Innovation in Motion

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

# Consolidated Financial Statements

Years ended March 31, 2013 and 2012,
with Independent Auditor's Report

# Consolidated Balance Sheets

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2013 and 2012

| Assets | Millions of yen 2013 | 2012 | Thousands of U.S. dollars (Note 1) 2013 |
|---|---|---|---|
| Current assets: | | | |
| Cash and deposits (Notes 5 and 18) | ¥ 19,678 | ¥ 9,661 | $ 209,327 |
| Short-term investments (Notes 5, 6 and 18) | 560 | 4,468 | 5,959 |
| Trade notes and accounts receivable (Note 5) | 41,844 | 42,886 | 445,111 |
| Inventories (Note 7) | 29,298 | 25,893 | 311,651 |
| Deferred tax assets (Note 9) | 2,857 | 2,574 | 30,395 |
| Other current assets | 2,930 | 1,512 | 31,176 |
| Allowance for doubtful accounts (Note 5) | (388) | (367) | (4,133) |
| Total current assets | 96,782 | 86,630 | 1,029,487 |
| Property, plant and equipment, at cost (Note 8): | | | |
| Land (Notes 12 and 16) | 37,132 | 36,384 | 394,988 |
| Buildings and structures (Note 16) | 58,009 | 52,422 | 617,053 |
| Machinery, equipment and vehicles | 86,790 | 78,001 | 923,204 |
| Tools, furniture and fixtures | 20,966 | 18,864 | 223,020 |
| Construction in progress | 4,057 | 4,363 | 43,163 |
| Subtotal | 206,956 | 190,036 | 2,201,430 |
| Less accumulated depreciation | (116,474) | (107,274) | (1,238,962) |
| Property, plant and equipment, net (Note 23) | 90,481 | 82,761 | 962,468 |
| Investments and other assets: | | | |
| Investments in securities (Notes 5 and 6) | 15,459 | 12,457 | 164,442 |
| Investments in unconsolidated subsidiaries and affiliates | 2,542 | 3,635 | 27,046 |
| Long-term loans receivable | 70 | 24 | 746 |
| Deferred tax assets (Note 9) | 1,916 | 1,137 | 20,389 |
| Intangible assets (Note 22) | 5,381 | 1,716 | 57,240 |
| Other assets | 3,339 | 3,531 | 35,522 |
| Allowance for doubtful accounts | (135) | (129) | (1,445) |
| Total investments and other assets | 28,573 | 22,374 | 303,943 |
| Total assets (Note 23) | ¥ 215,837 | ¥ 191,766 | $2,295,898 |

See accompanying notes to consolidated financial statements.

| Liabilities and net assets | 2013 (Millions of yen) | 2012 (Millions of yen) | 2013 (Thousands of U.S. dollars (Note 1)) |
|---|---|---|---|
| Current liabilities: | | | |
| Short-term loans (Notes 5 and 8) | ¥ 8,305 | ¥ 10,141 | $ 88,351 |
| Current portion of long-term debt and finance lease obligations (Notes 5 and 8) | 3,703 | 613 | 39,399 |
| Trade notes and accounts payable (Note 5) | 26,488 | 27,779 | 281,765 |
| Accrued income taxes (Note 9) | 2,399 | 2,283 | 25,528 |
| Accrued bonuses to employees | 3,229 | 3,059 | 34,347 |
| Accrued expenses | 2,515 | 2,119 | 26,752 |
| Provision for loss on construction contracts | 80 | 58 | 861 |
| Other current liabilities (Note 8) | 10,820 | 8,490 | 115,095 |
| Total current liabilities | 57,543 | 54,544 | 612,102 |
| Long-term liabilities: | | | |
| Long-term debt and finance lease obligations (Notes 5 and 8) | 24,922 | 17,035 | 265,107 |
| Long-term accounts payable | 144 | 212 | 1,532 |
| Accrued retirement benefits to employees (Note 10) | 9,508 | 9,722 | 101,148 |
| Accrued retirement benefits to directors and corporate auditors | 234 | 253 | 2,495 |
| Deferred tax liabilities (Note 9) | 8,338 | 6,792 | 88,696 |
| Deferred tax liabilities on land revaluation (Note 12) | 5,864 | 5,884 | 62,383 |
| Asset retirement obligations | 246 | 237 | 2,618 |
| Other long-term liabilities (Note 8) | 436 | 747 | 4,644 |
| Total long-term liabilities | 49,696 | 40,885 | 528,626 |
| Contingent liabilities (Note 11) | | | |
| Net assets: | | | |
| Shareholders' equity (Note 13): | | | |
| Common stock: | | | |
| Authorized—299,000,000 shares in 2013 and 2012 | | | |
| Issued—191,406,969 shares in 2013 and 2012 | 17,076 | 17,076 | 181,647 |
| Capital surplus | 12,657 | 12,657 | 134,644 |
| Retained earnings (Note 24) | 83,318 | 77,167 | 886,273 |
| Treasury stock, at cost: | | | |
| 4,263,619 shares in 2013 and 4,246,240 shares in 2012 | (2,017) | (2,009) | (21,456) |
| Total shareholders' equity | 111,036 | 104,892 | 1,181,109 |
| Accumulated other comprehensive income (loss): | | | |
| Net unrealized holding gain on securities (Note 6) | 4,724 | 3,122 | 50,252 |
| Net unrealized deferred loss on derivative instruments (Note 20) | (72) | (61) | (773) |
| Net unrealized loss on land revaluation (Note 12) | (11,348) | (11,312) | (120,712) |
| Translation adjustments | (2,319) | (6,718) | (24,673) |
| Total accumulated other comprehensive loss | (9,016) | (14,969) | (95,906) |
| Minority interests | 6,577 | 6,412 | 69,967 |
| Total net assets | 108,597 | 96,335 | 1,155,169 |
| Total liabilities and net assets | ¥215,837 | ¥191,766 | $2,295,898 |

# Consolidated Statements of Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Net sales (Note 23) | **¥150,002** | ¥144,896 | **$1,595,605** |
| Cost of sales (Notes 14 and 15) | **107,396** | 104,156 | **1,142,391** |
| Gross profit | **42,606** | 40,739 | **453,214** |
| Selling, general and administrative expenses (Note 15) | **30,027** | 28,657 | **319,407** |
| Operating income (Note 23) | **12,579** | 12,081 | **133,807** |
| Other income (expenses): | | | |
| Interest and dividend income | **351** | 319 | **3,734** |
| Interest expense | **(491)** | (529) | **(5,222)** |
| Equity in earnings of affiliates | **5** | 62 | **60** |
| Foreign exchange gain (loss), net | **107** | (120) | **1,145** |
| Gain on sales of investments in affiliates | **—** | 53 | **—** |
| Loss on sales of investments in affiliates | **—** | (107) | **—** |
| Loss on devaluation of investments in securities (Note 6) | **(5)** | (6) | **(55)** |
| Loss on devaluation of investments in affiliates | **—** | (87) | **—** |
| Loss on impairment of property, plant and equipment (Notes 16 and 23) | **(167)** | (105) | **(1,784)** |
| Loss on sales or disposal of property, plant and equipment, net | **(104)** | (60) | **(1,112)** |
| Other, net | **369** | 408 | **3,930** |
| Income before income taxes and minority interests | **12,644** | 11,907 | **134,503** |
| Income taxes (Note 9): | | | |
| Current | **4,558** | 4,224 | **48,491** |
| Deferred | **192** | 245 | **2,049** |
| | **4,751** | 4,469 | **50,541** |
| Income before minority interests | **7,893** | 7,437 | **83,961** |
| Minority interests | **(464)** | (623) | **(4,938)** |
| Net income | **¥ 7,428** | ¥ 6,814 | **$ 79,023** |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Income before minority interests | **¥ 7,893** | ¥7,437 | **$ 83,961** |
| Other comprehensive income (loss): | | | |
| Net unrealized holding gain on securities | **1,603** | 335 | **17,060** |
| Net unrealized deferred loss on derivative instruments | **(11)** | (26) | **(123)** |
| Net unrealized gain on land revaluation | **—** | 826 | **—** |
| Translation adjustments | **4,509** | (746) | **47,966** |
| Share of other comprehensive income of affiliates accounted for by the equity method | **81** | 94 | **867** |
| Total other comprehensive income, net (Note 17) | **6,183** | 484 | **65,771** |
| Comprehensive income | **¥14,076** | ¥7,922 | **$149,733** |
| Comprehensive income attributable to: | | | |
| Shareholders of the Company | **¥13,417** | ¥7,296 | **$142,728** |
| Minority interests | **658** | 625 | **7,004** |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

Millions of yen

| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Net unrealized holding gain on securities | Net unrealized deferred loss on derivative instruments | Net unrealized loss on land revaluation | Translation adjustments | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at April 1, 2011** | ¥17,076 | ¥12,653 | ¥71,636 | ¥(2,554) | ¥2,784 | ¥(35) | ¥(12,087) | ¥(6,061) | ¥6,464 | ¥ 89,877 |
| Cash dividends paid | — | — | (1,302) | — | — | — | — | — | — | (1,302) |
| Net income | — | — | 6,814 | — | — | — | — | — | — | 6,814 |
| Purchases of treasury stock | — | — | — | (5) | — | — | — | — | — | (5) |
| Sales of treasury stock | — | 4 | — | 550 | — | — | — | — | — | 554 |
| Reversal of land revaluation | — | — | 51 | — | — | — | — | — | — | 51 |
| Decrease resulting from initial consolidation of a subsidiary | — | — | (33) | — | — | — | — | — | — | (33) |
| Other net changes during the year | — | — | — | — | 337 | (26) | 775 | (656) | (51) | 378 |
| **Balance at April 1, 2012** | ¥17,076 | ¥12,657 | ¥77,167 | ¥(2,009) | ¥3,122 | ¥(61) | ¥(11,312) | ¥(6,718) | ¥6,412 | ¥ 96,335 |
| Cash dividends paid | **—** | **—** | **(1,310)** | **—** | **—** | **—** | **—** | **—** | **—** | **(1,310)** |
| Net income | **—** | **—** | **7,428** | **—** | **—** | **—** | **—** | **—** | **—** | **7,428** |
| Purchases of treasury stock | **—** | **—** | **—** | **(8)** | **—** | **—** | **—** | **—** | **—** | **(8)** |
| Sales of treasury stock | **—** | **0** | **—** | **0** | **—** | **—** | **—** | **—** | **—** | **0** |
| Reversal of land revaluation | **—** | **—** | **35** | **—** | **—** | **—** | **—** | **—** | **—** | **35** |
| Decrease resulting from initial consolidation of a subsidiary | **—** | **—** | **(3)** | **—** | **—** | **—** | **—** | **—** | **—** | **(3)** |
| Other net changes during the year | **—** | **—** | **—** | **—** | **1,601** | **(11)** | **(35)** | **4,398** | **165** | **6,118** |
| **Balance at March 31, 2013** | **¥17,076** | **¥12,657** | **¥83,318** | **¥(2,017)** | **¥4,724** | **¥(72)** | **¥(11,348)** | **¥(2,319)** | **¥6,577** | **¥108,597** |

Thousands of U.S. dollars (Note 1)

| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Net unrealized holding gain on securities | Net unrealized deferred loss on derivative instruments | Net unrealized loss on land revaluation | Translation adjustments | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at April 1, 2012** | $181,647 | $134,645 | $820,839 | $(21,372) | $33,211 | $(651) | $(120,329) | $(71,460) | $68,207 | $1,024,737 |
| Cash dividends paid | **—** | **—** | **(13,935)** | **—** | **—** | **—** | **—** | **—** | **—** | **(13,935)** |
| Net income | **—** | **—** | **79,023** | **—** | **—** | **—** | **—** | **—** | **—** | **79,023** |
| Purchases of treasury stock | **—** | **—** | | **(87)** | **—** | **—** | **—** | **—** | **—** | **(87)** |
| Sales of treasury stock | **—** | **0** | | **3** | **—** | **—** | **—** | **—** | **—** | **3** |
| Reversal of land revaluation | **—** | **—** | **382** | **—** | **—** | **—** | **—** | **—** | **—** | **382** |
| Decrease resulting from initial consolidation of a subsidiary | **—** | **—** | **(36)** | **—** | **—** | **—** | **—** | **—** | **—** | **(36)** |
| Other net changes during the year | **—** | **—** | **—** | **—** | **17,040** | **(122)** | **(382)** | **46,787** | **1,759** | **65,082** |
| **Balance at March 31, 2013** | **$181,647** | **$134,644** | **$886,273** | **$(21,456)** | **$50,252** | **$(773)** | **$(120,712)** | **$(24,673)** | **$69,967** | **$1,155,169** |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests | **¥ 12,644** | ¥11,907 | **$ 134,503** |
| Adjustments for: | | | |
| Depreciation and amortization | **7,360** | 7,403 | **78,299** |
| Loss on impairment of property, plant and equipment | **167** | 105 | **1,784** |
| Amortization of goodwill | **102** | — | **1,087** |
| Loss on sales or disposal of property, plant and equipment, net | **104** | 60 | **1,112** |
| Loss on devaluation of investments in securities | **5** | 6 | **55** |
| Loss on devaluation of investments in affiliates | **—** | 87 | **—** |
| Gain on sales of investments in affiliates | **—** | (53) | **—** |
| Loss on sales of investments in affiliates | **—** | 107 | **—** |
| Decrease in allowance for doubtful accounts | **(9)** | (52) | **(96)** |
| Decrease in accrued retirement benefits to employees | **(288)** | (21) | **(3,063)** |
| Decrease in obligation on transfer to defined contribution pension plans included in other current liabilities and other long-term liabilities | **(148)** | (532) | **(1,582)** |
| Decrease (increase) in trade notes and accounts receivable | **4,005** | (6,990) | **42,602** |
| Decrease (increase) in inventories | **366** | (1,491) | **3,901** |
| Decrease (increase) in trade notes and accounts payable | **(3,539)** | 6,216 | **(37,649)** |
| Other, net | **(584)** | (246) | **(6,218)** |
| Subtotal | **20,187** | 16,506 | **214,735** |
| Interest and dividends received | **360** | 320 | **3,833** |
| Interest paid | **(501)** | (532) | **(5,332)** |
| Income taxes paid | **(4,695)** | (4,667) | **(49,945)** |
| Net cash provided by operating activities | **15,350** | 11,626 | **163,290** |
| Cash flows from investing activities: | | | |
| Decrease (increase) in time deposits | **174** | (7) | **1,856** |
| Purchases of investments in securities | **(512)** | (712) | **(5,452)** |
| Proceeds from sales of investments in securities | **14** | 3 | **158** |
| Payments for the acquisition of subsidiaries' shares resulting in changes in scope of consolidation (Note 18) | **(6,334)** | — | **(67,385)** |
| Payments for investments in unconsolidated subsidiaries and affiliates | **(854)** | (2,579) | **(9,092)** |
| Proceeds from sales of investments in unconsolidated subsidiaries and affiliates | **—** | 234 | **—** |
| Decrease (increase) in short-term loans receivable, net | **71** | (94) | **762** |
| (Increase) decrease in long-term loans receivable | **(22)** | 28 | **(239)** |
| Purchases of property, plant and equipment | **(11,121)** | (7,553) | **(118,298)** |
| Proceeds from sales of property, plant and equipment | **187** | 193 | **1,991** |
| Payments related to asset retirement obligations | **(4)** | (2) | **(44)** |
| Net cash used in investing activities | **(18,401)** | (10,487) | **(195,744)** |
| Cash flows from financing activities: | | | |
| (Decrease) increase in short-term loans, net | **(1,949)** | 2,460 | **(20,734)** |
| Proceeds from long-term loans | **10,614** | 1,027 | **112,909** |
| Repayment of long-term loans | **(734)** | (7,178) | **(7,814)** |
| Repayment of finance lease obligations | **(312)** | (107) | **(3,320)** |
| Payments for installment payables | **(8)** | (174) | **(93)** |
| Proceeds from issuance of new shares to minority shareholders | **212** | — | **2,256** |
| Cash dividends paid | **(1,310)** | (1,302) | **(13,935)** |
| Cash dividends paid to minority interests | **(177)** | (182) | **(1,893)** |
| Purchases of treasury stock | **(8)** | (5) | **(87)** |
| Proceeds from sales of treasury stock | **0** | 1 | **3** |
| Net cash provided by (used in) financial activities | **6,325** | (5,460) | **67,290** |
| Effect of exchange rate changes on cash and cash equivalents | **793** | (118) | **8,435** |
| Net increase (decrease) in cash and cash equivalents | **4,068** | (4,440) | **43,272** |
| Cash and cash equivalents at beginning of the year | **13,916** | 17,308 | **148,031** |
| Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary | **2,210** | 1,048 | **23,513** |
| Cash and cash equivalents at end of the year (Note 18) | **¥ 20,194** | ¥13,916 | **$ 214,816** |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2013

## 1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. (the "Company") and 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 have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2012 to the 2013 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥94.01 = U.S. $1.00, the exchange rate prevailing on March 31, 2013. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements both in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All material intercompany balances and transactions have been eliminated in consolidation.

The balance sheet dates of certain consolidated subsidiaries are December 31 or January 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the periods from January 1 or February 1 through March 31 have been adjusted, if necessary. For one overseas consolidated subsidiary whose fiscal year-end is December 31, for consolidation purposes, the financial statements are prepared as of and for the year ended March 31.

The number of consolidated subsidiaries and affiliates accounted for by the equity method for the years ended March 31, 2013 and 2012 is summarized below:

| | **2013** | 2012 |
|---|---|---|
| Domestic subsidiaries | **11** | 11 |
| Overseas subsidiaries | **42** | 29 |
| Overseas affiliates | **2** | 2 |

### (b) Cash and cash equivalents

For the preparation of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

### (c) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

### (d) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income (loss). Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

All securities held by the Company and its consolidated subsidiaries are classified as "other securities" and have been accounted for as outlined above.

### (e) Derivatives

Derivatives are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest-rate swaps had originally applied to the underlying debt. Receivables, payables and loans hedged by forward foreign exchange contracts which meet certain conditions are accounted for by the allocation method. Under the allocation method, such receivables or payables denominated in foreign currencies are translated at the corresponding contract rates.

### (f) Inventories

Inventories are mainly stated at the lower of cost or net selling value, cost being determined by the first-in, first-out method, the individual identification method or the moving-average method, except for goods held by certain overseas subsidiaries which are valued at the lower of cost or market.

### (g) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are stated at cost. Depreciation is mainly calculated by the declining-balance method over the estimated useful lives of the respective assets, except for the depreciation of buildings (other than structures attached to the buildings). Depreciation of buildings is calculated by the straight-line method.

The principal estimated useful lives are summarized as follows:

| | |
|---|---|
| Buildings and structures | 3 to 50 years |
| Machinery, equipment and vehicles | 4 to 13 years |

### (h) Goodwill

Goodwill is amortized primarily over a period of 5 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

### (i) Leases

For lease transactions involving the transfer of ownership, leased assets are depreciated by the same depreciation method applied to property, plant and equipment owned by the lessee.

For lease transactions not involving the transfer of ownership, leased assets are depreciated over their lease term using the straight-line method with a residual value of zero.

The Company and its domestic consolidated subsidiaries continue to account for finance lease transactions not involving the transfer of ownership that commenced prior to April 1, 2008 as operating leases.

### (j) Income taxes

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

### (k) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which are charged to income in the current year.

### (l) Accrued retirement benefits to employees

Accrued retirement benefits to employees are provided at the retirement benefit obligation less the fair value of the pension plan assets, as adjusted for net unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Prior service cost is credited or charged to income in the year in which the gain or loss is recognized.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a period which is shorter than the average estimated remaining years of service of the eligible employees (10 years).

### (m) Accrued retirement benefits to directors and corporate auditors

Directors and corporate auditors of domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. Accrued retirement benefits to directors and corporate auditors have been made at an estimated amount based on the internal rules.

### (n) Provision for loss on construction contracts

Provision for loss on construction contracts is provided for anticipated future losses on outstanding projects if such future loss on construction projects is anticipated at the year-end and the loss amount can be reasonably estimated.

### (o) Recognition of contract revenue and cost

The Company and its consolidated subsidiaries recognize revenue by applying the percentage-of-completion method for the construction projects for which the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, the Company and its consolidated subsidiaries measure the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

### (p) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives (5 years).

### (q) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding minority interests, net unrealized holding gain on securities and net unrealized deferred loss on derivative instruments are translated at their historical exchange rates. Revenue and expense accounts of the overseas consolidated subsidiaries are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of net income but are reported as "Translation adjustments" as a component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

### (r) Distribution of retained earnings

Under the Corporation Law of Japan (the "Law"), the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such distributions. (Refer to Note 24.)

## 3. CHANGE IN ACCOUNTING POLICY

Change in depreciation method

In accordance with an amendment to the Corporation Tax Law effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012, other than certain buildings, to reflect the methods prescribed in the amended Corporation Tax Law. The previously applied 250% declining-balance method was changed to the 200% declining-balance method. The impact on the consolidated operating results as a result of this change is immaterial.

## 4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Accounting Standard for Retirement Benefits

- Accounting Standard for Retirement Benefits (Statement No. 26 issued by Accounting Standards Board of Japan ("ASBJ") on May 17, 2012)
- Guidance on Accounting Standard for Retirement Benefits (Guidance No. 25 issued by ASBJ on May 17, 2012)

Summary

These accounting standards were amended from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on how actuarial gains or losses and prior service costs should be accounted for, how retirement benefit obligations and current service costs should be determined, and enhancement of disclosures.

Under the revised accounting standard, unrecognized actuarial gains or losses and prior service cost shall be recognized within net assets (accumulated other comprehensive income (loss)), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset. In addition, the retirement benefit obligation can be attributed to each period based on the plan's benefit formula or the straight-line method.

Planned date of adoption

The Company will apply these accounting standards from the end of the fiscal year ending March 31, 2014. However, the amendment of the calculation method for the present value of defined benefit obligations and current service costs will be adopted from the beginning of the fiscal year ending March 31, 2015.

Effect of adoption of these accounting standards

The impact of the adoption of these accounting standards is currently under assessment.

## 5. FINANCIAL INSTRUMENTS

### (1) Overview

(a) Policies for financial instruments

The Company and its consolidated subsidiaries obtain necessary funding principally by bank borrowings and bond issuance. Temporary surplus funds are managed through low-risk financial assets. Derivatives are utilized for mitigating fluctuation risks of foreign currency exchange rates or interest rates, but not utilized for speculative purposes.

(b) Types of financial instruments and related risk

Trade receivables, notes and accounts receivable, are exposed to the credit risk of customers. The Company and its consolidated subsidiaries conduct their business globally and the trade receivables denominated in foreign currencies incurred from export transactions are exposed to the fluctuation risk of foreign currencies. This risk is mitigated by utilizing forward foreign exchange contracts.

Securities are mainly composed of stocks of the companies with which the Group has business relationships or business alliances and they are exposed to fluctuation risk of market prices.

Almost all trade payables, notes and accounts payable, are due within one year. Certain trade payables resulting from import transactions are denominated in foreign currencies and the Company and its consolidated subsidiaries utilize forward foreign exchange contracts, as with trade receivables. Loans are utilized for necessary financing of operating funds and capital expenditures. Certain portions of loans and bonds are exposed to the fluctuation risks of foreign currency exchange rates and interest rates because of borrowings in foreign currency and floating interest rates and these risks are hedged by utilizing derivative transactions (interest-rate swap agreements and currency swap agreements).

Derivative transactions are entered into to hedge the foreign currency fluctuation risk of trade receivables and trade payables denominated in foreign currencies by utilizing forward foreign exchange contracts, and to hedge interest rate fluctuation risks and foreign currency fluctuation risks of certain loans by utilizing interest-rate swap agreements and currency swap agreements. Refer to "Derivatives" in Note 2 "Summary of Significant Accounting Policies" and Note 20 "Derivatives and Hedging Activities" for information on hedge accounting, such as hedging instruments and hedged items.

### (c) Risk management for financial instruments

**(i) Monitoring of credit risk (the risk that customers or counterparties may default)**

In accordance with internal rules of credit management of the Company, each business department manages the collection due dates and receivable balances of its customers, periodically monitors the financial conditions of customers and tries to identify credit risk of customers with worsening financial conditions at the early stage to mitigate any risk. Consolidated subsidiaries perform similar credit management.

The Company and certain consolidated subsidiaries enter into derivative transactions with financial institutions with high credit ratings to mitigate the risk of credit loss in the event of nonperformance by the counterparties.

**(ii) Monitoring of market risks (the risks arising from fluctuations in foreign currency exchange rates and interest rates)**

The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts for hedging of currency fluctuation risk. The Company also utilizes interest-rate swap agreements and currency swap agreements to mitigate fluctuation risks of interest rates and foreign currency exchange rates.

The Company and its consolidated subsidiaries continuously review securities holdings by monitoring periodically the market value and financial condition of the securities' issuers (companies with business relationships or business alliances with the Company and its consolidated subsidiaries) and by evaluating those relationships.

Each business department determines the amount of each forward foreign exchange contract within the actual underlying transaction amount, and the responsible finance department enters into and manages these forward foreign exchange contracts. The finance department enters into and manages interest-rate swap agreements and currency swap agreements in the course of undertaking borrowing contracts.

**(iii) Monitoring of liquidity risk (the risk that the Company and its consolidated subsidiaries may not be able to meet its obligations on scheduled due dates)**

The Company and its consolidated subsidiaries manage liquidity risk by preparing cash flow plans on a timely basis and so forth.

**(iv) Supplementary explanation of the estimated fair value of financial instruments**

The fair value of financial instruments is determined based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 20 do not necessarily indicate the market risk of the derivative transactions.

## (2) Fair value of financial instruments

Carrying value, fair value, and the difference related to financial instruments at March 31, 2013 and 2012 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | **2013** | | | 2012 |
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Assets: | | | | | | |
| Cash and deposits | **¥19,678** | **¥19,678** | **¥ —** | ¥ 9,661 | ¥ 9,661 | ¥ — |
| Trade notes and accounts receivable | **41,844** | **–** | **—** | 42,886 | 42,886 | — |
| Allowance for doubtful accounts*1 | **(388)** | **–** | **—** | (367) | (367) | — |
| | **41,456** | **41,456** | **—** | 42,519 | 42,519 | — |
| Short-term investments and investments in securities | **15,586** | **15,586** | **—** | 16,491 | 16,491 | — |
| Total assets | **¥76,721** | **¥76,721** | **¥ —** | ¥68,672 | ¥68,672 | ¥ — |
| Liabilities: | | | | | | |
| Trade notes and accounts payable | **¥26,488** | **¥26,488** | **¥ —** | ¥27,779 | ¥27,779 | ¥ — |
| Short-term loans | **8,305** | **8,305** | **—** | 10,141 | 10,141 | — |
| Long-term debt*2 | **28,201** | **28,461** | **(259)** | 17,264 | 17,459 | (195) |
| Total liabilities | **¥62,996** | **¥63,255** | **¥(259)** | ¥55,184 | ¥55,379 | ¥(195) |
| Derivatives, net*3 | **¥ (830)** | **¥ (830)** | **¥ —** | ¥ (323) | ¥ (323) | ¥ — |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | | | **2013** |
| | Carrying value | Fair value | Difference |
| Assets: | | | |
| Cash and deposits | **$209,327** | **$209,327** | **$ —** |
| Trade notes and accounts receivable | **445,111** | **–** | **—** |
| Allowance for doubtful accounts*1 | **(4,133)** | **–** | **—** |
| | **440,977** | **440,977** | **—** |
| Short-term investments and investments in securities | **165,792** | **165,792** | **—** |
| Total assets | **$816,097** | **$816,097** | **$ —** |
| Liabilities: | | | |
| Trade notes and accounts payable | **$281,765** | **$281,765** | **$ —** |
| Short-term loans | **88,351** | **88,351** | **—** |
| Long-term debt*2 | **299,984** | **302,745** | **(2,760)** |
| Total liabilities | **$670,101** | **$672,862** | **$(2,760)** |
| Derivatives, net*3 | **$ (8,837)** | **$ (8,837)** | **$ —** |

*1 Allowances for doubtful accounts on specific bad debts are deducted from "Trade notes and accounts receivable."
*2 Long-term debt includes current portion of long-term debt.
*3 Assets and liabilities arising from derivatives are shown at net value, and the amount in parentheses represents a net liability position.

Methods to determine the fair value of financial instruments, investments in securities and derivative transactions

**Assets**

Cash, deposits and trade notes and accounts receivable

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

Short-term investments and investments in securities

The fair value of equity securities is based on their quoted market price. Since certificates of deposit are settled in a short time period, their carrying value approximates fair value.

**Liabilities**

Trade notes and accounts payable, short-term loans

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

**Long-term debt**

The fair value of long-term debt is based on the present value of the total principal and interest discounted by the estimated interest rates to be applied if similar new loans are made.

Long-term debt with floating interest rates is hedged by interest-rate swap agreements and accounted for as loans with fixed interest rates. The fair value of this long-term debt hedged by interest-rate swap agreements is based on the present value of the total principal, interest and cash flows of interest-rate swap agreements discounted by the reasonably estimated interest rates to be applied if similar new loans are made.

**Derivative transactions**

Please refer to Note 20 “Derivatives and Hedging Activities.”

The amounts of financial instruments for which it is extremely difficult to determine the fair value are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Unlisted securities | **¥1,873** | ¥967 | **$19,928** |

Because no quoted market price is available and it is extremely difficult to determine the fair value, these amounts are not included in the preceding table related to carrying value and fair value of financial instruments.

The redemption schedule for monetary assets and securities with maturities subsequent to March 31, 2013 and 2012 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2013** | | | |
| | Due within one year | Due after one year through five years | Due after five years through ten years | Over ten years |
| Cash and deposits | **¥19,150** | **¥—** | **¥—** | **¥—** |
| Trade notes and accounts receivable | **41,844** | **—** | **—** | **—** |
| Short-term investments and investments in securities | | | | |
| Debt securities with maturity dates: | | | | |
| Bonds | **739** | **—** | **—** | **—** |
| Other | **—** | **—** | **—** | **—** |
| | **¥61,734** | **¥—** | **¥—** | **¥—** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Due within one year | Due after one year through five years | Due after five years through ten years | Over ten years |
| Cash and deposits | ¥ 9,633 | ¥— | ¥— | ¥— |
| Trade notes and accounts receivable | 42,886 | — | — | — |
| Short-term investments and investments in securities | | | | |
| Debt securities with maturity dates: | | | | |
| Bonds | 468 | — | — | — |
| Other | 4,000 | — | — | — |
| | ¥56,988 | ¥— | ¥— | ¥— |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2013** | | | |
| | Due within one year | Due after one year through five years | Due after five years through ten years | Over ten years |
| Cash and deposits | **$203,701** | **$—** | **$—** | **$—** |
| Trade notes and accounts receivable | **445,111** | **—** | **—** | **—** |
| Short-term investments and investments in securities | | | | |
| Debt securities with maturity dates: | | | | |
| Bonds | **7,867** | **—** | **—** | **—** |
| Other | **—** | **—** | **—** | **—** |
| | **$656,680** | **$—** | **$—** | **$—** |

## 6. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

(a) Short-term investments and investments in securities with determinable market value classified as other securities at March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | 2013 | | | 2012 |
| | Carrying value | Acquisition costs | Unrealized gain (loss) | Carrying value | Acquisition costs | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | | | | |
| Equity securities | **¥14,094** | **¥6,743** | **¥7,351** | ¥11,578 | ¥ 6,761 | ¥4,817 |
| Bonds | **179** | **179** | **0** | — | — | — |
| Subtotal | **14,273** | **6,922** | **7,351** | 11,578 | 6,761 | 4,817 |
| Securities whose carrying value does not exceed their acquisition costs: | | | | | | |
| Equity securities | **733** | **874** | **(141)** | 271 | 349 | (77) |
| Bonds | **—** | **—** | **—** | 156 | 157 | (0) |
| Other | **579** | **580** | **(0)** | 4,485 | 4,488 | (3) |
| Subtotal | **1,312** | **1,455** | **(142)** | 4,913 | 4,995 | (82) |
| Total | **¥15,586** | **¥8,377** | **¥7,208** | ¥16,491 | ¥11,756 | ¥4,734 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | | | 2013 |
| | Carrying value | Acquisition costs | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | **$149,923** | **$71,728** | **$78,195** |
| Bonds | **1,908** | **1,905** | **2** |
| Subtotal | **151,831** | **73,633** | **78,198** |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | **7,797** | **9,306** | **(1,509)** |
| Bonds | **—** | **—** | **—** |
| Other | **6,162** | **6,171** | **(8)** |
| Subtotal | **13,960** | **15,478** | **(1,518)** |
| Total | **$165,792** | **$89,112** | **$76,679** |

(b) Sales of other securities for the years ended March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Sales | **¥14** | ¥3 | **$158** |
| Gross realized gain | **5** | 0 | **62** |
| Gross realized loss | **(0)** | — | **(1)** |

(c) The Company recorded losses on devaluation of investments in securities of ¥5 million ($55 thousand) and ¥6 million for the years ended March 31, 2013 and 2012, respectively. The recording of a loss on devaluation of investments in securities is based on internal rules such as if the fair value at balance sheet date has fallen more than 50% from its book value or if fair value at the balance sheet date has continually fallen by more than 30% and less than 50% from its book value over the past 2 years.

## 7. INVENTORIES

Inventories at March 31, 2013 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Finished goods | **¥14,222** | ¥12,612 | **$151,290** |
| Work in process | **9,229** | 8,251 | **98,174** |
| Raw materials and supplies | **5,846** | 5,029 | **62,186** |
| | **¥29,298** | ¥25,893 | **$311,651** |

## 8. SHORT-TERM LOANS, LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS

Short-term loans consisted principally of loans from banks and insurance companies at weighted average interest rates of 0.6% and 0.7% at March 31, 2013 and 2012, respectively.

Long-term debt and finance lease obligations at March 31, 2013 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Loans, principally from banks and insurance companies, due through 2019 at an average annual interest rate of 1.2%: | | | |
| Secured | **¥ 571** | ¥ 39 | **$ 6,078** |
| Unsecured | **27,630** | 17,224 | **293,906** |
| Lease obligations due through 2019 | **425** | 384 | **4,522** |
| | **28,626** | 17,648 | **304,507** |
| Less current portion | **3,703** | 613 | **39,399** |
| Total | **¥24,922** | ¥17,035 | **$265,107** |

Other interest-bearing liabilities included in other current liabilities and other long-term liabilities represented installment payables at an average annual interest rate of 3.1% at March 31, 2013 and 2012.

The aggregate annual maturities of long-term debt subsequent to March 31, 2013 are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2014 | ¥ 3,703 | $ 39,399 |
| 2015 | 10,122 | 107,671 |
| 2016 | 2,050 | 21,816 |
| 2017 | 826 | 8,790 |
| 2018 | 11,901 | 126,595 |
| 2019 and thereafter | 21 | 233 |
| Total | ¥28,626 | $304,507 |

The aggregate annual maturities of other interest-bearing liabilities subsequent to March 31, 2013 are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2014 | ¥ 8 | $ 93 |
| 2015 | 8 | 93 |
| 2016 | 8 | 93 |
| 2017 | 8 | 93 |
| Total | ¥35 | $372 |

Assets pledged as collateral for short-term loans of ¥130 million ($1,382 thousand) and nil, the current portion of long-term debt of ¥110 million ($1,179 thousand) and ¥21 million and long-term debt of ¥460 million ($4,898 thousand) and ¥18 million at March 31, 2013 and 2012 were composed of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Buildings and structures | **¥ 676** | ¥ 70 | **$ 7,196** |
| Land | **1,531** | 1,242 | **16,295** |
| | **¥2,208** | ¥1,312 | **$23,491** |

The Company has concluded line-of-credit agreements with certain banks to achieve efficient financing. The status of these lines of credit at March 31, 2013 and 2012 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Lines of credit | **¥15,000** | ¥15,000 | **$159,557** |
| Credit utilized | **—** | 2,000 | **—** |
| Available credit | **¥15,000** | ¥13,000 | **$159,557** |

## 9. INCOME TAXES

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 38.0% and 40.6% for the years ended March 31, 2013 and 2012, respectively.

A reconciliation of the statutory and effective tax rates for the years ended March 31, 2013 and 2012 is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| Statutory tax rates | 38.0% | 40.6% |
| Permanent differences such as entertainment expenses | 0.7 | 0.6 |
| Per capita portion of inhabitants' taxes | 0.5 | 0.5 |
| Equity in loss (earnings) of affiliates | 0.0 | (0.2) |
| Valuation allowance | (0.9) | (0.1) |
| Permanent differences such as dividends received | (0.7) | (0.5) |
| Tax credits such as research and development costs and other | (0.6) | (0.7) |
| Difference between statutory tax rate in Japan and income tax rates applied at overseas consolidated subsidiaries | (0.1) | (0.7) |
| Tax exemption on investment | (0.1) | (0.4) |
| Effect of changes in corporate tax rates | — | (2.1) |
| Other | 0.8 | 0.5 |
| Effective tax rates | 37.6% | 37.5% |

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Deferred tax assets: | | | |
| Accrued retirement benefits | ¥ 3,350 | ¥ 3,435 | $ 35,634 |
| Accrued bonuses | 980 | 960 | 10,428 |
| Unrealized losses on inventories | 627 | 458 | 6,671 |
| Accrued enterprise taxes | 188 | 173 | 2,004 |
| Other | 3,893 | 2,308 | 41,418 |
| Gross deferred tax assets | 9,039 | 7,336 | 96,158 |
| Less: valuation allowance | (998) | (991) | (10,623) |
| Total deferred tax assets | 8,041 | 6,345 | 85,535 |
| Deferred tax liabilities: | | | |
| Deferred gain on replacement of property | (4,690) | (4,699) | (49,896) |
| Undistributed earnings of overseas subsidiaries | (1,156) | (919) | (12,298) |
| Net unrealized gain on revaluation of assets and liabilities of subsidiaries | (1,620) | (775) | (17,234) |
| Unrealized holding gain on securities | (2,467) | (1,583) | (26,249) |
| Other | (1,670) | (1,447) | (17,767) |
| Total deferred tax liabilities | (11,605) | (9,425) | (123,446) |
| Net deferred tax liabilities | ¥ (3,564) | ¥(3,080) | $ (37,912) |

## 10. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, i.e., lump-sum payment plans, defined contribution pension plans and advance payment schemes for retirement benefits. In addition to the retirement benefit plans described above, the Company and its domestic subsidiaries pay additional retirement benefits under certain conditions. Certain overseas subsidiaries also have defined benefit pension plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2013 and 2012 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Retirement benefit obligation | **¥(11,741)** | ¥(12,127) | **$(124,897)** |
| Plan assets at fair value | **1,193** | 1,041 | **12,694** |
| Unfunded retirement benefit obligation | **(10,548)** | (11,085) | **(112,203)** |
| Unrecognized actuarial loss | **1,039** | 1,363 | **11,054** |
| Accrued retirement benefits | **¥ (9,508)** | ¥ (9,722) | **$(101,148)** |

As permitted under the accounting standard for retirement benefits, certain domestic subsidiaries calculate their retirement benefit obligation for their employees by the simplified method. Under the simplified method, the retirement benefit obligation for employees is stated at the amount which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Service cost | **¥ 700** | ¥ 721 | **$ 7,453** |
| Interest cost | **215** | 222 | **2,297** |
| Expected return on plan assets | **(12)** | (12) | **(130)** |
| Amortization of unrecognized actuarial loss | **178** | 378 | **1,896** |
| Contributions to defined contribution pension plans | **488** | 496 | **5,197** |
| Retirement benefit expenses | **¥1,571** | ¥1,806 | **$16,714** |

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2013 and 2012 were as follows:

| | **2013** | 2012 |
|---|---|---|
| Discount rate | **Principally 2.0%** | Principally 2.0% |
| Expected rate of return on plan assets | **Principally 2.0%** | Principally 2.0% |

## 11. CONTINGENT LIABILITIES

At March 31, 2013 and 2012, the Company and its consolidated subsidiaries were contingently liable for the following items:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Notes receivable discounted | **¥153** | ¥136 | **$1,630** |
| Guarantees of home mortgage loans by employees | **92** | 109 | **979** |
| Guarantees of loans made by affiliates | **70** | 81 | **750** |

## 12. NET UNREALIZED LOSS ON LAND REVALUATION

Effective March 31, 2001, the Company revalued its land held for business use in accordance with the "Law on Land Revaluation." Differences on land revaluation have been accounted for as "Net unrealized loss on land revaluation" under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluation was in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its corresponding fair value by ¥12,000 million ($127,645 thousand) and ¥11,000 million at March 31, 2013 and 2012, respectively.

### 13. SHAREHOLDERS' EQUITY

The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital 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.

The Company's legal reserve amounted to ¥3,376 million ($35,919 thousand) at March 31, 2013 and 2012.

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2013 and 2012 are summarized as follows:

| | Number of shares | | | |
|---|---|---|---|---|
| | **2013** | | | |
| | April 1, 2012 | Increase | Decrease | March 31, 2013 |
| Issued shares of common stock | **191,406,969** | **—** | **—** | **191,406,969** |
| Treasury stock | **4,246,240** | **18,059** | **680** | **4,263,619** |

Increase in the number of shares of treasury stock was due to purchases of fractional shares of less than one unit. Decrease in the number of shares of treasury stock was due to sales of fractional shares of less than one unit.

| | Number of shares | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | April 1, 2011 | Increase | Decrease | March 31, 2012 |
| Issued shares of common stock | 191,406,969 | — | — | 191,406,969 |
| Treasury stock | 5,397,143 | 12,636 | 1,163,539 | 4,246,240 |

Increase in the number of shares of treasury stock was due to purchases of fractional shares of less than one unit. Decrease in the number of shares of treasury stock was due to share exchanges, and sales of fractional shares of less than one unit.

### 14. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Provision for loss on construction contracts included in cost of sales for the years ended March 31, 2013 and 2012 amounted to ¥22 million ($236 thousand) and ¥12 million, respectively.

### 15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2013 and 2012 amounted to ¥4,319 million ($45,951 thousand) and ¥4,231 million, respectively.

### 16. LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Certain domestic consolidated subsidiaries have recognized an impairment loss on idle assets or assets to be dismantled by reducing their net book value to the respective net realizable value of each asset. As a result, certain domestic consolidated subsidiaries recognized loss on impairment for idle assets or assets to be dismantled, including dismantling cost, for the year ended March 31, 2013 in the amount of ¥167 million ($1,784 thousand).

Certain domestic consolidated subsidiaries recognized loss on impairment for idle assets for the year ended March 31, 2012 in the amount of ¥105 million.

| | | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| Location | Use | Classification | **2013** | 2012 | **2013** |
| Kasai city<br>Hyogo prefecture | Idle property | Land | **¥ —** | ¥ 76 | **$ —** |
| | | Buildings and other | **—** | 15 | **—** |
| Kadoma city<br>Osaka prefecture | Idle property | Land | **—** | 11 | **—** |
| | | Buildings and other | **113** | — | **1,208** |
| Kuki city<br>Saitama prefecture | Plant | Buildings and other | **34** | — | **362** |
| Osaka city<br>Osaka prefecture | Sales office | Buildings and other | **18** | — | **196** |
| Tomakomai city<br>Hokkaido prefecture | Idle property | Land | **1** | 1 | **17** |
| | | | **¥167** | ¥105 | **$1,784** |

The respective recoverable amounts are measured using the respective net selling prices principally based on valuations by a real-estate company and a scrap company.

## 17. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Net unrealized holding gain on securities: | | | |
| Gain arising during the year | **¥2,475** | ¥ 236 | **$26,337** |
| Reclassification adjustments | **0** | 6 | **1** |
| Before tax effect | **2,476** | 242 | **26,339** |
| Tax effect | **(872)** | 92 | **(9,278)** |
| Net unrealized holding gain on securities | **1,603** | 335 | **17,060** |
| Net unrealized deferred loss on derivative instruments: | | | |
| Loss arising during the year | **(18)** | (42) | **(193)** |
| Tax effect | **6** | 16 | **70** |
| Net unrealized deferred loss on derivative instruments | **(11)** | (26) | **(123)** |
| Net unrealized loss on land revaluation: | | | |
| Tax effect | **—** | 826 | **—** |
| Translation adjustments: | | | |
| Amount arising during the year | **4,505** | (746) | **47,923** |
| Reclassification adjustments | **4** | — | **43** |
| Translation adjustments: | **4,509** | (746) | **47,966** |
| Share of other comprehensive income of affiliates accounted for by the equity method: | | | |
| Gain (loss) arising during the year | **81** | (12) | **867** |
| Reclassification adjustments | **—** | 107 | **—** |
| Share of other comprehensive income of affiliates accounted for by the equity method | **81** | 94 | **867** |
| Other comprehensive income | **¥6,183** | ¥ 484 | **$65,771** |

## 18. SUPPLEMENTAL INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliations of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2013 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Cash and deposits | **¥19,678** | ¥ 9,661 | **$209,327** |
| Deposits with maturities exceeding three months | **(44)** | (214) | **(469)** |
| Short-term investments | **560** | 4,468 | **5,959** |
| Cash and cash equivalents | **¥20,194** | ¥13,916 | **$214,816** |

On August 31, 2012, the Company initially consolidated Mayfran International, Incorporated, Conergics International LLC, and MF Real Estate Partners, LLC. Assets acquired and liabilities assumed at the date of commencement of consolidation and the related cost of the acquired shares and payment for the acquisition of the subsidiaries' shares are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2013** | **2013** |
| Current assets | **¥ 4,106** | **$ 43,682** |
| Fixed assets | **4,654** | **49,512** |
| Goodwill | **1,330** | **14,152** |
| Current liabilities | **(2,784)** | **(29,621)** |
| Long-term liabilities | **(818)** | **(8,710)** |
| Acquisition cost of shares | **6,488** | **69,016** |
| Cash and cash equivalents | **(153)** | **(1,630)** |
| Payment for the acquisition of the subsidiaries' shares | **¥ 6,334** | **$ 67,385** |

## 19. LEASES

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of the leased assets as of March 31, 2013 and 2012, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased assets to the Company and its domestic consolidated subsidiaries commencing on or before March 31, 2008 (currently accounted for as operating leases) had been capitalized:

| | Millions of yen | | |
|---|---|---|---|
| | **2013** | | |
| | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery, equipment and vehicles | **¥3** | **¥3** | **¥0** |

| | Millions of yen | | |
|---|---|---|---|
| | 2012 | | |
| | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery, equipment and vehicles | ¥ 89 | ¥ 82 | ¥ 7 |
| Tools, furniture and fixtures | 172 | 157 | 15 |
| Other assets | 44 | 37 | 6 |
| Total | ¥306 | ¥277 | ¥29 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | **2013** | | |
| | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery, equipment and vehicles | **$38** | **$35** | **$3** |

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥29 million ($310 thousand) and ¥99 million for the years ended March 31, 2013 and 2012, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms amounted to ¥29 million ($310 thousand) and ¥99 million for the years ended March 31, 2013 and 2012, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2013 under finance leases, other than those which transfer the ownership of the leased assets to the Company and its domestic consolidated subsidiaries, that commenced on or before March 31, 2008 are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2014 | ¥0 | $3 |
| 2015 and thereafter | — | — |
| | ¥0 | $3 |

The acquisition cost and future minimum lease payments under finance leases presented in the above tables include the imputed interest expense.

Future minimum lease payments subsequent to March 31, 2013 for non-cancelable operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2014 | ¥193 | $2,055 |
| 2015 and thereafter | 493 | 5,247 |
| | ¥686 | $7,302 |

## 20. DERIVATIVES AND HEDGING ACTIVITIES

### (1) Derivative transactions to which hedge accounting is not applied

(a) Currency related

The notional amounts of forward foreign exchange contracts to which hedge accounting has not been applied, the estimated fair value of the outstanding derivatives positions and unrealized gain or loss at March 31, 2013 and 2012 are summarized as follows:

| | | | | | | Millions of yen |
|---|---|---|---|---|---|---|
| | **2013** | | | 2012 | | |
| | Notional amount | Estimated fair value* | Unrealized loss | Notional amount | Estimated fair value* | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | | | | |
| Sell: | | | | | | |
| U.S. dollars | **¥3,137** | **¥(467)** | **¥(467)** | ¥2,938 | ¥(168) | ¥(168) |
| Euros | **638** | **(86)** | **(86)** | 549 | (23) | (23) |
| Canadian dollars | **150** | **(22)** | **(22)** | 136 | (12) | (12) |
| Australian dollars | **90** | **(19)** | **(19)** | 152 | (17) | (17) |
| Buy: | | | | | | |
| Japanese yen | **646** | **(83)** | **(83)** | 233 | (3) | (3) |
| U.S. dollars | **—** | **—** | **—** | 3 | (0) | (0) |
| Total | **¥4,663** | **¥(678)** | **¥(678)** | ¥4,014 | ¥(225) | ¥(225) |

| | | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | | |
| | Notional amount | Estimated fair value* | Unrealized loss |
| Forward foreign exchange contracts: | | | |
| Sell: | | | |
| U.S. dollars | **$33,372** | **$(4,970)** | **$(4,970)** |
| Euros | **6,792** | **(918)** | **(918)** |
| Canadian dollars | **1,598** | **(239)** | **(239)** |
| Australian dollars | **964** | **(203)** | **(203)** |
| Buy: | | | |
| Japanese yen | **6,876** | **(886)** | **(886)** |
| U.S. dollars | **—** | **—** | **—** |
| Total | **$49,604** | **$(7,219)** | **$(7,219)** |

* Estimated fair value is determined based on the prices quoted by financial institutions.

There were no derivative transactions relevant to interest rate hedging to which hedge accounting has not been applied as of March 31, 2013 and 2012.

(b) Interest-rate related

The notional amounts of interest-rate swap agreements to which hedge accounting has not been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2013 and 2012 are summarized as follows:

| | | | | | | | Millions of yen |
|---|---|---|---|---|---|---|---|
| | | **2013** | | | 2012 | | |
| | Hedged items | Notional amount | Due after one year | Estimated fair value* | Notional amount | Due after one year | Estimated fair value* |
| Interest-rate swap agreements: | | | | | | | |
| Fixed paid/floating received | Long-term debt | **¥281** | **¥246** | **¥1** | ¥— | ¥— | ¥— |

| | | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | | **2013** | | |
| | Hedged items | Notional amount | Due after one year | Estimated fair value* |
| Interest-rate swap agreements: | | | | |
| Fixed paid/floating received | Long-term debt | **$2,990** | **$2,624** | **$20** |

* Estimated fair value is determined based on the prices quoted by financial institutions.

## (2) Derivative transactions to which hedge accounting is applied

### (a) Currency related

The notional amounts of forward foreign exchange contracts to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2013 and 2012 are summarized as follows:

| | | | | | | | Millions of yen |
|---|---|---|---|---|---|---|---|
| | | 2013 | | | 2012 | | |
| | Hedged items | Notional amount | Due after one year | Estimated fair value*2 | Notional amount | Due after one year | Estimated fair value*2 |
| Forward foreign exchange contracts: | | | | | | | |
| Sell: | | | | | | | |
| U.S. dollars | Accounts receivable (Forecasted transactions) | **¥2,141** | **¥—** | **¥ (86)** | ¥2,925 | ¥81 | ¥(74) |
| Euros | | **610** | **—** | **(14)** | 502 | — | (12) |
| Australian dollars | | **134** | **—** | **(6)** | 122 | — | (6) |
| Canadian dollars | | **130** | **—** | **(4)** | 102 | — | (3) |
| U.S. dollars | Accounts receivable | **63** | **—** | **—** | — | — | — |
| Total | | **3,080** | **—** | **(113)** | 3,653 | 81 | (96) |
| Buy: | | | | | | | |
| Japanese yen | Accounts payable (Forecasted transactions) | **464** | **—** | **(22)** | 220 | — | 0 |
| U.S. dollars | | **6** | **—** | **0** | 57 | — | (1) |
| Total | | **¥ 470** | **¥—** | **¥ (22)** | ¥ 278 | ¥— | ¥ (1) |

| | | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | | 2013 | | |
| | Hedged items | Notional amount | Due after one year | Estimated fair value*2 |
| Forward foreign exchange contracts: | | | | |
| Sell: | | | | |
| U.S. dollars | Accounts receivable (Forecasted transactions) | **$22,777** | **$—** | **$ (919)** |
| Euros | | **6,496** | **—** | **(159)** |
| Australian dollars | | **1,430** | **—** | **(74)** |
| Canadian dollars | | **1,386** | **—** | **(51)** |
| U.S. dollars | Accounts receivable | **671** | **—** | **(105)** |
| Total | | **32,762** | **—** | **(1,309)** |
| Buy: | | | | |
| Japanese yen | Accounts payable (Forecasted transactions) | **4,939** | **—** | **(236)** |
| U.S. dollars | | **68** | **—** | **(1)** |
| Total | | **$ 5,007** | **$—** | **$ (238)** |

*1 For forward foreign exchange contracts, other than those corresponding to the forecasted transactions above, accounted for by the allocation method (refer to Note 2 (e)), their fair value is included in that of the accounts receivable or payable and is disclosed in Note 5 "Financial Instruments."

*2 Estimated fair value is determined based on the prices quoted by financial institutions.

The notional amounts of currency swap contracts that include interest-rate swaps to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2013 and 2012 are summarized as follows:

| | | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | **2013** | | | 2012 |
| | Hedged items | Notional amount | Due after one year | Estimated fair value*2 | Notional amount | Due after one year | Estimated fair value*2 |
| Currency swap contracts including interest-rate swaps: (Special treatment, hedge accounting treatment and allocation method*1) | Long-term debt | **¥8,200** | **¥8,200** | **¥—** | ¥— | ¥— | ¥— |

| | | Thousands of U.S. dollars | | |
|---|---|---|---|---|
| | | | | **2013** |
| | Hedged items | Notional amount | Due after one year | Estimated fair value*2 |
| Currency swap contracts including interest-rate swaps: (Special treatment, hedge accounting treatment and allocation method*1) | Long-term debt | **$87,224** | **$87,224** | **$—** |

*1 U.S. dollars received/Japanese yen paid, and fixed paid/floating received for a portion of the interest-rate swap.
*2 Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt (refer to Note 2 (e)), their fair value is included in that of the long-term debt disclosed in Note 5 "Financial Instruments."

(b) Interest-rate related

The notional amounts of interest-rate swaps to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2013 and 2012 are summarized as follows:

| | | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | **2013** | | | 2012 |
| | Hedged items | Notional amount | Due after one year | Estimated fair value* | Notional amount | Due after one year | Estimated fair value* |
| Interest-rate swaps: Fixed paid/floating received (Special treatment) | Long-term debt | **¥5,170** | **¥5,170** | **¥—** | ¥4,500 | ¥4,500 | ¥— |

| | | Thousands of U.S. dollars | | |
|---|---|---|---|---|
| | | | | **2013** |
| | Hedged items | Notional amount | Due after one year | Estimated fair value* |
| Interest-rate swaps: Fixed paid/floating received (Special treatment) | Long-term debt | **$54,994** | **$54,994** | **$—** |

* Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt (refer to Note 2 (e)), their fair value is included in that of the long-term debt disclosed in Note 5 "Financial Instruments."

## 21. AMOUNTS PER SHARE

Amounts per share at March 31, 2013 and 2012 and for the years then ended were as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Net assets | **¥545.14** | ¥480.46 | **$5.79** |
| Net income | **39.69** | 36.60 | **0.42** |
| Cash dividends | **7.00** | 7.00 | **0.07** |

The amounts per share of net assets are computed based on the number of shares of common stock outstanding at each year-end.

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

Diluted net income per share for the years ended March 31, 2013 and 2012 has not been presented because no potentially dilutive shares of common stock were outstanding.

Information used in the calculation of basic net income per share is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Net income | **¥7,428** | ¥6,814 | **$79,023** |
| Net income not available for distribution to shareholders of common stock | **—** | — | **—** |
| Net income on which basic net income per share is calculated | **¥7,428** | ¥6,814 | **$79,023** |

| | Thousands of shares | |
|---|---|---|
| | **2013** | 2012 |
| Weighted-average number of shares of common stock on which net income per share is calculated | **187,152** | 186,198 |

## 22. BUSINESS COMBINATIONS

On August 31, 2012, the Company acquired all of shares of voting rights of Mayfran International, Incorporated, Conergics International LLC, and MF Real Estate Partners, LLC, for ¥6,488 million ($69,016 thousand) in cash and made them wholly-owned subsidiaries. Mayfran International, Incorporated, Conergics International LLC, and MF Real Estate Partners, LLC are engaged in the manufacture and sales of products relating to conveying equipment. The Company determined to undertake this acquisition to develop chip conveyor, and scrap conveyor businesses mainly in Europe and North America, as well as expand full-scale development in China and other emerging markets. Further, the Company can expect a powerful synergy effect among its related businesses leading to the enhancement of its global competitiveness. The consolidated statement of income for the year ended March 31, 2013 included financial results of Mayfran International, Incorporated, Conergics International LLC, and MF Real Estate Partners, LLC for the four-month period ended December 31, 2012. There was no change in the name of these subsidiaries after the business combination.

As a result, ¥1,330 million ($14,152 thousand) of goodwill was recognized, which corresponded to the excess of the acquisition costs over the net amount allocated to the assets and liabilities. The corresponding goodwill is amortized over a period of 5 years on a straight-line basis.

The following table represents the assets and liabilities assumed on the date of the business combination:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Current assets | ¥4,106 | $43,682 |
| Fixed assets | 4,654 | 49,512 |
| Total assets | ¥8,761 | $93,195 |
| Current liabilities | ¥2,784 | $29,621 |
| Long-term liabilities | 818 | 8,710 |
| Total liabilities | ¥3,603 | $38,332 |

The amounts allocated to intangible assets other than goodwill, breakdown by component and amortization period by component are as follows:

| | Millions of yen | Thousands of U.S. dollars | Amortization period (years) |
|---|---|---|---|
| Intangible assets related to marketing | ¥1,308 | $13,920 | 5 |
| Intangible assets related to technologies | 357 | 3,799 | 10 |
| Intangible assets related to customers | 432 | 4,598 | 10 |
| Total | ¥2,098 | $22,319 | 7 |

The disclosure of the estimated effect on the consolidated statement of income assuming the business combination the completed at the beginning of the fiscal year ended March 31, 2013 is omitted because it is difficult to determine the amount.

## 23. SEGMENT INFORMATION

### (1) Outline of the reportable segment information

The reportable segments of the Company are components for which obtaining separate financial information is possible and that are subject to regular review by the Board of Directors, which decides upon the distribution of management resources to said segments. The Company classifies its business segments based on products and services. Each business segment determines comprehensive domestic and overseas strategies in addition to pursuing business expansion in its respective product and service area. The reportable segments that comprise the Company's operations are: Chains, Power Transmission Units and Components, Automotive Parts and Materials Handling Systems.

### (2) Calculation methods used for sales, operating income or loss, assets and other items of each reportable segment

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 2. Intersegment sales are recorded at the same price used in transactions with third parties.

(3) Information on sales, operating income, assets and other items of each reportable segment

Information by reportable segment for the years ended March 31, 2013 and 2012 is as follows:

Millions of yen

**2013**

| | Reportable Segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Subtotal | Other | Total | Adjustments and eliminations | Consolidated |
| Sales, operating income and assets: | | | | | | | | | |
| Sales to third parties | **¥49,183** | **¥19,332** | **¥49,397** | **¥30,146** | **¥148,060** | **¥1,942** | **¥150,002** | **¥ —** | **¥150,002** |
| Inter-segment sales and transfers | **1,066** | **331** | **—** | **99** | **1,498** | **904** | **2,402** | **(2,402)** | **—** |
| Total | **¥50,250** | **¥19,664** | **¥49,397** | **¥30,246** | **¥149,558** | **¥2,846** | **¥152,405** | **¥(2,402)** | **¥150,002** |
| Operating income | **¥ 3,586** | **¥ 1,955** | **¥ 6,494** | **¥ 531** | **¥ 12,568** | **¥ 143** | **¥ 12,711** | **¥ (132)** | **¥ 12,579** |
| Assets | **66,758** | **26,887** | **49,936** | **40,288** | **183,870** | **3,450** | **187,321** | **28,516** | **215,837** |
| Other items: | | | | | | | | | |
| Depreciation and amortization | **2,290** | **801** | **3,569** | **687** | **7,349** | **11** | **7,360** | **—** | **7,360** |
| Investments in affiliates accounted for by the equity method | **—** | **—** | **—** | **571** | **571** | **—** | **571** | **—** | **571** |
| Increase in property, plant and equipment and intangible assets | **4,017** | **627** | **6,596** | **576** | **11,818** | **11** | **11,833** | **—** | **11,833** |

Millions of yen

2012

| | Reportable Segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Subtotal | Other | Total | Adjustments and eliminations | Consolidated |
| Sales, operating income and assets: | | | | | | | | | |
| Sales to third parties | ¥50,414 | ¥21,040 | ¥43,509 | ¥27,937 | ¥142,902 | ¥1,993 | ¥144,896 | ¥ — | ¥144,896 |
| Inter-segment sales and transfers | 1,277 | 323 | — | 40 | 1,641 | 918 | 2,559 | (2,559) | — |
| Total | ¥51,692 | ¥21,364 | ¥43,509 | ¥27,977 | ¥144,543 | ¥2,911 | ¥147,455 | ¥(2,559) | ¥144,896 |
| Operating income | ¥ 3,462 | ¥ 2,512 | ¥ 4,846 | ¥ 878 | ¥ 11,700 | ¥ 170 | ¥ 11,871 | ¥ 210 | ¥ 12,081 |
| Assets | 62,405 | 28,939 | 44,657 | 30,680 | 166,682 | 3,733 | 170,415 | 21,350 | 191,766 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 2,472 | 843 | 3,582 | 492 | 7,390 | 13 | 7,403 | — | 7,403 |
| Investments in affiliates accounted for by the equity method | — | — | — | 511 | 511 | — | 511 | — | 511 |
| Increase in property, plant and equipment and intangible assets | 1,626 | 759 | 6,831 | 285 | 9,502 | 15 | 9,518 | — | 9,518 |

| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Subtotal | Other | Total | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | | | |
| | 2013 | | | | | | | | |
| | Reportable Segments | | | | | | | | |
| Sales, operating income and assets: | | | | | | | | | |
| Sales to third parties | $523,175 | $205,643 | $525,451 | $320,673 | $1,574,943 | $20,662 | $1,595,605 | $ — | $1,595,605 |
| Inter-segment sales and transfers | 11,348 | 3,528 | — | 1,060 | 15,937 | 9,617 | 25,554 | (25,554) | — |
| Total | $534,524 | $209,171 | $525,451 | $321,733 | $1,590,881 | $30,279 | $1,621,160 | $(25,554) | $1,595,605 |
| Operating income | $ 38,146 | $ 20,802 | $ 69,085 | $ 5,654 | $ 133,688 | $ 1,525 | $ 135,213 | $ (1,405) | $ 133,807 |
| Assets | 710,122 | 286,009 | 531,180 | 428,552 | 1,955,863 | 36,701 | 1,992,564 | 303,333 | 2,295,898 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 24,366 | 8,526 | 37,967 | 7,313 | 78,173 | 126 | 78,299 | — | $78,299 |
| Investments in affiliates accounted for by the equity method | — | — | — | 6,080 | 6,080 | — | 6,080 | — | 6,080 |
| Increase in property, plant and equipment and intangible assets | 42,734 | 6,680 | 70,171 | 6,134 | 125,720 | 157 | 125,878 | — | 125,878 |

(4) Geographical information

Sales to third parties by country or geographical area for the years ended March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Japan | ¥ 84,602 | ¥ 88,005 | $ 899,933 |
| U.S.A. | 25,590 | 21,413 | 272,210 |
| Europe | 13,830 | 11,581 | 147,117 |
| Asia and Oceania | 21,357 | 19,790 | 227,183 |
| Other | 4,621 | 4,105 | 49,160 |
| Total | ¥150,002 | ¥144,896 | $1,595,605 |

Property, plant and equipment by country or geographical area at March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Japan | ¥70,579 | ¥68,641 | $750,767 |
| U.S.A. | 7,488 | 5,502 | 79,659 |
| Europe | 3,498 | 3,154 | 37,213 |
| Asia and Oceania | 8,358 | 4,952 | 88,911 |
| Other | 556 | 509 | 5,915 |
| Total | ¥90,481 | ¥82,761 | $962,468 |

The information by major customer for the years ended March 31, 2013 and 2012 is summarized as follows:

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| Customer | Related segment | 2013 | 2012 | 2013 |
| Tsubakimoto Kogyo Co., Ltd. | Chains, Power Transmission Units and Components, Automotive Parts, Materials Handling Systems | ¥22,228 | ¥26,225 | $236,446 |

(5) Impairment loss on property, plant and equipment per reportable segments for the years ended March 31, 2013 and 2012

| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Other | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | | | | Millions of yen |
| | | | | | | | **2013** |
| Impairment loss | **¥39** | **¥8** | **¥—** | **¥4** | **¥115** | **¥—** | **¥167** |

| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Other | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | | | | Millions of yen |
| | | | | | | | 2012 |
| Impairment loss | ¥— | ¥55 | ¥— | ¥36 | ¥13 | ¥— | ¥105 |

| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Other | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | | | | Thousands of U.S. dollars |
| | | | | | | | **2013** |
| Impairment loss | **$420** | **$93** | **$—** | **$44** | **$1,226** | **$—** | **$1,784** |

(6) Information on goodwill per reportable segments and the balance as of and for the years ended March 31, 2013 and 2012

| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Other | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | | | | Millions of yen |
| | | | | | | | **2013** |
| Amortization | **¥11** | **¥—** | **¥—** | **¥ 90** | **¥—** | **¥—** | **¥ 102** |
| Balance at March 31, 2013 | **46** | **—** | **—** | **1,367** | **—** | **—** | **1,413** |

| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Other | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | | | | Millions of yen |
| | | | | | | | 2012 |
| Amortization | ¥— | ¥— | ¥— | ¥— | ¥— | ¥— | ¥— |
| Balance at March 31, 2012 | 57 | — | — | — | — | — | 57 |

| | Chains | Power Transmission Units and Components | Automotive Parts | Materials Handling Systems | Other | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | | | | Thousands of U.S. dollars |
| | | | | | | | **2013** |
| Amortization | **$122** | **$—** | **$—** | **$ 964** | **$—** | **$—** | **$ 1,087** |
| Balance at March 31, 2013 | **490** | **—** | **—** | **14,546** | **—** | **—** | **15,037** |

## 24. SUBSEQUENT EVENT

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2013, was approved at the annual general meeting of the shareholders held on June 27, 2013:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥4.0 ($0.04) per share) | **¥748** | **$7,962** |

# Report of Independent Auditors

The Board of Directors
TSUBAKIMOTO CHAIN CO.

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

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

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

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 28, 2013
Osaka, Japan

Printed in Japan