

# RYODEN

TRADING COMPANY, LIMITED

## ANNUAL REPORT 2014

THROUGH ENGINEERING PROPOSALS, RYODEN TRADING IS RESPONDING TO EVER-CHANGING MARKET NEEDS





## PROFILE

Ryoden Trading Company, Limited is a leading distributor of technologically advanced electrical and electronic equipment. The Company is an affiliate of Mitsubishi Electric Corporation and is its largest distributor. Our 23 domestic offices throughout Japan function as important links between suppliers and customers and provide such essential services as product development, design and software testing.

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# CONSOLIDATED FINANCIAL HIGHLIGHTS

Ryoden Trading Company, Limited and Consolidated Subsidiaries  
Years ended March 31,

	Millions of yen					Thousands of U.S. dollars (Note A)
	2014	2013	2012	2011	2010	2014
<b>FOR THE YEAR:</b>						
Net sales	¥224,767	¥203,730	¥202,723	¥197,017	¥168,586	\$2,182,200
Income before income taxes and minority interests	5,641	4,561	3,955	3,900	1,763	54,770
Net income	3,550	2,853	2,216	2,346	1,069	34,469
<b>AT YEAR-END:</b>						
Total assets	117,936	107,872	107,179	105,084	96,990	1,145,010
Total net assets	57,583	54,121	51,308	49,974	48,744	559,056
Number of employees	1,190	1,148	1,118	1,104	1,079	—

	Yen					U.S. dollars (Note A)
	2014	2013	2012	2011	2010	2014
<b>PER SHARE DATA (YEN AND U.S. DOLLARS):</b>						
Net income (Note B)						
Basic	¥81.84	¥65.74	¥51.06	¥54.03	¥24.63	\$0.795

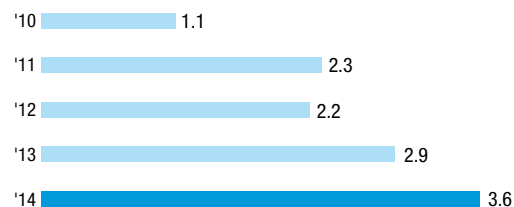
Notes: A. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥103 = \$1, the approximate exchange rate prevailing on March 31, 2014.

B. Basic net income per share is computed based on the weighted average number of shares outstanding during the respective years, and diluted net income per share is computed considering the number of shares issuable upon conversion of common share equivalents.

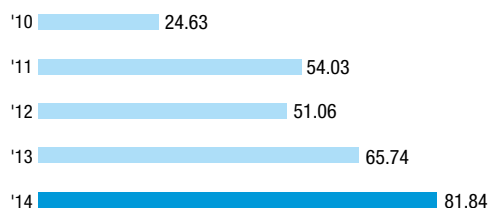
NET SALES (Billions of yen)



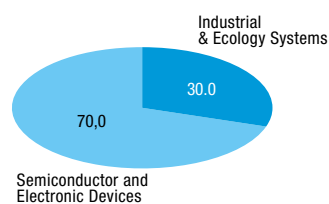
NET INCOME (Billions of yen)



NET INCOME PER SHARE (Yen)



2014 SALES COMPOSITION BY SEGMENT (%)





Satoshi Yamashita, President

## Letter to Our Shareholders

### The Year in Review

In the consolidated fiscal year ending March 31, 2014, the direction of the global economy remained uncertain amid conflicting pressures. Although the global economy moved into a recovery phase supported by the bottoming out of European economies and firm growth in the U.S. economy, the slowdown in the growth of emerging countries and the impact of the uncertain political conditions in the Ukraine and other factors raised concerns.

On the other hand, Japan's economy settled into a firm recovery path. Under the continued monetary easing policy, the weaker yen and higher stock price trends became well established. In addition, demand was robust amid the continued recovery demand from the Great East Japan Earthquake and the rush of demand ahead of the scheduled April 2014 hike in the consumption tax rate.

Among the business sectors that affect the Ryoden Trading Group, the impact of the slump in the digital consumer electronics industry lingered on. However, the business performance of the industrial machinery and equipment industry began to recover and the business performances of automobile-related and energy-related industries remained generally robust.

Amid this economic climate, in order to evolve into a "global solution provider" that offers added-value content to customers worldwide, the Ryoden Trading Group launched its new three-year medium-term management plan called "GSP 15" (Growth Strategy Plan 2015). In the first year of the new plan, the Group strengthened its sales network, opening three sales offices in Hokkaido Prefecture and other regions of Japan. Overseas, the Group converted its representative office in Shenzhen, China into a local subsidiary. Among other actions, the Group established a base in Indonesia to strengthen operations in Southeast Asia. Moreover, the Group implemented various strategies to support solution creation for the energy management system market, such as building a solar electric power generation station.

As a result, net sales for the period amounted to ¥224,767 million, rising by 10.3% from the corresponding period of the previous fiscal year. Operating income increased by 19.6% to ¥5,279 million while ordinary income rose 21.0% to ¥5,641 million. Net income for the period expanded by 24.4% to ¥3,550 million.

### Outlook for Next Term

Because of the mixed conditions, the economic outlook for Japan's economy in the next fiscal period is uncertain. On the positive side, the global economy is expected to continue to recover based on the firm growth demonstrated by the U.S. economy and the mild growth phase the European economies have entered after bottoming out. On the other hand, the slowdown in the growth of emerging countries and the impact of the uncertain political conditions in the Ukraine and other factors remain areas of concern.

Turning to Japan, the recovery in the domestic economy is expected to continue for a variety of reasons. The impact of the increase in the consumption tax is seen as temporary. Also contributing to the positive outlook are the increased profitability of exports due to the weaker yen and the increase in capital investment due to the improvement in business sentiment.

Amid the dynamically changing business environments in Japan and abroad, the Ryoden Trading Group will move forward in the second year of its mid-term management plan. Accelerating measures for the Group's evolution into a "global solution provider," the Group will pursue a "growth with profit" strategy, aiming to become a company that contributes to society through its high corporate value and sustainable business.

Our outlook for performance in the next fiscal period is for consolidated net sales of ¥235,000 million, operating income of ¥5,890 million, ordinary income of ¥5,970 million, and net income of ¥4,000 million.

# Management Policies

## Basic Management Policies

The Ryoden Trading Group's management principle is to seek to contribute to society by developing business practices appropriate for the 21st century while fulfilling its corporate social responsibility (CSR). In pursuing those goals the Group is guided by the following basic management policies: pursue stability and growth in corporate management; gain customer confidence through sincerity in sales activities combined with advanced technologies; respect employees' personalities and individuality; nurture human resources to achieve a high degree of expertise, reform spirit, and creativity; and carry out social contribution activities. The Company formulates action policies to guide its daily activities in order to gain further trust for its corporate brand in the communities in which it operates and strives to meet the mandates and expectations of its shareholders, business partners, and employees.

## Operating Targets and Management Performance Indicators

With a view to increasing shareholder value, the Ryoden Trading Group is proceeding with its growth strategy and placing management emphasis on profitability. The Group will endeavor to improve profitability using an operating margin of 3.5% as its key management performance indicator.

## Management Strategies and Issues to Be Addressed in the Medium to Long Term

Precisely because of the severe fluctuations in our current business environment, now is the time for the Group to push forward with its "Second inauguration of business," transforming itself into a global company. In evolving into a "global solution provider" that offers added-value content to customers worldwide, we will promote a growth with profit strategy, achieve sustainable high corporate value, and aim to be a company that contributes to society.

In the fiscal year ending March 31, 2015, the middle year of our three-year medium-term management plan, we are taking steps to accelerate progress with our core strategies by fortifying our organization. Effective April 2014, we set up a dedicated organization within our head office to further strengthen our global solutions provider capability. Furthermore, we implemented measures in our domestic sales and overseas companies aimed at reinforced our marketing and front-end office capabilities, such as forming organizations to enable the companies to put solutions into practice.

### 1. Accelerating global market strategies

In addition to our traditional business activities in East Asian markets, mainly the greater China market, we will aggressively invest our business resources in East Asia, which is developing into a major economic region, proceeding with business expansion and development of new markets. In conjunction with these efforts, we will strengthen our corporate functions in each local area to support the acceleration of our globalization.

### 2. Strengthening business solution provider capabilities

We want to evolve into a trading company that can provide high-value-added content deserving of being considered our customers' best partner. To that end, we will endeavor to strengthen our business solution provider capabilities, such as technology, procurement and quality control, and SCM system capabilities and business creativity. Moreover, we will aim to enhance customer satisfaction.

### 3. Building strategic partnership networks

We will seek to form the strategic partnerships necessary to accelerate our global market strategies and strengthen our business solution provider capabilities. Building a solid collaborative network of strategic partnerships globally, we will aim to provide customers with greater high-value-added content.

### 4. Improving consolidated earnings power

We will implement measures to improve the earning power of the corporate group and maintain and expand our sustained growth cycle. Among other actions, we will strategically invest in growth fields and markets, provider high-value-added business solutions, achieve highly efficient operations, and optimally allocate our human resources worldwide.

### 5. Reinforcing management systems

Progressing with reform of our business structure to suit global growth fields and markets, we will promote in a planned and ongoing manner the nurturing and efficient use of human resources appropriate to those efforts. In addition, we will proceed with building a solid corporate organization by fortifying business management with the goals of reinforcing our financial base, which will lead to increased shareholder value, and promoting business investment that supports our growth strategy.

### 6. Promoting CSR managements

Along with our efforts to thoroughly implement social action programs and comply with laws and corporate ethics, we will aim to fulfill our corporate social responsibilities by firmly maintaining an internal control system and to achieve sustainable operations.

#### MANAGEMENT TARGETS (FY2015: Consolidated basis)

Fiscal 2015

Net sales	2,700 billion yen
Overseas sales ratio	more than 35%
Operating margin	more than 3.5%

# REVIEW OF OPERATIONS

1. Industrial & Ecology Systems
2. Semiconductor and Electronic Devices

Note: Beginning with the fiscal year under review, the Company's reporting segments have been reclassified in accordance with its reorganization for the purpose of expanding business as a global solutions provider. In the year-on-year comparison figures provided in the following section, the figures for the previous fiscal year have been adjusted to reflect the changes in reporting segments.

# REVIEW OF OPERATIONS



## 1. Industrial & Ecology Systems

Consolidated net sales of the Industrial & Ecology Systems business segment rose 5.7% from a year earlier, to ¥67,501 million. Operating income amounted to ¥2,082 million, declining 15.6% from the previous fiscal year.

FA Systems sales rebounded substantially compared with a year earlier. The sharp increase can be attributed to recoveries in the production levels in the Ryoden Trading Group's core markets of manufacturing equipment for semiconductors and liquid crystal panels and displays and machine tools. These markets had contracted previously because of the slowdown in the economies of China and other emerging countries. In addition, domestic capital investment was robust.

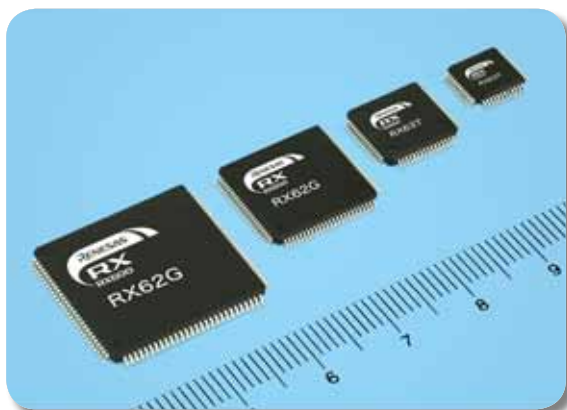
Conversely, sales of air conditioning and refrigeration systems declined. While replacement demand to upgrade electricity-savings and energy conservation was firm, the number of projects for major large-scale environmental engineering companies decreased.

Sales of the building systems sector expanded significantly despite struggling sales of the sector's core product elevators. Growth can be attributed to strong sales of products and materials for renewable energy systems.

Sales in the information and communication sector declined. During the fiscal year, the Group focused on expanding sales of business solutions to healthcare institutions. However, lower sales of core monitor-related products resulted in lower information and communication sales compared with a year earlier.

Sales of Industrial & Ecology Systems-related subsidiaries increased overall. In Japan, electrical installation sales were favorable, principally for solar cell power generation systems. In contrast, domestic sales of maintenance and other services for air conditioning and refrigeration systems struggled because of lower demand. Overseas sales, however, expanded, supported by robust sales of FA systems.

# REVIEW OF OPERATIONS



## 2. Semiconductor and Electronic Devices

Consolidated net sales of the Semiconductor and Electronic Devices business segment increased 12.4% year on year, to ¥157,266 million. Operating income amounted to ¥3,175 million, jumping 64.3% from the previous fiscal year.

In Japan, demand in the semiconductor and electronic devices sector increased for a variety of reasons at home and abroad. In automotive-related markets, domestic demand rebounded, primarily for eco-cars. Overseas demand also recovered from North America, China, and other countries and regions because of the impact of the weaker yen.

Moreover, industrial devices & materials-related, solar cell power generation systems and other conservation-related, and housing equipment and facilities-related businesses also enjoyed strong demand, partially because of the rush of demand ahead of the hike in the consumption tax.

Overseas subsidiaries in the semiconductor and electronic devices segment recorded substantial growth in earnings. The strong performances by overseas subsidiaries resulted from firm sales of electronic components to the automotive-related and OA equipment-related markets throughout Asia.



# Commitment to Corporate Governance and Compliance

***The following is Ryoden's system to ensure that directors properly execute their duties in accordance with laws and the articles of incorporation to ensure proper conduct in other operations.***

1. As provided for in its company rules, the Company appropriately files and manages documents required to be kept by law as well as important documents and related materials. (including magnetic records)
2. The Company determines basic rules on risk management and, through a Risk Management Committee chaired by the responsible director, identifies risks and devises countermeasures based on the likelihood of occurrence, the level of impact, etc. Important matters are discussed by the Executive Committee and the Board of Directors. In this way, the Company implements a diverse range of risk management throughout the Ryoden Group.
3. To achieve transparency in its business and speedy decision-making, the Company carries out wide ranging deliberations of important matters in its Executive Committee, members of which are senior directors. The Board of Directors determines the division of professional duties and areas of professional competence in each organization, clarifies the professional competence and responsibility of each organization, and arranges a system for the correct and efficient execution of professional duties. Meanwhile, to ensure efficiency in practice, the Board clearly establishes targets for each division and domestic and overseas group company for each fiscal year, and supervises managers' fulfillment of those targets.
4. The Company recognizes thorough compliance as a high-priority issue, and has established or enacted compliance rules and thoroughly educated its employees regarding them. To achieve complete compliance, the Company has established an Ethics and Legal Compliance Committee, which is chaired by the director in charge of compliance. The committee periodically determines and enforces compliance promotion matters, and monitors the state of compliance observation by each internal auditing division. It also includes a provision in the "Ryoden Trading Group Action Guidelines" to the effect that a resolute stance will be taken against anti-social forces, rigorously applies this, and arranges a system to this end. If behavior in violation of compliance rules occurs or a potentially dangerous situation is recognized, employees can report the incident using a hot line system without fear of reprisals.
5. The Company requires that Group companies report or receive approval for important matters before implementation. In addition, the Audit & Supervisory Board Members of Group companies and the Company's Audit & Supervisory Board Members and audit division share information and cooperate in conducting audits of Group companies to ensure the proper conduct of the Group as a whole.
6. The Company arranges a system for ensuring the correctness and reliability of the Group's financial reports, and periodically evaluates the effectiveness of the system.
7. When the Audit & Supervisory Board Members deem it necessary, staff may be assigned to assist Audit & Supervisory Board Members, subject to discussion with the directors.
8. When staff is assigned to Audit & Supervisory Board Members, the Company and Audit & Supervisory Board Members discuss and agree on items regarding authority over said staff.
9. Directors and employees report to Audit & Supervisory Board on the deliberations of important meetings, the results of internal audits, and important matters regarding business execution of the Company or Group companies. Items with the potential to have a major impact on the Company or Group companies are also reported promptly to Audit & Supervisory Board. When asked by a Audit & Supervisory Board Members to report on an item regarding business execution, all directors and employees report on the said item without delay.
10. When deemed necessary for their jobs, Audit & Supervisory Board or Audit & Supervisory Board Members may form contracts with legal counsel or other advisors. The Audit & Supervisory Board Members exchange information with the Company's independent auditor and the Audit & Supervisory Board Members of the Group companies and collaborate in achieving effective audits of the Company and the Group companies.

## FINANCIAL SECTION

## CONSOLIDATED BALANCE SHEETS

Ryoden Trading Company, Limited and Consolidated Subsidiaries  
March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Assets</b>			
<b>Current assets:</b>			
Cash and time deposits (Note 15)	¥ 14,058	¥ 22,882	\$ 136,487
Marketable securities (Note 15 and 16)	201	—	1,948
Trade receivables: (Note 7 and 15)			
Notes	10,622	8,947	103,129
Accounts	48,032	43,542	466,332
Merchandise inventories	18,010	15,662	174,857
Deferred tax assets (Note 19)	754	736	7,320
Short-term loans (Note 15)	7,498	188	72,796
Prepaid expenses and other current assets	3,477	2,864	33,749
Allowance for doubtful accounts	(94)	(76)	(912)
Total current assets	102,558	94,745	995,706
<b>Property and equipment:</b>			
Land	3,101	3,101	30,104
Buildings	2,511	2,466	24,382
Equipment and fixtures	1,884	1,412	18,293
Less accumulated depreciation	(2,870)	(2,853)	(27,860)
Construction in progress	2	3	16
Total property and equipment	4,628	4,129	44,935
<b>Intangible assets</b>	578	409	5,615
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and an affiliate (Note 15)	1,037	965	10,072
Investments in other securities (Note 15 and 16)	6,559	5,292	63,682
Deferred tax assets (Note 19)	636	503	6,179
Other (Note 5)	1,986	1,877	19,273
Allowance for doubtful accounts	(46)	(48)	(452)
Total investments and other assets	10,172	8,589	98,754
Total assets	¥ 117,936	¥ 107,872	\$ 1,145,010

See the accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Short-term bank loans (Note 3 and 15)	¥ 2,586	¥ 2,123	\$ 25,110
Trade payables: (Note 5, 7 and 15)			
Notes	5,209	14,540	50,569
Electronically recorded obligations operating	9,020	—	87,571
Accounts	34,593	29,708	335,850
Advances from customers	135	438	1,312
Accrued expenses	1,281	1,138	12,439
Accrued income taxes	1,221	968	11,851
Other current liabilities	1,676	1,629	16,280
Total current liabilities	55,721	50,544	540,982
<b>Long-term liabilities:</b>			
Accrued employees' retirement benefits (Note 18)	—	1,981	—
Net defined benefit liability (Note 18)	3,363	—	32,653
Accrued officers' severance benefits	—	227	—
Other long-term liabilities	1,269	1,000	12,319
Total long-term liabilities	4,632	3,208	44,972
Total liabilities	60,353	53,752	585,954
<b>Contingent liabilities (Note 6)</b>			
<b>Net assets: (Note 21)</b>			
Stockholders' equity:			
Common stock:			
Authorized—113,100,000 shares			
Issued—45,649,955 shares	10,334	10,334	100,333
Capital surplus	7,375	7,375	71,607
Retained earnings (Notes 4 and 22)	39,944	37,275	387,801
Treasury stock, at cost: 2,306,043 shares at March 31, 2014 and 2,253,753 shares at March 31, 2013	(852)	(816)	(8,279)
Total stockholders' equity	56,801	54,168	551,462
Accumulated other comprehensive income:			
Unrealized holding gains on securities	986	559	9,571
Translation adjustments	512	(607)	4,973
Remeasurements of defined benefit plans	(716)	—	(6,950)
Total accumulated other comprehensive income	782	(48)	7,594
Total net assets	57,583	54,120	559,056
Total liabilities and net assets	¥ 117,936	¥ 107,872	\$ 1,145,010

# CONSOLIDATED STATEMENTS OF INCOME

Ryoden Trading Company, Limited and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Net sales</b> (Note 8)	¥ 224,767	¥ 203,730	<b>\$ 2,182,200</b>
<b>Cost of sales</b> (Note 8)	<b>201,927</b>	183,143	<b>1,960,452</b>
Gross profit	22,840	20,587	221,748
<b>Selling, general and administrative expenses</b> (Note 9)	<b>17,561</b>	16,173	<b>170,497</b>
Operating income	5,279	4,414	51,251
<b>Other income:</b>			
Interest and dividends income	180	111	1,744
Equity in earnings of an affiliate	65	80	629
Other (Note 10)	335	274	3,257
	580	465	5,630
<b>Other expenses:</b>			
Interest expense	54	51	524
Loss on devaluation of investment securities	—	101	—
Loss on sales of investment securities	—	26	—
Other (Note 11)	164	140	1,587
	218	318	2,111
<b>Income before income taxes and minority interests</b>	<b>5,641</b>	4,561	<b>54,770</b>
Income taxes (Note 19)			
Current	2,073	1,787	20,122
Deferred	18	(79)	179
<b>Income before minority interests</b>	<b>3,550</b>	2,853	<b>34,469</b>
<b>Net income</b> (Note 21)	¥ 3,550	¥ 2,853	<b>\$ 34,469</b>

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Ryoden Trading Company, Limited and Consolidated Subsidiaries  
 Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Comprehensive income from operating activities:</b>			
Income before minority interests	¥ 3,550	¥ 2,853	\$ 34,469
Other comprehensive income(loss): (Note 14)			
Unrealized holding gain (loss) on securities	424	344	4,120
Translation adjustments	1,119	381	10,863
Share of other comprehensive income of associates accounted for by using equity method	3	2	26
Total other comprehensive income (loss)	1,546	727	15,009
Total comprehensive income	¥ 5,096	¥ 3,580	\$ 49,478
Total comprehensive income attributable to:			
Owners of the parent	¥ 5,096	¥ 3,580	\$ 49,478
Minority interests	—	—	—

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Ryoden Trading Company, Limited and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

Millions of yen

	Stockholders' equity						Accumulated other comprehensive income					Total net assets
	Common stock		Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Unrealized holding gains on securities	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
	Number of shares	Amount										
<b>Balance at March 31, 2012</b>	45,649,955	10,334	7,375	35,187	(813)	52,083	213	(988)	—	(775)	51,308	
Net income for the year	—	—	—	2,853	—	2,853	—	—	—	—	2,853	
Cash dividends	—	—	—	(825)	—	(825)	—	—	—	—	(825)	
Change of scope of consolidation	—	—	—	60	—	60	—	—	—	—	60	
Purchase of treasury stock	—	—	—	—	(3)	(3)	—	—	—	—	(3)	
Disposal of treasury stock	—	—	0	—	0	0	—	—	—	—	0	
Net change during the year	—	—	—	—	—	—	346	381	—	727	727	
<b>Balance at March 31, 2013</b>	45,649,955	¥ 10,334	¥ 7,375	¥ 37,275	¥ (816)	¥ 54,168	¥ 559	¥ (607)	¥ —	¥ (48)	¥ 54,120	
Net income for the year	—	—	—	3,550	—	3,550	—	—	—	—	3,550	
Cash dividends	—	—	—	(867)	—	(867)	—	—	—	—	(867)	
Change of scope of consolidation	—	—	—	(14)	—	(14)	—	—	—	—	(14)	
Purchase of treasury stock	—	—	—	—	(36)	(36)	—	—	—	—	(36)	
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	
Net change during the year	—	—	—	—	—	—	427	1,119	(716)	830	830	
<b>Balance at March 31, 2014</b>	45,649,955	¥ 10,334	¥ 7,375	¥ 39,943	¥ (852)	¥ 56,801	¥ 986	¥ 512	¥ (716)	¥ 782	¥ 57,583	

Thousands of U.S. dollars (Note 1)

	Stockholders' equity					Accumulated other comprehensive income					Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Unrealized holding gains on securities	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
	<b>Balance at March 31, 2013</b>	\$ 100,333	\$ 71,607	\$ 361,896	\$ (7,921)	\$ 525,915	\$ 5,425	\$ (5,890)	\$ —	\$ (465)	
Net income for the year	—	—	34,469	—	34,469	—	—	—	—	34,469	
Cash dividends	—	—	(8,425)	—	(8,425)	—	—	—	—	(8,425)	
Change of scope of consolidation	—	—	(139)	—	(139)	—	—	—	—	(139)	
Purchase of treasury stock	—	—	—	(358)	(358)	—	—	—	—	(358)	
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	
Net change during the year	—	—	—	—	—	4,146	10,863	(6,950)	8,059	8,059	
<b>Balance at March 31, 2014</b>	\$ 100,333	\$ 71,607	\$ 387,801	\$ (8,279)	\$ 551,462	\$ 9,571	\$ 4,973	\$ (6,950)	\$ 7,594	\$ 559,056	

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Ryoden Trading Company, Limited and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 5,641	¥ 4,561	\$ 54,770
Depreciation	431	342	4,185
Provision for (reversal of) allowance for doubtful accounts	15	(39)	140
Provision for retirement benefits	(223)	253	(2,167)
Increase (decrease) in net defined benefit liability	391	—	3,793
Interest and dividends income	(180)	(111)	(1,744)
Interest expense	54	51	524
Unrealized exchange loss (gain)	—	0	—
Equity in earnings of an affiliate	(65)	(80)	(629)
Loss (gain) on disposal or sales of property and equipment	2	0	21
Loss (gain) on sales of investment securities	(1)	26	(7)
Loss on devaluation of investment securities	—	101	—
Decrease (increase) in trade receivables	(4,401)	9,444	(42,727)
Decrease (increase) in merchandise inventories	(1,342)	2,826	(13,027)
Increase (decrease) in trade payables	2,872	(4,913)	27,886
Other, net	(711)	291	(6,904)
Subtotal	2,483	12,752	24,114
Interest and dividends received	191	120	1,855
Interest paid	(54)	(52)	(524)
Income taxes paid	(1,842)	(1,696)	(17,888)
Net cash provided by (used in) operating activities	778	11,124	7,557
<b>Cash flows from investing activities:</b>			
Proceeds from redemption of marketable securities	1,000	1,162	9,709
Acquisition of property and equipment	(603)	(288)	(5,853)
Proceeds from sales of property and equipment	3	3	28
Acquisition of intangible assets	(269)	(134)	(2,609)
Acquisition of investment securities	(2,429)	(1,447)	(23,587)
Proceeds from sales of investment securities	439	539	4,262
Net increase (decrease) in short-term loan receivables	—	(188)	—
Other, net	(61)	84	(594)
Net cash provided by (used in) investing activities	(1,920)	(269)	(18,644)
<b>Cash flows from financing activities:</b>			
Net decrease (increase) in short-term loans	(88)	583	(859)
Net increase in treasury stock	(37)	(3)	(358)
Cash dividends paid	(869)	(825)	(8,435)
Net cash provided by (used in) financing activities	(994)	(245)	(9,652)
<b>Effect on exchange rate changes on cash and cash equivalents</b>	<b>496</b>	<b>132</b>	<b>4,820</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,640)</b>	<b>10,742</b>	<b>(15,919)</b>
<b>Increase in cash and cash equivalents resulting from inclusion of subsidiary in consolidation</b>	<b>314</b>	<b>72</b>	<b>3,049</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>22,882</b>	<b>12,068</b>	<b>222,153</b>
<b>Cash and cash equivalents at end of year (Note 12)</b>	<b>¥ 21,556</b>	<b>¥ 22,882</b>	<b>\$ 209,283</b>

See the accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The accompanying consolidated financial statements of Ryoden Trading Company, Limited (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 are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation and accounting for investments in an affiliated company

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. The company over which the Company exercises significant influence in terms of its operating and financial policies has been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

### (b) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less when purchased are considered cash equivalents.

### (c) Marketable securities and investment securities

Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### (d) Merchandise inventories

The Company mainly applies the cost method based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

### (e) Allowance for doubtful accounts

Allowance for doubtful accounts is provided on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

### (f) Property and equipment

Property and equipment are stated at cost. Depreciation is computed principally by the declining-balance method at rates based upon the estimated useful lives of assets. In one of the consolidated subsidiaries, depreciation is computed by the straight-line method for a lease term. The range of useful lives is from 3 to 50 years for buildings and from 4 to 17 years for equipment and fixtures.

### (g) Accounting for employees' retirement benefits

The Company recognizes pension and severance costs for employees based on the estimates of the pension obligations and the plan assets at the end of current fiscal year. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial differences are amortized over a 12 year period, which is shorter than the average

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at the rate of ¥103= U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2014. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

remaining service period of employees, using the straight-line method from the following fiscal year when the difference was generated. Prior service cost is amortized as incurred over a 12 year period, which is shorter than the average remaining service period of employees using the straight-line method from the time when the prior services cost was generated. Certain consolidated subsidiaries adopt the simplified accounting method in calculating their net defined benefit liabilities and retirement benefit expenses. Under the simplified method, retirement benefit obligations are calculated as amounts paid for voluntary termination at the year-end.

### (h) Leases

Noncancellable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and relating payments are charged to income as incurred.

### (i) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

### (j) Derivative financial instruments

The Company has entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. Derivative financial instruments are carried at fair value, with changes in unrealized gain or loss charged or credited to operations.

### (k) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates, except for assets and liabilities hedged by forward foreign exchange contracts.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gains and losses are credited or charged to income.

The revenue and expense accounts of the foreign consolidated subsidiaries are translated at the rate of exchange in effect at the balance sheet date. Except for the components of net assets, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates.

### (l) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.



### (m) Changes in accounting policies

Effective the end of the current fiscal year, the Company adopted the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Standard No.26, issued May 17, 2012) and its accompanying implementation guidance, "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012.) (Except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance).

These accounting standards are applied with a revised method for recording the retirement benefit obligation after deducting pension plan assets as net defined benefit liability and net defined benefit asset, and unrecognized actuarial differences and unrecognized prior service costs are recorded as net defined benefit liability and net defined benefit asset.

Concerning the application of the Accounting Standards for Retirement Benefits, based on the provisional treatment set out in Section 37 of the accounting standards, the effects of such changes in the current fiscal year have been adjusted in remeasurements of defined benefit plans through accumulated other comprehensive income.

As a result, the Company reported net defined benefit liabilities of ¥3,363 million (\$32,653 thousand), net defined benefit assets of ¥124 million (\$1,206 thousand), and accumulated other comprehensive income decreased by ¥716 million (\$6,950 thousand) at March 31,

2014). In addition, the amount of net assets per share decreased ¥16.52 (\$0.160) as of March 31, 2014.

### (n) Standards issued but not effective

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

#### (1) Overview

The standard includes revisions to the accounting treatment of unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for retirement benefit obligations and service costs as well as enhancements to disclosures.

#### (2) Schedule date of adoption

The revisions to the calculation methods of the retirement benefit obligations and service costs will be adopted from the beginning of the fiscal year ending March 31, 2015.

#### (3) Impact of adopting revised accounting standard and guidance

The Company is currently evaluating the effect of the revisions on its consolidated results of operations and financial positions.

## 3. SHORT-TERM BANK LOANS

Short-term bank loans are unsecured and represented substantially by notes maturing within one year. The annual interest rates applicable to the loans outstanding were 0.8 % to 6.1 % in 2014 and 0.9 % to 6.3 % in 2013.

## 4. RETAINED EARNINGS

In accordance with the Corporation Law of Japan ("Law"), the Company has provided a legal reserve as an appropriation of retained earnings. This reserve amounted to ¥817 million (\$7,937 thousand) at March 31, 2014 and ¥817 million at March 31, 2013. The Law provides that the total of additional paid-in capital and the legal reserve, if less than one-quarter of the amount of common stock, is not available for dividends, but both may be used to reduce or eliminate a deficit by resolution of

the shareholders or may be transferred to common stock by resolution of the Board of Directors. If the total amount of additional paid-in capital and the legal reserve exceeds one-quarter of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or in the form of dividends subject to the approval of the shareholders.

## 5. PLEDGED ASSETS

Pledged assets as collateral and collateral obligations at March 31, 2014 and 2013 each, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Pledged assets as collateral			
Long-term time deposit	¥ 30	—	\$ 291
Collateral obligations			
Trade notes and accounts payable	¥ 0	—	\$ 3

## 6. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries are contingently liable for guarantees of loans to employees and others, amounting to ¥459 million (\$4,459 thousand) and ¥448 million at March 31, 2014 and 2013, respectively.

## 7. NOTES RECEIVABLE AND NOTES PAYABLE MATURING AT FISCAL YEAR-END

Notes receivable and notes payable are settled on the date of clearance. As March 31, 2013 was a bank holiday, notes receivable and notes payable maturing on that date could not be settled and were included in the ending balance of notes and accounts receivable, trade account and notes and accounts payable, trade account as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Notes receivable	—	¥ 819	—
Notes payable	—	¥ 2,539	—

## 8. RELATED PARTY TRANSACTIONS

Transactions with Mitsubishi Electric Corporation ("MELCO"), which holds 36.1% interest of the Company at March 31, 2014 and 2013 each, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
MELCO:			
Sales	¥ 17,177	¥ 15,830	\$ 166,772
Purchases	¥ 31,744	¥ 28,650	\$ 308,190

Sales and purchases prices were negotiated on an arm's-length basis based on the final retail prices of the Company.

## 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Transportation expenses	¥ 2,225	¥ 2,046	\$ 21,603
Salaries	5,554	5,272	53,925
Bonuses	2,139	1,968	20,769
Retirement benefit expenses	650	720	6,307
Welfare expenses	1,495	1,413	14,516
Rent	1,222	1,134	11,865
Depreciation and amortization	431	342	4,186

## 10. OTHER INCOME—OTHER

Other income—Other for the years ended March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Purchase discount	¥ —	¥ 3	\$ —
Foreign exchange gain	223	154	2,166
Other	112	117	1,091
	¥ 335	¥ 274	\$ 3,257

## 11. OTHER EXPENSES—OTHER

Other expenses—Other for the years ended March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Sales discount	¥ 72	¥ 75	\$ 699
Other	92	65	888
	¥ 164	¥ 140	\$ 1,587

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

Relations with the amount of money of a consolidated balance sheet of cash and cash equivalents as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash and time deposits	¥ 14,058	¥ 22,882	\$ 136,487
Short-term loans	7,498	—	72,796
	¥ 21,556	¥ 22,882	\$ 209,283

## 13. LEASE TRANSACTIONS

### Lessees' Accounting

The minimum rental commitments under noncancellable operating leases as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Within 1 year	¥ 390	¥ 239	\$ 3,789
Over 1 year	151	156	1,464
	¥ 541	¥ 395	\$ 5,253

## 14. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Unrealized holding gain (loss) on securities			
Amount arising during the year	¥ 652	¥ 496	\$ 6,332
Reclassification adjustment for gains and losses included in net income	5	35	46
Unrealized gains (losses) on available-for-sale securities before tax	657	531	6,378
Tax effect	(233)	(186)	(2,258)
Unrealized gains (losses) on available-for-sale securities	424	344	4,120
Translation adjustments			
Amount arising during the year	1,119	381	10,863
Share of other comprehensive income of associates accounted for by using equity method			
Amount arising during the year	3	2	26
Share of other comprehensive income of associates accounted for by using the equity method	3	2	26
Total other comprehensive income	¥ 1,546	¥ 727	\$ 15,009

## 15. FINANCIAL INSTRUMENTS

(a) Policies, classifications, and risk management

### Policy on use of financial instruments

The Company and its subsidiaries (the "Group") invest their temporary surpluses of funds mainly in highly liquid financial assets. The Group's primary use of derivatives is to hedge the risks mentioned below, and its policy is not to engage in speculative transactions.

### Classifications of financial instruments and related risks

Among operating receivables, notes and accounts receivable are subject to the credit risk of customers. In addition, foreign currency denominated operating receivables arising from business activities are subject to exchange rate risk. To minimize this exchange rate risk, the Group uses forward exchange agreements to hedge the risk on foreign exchange denominated transactions for which this treatment is deemed appropriate within the scope of actual volume of business considered necessary.

Marketable and investment securities comprised bonds related to

the investment of surplus funds and stocks of companies with which the Group has a business relationship, and are subject to market risk. Short-term loans consist of bonds with repurchase agreements (gensaki transactions) that have been purchased for the purpose of investing surplus funds.

Notes, electronically recorded obligations operating and accounts payable are operating liabilities that are mostly payable within six months. The portion of these liabilities denominated in foreign currency are subject to exchange rate risk, but similar to operating receivables, the Group uses forward exchange agreements to hedge this risk within the scope of actual volume of business considered necessary.

The Group's derivative transactions comprise forward exchange agreements made for the purpose of hedging currency rate risk on foreign currency denominated operating receivables and payables and structured derivative transactions involving bonds purchased as a method of investing surplus funds.

## Risk management related to financial instruments

(i) Credit risk (risk of nonperformance on agreements by business counterparties)

In accordance with its credit management rules, the Company's branches and Administrative Department of the head office monitor the status of business counterparties on a regular basis. They manage credit risk by maturity date and outstanding balance on an individual business counterparty basis and aim to achieve early discovery of and to minimize repayment concerns due to deteriorating financial position and other factors.

(ii) Credit risk (risk of nonperformance of derivative transaction)

The Company considers credit risk on derivative transactions to be negligible because transactions are only conducted with financial institutions that have high credit ratings.

(iii) Management of market risk (risk of fluctuations in currencies, interest rates, etc.)

In principle, the Company and some of its consolidated subsidiaries manage the exchange rate risk on foreign currency denominated operating receivables and payables by using forward exchange agreements to hedge currency rate risk determined by currency on a monthly basis.

For marketable and investment securities, the Group monitors the fair value of the financial instrument and the financial position etc. of the issuer (business counterparty) on a regular basis. With stocks of companies the Group does business with, the Group continuously revises its holdings, taking into consideration market conditions and its business relationship with company.

Among derivative transactions, the Accounting Department concludes the forward exchange agreements entered into by the Company on an aggregated basis in accordance with the Company's exchange rate risk management rules and produces reports on overall profits and losses and individual risk exposures that are included in the reports on the financial overview of the Company made during regular meeting of the Board of Directors. As to structure derivative transactions, the Accounting Department is responsible for investing funds in said bonds within the approved scope set by the Management Committee and reports the results of those investments to the Management Committee.

(iv) Management of liquidity risk related to funding (the risk of defaulting on maturing debt)

The Accounting Department prepares and revises cash flow plans as necessary based on reports from branches, while also managing liquidity risk by maintaining adequate cash levels. Consolidated subsidiaries also manage their liquidity risk in a similar manner.

## Supplementary items regarding the fair value etc. of financial instruments

The fair values of financial instruments are based on market prices. If a market price is not available then rational valuation of the price is used instead. Such price evaluations include variable factors, and its results may differ if different assumptions are used in the evaluation. Furthermore, the notational amounts for derivatives included in Note 17. Derivative Transactions do not represent the total market risk of the Group's derivative transactions.

(b) Fair value of financial instruments

As of March 31, 2014 and 2013, carrying value, fair value and the difference between the two are as follows:

### Year ended or as of March 31, 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
<b>Assets:</b>						
(1) Cash and time deposits	¥ 14,058	¥ 14,058	¥ —	\$ 136,487	\$ 136,487	\$ —
(2) Notes and accounts receivable	58,654	58,654	—	569,461	569,461	—
(3) Marketable and Investments securities	6,586	6,586	—	63,944	63,944	—
(4) Short-term loans	7,498	7,498	—	72,796	72,796	—
<b>Total</b>	<b>¥ 86,796</b>	<b>¥ 86,796</b>	<b>¥ —</b>	<b>\$ 842,688</b>	<b>\$ 842,688</b>	<b>\$ —</b>
<b>Liabilities:</b>						
(1) Notes and accounts payable	¥ 39,801	¥ 39,801	¥ —	\$ 386,419	\$ 386,419	\$ —
(2) Electronically recorded obligations operating	9,020	9,020	—	87,571	87,571	—
(3) Short-term bank loans	2,586	2,586	—	25,110	25,110	—
<b>Total</b>	<b>¥ 51,407</b>	<b>¥ 51,407</b>	<b>¥ —</b>	<b>\$ 499,100</b>	<b>\$ 499,100</b>	<b>\$ —</b>
<b>Derivative transactions:</b>						
Hedge accounting not applied	¥ 30	¥ 30	¥ —	\$ 294	\$ 294	\$ —

### Year ended or as of March 31, 2013

	Millions of yen		
	Carrying value	Fair value	Difference
<b>Assets:</b>			
(1) Cash and time deposits	¥ 22,882	¥ 22,882	¥ —
(2) Notes and accounts receivable	52,489	52,489	—
(3) Marketable and Investments securities	5,218	5,218	—
(4) Short-term loans	188	188	—
<b>Total</b>	<b>¥ 80,777</b>	<b>¥ 80,777</b>	<b>¥ —</b>
<b>Liabilities:</b>			
(1) Notes and accounts payable	¥ 44,249	¥ 44,249	¥ —
(2) Short-term bank loans	2,123	2,123	—
<b>Total</b>	<b>¥ 46,372</b>	<b>¥ 46,372</b>	<b>¥ —</b>
<b>Derivative transactions:</b>			
Hedge accounting not applied	¥ 0	¥ 0	¥ —

## Notes:

## Assets

(1) Cash and time deposits, (2) Notes and accounts receivable and (4) Short-term loans

All of these are settled within a short time, and their fair value and carrying value are nearly equal. Thus, the carrying value is listed as fair value in the table above.

(3) Marketable and Investments securities

These mainly consist of stocks and bonds. Fair value for stocks is based on a price settled on stock exchanges, while fair value for bonds is based on either a price settled on the exchanges or on offered from financial institutions that we have transaction with. Please refer to Note 16, "Securities"

## Liabilities

(1) Notes and accounts payable and (2) Electronically recorded obligation operating (3) Short-term bank loans

All of these are settled within a short time, and their fair value and carrying value are nearly equal. Thus, the carrying value is listed as fair value in the table above.

## Derivative transactions

Net receivables (payables) derived from derivative transactions are displayed in the table above. Total net payables are showed in parenthesis. Please refer to Note 17, "Derivative transactions"

(c) The carrying amount of financial instruments whose fair value cannot be reliably determined as of March 31, 2014 and 2013, consisted of the following:

Year ended or as of March 31, 2014	Millions of yen	Thousands of U.S. dollars (Note 1)
Investments securities that do not have quoted market price in an active market	¥ 1,211	\$ 11,758

Year ended or as of March 31, 2013	Millions of yen
Investments securities that do not have quoted market price in an active market	¥ 1,038

(d) The maturity analysis for financial assets and securities with contractual maturities as of March 31, 2014 and 2013, were as follows:

Year ended or as of March 31, 2014	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and time deposits	¥ 14,019	¥ —	¥ —	¥ —
Notes and accounts receivable	58,654	—	—	—
Investments securities	201	1,978	441	400
Short-term loans	7,498	—	—	—
<b>Total</b>	<b>¥ 80,372</b>	<b>¥ 1,978</b>	<b>¥ 441</b>	<b>¥ 400</b>

	Thousands of U.S. dollars (Note 1)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and time deposits	\$ 136,104	\$ —	\$ —	\$ —
Notes and accounts receivable	569,461	—	—	—
Investments securities	1,948	19,205	4,279	3,883
Short-term loans	72,796	—	—	—
<b>Total</b>	<b>\$ 780,309</b>	<b>\$ 19,205</b>	<b>\$ 4,279</b>	<b>\$ 3,883</b>

Year ended or as of March 31, 2013	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and time deposits	¥ 22,861	¥ —	¥ —	¥ —
Notes and accounts receivable	52,489	—	—	—
Investments securities	—	1,604	283	400
Short-term loans	188	—	—	—
<b>Total</b>	<b>¥ 75,537</b>	<b>¥ 1,604</b>	<b>¥ 283</b>	<b>¥ 400</b>

## 16. SECURITIES

(a) Information regarding marketable securities classified as other securities as of March 31, 2014 and 2013, were as follows:

March 31, 2014	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ 1,888	¥ 3,404	¥ 1,516	\$ 18,327	\$ 33,047	\$ 14,720
Bonds	850	869	19	8,252	8,433	181
Other	328	365	37	3,190	3,549	359
Subtotal	¥ 3,066	¥ 4,638	¥ 1,572	\$ 29,769	\$ 45,029	\$ 15,260
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥ 134	¥ 106	¥ (28)	\$ 1,298	\$ 1,034	\$ (264)
Bonds	553	524	(29)	5,373	5,084	(289)
Other	1,351	1,318	(33)	13,112	12,797	(315)
Subtotal	2,038	1,948	(90)	19,783	18,915	(868)
Total	¥ 5,104	¥ 6,586	¥ 1,482	\$ 49,552	\$ 63,944	\$ 14,392

March 31, 2013	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 1,870	¥ 2,713	¥ 843
Bonds	650	664	14
Other	534	596	62
Subtotal	¥ 3,054	¥ 3,973	¥ 919
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 152	¥ 119	¥ (33)
Bonds	300	256	(44)
Other	887	870	(17)
Subtotal	1,339	1,245	(94)
Total	¥ 4,393	¥ 5,218	¥ 825

Acquisition cost in the tables above represents the book value after the devaluation of certain securities. Loss on devaluation of investment securities for the years ended March 31, 2013 amounted to ¥101million.

(b) Sale of securities classified as other securities amounted to ¥429 million (\$4,163 thousand) and ¥532 million with an aggregate gain of ¥1 million (\$14 thousand) and ¥11 million and an aggregate loss of ¥1 million (\$7 thousand) and ¥37 million for the years ended March 31, 2014 and 2013, respectively.

## 17. DERIVATIVE TRANSACTIONS

The Company has entered into foreign currency hedging transactions to reduce their exposure to adverse fluctuations in foreign exchange rates relating to their receivables and payables denominated in foreign currencies.

Summarized below are the notional amounts and the estimated fair value of the derivative transactions outstanding at March 31, 2014 and 2013.

### Currency-related transactions

March 31, 2014	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sell:						
US\$	¥ 4,752	¥ (5)	¥ (5)	\$ 46,138	\$ (48)	\$ (48)
Buy:						
US\$	3,135	37	37	30,434	359	359
YEN	92	(2)	(2)	893	(17)	(17)
Total	¥ 7,979	¥ 30	¥ 30	\$ 77,465	\$ 294	\$ 294

March 31, 2013	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell:			
US\$	¥ 1,088	¥ 12	¥ 12
Buy:			
US\$	1,882	(12)	(12)
<b>Total</b>	<b>¥ 2,970</b>	<b>¥ 0</b>	<b>¥ 0</b>

The fair value of forward foreign exchange contracts is mainly based on prices provided by the financial institution making markets in these securities.

### **Bond Derivatives**

With respect to bond derivatives whose fair values cannot be categorized and measured for each embedded derivatives, the entire Bond Derivatives are appraised by fair value, and are included in the Note 16, "Securities."

## **18. RETIREMENT BENEFITS**

### **For the year ended March 31, 2014**

The Company and a part of consolidated subsidiaries have funded and unfunded defined benefit pension plans. Under the defined benefit pension plans (funded plans), employees terminating their employment are entitled to lump-sum or annuity payments determined based on the rate of pay and years of service. Under the lump-sum retirement benefit of defined pension plans (unfunded plans), benefits are determined on based on the rate of pay and years of service.

Certain consolidated subsidiaries that have the lump-sum retirement benefit of defined pension plan calculate net defined benefit liabilities and retirement benefit expenses using the simplified method.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Changes in Retirement Benefit Obligations (excluding plans that apply the simplified method)		
Beginning balance of retirement benefit obligations	¥ 10,232	\$ 99,338
Service costs	320	3,102
Interest costs	184	1,787
Actuarial differences arising during the year	164	1,594
Retirement benefits paid	(426)	(4,137)
Ending balance of retirement benefit obligations	¥ 10,474	\$ 101,684

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Changes in Pension Assets (excluding plans that apply the simplified method)		
Beginning balance of pension assets	¥ 6,785	\$ 65,869
Expected return on pension assets	170	1,647
Actuarial differences arising during the year	316	3,069
Contributions by the Company and consolidated subsidiaries	365	3,547
Retirement benefits paid	(373)	(3,622)
Ending balance of pension assets	¥ 7,263	\$ 70,510

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Changes in net defined benefit liabilities for plans that apply the simplified method		
Beginning balance of net defined benefit liability	¥ 23	\$ 223
Retirement benefit expenses	7	67
Retirement benefits paid	(0)	(1)
Contribution to plans	(2)	(17)
Ending balance of net defined benefit liability	¥ 28	\$ 272

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Reconciliation of benefit obligations and pension assets with net defined benefit liability and asset on the Consolidated Balance Sheets		
Funded retirement benefit obligations	¥ 7,139	\$ 69,304
Pension assets	(7,263)	(70,510)
Net	(124)	(1,206)
Unfunded retirement benefit obligations	3,363	32,653
Net amount of liability and asset on Consolidated Balance Sheets	¥ 3,239	\$ 31,447
Net defined benefit liability	¥ 3,363	\$ 32,653
Net defined benefit asset	(124)	(1,206)
Net amount of liability and asset on Consolidated Balance Sheets	¥ 3,239	\$ 31,447

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Components of retirement benefit expenses		
Service costs	¥ 320	\$ 3,103
Interest costs	184	1,787
Expected return on pension assets	(170)	(1,647)
Amortization of actuarial differences	395	3,837
Amortization of prior service cost	(86)	(840)
Retirement benefit expenses by simple method	7	67
Retirement benefit expenses for defined benefit pension plans	¥ 650	\$ 6,307

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Components of remeasurements of defined benefit plans (before deduction of tax effects)		
Unrecognized prior service cost	¥ (192)	\$ (1,866)
Unrecognized actuarial differences	1,304	12,665
Total	¥ 1,112	\$ 10,799

	As of March 31, 2014
Components of pension assets	
Stocks	39%
Bonds	32%
Life insurance general accounts	12%
Cash and time deposits	1%
Others	16%
Total	100%

Rate of expected return on pension assets

The expected return on pension assets is determined based on the current and estimated future rates of return on various assets.

	As of March 31, 2014
Basic Assumptions for Calculating Retirement Benefit Obligations	
Discount rate	1.8%
Expected rate of return on pension assets	2.5%



**For the year ended March 31, 2013**

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit pension fund plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain domestic consolidated subsidiaries have joined the Organization for Worker's Retirement Allowance Mutual Aid.

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

	Millions of yen
	2013
Retirement benefit obligation	¥ (10,255)
Plan assets at fair value	6,785
Unfunded retirement benefit obligation	(3,470)
Unrecognized actuarial gain or loss	1,852
Unrecognized prior service cost	(279)
Prepayment pension cost	(84)
Accrued retirement benefits	¥ (1,981)

The government-sponsored portion of the benefits under the welfare pension fund plan has been included in the amounts shown in the above table. The components of retirement benefit expenses for the years ended March 31, 2013, are outlined as follows:

	Millions of yen
	2013
Service cost	¥ 328
Interest cost	186
Expected return on plan assets	(157)
Amortization of unrecognized actuarial gain or loss	517
Amortization of unrecognized prior service cost	(154)
Total	¥ 720

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

	As of March 31, 2013
Discount rate	1.8%
Expected rate of return on plan assets	2.5%

## 19. INCOME TAXES

Deferred income taxes resulting from timing differences in the recognition of income and expenses for financial reporting and for tax purposes and the related tax effects for the years ended March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Deferred tax assets			
Net defined benefit liability	¥ 1,111	¥ —	\$ 10,788
Accrued employees' retirement benefits	—	684	—
Loss on devaluation of investment securities	72	73	698
Valuation loss of investment in golf club membership	62	70	606
Excess employees' bonus allowances	386	370	3,744
Accrued officers' severance benefits	81	84	789
Accrued enterprise tax	79	82	771
Excess allowance for doubtful accounts	34	27	327
Other	452	393	4,383
Subtotal	2,277	1,783	22,106
Valuation allowance	(145)	(152)	(1,404)
Total	2,132	1,631	20,702
Deferred tax liabilities			
Unrealized holding gains on securities	501	269	4,866
Deferred capital gains on land	123	123	1,191
Reserve for special depreciation	118	—	1,146
Other	1	1	9
Total	743	393	7,212
Net deferred tax assets	¥ 1,389	¥ 1,238	\$ 13,490

The Company and its consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, result in a statutory tax rate of 38.01% in 2014 and 2013. Reconciliation between the effective tax rates reflected in the consolidated statements of income and the above statutory tax rate for the years ended March 31, 2014 and 2013, were as follows:

	2014	2013
Statutory tax rate	38.01%	38.01%
Items excluded from nontaxable expenses permanently, such as entertainment expenses	0.94	1.26
Items not permanently included in income, such as dividends received	(0.63)	(0.45)
Change in valuation allowance	(0.14)	0.84
Effect of tax rate change	0.85	—
Other, net	(1.97)	(2.21)
Effective tax rates	37.06%	37.45%

### Change in statutory effective tax rate

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.01% to 35.64% for the temporary differences expected to be realized or settled from the fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥48million(\$466 thousand) and increase deferred income taxes by the same amount as of and for the fiscal year ended March 31, 2014.

## 20. SEGMENT INFORMATION

### (1) General information about reportable segments

Reportable segments are components of the Company and its consolidated subsidiaries for which separate financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resources to be allocated to the segments and assess their performance. The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and foreign countries in three segments: Industrial & Ecology Systems; Semiconductor and Electronic Devices; Others.

General information about the segments is as follows.

- (a) Industrial and Ecology Systems: Servo system, Inverter, Numerical control devices, Elevator, Package air conditioner, LCD monitor, Environment and energy related products, Information technology related products
- (b) Semiconductor and Electronic Devices: Semiconductor memory, Microcomputer, Application specific IC, Power devices, Element related to light, General electronic parts, Mechanical components, Material, Metalworking goods, Resin finishing goods

### (2) Basis of measurement for sales, profit or loss, assets, liabilities and other items of reportable segments

Accounting policies and methods used at operating segments are the same as those applied to the Company described on Note 1 and Note 2. Profit or loss of reportable segments is equal to operating income on the consolidated statements of income. Intercompany sales and transfers are based on market current price.

### (3) Due to a reorganization conducted in the fiscal year ended March 31, 2014, the former reportable segments of Industrial & Ecology Systems; Semiconductor and Electronic Devices; Industrial Devices & Materials; Others have been changed to Industrial & Ecology Systems; Semiconductor and Electronic Devices; Others.

The former reportable segment of Industrial Devices & Materials has been included in Semiconductor and Electronic Devices. Segment information for previous fiscal year has been restated to reflect the change in the method of classification.

### (4) Sales, profit or loss, assets, liabilities and other items by reportable segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2014 and 2013, is summarized as follows:

Year ended or as of March 31, 2014	Millions of yen					
	Reportable segment			Total	Eliminations or corporate	Consolidated
	Industrial & Ecology Systems	Semiconductor and Electronic Devices	Others			
<b>I. Sales and operating income:</b>						
(1) Sales to third parties	¥ 67,501	¥ 157,266	¥ 0	¥ 224,767	¥ —	¥ 224,767
(2) Intersegment sales and transfer	47	—	161	208	(208)	—
Total sales	67,548	157,266	161	224,975	(208)	224,767
Operating income	2,082	3,175	50	5,307	(28)	5,279
<b>II. Assets, depreciation expenses and capital expenditures:</b>						
Total assets	33,864	59,041	940	93,845	24,091	117,936
Depreciation expenses	197	230	4	431	—	431
Capital expenditures	¥ 516	¥ 530	¥ 3	¥ 1,049	¥ —	¥ 1,049

Year ended or as of March 31, 2014	Thousands of U.S. dollars (Note 1)					
	Reportable segment			Total	Eliminations or corporate	Consolidated
	Industrial & Ecology Systems	Semiconductor and Electronic Devices	Others			
<b>I. Sales and operating income:</b>						
(1) Sales to third parties	\$ 655,351	\$ 1,526,848	\$ 1	\$ 2,182,200	\$ —	\$ 2,182,200
(2) Intersegment sales and transfer	450	—	1,566	2,016	(2,016)	—
Total sales	655,801	1,526,848	1,567	2,184,216	(2,016)	2,182,200
Operating income	20,209	30,827	490	51,527	(276)	51,251
<b>II. Assets, depreciation expenses and capital expenditures:</b>						
Total assets	328,777	573,219	9,125	911,121	233,889	1,145,010
Depreciation expenses	1,910	2,237	38	4,185	—	4,185
Capital expenditures	\$ 5,009	\$ 5,149	\$ 27	\$ 10,185	\$ —	\$ 10,185

Year ended or as of March 31, 2013	Millions of yen					
	Reportable segment				Eliminations or corporate	Consolidated
	Industrial & Ecology Systems	Semiconductor and Electronic Devices	Others	Total		
I. Sales and operating income:						
(1) Sales to third parties	¥ 63,859	¥ 139,870	¥ 1	¥ 203,730	¥ —	¥ 203,730
(2) Intersegment sales and transfer	7	(0)	169	176	(176)	—
Total sales	63,866	139,870	170	203,906	(176)	203,730
Operating income	2,466	1,932	39	4,437	(23)	4,414
II. Assets, depreciation expenses and capital expenditures:						
Total assets	30,084	51,760	879	82,723	25,149	107,872
Depreciation expenses	148	191	3	342	—	342
Capital expenditures	¥ 220	¥ 251	¥ 2	¥ 473	¥ —	¥ 473

The Related Information of the Company and its consolidated subsidiaries for the year ended March 31, 2014 and 2013, is summarized as follows:

Year ended or as of March 31, 2014	Millions of yen						
	Japan	China	Asia-others	North America	Europe	Others	Total
Geographic Information:							
Net sales	¥ 160,910	¥ 33,258	¥ 18,112	¥ 3,010	¥ 9,471	¥ 6	¥ 224,767

Year ended or as of March 31, 2014	Thousands of U.S. dollars (Note 1)						
	Japan	China	Asia-others	North America	Europe	Others	Total
Geographic Information:							
Net sales	\$ 1,562,228	\$ 322,897	\$ 175,841	\$ 29,226	\$ 91,950	\$ 58	\$ 2,182,200

Year ended or as of March 31, 2013	Millions of yen						
	Japan	China	Asia-others	North America	Europe	Others	Total
Geographic Information:							
Net sales	¥ 154,553	¥ 26,471	¥ 16,024	¥ 2,018	¥ 4,664	¥ —	¥ 203,730

Year ended or as of March 31, 2014	Millions of yen	
	Net sales	Related segments
Major client Information:		
Name of clients		
Panasonic Corporation	¥ 25,391	Semiconductor and Electronic Devices

Year ended or as of March 31, 2014	Thousands of U.S. dollars (Note 1)	
	Net sales	Related segments
Major client Information:		
Name of clients		
Panasonic Corporation	\$ 246,511	Semiconductor and Electronic Devices

Year ended or as of March 31, 2013	Millions of yen	
	Net sales	Related segments
Major client Information:		
Name of clients		
Panasonic Corporation	¥ 26,365	Semiconductor and Electronic Devices

## 21. AMOUNTS PER SHARE

	Yen		U.S. dollar (Note 1)
	2014	2013	2014
Net income basic	¥ 81.84	¥ 65.74	\$ 0.795
Cash dividends	22.00	19.00	0.214
Net assets	1,328.51	1,247.15	12.898

Basic net income per share was 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, and diluted net income per share was computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock

to be issued upon the conversion of convertible bonds and the exercise of warrants. Amounts per share of net assets were computed based on net assets available for distributions to the shareholders and the number of shares of common stock outstanding at the year end.

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.

## 22. SUBSEQUENT EVENT

The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2014, were approved at a directors' meeting held on May 15, 2014:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	¥ 520	\$ 5,050

Cash dividends (¥12.00 = \$0.1166 per share)



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## Independent Auditor's Report

The Board of Directors  
Ryoden Trading Company, Ltd.

We have audited the accompanying consolidated financial statements of Ryoden Trading Company, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ryoden Trading Company, Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

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

*Ernst & Young ShinNihon LLC*

June 27, 2014  
Tokyo, Japan

## DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBER

### PRESIDENT

Satoshi Yamashita

### SENIOR MANAGING DIRECTOR

Takamichi Kasugai

### MANAGING DIRECTORS

Yoshiaki Okamura, Shouichi Chiba, Masaaki Amada,  
Akira Shindou, Nobuo Shougaki

### DIRECTORS

Isao Iguchi, Tadanari Kishimoto, Hitoshi Chihara,  
Toshiharu Ooya, Hideharu Yamazaki, Yasuhiro Souda,  
Yoshiaki Ogawa, Akira Sano, Shouji Kitai

### AUDIT & SUPERVISORY BOARD MEMBER

Yoshiaki Tamura, Hitoshi Fushimi, Kentarou Tani, Hideyo Ishino

(As of June 27, 2014)

## CORPORATE DATA

### RYODEN TRADING COMPANY, LIMITED

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#### SUBSIDIARIES:

RYOKO COMPANY, LIMITED  
RYOSHO TECHNO COMPANY, LIMITED  
RYOSHO TECHNO SINGAPORE PRIVATE LIMITED  
RYOSHO HONG KONG COMPANY, LIMITED  
RYOSHO U.S.A. INCORPORATED  
RYOSHO ELECTRONICS (SHANGHAI) COMPANY, LIMITED  
RYOSHO (THAILAND) COMPANY, LIMITED  
RYOSHO TAIWAN COMPANY, LIMITED  
RYOSHO EUROPE GmbH  
RYOSHO KOREA COMPANY, LIMITED  
RYOSHO ELECTRONICS SHENZHEN COMPANY, LIMITED  
PT. RYOSHO TECHNO INDONESIA

#### COMMON STOCK AND CAPITAL:

Total number of shares authorized: 113,100,000 shares  
Total number of shares issued: 45,649,955 shares  
Amount of stated capital: ¥10,334,298,875

(As of June 27, 2014)