# Consolidated Balance Sheet

CYBERDYNE, Inc. and Consolidated Subsidiaries
March 31, 2015

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| **ASSETS** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and bank balances (Notes 4, 8 and 13) | **¥29,722,189** | ¥ 4,341,264 | **$247,334** |
| Marketable securities (Notes 5 and 13) | **12,499,668** | | **104,016** |
| Receivables: | | | |
| Trade accounts (Note 13) | **207,622** | 66,126 | **1,727** |
| Other (Note 13) | **549,893** | 398,516 | **4,575** |
| Allowance for doubtful receivables | **(1,350)** | (362) | **(11)** |
| Inventories (Note 6) | **339,209** | 199,657 | **2,822** |
| Prepaid expenses and other current assets | **91,013** | 60,568 | **757** |
| Total current assets | **43,408,245** | 5,065,769 | **361,223** |
| **PROPERTY, PLANT AND EQUIPMENT** (Note 7)**:** | | | |
| Land | **3,143,151** | | **26,155** |
| Buildings and structures | **1,424,485** | 1,417,980 | **11,853** |
| Assets for rent | **398,768** | 309,329 | **3,318** |
| Other assets | **1,063,569** | 928,067 | **8,850** |
| Total | **6,029,974** | 2,655,378 | **50,178** |
| Accumulated depreciation | **(1,702,042)** | (1,530,030) | **(14,163)** |
| Property, plant and equipment—net | **4,327,931** | 1,125,347 | **36,015** |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Intangible assets | **58,211** | 50,754 | **484** |
| Investment securities (Notes 5 and 13) | **314,850** | | **2,620** |
| Investments in unconsolidated subsidiaries and associated companies (Notes 5 and 13) | **12,259** | 10,596 | **102** |
| Others (Notes 5 and 13) | **167,555** | 182,299 | **1,394** |
| Total investments and other assets | **552,875** | 243,651 | **4,600** |
| **TOTAL** | **¥48,289,052** | ¥ 6,434,768 | **$401,839** |

| | Thousands of Yen 2015 | Thousands of Yen 2014 | Thousands of U.S. Dollars (Note 1) 2015 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES:** | | | |
| Payables—trade accounts (Note 13) | **¥ 92,195** | ¥ 26,210 | **$ 767** |
| Income taxes payable (Note 13) | **69,899** | 26,469 | **581** |
| Other current liabilities | **295,071** | 222,277 | **2,455** |
| Total current liabilities | **457,167** | 274,956 | **3,804** |
| **LONG-TERM LIABILITIES:** | | | |
| Convertible bond-type bonds with subscription rights to shares (Notes 8 and 13) | **19,883,974** | | **165,465** |
| Asset retirement obligations (Note 9) | **70,171** | 68,762 | **583** |
| Deferred tax liabilities (Note 11) | **13,335** | 16,303 | **110** |
| Other | **87,107** | 78,917 | **724** |
| Total long-term liabilities | **20,054,587** | 163,983 | **166,885** |
| **EQUITY** (Note 10)**:** | | | |
| Capital stock: | **16,511,767** | 5,428,919 | **137,403** |
| Common stock—authorized, 618,300,000 shares; issued, 125,576,000 shares in 2015* and 108,534,000 shares in 2014** | | | |
| Class B stock—authorized, 77,700,000 shares; issued, 77,700,000 shares in 2015* and 2014** | | | |
| Capital surplus | **16,447,767** | 5,364,919 | **136,870** |
| Stock acquisition rights | **530,529** | | **4,414** |
| Deficit | **(5,714,957)** | (4,799,064) | **(47,557)** |
| Accumulated other comprehensive income—foreign currency translation adjustments | **(442)** | 1,055 | **(3)** |
| Total | **27,774,664** | 5,995,828 | **231,128** |
| Minority interests | **2,634** | | **21** |
| Total equity | **27,777,298** | 5,995,828 | **231,150** |
| **TOTAL** | **¥48,289,052** | ¥ 6,434,768 | **$401,839** |

* Shares as of March 31, 2015 have been restated, as appropriate, to reflect a two-for-one stock split effected on August 1, 2015.
** Shares as of March 31, 2014 have been restated, as appropriate, to reflect a two-for-one stock split effected on August 1, 2015, and a five-for-one stock split effected on August 1, 2014.

See notes to consolidated financial statements.

# Consolidated Statement of Operations

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2015

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| **NET SALES** | **¥ 631,278** | ¥ 456,375 | **$ 5,253** |
| **COST OF SALES** | **359,798** | 245,988 | **2,994** |
| Gross profit | **271,479** | 210,387 | **2,259** |
| **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES** (Note 12): | | | |
| Research and development costs | **983,278** | 716,171 | **8,182** |
| Other selling, general and administrative expenses | **1,054,320** | 648,457 | **8,773** |
| Total selling, general and administrative expenses | **2,037,598** | 1,364,629 | **16,955** |
| Operating loss | **(1,766,118)** | (1,154,242) | **(14,696)** |
| **OTHER INCOME (EXPENSES):** | | | |
| Interest income | **2,830** | 372 | **23** |
| Subsidy income | **891,972** | 465,421 | **7,422** |
| Income from consigned research | **133,520** | 92,712 | **1,111** |
| Interest expense | **(18,839)** | (4,969) | **(156)** |
| Stock issuance costs | **(99,409)** | (31,967) | **(827)** |
| Loss on write-down of carrying value of fixed assets for tax purposes | **(82,463)** | (71,216) | **(686)** |
| Negative goodwill | | 4,330 | |
| Gain on change in interest in investee | **4,959** | | **41** |
| Other—net | **30,651** | 21,007 | **255** |
| Other income—net | **863,223** | 475,691 | **7,183** |
| **LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS** | **(902,895)** | (678,550) | **(7,513)** |
| **INCOME TAXES** (Note 11): | | | |
| Current | **14,616** | 11,516 | **121** |
| Deferred | **(2,968)** | (1,895) | **(24)** |
| Total income taxes | **11,648** | 9,621 | **96** |
| **NET LOSS BEFORE MINORITY INTERESTS** | **(914,543)** | (688,171) | **(7,610)** |
| **MINORITY INTERESTS IN NET LOSS** | **1,349** | | **11** |
| **NET LOSS** | **¥ (915,893)** | ¥ (688,171) | **$ (7,621)** |

| | Yen | | U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| **PER SHARE OF COMMON STOCK** (Notes 2.s and 15)— | | | |
| Basic net loss* | **¥(4.74)** | ¥(3.95) | **$(0.03)** |

* Per share figures have been restated, as appropriate, to reflect a two-for-one stock split effected August 1, 2015 and a five-for-one stock split effected on August 1, 2015, and a five-for-one stock split effected on August 1, 2014.

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2015

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| **NET LOSS BEFORE MINORITY INTERESTS** | **¥(914,543)** | ¥(688,171) | **$(7,610)** |
| **OTHER COMPREHENSIVE (LOSS) INCOME** (Note 14)— | | | |
| Foreign currency translation adjustments | **(1,497)** | 1,055 | **(12)** |
| Total other comprehensive (loss) income | **(1,497)** | 1,055 | **(12)** |
| **COMPREHENSIVE LOSS** | **¥(916,040)** | ¥(687,116) | **$(7,622)** |
| **TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:** | | | |
| Owners of the parent | **¥(917,112)** | ¥(687,116) | **$(7,631)** |
| Minority interests | **1,072** | | **8** |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2015

| | Thousands of Shares | | | | |
|---|---|---|---|---|---|
| | Number of Shares of Former Common Stock Outstanding* | Number of Shares of Former Class A Stock Outstanding* | Number of Shares of Former Class B Stock Outstanding* | Number of Shares of Common Stock Outstanding** | Number of Shares of Class B Stock Outstanding** |
| **BALANCE, APRIL 1, 2013** | 98,534 | 51,334 | 24,146 | | |
| Net loss | | | | | |
| Issuance of new stock | | | | 12,220 | |
| Rearrangement for former stocks | (98,534) | (51,334) | (24,146) | 96,314 | 77,700 |
| Net change in the year | | | | | |
| **BALANCE, MARCH 31, 2014** | | | | 108,534 | 77,700 |
| Net loss | | | | | |
| Issuance of new stock | | | | 17,042 | |
| Net change in the year | | | | | |
| **BALANCE, MARCH 31, 2015** | | | | 125,576 | 77,700 |

| | Thousands of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated Other Comprehensive Income | | | |
| | Capital Stock | Capital Surplus | Stock Acquisition Rights | Deficit | Foreign Currency Translation Adjustments | Total | Minority Interests | Total Equity |
| **BALANCE, APRIL 1, 2013** | ¥ 3,349,075 | ¥ 3,285,075 | | ¥(4,110,892) | | ¥ 2,523,257 | | ¥ 2,523,257 |
| Net loss | | | | (688,171) | | (688,171) | | (688,171) |
| Issuance of new stock | 2,079,844 | 2,079,844 | | | | 4,159,688 | | 4,159,688 |
| Rearrangement for former stocks | | | | | | | | |
| Net change in the year | | | | | ¥ 1,055 | 1,055 | | 1,055 |
| **BALANCE, MARCH 31, 2014** | 5,428,919 | 5,364,919 | | (4,799,064) | 1,055 | 5,995,828 | | 5,995,828 |
| Net loss | | | | **(915,893)** | | **(915,893)** | | **(915,893)** |
| Issuance of new stock | **11,082,848** | **11,082,848** | | | | **22,165,696** | | **22,165,696** |
| Net change in the year | | | **¥530,529** | | **(1,497)** | **529,032** | **¥2,634** | **531,665** |
| **BALANCE, MARCH 31, 2015** | **¥16,511,767** | **¥16,447,767** | **¥530,529** | **¥(5,714,957)** | **¥ (442)** | **¥27,774,664** | **¥2,634** | **¥27,777,298** |

* Shares have been restated, as appropriate, to reflect a two hundred-for-one stock split effected on October 25, 2013, a five-for-one stock split effected on August 1, 2014, and a two-for-one stock split effected on August 1, 2015.

** Shares have been restated, as appropriate, to reflect a five-for-one stock split effected on August 1, 2014, and a two-for-one stock split effected on August 1, 2015.

| | Thousands of U.S. Dollars (Note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated Other Comprehensive Income | | | |
| | Capital Stock | Capital Surplus | Stock Acquisition Rights | Deficit | Foreign Currency Translation Adjustments | Total | Minority Interests | Total Equity |
| **BALANCE, MARCH 31, 2014** | $ 45,176 | $ 44,644 | | $(39,935) | $ 8 | $ 49,894 | | $ 49,894 |
| Net loss | | | | **(7,621)** | | **(7,621)** | | **(7,621)** |
| Issuance of new stock | **92,226** | **92,226** | | | | **184,452** | | **184,452** |
| Net change in the year | | | **$4,414** | | **(12)** | **4,402** | **$21** | **4,424** |
| **BALANCE, MARCH 31, 2015** | **$137,403** | **$136,870** | **$4,414** | **$(47,557)** | **$ (3)** | **$231,128** | **$21** | **$231,150** |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2015

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| **OPERATING ACTIVITIES:** | | | |
| Loss before income taxes and minority interests | ¥ (902,895) | ¥ (678,550) | $ (7,513) |
| Adjustments for: | | | |
| Depreciation and amortization | 202,295 | 179,672 | 1,683 |
| Loss on write-down of carrying value of fixed assets for tax purpose | 82,463 | 71,216 | 686 |
| Interest income | (2,830) | (372) | (23) |
| Interest expense | 18,839 | 4,969 | 156 |
| Stock issuance costs | 99,409 | 31,967 | 827 |
| Negative goodwill | | (4,330) | |
| Changes in assets and liabilities: | | | |
| Increase in accounts receivable—trade | (141,496) | (48,258) | (1,177) |
| Increase in accounts receivable—other | (9,959) | (146,409) | (82) |
| Increase in allowance for doubtful receivables | 987 | 219 | 8 |
| Increase in inventories | (139,552) | (18,303) | (1,161) |
| Increase in accounts payable—trade | 65,985 | 8,863 | 549 |
| Other—net | (28,925) | 71,395 | (240) |
| Subtotal | (755,680) | (527,921) | (6,288) |
| Interest received | 1,763 | 675 | 14 |
| Interest paid | (4,335) | (4,969) | (36) |
| Income taxes—paid | (21,034) | (7,373) | (175) |
| Net cash used in operating activities | (779,286) | (539,588) | (6,484) |
| **INVESTING ACTIVITIES:** | | | |
| Increase in restricted deposit | (20,000,000) | | (166,430) |
| Payments into time deposits | (3,000,000) | | (24,964) |
| Proceeds from withdrawals of time deposits | | 400,000 | |
| Purchases of property, plant and equipment | (3,440,817) | (226,614) | (28,632) |
| Purchases of intangible assets | (29,875) | (17,428) | (248) |
| Increase in investment securities | (314,850) | | (2,620) |
| Increase in investments in unconsolidated subsidiaries | | (6,000) | |
| Payments for loans receivable from unconsolidated subsidiaries | | (1,643) | |
| Payments for acquisition of business | | (15,000) | |
| Other—net | 4,941 | (11,516) | 41 |
| Net cash (used in) provided by investing activities | (26,780,601) | 121,796 | (222,855) |
| **FINANCING ACTIVITIES:** | | | |
| Repayments of long-term debt | | (55,552) | |
| Proceeds from issuance of convertible bond-type bonds with subscription rights to shares | 20,394,935 | | 169,717 |
| Proceeds from issuance of new stock | 22,066,287 | 4,159,688 | 183,625 |
| Other—net | (20,219) | (53,995) | (168) |
| Net cash provided by financing activities | 42,441,003 | 4,050,140 | 353,174 |
| **FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS** | (521) | 324 | (4) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 14,880,593 | 3,632,672 | 123,829 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 4,341,264 | 708,591 | 36,126 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** (Note 4) | ¥ 19,221,857 | ¥4,341,264 | $ 159,955 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2015

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2014 consolidated financial statements to conform to the classifications used in 2015.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which CYBERDYNE, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.17 to $1, the approximate rate of exchange at March 31, 2015. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts presented in the accompanying consolidated financial statements are rounded down to the nearest thousand yen and thousand dollar.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***a. Consolidation—***

The consolidated financial statements as of March 31, 2015 and 2014, include the accounts of the Company and its four significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

(Names of Consolidated Subsidiaries)
Suzuka Robo Care Center Co., Ltd.
Shonan Robo Care Center Co., Ltd.
Oita Robo Care Center Co., Ltd.
Cyberdyne Care Robotics GmbH

Investments in the remaining five unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

(Names of Unconsolidated Subsidiaries)
Niigata Robo Care Center Co., Ltd.
Cyberdyne EU B.V.
CYBERDYNE DENMARK ApS
Cyberdyne Sweden AB
CYBERDYNE (Germany) GmbH

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

The closing date of Cyberdyne Care Robotics GmbH, one of the consolidated subsidiaries, is December 31. To prepare the consolidated financial statements, the Company used financial statements based on a provisional statement of accounts as at consolidated closing date. The closing dates of all other consolidated subsidiaries are the same as the parent company.

***b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—***

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

***c. Business Combinations—***

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

***d. Cash Equivalents—***

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and marketable securities, all of which mature or become due within three months of the date of acquisition.

***e. Inventories—***

Inventories are stated at the lower of cost determined by the following methods, or net selling value:

| | |
|---|---|
| (1) Finished products, work in process: | Specific identification method |
| (2) Raw materials, merchandise: | Moving-average cost method |
| (3) Supplies: | Last purchase method |

***f. Marketable and Investment Securities—***

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is the positive intent and ability to hold to maturity are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

***g. Allowance for Doubtful Receivables—***

The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

***h. Property, Plant and Equipment—***

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings (excluding structures), assets for rent and certain furniture and fixtures.

The range of useful lives is principally the following:

| | |
|---|---|
| Buildings and structures: | 3 to 20 years |
| Machinery and equipment: | 7 years |
| Vehicles: | 2 to 6 years |
| Furniture and fixtures: | 2 to 20 years |
| Assets for rent: | 5 years |

Under certain conditions such as when companies receive government subsidies and purchase property, plant and equipment using the government subsidies, Japanese tax laws permit companies to defer the profit arising from such subsidies by reducing the cost of the assets acquired.

***i. Long Lived Assets—***
The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

***j. Intangible Assets—***
Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method over 3 to 5 years for software and 8 years for patent rights.

***k. Asset Retirement Obligations—***
In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

***l. Research and Development Costs—***
Research and development costs are charged to income as incurred.

***m. Leases—***
In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

The Company applied the revised accounting standard effective April 1, 2008.

All other leases are accounted for as operating leases.

***n. Revenue Recognition—***
The Group's revenue mainly consists of rentals and sales of products. The Company recognizes rental revenue each month over the rental period based on the rental agreement. For sales of products, the Company recognizes revenue upon the completion of acceptance inspection by the customer.

***o. Other Income—***
The Group receives subsidies from government agencies. Also, the Company conducts research consigned by government agencies. Subsidies and consigned research income are recognized by the percentage-of-completion method as the outcome of the projects can be estimated reliably.

***p. Income Taxes—***
The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

***q. Foreign Currency Transactions—***
All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations.

***r. Foreign Currency Financial Statements—***
The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

***s. Per Share Information—***
Basic net income or loss per share is computed by dividing net income or loss attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

The Company effected a five-for-one stock split on August 1, 2014, by way of a free share distribution based on the resolution of the Board of Directors' meeting held on May 22, 2014.

Also, the Company effected a two-for-one stock split on August 1, 2015, by way of a free share distribution based on the resolution of the Board of Directors' meeting held on May 25, 2015. All prior and current years share and per share figures have been restated to reflect the impact of these stock splits, and to provide data on a comparable basis.

Net loss per share is calculated assuming these stock splits were conducted at the beginning of the fiscal year ended March 31, 2014.

***t. Accounting Changes and Error Corrections—***
In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors—When an error in prior period financial statements is discovered, those statements are restated.

***u. New Accounting Pronouncements***
***Accounting Standards for Business Combinations and Consolidated Financial Statements—***On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements."

Major accounting changes are as follows:

(a) *Transactions with noncontrolling interest*—A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) *Presentation of the consolidated balance sheet*—In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

(c) *Presentation of the consolidated statement of income*—In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) *Provisional accounting treatments for a business combination*—If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) *Acquisition-related costs*—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company expects to apply the revised accounting standards and guidance for (a), (b), (c) and (e) above from April 1, 2015, and for (d) above for a business combination which will occur on or after April 1, 2015, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

## 3. BUSINESS COMBINATION

On July 1, 2013, the Company acquired the cleaning robot business of Fuji Heavy Industries Ltd. ("the Cleaning robot Business"). The Company decided to develop a comprehensive robot company, centering on Robot Suit HAL, by taking over the cleaning robot business of Fuji Heavy Industries Ltd. and pushing forward with research and development of robots for cleaning and transportation, with which its proprietary advanced technologies will be combined.

The results of operations for the Cleaning robot Business are included in the Company's consolidated statement of operations from the date of acquisition.

The acquisition cost was ¥15,000 thousand in cash in accordance with the Asset Purchase Agreement dated July 1, 2013. The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values.

Negative goodwill of ¥4,330 thousand arose from the acquisition and with the application of the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), the negative goodwill was immediately recognized as profit in the year ended March 31, 2014.

The fair values of the assets acquired and the liabilities assumed at the acquisition date were as follows:

| | Thousands of Yen |
|---|---|
| Current assets | ¥ 6,801 |
| Property, plant and equipment | 15,750 |
| Total assets acquired | 22,551 |
| Total liabilities assumed | 2,471 |
| Net assets acquired | ¥20,080 |

### 4. RECONCILIATION BETWEEN CASH AND BANK BALANCES AND CASH EQUIVALENTS

Reconciliation between cash and bank balances in the consolidated balance sheets as of March 31, 2015 and 2014, and cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2015 and 2014, was as follows:

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Cash and bank balances | **¥ 29,722,189** | ¥4,341,264 | **$ 247,334** |
| Marketable securities | **12,499,668** | | **104,016** |
| Time deposits which mature or become due over three months from the date of acquisition | **(3,000,000)** | | **(24,964)** |
| Restricted deposit | **(20,000,000)** | | **(166,430)** |
| Cash and cash equivalents | **¥ 19,221,857** | ¥4,341,264 | **$ 159,955** |

### 5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2015, consisted of the following:

| | Thousands of Yen | Thousands of U.S. Dollars (Note 1) |
|---|---|---|
| | **2015** | **2015** |
| Current—Securities classified as: | | |
| Held-to-maturity—commercial paper | **¥ 2,499,668** | **$ 20,801** |
| Available-for-sale—joint-managed money trust | **10,000,000** | **83,215** |
| Total | **¥12,499,668** | **$104,016** |
| Non-current—Securities classified as available-for-sale—unlisted stocks | **¥ 314,850** | **$ 2,620** |

The Group did not have any marketable and investment securities as of March 31, 2014.

The costs and aggregate fair values of marketable and investment securities as of March 31, 2015, are not disclosed since the carrying value of commercial paper and joint-managed money trust approximate fair value because of their short maturities, and since unlisted stocks do not have a quoted market price and their fair value cannot be reliably determined.

Other than the above, investments in unconsolidated subsidiaries and associated companies, included in other assets in investments and other assets, as of March 31, 2015 and 2014, are as follows:

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Investments in unconsolidated subsidiaries and associated companies: | | | |
| Investment securities (shares) | **¥9,302** | ¥7,639 | **$77** |
| Investment securities (investments in capital) | **2,957** | 2,957 | **24** |

## 6. INVENTORIES

Inventories at March 31, 2015 and 2014, consisted of the following:

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Merchandise and finished products | **¥ 52,779** | ¥ 19,669 | **$ 439** |
| Work in process | **21,956** | 9,932 | **182** |
| Raw materials and supplies | **264,473** | 170,054 | **2,200** |
| Total | **¥339,209** | ¥199,657 | **$2,822** |

## 7. REDUCTION ENTRY

With receipt of state subsidies for fixed assets, the Company has reduced the acquisition cost of related fixed assets for tax purpose.

The reduction entries deduced from the acquisition cost of fixed assets for tax purpose as of March 31, 2015 and 2014, were as follows:

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Machinery and equipment | **¥144,555** | ¥113,471 | **$1,202** |
| Furniture and fixtures | **105,229** | 62,310 | **875** |
| Software | **11,332** | 2,872 | **94** |

## 8. LONG-TERM DEBT

Long-term debt at March 31, 2015, consisted of the following:

| | Thousands of Yen | Thousands of U.S. Dollars (Note 1) |
|---|---|---|
| | **2015** | **2015** |
| Long-term bonds—Euro-yen zero coupon convertible bond-type bonds with subscription rights to shares, due 2017 | **¥19,883,974** | **$165,465** |
| Less current portion | | |
| Long-term bonds, less current portion | **¥19,883,974** | **$165,465** |

Outline of Euro-yen zero coupon convertible bond-type bonds with subscription rights to shares is as follows:

| | |
|---|---|
| (1) Type of shares to be converted | Common stock of the Company |
| (2) Issue price of the stock acquisition rights | Zero |
| (3) Conversion price | ¥3,790 ($31) (¥1,895 ($15) on or after the stock split as of August 1, 2015) |
| (4) Aggregate principal of the bond | ¥20,000,000 thousand ($166,430 thousand) |
| (5) Exercise period | From December 26, 2014 to November 28, 2017 |
| (6) Substitute payment | In the exercise of each stock acquisition rights, it is assumed that each bond will be invested, and the value of the bond will be equivalent to the total face value. |

In accordance with the escrow agreement entered into with DB Trustees (Hong Kong) Limited, which serves as the trustee for the convertible bonds, and Deutsche Bank AG, Tokyo Branch, which serves as the escrow agent, the aggregate principal amount of the convertible bonds of ¥20,000,000 thousand ($166,430 thousand) was placed in the Company's escrow account, which was opened at the escrow agent, upon receipt of payment. The Company may withdraw funds from the escrow account only upon satisfaction of one of the conditions stated below.

Specifically, the Company may withdraw the funds if (i) it receives approval of its mainstay product HAL® as a medical device from the U.S. Food and Drug Administration ("FDA"), or if (ii) it receives approval to manufacture and distribute HAL® as a medical device in Japan from the Minister of Health, Labour and Welfare in Japan under the Pharmaceutical Affairs Act of Japan. In the event that the convertible bonds are converted into shares, the Company may withdraw an amount equivalent to the principal amount of the relevant convertible bonds that were converted even if the aforementioned conditions are not satisfied.

Annual maturities of long-term debt at March 31, 2015, were as follows:

| Year Ending March 31 | Thousands of Yen | Thousands of U.S. Dollars (Note 1) |
|---|---|---|
| 2016 | | |
| 2017 | | |
| 2018 | ¥20,000,000 | $166,430 |
| 2019 | | |
| 2020 and thereafter | | |

The Company has concluded overdraft agreements, with a maximum limit of ¥900,000 thousand ($7,489 thousand) and ¥600,000 thousand, with two banks as of March 31, 2015 and 2014, respectively, in order to efficiently fund ongoing operations.

### 9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2015 and 2014, were as follows:

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Balance at beginning of year | **¥68,762** | ¥67,380 | **$572** |
| Reconciliation associated with passage of time | **1,409** | 1,382 | **11** |
| Balance at end of year | **¥70,171** | ¥68,762 | **$583** |

Asset retirement obligations are obligations to restore sites to their original condition attendant upon the real estate lease contracts of the head office building and exhibition facilities, etc. The amounts of the asset retirement obligations are calculated at discount rates of 1.98% to 2.07% by estimating the expected use periods to be 18 to 20 years from acquisition.

### 10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

***a. Dividends***

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3,000 thousand.

The Company is not allowed to pay dividends due to the deficit as of March 31, 2015 and 2014.

***b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus***

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The changes in shares are summarized below:

| | Shares | | | | | |
|---|---|---|---|---|---|---|
| | (Former) Common Stock | (Former) Class A Stock | (Former) Class B Stock | Common Stock | Class B Stock | Total |
| Issued shares: | | | | | | |
| Balance, April 1, 2013 | 49,267 | 25,667 | 12,073 | | | 87,007 |
| Increase | | 12,073 | | 10,853,400 | 8,586,566 | 19,452,039 |
| Decrease | (49,267) | (37,740) | (12,073) | | (816,566) | (915,646) |
| Balance, March 31, 2014 | | | | 10,853,400 | 7,770,000 | 18,623,400 |
| Increase | | | | **51,934,600** | **31,080,000** | **83,014,600** |
| Decrease | | | | | | |
| Balance, March 31, 2015 | | | | **62,788,000** | **38,850,000** | **101,638,000** |
| Balance, March 31, 2015 (as restated to reflect the stock split on August 1, 2015) | | | | **125,576,000** | **77,700,000** | **203,276,000** |
| Treasury stock: | | | | | | |
| Balance, April 1, 2013 | | | | | | |
| Increase | | | | | 816,566 | 816,566 |
| Decrease | | | | | (816,566) | (816,566) |
| Balance, March 31, 2014 | | | | | | |
| Increase | | | | | | |
| Decrease | | | | | | |
| Balance, March 31, 2015 | | | | | | |

For the year ended March 31, 2015, reasons for the changes in the number of issued shares of each class of shares are as follows:

| | Shares |
|---|---|
| Common stock—Increase: | |
| Third-party allocation of shares related to secondary offering through over-allotment | **304,200** |
| Issuance of new shares through the international offering | **7,000,000** |
| Stock split on August 1, 2014 | **44,630,400** |
| Total | **51,934,000** |
| Class B stock—Increase—stock split on August 1, 2014 | **31,080,000** |

For the year ended March 31, 2014, reasons for the changes in the number of issued shares of each class of shares are as follows:

(1) As of October 23, 2013, the Company changed the (former) Class B stock to (former) Class A stock and changed such (former) Class A stock to Common stock after changing the details of (former) Class A stock. Further, the Company changed the (former) Common stock to Class B stock after changing the details of (former) Common stock.
Also, shareholders of new Class B stock, other than Yoshiyuki Sankai, the Sankai Health Foundation and the Sankai Science and Technology Promotion Foundation, for which Yoshiyuki Sankai serves as Representative Director, exercised the put options of 6,366 shares of Class B stock and had new Common stock of the same number issued. Furthermore, the Company canceled the 6,366 shares of Class B stock it had acquired, based on the resolution of the Board of Directors' meeting held on the same day.

(2) The Company split each share into 200 shares for both Common stock and Class B stock as of October 25, 2013.

(3) On January 27, 2014, Yoshiyuki Sankai exercised the put options of 810,200 shares of Class B stock he possessed and had Common stock of the same number issued. Also, the Company canceled the 810,200 shares of Class B stock it had acquired, based on the resolution of the Board of Directors' meeting held on January 28, 2014.

(4) The Company issued 1,222,000 shares Common stock through a public offering of shares, based on the resolution of the Board of Directors' meeting held on February 19, 2014.

*c.* ***Treasury Stock and Treasury Stock Acquisition Rights***

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The Company recorded stock acquisition rights, related to Euro-yen zero coupon convertible bond-type bonds, of ¥530,529 thousand ($4,414 thousand) during the year ended March 31, 2015.

The change in shares to be converted is as follows:

| | Thousands of Shares |
|---|---|
| Common stock: | |
| Balance, April 1, 2014 | |
| Increase | **5,277** |
| Decrease | |
| Balance, March 31, 2015 | **5,277** |
| Balance, March 31, 2015 (as restated to reflect the stock split on August 1, 2015) | **10,554** |

The Company effected a two hundred-for-one stock split by way of a free share distribution on October 25, 2013, based on the resolution of the Board of Directors' meeting held on September 30, 2013.

Also, the Company effected a five-for-one stock split on August 1, 2014, by way of a free share distribution based on resolution of the Board of Directors' meeting held on May 22, 2014.

In addition, the Company effected a two-for-one stock split on August 1, 2015, by way of a free share distribution based on resolution of the Board of Directors' meeting held on May 25, 2015.

## 11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 35.4% and 37.8% for the years ended March 31, 2015 and 2014, respectively.

The "Act on Partial Revision of the Income Tax Act" was promulgated on March 31, 2014, and the special reconstruction surtax will no longer be imposed from fiscal years beginning on or after April 1, 2014. Accordingly, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities was reduced from 37.8% to 35.4% in connection with temporary differences in assets or liabilities which are expected to be released in the fiscal years beginning on or after April 1, 2014.

The effects of this change in the tax rate were immaterial.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2015 and 2014, are as follows:

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Deferred tax assets: | | | |
| Allowance for doubtful receivables | **¥ 443** | ¥ 128 | **$ 3** |
| Research and development expenses | **50,752** | 84,948 | **422** |
| Write-off of inventories | **6,390** | 5,842 | **53** |
| Lump-sum depreciable assets | **3,734** | 2,639 | **31** |
| Accrued enterprise tax | **11,112** | 5,506 | **92** |
| Impairment loss | **2,871** | 3,769 | **23** |
| Depreciation | **93,237** | 103,787 | **775** |
| Asset retirement obligations | **22,507** | 24,327 | **187** |
| Loss on valuation of shares of unconsolidated subsidiaries and associated companies | **7,445** | 8,216 | **61** |
| Tax loss carryforwards | **1,489,075** | 1,453,385 | **12,391** |
| Other | **14,380** | 9,407 | **119** |
| Less valuation allowance | **(1,701,952)** | (1,701,960) | **(14,162)** |
| Total | | | |
| Deferred tax liabilities: | | | |
| Retirement expenses for asset retirement obligations | **(12,016)** | (14,378) | **(99)** |
| Other | **(1,318)** | (1,925) | **(10)** |
| Total | **(13,335)** | (16,303) | **(110)** |
| Net deferred tax liabilities | **¥ (13,335)** | ¥ (16,303) | **$ (110)** |

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2015 and 2014, is as follows:

| | **2015** | 2014 |
|---|---|---|
| Normal effective statutory tax rate | **35.4 %** | 37.8 % |
| Expenses not deductible for income tax purposes | **(0.1)** | (0.1) |
| Impact of change in tax rate | **(18.6)** | |
| Inhabitant tax, flat rate | **(0.7)** | (1.2) |
| Expiration of tax loss carryforwards | **(15.2)** | |
| Valuation allowance | **0.0** | (34.8) |
| Other—net | **(2.0)** | (3.1) |
| Actual effective tax rate | **(1.3)%** | (1.4)% |

New tax reform laws enacted in 2015 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2015, to approximately 32.8% and for the fiscal year beginning on or after April 1, 2016, to approximately 32.1%. The effect of these changes was to decrease deferred tax liabilities by ¥1,342 thousand ($11 thousand) in the consolidated balance sheet as of March 31, 2015, and to increase income taxes—deferred in the consolidated statement of operations for the year then ended by ¥1,342 thousand ($11 thousand).

## 12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses mainly include the following:

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Machinery and equipment | | | |
| Salaries | **¥151,135** | ¥128,165 | **$1,257** |
| Material costs | **444,411** | 291,255 | **3,698** |
| Rental expenses | **104,646** | 117,264 | **870** |
| Other selling, general and administrative expenses: | | | |
| Salaries | **284,945** | 134,556 | **2,371** |
| Depreciation | **72,841** | 77,192 | **606** |
| Rental expenses | **164,787** | 132,935 | **1,371** |

## 13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

***a. Company Policy for Financial Instruments***

The Group finances funds by borrowings from banks or other financial institutions such as issuance of bonds based on its capital financing plan. Cash surpluses, if any, are invested only in low risk financial assets. The Company does not intend to engage in derivative transactions.

***b. Nature and Extent of Risks Arising from Financial Instruments***

Receivables, such as trade accounts and other, are exposed to customer credit risk.

Payment terms of payables, such as trade accounts, are less than a month.

Marketable and investment securities, which mainly consist of stocks, held-to-maturity bonds and money trust, are exposed to credit risk of the issuers.

***c. Risk Management for Financial Instruments***

*Credit risk management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

With regard to marketable securities and investment securities, the Group regularly monitors the financial conditions and other parameters of the issuers of these securities.

*Liquidity risk management*

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The corporate department prepares and updates the cash management plan periodically based on the reports from each department and calculates the necessary amount on hand. The Company manages liquidity risk by maintaining the amount calculated by the corporate department.

*d. **Fair Values of Financial Instruments***

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

*(1) Fair values of financial instruments*

Financial instruments whose fair values cannot be reliably determined are excluded from the table below.

| | Thousands of Yen | | | Thousands of U.S. Dollars (Note 1) | | |
|---|---|---|---|---|---|---|
| March 31, 2015 | Carrying Amount | Fair Value | Unrealized Gain/Loss | Carrying Amount | Fair Value | Unrealized Gain/Loss |
| Cash and bank balances | **¥29,722,189** | **¥29,722,189** | | **$247,334** | **$247,334** | |
| Marketable securities | **12,499,668** | **12,499,668** | | **104,016** | **104,016** | |
| Receivables—trade accounts | **207,622** | **207,622** | | **1,727** | **1,727** | |
| Receivables—other | **549,893** | **549,893** | | **4,575** | **4,575** | |
| Total | **¥42,979,373** | **¥42,979,373** | | **$357,654** | **$357,654** | |
| Payables—trade accounts | **¥ 92,195** | **¥ 92,195** | | **$ 767** | **$ 767** | |
| Income taxes payable | **69,899** | **69,899** | | **581** | **581** | |
| Convertible bond-type bonds with subscription rights to shares | **19,883,974** | **19,875,755** | **¥(8,219)** | **165,465** | **165,396** | **$(68)** |
| Total | **¥20,046,069** | **¥20,037,849** | **¥(8,219)** | **$166,814** | **$166,745** | **$(68)** |

| | Thousands of Yen | | |
|---|---|---|---|
| March 31, 2014 | Carrying Amount | Fair Value | Unrealized Gain/Loss |
| Cash and bank balances | ¥4,341,264 | ¥4,341,264 | |
| Receivables—trade accounts | 66,126 | 66,126 | |
| Receivables—other | 398,516 | 398,516 | |
| Total | ¥4,805,906 | ¥4,805,906 | |
| Payables—trade accounts | ¥ 26,210 | ¥ 26,210 | |
| Income taxes payable | 26,469 | 26,469 | |
| Total | ¥ 52,679 | ¥ 52,679 | |

Cash and Bank Balances

The carrying values of cash and bank balances approximate fair value because of their short maturities.

Marketable Securities

The carrying values of commercial paper and joint-managed money trust approximate fair value because of their short maturities.

Receivables and Payables

The carrying values of receivables and payables approximate fair value because of their short maturities.

Convertible Bond-Type Bonds with Subscription Rights to Shares

The fair values of the convertible bond-type bonds with subscription rights to shares are measured at the present value of the total amount of principal and interest, discounted at a discount rate that reflects the remaining life of the bonds and credit risk.

*(2) Carrying amount of financial instruments whose fair value cannot be reliably determined*

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Investment securities—Unlisted stock | **¥314,850** | | **$2,620** |
| Investments in unconsolidated subsidiaries and associated companies: | | | |
| Investment securities (shares) | **9,302** | ¥ 7,639 | **77** |
| Investment securities (investments in capital) | **2,957** | 2,957 | **24** |

***e. Maturity Analysis for Financial Assets and Securities with Contractual Maturities***

| | Thousands of Yen | | | |
|---|---|---|---|---|
| March 31, 2015 | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
| Cash and bank balances | **¥29,722,189** | | | |
| Marketable securities | **12,499,668** | | | |
| Receivables—trade accounts | **207,622** | | | |
| Receivables—other | **549,893** | | | |
| Total | **¥42,979,373** | | | |

| | Thousands of U.S. Dollars (Note 1) | | | |
|---|---|---|---|---|
| March 31, 2015 | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
| Cash and bank balances | **$247,334** | | | |
| Marketable securities | **104,016** | | | |
| Receivables—trade accounts | **1,727** | | | |
| Receivables—other | **4,575** | | | |
| Total | **$357,654** | | | |

## 14. COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income for the years ended March 31, 2015 and 2014, were as follows:

| | Thousands of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | **¥(1,289)** | ¥1,055 | **$(10)** |
| Reclassification adjustments to profit or loss | **(208)** | | **(1)** |
| Amount before income tax effect | **(1,497)** | 1,055 | **(12)** |
| Income tax effect | | | |
| Total other comprehensive (loss) income | **¥(1,497)** | ¥1,055 | **$(12)** |

## 15. NET LOSS PER SHARE

The calculation base for net loss per share ("EPS") for the years ended March 31, 2015 and 2014, is as follows:

| | Thousands of Yen | Thousands of Shares | Yen | U.S. Dollars (Note 1) |
|---|---|---|---|---|
| Year Ended March 31, 2015 | Net Loss | Weighted-Average Shares | EPS | |
| Basic EPS—Net loss attributable to common shareholders | **¥(915,893)** | **193,311** | **¥(4.74)** | **$(0.03)** |

| | Thousands of Yen | Thousands of Shares | Yen |
|---|---|---|---|
| Year Ended March 31, 2014 | Net Loss | Weighted-Average Shares | EPS |
| Basic EPS—Net loss attributable to common shareholders | ¥(688,171) | 174,258 | ¥(3.95) |

Although there were dilutive shares, diluted net income per share is not disclosed because the Company posted a net loss per share.

The Company effected a two hundred-for-one stock split by way of a free share distribution on October 25, 2013, based on the resolution of the Board of Directors' meeting held on September 30, 2013. Also, the Company effected a five-for-one stock split on August 1, 2014, by way of a free share distribution based on resolution of the Board of Directors' meeting held on May 22, 2014.

In addition, the Company effected a two-for-one stock split on August 1, 2015, by way of a free share distribution based on resolution of the Board of Directors' meeting held on May 25, 2015.

EPS is calculated assuming these stock splits were conducted at the beginning of the fiscal year ended March 31, 2014.

## 16. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Since the Group operates under a single segment, the HAL segment in Japan, and more than 90% of net sales are from this segment, segment information is omitted.

(Related Information)

***a. Information about Products and Services***

Since net sales of the single classification of products and services to outside clients exceed 90% of net sales in the consolidated statement of operations, segment information by product and service is omitted.

***b. Information about Geographical Areas***

*(1) Net sales*

| | Thousands of Yen | | | Thousands of U.S. Dollars (Note 1) | | |
|---|---|---|---|---|---|---|
| March 31, 2015 | Japan | EMEA | Total | Japan | EMEA | Total |
| Net sales | **¥567,514** | **¥63,763** | **¥631,278** | **$4,722** | **$530** | **$5,253** |

For the year ended March 31, 2014, since net sales to outside customers in Japan exceeded 90% of net sales in the consolidated statement of operations, net sales information by geographical area is omitted.

*(2) Property, plant and equipment*

Since the amount of property, plant and equipment in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheet, property, plant and equipment information by geographical area is omitted.

***c. Information about Major Customers***

| March 31, 2015 | Thousands of Yen | Thousands of U.S. Dollars (Note 1) |
|---|---|---|
| Sales to—DAIWA HOUSE INDUSTRY CO., LTD. | **¥69,728** | **$580** |

| March 31, 2014 | Thousands of Yen |
|---|---|
| Sales to—University of Tsukuba | ¥87,646 |

## 17. SUBSEQUENT EVENTS

***a. Stock Split***

The Company effected a two-for-one stock split on August 1, 2015, based on the resolution of the Board of Directors' meeting held on May 25, 2015.

*(1) Purpose of the stock split*

The Company resolved the stock split for the purpose of improving liquidity and expanding its investor base.

*(2) Outline of stock split*

(a) Stock Split Method

The stock split was effected on August 1, 2015, at the rate of two-for-one share of each outstanding common stock and Class B stock based on the shareholders registered as at July 31, 2015.

(b) Number of Shares Increased with the Stock Split

| | Shares | |
|---|---|---|
| | Common Stock | Class B Stock |
| Total number of shares issued before the stock split | 62,788,000 | 38,850,000 |
| Increase in number of shares as a result of the stock split | 62,788,000 | 38,850,000 |
| Total number of shares issued after the stock split | 125,576,000 | 77,700,000 |
| Total number of shares authorized to be issued after the stock split | 618,300,000 | 77,700,000 |

(c) Stock Split Schedule

| | |
|---|---|
| Public notice date of the basis date | July 16, 2015 |
| Basis date | July 31, 2015 |
| Effective date | August 1, 2015 |

*(3) Adjustment of conversion price of convertible bonds*

In accordance with the stock split, the Company shall adjust the conversion price of the convertible bonds on or after August 1, 2015, as follows:

| | |
|---|---|
| Issue | Euro-yen zero coupon convertible bond-type bonds with subscription rights to shares, due 2017 |
| Conversion price before adjustment | ¥3,790 ($31) |
| Conversion price after adjustment | ¥1,895 ($15) |

*(4) Amendment of certain articles of incorporation*

In accordance with the aforementioned stock split, the total number of shares authorized to be issued, as well as the total number of common shares and Class B shares authorized to be issued, will be increased at the same rate as the stock split. The amendments will be made to effect this change.

(a) Amendment Details (Amendments Are Underlined)

| Current Articles of Incorporation | Articles of Incorporation after Amendments |
|---|---|
| (Total number of shares authorized to be issued and the total number of classified shares authorized to be issued) | (Total number of shares authorized to be issued and the total number of classified shares authorized to be issued) |
| Article 6-1 The total number of shares authorized to be issued by the Company shall be 348,000,000. | Article 6-1 The total number of shares authorized to be issued by the Company shall be 696,000,000. |
| Article 6-2 The total number of classified shares authorized to be issued by the Company shall be as follows: | Article 6-2 The total number of classified shares authorized to be issued by the Company shall be as follows: |
| (1) Common stock 309,150,000 | (1) Common stock 618,300,000 |
| (2) Class B stock 38,850,000 | (2) Class B stock 77,700,000 |

(b) Schedule

| | |
|---|---|
| Date of resolution by the general meeting of shareholders | June 24, 2015 |
| Effective date | August 1, 2015 |

***b. Issuance of Stock Acquisition Rights as Stock Options***

At the General Meeting of Shareholders held on June 24, 2015, a resolution was passed to issue stock acquisition rights as stock options at no cost to certain directors and certain employees of the Company and certain collaborators outside the Company, based on Articles 236, 238 and 239 of the Companies Act.

Overview of the stock options is as follows:

| | |
|---|---|
| (1) Persons granted | Certain directors (excluding outside directors), certain employees and certain collaborators outside the Company<br>The number of recipients, has not been determined. |
| (2) The upper limit of the number of granted shares | 100,000 shares |
| (3) Exercise period | 8 years from the day on which 2 years have elapsed since the day of the resolution on issue of stock acquisition rights as stock options |

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3, Konan
Minato-ku, Tokyo 108-6221
Japan

Tel:+81 (3) 6720 8200
Fax:+81 (3) 6720 8205
www.deloitte.com/jp

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of CYBERDYNE, Inc.:

We have audited the accompanying consolidated balance sheet of CYBERDYNE, Inc. and its consolidated subsidiaries as of March 31, 2015, and the related consolidated statements of operations, comprehensive income, changes in equity, 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 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 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, but not for the purpose of expressing 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.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CYBERDYNE, Inc. and its consolidated subsidiaries as of March 31, 2015, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 24, 2015
(August 1, 2015 as to Note 17 and the other relevant information)

Member of
**Deloitte Touche Tohmatsu Limited**