

**RYODEN**

**ANNUAL REPORT 2018**

# 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.



## 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.



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## 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.



## 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.

## 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.



## 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.



## 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.



## 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

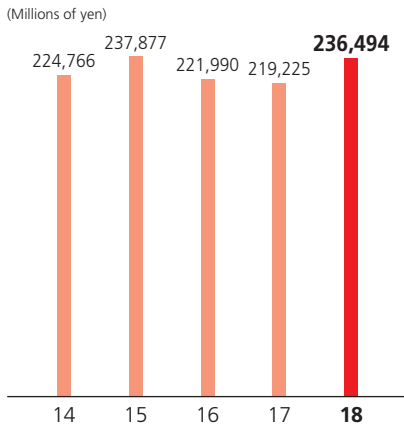
Years ended March 31					Millions of yen	Thousands of U.S. dollars
	2014	2015	2016	2017	2018	2018
<b>Business Results</b>						
Net sales . . . . .	¥224,766	¥237,877	¥221,990	¥219,225	<b>¥236,494</b>	<b>\$2,231,077</b>
Overseas sales . . . . .	63,857	66,342	54,439	48,919	<b>50,111</b>	<b>472,749</b>
Ratio of overseas sales (%) . . .	28.4	27.9	24.5	22.3	<b>21.3</b>	–
Operating profit . . . . .	5,278	4,992	3,673	2,730	<b>5,078</b>	<b>47,906</b>
Profit attributable to owners of parent . . . . .	3,550	2,891	1,846	1,388	<b>3,588</b>	<b>33,856</b>
<b>Financial position</b>						
Total assets . . . . .	¥117,936	¥125,121	¥119,382	¥122,763	<b>¥133,710</b>	<b>\$1,261,417</b>
Net assets . . . . .	57,582	61,444	60,401	60,975	<b>64,057</b>	<b>604,320</b>
Short-term loans . . . . .	2,586	2,706	2,083	761	<b>795</b>	<b>7,501</b>
<b>Cash flows</b>						
Cash flows from operating activities . . . . .	¥ 778	¥ (4,168)	¥ 3,747	¥ 4,601	<b>¥ (4,833)</b>	<b>(45,601)</b>
Cash flows from investing activities . . . . .	(1,920)	(1,230)	(777)	474	<b>674</b>	<b>6,367</b>
Cash flows from financing activities . . . . .	(994)	(1,087)	(1,550)	(2,227)	<b>(942)</b>	<b>(8,889)</b>
					Yen	U.S. dollars
<b>Per share data</b>						
Profit per share . . . . .	81.84	66.70	42.61	64.04	<b>165.44</b>	<b>1.56</b>
Net assets per share . . . . .	1,328.51	1,417.10	1,392.47	2,809.01	<b>2,948.86</b>	<b>27.819</b>
Cash dividends per share . . . . .	22	24	26	22	<b>37</b>	<b>0.349</b>
					%	
<b>Principal financial data</b>						
Operating profit to net sales . . .	2.3	2.1	1.7	1.2	<b>2.1</b>	
Return on equity . . . . .	6.4	4.9	3.0	2.3	<b>5.7</b>	
Return on assets . . . . .	5.0	3.7	2.7	2.0	<b>3.9</b>	
Equity ratio . . . . .	48.8	49.1	50.5	49.6	<b>47.8</b>	
Number of employees . . . . .	1,190	1,251	1,276	1,284	<b>1,284</b>	

Note: 1 U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106 = \$1, the approximate exchange rate prevailing on March 31, 2018.

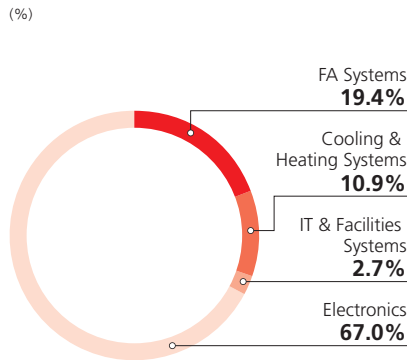
2 The Company conducted a share consolidation (consolidation of two shares of common stock into one share) with the effective date of October 1, 2017. Accordingly, profit per share and net assets per share were calculated on the assumption that the Company conducted the share consolidation at the beginning of the previous consolidated fiscal year.

3 The cash dividend per share of ¥37.00 for the fiscal year ended March 31, 2018 is a sum of the interim cash dividend of ¥11.00 and the year-end cash dividend per share of ¥26.00. Since the Company conducted a share consolidation (consolidation of two shares of common stock into one share) with the effective date of October 1, 2017, the interim cash dividend of ¥11.00 represents the amount before the share consolidation, whereas the year-end cash dividend of ¥26.00 represents the amount after the share consolidation. The amount of cash dividend per share for the fiscal year ended March 31, 2018 calculated on a post-consolidation basis would be ¥48.00.

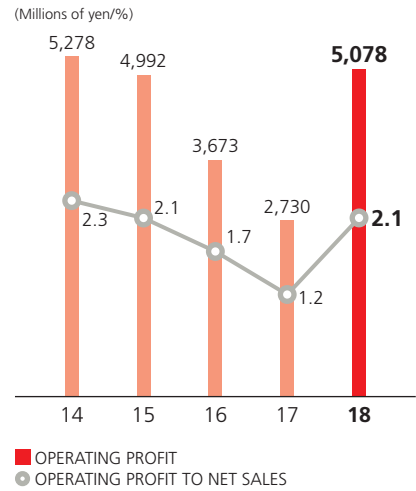
## NET SALES



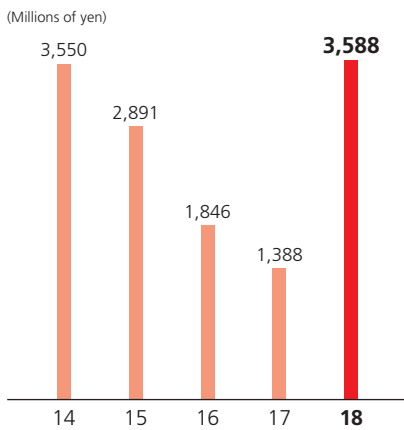
## SALES COMPOSITION



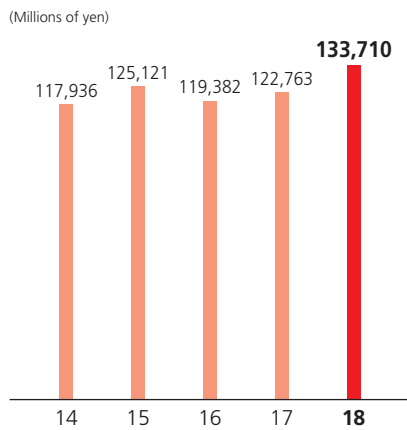
## OPERATING PROFIT/ OPERATING PROFIT TO NET SALES



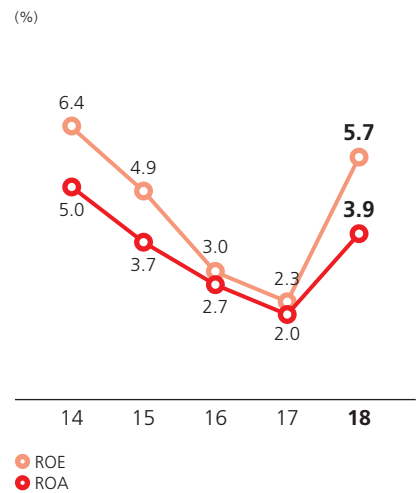
## PROFIT ATTRIBUTABLE TO OWNERS OF PARENT



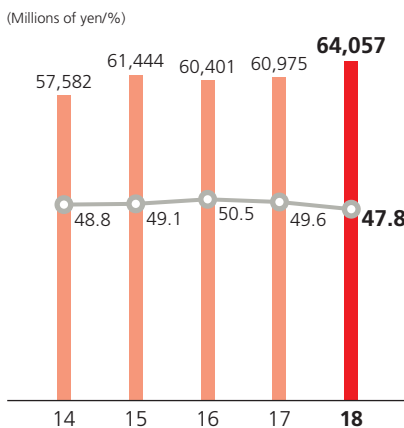
## TOTAL ASSETS



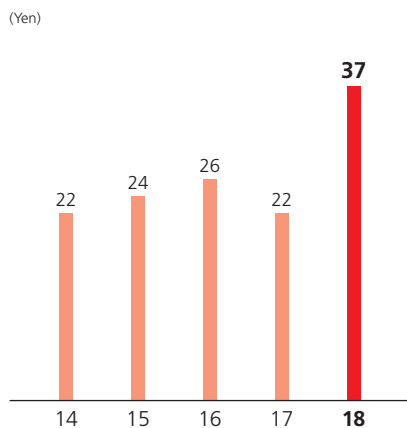
## ROA/ROE



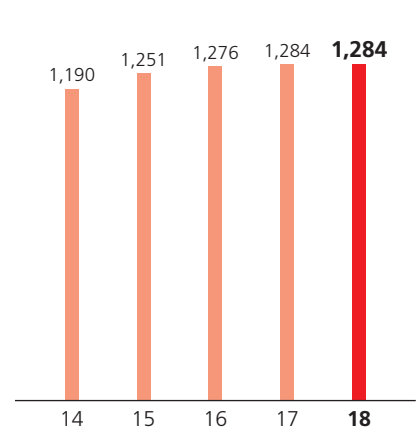
## NET ASSETS/EQUITY RATIO



## CASH DIVIDENDS PER SHARE



## NUMBER OF EMPLOYEES



Note: The cash dividend per share of ¥37.00 for the fiscal year ended March 31, 2018 is a sum of the interim cash dividend of ¥11.00 and the year-end cash dividend per share of ¥26.00. Since the Company conducted a share consolidation (consolidation of two shares of common stock into one share) with the effective date of October 1, 2017, the interim cash dividend of ¥11.00 represents the amount before the share consolidation, whereas the year-end cash dividend of ¥26.00 represents the amount after the share consolidation. The amount of cash dividend per share for the fiscal year ended March 31, 2018 calculated on a post-consolidation basis would be ¥48.00.

# LETTER TO OUR SHAREHOLDERS

## The Year in Review

During the fiscal year ended March 31, 2018, while the U.S. economy achieved solid growth, Europe and China were also on an economic recovery track. The global economy, including emerging economies, showed a solid growth. However, the outlook is unclear in view of the impact of the protectionism of the U.S. administration, which became apparent in the second half of the fiscal year, and geopolitical risks.

With regard to the Japanese economy, the moderate recovery trend is continuing. For example, capital investment remained robust, owing to labor shortage and rising facility utilization rate mainly because of increasing exports. On the other hand, there are factors that may slow the economy such as the strong yen, which in turn generates a concern that corporate earnings may adversely be affected in the future.

Among the business sectors that affect the Group, recovery of the facilities-related industry started to gain momentum, while the factory automation-related industry, industrial equipment-related industry, and energy-saving-related industries continued to perform briskly. Regarding the automobile-related industry, business for the U.S. and Europe was solid.

In this economic climate, the Group promoted enhancing its business as a “Global Solution Provider,” adjusting to a changing business environment. We launched the new medium-term management plan “Challenge & Evolution 2018 (CE2018)” in 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. In fiscal 2017, the middle year of CE2018, we stepped up proposals of solutions based on customer needs.

As a result, net sales for the fiscal year under review were ¥236,494 million, an increase of 7.9% year on year. Operating profit was ¥5,078 million, an increase of 86.0%, ordinary profit was ¥5,055 million, an increase of 107.0%, and profit attributable to owners of parent was ¥3,588 million, an increase of 158.5%.

## Future Outlook

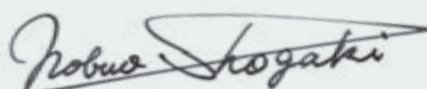
Although the outlook is unclear in view of such factors as the impact of the U.S. administration’s protectionism on the global economy and geopolitical risks, the recovery of the global economy is expected to continue in fiscal 2018, underpinned by firm growth of the U.S. economy and China’s economy as well as other favorable factors.

The Japanese economy is also expected to continue its solid performance, supported by robust consumption and capital investment, despite concerns about a possible slowdown due to high prices of resources and the continued strength of the yen reflecting the unclear outlook of the global economy.

In these circumstances, the Group aims to improve profitability by accelerating the implementation of the customer value creation business model, adjusting to a changing business environment.

Our forecast for performance in the fiscal year ending March 31, 2019 is consolidated net sales of ¥237,000 million, operating profit of ¥5,200 million, ordinary profit of ¥5,400 million, and profit attributable to owners of parent of ¥3,700 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 aims to improve profitability by accelerating the implementation of the customer value creation business model, adjusting to a changing business environment.

In the new medium-term management plan “CE2018” which reaches its final year in fiscal 2018, 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.

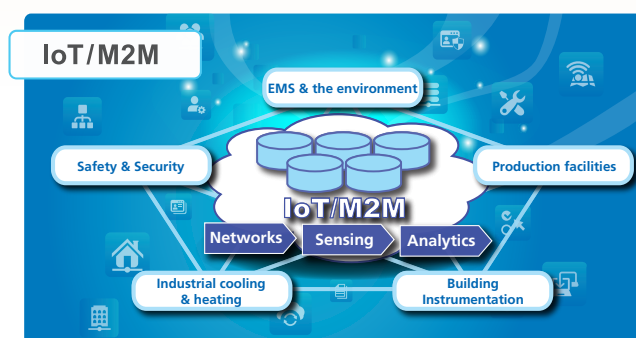
EMS/Conservation of the environment

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.

## Goals for the final year (FY2018)

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

## 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

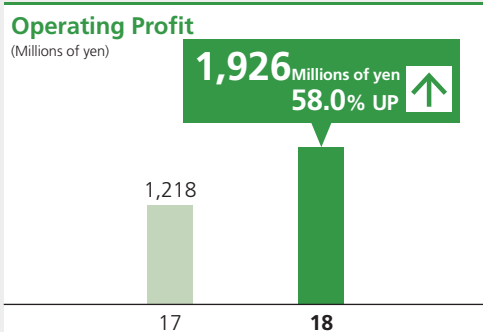
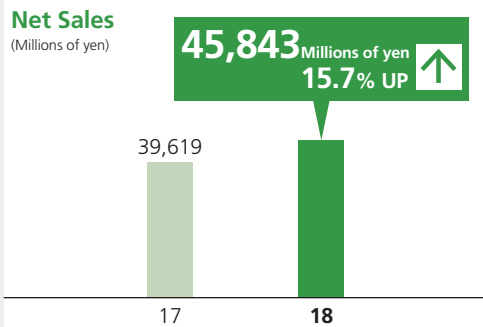
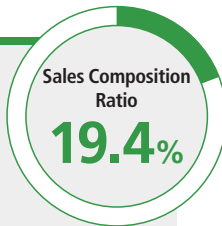
The Healthcare Division aims to expand its business by proposing solutions using EC sites. It will strive to strengthen ties with customers and partners in the medical consulting business.

### 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.

# REVIEW OF OPERATIONS

## FA Systems

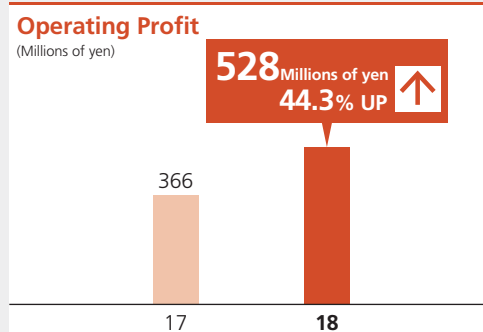
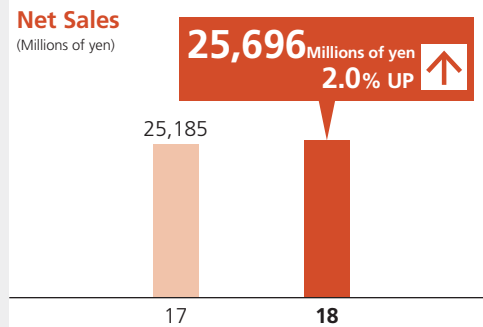


Sales of the FA Systems Business increased greatly because of brisk sales of automotive production-related facilities, machine tools, and semiconductor and LCD-related manufacturing equipment, as well as solid sales for dealers.



Robot system for placing parts discretely

## Cooling & Heating Systems



While projects for wholesalers and major HVAC installation companies serving large territories were sluggish, sales of freezer and refrigeration systems were buoyant. 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  
**2.7%**

### Net Sales

(Millions of yen)

**6,318** Millions of yen  
17.4% DOWN

7,647

17

18

### Operating Profit

(Millions of yen)

**131** Millions of yen  
33.8% DOWN

197

17

18

Whereas security-related sales in the information and communication field were brisk, sales related to elevators, which are the mainstay products in the building systems field, were lackluster. In the medical field, capital investment by healthcare institutions was sluggish. As a result, sales of the IT & Facilities Systems Business decreased greatly.



Cloud-enabled rental security camera housing



RFID antenna gate

## Electronics

Sales Composition Ratio  
**67.0%**

### Net Sales

(Millions of yen)

**158,635** Millions of yen  
8.1% UP

146,771

17

18

### Operating Profit

(Millions of yen)

**2,492** Millions of yen  
163.1% UP

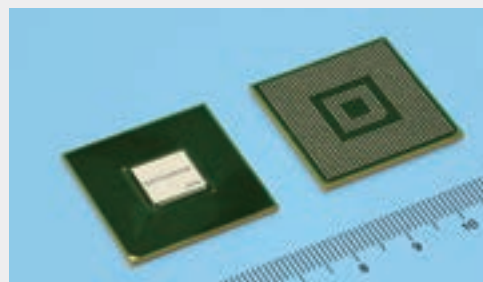
947

17

18

In Japan, in addition to increased production of automotive-related electronic products for Western countries, performance of the business related to advanced driver-assistance systems (ADAS) was robust. Regarding industrial equipment-related electronic products, the FA-related business for China, such as machine tools, mounters, and semiconductor and LCD-related manufacturing equipment, and the business related to home appliances centering on air conditioners were buoyant. As a result, sales of the Electronics Business in Japan increased.

Overseas subsidiaries recorded an increase in sales, as sales of automotive-related products were robust in North America and sales of products for industrial equipment-related applications continued to be favorable in China.



R-Car M2 SoC for automotive information devices manufactured by Renesas Electronics Corporation

Health management application for employees

# MySOS forME

## Trial use started!



As part of health management, the Healthcare Division developed MySOS forME, a health management smartphone application, and began its trial use in house in February 2018.

This app provides guidance on emergency responses and first aid as well as the locations of nearby medical institutions and automated external defibrillators (AEDs) to help users respond in an emergency. The app also helps users promote their health. Linked with a wearable device, it shows the user's pulse rate, the number of steps taken and the activities measured. It also shows historical data of health checkups the user received. Moreover, based on the food diary entered by the user, the app gives advice and shows calorie intake. (An automatic meal photo detection function is scheduled to be loaded.)

Going forward, linkage with various wearable devices is being considered so as to diversify the usage environment and service formats, such as "health option" to manage blood pressure and blood sugar level, "sports option" to measure location information and travel speed, "care option" to detect falls and serious injuries/ diseases, and "on-site option" to detect the onset of heatstroke and accidents.



## System for large-scale plant factories launched

Agriculture in Japan is confronted with major challenges, such as the aging of farmers, a chronic labor shortage, and a decline in the food self-sufficiency rate. Enclosed plant factories are one of the solutions. They offer the advantages of safe and stable production without the use of agricultural chemicals and being influenced by the weather as cultivation takes place in the closed space of a building.

Integrating the expertise of its mainstay businesses, namely, Cooling & Heating Systems, FA Systems and Electronic Devices, in its proprietary IoT system to achieve manpower saving and labor saving, Ryoden provides plant factories with high operational efficiency.



# CORPORATE GOVERNANCE

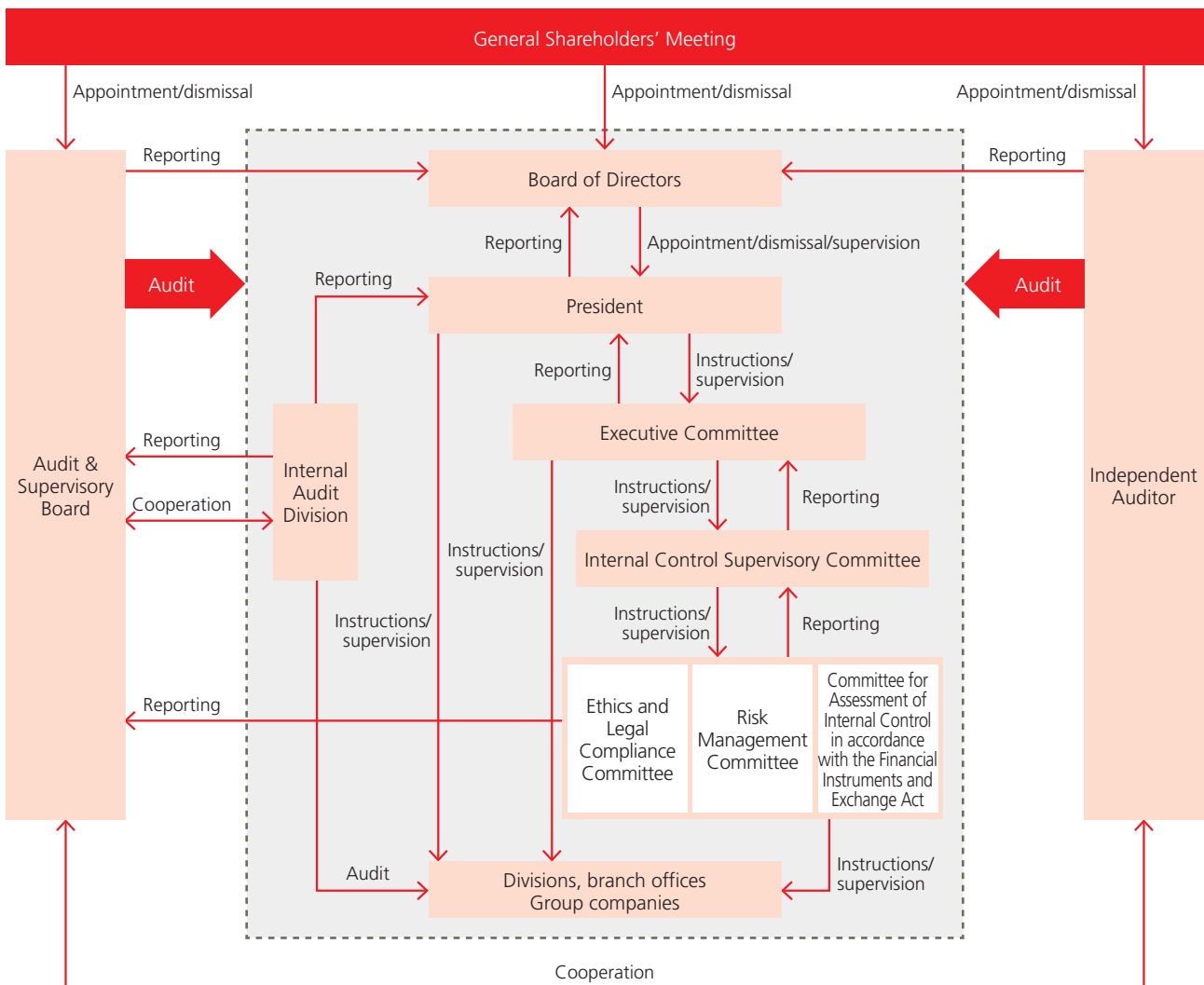
## OUTLINE OF CORPORATE GOVERNANCE SYSTEM AND REASONS FOR ADOPTING THE SYSTEM DESCRIBED

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Assets</b>			
<b>Current assets:</b>			
Cash and time deposits (Note 13)	¥ 14,128	¥ 19,168	\$ 133,290
Notes and accounts receivable - trade (Note 13)	58,573	55,832	552,578
Electronically recorded monetary claims - operating (Note 13)	15,243	9,586	143,802
Securities	247	—	2,335
Merchandise and finished goods	25,336	18,670	239,024
Deferred tax assets (Note 18)	792	686	7,481
Other	4,735	3,286	44,670
Allowance for doubtful accounts	(26)	(200)	(254)
Total current assets	119,030	107,030	1,122,929
<b>Property, plant and equipment:</b>			
Buildings and structures	2,887	2,871	27,244
Accumulated depreciation	(1,992)	(1,905)	(18,792)
Buildings and structures, net	895	966	8,451
Machinery, equipment and vehicles	660	660	6,235
Accumulated depreciation	(253)	(198)	(2,388)
Machinery, equipment and vehicles, net	407	462	3,846
Tools, furniture and fixtures	1,274	1,230	12,022
Accumulated depreciation	(963)	(881)	(9,085)
Tools, furniture and fixtures, net	311	349	2,937
Land	3,087	3,090	29,130
Construction in progress	—	15	—
Total property, plant and equipment	4,702	4,883	44,366
<b>Intangible assets</b>			
Software	619	587	5,845
Other	60	70	573
Total intangible assets	680	658	6,419
<b>Investments and other assets:</b>			
Investments securities (Note 14)	7,296	8,056	68,837
Long - term prepaid expenses	51	51	484
Deferred tax assets (Note 18)	282	279	2,669
Other (Note 4)	2,159	2,227	20,372
Allowance for doubtful accounts	(494)	(425)	(4,661)
Total investments and other assets	9,296	10,190	87,701
Total non - current assets	14,679	15,732	138,487
Total assets	¥ 133,710	¥ 122,763	\$ 1,261,417

See the accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Notes and accounts payable - trade (Note 13)	¥ 45,399	¥ 41,529	\$ 428,298
Electronically recorded obligations - operating (Note 13)	12,464	10,489	117,585
Short - term loans payable (Note 13)	795	761	7,501
Income taxes payable	1,405	263	13,255
Other	3,554	2,996	33,528
Total current liabilities	63,617	56,039	600,169
<b>Non - current liabilities:</b>			
Net defined benefit liability (Note 16)	4,718	4,579	44,516
Other	1,315	1,168	12,411
Total non - current liabilities	6,034	5,748	56,927
Total liabilities	69,652	61,787	657,097
<b>Net assets:</b>			
Shareholders' equity:			
Capital share:			
Authorized—56,550,000 shares			
Issued—22,824,977 shares	10,334	10,334	97,493
Capital surplus	7,399	7,392	69,811
Retained earnings (Note 3 and Notes 21)	45,340	42,705	427,738
Treasury shares, at cost: 1,131,243 shares at March 31, 2018 and 2,281,216 shares at March 31, 2017	(850)	(855)	(8,022)
Total shareholders' equity	62,224	59,576	587,020
Accumulated other comprehensive income:			
Unrealized gains (losses) on available - for - sale securities	2,305	2,003	21,748
Foreign currency translation adjustments	710	661	6,701
Remeasurements of defined benefit plans	(1,267)	(1,329)	(11,961)
Total accumulated other comprehensive income	1,747	1,334	16,488
Subscription rights to shares	86	63	811
Total net assets	64,057	60,975	604,320
Total liabilities and net assets	¥ 133,710	¥ 122,763	\$ 1,261,417

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF INCOME

Ryoden Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Net sales</b> (Note 6)	¥ 236,494	¥ 219,225	\$ 2,231,077
<b>Cost of sales</b> (Note 6)	212,061	197,164	2,000,584
<b>Gross profit</b>	24,432	22,060	230,492
<b>Selling, general and administrative expenses</b> (Note 8 and Note 9)	19,354	19,329	182,585
<b>Operating profit</b>	5,078	2,730	47,906
<b>Other income:</b>			
Interest income	47	52	450
Dividend income	145	118	1,376
Share of profit of entities accounted for using equity method	21	32	206
Gain on valuation of investment securities	10	54	95
Rent income on non - current assets	64	62	604
Other	147	140	1,387
Total other income	436	460	4,121
<b>Other expenses:</b>			
Interest expenses	30	39	286
Sales discounts	81	100	767
Loss on sales of accounts receivable	39	40	369
Foreign exchange losses	273	375	2,582
Other	35	193	333
Total other expenses	459	749	4,339
<b>Ordinary profit</b>	5,055	2,442	47,688
<b>Extraordinary income:</b>			
Gain on sales of investment securities	252	83	2,381
Total extraordinary income	252	83	2,381
<b>Extraordinary losses:</b>			
Loss on valuation of shares of subsidiaries and associates	107	63	1,011
Loss on Impairment of intangible assets	—	21	—
Total extraordinary losses	107	84	1,011
<b>Profit before income taxes:</b>	5,200	2,441	49,058
<b>Income taxes - current</b> (Note 18)	1,761	737	16,621
<b>Income taxes - deferred</b> (Note 18)	(150)	315	(1,419)
<b>Total income taxes</b>	1,611	1,053	15,202
<b>Profit</b>	3,588	1,388	33,856
<b>Profit attributable to owners of parent</b>	¥ 3,588	¥ 1,388	\$ 33,856

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Ryoden Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Profit	¥ 3,588	¥ 1,388	\$ 33,856
Other comprehensive income(loss): (Note 12)			
Valuation difference on available - for sale securities	302	634	2,851
Foreign currency translation adjustments	48	(479)	458
Remeasurements of defined benefit plans, net of tax	62	30	585
Total other comprehensive income (loss)	412	186	3,895
Comprehensive income	¥ 4,001	¥ 1,574	\$ 37,751
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥ 4,001	¥ 1,574	\$ 37,751
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, 2018 and 2017

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Capital share	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
<b>Balance at March 31, 2016</b>	¥ 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
<b>Total changes of items during period</b>	—	11	357	9	377	634	(479)	30	186	9	573
<b>Balance at March 31, 2017</b>	¥ 10,334	¥ 7,392	¥ 42,705	¥ (855)	¥ 59,576	¥ 2,003	¥ 661	¥ (1,329)	¥ 1,334	¥ 63	¥ 60,975
Changes of items during period	—	—	—	—	—	—	—	—	—	—	—
Dividends of surplus	—	—	(954)	—	(954)	—	—	—	—	—	(954)
Profit (loss) attributable to owners of parent	—	—	3,588	—	3,588	—	—	—	—	—	3,588
Change in scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	(3)	(3)	—	—	—	—	—	(3)
Disposal of treasury shares	—	7	—	8	16	—	—	—	—	—	16
Net changes of items other than shareholders' equity	—	—	—	—	—	302	48	62	412	22	435
<b>Total changes of items during period</b>	—	7	2,634	5	2,647	302	48	62	412	22	3,082
<b>Balance at March 31, 2018</b>	¥ 10,334	¥ 7,399	¥ 45,340	¥ (850)	¥ 62,224	¥ 2,305	¥ 710	¥ (1,267)	¥ 1,747	¥ 86	¥ 64,057

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Accumulated other comprehensive income					
	Capital share	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
<b>Balance at March 31, 2017</b>	\$ 97,493	\$ 69,738	\$ 402,885	\$ (8,071)	\$ 562,045	\$ 18,896	\$ 6,242	\$ (12,546)	\$ 12,592	\$ 599	\$ 575,237
Changes of items during period	—	—	—	—	—	—	—	—	—	—	—
Dividends of surplus	—	—	(9,003)	—	(9,003)	—	—	—	—	—	(9,003)
Profit (loss) attributable to owners of parent	—	—	33,856	—	33,856	—	—	—	—	—	33,856
Change in scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	(32)	(32)	—	—	—	—	—	(32)
Disposal of treasury shares	—	72	—	81	153	—	—	—	—	—	153
Net changes of items other than shareholders' equity	—	—	—	—	—	2,851	458	585	3,895	212	4,107
<b>Total changes of items during period</b>	—	72	24,852	48	24,972	2,851	458	585	3,895	212	29,082
<b>Balance at March 31, 2018</b>	\$ 97,493	\$ 69,811	\$ 427,738	\$ (8,022)	\$ 587,020	\$ 21,748	\$ 6,701	\$ (11,961)	\$ 16,488	\$ 811	\$ 604,320

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Ryoden Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 5,200	¥ 2,441	\$ 49,058
Depreciation	513	558	4,842
Increase (decrease) in allowance for doubtful accounts	(91)	255	(863)
Increase (decrease) in net defined benefit liability	228	13	2,151
Interest and dividends income	(193)	(171)	(1,826)
Interest expense	30	39	286
Share of (profit) loss of entities accounted for using equity method	(21)	(32)	(206)
Loss (gain) on sales and retirement of non-current assets	4	8	45
Loss (gain) on sales of investment securities	(252)	(83)	(2,381)
Loss (gain) on valuation of investment securities	(10)	(54)	(95)
Loss on valuation of shares of subsidiaries and associates	107	63	1,011
Decrease (increase) in trade receivables	(8,463)	(4,614)	(79,839)
Decrease (increase) in inventories	(6,601)	1,611	(62,278)
Increase (decrease) in trade payable	5,719	5,373	53,957
Other	(744)	344	(7,023)
Subtotal	(4,575)	5,754	(43,161)
Interest and dividend income received	367	196	3,471
Interest expenses paid	(30)	(39)	(285)
Income taxes paid	(596)	(1,309)	(5,625)
Net cash provided by (used in) operating activities	(4,833)	4,601	(45,601)
<b>Cash flows from investing activities:</b>			
Proceeds from redemption of securities	100	1,053	943
Purchase of property, plant and equipment	(109)	(219)	(1,037)
Proceeds from sales of property, plant and equipment	3	2	30
Purchase of intangible assets	(266)	(114)	(2,517)
Purchase of investment securities	(560)	(1,009)	(5,288)
Proceeds from sales of investment securities	1,434	659	13,533
Decrease (increase) in short-term loans receivable	(17)	—	(162)
Other	91	102	865
Net cash provided by (used in) investing activities	674	474	6,367
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	14	(1,182)	140
Net decrease (increase) in treasury shares	(2)	(4)	(25)
Cash dividends paid	(954)	(1,041)	(9,005)
Net cash provided by (used in) financing activities	(942)	(2,227)	(8,889)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	50	(357)	475
<b>Net increase (decrease) in cash and cash equivalents</b>	(5,050)	2,490	(47,648)
<b>Cash and cash equivalents at beginning of period</b>	19,163	16,660	180,788
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	—	12	—
<b>Cash and cash equivalents at end of period (Note 10)</b>	¥ 14,112	¥ 19,163	\$ 133,140

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 ¥106= U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2018. 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) Accounting standards issued but not yet effective

[Disclosure for the year ended March 31, 2018]

Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets

On February 16, 2018, the ASBJ issued "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (revised 2018) (ASBJ Guidance NO.26)



#### (1) Overview

The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was modified. In addition, the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 was clarified.

#### (2) Scheduled date of adoption

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2019.

#### (3) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of adoption of this implementation guidance on its consolidated financial statements.

#### Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30).

#### (1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

#### (2) Scheduled date of adoption

The company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

#### (3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of accounting standard and implementation guidance on its consolidated financial statements.

### 3. RETAINED EARNINGS

The corporation law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) shall be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal

reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

### 4. PLEDGED ASSETS

Pledged assets as collateral and collateral obligations at March 31, 2018 and 2017 each, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Pledged assets as collateral			
Long-term time deposit	¥ 10	¥ 9	\$ 100

### 5. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries are contingently liable for guarantees of loans to employees and others, amounting to ¥257 million (\$2,427 thousand) and ¥266 million at March 31, 2018 and 2017, respectively.

### 6. INVENTORIES

Write - down (net of reversal) of inventories held for sale amounted to ¥108 million (\$1,025 thousand) and ¥-221 million for the years ended March 31, 2018 and 2017, are included in cost of sales in the consolidated statements of income.

### 7. RELATED PARTY TRANSACTIONS

Transactions with Mitsubishi Electric Corporation, which holds 35.8 % and 36.0 % interest of the Company at March 31, 2018 and 2017, were as follows:

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)		
					2018	2017	2018	Account	2018	2017	2018	
MITSUBISHI ELECTRIC CORPORATION		¥ 175,820	Direct 35.8%	Ownership	Sales	¥20,604	¥20,068	\$194,379	Accounts receivable - trade	¥ 5,647	¥ 5,362	\$53,278
			Indirect 1.1%	Ownership	Purchases	¥40,783	¥36,183	\$384,745	Accounts payable - trade	¥ 4,874	¥ 4,304	\$45,988
					Rebates	¥ 1,468	¥ 1,052	\$ 13,854	Accounts receivable - other	¥ 504	¥ 373	\$ 4,758

Transactions with Mitsubishi Electric Living Environment Systems Corporation, which holds 0.00% interest of the Company at March 31, 2018 and 2017, were as follows:

SUBSIDIARY OF 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	2018	2017	2018	Account	2018	2017	2018
MITSUBISHI ELECTRIC LIVING ENVIRONMENT SYSTEM CORPORATION	¥ 2,627	—	Purchases	¥18,828	¥17,683	\$177,632	Accounts payable - trade	¥ 5,904	¥ 5,358	\$ 55,704
			Rebates	¥ 3,021	¥ 3,230	\$ 28,503	Accounts receivable - other	¥ 621	¥ 650	\$ 5,867

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 EXPENSES

The components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Transportation expenses	¥ 2,319	¥ 2,176	\$ 21,878
Salaries	6,384	6,436	60,227
Bonuses	2,421	2,394	22,844
Retirement benefit expenses	677	587	6,391
Welfare expenses	1,750	1,771	16,509
Rent	1,469	1,482	13,864
Depreciation and amortization	445	498	4,201

## 9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to general and administrative expenses for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Research and development costs	¥ —	¥ 1	\$ —

## 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash and time deposits	¥ 14,128	¥ 19,168	\$ 133,290
Time deposits over 3 months	(15)	(4)	(150)
	¥ 14,112	¥ 19,163	\$ 133,140

## 11. LEASE TRANSACTIONS

### Lessees' Accounting

The minimum rental commitments under noncancellable operating leases as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Within 1 year	¥ 159	¥ 140	\$ 1,506
Over 1 year	344	159	3,254
	¥ 504	¥ 299	\$ 4,760

## 12. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Unrealized holding gain (loss) on securities			
Amount arising during the year	¥ 689	¥ 1,003	\$ 6,508
Reclassification adjustment for gains and losses included in net income	(248)	(91)	(2,341)
Unrealized gains (losses) on available-for-sale securities before tax	441	911	4,166
Tax effect	(139)	(276)	(1,314)
Unrealized gains (losses) on available-for-sale securities	302	634	2,851
Translation adjustments			
Amount arising during the year	48	(479)	458
Remeasurements of defined benefit plans			
Amount arising during the year	361	235	3,412
Reclassification adjustment for gains and losses included in net income	(273)	(191)	(2,575)
Remeasurements of defined benefit plans before tax	88	44	836
Tax effect	(26)	(13)	(251)
Remeasurements of defined benefit plans	62	30	585
Total other comprehensive income	¥ 412	¥ 186	\$ 3,895

## 13. FINANCIAL INSTRUMENTS

(a) Policies, classifications, and risk management

### Policy on use of financial instruments

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

### Classifications of financial instruments and related risks

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

### Risk management related to financial instruments

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

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

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

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

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

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

For marketable and investment securities, the Group monitors the fair

within the scope of actual volume of business considered necessary.

Marketable and investment securities comprised bonds related to the investment of surplus funds and stocks of companies with which the Group has a business relationship, and are subject to market risk.

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

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

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

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

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

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

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

The fair values of financial instruments are based on market prices. If a market price is not available then rational valuation of the price is used instead. Such price evaluations include variable factors, and its results

may differ if different assumptions are used in the evaluation. Furthermore, the notional amount for derivatives included in Note 15. Derivative Transactions do not represent the total market risk of the Group's derivative transactions.

(b) Fair value of financial instruments

As of March 31, 2018 and 2017, carrying value, fair value and the difference between the two are as follows:

Year ended or as of March 31, 2018	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
<b>Assets:</b>						
(1) Cash and time deposits	¥ 14,128	¥ 14,128	¥ —	\$ 133,290	\$ 133,290	\$ —
(2) Notes and accounts receivable - trade	58,573	58,573	—	552,578	552,578	—
(3) Electronically recorded monetary claims - operating	15,243	15,243	—	143,802	143,802	—
(4) Marketable and Investment securities	6,610	6,610	—	62,361	62,361	—
(5) Short-term loans receivable	17	17	—	162	162	—
<b>Total</b>	<b>¥ 94,572</b>	<b>¥ 94,572</b>	<b>¥ —</b>	<b>\$ 892,196</b>	<b>\$ 892,196</b>	<b>\$ —</b>
<b>Liabilities:</b>						
(1) Notes and accounts payable	¥ 45,399	¥ 45,399	¥ —	\$ 428,298	\$ 428,298	\$ —
(2) Electronically recorded obligations operating	12,464	12,464	—	117,585	117,585	—
(3) Short-term bank loans payable	795	795	—	7,501	7,501	—
<b>Total</b>	<b>¥ 58,658</b>	<b>¥ 58,658</b>	<b>¥ —</b>	<b>\$ 553,385</b>	<b>\$ 553,385</b>	<b>\$ —</b>
<b>Derivative transactions:</b>						
Hedge accounting not applied	¥ 70	¥ 70	¥ —	\$ 666	\$ 666	\$ —

Year ended or as of March 31, 2017

Year ended or as of March 31, 2017	Millions of yen		
	Carrying value	Fair value	Difference
<b>Assets:</b>			
(1) Cash and time deposits	¥ 19,168	¥ 19,168	¥ —
(2) Notes and accounts receivable - trade	55,832	55,832	—
(3) Electronically recorded monetary claims - operating	9,586	9,586	—
(4) Marketable and Investment securities	6,857	6,857	—
<b>Total</b>	<b>¥ 91,444</b>	<b>¥ 91,444</b>	<b>¥ —</b>
<b>Liabilities:</b>			
(1) Notes and accounts payable	¥ 41,529	¥ 41,529	¥ —
(2) Electronically recorded obligations operating	10,489	10,489	—
(3) Short-term bank loans payable	761	761	—
<b>Total</b>	<b>¥ 52,779</b>	<b>¥ 52,779</b>	<b>¥ —</b>
<b>Derivative transactions:</b>			
Hedge accounting not applied	¥ 104	¥ 104	¥ —

Notes:

Assets

(1) Cash and time deposits, (2) Notes and accounts receivable, (3) Electronically recorded monetary claims - operating, (5) Short-term loans receivable  
All of these are settled within a short time, and their fair value and carrying value are nearly equal. Thus, the carrying value is listed as fair value in the table above.

(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, 2018 and 2017, consisted of the following:

Year ended or as of March 31, 2018	Millions of yen	Thousands of U.S. dollars (Note 1)
Investments securities that do not have quoted market price in an active market	¥ 934	\$ 8,812

Year ended or as of March 31, 2017	Millions of yen
Investments securities that do not have quoted market price in an active market	¥ 1,199

(d) The maturity analysis for financial assets and securities with contractual maturities as of March 31, 2018 and 2017, were as follows:

Year ended or as of March 31, 2018	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and time deposits	¥ 14,128	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	58,573	—	—	—
Electronically recorded monetary claims - operating	15,243	—	—	—
Investments securities	292	382	374	253
Short-term loans receivable	17	—	—	—
<b>Total</b>	<b>¥ 88,255</b>	<b>¥ 382</b>	<b>¥ 374</b>	<b>¥ 253</b>

	Thousands of U.S. dollars (Note 1)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and time deposits	\$ 133,290	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	552,578	—	—	—
Electronically recorded monetary claims - operating	143,802	—	—	—
Investments securities	2,760	3,608	3,530	2,393
Short-term loans receivable	162	—	—	—
<b>Total</b>	<b>\$ 832,596</b>	<b>\$ 3,608</b>	<b>\$ 3,530</b>	<b>\$ 2,393</b>

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
<b>Total</b>	<b>¥ 84,587</b>	<b>¥ 997</b>	<b>¥ 540</b>	<b>¥ 321</b>

## 14. SECURITIES

(a) Information regarding marketable securities classified as other securities as of March 31, 2018 and 2017, were as follows:

March 31, 2018	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	¥ 1,646	¥ 5,010	¥ 3,364	\$ 15,531	\$ 47,269	\$ 31,737
Bonds	200	200	0	1,887	1,887	0
Other	121	122	0	1,146	1,155	9
<b>Subtotal</b>	<b>¥ 1,967</b>	<b>¥ 5,333</b>	<b>¥ 3,365</b>	<b>\$ 18,564</b>	<b>\$ 50,312</b>	<b>\$ 31,747</b>
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥ 98	¥ 90	¥ (8)	\$ 933	\$ 851	\$ (81)
Bonds	257	243	(14)	2,428	2,294	(133)
Other	992	943	(49)	9,367	8,902	(464)
<b>Subtotal</b>	<b>1,349</b>	<b>1,277</b>	<b>(72)</b>	<b>12,728</b>	<b>12,049</b>	<b>(679)</b>
<b>Total</b>	<b>¥ 3,317</b>	<b>¥ 6,610</b>	<b>¥ 3,293</b>	<b>\$ 31,293</b>	<b>\$ 62,361</b>	<b>\$ 31,067</b>

March 31, 2017

	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 1,779	¥ 4,676	¥ 2,896
Bonds	204	205	0
Other	471	494	23
Subtotal	¥ 2,455	¥ 5,376	¥ 2,920
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 103	¥ 91	¥ (12)
Bonds	648	632	(14)
Other	797	756	(40)
Subtotal	1,549	1,481	(68)
Total	¥ 4,005	¥ 6,857	¥ 2,851

Impairment losses for securities amounting to ¥63 million (¥63 million for shares of subsidiaries and associates) were recorded for the previous fiscal year.

Impairment losses for securities amounting to ¥107 million (\$1,011 thousand) (¥107 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 ¥1,419 million (\$13,395 thousand) and ¥634 million with an aggregate gain of ¥411 million (\$3,878 thousand) and ¥88 million and an aggregate loss of ¥20 million (\$189 thousand) for the years ended March 31, 2018 and 2017, 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, 2018 and 2017.

### Currency-related transactions

March 31, 2018	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\$	¥ 13,417	¥ 127	¥ 127	\$ 126,582	\$ 1,199	\$ 1,199
Buy:						
US\$	7,206	(52)	(52)	2,710	(36)	(36)
YEN	287	(3)	(3)	67,985	(496)	(496)
Total	¥ 20,911	¥ 70	¥ 70	\$ 197,278	\$ 667	\$ 667

March 31, 2017	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell:			
US\$	¥ 9,952	¥ 122	¥ 122
Buy:			
US\$	6,398	2	2
YEN	448	(19)	(19)
Total	¥ 16,799	¥ 104	¥ 104

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, 2018 and 2017

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)
	2018	2017	2018
Changes in Retirement Benefit Obligations (excluding plans that apply the simplified method)			
Beginning balance of retirement benefit obligations	¥ 12,427	¥ 12,346	\$ 117,241
Service costs	520	505	4,909
Interest costs	73	72	691
Actuarial differences arising during the year	278	174	2,631
Retirement benefits paid	(601)	(672)	(5,672)
Increase due to change from the simplified method to the principle method	0	—	6
Ending balance of retirement benefit obligations	¥ 12,699	¥ 12,427	\$ 119,808

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Changes in Pension Assets (excluding plans that apply the simplified method)			
Beginning balance of pension assets	¥ 7,888	¥ 7,770	\$ 74,422
Expected return on pension assets	197	194	1,860
Actuarial differences arising during the year	94	28	893
Contributions by the Company and consolidated subsidiaries	237	261	2,237
Retirement benefits paid	(392)	(365)	(3,703)
Ending balance of pension assets	¥ 8,025	¥ 7,888	\$ 75,709

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Changes in net defined benefit liabilities for plans that apply the simplified method			
Beginning balance of net defined benefit liability	¥ 40	¥ 33	\$ 380
Retirement benefit expenses	6	7	65
Retirement benefits paid	(0)	0	(6)
Contribution to plans	(0)	0	(7)
Decrease due to change from the simplified method to the principle method	(0)	—	(6)
Ending balance of net defined benefit liability	¥ 45	¥ 40	\$ 424

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Reconciliation of benefit obligations and pension assets with net defined benefit liability and asset on the Consolidated Balance Sheets			
Funded retirement benefit obligations	¥ 8,855	¥ 8,767	\$ 83,545
Pension assets	(8,025)	(7,888)	(75,709)
Net	830	878	7,835
Unfunded retirement benefit obligations	3,888	3,700	36,681
Net amount of liability and asset on Consolidated Balance Sheets	4,718	4,579	44,516
Net defined benefit liability	4,718	4,579	44,516
Net amount of liability and asset on Consolidated Balance Sheets	¥ 4,718	¥ 4,579	\$ 44,516

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Components of retirement benefit expenses</b>			
Service costs	¥ 520	¥ 505	\$ 4,909
Interest costs	73	72	691
Expected return on pension assets	(197)	(194)	(1,860)
Amortization of actuarial differences	273	255	2,575
Amortization of prior service cost	—	(64)	—
Retirement benefit expenses by simple method	6	7	65
<b>Retirement benefit expenses for defined benefit pension plans</b>	<b>¥ 676</b>	<b>¥ 582</b>	<b>\$ 6,381</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Remeasurements of defined benefit plans(Other comprehensive income)</b>			
<b>Breakdown(before deduction of tax effects)</b>			
Prior service cost	¥ —	¥ (64)	\$ —
Actuarial differences	88	108	835
<b>Net</b>	<b>¥ 88</b>	<b>¥ 44</b>	<b>\$ 835</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Components of remeasurements of defined benefit plans (before deduction of tax effects)</b>			
Unrecognized prior service cost	¥ —	¥ 0	\$ —
Unrecognized actuarial differences	1,827	1,916	17,241
<b>Total</b>	<b>¥ 1,827</b>	<b>¥ 1,916</b>	<b>\$ 17,241</b>

	As of March 31, 2018	As of March 31, 2017
<b>Components of pension assets</b>		
Bonds	32%	46%
Stocks	29%	31%
Life insurance general accounts	12%	12%
Others	27%	11%
<b>Total</b>	<b>100%</b>	<b>100%</b>

#### Rate of expected return on pension assets

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

	As of March 31, 2018	As of March 31, 2017
<b>Basic Assumptions for Calculating Retirement Benefit Obligations</b>		
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
	2018	2017	U.S. dollars (Note 1)
Selling, general and administrative expenses	¥ 38	¥ 34	\$ 358

### (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	23,500 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	20,500 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	30,000 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

fourth grant	
Company name	Submitting Company
Resolution date	May 15, 2017
Person granted	14 directors of the Company
Number of shares granted	25,000 share of common stock
Grant date	May 30, 2017
Vesting conditions	With 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 May 1,2017 to May 30, 2037

Converted into the number of shares. Since the Company conducted a share consolidation (consolidation of two shares of common stock into one share) with the effective date of October 1, 2017, the number of shares is shown on a post-consolidation basis.

(ii)Scale and changes in stock options

Movement in stock options during the fiscal year ended March 31, 2018 was as follows:

	Number of shares <b>As of March 31, 2018</b>	Number of shares As of March, 2017	Number of shares As of March, 2016	Number of shares As of March, 2015	
Before vested:					
Beginning balance (Stock options outstanding)	—	—	—	—	
Granted	25,000	—	—	—	
Forfeited	—	—	—	—	
Vested	25,000	—	—	—	
Ending balance(Stock options outstanding)	—	—	—	—	
After vested:					
Beginning balance (Stock options outstanding)	—	24,000	15,500	7,000	
Vested	25,000	—	—	—	
Exercised	3,500	3,000	2,000	2,500	
Forfeited	—	—	—	—	
Ending balance(Stock options outstanding)	21,500	21,000	13,500	4,500	
	<b>As of March 31,2018</b>	As of March 31, 2017	As of March 31, 2016	As of March 31, 2015	<b>As of March 31, 2017</b>
	Yen	Yen	Yen	Yen	U.S. dollars(Note 1)
Exercise price	¥1	¥1	¥1	¥1	\$0.009
Weighted average market value per share at the exercise date	¥1,578	¥1,578	¥1,578	¥1,578	\$14.886
Fair value per share at the grant date	¥1,520	¥1,154	¥1,720	¥1,314	\$14.339

Since the Company conducted a share consolidation (consolidation of two shares of common stock into one share) with the effective date of October 1, 2017, the number of shares is shown on a post-consolidation basis.

(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)	27.1%
Expected residual Period (Note 2)	3.0 years
Expected dividends (Note 3)	¥44 per share
Risk-fee rate (Note 4)	Δ0.14%

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 Since the Company conducted a share consolidation (consolidation of two shares of common stock into one share) with the effective date of October 1, 2017, the forecast figure is based on the actual cash dividends paid for the fiscal year ended March 31, 2018, which factors in the share consolidation. .

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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Deferred tax assets</b>			
Net defined benefit liability	¥ 1,441	¥ 1,399	\$ 13,600
Excess employees' bonus allowances	362	359	3,415
Loss on valuation of inventories	208	182	1,970
Accrued enterprise tax	90	33	857
Valuation loss of investment in golf club membership	53	53	507
Loss on devaluation of investment securities	50	82	480
Excess allowance for doubtful accounts	49	56	468
Other	307	302	2,903
Subtotal	2,565	2,470	24,204
Valuation allowance	(131)	(123)	(1,236)
<b>Total</b>	<b>2,434</b>	<b>2,346</b>	<b>22,967</b>
<b>Deferred tax liabilities</b>			
Unrealized holding gains on securities	987	848	9,319
Retained earnings of foreign subsidiaries	312	304	2,945
Deferred capital gains on land	105	105	993
Reserve for special depreciation	87	113	825
Other	7	23	69
<b>Total</b>	<b>1,500</b>	<b>1,394</b>	<b>14,153</b>
<b>Net deferred tax assets</b>	<b>¥ 934</b>	<b>¥ 951</b>	<b>\$ 8,813</b>

The Company and its consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, result in a statutory tax rate of 30.62 % in 2018 and 30.86 % in 2017. 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, 2018 and 2017, were as follows:

	2018	2017
Statutory tax rate	—%	30.86%
Items excluded from non taxable expenses permanently, such as entertainment expenses	—	1.31
Items not permanently included in income, such as dividends received	—	(0.23)
Inhabitant tax on per capita basis	—	2.05
Retained earnings of foreign subsidiaries	—	9.00
Losses on consolidated subsidiaries that do not recognize tax effect	—	2.82
Special credit of corporation tax	—	(2.11)
Other, net	—	(0.56)
<b>Effective tax rates</b>	<b>—%</b>	<b>43.14%</b>

The breakdown of the difference for the fiscal year ended March 31, 2018 is omitted since the difference between the statutory tax rate and the effective tax rate was 5% or less of the statutory tax rate.

## 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) 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, 2018 and 2017, is summarized as follows:

Year ended or as of March 31, 2018	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	¥ 45,843	¥ 25,696	¥ 6,318	¥ 158,635	¥ —	¥236,494	¥ —	¥ 236,494	
(2)Intersegment sales and transfer	0	—	—	0	—	0	(0)	—	
Total sales	45,843	25,696	6,318	158,635	—	236,494	(0)	236,494	
Operating profit	1,926	528	131	2,492	—	5,078	—	5,078	
II. Assets, depreciation expenses and capital expenditures:									
Total assets	24,763	14,514	3,695	78,729	639	122,342	11,368	133,710	
Depreciation expenses	148	89	44	231	—	513	—	513	
Capital expenditures	¥ 87	¥ 60	¥ 18	¥ 151	¥ —	¥ 317	¥ —	¥ 317	

Year ended or as of March 31, 2018	Thousands of U.S. dollars (Note 1)							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	\$ 432,481	\$ 242,419	\$ 59,613	\$ 1,496,562	\$ —	\$2,231,077	\$ —	\$ 2,231,077	
(2)Intersegment sales and transfer	3	—	—	0	—	3	(3)	—	
Total sales	432,484	242,419	59,613	1,496,562	—	2,231,080	(3)	2,231,077	
Operating profit	18,171	4,984	1,236	23,515	—	47,906	—	47,906	
II. Assets, depreciation expenses and capital expenditures:									
Total assets	233,615	136,924	34,859	742,734	6,036	1,154,171	107,246	1,261,417	
Depreciation expenses	1,399	845	418	2,179	—	4,842	—	4,842	
Capital expenditures	\$ 824	\$ 570	\$ 173	\$ 1,431	\$ —	\$ 2,998	\$ —	\$ 2,998	

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	

The Related Information of the Company and its consolidated subsidiaries for the year ended March 31, 2018 and 2017, is summarized as follows:

Year ended or as of March 31, 2018	Millions of yen						
	Japan	China	Asia-others	North America	Europe	Others	Total
Geographic Information:							
Net sales	¥ 186,382	¥ 24,464	¥ 16,214	¥ 6,066	¥ 3,365	¥ —	¥ 236,494

Year ended or as of March 31, 2018	Thousands of U.S. dollars (Note 1)						
	Japan	China	Asia-others	North America	Europe	Others	Total
Geographic Information:							
Net sales	\$ 1,758,328	\$ 230,796	\$ 152,965	\$ 57,233	\$ 31,753	\$ —	\$ 2,231,077

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, 2018	Millions of yen	
	Net sales	Related segments
Major client Information:		
Name of clients		
Panasonic Corporation	¥ 33,432	Electronics

Year ended or as of March 31, 2018	Thousands of U.S. dollars (Note 1)	
	Net sales	Related segments
Major client Information:		
Name of clients		
Panasonic Corporation	\$315,400	Electronics

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

## 20. AMOUNTS PER SHARE

	Yen		U.S. dollar (Note 1)
	2018	2017	2018
Net income			
Basic	¥ 165.44	¥ 64.04	\$ 1.56
Diluted	164.98	63.88	1.556
Cash dividends	37	22	0.349
Net assets	2,948.86	2,809.01	27.819

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, 2018, were approved at a directors' meeting held on May 15, 2018:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends (¥ 26 = \$0.244 per share)	¥ 564	\$ 5,321

## 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, 2018, 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, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

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

*Ernst & Young ShinNihon LLC*

June 28, 2018  
Tokyo, Japan



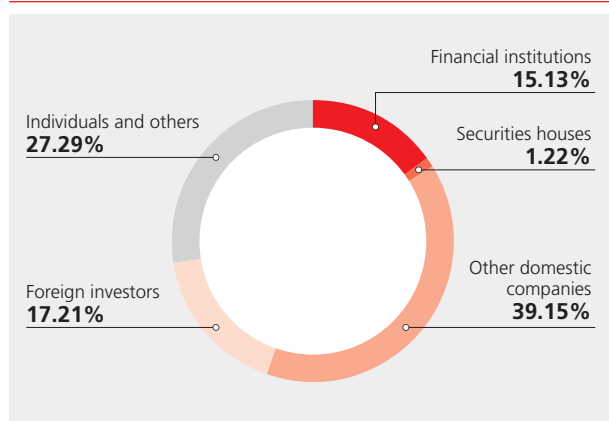
# STOCK INFORMATION

(As of March 31, 2018)

## SHARES

Total number of shares authorized:	56,550,000 shares
Total number of shares issued: (Including 1,131,243 treasury stock)	22,824,977 shares
Number of shareholders:	4,102

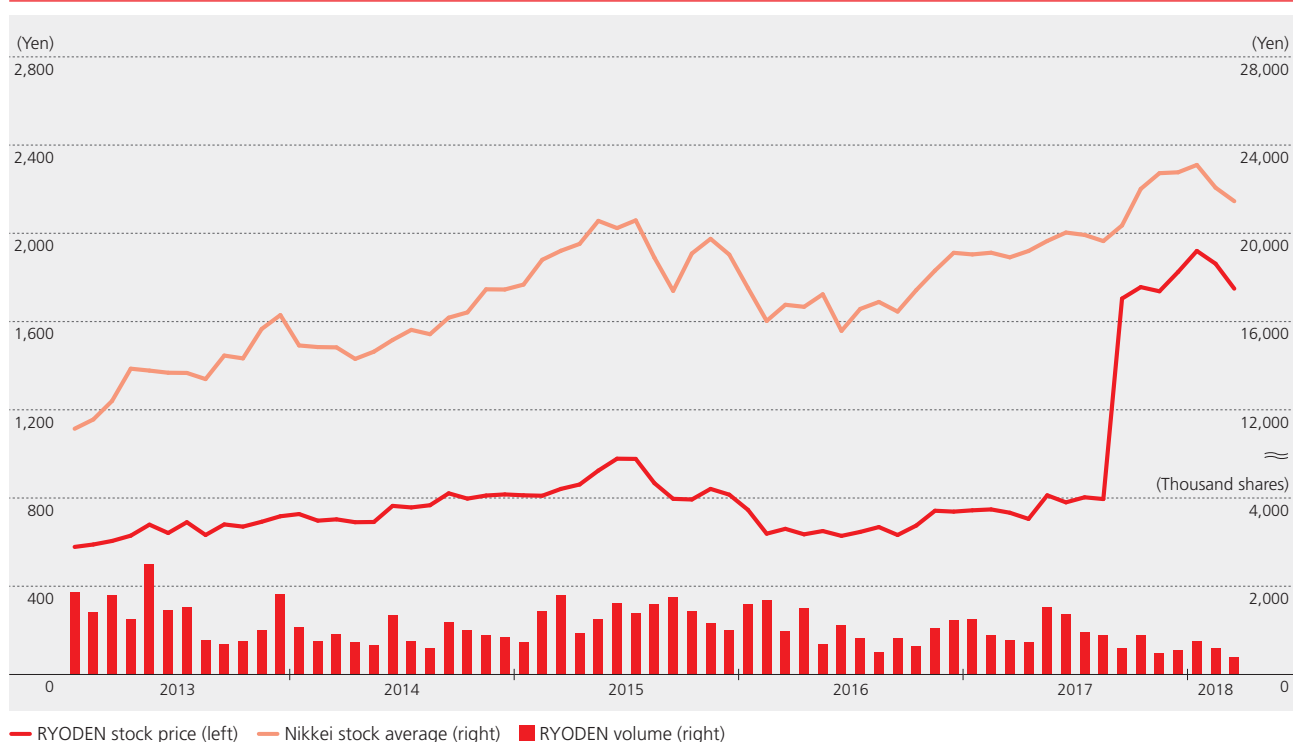
## SHARE OWNERSHIP BY SHAREHOLDER CATEGORY



## MAJOR SHAREHOLDERS

Name	Shares held (Thousand shares)
Mitsubishi Electric Corporation	7,755
BBH BOSTON FOR NOMURA JAPAN SMALLER CAPITALIZATION FUND 620065	768
The Master Trust Bank of Japan, Ltd. trust account	549
Japan Trustee Services Bank, Ltd. trust account	439
DFA INTL SMALL CAP VALUE PORTFOLIO	396
Japan Trustee Services Bank, Ltd. trust account 9	374
Ryoden Employee Stock Ownership Plan	330
Tokio Marine & Nichido Fire Insurance Co., Ltd.	326
Citizen Watch Co., Ltd.	290
GOVERNMENT OF NORWAY	280

## STOCK PRICE AND TRADING VOLUME



Note: The Company conducted a share consolidation (consolidation of two shares of common stock into one share) with the effective date of October 1, 2017.

# CORPORATE INFORMATION

## CORPORATE DATA

### FIRM NAME:

Ryoden Corporation

### ESTABLISHMENT:

April 22, 1947

### NUMBER OF EMPLOYEES:

1,284 (consolidated)  
1,053 (non-consolidated)

### CAPITAL:

¥10,334,298,875 (As of March 31, 2018)

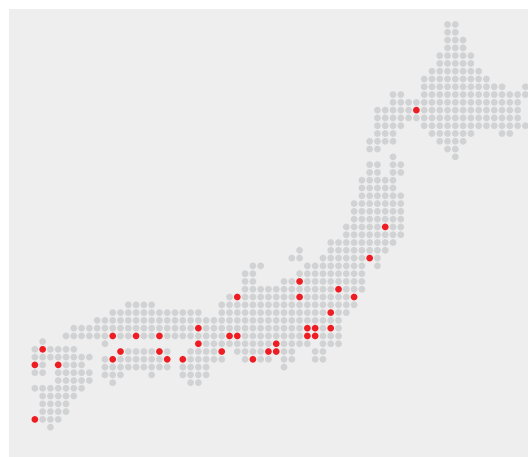
### HEAD OFFICE:

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.  
Mitsubishi Electric Insurance Service Co., Ltd.

## DOMESTIC NETWORK



## DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBER AND EXECUTIVE OFFICER (AS OF JUNE 28, 2018)

### Representative Director of Board

#### President

Nobuo Shogaki

### Representative Director of Board

#### Senior Vice President

Takamichi Kasugai

### Director of Board

#### Senior Executive Officer

Shoji Kitai  
Osamu Tanaka

### Outside Director

Masamitsu Miyagishi  
Yoshiko Shirata  
Masahiro Muroi

### Audit & Supervisory Board Member

Toshiharu Oya  
Kenji Nagae  
\*Kentarō Tani  
\*Hideyo Ishino  
\* Outside Audit & Supervisory Member

### Senior Executive Officer

Hideharu Yamazaki  
Yasuhiro Souda  
Hitoshi Chihara  
Masatoshi Nakamura

### Executive Officer

Yoshiaki Ogawa  
Akira Sano  
Shunichi Higashi  
Akira Noda  
Takahiro Ozawa  
Kazumoto Yogosawa

## GLOBAL 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.

