TOSHIBA MACHINE

# Annual Report 2014

## 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, 2014)

| | |
|---|---|
| Company Name: | TOSHIBA MACHINE CO., LTD. |
| Headquarters: | 2068-3, Ooka, Numazu-shi,<br>Shizuoka-ken 410-8510, Japan |
| Established: | 1938 |
| Capital: | ¥12,485million (US$121,308thousands) |
| Shares of Common Stock<br>Issued and Outstanding: | 166,885,530 shares |
| Number of Shareholders: | 11,176 |
| Number of Employees: | 1,859 (Consolidated: 3,454) |

## Foreword 2014

The Toshiba Machine Group initiated its midterm management plan, the “TM AC Plan (Toshiba Machine Adapt to the Change Plan)”, based on the fundamental concepts of “advancement and expansion”, on April 1, 2010. We are pursuing two strategies in tandem: an “advancement strategy” focused on advanced products created from our core technologies which contribute to that portion of the new industrial pyramid concerned with energy and ecology, and an “expansion strategy” aimed at revitalizing our existing products and expanding in the developing markets which make up the broad base of the current industrial pyramid.

In fiscal year ended March 31,2014, government economic measures curbed the strength of the Yen and increased share prices, leading to improved domestic business confidence.

In overseas markets, although emerging economies such as China and Southeast Asia slowed down, the North American economy remained bullish. In the present economic climate, domestic capital investment is bearish but moving toward recovery. Overseas, although the Chinese market continues to stagnate, there was strong demand from some emerging economies as well as from the USA and Mexico. However, overall the climate is still difficult.

Amidst the background of the severe economic climate and changing industrial structure, the Toshiba Machine Group continued to implement the policies of the “TM AC Plan Ad I” in fiscal year ended March 31, 2014. We made intensive efforts to develop new products for domestic and overseas markets, develop new markets, and secure orders. We increased universal recognition of the Toshiba Machine brand through the Thailand Plant which is now operating at full capacity and the presence of a local sales affiliate in Brazil.

As a result, consolidated orders received totaled ¥120,221 million (US$ 1,168,101 thousands), a 7.2% increase on the previous term. Consolidated net sales totaled ¥113,062 million (US$ 1,098,543 thousands), a 6.5% fall from the previous term.

Profit and loss were as follows: decreased sales and harsh market conditions resulted in an operating income of ¥4,625 million (US$ 44,938 thousands), a decrease of 42.7% on the previous term, and a net income of ¥4,444 million (US$ 43,179 thousands), a decrease of 43.7% on the previous term.

We paid out dividends of ¥7.5(US$0.07) for fiscal year ended March 31, 2014.

Key factors likely to influence the domestic and overseas economic outlook include ongoing and unpredictable situations such as the slowing of growth in some developing countries and more intense competition with domestic and overseas businesses, but we also anticipate improvement in the domestic economy as well as a turn towards favorable conditions for orders in overseas markets in certain regions and for certain products.

Under the “TM AC Plan Advanced II” initiated on April 1, 2014, we continue to hold “advancement and expansion” and “multi-domestic and global governance” as fundamental concepts. To these we add the concept of the “promotion of individual globalization”, and continue to engage in expanding sales and raising the profile of the Toshiba Machine Group in the global market which is expected to provide our future growth.

Our marketing strategies include the timely acquisition of market information, connecting thorough benchmarking and analysis with increased product selling power, and the expansion of sales in the global market. We also intend to increase business opportunities by sharing marketing information between divisions, and to penetrate potential regions and markets which we were previously unable to enter satisfactorily.

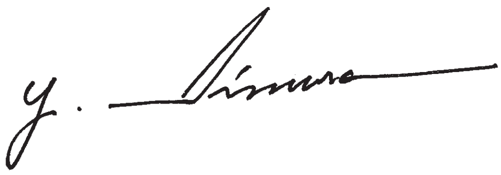
Group development and technology strategies will focus on developing products which contribute to growth industries concerned with energy and ecology. Our cutting edge research and development must include product planning based on careful market analysis to exactly capture customer requirements, so we can stay ahead of other companies and offer advanced products to these growth industries.

We also intend to increase the speed of product development by actively incorporating development resources from external development institutions.

Our production and procurement strategy is centered on the main factory in Japan, which specializes in production for high added-value regions, and improving our factories to ensure superior labor productivity through upgraded manufacturing technology and production management. We will simultaneously focus our attention upon our global manufacturing strategy and procurement strategy to further develop our potential. Furthermore, we will continue to strengthen our overseas production bases, the Shanghai Plant and now also the Thailand Plant and India Plant, to create a production system which can withstand political, economic, and disaster risks, while engaging in highly cost-competitive manufacturing, and pursuing larger scales of production and high production efficiency centered on products for developing markets.

Finally, our strategy to strengthen our financial base involves the creation of an organizational structure which enables domestic and overseas operating activities to work efficiently as we aim to become a global company. The basis for these developments will be to foster personnel capable of doing business globally, and actively implementing “visualization of management” whilst making full use of our IT infrastructure and improving the capabilities of the Japanese head office. Overseas operational activities will be regulated and supported through the global governance abilities of the Japanese head office as we aim to increase the speed of managerial decision-making and the effectiveness of business management, continuously growing both sales and profits.

We will also focus on consistent quality and environmental management based on ISO9001 and 14001, and develop personnel who will be responsible for the future of the company while proactively engaging with our corporate social responsibilities such as compliance and social contribution.



# FINANCIAL HIGHLIGHTS (consolidated)

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Net sales | ¥113,062 | ¥120,899 | ¥119,550 | ¥95,713 | ¥74,694 |
| | **$1,098,543** | | | | |
| Cost of sales | ¥81,481 | ¥87,294 | ¥88,312 | ¥69,997 | ¥56,470 |
| | **$791,693** | | | | |
| Selling, general and | ¥26,956 | ¥25,527 | ¥23,796 | ¥21,628 | ¥20,040 |
| administrative expenses | **$261,912** | | | | |
| Operating income (loss) | ¥4,625 | ¥8,078 | ¥7,442 | ¥4,088 | ¥(1,816) |
| | **$44,938** | | | | |
| Income (loss) before income | ¥6,507 | ¥12,239 | ¥9,149 | ¥3,749 | ¥(2,032) |
| taxes and minority interests | **$63,224** | | | | |
| Income taxes | ¥2,063 | ¥4,348 | ¥2,428 | ¥469 | ¥2,499 |
| | **$20,045** | | | | |
| Net income (loss) | ¥4,444 | ¥7,891 | ¥6,721 | ¥3,280 | ¥(4,531) |
| | **$43,179** | | | | |
| Comprehensive income | ¥6,893 | ¥9,468 | ¥6,840 | ¥2,410 | — |
| | **$66,975** | | | | |
| Per common share: | | | | | |
| Net income (loss) | ¥29.23 | ¥51.91 | ¥44.21 | ¥21.57 | ¥(29.80) |
| | **$0.28** | | | | |
| Cash dividends | ¥7.50 | ¥9.00 | ¥9.00 | ¥4.50 | ¥4.50 |
| | **$0.07** | | | | |
| Total assets | ¥148,680 | ¥142,239 | ¥142,297 | ¥131,203 | ¥115,806 |
| | **$1,444,617** | | | | |
| Net assets | ¥84,217 | ¥79,400 | ¥71,101 | ¥65,325 | ¥63,372 |
| | **$818,276** | | | | |
| Capital expenditure | ¥1,767 | ¥770 | ¥1,052 | ¥2,044 | ¥625 |
| (property, plant and equipment) | **$17,169** | | | | |
| Depreciation | ¥1,841 | ¥2,065 | ¥2,276 | ¥2,322 | ¥2,514 |
| | **$17,888** | | | | |
| R & D Cost | ¥1,551 | ¥1,566 | ¥1,582 | ¥1,399 | ¥1,567 |
| | **$15,070** | | | | |
| Number of employees | 3,454 | 3,197 | 3,157 | 3,140 | 3,067 |

Note1: In millions of yen (thousands of U.S. dollars) except for number of employees and per-share data.
Note2: Yen amounts have been translated into U.S. dollars, for convenience only, at the exchange rate of ¥102.92=U.S.$1. See Note 3 of the Notes to the Consolidated Financial Statements.

## Overseas Operations for Fiscal Year Ended March 31,2014

Government economic measures in fiscal year ended March 31, 2014 curbed the strength of the Yen and boosted share prices, leading to improved domestic business confidence. In overseas markets, the North American economy remained bullish, even though emerging economies such as China and Southeast Asia slowed down. In the present economic climate, domestic capital investment is bearish but moving toward recovery. Overseas, although the Chinese market continues to stagnate, there was strong demand from some emerging economies as well as from the USA and Mexico. However, overall, the severe climate still persists.

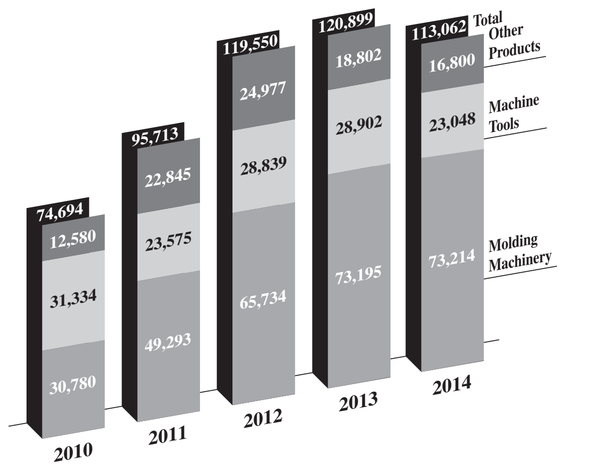
Faced with these severe economic conditions, the Toshiba Machine Group initiated the midterm management plan "TM AC Plan Ad. I (Toshiba Machine Adapt to the Change Plan Advanced I)" in April 2013. The Group has focused all of its efforts on market development, securing orders, new product development for domestic and overseas markets, and improving the Group's financial standing. We are actively increasing universal recognition of the Toshiba Machine brand, with the Thailand Plant now operating at full capacity and with the establishment of local sales affiliates in Brazil.

This has resulted in stronger capital investment from emerging countries, such as China and Southeast Asia, and from the automotive and IT industries catering to the USA. This term's consolidated overseas sales totaled ¥66,192 billion (US$ 643,141thousands), a decrease of 11.3% on the previous term.

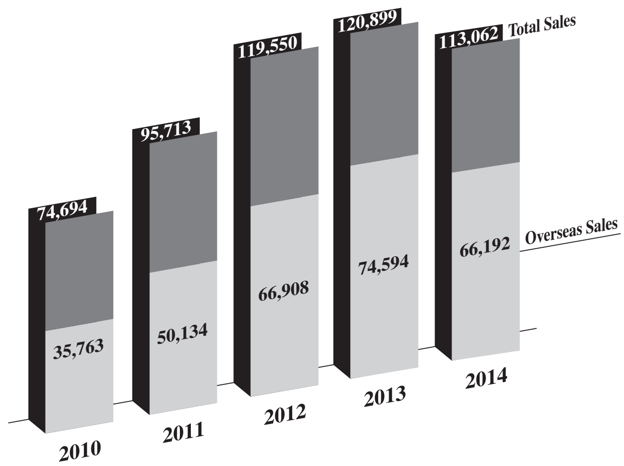
Injection molding machines, die-casting machines and machine tools were our leading product types, and most export destinations were in Asia.

The Group underwent business restructuring in fiscal year ended March 31, 2014 under the "TM AC Plan Advanced I", and in fiscal year ended March 31, 2015, we will formulate and implement the "TM AC Plan Advanced II". Maintaining our core business concepts of "advancement and expansion", we aim to penetrate global markets through universal recognition of the Toshiba Machine brand, and bring the Toshiba Machine Group together as one in order to transform ourselves into a truly global company.

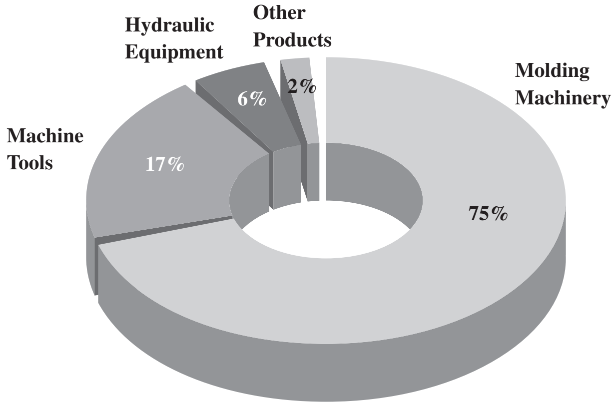
**Net Sales**
Millions of yen




**Total Sales & Overseas Sales**
Millions of yen




**Export Percentages by Major Products**



# Overseas Offices

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# Financial Review

## CONSOLIDATED BALANCE SHEET

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2014

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| ASSETS | **2014** | 2013 | **2014** |
| **Current assets:** | | | |
| Cash and deposits (Notes 14 and 18) | **¥21,779** | ¥21,328 | **$211,611** |
| Marketable securities (Notes 7 ,14 and 18) | **19,500** | 17,000 | **189,468** |
| Notes and accounts receivable, trade (Note 14) | **37,952** | 40,006 | **368,752** |
| Allowance for doubtful receivables | **(178)** | (142) | **(1,729)** |
| Net receivables | **37,774** | 39,864 | **367,023** |
| Inventories: | | | |
| Finished products | **6,273** | 5,207 | **60,950** |
| Work in process | **20,971** | 18,570 | **203,760** |
| Raw materials and supplies | **75** | 67 | **729** |
| Total inventories | **27,319** | 23,844 | **265,439** |
| Deferred tax assets (Note 17) | **2,898** | 3,178 | **28,158** |
| Other current assets | **2,206** | 1,627 | **21,434** |
| Total current assets | **111,476** | 106,841 | **1,083,133** |
| **Property, plant and equipment, net** (Notes 8, 13 and 16) | **21,109** | 19,830 | **205,101** |
| **Intangible assets** (Note 9) | **3,667** | 400 | **35,630** |
| **Investments and other assets:** | | | |
| Investments in: | | | |
| Unconsolidated subsidiaries and affiliates (Note 14) | **5,738** | 9,198 | **55,752** |
| Other securities (Notes 7 and 14) | **5,823** | 5,240 | **56,578** |
| Long-term loans | **78** | 93 | **758** |
| Deferred tax assets (Note 17) | **60** | 65 | **583** |
| Other investments | **729** | 572 | **7,082** |
| Total investments and other assets | **12,428** | 15,168 | **120,753** |
| **Total assets** | **¥148,680** | ¥142,239 | **$1,444,617** |

See accompanying notes to financial statements.

| LIABILITIES AND NET ASSETS | Millions of yen 2014 | 2013 | Thousands of U.S. dollars 2014 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Notes 10, 14 and 16) | **¥11,296** | ¥10,759 | **$109,755** |
| Current portion of long-term debt (Notes 10 and 14) | **—** | 6,100 | **—** |
| Notes and accounts payable, trade (Note 14) | **24,675** | 21,999 | **239,749** |
| Income taxes payable (Note 17) | **369** | 2,642 | **3,585** |
| Accrued expenses | **5,350** | 5,629 | **51,982** |
| Warranty reserve | **695** | 584 | **6,753** |
| Other current liabilities (Note 10) | **4,941** | 5,275 | **48,009** |
| Total current liabilities | **47,326** | 52,988 | **459,833** |
| **Long-term liabilities:** | | | |
| Long-term debt (Notes 10 and 14) | **5,300** | — | **51,496** |
| Long-term accounts payable, other | **9** | 14 | **87** |
| Accrued employees' retirement benefits (Note 11) | **—** | 8,411 | **—** |
| Accrued directors' retirement benefits | **40** | 53 | **389** |
| Net defined benefit liability (Note 11) | **10,279** | — | **99,874** |
| Asset retirement obligations | **46** | 52 | **447** |
| Deferred tax liabilities (Note 17) | **1,411** | 1,273 | **13,710** |
| Other long-term liabilities (Note 10) | **52** | 48 | **505** |
| Total long-term liabilities | **17,137** | 9,851 | **166,508** |
| **Total liabilities** | **64,463** | 62,839 | **626,341** |
| **Contingent liabilities** (Note 12) | | | |
| **Net assets:** | | | |
| **Shareholders' equity:** (Note 23) | | | |
| Common stock | | | |
| Authorized – 360,000,000 shares | | | |
| Issued – 166,885,530 shares | **12,485** | 12,485 | **121,308** |
| Additional paid-in capital | **19,601** | 19,601 | **190,449** |
| Retained earnings | **59,319** | 56,306 | **576,360** |
| Treasury stock, at cost (14,856,937 shares in 2014, 14,853,307 shares in 2013) | **(10,041)** | (10,040) | **(97,561)** |
| Total shareholders' equity | **81,364** | 78,352 | **790,556** |
| **Accumulated other comprehensive income** | | | |
| Unrealized holding gain on securities, net of tax | **2,649** | 2,222 | **25,738** |
| Deferred gains or losses on hedge, net of tax | **—** | (0) | **—** |
| Foreign currency translation adjustments | **1,601** | (1,174) | **15,556** |
| Remeasurements of defined benefit plans | **(1,397)** | — | **(13,574)** |
| Total accumulated other comprehensive income | **2,853** | 1,048 | **27,720** |
| **Total net assets** | **84,217** | 79,400 | **818,276** |
| **Total liabilities and net assets** | **¥148,680** | ¥142,239 | **$1,444,617** |

See accompanying notes to financial statements.

# CONSOLIDATED STATEMENT OF INCOME

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2014

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2014 | 2013 | 2014 |
| **Net sales** | ¥113,062 | ¥120,899 | $1,098,543 |
| **Cost of sales** (Note 20) | 81,481 | 87,294 | 791,693 |
| Gross profit | 31,581 | 33,605 | 306,850 |
| **Selling, general and administrative expenses** (Notes 19 and 20) | 26,956 | 25,527 | 261,912 |
| Operating income | 4,625 | 8,078 | 44,938 |
| **Other income:** | | | |
| Interest and dividend income | 260 | 201 | 2,526 |
| Rent income | 195 | 180 | 1,895 |
| Foreign exchange gain | 589 | 685 | 5,723 |
| Equity in earnings of affiliates | 1,763 | 1,736 | 17,130 |
| Gain on sales of property, plant and equipment | 48 | 5 | 466 |
| Gain on sales of investments in other security (Note 7) | 3 | — | 29 |
| Gain on sales of investments in affiliates | — | 2,495 | — |
| Others | 235 | 214 | 2,283 |
| | 3,093 | 5,516 | 30,052 |
| **Other expenses and losses:** | | | |
| Interest expense | 143 | 219 | 1,389 |
| Amortization of transitional obligation for employees' retirement benefits (Note 11) | 463 | 463 | 4,499 |
| Brand fee expense | 217 | 220 | 2,108 |
| Loss on disposal of property, plant and equipment and intangible assets | 26 | 7 | 253 |
| Loss on impairment of fixed assets (Note 21) | — | 71 | — |
| Loss on devaluation of investment in unconsolidated subsidiaries | 20 | — | 194 |
| Loss on devaluation of investment in other securities (Note 7) | — | 6 | — |
| Others | 342 | 369 | 3,323 |
| | 1,211 | 1,355 | 11,766 |
| Income before income taxes and minority interests | 6,507 | 12,239 | 63,224 |
| **Income taxes** (Note 17) | | | |
| Current | 1,809 | 3,497 | 17,577 |
| Deferred | 254 | 851 | 2,468 |
| | 2,063 | 4,348 | 20,045 |
| **Net income before minority interests** | 4,444 | 7,891 | 43,179 |
| **Net income** | ¥4,444 | ¥7,891 | $43,179 |

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2014 | 2013 | 2014 |
| **Net income per share of common stock** (Note 25) | ¥29.23 | ¥51.91 | $0.28 |

See accompanying notes to financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2014

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| **Net income before minority interests** | **¥4,444** | ¥7,891 | **$43,179** |
| Other comprehensive income: (Note 22) | | | |
| Unrealized holding gain on securities, net of tax | **427** | 692 | **4,148** |
| Deferred gains or losses on hedge, net of tax | **0** | 13 | **0** |
| Foreign currency translation adjustments | **2,022** | 872 | **19,648** |
| Total other comprehensive income | **2,449** | 1,577 | **23,796** |
| **Total comprehensive income** | **¥6,893** | ¥9,468 | **$66,975** |
| **Total comprehensive income attributable to parent company's interest** | **6,893** | 9,468 | **66,975** |
| **Total comprehensive income attributable to minority interests** | **¥—** | ¥— | **$—** |

See accompanying notes to financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2014

| | 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 | Remeasurements of defined benefit plans | Total net assets |
| 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 |
| Net income | | | | **4,444** | | | | | | **4,444** |
| Change in scope of consolidation | | | | **(215)** | | | | | | **(215)** |
| Purchases of treasury stock | | | | | **(1)** | | | | | **(1)** |
| Cash dividends | | | | **(1,216)** | | | | | | **(1,216)** |
| Net changes in items other than shareholders' equity | | | | | | **427** | **0** | **2,775** | **(1,397)** | **1,805** |
| **Balance at March 31, 2014** | **166,885,530** | **¥12,485** | **¥19,601** | **¥59,319** | **¥(10,041)** | **¥2,649** | **¥—** | **¥1,601** | **¥(1,397)** | **¥84,217** |

| | 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 | Remeasurements of defined benefit plans | Total net assets |
| Balance at March 31, 2013 | $121,308 | $190,449 | $547,085 | $(97,551) | $21,590 | $(0) | $(11,407) | $— | $771,474 |
| Net income | | | **43,179** | | | | | | **43,179** |
| Change in scope of consolidation | | | **(2,089)** | | | | | | **(2,089)** |
| Purchases of treasury stock | | | | **(10)** | | | | | **(10)** |
| Cash dividends | | | **(11,815)** | | | | | | **(11,815)** |
| Net changes in items other than shareholders' equity | | | | | **4,148** | **0** | **26,963** | **(13,574)** | **17,537** |
| **Balance at March 31, 2014** | **$121,308** | **$190,449** | **$576,360** | **$(97,561)** | **$25,738** | **$—** | **$15,556** | **$(13,574)** | **$818,276** |

See accompanying notes to financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2014

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| **Operating activities:** | | | |
| Income before income taxes and minority interests | **¥6,507** | ¥12,239 | **$63,224** |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | |
| Depreciation | **1,841** | 2,065 | **17,888** |
| Amortization of goodwill | **417** | — | **4,052** |
| Allowance for doubtful receivables | **2** | (16) | **19** |
| Warranty reserve | **90** | 233 | **874** |
| Employees' retirement benefit | **(8,411)** | 156 | **(81,724)** |
| Directors' retirement benefit | **(13)** | 3 | **(126)** |
| Net defined benefit liability | **8,940** | — | **86,864** |
| Interest and dividend income | **(260)** | (201) | **(2,526)** |
| Interest expense | **143** | 219 | **1,389** |
| Gain or loss on sales and disposal of property, plant and equipment and intangible assets | **(22)** | 2 | **(213)** |
| Gain on sales of investments in other securities | **(3)** | — | **(29)** |
| Gain on sales of investments in affiliates | **—** | (2,495) | **—** |
| Equity in earnings of affiliates | **(1,763)** | (1,736) | **(17,130)** |
| Loss on impairment of fixed assets | **—** | 71 | **—** |
| Changes in operating assets and liabilities: | | | |
| Notes and accounts receivable, trade | **2,246** | 4,032 | **21,823** |
| Inventories | **(3,085)** | 3,701 | **(29,975)** |
| Notes and accounts payable, trade | **2,205** | (8,718) | **21,424** |
| Advances received | **(1,369)** | 802 | **(13,302)** |
| Accrued expenses | **(270)** | 116 | **(2,623)** |
| Long-term accounts payable, other | **(6)** | (28) | **(58)** |
| Others | **(364)** | 360 | **(3,537)** |
| Sub total | **6,825** | 10,805 | **66,314** |
| Interest and dividend income received | **405** | 406 | **3,935** |
| Interest paid | **(152)** | (210) | **(1,477)** |
| Income taxes paid | **(4,054)** | (3,565) | **(39,389)** |
| Net cash provided by operating activities | **3,024** | 7,436 | **29,383** |
| **Investing activities:** | | | |
| Proceeds from sales of investments in other security | **48** | — | **466** |
| Acquisition of investment in unconsolidated subsidiaries | **—** | (5,092) | **—** |
| Proceeds from sales of investments in affiliates | **—** | 3,952 | **—** |
| Payments for contributions in capital of unconsolidated subsidiaries | **(89)** | — | **(865)** |
| Purchases of property, plant and equipment | **(1,484)** | (1,041) | **(14,419)** |
| Proceeds from sales of property, plant and equipment | **171** | 21 | **1,661** |
| Purchases of intangible assets | **(183)** | (38) | **(1,778)** |
| Increase (decrease) in short- term loans receivable | **(1)** | 1 | **(10)** |
| Payments for long-term loans receivable | **—** | (24) | **—** |
| Repayments of long-term loans receivable | **14** | 16 | **136** |
| Others | **15** | 9 | **147** |
| Net cash used in investing activities | **(1,509)** | (2,196) | **(14,662)** |
| **Financing activities:** | | | |
| Increase (decrease) in short-term bank loans | **371** | (823) | **3,605** |
| Proceeds from long-term loans payable | **5,300** | — | **51,496** |
| Repayments for long-term loans payable | **(6,100)** | (700) | **(59,269)** |
| Purchases of treasury stock | **(1)** | (1) | **(10)** |
| Cash dividends paid | **(1,216)** | (1,444) | **(11,815)** |
| Others | **(39)** | (36) | **(379)** |
| Net cash used in financing activities | **(1,685)** | (3,004) | **(16,372)** |
| Effect of exchange rate changes on cash and cash equivalents | **1,891** | 885 | **18,373** |
| Net increase (decrease) in cash and cash equivalents | **1,721** | 3,121 | **16,722** |
| Cash and cash equivalents at beginning of year | **38,328** | 34,189 | **372,406** |
| Increase in cash and cash equivalents resulting from change of scope of consolidation | **1,230** | 1,018 | **11,951** |
| **Cash and cash equivalents at end of year** (Note 18) | **¥41,279** | ¥38,328 | **$401,079** |

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. The revenues and expenses of foreign consolidated subsidiaries are translated at the current rates at the respective balance sheet dates. 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 is 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) Goodwill

Goodwill is amortized by the straight-line method over the reasonable period estimated to express the effect.

### (k) 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.

### (l) 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.

### (m) 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.

### (n) 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.

### (o) Directors' retirement benefits

Domestic consolidated subsidiaries accrue an estimated amount calculated in accordance with its internal rule for retirement benefits for directors and corporate auditors.

### (p) 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.

### (q) 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.

### (r) Reclassifications

Certain accounts in the consolidated financial statements as of and for the year ended March 31, 2013 have been reclassified to conform to the presentation for the year ended March 31, 2014.

## 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 ¥102.92=U.S.$1, the approximate exchange rate prevailing in the Japanese foreign exchange market on March 31, 2014. 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 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)

Effective from the fiscal year ended March 31, 2014, the Companies adopted the revised accounting standard for retirement benefits except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a liability for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits.

Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits liability adjustments through accumulated other comprehensive income.

As a result of this change, a liability for retirement benefits was recognized in the amount of ¥10,279 million ($99,874 thousand) and accumulated other comprehensive income decreased by ¥1,397 million ($13,573 thousand) as of March 31, 2014.

In addition, net assets per share decreased by ¥9.19 ($0.09).

## 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

Accounting method of actuarial gain or loss and prior service cost, calculation method of retirement benefit obligations and service costs, and disclosure were revised.

② Application due date

The revised calculation method of retirement benefit obligations and service cost 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 calculation method of retirement benefit obligations and service cost is now under assessment.

## 6. Change in Presentation

### Consolidated statement of income

Effective from the fiscal year ended March 31, 2014, the Companies changed presentation method of the “royalty income” from group companies and other companies as consideration of technology licensing. Until the fiscal year ended March 31, 2013, the “royalty income” had been included in “Others” under “Other income”. Effective from the fiscal year ended March 31, 2014, it was included in “Net sales”.

The purpose of change in presentation is to more properly present the result of operations as the importance of “royalty income” in consideration for licensing technology is anticipated to increase primarily due to the change in transaction scheme according to the increase in the companies’ overseas production bases.

To reflect this change in presentation, the Companies restated the consolidated financial statements of the fiscal year ended March 31, 2013. As a result, ¥40 million of “Others”under “Other income” in the 2013 consolidated statement of income has been reclassified to “Net sales”.

## 7. Securities

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

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | | | 2013 | | |
| | Acquisition cost | Carrying value | Unrealized gains | Acquisition cost | Carrying value | Unrealized gains |
| Equity securities | **¥1,712** | **¥5,700** | **¥3,988** | ¥1,712 | ¥5,072 | ¥3,360 |
| | **¥1,712** | **¥5,700** | **¥3,988** | ¥1,712 | ¥5,072 | ¥3,360 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | **2014** | | |
| | Acquisition cost | Carrying value | Unrealized gains |
| Equity securities | **$16,634** | **$55,383** | **$38,749** |
| | **$16,634** | **$55,383** | **$38,749** |

Losses on devaluation of marketable equity securities for the year ended March 31, 2013 was ¥4 million.

Negotiable certificates are classified as non-marketable securities of deposit of ¥19,500 million ($189,468 thousand) and ¥17,000 million as of March 31, 2014 and 2013, respectively. Non-marketable equity securities as other securities primary consist of ¥123 million ($1,195 thousand) and ¥168 million as of March 31, 2014 and 2013, respectively. Amount of sales and gain on sales of non-marketable equity securities as other securities for the year ended March 31, 2014 were ¥47 million ($457 thousand) and ¥3 million ($29 thousand), respectively. Losses on devaluation of non-marketable equity securities as other securities for the year ended March 31, 2013 was ¥2 million.

## 8. Property, Plant and Equipment

Property, plant and equipment at March 31, 2014 and 2013 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Land | **¥6,471** | ¥6,193 | **$62,874** |
| Buildings and structures | **35,344** | 34,387 | **343,412** |
| Machinery and equipment | **28,996** | 29,520 | **281,733** |
| Vehicles | **379** | 389 | **3,682** |
| Tools, furniture and fixtures | **7,501** | 7,159 | **72,882** |
| Lease assets | **226** | 191 | **2,197** |
| Construction in progress | **1,013** | 39 | **9,843** |
| Sub total | **79,930** | 77,878 | **776,623** |
| Less accumulated depreciation | **(58,821)** | (58,048) | **(571,522)** |
| Property, plant and equipment, net | **¥21,109** | ¥19,830 | **$205,101** |

Depreciation expense for the years ended March 31, 2014 and 2013 were ¥1,841 million ($17,888 thousand) and ¥2,065 million, respectively.

## 9. Intangible Assets

Intangible assets at March 31, 2014 and 2013 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Goodwill | **¥3,128** | ¥— | **$30,393** |
| Others | **539** | 400 | **5,237** |
| Total | **¥3,667** | ¥400 | **$35,630** |

## 10. Short-term Bank Loans and Long-term Debt

The annual interest rates applicable to the short-term bank loans outstanding on March 31, 2014 and 2013 ranged principally from 0.57% to 1.78% and 0.66% to 2.82%, respectively. Long-term debt on March 31, 2014 and 2013 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Loans, principally from Japanese banks and insurance companies: | | | |
| maturing 2013, interest 0.93 % - 1.95 % | **¥—** | ¥6,100 | **$—** |
| maturing 2016 – 2018, interest 0.72 % - 0.98 % | **5,300** | — | **51,496** |
| | **5,300** | 6,100 | **51,496** |
| Less current portion | **—** | 6,100 | — |
| | **¥5,300** | ¥— | **$51,496** |

The aggregate annual maturities of long-term debt at March 31, 2014 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2015 | ¥— | $— |
| 2016 | — | — |
| 2017 | 500 | 4,858 |
| 2018 | 500 | 4,858 |
| 2019 and later | 4,300 | 41,780 |
| Total | ¥5,300 | $51,496 |

The aggregate annual maturities of finance lease obligations at March 31, 2014 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2015 | ¥30 | $291 |
| 2016 | 24 | 233 |
| 2017 | 15 | 146 |
| 2018 | 11 | 107 |
| 2019 and later | 1 | 10 |
| Total | ¥81 | $787 |

## 11. Employees' Retirement Benefits

### Year ended March 31, 2014

### (a) Overview

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.

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

### (b) Defined benefit plans

① The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2014 | 2014 |
| Retirement benefit obligation at April 1, 2013 | ¥14,666 | $142,499 |
| Service cost | 730 | 7,093 |
| Interest cost | 134 | 1,302 |
| Actuarial loss | 12 | 117 |
| Retirement benefit paid | (875) | (8,502) |
| Retirement benefit obligation at March 31, 2014 | ¥14,667 | $142,509 |

② The changes in pension assets during the year ended March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2014 | 2014 |
| Pension assets at April 1, 2013 | ¥3,902 | $37,913 |
| Expected return on pension assets | 71 | 690 |
| Actuarial loss | 433 | 4,207 |
| Contribution by the companies | 298 | 2,895 |
| Retirement benefit paid | (277) | (2,691) |
| Others | (38) | (369) |
| Pension assets at March 31, 2014 | ¥4,389 | $42,645 |

③ The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2014 | 2014 |
| Funded defined benefit obligations | ¥4,960 | $48,193 |
| Pension assets at fair value | (4,389) | (42,645) |
| | 571 | 5,548 |
| Unfunded defined benefit obligations | 9,708 | (94,326) |
| Net amount of liabilities and assets recognized in consolidated balance sheet | 10,279 | 99,874 |
| Retirement benefit liabilities | 10,279 | 99,874 |
| Net amount of liabilities and assets recognized in consolidated balance sheet | ¥10,279 | $99,874 |

④ The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2014 | 2014 |
| Service cost | ¥730 | $7,093 |
| Interest assets | 134 | 1,302 |
| Expected return on pension assets | (71) | (690) |
| Amortization of transitional obligation | 463 | 4,499 |
| Recognized actuarial loss | 130 | 1,263 |
| Total | ¥1,386 | $13,467 |

⑤ Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2014 | 2014 |
| Unrecognized actuarial loss | ¥876 | $8,511 |
| Unrecognized translation obligation | 463 | 4,499 |
| Total | ¥1,339 | $13,010 |

⑥ The fair value of pension assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

| | 2014 |
|---|---|
| Domestic bonds | 47% |
| Domestic equity securities | 15% |
| Foreign bonds | 11% |
| Foreign equity securities | 16% |
| Insurance assets (General account) | 8% |
| Other | 3% |
| Total | 100% |

The expected return on pension assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

⑦ The assumptions used in accounting for the above plans were as follows:

| | 2014 |
|---|---|
| Discount rate | 1.1% |
| Expected rate of return on pension assets | 2.0% |

### (c) Defined contribution plans

Amount of required contributions to defined contribution plans of the Company and certain domestic consolidated subsidiaries for the fiscal year ended March 31, 2014 was ¥202 million ($1,963 thousand).

### (d) Multiemployer pension plans

The required contribution of multiemployer pension plans for the fiscal year ended March 31, 2014, was ¥84 million ($816 thousand).

① Funded status of the immediate vicinity of the multiemployer pension plans

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2014 | 2014 |
| Amount of pension assets | ¥281,339 | $2,733,570 |
| Amount of obligations | 290,987 | 2,827,312 |
| Difference | ¥(9,648) | $(93,742) |

The difference was principally attributable to the difference between retained earnings of ¥12,320 million ($119,705 thousand) determined in the pension calculation and unamortized prior service liabilities of ¥21,968 million ($213,447 thousand).

Prior service liabilities of the plans are amortized by the straight-line method over 20 years. The Companies recognized premium contribution of ¥31 million ($ 301 thousand) paid as the amortization in the consolidated financial statements for the year ended March 31, 2014.

| | 2014 |
|---|---|
| Premium contribution percentage of the company as a percentage of the whole system | 0.569% |

The percentage was not equal to actual burden percentage for the Companies.

## Year ended March 31, 2013

### (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 |
|---|---|
| | 2013 |
| Amount of pension assets | ¥254,797 |
| Amount of obligation | 299,366 |
| Difference | ¥(44,569) |

| | 2013 |
|---|---|
| Premium contribution percentage of the company as a percentage of the whole system | 0.565% |

### (b) Projected benefit obligation

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

| | Millions of yen |
|---|---|
| | 2013 |
| Projected benefit obligation | ¥14,666 |
| Fair value of plan assets | (3,902) |
| Unfounded status | 10,764 |
| Unrecognized transitional obligation | (926) |
| Unrecognized actuarial loss | (1,427) |
| Accrued retirement benefits obligation | ¥8,411 |

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 was as follows:

| | Millions of yen |
|---|---|
| | 2013 |
| Service cost | ¥683 |
| Interest cost | 218 |
| Expected return on plan assets | (62) |
| Amortization of transitional obligation | 463 |
| Recognized actuarial loss | 109 |
| Periodic benefit costs | ¥1,411 |
| Defined contribution plan premium | 177 |
| Total | ¥1,588 |

### (d) Bases of calculation for projected benefit obligation

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

② Discount rate

| 2013 |
|---|
| 1.1% |

③ Expected rate of return on plan assets

| 2013 |
|---|
| 2.0% |

④ Amortization period of actuarial loss / gain

| 2013 |
|---|
| 10 years |

⑤ Amortization period of transitional obligation

| 2013 |
|---|
| 15 years |

## 12. Contingent Liabilities

On March 31, 2014, contingent liabilities for loans guaranteed by the Company, principally on behalf of non-consolidated subsidiaries and affiliated companies, amounted to ¥772 million ($7,501 thousand).

## 13. Leases

As stated in "(k) Leased assets" under "2. Summary of significant Accounting Policies", finance leases other than those where ownership of the leased assets is transferred to the lessee, commencing on or before March 31, 2008 are 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, 2014 and 2013, 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 | **2014** | 2013 | **2014** |
| Machinery, equipment and vehicles | **¥84** | ¥169 | **$816** |
| Tools, furniture and fixtures | **222** | 328 | **2,157** |
| Less-Accumulated depreciation | **(306)** | (494) | **(2,973)** |
| Net book value | **¥—** | ¥3 | **$—** |

Future lease payments (including the interest portion thereon) subsequent to March 31, 2014 and 2013 for finance leases accounted for as operating leases were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Due within one year | **¥—** | ¥3 | **$—** |
| Due after one year | **—** | — | **—** |
| Total | **¥—** | ¥3 | **$—** |

Periodic lease expenses, as a lessee, charged to income for the years ended March 31, 2014 and 2013 were ¥3 million ($29 thousand) and ¥39 million, respectively. The pro forma amounts of depreciation for the years ended March 31, 2014 and 2013 would be calculated at ¥3 million ($29 thousand) and ¥39 million by using the straight-line method over the lease term with no salvage value.

## 14. 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 5 years from the balance sheet date at the maximum. Some of them are exposed to interest rate fluctuation risks, but these risks are hedged by interest rate swap.

Derivative transactions consist of interest rate swap used for the purpose of hedging interest rate fluctuation risk associated with long-term debt, and foreign exchange forward contracts, etc. used for the purpose of hedging foreign exchange risk associated with certain assets and liabilities denominated in foreign currency. These derivative transactions are managed under the internal management policies, to the extent deemed necessary. "15. 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 (¥5,000 million ($48,581 thousand) at March 31, 2014) 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 ¥53,325 million ($518,121 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 is 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 "15. 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, 2014 and 2013, and their fair value were as follows:
(Financial instruments whose fair value was extremely difficult to determine were not included.)

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Cash and deposits | **¥21,779** | **¥21,779** | **¥—** | ¥21,328 | ¥21,328 | ¥— |
| Notes and accounts receivable, trade | **37,952** | **37,943** | **(9)** | 40,006 | 40,000 | (6) |
| Marketable securities and investment securities | **30,658** | **37,537** | **6,879** | 25,970 | 32,618 | 6,648 |
| Total assets | **¥90,389** | **¥97,259** | **¥6,870** | ¥87,304 | ¥93,946 | ¥6,642 |
| Short-term bank loans | **¥11,296** | **¥11,296** | **¥—** | ¥16,859 | ¥16,859 | ¥— |
| Notes and accounts payable, trade | **24,675** | **24,675** | **—** | 21,999 | 21,999 | — |
| Long-term debt | **5,300** | **5,300** | **0** | — | — | — |
| Total liabilities | **¥41,271** | **¥41,271** | **¥0** | ¥38,858 | ¥38,858 | ¥— |
| Derivatives | **¥—** | **¥—** | **¥—** | ¥(0) | ¥(0) | ¥— |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2014 | | |
| | Carrying value | Fair value | Difference |
| Cash and deposits | **$211,611** | **$211,611** | **$—** |
| Notes and accounts receivable, trade | **368,752** | **368,665** | **(87)** |
| Marketable securities and investment securities | **297,882** | **364,720** | **66,838** |
| Total assets | **$878,245** | **$944,996** | **$66,751** |
| Short-term bank loans | **$109,755** | **$109,755** | **$—** |
| Notes and accounts payable, trade | **239,749** | **239,749** | **—** |
| Long-term debt | **51,496** | **51,496** | **0** |
| Total liabilities | **$401,000** | **$401,000** | **$0** |
| Derivatives | **$—** | **$—** | **$—** |

*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 “15. Derivative Financial Instruments”.

## (b) Financial instruments whose fair value was extremely difficult to determine at March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Investment securities for which the market prices are not available | **¥403** | ¥5,469 | **$3,916** |

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, 2014 and 2013 were as follows:

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | | | | 2013 | | | |
| | 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 | **¥21,771** | **¥—** | **¥—** | **¥—** | ¥21,319 | ¥— | ¥— | ¥— |
| Notes and accounts receivable, trade | **37,757** | **195** | **—** | **—** | 39,839 | 167 | — | — |
| Marketable securities and investment securities: | | | | | | | | |
| Negotiable certificate of deposit | **19,500** | **—** | **—** | **—** | 17,000 | — | — | — |
| Total | **¥79,028** | **¥195** | **¥—** | **¥—** | ¥78,158 | ¥167 | ¥— | ¥— |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2014** | | | |
| | 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 | **$211,533** | **$—** | **$—** | **$—** |
| Notes and accounts receivable, trade | **366,858** | **1,894** | **—** | **—** |
| Marketable securities and investment securities: | | | | |
| Negotiable certificate of deposit | **189,468** | **—** | **—** | **—** |
| Total | **$767,859** | **$1,894** | **$—** | **$—** |

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

| Year ended March 31, 2014 | 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 | **¥11,296** | **¥—** | **¥—** | **¥—** | **¥—** | **¥—** |
| Long-term debt | **—** | **—** | **500** | **500** | **4,300** | **—** |
| Total | **¥11,296** | **¥—** | **¥500** | **¥500** | **¥4,300** | **¥—** |

| 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, 2014 | 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 | **$109,755** | **$—** | **$—** | **$—** | **$—** | **$—** |
| Long-term debt | **—** | **—** | **4,858** | **4,858** | **41,780** | **—** |
| Total | **$109,755** | **$—** | **$4,858** | **$4,858** | **$41,780** | **$—** |

## 15. 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, 2014 and 2013 were as follows:
① Foreign exchange contract, etc.

| | | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2014** | | | 2013 | | |
| | 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: | | | | | | | |
| British pound | accounts receivable | **¥—** | **¥—** | **¥—** | ¥7 | ¥— | ¥(0) |
| Appropriated accounting for foreign currency | | | | | | | |
| Foreign exchange forward contracts: | | | | | | | |
| To sell foreign currencies: | | | | | | | |
| U.S. dollars | accounts receivable | **1,939** | **—** | **—** | 3,266 | — | — |
| British pound | accounts receivable | **85** | **—** | **—** | — | — | — |
| Euro | accounts receivable | **—** | **—** | **—** | 4 | — | — |
| Canadian dollars | accounts receivable | **—** | **—** | **—** | 194 | — | — |
| To buy foreign currencies: | | | | | | | |
| U.S. dollars | accounts payable | **—** | **—** | **—** | 557 | — | — |
| Total | | **¥2,024** | **¥—** | **¥—** | ¥4,028 | ¥— | ¥— |

| | Hedged item | Thousands of U.S. dollars | | |
|---|---|---|---|---|
| | | 2014 | | |
| | | Contract amount | Contract amount due after one year | Fair value |
| Accounting in principle | | | | |
| Foreign exchange forward contracts: | | | | |
| To sell foreign currencies: | | | | |
| British pound | accounts receivable | $— | $— | $— |
| Appropriated accounting for foreign currency | | | | |
| Foreign exchange forward contracts: | | | | |
| To sell foreign currencies: | | | | |
| U.S. dollars | accounts receivable | 18,840 | — | — |
| British pound | accounts receivable | 826 | — | — |
| Euro | accounts receivable | — | — | — |
| Canadian dollars | accounts receivable | — | — | — |
| To buy foreign currencies: | | | | |
| U.S. dollars | accounts payable | — | — | — |
| Total | | $19,666 | $— | $— |

② Interest rate swap

| | Hedged item | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2014 | | | 2013 | | |
| | | Contract amount | Contract amount due after one year | Fair value | Contract amount | Contract amount due after one year | Fair value |
| Accounting in principle | | | | | | | |
| Interest rate swap: | | | | | | | |
| Floating rate receipt, fixed rate payment | long-term debt | ¥5,000 | ¥5,000 | ¥— | ¥— | ¥— | ¥— |

| | Hedged item | Thousands of U.S. dollars | | |
|---|---|---|---|---|
| | | 2014 | | |
| | | Contract amount | Contract amount due after one year | Fair value |
| Accounting in principle | | | | |
| Interest rate swap: | | | | |
| Floating rate receipt, fixed rate payment | long-term debt | $48,581 | $48,581 | $— |

## 16. Pledged Assets

The following assets were pledged as collateral at March 31, 2013 to secure short-term bank loans amounting to ¥2 million (See Note 10):

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2014 | 2013 | 2014 |
| Land | ¥— | ¥581 | $— |
| Machinery and equipment, net | — | 2 | — |
| Buildings and structures, net | — | 1,840 | — |
| Total | ¥— | ¥2,423 | $— |

## 17. 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, 2014 and 2013 were approximately 37.2%.

Following the promulgations on March 31, 2014 of the "Act for Partial Revision of the Income Tax Act, etc." (Act No.10 of 2014), effective from the fiscal year beginning on and after April 1, 2014, the Special Reconstruction Corporation Tax is abolished. In accordance with this tax reform, the effective statutory tax rate, used to measure deferred tax assets and liabilities, is changed from 37.2% to 34.8% for the temporary differences expected to be realized after the fiscal year beginning on April 1, 2014.

This change of tax rate decreased net deferred tax assets (after netting deferred tax liabilities) by ¥151 million ($1,467 thousand), and increased deferred income taxes by ¥151 million ($1,467 thousand).

The reconciliation between the statutory rate and effective tax rate of income taxes for the year ended March 31, 2014 was as follows:

| | **2014** |
|---|---|
| Statutory tax rate | **37.2%** |
| Per-capita portion of inhabitant tax | **0.7** |
| Permanently non-taxable revenue such as dividends income | **(0.6)** |
| Permanently non-deductible expenses | **1.7** |
| Effects of elimination in consolidation | **(5.7)** |
| Change in valuation allowance | **(1.1)** |
| Difference in statutory tax rates of consolidated subsidiaries | **(2.3)** |
| Effect of change in enacted tax rate | **2.3** |
| Refund of income taxes | **(1.1)** |
| Others | **0.6** |
| Effective tax rate | **31.7%** |

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, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Deferred tax assets: | | | |
| Accrued employees' bonuses | **¥770** | ¥921 | **$7,482** |
| Allowance for doubtful receivables | **63** | 64 | **612** |
| Devaluation of inventories | **694** | 518 | **6,743** |
| Devaluation of securities | **386** | 382 | **3,750** |
| Accrued employees' retirement benefits | **—** | 2,976 | **—** |
| Amount not shifted to defined contribution pension plan | **—** | 10 | **—** |
| Net defined benefit liability | **3,124** | — | **30,354** |
| Unrealized intercompany profit on inventories | **588** | 592 | **5,713** |
| Enterprise taxes payable | **41** | 208 | **398** |
| Other | **1,965** | 2,098 | **19,093** |
| Total deferred tax assets | **¥7,631** | ¥7,769 | **$74,145** |
| Valuation allowance | **(4,061)** | (4,132) | **(39,458)** |
| Net deferred tax assets | **¥3,570** | ¥3,637 | **$34,687** |
| Deferred tax liabilities: | | | |
| Deferral of gain on sale of fixed assets | **(131)** | (137) | **(1,273)** |

| | | | |
|---|---|---|---|
| Unrealized gain on securities | **(1,339)** | (1,138) | **(13,010)** |
| Asset retirement obligations | **(9)** | (7) | **(87)** |
| Enterprise taxes receivable | **(16)** | — | **(155)** |
| Foreign consolidated subsidiaries' retained earning | **(528)** | (385) | **(5,131)** |
| Total deferred tax liabilities | **¥(2,023)** | ¥(1,667) | **$(19,656)** |
| Net deferred tax assets | **¥1,547** | ¥1,970 | **$15,031** |

## 18. 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, 2014 and 2013 were presented as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Cash and time deposits | **¥21,779** | ¥21,328 | **$211,611** |
| Marketable securities | **19,500** | 17,000 | **189,468** |
| Cash and cash equivalents | **¥41,279** | ¥38,328 | **$401,079** |

## 19. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Sales commission | **¥2,103** | ¥2,268 | **$20,433** |
| Delivering expenses | **3,336** | 3,462 | **32,414** |
| Provision for warranty reserve | **585** | 515 | **5,684** |
| Personnel-expenses | **11,257** | 10,501 | **109,376** |
| Retirement benefit expense | **570** | 559 | **5,538** |
| Depreciation | **560** | 599 | **5,441** |
| Rent expenses | **789** | 743 | **7,666** |
| Traveling expenses | **1,545** | 1,302 | **15,012** |
| Research and development expenses | **924** | 1,064 | **8,978** |
| Outside order expenses | **575** | 495 | **5,587** |
| Others | **4,712** | 4,019 | **45,783** |
| Total | **¥26,956** | ¥25,527 | **$261,912** |

## 20. Research and Development Costs

Research and development costs charged to income were ¥1,551 million ($15,070 thousand) and ¥1,566 million for the years ended March 31, 2014 and 2013, respectively.

## 21. 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.

The recoverable value of assets was calculated based on 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 |
|---|---|---|
| | | 2013 |
| Numazu-shi, Shizuoka-ken, Japan: | | |
| Buildings and structures | Idle property | ¥50 |
| Machinery and equipment | Idle property | 0 |
| Sub total | | 50 |
| Itami-shi, Osaka-fu, Japan: | | |
| Land | Idle property | 3 |
| Buildings | Idle property | 9 |
| Sub total | | 12 |
| Fukuoka-shi, Fukuoka-ken, Japan: | | |
| Land | Idle property | 2 |
| Buildings | Idle property | 7 |
| Sub total | | 9 |
| Otsu-shi, Shiga-ken, Japan: | | |
| Land | Idle property | 0 |
| Total | | ¥71 |

## 22. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Unrealized holding gain on securities: | | | |
| Current period changes in unrealized gain (loss) | **¥628** | ¥1,042 | **$6,102** |
| Reclassification adjustment | **—** | 3 | **—** |
| Total unrealized holding gain on securities before tax effects | **628** | 1,045 | **6,102** |
| Tax effects | **(201)** | (353) | **(1,954)** |
| Unrealized holding gain on securities, net of tax effects | **427** | 692 | **4,148** |
| Deferred gains or losses on hedge: | | | |
| Current period changes in unrealized gain (loss) | **0** | 20 | **0** |
| Total deferred gains or losses on hedge, before tax effects | **0** | 20 | **0** |
| Tax effects | **(0)** | (7) | **(0)** |
| Deferred gains or losses on hedge, net of tax effects | **0** | 13 | **0** |
| Foreign currency translation adjustments: | | | |
| Current period changes | **2,022** | 872 | **19,648** |
| Total other comprehensive income | **¥2,449** | ¥1,577 | **$23,796** |

## 23. 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 earnings (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.

## 24. Related Party Transactions

During the years ended March 31, 2014 and 2013, 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, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| For the years ended March 31: | | | |
| Payment of brand fee | **¥217** | ¥220 | **$2,108** |
| Sales of investments in affiliates | **—** | 3,952 | **—** |
| Gain on sales of investments in affiliates | **—** | 2,495 | **—** |

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

During the years ended March 31, 2014 and 2013, the Companies had operational transactions with NuFlare Technology, Inc., a 15.1% affiliate of the Company.

A summary of the significant transactions with NuFlare Technology, Inc. for the years ended March 31, 2014 and 2013 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| For the years ended March 31: | | | |
| Rent income for land, buildings and structures | **¥126** | ¥120 | **$1,224** |

Note: Rent price was market price.

## 25. Net Income and Net Assets per Share

Net income and net assets per share for the years ended March 31, 2014 and 2013 were as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Net income per share | **¥29.23** | ¥51.91 | **$0.28** |
| Net assets per share | **553.96** | 522.26 | **5.38** |

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

| | Thousands of shares | |
|---|---|---|
| | **2014** | 2013 |
| Weighted-average number of shares of common stock | **152,030** | 152,032 |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Net income | **¥4,444** | ¥7,891 | **$43,179** |
| Net income not applicable to shareholders of common stock | **—** | — | **—** |
| Net income applicable to shareholders of common stock | **¥4,444** | ¥7,891 | **$43,179** |

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

| | Thousands of shares | |
|---|---|---|
| | **2014** | 2013 |
| Number of shares at year-end | **152,029** | 152,032 |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Net assets | **¥84,217** | ¥79,400 | **$818,276** |
| Minority interests in consolidated subsidiaries | **—** | — | **—** |
| Net assets applicable to shareholders of common stock | **¥84,217** | ¥79,400 | **$818,276** |

## 26. 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.

As described in "6. Change in Presentation", effective from the fiscal year ended March 31, 2014, the Companies changed the presentation of "royalty income" from "Others" under "Other income" to "Net sales".

To reflect this change in presentation, the Companies restated the reportable segment information for the fiscal year ended March 31, 2013. As a result, "Net sales"and "Segment income" of "Molding Machinery" had increased by ¥6 million, and "Net sales" and "Segment income" of "Hydraulic Equipment" had increased by ¥34 million.

### (C) Reportable segment information

Reportable segment information of the Companies for the years ended March 31, 2014 and 2013 were as follows:

**Year ended March 31, 2014** — Millions of yen

| | Reportable segments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Molding Machinery | Machine Tools | Hydraulic Equipment | Sub total | Other Products | Total | Adjustments | Consolidated |
| Net Sales: | | | | | | | | |
| External customers | **¥73,214** | **¥23,048** | **¥7,592** | **¥103,854** | **¥9,208** | **¥113,062** | **¥—** | **¥113,062** |
| Inter-segment | **—** | **233** | **53** | **286** | **2,424** | **2,710** | **(2,710)** | **—** |
| Total | **73,214** | **23,281** | **7,645** | **104,140** | **11,632** | **115,772** | **(2,710)** | **113,062** |
| Segment income | **¥4,965** | **¥(720)** | **¥(197)** | **¥4,048** | **¥189** | **¥4,237** | **¥388** | **¥4,625** |
| Segment assets | **¥70,845** | **¥32,851** | **¥5,744** | **¥109,440** | **¥15,160** | **¥124,600** | **¥24,080** | **¥148,680** |
| Others | | | | | | | | |
| Depreciation | **¥924** | **¥416** | **¥302** | **¥1,642** | **¥199** | **¥1,841** | **¥—** | **¥1,841** |
| Capital expenditure | **1,380** | **98** | **19** | **1,497** | **270** | **1,767** | **—** | **1,767** |

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 | ¥73,195 | ¥28,902 | ¥9,784 | ¥111,881 | ¥9,018 | ¥120,899 | ¥— | ¥120,899 |
| Inter-segment | — | 63 | 73 | 136 | 2,487 | 2,623 | (2,623) | — |
| Total | 73,195 | 28,965 | 9,857 | 112,017 | 11,505 | 123,522 | (2,623) | 120,899 |
| Segment income | ¥6,089 | ¥1,823 | ¥(78) | ¥7,834 | ¥(173) | ¥7,661 | ¥417 | ¥8,078 |
| 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, 2014** — Thousands of U.S. dollars

| | Reportable segments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Molding Machinery | Machine Tools | Hydraulic Equipment | Sub total | Other products | Total | Adjustments | Consolidated |
| Net Sales: | | | | | | | | |
| External customers | **$711,368** | **$223,941** | **$73,766** | **$1,009,075** | **$89,468** | **$1,098,543** | **$—** | **$1,098,543** |
| Inter-segment | **—** | **2,264** | **515** | **2,779** | **23,552** | **26,331** | **(26,331)** | **—** |
| Total | **711,368** | **226,205** | **74,281** | **1,011,854** | **113,020** | **1,124,874** | **(26,331)** | **1,098,543** |
| Segment income | **$48,242** | **$(6,996)** | **$(1,914)** | **$39,332** | **$1,836** | **$41,168** | **$3,770** | **$44,938** |
| Segment assets | **$688,350** | **$319,190** | **$55,810** | **$1,063,350** | **$147,299** | **$1,210,649** | **$233,968** | **$1,444,617** |
| Others | | | | | | | | |
| Depreciation | **$8,978** | **$4,042** | **$2,934** | **$15,954** | **$1,934** | **$17,888** | **$—** | **$17,888** |
| Capital expenditure | **13,408** | **952** | **185** | **14,545** | **2,624** | **17,169** | **—** | **17,169** |

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, 2014 and 2013 were as follows:

| Sales | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Total reportable segments | **¥104,140** | ¥112,017 | **$1,011,854** |
| Other products | **11,632** | 11,505 | **113,020** |
| Eliminations | **(2,710)** | (2,623) | **(26,331)** |
| Net sales on consolidated financial statements | **¥113,062** | ¥120,899 | **$1,098,543** |

| Income | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Total reportable segments | **¥4,048** | ¥7,834 | **$39,332** |
| Other products | **189** | (173) | **1,836** |
| Eliminations | **388** | 417 | **3,770** |
| Operating income on consolidated financial statements | **¥4,625** | ¥8,078 | **$44,938** |

| Assets | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Total reportable segments | **¥109,440** | ¥108,505 | **$1,063,350** |
| Other products | **15,160** | 15,154 | **147,299** |
| Company-wide assets | **24,321** | 21,689 | **236,310** |
| Eliminations | **(241)** | (3,109) | **(2,342)** |
| Net assets on consolidated financial statements | **¥148,680** | ¥142,239 | **$1,444,617** |

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, 2014 and 2013 were follows:

As described in “6. Change in Presentation”, effective from the fiscal year ended March 31, 2014, the Companies changed presentation method of the “royalty income” from “Others” within “Other income” to “Net sales”.

To reflect this change in presentation, the Companies restated sales information about geographical areas for the fiscal year ended March 31, 2013. As a result, Sales of “Japan”, “North America” and “Asia” had increased by ¥12 million, ¥6 million and ¥22 million, respectively.

| Millions of yen | | | | |
|---|---|---|---|---|
| **2014** | | | | |
| Japan | North America | Asia | Other | Total |
| **¥46,870** | **¥19,255** | **¥44,336** | **¥2,601** | **¥113,062** |

| Millions of yen | | | | |
|---|---|---|---|---|
| 2013 | | | | |
| Japan | North America | Asia | Other | Total |
| ¥46,305 | ¥17,457 | ¥54,476 | ¥2,661 | ¥120,899 |

| Thousands of U.S. dollars | | | | |
|---|---|---|---|---|
| 2014 | | | | |
| Japan | North America | Asia | Other | Total |
| **$455,402** | **$187,087** | **$430,781** | **$25,273** | **$1,098,543** |

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

Property, plant and equipment information about geographical areas for the years ended March 31, 2014 and 2013 were follows:

| Millions of yen | | | |
|---|---|---|---|
| 2014 | | | |
| Japan | North America | Asia | Total |
| **¥17,657** | **¥272** | **¥3,180** | **¥21,109** |

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

| Thousands of U.S. dollars | | | |
|---|---|---|---|
| 2014 | | | |
| Japan | North America | Asia | Total |
| **$171,560** | **$2,643** | **$30,898** | **$205,101** |

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, 2014 and 2013.

### (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 |

There was no applicable matter for the years ended March 31, 2014.

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

Information about amortization of goodwill and unamortized balance for the years ended March 31, 2014 was follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | | | |
| | Molding Machinery | Machine Tools | Hydraulic Equipment | Other products | Adjustments | Total |
| Amortization of goodwill | **¥417** | **¥—** | **¥—** | **¥—** | **¥—** | **¥417** |
| Unamortized balance | **3,128** | **—** | **—** | **—** | **—** | **3,128** |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | | | |
| | Molding Machinery | Machine Tools | Hydraulic Equipment | Other products | Adjustments | Total |
| Amortization of goodwill | **$4,052** | **$—** | **$—** | **$—** | **$—** | **$4,052** |
| Unamortized balance | **30,393** | **—** | **—** | **—** | **—** | **30,393** |

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

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

There was no applicable matter for the years ended March 31, 2014 and 2013.

## 27. 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, 2014, were approved at the meeting of the Board of Directors held on April 30, 2014:

Cash dividends (¥4.00 = $0.04 per share) ¥608 million ($5,908 thousand)

# Report of Independent Auditors

Ernst & Young ShinNihon LLC
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## Independent Auditor's Report

The Board of Directors
TOSHIBA MACHINE CO., LTD.

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, 2014, 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, 2014, 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.

June 26, 2014
Tokyo, Japan

Ernst & Young ShinNihon LLC

# 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

Masayuki Yagi

**Directors and Executive Officers**

Kazuo Takamura

Katsuo Ito

Takahiro Mikami

**Outside Directors**

Kan Akiyama

Yoshihiro Ogura

**Audit and Supervisory Board Members**

Teruyuki Makino

Shinsuke Wataya

Makoto Tsuji

Kazuo Tanigawa

**TOSHIBA MACHINE CO., LTD.**

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