Financial Section

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2013	2012	2013
Current assets:			
Cash and time deposits (Notes 7 and 16)	¥ 114,103	¥ 95,379	$ 1,213,216
Notes and accounts receivable			
Trade and finance	304,476	313,108	3,237,384
Unconsolidated subsidiaries and affiliates	54,652	58,818	581,095
Other	79,200	38,541	842,106
Allowance for doubtful accounts	(2,277)	(431)	(24,211)
	436,051	410,036	4,636,374
Merchandise and finished goods	161,432	160,973	1,716,449
Work-in-process	109,903	127,018	1,168,559
Raw materials and supplies	129,184	120,555	1,373,567
Deferred income taxes (Note 13)	26,098	12,234	277,491
Other	15,146	17,200	161,043
Total current assets	991,917	943,395	10,546,699
Investments and other assets:			
Investments in securities (Note 5)	134,500	122,639	1,430,090
Investments in and advances to unconsolidated subsidiaries and affiliates	83,427	77,138	887,049
Long-term loans receivable	5,716	6,076	60,776
Other	68,914	71,352	732,739
Allowance for doubtful accounts	(2,901)	(2,678)	(30,845)
Total investments and other assets	289,656	274,527	3,079,809
Property, plant and equipment (Note 7):			
Land	201,293	205,299	2,140,276
Buildings and structures	727,632	710,114	7,736,651
Machinery and equipment	2,191,383	2,143,232	23,300,191
Construction in progress	31,506	29,181	334,993
	3,151,814	3,087,826	33,512,111
Less accumulated depreciation	(2,243,979)	(2,182,988)	(23,859,426)
Total plant and equipment	907,835	904,838	9,652,685
Intangible assets	20,185	20,494	214,619
Deferred income taxes (Note 13)	17,404	16,258	185,050
	¥2,226,997	¥2,159,512	$23,678,862

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1) 2013
Current liabilities:			
Short-term borrowings (Note 7)	¥ 203,618	¥ 137,112	$ 2,164,997
Current portion of long-term debt (Note 7)	193,470	102,784	2,057,097
Notes and accounts payable:			
Trade	311,964	361,104	3,317,002
Construction	21,891	22,739	232,759
Unconsolidated subsidiaries and affiliates	73,169	94,290	777,980
Other	11,032	12,542	117,299
	418,056	490,675	4,445,040
Current portion of lease obligations	18,311	9,615	194,694
Advances from customers	28,136	31,902	299,160
Customers' and employees' deposits	17,925	18,027	190,590
Income and enterprise taxes payable	4,704	7,204	50,016
Provision for loss on construction contracts	8,508	12,090	90,463
Deferred income taxes (Note 13)	846	1,401	8,995
Other	69,308	70,761	736,928
Total current liabilities	962,882	881,571	10,237,980
Long-term liabilities:			
Long-term debt (Note 7)	562,039	566,753	5,975,960
Lease obligations	23,651	32,523	251,473
Employees' severance and retirement benefits (Note 18)	51,557	52,587	548,187
Provision for environmental measures	1,809	2,216	19,234
Deferred income taxes (Note 13)	23,910	16,565	254,226
Other	31,226	36,039	332,015
Total long-term liabilities	694,192	706,683	7,381,095
Contingent liabilities (Note 8)			
Net assets:			
Stockholders' equity:			
Common stock (Note 9)	233,313	233,313	2,480,734
Authorized — 6,000,000,000 shares			
Issued — 3,115,061,100 shares in 2013			
Capital surplus (Note 9)	83,125	83,125	883,838
Retained earnings (Note 9)	253,199	280,583	2,692,175
Treasury stock, at cost:			
114,187,811 shares in 2013 and 114,135,266 shares in 2012	(51,615)	(51,628)	(548,804)
	518,022	545,393	5,507,943
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	21,148	13,020	224,859
Unrealized gains or losses on hedging derivatives, net of taxes	(1,686)	(1,013)	(17,927)
Land revaluation differences, net of taxes	(3,347)	(4,141)	(35,587)
Foreign currency translation adjustments	(22,086)	(37,579)	(234,833)
	(5,971)	(29,713)	(63,488)
Minority interests	57,872	55,578	615,332
Total net assets	569,923	571,258	6,059,787
	¥2,226,997	¥2,159,512	$23,678,862

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Kobe Steel, Ltd. 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	¥1,685,529	¥1,864,691	$17,921,627
Cost of sales	(1,510,512)	(1,635,862)	(16,060,734)
Gross profit	175,017	228,829	1,860,893
Selling, general and administrative expenses (Note 11)	(163,782)	(168,274)	(1,741,435)
Operating income	11,235	60,555	119,458
Non-operating income (expenses):			
Interest and dividend income	6,910	7,346	73,472
Interest expense	(20,119)	(19,777)	(213,918)
Seconded employees' salaries, net of reimbursement	(8,182)	(10,068)	(86,996)
Foreign exchange gain (loss)	4,094	(2,488)	43,530
Equity in income of unconsolidated subsidiaries and affiliates	1,438	7,878	15,290
Other, net	(13,522)	(9,666)	(143,776)
	(29,381)	(26,775)	(312,398)
Ordinary income (loss)	(18,146)	33,780	(192,940)
Extraordinary income (loss):			
Gain on negative goodwill	1,923	—	20,447
Loss on write-down of investments in securities	(6,650)	(6,022)	(70,707)
Impairment loss (Note 12)	(2,358)	—	(25,072)
	(7,085)	(6,022)	(75,332)
Income (loss) before income taxes and minority interests	(25,231)	27,758	(268,272)
Income taxes (Note 13):			
Current	9,899	16,671	105,253
Deferred	(11,950)	11,372	(127,060)
	(2,051)	28,043	(21,807)
Loss before minority interests	(23,180)	(285)	(246,465)
Minority interests in income of subsidiaries	3,796	13,963	40,361
Net loss	¥ (26,976)	¥ (14,248)	$ (286,826)

	Yen		U.S. dollars (Note 1)
Per share	2013	2012	2013
Net loss	¥ (8.99)	¥ (4.75)	$ (0.10)
Cash dividends applicable to the year	—	1.00	—

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Loss before minority interests	¥(23,180)	¥ (285)	$(246,465)
Other comprehensive income:			
Unrealized gains or losses on securities, net of taxes	7,774	(6,867)	82,658
Unrealized gains or losses on hedging derivatives, net of taxes	(720)	(1,706)	(7,656)
Land revaluation differences, net of taxes	518	661	5,508
Foreign currency translation adjustments	18,864	(4,792)	200,574
Share of other comprehensive income related to affiliates	1,390	781	14,780
Total other comprehensive income (Note 14)	27,826	(11,923)	295,864
Total comprehensive income	4,646	(12,208)	49,399
Total comprehensive income attributable to:			
Equity holders of the parent	¥ (3,522)	¥(25,406)	$ (37,448)
Minority interests	8,168	13,198	86,847

See accompanying notes.

Consolidated Statements of Changes in Net Assets (Note 15)

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Thousands	Millions of yen									
	Number of shares of common stock	Common stock (Note 9)	Capital surplus (Note 9)	Retained earnings (Note 9)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized gains or losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at April 1, 2011	3,115,061	¥233,313	¥83,125	¥302,377	¥(51,629)	¥19,743	¥ 585	¥(4,757)	¥(34,126)	¥48,737	¥597,368
Cash dividends				(7,515)							(7,515)
Net loss				(14,248)							(14,248)
Purchase of treasury stock					(29)						(29)
Sale of treasury stock				(20)	30						10
Decrease due to changes in scope of consolidation				(31)							(31)
Adjustment to land revaluation				20							20
Net changes in items other than stockholders' equity						(6,723)	(1,598)	616	(3,453)	6,841	(4,317)
Net changes during the year				(21,794)	1	(6,723)	(1,598)	616	(3,453)	6,841	(26,110)
Balance at April 1, 2012	3,115,061	¥233,313	¥83,125	¥280,583	¥(51,628)	¥13,020	¥(1,013)	¥(4,141)	¥(37,579)	¥55,578	¥571,258
Cash dividends				—							—
Net loss				(26,976)							(26,976)
Purchase of treasury stock					(8)						(8)
Sale of treasury stock				(18)	21						3
Decrease due to changes in scope of consolidation				(102)							(102)
Adjustment to land revaluation				(288)							(288)
Net changes in items other than stockholders' equity						8,128	(673)	794	15,493	2,294	26,036
Net changes during the year				(27,384)	13	8,128	(673)	794	15,493	2,294	(1,335)
Balance at March 31, 2013	3,115,061	¥233,313	¥83,125	¥253,199	¥(51,615)	¥21,148	¥(1,686)	¥(3,347)	¥(22,086)	¥57,872	¥569,923

	Thousands	Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock	Common stock (Note 9)	Capital surplus (Note 9)	Retained earnings (Note 9)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized gains or losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at April 1, 2012	3,115,061	$2,480,734	$883,838	$2,983,339	$(548,942)	$138,437	$(10,771)	$(44,030)	$(399,564)	$590,941	$6,073,982
Cash dividends				—							—
Net loss				(286,826)							(286,826)
Purchase of treasury stock					(85)						(85)
Sale of treasury stock				(191)	223						32
Decrease due to changes in scope of consolidation				(1,085)							(1,085)
Adjustment to land revaluation				(3,062)							(3,062)
Net changes in items other than stockholders' equity						86,422	(7,156)	8,443	164,731	24,391	276,831
Net changes during the year				(291,164)	138	86,422	(7,156)	8,443	164,731	24,391	(14,195)
Balance at March 31, 2013	3,115,061	$2,480,734	$883,838	$2,692,175	$(548,804)	$224,859	$(17,927)	$(35,587)	$(234,833)	$615,332	$6,059,787

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. 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 (loss) before income taxes	¥ (25,231)	¥ 27,758	$ (268,271)
Depreciation	106,725	118,038	1,134,769
Interest and dividend income	(6,910)	(7,346)	(73,472)
Interest expense	20,119	19,777	213,918
Loss (gain) on sale of securities	(453)	(389)	(4,817)
Loss on write-down of investments in securities	6,650	6,022	70,707
Equity in income of unconsolidated subsidiaries and affiliates	(1,438)	(7,878)	(15,290)
Impairment loss	2,358	—	25,072
Gain on negative goodwill	(1,923)	—	(20,447)
Loss on sale and disposal of plant and equipment	3,118	2,927	33,153
Decrease (increase) in trade receivables from customers	10,495	(18,734)	111,590
Decrease (increase) in lease receivables and investment assets	17,235	(14,645)	183,254
Decrease (increase) in inventories	18,849	(29,383)	200,415
Increase (decrease) in trade payables to customers	(88,324)	(24,761)	(939,117)
Other	11,549	(1,628)	122,795
Subtotal	72,819	69,758	774,259
Cash received for interest and dividends	8,307	8,692	88,325
Cash paid for interest	(20,060)	(19,952)	(213,291)
Cash paid for income taxes	(15,664)	(19,012)	(166,550)
Net cash provided by operating activities	45,402	39,486	482,743
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(109,506)	(83,283)	(1,164,338)
Proceeds from sale of plant, equipment and other assets	1,975	1,025	20,999
Purchase of investments in securities	(14,517)	(5,791)	(154,354)
Proceeds from sale of investments in securities	2,090	3,333	22,222
Decrease (increase) in short-term loans receivable	1,034	209	10,994
Payments for long-term loans receivable	(2,793)	(1,348)	(29,697)
Proceeds from collection of long-term loans receivable	2,496	163	26,539
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	(113)	157	(1,201)
Other	(4,179)	268	(44,434)
Net cash used in investing activities	(123,513)	(85,267)	(1,313,270)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	55,216	57,634	587,092
Proceeds from long-term debt	167,060	22,523	1,776,289
Repayment of long-term debt	(73,936)	(91,613)	(786,135)
Proceeds from issuance of bonds	25,000	30,000	265,816
Repayment of bonds	(35,088)	(35,836)	(373,078)
Repayments of finance lease obligations	(7,960)	(6,580)	(84,636)
Payment of dividends	(14)	(7,484)	(149)
Other	(2,634)	(8,877)	(28,006)
Net cash provided by (used in) financing activities	127,644	(40,233)	1,357,193
Effect of exchange rate changes on cash and cash equivalents	8,850	(1,912)	94,099
Increase (decrease) in cash and cash equivalents	58,383	(87,926)	620,765
Cash and cash equivalents at beginning of year	101,901	189,708	1,083,477
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	5	—	53
Increase in cash and cash equivalents resulting from change in scope of consolidation	1,748	119	18,586
Cash and cash equivalents at end of year (Note 16)	¥162,037	¥101,901	$1,722,881

See accompanying notes.

Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kobe Steel, Ltd. ("the Company") and its consolidated subsidiaries ("the Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile, with necessary adjustments to be in accordance with Japanese GAAP.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94.05 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Accounting Policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, the management of which is controlled by the Company. For the year ended March 31, 2013, the accounts of 166 (165 in 2012) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Seventy-four (72 in 2012) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions or events occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired the control of the respective subsidiary.

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended March 31, 2013, 46 (47 in 2012) affiliates were accounted for by the equity method.

The difference between the cost of an investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition, if considered significant, is amortized over the estimated number of years when the amortization period can be determined or over five years when it cannot. Where the difference is small, it's recognized as expense when incurred.

When the Company's share of the net losses of an affiliate exceeds the adjusted cost of the investment, the Company discontinues applying the equity method and the investment is reduced to zero. Losses in excess of the amounts due from the investee are recorded in other payables when the losses are expected to be shared by the Company.

(2) Securities

The Group has no trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments in net assets. Realized gains and losses on the sale of such securities are computed using moving average cost based on the carrying value at March 31, 2000 or at the later date of purchase.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, the securities are written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(3) Allowance for Doubtful Accounts

The Group provides for doubtful accounts principally at an amount based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts of certain individual receivables.

(4) Provision for Loss on Construction Contracts

Provision for loss on construction contracts is stated at an amount based on the estimated loss from construction contracts at the end of the fiscal year.

(5) Provision for Environmental Measures

The provision for environmental measures for obligatory PCB treatment is stated as an estimated cost at the end of the fiscal year.

(6) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined principally by the average method in the Iron & Steel, Welding and Aluminum & Copper segments and by the specific identification method for finished goods and work in progress in the Machinery, Natural Resources & Engineering, Kobelco Eco-Solutions, Construction Machinery and Kobelco Cranes segments.

(7) Depreciation

Depreciation of plant and equipment and intangible assets is provided principally by the straight-line method for buildings and structures and intangible assets and by the declining balance method for machinery and equipment.

The useful life of these assets is determined mainly by schedules in Japanese tax laws. Intangible assets include software for internal use, which is amortized over the estimated useful life of five years.

Depreciation of leased assets under finance leases that do not transfer ownership of the lease assets is provided by the straight-line method with the lease term as the useful life.

(8) Income Taxes

The Company and its domestic consolidated subsidiaries apply deferred tax accounting to recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

Deferred taxes relating to temporary differences between financial accounting and tax reporting are also recognized by certain foreign consolidated subsidiaries.

(9) Employees' Severance and Retirement Benefits

The Company and its domestic consolidated subsidiaries provide two types of post-employment benefit plans: unfunded lump-sum payment plans and funded non-contributory pension plans. A domestic consolidated subsidiary provides a contribution pension plan.

The Company and its domestic consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.

Prior service cost is recognized in expenses using the straight-line method over mainly 16 years, which is within the average of the estimated remaining service years of employees.

Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 17 years for those accrued in 2013, mainly 16 years for those accrued in 2012 and 2011, mainly 15 years for those accrued in 2010, mainly 14 years for those accrued in 2009 and 2008, and mainly 12 years for those accrued in and before 2007, which is within the average of the estimated remaining service years of employees commencing with the following period.

(10) Land Revaluation

In the years ended March 31, 2002 and 2001, land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law. The revaluation amount, net of related taxes, is shown as a separate component of valuation and translation adjustments in net assets.

(11) Bond Issue Expenses and Share Issue Expenses

Bond issue expenses and share issue expenses are charged to expenses as they are incurred by the Company and its consolidated subsidiaries.

(12) Translation of Foreign Currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except net asset accounts, which are translated at historical rates. Statements of operations of consolidated overseas subsidiaries are translated into Japanese yen at average rates for the period, except items resulting from transactions with the Company, which are translated at rates used by the Company.

The Company and its domestic consolidated subsidiaries report foreign currency translation adjustments in net assets and minority interests.

(13) Construction Contracts

The Company and its domestic consolidated companies apply the percentage of completion method to work where the outcome of individual contracts can be estimated reliably, otherwise, the completed contract method is applied.

(14) Leases

The Company and its domestic consolidated subsidiaries account for finance leases that do not transfer ownership of the lease assets and that started prior to April 1, 2008 in the same manner as operating leases.

(15) Derivatives

The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instrument was used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the related loss or gain on the corresponding hedged item is recognized ("deferred hedge" method). Deferred gains and deferred losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments in net assets.

If foreign currency exchange contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange rates ("assigning" method). Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed ("exceptional" method).

(16) Consolidated Tax Return

From the fiscal year ended March 31, 2004, the Company has filed a consolidated tax return with certain domestic subsidiaries.

(17) Cash and Cash Equivalents

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

(18) Changes in Accounting Policies

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Due to a revision of the Corporate Tax Law, from the year ending March 31, 2013, Kobe Steel and some of its domestic consolidated subsidiaries posted depreciation of tangible fixed assets acquired on or after April 1, 2012, in accordance with the depreciation method prescribed by the revised Corporate Tax Law. As a result, in comparison to the previous accounting method, depreciation decreased ¥1,629 million, operating income increased ¥1,360 million, and ordinary loss and loss before income taxes decreased ¥1,360 million.

(19) Unapplied Accounting Standards

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

1. Summary

Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net asset section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining method of attributing expected benefit to periods, the Standard now allows to choose benefit formula basis, as well as straight-line basis. Method for determination of discount rate has also been amended.

2. Effective dates

Effective for the end of annual periods ending on or after March 31, 2014. Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

3. Effect of application of the standard

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. Leases

Future minimum lease payments as lessee under operating leases at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within one year	¥ 5,097	¥ 5,693	$ 54,195
Due after one year	9,039	11,528	96,108
	¥14,136	¥17,221	$150,303

Future minimum lease payments receivable as lessor under operating leases at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within one year	¥ 378	¥ 422	$ 4,019
Due after one year	2,505	2,925	26,635
	¥2,883	¥3,347	$30,654

4. Financial Instruments

Policies for using financial instruments

The Group raises long-term funds mainly by bank loans and bonds based on its capital budget. For short-term capital needs, the Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital. The Group invests temporary excess cash in highly liquid assets. The Group enters into derivative contracts to hedge the risks discussed below and does not enter into derivative transactions for trading or speculative purposes.

Financial instruments, exposure to risk, and policies and processes for managing risk

Notes and accounts receivables are exposed to the credit risks of customers. In order to manage these risks, the Group continually monitors whether due dates are properly met for each customer and evaluates the credit standing of major customers based on credit management policies. Accounts receivable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. In order to hedge these risks, the Group utilizes forward currency exchange contracts.

Investments in securities consist principally of the listed shares of customers and are exposed to the risk of changes in quoted market prices. Quoted market prices of securities are regularly monitored and reported to the Board of Directors, and management evaluates the effectiveness of holding the securities taking into consideration the customer relationship.

Notes and accounts payable and borrowings are exposed to liquidity risk. The Group makes adequate financial plans to manage the risk. Floating rate long-term borrowings are exposed to the additional risk of changes in interest rates. In order to manage the risk, the Group enters into interest rate swap agreements. Furthermore, accounts payable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. The Group uses forward currency exchange contracts and currency option contracts to manage the risk of currency fluctuations.

Derivative transactions comprise forward currency exchange contracts, currency option contracts, interest rate swap agreements, as described above, and commodity forward contracts to hedge the risk of movements in the market value of aluminum and copper. The Group is also exposed to credit risk in the event of nonperformance by the counterparties to its derivative instruments. However, the Group does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. The Group has established policies and controls to manage both market and credit risk, including using only highly rated banks and trading companies as counterparties, hedging exposed positions, limiting transaction types and amounts, and reporting to management.

Supplemental information on fair values

Fair values of financial instruments include values estimated by using reasonable methods of valuation as well as values based on quoted market prices. Estimates resulting from these methods are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The contracted amounts of the derivative transactions presented in Note 6 do not reflect exposure to market risk or credit risk for the derivative instruments themselves.

Fair value of financial instruments

Carrying amounts of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2013 and 2012 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Cash and time deposits	¥114,103	¥114,103	¥ —	¥ 95,379	¥ 95,379	¥ —	$ —
Notes and accounts receivable "Trade"	278,115	278,115	—	272,466	272,466	—	—
Investments in securities:							
Held-to-maturity debt securities	19	19	—	23	23	—	—
Securities of subsidiaries and affiliates	17,604	21,753	4,149	17,396	33,187	15,791	44,115
Available-for-sale securities	114,708	114,708	—	102,468	102,468	—	—
Notes and accounts payable "Trade"	(311,964)	(311,964)	—	(361,104)	(361,104)	—	—
Short-term borrowings and current portion of long-term debt	(377,088)	(378,925)	(1,837)	(204,720)	(205,410)	(690)	(19,532)
Bonds included in current portion of long-term debt	(20,000)	(20,102)	(102)	(35,176)	(35,551)	(375)	(1,085)
Bonds included in long-term debt	(177,000)	(178,949)	(1,949)	(172,173)	(179,714)	(7,541)	(20,723)
Long-term borrowings included in long-term debt	(385,039)	(387,130)	(2,091)	(394,580)	(409,625)	(15,045)	(22,233)
Lease obligations	(23,651)	(24,337)	(686)	(32,523)	(33,468)	(945)	(7,294)
Derivative transactions:							
Hedge accounting is not applied	(1,353)	(1,353)	—	(421)	(421)	—	—
Hedge accounting is applied	(3,005)	(3,005)	—	(126)	(126)	—	—

Notes:

1. Liabilities are presented with parentheses ( ).

2. Assets and liabilities arising from derivative transactions are presented after offset and with parentheses ( ) if the offset results in a liability.

3. Methods used to estimate fair value were as follows:

Cash and time deposits and notes and accounts receivable "Trade"

The carrying amount approximates fair value because of the short maturities of these instruments.

Investments in securities

The fair value is estimated mainly based on quoted market prices.

Notes and accounts payable "Trade," short-term borrowings and current portion of long-term borrowings

The carrying amount approximates fair value because of the short maturities of these instruments.

The fair value of the current portion of long-term debt is estimated based on the present value of future cash flows using the current borrowing rate for similar debt of comparable maturity.

Bonds

The fair value is estimated based mainly on quoted market prices.

Long-term borrowings and lease obligations

The fair value of long-term borrowings and lease obligations are estimated based on the present value of future cash flows using the current rate for similar borrowings of comparable maturity.

Derivative transactions

See Note 6 below.

Financial instruments whose fair values are difficult to estimate were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Non-listed equity securities	¥62,961	¥59,785	$669,442

The aggregate annual maturities of financial assets at March 31, 2013 and 2012 were as follows:

Cash and time deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥114,103	¥95,379	$1,213,216
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥114,103	¥95,379	$1,213,216

Notes and accounts receivable "Trade"

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥270,669	¥268,698	$2,877,927
Due after 1 year through 5 years	6,123	2,250	65,104
Due after 5 years through 10 years	944	943	10,037
Due after 10 years	379	575	4,029
	¥278,115	¥272,466	$2,957,097

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥ 4	¥ 4	$ 43
Due after 1 year through 5 years	15	15	159
Due after 5 years through 10 years	—	4	—
Due after 10 years	—	—	—
	¥19	¥23	$202

The aggregate annual maturities of bonds at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥ 20,000	¥ 35,176	$ 212,653
Due after 1 year through 2 years	26,000	20,173	276,449
Due after 2 years through 3 years	20,000	26,000	212,653
Due after 3 years through 4 years	35,000	20,000	372,142
Due after 4 years through 5 years	30,000	35,000	318,979
Due after 5 years	66,000	71,000	701,755
	¥197,000	¥207,349	$2,094,631

The aggregate annual maturities of long-term borrowings at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥173,470	¥ 67,608	$1,844,444
Due after 1 year through 2 years	55,849	175,443	593,822
Due after 2 years through 3 years	72,576	50,969	771,675
Due after 3 years through 4 years	84,738	52,103	900,989
Due after 4 years through 5 years	79,128	50,538	841,340
Due after 5 years	92,748	65,527	986,156
	¥558,509	¥462,188	$5,938,426

The aggregate annual maturities of lease obligations at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥18,311	¥ 9,615	$194,694
Due after 1 year through 2 years	12,110	17,237	128,761
Due after 2 years through 3 years	2,077	10,794	22,084
Due after 3 years through 4 years	4,488	803	47,719
Due after 4 years through 5 years	3,522	2,843	37,448
Due after 5 years	1,454	846	15,461
	¥41,962	¥42,138	$446,167

The aggregate annual maturities of other interest bearing debt at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥20,601	¥27,388	$219,043
Due after 1 year through 2 years	535	1,013	5,688
Due after 2 years through 3 years	483	991	5,136
Due after 3 years through 4 years	429	946	4,561
Due after 4 years through 5 years	322	895	3,424
Due after 5 years	306	1,694	3,254
	¥22,676	¥32,927	$241,106

5. Securities

The following table summarizes carrying amounts of securities with no available fair values as of March 31, 2013 and 2012:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	Carrying amounts	Fair values	Difference	Carrying amounts	Fair values	Difference	Difference
Held-to-maturity debt securities							
Securities with available carrying amounts not exceeding fair values:							
Non-listed domestic bonds	¥19	¥19	¥—	¥23	¥23	¥—	$—

The following tables summarize acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2013 and 2012:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	Carrying amounts	Acquisition costs	Difference	Carrying amounts	Acquisition costs	Difference	Difference
Available-for-sale securities							
Securities with available carrying amounts exceeding acquisition costs:							
Equity securities	¥ 71,227	¥29,214	¥42,013	¥ 54,589	¥22,204	¥32,385	$446,709
Other	—	—	—	—	—	—	—
	71,227	29,214	42,013	54,589	22,204	32,385	446,709
Securities with available carrying amounts not exceeding acquisition costs:							
Other securities:							
Equity securities	43,481	56,916	(13,435)	47,879	65,050	(17,171)	(142,850)
Other	—	—	—	—	—	—	—
	43,481	56,916	(13,435)	47,879	65,050	(17,171)	(142,850)
	¥114,708	¥86,130	¥28,578	¥102,468	¥87,254	¥15,214	$303,859

Sales of available-for-sale securities for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Sales	¥142	¥2,182	$1,510
Gains on sales	16	1,572	170
Losses on sales	(7)	(217)	(74)

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2013 and 2012 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥ 5,272	¥ 5,490	¥ (218)	¥16,170	¥16,324	¥(154)	$ (2,318)
Others	6	7	(1)	52	53	(1)	(11)
To buy foreign currencies:							
U.S. dollars	350	327	(23)	10,011	10,016	5	(245)
Others	12,950	11,865	(1,085)	8,487	8,262	(225)	(11,536)
Foreign currency options							
To sell foreign currency options							
Call							
U.S. dollars	¥ 963	¥ 32	¥ (12)	¥ 953	¥ 36	¥ (19)	$ (128)
	[20]			[17]			
To buy foreign currency options							
Put							
U.S. dollars	963	12	(8)	953	9	(7)	(85)
	[20]			[17]			
			¥(1,347)			¥(401)	$(14,323)

Notes:

1. Foreign currency exchange contracts
The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.

2. Foreign currency options
The fair values were estimated by obtaining quotes from counterparty banks.

3. Option premiums were presented below the contracted amount with brackets [ ] .
Foreign currency options were zero cost options, which means that option premiums were not payed or received.

Commodity forward contracts outstanding at March 31, 2013 and 2012 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Commodity forward contracts							
To sell commodity	¥ —	¥ —	¥—	¥ —	¥ —	¥ —	$ —
To buy commodity	173	167	(6)	368	348	(20)	(64)
			¥(6)			¥(20)	$(64)

Note: The fair values were estimated by multiplying the contracted volume by the commodity future price.

Derivative transactions for which hedge accounting was applied

Forward currency exchange contracts outstanding at March 31, 2013 and 2012 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2013		2012		2013
	Contracted amount	Fair value	Contracted amount	Fair value	Fair value
Hedges for which the "Deferred hedge" method was applied					
Foreign currency exchange contracts					
To sell foreign currencies:					
U.S. dollars	¥24,448	¥27,118	¥34,229	¥35,339	$288,336
Others	5,612	6,354	7,235	6,754	67,560
To buy foreign currencies:					
U.S. dollars	2,569	2,853	7,112	7,034	30,335
Others	3,500	3,929	5,474	5,523	41,776
Foreign currency options					
To sell foreign currency options					
Put					
U.S. dollars	¥ 9,372	¥ 183	¥10,518	¥ 160	$ 1,946
	[209]		[233]		
Call					
U.S. dollars	205	5	275	6	53
	[5]		[5]		
To buy foreign currency options					
Put					
U.S. dollars	205	5	275	5	53
	[5]		[5]		
Call					
U.S. dollars	9,372	367	10,518	383	3,902
	[209]		[233]		
Hedges for which the "Assigning" method was applied					
Foreign currency exchange contracts					
To sell foreign currencies:					
U.S. dollars	¥18,714	¥ —	¥32,367	¥ —	$ —
Others	3,657	—	5,221	—	—
To buy foreign currencies:					
U.S. dollars	1,871	—	8,833	—	—
Others	25,612	—	35,239	—	—

Notes:

1. Foreign currency exchange contracts
The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.

2. Foreign currency options
The fair values were estimated by obtaining quotes from counterparty banks.

3. Hedges for which the "Assigning" method was applied
For certain accounts receivable and accounts payable denominated in foreign currencies for which foreign currency exchange contracts were used to hedge the foreign currency fluctuations, the fair values were included in the fair values of the hedged accounts receivable and accounts payable.

4. Option premiums were presented below the contracted amount with brackets [ ] .
Foreign currency options were zero cost options, which means that option premiums were not payed or received.

Interest rate swap agreements outstanding at March 31, 2013 and 2012 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2013		2012		2013
	Contracted amount	Fair value	Contracted amount	Fair value	Fair value
Hedges for which the "Exceptional" method was applied					
Interest rate swap agreements					
To receive floating and pay fixed rates	¥213,509	¥—	¥176,125	¥—	$—

Notes:

1. The fair values were estimated by obtaining quotes from counterparty banks.

2. Hedges for which the "Exceptional" method was applied
For certain long-term debt for which interest rate swap agreements were used to hedge the variable risk to interest, the fair values were included in the fair values of the long-term debt.

Commodity forward contracts outstanding at March 31, 2013 and 2012 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2013		2012		2013
	Contracted amount	Fair value	Contracted amount	Fair value	Fair value
Hedges for which the "Deferred hedge" method was applied					
Commodity forward contracts					
To sell commodity	¥ 2,275	¥ 2,202	¥ 1,794	¥ 1,798	$ 23,413
To buy commodity	15,517	14,952	12,695	13,008	158,979

Note: The fair values were estimated by multiplying the contracted volume by the commodity future price.

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Bank loans (average rate 3.88% in 2013 and 4.30% in 2012)	¥203,618	¥137,112	$2,164,997

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
0.528% to 2.5% yen bonds, due 2013 through 2022	¥197,000	¥207,349	$2,094,631
Loans, principally from banks and insurance companies, due 2013 through 2027	558,509	462,188	5,938,426
	755,509	669,537	8,033,057
Less current portion	193,470	102,784	2,057,097
	¥562,039	¥566,753	$5,975,960

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2013	2013
Due within 1 year	¥193,470	$2,057,097
Due after 1 year through 2 years	81,849	870,271
Due after 2 years through 3 years	92,576	984,327
Due after 3 years through 4 years	119,738	1,273,131
Due after 4 years through 5 years	109,128	1,160,319
Due after 5 years	158,748	1,687,912
	¥755,509	$8,033,057

At March 31, 2013 and 2012, assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Assets pledged as collateral:			
Cash and time deposits	¥ 21,056	¥ 20,860	$ 223,881
Plant and equipment, net of accumulated depreciation	94,143	107,009	1,000,989
Other assets	17,285	28,497	183,785
	¥132,484	¥156,366	$1,408,655
Secured short-term borrowings and long-term debt:			
Bonds (includes those due within 1 year)	¥ —	¥ 349	$ —
Short-term borrowings	31,530	33,292	335,247
Long-term borrowings	42,096	55,071	447,592
	¥ 73,626	¥ 88,712	$ 782,839

At March 31, 2013 and 2012, included in the assets pledged as collateral were assets that were promised to be pledged as collateral for short-term borrowings, long-term borrowings and guarantees of loans were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Short-term borrowings	¥ 791	¥1,651	$ 8,410
Long-term borrowings	3,064	3,855	32,579
	¥3,855	¥5,506	$40,989

8. Contingent Liabilities

At March 31, 2013 and 2012, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Trade notes discounted	¥ 53	¥ 3,524	$ 564
Trade notes endorsed	2,274	1,138	24,179
Guarantees of loans:			
Related parties	18,882	7,685	200,766
Others	48	93	510
	¥21,257	¥12,440	$226,019

Guarantees of loans include contingent guarantees and letters of awareness of ¥400 million ($4,253 thousand) in 2013 and ¥350 million in 2012.

9. Net Assets

Net assets comprise three subsections, which are owners' equity, accumulated other comprehensive income and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

10. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general, and administrative expenses were ¥30,763 million ($327,092 thousand) for the year ended March 31, 2013 and ¥31,437 million for the year ended March 31, 2012.

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Freight	¥ 41,590	¥ 42,762	$ 442,212
Employees' compensation	34,721	34,887	369,176
Research and development	10,771	11,328	114,524
Depreciation	4,229	4,125	44,965
Others	72,471	75,172	770,558
	¥163,782	¥168,274	$1,741,435

12. Impairment Loss

Impairment loss for the years ended March 31, 2013 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2013	2013
Assets to be disposed, etc.:		
Land, etc. (Hiroshima, Hiroshima Prefecture, etc.: 5 properties in total)	¥1,435	$15,258
Idle assets:		
Machinery and equipment, etc. (Kakogawa, Hyogo Prefecture, etc.: 4 properties in total)	923	9,814
	¥2,358	$25,072

The Company and its consolidated subsidiaries grouped their fixed assets based, in principle, on the unit of business establishments and recognized impairment loss for the assets whose fair value had diminished significantly compared to the book value. Because these assets are scheduled to be sold, the book values were reduced to the recoverable amounts.

Impairment loss of ¥2,358 million was recognized as extraordinary loss. The amount of impairment consisted of loss on buildings and structures in the amount of ¥420 million, machinery and equipment of ¥658 million, land of ¥1,077 million, and other assets of ¥203 million.

The recoverable amounts of the Assets to be disposed were determined mainly by the net realizable value based on estimated appraisal price. The recoverable amounts of the Idle assets were determined mainly by the net realizable value based on book value calculated by deducting the estimated cost of disposal from the estimated selling price based on the value of scrap.

13. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deferred income tax assets:			
Tax loss carryforwards	¥ 43,285	¥ 22,283	$ 460,234
Unrealized profit	16,024	17,083	170,377
Employees' severance and retirement benefits	10,214	9,919	108,602
Loss on write-down of inventories	10,210	8,399	108,559
Loss on write-down of securities	6,670	8,397	70,920
Accrued bonuses to employees	6,223	7,147	66,167
Impairment loss	5,773	6,582	61,382
Land revaluation	3,785	4,310	40,245
Other	37,786	38,878	401,765
Total deferred income tax assets	139,970	122,998	1,488,251
Valuation allowance	(85,376)	(80,024)	(907,772)
Deferred income tax assets	54,594	42,974	580,479
Deferred income tax liabilities:			
Unrealized holding gains on securities	12,224	8,431	129,973
Land revaluation	4,228	4,586	44,955
Special tax purpose reserve	2,668	3,070	28,368
Other	16,728	16,360	177,863
Total deferred income tax liabilities	35,848	32,447	381,159
Net deferred income tax assets	¥ 18,746	¥ 10,527	$ 199,320

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

	2012
Aggregate statutory income tax rate in Japan	40.6%
Decrease in valuation allowance	49.3
Nondeductible entertainment expenses	8.2
Other	2.9
Effective income tax rate	101.0%

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2013 is not reported because a loss before income taxes was recorded for the year.

14. Consolidated Statements of Comprehensive Income

Other comprehensive income for the fiscal years ended March 31, 2013 and 2012 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Unrealized holding gains (losses) on securities, net—			
Unrealized holding gains (losses) arising during the period	¥ 9,656	¥(11,978)	$102,669
Less reclassification adjustments included in net income	3,003	(553)	31,930
	12,659	(12,531)	134,599
Tax benefit/(expense)	(4,885)	5,664	(51,941)
	7,774	(6,867)	82,658
Unrealized holding gains (losses) on derivative instruments, net—			
Unrealized holding gains (losses) arising during the period	(2,800)	(2,735)	(29,771)
Less reclassification adjustments included in net income	1,192	398	12,674
	(1,608)	(2,337)	(17,097)
Tax benefit/(expense)	888	631	9,441
	(720)	(1,706)	(7,656)
Revaluation reserve for land—			
Less reclassification adjustments included in net income	525	—	5,582
Tax benefit/(expense)	(7)	661	(74)
	518	661	5,508
Foreign currency transaction adjustments—			
Transaction adjustments arising during the period	18,546	(4,792)	197,193
Less reclassification adjustments included in net income	318	—	3,381
	18,864	(4,792)	200,574
Tax benefit/(expense)	—	—	—
	18,864	(4,792)	200,574
Share of other comprehensive income of investments accounted for using the equity method			
Unrealized holding gains (losses) arising during the period	1,388	(44)	14,759
Less reclassification adjustments included in net income	2	825	21
	1,390	781	14,780
Other comprehensive income	¥27,826	¥(11,923)	$295,864

15. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the year ended March 31, 2013 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2012	3,115,061,100
(No increase)	—
(No decrease)	—
Balance at March 31, 2013	3,115,061,100

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2012	114,135,266
Increase due to purchase of odd-lot stock	73,041
Decrease due to sale of odd-lot stock	(44,438)
Increase (decrease) due to other reasons, net	23,942
Balance at March 31, 2013	114,187,811

16. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the cash flow statements and balance sheets as of March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash and time deposits in the balance sheets	¥114,103	¥ 95,379	$1,213,216
Time deposits due over 3 months	(53)	(77)	(564)
Short-term investments with maturities within 3 months included in current assets and other	47,987	6,599	510,229
Cash and cash equivalents in cash flow statements	¥162,037	¥101,901	$1,722,881

17. Related Party Transactions

Net sales included sales to Shinsho Corporation, which is an affiliate of the Company, of ¥180,887 million ($1,923,307 thousand) and ¥214,927 million for the years ended March 31, 2013 and 2012, respectively.

18. Employees' Severance and Retirement Benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Projected benefit obligation	¥(166,075)	¥(165,617)	$(1,765,816)
Fair value of pension assets	136,326	136,000	1,449,506
Unrecognized net transition obligation	63	208	670
Unrecognized actuarial differences	12,609	12,811	134,066
Unrecognized prior service cost	10,682	11,468	113,578
Prepaid pension cost	(45,162)	(47,457)	(480,191)
Liability for severance and retirements benefits	¥ (51,557)	¥ (52,587)	$ (548,187)

Included in the consolidated statements of operations for the years ended March 31, 2013 and 2012 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Service costs – benefits earned during the year	¥ 7,195	¥ 7,295	$ 76,502
Interest cost on projected benefit obligation	3,174	3,215	33,748
Expected return on plan assets	(1,129)	(216)	(12,004)
Amortization of net transition obligation	31	70	330
Amortization of actuarial differences	1,724	1,807	18,330
Amortization of prior service cost	1,976	549	21,010
Severance and retirement benefit expenses	¥12,971	¥12,720	$137,916

Notes:

1. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

2. The discount rate was mainly 1.3% and 2.0% for the years ended March 31, 2013 and 2012, respectively.
The rate of expected return on plan assets was mainly 1.3% and 0.1% for the years ended March 31, 2013 and 2012, respectively.

19. Segment Information

Segment information

1. Overview of reportable segments

The reportable segments of the Group are defined as components of the entity for which separate financial information is available and that is reviewed regularly by the Board of directors to decide how to allocate management resources and to evaluate operating performance.

The Company has business units based on products and services (a portion of the products and services are made by subsidiaries), and every business unit and subsidiary plans domestic and foreign global strategy to conduct business.

The Group consists of segments of business units and subsidiaries based on products and services. The reportable segments consist of five business groups of the Company and subsidiaries (Iron & Steel, Welding, Aluminum & Copper, Machinery and Natural Resources & Engineering) and three business groups of its subsidiaries (Kobelco Eco-Solutions, Kobelco Construction Machinery and Kobelco Cranes).

2. Methods to calculate sales, income (loss), assets and other items of reportable segments

The accounting policies of the reportable segments are the same as ones described in Note 2, “Summary of Accounting Policies.” Profit (loss) of reportable segments is based on ordinary income (loss). Intersegment sales prices are based on prices applicable to transactions with third parties.

Due to a revision of the Corporate Tax Law, from the year ending March 31, 2013, Kobe Steel and some of its domestic consolidated subsidiaries posted depreciation of tangible fixed assets acquired on or after April 1, 2012 in accordance with the depreciation method prescribed by the revised Corporate Tax Law.

As a result, in comparison to the previous accounting method, income for the Welding segment have increased by ¥29 million, the Aluminum & Copper segment by ¥132 million, the Machinery segment by ¥43 million, the Kobelco Eco-Solutions segment by ¥1 million, the Kobelco Construction Machinery segment by ¥316 million, and Other Businesses by ¥44 million, respectively. Loss for the Iron & Steel segment have decreased by ¥772 million, Natural Resources & Engineering have decreased by ¥3 million respectively.

3. Information about sales, income (loss), assets and other items of reportable segments

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Sales to outside customers:			
Iron & Steel	¥ 710,421	¥ 816,785	$ 7,553,652
Welding	81,509	83,155	866,656
Aluminum & Copper	260,809	288,641	2,773,089
Machinery	149,940	145,855	1,594,258
Natural Resources & Engineering	45,658	55,441	485,465
Kobelco Eco-Solutions	70,313	70,351	747,613
Kobelco Construction Machinery	267,183	306,108	2,840,861
Kobelco Cranes	39,778	42,504	422,945
Other Businesses	57,549	53,151	611,898
Elimination	2,369	2,700	25,190
Consolidated total	1,685,529	1,864,691	17,921,627
Intersegment sales:			
Iron & Steel	32,421	37,452	344,721
Welding	708	1,261	7,528
Aluminum & Copper	1,392	1,286	14,801
Machinery	17,177	6,958	182,637
Natural Resources & Engineering	835	431	8,878
Kobelco Eco-Solutions	2,343	846	24,912
Kobelco Construction Machinery	638	1,052	6,784
Kobelco Cranes	5,724	5,501	60,861
Other Businesses	15,687	16,034	166,794
Elimination	(76,925)	(70,821)	(817,916)
Consolidated total	—	—	—
Total sales:			
Iron & Steel	742,841	854,237	7,898,363
Welding	82,217	84,417	874,184
Aluminum & Copper	262,201	289,928	2,787,889
Machinery	167,117	152,813	1,776,895
Natural Resources & Engineering	46,493	55,872	494,343
Kobelco Eco-Solutions	72,656	71,196	772,525
Kobelco Construction Machinery	267,822	307,160	2,847,656
Kobelco Cranes	45,501	48,005	483,796
Other Businesses	73,237	69,185	778,703
Elimination	(74,556)	(68,122)	(792,727)
Consolidated total	1,685,529	1,864,691	17,921,627
Segment income (loss):			
Iron & Steel	(50,212)	(14,686)	(533,886)
Welding	2,155	3,119	22,913
Aluminum & Copper	3,912	6,081	41,595
Machinery	12,040	9,900	128,017
Natural Resources & Engineering	(1,336)	342	(14,205)
Kobelco Eco-Solutions	3,919	4,235	41,669
Kobelco Construction Machinery	6,853	22,866	72,865
Kobelco Cranes	(2,250)	162	(23,923)
Other Businesses	7,554	7,200	80,319
Elimination	(781)	(5,439)	(8,303)
Consolidated total	¥ (18,146)	¥ 33,780	$ (192,939)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Assets:			
Iron & Steel	¥ 949,361	¥ 954,391	$10,094,216
Welding	64,114	62,858	681,701
Aluminum & Copper	191,124	193,610	2,032,153
Machinery	151,461	156,032	1,610,431
Natural Resources & Engineering	53,005	58,634	563,583
Kobelco Eco-Solutions	56,586	55,123	601,659
Kobelco Construction Machinery	403,469	370,544	4,289,942
Kobelco Cranes	48,312	49,273	513,684
Other Businesses	159,637	159,251	1,697,363
Elimination	149,928	99,796	1,594,130
Consolidated total	2,226,997	2,159,512	23,678,862
Depreciation:			
Iron & Steel	70,213	81,037	746,550
Welding	2,426	2,587	25,795
Aluminum & Copper	12,038	14,456	127,996
Machinery	5,179	5,613	55,066
Natural Resources & Engineering	483	547	5,136
Kobelco Eco-Solutions	1,464	1,162	15,566
Kobelco Construction Machinery	8,767	6,489	93,216
Kobelco Cranes	736	621	7,826
Other Businesses	3,236	3,321	34,407
Elimination	2,183	2,205	23,211
Consolidated total	106,725	118,038	1,134,769
Amortization of goodwill:			
Iron & Steel	—	—	—
Welding	—	196	—
Aluminum & Copper	—	—	—
Machinery	—	—	—
Natural Resources & Engineering	—	—	—
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	—	—	—
Kobelco Cranes	—	—	—
Other Businesses	—	—	—
Elimination	0	0	0
Consolidated total	0	196	0
Interest income:			
Iron & Steel	97	86	1,031
Welding	128	120	1,361
Aluminum & Copper	186	188	1,978
Machinery	66	58	702
Natural Resources & Engineering	350	396	3,721
Kobelco Eco-Solutions	24	20	255
Kobelco Construction Machinery	3,693	3,391	39,266
Kobelco Cranes	22	34	234
Other Businesses	50	45	532
Elimination	(344)	(251)	(3,657)
Consolidated total	¥ 4,272	¥ 4,087	$ 45,423

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Interest expense:			
Iron & Steel	¥ 8,383	¥ 8,121	$ 89,133
Welding	18	24	191
Aluminum & Copper	1,468	1,702	15,609
Machinery	69	61	734
Natural Resources & Engineering	19	19	202
Kobelco Eco-Solutions	59	64	627
Kobelco Construction Machinery	6,524	4,350	69,367
Kobelco Cranes	155	114	1,648
Other Businesses	478	508	5,082
Elimination	2,946	4,814	31,325
Consolidated total	20,119	19,777	213,918
Equity in income (loss) of unconsolidated subsidiaries and affiliates:			
Iron & Steel	3,086	3,968	32,812
Welding	57	167	606
Aluminum & Copper	(36)	(88)	(383)
Machinery	(505)	(97)	(5,369)
Natural Resources & Engineering	(1,315)	(1,151)	(13,982)
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	(876)	3,940	(9,314)
Kobelco Cranes	(26)	74	(276)
Other Businesses	1,016	967	10,803
Elimination	37	98	393
Consolidated total	1,438	7,878	15,290
Investments in unconsolidated subsidiaries and affiliates:			
Iron & Steel	48,040	38,890	510,792
Welding	1,104	1,431	11,738
Aluminum & Copper	682	481	7,251
Machinery	4,558	4,670	48,464
Natural Resources & Engineering	2,514	5,352	26,730
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	12,092	11,203	128,570
Kobelco Cranes	239	297	2,541
Other Businesses	10,807	10,246	114,907
Elimination	(2,536)	(2,782)	(26,963)
Consolidated total	77,500	69,788	824,030
Capital expenditures:			
Iron & Steel	63,671	47,254	676,991
Welding	1,635	2,569	17,384
Aluminum & Copper	12,441	8,731	132,281
Machinery	3,447	4,955	36,651
Natural Resources & Engineering	689	1,031	7,326
Kobelco Eco-Solutions	1,419	1,103	15,088
Kobelco Construction Machinery	20,882	22,700	222,031
Kobelco Cranes	1,988	2,122	21,138
Other Businesses	7,119	4,001	75,693
Elimination	1,645	1,619	17,490
Consolidated total	¥ 114,936	¥ 96,085	$ 1,222,073

Notes:
1. Other Businesses includes Shinko Real Estate, Kobelco Research Institute and other businesses.
2. Details about elimination at March 31, 2013 and 2012 are as follows:

Segment income (loss)
Elimination is mainly financial profit or loss which isn't attributed to reportable segments and other businesses.

Assets
Elimination is mainly investments in securities which isn't attributed to reportable segments and other businesses.

Depreciation
Elimination is related mainly to the assets of administrative departments which isn't attributed to reportable segments and other businesses.

Interest income
Elimination is related mainly to intersegment transactions.

Interest expense
Elimination is related mainly to financial liabilities which aren't attributed to reportable segments and other businesses.

Equity in income (loss) of unconsolidated subsidiaries and affiliates
Elimination is related mainly to the income (loss) of affiliates which isn't attributed to reportable segments and other businesses.

Investments in unconsolidated subsidiaries and affiliates
Elimination is related mainly to intersegment transactions.

Capital expenditures
Elimination is related mainly to the assets of administrative departments which isn't attributed to reportable segments and other businesses.

Related information

1. Information by products and services

This information is omitted because the classification of products and services is the same as that of reportable segments.

2. Information by geographic segments

(1) Net sales

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Japan	¥1,113,068	¥1,195,772	$11,834,854
China	145,763	232,858	1,549,846
Others	426,698	436,061	4,536,927
Consolidated total	¥1,685,529	¥1,864,691	$17,921,627

(2) Plant and equipment

This information is omitted because the carrying amount of plant and equipment in Japan is over 90% of that on the balance sheet.

3. Information by major customer

Net sales

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Shinsho Corporation	229,016	268,721	2,435,045
Metal One Corporation	173,368	208,508	1,843,360

Impairment loss by reportable segments

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Impairment loss			
Iron & Steel	¥1,231	¥—	$13,089
Welding	—	—	—
Aluminum & Copper	12	—	128
Machinery	—	—	—
Natural Resources & Engineering	—	—	—
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	1,098	—	11,675
Kobelco Cranes	17	—	180
Other Businesses	—	—	—
Elimination	—	—	—
Consolidated total	¥2,358	¥—	$25,072

Amortization and balance of goodwill by reportable segments

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Amortization			
Iron & Steel	¥—	¥ —	$—
Welding	—	196	—
Aluminum & Copper	—	—	—
Machinery	—	—	—
Natural Resources & Engineering	—	—	—
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	—	—	—
Kobelco Cranes	—	—	—
Other Businesses	—	—	—
Elimination	0	0	0
Consolidated total	0	196	0
Balance			
Iron & Steel	—	—	—
Welding	—	—	—
Aluminum & Copper	—	—	—
Machinery	—	—	—
Natural Resources & Engineering	—	—	—
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	—	—	—
Kobelco Cranes	—	—	—
Other Businesses	—	—	—
Elimination	—	—	—
Consolidated total	¥—	¥ —	$—

Amortization of negative goodwill by reportable segments

Due to the acquisition of additional shares of KOBELCO CONSTRUCTION MACHINERY CO., LTD, KSL posted ¥1,923 million ($20,447 thousand) of negative goodwill as an extraordinary gain.

This negative goodwill does not belong to a particular reportable segment.

20. Net Income Per Share

The basis of calculating net income per share for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net loss	Weighted average number of shares	EPS	EPS
For the year ended March 31, 2013				
Net loss available to common shareholders	¥(26,976)	3,000,911	¥(8.99)	$(0.10)
For the year ended March 31, 2012				
Net loss available to common shareholders	(14,248)	3,000,951	(4.75)	(0.06)

21. Subsequent Events

Gain on the sale of investment securities

1. Summary

Kobe Steel, Ltd. sold the shares issued by Nabtesco Corporation on May 27, 2013 as follows:

(1) Issue: Nabtesco Corporation

(2) Number of the shares sold: 15,100,000 shares

2. Amount of Gain on the sale of investment securities in first quarter of fiscal 2013

Kobe Steel, Ltd. will record ¥23.9 billion of gain on the sale of investment securities as extraordinary income in the first quarter of fiscal 2013.

Impairment loss

1. Summary

Kobe Steel, Ltd. decided to reform the structure of the steel business by changing the upstream production system at its board of directors' meeting held on May 29, 2013. Upstream production at Kobe Works, will be transferred to Kakogawa Works and Kobe Steel, Ltd. plans to shut down the blast furnace and other upstream production equipment at Kobe Works around fiscal 2017.

In accordance with this decision, there are indications of impairment loss on the abovementioned upstream production equipment at Kobe Works due to a significant reduction of the recoverable amount. Pursuant to the Accounting Standards for Impairment of Fixed Assets, Kobe Steel, Ltd. recognizes impairment loss on these assets in considering their recoverability.

2. Amount of impairment loss in first quarter of fiscal 2013

Kobe Steel, Ltd. will post approximately ¥18.5 billion of impairment loss as an extraordinary loss in the first quarter of fiscal 2013.