Annual Report 2016

CYBERDYNE

Contents

What Is Cybernics?

"Cybernics" (adjective: Cybernic) is a new academic field that is centered around cybernetics, mechatronics and informatics fused/combined with various other fields including brain/neuroscience, robotics, biology, behavioral science, psychology, law, ethics, and business administration. Cybernics is championed by Dr. Yoshiyuki Sankai, a professor at the University of Tsukuba in Japan. Cybernic technology means the practical application of Cybernics to technology.

Cybernic technology was developed as human-assistive technology and is expected to be used in a wide range of fields covering medicine, welfare, disaster rescue and entertainment. Equipped with the research and development foundation to develop technology applied to humans, Cybernics spans the gap between the various academic fields and social regulations, known as "the valley of death," that has prevented the implementation of technology into society, and allows for the smooth realization of total systems that encompass humans, machines, and information systems from the basic research phases to social implementation.

Research on Cybernics started in 1987 when Professor Sankai of Tsukuba University, Japan started to plan the basic concepts, and on 1991 he started to develop the principle behind the iBF theory, which was to become the foundation of the technology that combines the human body with technology. In 1995, construction of actual prototypes to validate this theory began and led to the prototype of Robot Suit HAL® Lower Limb Type, and in 1999, a stand-alone experimental prototype of HAL was developed. With this model, basic testing on healthy subjects and a select group of subjects with disabilities were conducted, and the development team was able to acquire strong evidence to suggest the validity of their theory. The team's challenge toward complete evaluation and verification of the technology's effectiveness and the implementation of its application in society has now begun.

Robot Suit HAL®

Robot Suit HAL® is the world's first cyborg-type robot. HAL® was designed and developed to support and expand the physical capabilities of its human users. The name HAL® is short for Hybrid Assistive Limb®. The word "hybrid" refers both to the fact that HAL® is a type of hybrid formed from a human being and a robot, and also to the fact that HAL® provides a mixture of voluntary control and autonomous control. The word "assistive" refers to the fact that HAL® helps human beings, and the word "limb" refers to any or all of our arms and legs. The foregoing explains the derivation of the name HAL® in the product Robot Suit HAL®, and furthermore, the name HAL® is also used for any related Cybernic devices that employ the same principle as Robot Suit HAL®.

Functional improvement / Regeneration treatment

Functional improvement/regeneration treatment is a new treatment method of paraplegic patients using Robot Suit HAL®. The device's motorized assistance, controlled in real-time by voluntary bio-electrical signals and robotic autonomous control, allows for Intrinsic Neuromuscular Feedback Treatment. The treatment helps to reestablish the interactive biofeedback loop between the brain's command to move and the various sensory signals received from the resulting movement, and promotes the functional improvement of the physical and neuromuscular systems.

Corporate Philosophy
—Technology exists for humans and society

Challenges for the Future!

The Group researches and develops Cybernic technology as a technology that can support human beings in a fully comprehensive manner, especially covering fields ranging from medicine and living support to labor support. The Group is engaged in creating a total system for the optimal combination of humans, robotics and information systems through activities stretching from basic research to the promotion of Cybernic technology as an integral part of our communities.

The Group works to drive forward Cybernic technology, and to develop businesses in the core fields of medicine, living support, and labor support. HAL® is a representative result of the Group's research and development—an advanced technology that supports humans, created by an optimal combination of humans, robotics and information systems. The Group is building various proprietary business domains centered around HAL®.

Cybernic technology

MEDICINE

In this business field, the Company administers robotic medical devices (medical robots), such as HAL® for Medical Use (Lower Limb Type), that provide functional improvement/regeneration treatment services for patients with disorders related to the brain, nerves, or muscular system. The Group provides these devices to specialist users (or the institutions that use them), and also conducts related businesses.

MEDICINE

LIVING SUPPORT

In this business field, the Group provides a variety of robots. HAL® for Living Support (Lower Limb Type) and HAL® for Living Support (Single Joint Type) are devices that support the independent movement of elderly people and people with disabilities.

HAL® for Care Support (Lumbar Type) mitigates the risk of back injuries for caregivers by reducing the load on their lumbar during assistance activities, such as transferring care aid, for elderly or disabled people.

Also, the Group is developing a vital sensing system for preventive purposes.

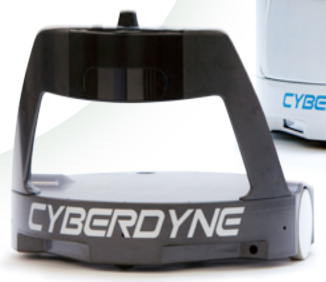
LIVING SUPPORT

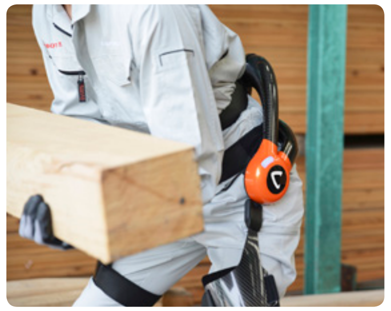
LABOR SUPPORT

LABOR SUPPORT

In this business field, the Group provides HAL® for Labor Support (Lumbar Type) which supports the heavy-labor operations of factory and construction workers.

The Group also provides Cleaning Robots and Transport Robots with built-in artificial intelligence ("AI").





The World's First Cyborg-Type Robot, HAL®

HAL® is the world's first cyborg-type robot, by which a wearer's bodily functions can be improved, supported and enhanced.

Wearing HAL® leads to a fusion of "man", "machine" and "information". HAL® assists a physically challenged person's movements and enables him or her to exert greater motor energy than usual. HAL® is also considered to be a system that accelerates the motor learning of cerebral nerves. Application of HAL® to various fields, such as motion assistance in the nursing care field, assistance with heavy labor in factories and assistance with activities on disaster sites, is prospected.

What HAL® changes is the brain map

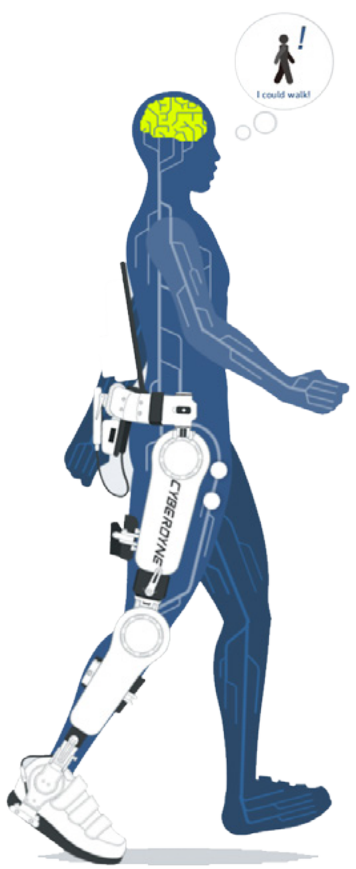
Major causes of lower limb disabilities are disorders of the neuromuscular system. In those cases, the brain cannot use ordinary neural pathways and cannot order the legs to move.

HAL® for Medical Use (Lower Limb Type) is the only robotic treatment device that can teach the brain how to move the legs.

HAL® moves as you intend

When a person moves their body, various signals are sent from the brain to the muscles through nerves. Those signals leak onto the skin surface as bio-electric signals ("BES"). HAL® for Medical Use (Lower Limb Type) reads the wearer's BES, compensates muscle power of the lower limbs accordingly, and assists the wearer with walking, standing up and sitting down using his or her own legs.

HAL®'s Motion Principle



1 THINK

First, think "I want to walk!"

When a person moves their body, he or she first thinks about the motions in their brain. By thinking "I want to walk," the brain transmits necessary signals for movement to the muscles through nerves.

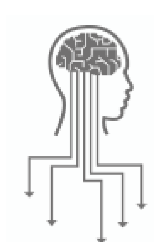
MORE INFO
The speed of signals that are conveyed from the brain to each muscle is approximately between 150 km/h and 400 km/h, which is far beyond the speed of a Shinkansen bullet train. The technology to recognize and understand those high-speed signals at a glance is indispensable for HAL®.

2 SEND

Once the signals are received, the muscles move.

In a healthy body, each muscle is able to receive signals from the brain and move as strongly and as fast as intended.

MORE INFO
In order to produce complex bodily motions for walking, the brain controls a number of muscles based on various types of information from the whole body. The device that was developed as an application of this principle was HAL®.

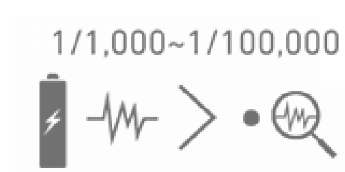


3 READ

HAL® reads signals.

Signals sent to muscles by the brain leak onto the skin surface as very faint signals known as BES. HAL® is able to read BES by attaching originally developed detectors on the surface of the wearer's skin. By consolidating various types of information, HAL® recognizes what type of motion the wearer intends to make.

MORE INFO
BES that leaks onto the skin surface is very feeble. Its voltage ranges from 1/1000th to 1/100,000th of the voltage exerted by dry batteries. Since HAL® is able to detect such weak signals, it does not overlook the wearer's extremely subtle indicators that fail to cause flexion in the leg.



4 MOVE

HAL® moves as the wearer intends.

HAL®, in accordance with the recognized signals, controls its power units*1. This function enables HAL® to assist the wearer's motions as he or she intends by exerting greater power than he or she ordinarily can.

*1 HAL® preforms assistance for the wearer's motions through a combination of the Cybernic Voluntary Control ("CVC") system, with which HAL® moves in line with the wearer's intent by detecting BES, and the Cybernic Autonomous Control ("CAC") system, with which HAL® replicates human motions based on fundamental motion patterns in the absence of BES. This is the advanced technology on which HAL® is founded.

MORE INFO
Human thoughts in the brain that control muscles and move joints are extremely rapid. HAL®, like man, is able to process all kinds of information instantly to apply its power unit. When the body starts moving, HAL® moves simultaneously, and is thereby able to assist the wearer's motions.

5 FEEDBACK

The brain learns motions.

The mechanism to move the human body does not end with the movement of the muscles.

The brain confirms how the body moved in response to the type of signals it sent. When HAL® has appropriately assisted the motions of walking, the feeling "I could walk!" is fed back to the brain. In this way, the brain is gradually able to learn the proper way to emit the necessary signals for walking.

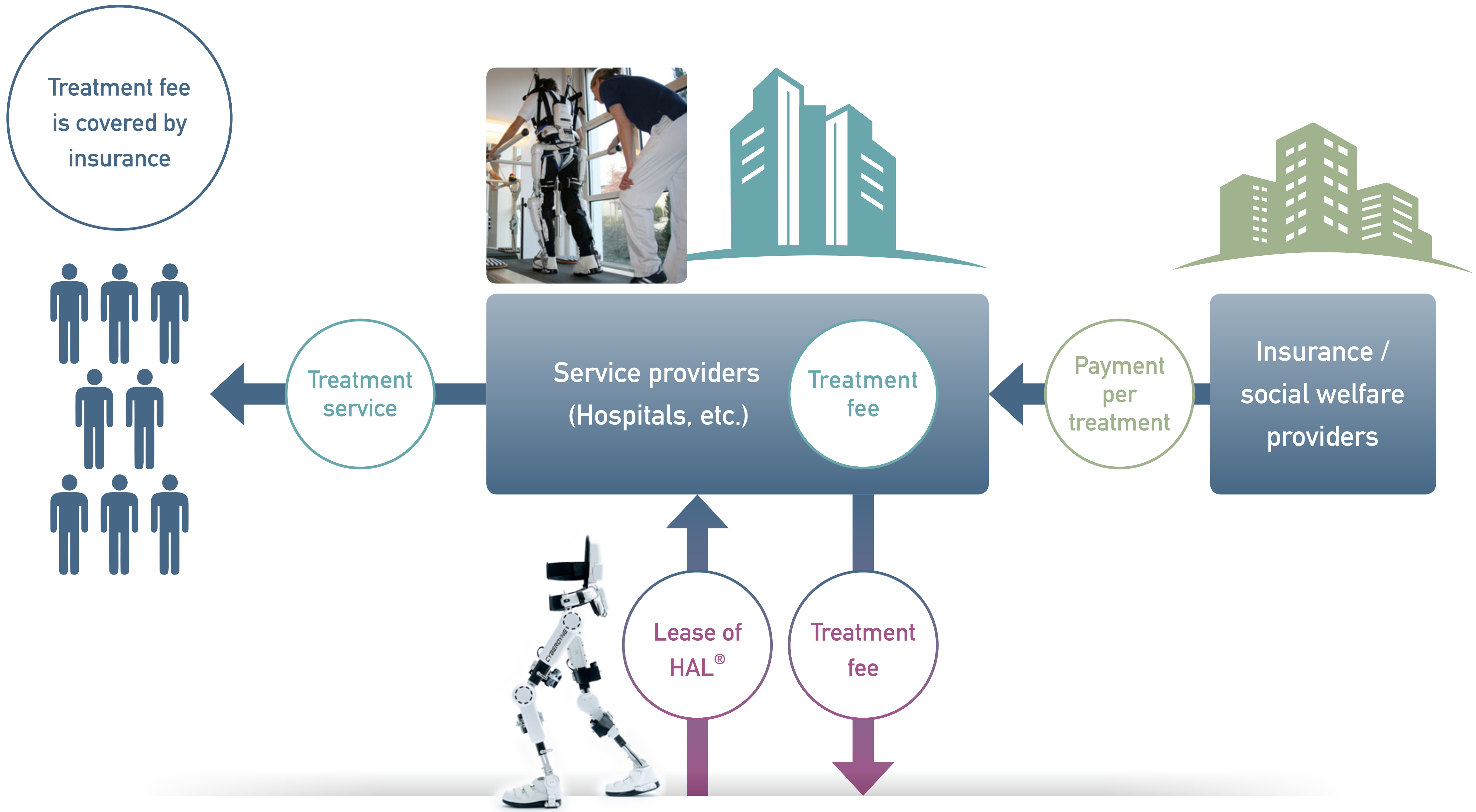
This feedback loop leads to "the important first step" in walking without the assistance of HAL® for a physically challenged person. The only robot that can provide the brain the appropriate solutions for movement is HAL®.

Treatment with HAL® for Medical Use (Lower Limb Type)
(Utilizing public insurance in Japan and Germany)

When considering entry into any market, the Group must formulate revenue mechanisms in the relevant country based on its legal systems and business practices.

The principal form of the billing mechanism available in most countries occurs when a patient with a disability goes to a hospital where HAL® is provided by the Group and is made available for medical treatments. The hospital receives payments for treatment using HAL® from the patient (or if the treatment is covered by insurance, the hospital receives compensation from an insurer) and pays part of it to the Group. For instance, in Germany where commercialization of HAL® as a medical device is progressing, the Group receives a treatment fee for each treatment session using HAL® at no cost to the patient, since these treatments are wholly covered by public workers' compensation insurance.

In Japan, public health insurance coverage of treatment with HAL® has also started, and the Company will structure a revenue scheme similar to Germany.

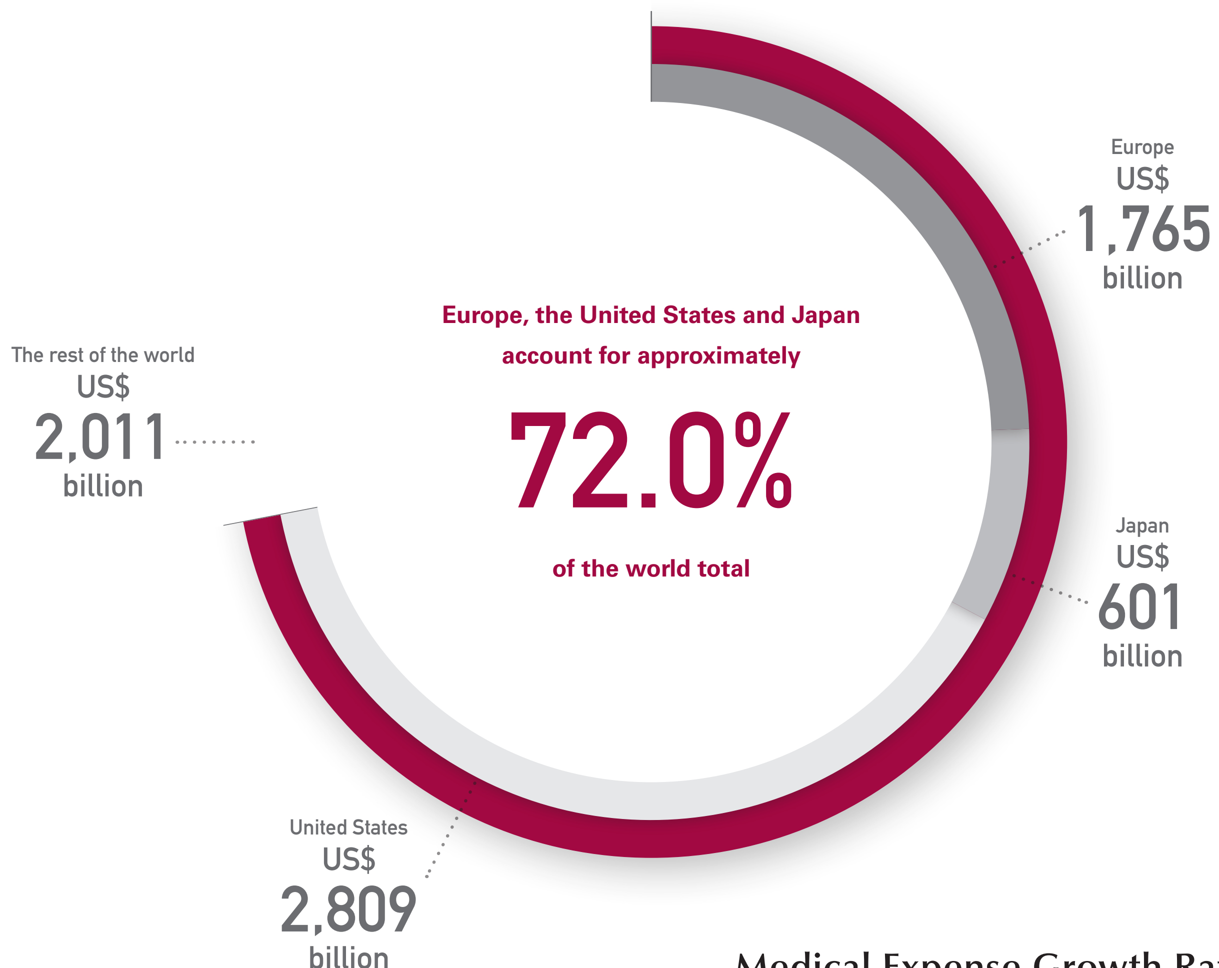


CYBERDYNE


Headquarters

Target areas

Although a wide range of market segments could be targeted by the Company, there is no existing product that could substitute HAL® or other products utilizing Cybernic technology, and it is therefore difficult to assess the size of the market accurately. However, the Company believes that recovery of patients using HAL® can reduce medical expenses to a certain extent. Medical expenses are growing globally and the Group, through the use of HAL®, proposes to control such growth in our society. Medical expenses are generally higher in developed countries and Europe*1, the U.S. and Japan account for approximately 72.0% of the world total. The Group intends to expand its business in those areas.



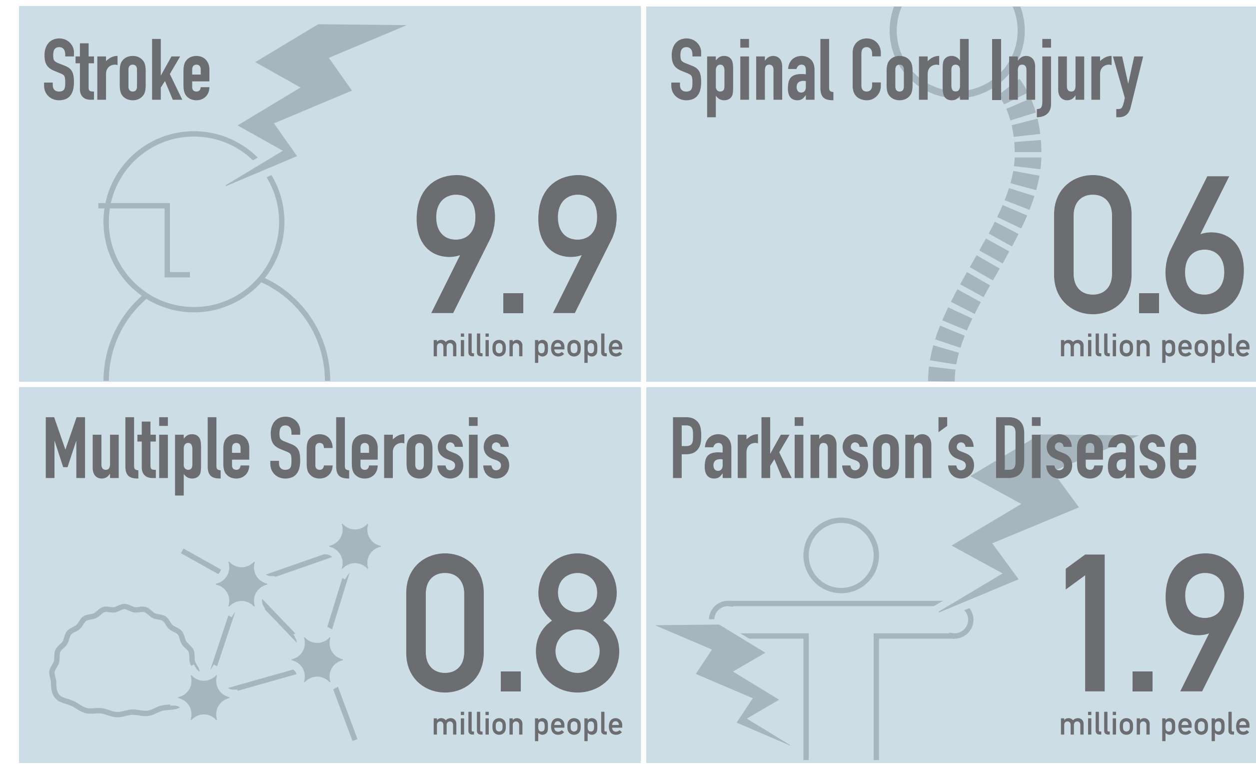
Medical Expense Growth Rate (%)

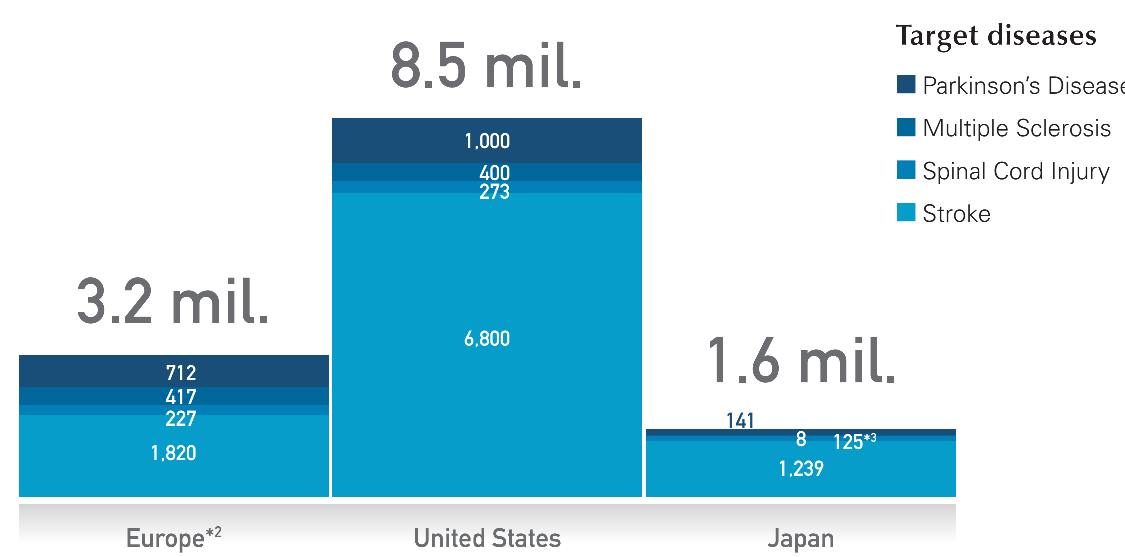
Europe*1	7%
United States	6%
Japan	7%
The rest of the world	15%

(From 2002 to 2012)

*1 Europe includes the EU member states plus Switzerland.
Source: National Health Accounts 2002-2012, Global Health Expenditure Database

Number of potential patients in Europe*2, the U.S., and Japan

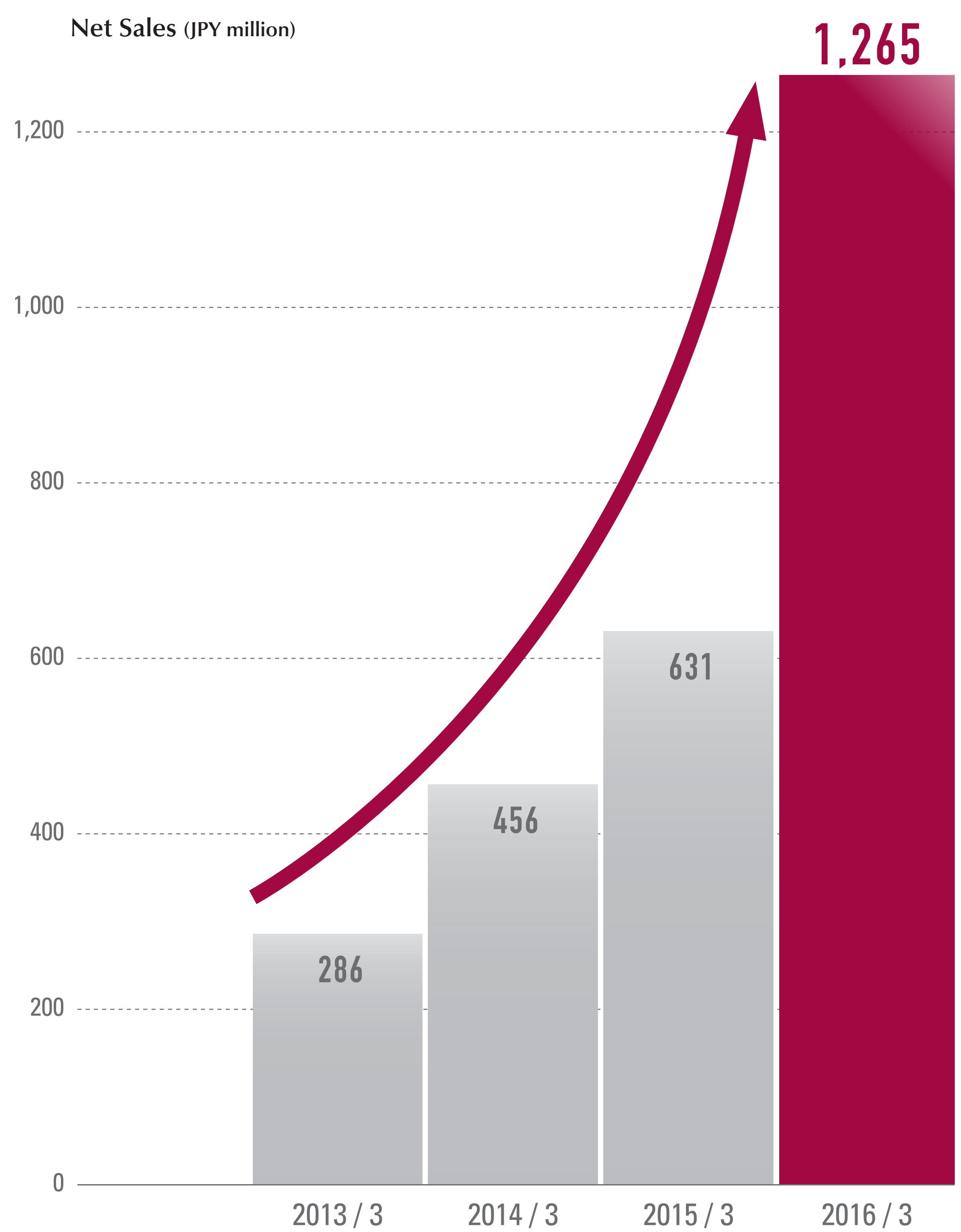




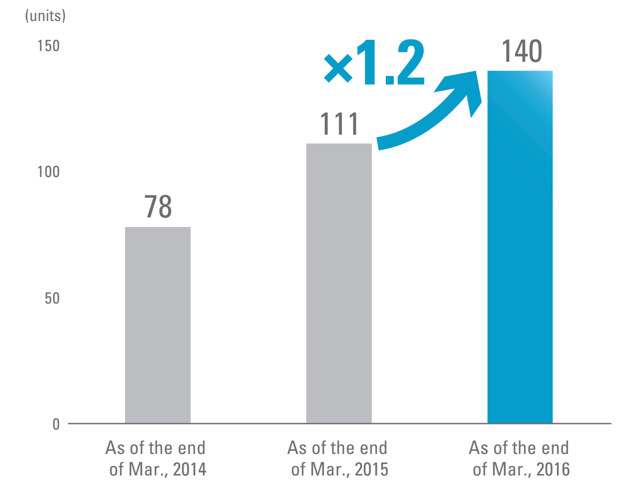
*2 Europe includes Germany, France, the United Kingdom, Italy and Sweden.
*3 Average of the estimated range from 100 thousand to 150 thousand.
Source: New Energy and Industrial Technology Development Organization (2013), Ministry of Health, Labour and Welfare of Japan (2011), Translational Research Informatics Center (2014), American Heart Association (2010), National Spinal Cord Injury Statistical Center (2013), The Patient Education Institute, Inc. (2010), Parkinson's Disease Foundation (2010)

Results of operation

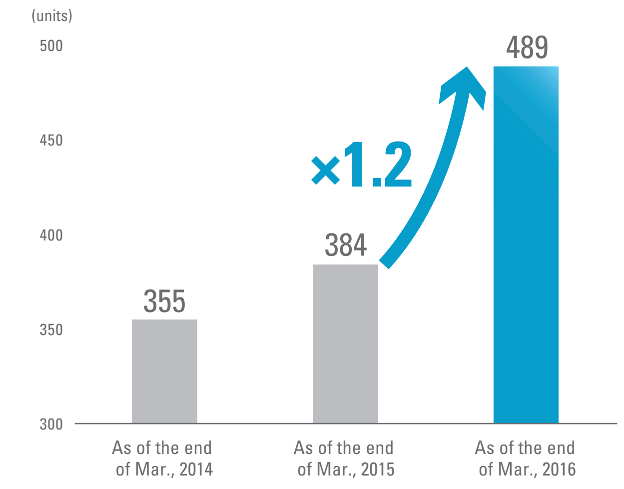
In the consolidated financial result of this fiscal year ended March 31, 2016, the Company recorded net sales of JPY 1,264,902 thousand (100.4% increase year on year), mainly due to a substantial increase in the operating numbers of the new products such as HAL® for Care/Labor Support (Lumbar Type).



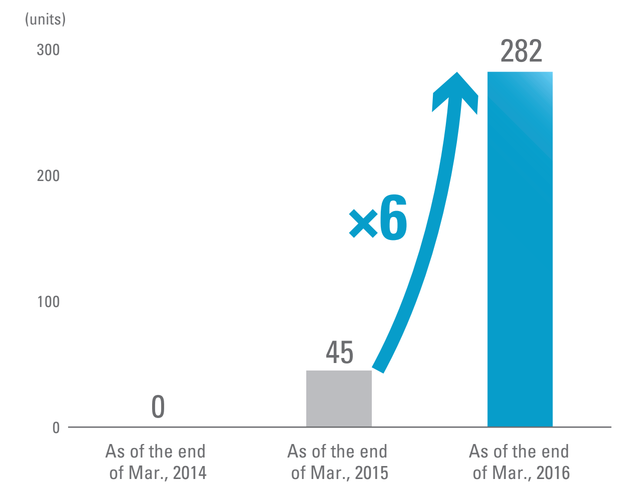
HAL® FOR MEDICAL USE (LOWER LIMB TYPE)



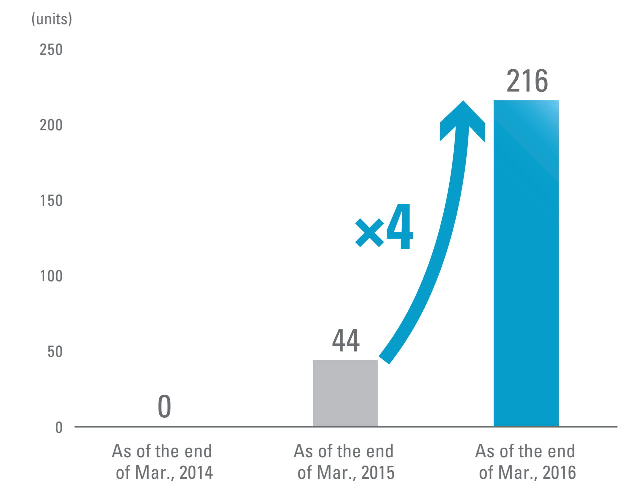
HAL® FOR LIVING SUPPORT (LOWER LIMB TYPE)



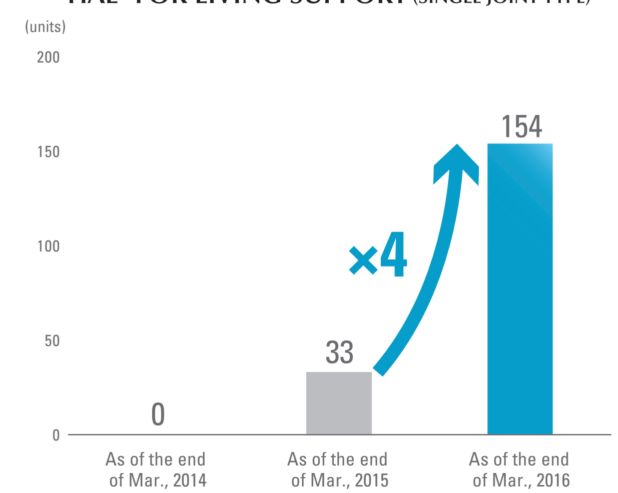
HAL® FOR CARE SUPPORT (LUMBAR TYPE)



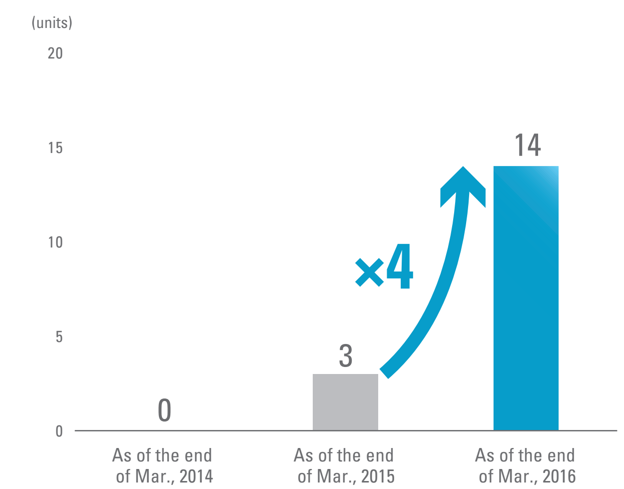
HAL® FOR LABOR SUPPORT (LUMBAR TYPE)



HAL® FOR LIVING SUPPORT (SINGLE JOINT TYPE)



CLEANING/TRANSPORT ROBOT



CYBERDYNE, INC. President and CEO
Yoshiyuki Sankai, Ph.D.
[Engineering]

Profile

Yoshiyuki Sankai earned a Ph.D. in Engineering from the University of Tsukuba in Japan in 1987. He has progressed from being a research fellow at the Japan Society for the Promotion of Science ("JSPS") to assistant professor, associate professor, and then professor at the Graduate School of Systems and Information Engineering, University of Tsukuba. Dr. Sankai is also a visiting professor at Baylor College of Medicine in Houston, Texas in the United States. Currently, he is a professor and Director at the Center for Cybernics Research, University of Tsukuba; the President and CEO of CYBERDYNE, INC.; and a Program Manager of the Impulsing Paradigm Change through Disruptive Technologies ("ImPACT") program, which was initiated by the Council for Science, Technology and Innovation ("CSTI") of the Cabinet Office in Japan.

He is a fellow of the Robotics Society of Japan ("RSJ") (2012) and the Society of Instrument and Control Engineers ("SICE") (2014). He also served as Chairman (2005) and an Executive Board Member (2004-2005) of Advanced Robotics, as well as an Executive Board Member (2000-2012), Congress Head (2003), and President (2003) of the Japan Society of Embolus Detection and Treatment. He was a Council Member on the Global Agenda Councils of the World Economic Forum (2012-2014).

He has pioneered innovative cyborg-type robot technology in a new academic field, "Cybernics: the fusion and combination of humans, machines and information systems," and established a social problem-solving venture company. He led the intellectual property strategy and international standard setting by ISO as an expert member of the committee on the medical robotics field and personal-care robotics field. His robot suit HAL® acquired the medical device CE marking (CE 0197) in August 2013 and its use for medical treatment is being covered by public workers' compensation insurance in Germany. This feat was followed by an approval from the Ministry of Health, Labour and Welfare in Japan to manufacture and distribute this new medical device in November 2015, and public insurance coverage was approved for medical treatment with HAL® to slow the progression of rare neuromuscular diseases in January 2016.

Awards (except for other domestic awards): 2005 World Technology Award (World Technology Network), 2012 Capek Award (INNOROBO), 2014 Technology Pioneer (World Economic Forum), Gold Prize in the 2014 Edison Awards, IPO of the Year in the 2013 DealWatch Awards (Thomson Reuters), and Innovative Equity Deal of the Year in the 2014 DealWatch Awards (Thomson Reuters).

CYBERDYNE's Philosophy and Business Vision

"Technology should exist for humans and their society."

When I established CYBERDYNE, INC., my intention was to thoroughly incorporate this principle and create an enterprise that implements people-friendly technology for the benefit of society.

Many companies are currently based on a business model that consists of generating profits by manufacturing and selling as many products as possible and getting people to continuously consume. Because their technology is employed with the premise of consumption, it can result in a negative impact on resources and the environment, as well as people's health and happiness. My thinking, on the other hand, aims to create value by providing solutions to the issues faced by people and their society through the application of technical innovations that do not focus on mere consumption.

The vision I am delineating through my business is the creation of a new industrial model that promotes an industrial and social transformation from our current consumption-based economy to one based on innovative solutions to critical social issues. We can accomplish this by continuing to create innovative technologies to solve these social problems, generating a new market centered around industries that employ the methods that provide these solutions at its core, and cultivating the next generation of pioneers. A positive cycle driven by these three simultaneous endeavors is our vision for the future, and CYBERDYNE is the enterprise that will lead the way.

Message to Our Stakeholders

CYBERDYNE primarily pursues public interest within a capital economy, while seeking to create and develop new industries. Basically, there are no existing markets for CYBERDYNE's businesses. As we have always said, our role at CYBERDYNE is to grapple with uncertainty and seek innovation, replacing each of the five no's in "no market, no user, no industry, no professionals, and no social rules" with the adjective new.

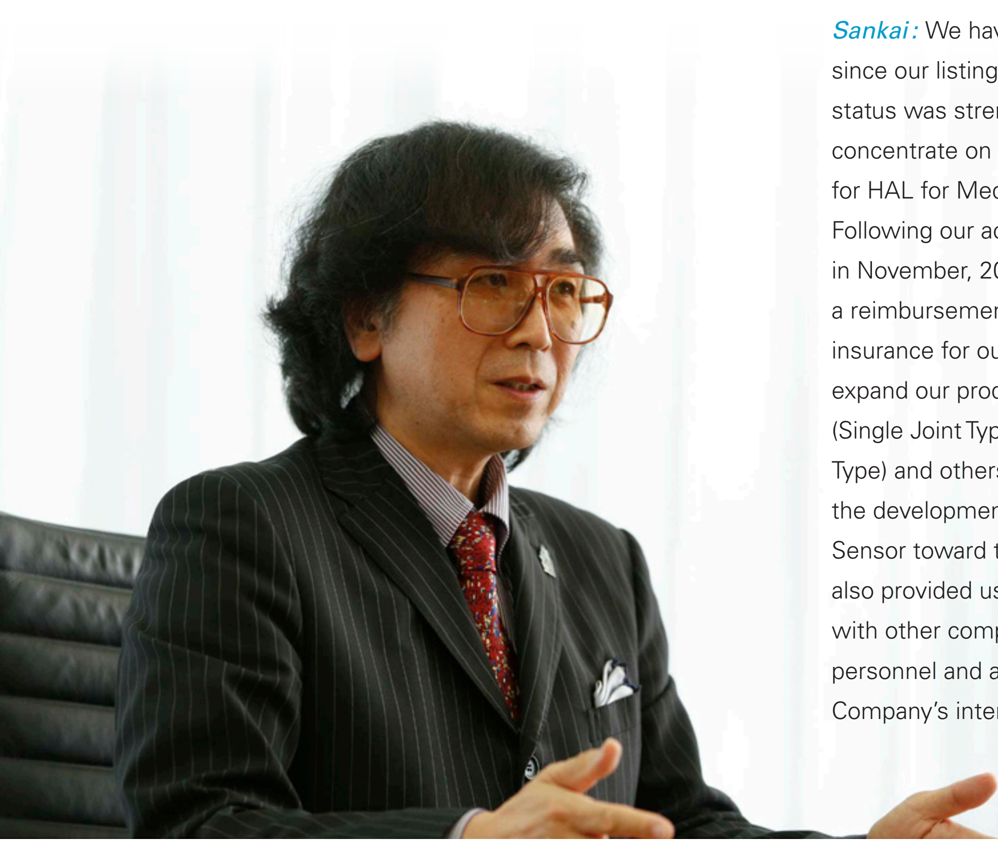
We ask our stakeholders to join us in focusing on the many critical issues faced by people and society today, and transforming industries to create a new society for the future.

"CYBERDYNE's Challenges to Shape the Future"

—We have invited Hidemaru Yamaguchi, an eminent analyst in the field of medicine and healthcare, for an interview with Yoshiyuki Sankai, President and CEO of CYBERDYNE, INC. (the "Company") to discuss the Company's challenges to shape the future.

Acceleration of CYBERDYNE's business since its listing

Yamaguchi: Two years and four months have passed since CYBERDYNE was listed in the Tokyo Stock Exchange. Could you briefly summarize what happened in these years and the Company's current status?



Sankai: We have been accelerating our business ever since our listing. Firstly, after the listing, our financial status was strengthened and we became able to concentrate on obtaining medical device approval for HAL for Medical Use (Lower Limb Type) in Japan. Following our acquisition of this medical device approval in November, 2015, we importantly were able to receive a reimbursement price for coverage by public health insurance for our device. In addition, we were able to expand our product lineup with HAL for Living Support (Single Joint Type), HAL for Care/Labour Support (Lumbar Type) and others, as well as make good progress with the development of new products such as the Vital Sensor toward their release in the market. The listing also provided us with many opportunities to collaborate with other companies, helped us acquire talented personnel and allowed us to organize the structure of the Company's internal systems.

Overcoming the most difficult obstacle of demonstrating medical effects of HAL for rare neuromuscular diseases — Toward expanding target diseases

Yamaguchi: You started with the acquisition of medical device approval for rare neuromuscular diseases. What is the strategy behind this? What is your strategy for expanding HAL's target diseases?

Sankai: HAL is a new medical device that has been tested for the treatment of 8 diseases grouped together as slowly progressive rare neuromuscular diseases in clinical trials. Until now, no treatment was available in modern medicine for these diseases, and while suppressing the advancement of these diseases would already be a valuable result, HAL was shown to go further and improve their diminishing functions. In Japan, randomized controlled clinical trials are the standard for obtaining medical device approval, so we conducted an investigator-initiated crossover trial led by Dr. Takashi Nakajima of the National Niigata Hospital at 10 different facilities. This trial was conducted in compliance with Good Clinical Practice ("GCP"), an internationally recognized standard for clinical study procedure that is considered especially important in the U.S. This GCP was crucial because it was important that these results for the treatment of notoriously difficult diseases be recognized internationally, and that each regulatory authority could acknowledge the immense potential that HAL possesses. These results led to the HAL's medical device approval and health insurance coverage, and with its increased use in many hospitals, the road to expanding HAL's target diseases to stroke and spinal cord injuries should be easier. In other words, as an approved medical device that is covered by health insurance, the hurdle for physicians to test this device on other target diseases under a clinical study should be much lower. In fact, preparations for the next clinical studies and clinical trials have already begun.

Interviewer:
Hidemaru Yamaguchi
Managing Director,
Pharmaceutical & Healthcare, Citi Research

Hidemaru Yamaguchi joined Salomon Smith Barney (currently Citigroup Global Markets Japan Inc.) in April 1998 after working at Nomura Research Institute and Nomura Securities as an analyst since April 1988. He graduated from Tokyo University with a major in agriculture and received his MBA from UCLA in June 1997, where his major was finance and entrepreneurial studies. He is also a chartered member of the Security Analysts Association of Japan (CMA).

No limit to the number of treatment sessions covered by insurance for patients with slowly progressive rare neuromuscular diseases

Yamaguchi: The insurance reimbursement price was determined in April, 2016. How do you see this insurance price evaluation? Also, your business model in Germany, where your company shared the insurance payments with the medical institutions, attracted a lot of attention, but will the business model be the same in Japan?

Sankai: Although the insurance reimbursement price in Japan is a little lower than that of Germany, it is roughly at the same level. While the insurance in Germany will cover a treatment package of up to 60 treatment sessions, Japan's Ministry of Health, Labour and Welfare took the nature of the progressive rare neuromuscular disease into consideration and decided to continuously cover the treatment with insurance as long as an effect can be seen. The determination of this price involved the input of an organization of experts in this medical field, so I think it will remain at this level for a while. As for the business model in Japan, the basics are similar to what we have set up in Germany, but we have added a few improvements.

Vast number of potential patients — Possibility of new combinations with private insurance

Yamaguchi: While the utilization of public health insurance provides stabilization for your business model, there is a vast number of potential patients who could benefit from HAL, and when patients increase from the expansion of target diseases in the future, I suspect there will be discussions on how far public health insurance can continue to provide coverage. Do you have plans for perhaps collecting payments from private insurance companies or out of pocket payments?

Sankai: Of course, I anticipated such a situation long ago, and have been in discussion with a number of notable Japanese and foreign insurance companies. In the future I think it will be very important to combine the scheme of public and private insurance, and I have been steadily moving this plan forward.

Fusing HAL with regenerative medicine — Research on functional improvement/regeneration of the brain, nerve and muscle systems

Yamaguchi: In Japan, research on regenerative medicine, especially around iPS cells, is very advanced. How do you see the prospects of synergy with HAL and regenerative medicine?

Sankai: HAL's intended purpose is to regenerate or improve the functions of the brain and nervous system that are innate to the human body. Humans are able to move because a feedback loop maintains the proper transmission of nerve-related bio-electrical signals between the brain and nervous system and the musculoskeletal system (motor nerve signals from the brain to the peripheral muscles, and sensory nerve signals from the periphery to the brain). However, once the patient's disease interferes with proper signal transmission and interrupts this feedback loop, the patient's ability to move becomes compromised. HAL non-invasively detects bio-electrical signals in real-time, completes a new connection between the human and the robot, and accelerates the establishment of a functional improvement and regeneration loop of the brain, nerve, and muscle systems. In addition to the medical device approval and insurance coverage I mentioned earlier, we also possess the international patent for this foundational principle, so HAL remains the only practically-implemented cutting-edge technology of its kind. Regenerative medicine can increase the number of nerve cells, and HAL can accelerate the functional regeneration and improvement by strengthening synaptic connections, so by combining HAL and regenerative medicine, we can expect an even greater treatment effect.

The world's first public health insurance coverage — HAL's unique motion principle

Yamaguchi: There are many devices with a similar appearance being developed and implemented around the world, especially in the U.S. How do you differentiate HAL from these other devices?

Sankai: What makes HAL unique is the fact that HAL is the only device in the world covered by public health insurance, meaning HAL successfully provided enough medical evidence worthy of coverage. HAL has a unique motion principle, that utilizes bio-electrical signals that are related to commands from the user's brain in order to successfully fuse the functions of the human and the robot. This cyborg-type robot establishes an interactive biofeedback loop based on the signals that reflect the user's intent, and induces functional regeneration and improvement. This unique feature requires the proper detection of the user's voluntary signals and the establishment of this interactive biofeedback loop to be effective. The other devices are not designed to work in this way, and that is why HAL is a one-of-a-kind device.

High barrier for entry into the field — HAL's technology leads the world in both its motion principle and intellectual property

Yamaguchi: What is your take on the risk of other companies making devices that are similar to HAL? It is my understanding that HAL is a front-runner in its field but is it possible for others to catch up?

Sankai: In order to make a device with similar features, there are obstacles in terms of the basic and related patents, and several core technologies would be required, so catching up would be difficult. In recent years I have been seeing more robots that appear visually similar, but none of these devices have the features that embody HAL's core technology and none of them are covered by public health insurance. As for the patents, generally speaking, a patent normally describes how things like mechanisms or electrical circuits were tweaked, but for HAL, the patent describes the principle of using brain and nerve derived signals to control a wearable robot as if it were a part of the wearer's body, leading to appropriate synaptic connections of the nervous system. The patent is for this principle and does not include the specifics of how we make this principle work, so it would be very difficult to enter HAL's territory.
Of course we also have a patent for the principle of control that combines this method of voluntary control with a preprogrammed method of autonomous control. We jointly possess over 100 published patents with the University

of Tsukuba that are in line with our business, and CYBERDYNE has the exclusive license to use them. Our patent structure is very strong.

Discussions with the FDA to clearly differentiate HAL from other devices

Yamaguchi: HAL has obtained medical device approval in the EU as well as in Japan, but what is the current status of FDA approval in the U.S. Also why are you setting up your U.S. subsidiary in Seattle?

Sankai: Because a category for "powered exoskeletons" already existed within the FDA, we were instructed to proceed with our application in that category. While FDA's medical device approval is independent from discussions for insurance coverage, for our future business development in the U.S. market, it is important that HAL is recognized as a different device than the other "powered exoskeletons" in the market. We are therefore discussing ways in which we can establish this differentiation with the FDA.

We decided to set up our U.S. subsidiary in Seattle because there is a highly esteemed medical network with a team of leading experts in the field of neurology that is working with HAL on the West Coast. This team is also well-connected with the medical team in Germany, forming a global platform for research on HAL in the two countries that lead the world in medicine.

HAL (Lumbar Type) moves as intended — Scientifically shown to reduce strain in the lower back

Yamaguchi: Lets talk about HAL (Lumbar Type). There are many other similar devices in this field as well. What makes HAL (Lumbar Type) different?

Sankai: HAL (Lumbar Type) also uses the basic principle of HAL, and is controlled by a healthy wearer's bio-electrical signals related to the commands from the brain and nervous system, so its support is not triggered by any buttons or joysticks. When a wearer tries to lift an object, the weight of the object affects the amount of signals produced by the wearer, and since HAL uses these signals to control the amount of support to provide, HAL's support is automatically adjusted to fit the needs of the wearer. Furthermore, another important fact is that HAL is the first product in the world to be medically and scientifically analyzed, designed and developed to reduce the stress applied to the lower back. HAL (Lumbar Type) creates an appropriate, safe working environment in physically demanding professions by reducing strain on the lower back, preventing lower back pain and allowing workers to continue working longer in their careers.

A new cornerstone for early detection and prevention — Daily measurements of arteriosclerosis and cardiac function with the Vital Sensor

Yamaguchi: Can you explain the specifics of the business plan for the Vital Sensor?

Sankai: We are developing and planning to produce several types of Vital Sensors. The first one that will go through the approval process, productization, and business modeling is a palm-sized device that can detect measurements of arteriosclerosis and heart function equipped with communication systems that are compatible with IoT. It is a device whose data has been compared to that of the much larger devices currently used in hospitals, and a strong correlation has been confirmed. Until now, measurements of arteriosclerosis and heart function could only be done in hospitals, but this device allows users to make daily measurements at home or in the workplace. The easily portable size of the device and its communication systems to manage data are extremely important features from the perspective of early detection and prevention, making it possible to formulate a good business plan. Currently, we have completed the product model, and have started discussions with the PMDA (Pharmaceuticals and Medical Devices Agency). In other words, we have started preparations to distribute the Vital Sensor as a medical device. Furthermore, all of CYBERDYNE's devices are equipped with communication systems that are IoT compatible, so CYBERDYNE will be able to manage all of the data collected from this Vital Sensor, all of the different types of HAL (Medical Use, Living Support, Single Joint Type, Lumbar Type), and the cleaning and transport robots.

Creating future airports with Cybernic technology — Integrated application of big data

Yamaguchi: I have noticed that you started an operation targeting airports using devices like the transport robot. Right now, the focus seems to be on Haneda Airport, but how are you planning to develop this business?

Sankai: This is a project to create the future of airports. There are tasks conducted at the airport such as transportation, cleaning, and loading and unloading luggage that we want to support with our robots. Most of the workers involved in these tasks often must bend at the waist, causing a lot of strain on the lower back. From a safe working environment perspective, this enterprise between CYBERDYNE and Haneda Airport is meaningful and significant. This is also a sign that the products we have been rapidly developing since our listing are now reaching a stage where they can be implemented in new business fields. It is also important to note that all of these robots and devices have communication systems that are IoT compatible, so the collected data can be made available to the airport's data management, providing valuable and useful information. Last year we began with the domestic terminal, and this year, after some improvements were made, we have expanded operations to the international terminal.

Because airports are typically designed with the same format, once this system is all compiled, we can work together with other airport management organizations to expand our technology across the globe.

The next-generation multipurpose robotized production facility that surpasses Industry 4.0 — Combining the skill of experienced engineers with robots and AI

Yamaguchi: Your Company is coming out with new products one after another, but how is your production capacity?

Sankai: The first stage of construction on our facility in Fukushima is now complete, and a ceremony will be held on August 22. This base will be made into a next-generation multipurpose robotized production facility. An organization that is serious about its cutting-edge technology cannot be satisfied with simple robotization. Typically with robotization, the intent is to reduce manufacturing costs by automating simple routine processes for mass production. However, in state-of-the-art manufacturing enterprises, experienced engineers and skilled workers who add ingenuity are the ones who are thriving. CYBERDYNE's next-generation multipurpose robotized production facility will be a robotized system that learns and evolves alongside these experienced engineers and skilled workers. Upon completion, this next-generation production base will combine Cybernic technology that collects and amasses information from humans with artificial intelligence and robots, and will surpass standards set by Industry 4.0. On the other hand, processes that can be conducted via routine will be efficiently handled through collaboration with three cooperative companies. One of these companies is world-renowned and typically does not participate in assembly of other companies' products, but they have agreed to make and exception for CYBERDYNE and we are very grateful. It is our intent to contribute toward a win-win relationship with these collaborative companies.

Creating the next enterprise using big data on physiology and environment

Yamaguchi: Earlier when we were talking about IoT, you mentioned big data or the collection of various data, but how are you planning to use this information?

Sankai: While I could talk about what is being prepared, the timing is not yet appropriate for such a discussion, so please stay tuned for future announcements. However, if you can just imagine what things you can do with such information, I think it is clear that there are many possibilities. We will be collecting information from humans, and information from robots while they do tasks like cleaning. I think I will leave it at that.

Another thing I can talk about in terms of using and analyzing the data we collect is "learning." A key point for robots is learning. By using HAL, the user's physical functions and nervous system change, and for HAL to fit to each person's unique characteristics, it must be equipped with an adaptive learning function. Back in the late 80s, I was involved in the research and development efforts in Japan on the learning mechanism of the neural network that formed the core of deep learning. At the time, I had come up with an algorithm that was seemingly good, but due to lack of processing power, I had to give up on its development. The processing power available now is on a different dimension compared to back then, and I am excited that a very interesting era has finally arrived.

Furthermore, if I may add another point, if you want to proceed with how we can use big data, what else would we need other than "data" and "learning"? The answer of course is computers. Thus, we have partnered with and invested in a company that is independently developing supercomputers to handle the information of the new age. This partnership may also have a large influence on our future business.

CYBERDYNE's market scale spans solutions to social problems itself, not just robots

Yamaguchi: I am often asked by investors about your company's market capitalization. At about 400–500 billion yen, your company's market capitalization is staggeringly large compared to other robotics companies in the world. The high evaluation reflects the high level of appraisal your technology has received, as well as an anticipation for the creation of a large new market. However, among some investors, there are opinions that perhaps the market capitalization is too large compared to the current size of the company. As the CEO, how do you interpret this criticism?

Sankai: If you compare us to other robotics companies, it may appear that way, but for CYBERDYNE, the field of robotics is only a part of its business field. CYBERDYNE is a company that solves social problems using innovative Cybernic* systems, and establishes new markets through advancements of innovation. At its core, the company is built around Cybernic systems, a new field involving the fusion of human, robot, and information systems. CYBERDYNE's business development will lead to a social and industrial transformation, where we believe that our cutting edge devices developed with Cybernic technology will lead the way in bringing about drastic changes in the lifestyles of people in society and the way industries are structured. I am thoroughly excited for what lies ahead, and will continue to work hard and bring happiness to our many investors.

* For the definition of Cybernics, please refer to its definition stated on page 1.

Significance of both innovation and steady monetization

Yamaguchi: This is another point I am often asked about, but your company has only posted deficits so far, though not by a large amount. It seems like the company is approaching the stage where the business is steadily strengthening, sales are rising, and profits are expected, but there are several investors who are worried that you may still struggle to become profitable. How do you feel about your setup in terms of increasing revenue?

Sankai: In Japan, we were able to establish a steady economic cycle with the coverage of the treatment with HAL by public health insurance. We will further strengthen this steady economic cycle by expanding HAL's target diseases.

If we were to compete in an existing market, we would have to focus on competitive pricing or improved functionality. However, since becoming listed, CYBERDYNE's business has been the social problem of super aging societies in developed nations itself. This unexplored field has "No Market, No User, No Industry, No Professional, No Social Rule," and we are looking to replace these 5 "No's" with "New." For this reason, it is necessary to establish a steady economic cycle where profits are made within the cash flow, as well as the foresight to strategically lay the foundation for the next step of business development.

One of the steady economic cycles I mentioned involves health insurance, which is embedded in the social system. This health insurance system is built to allow for companies to establish a reliable economic cycle, but the hurdle to enter this system is very high, even for large companies. Entering this system is a step-by-step process, making sure to obtain approval from the regulatory agencies and receive a clear declaration from insurance systems to cover treatment with the device. CYBERDYNE's HAL has cleared these hurdles in the health insurance systems in a way that is beneficial for the company, the patients and the medical industry. As a result, we were able to obtain insurance coverage for treatment with the device, and have set up a steady economic cycle. We have entered into agreements and are making final arrangements with hospitals that are set to be the central bases for HAL treatment in each region, and with their cooperation, we will collect post-market surveillance information, advance our efforts to expand target diseases, and develop the business more efficiently.

As for laying the foundation for the next step in business development, I have mentioned our plans on big data, plans to develop future social infrastructure such as our work at Haneda Airport, and most recently our work in combining HAL with regenerative medicine to develop innovative composite medical technology. Expectations in this field are extremely high. The field of regenerative medicine is nearing the end of a very long tunnel. In other words, it will soon take the next step into the world of applied treatment. Several clinical trials have already begun. The doctors in the medical industry who want to maximize the effects of treatment believe that our HAL will serve an extremely important role in achieving functional regeneration of the nervous system and physical functions.

Advancing the business with carefully selected, highly talented personnel

Yamaguchi: My impression is that you have hired many engineers and scientists with Ph.D.'s, but what is your current situation?

Sankai: Since our listing, 6 new R&D members have been hired. Typically, increases in R&D members lead to concerns over an increase in R&D costs, but we are conducting things very efficiently. The R&D members that I have personally instructed toward their Ph.D.'s and a few very talented R&D hires act as project leaders, forming teams of other employees and R&D support members. In a short amount of time, these teams have increased the number of products in our lineup fivefold. Most of the project leaders hold a Ph.D., and since they were carefully selected, each has the ability of 3 to 5 normal hires.

Yamaguchi: As you expand to other markets abroad, I assume you will need someone responsible for the business overseas, as well as marketing efforts, correct?

Sankai: Yes. Such staff is necessary in both the headquarters and at each domestic and foreign subsidiary. Excellent personnel including foreign natives are gathering to work for us.

Peaceful use of technology — a statement of intent regarding CYBERDYNE's role as a company

Yamaguchi: Finally, the U.S. has one of the strongest military industries in the world, which cannot be separated from its robot industry, and I want to once again ask and confirm the meaning behind why you keep the two fields separate?

Sankai: CYBERDYNE's role is to develop technologies and a business that focus on solving social problems. The energy and environmental issue is a good example of a social problem that we humans must face, but another crucial issue is the super-aging society. Whether we can solve this issue will directly affect the way society continues to exist, and we therefore believe that there will be demand for this business.

As for our thoughts on military use, we wanted to make it very clear to all of the shareholders which direction this company is moving toward, and how resolved it is to stay on course, and so we used the key words "Peaceful use of technology" as a statement of intent in the prospectus at the time of the company's listing. Furthermore, we were able to be listed using class shares with different voting rights to ensure this intent.

For example, take a situation where rescue workers have to enter a disaster zone where many unknown particles are drifting through the air. The worker must wear protective gear and various sensors, and must also carry heavy gear like a gamma camera. Once the protective gear is worn, the heat inside will reach dangerous levels, so a cooling device must also be carried. The worker must conduct dangerous rescue work under all of these conditions, exposing himself to many risks. A device like the full-body HAL can provide a solution to these issues by protecting the wearer from radiation, chemicals, and even biological threats, and can help carry the weight of the cooling device and a 15 kg gamma camera. But this is just about as far as the line goes in terms of the technology that the Company is willing to develop in the gray area between industry and military use. It is important to maintain a firm philosophical foundation in the company, and every employee must keep this in mind from the start of technology development through its social implementation.

Yamaguchi: Thank you for your time today.

1. Our basic approach to corporate governance

The Company recognizes the importance of efforts to improve corporate governance by enhancing transparency and ensuring compliance throughout operations in order to increase corporate value over the long term.

We believe it is vital to build constructive relationships with all of our stakeholders as a part of corporate governance. Corporate governance is important not only from the standpoint of making sure the decisions we make and actions we take do not violate laws, regulations or market rules, but also of ensuring that we have not ignored the demands of society and that we are indeed contributing to society. We also believe that high levels of transparency are essential for the proper functioning of corporate governance.

To this end, the Company takes a proactive stance on disclosing information to shareholders, investors, employees and customers that goes beyond the legally required level.

2. Corporate organization

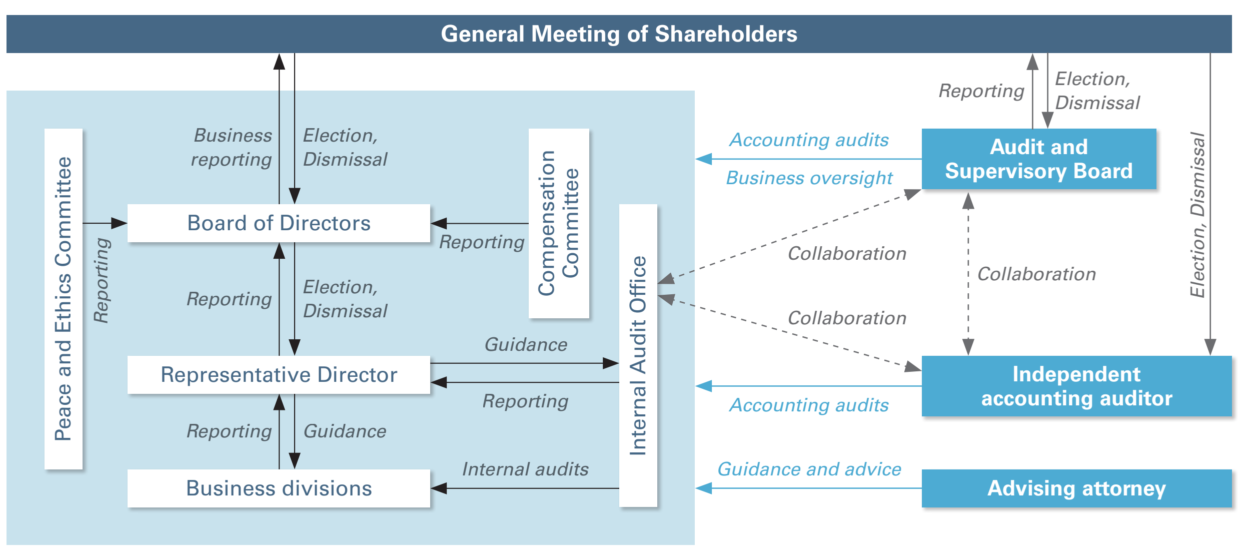
The Company has a Board of Directors that meets at least once a month to rapidly make decisions and supervise the directors as they execute their duties. The Board of Directors is comprised of seven directors, three of whom are outside directors, forming a structure that is able to efficiently reach decisions and make business judgments.

The Company is also a company with an Audit and Supervisory Board. The Audit and Supervisory Board has three outside Audit and Supervisory Board Members who proactively voice their opinions at meetings of the Board of Directors to enhance supervision. The Audit and Supervisory Board Members perform audits from an objective standpoint with regard to business execution and important decision-making by members of the Board of Directors.

Director compensation is debated by the Compensation Committee, which consists of at least three members appointed by the representative director. The Compensation Committee then submits its opinions about director compensation to the Board of Directors. With the objective of preventing conflicts of interest in the Company's relationship with the University of Tsukuba, the Company ensures there is at least the same or a higher number of independent outside directors with no affiliations with the University of Tsukuba than the number of directors (e.g., internal directors), excluding individuals with potential conflicts of interest with the university. As a result, outside directors have the ability to veto ordinary resolutions as necessary during meetings of the Board of Directors when there are conflicts of interest with the University of Tsukuba, thereby establishing an effective system to prevent conflicts of interest.

For the purpose of protecting the interests of noncontrolling interests, the Company has put in place a system for obtaining resolutions at the Board of Directors based on preapprovals from a committee comprising the outside directors and outside Audit and Supervisory Board Members when decisions must be made concerning transactions between the Company and Dr. Sankai, who is a controlling shareholder of the Company, the Sankai Health Foundation and the Sankai Science and Technology Promotion Foundation (the "Foundations"), both of which are represented and managed by Dr. Sankai, as well as with the trustees, directors or controllers of the Foundations.

The Company has also established the Peace and Ethics Committee to prevent the use of its advanced technologies to harm people or to create military weapons. All outside directors and outside Audit and Supervisory Board Members, in addition to the President and CEO, are members of the Peace and Ethics Committee. Before entering a business field outside the areas of medicine, living support, and labor support, which are defined in the Company Code of Conduct, the Peace and Ethics Committee investigates, deliberates and reaches a decision on whether the Company's advanced technologies could be used to harm people or to create military weapons as a consequence of entering the business field. The committee then submits its findings to the Board of Directors.



3. System to ensure the appropriateness of businesses and actual operation of the system

i. System to ensure the appropriateness of businesses

The resolution passed at the Board of Directors with regard to the system to ensure that the directors' implementation of business is conducted in compliance with laws, regulations and the Articles of Incorporation, as well as the structure to ensure that the business is conducted in an appropriate manner is stated as below.

(a) System to ensure that the directors and employees of the Company and the subsidiaries (the "Group") perform their duties in accordance with laws, regulations and the Articles of Incorporation

- A code of conduct that embodies the Company Code of Conduct and other compliance-related rules shall be established for directors and employees to ensure adherence to laws, regulations, the Articles of Incorporation and internal regulations.
  The designated director of the Company shall have cross-organizational control over compliance initiatives and be responsible for building, maintaining and updating compliance systems. The director shall disseminate the spirit of compliance to directors and employees of the Group to identify and solve problems through seminars, audits, and risk management processes.
- The Company shall also establish the Affiliated Company Management Policy and in its respect, assign directors (if necessary, an Audit and Supervisory Member) of the notable subsidiaries. Also by making it necessary for the subsidiaries to obtain approval from the Company with regard to important matters and the Company corporate sector to conduct certain parts of the management work, the Affiliated Company Management Policy shall ensure the appropriateness of their work.
- The Company shall establish the Internal Audit Office who will work directly under the Company CEO. The Internal Audit Office shall conduct internal audits in accordance with the Internal Audit Policy and Affiliated Company Management Policy to check the compliance status with laws, the Articles of Incorporation, internal regulations and risk management. Results of the internal audits shall be reported to the Company CEO, the Audit and Supervisory Board, and Board of Directors.
- The Hotline System Policy shall be established and operated as a means for employees to directly provide information about legally suspicious behavior. The method of providing information by means of oral communication, email, chat and opinion boxes shall be the subject of the compliance hotline protocol.

(b) System to store and manage information related to the execution of duties by the Company directors

- The Company shall establish the Document Management Policy which states the method of storing and managing information related to the execution of duties. Pursuant to the law and this protocol, the information related to the execution of duties shall be recorded and stored in paper or electronic format.
- This information shall always be accessible by the directors and Audit and Supervisory Board Members.

(c) Rules and other systems of the Group to manage the risk of losses

- In order to strengthen the risk management structure of the Group, a designated director shall put a relevant operating unit in charge for each risk category and each operating unit in charge is to create risk scopes, risk profiles, self evaluation policies and guidelines. The director in charge of finance shall monitor risks across the organization and address company-wide risks.
- When a new risk arises, the Company CEO shall quickly appoint a director or head of operating unit in charge of handling such risks.

(d) System of the Group to ensure the efficient execution of duties by directors.

- As a system to ensure the efficient execution of duties by directors, The Board of Directors shall meet once a month and provisional meetings of Board of Directors shall be conducted whenever necessary.
- Regarding the execution status of matters resolved by the meeting of Board of Directors, the designated director or head of operating unit shall report on a regular basis and the Audit and Supervisory Board shall perform audits.
- Medium-term business plans and annual business plans shall be established with targets for the entire Company.
- The Company shall also establish the Affiliated Company Management Policy in order to manage the subsidiaries under the related sector of the Company so that the directors of the subsidiaries can execute their duties efficiently.

(e) System to ensure reporting on the subsidiary directors' performance of duties to the Company

The Company shall establish the Affiliated Company Management Policy and the subsidiaries must report to the Company's sector in charge of managing subsidiaries whenever necessary with regard to the status of their duties.

(f) Matters regarding employees who assist the Audit and Supervisory Board with the fulfillment of its duties.

- When the Audit and Supervisory Board requests assignment of staff to assist with its duties, the Board of Directors may designate the appropriate employees who shall serve as assistant employees or as employees who also hold a post as an assistant upon consulting with the Audit and Supervisory Board.
- During the assistance period, the authority over the designated employees shall be delegated to the Audit and Supervisory Board, and the employees shall not be subject to the chain of command of the directors. Any performance evaluation and changes in the relevant personnel providing assistance shall require the consent of the Audit and Supervisory Board.

(g) System for directors and employees of the Company to report to the Audit and Supervisory Board, and a system for directors and employees of the subsidiaries, or the Company's personnel who received reports from directors and employees of the subsidiaries, to report to the Audit and Supervisory Board of the Company

- The directors and employees of the Company as well as the directors and employees of the subsidiaries shall report any significant matters which are against the law or the Articles of Incorporation, matters that are considered dishonest acts, and matters that may have a significant impact on the company, to the Audit and Supervisory Board Member immediately. In addition, if the Audit and Supervisory Board Member asks for a report from the directors or employees pursuant to the law, Auditing Standards or Auditor's Meeting Rules established by the Audit and Supervisory Board, the directors or employees in concern shall report promptly.

In order to improve comprehensiveness of the report regarding any significant matters which are against the law or the Articles of Incorporation, matters that are considered dishonest acts, and matters that may have a significant impact on the company, the directors and employees of the Company as well as the directors and employees of the subsidiaries shall conduct a hearing and gather information from the reports stated in this item, items stated in internal audits, hotlines and accounting auditors.

- Pursuant to the Hotline System Policy, if matters that may violate the law or corporate compliance in the Group are found, they shall be reported to the Board of Directors by the director in charge of compliance. Furthermore, the contents reported and the results shall be reported to the full-time Audit and Supervisory Board Member.
- The Internal Audit Office of the Company shall report the status of the internal audit to the Audit and Supervisory Board Members. Furthermore, the director in charge of compliance shall report the status regarding compliance to the Audit and Supervisory Board when necessary.

(h) System to ensure that the person who made reports to the Audit and Supervisory Board Member will not be put in a disadvantageous position

The Company shall not conduct any treatment that puts a person in a disadvantageous position because of their reports made to the Audit and Supervisory Board Member.

(i) Matters regarding the Company policy of processing auditing fees

If the Audit and Supervisory Board Member requests a payment required in accordance with the execution of their duty in advance or to be reimbursed, with the exception of cases where such a payment is recognized to be completely unnecessary for the execution of their duty, it shall be paid promptly upon request.

(j) Other systems to ensure the effective execution of audits by the Company Audit and Supervisory Board

- The directors and employees of the Company and the subsidiaries shall comply with hearing or visiting audits and other methods of investigation by the Audit and Supervisory Board Member in order to secure the effectiveness of the audits.
- The Company shall provide enough opportunities for the Audit and Supervisory Board Member to exchange opinion with directors, accounting auditors and any other personnel required to appropriately execute the duty as an auditor.
- The Company shall also provide enough opportunities for the Audit and Supervisory Board Member to coordinate with other Audit and Supervisory Board Members and to gather information from employees of the subsidiaries.

ii. The status of operation of the system to ensure appropriate execution of duties.

The Group shall work to maintain the aforementioned system and its operation. Notable actions conducted within this fiscal year which are thought to be important with regard to internal control are stated below.

(a) Corporate Compliance System

All members of the Group shall work to comply with the law in accordance with the policies regarding the compliance system, such as the Company Code of Conduct. Furthermore, in order to detect or avoid violation of compliance at the earliest opportunity, the Hotline System Policy and its method of utilization shall be notified to related personnel in a thorough fashion.

(b) Risk Management System

For the Group, the director in charge of risk management shall determine the operating unit in charge of each risk category, monitor the risk status and respond accordingly. Furthermore, the status of this risk management is subject to internal audits and audits conducted by the Audit and Supervisory Board Member.

(c) Effectiveness of the execution of duty by the directors

For the Group, the Board of Directors shall meet once a month with provisional Board of Directors meetings conducted whenever necessary, in order to check the reports of business execution (including reports from subsidiaries), progress of business plans for the fiscal year (including plans for subsidiaries), and so on.

4. Status of internal audits and audits by Audit and Supervisory Board Members

The Company has established an internal control system necessary to perform operational audits of its Internal Audit Office (a concurrent position of one internal auditor) based on the Internal Audit Policy. Audits by the Audit and Supervisory Board involves operational audits, such as audits of the business execution by directors, based on Auditing Standards. Outside Audit and Supervisory Board Members include an experienced business person (SVP of a large bank), a CPA and an attorney selected for their expert knowledge of accounting, legal affairs and risk management. Therefore, the Company has put in place a system with effective management oversight functions.

5. Status of accounting audits

The Company has entered into an audit engagement contract with Deloitte Touche Tohmatsu LLC, and receives accounting audits performed by this accounting auditor. Mr. Kunikazu Awashima and Mr. Shintaro Sugihara are the engagement partners. Deloitte Touche Tohmatsu LLC forms auditing teams of twelve people, comprising three CPAs and nine other professionals, to perform the audits.

6. Relationships with outside directors and outside Audit and Supervisory Board Members

The Company has three outside directors and three outside Audit and Supervisory Board Members.

The Company has not set any standards or specific policies regarding the independence of its outside directors and outside Audit and Supervisory Board Members. Instead, the Company appoints outside directors and outside Audit and Supervisory Board Members based on their extensive experience as managers, as well as their advanced knowledge of research, finance, accounting and legal affairs, for the purpose of building an effective corporate governance system from an external standpoint.

The Company expects its outside directors and outside Audit and Supervisory Board Members to supervise the business execution of its directors.

There are no special human relationships, capital relationships, business affiliations or other conflicts of interest between the Company and its outside directors and outside Audit and Supervisory Board Members.

The Company's outside directors oversee the Company's business activities by supervising the fulfillment of duties by the directors responsible for business execution and other individuals. The outside Audit and Supervisory Board Members audit the fulfillment of duties by the directors and supervise the independent accounting auditor.

As stated in (4) above, the outside Audit and Supervisory Board Members periodically report to the Board of Directors on the status of auditing activities based on their collaboration with the independent accounting auditor and the Internal Audit Office.

Accordingly, the outside Audit and Supervisory Board Members assist the Board of Directors in their duty to supervise the business execution by the directors and other individuals.

7. Implementation status of risk management structure

The Company continues to enhance its risk management system within the context of the Company Code of Conduct, risk management rules and rules governing the operation of the compliance hotline, among other rules and regulations. Since sound management practices and a stable earnings foundation through risk control are key priorities for the Company, it has an advisory contract with TMI Associates to receive advice and guidance about all legal matters when needed.

8. Compensation for directors and Audit and Supervisory Board Members

i. Total remuneration of directors and Audit and Supervisory Board Members by classification, total remuneration by type, and number of directors and corporate auditors receiving remuneration.

Officer type	Total compensation (Thousands of yen)	Breakdown of compensation (Thousands of yen)				Number of applicable officers (people)
		Base salary	Stock options	Bonus	Retirement benefits	
Directors (Excluding outside directors)	32,600	32,600	—	—	—	4
Audit and Supervisory Board Members (Excluding outside Audit and Supervisory Board Members)	—	—	—	—	—	—
Outside directors and Audit & Supervisory Board Members	13,000	13,000	—	—	—	6

ii. Total consolidated remuneration of the Board Members and Audit and Supervisory Board Members

Since there are no Board Members and Audit and Supervisory Board Members who have received a total consolidated remuneration of more than 100,000 thousands of yen, nothing is reported.

iii. Amount of remuneration for the Board Members and Audit and Supervisory Board Members and the policy to determine the calculation method

The Company will establish a Compensation Committee to discuss the remuneration of the Board Members and Audit and Supervisory Board Members, and this Compensation Committee will determine the amount of remuneration within the limits approved by the Ordinary General Meeting of Shareholders.

The upper limit of remuneration for the Board Members, set by a decision made at the 2nd Ordinary General Meeting of Shareholders that took place on May 31, 2006, is JPY 100,000 thousand per year. The upper limit of remuneration for the Audit and Supervisory Board Members, set by a decision made at the 3rd Ordinary General Meeting of Shareholders that took place on June 28, 2007, is JPY 50,000 thousand per year.

9. Share buyback decision mechanism

In accordance with Article 165-2 of the Companies Act, the Company's Articles of Incorporation state that share buybacks may be implemented by resolution of the Board of Directors with the objective of flexibly returning profits to shareholders.

10. Interim dividends

The Company's Articles of Incorporation allow an interim dividend to be paid to shareholders, class shareholders and registered beneficiaries listed in the shareholders' register as of the close of September 30 every year, by resolution of the Board of Directors, for the purpose of flexibly returning profits to shareholders.

11. Outline of limitation of liability contracts

In accordance with Article 427-1 of the Companies Act, the Company's Articles of Incorporation permit the Company to enter into contracts that limit the liability for damages of directors (excluding executive directors) and Audit and Supervisory Board Members as defined by Article 423-1 of the

Companies Act. The amount of the limit in liability for damages in these contracts is the same amount defined by law.

12. Outline of exemption from liability

In accordance with Article 426-1 of the Companies Act, the Company's Articles of Incorporation state that the Board of Directors can pass a resolution to exempt the Company's directors (including former directors) and Audit and Supervisory Board Members from liability to the fullest extent allowable by law for damages defined by Article 423-1 of the Companies Act in the pursuit of their duties, in order to ensure that they are able to fully apply their abilities in the fulfillment of their expected roles.

13. Number of directors

The Articles of Incorporation state that the Company shall have no more than eight directors.

14. Election requirements for directors

The Company's Articles of Incorporation state that resolutions for the election of directors may only be passed with a majority vote of the shareholders in attendance, which must represent at least one third of the voting rights of all shareholders able to exercise their voting rights. The Articles of Incorporation state that cumulative voting is not allowed for resolutions to elect directors.

15. Matters subject to resolution by the General Meeting of Shareholders that can be decided by resolution of the Board of Directors

The Company's Articles of Incorporation state that the Board of Directors may pass a resolution to determine dividends on surplus, as prescribed by Article 454-5 of the Companies Act to shareholders, class shareholders and registered beneficiaries on record as of the close of September 30 each year.

16. Requirements for special resolutions on important matters at General Meetings of Shareholders and General Meetings of Class Shareholders

The Company's Articles of Incorporation state that resolutions on important matters at the General Meeting of Shareholders, as defined by Article 309-2 of the Companies Act, require two-thirds of the votes of shareholders in attendance, which must represent at least one-third of the voting rights of all shareholders able to exercise their voting rights.

The Articles of Incorporation also state that resolutions on important matters at the General Meeting of Class Shareholders, as defined by Article 324-2 of the Companies Act, require two-thirds of the votes of shareholders in attendance, which must represent at least one-third of the voting rights of all shareholders able to exercise their voting rights.

These rules are intended to facilitate the smooth operation of the General Meeting of Shareholders and the General Meeting of Class Shareholders by relaxing the requirements for a quorum on special resolutions put to a vote at the General Meeting of Shareholders and the General Meeting of Class Shareholders.

17. Class B Shares

The Company's Articles of Incorporation state that 10 Class B Shares constitute one share unit and 100 Common Shares constitute one share unit. As voting rights are granted for each share unit, a shareholder of Class B Shares has 10 times as many voting rights compared to a shareholder of Common Shares with an equal number of shares. This dual class structure reflects the concentration of voting rights with Dr. Yoshiyuki Sankai and the Foundations, to ensure that the Company's advanced technologies are used for peaceful purposes only, and to prevent the misuse of these technologies in order to harm humans or to create military weapons.

The Group's vision for the future is to create a human-assistive industry—a new industrial field that will support people by solving issues directly faced by aging societies with fewer children. To realize this vision, the Company must coordinate business management with R&D in Cybernic technologies. Dr. Sankai created the Company's Cybernic technologies, and continues to be a central figure in Cybernic research. He is also a business leader who seeks to make this innovative technology widely available for the benefit of society. For the Group to increase corporate value (i.e., share profits with shareholders), Dr. Sankai must be a stable leadership figure in the management of the Company in the future. This scheme has been adopted to ensure he remains so.

At this juncture, Dr. Sankai plans to transfer a portion of the Class B Shares he owns to the Foundations without compensation in order to ensure the continuity of this scheme. The Foundations intend to hold these Class B Shares in perpetuity.

As holders of Class B Shares, the Foundations have created the following guidelines concerning the exercise of voting rights with the objective of ensuring that the Group's advanced technologies are used for peaceful purposes only and preventing damage to the corporate value of the Company.

As the owner of Class B Shares issued by the Company, the Foundations shall vote against resolutions that contain language defined in a and b below, through the exercise of its voting rights at the General Meeting of Shareholders and the General Meeting of Class Shareholders. Any changes to the Foundations' guidelines for the exercise of their voting rights shall require approval by resolution of their boards of trustees, and these changes shall be made public by a method chosen by the Foundations.

a. Resolutions concerning the election and dismissal of directors, where the director(s) to be elected or dismissed would likely manage the Group in a way that is detrimental to its corporate value or hinder the peaceful use of its advanced technologies.
b. Other resolutions that, if passed, would likely damage the corporate value of the Group or hinder the peaceful use of its advanced technologies.

Performance

On January 22, 2016, the Abe Cabinet announced their "5th Science and Technology Basic Plan" to preemptively address the various issues that are taking shape across the globe by advancing science, technology and innovation ("STI"), further reinforcing research and development, leading the rest of the world toward strengthening the processes to achieve a "super smart society" that produces new values and services, and embodying such a structure of society, "Society 5.0."

On the same date, Prime Minister Abe in the 190th Diet administration policy speech once again spoke his will to achieve "zero turnover for nursing care" and to turn Japan into "the most suited country for innovation" as part of his "Promoting Dynamic Engagement of All Citizens" Plan. He referenced HAL®, the "Robot Suit of dreams," which was jointly created by the Company and Tsukuba University, as an example of dynamic innovation with open coordination of research institutions, universities and corporations in Japan and other countries.

By fully utilizing the innovative Cybernic technologies within this open environment, CYBERDYNE, INC. and its group companies (the "Group") aims to realize a "zero intensive care society," create a new "human support industry" that focuses on the fields of medicine, living support, and labor support, and advance its research and development and business development.

HAL® for Medical Use

During this fiscal year ended March 31, 2016, HAL® for Medical Use (Lower Limb Type) ("HAL® for Medical Use" or "HAL®") acquired manufacturing and distribution approval in Japan from the Ministry of Health Labour and Welfare ("MHLW"), as a new medical device for neuromuscular diseases on November 25, 2015. Further, on April 25, 2016, the MHLW announced the technology fee for the treatment using HAL® for Medical Use, making it the world's first designation of an insurance reimbursement price for treatment with robots. With this insurance coverage, a patient will be able to claim between JPY 49,600–JPY 85,100 per treatment indefinitely as long as the effect of treatment can be confirmed. The Company will continue to advance its clinical studies in order to expand the insurance coverage of the treatment with HAL® for patients with diseases other than neuromuscular diseases.

In Europe, the Company acquired medical device certification, providing medical treatment services with HAL® in Germany. In Germany, public workers' compensation is applied to the treatment with HAL® for Medical Use. In order to expand the number of patients covered by insurance for the treatment with HAL®, the Company applied to the Institute for the Hospital Remuneration System ("InEK") on October 27 of 2015 for public health insurance coverage of all paraplegic patients in the acute to recovery phases. The Company also applied to the Federal Joint Committee ("G-BA") for public health insurance coverage of the treatment with HAL® for all paraplegic patients after acute and recovery phases.

In the U.S., the Company is in the midst of its application for medical device approval of HAL® for Medical Use to the U.S. Food and Drug Administration ("FDA"), aiming to receive the approval as quickly as possible, noting various insurance coverage as an important milestone for its future business in the U.S.

Aiming for expansion of target diseases of HAL® for Medical Use (Lower Limb Type), clinical tests in Japan and other countries will be accelerated, and as of the end of March, 2016, a total of 140 units were in operation in Japan and other countries. Also HAL® for Living Support (Single Joint Type) began being introduced mainly to hospitals within Japan for the purpose of clinical studies, and as of the end of March, 2016, 154 units were in operation.

Other types of HAL®

In the field of nursing care, HAL® for Living Support (Lower Limb Type) has been used in care facilities and hospitals within Japan for the purpose of motion assistance, and as of the end of March, 2016, 489 units were in operation. For HAL® for Care Support (Lumbar Type), a device used to improve the work environment in care facilities that suffer from high turnover rates, 282 units were in operation as of the end of March 2016. This number is forecasted to increase substantially due to the subsidy project of the MHLW for assisting welfare facilities with installation of robotic devices.

In the field of labor support, the number of units of HAL® for Labor Support (Lumbar Type) introduced to improve the work environment in order to maintain the labor force of distribution warehouses, construction sites and factories of various types suffering from an aging population and declining birthrate, is increasing steadily, and as of the end of March, 2016, 216 units were in operation. For the Cleaning Robot and Transport Robot, 14 units were in operation as of the end of March 2016.

Cybernic city

Furthermore, the Company has entered into a provisional contract for land owned by the Ibaraki prefecture. Stepping towards the realization of "Cybernic city," a city living together with future Cybernic technology, the Company will continue to research and develop cutting-edge living assistance robots and implement them into society.

As the result of the aforementioned, in the consolidated financial result of this fiscal year ended March 31, 2016, the Company recorded net sales of JPY 1,264,902 thousand (100.4% increase year on year), mainly due to a substantial increase in the operating numbers of the new products such as HAL® for Care/Labor Support (Lumbar Type), while keeping sales cost at JPY 401,121 thousand (11.5% increase year on year), attributable to cost reduction due to mass production and improvement of cost of service in the Company's subsidiaries. As a result, the gross profit increased significantly to JPY 863,780 thousand (218.2% increase year on year) and the gross profit margin was ameliorated to 68.3% (25.3% increase year on year).

Research and development expenses were recorded at JPY 1,001,547 thousand (1.9% increase year on year) due to new product developments and clinical tests, and other selling, general and administrative expenses increased to JPY 1,154,365 thousand (9.5% increase year on year) mainly due to the increase of taxes and dues, labor costs and direct-selling expenses. As a result, operating loss improved drastically to JPY 1,292,132 thousand (26.8% decrease year on year).

Non-operating income was recorded at JPY 705,727 thousand (33.7% decrease year on year), mainly due to a decrease of subsidy income, and non-operating expense was recorded at JPY 123,674 thousand (40.1% decrease year on year) due to the absence of stock issuance expenses of JPY 99,409 thousand recorded in the previous fiscal year. As a result, loss before income tax improved to JPY 710,079 thousand (21.4% decrease year on year). Furthermore, because total income taxes recorded at JPY 11,173 thousand and net loss attributable to noncontrolling interests recorded at JPY 3,195 thousand, net loss for the fiscal year ended March 31, 2016 improved to JPY 718,057 thousand (21.6% decrease year on year).

Explanation of financial position

Status of assets, liabilities and net assets

Assets:

For the fiscal year ended March 31, 2016, total assets decreased JPY 754,582 thousand to JPY 47,534,470 thousand in comparison to the end of the previous fiscal year. This was mainly due to a decrease of JPY 15,263,391 thousand in cash and deposits, partly offset by increases of JPY 13,000,717 thousand in securities, JPY 662,771 thousand in construction in progress and JPY 599,980 thousand in investment securities.

Liabilities:

For the fiscal year ended March 31, 2016, total liabilities decreased JPY 41,218 thousand to JPY 20,470,536 thousand in comparison to the end of the previous fiscal year. This was mainly due to a decrease of JPY 44,074 thousand in accounts payable.

Net assets:

For the fiscal year ended March 31, 2016, net assets decreased JPY 713,363 thousand to JPY 27,063,934 thousand in comparison to the end of the previous fiscal year. This was mainly due to a posting of JPY 721,253 thousand in net loss.

Cash flows

For the fiscal year ended March 31, 2016, cash and cash equivalents decreased JPY 762,887 thousand to JPY 18,458,970 thousand. The status of each cash flow in the fiscal year ended March 31, 2016 and its main influencing factors are stated below.

Cash Flows from Operating Activities

For the fiscal year ended March 31, 2016, net cash used in operating activities was JPY 258,282 thousand (JPY 779,286 thousand in the previous fiscal year). The loss before provision for income taxes (JPY 710,079 thousand) and the increase in inventories JPY (110,417 thousand) were offset in part by depreciation (JPY 280,299 thousand) and a decrease in accounts receivable-other (JPY 200,633 thousand).

Cash Flows from Investing Activities

For the fiscal year ended March 31, 2016, net cash used in investing activities was JPY 482,675 thousand (JPY 26,780,601 thousand in the previous fiscal year). The outflow due to purchases of securities (JPY 20,000,213 thousand), of property, plant and equipment (JPY 1,354,938 thousand) and of investment securities (JPY 599,980 thousand) was mostly offset by inflows the withdrawals of restricted deposit (JPY 1,500,000 thousand net).

Cash Flows from Financing Activities

For the fiscal year ended March 31, 2016, net cash used in financing activities was JPY 21,185 thousand, mainly due to the repayment of installment obligations, compared to an inflow of JPY 42,441,003 thousand in the previous fiscal year. The difference was mainly due to proceeds in the previous fiscal year (of JPY 20,394,935 thousand and JPY 22,066,287 thousand) not repeated in the current fiscal year.

Risks associated with business operations

Set out below are some of the major risks associated with the business operations of the Group as well as other potential risks that the Group may face. Listed items include risks that may not apply directly, but have been included in order to disclose information fairly and accurately as they are thought to be important for investors upon making sound investing decisions. While the Company recognizes the possibilities of the listed risks occurring and will take necessary measures either to avoid their occurrence or to react appropriately to reduce damages, investors should carefully consider both the stated risks and other risks unstated, prior to making an investment.

Furthermore, please keep in mind that the items set out below do not cover all of the potential risks. The stated risks are based on assumptions and beliefs derived from information currently available to the Group and they may be altered due to change of circumstances in the future.

1. Business in a novel business category

The Group's main product is HAL®, the world's first wearable robot*[1] that utilizes human BES, developed by Dr. Yoshiyuki Sankai, President and CEO. The Group is currently developing HAL® for Medical Use (Lower Limb Type) in Germany and Japan. Also in Japan, the Company is developing business around HAL® for Living Support (Lower Limb Type), HAL® for Living Support (Single Joint Type), HAL® for Care Support (Lumbar Type), HAL® for Labor Support (Lumbar Type), and others. The Group's technologies are thought to be applicable to various fields, including medicine, living support, labor support and entertainment. However, since the Group is working in a novel business category, uncertainty is very high, and there is no guarantee that the market will grow steadily. Moreover, if penetration of the Group's products does not progress as planned, or if the Group is unable to achieve profitability, its business performance, financial condition, and future business development may be affected.

2. Competition

The Group is planning to go into the fields of medicine, living support and labor support mainly centered on HAL®.

Currently, wearable robots with autonomous control systems are being developed by companies in Japan and elsewhere in the world but the voluntary control technology that utilizes BES originating from the brain is the Group's original technology*[2]. Due to this differentiation of technologies, the Group can maintain its competitive edge. The patents for intellectual property related to HAL® are jointly held by the Group and the University of Tsukuba. The Group has exclusive rights to use all of the patent rights, giving it a competitive advantage in the wearable robot market. However, various enterprises in Japan and overseas are proceeding with research and commercialization of wearable robots. If the competitive environment surrounding the Group were to change, for example with the new entry of a large number of companies, including major technology companies, into the commercial robotics field, there is a possibility that some of the Group's potential competitors have or may have substantially greater capital, human and other resources, more efficient cost structures, higher brand recognition and more diversified product lines than the Group.

With regard to advanced products such as HAL®, while the research and development and commercialization processes, which include verification tests, safety standards certification, medical device approval and insurance coverage, are extensive, both in terms of the length in time and costs involved, they are not always certain of success. In a business environment such as the above, if another company succeeds in developing newer technologies or more effective products than the Group's products, the Group will not be able to maintain the competitiveness of its products and the Group's business performance, financial condition, and future business development may be affected.

*1, 2 CVC, which integrates a human's intention to move with machine motion, is the world's first technology that improves, supports, and enhances the wearer's body functions. Its basic patents (Japan) are listed below.

Application number/ Registration number (Date of application)	Name of invention/Inventor Type of invention
2004-068790/4200492 (2004/03/11)	Wearing type motion assisting apparatus Inventor: Dr. Yoshiyuki Sankai
2004-040168/4178185 (2004/02/17)	Wearable action supporting apparatus, controlling methods of drive source in wearable action supporting apparatus, and program Inventor: Dr. Yoshiyuki Sankai
2004-045354/4178186 (2004/02/20)	Wearing type motion assisting apparatus, controlling method and program of wearing type motion assisting apparatus Inventor: Dr. Yoshiyuki Sankai
2005-018295/4178187 (2005/01/26)	Wearing type motion assisting apparatus and control program Inventor: Dr. Yoshiyuki Sankai

3. Risks associated with internal organizational structure

The Company was established on June 24, 2004 and has the following issues which are specific to a venture business.

i) The Company depends heavily on Dr. Sankai, the founder and President and CEO, in terms of management and development of new technology. If he is unable to perform his duties in the Company for some reason, the Group's business performance and future business development might be affected.
ii) The Group has secured a sufficient number of excellent research and development staff. If vital staff members were to resign, the Group's speed of product development might be affected.
iii) As business expands, the Company intends to incrementally increase staff in sales, production and controlling units, and to further reinforce the internal control system. However, if the Company is not successful at keeping competent personnel and reinforcing internal controls, the Group's business performance and future business development might be affected.

4. Risks associated with dependence on limited range of products

The main product of the Group is HAL®, whose net sales comprised the majority of net sales as of the end of March 2016. It is estimated that HAL® will continue to be the main source of the Group's profit going forward. If there is a delay in getting approval for HAL® as a new medical device by the FDA, or a delay in adjusting and/or meeting the requirements of the laws and regulations, healthcare policy, or insurance systems such as health insurance in targeted countries, the Group's business and profitability may be affected.

In addition to these factors, if any other factors were to preclude the market expansion potential of HAL®, such as lawsuits or other legal action arising from or related to the use of HAL®, the emergence of new technologies or technological innovation that replace HAL®, the introduction of more competitive products in the same genre, changes in relevant laws and regulations, and changes in the relationship with the University of Tsukuba regarding the grant of exclusive rights to the use of intellectual property related to HAL®, the Group's business performance, financial condition, and future business development might be affected.

5. Approval of medical devices

In order to sell HAL® and other Group products as medical devices, the products need to obtain approval from the authorities in each country and region after undergoing certain tests and examinations based on local laws and regulations. The Group has obtained approval for HAL® as a medical device in the EU and Japan; however, there is no guarantee that the Group will succeed in obtaining approval for HAL® and other Group products as medical devices in other countries and regions, and even if approval can be obtained, the timing of the approval may differ between these countries and regions. Furthermore, if laws and regulations in respective countries and regions were to be revised after approval is obtained, the obtained approval might be canceled or not renewed. In such cases, the Group's business performance, financial condition and future business development might be affected.

6. Insurance coverage

The spread and penetration of treatment using HAL® and other Group products is reliant to a certain extent on such treatment being covered by public and private health insurers in many countries and regions, with insurance payments for such treatment being available from public insurance institutions and private health insurance companies, and so forth. The Group recognizes this as a major issue.

However, insurance systems may vary between countries and regions, and aspects such as the scope of coverage and payment levels are determined separately by the respective public insurance institutions and private insurance companies in each country and region. The status of these determinations may affect the Group's business performance, financial condition, and future business development.

7. Alliances and acquisitions

The Group recognizes that acquiring patents and other intellectual properties from third parties, acquiring businesses, and forming joint ventures and strategic alliances domestically or overseas are major steps to be taken for accelerating its business development and it will continue to examine such steps proactively going forward.

However, when undertaking an acquisition or entering an alliance and so forth, it is difficult to predict the effect of the acquisition or alliance completely beforehand. Moreover, there is no guarantee that the acquisition or alliance and so forth will proceed smoothly. When acquiring intellectual property or a business, or entering a joint venture or strategic business alliance, there is no guarantee that an anticipated effect will be obtained within an initially projected time frame, and the Group may be unable to utilize the effects from an acquisition or alliance and so forth appropriately. In such a situation, the Group's business performance, financial condition, and future business development might be affected.

8. Risks associated with business implementation in the EU

i) The Group's HAL® product has acquired CE Marking as a medical device, a world first for a robotic medical device. It was accredited by the world-class independent accreditation organization TÜV Rheinland AG in June 2013 as a Class IIa device, under the Medical Devices Directives ("MDD") for certifying compliance with EU laws and regulations, which are required for exporting medical devices to EU markets. This accreditation is vital for conducting business activities for HAL® in the EU.

However, if it were confirmed that HAL® did not meet the requirements of the MDD or ISO 13485 (international standards for quality control management systems for medical equipment), the CE Marking may be canceled and so forth. If such an event were to hinder the Group's business development in the EU market, the Group's business performance and future business development might be affected.

ii) The Group started its business in Germany in August 2013. Since the Deutsche Gesetzliche Unfallversicherung (German Statutory Accident Insurance) has admitted the application of labor insurance, the entire fee for usage is paid for those covered by public labor insurance through the Berufsgenossenschaft Rohstoffe und chemische Industrie (Professional Association of Raw Materials and Chemical Industry; "BG RCI"). Currently, the Group provides therapeutic services mainly to people covered by public labor insurance with BG RCI as its business partner.

The Group plans to develop its business in Germany further, mainly through hospitals affiliated with BG RCI, and then develop its business throughout the entirety of the EU. Nevertheless, if for example the Group were obliged to change its plan to develop business at BG RCI-affiliated hospitals due to a change in BG RCI's policy, the Group's business development in Germany and future business development in the EU might be affected. In such a case, the Group's business performance and future business development might be affected.

9. Risks associated with overseas businesses in general

The Group intends to expand its business abroad. However, the Group recognizes the following risks associated with overseas operations. These risks might affect the Group's business performance, financial condition, and future business development.

- Geopolitical risks associated with political and economic situations, and so forth
- Risk of changes in legal and tax systems
- Risk of differences in commercial and trade customs
- Risk of general strikes or other disruptions in working conditions
- Risk of difficulties in managing local personnel and business operations due to cultural differences and other factors
- Risk of difficulties in repatriation of funds to Japan
- Risk associated with fluctuations in foreign exchange rates

10. Loss of clients due to product malfunctions

The Group continuously strives to improve the quality of its products based on ISO 13485 (international standards for quality control management systems for medical equipment). There is no guarantee, however, that its products will be free of deficiency or that product liability claims or recalls will not occur in the future. If damages were to occur due to a product defect, product liability claims would be covered entirely or in part by product liability insurance; however, a decline in the Group's and the products' social credibility might affect its business performance, financial condition, and future business development.

11. Intellectual property

i) The Group's HAL® product employs unique technology that utilizes a wearer's BES. The patent rights for such technologies used in HAL® are held by the University of Tsukuba and the Group has concluded a contract concerning an exclusive license for use of these patented technologies. This contract is a significant prerequisite for the Group to conduct business activities and will be valid until the expiry date of the licensed intellectual property rights. However, if it becomes difficult to continue the contract for any reason, such as a breach of the contract, a petition for bankruptcy, a merger, an acquisition of significant assets, or an assignment of the Company's key business line, the Group's business performance, financial condition, and future business development might be affected.

ii) To date, the Group has neither received any claims from, nor been involved in a lawsuit with any third party concerning intellectual property such as patent rights related to the Group's business. Moreover, the Group considers it unlikely that its business operations would be materially hindered due to a problem arising in relation to infringement on intellectual property such as other parties' patent rights during its business operations. The Group takes measures to avoid problems concerning intellectual property infringement by conducting continuous technical investigations.

However, for research and development-orientated enterprises such as the Group, it is very difficult to entirely avoid the occurrence of problems concerning intellectual property infringement. In the future, if the Group is involved in litigation with third parties, the Group's policy is to consider concrete countermeasures individually depending on the details of each case in consultation with lawyers and patent attorneys. It will, however, be time consuming and costly to reach a settlement, regardless of the validity of the counterparty's claim. Furthermore, although the Group manages its technologies with the utmost care, if a third party infringes upon the Group's technologies, settlement of the issue will be time consuming and costly. In such cases, the Group's business strategies, business performance, financial condition, and future business development might be affected.

12. Legal risks

The Group's business is subject to restrictions due to the application of the respective laws and regulations of each country and region, including the items listed below. For example, in various business activities in which the Group is involved domestically or internationally, the Group is subject to laws and regulations concerning intellectual property rights and product liabilities related to technologies, products, services and so on, as well as regulations related to pharmaceutical affairs, commercial transactions, and import and export restrictions; tax obligations, including tariffs; laws and regulations concerning anti-bribery and corruption, antitrust, labor, consumers, personal information, the environment, foreign exchange; and various other laws and regulations. Moreover, the Group may encounter unexpected issues relating to these laws and regulations or business customs. In particular, since some of the Group's products are medical devices designated under the Pharmaceuticals and Medical Devices Act of Japan, the Group had to obtain the manufacture and distribution approval from the MHLW. Similarly, in other countries and regions, local regulatory authorities' approvals may be required, along with supervision from supervisory authorities.

Approval inspections are conducted to validate the effectiveness and safety of the products. It is possible that an application could be denied or approval delayed as a result of the inspection. Even if sales of the merchandise are started after approval, it is possible that approval could be canceled due to the occurrence of problems in product effectiveness and safety. In addition to the above, if the Group were to violate any laws or regulations applicable to its business, it could be subjected to civil, administrative, or criminal sanctions, which might affect the Group's social credibility. In such a case, the Group's business performance or financial condition may be materially affected.

13. Risks associated with personal information

The Group obtains the personal information of HAL® users. The number of staff within the Group who are able to access this personal information is limited, and the Group has concluded nondisclosure agreements with all executives and employees. Moreover, the Group has taken adequate measures for the protection of personal information, including the establishment of Regulations for Protection of Personal Information and the appointment of a Person in Charge of Protection Management of Personal Information, and no problem, such as leakage of personal information, has occurred to date. However, if a problem, such as leakage of customer information, were to occur, claims for damages and a decline in the Group's social credibility might affect its business, financial status, and business performance.

14. Peace and Ethics Committee

The Group has also established the Peace and Ethics Committee to prevent the use of its advanced technologies to harm people or to create military weapons. All outside directors and outside Audit and Supervisory Board Members, in addition to the President and CEO, are members of the Peace and Ethics Committee. Committee resolutions require a majority vote of two-thirds or more of those attending. Before entering fields outside the areas of medicine, living support and disaster recovery, which are defined in the Company Code of Conduct, the Peace and Ethics Committee investigates, deliberates and reaches a decision on whether the Group's advanced technologies could be used to harm people or to create military weapons as a consequence of entering this business field. The committee then submits its findings to the Board of Directors.

The result of the Committee's examination and verification might not necessarily contribute to improving the Group's short-term business performance.

Risks associated with the President's engagement as a University professor

1. Risks associated with the President's engagement as a professor at the University of Tsukuba

Dr. Yoshiyuki Sankai, President and CEO of the Company, holds concurrent positions as a professor of the University of Tsukuba and as the program manager for the Impulsing Paradigm Change through Disruptive Technologies ("ImPACT") program of the Cabinet Office of Japan. Details of i) measures to avoid conflicts of interest between the Group, the University of Tsukuba, and the Japan Science and Technology Agency ("JST"), which is implementing the ImPACT program, arising from concurrent positions as the President and CEO, a professor at the University of Tsukuba, and the program manager of ImPACT and ii) impediments to performance of duties as the President and CEO are as follows:

i. Measures to avoid conflicts of interest

All decisions related to conflicts of interest, including transactions and conclusions of joint research agreements with the University of Tsukuba or JST are made by the Board of Directors. A structure to prevent conflicts of interest has been established, under which the decisions concerning the University of Tsukuba are made by the five directors (of whom three are outside directors) excluding Dr. Sankai and other member affiliated with the University of Tsukuba, and the decisions concerning the JST are made by the six directors (of whom three are outside directors) excluding Dr. Sankai. In addition, a structure is in place under which matters pertaining to conflicts of interest are being monitored monthly through an audit by the Audit and Supervisory Board and reported to the CEO, the Internal Audit Office and a responsible member of the Board of Directors.

ii. Impediments to performance of duties as President and CEO

Although duties related to Cybernic research by the Group, and at the University of Tsukuba, and in the Cabinet Office's ImPACT Program are integral and inseparable, the impact of pure functions as a staff member of the University of Tsukuba in Japan (classes, attendance at intramural meetings as a university professor, etc.) and as a Program Manager of ImPACT on duties specific to the President and CEO of the Company (attendance at the Board of Directors meetings, approval of requests, responses to investors, etc.) is limited and performance of duties as President and CEO is perfectly possible. However, should Dr. Sankai prioritize his duties as a university professor or program manager of ImPACT over his position as a President and CEO of the Company, the Group's financial condition and business performance might be affected.

Matters associated with advanced device businesses in general

1. Risks associated with development businesses in general

In the field of cutting-edge robot development, companies around the world vie with each other for quality and speed of technological innovation. Also, they must invest large amounts of funds over the long term in the processes from basic research, development and manufacturing of advanced robots to their sales, since they must proceed in accordance with the various regulations in each country. Against this backdrop, research and development entails many uncertainties and such risks are inherent in the products the Group is now developing and will develop in the future. Under its business plan, the Group is also developing its business towards achieving insurance coverage in each country by expanding business domains (various diseases, nursing care, etc.). However, there is no guarantee that the Group will expand its business domains as planned, and a risk exists that the applied insurance systems will be reviewed or changed in the future with respect to the scope of coverage and payment amounts. If such risks were to materialize, the Group's business, financial condition, and business performance might be affected.

2. Risks associated with creation of newly developed products

The Group explores and creates newly developed products through joint research with research institutions, centering on the University of Tsukuba, and one of its important business strategies is the release of multiple newly developed products in addition to HAL® for Medical Use (Lower Limb Type), HAL® for Living Support (Lower Limb Type), HAL® for Living Support (Single Joint Type), HAL® for Labor Support (Lumbar Type), and HAL® for Care Support (Lumbar Type), which have already been commercialized.

However, there is no guarantee that such new products will be successfully explored and created. Accordingly, if exploration and creation activities of new products were to be hindered for some reason, the Group's financial condition and business performance might be affected.

3. Risks associated with progress delays inherent to research and development

The Group is efficiently advancing research and development as a corporate research and development group by establishing cooperative relationships with external partners, centered on joint research with the University of Tsukuba. However, since there is no guarantee that research and development activities will advance as planned, in some cases, the initially planned results of research and development may not be obtained, the start or completion of various experiments may be delayed, and acquisition of approval for manufacturing and marketing as medical devices may be delayed or limited. To avoid such situations as much as possible, the Group manages and evaluates the progress of each product under development in a timely manner and takes such measures as prioritizing products under development and changing the levels of management resources invested in products or deciding to suspend development temporarily. Thus, the Group reduces the risk of a sharp increase in research and development expenses. However, if research and development does not proceed as planned, the Group's, business, financial condition, and business performance might be affected.

Risks related to the dual class share structure

1. Outline of the Scheme

Under the Company philosophy that "Technology exists for humans and society" the Group employs the advanced technologies centered around HAL® for peaceful purposes. The peaceful application of Cybernic technologies to improve, support, enhance, and regenerate users' bodily functions matches the needs of the approaching hyper aging society, and leads to the rise of the Group's long-term corporate value. However, this technology could be put to use in non-peaceful purposes such as in lethal weaponry in the military industry. In order to raise funds from the market while ensuring that the Company's innovative technologies are used solely for peaceful purposes, Class B Shares are issued separately from the listed Common Shares. (The scheme involving the Company's Class B Shares is hereafter referred as "Scheme")

The Group's vision for the future is to create a human-assistive industry—a new industrial field that will support people by solving issues directly faced by aging societies with fewer children. To realize this vision, the Company must coordinate business management with R&D in Cybernic technologies. Dr. Sankai created the Company's Cybernic technologies, and continues to be a central figure in Cybernic research. He is also a business leader who seeks to make this innovative technology widely available for the benefit of society. For the Group to increase corporate value (i.e., share profits with shareholders), Dr. Sankai must be a stable leadership figure in the management of the Company in the future. This Scheme has been adopted to ensure he remains so.

To explain in detail, while Class B Shares are ranked the same as Common Shares and paid the same amount as Common Shares with regard to dividends and distribution of residual assets, Class B Shares differ in traded units, as Common Shares are traded in units of 100 shares, and Class B Shares are traded in units of 10 shares. This grants a holder of Class B Shares 10 times as many voting rights as a holder of Common Shares when they have equal numbers of shares. Current holders of Class B Shares are Dr. Sankai, the founder and President and CEO of the Company, and the Foundations of which Dr. Sankai serves as Representative Director. As of March 31, 2016, Dr. Sankai holds 42,000 Common Shares and 77,696,000 Class B Shares. Together, this represented approximately 86% of the total number of voting rights for the Company.

Set out below is certain information concerning this Scheme, Common Shares and Class B Shares.

i. Outline of the shares

	Common Shares	Class B Shares
Dividends of surplus and distribution of residual assets	The same amount and priority level	
The number of shares constituting one unit	100 Shares (1 voting rights per 100 shares)	10 Shares (1 voting rights per 10 shares)
Restriction on share transfer	Not restricted	Must obtain the approval of the Board of Directors
Provisions of the articles of incorporation to the effect that a resolution of the Class Shareholders' Meeting consisting of Common Shareholders is not required.	Yes	None
Shares with put option	None	Yes (1 Class B Share for 1 Common Share)
Shares subject to call	None	Yes (1 Class B Share for 1 Common Share)
Share split or consolidation	Executed at the same timing and the same ratio	
Listing	Listed	Unlisted

ii. Difference between the share units of the two share types

While shareholders of both Common Shares and Class B Shares receive the same amount of dividends and distribution of residual assets at the same priority level, they differ in the number of shares that constitute one share unit. One hundred (100) Common Shares constitute one share unit whereas ten (10) Class B Shares constitute one share unit. As such, a shareholder of Class B Shares has 10 times as many voting rights as a shareholder of Common Shares when they have the equal number of shares.

As of the consolidated financial year ended March 31, 2016, the number of shares of each class issued is 125,576,000 Common Shares and 77,770,000 Class B Shares. Dr. Sankai, the President and CEO of the Company, holds 42,000 Common Shares and 77,696,000 Class B Shares, which represents approximately 38% of all issued and outstanding shares of the Company. Also, Dr. Sankai holds 86% of the total number of voting rights related to the Company, making him capable of determining matters for resolution in the General Meeting of Shareholders such as the selection of directors or reorganization by acting on his own.

iii. Scheme to prevent changes of shareholders of Class B Shares

Class B Shares are issued for the purpose of preventing the Group's technology from being used to harm people or to create military weapons. In order to prevent Class B Shares from being transferred to people or entities other than the shareholders of Class B Shares as of the submission date of the Company's Annual Securities Report released on June 27, 2016 or other internal personnel of the Company, the Articles of Incorporation of the Company states that

a) The approval of the Board of Directors is necessary upon the transfer of the Class B Shares to any person other than the shareholders of the Class B Shares.

And

b) When a shareholder of the Class B Shares has died and 90 days have passed without succession, or within 90 days, a transfer to any other shareholders of the Class B Shares has not occurred, and the Company is requested* to approve the acquisition of the Class B Shares by any person other than the shareholders of Class B Shares, all of the Class B Shares held by the departed shareholder shall be exchanged for one Common Share per Class B Share upon acquisition.

* A request for approval as set down in Art. 136 and 137 of the Companies Act.

The shareholders of Class B Shares as of the submission date of the Company's Annual Securities Report, June 27, 2016 are Dr. Sankai and the Foundations, and the number of Class B Shares held is 77,696,000 shares and 4,000 shares respectively. In order to preserve the continuity of this Scheme, Dr. Sankai plans on transferring part of the Class B Shares he holds as of this submission date to the Foundations at no cost. Furthermore, there are no plans for the Foundations to release the Class B Shares in their possession.

As a shareholder of Class B Shares, the Foundations established guidelines on the execution of their voting rights, to prevent the Group's technology from being used to harm people or to create military weapons, damaging the Group's corporate value.

The Foundations will exercise their voting rights related to the Class B Shares they hold against resolutions in the General Meeting of Shareholders and General Meeting of Class Shareholders in the cases stated below. Furthermore, a resolution of the board meeting of the Foundations will be required to alter these guidelines, and the change will be announced by a method determined by the Foundations.

a) If in resolutions for the dismissal or appointment of directors, it is determined that such a dismissal or appointment will lead to the misuse of the Group's innovative technology or damage to the Group's corporate value.

b) For all other resolutions, if the passing of the resolution leads to the prevention of peaceful utilization of the Group's innovative technologies or damage to the Group's corporate value.

iv. Breakthrough rule

In order to dissolve this Scheme upon a situation where a shareholder with only a small portion of the issued shares controls the Company, if the shares held by one acquirer is over three quarters of the total number of issued shares (excluding the treasury stock) as a result of a takeover bid, all Class B Shares will be converted to Common Shares in accordance with the Breakthrough rule (see note) stated in the Articles of Incorporation.

(note) The Breakthrough rule refers to the rule that allows the dissolution of the Scheme upon the appearance of an acquirer with more than a certain ratio of holding shares.

v. Sunset provision

As stated in iii) above, Dr. Sankai plans to transfer portions of Class B Shares he holds to the Foundations at no cost in order to preserve the continuity of this Scheme. This Scheme is planned to be continued after the resignation from the post of director by Dr. Sankai, who is the developer of the Group's innovative robotic technologies, or his death.

However, since there is the possibility that the decision made by the Foundations after Dr. Sankai's resignation from the post of director (excluding cases where he holds multiple posts or is reappointed to the post immediately after resignation) does not match the will of the Company shareholders (including holders of the Common Shares), an intention verification procedure of shareholders will be conducted by the conclusion of the last General Meeting of the Shareholders held in the fiscal year ending within one year of the date of Dr. Sankai's resignation or within 3 months after the end of the last fiscal year that ends within 5 years' time since the most recent intention verification procedure of shareholders. More specifically, the Sunset provision (see note) in the Articles of Incorporation states that if the shareholders of Common Shares and Class B Shares who hold one third of the total voting rights (calculated using 100 Class B Shares for each share unit) participate in the intention verification procedure and two thirds (2/3) of those who participated agree, all Class B Shares will be converted to Common Shares of the Company.

(note) The Sunset provision refers to the provision that enables the dissolution of the Scheme under circumstances where the purpose of introducing class shares has ended or where the Scheme is clearly against the will of the majority of shareholders, according to the relevant intention verification procedure explained above.

vi. Elimination of the Meeting of Class Shareholders comprised of shareholders of Common Shares

The Company's Articles of Incorporation states that, the execution of actions stated in each item of Article 322-1 of the Companies Act, unless stated otherwise by law or by the Articles of Incorporation, does not require the resolution of the Meeting of Class Shareholders comprised of shareholders of Common Shares.

However, to ensure that the elimination of the Meeting of Class Shareholders does not negatively impact the shareholders of Common Shares, out of the actions stated in each item of Article 322-1 of the Companies Act,

(a) reverse share splits, share splits, free allocation of shares, free allocation of stock acquisition rights, allocation of shares as well as stock acquisition rights to shareholders, share transfers (excluding cases where the share transfer is conducted together with other companies) and changes to the calculation of share units shall be executed at the same timing and same ratio as stated by the Articles of Incorporation, and

(b) in the case that a merger agreement where the Company will be absorbed, or a share exchange agreement or share transfer plan (limited to cases where the share transfer is conducted together with other companies) where the Company will become a wholly owned subsidiary, is approved by a Meeting of Shareholders (if an approval by the Meeting of Shareholders is not required, resolution by the Board of Directors) of all relevant companies, all Class B Shares shall be converted to Common Shares as stated by the Articles of Incorporation.

2. Risks of this Scheme

Class B Shares have been issued for the purpose of preventing the Group's technology from being used to harm people or to create military weapons. However, this Scheme also presents potential risks stated below. If such risks were to materialize, rights and interests of the shareholders of the Company's Common Shares may be affected.

(a) Risk associated with the strong influence of the shareholders of Class B Shares from their voting rights.
As of the fiscal year ended on March 31, 2016, Dr. Sankai holds 42,000 Common Shares and 77,696,000 Class B Shares which accounts for 38% of the total number of issued shares. This equates to 86% of the total number of voting rights of the Company, giving him strong influence over business matters. This will limit the influence of the shareholders of Common Shares on corporate matters. As a result, if the voting rights by the shareholders of Class B Shares are exercised to ensure the peaceful use of the Group's innovative technology, the Company may take actions that the shareholders of Common Shares do not generally view as beneficial.

(b) Risk associated with the prevention of acquiring shares of the Company
The Company's Articles of Incorporation provide that 10 Class B Shares constitute one share unit and 100 Common Shares constitute one share unit. As voting rights are granted for each share unit, a shareholder of Class B Shares has 10 times as many voting rights as a shareholder of Common Shares with an equal number of shares. While the Breakthrough rule and the Sunset provision are stated in the Articles of Incorporation, the conditions in which all of the Class B Shares are converted to Common Shares are limited to circumstances where the acquirer as a result of a take over bid holds three quarters (3/4) of the total numbers of issued Common Shares and Class B Shares, and where two thirds (2/3) of all shareholders who took part in the intention verification procedures agree to the conversion of the Class B Shares to Common Shares, respectively. Therefore, there is the possibility that this Scheme may prevent acquisitions that may benefit the shareholders of Common Shares.

(c) Risk associated with the elimination of the Meeting of Class Shareholders comprised of shareholders of Common Shares
The execution of actions stated in each item of Article 322-1 of the Companies Act, unless stated otherwise by law or by the Articles of Incorporation, does not require the resolution of the Meeting of Class Shareholders comprised of shareholders of Common Shares, so the decisions made by the Company may not reflect the will of the shareholders of Common Shares.

(d) Risk associated with the conversion of the Class B Shares
Because Class B Shares include the right to request acquisitions under acquisition terms, there is the possibility that a future conversion of Class B Shares to Common Shares will increase the total number of authorized Common Shares issued on the market, and the market price of the Common Shares may be affected.

Other risks

1. Dividend policy

The Company has not been able to pay dividends to shareholders since its establishment, and as of the publication of this report, is still not in a position where it is allowed to pay dividends in accordance with the Companies Act. At this time, the Company's policy is to prioritize achieving profitability quickly by improving its financial strength through retaining earnings and reinvesting in research and development activities. On the other hand, the Company considers returns to shareholders to be an important management issue and will consider possible payment of dividends in the future taking into account its financial condition and business results. However, if the Company's earnings plan does not proceed as envisaged, and it continues to be unable to achieve steady earnings, it may not be able to return profits to shareholders in the form of dividends.

2. Risks associated with financing and fund procurement

The Group records large amounts of upfront research and development expenses in association with the progress of its research and development activities, resulting in continued recording of operating losses. The Group's funding needs are expected to increase as its business proceeds, including operating capital, research and development investment, and capital expenditures. The Group plans to continue strengthening its financial base making use of funds such as governmental subsidies. However, depending on how successful the Group is at securing profits and raising capital, its financial condition and business performance might be affected.

3. Recording negative retained earnings brought forward

The Group has been focusing on research and development activities, and has therefore recorded a large amount of upfront research and development expenses, as well as negative retained earnings brought forward. The Group aims to achieve profitability quickly and to establish a strong financial base by posting stable profits. However, there is a risk that the Group's business might not proceed as planned, and that the Group may be unable to eliminate the recording of negative retained earnings brought forward, which might affect its business, financial condition, and business performance.

4. Loss brought forward for tax purposes

Since the Group has been making upfront investments in development as a corporate research and development group, it has a significant amount of retained losses carried forward for Japanese corporate tax purposes. Should there be any changes to the Japanese tax systems in the future such that restrictions are tightened on deduction of losses brought forward, the Group might lose the opportunity to recover part of the capital that it has invested in research and development or suffer other effects that might affect its business, financial condition, and business performance.

5. Fluctuations in foreign exchange rates

Since the financial results of overseas Group companies are translated from local currency into Japanese yen when reflected in the Group's consolidated financial statements during consolidated account settlement, the Group is exposed to risk from the effects of fluctuations in foreign exchange rates. Therefore, if foreign exchange rates were to fluctuate sharply in the future, the Group's financial condition and business performance might be affected.

Description of Common Shares, Class B Shares and Certain Regulations

General

Set out below is certain information concerning Common Shares and Class B Shares, including brief summaries of certain provisions of the Company's Articles of Incorporation and Share Handling Regulations and of the Companies Act relating to joint stock corporations, and certain related legislation, all as currently in effect.

The Company's authorized share capital as of March 31, 2016 is 696,000,000 shares, and the number of shares of each class authorized to be issued is 618,300,000 Common Shares and 77,700,000 Class B Shares. As of March 31, 2016, 125,576,000 Common Shares and 77,700,000 Class B Shares are in issue and outstanding. All issued Common Shares and Class B Shares are fully paid and nonassessable, and are in registered form. Detailed terms of Common Shares and Class B Shares are set out in the Company's Articles of Incorporation.

Under the Company's Articles of Incorporation, holders of both Common Shares and Class B Shares may receive the same amount of distributions of surplus per share in the same rank. However, a holder of the Class B Shares has 10 times as many voting rights as a holder of the Common Shares when they have the equal number of shares. See "Common Shares and Class B Shares" below for more information.

Common Shares and Class B Shares

Book-Entry Act

On January 5, 2009, a new central clearing system for shares of Japanese listed companies was established pursuant to the Book-Entry Act, and the shares of all Japanese companies listed on any Japanese stock exchange, became subject to this new system. On the same day, all existing share certificates for such shares became null and void. Common Shares are also subject to the new system (but Class B Shares are not). At present, JASDEC is the only institution that is designated by the relevant authorities as a clearing house, which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Act. Under the new clearing system, in order for any person to hold, sell or otherwise dispose of shares of Japanese listed companies, they must have an account at an account managing institution unless such person has an account at JASDEC. Account managing institutions are financial instrument traders (securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements of the Book-Entry Act can open accounts directly at JASDEC. For the purpose of the description under this section, the Company assumes that the relevant person has no account at JASDEC.

Under the Book-Entry Act, any transfer of shares is effected through book entry, and the title to the shares passes to the transferee at the time when the transferred number of shares is recorded in the transferee's account at an account managing institution. The holder of an account at an account managing institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act, in order to assert shareholders' rights against the Company, a transferee must have his or her name and address registered in the Company's register of shareholders, except in limited circumstances. Under the new clearing system, such registration is generally made upon an all-shareholders notice from JASDEC. For this purpose, shareholders are required to file their names and addresses with the Company's transfer agent through the account managing institution and JASDEC. See "Record Date" below for more information.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of his or her standing proxy or a mailing address to the relevant account managing institution. Such notice will be forwarded to the Company's transfer agent through JASDEC. Japanese securities firms and commercial banks customarily act as standing proxy and provide related services for standard fees.

The transfer agent of the Company is Sumitomo Mitsui Trust Bank, Limited located at 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan.

Distributions of Surplus

General

Under the Companies Act, distributions of cash or other assets by joint stock corporations to their shareholders, so-called "dividends," are referred to as "distributions of surplus." The Company may make distributions of surplus to its shareholders any number of times per fiscal year, subject to certain limitations described in "Restriction on Distributions of Surplus."

Under the Company's Articles of Incorporation, holders of both Common Shares and Class B Shares may receive the same amount of distributions of surplus per share in the same rank.

The Companies Act requires a distribution of surplus to be authorized in principle by a resolution of a General Meeting of Shareholders. However, a distribution of surplus may also be made pursuant to a resolution of the Board of Directors but only if all the requirements described in (a) to (d) below are met:

(a) the Company's Articles of Incorporation provide that the Board of Directors has the authority to decide to make distributions of surplus;

(b) the normal term of office of each director of the Company terminates on or prior to the date of conclusion of the Ordinary General Meeting of Shareholders relating to the last fiscal year ending within the period of one year from the election of such director;

(c) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice; and

(d) if the distributions of surplus are made in kind, shareholders are granted the right to require the Company to make such distributions in cash instead of in kind, upon approval of a resolution of the Board of Directors.

At present, the requirements described in (a) and (b) above are not met. Nevertheless, the Company may make distributions of surplus in cash as an interim dividend to its shareholders by a resolution of the Board of Directors once per fiscal year under the Company's Articles of Incorporation and the Companies Act.

Under the Company's Articles of Incorporation, a year-end dividend may be distributed to shareholders of record as at March 31 of each year and pursuant to a resolution of the Board of Directors, an interim dividend may be distributed to shareholders of record as at September 30 of each year. The Company is not obliged to pay any dividends in cash unclaimed for a period of three years after the date on which they first became payable.

Distributions of surplus may be made in cash or (except for distributions as an interim dividend and cases where shareholders are granted the right to require the Company to make such distributions in cash instead of in kind, upon approval of a General Meeting of Shareholders) in kind in proportion to the number of shares held by each shareholder. A resolution of the Board of Directors or a General Meeting of Shareholders authorizing a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, the Company may, pursuant to a resolution of the Board of Directors, grant the right to its shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a General Meeting of Shareholders.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the shares goes ex-dividend generally on the second business day prior to the record date.

Restriction on Distributions of Surplus

When the Company makes a distribution of surplus, it must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve the smaller of (i) an amount equal to one-tenth of the amount of surplus so distributed or (ii) an amount equal to one-quarter of its stated capital less the sum of its additional paid-in capital and legal reserve as at the date of such distribution in accordance with an ordinance of the Ministry of Justice.

The amount of surplus at any given time must be calculated in accordance with the following formula:

$A + B + C + D - (E + F + G)$

In the above formula:

"A" = the total amount of other capital surplus and other retained earnings, as each such amount appears on the Company's non-consolidated balance sheet as at the end of the last fiscal year;

"B" = (if the Company has disposed of its treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof;

"C" = (if the Company has reduced its stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any);

"D" = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any);

"E" = (if the Company has canceled its treasury stock after the end of the last fiscal year) the book value of such treasury stock;

"F" = (if the Company has distributed surplus to its shareholders after the end of the last fiscal year) the total book value of the surplus so distributed; and

"G" = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed surplus to its shareholders after the end of the last fiscal year) the amount set aside in its additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of surplus distributed by the Company may not exceed a prescribed distributable amount (the "Distributable Amount"), as calculated on the effective date of such distribution. The Distributable Amount shall, at any given time, be equal to the amount of surplus less the aggregate of the following:

(a) the book value of the Company's treasury stock, as at the effective date of distributions;

(b) the amount of consideration for the Company's treasury stock disposed of by it after the end of the last fiscal year; and

(c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet of the Company as at the end of the last fiscal year) all or a certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

If the Company has, at its option, become a company with respect to which its consolidated balance sheet should also be taken into consideration in the calculation of the Distributable Amount, it will be required to further deduct from the amount of surplus the excess amount, if any, of (x) the total amount of shareholders' equity appearing on its non-consolidated balance sheet as at the end of the last fiscal year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of shareholders' equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on its consolidated balance sheet as at the end of the last fiscal year.

If the Company has prepared temporary financial statements as described below, and if such temporary financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a General Meeting of Shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for the Company's treasury stock disposed of by it, during the period in respect of which such temporary financial statements have been prepared. The Company may prepare non-consolidated temporary financial statements consisting of a balance sheet as at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Temporary financial statements prepared by the Company must be reviewed by its Audit & Supervisory Board Members and independent accounting auditor, and approved by the Board of Directors and a General Meeting of Shareholders, as required by the Companies Act and ordinances of the Ministry of Justice.

Capital and Reserves

When the Company issues new shares, the entire amount of money or other assets paid or contributed by subscribers for such shares is required to be accounted for as stated capital, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as additional paid-in capital by a resolution of the Board of Directors.

The Company may reduce its additional paid-in capital or legal reserve generally by a resolution of a General Meeting of Shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, the Company may reduce its stated capital generally by a special resolution of a General Meeting of Shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, the Company may reduce its surplus and increase either (i) its stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case, by a resolution of a General Meeting of Shareholders.

Stock Splits

The Company may at any time split the issued Common Shares into a greater number of Common Shares by a resolution of its Board of Directors. Under the Company's Articles of Incorporation, when the Company splits the issued Common Shares into a greater number of Common Shares, the Company shall split Class B Shares into the same number of Class B Shares simultaneously.

When a stock split is to be made, so long as the Company issues only one class of shares, it may increase the number of authorized shares to the extent that the ratio of such increase in authorized shares does not exceed the ratio of such stock split by amending its Articles of Incorporation, which amendment may be made without approval by shareholders. Nevertheless, the Company issues both Common Shares and Class B Shares, therefore a special resolution of a General Meeting of Shareholders is required to amend its Articles of Incorporation in order to increase its authorized share capital. A special resolution of a General Meeting of Shareholders is also required to amend its Articles of Incorporation in order to increase its number of shares of each class authorized to be issued. Increase in authorized share capital and number of shares of each class authorized to be issued would require a special resolution of respective General Meetings of Class Shareholders if such increase will or is likely to cause detriment to shareholders of each class of shares.

Before a stock split, the Company must give public notice of the stock split, specifying the record date, the effective date, and the ratio of such stock split, not less than two weeks prior to such record date. Under the rules relating to the new clearing system, the Company must also inform JASDEC of certain matters regarding a stock split promptly after a resolution of its Board of Directors determining such stock split. On the effective date of the stock split, the numbers of Common Shares recorded in all accounts held by holders of Common Shares at account managing institutions or JASDEC will be increased in accordance with the applicable ratio.

Reverse Stock Splits

The Company may at any time consolidate its Common Shares into a smaller number of Common Shares by a special resolution of the General Meeting of Shareholders. Under the Company's Articles of Incorporation, when the Company consolidate its Common Shares into a smaller number of Common Shares, the Company shall consolidate Class B Shares into the same number of Class B Shares simultaneously. The Company must disclose the reason for the reverse stock split at the General Meeting of Shareholders. The Company must give public notice of the reverse stock split, at least two weeks prior to the effective date of the reverse stock split.

General Meetings of Shareholders

The Ordinary General Meeting of Shareholders of the Company is held within 3 months of the end of each fiscal year as provided in its Articles of Incorporation. In addition, the Company may hold an Extraordinary General Meeting of Shareholders whenever necessary. Notice of a General Meeting of Shareholders stating, among others, the place, time and purpose thereof must be given to each shareholder having voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. The record date for an Ordinary General Meeting of Shareholders is March 31 of each year.

Any shareholder holding at least 300 voting rights or 1% of the total number of voting rights for six months or longer may propose a matter to be considered at a General Meeting of Shareholders by submitting a request to a representative director at least eight weeks prior to the date of such meeting. If the Company's Articles of Incorporation so provide, any of the minimum percentages, time periods and number of voting rights necessary for exercising the non controlling interests rights described above may be decreased or shortened.

Voting Rights

Any holder of Common Shares constituting one or more units is, in principle, entitled to one voting right for each unit of Common Shares. However, in general, neither the Company nor any corporate or certain other entity, in which one-quarter or more of the total voting rights are directly or indirectly held by the Company, has voting rights in respect of Common Shares held by the Company or such entity.

The Company's Articles of Incorporation provide that 10 shares constitute one unit of Class B Shares and 100 shares constitute one unit of Common Shares. Accordingly, a holder of Class B Shares has 10 times as many voting rights as a holder of Common Shares when they have an equal number of shares.

Except as otherwise provided by law or in the Company's Articles of Incorporation, an ordinary resolution can be adopted at a General Meeting of Shareholders by the holder of a majority of the total number of voting rights represented at the meeting. The Company's Articles of Incorporation provide that the quorum for election of its directors and corporate auditors is one-third of the total number of voting rights. The Company's shareholders are not entitled to cumulative voting in the election of its directors. The shareholders may exercise their voting rights in writing or through proxies, provided that the proxies are, in general, also shareholders who have voting rights.

The Companies Act provides that certain important matters shall be approved by a "special resolution" of a General Meeting of Shareholders. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Such important matters include:

(i) purchase of shares by the Company from a specific shareholder other than the Company's subsidiaries;
(ii) reverse stock split;
(iii) issuance or transfer of new shares or existing shares held by the Company as treasury stock to persons other than the shareholders at a "specially favorable" price;
(iv) issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under "specially favorable" conditions;
(v) removal of any of the Audit & Supervisory Board Members of the Company;
(vi) exemption from a portion of liability of the directors, Audit & Supervisory Board Members or independent accounting auditor of the Company;
(vii) distribution of surplus in kind with respect to which shareholders are not granted the right to require the Company to make distributions in cash instead of in kind;
(viii) reduction of stated capital;
(ix) amendment to the Company's Articles of Incorporation;
(x) transfer of the whole or a substantial part of the Company's business;
(xi) taking over of the whole of the business of another company;
(xii) merger;
(xiii) corporate split;
(xiv) establishment of a parent and wholly-owned subsidiary relationship by way of a share exchange;
(xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer;
(xvi) consolidation; and
(xvii) dissolution.

However, under the Companies Act, no shareholder approval, whether by an ordinary resolution or a special resolution at a General Meeting of Shareholders, is required for any matter described in (viii) to (xiv) above, and such matter may be decided by the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act.

General Meeting of Class Shareholders

Under the Companies Act, in cases where a company with class shares carries out certain significant corporate transactions or amends certain provisions of its Articles of Incorporation, such transactions or amendments shall not become effective unless they are resolved at the respective General Meetings of Class Shareholders except when a company with class shares may provide in the Articles of Incorporation that a resolution of the General Meeting of Class Shareholders shall not be required for certain transactions as a feature of a certain class of shares. Such significant corporate transactions and amendments includes, among other things, the following acts that will or are likely to cause detriment to class shareholders.

(i) any amendment to the Articles of Incorporation with respect to the following matters;
  (a) a creation of a new class of shares;
  (b) a change to a new class of shares;
  (c) an increase of the number of authorized share capital or the number of shares of each class authorized to be issued;
(ii) a reverse stock split or stock split;
(iii) a gratuitous allocation of shares;
(iv) an allotment of shares to the shareholders;
(v) an allotment of stock acquisitions rights to the shareholders;
(vi) a gratuitous allocation of stock acquisitions rights;
(vii) a merger;
(viii) an absorption-type corporate split;
(ix) a succession by absorption-type corporate split to some or all of the rights and obligations held by another company with respect to such company's business;
(x) an incorporation-type corporate split;
(xi) a share exchange;
(xii) an acquisition of all issued shares of another stock company by share exchange; or
(xiii) a share transfer.

The Company's Articles of Incorporation provide that a resolution of the General Meeting of Class Shareholders for Common Shares shall not be required for the acts listed above as a feature of Common Shares unless otherwise provided by law or in the Company's Articles of Incorporation. The Companies Act provides that, in case the Articles of Incorporation provide so, a resolution of the General Meeting of Class Shareholders shall be required for amendment to the Articles of Incorporation described in (i) above that will or are likely to cause detriment to class shareholders, except for such amendment with respect to the number of shares that constitute a unit.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a resolution can be adopted at a General Meeting of Class Shareholders by the holder of a majority of the total number of voting rights represented at the meeting.

The Companies Act provides that certain important matters, including the acts listed in (i) through (xiii) above that will or are likely to cause detriment to class shareholders, shall be approved by a "special resolution" of a General Meeting of Class Shareholders. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution.

Unit Share System

The Company's Articles of Incorporation provide that 100 shares constitute one unit of Common Shares and 10 shares constitute one unit of Class B Shares. Its Board of Directors is permitted to reduce the number of shares that will constitute a unit of Common Shares or abolish the unit share system entirely by amending its Articles of Incorporation without approval by shareholders, while a special resolution of a General Meeting of Shareholders is required to increase the number of shares that will constitute a unit of Common Shares. The number of shares constituting a unit may not exceed the lesser of 1,000 or 0.5% of the total number of issued shares. The Company's Articles of Incorporation provide that, when the Company amends its Articles of Incorporation with respect to the number of shares that constitute a unit of Common Shares, the respective number for Class B Shares has to be changed in equal proportion simultaneously. The Securities Listing Regulations of the Tokyo Stock Exchange provide that the number of listed shares constituting a unit may not be changed from 100.

Under the unit share system, a shareholder has one vote for each unit of Common Shares held, except as stated in "—Voting Rights". Common Shares constituting less than one unit will carry no voting rights and be excluded for the purposes of calculating the quorum for voting purposes. Moreover, holders of Common Shares constituting less than one unit will have no other shareholder rights under the Company's Articles of Incorporation, except that such holders may not be deprived of certain rights specified in the Companies Act or an ordinance of the Ministry of Justice, including the right to receive distributions of surplus.

Holders of Common Shares constituting less than one unit may at any time request the Company to purchase Common Shares held by them. Such purchase of Common Shares will be effected at the last trading price of the Common Shares on the relevant stock exchange on the day such request is made (or, if there is no trading in the Common Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Common Shares are first traded on such stock exchange thereafter). The request for such purchase may not be withdrawn without the Company's consent. Under the Company's Articles of Incorporation, holders of Common Shares constituting less than one unit also have the right to require the Company to sell to such holders Common Shares constituting less than one unit which, when added to the Common Shares constituting less than one unit currently owned by such holders, shall constitute a full unit.

Liquidation Rights

In the event of the liquidation of the Company, any assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Common Shares and Class B Shares in proportion to the respective number of Common Shares and Class B Shares that they hold.

Subscription Rights

Holders of Common Shares have no preemptive rights. Authorized but unissued Common Shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the issuance of new Common Shares at a "specially favorable" price mentioned in "Voting Rights". The Board of Directors may, however, determine that holders of Common Shares be given subscription rights to new Common Shares, in which case they must be given on uniform terms to all holders of Common Shares as at a record date of which not less than two weeks' prior public notice must be given. Each of the shareholders to whom such rights are given must also be given at least two weeks' prior notice of the date on which such rights expire. Under the Company's Articles of Incorporation, when the Company determines that holders of Common Shares be given subscription rights to new Common Shares, holders of Class B Shares must also be given subscription rights to new Class B Shares in equal proportion simultaneously.

Stock Acquisition Rights

The Company may issue stock acquisition rights. Holders of stock acquisition rights are entitled to acquire shares from the Company, upon payment of the applicable exercise price, and subject to other terms and conditions thereof. The Company may also issue bonds with stock acquisition rights. The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorized by the Board of Directors unless it is made under "specially favorable" conditions, as described in "Voting Rights".

Reports to Shareholders

The Company furnishes to its shareholders notices of General Meetings of Shareholders and General Meetings of Class Shareholders; annual business reports, including financial statements; and notices of resolutions adopted at the General Meetings of Shareholders or General Meetings of Class Shareholders, all of which are in Japanese. The Company may, if it so chooses, send such notices and reports by an electronic method, such as e-mail, to those shareholders who have approved such method.

Pursuant to the Company's Articles of Incorporation, public notice given by the Company shall be published by an electronic method; provided, however, that such notice shall be given by publication in the Nihon Keizai Shimbun if the method of electronically publishing notices is not available due to any technical problems or other unavoidable circumstances.

Record Date

As mentioned above, March 31 is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the Ordinary General Meeting of Shareholders, and September 30 is the record date for the payment of interim dividends.

In addition, by a resolution of the Board of Directors and after giving at least two weeks' prior public notice, the Company may at any time set a record date for determining the shareholders entitled to certain rights pertaining to Common Shares.

Under the rules relating to the new clearing system, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the Board of Directors of the Company determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of holders of Common Shares, the numbers of Common Shares held by them and other relevant information as at such record date.

Acquisition of Shares by the Company

The Company may acquire Common Shares (i) from a specific shareholder other than any of the Company's subsidiaries (pursuant to a special resolution of a General Meeting of Shareholders); (ii) from any of the Company's subsidiaries (pursuant to a resolution of the Board of Directors) or (iii) by way of purchase on any Japanese stock exchange on which Common Shares are listed or by way of tender offer (in either case pursuant to an ordinary resolution of a General Meeting of Shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of Common Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in Common Shares on the stock exchange or if the stock exchange is not open on such day, the price at which Common Shares are first traded on such stock exchange thereafter) or (y) if Common Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted, the price of Common Shares under the agreement with respect to such tender offer on such day.

The total amount of the purchase price of Common Shares may not exceed the Distributable Amount, as described in "Restriction on Distributions of Surplus" in "Distributions of Surplus."

The Company may hold Common Shares acquired in compliance with the provisions of the Companies Act, and may generally dispose of or cancel such Common Shares by a resolution of the Board of Directors.

Disposal of Common Shares Held by Shareholders Whose Location is Unknown by the Company

The Company is not required to send notices to a shareholder if delivery of notices to such shareholder fails continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company.

In the above case, if the relevant shareholder to whom delivery of notices has failed also fails to receive distributions of surplus on Common Shares continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company, then the Company may in general dispose of such Common Shares at their then market price and hold or deposit the proceeds of such disposition on behalf of the relevant shareholder.

Reporting of Substantial Shareholders

The Financial Instruments and Exchange Act and its related regulations require any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese stock exchange to file a report concerning such shareholdings with the director of the relevant Local Finance Bureau of the Ministry of Finance of Japan within five business days. With certain exceptions, a similar report must also be filed in respect to any subsequent change of 1% or more in holding or to any change in material matters set out in reports previously filed. For this purpose, shares issuable to such person upon his or her exchange of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Any report so filed will be made available for public inspection. Copies of each report must also be furnished to the issuer of the shares. Reports are required to be filed through the Electronic Disclosure for Investors' Network, known as the EDINET system.

Restriction of Transfer of Class B Shares

The Company's Articles of Incorporation require the approval of the Board of Directors for the transfer of Class B Shares to any person other than the holders of Class B Shares.

Conversion of Class B Shares into Common Shares

Conversion of Common Shares at the Option of the Shareholders

Pursuant to the Company's Articles of Incorporation, holders of Class B Shares may request that the Company acquire Class B Shares held by such shareholders, in whole or in part, at any time. In exchange for the acquisition of one Class B Share, one Common Share shall be delivered to such shareholders.

Compulsory Conversion

Pursuant to the Company's Articles of Incorporation, Class B Shares set forth below shall be acquired from the holders of such Class B Shares in exchange for one Common Share per Class B Share, if:

(i) the Company is requested to approve the acquisition of Class B Shares by any person other than the holders of Class B Shares, Class B Shares with respect to which approval for the acquisition was requested; and

(ii) a holder of the Class B Shares died and 90 days have passed without succession or transfer to any other holder of the Class B Shares, all Class B Shares held by such departed shareholder.

Pursuant to the Company's Articles of Incorporation, upon the occurrence of any event described below, all outstanding Class B Shares shall be acquired. In exchange for the acquisition of one Class B Share, one Common Share is delivered to the holders of such Class B Shares, if:

(a) a resolution at the General Meeting of Shareholders (or the Board of Directors of the Company if a resolution at the General Meeting of Shareholders is not required) for (i) a merger of the Company into any other corporation, (ii) share exchange by which the Company becomes a wholly-owned subsidiary of another corporation or (iii) share transfer that is effected jointly with any other corporation is passed, and the day before the effective date of such merger, share exchange or share transfer has occurred;

(b) as a consequence of a tender offer, the offeror holds three-quarters or more of the total number of the Company's outstanding shares and 90 days have passed after the tender offer report regarding such tender offer was filed; and

(c) consent (a "Shareholders' Consent") is obtained for the acquisition by the Company of all of the Company's outstanding Class B Shares in exchange for the same number of Common Shares in a confirmation process (the "Shareholders' Confirmation Process"), and 90 days have passed since then. Under the Company's Articles of Incorporation, the Shareholders' Confirmation Process must be implemented (i) before the conclusion of the annual shareholders meeting for the last fiscal year which ends within one year from the time of retirement of Dr. Yoshiyuki Sankai, the President and CEO of the Company, from a member of the Board of Directors and (ii) before the conclusion of the annual shareholders' meeting for the last fiscal year which ends within five years from the time of the last Shareholders' Confirmation Process. Under the Company's Articles of Incorporation, the quorum for a Shareholders' Consent is one-third of the total number of voting rights of the shareholders who are entitled to exercise their voting rights (100 shares constitutes one unit of Common Shares and 10 shares constitutes one unit of Class B Shares for the calculation) and the consent of at least two-thirds of the voting rights represented in the Shareholders' Confirmation Process is required for a Shareholders' Consent.

Consolidated Balance Sheet

CYBERDYNE, Inc. and Consolidated Subsidiaries
March 31, 2016

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
ASSETS			
CURRENT ASSETS:			
Cash and bank balances (Notes 3, 7 and 14)	**¥14,458,798**	¥29,722,189	**$128,317**
Marketable securities (Notes 4 and 14)	**25,500,386**	12,499,668	**226,308**
Receivables:			
Trade accounts (Note 14)	**217,347**	207,622	**1,928**
Other (Note 14)	**349,259**	549,893	**3,099**
Allowance for doubtful receivables	**(758)**	(1,350)	**(6)**
Inventories (Note 5)	**449,626**	339,209	**3,990**
Prepaid expenses and other current assets	**76,021**	91,013	**674**
Total current assets	**41,050,680**	43,408,245	**364,312**
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	**3,214,303**	3,143,151	**28,525**
Buildings and structures	**1,430,082**	1,424,485	**12,691**
Assets for rent	**743,047**	398,768	**6,594**
Construction in progress	**699,992**	37,221	**6,212**
Other assets	**1,050,808**	1,026,348	**9,325**
Total	**7,138,234**	6,029,974	**63,349**
Accumulated depreciation	**(1,806,022)**	(1,702,042)	**(16,027)**
Property, plant and equipment—net	**5,332,211**	4,327,931	**47,321**
INVESTMENTS AND OTHER ASSETS:			
Intangible assets	**65,658**	58,211	**582**
Investment securities (Notes 4 and 14)	**914,830**	314,850	**8,118**
Investments in unconsolidated subsidiaries and associated companies (Notes 4 and 14)	**14,512**	12,259	**128**
Others	**156,576**	167,555	**1,389**
Total investments and other assets	**1,151,578**	552,875	**10,219**
TOTAL	**¥47,534,470**	¥48,289,052	**$421,853**

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables—trade accounts (Note 14)	**¥ 48,120**	¥ 92,195	**$ 427**
Current portion of convertible bond-type bonds with subscription rights to shares (Notes 7 and 14)	**19,927,483**		**176,850**
Income taxes payable (Note 14)	**63,804**	69,899	**566**
Other current liabilities	**283,151**	295,071	**2,512**
Total current liabilities	**20,322,560**	457,167	**180,356**
LONG-TERM LIABILITIES:			
Convertible bond-type bonds with subscription rights to shares (Notes 7 and 14)		19,883,974	
Asset retirement obligations (Note 8)	**71,613**	70,171	**635**
Deferred tax liabilities (Note 11)	**11,027**	13,335	**97**
Other	**65,335**	87,107	**579**
Total long-term liabilities	**147,975**	20,054,587	**1,313**
EQUITY (Note 9):			
Capital stock	**16,511,767**	16,511,767	**146,536**
Common Share—authorized, 618,300,000 shares; issued, 125,576,000 shares in 2016 and 2015			
Class B Share—authorized, 77,700,000 shares; issued, 77,700,000 shares in 2016 and 2015			
Capital surplus	**16,447,767**	16,447,767	**145,968**
Stock acquisition rights	**536,847**	530,529	**4,764**
Deficit	**(6,433,015)**	(5,714,957)	**(57,091)**
Treasury stock—at cost, 138 shares in 2016	**(204)**		**(1)**
Accumulated other comprehensive income—foreign currency translation adjustments	**772**	(442)	**6**
Total	**27,063,934**	27,774,664	**240,184**
Noncontrolling interests		2,634	
Total equity	**27,063,934**	27,777,298	**240,184**
TOTAL	**¥47,534,470**	¥48,289,052	**$421,853**

See notes to consolidated financial statements.

Consolidated Statement of Operations

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
NET SALES	**¥ 1,264,902**	¥ 631,278	**$ 11,225**
COST OF SALES	**401,121**	359,798	**3,559**
Gross profit	**863,780**	271,479	**7,665**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12):			
Research and development costs	**1,001,547**	983,278	**8,888**
Other selling, general and administrative expenses	**1,154,365**	1,054,320	**10,244**
Total selling, general and administrative expenses	**2,155,912**	2,037,598	**19,133**
Operating loss	**(1,292,132)**	(1,766,118)	**(11,467)**
OTHER INCOME (EXPENSES):			
Interest income	**32,846**	2,830	**291**
Subsidy income	**399,574**	891,972	**3,546**
Income from consigned research	**235,330**	133,520	**2,088**
Interest expense	**(46,142)**	(18,839)	**(409)**
Stock issuance costs		(99,409)	
Loss on write-down of carrying value of fixed assets for tax purposes	**(72,517)**	(82,463)	**(643)**
Gain on change in interest in investee		4,959	
Other—net	**32,960**	30,651	**292**
Other income—net	**582,052**	863,223	**5,165**
LOSS BEFORE INCOME TAXES	**(710,079)**	(902,895)	**(6,301)**
INCOME TAXES (Note 11):			
Current	**13,481**	14,616	**119**
Deferred	**(2,307)**	(2,968)	**(20)**
Total income taxes	**11,173**	11,648	**99**
NET LOSS	**(721,253)**	(914,543)	**(6,400)**
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**(3,195)**	1,349	**(28)**
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ (718,057)**	¥ (915,893)	**$ (6,372)**

	Yen		U.S. Dollars (Note 1)
	2016	2015	**2016**
PER SHARE OF COMMON SHARE (Notes 2.t and 16)—			
Basic net loss	**¥(3.53)**	¥(4.74)	**$(0.03)**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
NET LOSS	**¥(721,253)**	¥(914,543)	**$(6,400)**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15)—			
Foreign currency translation adjustments	**1,776**	(1,497)	**15**
Total other comprehensive income (loss)	**1,776**	(1,497)	**15**
COMPREHENSIVE LOSS	**¥(719,476)**	¥(916,040)	**$(6,385)**
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	**¥(716,723)**	¥(917,112)	**$(6,360)**
Noncontrolling interests	**(2,753)**	1,072	**(24)**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Thousands of Shares		Thousands of Yen			
	Number of Shares of Common Share Outstanding	Number of Shares of Class B Share Outstanding	Capital Stock	Capital Surplus	Stock Acquisition Rights	Deficit
BALANCE, APRIL 1, 2014	108,534	77,700	¥ 5,428,919	¥ 5,364,919		¥(4,799,064)
Net loss attributable to owners of the parent						(915,893)
Issuance of new stock	17,042		11,082,848	11,082,848		
Net change in the year					¥530,529	
BALANCE, MARCH 31, 2015	125,576	77,700	16,511,767	16,447,767	530,529	(5,714,957)
Net loss attributable to owners of the parent						**(718,057)**
Purchase of treasury stock						
Net change in the year					**6,318**	
BALANCE, MARCH 31, 2016	**125,576**	**77,700**	**¥16,511,767**	**¥16,447,767**	**¥536,847**	**¥(6,433,015)**

	Thousands of Yen				
		Accumulated Other Comprehensive Income			
	Treasury Stock	Foreign Currency Translation Adjustments	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2014		¥ 1,055	¥ 5,995,828		¥ 5,995,828
Net loss attributable to owners of the parent			(915,893)		(915,893)
Issuance of new stock			22,165,696		22,165,696
Net change in the year		(1,497)	529,032	¥ 2,634	531,665
BALANCE, MARCH 31, 2015		(442)	27,774,664	2,634	27,777,298
Net loss attributable to owners of the parent			**(718,057)**		**(718,057)**
Purchase of treasury stock	**¥(204)**		**(204)**		**(204)**
Net change in the year		**1,214**	**7,532**	**(2,634)**	**4,898**
BALANCE, MARCH 31, 2016	**¥(204)**	**¥ 772**	**¥27,063,934**		**¥27,063,934**

	Thousands of U.S. Dollars (Note 1)								
						Accumulated Other Comprehensive Income			
	Capital Stock	Capital Surplus	Stock Acquisition Rights	Deficit	Treasury Stock	Foreign Currency Translation Adjustments	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2015	$146,536	$145,968	$4,708	$(50,718)		$ (3)	$246,491	$ 23	$246,514
Net loss attributable to owners of the parent				**(6,372)**			**(6,372)**		**(6,372)**
Purchase of treasury stock					**$(1)**		**(1)**		**(1)**
Net change in the year			**56**			**10**	**66**	**(23)**	**43**
BALANCE, MARCH 31, 2016	**$146,536**	**$145,968**	**$4,764**	**$(57,091)**	**$(1)**	**$ 6**	**$240,184**		**$240,184**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
OPERATING ACTIVITIES:			
Loss before income taxes	**¥ (710,079)**	¥ (902,895)	**$ (6,301)**
Adjustments for:			
Depreciation and amortization	**280,299**	202,295	**2,487**
Loss on write-down of carrying value of fixed assets for tax purposes	**72,517**	82,463	**643**
Interest income	**(32,846)**	(2,830)	**(291)**
Interest expense	**46,142**	18,839	**409**
Stock issuance costs		99,409	
Changes in assets and liabilities:			
Increase in accounts receivable—trade	**(9,724)**	(141,496)	**(86)**
Decrease (increase) in accounts receivable—other	**200,633**	(9,959)	**1,780**
Increase (decrease) in allowance for doubtful receivables	**(592)**	987	**(5)**
Increase in inventories	**(110,417)**	(139,552)	**(979)**
Increase (decrease) in accounts payable—trade	**(44,074)**	65,985	**(391)**
Other—net	**32,644**	(28,925)	**289**
Subtotal	**(275,497)**	(755,680)	**(2,444)**
Interest received	**33,553**	1,763	**297**
Interest paid	**(2,632)**	(4,335)	**(23)**
Income taxes—paid	**(13,706)**	(21,034)	**(121)**
Net cash used in operating activities	**(258,282)**	(779,286)	**(2,292)**
INVESTING ACTIVITIES:			
Decrease (increase) in restricted deposit	**20,000,000**	(20,000,000)	**177,493**
Purchases of securities	**(20,000,213)**		**(177,495)**
Payments into time deposits	**(1,500,000)**	(3,000,000)	**(13,312)**
Proceeds from withdrawals of time deposits	**3,000,000**		**26,624**
Purchases of property, plant and equipment	**(1,354,938)**	(3,440,817)	**(12,024)**
Purchases of intangible assets	**(25,228)**	(29,875)	**(223)**
Purchases of investment securities	**(599,980)**	(314,850)	**(5,324)**
Other—net	**(2,314)**	4,941	**(20)**
Net cash used in investing activities	**(482,675)**	(26,780,601)	**(4,283)**
FINANCING ACTIVITIES:			
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares		20,394,935	
Proceeds from issuance of new stock		22,066,287	
Other—net	**(21,185)**	(20,219)	**(188)**
Net cash provided by (used in) financing activities	**(21,185)**	42,441,003	**(188)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	**(743)**	(521)	**(6)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(762,887)**	14,880,593	**(6,770)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**19,221,857**	4,341,264	**170,588**
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	**¥ 18,458,970**	¥ 19,221,857	**$ 163,817**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

CYBERDYNE, Inc. and Consolidated Subsidiaries
Year Ended March 31, 2016

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 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥112.68 to $1, the approximate rate of exchange at March 31, 2016. 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, 2016, include the accounts of the Company and its four (four in 2015) 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 (five in 2015) 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 (Europe) 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" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. 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 (Financial Accounting Standards Board Accounting Standards Codification) 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 (loss) 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; and (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.

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."

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.

In September 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 interests*—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 noncontrolling interests 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 previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interests 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 is 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 previous accounting standard is changed to "noncontrolling interests" under the revised accounting standard.

(c) *Presentation of the consolidated statement of income*—In the consolidated statement of income, "net income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is 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 previous 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 previous 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 interests, (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 interests 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 interests 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 applied the revised accounting standards and guidance for (a) transactions with noncontrolling interests, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interests and (e) acquisition related costs were applied prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

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 as follows:

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

Under certain conditions such as when companies receive government subsidies and purchase property, plant and equipment using 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 said 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. Stock Options—

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non employees based on the fair value of either the stock options or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised. The standard covers equity settled, share based payment transactions, but does not cover cash settled, share based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

m. Research and Development Costs—

Research and development costs are charged to income as incurred.

n. 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.

o. 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.

p. 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.

q. ***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.

r. ***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.

s. ***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.

t. ***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 year 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 years ended March 31, 2016 and 2015, respectively.

u. ***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.

v. ***Changes in Presentation***
Consolidated Balance Sheet—"Construction in progress" of ¥37,221 thousand for the year ended March 31, 2015, which was included in "Other assets" in property, plant and equipment, has been separately presented to conform to the current year's presentation.

3. RECONCILIATION BETWEEN CASH AND BANK BALANCES AND CASH EQUIVALENTS

Reconciliation between cash and bank balances in the consolidated balance sheets as of March 31, 2016 and 2015, and cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2016 and 2015, was as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Cash and bank balances	**¥ 14,458,798**	¥ 29,722,189	**$ 128,317**
Marketable securities	**25,500,386**	12,499,668	**226,308**
Time deposits which mature or become due over three months from the date of acquisition	**(1,500,000)**	(3,000,000)	**(13,312)**
Restricted deposit		(20,000,000)	
Bonds and other debt obligations due in three months or later	**(20,000,213)**		**(177,495)**
Cash and cash equivalents	**¥ 18,458,970**	¥ 19,221,857	**$ 163,817**

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Current—Securities classified as:			
Held-to-maturity—commercial paper	**¥ 1,499,963**	¥ 2,499,668	**$ 13,311**
Available-for-sale—negotiable certificates of deposit and jointly-managed money trust	**24,000,422**	10,000,000	**212,996**
Total	**¥25,500,386**	¥12,499,668	**$226,308**
Non-current—Securities classified as available-for-sale—unlisted stocks	**¥ 914,830**	¥ 314,850	**$ 8,118**

The costs and aggregate fair values of marketable and investment securities as of March 31, 2016 and 2015, are not disclosed since the carrying value of commercial paper, negotiable certificates of deposit and jointly 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.

Investments in unconsolidated subsidiaries and associated companies as of March 31, 2016 and 2015, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Investments in unconsolidated subsidiaries and associated companies:			
Investment securities (shares)	**¥11,555**	¥ 9,302	**$102**
Investment securities (investments in capital)	**2,957**	2,957	**26**
Total	**¥14,512**	¥12,259	**$128**

5. INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Merchandise and finished products	**¥149,939**	¥ 52,779	**$1,330**
Work in process	**13,519**	21,956	**119**
Raw materials and supplies	**286,167**	264,473	**2,539**
Total	**¥449,626**	¥339,209	**$3,990**

6. REDUCTION ENTRY

By receiving state subsidies for fixed assets, the Company has reduced the acquisition cost of related fixed assets for tax purposes.

The reduction entries deduced from the acquisition cost of fixed assets for tax purposes as of years ended March 31, 2016 and 2015, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Machinery and equipment	**¥144,555**	¥144,555	**$1,282**
Furniture and fixtures	**174,904**	105,229	**1,552**
Software	**14,174**	11,332	**125**

7. LONG TERM DEBT

Long term debt at March 31, 2016 and 2015, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Long-term bonds—Euro-yen zero coupon convertible bond-type bonds with subscription rights to shares, due 2017	**¥ 19,927,483**	¥19,883,974	**$ 176,850**
Less current portion	**(19,927,483)**		**(176,850)**
Long-term bonds, less current portion		¥19,883,974	

Outline of Euro-yen zero coupon convertible bond-type bonds with subscription rights to shares (also often referred to as "convertible bonds"):

(1) Type of shares to be converted	Common Share of the Company
(2) Issue price of the stock acquisition rights	Zero
(3) Conversion price	¥1,699 ($15)
(4) Aggregate principal of the bond	¥20,000,000 thousand ($177,493 thousand)
(5) Exercise period	From December 26, 2014 to November 28, 2017
(6) Substitute payment	In the exercise of each stock acquisition right, it is assumed that each bond will be invested, and the value of the bond will be equivalent to the total face value.

As of March 31, 2015, 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 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.

As of March 31, 2016, the Company did not enter into such escrow agreements.

Annual maturities of long term debt (principal amount) at March 31, 2016, were as follows:

Year Ending March 31	Thousands of Yen	Thousands of U.S. Dollars (Note 1)
2017	¥20,000,000	$177,493
2018		
2019		
2020		
2021 and thereafter		

The Company has concluded overdraft agreements with a maximum limit of ¥900,000 thousand ($7,987 thousand) and ¥900,000 thousand with two banks as of March 31, 2016 and 2015, respectively, in order to efficiently fund ongoing operations.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2016 and 2015, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Balance at beginning of year	**¥70,171**	¥68,762	**$622**
Reconciliation associated with passage of time	**1,442**	1,409	**12**
Balance at end of year	**¥71,613**	¥70,171	**$635**

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.

9. 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. Additionally, 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 being prescribed as one year rather than the normal two year 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, 2016 and 2015.

b. ***Increases/Decreases and Transfer of Common Share, 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 shares. 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 shares, legal reserve, additional paid in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

The changes in shares are summarized below:

	Shares		
	Common Shares	Class B Shares	Total
Issued shares:			
Balance, April 1, 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
Increase			
Decrease			
Balance, March 31, 2016	**125,576,000**	**77,700,000**	**203,276,000**
Treasury stock:			
Balance, April 1, 2014			
Increase			
Decrease			
Balance, March 31, 2015			
Increase	**138**		**138**
Decrease			
Balance, March 31, 2016	**138**		**138**

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:

March 31, 2015	Shares
Common Shares—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	51,934,600
Class B Share—Increase—stock split on August 1, 2014	31,080,000

For the year ended March 31, 2016, reasons for the changes in the number of treasury stock are as follows:

March 31, 2016	Shares
Common Share—Increase—purchase of shares in fractional lots	**138**

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 and the 2015 stock option, of ¥530,529 thousand ($4,708 thousand) and ¥6,318 thousand ($56 thousand) during the year ended March 31, 2016.

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

The change in shares to be converted is as follows:

	Thousands of Shares
Common Shares:	
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
Increase	**1,217**
Decrease	
Balance, March 31, 2016	**11,771**

For the year ended March 31, 2016, the increase of 1,217 thousand shares was due to adjustments of the conversion price.

The first day of the exercise period has not arrived for the stock acquisition rights issued as the 2015 stock option.

For the year ended March 31, 2015, the increase of 5,277 thousand shares was due to the issuance of Euro-yen zero coupon convertible bond type bonds.

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.

Also, 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.

10. STOCK OPTIONS

Expenses related to stock options for the years ended March 31, 2016 and 2015, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Selling, general and administration—Share-based compensation expenses	**¥6,318**		**$56**

The stock option outstanding as of March 31, 2016, are as follows:

	2015 Stock Option
Date of resolution	July 28, 2015
Persons granted	1 outside collaborator of the Company
Number of options granted	Common Share 7,800 shares
Date of grant	August 12, 2015
Exercise period	From July 29, 2017 to July 28, 2025

The stock option activity is as follows:

Year Ended March 31, 2016	Shares 2015 Stock Option
Non-vested	
March 31, 2015—Outstanding	
Granted	7,800
Canceled	
Vested	(7,800)
March 31, 2016—Outstanding	
Vested	
March 31, 2015—Outstanding	
Vested	7,800
Exercised	
Canceled	
March 31, 2016—Outstanding	7,800
Exercise price	¥1,806
	($ 16)
Average stock price at exercise	
Fair value price at grant date	¥ 810
	($ 7)

Assumptions Used to Measure the Fair Value

	2015 Stock Option
Estimate method	Black-Scholes option pricing model
Volatility of stock price	66.4%
Estimated remaining outstanding period	5.8 years
Estimated dividend	¥— ($—) per share
Risk free interest rate	0.1%

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 32.8% and 35.4% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Deferred tax assets:			
Research and development expenses	**¥ 64,761**	¥ 50,752	**$ 574**
Write-off of inventories	**7,618**	6,390	**67**
Lump-sum depreciable assets	**3,062**	3,734	**27**
Accrued enterprise tax	**18,103**	11,112	**160**
Impairment loss	**2,250**	2,871	**19**
Depreciation	**90,627**	93,237	**804**
Asset retirement obligations	**21,819**	22,507	**193**
Loss on valuation of shares of unconsolidated subsidiaries and associated companies	**7,073**	7,445	**62**
Tax loss carryforwards	**1,595,422**	1,489,075	**14,158**
Other	**17,998**	14,824	**159**
Less valuation allowance	**(1,828,737)**	(1,701,952)	**(16,229)**
Total			
Deferred tax liabilities:			
Retirement expenses for asset retirement obligations	**(10,211)**	(12,016)	**(90)**
Other	**(815)**	(1,318)	**(7)**
Total	**(11,027)**	(13,335)	**(97)**
Net deferred tax liabilities	**¥ (11,027)**	¥ (13,335)	**$ (97)**

A 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, 2016 and 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	**32.8 %**	35.4 %
Expenses not deductible for income tax purposes	**(0.1)**	(0.1)
Impact of change in tax rate	**(13.4)**	(18.6)
Inhabitants tax, flat rate	**(0.9)**	(0.7)
Expiration of tax loss carryforwards		(15.2)
Valuation allowance	**(17.9)**	0.0
Other—net	**(2.1)**	(2.0)
Actual effective tax rate	**(1.6)%**	(1.3)%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 30.7% and for the fiscal year beginning on or after April 1, 2018, to approximately 30.5%. The effect of these changes was immaterial.

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)
	2016	2015	**2016**
Research and development costs:			
Salaries	**¥187,411**	¥151,135	**$1,663**
Material costs	**450,892**	444,411	**4,001**
Rental expenses	**118,227**	104,646	**1,049**
Other selling, general and administrative expenses:			
Salaries	**283,281**	284,945	**2,514**
Depreciation	**102,077**	72,841	**905**
Rental expenses	**133,458**	164,787	**1,184**

13. LEASES

Obligations and future minimum payments under noncancelable operating leases as of the years ended March 31, 2016 and 2015, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Due within one year	**¥268,145**	¥159,748	**$2,379**
Due after one year	**170,216**	76,702	**1,510**
Total	**¥438,361**	¥236,450	**$3,890**

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

a. Company Policy for Financial Instruments

The Group obtains financing by borrowings from banks or other financial institutions such as through the 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, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and bank balances	**¥14,458,798**	**¥14,458,798**		**$128,317**	**$128,317**	
Marketable securities	**25,500,386**	**25,500,386**		**226,308**	**226,308**	
Receivables—trade accounts	**217,347**	**217,347**		**1,928**	**1,928**	
Receivables—other	**349,259**	**349,259**		**3,099**	**3,099**	
Total	**¥40,525,790**	**¥40,525,790**		**$359,653**	**$359,653**	
Payables—trade accounts	**¥ 48,120**	**¥ 48,120**		**$ 427**	**$ 427**	
Current portion of convertible bond-type bonds with subscription rights to shares	**19,927,483**	**19,927,483**		**176,850**	**176,850**	
Income taxes payable	**63,804**	**63,804**		**566**	**566**	
Total	**¥20,039,408**	**¥20,039,408**		**$177,843**	**$177,843**	

	Thousands of Yen		
March 31, 2015	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and bank balances	¥29,722,189	¥29,722,189	
Marketable securities	12,499,668	12,499,668	
Receivables—trade accounts	207,622	207,622	
Receivables—other	549,893	549,893	
Total	¥42,979,373	¥42,979,373	
Payables—trade accounts	¥ 92,195	¥ 92,195	
Income taxes payable	69,899	69,899	
Convertible bond-type bonds with subscription rights to shares	19,883,974	19,875,755	¥(8,219)
Total	¥20,046,069	¥20,037,849	¥(8,219)

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, negotiable certificates of deposits and jointly 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.

Current Portion of Convertible Bond Type Bonds with Subscription Rights to Shares

The carrying values of current portion of convertible bond type bonds with subscription rights to shares approximate fair value because of their short maturities.

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

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Investment securities—Unlisted stock	**¥914,830**	¥314,850	**$8,118**
Investments in unconsolidated subsidiaries and associated companies:			
Investment securities (shares)	**11,555**	9,302	**102**
Investment securities (investments in capital)	**2,957**	2,957	**26**

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

	Thousands of Yen			
March 31, 2016	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	**¥14,458,798**			
Marketable securities	**25,500,386**			
Receivables—trade accounts	**217,347**			
Receivables—other	**349,259**			
Total	**¥40,525,790**			

	Thousands of U.S. Dollars (Note 1)			
March 31, 2016	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	**$128,317**			
Marketable securities	**226,308**			
Receivables—trade accounts	**1,928**			
Receivables—other	**3,099**			
Total	**$359,653**			

15. COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥1,776**	¥(1,289)	**$15**
Reclassification adjustments to profit or loss		(208)	
Amount before income tax effect	**1,776**	(1,497)	**15**
Income tax effect			
Total other comprehensive income (loss)	**¥1,776**	¥(1,497)	**$15**

16. NET LOSS PER SHARE

The calculation base for net loss per share ("EPS") for the years ended March 31, 2016 and 2015, is as follows:

	Thousands of Yen	Thousands of Shares	Yen	U.S. Dollars (Note 1)
Year Ended March 31, 2016	Net Loss Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS—Net loss available to common shareholders	**¥(718,057)**	**203,275**	**¥(3.53)**	**$(0.03)**

	Thousands of Yen	Thousands of Shares	Yen
Year Ended March 31, 2015	Net Loss Attributable to Owners of the Parent	Weighted-Average Shares	EPS
Basic EPS—Net loss available to common shareholders	¥(915,893)	193,311	¥(4.74)

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 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, 2015.

17. 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, 2016	Japan	EMEA	Total	Japan	EMEA	Total
Net sales	**¥1,181,838**	**¥83,063**	**¥1,264,902**	**$10,488**	**$737**	**$11,225**

	Thousands of Yen		
March 31, 2015	Japan	EMEA	Total
Net sales	¥567,514	¥63,763	¥631,278

(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, 2016	Thousands of Yen	Thousands of U.S. Dollars (Note 1)
Sales to—Kanagawa Prefecture	**¥172,227**	**$1,528**

March 31, 2015	Thousands of Yen
Sales to—DAIWA HOUSE INDUSTRY CO., LTD.	¥69,728

18. SUBSEQUENT EVENTS

a. *Early Redemption of Convertible Bonds Due 2017*

The Company decided to exercise its option to redeem early the entire outstanding amount of Euro-yen zero coupon convertible bond type bonds with subscription rights to shares due 2017 (the "Bonds") at 100% of their principal amount, according to the 120% call option articles contained in the Terms and Conditions of the Bonds, which was satisfied on April 22, 2016.

The conversion into common share of the Bonds of ¥19,927,483 thousand ($176,850 thousand) as of March 31, 2016, was completed in full by June 6, 2016.

(1) Bonds to be redeemed	CYBERDYNE, Inc. Euro-yen zero coupon convertible bond type bonds with subscription rights to shares due 2017
(2) Amount for redemption	All of the outstanding Bonds
(3) Early redemption date	June 6, 2016
(4) Early redemption amount	¥100 per par value of ¥100

b. *Exercise of Stock Acquisition Rights Attached to the Convertible Bonds Due 2017*

All stock acquisition rights attached to the Bonds were exercised no later than June 1, 2016, following the fiscal year ended March 31, 2016.

(1) Increase in the amount of capital stock	¥10,232,113 thousand ($90,806 thousand)
(2) Increase in the amount of capital surplus	¥10,232,113 thousand ($90,806 thousand)
(3) Increase in the number of shares	Common Share—11,771,609 shares

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/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of CYBERDYNE, INC.:

We have audited the accompanying consolidated balance sheet of CYBERDYNE, Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 18.a to the consolidated financial statements, the Company decided on April 22, 2016, to exercise its option to redeem early the entire outstanding amount of Euro-yen zero coupon convertible bond-type bonds with subscription rights to shares due 2017 (the "Bonds").

As discussed in Note 18.b to the consolidated financial statements, all stock acquisition rights attached to the Bonds were exercised no later than June 1, 2016, following the fiscal year ended March 31, 2016.

Our opinion is not modified in respect of this matter.

Member of
Deloitte Touche Tohmatsu Limited

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, 2016

Corporate Information

Name: CYBERDYNE, INC.
Headquarters: 2-2-1, Gakuen-Minami, Tsukuba, Ibaraki, 305-0818, Japan
Founded: June 24, 2004
Capital stock: ¥16.5 billion (as of March 31, 2016)

Board of Directors:

Representative Director, President and CEO	Yoshiyuki Sankai
Director	Fumiyuki Ichihashi
Director and CFO	Shinji Uga
Director	Hiroaki Kawamoto
Outside Director	Kinichi Nakata
Outside Director	Kazumasa Yoshida
Outside Director	Hikari Imai

Audit & Supervisory Board Members:

Full-time Audit & Supervisory Board Member	Yutaka Fujitani
Audit & Supervisory Board Member	Cees Vellekoop
Audit & Supervisory Board Member	Kenichiro Okamura

Business facilities:
Fukushima Office: 1-12, Machiikedai, Koriyama, Fukushima, 963-0215, Japan
In the Fukushima Technology Centre
Okayama Office: 5303, Haga, Kita-ku, Okayama, Okayama, 701-1221, Japan
In the Okayama Research Park Incubation Center

Group companies:

	Issued share capital	Percentage of voting rights	Principal business
Cyberdyne Care Robotics GmbH	€25,000	75.1%	Functional improvement theatment services using HAL®
Suzuka Robo Care Center Co., Ltd.	¥3 million	100.0%	Training with HAL®, nursing care insurance services
Shonan Robo Care Center Co., Ltd.	¥3 million	100.0%	
Oita Robo Care Center Co., Ltd.	¥3 million	100.0%	

Stock Information (as of March 31, 2016)

Stock listing: Mothers Section of TSE
Stock code: 7779
Listed: March 26, 2014
Fiscal year: April 1 to March 31
Fiscal year-end: March 31
Share unit: 100 shares (Common Share)
10 shares (Class B Share)

Number of shares:

Total number of authorized shares:	696,000,000	Common share	618,300,000
		Class B share	77,700,000
Total number of issued shares:	203,276,000	Common share	125,576,000
		Class B share	77,700,000

ADR Information (as of March 31, 2016)

Type of ADR program: Sponsored Level 1 ADR
Trading market: OTC (Over The Counter)
ADR ratio: 1 ADR: 1 Ordinary share
Ticker Symbol: CYBQY
Trading effective date: October 13, 2015 (U.S. Eastern Standard Time)
CUSIP number: 23249A100
Depositary Bank: Deutsche Bank Trust Company Americas
Local Custodian: Mizuho Bank, Ltd.


CYBERDYNE
MAKE THE IMPOSSIBLE POSSIBLE
Nasdaq
DD
SMA
INSIGHT
SONY
RIO OLYMPICS
NEW YORK POLICE DEPT
ONE WAY
at&t

CYBERDYNE