ANNUAL REPORT 2016

Year ended March 31, 2016

SHIBAURA MECHATRONICS CORPORATION

ANNUAL REPORT 2016

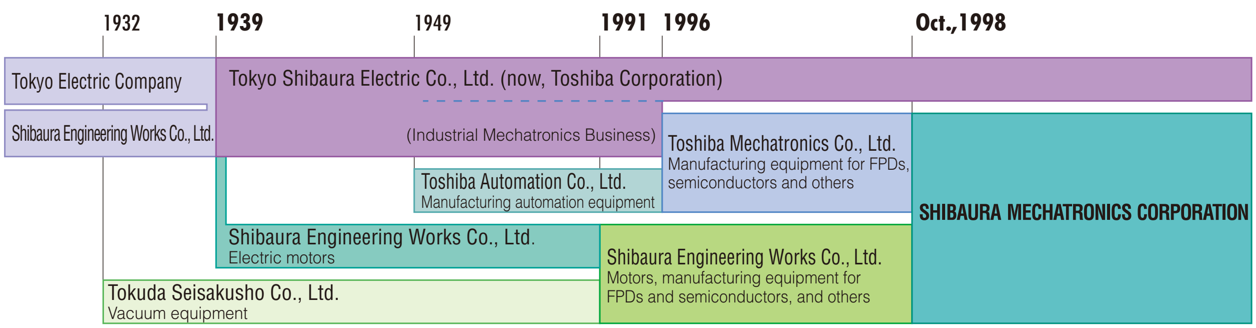
Profile

Shibaura Mechatronics was established in 1939 as Shibaura Engineering Works Co., Ltd. Initially, our primary focus was on the motor business, but in 1998 we reestablished ourselves as a producer of manufacturing equipment for FPDs* and semiconductors. At that time the company took its present name, Shibaura Mechatronics Corporation.

Shibaura Mechatronics Group brings core know-how cultivated over many years to total solutions in areas as diverse as high-accuracy mechatronics, cleaning, vacuum processing, sputtering, etching and bonding technologies. Our capabilities, range from the development of manufacturing equipment for FPDs, semiconductors, electronic components and optical thin films to the provision of comprehensive service support.

*FPDs : flat panel displays

History



Contents

Forward-Looking Statements

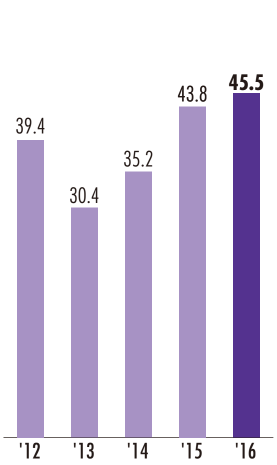
This annual report contains forward-looking statements concerning Shibaura Mechatronics' future plans, strategies and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on data currently available. Furthermore, they are subject to a number of risks and uncertainties that, relate to economic conditions, worldwide mega-competition in the electronics business, customer demand, foreign currency exchange rates, tax rules, regulations and other factors. Shibaura therefore wishes to caution readers that actual results may differ materially from our expectations.

Financial Highlights

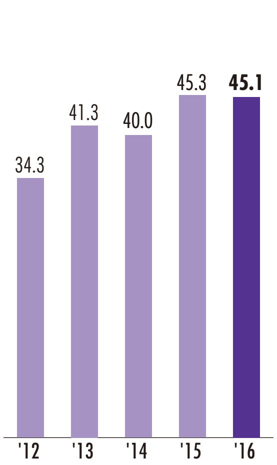
Consolidated	Year ended March 31, 2016	2015	2014	2013	2012	Year ended March 31, 2016
	(Millions of yen)					(Thousands of U.S. dollars) (Note 1)
Net sales	¥ 45,550	¥ 43,799	¥ 35,165	¥ 30,400	¥ 39,360	$ 404,236
Orders received	45,077	45,300	40,000	41,300	34,300	400,044
Operating income (loss)	1,292	1,022	736	60	(370)	11,463
Net income (loss)	743	697	387	(1,416)	(394)	6,595
Depreciation and amortization	1,411	1,271	1,359	1,424	1,503	12,525
Capital expenditures	1,536	797	1,195	575	1,120	13,633
R&D expenses	2,065	1,856	1,726	1,805	2,064	18,325
Total assets	56,253	54,720	47,602	50,767	52,943	499,230
Net assets	15,675	16,058	15,064	15,697	16,948	139,112
	(yen)					(U.S. dollars)
Net income (loss) per share	¥ 15.04	¥ 14.11	¥ 7.83	¥ (28.66)	¥ (7.98)	$ 0.13
Number of employees	1,177	1,174	1,210	1,285	1,496	1,177

Note 1 : The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥112.68 = U.S.$1.00, as of March 31, 2016.

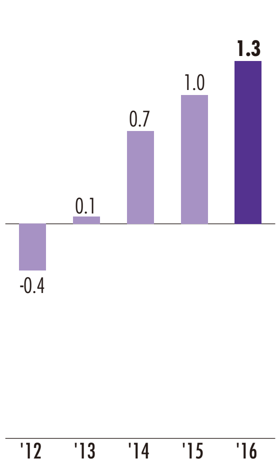
Net Sales (¥Billions)



Orders Received (¥Billions)



Operating Income (loss) (¥Billions)



Net Income (loss) (¥Billions)

Smart Solutions & Services
for Your Manufacturing

To Our Shareholders

As we further accelerate initiatives for business structural reform, we will also continue to strengthen the management structure.

In FY2015, we saw continued general uncertainty in Shibaura Mechatronics Group's business environment. Overseas, there were uncertain factors such as economic slowdown and geopolitical risk increased in the Middle East. In the domestic market, concerns have intensified with the rapid appreciation of the yen and falling stock prices since the start of 2016.

Even with these risks, the Group has seen orders and sales for FPD manufacturing equipment remain strong. In semiconductor manufacturing equipment, we have seen increases for the back-end process, and while there was weakness in the front-end process in the first half of FY2015, the trend in 2016 is to recovery. Overall orders are at the same level as last year and sales have increased.

As a result of the foregoing, consolidated net sales in FY2015 were 45,550 million yen, consolidated operating income was 1,292 million yen, and consolidated net income was 743 million yen.

Looking to FY2016, we can see uncertainties in the business environment, overseas and in Japan, but we believe that capital investment will continue in both the FPD and semiconductor industries.

In the FPD industry, capital investment has been lively, particularly for OLED. Based on the core technologies we have cultivated in FPD manufacturing equipment, we have developed OLED manufacturing equipment, and we will work to win orders for it. In the semiconductor industry, investment in advanced fields is expected to be strong at foundries and memory makers, and here we are making efforts to increase orders through technological innovation. We are also working to win orders in the expanding market for IoT (Internet of Things).

Shibaura Mechatronics Group will primarily concentrate on winning orders in growth orders, and continue efforts to secure business growth. As we do so, we will also continue to work to strengthen the management structure.

Shigeki Fujita
President and Chief Executive Officer

S. Fujita

Financial Review

Results Summary

In FY2015 Shibaura Mechatronics recorded orders received of 45,077 million yen (a year-on-year fall of 0.5%), net sales of 45,550 million yen (a year-on-year increase of 4.0%), operating income of 1,292 million yen (a year-on-year increase of 26.4%), ordinary income of 1,173 million yen (a year-on-year increase of 3.0%), and net income of 743 million yen (a year-on-year increase of 6.6%).

The Results for each business segment were as follows:

1. Fine Mechatronics Segment

The segment recorded net sales of 26,536 million yen (a year-on-year increase of 14.7%) and a loss of 221 million yen (against a loss of 481 million yen in the previous fiscal year).

In FPD front-end processing, orders of equipment for small- and medium-sized panels increased, as did orders for equipment for large panels, with the overall result of higher orders. In terms of sales, equipment for small- and medium-sized panels saw an increase, and even though equipment for large panels saw a decrease, the result was an overall increase.

In semiconductor front-end processes, despite a recovery in orders for semiconductor wet equipment in the second half, overall orders and sales both decreased. Orders and sales both increased for semiconductor mask-related equipment.

The division as a whole saw an overall rise in both orders and sales. However, due to factors such as investment in research and development for the future and inventory asset write-downs, the segment recorded a loss, though it did see an improvement of 260 million yen.

2. Mechatronics Systems Segment

The segment recorded net sales of 15,336 million yen (a year-on-year fall of 9.3%), and income of 1,423 million yen (a year-on-year increase of 7.8%).

In equipment for FPD back-end processing, orders and sales both decreased.

In equipment for semiconductor back-end processing, demand for semiconductors for use in mobile devices increased, resulting in higher orders and sales. In addition, we received large-scale orders for solar cell manufacturing equipment. For vacuum application equipment orders and sales both decreased.

The division as a whole recorded lower orders and sales. In this segment too, we made investments in research and development for the future, and had to write down inventory assets. However the share of sales from highly profitable equipment increased, resulting in an increase in segment profit.

3. Vending Machines and Systems Segment

The segment recorded net sales of 1,645 million yen (a year-on-year fall of 7.9%), and a loss of 55 million yen (against income of 29 million yen in the previous fiscal year).

Sales decreased, mainly in ticket vending machines, and as a result of factors such as inventory asset write-downs the segment loss increased.

4. Real Estate Leasing Segment

Real estate rental income increased as anticipated, and the segment recorded net sales of 2,033 million yen (a year-on-year increase of 3.4%) and income of 504 million yen (a year-on-year increase of 11.8%).

Research and Development Expenditure

The Shibaura Mechatronics Group as a whole recorded research and development costs of 2,065 million yen (including development costs of 423 million yen for basic technologies that could not be appropriated to any specific segment).

R&D is advanced by the development and design departments in business divisions, the Research and Development Division, and by the technology divisions in our consolidated subsidiary companies. In addition, we are pushing forward efficient research and development and the commercialization of advanced technologies by strengthening our relations and collaboration with Toshiba Corporation’s Research and Development Center and Manufacturing Engineering Center, and with Toshiba Corporation’s Storage & Electronic Devices Solutions Company.

Research and development expenses and research results for each segment are as follows:

1. Fine Mechatronics Segment

R&D expenses for the segment totaled 900 million yen.

In LCD panel production equipment we have worked on the development of wet process equipment, PI inkjet coaters and inkjet coaters for overcoat suitable for high-definition small- and medium-sized panels.

In semiconductor equipment we have worked on the development of wet cleaning equipment that can be used in next generation devices, single wafer wet processor, wet cleaning equipment for masks and dry etching equipment for masks.

2. Mechatronics Systems Segment

R&D expenses for the segment totaled 647 million yen.

In LCD module equipment we have worked on the development of COG bonders for small- and medium-sized panels, and of vacuum bonding equipment for touch screen panels.

In semiconductor assembly equipment we have worked on the development of high speed, high precision bonding equipment. In the field of vacuum equipment we have been working on the development of sputtering equipment for optical thin films and for semiconductor backside contacts.

3. Vending Machines and Systems Segment

R&D expenses for the segment totaled 93 million yen.

In the field of vending machines we have worked on development of card-compatible machines, and in general-purpose machines we have worked on development of slim machines that can handle high value bills. In addition, as an expansion into a new area, we have worked on development of electronic money charging machines.

Financial Condition

Total assets at the end of the fiscal year were 56,253 million yen, an increase of 1,533 million yen compared to the end of the previous fiscal year.

Current assets were evaluated at 43,798 million yen, an increase of 1,580 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in cash and bank deposits.

Fixed assets were evaluated at 12,455 million yen, a reduction of 47 million yen compared to the end of the previous fiscal year.

Total liabilities at the end of the fiscal year stood at 40,578 million yen, an increase of 1,916 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in net defined benefit liability and advances received.

Total net assets at the end of the fiscal year decreased 383 million compared to the end of the previous fiscal year, to 15,675 million yen. Although there was an increase in retained earnings in reported net income, this was mainly due to an increase in unrecognized debt accompanied by a reduction in the adjusted cumulative amount of retirement benefits.

Cash Flows

The balance of cash and cash equivalents at the end of the current fiscal year was 7,012 million yen, an increase of 2,816 million yen compared to the end of the last fiscal year.

Net cash flow from operating activities increased by 3,645 million yen (last year saw a 750 million yen decrease). This is mainly due, to an increase in funds in the reported net income before taxes and other adjustments, the result of a decrease in accounts receivable and an increase in payments received.

Cash flow from investment activities fell by 394 million yen during the fiscal year (against a fall of 278 million in the previous fiscal year). This was mainly due to a decrease in cash resulting from the acquisition of fixed assets.

Net cash flow due to financing activities decreased by 369 million yen (last year saw a 1,245 million yen increase). This is mainly due to a decrease in funds following repayment of debt and payment of dividends.

FINANCIAL SECTION

ANNUAL REPORT 2016 Year ended March 31, 2016

Contents

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Balance Sheet

	March 31, 2016	March 31, 2015	March 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash and bank deposits *(Note 14)*	¥ 7,027	¥ 4,214	$ 62,362
Notes and accounts receivable, trade *(Note 14)*	29,492	30,568	261,734
Electronically recorded monetary claims *(Note 14)*	673	322	5,973
Allowance for doubtful accounts	(23)	(37)	(206)
Inventories *(Note 5)*	3,952	4,748	35,076
Deferred tax assets *(Note 8)*	574	649	5,093
Accounts receivable, other	1,325	1,222	11,756
Other current assets	778	532	6,905
Total current assets	43,798	42,218	388,693
Property, plant and equipment:			
Land *(Note 15)*	119	119	1,059
Buildings and structures *(Note 15)*	28,354	28,276	251,628
Machinery and equipment	4,974	3,670	44,143
Leased assets	356	370	3,163
Construction in progress	335	525	2,970
Total	34,138	32,960	302,963
Accumulated depreciation	(22,846)	(21,757)	(202,747)
Property, plant and equipment, net	11,292	11,203	100,216
Investments and other assets:			
Investments in securities *(Notes 4 and 14)*	113	125	1,005
Deferred tax assets *(Note 8)*	156	218	1,381
Other assets	896	958	7,951
Allowance for doubtful accounts	(2)	(2)	(16)
Total investments and other assets	1,163	1,299	10,321
Total assets	¥ 56,253	¥ 54,720	$ 499,230

	March 31, 2016	March 31, 2015	March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable, trade *(Note 14)*	¥ 12,330	¥ 12,619	$ 109,430
Short-term bank loans *(Notes 6 and 14)*	5,540	5,720	49,166
Current portion of long-term debt *(Notes 6 and 14)*	—	700	—
Provision for contract losses	—	21	—
Current portion of lease obligations *(Note 6)*	36	39	322
Advances received	1,279	542	11,349
Accrued expenses	3,252	2,814	28,863
Accrued income taxes *(Note 8)*	243	206	2,156
Provision for directors' bonuses	29	23	254
Other current liabilities	564	463	5,002
Total current liabilities	23,273	23,147	206,542
Long-term liabilities:			
Long-term debt *(Notes 6 and 14)*	6,500	5,800	57,686
Net defined benefit liability *(Note 11)*	7,292	6,135	64,711
Lease obligations *(Note 6)*	56	84	497
Long-term accounts payable-other	5	4	42
Provision for directors' retirement benefits	8	12	69
Reserve for repair and maintenance	333	374	2,957
Asset retirement obligations	34	34	307
Long-term lease deposits *(Note 14)*	3,077	3,072	27,307
Total long-term liabilities	17,305	15,515	153,576
Total liabilities	40,578	38,662	360,118
Contingent liabilities *(Note 12)*			
Net assets:			
Shareholders' equity:			
Capital stock:			
Authorized: 100,000,000 shares			
Issued: 51,926,194 shares at March 31, 2016 and 2015	6,762	6,762	60,006
Capital surplus	9,108	9,108	80,829
Retained earnings	2,982	2,387	26,463
Less treasury stock, at cost	(1,723)	(1,722)	(15,287)
Total shareholders' equity	17,129	16,535	152,011
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	22	32	193
Foreign currency translation adjustments	342	401	3,038
Remeasurements of defined benefit plans	(1,818)	(910)	(16,130)
Total valuation and translation adjustments	(1,454)	(477)	(12,899)
Total net assets	15,675	16,058	139,112
Total liabilities and net assets	¥ 56,253	¥ 54,720	$ 499,230

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statement of Operations

	Years ended March 31, 2016	Years ended March 31, 2015	Year ended March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Net sales	¥ 45,550	¥ 43,799	$ 404,236
Cost of sales *(Notes 5,7 and 15)*	35,292	34,387	313,205
Gross profit	10,258	9,412	91,031
Selling, general and administrative expenses *(Notes 7,11 and 18)*	8,966	8,390	79,568
Operating income	1,292	1,022	11,463
Other income (expenses):			
Interest and dividend income	13	15	114
Insurance premiums refunded cancellation	—	17	—
Foreign exchange gain (loss),net	(156)	364	(1,381)
Interest expense	(145)	(151)	(1,285)
Gain (loss) on valuation of derivatives, net	218	(165)	1,933
Other, net	(49)	36	(434)
Ordinary income	1,173	1,138	10,410
Business structure improvement expenses *(Note 19)*	—	(93)	—
Environmental expenses	—	(71)	—
Income before income taxes	1,173	974	10,410
Income taxes *(Note 8)*:			
Current	291	204	2,581
Deferred	139	73	1,234
	430	277	3,815
Net income	743	697	6,595
Net income attributable to owners of parent	¥ 743	¥ 697	$ 6,595

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statement of Comprehensive Income

	Years ended March 31, 2016	Years ended March 31, 2015	Year ended March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Net income	¥ 743	¥ 697	$ 6,595
Other comprehensive income: (Note 9)			
Valuation difference on available-for-sale securities	(10)	10	(92)
Remeasurements of defined benefit plans	(908)	298	(8,052)
Foreign currency translation adjustments	(59)	89	(524)
Total other comprehensive income (loss)	(977)	397	(8,668)
Comprehensive income (loss)	¥ (234)	¥ 1,094	$ (2,073)
(Breakdown)			
Comprehensive income (loss) attributable to owners of parent	(234)	1,094	(2,073)

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statement of Changes in Net Assets

	Shareholders' equity					Valuation and translation adjustments			
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total net assets
				(Millions of yen)					
Balance as of April 1, 2014	51,926,194	6,762	9,108	1,788	(1,721)	22	313	(1,208)	15,064
Net income	–	–	–	697	–	–	–	–	697
Dividends of surplus (Note 10)	–	–	–	(98)	–	–	–	–	(98)
Net change during the year	–	–	–	–	–	10	88	298	396
Purchase of treasury shares	–	–	–	–	(1)	–	–	–	(1)
Other net	–	–	–	–	–	–	–	–	–
Balance as of April 1, 2015	51,926,194	¥ 6,762	¥ 9,108	¥ 2,387	¥ (1,722)	¥ 32	¥ 401	¥ (910)	¥ 16,058
Net income	–	–	–	743	–	–	–	–	743
Dividends of surplus (Note 10)	–	–	–	(148)	–	–	–	–	(148)
Net change during the year	–	–	–	–	–	(10)	(59)	(908)	(977)
Purchase of treasury shares	–	–	–	–	(1)	–	–	–	(1)
Other net	–	–	–	–	–	–	–	–	–
Balance as of March 31, 2016	51,926,194	¥ 6,762	¥ 9,108	¥ 2,982	¥ (1,723)	¥ 22	¥ 342	¥ (1,818)	¥ 15,675
				(Thousands of U.S. dollars)					
Balance as of April 1, 2015		$ 60,006	$ 80,829	$21,184	$ (15,278)	$ 285	$ 3,562	$ (8,078)	$ 142,510
Net income		–	–	6,595	–	–	–	–	6,595
Dividends of surplus (Note 10)		–	–	(1,316)	–	–	–	–	(1,316)
Net change during the year		–	–	–	–	(92)	(524)	(8,052)	(8,668)
Purchase of treasury shares		–	–	–	(9)	–	–	–	(9)
Other net		–	–	–	–	–	–	–	–
Balance as of March 31, 2016		$ 60,006	$80,829	$ 26,463	$ (15,287)	$ 193	$ 3,038	$ (16,130)	$ 139,112

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statement of Cash Flows

	Year ended March 31, 2016	Year ended March 31, 2015	Year ended March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Operating activities:			
Income before income taxes and minority interest	¥ 1,173	¥ 974	$ 10,410
Depreciation and amortization	1,411	1,271	12,525
Increase (decrease) in allowance for doubtful accounts	(14)	(58)	(120)
Increase (decrease) in net defined benefit liability	250	259	2,218
Interest and dividend income	(13)	(15)	(114)
Interest expense	145	151	1,285
Loss (gain) on sales of investment securities	(1)	—	(6)
Loss (gain) on sales of property, plant and equipment	(0)	(0)	(4)
Foreign exchange losses (gains)	3	17	29
Increase (decrease) in advances received	754	138	6,693
Decrease (increase) in notes and accounts receivable-trade	687	(7,638)	6,101
Decrease (increase) in inventories	(234)	521	(2,078)
Increase (decrease) in notes and accounts payable-trade	310	4,639	2,747
Increase (decrease) in accrued consumption taxes	(91)	81	(809)
Other, net	(399)	(758)	(3,543)
Subtotal	3,981	(418)	35,334
Interest and dividends received	13	15	110
Interest paid	(145)	(147)	(1,283)
Income taxes paid	(204)	(200)	(1,810)
Net cash (used in) provided by operating activities	3,645	(750)	32,351
Investment activities:			
Payments into time deposits	(0)	(0)	(0)
Proceeds from withdrawal of time deposits	3	52	26
Proceeds from sales of investment securities	2	—	13
Purchases of property, plant and equipment	(304)	(218)	(2,694)
Proceeds from sales of property, plant and equipment	61	1	541
Other, net	(156)	(113)	(1,387)
Net cash used in investment activities	(394)	(278)	(3,501)
Financing activities:			
Net increase (decrease) in short-term loans payable	(180)	(2,398)	(1,597)
Repayments of finance lease obligations	(40)	(57)	(351)
Proceeds from long-term loans payable	700	5,800	6,212
Repayments of long-term loans payable	(700)	(2,000)	(6,212)
Purchases of treasury stock	(1)	(1)	(9)
Cash dividends paid	(148)	(99)	(1,316)
Net cash provided by (used in) financing activities	(369)	1,245	(3,273)
Effect of exchange rate change on cash and cash equivalents	(66)	61	(584)
Net increase (decrease) in cash and cash equivalents	2,816	278	24,993
Cash and cash equivalents at beginning of year	4,196	3,918	37,238
Cash and cash equivalents at end of year	¥ 7,012	¥ 4,196	$ 62,231

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2016

1. Basis of Presentation

Shibaura Mechatronics Corporation (the "Company") and its consolidated subsidiaries (collectively, the "Companies" or the "Group") maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which differ in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan. In addition, the non-consolidated balance sheet of the Company as of March 31, 2016 and the non-consolidated statement of operations for the year then ended are included, as other information, in the accompanying consolidated financial statements.

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. The translation of yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan. The translation has been made at the rate of ¥112.68 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2016. This translation should not be construed as a representation that yen could be converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Items for the Presentation of Consolidated Financial Statements

(1) Basis of consolidation

The accompanying consolidated financial statements include the accounts of Shibaura Mechatronics Corporation and eight subsidiaries over which the Company exerts substantial control, either through majority ownership of voting stock and / or by other means. All assets and liabilities of the subsidiaries are revalued at fair value on acquisition, if applicable. All significant intercompany balances and transactions have been eliminated in consolidation.

Investment in an unconsolidated subsidiary that is not deemed material to the consolidated financial statements is stated at cost.

Certain subsidiaries have a fiscal year end which differs from that of the Company. As a result, adjustments have been made for any significant transactions which took place during the intervening period between the year end of the subsidiaries and that of the Company.

(2) Foreign currency translation

The revenue and expense accounts of the overseas consolidated subsidiaries are translated into Japanese yen at the average rate of exchange in effect during each fiscal year. The balance sheet accounts, except for the components of shareholders' equity, are also translated into Japanese yen at the rate of exchange in effect at each balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Differences arising from translations are presented as "Foreign currency translation adjustments," a component of net assets in the accompanying consolidated financial statements.

Foreign currency monetary assets and liabilities are translated into Japanese yen at the rate of exchange in effect at each balance sheet date and the resulting translation gains or losses are credited or charged to income.

(3) Cash and cash equivalents

The Company and its subsidiaries consider all highly liquid investments with a maturity of three months or less from their purchase dates to be cash equivalents.

(4) Securities

Marketable securities categorized as other securities are carried at fair value with unrealized holding gain or loss, net of applicable income taxes, accounted for as a separate component of net assets. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is computed based on the moving average method.

(5) Derivatives

All derivatives are carried at fair value.

2. Summary of Significant Items for the Presentation of Consolidated Financial Statements (continued)

(6) Inventories

Finished goods and raw materials	— moving average method (in cases where the profitability has declined, the book value is reduced accordingly)
Semi-finished goods and work in process	— individual cost method (in cases where the profitability has declined, the book value is reduced accordingly)

(7) Depreciation and amortization (except for leased assets)

Depreciation of property, plant and equipment is generally computed by the declining-balance method, based on the estimated useful lives of the respective assets. The straight-line method is applied to certain research facilities acquired during the year ended March 31, 1995, and buildings acquired on or after April 1, 1998. Foreign consolidated subsidiaries compute depreciation primarily using the straight-line method. The following summarizes the estimated useful lives of property, plant and equipment by major category:

Buildings and structures	3 – 60 years
Machinery and equipment	2 – 17 years

Intangible assets, which are included in “other assets” of the accompanying consolidated balance sheet, are amortized by the straight-line method. Capitalized software for internal use is amortized by the straight-line method over a period of 5 years, based on the estimated useful life of the software.

(8) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. The amount of the allowance is determined based on their historical experience with write-offs, plus an estimate of specific probable doubtful accounts based on a review of the collectibility of individual receivables.

(9) Provision for directors’ bonuses

To provide for the payment of bonuses to directors and statutory auditors, an allowance is made based on the projected amount incurred.

2. Summary of Significant Items for the Presentation of Consolidated Financial Statements (continued)

(10) Provision for contract losses

Provision for contract losses is provided at an amount considered necessary to cover the estimated possible losses involved in orders for which a loss occurrence is probable where the loss amount can be reasonably estimated at the balance sheet date.

(11) Provision for retirement benefits

An allowance for employees' retirement benefits is provided, based on the projected retirement benefit obligation and the fair value of the pension plan assets at of the balance sheet date. The retirement benefit obligation for employees is attributed to each period by the straight-line attribution method. Actuarial gain or loss is amortized effective the year subsequent to the year in which they arise by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the employees. Prior service cost is amortized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.
Unrecognized prior service cost and unrecognized actual gains and losses are included in remeasurements of defined benefit plans under accumulated other comprehensive income in net assets after the tax effect adjustment.

(12) Provision for directors' retirement benefits

Certain directors, statutory auditors and corporate officers of the Company and certain consolidated subsidiaries are entitled to lump-sum payments under their respective unfunded retirement benefit plans. Provision for retirement allowances for these officers has been made at the estimated amounts which would be paid if all directors, statutory auditors and corporate officers resigned as of the balance sheet date.

(13) Reserve for repair and maintenance

Certain research facilities acquired during the year ended March 31, 1995 require periodic repairs and maintenance. An accrual for these repair and maintenance expenses is recorded based on the current portion of the total expenses estimated for such repairs.

(14) Revenues and costs of construction contracts

Revenues and costs of construction contracts are recognized by the percentage of completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost.
The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

(15) Leased assets

The depreciation of leased assets under finance leases is calculated using the straight-line method over the lease term with residual value of zero.

2. Summary of Significant Items for the Presentation of Consolidated Financial Statements (continued)

(16) Hedge accounting

Interest rate swaps which meet specific hedge criteria and qualify for special hedge accounting treatment are not remeasured at fair value.

Hedging instruments and hedged items are summarized as follows:

Hedging instruments		Hedged items
Interest rate swap agreements	・・・	Interest on long-term debt

The Company uses derivative transactions to hedge its exposure to interest rate fluctuation risk on long-term debt.

For interest rate swaps which meet the criteria for special hedge accounting, the assessment of hedge effectiveness is omitted.

(17) Research and development expenses

Research and development expenses are expensed as incurred and included in cost of sales or selling, general and administrative expenses.

(18) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax-based reporting of the assets and liabilities, and are measured using the statutory tax rates which will be in effect when the differences are expected to be realized.

(19) Adoption of consolidated taxation system

The Company and some of its domestic consolidated subsidiaries have adopted the consolidated taxation system.

3. Accounting Changes

The Company adopted “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22) from April 1, 2015. As a result, under the revised accounting standard, the presentation method of net income and others was amended and accounting treatment for adjustments to provisional amounts during the measurement period was also changed.

4. Investments in Securities

At March 31, 2016 and 2015, marketable securities classified as other (available-for-sale) securities are summarized as follows:

	March 31						March 31, 2016		
	2016			2015					
	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference
	(Millions of yen)			*(Millions of yen)*			*(Thousands of U.S. dollars)*		
Other securities whose market value recorded in the balance sheet exceeds their acquisition costs:									
Equity securities	¥ 37	¥60	¥23	¥ 37	¥72	¥ 35	$324	$538	$214
Debt securities	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–
Total	¥ 37	¥ 60	¥23	¥ 37	¥ 72	¥35	$ 324	$ 538	$ 214

At March 31, 2016 and 2015, non-marketable securities carried at cost are summarized as follows:

	March 31,		March 31,
	2016	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Investments in affiliates:			
Affiliates	¥ 52	¥ 52	$ 462
Other	1	1	5

For the year ended March 31, 2016, other securities sold are summarized as follows:

	Year ended March 31 2016			Year ended March 31 2016		
	Sales proceeds	Total gain on sales	Total loss on sales	Sales proceeds	Total gain on sales	Total loss on sales
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Equity securities	¥ 1	¥ 1	—	$ 13	$ 6	—
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	¥ 1	¥ 1	—	$ 13	$ 6	—

For the year ended March 31, 2015, other securities sold are summarized as follows:

Not applicable

5. Inventories

Inventories at March 31, 2016 and 2015 are summarized as follows:

	March 31, 2016	March 31, 2015	March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Finished products	¥ 1,363	¥ 1,440	$ 12,100
Raw materials	184	159	1,636
Work in process	2,405	3,149	21,340
Total	¥ 3,952	¥ 4,748	$ 35,076

Inventories as of March 31, 2016 and 2015 were written down due to lower profitability and unrealized loss on inventories was included in cost of sales in the amounts of ¥811 million ($7,196 thousand) and ¥679 million, respectively.

6. Short-Term Bank Loans and Long-Term Debt

The weighted average interest rate per annum on the short-term bank loans outstanding at March 31, 2016 and 2015 was 1.0%.

Long-term debt and lease obligations at March 31, 2016 and 2015 are summarized as follows:

	March 31, 2016	March 31, 2015	March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unsecured:			
0.8% to 1.3% loans from banks due 2017 to 2020	6,500	6,500	57,686
Lease obligations	92	123	819
Total	6,592	6,623	58,505
Less current portion	36	739	322
Long-term debt and lease obligations, net	¥ 6,556	¥ 5,884	$ 58,183

Aggregate annual maturities of long-term debt and lease obligations at March 31, 2016 are summarized as follows:

	March 31, 2016	
	(Millions of yen)	*(Thousands of U.S. dollars)*
2017	¥ 36	$ 322
2018	837	7,425
2019	513	4,554
2020 and thereafter	5,206	46,204
Total	¥ 6,592	$ 58,505

6. Short-Term Bank Loans and Long-Term Debt (continued)

The Company entered into one-year contracts for commitment lines of credit with five banks in the aggregated amount of approximately ¥5,460 million ($48,456 thousand) for efficient financial arrangements for operating funds on July 31, 2015. The outstanding balance of bank borrowings under these commitment lines at March 31, 2016 was zero.

7. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2016 and 2015 are as follows:

Year ended March 31,		Year ended March 31,
2016	2015	2016
(Millions of yen)		*(Thousands of U.S. dollars)*
¥ 2,065	¥ 1,856	$ 18,325

8. Income Taxes and Deferred Tax Assets

The major components of deferred tax assets and liabilities as of March 31, 2016 and 2015 are summarized as follows:

	March 31,		March 31,
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Net defined benefit liability	¥ 1,688	¥ 1,734	$ 14,974
Accrued employees' bonuses	338	327	2,998
Provision for contract losses	–	7	–
Reserve for repair and maintenance	73	98	649
Enterprise tax payable	30	32	266
Tax loss carried forward	1,264	1,949	11,216
Other	1,270	1,133	11,273
Gross deferred tax assets	4,663	5,280	41,376
Valuation allowance	(3,795)	(4,337)	(33,679)
Total deferred tax assets	868	943	7,697
Deferred tax liabilities:			
Unrecognized holding gain on other securities	(3)	(4)	(27)
Other	(135)	(72)	(1,196)
Total deferred tax liabilities	(138)	(76)	(1,223)
Net deferred tax assets	¥ 730	¥ 867	$ 6,474

8. Income Taxes and Deferred Tax Assets (continued)

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory rates of approximately 33.0% and 35.6% for the years ended March 31, 2016 and 2015, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The reconciliations between the effective tax rates reflected in the consolidated statement of income and the effective statutory tax rates for the years ended March 31, 2016 and 2015 are summarized as follows:

	March 31,	
	2016	**2015**
Effective statutory tax rates	33.0%	35.6%
Effect of:		
Non-deductible expenses	2.2	3.0
Change in valuation allowance	(8.0)	(27.0)
Inhabitants tax per capital	1.1	1.3
Different tax rates applied to foreign consolidated subsidiaries	2.0	1.3
Foreign tax	3.5	4.2
Adjustments in deferred tax assets and liabilities due to the change in tax rate	3.4	9.1
Other	(0.5)	0.9
Effective tax rates	36.7%	28.4%

Adjustment to deferred tax assets and deferred tax liabilities due to changes in statutory tax rates.

The "Act to partially revise the Income Tax Act and Others" (Act No.15 of 2016) and the "Act to partially revise the Local Tax Act and Others" (Act No.13 of 2016) were enacted by the Japanese Diet on March 29, 2016, the corporate income tax rate will be lowered from fiscal years beginning on or after April 1, 2016.

As a result, for temporary differences expected to be reversed in the fiscal year beginning on or after April 1, 2016, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed from 32.2% to 30.8%. In addition for temporary differences expected to be reversed in the fiscal year beginning on or after April 1, 2017, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed to 31.1%, and for temporary differences expected to be reversed in fiscal years beginning on or after April 1, 2018, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed to 30.8%.

The effect of these changes was to reduce deferred tax assets (net of deferred tax liabilities) by ¥33 million ($290 thousand) and increase "Income taxes-deferred" by the same amount as of and for the year ended March 31, 2016.

Additionally, beginning from fiscal years starting on or after April 1, 2016, the use of tax loss carryforwards will be limited to the equivalent to 60% of taxable income before deducting tax loss carryforwards, beginning from fiscal years starting on or after April 1, 2017, the use of tax loss carryforwards will be limited to the equivalent to 55% of taxable income before deducting tax loss carryforwards, and beginning from fiscal years starting on

8. Income Taxes and Deferred Tax Assets (continued)

or after April 1, 2018, the use of tax loss carryforwards will be limited to the equivalent to 50% of taxable income before deducting tax loss carryforwards.
The effect of this change was to reduce deferred tax assets by ¥7 million ($66 thousand) and increase "Income taxes-deferred" by the same amount as of and for the year ended March 31, 2016, respectively.

9. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2016 and 2015:

	March 31,		March 31,
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Valuation difference on other (available-for-sale) securities			
Amount arising during the year	¥ (10)	¥13	$ (96)
Reclassification adjustments for gains and losses included in net income	(1)	–	(6)
Amount before tax effect	(11)	13	(102)
Tax effect	1	(3)	10
Valuation difference on available-for-sale securities	(10)	10	(92)
Foreign currency translation adjustment			
Amount arising during the year	(59)	89	(524)
Reclassification adjustments for gains and losses included in net income	–	–	–
Amount before tax effect	(59)	89	(524)
Tax effect	–	–	–
Foreign currency translation adjustment	(59)	89	(524)
Remeasurements of defined benefit plans			
Amount arising during the year	(1,097)	41	(9,732)
Reclassification adjustments for gains and losses included in net income	189	257	1,680
Amount before tax effect	(908)	298	(8,052)
Tax effect	–	–	–
Remeasurements of defined benefit plans	(908)	298	(8,052)
Total other comprehensive income (loss)	¥ (977)	¥ 397	$ (8,668)

10. Information on Dividends

The Company paid cash dividends as follows:

Date of board resolution	Class of stock	Total dividend amount	Dividend per share	Record date	Effective date
May 15, 2015	Common stock	¥ 148 million	¥3.00	March 31, 2015	June 2, 2015

Approval of dividends payments for which the record date is in the fiscal year and effective date is in the following fiscal year is planned as follows:

Date of board resolution	Class of stock	Total dividend amount	Source of dividends	Dividend per share	Record date	Effective date
May 19, 2016	Common stock	¥ 198 million	Retained earnings	¥4.00	March 31, 2016	June 6, 2016

11. Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who retire from the Companies. Eligible employees may also receive additional payments under the plans.
Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities.

The changes in the retirement benefit obligation for the years ended March 31, 2016 and 2015 are as follows:

	March 31,		March 31,
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 8,350	¥ 8,292	$ 74,107
Service costs	337	349	2,991
Interest costs	120	119	1,067
Actuarial (gain) loss	1,051	(49)	9,322
Retirement benefit paid	(390)	(361)	(3,464)
Balance at the end of the year	¥ 9,468	¥ 8,350	$ 84,023

11. Retirement Benefits (continued)

The changes in plan assets for the years ended March 31, 2016 and 2015 are as follows:

	March 31,		March 31,
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 2,827	¥ 2,673	$ 25,089
Expected return on plan assets	99	93	878
Actuarial loss	(46)	(8)	(410)
Contributions by the Company	323	324	2,863
Retirement benefit paid	(279)	(255)	(2,474)
Balance at the end of the year	¥ 2,924	¥ 2,827	$ 25,946

The changes in net defined benefit liability that calculated by the simplified method for the years ended March 31, 2016 and 2015 are as follows:

	March 31,		March 31,
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 611	¥ 553	$ 5,426
Retirement benefit expense	181	114	1,606
Retirement benefit paid	(42)	(54)	(375)
Other	(2)	(2)	(23)
Balance at the end of the year	¥ 748	¥ 611	$ 6,634

11. Retirement Benefits (continued)

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2016 and 2015 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31, 2016	March 31, 2015	March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 6,179	¥ 5,516	$ 54,833
Plan assets at fair value	(2,924)	(2,827)	(25,946)
	3,255	2,689	28,887
Unfunded retirement benefit obligation	4,037	3,446	35,824
Net liability for retirement benefits in the balance sheet	7,292	6,135	64,711
Liability for retirement benefits	7,292	6,135	64,711
Net liability for retirement benefits in the balance sheet	¥ 7,292	¥ 6,135	$ 64,711

Notes:

Net defined benefit liability calculated by the simplified method is included.

The components of retirement benefit expense for the years ended March 31, 2016 and 2015 are as follows:

	March 31, 2016	March 31, 2015	March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service costs	¥ 337	¥ 349	$ 2,991
Interest costs	120	119	1,067
Expected return on plan assets	(99)	(94)	(878)
Amortization of actuarial loss	206	274	1,830
Amortization of prior service cost	(17)	(17)	(150)
Retirement benefit expense calculated by the simplified method	181	114	1,606
Retirement benefit expense for defined benefit plans	¥ 728	¥ 745	$ 6,466

11. Retirement Benefits (continued)

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2015 are as follows:

	March 31,		March 31,
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Prior service cost	¥ 17	¥ 17	$150
Actuarial gain and loss	890	(315)	7,902
Total	¥907	¥(298)	$ 8,052

The comparents of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 are as follows:

	March 31,		March 31,
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized prior service cost	¥ (99)	¥ (116)	$ (876)
Unrecognized actuarial gain and loss	1,917	1,026	17,006
Total	¥ 1,818	¥ 910	$ 16,130

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 are as follows:

	March 31,	
	2016	2015
Bonds	56.6%	56.2%
General accounts	42.4%	42.5%
Other	1.0%	1.3%
Total	100.0%	100.0%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

11. Retirement Benefits (continued)

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

	March 31,	
	2016	2015
Discount rate	0.31－0.36%	1.44%
Long-term expected return on plan assets	3.5%	3.5%
Salary increase rate	4.2%	5.1%
Lump-sum election rate	70.0%	70.0%

12. Contingent Liabilities

The Company had the following contingent liability as of March 31, 2016 and 2015 :

	March 31,		March 31,
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Guarantee for housing loans of employees	¥ 10	¥ 12	$ 84

13. Derivatives and Hedging Activities

The Company has entered into interest-rate swap contracts to manage its exposure to interest-rate risk on long-term debt. As a matter of policy, the Company does not enter into derivative transactions for trading purposes. The Company does not anticipate nonperformance by any of the counterparties to the above transactions, all of whom are domestic financial institutions with high credit ratings.

In accordance with the Company’s policy, derivative transactions are entered into under the decision-making rules approved by the Management Strategy Committee of the Company. The Treasury Division with the responsibility to enter into such contracts monitors and controls the inherent risk and performance on a daily basis and reports these to management of the Company, if and when necessary.

In accordance with the special hedge accounting under the Accounting Standard for Financial Instruments, the Company does not record certain interest-rate swap arrangements at fair value but charges or credits the net cash flows from the swap arrangements to the interest arising from the respective hedged borrowings.

At March 31, 2016 and 2015, the fair value information for derivatives, for which hedge accounting was applied, was not presented since all derivatives were accounted for using the special hedge accounting and accordingly their fair value was recorded as part of the fair value of the hedged borrowings.

13. Derivatives and Hedging Activities (continued)

Ⅰ. Derivative transactions which do not qualify for hedge accounting

Currency-related transactions

	As of March 31, 2016			
	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain(loss)
	(Millions of yen)			
Foreign Exchange Forward Contracts				
To sell foreign currencies				
U.S. Dollars	¥ 3,772	¥ —	¥ 268	¥ 268
Total	¥3,772	¥ —	¥ 268	¥ 268
To buy foreign currencies				
U.S. Dollars	¥ 1,886	¥ —	¥ (162)	¥ (162)
Total	¥ 1,886	¥ —	¥ (162)	¥ (162)

	As of March 31, 2015			
	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain(loss)
	(Millions of yen)			
Foreign Exchange Forward Contracts				
To sell foreign currencies				
U.S. Dollars	¥ 2,295	¥ —	¥ (65)	¥ (65)
Total	¥ 2,295	¥ —	¥ (65)	¥ (65)
To buy foreign currencies				
U.S. Dollars	¥ 39	¥ —	¥ 0	¥ 0
Total	¥ 39	¥ —	¥ 0	¥ 0

	As of March 31, 2016			
	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain(loss)
	(Thousands of U.S. dollars)			
Foreign Exchange Forward Contracts				
To sell foreign currencies				
U.S. Dollars	$ 33,477	$ —	$ 2,381	$ 2,381
Total	$ 33,477	$ —	$ 2,381	$ 2,381
To buy foreign currencies				
U.S. Dollars	$ 16,734	$ —	$ (1,441)	$ (1,441)
Total	$ 16,734	$ —	$ (1,441)	$ (1,441)

13. Derivatives and Hedging Activities (continued)

Notes:

Fair value is principally based on obtaining quotes from counterpaty financial institutions.

Ⅱ. Derivative transactions which qualify for hedge accounting

Interest-related transaction

Type of derivative transaction	Principal item hedged	As of March 31, 2016 Contract amount	Contract amount over 1 year	Fair value
		(Millions of yen)		
Interest rate swap transaction Pay fixed/Receive variable	Long-term debt	¥ 6,000	¥ 6,000	¥ ―

Type of derivative transaction	Principal item hedged	As of March 31, 2015 Contract amount	Contract amount over 1 year	Fair value
		(Millions of yen)		
Interest rate swap transaction Pay fixed/Receive variable	Long-term debt	¥ 6,000	¥ 5,300	¥ ―

Type of derivative transaction	Principal item hedged	As of March 31, 2016 Contract amount	Contract amount over 1 year	Fair value
		(Thousands of U.S. dollars)		
Interest rate swap transaction Pay fixed/Receive variable	Long-term debt	$ 53,248	$ 53,248	$ ―

Notes:

The fair value of interest rate swaps accounted for using the exceptional treatment is included in the fair value of the underlying long-term debt.

14. Financial Instruments

① Matters relating to financial instruments

(1) Policy of financial instruments

The Group makes capital investments primarily through bank loans to secure the necessary principal and maintain liquidity. Derivatives are used, not for speculative nor trading purposes, but to manage risk of foreign currency exchange rates and interest rate fluctuations arising from business operations.

(2) Contents and risk management for financial instruments

Receivables such as trade notes and accounts receivable are exposed to a customer's credit risk. Receivables from each customer are constantly checked to reduce risk of the costumer's default.
Investment securities are equity securities of customers of the Group and exposed to the market price fluctuation risk.
While foreign currency-denominated operating receivables are exposed to exchange rate fluctuation risk, the Group hedges this risk by, as a general rule, primarily utilizing forward exchange contracts for foreign currency-denominated operating payables. Trade payables, which are operating payables, are settled within a year. Short-term bank loans are used to primarily to procure working capital, while long-term debt is used to procure funds required for long-term stability. Although some items with variable interest rates are exposed to interest rate fluctuation risk, derivative transactions (interest rate swaps) are utilized in part to fix interest payments. Derivatives transactions shown in the below table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk. To control credit risk related to derivatives, based on internal guide lines, the Group enters into derivative transactions with counterparties with high credit ratings. In addition, the Treasury Division of the Group regularly monitors risk and gain or loss, and reports them to management of the Company.
Operating payables and bank loans are exposed to liquidity risk.
Each entity of the Group performs cash management using monthly cash flow information.

(3) Supplementary information on fair value of financial instruments

Fair values of financial instruments are based on their quoted price in active markets. If the quoted price is not available, other rational valuation techniques are used instead. Because various assumptions and factors are reflected in estimating fair value, different assumptions could result in different fair value. The contract or notional amounts of derivatives which are shown in the below table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

14. Financial Instruments (continued)

② Matters concerning the fair value of financial instruments, etc.

Amounts as of March 31, 2016 and 2015 on the accompanying consolidated balance sheet fair value and the difference between them are as follows.

	March 31, 2016		
	Carrying value	Fair value	Difference
		(Millions of yen)	
(1) Cash and bank deposits	¥ 7,027	¥ 7,027	¥ —
(2) Notes and accounts receivable, trade	29,492	29,492	—
(3) Electronically recorded monetary claims	673	673	—
(4) Investment securities-Other securities	61	61	—
(5) Notes and accounts payable, trade	(12,330)	(12,330)	—
(6) Short-term bank loans	(5,540)	(5,540)	—
(7) Long-term debt	(6,500)	(6,495)	5
(8) Other long-term liabilities	(3,077)	(2,818)	259
(9) Derivatives transaction	106	106	—

	March 31, 2015		
	Carrying value	Fair value	Difference
		(Millions of yen)	
(1) Cash and bank deposits	¥ 4,214	¥ 4,214	¥ —
(2) Notes and accounts receivable, trade	30,568	30,568	—
(3) Electronically recorded monetary claims	322	322	—
(4) Investment securities-Other securities	74	74	—
(5) Notes and accounts payable, trade	(12,619)	(12,619)	—
(6) Short-term bank loans	(5,720)	(5,720)	—
(7) Current portion of long-term debt	(700)	(700)	—
(8) Long-term debt	(5,800)	(5,778)	22
(9) Other long-term liabilities	(3,072)	(2,452)	620
(10) Derivatives transaction	(65)	(65)	—

	March 31, 2016		
	Carrying value	Fair value	Difference
		(Thousands of U.S. dollars)	
(1) Cash and bank deposits	$ 62,362	$ 62,362	—
(2) Notes and accounts receivable, trade	261,734	261,734	—
(3) Electronically recorded monetary claims	5,973	5,973	—
(4) Investment securities-Other securities	543	543	—
(5) Notes and accounts payable, trade	(109,430)	(109,430)	—
(6) Short-term bank loans	(49,166)	(49,166)	—
(7) Long-term debt	(57,686)	(57,638)	48
(8) Other long-term liabilities	(27,307)	(25,006)	2,301
(9) Derivatives transaction	(941)	(941)	—

14. Financial Instruments (continued)

(*) Liabilities are presented in parentheses in the above table.

Notes:

a) Method of measurement of fair value of financial instruments and matters concerning securities and derivative transactions

(1) Cash and bank deposits, (2) Notes and accounts receivable, trade, and
(3) Electronically recorded monetary claims

As these items are settled in a short period of time and the fair value is almost equal to the carrying value, their carrying value is presented.

(4) Investment securities - Other securities

The fair value of equity securities represents the price on the stock exchange.

(5) Notes and accounts payable, trade, (6) Short-term bank loans

As these items are settled in a short period of time and the fair value is almost equal to the carrying value, their carrying value is presented.

(7) Long-term debt

As for the fair value of long-term debt, future cash flows from payments of principal and interest are discounted at the interest rate applicable to a similar new loan to the present value. As for long-term debt with floating interest rates subject to the special hedge accounting hedged by designated interest rate swaps, future cash flows from payments for principal and interest, combined with cash flows from the designated interest rate swaps, are discounted at the interest rate applicable to a similar new loan to the present value.

(8) Other long-term liabilities

Other long-term liabilities consist of long-term guarantee deposits. The fair value of other long-term liabilities is discounted at the risk-free interest rates of future cash flows to the present value.

(9) Derivatives transactions

See Note 13 for details on derivative transactions.

b) As non-marketable equity securities of ¥52 million ($462 thousand) do not have a quoted market price and the future cash flow cannot be estimated, the Group considers it extremely difficult to determine their fair value. Hence, the items are not included in "(4) Investment securities - Other securities."

14. Financial Instruments (continued)

c) Financial assets due subsequent to the balance sheet date

Cash and bank deposits of ¥7,009 million ($62,201 thousand), Notes and accounts receivable, trade of ¥29,492 million ($261,734 thousand), Electronically recorded monetary claims of ¥673 million ($5,973 thousand) are due within one year subsequent to March 31, 2016 and Cash and bank deposits of ¥4,197 million, Notes and accounts receivable, trade of ¥30,568 million, Electronically recorded monetary claims of ¥322 million are due within one year subsequent to March 31, 2015.

15. Investment in Rental Property

The Company owns an office building (including land) for rent by third parties in Yokohama city, part of which is used by the Company.

Information on Consolidated Balance Sheet

	Carrying amount			Fair value
	April 1, 2015	**Decrease**	**March 31, 2016**	**March 31, 2016**
	(Millions of yen)			
Rental property	¥ 6,054	¥ 242	¥ 5,812	¥ 7,029

	Carrying amount			Fair value
	April 1, 2014	**Decrease**	**March 31, 2015**	**March 31, 2015**
	(Millions of yen)			
Rental property	¥ 6,296	¥ 242	¥ 6,054	¥ 7,095

	Carrying amount			Fair value
	April 1, 2015	**Decrease**	**March 31, 2016**	**March 31, 2016**
	(Thousands of U.S. dollars)			
Rental property	$ 53,723	$ 2,148	$ 51,575	$ 62,379

Notes:

a) The carrying amount on the consolidated balance sheet is determined at the amount of acquisition costs less accumulated depreciation and impairment loss.

b) Decrease represents depreciation during the year.

c) Fair value at March 31, 2016 and 2015 is internally determined by the Company based on the real-estate appraisal standard.

15. Investment in Rental Property (continued)

Information on Consolidated Statement of Operations

	Year ended March 31, 2016		
	Rental income	Rental costs	Difference
	(Millions of yen)		
Rental property	¥ 1,732	¥ 1,315	¥ 417

	Year ended March 31, 2015		
	Rental income	Rental costs	Difference
	(Millions of yen)		
Rental property	¥ 1,732	¥ 1,339	¥ 393

	Year ended March 31, 2016		
	Rental income	Rental costs	Difference
	(Thousands of U.S. dollars)		
Rental property	$ 15,374	$ 11,670	$ 3,704

Notes:

Because the rental property includes an office space internally used by the Company, rental income related to such office space is not included in the above table. Costs incidental to this real estate, such as depreciation, repair cost, insurance cost, taxes and public charges, are included in rental costs.

16. Segment Information

① Segment Information

(1) Overview of reporting segments

The Company's reporting segments are determined as the Group's units for which discrete financial information is available, which the Board of Directors regularly monitors in order to decide on the allocation of business resources and evaluate business performance.

The Company adopts the division system in its Group organization based on the product or service lines.

Each division draws up a domestic and overseas comprehensive strategy for its products or services to manage and develop operations.

The Company has four reporting segments: Fine mechatronics, Mechatronics systems, Vending machines & systems, and Real estate leasing.

The product or service lines belonging to each reporting segment are as follows.

Fine mechatronics:
Flat Panel Display ("FPD") manufacturing equipment (wet cleaning equipment, developing equipment, Etching equipment, Stripping equipment, PI inkjet coater, Cell assembly equipment), Semiconductor manufacturing equipment (wafer inspection equipment, etching equipment, ashing equipment, wet cleaning equipment), Railroad maintenance equipment, and other items.

Mechatronics systems:
FPD manufacturing equipment (outer lead bonders), Semiconductor manufacturing equipment (die bonders, flip chip bonders, inner lead bonders), Vacuum equipment (sputtering equipment, vacuum bonding equipment, industrial vacuum evaporation equipment), Rechargeable battery manufacturing equipment, Precision parts manufacturing equipment, Other automation equipment, and other items.

Vending machines & systems:
Vending machines, ticket vending machines, and others.

Real estate leasing:
Real estate leasing and management, and other businesses.

(2) Methods of calculating amounts for net sales, income or loss, assets and other items by reporting segment

The accounting policies applied by each reporting business segment are those outlined in "Significant items for the preparation of consolidated financial statements".

Reporting segment is an ordinary income basis.

Internal sales between segments are mainly based on price to be applied for third-party transactions.

16. Segment Information (continued)

(3) Information on sales, income or loss, assets and other items by reporting segment

Information for the fiscal years ended March 31, 2016 and 2015 is summarized as follows:

	Year ended March 31, 2016				
	Fine mechatronics	Mechatronics systems	Vending machines & systems	Real estate leasing	Total
			(Millions of yen)		
Sales					
Sales to external customers	¥ 26,536	¥ 15,336	¥ 1,645	¥ 2,033	¥ 45,550
Intersegment sales or transfers	23	137	0	–	160
Total sales	26,559	15,473	1,645	2,033	45,710
Segment income (loss)	(221)	1,423	(55)	504	1,651
Segment assets	32,118	11,013	1,301	6,448	50,880
Other					
Depreciation and amortization	603	409	38	361	1,411
Interest income	11	0	0	–	11
Interest expense	6	10	9	–	25
Increase in tangible and intangible fixed assets	1,165	245	33	93	1,536

	Year ended March 31, 2015				
	Fine mechatronics	Mechatronics systems	Vending machines & systems	Real estate leasing	Total
			(Millions of yen)		
Sales					
Sales to external customers	¥ 23,145	¥ 16,903	¥ 1,786	¥ 1,965	¥ 43,799
Intersegment sales or transfers	12	180	0	–	192
Total sales	23,157	17,083	1,786	1,965	43,991
Segment income (loss)	(481)	1,321	29	451	1,320
Segment assets	29,349	13,917	1,541	6,732	51,539
Other					
Depreciation and amortization	485	385	43	358	1,271
Interest income	13	0	0	–	13
Interest expense	6	12	10	–	28
Increase in tangible and intangible fixed assets	438	293	27	39	797

16. Segment Information (continued)

	Year ended March 31, 2016				
	Fine mechatronics	Mechatronics systems	Vending machines & systems	Real estate leasing	Total
	(Thousands of U.S. dollars)				
Sales					
Sales to external customers	$ 235,500	$ 136,101	$ 14,599	$ 18,036	$ 404,236
Intersegment sales or transfers	208	1,210	4	–	1,422
Total sales	235,708	137,311	14,603	18,036	405,658
Segment income (loss)	(1,958)	12,633	(492)	4,471	14,654
Segment assets	285,038	97,742	11,546	57,223	451,549
Other					
Depreciation and amortization	5,348	3,635	341	3,201	12,525
Amortization of goodwill	–	–	–	–	–
Interest income	94	0	0	–	94
Interest expense	55	86	80	–	221
Increase in tangible and intangible fixed assets	10,338	2,179	293	823	13,633

(4) Reconciliations between the reporting segment total and the amounts presented in the consolidated financial statements.

a) Segment income

	Year ended March 31,		Year ended March 31,
	2016	2015	2016
	(Millions of yen)	*(Millions of yen)*	*(Thousands of U.S. dollars)*
Reporting segments	¥ 1,651	¥ 1,320	$ 14,654
Unallocated amounts	(423)	(330)	(3,754)
Other	(55)	148	(490)
Consolidated	¥ 1,173	¥ 1,138	$ 10,410

Notes:

Included in the “Unallocated amounts” above are unallocable operating expenses which primarily relate to research and development expenses incurred over the entire Group as part of the Company’s research and development activities.

16. Segment Information (continued)

b) Segment assets

	As of March 31, 2016	As of March 31, 2015	AS of March 31, 2016
	(Millions of yen)	*(Millions of yen)*	*(Thousands of U.S. dollars)*
Reporting segments	¥ 50,880	¥ 51,539	$ 451,549
Unallocated amounts	5,373	3,181	47,681
Consolidated	¥ 56,253	¥ 54,720	$ 499,230

Notes:

Included in the "Unallocated amounts" above are unallocable assets which primarily consist of surplus funds (cash and bank deposits) and investment funds (investment securities) owned by the Company and deferred tax assets.

c) Other

	Year ended March 31, 2016					
	Reporting segments	Adjustment amount	Consolidated	Reporting segments	Adjustment amount	Consolidated
		(Millions of yen)			*(Thousands of U.S. dollars)*	
Depreciation and amortization	¥ 1,411	¥ –	¥ 1,411	$ 12,525	$ –	$ 12,525
Amortization of goodwill	–	–	–	–	–	–
Interest income	11	0	11	95	5	100
Interest expense	25	120	145	221	1,064	1,285
Increase in tangible and intangible fixed assets	1,536	–	1,536	13,633	–	13,633

	Year ended March 31, 2015		
	Reporting segments	Adjustment amount	Consolidated
		(Millions of yen)	
Depreciation and amortization	¥ 1,271	¥ –	¥ 1,271
Amortization of goodwill	–	–	–
Interest income	13	1	14
Interest expense	28	123	151
Increase in tangible and intangible fixed assets	797	–	797

16. Segment Information (continued)

② Related information

(1) Information by each product and service

Information by each product and service is omitted because equivalent information has been disclosed in segment information.

(2) Information by geographical area

a) Sales

Year ended March 31, 2016			
Japan	Northeastern Asia	Other	Total
(Millions of yen)			
¥ 20,201	¥ 24,092	¥ 1,257	¥ 45,550

Year ended March 31, 2015			
Japan	Northeastern Asia	Other	Total
(Millions of yen)			
¥ 18,533	¥ 24,492	¥ 774	¥ 43,799

Year ended March 31, 2016			
Japan	Northeastern Asia	Other	Total
(Thousands of U.S. dollars)			
$ 179,274	$ 213,808	$ 11,154	$ 404,236

Notes:

Sales are based on the location of customers, classified by country or region.

b) Tangible fixed assets

As of March 31, 2016		
Japan	Northeastern Asia	Total
(Millions of yen)		
¥ 11,281	¥ 11	¥ 11,292

As of March 31, 2015		
Japan	Northeastern Asia	Total
(Millions of yen)		
¥ 11,197	¥ 6	¥ 11,203

As of March 31, 2016		
Japan	Northeastern Asia	Total
(Thousands of U.S. dollars)		
$ 100,117	$ 98	$100,215

16. Segment Information (continued)

c) Information by main customer

		Year ended March 31, 2016
		(Millions of yen)
Fine mechatronics and Mechatronics systems	Sales to Toshiba Corporation	¥ 4,628

		Year ended March 31, 2015
		(Millions of yen)
Fine mechatronics and Mechatronics systems	Sales to NANJING CEC PANDA FPD TECHNOLOGY CO., LTD.	¥ 5,589
Fine mechatronics and Mechatronics systems	Sales to Toshiba Corporation	¥ 4,692

		Year ended March 31, 2016
		(Thousands of U.S. dollars)
Fine mechatronics and Mechatronics systems	Sales to Toshiba Corporation	$ 41,075

③ Impairment losses on fixed assets by reporting segment

Year ended March 31, 2016: Not applicable

Year ended March 31, 2015: Not applicable

④ Depreciation and remaining balance of goodwill by reporting segment

Year ended and as of March 31, 2016: Not applicable

Year ended and as of March 31, 2015: Not applicable

⑤ Gain on negative goodwill by reporting segment

Year ended March 31, 2016: Not applicable

Year ended March 31, 2015: Not applicable

17. Non-cash Transactions

Leased assets and lease obligations recorded relating to lease transactions were ¥9 million ($79 thousand) and ¥9 million ($79 thousand), respectively, as of March 31, 2016 and were not applicable as of March 31, 2015.

18. Selling, General and Administrative Expenses

For the years ended March 31, 2016 and 2015, major selling, general and administrative expenses are summarized as follows:

	March 31,		March 31,
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Packing and delivery expenses	¥ 83	¥ 151	$ 733
Sales commission	421	512	3,738
Advertising expenses	4	5	32
Employees' salaries and allowances	4,279	4,047	37,977
Provision for director's bonuses	29	23	254
Provision of allowance for doubtful accounts	8	(57)	73
Retirement benefit expenses	357	356	3,168
Provision for directors' retirement benefits	3	4	26
Depreciation	898	691	7,970
Rent expenses	105	109	932
Development and research expenses	2,062	1,855	18,298

19. Business Structure Improvement Expenses

No business structure improvement expenses were recognized for the year ended March 31, 2016, and for the year ended March 31, 2015 business structure improvement expenses are as follows:

The expenses associated with expansion of leasing business on land owned in Obama, Fukui consisted of a loss on abandonment of non-current assets in the amount of ¥49 million and site maintenance costs of ¥44 million.

20. Related Party Transactions

Toshiba Corporation held 39.1% of the Company's voting rights as of March 31, 2016 and 2015.

The Company sold semiconductor manufacturing equipment to Toshiba Corporation and received rent revenue from Toshiba Corporation. The aggregate amounts of these transactions were ¥3,881 million ($34,440 thousand) and ¥4,692 million for the years ended March 31, 2016 and 2015, respectively.

The Company purchased raw materials from Toshiba Corporation totaling ¥279 million ($2,480 thousand) and ¥119 million for the years ended March 31, 2016 and 2015, respectively.

Amounts due from and to Toshiba Corporation at March 31, 2016 and 2015 were as follows:

	March 31,		March 31,
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Due from Toshiba Corporation	¥ 301	¥ 1,317	$ 2,669
Due to Toshiba Corporation	3,379	3,233	29,989

21. Per Share Information

Basic net income per share is 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 each year. Diluted net income per share is 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, assuming full dilution of common stock equivalents. Net assets per share are computed based on the weighted-average number of shares of common stock outstanding at each balance sheet date.

	As of March 31,		As of March 31,
	2016	**2015**	**2016**
	(Yen)		*(U.S. dollars)*
Net income:			
– Basic	¥ 15.04	¥ 14.11	$ 0.13
Net assets	317.29	325.01	2.82

Notes:

The information regarding diluted net income per share for the years ended March 31, 2016 and 2015 is omitted because there was no stock with dilutive effect.

Other Information

Shibaura Mechatronics Corporation

Non-Consolidated Balance Sheet

	March 31, 2016	March 31, 2015	March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Assets			
Current assets:			
Cash and bank deposits	¥ 4,371	¥ 2,135	$ 38,792
Notes and accounts receivable, trade:			
Notes	5	0	43
Electronically recorded monetary claims	430	322	3,820
Accounts	26,085	26,872	231,498
Allowance for doubtful accounts	(351)	(389)	(3,115)
Inventories	2,795	3,695	24,805
Deferred tax assets	379	393	3,360
Short-term loans receivable from subsidiaries and affiliates	1,300	1,625	11,537
Consumption taxes receivable	924	843	8,201
Other current assets	1,895	946	16,814
Total current assets	37,833	36,442	335,755
Property, plant and equipment:			
Land	69	69	610
Buildings and structures	27,931	27,856	247,883
Machinery and equipment	4,509	3,238	40,013
Leased assets	58	58	514
Construction in progress	333	525	2,958
Total	32,900	31,746	291,978
Accumulated depreciation	(21,930)	(20,890)	(194,621)
Property, plant and equipment, net	10,970	10,856	97,357
Investments and other assets:			
Investments in securities	61	73	543
Investments in subsidiaries and affiliates	372	372	3,305
Deferred tax assets	195	186	1,733
Intangible assets	445	522	3,947
Other assets	304	294	2,697
Allowance for doubtful accounts	(0)	(0)	(3)
Total investments and other assets	1,377	1,447	12,222
Total assets	¥ 50,180	¥ 48,745	$ 445,334

	March 31, 2016	March 31, 2015	March 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable, trade:			
Notes	¥ 2,467	¥ 3,248	$ 21,898
Accounts	7,654	7,406	67,925
Short-term bank loans	4,700	4,700	41,711
Current portion of long-term debt	—	700	—
Advances received	984	367	8,736
Lease obligations	6	6	51
Provision for directors' bonuses	29	23	254
Provision for contract losses	—	21	—
Other accounts payable	42	9	374
Accrued expenses	2,940	2,517	26,094
Accrued income taxes	156	145	1,389
Other current liabilities	135	95	1,197
Total current liabilities	19,113	19,237	169,629
Long-term liabilities:			
Long-term debt	6,500	5,800	57,686
Lease obligations	7	12	59
Long-term accounts payable-other	5	5	42
Provision for retirement benefits	4,726	4,613	41,946
Reserve for repair and maintenance	333	374	2,957
Other long-term liabilities	3,077	3,072	27,307
Asset retirement obligations	22	22	193
Total long-term liabilities	14,670	13,898	130,190
Total liabilities	33,783	33,135	299,819
Net assets:			
Shareholders' equity:			
Capital stock:			
Authorized: 100,000,000 shares			
Issued: 51,926,194 shares at March 31, 2016 and 2015	6,762	6,762	60,006
Capital surplus	9,108	9,108	80,829
Retained earnings	2,229	1,431	19,781
Less treasury stock, at cost	(1,723)	(1,722)	(15,287)
Total shareholders' equity	16,376	15,579	145,329
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	21	31	186
Total net assets	16,397	15,610	145,515
Total liabilities and net assets	¥ 50,180	¥ 48,745	$ 445,334

Other Information

Shibaura Mechatronics Corporation

Non-Consolidated Statement of Operations

	Year ended March 31, 2016	Year ended March 31, 2015	Year ended March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Net sales	¥ 35,366	¥ 34,122	$ 313,862
Cost of sales	28,469	27,712	252,658
Gross profit	6,897	6,410	61,204
Selling, general and administrative expenses	6,810	6,309	60,434
Operating income	87	101	770
Other income (expenses):			
Interest and dividend income	669	171	5,937
Rent income	119	115	1,055
Interest expenses	(136)	(141)	(1,201)
Business advisory fee	361	350	3,201
Technical advisory fee	114	103	1,015
Reversal of allowance for doubtful accounts	27	159	238
Foreign exchange gain (loss), net	(174)	366	(1,546)
Rent expenses	(108)	(113)	(961)
Gain (loss) on valuation of derivatives	228	(172)	2,022
Other, net	(95)	9	(838)
Ordinary income	1,005	948	8,922
Business structure improvement expenses	—	(104)	—
Environmental expenses	—	(71)	—
Income before income taxes	1,092	773	9,692
Income taxes:			
Current	140	31	1,241
Deferred	6	106	57
	146	137	1,298
Net income	¥ 946	¥ 636	$ 8,394
	(Yen)		*(U.S. dollars)*
Per share of common stock:			
Net income	¥ 19.15	¥ 12.87	$ 0.17
Cash dividends applicable to the year	4.00	3.00	0.04

Building a better working world

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Independent Auditor's Report

The Board of Directors
Shibaura Mechatronics Corporation

We have audited the accompanying consolidated financial statements of Shibaura Mechatronics Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of operations, 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 Shibaura Mechatronics Corporation and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 23, 2016

Board of Directors

As of June 23, 2016

Directors

Shigeki Fujita

President and Chief Executive Officer

Hitoshi Dojima

Executive Vice President

Chief Financial Officer

Makoto Fujino

Senior Vice President

Executive General Manager of
Fine Mechatronics Division

Yoshitsugu Ogawa

Senior Vice President

Executive General Manager of
Mechatronics System Division

Takashi Nozawa

Vice President

Deputy Executive General Manager of
Mechatronics System Division

Keigo Imamura

Vice President

Executive General Manager of
Production & Procurement Division

Hisashi Shindo

Vice President

Deputy Executive General Manager of
Mechatronics System Division
Deputy Executive General Manager of
Fine Mechatronics Division

Takashi Arai

Vice President

Deputy Executive General Manager of
Fine Mechatronics Division

Sennosuke Yoshida

Outside Vice President

Tomoko Inaba

Outside Vice President

Auditors

Yasuhiko Yamato

Auditor

Kazumasa Uchida

Outside Auditor

Hiroshi Igashira

Outside Auditor

Investor Information

As of March 31, 2016

Date Established	October 12, 1939
Capital	6,761Million-Yen
Number of Employees	Consolidated : 1,177
Common Stock	Authorized : 100,000,000 shares Issued and outstanding : 51,926,194 shares
Number of Shareholders	6,032
Stock Listings	The Tokyo Stock Exchange (Code : 6590)
Transfer Agent for Common Stock	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan
Independent Auditor	ERNST & YOUNG SHINNIHON LLC
Headquarters	2-5-1, Kasama, Sakae-ku, Yokohama, Kanagawa Pref. 247-8610, Japan TEL : +81-45-897-2421 FAX : +81-45-897-2470 http://www.shibaura.co.jp/

Common Stock Price Range (The Tokyo Stock Exchange)

	Year ended March 31,				
	2016	2015	2014	2013	2012
High (yen)	320	384	333	252	344
Low (yen)	170	220	181	112	191

Principal Shareholders

	Number of shares hold (thousand shares)	Percentage of total shares outstanding (%)
Toshiba Corporation	18,977	38.4
Japan Trustee Services Bank, Limited (trust accounts)	1,823	3.7
The Master Trust Bank of Japan, Limited (trust accounts)	1,213	2.5

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