# ANNUAL REPORT 2017

Year ended March 31, 2017

SHIBAURA MECHATRONICS CORPORATION

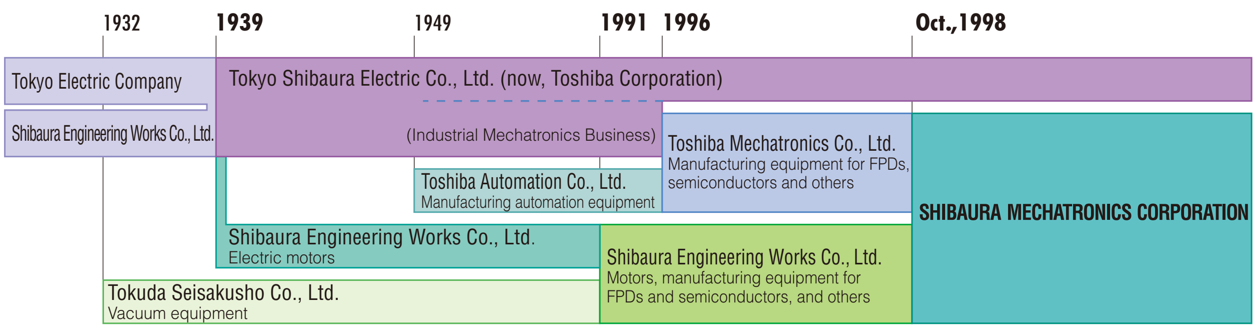
# ANNUAL REPORT 2017

## 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 struck out in a new direction, and reestablished ourselves as a producer of manufacturing equipment for flat panel displays (FPDs) and semiconductors. We also took on a new name, Shibaura Mechatronics Corporation.

The extensive know-how and skills we have cultivated over many years guide us in delivering 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.

## History




## Contents



**Forward-Looking Statements**

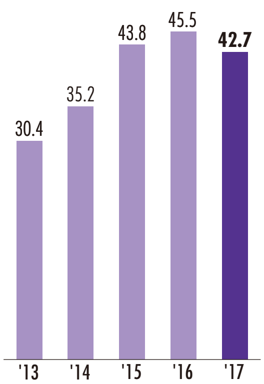
This annual report contains forward-looking statements concerning Shibaura Mechatronics' future plans, strategies and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on data currently available. Furthermore, they are subject 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

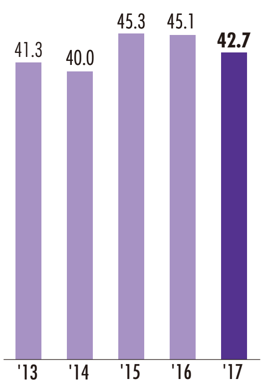
| Consolidated | Year ended March 31, 2017 | 2016 | 2015 | 2014 | 2013 | Year ended March 31, 2017 |
|---|---|---|---|---|---|---|
| | (Millions of yen) | | | | | (Thousands of U.S. dollars) (Note 1) |
| Net sales | ¥ 42,737 | ¥ 45,550 | ¥ 43,799 | ¥ 35,165 | ¥ 30,400 | $ 380,935 |
| Orders received | 42,651 | 45,077 | 45,300 | 40,000 | 41,300 | 380,168 |
| Operating income | 1,500 | 1,292 | 1,022 | 736 | 60 | 13,369 |
| Net income (loss) | 931 | 743 | 697 | 387 | (1,416) | 8,298 |
| Depreciation and amortization | 1,566 | 1,411 | 1,271 | 1,359 | 1,424 | 13,961 |
| Capital expenditures | 1,222 | 1,536 | 797 | 1,195 | 575 | 10,893 |
| R&D expenses | 2,210 | 2,065 | 1,856 | 1,726 | 1,805 | 19,701 |
| Total assets | 53,721 | 56,253 | 54,720 | 47,602 | 50,767 | 478,842 |
| Net assets | 16,533 | 15,675 | 16,058 | 15,064 | 15,697 | 147,367 |
| | (yen) | | | | | (U.S. dollars) |
| Net income (loss) per share | ¥ 18.84 | ¥ 15.04 | ¥ 14.11 | ¥ 7.83 | ¥ (28.66) | $ 0.17 |
| Number of employees | 1,202 | 1,177 | 1,174 | 1,210 | 1,285 | 1,202 |

Note 1 : The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of 112.19 = U.S.$1.00, as of March 31, 2017.

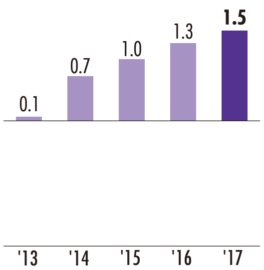
**Net Sales** (¥Billions)



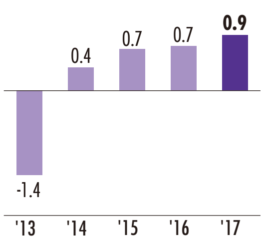

**Orders Received** (¥Billions)




**Operating Income** (¥Billions)




**Net Income (loss)** (¥Billions)



*Smart Solutions & Services*
*for Your Manufacturing*

# To Our Shareholders

## We will accelerate business structure reform and strengthen our management organization.

In Shibaura Mechatronics Group's business environment in FY16, televisions and smartphones provided the driving force in the FPD business. There was active capital expenditure in investments for large-sized panels, mainly in China, and capital expenditure on small- and medium-sized panels for organic EL (OLED) also increased. The semiconductor industry saw increased investment in cutting-edge product areas, against the backdrop of the increasing functionality of smartphones and growth in demand for data center servers, etc.

In this environment, our business results for fiscal 2016 were as follows.
Orders received decreased for the full year, due to changes in capital investment plans by customers and the impact of yen appreciation in the first half, though they recovered in the second half to reach 42,651 million yen.
Reflecting the fall off in orders received in the first half, net sales for the full fiscal year declined to 42,737 million yen.
Operating income increased on improved earnings by domestic and overseas Group companies, due to the expansion of the service business, along with steady progress in structural reforms and a shift to highly profitable product lines. The final result was 1,500 million yen, an increase over the previous year.

In the FY17 business environment, capital expenditure outlays in both the FPD industry and semiconductor industry are expected to remain steady.
Televisions and smartphones will continue to be the driving force in the FPD industry, and we forecast active capital expenditure, primarily in China, accompanying continued progress toward higher definition and larger televisions. In small- and medium-sized panels, capital expenditure on OLED is also expected to see increases.
In the semiconductor industry, we expect capital expenditure in cutting-edge fields to remain steady. On top of this, we also anticipate expanded application of vacuum application equipment in the automotive market, and also in the IoT market.

As we move forward, the Group will further accelerate the business restructuring that we are already pursuing, and we will also continue moves to strengthen our management structure.

Shigeki Fujita
Representative Director
President and Chief Executive Officer

# Financial Review

## Results Summary

In FY2016 Shibaura Mechatronics recorded orders received of 42,651 million yen (a year-on-year fall of 5.4%), net sales of 42,737 million yen (a year-on-year fall of 6.2%), operating income of 1,500 million yen (a year-on-year increase of 16.1%), ordinary income of 1,132 million yen (a year-on-year fall of 3.5%), and net income of 931 million yen (a year-on-year increase of 25.3%).
The Results for each business segment were as follows:

1. Fine Mechatronics Segment

Net sales were 26,355 million yen (a decrease of 0.7% compared with the previous fiscal year), and segment profit was 345 million yen (compared with a segment loss of 221 million yen in the previous year), due to the shift to highly profitable product lines.

In the FPD front-end processes, orders for large-sized panels were robust, but overall orders received decreased for the full year, on declines in orders for small- and medium-sized panels in the first half. Net sales declined in line with the fall-off in orders.

In equipment for semiconductor front-end processes, both orders and net sales increased, mainly for equipment for use in cutting-edge product areas.

The division as a whole saw both orders and net sales decline as a result of the fall-off in orders during the first half.

2. Mechatronics Systems Segment

Net sales were 12,266 million yen (a decrease of 20.0% compared with the previous year) and segment profit was 863 million yen (a decrease of 39.4% compared with the previous year).

In FPD back-end processes, orders declined in the first half, but in the second half orders for large- and small- and medium-sized panels increased, resulting in an increase in orders for the full year. Net sales declined due to the impact of lower orders during the first half.

In equipment for semiconductor back-end processes, orders declined in the first half and recovered in the second half on demand for smartphone cameras, etc., but orders received for the full year declined. Net sales declined due to the impact of lower orders during the first half.

In vacuum application equipment, both orders and net sales increased, due to increased demand for IoT-related and automotive-related equipment.

For the division as a whole, both orders received and sales declined, due to the impact of lower orders during the first half.

3. Vending Machines and Systems Segment

Net sales were 2,044 million yen (an increase of 24.2% compared with the previous year) and segment profit was 83 million yen (compared with a segment loss of 55 million yen in the previous year).

Due to the commercialization of a new type of touch panel ticket vending machines, both net sales and segment profit increased, mainly in ticket vending machines.

4. Real Estate Leasing Segment

Real estate rental income increased as anticipated, and the segment recorded net sales of 2,072 million yen (a year-on-year increase of 2.0%) and income of 597 million yen (a year-on-year increase of 18.5%).

## Research and Development Expenditure

The Shibaura Mechatronics Group as a whole recorded research and development costs of 2,210 million yen (including development costs of 442 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 Memory Corporation.
Research and development expenses and research results for each segment are as follows:

1. Fine Mechatronics Segment

R&D expenses for the segment totaled 927 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 685 million yen.

In liquid crystal and OLED module assembly equipment, we worked on the development of OLB equipment for small- and medium-sized panels, and on OLED vacuum bonding equipment.

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 154 million yen.

In the ticket vending machine field, we promoted development of large-screen touch panel ticket vending machines. In addition, as part of our advance into a new area of business, we promoted development of card readers.

## Financial Condition

Total assets at the end of the fiscal year were 2,531 million yen lower than at the end of the previous fiscal year, and stood at 53,721 million yen. This was mainly due to an increase in cash and deposits of 4,466 million yen. Trade accounts receivable were 5,498 million yen, other accounts receivable were 398 million yen, inventory stood at 365 million yen, and fixed assets decreased by 325 million yen.

Total liabilities decreased by 3,389 million yen year-on-year, to 37,188 million yen. This was mainly due to a 2,358 million yen decrease in trade notes and accounts payable, advances received of 673 million yen, and a 440 million yen decrease in short-term borrowings.

Net assets increased 858 million yen from the end of the previous fiscal year to 16,533 million yen. This was mainly due to an increase in retained earnings, due to recording 930 million yen in net income attributable to the shareholders of the parent company.

## Cash Flows

The balance of cash and cash equivalents at the end of the current fiscal year was 11,479 million yen, an increase of 4,467 million yen compared to the end of the last fiscal year.

Net cash provided by operating activities was 5,790 million yen (an increase of 3,645 million yen compared to the previous fiscal year). This was mainly due to posting income before income taxes and minority interests, and an increase in cash due to a decrease in notes and accounts receivable.

Net cash from investment activities fell by 538 million yen during the fiscal year (against a fall of 394 million in the previous fiscal year). This was mainly due to a decrease in cash resulting from the acquisition of fixed assets.

Furthermore, free cash flow combined with cash flow from operating activities and cash flow from investing activities increased by 5,251 million yen (an increase of 3,250 million yen compared to the previous fiscal year).

Net cash flow due to financing activities decreased by 675 million yen (last year saw a 369 million yen decrease). This is mainly due to a decrease in funds following repayment of debt and payment of dividends.

# FINANCIAL SECTION

ANNUAL REPORT 2017 Year ended March 31, 2017

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Shibaura Mechatronics Corporation and Subsidiaries

# Consolidated Balance Sheet

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 1) |
| **Assets** | | | |
| Current assets: | | | |
| Cash and bank deposits *(Note 14)* | ¥ 11,494 | ¥ 7,027 | $ 102,450 |
| Notes and accounts receivable, trade *(Note 14)* | 23,834 | 29,492 | 212,446 |
| Electronically recorded monetary claims *(Note 14)* | 623 | 673 | 5,555 |
| Allowance for doubtful accounts | (11) | (23) | (97) |
| Inventories *(Note 5)* | 3,587 | 3,952 | 31,973 |
| Deferred tax assets *(Note 8)* | 537 | 574 | 4,783 |
| Accounts receivable, other | 926 | 1,325 | 8,255 |
| Other current assets | 601 | 778 | 5,358 |
| Total current assets | 41,591 | 43,798 | 370,723 |
| Property, plant and equipment: | | | |
| Land *(Note 15)* | 119 | 119 | 1,064 |
| Buildings and structures *(Note 15)* | 28,505 | 28,354 | 254,080 |
| Machinery and equipment | 5,151 | 4,974 | 45,915 |
| Leased assets | 355 | 356 | 3,160 |
| Construction in progress | 624 | 335 | 5,562 |
| Total | 34,754 | 34,138 | 309,781 |
| Accumulated depreciation | (23,964) | (22,846) | (213,602) |
| Property, plant and equipment, net | 10,790 | 11,292 | 96,179 |
| Investments and other assets: | | | |
| Investments in securities *(Notes 4 and 14)* | 122 | 113 | 1,084 |
| Deferred tax assets *(Note 8)* | 247 | 156 | 2,205 |
| Other assets | 972 | 896 | 8,665 |
| Allowance for doubtful accounts | (1) | (2) | (14) |
| Total investments and other assets | 1,340 | 1,163 | 11,940 |
| Total assets | ¥ 53,721 | ¥ 56,253 | $ 478,842 |

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 1)* |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Notes and accounts payable, trade *(Note 14)* | ¥ 9,972 | ¥ 12,330 | $ 88,887 |
| Short-term bank loans *(Notes 6 and 14)* | 5,100 | 5,540 | 45,459 |
| Current portion of long-term debt *(Notes 6 and 14)* | 800 | — | 7,131 |
| Current portion of lease obligations *(Note 6)* | 37 | 36 | 335 |
| Advances received | 605 | 1,279 | 5,391 |
| Accrued expenses | 2,909 | 3,252 | 25,927 |
| Accrued income taxes *(Note 8)* | 305 | 243 | 2,716 |
| Provision for directors' bonuses | 33 | 29 | 293 |
| Other current liabilities | 854 | 564 | 7,612 |
| Total current liabilities | 20,615 | 23,273 | 183,751 |
| Long-term liabilities: | | | |
| Long-term debt *(Notes 6 and 14)* | 5,700 | 6,500 | 50,807 |
| Net defined benefit liability *(Note 11)* | 7,404 | 7,292 | 65,992 |
| Lease obligations *(Note 6)* | 25 | 56 | 221 |
| Long-term accounts payable-other | 2 | 5 | 21 |
| Provision for directors' retirement benefits | 9 | 8 | 83 |
| Reserve for repair and maintenance | 320 | 333 | 2,848 |
| Asset retirement obligations | 35 | 34 | 315 |
| Long-term guarantee deposits *(Note 14)* | 3,078 | 3,077 | 27,437 |
| Total long-term liabilities | 16,573 | 17,305 | 147,724 |
| Total liabilities | 37,188 | 40,578 | 331,475 |
| Contingent liabilities *(Note 12)* | | | |
| Net assets: | | | |
| Shareholders' equity: | | | |
| Capital stock: | | | |
| Authorized: 100,000,000 shares | | | |
| Issued: 51,926,194 shares at March 31, 2017 and 2016 | 6,762 | 6,762 | 60,268 |
| Capital surplus | 9,108 | 9,108 | 81,182 |
| Retained earnings | 3,715 | 2,982 | 33,115 |
| Less treasury stock, at cost | (1,723) | (1,723) | (15,359) |
| Total shareholders' equity | 17,862 | 17,129 | 159,206 |
| Valuation and translation adjustments: | | | |
| Valuation difference on available-for-sale securities | 28 | 22 | 254 |
| Foreign currency translation adjustments | 286 | 342 | 2,552 |
| Remeasurements of defined benefit plans | (1,643) | (1,818) | (14,645) |
| Total valuation and translation adjustments | (1,329) | (1,454) | (11,839) |
| Total net assets | 16,533 | 15,675 | 147,367 |
| Total liabilities and net assets | ¥ 53,721 | ¥ 56,253 | $ 478,842 |

*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, 2017 | Years ended March 31, 2016 | Year ended March 31, 2017 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 1) |
| Net sales | ¥ 42,737 | ¥ 45,550 | $ 380,935 |
| Cost of sales *(Notes 5,7 and 15)* | 32,240 | 35,292 | 287,372 |
| Gross profit | 10,497 | 10,258 | 93,563 |
| Selling, general and administrative expenses *(Notes 7,11 and 19)* | 8,997 | 8,966 | 80,194 |
| Operating income | 1,500 | 1,292 | 13,369 |
| Other income (expenses): | | | |
| Interest and dividend income | 6 | 13 | 55 |
| Foreign exchange gain (loss),net | 56 | (156) | 495 |
| Interest expense | (134) | (145) | (1,190) |
| Gain (loss) on valuation of derivatives, net | (270) | 218 | (2,406) |
| Other, net | (26) | (49) | (230) |
| Ordinary income | 1,132 | 1,173 | 10,093 |
| Income before income taxes | 1,132 | 1,173 | 10,093 |
| Income taxes *(Note 8)*: | | | |
| Current | 256 | 291 | 2,287 |
| Deferred | (55) | 139 | (492) |
| | 201 | 430 | 1,795 |
| Net income | 931 | 743 | 8,298 |
| Net income attributable to owners of parent | ¥ 931 | ¥ 743 | $ 8,298 |

*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, 2017 | Years ended March 31, 2016 | Year ended March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 1)* |
| Net income | ¥ 931 | ¥ 743 | $ 8,298 |
| Other comprehensive income: (Note 9) | | | |
| Valuation difference on available-for-sale securities | 6 | (10) | 60 |
| Remeasurements of defined benefit plans | 175 | (908) | 1,556 |
| Foreign currency translation adjustments | (56) | (59) | (499) |
| Total other comprehensive income (loss) | 125 | (977) | 1,117 |
| Comprehensive income (loss) | ¥ 1,056 | ¥ (234) | $ 9,415 |
| (Breakdown) | | | |
| Comprehensive income (loss) attributable to owners of parent | 1,056 | (234) | 9,415 |

*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, 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) |
| **Balance as of April 1, 2016** | 51,926,194 | ¥ 6,762 | ¥ 9,108 | ¥ 2,982 | ¥ (1,723) | ¥ 22 | ¥ 342 | ¥ (1,818) | ¥ 15,675 |
| Net income | – | – | – | 931 | – | – | – | – | 931 |
| Dividends of surplus (Note 10) | – | – | – | (198) | – | – | – | – | (198) |
| Net change during the year | – | – | – | – | – | 6 | (56) | 175 | 125 |
| Purchase of treasury shares | – | – | – | – | (0) | – | – | – | (0) |
| **Balance as of March 31, 2017** | 51,926,194 | ¥ 6,762 | ¥ 9,108 | ¥ 3,715 | ¥ (1,723) | ¥ 28 | ¥ 286 | ¥ (1,643) | ¥ 16,533 |
| | | | | *(Thousands of U.S. dollars) (Note 1)* | | | | | |
| **Balance as of April 1, 2016** | | $ 60,268 | $ 81,182 | $26,579 | $ (15,354) | $ 194 | $ 3,051 | $ (16,201) | $ 139,719 |
| Net income | | – | – | 8,298 | – | – | – | – | 8,298 |
| Dividends of surplus (Note 10) | | – | – | (1,762) | – | – | – | – | (1,762) |
| Net change during the year | | – | – | – | – | 60 | (499) | 1,556 | 1,117 |
| Purchase of treasury shares | | – | – | – | (5) | – | – | – | (5) |
| **Balance as of March 31, 2017** | | $ 60,268 | $81,182 | $ 33,115 | $ (15,359) | $ 254 | $ 2,552 | $ (14,645) | $ 147,367 |

*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, 2017 | Year ended March 31, 2016 | Year ended March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 1)* |
| **Net cash provided by (used in) Operating activities** | | | |
| Income before income taxes and non-controlling interest | ¥ 1,132 | ¥ 1,173 | $ 10,093 |
| Depreciation and amortization | 1,566 | 1,411 | 13,961 |
| Increase (decrease) in allowance for doubtful accounts | (12) | (14) | (110) |
| Increase (decrease) in net defined benefit liability | 287 | 250 | 2,556 |
| Interest and dividend income | (6) | (13) | (55) |
| Interest expense | 134 | 145 | 1,190 |
| Loss (gain) on sales of investment securities | - | (1) | - |
| Loss (gain) on sales of property, plant and equipment | - | (0) | - |
| Foreign exchange losses (gains) | 41 | 3 | 370 |
| Increase (decrease) in advances received | (646) | 754 | (5,754) |
| Decrease (increase) in notes and accounts receivable-trade | 5,661 | 687 | 50,459 |
| Decrease (increase) in inventories | (237) | (234) | (2,115) |
| Increase (decrease) in notes and accounts payable-trade | (2,347) | 310 | (20,920) |
| Increase (decrease) in accrued consumption taxes | 8 | (91) | 67 |
| Other, net | 561 | (399) | 5,002 |
| Subtotal | 6,142 | 3,981 | 54,744 |
| Interest and dividends received | 6 | 13 | 51 |
| Interest paid | (134) | (145) | (1,191) |
| Income taxes paid | (224) | (204) | (1,998) |
| Net cash provided by (used in) operating activities | 5,790 | 3,645 | 51,606 |
| **Net cash provided by (used in) Investment activities** | | | |
| Payments into time deposits | (0) | (0) | (0) |
| Proceeds from withdrawal of time deposits | 0 | 3 | 0 |
| Proceeds from sales of investment securities | - | 2 | - |
| Purchases of property, plant and equipment | (293) | (304) | (2,608) |
| Proceeds from sales of property, plant and equipment | 2 | 61 | 16 |
| Other, net | (247) | (156) | (2,203) |
| Net cash provided by (used in) investment activities | (538) | (394) | (4,795) |
| **Net cash provided by (used in) Financing activities** | | | |
| Net increase (decrease) in short-term loans payable | (440) | (180) | (3,922) |
| Repayments of finance lease obligations | (37) | (40) | (328) |
| Proceeds from long-term loans payable | - | 700 | - |
| Repayments of long-term loans payable | - | (700) | - |
| Purchases of treasury stock | (0) | (1) | (5) |
| Cash dividends paid | (198) | (148) | (1,762) |
| Net cash provided by (used in) financing activities | (675) | (369) | (6,017) |
| Effect of exchange rate change on cash and cash equivalents | (110) | (66) | (979) |
| Net increase (decrease) in cash and cash equivalents | 4,467 | 2,816 | 39,815 |
| Cash and cash equivalents at beginning of year | 7,012 | 4,196 | 62,503 |
| Cash and cash equivalents at end of year | ¥ 11,479 | ¥ 7,012 | $ 102,318 |

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

# Shibaura Mechatronics Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

March 31, 2017

### 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, 2017 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 ¥ 112.19 = U.S. $ 1.00, the approximate rate of exchange in effect on March 31, 2017. 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 upon 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 gains or losses, 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 the Company’s historical experience with write-offs, plus an estimate of specific 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 to cover the estimated possible losses involved in orders for which a loss occurrence is probable and 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 gains or losses are charged to expenses from the fiscal year subsequent to the fiscal year when incurred using a straight-line method over a period of 10 years within 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, audit & supervisory board members 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, audit & supervisory board members 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) Consumption tax

The tax-excluded method is used with respect to consumption tax and local consumption taxes.

(20) Adoption of consolidated taxation system

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

## 3. Accounting Changes

In association with the revision of the Corporation Tax Act, the Company has applied the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (ASBJ Practical Issues Task Force (PITF) No. 32 dated June 17, 2016) from this consolidated fiscal year, and changed the depreciation method for facilities attached to buildings and structures that were acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.
The effect of this change on the consolidated financial statements for the financial year ended March 31, 2017 is immaterial.

### 3. Accounting Changes (continued)

(Additional Information)
The Company has applied the "Revised Implementation Guidance on Recoverability of Deferred Tax Asses" (ASBJ Guidance No. 26 dated March 28, 2016) from this consolidated fiscal year.

### 4. Investments in Securities

At March 31, 2017 and 2016, marketable securities classified as other (available-for-sale) securities are summarized as follows:

| | March 31 | | | | | | March 31, | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | | 2017 | | |
| | 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 | ¥69 | ¥32 | ¥ 37 | ¥60 | ¥23 | $329 | $615 | $286 |
| Debt securities | – | – | – | – | – | – | – | – | – |
| Other | – | – | – | – | – | – | – | – | – |
| Total | ¥ 37 | ¥ 69 | ¥32 | ¥ 37 | ¥ 60 | ¥23 | $ 329 | $ 615 | $ 286 |

At March 31, 2017 and 2016, non-marketable securities carried at cost are summarized as follows:

| | March 31, | | March 31, |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Investments in affiliates: | | | |
| Affiliates | ¥ 52 | ¥ 52 | $ 464 |
| Other | 1 | 1 | 5 |

For the year ended March 31, 2017, other securities sold are summarized as follows:

Not applicable

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

| | Year ended March 31 2016 | | |
|---|---|---|---|
| | Sales proceeds | Total gain on sales | Total loss on sales |
| | | (Millions of yen) | |
| Equity securities | ¥ 1 | ¥ 1 | — |
| Debt securities | — | — | — |
| Other | — | — | — |
| Total | ¥ 1 | ¥ 1 | — |

## 5. Inventories

Inventories at March 31, 2017 and 2016 are summarized as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Finished products | ¥ 897 | ¥ 1,363 | $ 7,997 |
| Raw materials | 212 | 184 | 1,891 |
| Work in process | 2,478 | 2,405 | 22,085 |
| Total | ¥ 3,587 | ¥ 3,952 | $ 31,973 |

Inventories as of March 31, 2017 and 2016 were written down due to lower profitability and unrealized loss on inventories was included in cost of sales in the amounts of ¥1,004 million ($8,948 thousand) and ¥811 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, 2017 and 2016 was 1.0%.

Long-term debt and lease obligations at March 31, 2017 and 2016 are summarized as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unsecured: | | | |
| 0.8% to 1.3% loans from banks due 2018 to 2021 | 6,500 | 6,500 | 57,938 |
| Lease obligations | 62 | 92 | 556 |
| Total | 6,562 | 6,592 | 58,494 |
| Less current portion | 837 | 36 | 7,460 |
| Long-term debt and lease obligations, net | ¥ 5,725 | ¥ 6,556 | $ 51,034 |

Aggregate annual maturities of long-term debt and lease obligations at March 31, 2017 are summarized as follows:

| | March 31, 2017 (Millions of yen) | March 31, 2017 (Thousands of U.S. dollars) |
|---|---|---|
| 2018 | ¥ 837 | $ 7,466 |
| 2019 | 514 | 4,582 |
| 2020 | 4,504 | 40,145 |
| 2021 and thereafter | 707 | 6,301 |
| Total | ¥ 6,562 | $ 58,494 |

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

The Company entered into one-year contracts for commitment lines of credit with six banks in the aggregated amount of approximately ¥6,000 million ($53,481 thousand) to optimize the free cash flow on August 1, 2016. The outstanding balance of bank borrowings under these commitment lines at March 31, 2017 was zero.

## 7. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2017 and 2016 are as follows:

| Year ended March 31, 2017 | Year ended March 31, 2016 | Year ended March 31, 2017 |
|---|---|---|
| *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| ¥ 2,210 | ¥ 2,065 | $ 19,701 |

## 8. Income Taxes and Deferred Tax Assets

The major components of deferred tax assets and liabilities as of March 31, 2017 and 2016 are summarized as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Deferred tax assets: | | | |
| Net defined benefit liability | ¥ 1,755 | ¥ 1,688 | $ 15,645 |
| Accrued employees' bonuses | 338 | 338 | 3,009 |
| Reserve for repair and maintenance | 99 | 73 | 884 |
| Enterprise tax payable | 39 | 30 | 346 |
| Tax loss carried forward | 759 | 1,264 | 6,763 |
| Other | 1,323 | 1,270 | 11,795 |
| Gross deferred tax assets | 4,313 | 4,663 | 38,442 |
| Valuation allowance | (3,431) | (3,795) | (30,577) |
| Total deferred tax assets | 882 | 868 | 7,865 |
| Deferred tax liabilities: | | | |
| Unrecognized holding gain on other securities | (4) | (3) | (39) |
| Other | (94) | (135) | (838) |
| Total deferred tax liabilities | (98) | (138) | (877) |
| Net deferred tax assets | ¥ 784 | ¥ 730 | $ 6,988 |

## 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 30.8% and 33.0% for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 are summarized as follows:

| | March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Effective statutory tax rates | 30.8% | 33.0% |
| Effect of: | | |
| Non-deductible expenses | 2.1 | 2.2 |
| Change in valuation allowance | (10.7) | (8.0) |
| Inhabitants tax per capital | 1.1 | 1.1 |
| Different tax rates applied to foreign consolidated subsidiaries | (2.2) | 2.0 |
| Foreign tax | 1.9 | 3.5 |
| Adjustments in deferred tax assets and liabilities due to the change in tax rate | ― | 3.4 |
| Experimental and research expense tax credit | (4.7) | (1.1) |
| Other | (0.5) | 0.6 |
| Effective tax rates | 17.8% | 36.7% |

**Adjustments of amount of deferred tax assets and liabilities due to change in the corporate tax rate.**

The "Act for Partial Revision of Acts, Including Partial Revision of the Consumption Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security" (Act No.85 of 2016) and the "Act for Partial Revision of Acts, Including Partial Revision of the Local Tax Act and the Local Allocation Tax Act for the Fundamental Reform of the Taxation System to Achieve a Stable Source of Revenue for Social Security" (Act No.86 of 2016) were enacted by the Japanese government on November 18, 2016. In conjunction with these acts, the effective date for the increase in Japanese consumption tax rate to 10% was extended from April 1, 2017 to October 1, 2019.

Accordingly, the effective dates of the abolition of the local corporation special tax, the accompanying restoration of the corporate enterprise tax, and changes in statutory tax rates for local corporation taxes and corporate inhabitant taxes have been extended from fiscal years beginning April 1, 2017 or later to fiscal years beginning October 1, 2019 or later.
This change had a no impact on the consolidated financial statements.

## 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, 2017 and 2016:

| | March 31, | | March 31, |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Valuation difference on other (available-for-sale) securities: | | | |
| Amount arising during the year | ¥ 7 | ¥ (10) | $ 72 |
| Reclassification adjustments for gains and losses included in net income | – | (1) | – |
| Amount before tax effect | 7 | (11) | 72 |
| Tax effect | (1) | 1 | (12) |
| Valuation difference on available-for-sale securities | 6 | (10) | 60 |
| Foreign currency translation adjustment: | | | |
| Amount arising during the year | (56) | (59) | (499) |
| Reclassification adjustments for gains and losses included in net income | – | – | – |
| Amount before tax effect | (56) | (59) | (499) |
| Tax effect | – | – | – |
| Foreign currency translation adjustment | (56) | (59) | (499) |
| Remeasurements of defined benefit plans: | | | |
| Amount arising during the year | (146) | (1,097) | (1,301) |
| Reclassification adjustments for gains and losses included in net income | 321 | 189 | 2,857 |
| Amount before tax effect | 175 | (908) | 1,556 |
| Tax effect | – | – | – |
| Remeasurements of defined benefit plans | 175 | (908) | 1,556 |
| Total other comprehensive income (loss) | ¥ 125 | ¥ (977) | $ 1,117 |

## 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 19, 2016 | Common stock | ¥ 198 million | ¥4.00 | March 31, 2016 | June 6, 2016 |

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, 2017 | Common stock | ¥ 198 million | Retained earnings | ¥4.00 | March 31, 2017 | June 6, 2017 |

## 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, 2017 and 2016 are as follows:

| | **March 31,** | | **March 31,** |
|---|---|---|---|
| | **2017** | **2016** | **2017** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Balance at the beginning of the year | ¥ 9,468 | ¥ 8,350 | $ 84,390 |
| Service costs | 392 | 337 | 3,495 |
| Interest costs | 32 | 120 | 289 |
| Actuarial loss | 13 | 1,051 | 112 |
| Retirement benefit paid | (474) | (390) | (4,228) |
| Balance at the end of the year | ¥ 9,431 | ¥ 9,468 | $ 84,058 |

## 11. Retirement Benefits (continued)

The changes in plan assets for the years ended March 31, 2017 and 2016 are as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Balance at the beginning of the year | ¥ 2,924 | ¥ 2,827 | $ 26,059 |
| Expected return on plan assets | 102 | 99 | 912 |
| Actuarial loss | (133) | (46) | (1,188) |
| Contributions by the Company | 351 | 323 | 3,125 |
| Retirement benefit paid | (293) | (279) | (2,607) |
| Balance at the end of the year | ¥ 2,951 | ¥ 2,924 | $ 26,301 |

The changes in net defined benefit liability that calculated by the simplified method for the years ended March 31, 2017 and 2016 are as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Balance at the beginning of the year | ¥ 748 | ¥ 611 | $ 6,663 |
| Retirement benefit expense | 225 | 181 | 2,010 |
| Retirement benefit paid | (47) | (42) | (418) |
| Other | (2) | (2) | (20) |
| Balance at the end of the year | ¥ 924 | ¥ 748 | $ 8,235 |

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Funded retirement benefit obligation | ¥ 6,166 | ¥ 6,179 | $ 54,956 |
| Plan assets at fair value | (2,951) | (2,924) | (26,301) |
| | 3,215 | 3,255 | 28,655 |
| Unfunded retirement benefit obligation | 4,189 | 4,037 | 37,337 |
| Net liability for retirement benefits in the balance sheet | 7,404 | 7,292 | 65,992 |
| Liability for retirement benefits | 7,404 | 7,292 | 65,992 |
| Net liability for retirement benefits in the balance sheet | ¥ 7,404 | ¥ 7,292 | $ 65,992 |

### 11. Retirement Benefits (continued)

Notes:

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

The components of retirement benefit expense for the years ended March 31, 2017 and 2016 are as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Service costs | ¥ 392 | ¥ 337 | $ 3,495 |
| Interest costs | 32 | 120 | 289 |
| Expected return on plan assets | (102) | (99) | (912) |
| Amortization of actuarial loss | 337 | 206 | 3,008 |
| Amortization of prior service cost | (17) | (17) | (151) |
| Retirement benefit expense calculated by the simplified method | 226 | 181 | 2,009 |
| Retirement benefit expense for defined benefit plans | ¥ 868 | ¥ 728 | $ 7,738 |

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 are as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Prior service cost | ¥ 17 | ¥ 17 | $ 151 |
| Actuarial gain and loss | (192) | 890 | (1,707) |
| Total | ¥ (175) | ¥907 | $ (1,556) |

The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 are as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Unrecognized prior service cost | ¥ (82) | ¥ (99) | $ (729) |
| Unrecognized actuarial gain and loss | 1,725 | 1,917 | 15,374 |
| Total | ¥ 1,643 | ¥ 1,818 | $ 14,645 |

## 11. Retirement Benefits (continued)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 are as follows:

| | March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Bonds | 15.9% | 56.6% |
| Shares | 20.0% | — |
| Cash and deposits | 7.0% | — |
| General accounts | 43.1% | 42.4% |
| Other | 14.0% | 1.0% |
| 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.

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

| | March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Discount rate | 0.31－0.36% | 0.31－0.36% |
| Long-term expected return on plan assets | 3.5% | 3.5% |
| Salary increase rate | 4.2% | 4.2% |
| Lump-sum election rate | 70.0% | 70.0% |

## 12. Contingent Liabilities

The Company had the following contingent liability as of March 31, 2017 and 2016 :

| | March 31, | | March 31, |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Guarantee for housing loans of employees | ¥ 8 | ¥ 10 | $ 67 |

## 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, 2017 and 2016, 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, 2017 | | | |
|---|---|---|---|---|
| | 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 | ¥ 3,177 | ¥ 368 | ¥ (224) | ¥ (224) |
| Total | ¥ 3,177 | ¥ 368 | ¥ (224) | ¥ (224) |
| To buy foreign currencies | | | | |
| U.S. Dollars | ¥ — | ¥ — | ¥ — | ¥ — |
| Total | ¥ — | ¥ — | ¥ — | ¥ — |

| | 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, 2017 | | | |
|---|---|---|---|---|
| | 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 | $ 28,318 | $ 3,282 | $ (1,995) | $ (1,995) |
| Total | $ 28,318 | $ 3,282 | $ (1,995) | $ (1,995) |
| To buy foreign currencies | | | | |
| U.S. Dollars | $ — | $ — | $ — | $ — |
| Total | $ — | $ — | $ — | $ — |

## 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, 2017 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 | ¥ 5,200 | ¥ ― |

| 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, 2017 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 | $ 53,481 | $ 46,350 | $ ― |

Notes:

The fair value of interest rate swaps accounted for using the special 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. 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, 2017 and 2016 on the accompanying consolidated balance sheet fair value and the difference between them are as follows.

| | March 31, 2017 | | |
|---|---|---|---|
| | Carrying value | Fair value | Difference |
| | | *(Millions of yen)* | |
| (1) Cash and bank deposits | ¥ 11,494 | ¥ 11,494 | ¥ — |
| (2) Notes and accounts receivable, trade | 23,834 | 23,834 | — |
| (3) Electronically recorded monetary claims | 623 | 623 | — |
| (4) Investment securities - Other securities | 70 | 70 | — |
| (5) Notes and accounts payable, trade | (9,972) | (9,972) | — |
| (6) Short-term bank loans | (5,100) | (5,100) | — |
| (7) Current portion of long-term debt | (800) | (800) | — |
| (8) Long-term debt | (5,700) | (5,704) | (4) |
| (9) Other long-term liabilities | (3,078) | (2,712) | 366 |
| (10) Derivative transactions | (201) | (201) | — |

| | 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) Derivative transactions | 106 | 106 | — |

| | March 31, 2017 | | |
|---|---|---|---|
| | Carrying value | Fair value | Difference |
| | | *(Thousands of U.S. dollars)* | |
| (1) Cash and bank deposits | $ 102,450 | $ 102,450 | $ — |
| (2) Notes and accounts receivable, trade | 212,446 | 212,446 | — |
| (3) Electronically recorded monetary claims | 5,555 | 5,555 | — |
| (4) Investment securities - Other securities | 620 | 620 | — |
| (5) Notes and accounts payable, trade | (88,887) | (88,887) | — |
| (6) Short-term bank loans | (45,459) | (45,459) | — |
| (7) Current portion of long-term debt | (7,131) | (7,131) | — |
| (8) Long-term debt | (50,807) | (50,842) | (35) |
| (9) Other long-term liabilities | (27,437) | (24,174) | 3,263 |
| (10) Derivative transactions | (1,790) | (1,790) | — |

## 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 periof of time, their fair value approximates the carrying value of these instruments.

(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, (7) Current portion of long-term debt

As these items are settled in a short periof of time, their fair value approximates the carrying value of these instruments.

(8) 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.

(9) 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.

(10) Derivative transactions

See Note 13 for details on derivative transactions.

b) As non-marketable equity securities of ¥52 million ($464 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 ¥11,475 million ($102,282 thousand), Notes and accounts receivable, trade of ¥23,834 million ($212,446 thousand), Electronically recorded monetary claims of ¥623 million ($5,555 thousand) are due within one year subsequent to March 31, 2017 and Cash and bank deposits of ¥7,009 million, Notes and accounts receivable, trade of ¥29,492 million, Electronically recorded monetary claims of ¥673 million are due within one year subsequent to March 31, 2016.

## 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, 2016** | **Decrease** | **March 31, 2017** | **March 31, 2017** |
| | *(Millions of yen)* | | | |
| **Rental property** | ¥ 5,812 | ¥ 122 | ¥ 5,690 | ¥ 7,513 |

| | 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, 2016** | **Decrease** | **March 31, 2017** | **March 31, 2017** |
| | *(Thousands of U.S. dollars)* | | | |
| **Rental property** | $ 51,800 | $ 1,084 | $ 50,716 | $ 66,963 |

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, 2017 and 2016 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, 2017 | | |
|---|---|---|---|
| | Rental income | Rental costs | Difference |
| | *(Millions of yen)* | | |
| **Rental property** | ¥ 1,732 | ¥ 1,233 | ¥ 499 |

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

| | Year ended March 31, 2017 | | |
|---|---|---|---|
| | Rental income | Rental costs | Difference |
| | *(Thousands of U.S. dollars)* | | |
| **Rental property** | $ 15,441 | $ 10,989 | $ 4,452 |

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, 2017 and 2016 is summarized as follows:

| | Year ended March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | **Fine mechatronics** | **Mechatronics systems** | **Vending machines & systems** | **Real estate leasing** | **Total** |
| | | | *(Millions of yen)* | | |
| Sales | | | | | |
| Sales to external customers | ¥ 26,355 | ¥ 12,266 | ¥ 2,044 | ¥ 2,072 | ¥ 42,737 |
| Intersegment sales or transfers | 48 | 152 | 0 | – | 200 |
| Total sales | 26,403 | 12,418 | 2,044 | 2,072 | 42,937 |
| Segment income (loss) | 345 | 863 | 83 | 597 | 1,888 |
| Segment assets | 25,851 | 10,572 | 1,586 | 6,370 | 44,379 |
| Other | | | | | |
| Depreciation and amortization | 956 | 296 | 38 | 276 | 1,566 |
| Interest income | 4 | 0 | 0 | – | 4 |
| Interest expense | 5 | 6 | 6 | – | 17 |
| Increase in tangible and intangible fixed assets | 778 | 249 | 22 | 173 | 1,222 |

| | 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 |

## 16. Segment Information (continued)

| | Year ended March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Fine mechatronics | Mechatronics systems | Vending machines & systems | Real estate leasing | Total |
| | *(Thousands of U.S. dollars)* | | | | |
| Sales | | | | | |
| Sales to external customers | $ 234,915 | $ 109,332 | $ 18,218 | $ 18,470 | $ 380,935 |
| Intersegment sales or transfers | 431 | 1,357 | 3 | – | 1,791 |
| Total sales | 235,346 | 110,689 | 18,221 | 18,470 | 382,726 |
| Segment income (loss) | 3,070 | 7,692 | 743 | 5,321 | 16,826 |
| Segment assets | 230,420 | 94,230 | 14,135 | 56,784 | 395,569 |
| Other | | | | | |
| Depreciation and amortization | 8,526 | 2,637 | 336 | 2,462 | 13,961 |
| Interest income | 37 | 0 | 0 | – | 37 |
| Interest expense | 47 | 50 | 57 | – | 154 |
| Increase in tangible and intangible fixed assets | 6,932 | 2,225 | 196 | 1,540 | 10,893 |

(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, |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| | *(Millions of yen)* | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
| Reporting segments | ¥ 1,888 | ¥ 1,651 | $ 16,826 |
| Unallocated amounts | (443) | (423) | (3,945) |
| Other | (313) | (55) | (2,788) |
| Consolidated | ¥ 1,132 | ¥ 1,173 | $ 10,093 |

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, 2017 | As of March 31, 2016 | As of March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
| Reporting segments | ¥ 44,379 | ¥ 50,880 | $ 395,569 |
| Unallocated amounts | 9,342 | 5,373 | 83,273 |
| Consolidated | ¥ 53,721 | ¥ 56,253 | $ 478,842 |

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, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Reporting segments | Adjustment amount | Consolidated | Reporting segments | Adjustment amount | Consolidated |
| | | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* | |
| Depreciation and amortization | ¥ 1,566 | ¥ – | ¥ 1,566 | $ 13,961 | $ – | $ 13,961 |
| Interest income | 4 | 1 | 5 | 37 | 3 | 40 |
| Interest expense | 17 | 117 | 134 | 154 | 1,036 | 1,190 |
| Increase in tangible and intangible fixed assets | 1,222 | – | 1,222 | 10,893 | – | 10,893 |

| | Year ended March 31, 2016 | | |
|---|---|---|---|
| | Reporting segments | Adjustment amount | Consolidated |
| | | *(Millions of yen)* | |
| Depreciation and amortization | ¥ 1,411 | ¥ – | ¥ 1,411 |
| Interest income | 11 | 0 | 11 |
| Interest expense | 25 | 120 | 145 |
| Increase in tangible and intangible fixed assets | 1,536 | – | 1,536 |

## 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, 2017 | | | |
|---|---|---|---|
| Japan | Northeastern Asia | Other | Total |
| (Millions of yen) | | | |
| ¥ 17,827 | ¥ 23,595 | ¥ 1,315 | ¥ 42,737 |

| 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, 2017 | | | |
|---|---|---|---|
| Japan | Northeastern Asia | Other | Total |
| (Thousands of U.S. dollars) | | | |
| $ 158,901 | $ 210,311 | $ 11,723 | $ 380,935 |

Notes:

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

b) Tangible fixed assets

| As of March 31, 2017 | | |
|---|---|---|
| Japan | Northeastern Asia | Total |
| (Millions of yen) | | |
| ¥ 10,780 | ¥ 10 | ¥ 10,790 |

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

| As of March 31, 2017 | | |
|---|---|---|
| Japan | Northeastern Asia | Total |
| (Thousands of U.S. dollars) | | |
| $ 96,084 | $ 95 | $ 96,179 |

## 16. Segment Information (continued)

c) Information by main customer

Year ended March 31, 2017: Not applicable

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

③ Impairment losses on fixed assets by reporting segment

Year ended March 31, 2017: Not applicable

Year ended March 31, 2016: Not applicable

④ Depreciation and remaining balance of goodwill by reporting segment

Year ended and as of March 31, 2017: Not applicable

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

⑤ Gain on negative goodwill by reporting segment

Year ended March 31, 2017: Not applicable

Year ended March 31, 2016: Not applicable

## 17. Cash and Cash Equivalents

Reconciliations of cash and cash equivalents as of March 31, 2016 and 2017 between the amounts shown in the consolidated balance sheets and the consolidated statements of cash flows are as follows:

| | As of March 31, | | As of March 31, |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| | *(Millions of yen)* | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
| Cash and time deposits | ¥ 11,494 | ¥ 7,027 | $ 102,450 |
| Time deposits with maturities in excess of three months | (15) | (15) | (132) |
| Cash and cash equivalents | ¥ 11,479 | ¥ 7,012 | $ 102,318 |

## 18. Non-cash Transactions

Lease assets and lease obligations recorded relating to lease transactions were ¥7 million ($62 thousand) and ¥7 million ($62 thousand), respectively for the year ended March 31, 2017 and ¥9 million and ¥9 million, respectively for the year ended March 31, 2016.

## 19. Selling, General and Administrative Expenses

For the years ended March 31, 2017 and 2016, major selling, general and administrative expenses are summarized as follows:

| | Year ended March 31, | | Year ended March 31, |
|---|---|---|---|
| | **2017** | **2016** | **2017** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Packing and delivery expenses | ¥ 57 | ¥ 83 | $ 506 |
| Sales commissions | 205 | 421 | 1,830 |
| Advertising expenses | 14 | 4 | 126 |
| Employees' salaries and allowances | 4,273 | 4,279 | 38,088 |
| Provision for director's bonuses | 33 | 29 | 293 |
| Provision of allowance for doubtful accounts | (7) | 8 | (65) |
| Retirement benefit expenses | 374 | 357 | 3,331 |
| Provision for directors' retirement benefits | 3 | 3 | 25 |
| Depreciation | 1,100 | 898 | 9,807 |
| Rent expenses | 68 | 105 | 607 |
| Research and development expenses | 2,205 | 2,062 | 19,652 |

## 20. Related Party Transactions

Toshiba Corporation held 39.1% of the Company's voting rights as of March 31, 2017 and 2016.

The Company sold semiconductor manufacturing equipment to Toshiba Corporation, The Company also lend the office space to Toshiba Corporation. The aggregate amounts of these transactions were ¥2,415 million ($21,522 thousand) and ¥3,881 million for the years ended March 31, 2017 and 2016, respectively.

The Company purchased raw materials from Toshiba Corporation totaling ¥282 million ($2,512 thousand) and ¥279 million for the years ended March 31, 2017 and 2016, respectively.

The terms and conditions of the above transactions were determined with consideration of market prices.

## 20. Related Party Transactions (continued)

Amounts due from and to Toshiba Corporation at March 31, 2017 and 2016 were as follows:

| | March 31, 2017 | March 31, 2016 | March 31, 2017 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Due from Toshiba Corporation | ¥ 236 | ¥ 301 | $ 2,101 |
| Due to Toshiba Corporation | 3,382 | 3,379 | 30,149 |

## 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, 2017 | As of March 31, 2016 | As of March 31, 2017 |
|---|---|---|---|
| | *(Yen)* | | *(U.S. dollars)* |
| Net income: | | | |
| – Basic | ¥ 18.84 | ¥ 15.04 | $ 0.17 |
| Net assets | 334.67 | 317.29 | 2.98 |

Notes:

The information regarding diluted net income per share for the years ended March 31, 2017 and 2016 is omitted because there was no stock with dilutive effect.

pwc

# Independent Auditor's Report

To the Board of Directors of
Shibaura Mechatronics Corporation

We have audited the accompanying consolidated financial statements of Shibaura Mechatronics Corporation ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## 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 such internal control as management determines is necessary to enable the preparation of 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 comply with ethical requirements and 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. In making those risk assessments, the auditor considers internal control 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, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. 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.

pwc

To the Board of Directors of
Shibaura Mechatronics Corporation
Page 2

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Other Matter

The consolidated financial statements of the Company for the year ended March 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on June 23, 2016.

PricewaterhouseCoopers Aarata LLC

September 29, 2017

# Directors, Vice Presidents and Auditors

As of June 22, 2017

## Directors and Vice Presidents

**Shigeki Fujita**
Representative Director
President and Chief Executive Officer

**Hitoshi Dojima**
Director
Executive Vice President
Chief Financial Officer

**Makoto Fujino**
Director
Executive Vice President
Executive General Manager of Fine Mechatronics Division

**Yoshitsugu Ogawa**
Director
Senior Vice President
Executive General Manager of Mechatronics System Division

**Masatoshi Higuchi**
Director
Vice President
Executive General Manager of Technology & Development Division

**Sennosuke Yoshida**
Outside Director

**Tomoko Inaba**
Outside Director

**Keigo Imamura**
Senior Vice President
Deputy Executive General Manager of Fine Mechatronics Division

**Hisashi Shindo**
Senior Vice President
Deputy Executive General Manager of Mechatronics System Division

**Takashi Arai**
Vice President
Deputy Executive General Manager of Fine Mechatronics Division

**Kazuyuki Yamanaka**
Vice President
Executive General Manager of Production & Procurement Division

**Hironaga Shiokawa**
Vice President
Deputy Executive General Manager of Corporate Management Division

**Yoshio Yuyama**
Vice President
Deputy Executive General Manager of Mechatronics System Division

## Auditors

**Yasuhiko Yamato**
Auditor

**Kazumasa Uchida**
Outside Auditor

**Hiroshi Igashira**
Outside Auditor

# Investor Information

As of March 31, 2017

| | |
|---|---|
| **Date Established** | October 12, 1939 |
| **Capital** | 6,762Million-Yen |
| **Number of Employees** | Consolidated : 1,202 |
| **Common Stock** | Authorized : 100,000,000 shares<br>Issued and outstanding : 51,926,194 shares |
| **Number of Shareholders** | 5,222 |
| **Stock Listings** | The Tokyo Stock Exchange (Code : 6590) |
| **Transfer Agent for Common Stock** | Sumitomo Mitsui Trust Bank, Limited<br>1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan |
| **Independent Auditor** | PricewaterhouseCoopers Aarata LLC |
| **Headquarters** | 2-5-1, Kasama, Sakae-ku, Yokohama, Kanagawa Pref. 247-8610, Japan<br>TEL : +81-45-897-2421 FAX : +81-45-897-2470<br>http://www.shibaura.co.jp/ |

## Commo Stock Price Range (The Tokyo Stock Exchange)

| | Year ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| High (yen) | 317 | 320 | 384 | 333 | 252 |
| Low (yen) | 179 | 170 | 220 | 181 | 112 |

## Principal Shareholders

| | Number of shares hold (thousand shares) | Percentage of total shares outstanding (%) |
|---|---|---|
| Toshiba Corporation | 18,977 | 38.41 |
| The Master Trust Bank of Japan, Limited (trust accounts) | 2,354 | 4.76 |
| Japan Trustee Services Bank, Limited (trust accounts) | 1,704 | 3.44 |

**SHIBAURA MECHATRONICS CORPORATION**

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