

RYODEN

ANNUAL REPORT 2017

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

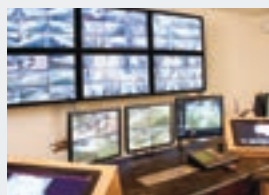
The age of big data has arrived, and with it new advances in network technology. By capitalizing on the latest technological trends, Ryoden brings greater sophistication to networked monitoring systems and other such solutions. We know how to apply monitoring system technology and recognition and identification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



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MANAGEMENT PRINCIPLE

- Address the changes in society, striving for stability and progress in corporate management, while contributing to the community.
- Act through sincere marketing activities and the supply of progressive technology, to win the trust and expectations of customers.
- 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.



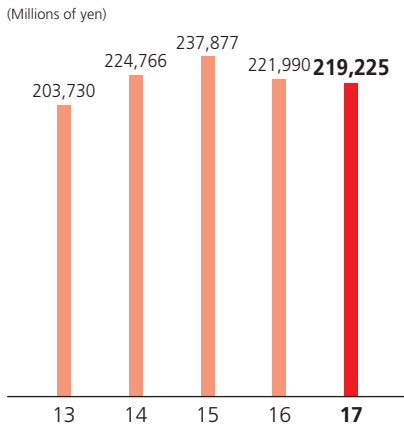
FINANCIAL HIGHLIGHTS

Ryoden Corporation and Consolidated Subsidiaries

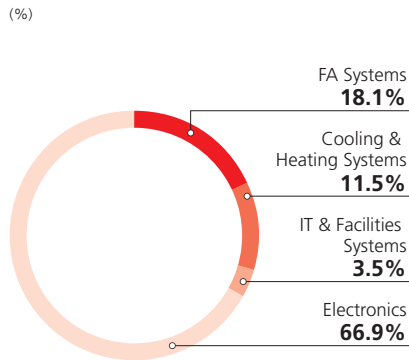
Years ended March 31					Millions of yen	Thousands of U.S. dollars
	2013	2014	2015	2016	2017	2017
Business Results						
Net sales	¥203,730	¥224,766	¥237,877	¥221,990	¥219,225	\$1,957,366
Overseas sales	49,177	63,857	66,342	54,439	48,919	436,776
Ratio of overseas sales (%) . . .	24.1	28.4	27.9	24.5	22.3	–
Operating profit	4,414	5,278	4,992	3,673	2,730	24,377
Profit attributable to owners of parent	2,852	3,550	2,891	1,846	1,388	12,394
Financial position						
Total assets	¥107,872	¥117,936	¥125,121	¥119,382	¥122,763	\$1,096,099
Net assets	54,121	57,582	61,444	60,401	60,975	544,421
Interest-bearing debt	2,123	2,586	2,706	2,083	761	6,797
Cash flows						
Cash flows from operating activities	¥ 11,124	¥ 778	¥ (4,168)	¥ 3,747	¥ 4,601	41,088
Cash flows from investing activities	(269)	(1,920)	(1,230)	(777)	474	4,235
Cash flows from financing activities	(245)	(994)	(1,087)	(1,550)	(2,227)	(19,890)
					Yen	U.S. dollars
Per share data						
Profit per share	65.74	81.84	66.70	42.61	32.02	0.285
Net assets per share	1,247.15	1,328.51	1,417.10	1,392.47	1,404.51	12.540
Cash dividends per share	20	22	24	26	22	0.196
						%
Principal financial data						
Operating profit to net sales . . .	2.2	2.3	2.1	1.7	1.2	
Return on equity	5.4	6.4	4.9	3.0	2.3	
Return on assets	4.3	5.0	3.7	2.7	2.0	
Equity ratio	50.2	48.8	49.1	50.5	49.6	
Number of employees	1,148	1,190	1,251	1,276	1,284	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥112 = \$1, the approximate exchange rate prevailing on March 31, 2017.

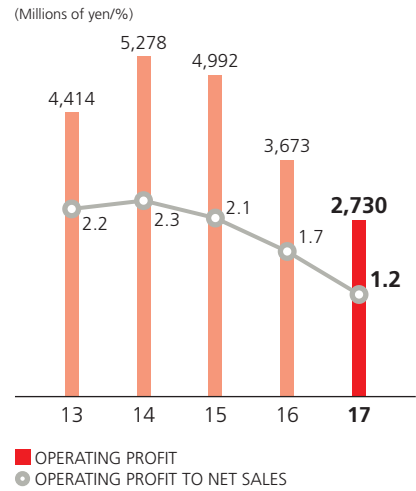
NET SALES



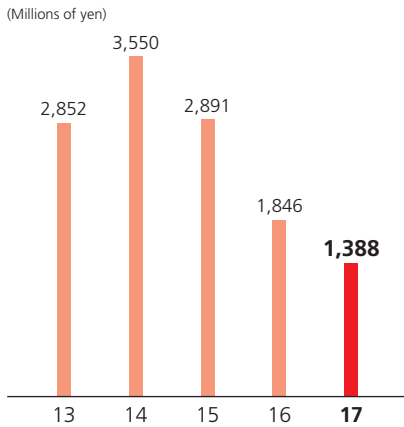
SALES COMPOSITION



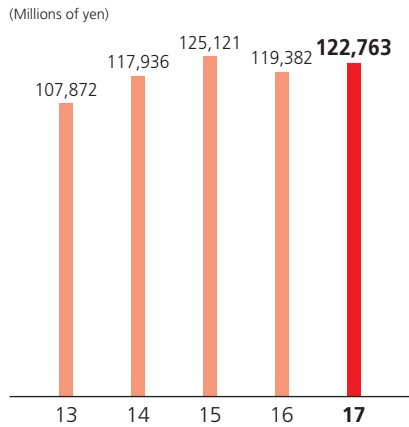
OPERATING PROFIT/ OPERATING PROFIT TO NET SALES



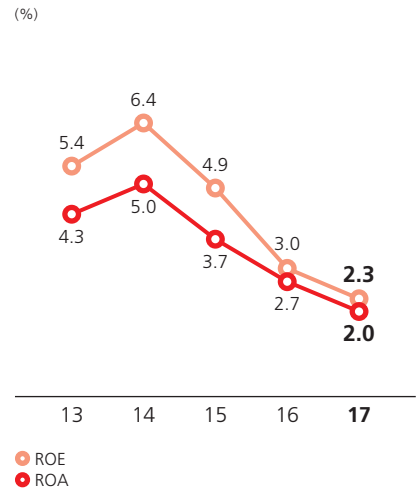
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT



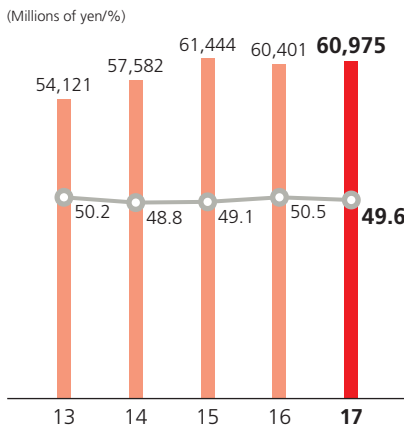
TOTAL ASSETS



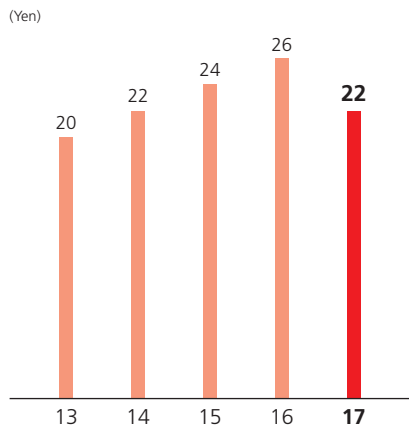
ROA/ROE



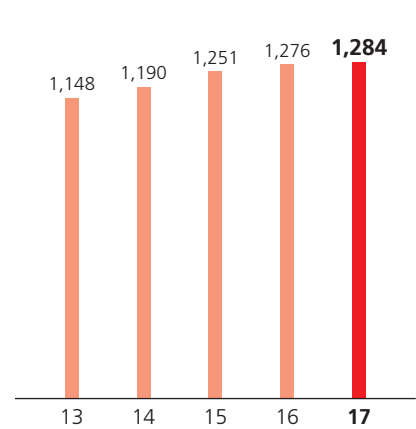
NET ASSETS/EQUITY RATIO



CASH DIVIDENDS PER SHARE



NUMBER OF EMPLOYEES



LETTER TO OUR SHAREHOLDERS

The Year in Review

During the fiscal year ended March 31, 2017, although the U.S. economy continued to grow amid dollar appreciation and a bullish stock market in the expectation of economic expansion, the outlook of the global economy was unclear owing to the lackluster performance of China's economy and other emerging economies and in light of the trends of U.S. policy and European politics.

With regard to the Japanese economy, there was a recovery of corporate earnings centering on export-related companies because the trend of the yen changed to depreciation and capital investment was also on a moderate recovery track.

Among the business sectors that affect the Group, the industrial machinery and equipment industry, the energy-saving-related industry, and the facilities-related industry increased the momentum for recovery. Meanwhile, performance of the automobile-related industry in China, ASEAN, and Europe was lackluster, with the exception of the U.S. and Japan.

In this economic climate, the Group promoted enhancing its business as a "Global Solution Provider," adjusting to a changing business environment. Having launched the new medium-term management plan "Challenge & Evolution 2018 (CE2018)" from fiscal 2016 with the aim of becoming more valuable for our customers as well as for the market and improving profitability by cultivating deeper and closer relationships with customers while creating value corresponding to their needs, we vigorously proposed solutions.

The Group's financial performance, which was sluggish in the first half of the fiscal year under review, showed an upturn owing to the Group-wide effort to accelerate business initiatives and implementation of measures to curb selling and administrative expenses.

As a result, net sales for the fiscal year under review were ¥219,225 million, a decrease of 1.2% year on year. Operating profit was ¥2,730 million, a decrease of 25.7%, ordinary profit was ¥2,442 million, a decrease of 25.9%, and profit attributable to owners of parent was ¥1,388 million, a decrease of 24.8%.

Future Outlook

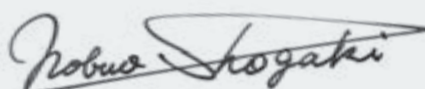
The global economy is expected to remain on a recovery track underpinned by vigorous economic growth of the U.S. despite downside risks, including U.S. policy and its impact on emerging markets, and the trends of China's economy and European politics.

The Japanese economy is also expected to shift toward moderate expansion, supported by a recovery of exports, progress of inventory adjustment, and robust consumption and capital investment.

In these circumstances, 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 based on a customer value creation business model.

Our forecast for performance in the fiscal year ending March 31, 2018 is consolidated net sales of ¥227,500 million, operating profit of ¥3,600 million, ordinary profit of ¥3,700 million, and profit attributable to owners of parent of ¥2,500 million.

Nobuo Shogaki, President & CEO



MANAGEMENT POLICIES

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 profit to net sales of 4% as its key 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.

In the new medium-term management plan “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

Completely transform our marketing style and structure to realize a customer value creation business model focused on market and customer needs. By establishing the Ryoden Advanced Technology Center (RTC), continue to provide added value underpinned by advanced and high-quality technology corresponding to various issues of the customers cultivated by front-line sales representatives.

2 Formulation of global partners network

Enhance customer satisfaction by maintaining communication with customers, identifying customer needs, and providing the optimum solutions with partners. To conduct sales activities together with partners and cultivate closer and deeper relationships with customers, transition to a customer-centric organizational structure rooted in the community. Realize profitable and sustainable growth by transforming all employees of the Ryoden Group into global solution providers and accelerating implementation of a customer/community-based global business strategy.

3 Promotion of Development of Global Human Resources

Systematically develop human resources throughout the Group so that all Ryoden Group employees can enhance their communication abilities in response to changes and their marketing abilities to predict future opportunities, and thus become self-motivated human resources with high sensitivity, inspiration and business development skills capable of continuing to challenge to build new business.

4 Enhancement of the Group's Consolidated Profitability

Optimize the business portfolio through strategic investment in growth fields and markets, establishment of efficient operation at a global level and monitoring of investment effect. Aim at realization of long-term value creation not only for the Group but also for customers and partners who constitute the Ryoden Business Gateway.

5 Promotion of Governance Management

Fulfill corporate social responsibility by strengthening governance management throughout the Ryoden Group in addition to continuing thorough compliance. Satisfy explicit and latent expectations from global and regional society from the perspective of ESG (environment, society and governance) as a company capable of prevailing in the future.

CE2018

Challenge & Evolution 2018

Aiming for “A Century Business”

Ryoden Group is enhancing its business as “Global Solution Provider”, adjusting to the changing business environment. By getting close to the customers and creating values based on their needs, we’re aiming to increase our existence value for the customers as well as for the market, and thus improve the profitability of our business.

In our new mid-term management plan “CE2018” commenced in this FY, Ryoden Group is reforming its business style for pursuing added value while capturing the various customers’ needs and aims to be a company contributing to society by providing advanced technology.

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 Development of Global Human Resources
- ④ Enhancement of the Group’s Consolidated Profitability
- ⑤ Promotion of governance management

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.

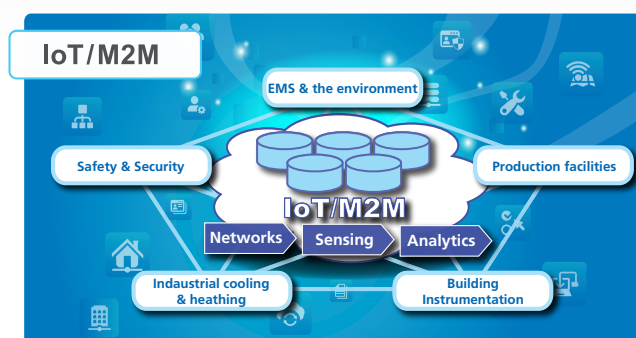
EMS/Conservation of the environment

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 Division

The Building 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)

Net sales	Operating Profit	Operating profit to net sales	ROE
¥270 billion	¥10 billion	4%	10%

REVIEW OF OPERATIONS

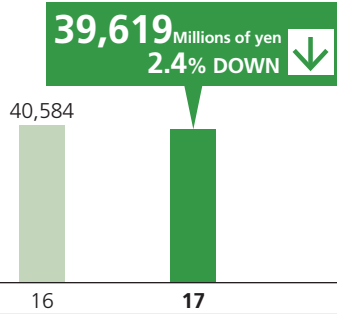
FA Systems

Sales Composition Ratio

18.1%

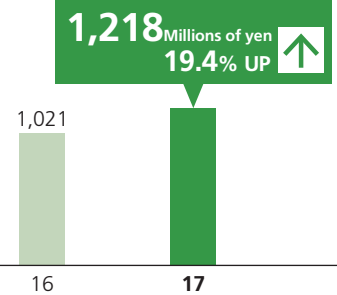
Net Sales

(Millions of yen)



Operating Profit

(Millions of yen)



Although sales from projects for automotive production-related facilities and semiconductor and LCD-related manufacturing equipment were robust and sales from projects for sales channels increased, sales of the FA Systems Business decreased, reflecting a decrease in production related to machine tools and mounters, in the Company's principal markets.



Robot system for placing parts discretely

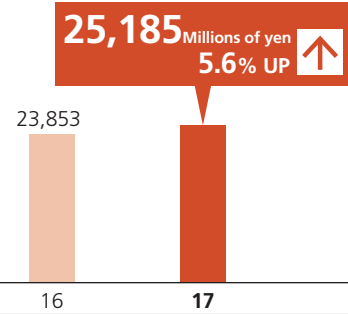
Cooling & Heating Systems

Sales Composition Ratio

11.5%

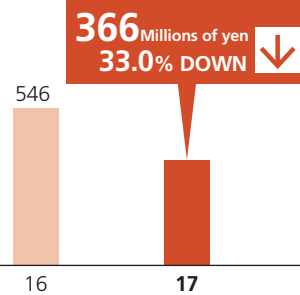
Net Sales

(Millions of yen)



Operating Profit

(Millions of yen)



Projects for major HVAC installation companies centering on major cities shifted to a recovery track in the second half of the fiscal year under review. Also, replacement demand was robust, reflecting the need for higher environmental and energy-saving performance, and sales of freezer and refrigeration systems were firm. As a result, sales of the Cooling & Heating Systems Business increased.



Air-cooled heat pump chiller manufactured by Mitsubishi Electric Corporation

IT & Facilities Systems

Sales Composition Ratio

3.5%

Net Sales

(Millions of yen)

7,647 Millions of yen
20.6% UP ↑

6,342

16

17

Operating Profit

(Millions of yen)

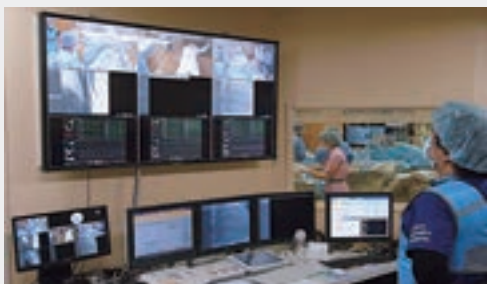
197 Millions of yen
817.4% UP ↑

21

16

17

In the building systems field, sales related to elevators, which are the mainstay products, were sluggish. On the other hand, IT-related and security-related sales were favorable in the information and communication field, and healthcare-related sales were robust in the medical field, resulting in a great increase in sales of the IT & Facilities Systems Business.



Example of a system for recording/distributing angiographic examination images

Electronics

Sales Composition Ratio

66.9%

Net Sales

(Millions of yen)

146,771 Millions of yen
2.9% DOWN ↓

151,210

16

17

Operating Profit

(Millions of yen)

947 Millions of yen
54.8% DOWN ↓

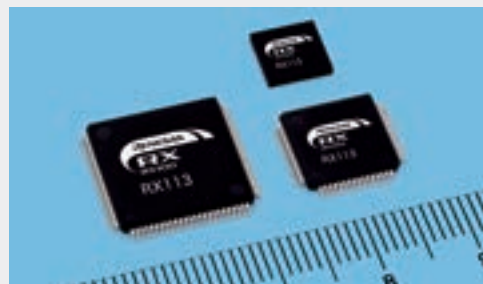
2,094

16

17

In Japan, despite the impact of a decrease in supplies of certain products owing to the Kumamoto Earthquakes and the earthquake that occurred in the northern part of Ibaraki Prefecture, production of automotive-related electronic products for Western countries and for the Japanese market remained robust and sales of industrial equipment-related electronic products flatlined as the FA-related business for East Asia recovered.

Overseas subsidiaries recorded a decrease in sales. Although sales of automotive-related products were favorable in North America, sales in China, ASEAN, and Europe were sluggish and sales of electronic components for office automation-related equipment were lackluster in Asia.



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

Preventing omission of billing and erroneous disposals in hospitals

DI@SSET-HIC: RFID inventory management system for specially controlled medical devices



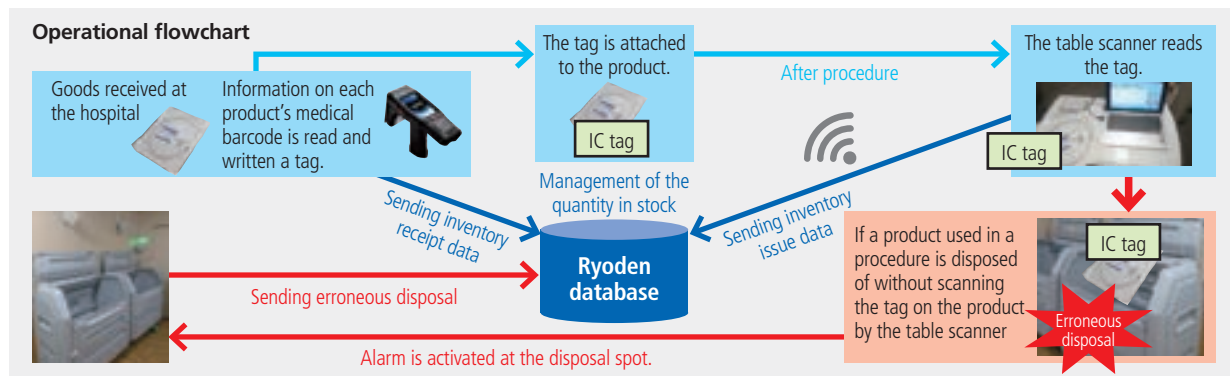
DI@SSET-HIC is a new system developed jointly with Kyoto Katsura Hospital. The hospital previously managed inventory by manually attaching barcode labels to items upon receipt and removing them after use. The manual operation had been prone to errors. For example, failing to remove labels and erroneous disposals of unused products had caused omissions of billings to patients. In the three catheterization rooms in the hospital, there were also occasions where staff failed to notice shortage of items needed for procedures and treatments because it had been difficult to confirm the usage status of items in each room, which led to the request for improvement.

Joint development of the system targeted the two major issues of (1) identifying erroneous disposals and omission of billing, and (2) keeping an accurate record of inventories in real time.

DI@SSET-HIC not only performs real-time inventory monitoring and prevents any omission of billing or erroneous disposal, but also helps reduce losses by extracting products close to expiry and prompting the preferential use of those products. The new system is also expected to reduce the time required for inventory inspection to about 10%.

RFID inventory management system for specially controlled medical devices
Features of DI@SSET-HIC

- 1 Management of receipt and issue of specially controlled medical devices using IC tags
- 2 Prevention of erroneous disposals and theft of specially controlled medical devices at the on-site disposal spots (Indication of product name is possible.)
- 3 Reduction of time required for on-site inventory detection and count of specially controlled medical devices
- 4 Real-time management of inventory and usage status



Plant factory solutions:

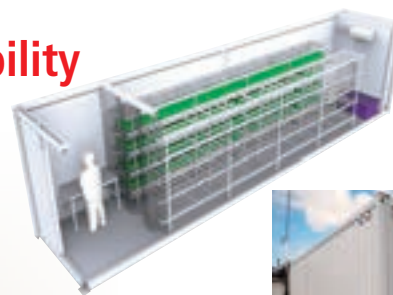
Contributing to the safety and reliability of food for the future through an artificial lighting plant factories

An artificial lighting plant factory can supply produce reliably irrespective of the seasons or weather by controlling temperature, light and nutrient supply to keep optimal growing conditions.

It is attracting attention worldwide as a means of ensuring efficient agricultural production to avoid potential food crises that are growing concern. Such factories are also expected to be a new source of employment.

Leveraging its expertise and long track record in its mainstay businesses, FA systems, industrial cooling and heating systems, and electronic devices, the Ryoden Group provides highly efficient production systems for plant factories. It also sells devices such as its proprietary LEDs for rapid cultivation and agricultural IoT systems, and offers total packages for specialized installation of air-conditioning and electrical systems.

Ryoden Group will contribute to the safety and reliability of food for the future through promotion of plant factories.



Artificial lighting plant factory



LEDs for rapid cultivation developed by the Ryoden Group

Total solutions for plant factories from support of business development to maintenance services

CORPORATE GOVERNANCE

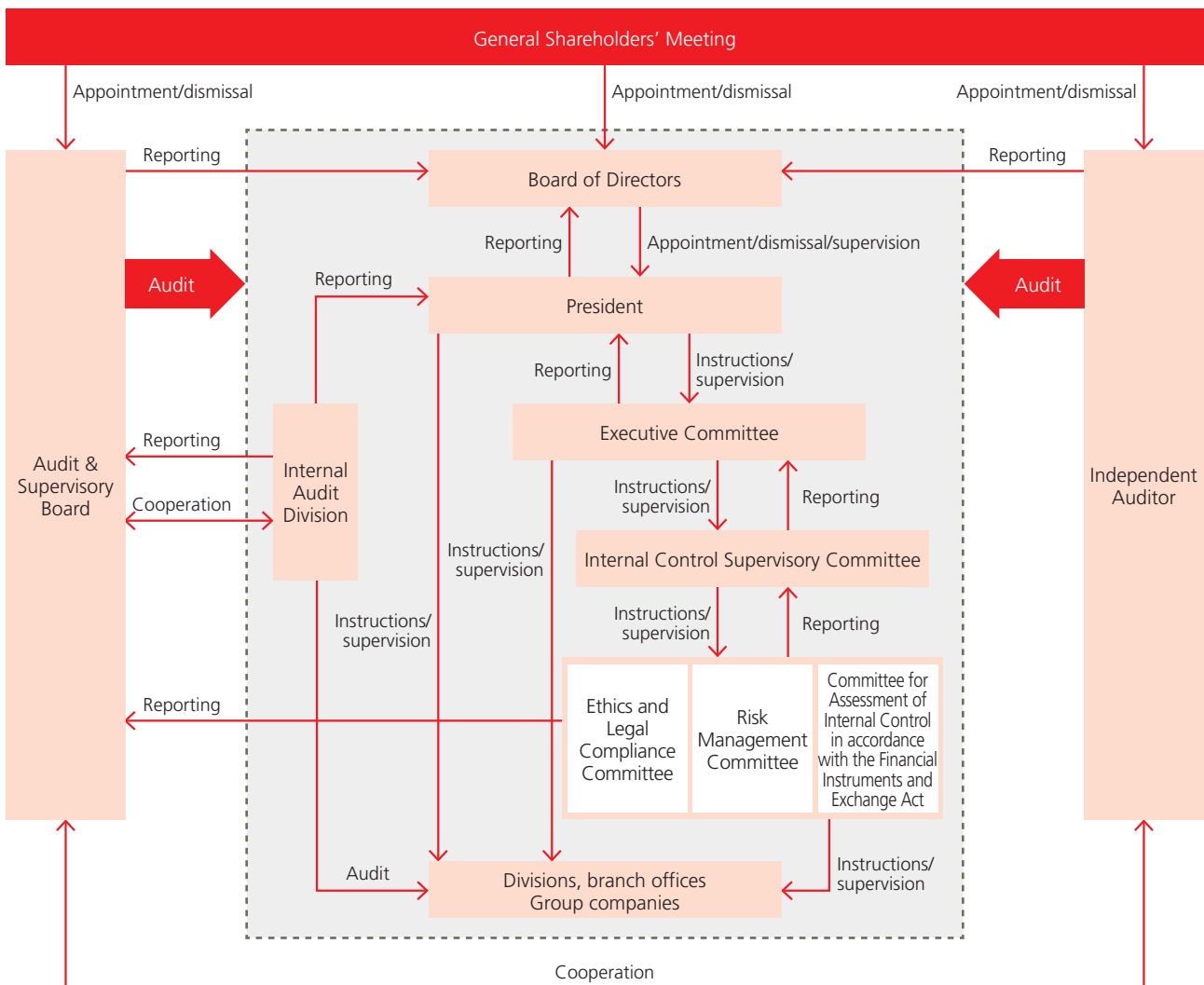
OUTLINE OF CORPORATE GOVERNANCE SYSTEM AND REASONS FOR ADOPTING THE SYSTEM DESCRIBED

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

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.

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.

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.

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.

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.

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.

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.

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.

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.

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, Inc.

[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

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FINANCIAL SECTION

CONSOLIDATED BALANCE SHEETS

Ryoden Corporation and Consolidated Subsidiaries
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Assets			
Current assets:			
Cash and time deposits (Note 13)	¥ 19,168	¥ 16,665	\$ 171,146
Notes and accounts receivable - trade (Note 13)	55,832	54,853	498,502
Electronically recorded monetary claims - operating (Note 13)	9,586	6,242	85,593
Securities	—	853	—
Merchandise and finished goods	18,670	20,510	166,702
Short - term loans receivable (Note 13)	—	241	—
Deferred tax assets (Note 18)	686	854	6,132
Other	3,286	3,997	29,345
Allowance for doubtful accounts	(200)	(244)	(1,793)
Total current assets	107,030	103,975	955,629
Property, plant and equipment:			
Buildings and structures	2,871	2,902	25,638
Accumulated depreciation	(1,905)	(1,845)	(17,009)
Buildings and structures, net	966	1,056	8,628
Machinery, equipment and vehicles	660	666	5,900
Accumulated depreciation	(198)	(146)	(1,773)
Machinery, equipment and vehicles, net	462	520	4,127
Tools, furniture and fixtures	1,230	1,118	10,985
Accumulated depreciation	(881)	(737)	(7,869)
Tools, furniture and fixtures, net	349	381	3,116
Land	3,090	3,090	27,593
Construction in progress	15	39	138
Total property, plant and equipment	4,883	5,088	43,603
Intangible assets			
Software	587	561	5,244
Other	70	108	633
Total intangible assets	658	669	5,878
Investments and other assets:			
Investments securities (Note 14)	8,056	6,900	71,936
Long - term prepaid expenses	51	68	460
Deferred tax assets (Note 18)	279	731	2,499
Other (Note 4)	2,227	2,001	19,888
Allowance for doubtful accounts	(425)	(53)	(3,797)
Total investments and other assets	10,190	9,648	90,988
Total non - current assets	15,732	15,407	140,470
Total assets	¥ 122,763	¥ 119,382	\$ 1,096,099

See the accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable - trade (Note 13)	¥ 41,529	¥ 39,088	\$ 370,797
Electronically recorded obligations - operating (Note 13)	10,489	7,897	93,653
Short - term loans payable (Note 13)	761	2,083	6,797
Income taxes payable	263	736	2,356
Other	2,996	3,341	26,751
Total current liabilities	56,039	53,146	500,355
Non - current liabilities:			
Net defined benefit liability (Note 16)	4,579	4,610	40,885
Other	1,168	1,224	10,436
Total non - current liabilities	5,748	5,834	51,322
Total liabilities	61,787	58,981	551,677
Net assets:			
Shareholders' equity:			
Capital share:			
Authorized—113,100,000 shares			
Issued—45,649,955 shares	10,334	10,334	92,270
Capital surplus	7,392	7,380	66,002
Retained earnings (Note 3 and Notes 21)	42,705	42,348	381,302
Treasury shares, at cost: 2,281,216 shares at March 31, 2017 and 2,331,234 shares at March 31, 2016	(855)	(864)	(7,639)
Total shareholders' equity	59,576	59,199	531,936
Accumulated other comprehensive income:			
Unrealized gains (losses) on available - for - sale securities	2,003	1,368	17,884
Foreign currency translation adjustments	661	1,141	5,908
Remeasurements of defined benefit plans	(1,329)	(1,360)	(11,874)
Total accumulated other comprehensive income	1,334	1,148	11,917
Subscription rights to shares	63	53	567
Total net assets	60,975	60,401	544,421
Total liabilities and net assets	¥ 122,763	¥ 119,382	\$ 1,096,099

See the accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Ryoden Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Note 6)	¥ 219,225	¥ 221,990	\$ 1,957,366
Cost of sales (Note 6)	197,164	198,869	1,760,399
Gross profit	22,060	23,121	196,966
Selling, general and administrative expenses (Note 8 and Note 9)	19,329	19,448	172,589
Operating profit	2,730	3,673	24,377
Other income:			
Interest income	52	83	472
Dividend income	118	138	1,055
Share of profit of entities accounted for using equity method	32	49	290
Gain on valuation of investment securities	54	—	487
Rent income on non - current assets	62	40	556
Other	140	92	1,253
Total other income	460	405	4,115
Other expenses:			
Interest expenses	39	44	351
Sales discounts	100	86	896
Loss on sales of accounts receivable	40	57	359
Foreign exchange losses	375	376	3,352
Loss on valuation of investment securities	—	99	—
Other	193	117	1,728
Total other expenses	749	781	6,687
Ordinary profit	2,442	3,296	21,805
Extraordinary income:			
Gain on sales of investment securities	83	77	749
Total extraordinary income	83	77	749
Extraordinary losses:			
Loss on valuation of investment securities	—	68	—
Loss on valuation of shares of subsidiaries and associates	63	179	569
Loss on Impairment of intangible assets	21	—	187
Total extraordinary losses	84	247	757
Profit before income taxes:	2,441	3,126	21,797
Income taxes - current (Note 18)	737	1,316	6,584
Income taxes - deferred (Note 18)	315	(36)	2,817
Total income taxes	1,053	1,279	9,402
Profit	1,388	1,846	12,394
Profit attributable to owners of parent	¥ 1,388	¥ 1,846	\$ 12,394

See the accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Ryoden Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Profit	¥ 1,388	¥ 1,846	\$ 12,394
Other comprehensive income(loss): (Note 12)			
Valuation difference on available - for sale securities	634	(376)	5,669
Foreign currency translation adjustments	(479)	(284)	(4,284)
Remeasurements of defined benefit plans, net of tax	30	(1,173)	276
Total other comprehensive income (loss)	186	(1,834)	1,660
Comprehensive income	¥ 1,574	¥ 12	\$ 14,055
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 1,574	¥ 12	\$ 14,055
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, 2017 and 2016

	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
Balance at March 31, 2015	¥ 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
Change in scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
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)
Balance at March 31, 2016	¥ 10,334	¥ 7,380	¥ 42,348	¥ (864)	¥ 59,199	¥ 1,368	¥ 1,141	¥ (1,360)	¥ 1,148	¥ 53	¥ 60,401
Changes of items during period	—	—	—	—	—	—	—	—	—	—	—
Dividends of surplus	—	—	(1,040)	—	(1,040)	—	—	—	—	—	(1,040)
Profit (loss) attributable to owners of parent	—	—	1,388	—	1,388	—	—	—	—	—	1,388
Change in scope of consolidation	—	—	9	—	9	—	—	—	—	—	9
Purchase of treasury shares	—	—	—	(4)	(4)	—	—	—	—	—	(4)
Disposal of treasury shares	—	11	—	13	24	—	—	—	—	—	24
Net changes of items other than shareholders' equity	—	—	—	—	—	634	(479)	30	186	9	195
Total changes of items during period	—	11	357	9	377	634	(479)	30	186	9	573
Balance at March 31, 2017	¥ 10,334	¥ 7,392	¥ 42,705	¥ (855)	¥ 59,576	¥ 2,003	¥ 661	¥ (1,329)	¥ 1,334	¥ 63	¥ 60,975

	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
Balance at March 31, 2016	\$ 92,270	\$ 65,901	\$ 378,113	\$ (7,721)	\$ 528,564	\$ 12,215	\$ 10,193	\$ (12,151)	\$ 10,257	\$ 479	\$ 539,300
Changes of items during period	—	—	—	—	—	—	—	—	—	—	—
Dividends of surplus	—	—	(9,289)	—	(9,289)	—	—	—	—	—	(9,289)
Profit (loss) attributable to owners of parent	—	—	12,394	—	12,394	—	—	—	—	—	12,394
Change in scope of consolidation	—	—	82	—	82	—	—	—	—	—	82
Purchase of treasury shares	—	—	—	(39)	(39)	—	—	—	—	—	(39)
Disposal of treasury shares	—	101	—	121	223	—	—	—	—	—	223
Net changes of items other than shareholders' equity	—	—	—	—	—	5,669	(4,284)	276	1,660	88	1,749
Total changes of items during period	—	101	3,188	81	3,371	5,669	(4,284)	276	1,660	88	5,121
Balance at March 31, 2017	\$ 92,270	\$ 66,002	\$ 381,302	\$ (7,639)	\$ 531,936	\$ 17,884	\$ 5,908	\$ (11,874)	\$ 11,917	\$ 567	\$ 544,421

See the accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Ryoden Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 2,441	¥ 3,126	\$ 21,797
Depreciation	558	556	4,983
Increase (decrease) in allowance for doubtful accounts	255	163	2,284
Increase (decrease) in net defined benefit liability	13	(44)	122
Interest and dividends income	(171)	(221)	(1,527)
Interest expense	39	44	351
Share of (profit) loss of entities accounted for using equity method	(32)	(49)	(290)
Loss (gain) on sales and retirement of non-current assets	8	5	76
Loss (gain) on sales of investment securities	(83)	(77)	(749)
Loss (gain) on valuation of investment securities	(54)	168	(487)
Loss on valuation of shares of subsidiaries and associates	63	179	569
Decrease (increase) in trade receivables	(4,614)	2,631	(41,196)
Decrease (increase) in inventories	1,611	942	14,391
Increase (decrease) in trade payable	5,373	(5,409)	47,974
Other	344	2,571	3,079
Subtotal	5,754	4,586	51,377
Interest and dividend income received	196	227	1,750
Interest expenses paid	(39)	(44)	(350)
Income taxes paid	(1,309)	(1,023)	(11,688)
Net cash provided by (used in) operating activities	4,601	3,747	41,088
Cash flows from investing activities:			
Proceeds from redemption of securities	1,053	200	9,402
Purchase of property, plant and equipment	(219)	(715)	(1,959)
Proceeds from sales of property, plant and equipment	2	166	19
Purchase of intangible assets	(114)	(283)	(1,019)
Purchase of investment securities	(1,009)	(886)	(9,013)
Proceeds from sales of investment securities	659	1,100	5,886
Other	102	(358)	919
Net cash provided by (used in) investing activities	474	(777)	4,235
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(1,182)	(459)	(10,556)
Net decrease (increase) in treasury shares	(4)	(6)	(37)
Cash dividends paid	(1,041)	(1,083)	(9,296)
Net cash provided by (used in) financing activities	(2,227)	(1,550)	(19,890)
Effect of exchange rate changes on cash and cash equivalents	(357)	(173)	(3,195)
Net increase (decrease) in cash and cash equivalents	2,490	1,246	22,237
Cash and cash equivalents at beginning of period	16,660	15,413	148,755
Increase in cash and cash equivalents from newly consolidated subsidiary	12	—	110
Cash and cash equivalents at end of period (Note 10)	¥ 19,163	¥ 16,660	\$ 171,103

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 ¥112= U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2017. 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, plant 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 17 years for machinery, equipment and vehicles.

(g) Software

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

(h) Other intangible 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) 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.

(k) 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.

(l) 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.

(m) Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has adopted "Implementation Guidance on Recoverability of Deferred Tax Assets"(Accounting Standards Board of Japan(ASBJ) Guidance No.26 of March 28, 2016), effective from the fiscal year ended March 31, 2017.

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 ¥822 million (\$7,341 thousand) at March 31, 2017 and ¥804 million at March 31, 2016. 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, 2017 and 2016 each, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Pledged assets as collateral			
Long-term time deposit	¥ 9	¥ 10	\$ 86

5. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries are contingently liable for guarantees of loans to employees and others, amounting to ¥266 million (\$2,382 thousand) and ¥311 million at March 31, 2017 and 2016, respectively.

6. INVENTORIES

Write - down (net of reversal) of inventories held for sale amounted to ¥Δ221 million (\$Δ1,973 thousand) and ¥319 million for the years ended March 31, 2017 and 2016, are included in cost of sales in the consolidated statements of income.

7. RELATED PARTY TRANSACTIONS

Transactions with Mitsubishi Electric Corporation, which holds 36.0% interest of the Company at March 31, 2017 and 2016, were as follows:

OTHER AFFILIATE COMPANY				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)	
NAME	CAPITAL STOCK	PERCENTAGE OF VOTING RIGHTS	TRANSACTION	2017	2016	2017	Account	2017	2016	2017
MITSUBISHI ELECTRIC CORPORATION	¥ 175,820	Direct 36.0%	Ownership Sales	¥20,068	¥17,795	\$179,182	Accounts receivable - trade	¥ 5,362	¥ 4,234	\$47,878
		Indirect 1.1%	Ownership Purchases	¥36,183	¥38,591	\$323,068	Accounts payable - trade	¥ 4,304	¥ 4,305	\$38,434
			Ownership Rebates	¥ 1,052	¥ 1,099	\$ 9,401	Accounts receivable - other	¥ 373	¥ 363	\$ 3,331

Transactions with Mitsubishi Electric Living Environment Systems Corporation, which holds 0.00% interest of the Company at March 31, 2017 and 2016, 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)	
					2017	2016	2017	Account	2017	2016	2017
	MITSUBISHI ELECTRIC LIVING ENVIRONMENT SYSTEM CORPORATION	¥ 2,627	—	Purchases	¥17,683	¥ 16,983	\$ 157,888	Accounts payable - trade	¥ 5,358	¥ 5,078	\$ 47,842
				Rebates	¥ 3,230	¥ 3,385	\$ 28,844	Accounts receivable - other	¥ 650	¥ 748	\$ 5,804

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, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Transportation expenses	¥ 2,176	¥ 2,168	\$ 19,432
Salaries	6,436	6,368	57,468
Bonuses	2,394	2,345	21,380
Retirement benefit expenses	587	397	5,244
Welfare expenses	1,771	1,704	15,815
Rent	1,482	1,437	13,234
Depreciation and amortization	498	488	4,455
Provision for doubtful accounts	187	184	1,678

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to general and administrative expenses were ¥ 1million(\$17thousand) and ¥ 39million for the ended March 31, 2017 and 2016, 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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash and time deposits	¥ 19,168	¥ 16,665	\$ 171,146
Time deposits over 3 months	(4)	(5)	(43)
	¥ 19,163	¥ 16,660	\$ 171,103

11. LEASE TRANSACTIONS

Lessees' Accounting

The minimum rental commitments under noncancellable operating leases as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Within 1 year	¥ 140	¥ 332	\$ 1,253
Over 1 year	159	130	1,422
	¥ 299	¥ 462	\$ 2,676

12. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Unrealized holding gain (loss) on securities			
Amount arising during the year	¥ 1,003	¥ (559)	\$ 8,958
Reclassification adjustment for gains and losses included in net income	(91)	(39)	(820)
Unrealized gains (losses) on available-for-sale securities before tax	911	(598)	8,138
Tax effect	(276)	222	(2,469)
Unrealized gains (losses) on available-for-sale securities	634	(376)	5,669
Translation adjustments			
Amount arising during the year	(479)	(284)	(4,284)
Remeasurements of defined benefit plans			
Amount arising during the year	235	(1,676)	2,104
Reclassification adjustment for gains and losses included in net income	(191)	(8)	(1,705)
Remeasurements of defined benefit plans before tax	44	(1,684)	398
Tax effect	(13)	511	(122)
Remeasurements of defined benefit plans	30	(1,173)	276
Total other comprehensive income	¥ 186	¥(1,834)	\$ 1,660

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

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.

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, 2017 and 2016, carrying value, fair value and the difference between the two are as follows:

Year ended or as of March 31, 2017	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets:						
(1) Cash and time deposits	¥ 19,168	¥ 19,168	¥ —	\$ 171,146	\$ 171,146	\$ —
(2) Notes and accounts receivable - trade	55,832	55,832	—	498,502	498,502	—
(3) Electronically recorded monetary claims - operating	9,586	9,586	—	85,593	85,593	—
(4) Marketable and Investment securities	6,857	6,857	—	61,226	61,226	—
Total	¥ 91,444	¥ 91,444	¥ —	\$ 816,469	\$ 816,469	\$ —
Liabilities:						
(1) Notes and accounts payable	¥ 41,529	¥ 41,529	¥ —	\$ 370,797	\$ 370,797	\$ —
(2) Electronically recorded obligations operating	10,489	10,489	—	93,653	93,653	—
(3) Short-term bank loans payable	761	761	—	6,797	6,797	—
Total	¥ 52,779	¥ 52,779	¥ —	\$ 471,247	\$ 471,247	\$ —
Derivative transactions:						
Hedge accounting not applied	¥ 104	¥ 104	¥ —	\$ 936	\$ 936	\$ —

Year ended or as of March 31, 2016

Year ended or as of March 31, 2016	Millions of yen		
	Carrying value	Fair value	Difference
Assets:			
(1) Cash and time deposits	¥ 16,665	¥ 16,665	¥ —
(2) Notes and accounts receivable - trade	54,853	54,853	—
(3) Electronically recorded monetary claims - operating	6,242	6,242	—
(4) Marketable and Investment securities	6,568	6,568	—
(5) Short-term loans receivable	241	241	—
Total	¥ 84,571	¥ 84,571	¥ —
Liabilities:			
(1) Notes and accounts payable	¥ 39,088	¥ 39,088	¥ —
(2) Electronically recorded obligations operating	7,897	7,897	—
(3) Short-term bank loans payable	2,083	2,083	—
Total	¥ 49,068	¥ 49,068	¥ —
Derivative transactions:			
Hedge accounting not applied	¥ 185	¥ 185	¥ —

Notes:

Assets

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

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.

(4) Marketable and Investments securities

The fair values of investment securities are based on prices quoted by stock exchanges, and the fair values of bonds are based on prices quoted by stock exchanges or prices presented by trading financial institutions. Securities categorised by the purpose for which they are held are described in "Note 14 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, 2017 and 2016, consisted of the following:

Year ended or as of March 31, 2017	Millions of yen	Thousands of U.S. dollars (Note 1)
Investments securities that do not have quoted market price in an active market	¥ 1,199	\$ 10,710

Year ended or as of March 31, 2016	Millions of yen
Investments securities that do not have quoted market price in an active market	¥ 1,186

(d) The maturity analysis for financial assets and securities with contractual maturities as of March 31, 2017 and 2016, were as follows:

Year ended or as of March 31, 2017	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	¥ 19,168	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	55,832	—	—	—
Electronically recorded monetary claims - operating	9,586	—	—	—
Investments securities	—	997	540	321
Total	¥ 84,587	¥ 997	¥ 540	¥ 321

	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	\$ 171,146	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	498,502	—	—	—
Electronically recorded monetary claims - operating	85,593	—	—	—
Investments securities	—	8,904	4,824	2,869
Total	\$ 755,242	\$ 8,904	\$ 4,824	\$ 2,869

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	—	—	—
Total	¥ 78,855	¥ 1,073	¥ 347	¥ 118

14. SECURITIES

(a) Information regarding marketable securities classified as other securities as of March 31, 2017 and 2016, were as follows:

March 31, 2017	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	¥ 1,779	¥ 4,676	¥ 2,896	\$ 15,890	\$ 41,750	\$ 25,860
Bonds	204	205	0	1,827	1,831	4
Other	471	494	23	4,209	4,418	208
Subtotal	¥ 2,455	¥ 5,376	¥ 2,920	\$ 21,927	\$ 48,000	\$ 26,072
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥ 103	¥ 91	¥ (12)	\$ 926	\$ 815	\$ (110)
Bonds	648	632	(14)	5,792	5,654	(137)
Other	797	756	(40)	7,120	6,756	(363)
Subtotal	1,549	1,481	(68)	13,839	13,226	(612)
Total	¥ 4,005	¥ 6,857	¥ 2,851	\$ 35,766	\$ 61,226	\$ 25,460

March 31, 2016

	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 1,451	¥ 3,490	¥ 2,039
Bonds	700	706	6
Other	622	662	40
Subtotal	¥ 2,773	¥ 4,860	¥ 2,086
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 531	¥ 474	¥ (56)
Bonds	392	382	(10)
Other	931	850	(80)
Subtotal	1,854	1,708	(146)
Total	¥ 4,628	¥ 6,568	¥ 1,940

Impairment losses for securities amounting to ¥247 million (¥68 million for shares of available-for-sale securities and ¥179 million for shares of subsidiaries and associates) were recorded for the previous fiscal year.

Impairment losses for securities amounting to ¥63 million (\$569 thousand) (¥63 million for shares of subsidiaries and associates) were recorded for the current fiscal year.

(b) Sale of securities classified as available for sale securities amounted to ¥ 634 million (\$5,663 thousand) and ¥ 323 million with an aggregate gain of ¥88million (\$792 thousand) and ¥93 million for the years ended March 31, 2017 and 2016, 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, 2017 and 2016.

Currency-related transactions

March 31, 2017	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\$	¥ 9,952	¥ 122	¥ 122	\$ 88,859	\$ 1,092	\$ 1,092
Buy:						
US\$	6,398	2	2	4,008	(175)	(175)
YEN	448	(19)	(19)	57,130	19	19
Total	¥ 16,799	¥ 104	¥ 104	\$ 149,998	\$ 936	\$ 936

March 31, 2016	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell:			
US\$	¥ 7,960	¥ 251	¥ 251
YEN	13	0	0
IDR	228	(20)	(20)
Buy:			
US\$	3,295	(46)	(46)
YEN	260	0	0
Total	¥ 11,758	¥ 185	¥ 185

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, 2017 and 2016

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)
	2017	2016	2017
Changes in Retirement Benefit Obligations (excluding plans that apply the simplified method)			
Beginning balance of retirement benefit obligations	¥ 12,346	¥ 11,014	\$ 110,236
Service costs	505	426	4,515
Interest costs	72	149	650
Actuarial differences arising during the year	174	1,280	1,561
Retirement benefits paid	(672)	(525)	(6,003)
Ending balance of retirement benefit obligations	¥ 12,427	¥ 12,346	\$ 110,961

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Changes in Pension Assets (excluding plans that apply the simplified method)			
Beginning balance of pension assets	¥ 7,770	¥ 8,081	\$ 69,377
Expected return on pension assets	194	202	1,734
Actuarial differences arising during the year	28	(412)	254
Contributions by the Company and consolidated subsidiaries	261	253	2,331
Retirement benefits paid	(365)	(353)	(3,262)
Ending balance of pension assets	¥ 7,888	¥ 7,770	\$ 70,435

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Changes in net defined benefit liabilities for plans that apply the simplified method			
Beginning balance of net defined benefit liability	¥ 33	¥ 36	\$ 303
Retirement benefit expenses	7	14	65
Retirement benefits paid	0	(15)	(1)
Contribution to plans	0	(1)	(6)
Ending balance of net defined benefit liability	¥ 40	¥ 33	\$ 359

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Reconciliation of benefit obligations and pension assets with net defined benefit liability and asset on the Consolidated Balance Sheets			
Funded retirement benefit obligations	¥ 8,767	¥ 8,692	\$ 78,276
Pension assets	(7,888)	(7,770)	(70,435)
Net	878	922	7,841
Unfunded retirement benefit obligations	3,700	3,687	33,043
Net amount of liability and asset on Consolidated Balance Sheets	4,579	4,610	40,855
Net defined benefit liability	4,579	4,610	40,855
Net amount of liability and asset on Consolidated Balance Sheets	¥ 4,579	¥ 4,610	\$ 40,855

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Components of retirement benefit expenses			
Service costs	¥ 505	¥ 426	\$ 4,515
Interest costs	72	149	650
Expected return on pension assets	(194)	(202)	(1,734)
Amortization of actuarial differences	255	72	2,277
Amortization of prior service cost	(64)	(64)	(572)
Retirement benefit expenses by simple method	7	14	65
Retirement benefit expenses for defined benefit pension plans	¥ 582	¥ 397	\$ 5,202

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Remeasurements of defined benefit plans(Other comprehensive income)			
Breakdown(before deduction of tax effects)			
Prior service cost	¥ (64)	¥ (64)	\$ (572)
Actuarial differences	108	(1,620)	970
Net	¥ 44	¥ (1,684)	\$ 398

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Components of remeasurements of defined benefit plans (before deduction of tax effects)			
Unrecognized prior service cost	¥ 0	¥ (64)	\$ 0
Unrecognized actuarial differences	1,916	2,025	17,108
Total	¥ 1,916	¥ 1,961	\$ 17,108

	As of March 31, 2017	As of March 31, 2016
	Components of pension assets	
Bonds	46%	30%
Stocks	31%	47%
Life insurance general accounts	12%	12%
Others	11%	11%
Total	100%	100%

Rate of expected return on pension assets

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

	As of March 31, 2017	As of March 31, 2016
	Basic Assumptions for Calculating Retirement Benefit Obligations	
Discount rate	0.6%	0.6%
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 U.S. dollars (Note 1)
	2017	2016	2017
Selling, general and administrative expenses	¥ 34	¥ 35	\$ 303

(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

third grant

Company name	Submitting Company
Resolution date	May 13, 2016
Person granted	14 directors of the Company
Number of shares granted	60,000 shares of common stock
Grant date	May 31, 2016
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 1, 2016 to May 31, 2036

(ii) Scale and changes in stock options

Movement in stock options during the fiscal year ended March 31, 2017 was as follows:

	Number of shares As of March 31, 2017	Number of shares As of March, 2016	Number of shares As of March, 2015	
Before vested:				
Beginning balance (Stock options outstanding)	—	—	—	
Granted	60,000	—	—	
Forfeited	—	—	—	
Vested	60,000	—	—	
Ending balance (Stock options outstanding)	—	—	—	
After vested:				
Beginning balance (Stock options outstanding)	—	41,000	28,000	
Vested	60,000	—	—	
Exercised	12,000	10,000	14,000	
Forfeited	—	—	—	
Ending balance (Stock options outstanding)	48,000	31,000	14,000	
	As of March 31, 2017	As of March 31, 2016	As of March 31, 2015	As of March 31, 2017
	Yen	Yen	Yen	U.S. dollars (Note 1)
Exercise price	¥1	¥1	¥1	\$0.008
Weighted average market value per share at the exercise date	623	674	678	\$5.562
Fair value per share at the grant date	¥577	¥860	¥657	\$5.151

(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)	26.5%
Expected residual Period (Note 2)	3.0 years
Expected dividends (Note 3)	¥26 per share
Risk-free rate (Note 4)	Δ0.24%

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, 2016.

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, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Deferred tax assets			
Net defined benefit liability	¥ 1,399	¥ 1,410	\$ 12,497
Excess employees' bonus allowances	359	350	3,208
Loss on valuation of inventories	182	253	1,633
Loss on devaluation of investment securities	82	82	734
Excess allowance for doubtful accounts	56	63	501
Valuation loss of investment in golf club membership	53	53	480
Accrued enterprise tax	33	55	300
Other	302	399	2,696
Subtotal	2,470	2,669	22,054
Valuation allowance	(123)	(176)	(1,102)
Total	2,346	2,493	20,951
Deferred tax liabilities			
Unrealized holding gains on securities	848	571	7,575
Retained earnings of foreign subsidiaries	304	84	2,719
Reserve for special depreciation	113	138	1,010
Deferred capital gains on land	105	105	940
Other	23	33	206
Total	1,394	934	12,452
Net deferred tax assets	¥ 951	¥ 1,558	\$ 8,499

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 30.86 % in 2017 and 33.06% in 2016. 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, 2017 and 2016, were as follows:

	2017	2016
Statutory tax rate	30.86%	33.06%
Items excluded from non taxable expenses permanently, such as entertainment expenses	1.31	1.63
Items not permanently included in income, such as dividends received	(0.23)	(0.19)
Inhabitant tax on per capita basis	2.05	1.42
Retained earnings of foreign subsidiaries	9.00	2.71
Losses on consolidated subsidiaries that do not recognize tax effect	2.82	0.29
Special credit of corporation tax	(2.11)	(2.67)
Other, net	(0.56)	4.68
Effective tax rates	43.14%	40.93%

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 five segments: FA Systems; Cooling & Heating Systems; IT & Facilities Systems; Electronics; Others.

General information about the segments is as follows.

- (a) FA Systems: Servo system, Inverter, Numerical control devices
- (b) Cooling & Heating Systems: Package air conditioner, Chilling unit, Refrigerator
- (c) IT & Facilities Systems: Elevator, Information technology related products, Medical Facilities
- (d) Electronics: Semiconductor memory, Microcomputer, Power devices, Material, Raw material

(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 profit on the consolidated statements of income. Intercompany sales and transfers are based on market current price.

(3) Due to a reorganization conducted in the fiscal year ended March 31, 2017, the former reportable segments of Industrial and Ecology Systems; Electronics; Others have been changed to FA Systems; Cooling & Heating Systems; IT & Facilities Systems; Electronics; Others. The segment information for the previous consolidated fiscal year is disclosed based on the classification of the reportable segments after the change.

(4) Sales, profit or loss, assets, liabilities and other items by reportable segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016, is summarized as follows:

Year ended or as of March 31, 2017	Millions of yen								
	Reportable segment						Total	Eliminations or corporate	Consolidated
	FA Systems	Cooling & Heating Systems	IT & Facilities Systems	Electronics	Others				
I. Sales and operating profit:									
(1)Sales to third parties	¥ 39,619	¥ 25,185	¥ 7,647	¥ 146,771	¥ —	¥219,225	¥ —	¥ 219,225	
(2)Intersegment sales and transfer	0	—	—	0	—	0	Δ0	—	
Total sales	39,620	25,185	7,647	146,772	—	219,225	Δ0	219,225	
Operating profit	1,218	366	197	947	—	2,730	—	2,730	
II. Assets, depreciation expenses and capital expenditures:									
Total assets	19,214	14,560	3,964	66,804	920	105,463	17,299	122,763	
Depreciation expenses	165	93	49	249	—	558	—	558	
Capital expenditures	¥ 80	¥ 55	¥ 16	¥ 139	¥ —	¥ 292	¥ —	¥ 292	

Year ended or as of March 31, 2017	Thousands of U.S. dollars (Note 1)								
	Reportable segment						Total	Eliminations or corporate	Consolidated
	FA Systems	Cooling & Heating Systems	IT & Facilities Systems	Electronics	Others				
I. Sales and operating profit:									
(1)Sales to third parties	\$ 353,746	\$ 224,871	\$ 68,285	\$ 1,310,463	\$ —	\$ 1,957,366	\$ —	\$ 1,957,366	
(2)Intersegment sales and transfer	4	—	—	1	—	6	(6)	—	
Total sales	353,750	224,871	68,285	1,310,464	—	1,957,372	(6)	1,957,366	
Operating profit	10,882	3,268	1,766	8,460	—	24,377	—	24,377	
II. Assets, depreciation expenses and capital expenditures:									
Total assets	171,562	130,002	35,393	596,468	8,215	941,642	154,456	1,096,099	
Depreciation expenses	1,480	838	439	2,224	—	4,983	—	4,983	
Capital expenditures	\$ 714	\$ 495	\$ 152	\$ 1,247	\$ —	\$ 2,609	\$ —	\$ 2,609	

Year ended or as of March 31, 2016	Millions of yen							Eliminations or corporate	Consolidated
	Reportable segment						Total		
	FA Systems	Cooling & Heating Systems	IT & Facilities Systems	Electronics	Others				
I. Sales and operating profit:									
(1)Sales to third parties	¥ 40,584	¥ 23,853	¥ 6,342	¥ 151,210	¥ 0	¥221,990	¥ —	¥ 221,990	
(2)Intersegment sales and transfer	0	—	—	—	16	16	(16)	—	
Total sales	40,584	23,853	6,342	151,210	16	222,007	(16)	221,990	
Operating profit	1,021	546	21	2,094	2	3,685	(12)	3,673	
II. Assets, depreciation expenses and capital expenditures:									
Total assets	18,644	13,058	3,662	67,653	902	103,921	15,461	119,382	
Depreciation expenses	134	81	95	241	1	556	—	556	
Capital expenditures	¥ 373	¥ 235	¥ 82	¥ 631	¥ —	¥ 1,323	¥ —	¥ 1,323	

The Related Information of the Company and its consolidated subsidiaries for the year ended March 31, 2017 and 2016, is summarized as follows:

Year ended or as of March 31, 2017	Millions of yen						
	Japan	China	Asia-others	North America	Europe	Others	Total
Geographic Information:							
Net sales	¥ 170,306	¥ 22,315	¥ 17,219	¥ 5,997	¥ 3,386	¥ —	¥ 219,225

Year ended or as of March 31, 2017	Thousands of U.S. dollars (Note 1)						
	Japan	China	Asia-others	North America	Europe	Others	Total
Geographic Information:							
Net sales	\$ 1,520,589	\$ 199,247	\$ 153,747	\$ 53,548	\$ 30,233	\$ —	\$ 1,957,366

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

Year ended or as of March 31, 2017	Millions of yen	
	Net sales	Related segments
Major client Information:		
Name of clients		
Panasonic Corporation	¥ 25,438	Electronics

Year ended or as of March 31, 2017	Thousands of U.S. dollars (Note 1)	
	Net sales	Related segments
Major client Information:		
Name of clients		
Panasonic Corporation	\$227,125	Electronics

Year ended or as of March 31, 2016	Millions of yen	
	Net sales	Related segments
Major client Information:		
Name of clients		
Panasonic Corporation	¥ 24,192	Electronics

20. AMOUNTS PER SHARE

	Yen		U.S. dollar (Note 1)
	2017	2016	2017
Net income			
Basic	¥ 32.02	¥ 42.61	\$ 0.285
Diluted	31.94	42.55	0.285
Cash dividends	22	26	0.196
Net assets	1,404.51	1,392.47	12.54

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, 2017, were approved at a directors' meeting held on May 15, 2017:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends (¥11= \$0.098per share)	¥ 477	\$ 4,259

Change in Company's share - trading unit and consolidation of shares

At the Board of Directors' meeting held on May 5, 2017, the Company resolved change in the Company's share - trading unit and resolved to submit a proposal on consolidation of shares to 77th Ordinary General Meeting of Shareholders held on June 29, 2017.

The proposal was approved by resolution of the general meeting of shareholders.

1.Change in Company's share - trading unit

(1)Reasons for the change

The Japanese stock exchanges announced the "Action Plan for Consolidating Trading Units," which aims to standardize the trading units for common shares issued by all listed domestic corporations at 100 shares. As a corporation listed on the Tokyo Stock Exchange, the Company respects the objectives of the plan and has decided to change in company's share - trading unit for its common shares to 100 shares.

(2)Details of the change

Effective October 1, 2017, the Company's share - trading unit will be changed from a 1,000 - share unit to a 100 - share unit.

2.Share consolidation

(1)Objective of share consolidation

At the time of change in company's share - trading unit of the Company's common shares to 100 shares as described in "1.Change in company's share - trading unit,"the Company has decided to execute a share consolidation (two shares to be consolidated into one share) in order to adjust the investment unit to an appropriate level.

(2)Details of share consolidation

1)Class of shares

Common shares

2)Consolidation method and ratio

On October 1, 2017, two common shares will be consolidated into one common share based on the number of shares held by shareholders of record as of September 30, 2017.

3)Decrease of the number of shares due to share consolidation

Number of shares issued and outstanding before share consolidation(as of March 31, 2017)	45,649,955 shares
Decrease of the number of shares due to share consolidation	22,824,978 shares
Number of shares issued and outstanding after share consolidation	22,824,977 shares

Note:The decrease of the number of shares due to share consolidation and the number of shares issued and outstanding after the share consolidation are theoretical values calculated based on the number of shares issued and outstanding before the Share Consolidation and the share consolidation ratio.

(3)Decrease of the number of shareholders due to share consolidation

The shareholder composition based on the shareholder registry as of March 31, 2017 is as follows:

	Number of shareholders (ratio)	Number of shares held (ratio)
Number of shareholders	4,361 shareholders (100.00%)	45,649,955 shares (100.00%)
Shareholders holding less than two shares	132 shareholders (3.03%)	132 shares (0.00%)
Shareholders holding two shares or more	4,229 shareholders (96.97%)	45,649,823 shares (100.00%)

Note:Shareholders holding less than two shares shall lose the Company's shareholders status due to share consolidation.

(4)Treatment of fractional shares

If fractional shares of less than one share arise as a result of the share consolidation, the Company shall sell them in accordance with the Companies Act.The proceeds from the sale shall then be distributed to the shareholders in proportion to their respective ownership interests.

(5)Total number of shares authorized to be issued as of the effective date

In order to adjust the total number of shares authorized to be issued to an appropriate level in line with the decrease of the number of shares issued and outstanding as a result of the Share Consolidation, the Company will change the total number of shares authorized to be issued in accordance with the share consolidation ratio (One-half) on October 1, 2017.

Total number of shares authorized to be issued before the change	113,100,000 shares
Total number of shares authorized to be issued after the change(as of October 1, 2017)	56,550 000 shares

3.Change of the number of shares constituting one unit of shares, schedule of share consolidation

Resolution at the Board of Directors' meeting	May 15, 2017
Resolution at the ordinary general meeting of shareholders	June 29, 2017
Effective date of change in the Company's share - trading unit and consolidation of shares	October 1, 2017

4.Impact on per share information

Assuming the share consolidation was conducted on April 1, 2015, per share information for the years ended March 31, 2017 and 2016 would be as follows:

	2017 From April 1, 2016 to March 31, 2017 YEN	2016 From April 1, 2015 to March 31, 2016 YEN	2017 From April 1, 2016 to March 31, 2017 U.S. dollars(Note1)
Net assets per share	¥ 2,809.01	¥ 2,784.95	\$ 25.080
Net income per share	¥ 64.04	¥ 85.22	\$ 0.571
Diluted net income per share	¥ 63.88	¥ 85.10	\$ 0.570

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, 2017, 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, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 29, 2017
Tokyo, Japan

STOCK INFORMATION

(As of March 31, 2017)

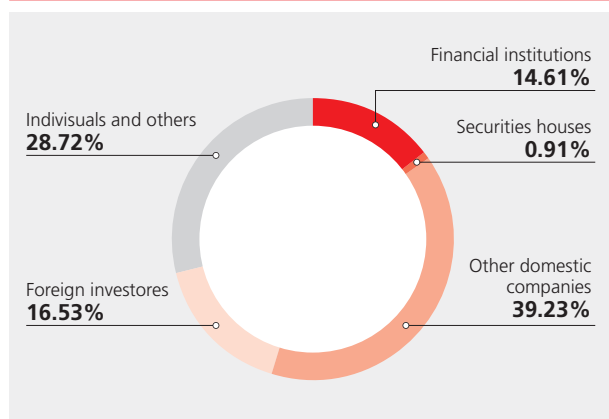
SHARES

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

Total number of shares issued: 45,649,955 shares
(Including 2,281,216 treasury stock)

Number of shareholders: 4,361

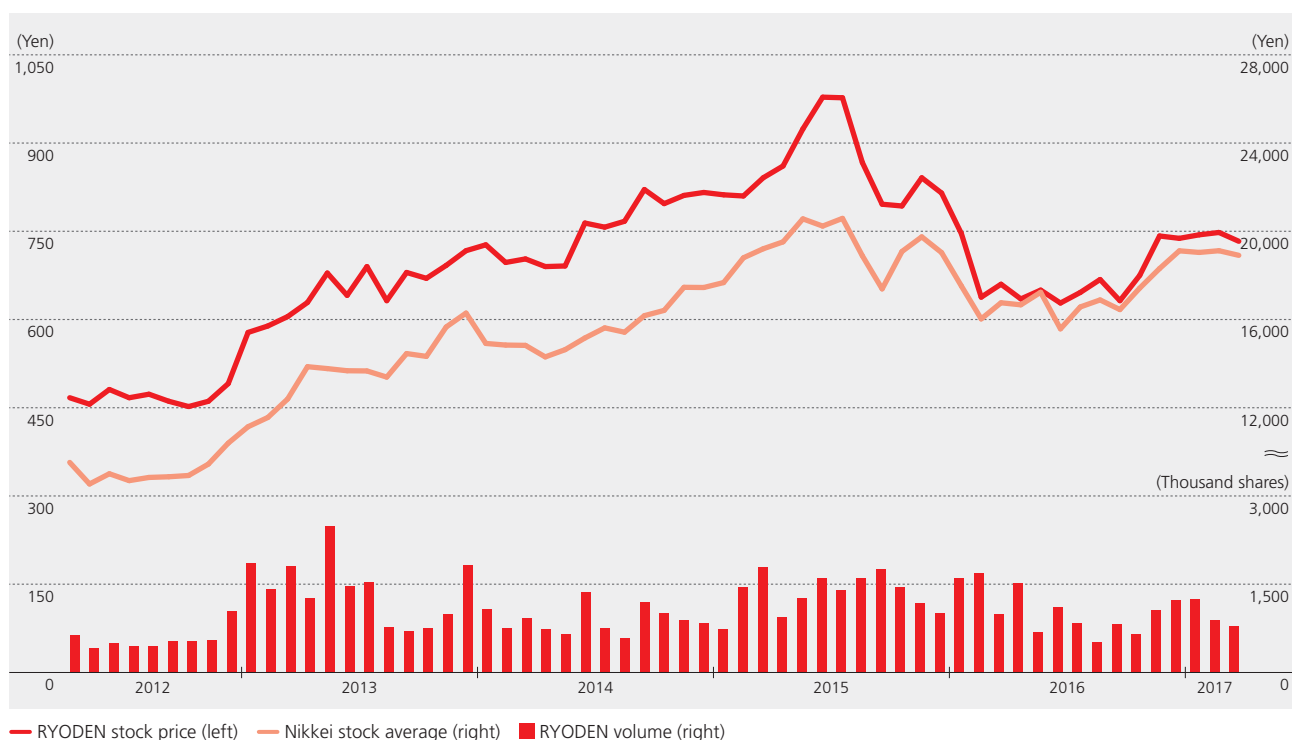
SHARE OWNERSHIP BY SHAREHOLDER CATEGORY



MAJOR SHAREHOLDERS

Name	Shares held (Thousand shares)
Mitsubishi Electric Corporation	15,511
BBH BOSTON FOR NOMURA JAPAN SMALLER CAPITALIZATION FUND 620065	1,270
The Master Trust Bank of Japan, Ltd. trust account	937
Japan Trustee Services Bank, Ltd. trust account	844
Tokio Marine & Nichido Fire Insurance Co., Ltd.	797
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	779
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	647
Ryoden Employee Stock Ownership Plan	640
Citizen Watch Co., Ltd.	580
Japan Trustee Services Bank, Ltd. trust account 5	571

STOCK PRICE AND TRADING VOLUME



CORPORATE INFORMATION

CORPORATE DATA

FIRM NAME:

Ryoden Corporation

ESTABLISHMENT:

April 22, 1947

NUMBER OF EMPLOYEES:

1,284 (consolidated)
1,050 (non-consolidated)

CAPITAL:

¥10,334,298,875 (As of March 31, 2017)

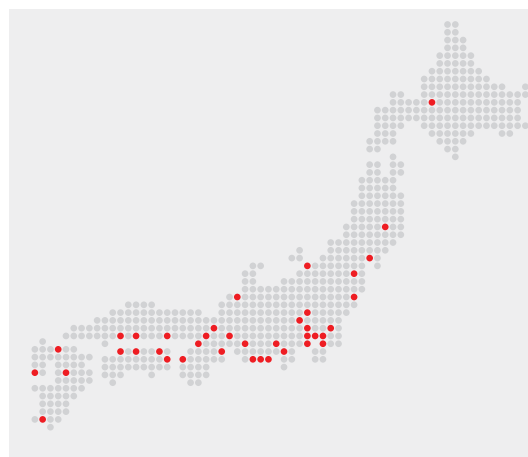
HEAD OFFICE:

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

AFFILIATED COMPANIES:

RYOSHO TECHNO CO., LTD.
MELCO INSURANCE SERVICE CO., LTD.

DOMESTIC NETWORK



DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBER (AS OF JUNE 29, 2017)

PRESIDENT

Nobuo Shogaki

SENIOR MANAGING DIRECTOR

Takamichi Kasugai

MANAGING DIRECTORS

Akira Shindo
Hideharu Yamazaki
Yasuhiro Souda
Hitoshi Chihara
Shoji Kitai
Osamu Tanaka

DIRECTORS

Yoshiaki Ogawa
Akira Sano
Masatoshi Nakamura
Shunichi Higashi
Akira Noda
Takahiro Ozawa
*Masahide Yanagida
*Yoshiko Shirata
*Masahiro Muroi

*Outside Director

AUDIT & SUPERVISORY BOARD MEMBER

Toshiharu Oya
Kenji Nagae
*Kentaro Tani
*Hideyo Ishino

* Outside Audit & Supervisory Board Member

GROBAL NETWORK

SUBSIDIARIES:

RYOSHO TECHNO SINGAPORE PTE LTD
RYOSHO HONG KONG CO., LTD.
RYOSHO U.S.A. INC.
RYOSHO ELECTRONICS (SHANGHAI) CO., LTD.
RYOSHO (THAILAND) CO., LTD.
RYOSHO ENGINEERING (THAILAND) CO., LTD.

RYOSHO TAIWAN CO., LTD.
RYOSHO EUROPE GmbH
RYOSHO KOREA CO., LTD.
PT. RYOSHO TECHNO INDONESIA
RYOSHO TECHNO PHILIPPINES INC.
RYOSHO MEXICO, S.A. de C.V.

