12 and 14)	**¥10,759**	¥11,410	**$114,397**
Current portion of long-term debt (Notes 8 and 12)	**6,100**	700	**64,859**
Notes and accounts payable, trade (Note 12)	**21,999**	30,676	**233,907**
Income taxes payable (Note 15)	**2,642**	2,616	**28,091**
Accrued expenses	**5,629**	5,562	**59,851**
Warranty reserve	**584**	351	**6,209**
Other current liabilities (Note 8)	**5,275**	5,041	**56,088**
Total current liabilities	**52,988**	56,356	**563,402**
Long-term liabilities:			
Long-term debt (Notes 8 and 12)	**—**	6,100	**—**
Long-term accounts payable, other	**14**	42	**149**
Accrued employees' retirement benefits (Note 9)	**8,411**	8,238	**89,431**
Accrued directors' retirement benefits	**53**	50	**564**
Asset retirement obligations	**52**	51	**553**
Deferred tax liabilities (Note 15)	**1,273**	324	**13,535**
Other long-term liabilities (Note 8)	**48**	35	**510**
Total long-term liabilities	**9,851**	14,840	**104,742**
Total liabilities	**62,839**	71,196	**668,144**
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity: (Note 21)			
Common stock			
Authorized – 360,000,000 shares			
Issued – 166,885,530 shares	**12,485**	12,485	**132,749**
Additional paid-in capital	**19,601**	19,601	**208,410**
Retained earnings	**56,306**	49,408	**598,682**
Treasury stock, at cost (14,853,307 shares in 2013, 14,852,644 shares in 2012)	**(10,040)**	(10,039)	**(106,752)**
Total shareholders' equity	**78,352**	71,455	**833,089**
Accumulated other comprehensive income			
Unrealized holding gain on securities, net of tax	**2,222**	1,530	**23,626**
Deferred gains or losses on hedge, net of tax	**(0)**	(13)	**(0)**
Foreign currency translation adjustments	**(1,174)**	(1,871)	**(12,483)**
Total accumulated other comprehensive income	**1,048**	(354)	**11,143**
Total net assets	**79,400**	71,101	**844,232**
Total liabilities and net assets	**¥142,239**	¥142,297	**$1,512,376**

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF INCOME

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net sales	¥120,859	¥119,519	$1,285,051
Cost of sales (Note 18)	87,294	88,312	928,166
Gross profit	33,565	31,207	356,885
Selling, general and administrative expenses (Notes 17 and 18)	25,527	23,796	271,420
Operating income	8,038	7,411	85,465
Other income:			
Interest and dividend income	201	217	2,137
Rent income	180	179	1,914
Foreign exchange gain	685	160	7,283
Equity in earnings of affiliates	1,736	1,889	18,458
Gain on sales of property, plant and equipment	5	6	53
Gain on sales of investments in affiliates	2,495	—	26,528
Gain on sales of investments in other security	—	217	—
Others	254	198	2,702
	5,556	2,866	59,075
Other expenses and losses:			
Interest expense	219	215	2,329
Loss on sales of notes receivable	—	3	—
Amortization of transitional obligation for employees' retirement benefits (Note 9)	463	463	4,923
Brand fee expense	220	224	2,339
Loss on disposal of property, plant and equipment and intangible assets	7	14	74
Loss on impairment of fixed assets (Note 19)	71	—	755
Loss on devaluation of investment securities (Note 6)	6	8	64
Others	369	201	3,923
	1,355	1,128	14,407
Income before income taxes and minority interests	12,239	9,149	130,133
Income taxes (Note 15)			
Current	3,497	2,916	37,182
Deferred	851	(488)	9,048
	4,348	2,428	46,231
Net income before minority interests	7,891	6,721	83,902
Net income	¥7,891	¥6,721	$83,902

	Yen		U.S. dollars
	2013	2012	2013
Net income per share of common stock (Note 23)	¥51.91	¥44.21	$0.55

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Net income before minority interests	**¥7,891**	¥6,721	**$83,902**
Other comprehensive income : (Note 20)			
Unrealized holding gain on securities, net of tax	**692**	294	**7,358**
Deferred gains or losses on hedge, net of tax	**13**	(14)	**138**
Foreign currency translation adjustments	**872**	(161)	**9,272**
Total other comprehensive income	**1,577**	119	**16,768**
Total comprehensive income	**¥9,468**	¥6,840	**$100,670**
Total comprehensive income attributable to parent company's interest	**9,468**	6,840	**100,670**
Total comprehensive income attributable to minority interests	**¥—**	¥—	**$—**

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2013

	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	Total net assets
Balance at March 31, 2011	166,885,530	¥12,485	¥19,601	¥43,751	¥(10,039)	¥1,236	¥1	¥(1,710)	¥65,325
Net income				6,721					6,721
Purchases of treasury stock					(0)				(0)
Cash dividends				(1,064)					(1,064)
Net changes in items other than shareholders' equity						294	(14)	(161)	119
Balance at March 31, 2012	166,885,530	12,485	19,601	49,408	(10,039)	1,530	(13)	(1,871)	71,101
Net income				**7, 891**					**7,891**
Change in scope of consolidation				**451**					**451**
Purchases of treasury stock					**(1)**				**(1)**
Cash dividends				**(1,444)**					**(1,444)**
Net changes in items other than shareholders' equity						**692**	**13**	**697**	**1,402**
Balance at March 31, 2013	**166,885,530**	**¥12,485**	**¥19,601**	**¥56,306**	**¥(10,040)**	**¥2,222**	**¥(0)**	**¥(1,174)**	**¥79,400**

	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	Total net assets
Balance at March 31, 2012	$132,749	$208,410	$525,338	$(106,741)	$16,268	$(138)	$(19,894)	$755,992
Net income			**83,902**					**83,902**
Change in scope of consolidation			**4,795**					**4,795**
Purchases of treasury stock				**(11)**				**(11)**
Cash dividends			**(15,353)**					**(15,353)**
Net changes in items other than shareholders' equity					**7,358**	**138**	**7,411**	**14,907**
Balance at March 31, 2013	**$132,749**	**$208,410**	**$598,682**	**$(106,752)**	**$23,626**	**$(0)**	**$(12,483)**	**$844,232**

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Operating activities:			
Income before income taxes and minority interests	**¥12,239**	¥9,149	**$130,133**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	**2,065**	2,276	**21,956**
Allowance for doubtful receivables	**(16)**	(91)	**(170)**
Warranty reserve	**233**	143	**2,477**
Employees' retirement benefit	**156**	(201)	**1,659**
Directors' retirement benefit	**3**	(6)	**32**
Interest and dividend income	**(201)**	(217)	**(2,137)**
Interest expense	**219**	215	**2,329**
Loss on sales and disposal of property, plant and equipment and intangible assets	**2**	8	**21**
Gain on sales of investments in affiliates	**(2,495)**	—	**(26,528)**
Gain on sale of investments in other security	**—**	(217)	**—**
Equity in earnings of affiliates	**(1,736)**	(1,889)	**(18,458)**
Loss on impairment of fixed assets	**71**	—	**755**
Changes in operating assets and liabilities:			
Notes and accounts receivable, trade	**4,032**	(10,536)	**42,871**
Inventories	**3,701**	(578)	**39,351**
Notes and accounts payable, trade	**(8,718)**	3,336	**(92,695)**
Advances received	**802**	(1,491)	**8,527**
Accrued expenses	**116**	940	**1,233**
Long-term accounts payable, other	**(28)**	(57)	**(298)**
Others	**360**	590	**3,828**
Sub total	**10,805**	1,374	**114,886**
Interest and dividend income received	**406**	242	**4,317**
Interest paid	**(210)**	(220)	**(2,233)**
Income taxes paid	**(3,565)**	(1,025)	**(37,906)**
Others	**—**	(3)	**—**
Net cash provided by operating activities	**7,436**	368	**79,064**
Investing activities:			
Acquisition of investment in other security	**—**	(100)	**—**
Proceeds from sales of investments in other security	**—**	293	**—**
Acquisition of investment in unconsolidated subsidiaries	**(5,092)**	(28)	**(54,141)**
Proceeds from sales of investments in affiliates	**3,952**	—	**42,020**
Payments for contributions in capital of unconsolidated subsidiaries	**—**	(24)	**—**
Purchases of property, plant and equipment	**(1,041)**	(1,122)	**(11,069)**
Proceeds from sales of property, plant and equipment	**21**	41	**223**
Purchases of intangible assets	**(38)**	(64)	**(404)**
Increase (decrease) in short- term loans receivable	**1**	(0)	**11**
Payments for long-term loans receivable	**(24)**	—	**(255)**
Repayments of long-term loans receivable	**16**	21	**170**
Others	**9**	36	**96**
Net cash used in investing activities	**(2,196)**	(947)	**(23,349)**
Financing activities:			
Increase in short-term bank loans	**(823)**	698	**(8,751)**
Repayments for long-term loans payable	**(700)**	(700)	**(7,443)**
Purchases of treasury stock	**(1)**	(0)	**(11)**
Cash dividends paid	**(1,444)**	(1,064)	**(15,353)**
Others	**(36)**	(28)	**(382)**
Net cash used in financing activities	**(3,004)**	(1,094)	**(31,940)**
Effect of exchange rate changes on cash and cash equivalents	**885**	(151)	**9,410**
Net increase (decrease) in cash and cash equivalents	**3,121**	(1,824)	**33,185**
Cash and cash equivalents at beginning of year	**34,189**	36,013	**363,519**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**1,018**	—	**10,824**
Cash and cash equivalents at end of year (Note 16)	**¥38,328**	¥34,189	**$407,528**

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 net 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.

(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 accrue 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, 2012 have been reclassified to conform to the year ended March 31, 2013 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 ¥94.05=U.S.$1, the approximate exchange rate prevailing in the Japanese foreign exchange market on March 31, 2013. 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) Changes in method of depreciation of property, plant and equipment

Effective from the year ended March 31, 2013, upon the amendment to the Corporation Tax Law of Japan, the Company and its domestic consolidated subsidiaries changed their method of depreciation to the depreciation method permitted under the Corporation Tax Law of Japan after amendment for property, plant and equipment acquired on or after April 1, 2012.

The effect of the adoption of this changes is immaterial for the year ended March 31, 2013.

5. Accounting Standards issued but not yet applied

(a) Accounting standard for Retirement Benefits (ASBJ Statement No.26, issued May 17, 2012) and Implementation Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25, issued May 17, 2012)

① Overview

Under the revised accounting standard, actuarial gain or loss and prior service cost should be recognized in net assets on the consolidated balance sheet, after adjustment tax effects, and the funding deficit or surplus should be recognized as liability or asset. The new accounting standard permit a choice for the method of attributing expected benefits to periods of either the straight line bases or plan's benefit formula basis. In addition, the determination method of discount rate was amended.

② Application due date

The revised accounting standard is effective at the end of the fiscal year ending March 31, 2014, except for the amendment of the calculation method for present value of defined benefit obligation and current service costs which is effective at the beginning of the fiscal year ending March 31, 2015. In addition, the revised accounting standard is not retrospectively applied to the prior year's financial statements.

③ The effect of the adoption

The effect of the adoption of the revised accounting standard to the accompanying consolidated financial statements will be significantly affecting, mainly, other comprehensive income or loss on the consolidated balance sheet will due to recognition of unrecognized actuarial gain or loss. The amount of this effect is now under assessment.

6. Securities

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

	Millions of yen					
	2013			2012		
	Acquisition cost	Carrying value	Unrealized gains	Acquisition cost	Carrying value	Unrealized gains
Equity securities	**¥1,712**	**¥5,072**	**¥3,360**	¥1,716	¥4,031	¥2,315
	¥1,712	**¥5,072**	**¥3,360**	¥1,716	¥4,031	¥2,315

	Thousands of U.S. dollars		
	2013		
	Acquisition cost	Carrying value	Unrealized gains
Equity securities	**$18,203**	**$53,929**	**$35,726**
	$18,203	**$53,929**	**$35,726**

Losses on devaluation of marketable equity securities for the years ended March 31, 2013 and 2012 were ¥4 million ($43 thousand) and ¥8 million, respectively.

Negotiable certificates are classified as non-marketable securities of deposit of ¥17,000 million ($180,755 thousand) and ¥13,500 million as of March 31, 2013 and 2012, respectively. Non-marketable equity securities as other securities primary consist of ¥168 million ($1,786 thousand) and ¥170 million as of March 31, 2013 and 2012, respectively. Losses on devaluation of non-marketable equity securities as other securities for the year ended march 31, 2013 was ¥2 million ($21 thousand).

7. Property, Plant and Equipment

Property, plant and equipment at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Land	**¥6,193**	¥6,203	**$65,848**
Buildings and structures	**34,387**	34,248	**365,625**
Machinery and equipment	**29,520**	29,832	**313,876**
Vehicles	**389**	388	**4,136**
Tools, furniture and fixtures	**7,159**	6,895	**76,119**
Lease assets	**191**	140	**2,030**
Construction in progress	**39**	188	**415**
	77,878	77,894	**828,049**
Less accumulated depreciation	**(58,048)**	(56,774)	**(617,204)**
	¥19,830	¥21,120	**$210,845**

Depreciation expense for the years ended March 31, 2013 and 2012 were ¥2,065 million ($21,956 thousand) and ¥2,276 million, respectively.

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

The annual interest rates applicable to the short-term bank loans outstanding on March 31, 2013 and 2012 ranged principally from 0.66% to 2.82% and 0.61% to 5.94%, respectively. Long-term debt on March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Loans, principally from Japanese banks and insurance companies maturing 2013, interest 0.93 % - 1.95 %	**¥6,100**	¥6,800	**$64,859**
	6,100	6,800	**64,859**
Less current portion	**6,100**	700	**64,859**
	¥—	¥6,100	**$—**

The aggregate annual maturities of long-term debt at March 31, 2013 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014	**¥6,100**	**$64,859**
2015	**—**	**—**
2016	**—**	**—**
2017	**—**	**—**
2018 and later	**—**	**—**
Total	**¥6,100**	**$64,859**

The aggregate annual maturities of finance lease obligations at March 31, 2013 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014	**¥32**	**$340**
2015	**21**	**223**
2016	**17**	**181**
2017	**8**	**85**
2018 and later	**1**	**11**
Total	**¥79**	**$840**

9. Employees' Retirement Benefits

(a) Overview

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.

One domestic consolidated subsidiary have joined the pension fund of a comprehensive funding

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Amount of pension assets	**¥254,797**	¥258,978	**$2,709,165**
Amount of obligation	**299,366**	300,201	**3,183,052**
Difference	**¥(44,569)**	¥(41,221)	**$(473,887)**

	2013	2012
Premium contribution percentage of the company as a percentage of the whole system	**0.565%**	0.518%

(b) Projected benefit obligation

The liability for employees' retirement benefits at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Projected benefit obligation	**¥14,666**	¥13,752	**$155,938**
Fair value of plan assets	**(3,902)**	(3,452)	**(41,488)**
Unfounded status	**10,764**	10,300	**114,450**
Unrecognized transitional obligation	**(926)**	(1,389)	**(9,846)**
Unrecognized actuarial loss	**(1,427)**	(673)	**(15,173)**
Accrued retirement benefits obligation	**¥8,411**	¥8,238	**$89,431**

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

(c) Benefit costs

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥683	¥733	$7,262
Interest cost	218	221	2,318
Expected return on plan assets	(62)	(60)	(659)
Amortization of transitional obligation	463	463	4,923
Recognized actuarial loss	109	70	1,159
Periodic benefit costs	¥1,411	¥1,427	$15,003
Defined contribution plan premium	177	177	1,882
Total	¥1,588	¥1,604	$16,885

(d) Bases of calculation for projected benefit obligation

① Period allocation method of estimate benefit payment
Period straight-line method

② Discount rate

2013	2012
1.1%	2.0%

③ Expected rate of return on plan assets

2013	2012
2.0%	2.0%

④ Amortization period of actuarial loss/gain

2013	2012
10 years	10 years

⑤ Amortization period of transitional obligation

2013	2012
15 years	15 years

10. Contingent Liabilities

On March 31, 2013, contingent liabilities for loans guaranteed by the Company, principally on behalf of non-consolidated subsidiaries and affiliated companies, amounted to ¥619 million ($6,582 thousand).

11. 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, 2013 and 2012, 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	2013	2012	2013
Machinery, equipment and vehicles	¥169	¥273	$1,797
Tools, furniture and fixtures	328	399	3,488
Less-Accumulated depreciation	(494)	(631)	(5,253)
Net book value	¥3	¥41	$32

Future lease payments (including the interest portion thereon) subsequent to March 31, 2013 and 2012 for finance leases accounted for as operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Due within one year	**¥3**	¥38	**$32**
Due after one year	**—**	3	**—**
Total	**¥3**	¥41	**$32**

Periodic lease expenses, as a lessee, charged to income for the years ended March 31, 2013 and 2012 were ¥39 million ($415 thousand) and ¥97 million, respectively. The pro forma amounts of depreciation for the years ended March 31, 2013 and 2012 would be calculated at ¥39 million ($415 thousand) and ¥97 million by using the straight-line method over the lease term with no salvage value.

12. 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 13. 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 (¥5,600 million ($59,543 thousand) at March 31, 2013) 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 ($541,722 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 13. Derivative Financial Instruments below are not an indicator of the market risk associated with derivative transactions.

Fair value of financial instruments

Carrying value of financial instruments as of March 31, 2013 and 2012, and their fair value were as follows: (Financial instruments whose fair value was extremely difficult to determine were not included.)

	Millions of yen					
	2013			2012		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and deposits	**¥21,328**	**¥21,328**	**¥ —**	¥20,689	¥20,689	¥ —
Notes and accounts receivable, trade	**40,006**	**40,000**	**(6)**	45,730	45,724	(6)
Marketable securities and investment securities	**25,970**	**32,618**	**6,648**	21,356	29,994	8,638
Total assets	**¥87,304**	**¥93,946**	**¥6,642**	¥87,775	¥96,407	¥8,632
Short-term bank loans	**¥16,859**	**¥16,859**	**¥ —**	¥12,110	¥12,110	¥ —
Notes and accounts payable, trade	**21,999**	**21,999**	**—**	30,676	30,676	—
Long-term debt	**—**	**—**	**—**	6,100	6,100	(0)
Total liabilities	**¥38,858**	**¥38,858**	**¥ —**	¥48,886	¥48,886	¥(0)
Derivatives	**¥(0)**	**¥(0)**	**¥ —**	¥(20)	¥(20)	¥ —

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Difference
Cash and deposits	**$226,773**	**$226,773**	**$ —**
Notes and accounts receivable, trade	**425,369**	**425,306**	**(63)**
Marketable securities and investment securities	**276,130**	**346,815**	**70,685**
Total assets	**$928,272**	**$998,894**	**$70,622**
Short-term bank loans	**$179,256**	**$179,256**	**$ —**
Notes and accounts payable, trade	**233,907**	**233,907**	**—**
Long-term debt	**—**	**—**	**—**
Total liabilities	**$413,163**	**$413,163**	**$ —**
Derivatives	**$(0)**	**$(0)**	**$ —**

*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 13. Derivative Financial Instruments.

(b) Financial instruments whose fair value was extremely difficult to determine at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Investment securities for which the market prices are not available	**¥5,469**	¥567	**$58,150**

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, 2013 and 2012 were as follows:

	Millions of yen							
	2013				2012			
	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	**¥21,319**	**¥ —**	**¥ —**	**¥ —**	¥20,680	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	**39,839**	**167**	**—**	**—**	45,210	520	—	—
Marketable securities and investment securities:								
Negotiable certificate of deposit	**17,000**	**—**	**—**	**—**	13,500	—	—	—
Total	**¥78,158**	**¥167**	**¥ —**	**¥ —**	¥79,390	¥520	¥ —	¥ —

	Thousands of U.S. dollars			
	2013			
	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	**$226,677**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable, trade	**423,594**	**1,775**	**—**	**—**
Marketable securities and investment securities:				
Negotiable certificate of deposit	**180,755**	**—**	**—**	**—**
Total	**$831,026**	**$1,775**	**$ —**	**$ —**

(d) Annual maturities of short-term bank loans and long-term debt

Year ended March 31, 2013	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	**¥10,759**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Long-term debt	**6,100**	**—**	**—**	**—**	**—**	**—**
Total	**¥16,859**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**

Year ended March 31, 2012	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥11,410	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	700	6,100	—	—	—	—
Total	¥12,110	¥6,100	¥ —	¥ —	¥ —	¥ —

Year ended March 31, 2013	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	**$114,397**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Long-term debt	**64,859**	**—**	**—**	**—**	**—**	**—**
Total	**$179,256**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

13. 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, 2013 and 2012 were as follows:

		Millions of yen					
		2013			2012		
	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		**¥ —**	**¥ —**	**¥ —**	¥375	¥ —	¥(20)
Euro	accounts receivable	**—**	**—**	**—**	1	—	0
British pound		**7**	**—**	**(0)**	—	—	—
Appropriated accounting for foreign currency							
Foreign exchange forward contracts:							
To sell foreign currencies:							
U.S. dollars		**3,266**	**—**	**—**	4,968	—	—
Euro	accounts receivable	**4**	**—**	**—**	47	—	—
Canadian dollars		**194**	**—**	**—**	123	—	—
To buy foreign currencies:							
U.S. dollars	accounts payable	**557**	**—**	**—**	400	—	—
Total		**¥4,028**	**¥ —**	**¥ —**	¥5,914	¥ —	¥ —

	Hedged item	Thousands of U.S. dollars 2013 Contract amount	Contract amount due after one year	Fair value
Accounting in principle				
Foreign exchange forward contracts:				
To sell foreign currencies:				
U.S. dollars		**$ —**	**$ —**	**$ —**
Euro	accounts receivable	**—**	**—**	**—**
British pound		**74**	**—**	**—**
Appropriated accounting for foreign currency				
Foreign exchange forward contracts:				
To sell foreign currencies:				
U.S. dollars		**34,726**	**—**	**—**
Euro	accounts receivable	**43**	**—**	**—**
Canadian dollars		**2,063**	**—**	**—**
To buy foreign currencies:				
U.S. dollars	accounts payable	**5,922**	**—**	**—**
Total		**$42,828**	**$ —**	**$ —**

14. Pledged Assets

The following assets were pledged as collateral at March 31, 2013 and 2012 to secure short-term bank loans amounting to ¥2 million ($21 thousand). (See Note 8):

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Land	**¥581**	¥581	**$6,178**
Machinery and equipment, net	**2**	13	**21**
Buildings and structures, net	**1,840**	2,040	**19,564**
Total	**¥2,423**	¥2,634	**$25,763**

15. 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, 2013 and 2012 were 37.2% and 39.7%, respectively.

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

	2012
Statutory tax rate	39.7%
Per-capita portion of inhabitant tax	0.4
Permanently non-taxable revenue	(0.4)
Permanently non-deductible expenses	0.6
Effects of elimination	(3.3)
Utilization of tax loss carry forwards	(9.7)
Change in valuation allowance	(6.9)
Difference in tax rates of consolidated subsidiaries	(0.9)
Effect of amount of deferred tax assets by tax rate change	7.5
Other	(0.5)
Effective tax rate	26.5%

Reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2013 is not presented, because the difference between the statutory rate and effective tax rate of income taxes less than 5%.

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Accrued employees' bonuses	**¥921**	¥972	**$9,793**
Allowance for doubtful receivables	**64**	21	**680**
Devaluation of inventories	**518**	655	**5,508**
Devaluation of securities	**382**	455	**4,062**
Accrued employees' retirement benefits	**2,976**	2,942	**31,643**
Amount not shifted to defined contribution pension plan	**10**	21	**106**
Unrealized intercompany profit on inventories	**592**	359	**6,295**
Enterprise tax payable	**208**	37	**2,212**
Other	**2,098**	2,043	**22,306**
Total deferred tax assets	**¥7,769**	¥7,505	**$82,605**
Valuation allowance	**(4,132)**	(3,098)	**(43,934)**
Net deferred tax assets	**¥3,637**	¥4,407	**$38,671**
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	**(137)**	(144)	**(1,457)**
Unrealized gain on securities	**(1,138)**	(785)	**(12,100)**
Asset retirement obligations	**(7)**	(7)	**(74)**
Foreign consolidated subsidiaries' retained earning	**(385)**	(191)	**(4,093)**
Total deferred tax liabilities	**¥(1,667)**	¥(1,127)	**$(17,724)**
Net deferred tax assets	**¥1,970**	¥3,280	**$20,947**

16. 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, 2013 and 2012 were presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and time deposits	**¥21,328**	¥20,689	**$226,773**
Marketable securities	**17,000**	13,500	**180,755**
Cash and cash equivalents	**¥38,328**	¥34,189	**$407,528**

17. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Sales commission	**¥2,268**	¥2,109	**$24,115**
Delivering expenses	**3,462**	3,181	**36,810**
Provision for warranty reserve	**515**	306	**5,476**
Personnel-expenses	**10,501**	9,814	**111,653**
Retirement benefit expense	**559**	545	**5,944**
Depreciation	**599**	590	**6,369**
Rent expenses	**743**	689	**7,900**
Traveling expenses	**1,302**	1,110	**13,844**
Research and development expenses	**1,064**	1,052	**11,313**
Outside order expenses	**495**	400	**5,263**
Others	**4,019**	4,000	**42,733**
Total	**¥25,527**	¥23,796	**$271,420**

18. Research and Development Costs

Research and development costs charged to income were ¥1,566 million ($16,651 thousand) and ¥1,582 million for the years ended March 31, 2013 and 2012, respectively.

19. Loss on Impairment of Fixed Assets

Grouping of assets is based on the business units, except for idle asset, which is grouped individually. Loss on impairment of fixed assets for the year ended March 31, 2013 amounted to ¥71 million ($755 thousand).

The recoverable value of assets was calculated based in their estimated future cash flows, except land and buildings, for which the recoverable value was calculated by the market value.

The loss on impairment of fixed assets for the year ended March 31, 2013 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
		2013	2013
Numazu-shi, Shizuoka-ken, Japan:			
Buildings and structures	Idle property	¥50	$531
Machinery and equipment	Idle property	0	0
Sub total		50	531
Itami-shi, Osaka-fu, Japan:			
Land	Idle property	3	32
Buildings	Idle property	9	96
Sub total		12	128
Fukuoka-shi, Fukuoka-ken, Japan:			
Land	Idle property	2	21
Buildings	Idle property	7	75
Sub total		9	96
Otsu-shi, Shiga-ken, Japan:			
Land	Idle property	0	0
Total		¥71	$755

20. Other comprehensive income

The components of other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized holding gain on securities:			
Current period changes in unrealized gain (loss)	¥1,042	¥509	$11,079
Reclassification adjustment	3	(209)	32
Total unrealized holding gain on securities before tax effects	1,045	300	11,111
Tax effects	(353)	(6)	(3,753)
Unrealized holding gain on securities, net of tax effects	692	294	7,358
Deferred gains or losses on hedge:			
Current period changes in unrealized gain (loss)	20	(22)	213
Total deferred gains or losses on hedge, before tax effects	20	(22)	213
Tax effects	(7)	8	(75)
Deferred gains or losses on hedge, net of tax effects	13	(14)	138
Foreign currency translation adjustments:			
Current period changes	872	(161)	9,272
Total other comprehensive income	¥1,577	¥119	$16,768

21. 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.

22. Related Party Transactions

During the years ended March 31, 2013 and 2012, the Companies had operational transactions with Toshiba Corporation, a 22.1% shareholder of the Company.

A summary of the significant transactions with Toshiba Corporation for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
For the years ended March 31:			
Payment of brand fee	**¥220**	¥224	**$2,339**
Sales of investments in affiliates	**3,952**	—	**42,020**
Gain on sales of investments in affiliates	**2,495**	—	**26,528**

Note: Brand fee rate was contracted beforehand.
Sales price of investment in affiliates was determined based on the market price

During the year ended March 31, 2012, the Companies had operational transaction with Toshiba Machine (Thailand) Co., Ltd, a 100% unconsolidated subsidiary. From the year ended March 31, 2013, Toshiba Machine (Thailand) Co., Ltd has included the Companies.

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
	2012
For the year ended March 31:	
Notes and accounts receivable, trade	¥1,761

Note: Trading prices were market prices.

During the years ended March 31, 2013 and 2012, the Companies had operational transactions with NuFlare Technology, Inc., a 15.1% and 21.3% affiliate of the Company.

A summary of the significant transactions with NuFlare Technology, Inc. for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
For the years ended March 31:			
Rent income for land, buildings and structures	**¥120**	¥120	**$1,276**

Note: Rent price was market price.

23. Net Income and Net Assets per Share

Net income and net assets per share for the years ended March 31, 2013 and 2012 were as follows:

	Yen		U.S. dollars
	2013	2012	**2013**
Net income per share	**¥51.91**	¥44.21	**$0.55**
Net assets per share	**522.26**	467.67	**5.55**

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

	Thousands of shares	
	2013	2012
Weighted-average number of shares of common stock	**152,032**	152,034

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Net income	**¥7,891**	¥6,721	**$83,902**
Net income not applicable to shareholders of common stock	**—**	—	**—**
Net income applicable to shareholders of common stock	**¥7,891**	¥6,721	**$83,902**

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

	Thousands of shares	
	2013	2012
Number of shares at year-end	**152,032**	152,033

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Net assets	**¥79,400**	¥71,101	**$844,232**
Minority interests in consolidated subsidiaries	**—**	—	**—**
Net assets applicable to shareholders of common stock	**¥79,400**	¥71,101	**$844,232**

24. Segment Information

(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, 2013 and 2012 were as follows:

Year ended March 31, 2013 — Millions of yen

	Reportable segments							
	Molding Machinery	Machine Tools	Hydraulic Equipment	Sub total	Other Products	Total	Adjustments	Consolidated
Net Sales:								
External customers	**¥73,189**	**¥28,902**	**¥9,750**	**¥111,841**	**¥9,018**	**¥120,859**	**¥ —**	**¥120,859**
Inter-segment	**—**	**63**	**73**	**136**	**2,487**	**2,623**	**(2,623)**	**—**
Total	**73,189**	**28,965**	**9,823**	**111,977**	**11,505**	**123,482**	**(2,623)**	**120,859**
Segment income	**¥6,083**	**¥1,823**	**¥(112)**	**¥7,794**	**¥(173)**	**¥7,621**	**¥417**	**¥8,038**
Segment assets	**¥64,948**	**¥37,038**	**¥6,519**	**¥108,505**	**¥15,154**	**¥123,659**	**¥18,580**	**¥142,239**
Others								
Depreciation	**¥907**	**¥484**	**¥448**	**¥1,839**	**¥226**	**¥2,065**	**¥ —**	**¥2,065**
Capital expenditure	**295**	**138**	**129**	**562**	**208**	**770**	**—**	**770**

Year ended March 31, 2012 — Millions of yen

	Reportable segments							
	Molding Machinery	Machine Tools	Hydraulic Equipment	Sub total	Other products	Total	Adjustments	Consolidated
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, 2013 — Thousands of U.S. dollars

	Reportable segments							
	Molding Machinery	Machine Tools	Hydraulic Equipment	Sub total	Other products	Total	Adjustments	Consolidated
Net Sales:								
External customers	**$778,192**	**$307,305**	**$103,668**	**$1,189,165**	**$95,886**	**$1,285,051**	**$ —**	**$1,285,051**
Inter-segment	**—**	**669**	**777**	**1,446**	**26,443**	**27,889**	**(27,889)**	**—**
Total	**778,192**	**307,974**	**104,445**	**1,190,611**	**122,329**	**1,312,940**	**(27,889)**	**1,285,051**
Segment income	**$64,677**	**$19,383**	**$(1,190)**	**$82,870**	**$(1,839)**	**$81,031**	**$4,434**	**$85,465**
Segment assets	**$690,569**	**$393,812**	**$69,314**	**$1,153,695**	**$161,127**	**$1,314,822**	**$197,554**	**$1,512,376**
Others								
Depreciation	**$9,644**	**$5,146**	**$4,763**	**$19,553**	**$2,403**	**$21,956**	**$ —**	**$21,956**
Capital expenditure	**3,137**	**1,467**	**1,372**	**5,976**	**2,211**	**8,187**	**—**	**8,187**

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, 2013 and 2012 were as follows:

Sales	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Total reportable segments	**¥111,977**	¥108,783	**$1,190,611**
Other products	**11,505**	13,669	**122,329**
Eliminations	**(2,623)**	(2,933)	**(27,889)**
Net sales on consolidated financial statements	**¥120,859**	¥119,519	**$1,285,051**

Income	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Total reportable segments	**¥7,794**	¥6,887	**$82,870**
Other products	**(173)**	189	**(1,839)**
Eliminations	**417**	335	**4,435**
Operating income on consolidated financial statements	**¥8,038**	¥7,411	**$85,466**

Assets	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Total reportable segments	**¥108,505**	¥108,710	**$1,153,695**
Other products	**15,154**	19,415	**161,127**
Company-wide assets	**21,689**	20,278	**230,611**
Eliminations	**(3,109)**	(6,106)	**(33,057)**
Net assets on consolidated financial statements	**¥142,239**	¥142,297	**$1,512,376**

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, 2013 and 2012 were follows:

Millions of yen				
2013				
Japan	North America	Asia	Other	Total
¥46,293	**¥17,451**	**¥54,454**	**¥2,661**	**¥120,859**

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

Thousands of U.S. dollars				
2013				
Japan	North America	Asia	Other	Total
$492,217	**$185,550**	**$578,990**	**$28,294**	**$1,285,051**

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

Property, plant and equipment information about geographical areas for the years ended March 31, 2013 and 2012 were follows:

Millions of yen			
2013			
Japan	North America	Asia	Total
¥18,758	**¥188**	**¥884**	**¥19,830**

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

Thousands of U.S. dollars			
2013			
Japan	North America	Asia	Total
$199,447	**$1,999**	**$9,399**	**$210,845**

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, 2013 and 2012.

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

Information about impairment loss on long-lived assets for the years ended March 31, 2013 was follows:

Millions of yen					
2013					
Molding Machinery	Machine Tools	Hydraulic Equipment	Other products	Adjustments	Total
¥ —	**¥ —**	**¥ —**	**¥71**	**¥ —**	**¥71**

Thousands of U.S. dollars					
2013					
Molding Machinery	Machine Tools	Hydraulic Equipment	Other products	Adjustments	Total
$ —	**$ —**	**$ —**	**$755**	**$ —**	**$755**

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

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

There was no applicable matter for the years ended March 31, 2013 and 2012.

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

There was no applicable matter for the years ended March 31, 2013 and 2012.

25. 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, 2013, were approved at the meeting of the Board of Directors held on April 30, 2013:

Cash dividends (¥4.50 = $0.05 per share) ¥684 million ($7,273 thousand)

Report of Independent Auditors

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 26, 2013
Tokyo, Japan

Directors & Audit and Supervisory Board Members

Directors

President and Chief Executive Officer

Yukio Iimura

Diector and Senior Managing Executive Officer

Yoshihiro Kishimoto

Directors and Managing Executive Officers

Satoshi Hironaka

Shigetomo Sakamoto

Directors and Executive Officers

Masayuki Yagi

Makoto Tsuji

Kazuo Takamura

Katsuo Ito

Outside Directors

Kan Akiyama

Yoshihiro Ogura

Audit and Supervisory Board Members

Teruyuki Makino

Takanao Suzuki

Shinsuke Wataya

Kazuo Tanigawa

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