

Ryoden Corporation



**GLOBAL SOLUTION PROVIDER**



ANNUAL REPORT 2016

# PROFILE

The Ryoden Group aims to achieve profitable and sustainable growth amid a constantly changing business environment. While we are promoting our transmission into a global corporation, we also aim to evolve into a “Global Solution Provider” which creates solutions with unique added value and provides them to customers.

The challenges customers face and the solutions required to solve them vary greatly depending on their line of business, management strategy, and orientation.

The Ryoden Group offers a broad range of solution services in Japan and around the world. In the fields of Network Solutions, Building Management Solutions, Ecology Energy Solutions, Smart Industrial Solutions, Medical Solutions, HMI and Sensor Solutions, and Automotive Solutions, we deliver the optimum package by tapping Ryoden’s unique strengths.

## Network Solutions

### Delivering myriad solutions built around monitoring systems and harnessing the latest network technology

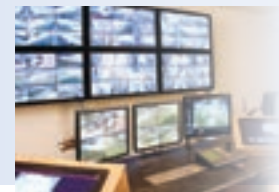
The age of big data has arrived, and with it new advances in network technology. By capitalizing on the latest technological trends, Ryoden brings greater sophistication to networked monitoring systems and other such solutions. We know how to apply monitoring system technology and recognition and identification algorithms in a host of fields.



## Building Management Solutions

### Remote monitoring of building facilities nationwide

Our solutions allow remote inspection, monitoring, control, and meter reading of building facilities 24 hours a day, 365 days a year anywhere in Japan.



## Ecology Energy Solutions

### An excellent record of global environmental stewardship

The growing importance of energy conservation and management has focused increasing interest on EMS solutions, which enable centralized management of energy use on the production line and in the office. Ryoden delivers optimal solutions in a wide range of fields by applying its expertise as a trading firm with an excellent record of global environmental stewardship.



## CONTENTS

01	Profile	15	Consolidated Balance Sheets
03	Financial Highlights	17	Consolidated Statements of Income
05	Letter to Our Shareholders	18	Consolidated Statements of Comprehensive Income
06	Management Policies	19	Consolidated Statements of Changes in Net Assets
07	Mid-term Management Plan	20	Consolidated Statements of Cash Flows
09	Review of Operations	21	Notes to Consolidated Financial Statements
09	Industrial & Ecology Systems	36	Independent Auditor’s Report
10	Electronics	37	Stock Information
11	Corporate Governance	38	Corporate Information

## MANAGEMENT PRINCIPLE

- Act through sincere marketing activities and the supply of progressive technology, to win the trust and expectations of customers.
- Address the changes in society, striving for stability and progress in corporate management, while contributing to the community.
- Respect the character and individuality of each employee, nurturing human resources high in specialization, innovative spirit and creativity.

## BUSINESS ACTIVITIES

- 1 Adhere to laws and regulations
- 2 Aim for growth with profit
- 3 Take responsibility towards the society as a global company
- 4 Individuals should create their own views, and together create an energetic organization.
- 5 Ensure respect toward the individual's personality and uniqueness, and engage in personal development to attain high goals.
- 6 Management and the managers should fulfill their responsibilities.

## Smart Industrial Solutions

### Maximizing efficiency, safety, and comfort

The industrial market has seen considerable advances in production process visualization as well as enhanced efficiency, safety, and comfort on the production line.

Ryoden makes use of its extensive experience to offer solutions tailored exactly to its customers' increasingly diverse requirements.



## Medical Solutions

### Providing medical institutions with comprehensive support in case of disasters

We help medical institutions to disaster-proof themselves so that damage is minimized in case of earthquake, blackouts, or momentary power failures.



## HMI and Sensor Solutions

### Solutions adaptable to a wide range of environments and applications

Today human-machine interfaces (HMIs) affect the value of many different products, and the HMI field has limitless potential for expansion. Ryoden delivers solutions adaptable to a wide range of environments and applications in such fields as office automation, automobiles, and manufacturing of assembled machine tools.



## Automotive Solutions

### Bringing you systems for streamlining production and for optimizing safety during next-generation vehicle development

We capitalize on our experience and technical expertise in components and systems to construct a management system for optimizing your facilities. We also recommend virtual development environment systems for designing safer, more comfortable vehicles, including ADAS and HUD technology.



# FINANCIAL HIGHLIGHTS

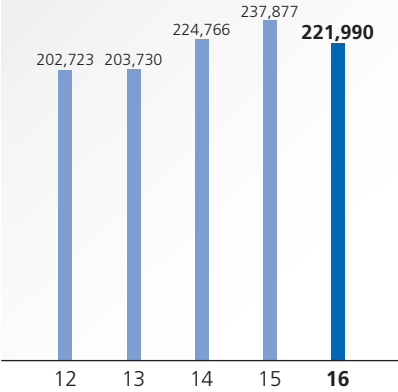
Ryoden Corporation and Consolidated Subsidiaries

Years ended March 31					Millions of yen		Thousands of U.S. dollars
	2012	2013	2014	2015	2016	2016	
<b>Business Results</b>							
Net sales . . . . .	¥202,723	¥203,730	¥224,766	¥237,877	¥221,990	\$1,964,521	
Overseas sales . . . . .	36,981	49,177	63,857	66,342	54,439	481,762	
Ratio of overseas sales (%) . . .	18.2	24.1	28.4	27.9	24.5	–	
Operating income . . . . .	4,003	4,414	5,278	4,992	3,673	32,505	
Profit attributable to owners of parent . . . . .	2,216	2,852	3,550	2,891	1,846	16,343	
<b>Financial position</b>							
Total assets . . . . .	¥107,179	¥107,872	¥117,936	¥125,121	¥119,382	\$1,056,485	
Net assets . . . . .	51,308	54,121	57,582	61,444	60,401	534,528	
Interest-bearing debt . . . . .	973	2,123	2,586	2,706	2,083	18,434	
<b>Cash flows</b>							
Cash flows from operating activities . . . . .	¥ 528	¥ 11,124	¥ 778	¥ (4,168)	¥ 3,747	33,162	
Cash flows from investing activities . . . . .	3,875	(269)	(1,920)	(1,230)	(777)	(6,876)	
Cash flows from financing activities . . . . .	(1,332)	(245)	(994)	(1,087)	(1,550)	(13,716)	
					Yen	U.S. dollars	
<b>Per share data</b>							
Net income (loss) per share . . . .	51.06	65.74	81.84	66.70	42.61	0.377	
Net assets per share . . . . .	1,182.20	1,247.15	1,328.51	1,417.10	1,392.47	12.322	
Cash dividends per share . . . . .	18	20	22	24	26	0.230	
					%		
<b>Principal financial data</b>							
Operating income margin . . . . .	2.0	2.2	2.3	2.1	1.7		
Return on equity . . . . .	4.4	5.4	6.4	4.9	3.0		
Return on assets . . . . .	3.8	4.3	5.0	3.7	2.7		
Equity ratio . . . . .	47.9	50.2	48.8	49.1	50.5		
Number of employees . . . . .	1,118	1,148	1,190	1,251	1,276		

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥113 = \$1, the approximate exchange rate prevailing on March 31, 2016.

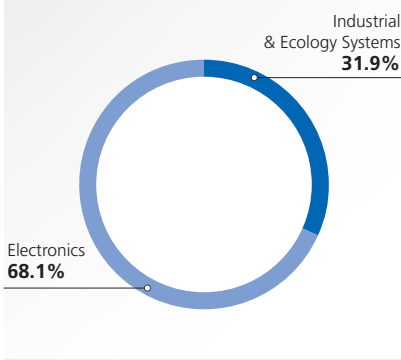
### NET SALES

(Millions of yen)



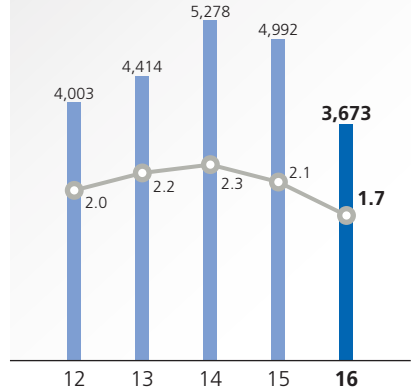
### SALES COMPOSITION

(%)



### OPERATING INCOME/ OPERATING INCOME MARGIN

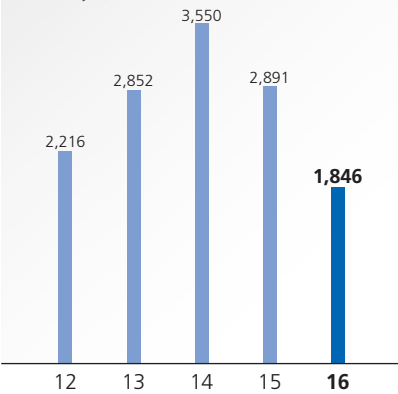
(Millions of yen/%)



■ OPERATING INCOME  
● OPERATING INCOME MARGIN

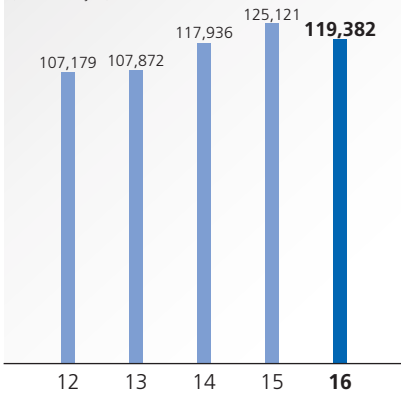
### PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

(Millions of yen)



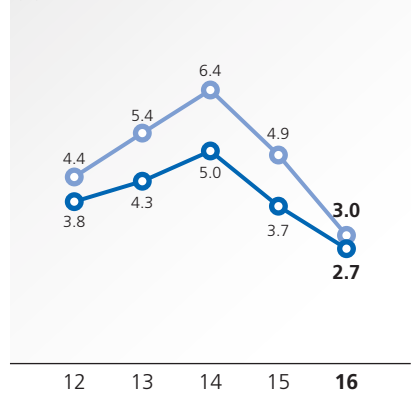
### TOTAL ASSETS

(Millions of yen)



### ROA/ROE

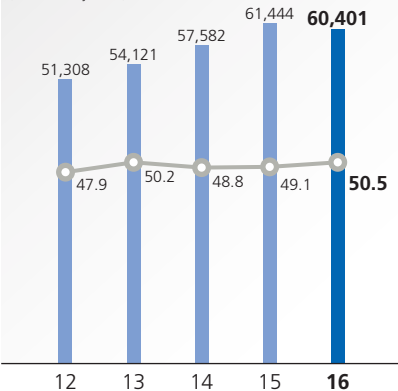
(%)



● ROE  
● ROA

### NET ASSETS/EQUITY RATIO

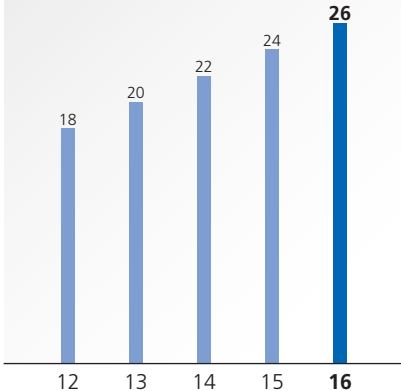
(Millions of yen/%)



■ NET ASSETS  
● EQUITY RATIO

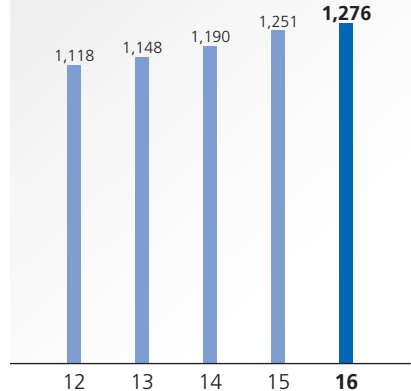
### CASH DIVIDENDS PER SHARE

(Yen)



### NUMBER OF EMPLOYEES

(Yen)



# LETTER TO OUR SHAREHOLDERS

## The Year in Review

During the fiscal year ended March 31, 2016, concerns about the outlook of the global economy rapidly increased in view of slowing growth in China and other emerging economies and declining oil prices despite robust growth of the U.S. economy.

Regarding the Japanese economy, owing to the slowdown of overseas economies and concerns about delay in increasing U.S. interest rates, both yen appreciation and a general weakening of stock prices progressed rapidly. Coupled with the stalling of both exports and production, corporate earnings in certain sectors started to weaken. Moreover, capital investment, which had been on a recovery track, lost momentum.

Among the business sectors that affect the Group, the industrial machinery and equipment industry and the energy-saving-related industry performed robustly in the first half of the year, but they experienced little or no growth in the second half. In the automobile-related industry, although sales to North America performed well, sales targeting Japan, China and ASEAN were lackluster.

In this economic climate, in order to evolve into a “Global Solution Provider” offering value-added content to customers worldwide, the Group implemented the measures formulated in the three-year medium-term management plan “GSP 15” (Growth Strategy Plan 2015). In the final year of the plan, with the aim of identifying customer needs and issues through a more customer-oriented approach and of accelerating the proposing of solutions, we expanded our sites at 10 locations in Japan and upgraded the representative office in India to a subsidiary. We also held meetings with customers and solutions partners at various locations to exchange information and strengthen collaboration between Ryoden Group and customers and solutions partners.

Despite the Group-wide effort to accelerate initiatives for the solutions business and strengthen responses corresponding to sales channels, the Group was affected by a sharp decline in market conditions toward the end of the year caused by the slowing of China’s economy and other factors.

As a result, net sales for the fiscal year under review were ¥221,990 million, a decrease of 6.7% year on year. Operating income was ¥3,673 million, a decrease of 26.4%, ordinary income was ¥3,296 million, a decrease of 26.8%, and profit attributable to owners of parent was ¥1,846 million, a decrease of 36.1%.

During the second quarter of the fiscal year under review, liquidation of Ryoko Company, Limited was completed (September 30, 2015) and it has been excluded from the scope of consolidation. Ryoko’s statements of income until the completion of its liquidation are included in consolidated accounting.

## Outlook for the Next Term

The global economy is expected to remain on a recovery track underpinned by vigorous economic growth of the U.S. despite concerns about the outlook, including slowing of China’s economy as well as the economies of other emerging-market countries, and low prices of natural resources.

Expectations for recovery of the Japanese economy are likely to be fulfilled to some extent when business sentiment recovers and capital investment increases in line with stabilization of the global economy.

While the business environment in Japan and overseas remains challenging, the Group has formulated a mid-term management plan covering the period from April 2016. In accordance with the plan, all our employees will strive to position the Group as a “Global Solution Provider.” We aim to establish a customer-oriented value creation business model that strengthens the Group’s consolidated earnings power. For this purpose, we will implement a strategy to achieve profitable growth.

Our forecast for performance in the fiscal year ending March 31, 2017 is consolidated net sales of ¥214,000 million, operating income of ¥2,100 million, ordinary income of ¥1,800 million, and profit attributable to owners of parent of ¥1,200 million.



Nobuo Shogaki, President & CEO



## Basic Management Policies

The Ryoden Group considers contribution to our society as well as fulfilling its Corporate Social Responsibility (CSR) as Management Principle in the whole group while placing “Stability and growth in corporate management”, “Building customer trust through sincere sales activities and provision of advanced technologies”, “Respect for personality and individuality of each employee as well as raising human resources with high degree of expertise, reform spirit and creativity” and “Activity for social contribution” in the basic management policy. Moreover, to be more trusted corporate brand in the society, the group established Behavior Principles guiding its daily business activities and strives to meet the mandates and expectations of shareholders, business partners and employees.

## Operating Targets and Management Performance Indicators

With a view to increasing shareholder value, the Ryoden 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 4% as its key management performance indicator.

## Management Strategies and Issues to be addressed in the Medium to Long Term

The Ryoden Group is enhancing its business as a “Global Solution Provider”, adjusting to a changing business environment. We are aiming to be more valuable for our customers as well as for the market, and to improve profitability by cultivating deeper and closer relationships with customers while creating value corresponding to their needs.

As we announced in the new medium-term management plan “Challenge & Evolution 2018 (CE2018)” commenced in fiscal 2016, the Ryoden Group is reforming its marketing style in order to pursue added value while grasping diverse customer needs. Moreover, our progress in this endeavor is enabling us to position the company as a contributor to society through the provision of advanced technologies. We are working on the following basic strategies throughout the Group.

### ① Operation of Customer Value Creation business model

We will transform our marketing style and structure to realize a customer-oriented value creation business model focused on market and customer needs.

By identifying customer needs and providing the optimum solutions with partners, we intend to enhance customer satisfaction. We will conduct sales activities together with partners, cultivate closer and deeper relationships with customers, transition to a customer-centric organizational structure rooted in the community, and operate a customer-oriented value creation business model.

### ② Enhancement of Group Consolidated Profitability

We will optimize the business portfolio through strategic investment in growth fields and markets, establishment of efficient operations worldwide, and monitoring of investment impacts.

We will work to enhance the Group’s profitability with the aim of realizing long-term value creation for not only the Ryoden Group, but also for customers and partners.

### ③ Promotion of Governance Management

We will fulfill our corporate social responsibility by strengthening corporate governance throughout the Ryoden Group while ensuring compliance.

# CE2018

## Challenge &

The Ryoden Group formulated the mid-term business plan CE2018, covering the three years from fiscal 2016 to fiscal 2018, to achieve “profitable and sustainable growth.”



**CE2018 VISION**

**All employees become “Global Solution Provider” and continue to create and provide unique added value for customers.**

**Business Promotion**

By closely working with customers, propose the best solutions in collaboration with partner company which has mutual trust relationships

**Human Resource Development**

Foster global human resources with high sensitivity and emotion by enhancing communication ability

**Social Contribution**

As a real global company, contribute to happy life of people who are related to the development of local community besides a quest for profit

**Corporate strategic themes for CE2018**

- ① Operation of customer value creation business model
- ② Formulation of global partners network
- ③ Promotion of planned global human resource development
- ④ Enhancement of group consolidated profitability
- ⑤ Promotion of governance management

**Goal**

- Business operations emphasizing profitability (management emphasizing profitability and not pursuing scale alone)
- Business activities pursuing added value through sales & marketing emphasizing customers’ perspectives



# Evolution 2018

## Focused promoting SBU

Considering the rapid expansion of IoT/M2M and our core competence of “**network/sensing/analysis**”, Ryoden focuses on **5 business** areas to provide totally-optimized solutions from customer-oriented perspectives.

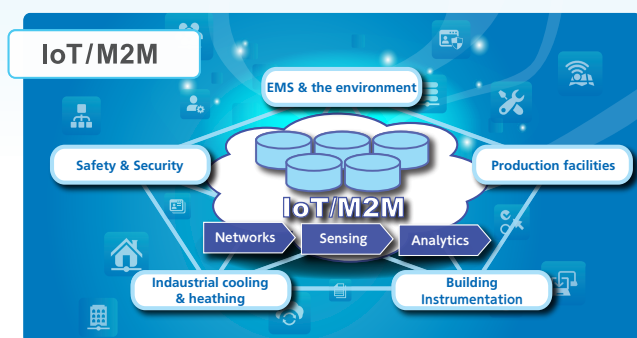
EMS/Conservation of the environment

HVAC

Safety/Security

Building management

Production facilities (Process management)



While continuing to create new businesses, Ryoden Group aims to combine the growth in the above areas of focus with the asset which is our existing core businesses. We will also keep up with changing customer needs and market situations in a drive to advance our business.

## Objectives of our divisions

### Factory Automation Division

The Factory Automation Division’s IT technologies such as Industry 4.0 will dramatically improve the frontline of manufacturing. Together with its partner companies, the division will promote a proposal-focused marketing approach aimed at the development of big data.

### Cooling & Heating Division

Essential for air conditioning under severe conditions, the Cooling & Heating Division’s industrial cooling and heating technology is attracting attention from a range of markets. The division plans to expand the area of its business and activities by offering more advanced technologies.

### Building and Information Communication Division

The Building and Information Communication Division will promote IT solutions to solve the operational challenges faced by a variety of facilities. It aims to improve its earning power by strengthening high value-added items such as building automation.

### Healthcare Division

The Healthcare Division aims to expand its business by proposing solutions using EC sites. It will strive to strengthen ties with customers and partners in the medical consulting business.

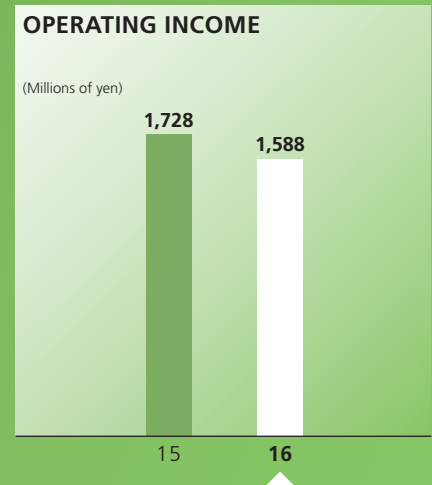
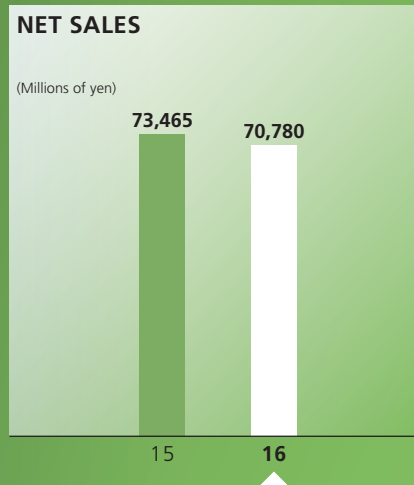
### Devices Division

Providing the core technologies for products spanning many industries, the Devices Division will create unique value by developing a wide range of communication items and modules.

## Goals for the final year (FY2018)

Consolidated sales	Operating income	Operating margin	ROE
¥270 billion	¥10 billion	4%	10%

## INDUSTRIAL & ECOLOGY SYSTEMS



**2016**  
**70,780** Millions of yen  
**3.7% DOWN**

**2016**  
**1,588** Millions of yen  
**8.1% DOWN**

Sales of FA systems decreased. Although the production level in the Group's core market of machine tools remained robust, sales of FA systems for semiconductor and LCD-related manufacturing equipment were sluggish. Capital investment related to automotive production and photovoltaic power generation systems also experienced little or no growth.

Sales of air conditioning and refrigeration systems increased because of an increase in the number of projects for sales channels centering on wholesalers and small and medium-sized environmental engineering companies and also firm replacement demand related to efforts to reduce power consumption and conserve energy resources.

In the building systems and information and communication sector, sales of medical and security systems were robust. However, sluggish sales of elevators and IT-related products, which are the segment's core products, resulted in a significant decrease in the sector's total sales.

Sales of Industrial & Ecology Systems-related subsidiaries decreased. Whereas domestic sales of maintenance and other services for air conditioning and refrigeration systems were robust, electrical installation sales centering on photovoltaic power generation systems were sluggish in Japan and sales of FA systems overseas were also lackluster.



Kurihara Solar Power Generation Plant of the Company (Miyagi Prefecture)

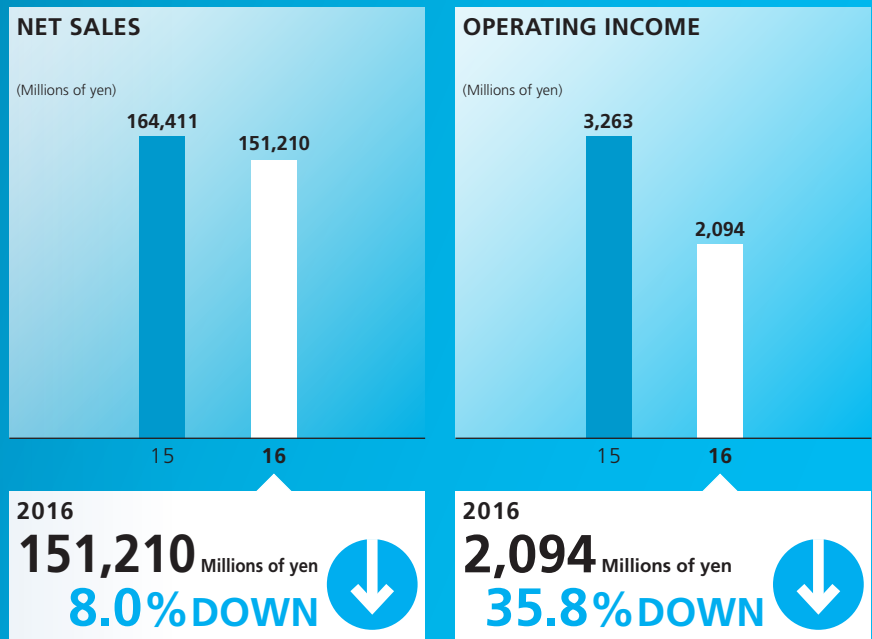


AC servo system of Mitsubishi Electric Corporation



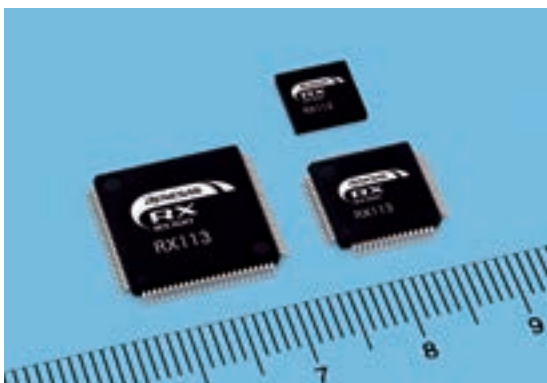
Air-cooled heat pump chiller manufactured by Mitsubishi Electric Corporation

# ELECTRONICS



In Japan, sales of industrial equipment-related electronic products, which were brisk in the first half of the year under review reflecting robust performance of the FA-related business and the energy conservation-related business, lost momentum in the second half. Sales of automotive-related electronic products decreased owing to sluggish domestic sales despite firm sales for North America.

Overseas subsidiaries recorded a substantial decrease in sales because sales of electronic components for office automation-related equipment in Asia, which were robust in the first half of the year under review, became sluggish in the second half, and because of sluggish sales of electronic components for automotive-related markets in China and ASEAN, despite robust sales in North America.



High-performance, low-power-consumption 32-bit microprocessor manufactured by Renesas Electronics Corporation



SiC power modules manufactured by Mitsubishi Electric Corporation

# CORPORATE GOVERNANCE

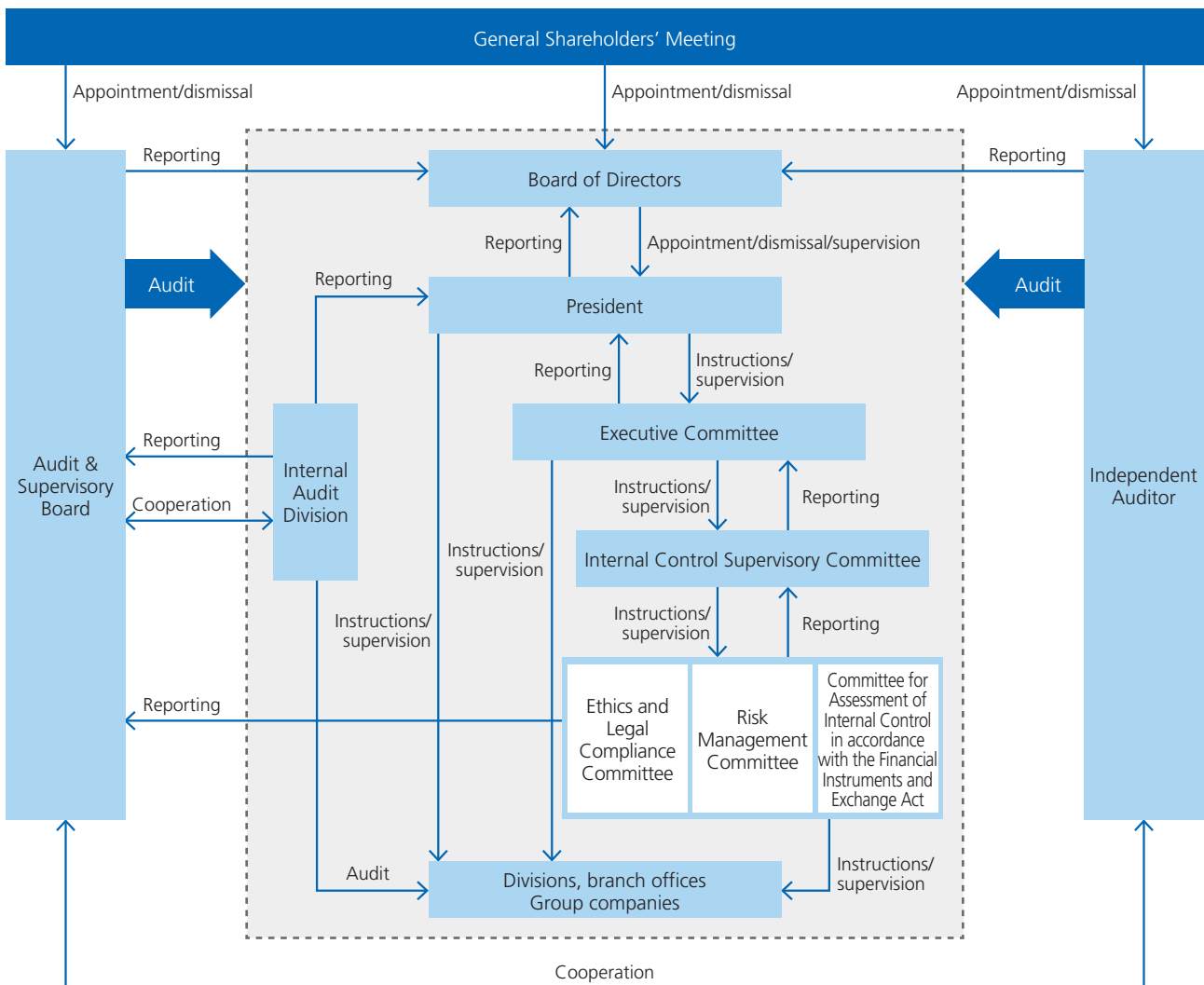
## OUTLINE OF CORPORATE GOVERNANCE SYSTEM AND REASONS FOR ADOPTING THE SYSTEM DESCRIBED

The Company has adopted the Audit & Supervisory Board System and appointed three Outside Directors and two Outside Audit & Supervisory Board Members. The Outside Directors, drawing on their respective abundant experience and wide-ranging knowledge, provide advice concerning operations and supervise execution. Outside Audit & Supervisory Board Members, from their objective and independent stances, monitor and oversee the status of management execution in cooperation with Standing Audit & Supervisory Board

Members and conduct audits to ascertain whether the execution of duties by Directors is in compliance with laws and regulations and the Company's Articles of Incorporation through examination of the design and operation of internal control systems of the Company and the Group. Thus, the system is designed to ensure effective corporate governance in the Company and throughout the Group.

The corporate governance structure is shown below.

### CORPORATE GOVERNANCE STRUCTURE



## The Company's basic policies on internal control systems

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### **1. Systems for ensuring that the execution of duties by Directors and employees complies with laws and regulations and the Company's Articles of Incorporation**

- (1) The Company recognizes that ensuring thorough compliance as a high-priority issue, and has established compliance rules. The Company strives to ensure that all Directors and employees of the Company and the Group are aware of the compliance rules and are thoroughly educated concerning the said rules.
- (2) To reinforce and enrich internal control systems of the Company and the Group, the Internal Control Supervisory Committee has been established, which is chaired by the President and supervises the status of activities concerning internal control.
- (3) To achieve complete compliance, the Company has established the Ethics and Legal Compliance Committee, which is chaired by the Director in charge of compliance. The committee periodically determines and enforces compliance promotion matters. The Internal Audit Division monitors the state of compliance observation of the Company and the Group.
- (4) The Company includes a provision in the "Ryoden Group Action Guidelines" to the effect that a resolute stance will be taken against anti-social forces, ensures that all Directors and employees of the Company and the Group adopt this stance, and arranges a system to this end.
- (5) If Directors and/or employees of the Company or the Group become aware of behavior that is or may be in violation of compliance rules, they can report the incident using a hotline system and will receive no disadvantageous treatment.

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### **2. Systems for filing and managing information concerning the execution of duties by Directors**

As provided in its company rules, the Company appropriately files and manages documents required to be retained by law as well as other important documents and related materials (including magnetic records) and maintains them and ensures that they are accessible when the need arises.

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### **3. Rules and other systems relating to management of risks of loss**

The Company determines Basic Rules on Risk Management concerning risk management of the Company and the Group and, through a Risk Management Committee chaired by the Director in charge of Risk Management, 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 multifaceted risk management throughout the Group.

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### **4. Systems for ensuring efficient execution of duties by Directors**

- (1) To achieve transparency in its business and speedy decision-making, the Company carries out wide-ranging deliberations on important matters concerning the Company and the Group in its Executive Committee, the members of which are principal Directors.
- (2) 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.
- (3) To ensure efficiency in practice, the Board of Directors clearly establishes targets for the Company and each Group company for each fiscal year, and supervises managers' fulfillment of those targets.

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#### **5. System for ensuring appropriate operations at the Group**

- (1) The Company requires that Group companies report or receive approval for important matters before implementation.
- (2) The Audit & Supervisory Board Members of Group companies and the Company's Audit & Supervisory Board Members and Internal Audit Division share information and cooperate in conducting audits of Group companies to ensure the proper conduct of the Group as a whole.

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#### **6. Systems for ensuring the correctness of financial reports**

The Company arranges a system for ensuring the correctness and reliability of financial reports of the Company and the Group, and periodically evaluates the effectiveness of the system.

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#### **7. Matters concerning employees when Audit & Supervisory Board Members request the assignment of employees to assist them in their duties**

When Audit & Supervisory Board Members deem it necessary, employees may be assigned to assist Audit & Supervisory Board Members, subject to discussion with the Directors.

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#### **8. Matters concerning independence from the Directors of the employees assigned to assist Audit & Supervisory Board Members in their duties and ensuring effective implementation of the instructions issued by Audit & Supervisory Board Members to the employees**

- (1) When employees are assigned to Audit & Supervisory Board Members, Directors and Audit & Supervisory Board Members discuss and agree on items regarding authority over the said staff beforehand.
- (2) Such employees comply exclusively with instructions issued by Audit & Supervisory Board Members.

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#### **9. System for Directors and employees to report to Audit & Supervisory Board Members and other systems for reporting to Audit & Supervisory Board Members**

- (1) Directors and employees of the Company and the Group report to the Audit & Supervisory Board on the situation about 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 the Audit & Supervisory Board.
- (2) The Company's department in charge of the hotline system periodically reports to the Company's Audit & Supervisory Board Members concerning the situation of internal reporting by Directors and employees of the Company and the Group.
- (3) When asked by the Audit & Supervisory Board Members to report on an item regarding business execution, Directors and employees of the Company and the Group report on the said item without delay.
- (4) No Directors or employees of the Company and the Group that report to the Company's Audit & Supervisory Board Members will receive disadvantageous treatment on the ground of making such report.

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#### **10. Other systems for ensuring the effectiveness of audits by Audit & Supervisory Board Members**

- (1) When deemed necessary for their work, Audit & Supervisory Board or Audit & Supervisory Board Members may contract with legal counsel, certified public accountants or other advisors.
- (2) 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.
- (3) When Audit & Supervisory Board Members request the Company for advance payment or reimbursement of expenses incurred in execution of their duties, the Company pays such expenses or processes obligations without delay unless otherwise deemed unnecessary for Audit & Supervisory Board Members' execution of duties.

# INDEPENDENCE STANDARDS FOR OUTSIDE DIRECTORS/OUTSIDE CORPORATE AUDITORS

The Company nominates Independent Outside Directors/Outside Corporate Auditors in accordance with the "Independence Standards for Outside Directors/Outside Corporate Auditors," which reflect the independence standards stipulated by the Tokyo Stock Exchange.

[Independence Standards for Outside Directors/Outside Corporate Auditors of the Company]

An Outside Director or an Outside Corporate Auditor (hereinafter collectively referred to as "Outside Officer") is considered independent if none of the following applies.

- (1) A person who executes business (hereinafter "business executor") of the Company or subsidiaries of the Company (hereinafter referred to as the "Group") or a person who was a business executor of the Group in the past 10 years
- (2) A person for whom the Group is a major business partner or a business executor thereof
- (3) A major business partner of the Group or a business executor thereof
- (4) The Accounting Auditor of the Group or a person affiliated therewith
- (5) A consultant, accounting professional, or legal professional who has received a large amount of monetary consideration or other property from the Group besides compensation as a Director of Board or a Corporate Auditor (If the person who has received such is an organization, such as a corporation or an association, a person who is affiliated with such organization)
- (6) A person who has received a large amount of monetary consideration or other property from the Group as donations (or if the person receiving such donations is an organization, such as a corporation or an association, a person who is affiliated with such organization)
- (7) A major lender to the Group or a business executor thereof
- (8) A major shareholder of the Company or a business executor thereof
- (9) A business executor of a company of which the Group is a major shareholder
- (10) A person to whom any of the items (2) through (9) above applied during the past three years
- (11) The spouse or a second-degree or closer relative of a person to whom any of the items (1) through (9) above applies (important business executor only)
- (12) A business executor of an entity with which the Company has a relationship of interlocking Outside Officers

- \*1 "Business executor" means a business executor stipulated in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act.
- \*2 "Person for whom the Group is a major business partner" means a group (group consisting of a direct business partner, its parent, its subsidiaries, and subsidiaries of the parent; the same applies hereinafter) that provides products and services to the Group and whose amount of transactions with the Ryoden Group exceeded 2% of that group's consolidated annual net sales in the most recent fiscal year.
- \*3 "Major business partner of the Group" means a group to whom the Group provides products and services and the amount of transactions with whom exceeded 2% of the Group's consolidated annual net sales in the most recent fiscal year.
- \*4 "A large amount of monetary consideration or other property" means monetary consideration or other property whose total amount exceeded 10 million yen in the most recent fiscal year and that exceeded 2% of the total revenue of the recipient in the most recent fiscal year.
- \*5 "Major lender" means a lender whose name is listed under major lenders in the business report related to the most recent fiscal year.
- \*6 "Major shareholder" means a shareholder that holds 10% or more of the voting rights (including indirect holding) at the end of the most recent fiscal year.
- \*7 "Important business executor" means a Director of Board or an employee whose position is a general manager or higher.
- \*8 "Relationship of interlocking Outside Officers" means a relationship where the Group's business executor serves as an Outside Officer of another company and that company's business executor serves as an Outside Officer of the Company.

## FINANCIAL SECTION

## CONSOLIDATED BALANCE SHEETS

Ryoden Corporation and Consolidated Subsidiaries  
March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Assets</b>			
<b>Current assets:</b>			
Cash and time deposits (Note 13)	¥ 16,665	¥ 15,419	\$ 147,484
Notes and accounts receivable - trade (Note 13)	54,853	61,103	485,427
Electronically recorded monetary claims - operating (Note 13)	6,242	3,349	55,242
Securities	853	453	7,555
Merchandise and finished goods	20,510	21,670	181,510
Short - term loans receivable (Note 13)	241	—	2,135
Deferred tax assets (Note 18)	854	712	7,565
Other	3,997	6,225	35,380
Allowance for doubtful accounts	(244)	(93)	(2,163)
Total current assets	103,975	108,840	920,138
<b>Property, plant and equipment:</b>			
Buildings and structures	2,902	2,612	25,684
Accumulated depreciation	(1,845)	(1,897)	(16,332)
Buildings and structures, net	1,056	714	9,351
Machinery, equipment and vehicles	666	1,008	5,901
Accumulated depreciation	(146)	(296)	(1,294)
Machinery, equipment and vehicles, net	520	712	4,607
Tools, furniture and fixtures	1,118	1,133	9,897
Accumulated depreciation	(737)	(810)	(6,523)
Tools, furniture and fixtures, net	381	323	3,373
Land	3,090	3,100	27,348
Construction in progress	39	29	353
Total property and equipment	5,088	4,880	45,033
<b>Intangible assets</b>			
Software	561	539	4,970
Other	108	36	956
Total intangible assets	669	575	5,926
<b>Investments and other assets:</b>			
Investments securities (Note 14)	6,900	8,432	61,068
Long - term prepaid expenses	68	54	606
Deferred tax assets (Note 18)	731	131	6,470
Net defined benefit assets	—	309	—
Other (Note 4)	2,001	1,937	17,716
Allowance for doubtful accounts	(53)	(41)	(475)
Total investments and other assets	9,648	10,824	85,386
Non - current assets	15,407	16,281	136,346
Total assets	¥ 119,382	¥ 125,121	\$ 1,056,485

See the accompanying Notes to Consolidated Financial Statements.



	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Notes and accounts payable - trade (Note 13)	¥ 39,088	¥ 43,939	\$ 345,912
Electronically recorded obligations - operating (Note 13)	7,897	8,908	69,885
Short - term loans payable (Note 13)	2,083	2,706	18,434
Income taxes payable	736	460	6,520
Other	3,341	3,194	29,568
Total current liabilities	53,146	59,209	470,321
<b>Non - current liabilities:</b>			
Net defined benefit liability (Note 16)	4,610	3,280	40,798
Other	1,224	1,186	10,838
Non - current liabilities	5,834	4,466	51,636
Total liabilities	58,981	63,676	521,957
<b>Net assets:</b>			
Shareholders' equity:			
Capital stock:			
Authorized—113,100,000 shares			
Issued—45,649,955 shares	10,334	10,334	91,453
Capital surplus	7,380	7,380	65,318
Retained earnings (Note 3 and Notes 21)	42,348	41,585	374,767
Treasury shares, at cost: 2,311,234 shares at March 31, 2016 and 2,303,395 shares at March 31, 2015	(864)	(857)	(7,653)
Total shareholders' equity	59,199	58,442	523,886
Accumulated other comprehensive income:			
Unrealized gains (losses) on available - for - sale securities	1,368	1,744	12,107
Foreign currency translation adjustments	1,141	1,426	10,102
Remeasurements of defined benefit plans	(1,360)	(187)	(12,043)
Total accumulated other comprehensive income	1,148	2,983	10,166
Subscription rights to shares	53	18	474
Total net assets	60,401	61,444	534,528
Total liabilities and net assets	¥ 119,382	¥ 125,121	\$ 1,056,485

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF INCOME

Ryoden Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net sales</b> (Note 6)	¥ 221,990	¥ 237,877	\$ 1,964,521
<b>Cost of sales</b> (Note 6)	198,869	213,811	1,759,908
<b>Gross profit</b>	23,121	24,065	204,612
<b>Selling, general and administrative expenses</b> (Note 8 and Note 9)	19,448	19,072	172,107
<b>Operating income</b>	3,673	4,992	32,505
<b>Other income:</b>			
Interest income	83	70	739
Dividend income	138	136	1,222
Share of profit of entities accounted for using equity method	49	25	440
Foreign exchange gains	—	376	—
Rent income on non - current assets	40	38	361
Other	92	140	820
Total other income	405	787	3,584
<b>Other expenses:</b>			
Interest expense	44	54	392
Sales discounts	86	76	764
Loss on sales of accounts receivable	57	70	505
Foreign exchange losses	376	—	3,329
Loss on valuation of investment securities	99	—	884
Settlement payment	—	1,046	—
Other	117	25	1,040
Total other expenses	781	1,274	6,915
<b>Ordinary income</b>	3,296	4,505	29,173
<b>Extraordinary income:</b>			
Gain on sales of investment securities	77	—	687
Total extraordinary income	77	—	687
<b>Extraordinary losses:</b>			
Loss on valuation of investment securities	68	—	608
Loss on valuation of shares of subsidiaries and associates	179	—	1,584
Total extraordinary losses	247	—	2,192
<b>Profit before income taxes:</b>	3,126	4,505	27,667
<b>Income taxes - current</b> (Note 18)	1,316	1,489	11,651
<b>Income taxes - deferred</b> (Note 18)	(36)	124	(326)
<b>Total income taxes</b>	1,279	1,614	11,324
<b>Profit</b>	1,846	2,891	16,343
<b>Profit attributable to owners of parent</b>	¥ 1,846	¥ 2,891	\$ 16,343

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Ryoden Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Profit	¥ 1,846	¥ 2,891	\$ 16,343
Other comprehensive income(loss): (Note 12)			
Valuation difference on available - for sale securities	(376)	763	(3,330)
Foreign currency translation adjustments	(284)	913	(2,518)
Remeasurements of defined benefit plans, net of tax	(1,173)	528	(10,387)
Share of other comprehensive income of entities accounted for using equity method	—	(4)	—
Other comprehensive income (loss)	(1,834)	2,201	(16,235)
Comprehensive income	¥ 12	¥ 5,092	\$ 107
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 12	¥ 5,092	\$ 107
Comprehensive income attributable to non - controlling interests	—	—	—

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Ryoden Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
<b>Balance at March 31, 2014</b>	10,334	7,375	39,943	(852)	56,800	985	512	(715)	782	—	57,582
Cumulative effects of changes in accounting policies(Note 2)	—	—	(208)	—	(208)	—	—	—	—	—	(208)
Restated Balance	10,334	7,375	39,734	(852)	56,591	985	512	(715)	782	—	57,373
Changes of items during period	—	—	—	—	—	—	—	—	—	—	—
Dividends of surplus	—	—	(1,040)	—	(1,040)	—	—	—	—	—	(1,040)
Profit (loss) attributable to owners of parent	—	—	2,891	—	2,891	—	—	—	—	—	2,891
Purchase of treasury shares	—	—	—	(12)	(12)	—	—	—	—	—	(12)
Disposal of treasury shares	—	5	—	(7)	12	—	—	—	—	—	12
Net changes of items other than shareholders' equity	—	—	—	—	—	758	913	528	2,201	18	2,219
Total changes of items during period	—	5	1,850	(5)	1,851	758	913	528	2,201	18	4,070
<b>Balance at March 31, 2015</b>	¥ 10,334	¥ 7,380	¥ 41,585	¥ (857)	¥ 58,442	¥ 1,744	¥ 1,426	¥ (187)	¥ 2,983	¥ 18	¥ 61,444
Cumulative effects of changes in accounting policies(Note 2)	—	—	—	—	—	—	—	—	—	—	—
Restated Balance	10,334	7,380	41,585	(857)	58,442	1,744	1,426	(187)	2,983	18	61,444
Changes of items during period	—	—	—	—	—	—	—	—	—	—	—
Dividends of surplus	—	—	(1,083)	—	(1,083)	—	—	—	—	—	(1,083)
Profit (loss) attributable to owners of parent	—	—	1,846	—	1,846	—	—	—	—	—	1,846
Purchase of treasury shares	—	—	—	(6)	(6)	—	—	—	—	—	(6)
Disposal of treasury shares	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(376)	(284)	(1,173)	(1,834)	35	(1,799)
Total changes of items during period	—	—	763	(6)	756	(376)	(284)	(1,173)	(1,834)	35	(1,043)
<b>Balance at March 31, 2016</b>	¥ 10,334	¥ 7,380	¥ 42,348	¥ (864)	¥ 59,199	¥ 1,368	¥ 1,141	¥ (1,360)	¥ 1,148	¥ 53	¥ 60,401

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Accumulated other comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
<b>Balance at March 31, 2015</b>	\$ 91,453	\$ 65,318	\$ 368,013	\$(7,592)	\$ 517,192	\$ 15,437	\$ 12,621	\$ (1,656)	\$ 26,402	\$ 162	\$ 543,758
Cumulative effects of changes in accounting policies(Note 2)	—	—	—	—	—	—	—	—	—	—	—
Restated Balance	91,453	65,318	368,013	(7,592)	517,192	15,437	12,621	(1,656)	26,402	162	543,758
Changes of items during period	—	—	—	—	—	—	—	—	—	—	—
Dividends of surplus	—	—	(9,589)	—	(9,589)	—	—	—	—	—	(9,589)
Profit (loss) attributable to owners of parent	—	—	16,343	—	16,343	—	—	—	—	—	16,343
Purchase of treasury shares	—	—	—	(60)	(60)	—	—	—	—	—	(60)
Disposal of treasury shares	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(3,330)	(2,518)	(10,387)	(16,235)	312	(15,923)
Total changes of items during period	—	—	6,753	(60)	6,693	(3,330)	(2,518)	(10,387)	(16,235)	312	(9,230)
<b>Balance at March 31, 2016</b>	\$ 91,453	\$ 65,318	\$ 374,767	\$(7,653)	\$ 523,886	\$ 12,107	\$ 10,102	\$(12,043)	\$ 10,166	\$ 474	\$ 534,528

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Ryoden Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 3,126	¥ 4,505	\$ 27,667
Depreciation	556	578	4,920
Increase (decrease) in allowance for doubtful accounts	163	(6)	1,450
Increase (decrease) in net defined benefit liability	(44)	242	(396)
Increase (decrease) in provision for directors' retirement benefits	(2)	1	(21)
Interest and dividends income	(221)	(206)	(1,961)
Interest expense	44	54	392
Share of (profit) loss of entities accounted for using equity method	(49)	(25)	(440)
Loss (gain) on sales and retirement of non - current assets	5	3	50
Loss (gain) on sales of investment securities	(77)	(31)	(687)
Loss (gain) on valuation of investment securities	168	—	1,492
Loss on valuation of shares of subsidiaries and associates	179	—	1,584
Decrease (increase) in trade receivables	2,631	(4,604)	23,291
Decrease (increase) in inventories	942	(3,004)	8,342
Increase (decrease) in trade payable	(5,409)	2,889	(47,870)
Other	2,573	(2,468)	22,776
Subtotal	4,586	(2,071)	40,592
Interest and dividend income received	227	225	2,017
Interest expenses paid	(44)	(54)	(391)
Income taxes paid	(1,023)	(2,267)	(9,055)
Net cash provided by (used in) operating activities	3,747	(4,168)	33,162
<b>Cash flows from investing activities:</b>			
Purchase of securities	—	(1,000)	—
Proceeds from redemption of securities	200	1,478	1,769
Purchase of property, plant and equipment	(715)	(788)	(6,328)
Proceeds from sales of property, plant and equipment	166	6	1,472
Purchase of intangible assets	(283)	(225)	(2,512)
Purchase of investment securities	(886)	(1,046)	(7,841)
Proceeds from sales of investment securities	1,100	496	9,737
Other	(358)	(151)	(3,174)
Net cash provided by (used in) investing activities	(777)	(1,230)	(6,876)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	(459)	(46)	(4,066)
Net decrease (increase) in treasury shares	(6)	0	(60)
Cash dividends paid	(1,083)	(1,041)	(9,590)
Net cash provided by (used in) financing activities	(1,550)	(1,087)	(13,716)
<b>Effect on exchange rate changes on cash and cash equivalents</b>	(173)	344	(1,534)
<b>Net increase (decrease) in cash and cash equivalents</b>	1,246	(6,142)	11,034
<b>Cash and cash equivalents at beginning of period</b>	15,413	21,556	136,403
<b>Cash and cash equivalents at end of period (Note 10)</b>	¥ 16,660	¥ 15,413	\$ 147,438

See the accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The accompanying consolidated financial statements of Ryoden Corporation (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.

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 ¥113= U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2016. 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.

Each amounts indicated in millions of yen and thousands of U.S. dollars have been rounded down the nearest million yen and thousand U.S. dollars, except for per share information. As a consequence, sums of figures may not match the totals presented.

## 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) Securities and investment securities

Marketable securities classified as available - for - sale 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. The range of useful lives is from 1 to 50 years for buildings and structure and from 5 to 17 years for machinery, equipment and vehicles.

### (g) Software

Software for internal use is amortized on a straight - line basis over its estimated useful (five years at the maximum).

### (h) Other assets

Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight - line method over their estimated useful lives.

### (i) 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 benefit formula 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

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.

### (j) 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.

### (k) 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.

### (l) 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.

### (m) 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.

### (n) Changes in accounting policies

The Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No.21) of September 13, 2013, the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22) of September 13, 2013, and the Accounting Standard for Business Divestitures (ASBJ Statement No.7) of September 13, 2013, etc., have been applied from the consolidated fiscal period, and a change in presentation has been made to 'net income' for the financial results. To reflect these changes in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.

### (o) Accounting standard and guidance not yet adopted

On March 28, 2016, the ASBJ issued "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26).

#### (1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 "Audit Treatment on Determining the Recoverability of deferred Tax Assets, "whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

1 Treatment of companies that do not satisfy any of the category requirements for (Category1) through (Category5)

2 Category requirements for (Category2) and (Category3)

3 Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category2)

4 Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category3)

5 Treatment in cases that companies that satisfy the category requirements for (Category4) but qualify as (Category2) or (Category3)

#### (2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2017.

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

The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statement.

### (p) Changes to Presentation

Electronically recorded monetary claims - operating, which had been included in notes and accounts receivable - trade under current assets for the previous fiscal year, are separately listed from the fiscal year ending March 31, 2016, due to the increased importance of its amount. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, in the consolidated balance sheets for the fiscal year ended March 31, 2015, ¥64,452 million in notes and accounts receivable - trade, which had been presented under current assets, has been reclassified into ¥61,103 million under notes and accounts receivable - trade and ¥3,349 million under electronically recorded monetary claims - operating.

## 3. 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 ¥804 million (\$7,123 thousand) at March 31, 2016 and ¥817 million at March 31, 2015. 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.

## 4. PLEDGED ASSETS

Pledged assets as collateral and collateral obligations at March 31, 2016 and 2015 each, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Pledged assets as collateral			
Long-term time deposit	¥ 10	¥ 10	\$ 91

## 5. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries are contingently liable for guarantees of loans to employees and others, amounting to ¥ 311 million (\$ 2,756 thousand) and ¥ 405 million at March 31, 2016 and 2015, respectively.

## 6. INVENTORIES

Write - down (net of reversal) of inventories held for sale amounted to ¥319 million (\$2,826 thousands) for the years ended March 31, 2016, are included in cost of sales in the consolidated statements of income.

## 7. RELATED PARTY TRANSACTIONS

Transactions with Mitsubishi Electric Corporation, which holds 36.1% interest of the Company at March 31, 2016 and 2015, were as follows:

OTHER AFFILIATE COMPANY	NAME	CAPITAL STOCK	PERCENTAGE OF VOTING RIGHTS	TRANSACTION	Transaction amount			Account	Balance at the fiscal year end			
					Millions of yen		Thousands of U.S. dollars (Note1)		Millions of yen		Thousands of U.S. dollars (Note1)	
					2016	2015	2016		2016	2015	2016	
MITSUBISHI ELECTRIC CORPORATION		¥ 175,280	Direct 36.1%	Ownership	Sales	¥17,795	¥18,897	\$157,478	Accounts receivable - trade	¥ 4,234	¥ 4,360	\$37,476
			Indirect 1.1%	Ownership	Purchases	¥38,591	¥36,753	\$341,519	Accounts payable - trade	¥ 4,305	¥ 4,274	\$38,098
					Rebates	¥ 1,099	¥ 1,152	\$ 9,730	Accounts receivable - other	¥ 363	¥ 380	\$ 3,214

Transactions with Mitsubishi Electric Living Environment Systems Corporation, which holds 0.00% interest of the Company at March 31, 2016 and 2015, were as follows:

SUBSIDIARY OF OTHER AFFILIATE COMPANY	NAME	CAPITAL STOCK	PERCENTAGE OF VOTING RIGHTS	TRANSACTION	Transaction amount			Balance at the fiscal year end		
					Millions of yen		Thousands of U.S. dollars (Note1)	Millions of yen		Thousands of U.S. dollars (Note1)
					2016	2015	2016	Account	2016	2015
MITSUBISHI ELECTRIC LIVING ENVIRONMENT SYSTEM CORPORATION	¥ 2,627	—	Purchases	¥16,983	¥17,160	\$150,295	Accounts payable - trade	¥ 5,078	¥ 4,711	\$44,943
			Rebates	¥ 3,385	¥ 3,509	\$ 29,961	Accounts receivable - other	¥ 748	¥ 724	\$ 6,620

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

## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPNSSES

The components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Transportation expenses	¥ 2,168	¥ 2,277	\$ 19,187
Salaries	6,368	5,997	56,354
Bonuses	2,345	2,339	20,760
Retirement benefit expenses	397	608	3,519
Welfare expenses	1,704	1,606	15,083
Rent	1,437	1,322	12,725
Depreciation and amortization	488	518	4,327
Provision for doubtful accounts	184	—	1,628

## 9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to general and administrative expenses were ¥ 39 million(\$ 352 thousand) and ¥ 125 million for the ended March 31, 2016 and 2015, respectively.

## 10. SUPPLEMENTAL CASH FLOW INFORMATION

Relations with the amount of money of a consolidated balance sheet of cash and cash equivalents as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash and time deposits	¥ 16,665	¥ 15,419	\$ 147,484
Time deposits over 3 months	(5)	(5)	(48)
	¥ 16,660	¥ 15,414	\$ 147,436

## 11. LEASE TRANSACTIONS

### Lessees' Accounting

The minimum rental commitments under noncancellable operating leases as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Within 1 year	¥ 332	¥ 519	\$ 2,945
Over 1 year	130	336	1,151
	¥ 462	¥ 856	\$ 4,096



## 12. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrealized holding gain (loss) on securities			
Amount arising during the year	¥ (559)	¥ 1,090	\$ (4,950)
Reclassification adjustment for gains and losses included in net income	(39)	(34)	(347)
Unrealized gains (losses) on available-for-sale securities before tax	(598)	1,056	(5,298)
Tax effect	222	(293)	1,968
Unrealized gains (losses) on available-for-sale securities	(376)	763	(3,330)
Translation adjustments			
Amount arising during the year	(284)	913	(2,518)
Remeasurements of defined benefit plans			
Amount arising during the year	(1,676)	613	(14,835)
Reclassification adjustment for gains and losses included in net income	(8)	221	(75)
Remeasurements of defined benefit plans before tax	(1,684)	835	(14,910)
Tax effect	511	(306)	4,523
Remeasurements of defined benefit plans	(1,173)	528	(10,387)
Share of other comprehensive income of associates accounted for by using equity method			
Amount arising during the year	—	(4)	—
<b>Total other comprehensive income</b>	<b>¥(1,834)</b>	<b>¥ 2,201</b>	<b>\$ (16,235)</b>

## 13. 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, electronically recorded monetary claims 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

### 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

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.

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.

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 notional amount for derivatives included in Note 15. 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, 2016 and 2015, carrying value, fair value and the difference between the two are as follows:

Year ended or as of March 31, 2016	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	¥ 16,665	¥ 16,665	¥ —	\$ 147,484	\$ 147,484	\$ —
(2) Notes and accounts receivable - trade	54,853	54,853	—	485,427	485,427	—
(3) Electronically recorded monetary claims - operating	6,242	6,242	—	55,242	55,242	—
(4) Marketable and Investment securities	6,568	6,568	—	58,127	58,127	—
(5) Short-term loans receivable	241	241	—	2,135	2,135	—
<b>Total</b>	<b>¥ 84,571</b>	<b>¥ 84,571</b>	<b>¥ —</b>	<b>\$ 748,417</b>	<b>\$ 748,417</b>	<b>\$ —</b>
<b>Liabilities:</b>						
(1) Notes and accounts payable	¥ 39,088	¥ 39,088	¥ —	\$ 345,912	\$ 345,912	\$ —
(2) Electronically recorded obligations operating	7,897	7,897	—	69,885	69,885	—
(3) Short-term bank loans payable	2,083	2,083	—	18,434	18,434	—
<b>Total</b>	<b>¥ 49,068</b>	<b>¥ 49,068</b>	<b>¥ —</b>	<b>\$ 434,232</b>	<b>\$ 434,232</b>	<b>\$ —</b>
<b>Derivative transactions:</b>						
Hedge accounting not applied	¥ 185	¥ 185	¥ —	\$ 1,638	\$ 1,638	\$ —

Year ended or as of March 31, 2015

Year ended or as of March 31, 2015	Millions of yen		
	Carrying value	Fair value	Difference
<b>Assets:</b>			
(1) Cash and time deposits	¥ 15,419	¥ 15,419	¥ —
(2) Notes and accounts receivable	64,452	64,452	—
(3) Marketable and Investments securities	7,590	7,590	—
<b>Total</b>	<b>¥ 87,462</b>	<b>¥ 87,462</b>	<b>¥ —</b>
<b>Liabilities:</b>			
(1) Notes and accounts payable	¥ 43,939	¥ 43,939	¥ —
(2) Electronically recorded obligations operating	8,908	8,908	—
(3) Short-term bank loans payable	2,706	2,706	—
<b>Total</b>	<b>¥ 55,554</b>	<b>¥ 55,554</b>	<b>¥ —</b>
<b>Derivative transactions:</b>			
Hedge accounting not applied	¥ 14	¥ 14	¥ —

Notes:

Assets

- (1) Cash and time deposits, (2) Notes and accounts receivable, (3) Electronically recorded monetary claims - operating and (5) Short-term loans receivable  
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

Liabilities

- (1) Notes and accounts payable and (2) Electronically recorded obligation operating (3) Short-term bank loans payable  
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 15, "Derivative transactions"

(c) The carrying amount of financial instruments whose fair value cannot be reliably determined as of March 31, 2016 and 2015, consisted of the following:

Year ended or as of March 31, 2016	Millions of yen	Thousands of U.S. dollars (Note 1)
Investments securities that do not have quoted market price in an active market	¥ 1,186	\$ 10,496

Year ended or as of March 31, 2015	Millions of yen
Investments securities that do not have quoted market price in an active market	¥ 1,295

(d) The maturity analysis for financial assets and securities with contractual maturities as of March 31, 2016 and 2015, were as follows:

Year ended or as of March 31, 2016	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	¥ 16,665	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	54,853	—	—	—
Electronically recorded monetary claims - operating	6,242	—	—	—
Investments securities	852	1,073	347	118
Short-term loans receivable	241	—	—	—
<b>Total</b>	<b>¥ 78,855</b>	<b>¥ 1,073</b>	<b>¥ 347</b>	<b>¥ 118</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	\$ 147,484	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	485,427	—	—	—
Electronically recorded monetary claims - operating	55,242	—	—	—
Investments securities	7,547	9,501	3,071	1,045
Short-term loans receivable	2,135	—	—	—
<b>Total</b>	<b>\$ 697,837</b>	<b>\$ 9,501</b>	<b>\$ 3,071</b>	<b>\$ 1,045</b>

Year ended or as of March 31, 2015	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	¥ 15,419	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	61,103	—	—	—
Electronically recorded monetary claims - operating	3,349	—	—	—
Investments securities	253	1,675	312	657
<b>Total</b>	<b>¥ 80,125</b>	<b>¥ 1,675</b>	<b>¥ 312</b>	<b>¥ 657</b>

## 14. SECURITIES

(a) Information regarding marketable securities classified as other securities as of March 31, 2016 and 2015, were as follows:

March 31, 2016	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	¥ 1,451	¥ 3,490	¥ 2,039	\$ 12,842	\$ 30,890	\$ 18,047
Bonds	700	706	6	6,194	6,256	61
Other	622	662	40	5,507	5,863	356
<b>Subtotal</b>	<b>¥ 2,773</b>	<b>¥ 4,860</b>	<b>¥ 2,086</b>	<b>\$ 24,545</b>	<b>\$ 43,010</b>	<b>\$ 18,465</b>
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥ 531	¥ 474	¥ (56)	\$ 4,699	\$ 4,203	\$ (496)
Bonds	392	382	(10)	3,474	3,384	(90)
Other	931	850	(80)	8,238	7,529	(709)
<b>Subtotal</b>	<b>1,854</b>	<b>1,708</b>	<b>(146)</b>	<b>16,413</b>	<b>15,116</b>	<b>(1,296)</b>
<b>Total</b>	<b>¥ 4,628</b>	<b>¥ 6,568</b>	<b>¥ 1,940</b>	<b>\$ 40,958</b>	<b>\$ 58,127</b>	<b>\$ 17,168</b>

March 31, 2015

	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 1,981	¥ 4,444	¥ 2,463
Bonds	800	830	30
Other	1,312	1,406	94
Subtotal	¥ 4,093	¥ 6,682	¥ 2,589
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 46	¥ 38	¥ (8)
Bonds	692	657	(34)
Other	218	211	(7)
Subtotal	958	907	(50)
Total	¥ 5,051	¥ 7,590	¥ 2,538

Acquisition cost in the tables above represents the book value after the devaluation of certain securities. Loss on devaluation of investment securities and loss on valuation of shares of subsidiaries and associates for the years ended March 31, 2016 amounted to ¥ 247 million (\$ 2,192 thousand).

(b) Sale of securities classified as other securities amounted to ¥ 323 million (\$ 2,863 thousand) and ¥ 582 million with an aggregate gain of ¥ 93 million (\$ 828 thousand) and ¥ 34 million and an aggregate loss of ¥ 3 million (\$ 26 thousand) and ¥ 3 million for the years ended March 31, 2016 and 2015, respectively.

## 15. 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, 2016 and 2015.

### Currency-related transactions

March 31, 2016	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\$	¥ 7,960	¥ 251	¥ 251	\$ 70,447	\$ 2,229	\$ 2,229
YEN	13	0	0	119	0	0
IDR	228	(20)	(20)	2,024	(185)	(185)
Buy:						
US\$	3,295	(46)	(46)	2,304	3	3
YEN	260	0	0	29,161	(409)	(409)
Total	¥ 11,758	¥ 185	¥ 185	\$ 104,057	\$ 1,638	\$ 1,638

March 31, 2015	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell:			
US\$	¥ 8,861	¥ (5)	¥ (5)
YEN	39	2	2
Buy:			
US\$	4,290	20	20
YEN	84	(2)	(2)
Total	¥ 13,275	¥ 14	¥ 14

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 14, "Securities."

## 16. RETIREMENT BENEFITS

### For the year ended March 31, 2016 and 2015

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)
	2016	2015	2016
Changes in Retirement Benefit Obligations (excluding plans that apply the simplified method)			
Beginning balance of retirement benefit obligations	¥ 11,014	¥ 10,473	\$ 97,476
Cumulative effects of changes in accounting policies	—	324	—
Restated balance	11,014	10,798	97,476
Service costs	426	410	3,775
Interest costs	149	146	1,325
Actuarial differences arising during the year	1,280	96	11,334
Retirement benefits paid	(525)	(436)	(4,650)
Ending balance of retirement benefit obligations	¥ 12,346	¥ 11,014	\$ 109,260

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Changes in Pension Assets (excluding plans that apply the simplified method)			
Beginning balance of pension assets	¥ 8,081	¥ 7,262	\$ 71,514
Expected return on pension assets	202	181	1,787
Actuarial differences arising during the year	(412)	710	(3,651)
Contributions by the Company and consolidated subsidiaries	253	248	2,243
Retirement benefits paid	(353)	(321)	(3,131)
Ending balance of pension assets	¥ 7,770	¥ 8,081	\$ 68,763

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Changes in net defined benefit liabilities for plans that apply the simplified method			
Beginning balance of net defined benefit liability	¥ 36	¥ 28	\$ 326
Retirement benefit expenses	14	11	128
Retirement benefits paid	(15)	(0)	(140)
Contribution to plans	(1)	(1)	(13)
Ending balance of net defined benefit liability	¥ 33	¥ 36	\$ 300

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Reconciliation of benefit obligations and pension assets with net defined benefit liability and asset on the Consolidated Balance Sheets			
Funded retirement benefit obligations	¥ 8,692	¥ 7,771	\$ 76,927
Pension assets	(7,770)	(8,081)	(68,763)
Net	922	(309)	8,164
Unfunded retirement benefit obligations	3,687	3,280	32,633
Net amount of liability and asset on Consolidated Balance Sheets	4,610	2,970	40,798
Net defined benefit liability	4,610	3,280	40,798
Net defined benefit asset	—	(309)	—
Net amount of liability and asset on Consolidated Balance Sheets	¥ 4,610	¥ 2,970	\$ 40,798

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Components of retirement benefit expenses</b>			
Service costs	¥ 426	¥ 410	\$ 3,775
Interest costs	149	146	1,325
Expected return on pension assets	(202)	(181)	(1,787)
Amortization of actuarial differences	72	285	642
Amortization of prior service cost	(64)	(64)	(567)
Retirement benefit expenses by simple method	14	11	128
<b>Retirement benefit expenses for defined benefit pension plans</b>	<b>¥ 397</b>	<b>¥ 608</b>	<b>\$ 3,516</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Remeasurements of defined benefit plans(Other comprehensive income)</b>			
<b>Breakdown(before deduction of tax effects)</b>			
Prior service cost	¥ (64)	¥ (64)	\$ (567)
Actuarial differences	(1,620)	899	(14,343)
<b>Net</b>	<b>¥ (1,684)</b>	<b>¥ 835</b>	<b>\$ (14,910)</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Components of remeasurements of defined benefit plans (before deduction of tax effects)</b>			
Unrecognized prior service cost	¥ (64)	¥ (128)	\$ (567)
Unrecognized actuarial differences	2,025	404	17,925
<b>Total</b>	<b>¥ 1,961</b>	<b>¥ 276</b>	<b>\$ 17,358</b>

	As of March 31, 2016	As of March 31, 2015
<b>Components of pension assets</b>		
Stocks	47%	45%
Bonds	30%	42%
Life insurance general accounts	12%	11%
Others	11%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

#### 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, 2016	As of March 31, 2015
<b>Basic Assumptions for Calculating Retirement Benefit Obligations</b>		
Discount rate	0.6%	1.4%
Expected rate of return on pension assets	2.5%	2.5%
Expected salary increase rate	5.3%	5.3%

## 17. STOCK OPTION PLAN

### (a) Expenses and accounts related to stock options

	Millions of yen		Thousands of
	2016	2015	U.S. dollars (Note 1)
Selling, general and administrative expenses	¥ 35	¥ 30	\$ 312

### (b) Contents, scale and changes in stock options

#### (i) Contents of stock options

##### first grant

Company name	Submitting Company
Resolution date	May 15, 2014
Person granted	15 directors of the Company
Number of shares granted	47,000 shares of common stock
Grant date	June 2, 2014
Vesting conditions	Within 10 days from the day following the day that a subscription holder loses their position as a director of the Company.
Service period	—
Exercise period	From June 3, 2014 to June 2, 2034

##### second grant

Company name	Submitting Company
Resolution date	May 15, 2015
Person granted	15 directors of the Company
Number of shares granted	41,000 shares of common stock
Grant date	June 1, 2015
Vesting conditions	Within 10 days from the day following the day that a subscription holder loses their position as a director of the Company.
Service period	—
Exercise period	From June 2, 2015 to June 1, 2035

#### (ii) Scale and changes in stock options

Movement in stock options during the fiscal year ended March 31, 2016 was as follows:

	Number of shares	Number of shares
	As of March 31, 2016	As of March, 2015
Before vested:		
Beginning balance (Stock options outstanding)	—	—
Granted	41,000	—
Forfeited	—	—
Vested	41,000	—
Ending balance (Stock options outstanding)	—	—
After vested:		
Beginning balance (Stock options outstanding)	—	28,000
Vested	41,000	—
Exercised	—	—
Forfeited	—	—
Ending balance (Stock options outstanding)	41,000	28,000

	As of March 31, 2016	As of March 31, 2015	As of March 31, 2016
	Yen	Yen	U.S. dollars(Note 1)
Exercise price	¥1	¥1	\$0.008
Weighted average market value per share at the exercise date	—	—	—
Fair value per share at the grant date	¥860	¥657	\$7.610

(c)The evaluation of fair price of stock option

(i)The evaluation method used: Black-Sholes method

(ii)General information and the method of estimation

Expected volatility (Note 1)	20.2%
Expected residual Period (Note 2)	3.3 years
Expected dividends (Note 3)	¥24 per share
Risk-free rate (Note 4)	Δ0.00%

Note:

1 Historical volatility during the week corresponding to the average expected life.

2 Based on the terms of office and retirement ages of the Company's former Directors, the retirement date of each Director is estimated. Subsequently, the estimated residual period is calculated via the weighted average method, using the numbers of grant given to each Director.

3 Actual cash dividends for the year ended March 31, 2015.

4 The mean value of the compound interest yield of government bonds corresponding to the average expected life.

(d)Method of estimating the number of vested stock options

Only the actual forfeitures are reflected because it is difficult to estimate future forfeitures reasonably.



## 18. 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, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Deferred tax assets</b>			
Net defined benefit liability	¥ 1,410	¥ 961	\$ 12,484
Loss on valuation on inventories	253	159	2,246
Loss on devaluation of investment securities	82	65	733
Valuation loss of investment in golf club membership	53	56	475
Excess employees' bonus allowances	350	381	3,099
Accrued officers' severance benefits	40	46	359
Accrued enterprise tax	55	37	489
Excess allowance for doubtful accounts	63	35	564
Other	358	289	3,175
<b>Subtotal</b>	<b>2,669</b>	<b>2,032</b>	<b>23,627</b>
Valuation allowance	(176)	(131)	(1,561)
<b>Total</b>	<b>2,493</b>	<b>1,900</b>	<b>22,066</b>
<b>Deferred tax liabilities</b>			
Unrealized holding gains on securities	571	794	5,061
Deferred capital gains on land	105	111	932
Reserve for special depreciation	138	173	1,228
Retained earnings of foreign subsidiaries	84	—	750
Other	33	35	299
<b>Total</b>	<b>934</b>	<b>1,114</b>	<b>8,272</b>
<b>Net deferred tax assets</b>	<b>¥ 1,558</b>	<b>¥ 786</b>	<b>\$ 13,793</b>

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 33.06 % in 2016 and 35.64 % in 2015. 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, 2016 and 2015, were as follows:

	2016	2015
Statutory tax rate	<b>33.06%</b>	<b>35.64%</b>
Items excluded from non taxable expenses permanently, such as entertainment expenses	1.63	1.34
Inhabitant tax on per capita basis	1.42	0.84
Valuation allowance	1.72	0.00
Special credit of corporation tax	(2.67)	(1.92)
Retained earnings of foreign subsidiaries	2.71	—
Effect of tax rate change	2.49	2.78
Other, net	0.57	(2.85)
<b>Effective tax rates</b>	<b>40.93%</b>	<b>35.83%</b>

The "Act to partially revise the Income Tax Act and Others" and the "Act to partially revise the Local Tax Act and Others" were enacted on March 29, 2016. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 32.34% to 30.86% and 30.62% for the temporary differences expected to be realized or settled in the fiscal year beginning April 1, 2016 and for the temporary differences expected to be realized or settled from April 1, 2018, respectively. The effect of the announced reduction of the effective statutory tax rate was decrease of net deferred tax assets after offsetting deferred tax liabilities by ¥79 million (\$703 thousand), increase of deferred income taxes by ¥ 77 million (\$688 thousand), increase of unrealized gains(losses) on available-for-sales securities by ¥32 million (\$284 thousand) and retirement benefits liability adjustments decreased by ¥ 33 million (\$298 thousand).

## 19. 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; Electronics; 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) Electronics: 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) 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, 2015 and 2016, is summarized as follows:

Year ended or as of March 31, 2016	Millions of yen					
	Reportable segment			Total	Eliminations or corporate	Consolidated
	Industrial & Ecology Systems	Electronic Devices	Others			
I. Sales and operating income:						
(1) Sales to third parties	¥ 70,780	¥ 151,210	¥ 0	¥ 221,990	¥ —	¥ 221,990
(2) Intersegment sales and transfer	0	—	16	16	(16)	—
Total sales	70,781	151,210	16	222,007	(16)	221,990
Operating income	1,588	2,094	2	3,685	(12)	3,673
II. Assets, depreciation expenses and capital expenditures:						
Total assets	35,365	67,653	902	103,921	15,461	119,382
Depreciation expenses	312	241	1	556	—	556
Capital expenditures	¥ 692	¥ 631	¥ —	¥ 1,323	¥ —	¥ 1,323

Year ended or as of March 31, 2016	Thousands of U.S. dollars (Note 1)					
	Reportable segment			Total	Eliminations or corporate	Consolidated
	Industrial & Ecology Systems	Electronic Devices	Others			
I. Sales and operating income:						
(1) Sales to third parties	\$ 626,378	\$ 1,338,142	\$ 0	\$ 1,964,521	\$ —	\$ 1,964,521
(2) Intersegment sales and transfer	3	—	143	146	(146)	—
Total sales	626,381	1,338,142	143	1,964,667	(146)	1,964,521
Operating income	14,061	18,533	22	32,616	(111)	32,505
II. Assets, depreciation expenses and capital expenditures:						
Total assets	312,965	598,704	7,986	919,656	136,829	1,056,485
Depreciation expenses	2,763	2,141	15	4,920	—	4,920
Capital expenditures	\$ 6,125	\$ 5,586	\$ —	\$ 11,711	\$ —	\$ 11,711

Year ended or as of March 31, 2015	Millions of yen					
	Reportable segment				Eliminations or corporate	Consolidated
	Industrial & Ecology Systems	Electronic Devices	Others	Total		
<b>I. Sales and operating income:</b>						
(1) Sales to third parties	¥ 73,465	¥ 164,411	¥ 0	¥ 237,877	¥ —	¥ 237,877
(2) Intersegment sales and transfer	4	2	142	149	(149)	—
<b>Total sales</b>	<b>73,470</b>	<b>164,413</b>	<b>142</b>	<b>238,026</b>	<b>(149)</b>	<b>237,877</b>
<b>Operating income</b>	<b>1,728</b>	<b>3,263</b>	<b>30</b>	<b>5,022</b>	<b>(30)</b>	<b>4,992</b>
<b>II. Assets, depreciation expenses and capital expenditures:</b>						
Total assets	36,826	71,137	917	108,881	16,239	125,121
Depreciation expenses	296	278	4	578	—	578
Capital expenditures	¥ 401	¥ 419	¥ 0	¥ 821	¥ —	¥ 821

The Related Information of the Company and its consolidated subsidiaries for the year ended March 31, 2016 and 2015, is summarized as follows:

Year ended or as of March 31, 2016	Millions of yen						
	Japan	China	Asia-others	North America	Europe	Others	Total
<b>Geographic Information:</b>							
Net sales	¥ 167,551	¥ 25,143	¥ 18,489	¥ 5,285	¥ 5,521	¥ —	¥ 221,990

Year ended or as of March 31, 2016	Thousands of U.S. dollars (Note 1)						
	Japan	China	Asia-others	North America	Europe	Others	Total
<b>Geographic Information:</b>							
Net sales	\$ 1,482,758	\$ 222,505	\$ 163,620	\$ 46,773	\$ 48,862	\$ —	\$ 1,964,521

Year ended or as of March 31, 2015	Millions of yen						
	Japan	China	Asia-others	North America	Europe	Others	Total
<b>Geographic Information:</b>							
Net sales	¥ 171,535	¥ 31,665	¥ 21,924	¥ 4,687	¥ 8,061	¥ 3	¥ 237,877

Year ended or as of March 31, 2016	Millions of yen	
	Net sales	Related segments
<b>Major client Information:</b>		
Name of clients		
Panasonic Corporation	¥ 24,192	Electronic Devices

Year ended or as of March 31, 2016	Thousands of U.S. dollars (Note 1)	
	Net sales	Related segments
<b>Major client Information:</b>		
Name of clients		
Panasonic Corporation	\$214,093	Electronic Devices

Year ended or as of March 31, 2015	Millions of yen	
	Net sales	Related segments
<b>Major client Information:</b>		
Name of clients		
Panasonic Corporation	¥ 25,189	Electronic Devices

## 20. AMOUNTS PER SHARE

	Yen		U.S. dollar (Note 1)
	2016	2015	2016
Net income			
Basic	¥ 42.61	¥ 66.70	\$ 0.377
Diluted	42.55	66.66	0.376
Cash dividends	26	24	0.230
Net assets	1,392.47	1,417.10	12.322

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.

## 21. 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, 2016, were approved at a directors' meeting held on May 15, 2016:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends (¥ 13 = \$ 0.1154 per share)	¥ 563	\$ 4,985

## Independent Auditor's Report

The Board of Directors  
Ryoden Corporation

We have audited the accompanying consolidated financial statements of Ryoden Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, 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 Corporation and its consolidated subsidiaries as at March 31, 2016, 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 Shin Nihon LLC*

June 29, 2016  
Tokyo, Japan

# STOCK INFORMATION

(As of March 31, 2016)

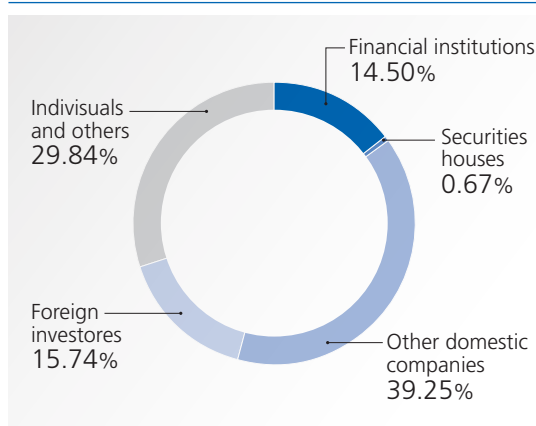
## SHARES

Total number of shares authorized: 113,100,000 shares

Total number of shares issued: 45,649,955 shares  
(Including 2,311,234 treasury stock)

Number of shareholders: 4,540

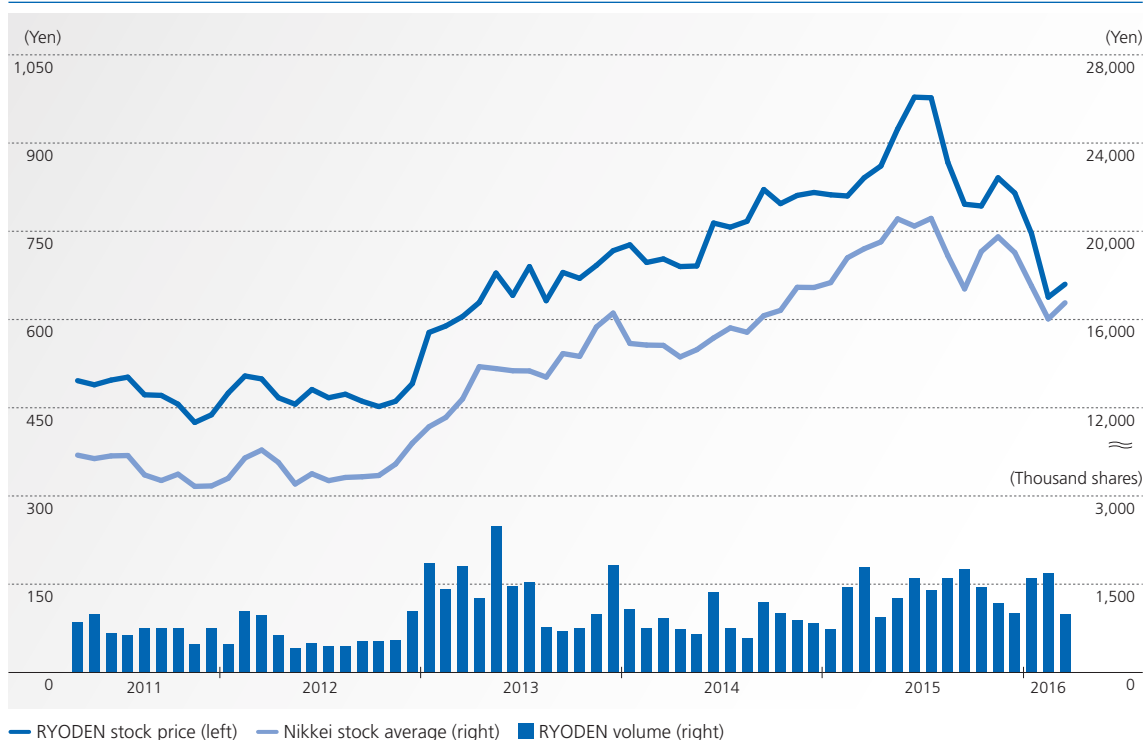
## SHARE OWNERSHIP BY SHAREHOLDER CATEGORY



## MAJOR SHAREHOLDERS

Name	Shares held (Thousand shares)
Mitsubishi Electric Corporation	15,511
BBH BOSTON FOR NOMURA JAPAN SMALLER CAPITALIZATION FUND 620065	1,071
Tokio Marine & Nichido Fire Insurance Co., Ltd.	942
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	897
Japan Trustee Services Bank, Ltd. trust account	874
The Master Trust Bank of Japan, Ltd. trust account	829
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	687
Citizen Holdings Co., Ltd.	580
Ryoden Employee Stock Ownership Plan	572
THE BANK OF NEW YORK MELLON SA/NV 10	433

## STOCK PRICE AND TRADING VOLUME



## CORPORATE DATA

### FIRM NAME:

Ryoden Corporation

### ESTABLISHMENT:

April 22, 1947

### NUMBER OF EMPLOYEES:

1,276 (consolidated)  
1,033 (non-consolidated)

### CAPITAL:

¥10,334,298,875 (As of March 31, 2016)

### HEAD OFFICE:

15-15, Higashi Ikebukuro 3-chome, Toshima-ku, Tokyo  
170-8448, Japan  
Telephone:+81-3-5396-6111 Fax:+81-3-5396-6448

## DOMESTIC NETWORK



## DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBER (AS OF JUNE 29, 2016)

### PRESIDENT

Nobuo Shogaki

### SENIOR MANAGING DIRECTOR

Takamichi Kasugai

### MANAGING DIRECTORS

Akira Shindo  
Masaaki Amada  
Toshiharu Oya  
Hideharu Yamazaki  
Yasuhiro Soda

### DIRECTORS

Hitoshi Chihara  
Yoshiaki Ogawa  
Akira Sano  
Shoji Kitai  
Masatoshi Nakamura  
Osamu Tanaka  
Shunichi Higashi  
\*Masahide Yanagida  
\*Yoshiko Shirata  
\*Masahiro Muroi  
\*Outside Director

### AUDIT & SUPERVISORY BOARD MEMBER

Hitoshi Fushimi  
Kenji Nagae  
\*Kentarō Tani  
\*Hideyo Ishino  
\* Outside Audit & Supervisory Board Member

## GROBAL NETWORK

### SUBSIDIARIES:

RYOSHO TECHNO COMPANY, LIMITED  
RYOSHO TECHNO SINGAPORE PTE LTD  
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  
PT. RYOSHO TECHNO INDONESIA  
RYOSHO TECHNO PHILIPPINES INCORPORATED  
RYOSHO TECHNO INDIA PRIVATE LIMITED

