



2016

ANNUAL REPORT

Fiscal year ended March 31, 2016
Financial Summary

CONTENTS

Five-Year Summary	2
Analysis of Operating Results	3
Consolidated Balance Sheets	5
Consolidated Statements of Income	7
Consolidated Statements of Comprehensive Income	8
Consolidated Statements of Changes in Net Assets	9
Consolidated Statements of Cash Flows	11
Notes to Consolidated Financial Statements	12
Independent Auditor's Report	39

Five-Year Summary

FUJI MACHINE MFG. CO., LTD and Consolidated Subsidiaries

Years ended March 31

	Millions of Yen					Thousands of U.S.dollars (Note)
	2012	2013	2014	2015	2016	2016
For the Year						
Orders	¥ 83,049	¥ 62,783	¥ 68,269	¥ 92,019	¥ 82,651	\$ 731,425
Net sales	86,250	64,349	65,566	85,266	86,642	766,743
Domestic	9,834	8,467	7,769	9,903	15,337	135,725
Overseas	76,416	55,882	57,797	75,363	71,305	631,018
Operating income	15,673	3,914	3,028	12,067	11,902	105,327
Income before income taxes	14,161	4,133	3,720	12,797	11,012	97,451
Net income attributable to owners of the parent	8,516	2,699	2,593	8,629	7,237	64,044
Capital expenditures	5,692	7,253	6,937	4,917	5,641	49,920
Depreciation	3,036	3,922	5,002	5,352	4,934	43,664
Research and development expenses	6,713	7,884	6,334	7,491	6,613	58,522
Cash flows from operating activities	10,421	7,331	13,770	9,477	8,086	71,558
Cash flows from investing activities	(4,759)	(7,372)	(7,885)	(5,463)	(6,308)	(55,823)
Free cash flows	5,662	(41)	5,885	4,014	1,778	15,735
Cash flows from financing activities	4,802	(4,116)	(4,393)	(2,005)	4,273	37,814
At Year-End						
Total assets	¥ 133,903	¥ 131,090	¥ 135,942	¥ 153,890	¥ 156,958	\$ 1,389,009
Net assets	110,584	115,739	120,794	135,044	132,069	1,168,752
Cash and cash equivalents at end of year	50,865	47,877	50,659	54,207	59,357	525,283
Number of employees (Persons)	1,985	2,013	2,027	2,104	2,108	
Per Share Data (Yen and U.S. dollars)						
Net income						
— Basic	¥ 87.11	¥ 27.60	¥ 26.52	¥ 88.27	¥ 74.13	\$ 0.66
— Diluted	-	-	-	-	74.03	0.66
Net assets	1,131.15	1,183.90	1,235.64	1,379.19	1,372.18	12.14
Cash dividends	17.50	13.75	16.00	28.00	28.00	0.25
Ratios (%)						
Overseas sales ratio	88.6	86.8	88.2	88.4	82.3	
Operating income ratio	18.2	6.1	4.6	14.2	13.7	
R&D expenses ratio to net sales	7.8	12.3	9.7	8.8	7.6	
Return on assets	6.3	2.0	1.9	6.0	4.7	
Return on equity	8.0	2.4	2.2	6.8	5.4	
Equity ratio	82.5	87.9	88.9	87.6	84.0	

Note: U.S. dollar amounts are converted from Japanese yen, for convenience only, at the rate of ¥113 to U.S.\$1.

Analysis of Operating Results

Overview

In the fiscal year ended March 31, 2016, the Japanese economy experienced sluggish growth in capital investment, due to uncertainties regarding overseas demand, despite firm business conditions. In terms of the global economy, although the European economy continued a moderate recovery and there were signs of recovery in the manufacturing industry in North America, the economic slowdown continued in China.

In this environment, under the slogan of “Excite and Inspire” the Company and its subsidiaries (hereinafter the “Group”) have taken on the challenge of reforming and have made efforts to develop highly original products as one of the world’s leading robot manufacturers, while striving to promote swift management and to provide the market with products that are highly competitive on cost in a timely manner. We have also worked to improve customer satisfaction by strengthening the domestic and overseas sales and service system through cooperation among Group companies and expansion of the dealer network, and by promoting solution-based sales approaches. At the same time, we have sought to improve profitability through efforts to pursue exhaustive QCD (quality, cost and delivery) through strengthening supply chains and production reforms.

Net sales

Net sales for the fiscal year ended March 31, 2016 increased by ¥1,376 million (1.6%) from the previous fiscal year, to ¥86,642 million, due to increased sales in the Machine Tools segment despite lower sales in the Electronics Assembly Equipment segment.

Overseas sales decreased by ¥4,058 million (5.4%) from the previous fiscal year, to ¥71,305 million, due to sluggish growth in the major markets of China and other Asian countries. Furthermore, the percentage of overseas sales to total net sales was 82.3% (China: 37.1%, Other Asian countries: 12.2%, United States: 14.3%, Europe: 12.0%, Others: 6.7%), representing a decline of 6.1 percentage points from the previous fiscal year, due to increased domestic sales resulting from solid facility renewals of customers, mainly in the automotive industry.

Operating income

Operating income decreased by ¥165 million (1.4%) from the previous fiscal year, to ¥11,902 million, due mainly to the effects of falling sales prices as a result of fierce price

competition, despite an increase in the number of units sold and efforts to reduce costs through production reforms.

Net income attributable to owners of the parent

In terms of other income (expenses), expenses (net) of ¥890 million were reported, due mainly to the reporting of impairment loss on fixed assets of ¥982 million associated with the consolidated subsidiary, Kunshan Fuji Machine Mfg. Co., Ltd., and foreign exchange loss of ¥635 million as a result of the rapid appreciation of the yen, which, in turn, resulted in income before income taxes of ¥11,012 million, down ¥1,785 million (14.0%) from the previous fiscal year.

Net income attributable to owners of the parent decreased by ¥1,392 million (16.1%) from the previous fiscal year, to ¥7,237 million.

As a result of the above, net income per share was ¥74.13, down ¥14.14 from the ¥88.27 recorded in the previous fiscal year.

Business Results by Segment

Electronics Assembly Equipment

In the Electronics Assembly Equipment business, net sales totaled ¥70,787 million, down ¥2,797 million (3.8%) from the previous fiscal year, and operating income was ¥14,527 million (down 4.6% from the previous fiscal year).

Domestic sales increased and sales in Europe and the United States, including sales of automotive mounted equipment, also grew from the previous fiscal year. Meanwhile, due to a slow growth rate in the smartphone market and uncertainty from the Chinese economic slowdown, companies including smartphone-related manufacturers seemed to be cautious towards investing in capital equipment, which resulted in lower sales, particularly in China.

Machine Tools

In the Machine Tools business, net sales totaled ¥14,623 million, up ¥3,866 million (35.9%) from the previous fiscal year, and operating income was ¥614 million (an operating loss of ¥203 million was recorded in the previous fiscal year).

Due to firm demand for capital investment in machine tools, mainly in the automotive industry which is a major customer, domestic sales, in particular, increased significantly, while sales to North America also saw a rise.

Research and Development Expenses and Capital Expenditures

Research and development expenses

Based on the company motto, "We will endeavor to work hard in research and development to provide excellent techniques to respond to customer confidence," the Group continues to make untiring efforts in the research and development of state-of-the-art automated equipment and systems to meet the needs of the world's most advanced customers.

Research and development expenses decreased by ¥878 million (11.7%) from the previous fiscal year, to ¥6,613 million.

Major research and development activities included further reinforcement of the functions of robotic mounters, including the mainstay NXT Series in the Electronics Assembly Equipment segment, and development to enhance the functions of Nexim, the integrated manufacturing system software that will enable smart factory solutions in the customers' electronics mounting process.

Capital expenditures

Total capital expenditures increased by ¥724 million (14.7%) from the previous fiscal year, to ¥5,641 million.

Major capital expenditures included the acquisition of software in the Electronics Assembly Equipment segment and the introduction of machinery and equipment for the development and manufacturing of robotic mounters, resulting in capital expenditures of ¥4,781 million.

Financial Position and Cash Flows

Analysis of financial position

Total assets increased by ¥3,068 million from the end of the previous fiscal year, to ¥156,958 million, due mainly to an increase in cash and cash equivalents.

Total liabilities grew ¥6,043 million from the end of the previous fiscal year, to ¥24,889 million, due mainly to an increase in long-term debt.

Retained earnings climbed due to the recording of net income attributable to owners of the parent, while net unrealized gains on available-for-sale securities and foreign currency translation adjustments both decreased and treasury stock increased. As a result, total net assets declined by ¥2,975 million from the end of the previous fiscal year, to ¥132,069 million.

As a result of the above, equity ratio declined from 87.6% at the end of the previous fiscal year, to 84.0%. Net assets per share dropped from ¥1,379.19 at the end of the previous fiscal

year, to ¥1,372.18.

Analysis of cash flows

Net cash provided by operating activities was ¥8,086 million (¥9,477 million in the previous fiscal year). This was mainly due to income before income taxes and depreciation.

Net cash used in investing activities was ¥6,308 million (¥5,463 million in the previous fiscal year). This was mainly due to purchase of property, plant and equipment and intangible assets.

Net cash provided by financing activities was ¥4,273 million (¥2,005 million was used in the previous fiscal year). This was due to proceeds from issuance of bonds exceeding the amounts for dividends paid and purchase of treasury stock.

As a result of the above, the balance of cash and cash equivalents at the end of the fiscal year ended March 31, 2016 increased by ¥5,150 million (9.5%) from the end of the previous fiscal year, to ¥59,357 million.

Basic Policy for Profit Distribution

With regard to the Company's basic policy for profit sharing, we strive to maintain stable dividends, paying attention to capital demands for future business development as well as considering the continuous return of profits to shareholders as one of the most important management measures.

In addition, retained earnings are used to develop products to meet market demands, to improve and strengthen the Company's business structure, including capital rationalization and investment, and to make strategic investments for future growth.

The Company, at the meeting of its Board of Directors held on March 9, 2016, resolved to acquire treasury stock for the purpose of further enhancing its return of profits to shareholders and executing flexible capital policies by improving capital efficiency. The maximum total number of shares to be acquired has been set at 9 million shares or ¥10,000 million to be purchased from March 10, 2016 to February 28, 2017.

Year-end dividends were ¥14.00 per share, based on the basic policy for profit sharing, and together with interim dividends of ¥14.00 per share, the Company decided to pay out total annual dividends of ¥28.00 per share.

Consolidated Balance Sheets

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 59,357	¥ 54,207	\$ 525,283
Short-term investments (Notes 3 and 6)	1,290	207	11,416
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 4)	22,946	20,814	203,062
Inventories (Note 5)	27,326	27,911	241,823
Deferred tax assets (Note 15)	2,851	3,141	25,230
Other current assets	404	499	3,575
Total current assets	114,174	106,779	1,010,389
Investments and other assets:			
Investment securities (Notes 3 and 6)	18,415	21,672	162,965
Investment in affiliated companies	94	-	832
Intangible assets (Note 7)	5,863	5,332	51,885
Deferred tax assets (Note 15)	126	181	1,115
Other assets	492	484	4,354
Total investments and other assets	24,990	27,669	221,151
Property, plant and equipment:			
Land	3,942	4,084	34,885
Buildings and structures	22,430	23,575	198,495
Machinery, equipment and vehicles	14,062	14,145	124,442
Tools, furniture and fixtures	7,094	6,943	62,779
Construction in progress	329	33	2,912
Total property, plant and equipment	47,857	48,780	423,513
Less accumulated depreciation	(30,063)	(29,338)	(266,044)
Total net property, plant and equipment	17,794	19,442	157,469
Total assets	¥ 156,958	¥ 153,890	\$ 1,389,009

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Liabilities and Net assets			
Current liabilities:			
Current portion of long-term debt (Notes 3 and 9)	¥ -	¥ 600	\$ -
Notes and accounts payable (Notes 3 and 8)	5,335	5,118	47,212
Accrued expenses	3,826	3,629	33,858
Income taxes payable	853	3,544	7,549
Provision for product warranties	868	895	7,682
Other current liabilities	960	1,676	8,496
Total current liabilities	11,842	15,462	104,797
Long-term liabilities:			
Long-term debt (Notes 3 and 9)	10,050	-	88,938
Net defined benefit liability (Note 10)	1,107	300	9,796
Deferred tax liabilities (Note 15)	1,837	3,031	16,257
Other long-term liabilities	53	53	469
Total long-term liabilities	13,047	3,384	115,460
Total liabilities	24,889	18,846	220,257
Net assets (Note 13):			
Shareholders' equity:			
Common stock: 390,000,000 shares authorized and 97,823,748 shares issued	5,879	5,879	52,027
Capital surplus	5,414	5,414	47,912
Retained earnings	115,475	111,562	1,021,902
Less treasury stock, at cost: 1,698,068 shares in 2016 and 66,950 shares in 2015	(1,908)	(52)	(16,885)
Total shareholders' equity	124,860	122,803	1,104,956
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	5,552	8,106	49,133
Foreign currency translation adjustments	2,149	3,552	19,018
Remeasurements of defined benefit plans (Note 10)	(660)	364	(5,841)
Total accumulated other comprehensive income	7,041	12,022	62,310
Non-controlling interests	168	219	1,486
Total net assets	132,069	135,044	1,168,752
Total liabilities and net assets	¥ 156,958	¥ 153,890	\$ 1,389,009

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

For the Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating revenue:			
Net sales (Note 17)	¥ 86,642	¥ 85,266	\$ 766,743
Operating costs and expenses:			
Costs of goods sold	52,169	50,869	461,673
Selling, general and administrative expenses	22,571	22,330	199,743
	<u>74,740</u>	<u>73,199</u>	<u>661,416</u>
Operating income (Note 17)	<u>11,902</u>	<u>12,067</u>	<u>105,327</u>
Other income (expenses):			
Interest and dividend income	464	415	4,106
Interest expense	(7)	(15)	(62)
Foreign exchange (loss) gain	(635)	461	(5,619)
Loss on sales and disposals of property, plant and equipment and intangible assets	(187)	(232)	(1,655)
Impairment loss on fixed assets (Note 14)	(982)	(66)	(8,690)
Gain on step acquisitions (Note 16)	-	77	-
Other, net	457	90	4,044
	<u>(890)</u>	<u>730</u>	<u>(7,876)</u>
Income before income taxes	<u>11,012</u>	<u>12,797</u>	<u>97,451</u>
Income taxes (Note 15):			
Current	3,225	4,536	28,540
Deferred	525	(372)	4,646
Total income taxes	<u>3,750</u>	<u>4,164</u>	<u>33,186</u>
Net income	7,262	8,633	64,265
Less net income attributable to non-controlling interests	<u>25</u>	<u>4</u>	<u>221</u>
Net income attributable to owners of the parent	<u>¥ 7,237</u>	<u>¥ 8,629</u>	<u>\$ 64,044</u>
		Yen	U.S. dollars
Per share:			
Net income			
-Basic	¥ 74.13	¥ 88.27	\$ 0.66
-Diluted	74.03	-	0.66
Cash dividends (Note 13)	28.00	28.00	0.25

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

For the Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net Income	¥ 7,262	¥ 8,633	\$ 64,265
Other comprehensive income (Note 18):			
Net unrealized gains on available-for-sale securities	(2,554)	2,926	(22,602)
Foreign currency translation adjustments	(1,480)	2,402	(13,097)
Remeasurements of defined benefit plans	(1,024)	178	(9,062)
Total other comprehensive income	(5,058)	5,506	(44,761)
Comprehensive income	¥ 2,204	¥ 14,139	\$ 19,504
Comprehensive income attributable to:			
Owners of the parent	¥ 2,255	¥ 14,139	\$ 19,956
Non-controlling interests	(51)	0	(452)
Total comprehensive income	¥ 2,204	¥ 14,139	\$ 19,504

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

For the Years Ended March 31, 2016 and 2015

	Shareholders' equity						Accumulated other comprehensive income					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Millions of yen												
Balance at April 1, 2014	97,823,748	¥ 5,879	¥ 5,414	¥ 103,038	¥ (50)	¥ 114,281	¥ 5,180	¥ 1,147	¥ 186	¥ 6,513	¥ -	¥ 120,794
Cumulative effects of changes in accounting policies (Note 2(ii))				1,263		1,263				-		1,263
Restated balance	97,823,748	5,879	5,414	104,301	(50)	115,544	5,180	1,147	186	6,513	-	122,057
Net income for the year attributable to owners of the parent	-	-	-	8,629	-	8,629	-	-	-	-	-	8,629
Cash dividends	-	-	-	(1,368)	-	(1,368)	-	-	-	-	-	(1,368)
Purchases of treasury stock	-	-	-	-	(2)	(2)	-	-	-	-	-	(2)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	2,926	2,405	178	5,509	219	5,728
Balance at March 31, 2015	97,823,748	5,879	5,414	111,562	(52)	122,803	8,106	3,552	364	12,022	219	135,044
Net income for the year attributable to owners of the parent	-	-	-	7,237	-	7,237	-	-	-	-	-	7,237
Cash dividends	-	-	-	(3,324)	-	(3,324)	-	-	-	-	-	(3,324)
Purchases of treasury stock	-	-	-	-	(1,856)	(1,856)	-	-	-	-	-	(1,856)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(2,554)	(1,403)	(1,024)	(4,981)	(51)	(5,032)
Balance at March 31, 2016	97,823,748	¥ 5,879	¥ 5,414	¥ 115,475	¥ (1,908)	¥ 124,860	¥ 5,552	¥ 2,149	¥ (660)	¥ 7,041	¥ 168	¥ 132,069

	Shareholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for- sale securities	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Non- controlling interests	Total net assets
Thousands of U.S. dollars (Note 1)											
Balance at March 31, 2015	\$ 52,027	\$ 47,912	\$ 987,274	\$ (460)	\$ 1,086,753	\$ 71,735	\$ 31,434	\$ 3,221	\$ 106,390	\$ 1,937	\$ 1,195,080
Net income for the year attributable to owners of the parent	-	-	64,044	-	64,044	-	-	-	-	-	64,044
Cash dividends	-	-	(29,416)	-	(29,416)	-	-	-	-	-	(29,416)
Purchases of treasury stock	-	-	-	(16,425)	(16,425)	-	-	-	-	-	(16,425)
Net changes in items other than shareholders' equity	-	-	-	-	-	(22,602)	(12,416)	(9,062)	(44,080)	(451)	(44,531)
Balance at March 31, 2016	<u>\$ 52,027</u>	<u>\$ 47,912</u>	<u>\$ 1,021,902</u>	<u>\$ (16,885)</u>	<u>\$ 1,104,956</u>	<u>\$ 49,133</u>	<u>\$ 19,018</u>	<u>\$ (5,841)</u>	<u>\$ 62,310</u>	<u>\$ 1,486</u>	<u>\$ 1,168,752</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

For the Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥ 11,012	¥ 12,797	\$ 97,451
Adjustments for:			
Depreciation	4,934	5,352	43,664
Impairment loss on fixed assets	982	66	8,690
Loss on sales and disposals of property, plant and equipment and intangible assets	187	232	1,655
(Decrease) increase in provision for product warranties	(22)	207	(195)
(Decrease) increase in net defined benefit liability	(681)	(397)	(6,026)
(Increase) decrease in trade receivables	(2,422)	(4,584)	(21,434)
Decrease (increase) in inventories	102	(2,315)	903
Increase (decrease) in trade payables	21	760	186
Other, net	(667)	(1,079)	(5,903)
Subtotal	13,446	11,039	118,991
Interest and dividends received	465	401	4,115
Interest paid	(7)	(15)	(62)
Income taxes paid	(5,818)	(1,948)	(51,486)
Net cash provided by operating activities	8,086	9,477	71,558
Cash flows from investing activities:			
Net (increase) decrease in short-term investments	(1,158)	22	(10,248)
Purchases of property, plant and equipment and intangible assets	(5,183)	(5,256)	(45,867)
Proceeds from sales of property, plant and equipment and intangible assets	442	219	3,911
Purchases of investments securities	(310)	(612)	(2,743)
Payments for investments in capital of affiliated companies	(94)	-	(832)
Proceeds from investments in capital of subsidiaries resulting in change in scope of consolidation (Note 19)	-	170	-
Other, net	(5)	(6)	(44)
Net cash used in investing activities	(6,308)	(5,463)	(55,823)
Cash flows from financing activities:			
Repayments of long-term debt	(600)	(600)	(5,310)
Proceeds from issuance of bonds	10,050	-	88,938
Dividends paid	(3,321)	(1,370)	(29,389)
Purchase of treasury stock	(1,856)	(2)	(16,425)
Other, net	-	(33)	-
Net cash provided by (used in) financing activities	4,273	(2,005)	37,814
Effect of exchange rate changes on cash and cash equivalents	(901)	1,539	(7,974)
Net increase (decrease) in cash and cash equivalents	5,150	3,548	45,575
Cash and cash equivalents at beginning of year	54,207	50,659	479,708
Cash and cash equivalents at end of year	¥ 59,357	¥ 54,207	\$ 525,283

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of FUJI MACHINE MFG. CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instrument 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 application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instrument and Exchange Act. In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of the Japanese yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan, using the approximate rate prevailing at March 31, 2016, which was ¥113 to U.S. \$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliated companies not accounted for using the equity method are stated at cost. If the equity method of accounting had been applied to investments in these companies, the effect on the accompanying consolidated financial statements would have been immaterial. All significant intercompany accounts and transactions have been eliminated on consolidation. All material unrealized profits included in assets resulting from transactions within the Group have also been eliminated.

The number of consolidated subsidiaries and affiliated companies for the years ended March 31, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Consolidated subsidiaries:		
Domestic	2	2
Overseas	6	6
Affiliated companies stated at cost	1	-

From the year ended March 31, 2015, an overseas subsidiary, which was an affiliated company stated at cost, has been included in the scope of consolidation due to the acquisition of additional investments in capital.

Three overseas subsidiaries close their books on December 31, three months earlier than the Company and the other consolidated subsidiaries. The Company uses the financial statements of one of the subsidiaries as of its year-end date because the difference between its fiscal year-end date and that of the Company was not more than three months. Significant transactions for the period between the subsidiary's fiscal year-end date and the Company's year-end date have been adjusted for on consolidation. The Company uses the financial statements of two of the subsidiaries which are compiled by temporary closings of their accounts as of March 31.

(Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

The Company has adopted ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements." PITF No. 18 requires that the accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using its foreign subsidiaries' financial statements prepared in accordance with either IFRS or U.S. generally accepted accounting principles ("U.S. GAAP"). In this case, adjustments for the following four items are required in the consolidation process so that the impact on net income is accounted for in accordance with Japanese GAAP, unless the impact is not material.

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets

(b) Cash equivalents

The Group considers cash equivalents to be short-term, highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value purchased with an original maturity of three months or less.

(c) Investments and marketable securities

The Group classifies certain investments in debt and equity securities as “held-to-maturity,” “trading” or “available-for-sale” securities. The classification determines the respective accounting method to be applied under the accounting standards for financial instruments. According to the investment policy of the Group, its securities portfolio consists of available-for-sale securities other than trading or held-to-maturity. The accounting standard requires that available-for-sale securities for which fair value is available be stated at fair value and that net unrealized gains and losses on such securities be recorded as a component of accumulated other comprehensive income, net of applicable income taxes. Gains and losses on the disposition of available-for-sale securities are computed using the moving average method. Available-for-sale securities without available fair values are carried at cost determined using the moving average method. Adjustments in the carrying value of individual investment securities are charged to income through write-downs when a decline in value is deemed to be other than temporary.

(d) Inventories

In accordance with the accounting standard for measurement of inventories, inventories held for sale in the ordinary course of business are stated at the lower of cost or net realizable value. If the net realizable value falls below the cost at the end of the period, the cost basis is reduced to net realizable value and regarded as decreased profitability of inventories. Finished goods and work-in-process are measured principally using the specific identification method. Raw materials and supplies are measured principally using the moving average method.

(e) Allowance for doubtful accounts

An allowance for doubtful accounts has been provided at the aggregate amount of estimated credit losses based on individual reviews of certain doubtful or troubled receivables. A general reserve for other receivables is also provided based on the historical loss experience for certain past periods.

(f) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals and additions, are stated at cost and depreciated principally by the declining balance method based on the estimated useful life of the asset.

(g) Intangible assets

Intangible assets are amortized using the straight-line method. Software for sales is amortized using the straight-line method over the estimated economic life. Software for internal use is amortized using the straight-line method over the estimated useful life.

(h) Impairment of fixed assets

The Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Impairment of Fixed Assets" and the related practical guidance. The standard requires fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount, measured by the higher of the asset's net selling price or value in use. Fixed assets include land, buildings and other forms of property, including intangible assets, and are to be grouped at the lowest levels for which there are identifiable cash flows separate from other groups of assets. For the purpose of recognition and measurement of an impairment loss, fixed assets of the Company and its domestic consolidated subsidiaries, other than idle or unused property, are grouped into cash generating units based on the managerial accounting classifications.

(i) Employee retirement benefits

The difference between retirement benefit obligations and plan assets has been recognized as net defined benefit liability. To calculate the retirement benefit obligations, the benefit formula basis is used to allocate estimated retirement benefits. Actuarial differences that are yet to be recognized are recognized in the year following the year in which they arise. A net defined benefit liability and retirement benefit costs of certain consolidated subsidiaries are calculated using the simplified method as permitted by the accounting standard for retirement benefits.

(Changes in accounting policies for retirement benefits)

Effective from the year ended March 31, 2015, the Company and its domestic consolidated subsidiaries adopted Article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015 (hereinafter, "Guidance No. 25")) from the year ended March 31, 2015 and have changed the method used to determine retirement benefit obligations and current service costs. In addition, the Company and its domestic consolidated subsidiaries have changed the method used to attribute expected benefits to periods from a straight-line basis to a benefit formula basis and have changed the method used to determine the discount rate from using a discount rate based on the estimated average remaining years of service of the employees to using a discount rate that is a single weighted average rate reflecting the projected benefit payment period and the projected payment per period. In accordance with Article 37 of Statement No. 26, the effect of changing the method of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the year ended March 31, 2015. As the result, net defined benefit liability decreased by ¥1,958 million and retained earnings increased by ¥1,263 million at the beginning of the year ended March 31, 2015. The effect on income was not material.

(j) Provision for product warranties

A provision for product warranties is calculated based on the actual historical ratio of repair costs per corresponding product sales to provide for future repairs during free of charge product warranty periods.

(k) Translation of foreign currency accounts

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at the exchange rate prevailing at the fiscal year-end. For financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese yen by applying the exchange rate in effect at the respective fiscal year-end. All income and expense accounts are translated at the average rate of exchange for the fiscal year. Translation differences, after allocating portions attributable to non-controlling interests, have been reported in foreign currency translation adjustments as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

(l) Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Such research and development expenses were included in selling, general and administrative expenses in the accompanying consolidated statements of income and amounted to ¥6,613 million (\$58,522 thousand) and ¥7,491 million for the years ended March 31, 2016 and 2015, respectively.

(m) Enterprise taxes

The Group calculates and records enterprise taxes based on the “added value” and “capital” amounts when levied as size-based corporate taxes for local government enterprise taxes, and such taxes are include in selling, general and administrative expenses.

(n) Income taxes

Income taxes are accounted for using the asset-liability method. Deferred tax assets and liabilities are recognized as the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date and the promulgation date for the years ended March 31, 2016 and 2015, respectively.

(o) Appropriation of retained earnings

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors or the general meeting of stockholders.

(p) Per share data

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the respective year. Unless there is an anti-dilutive effect, diluted net income per share is calculated to reflect the potential dilution assuming that all convertible bonds are converted at the time of issue. Diluted net income per share is not disclosed as the Group had no potentially dilutive common shares for the year ended March 31, 2015.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared by the Company as applicable to the respective year.

(q) Changes in accounting policies for business combination

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards") from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

These changes have had no effect on the consolidated financial statements of the current fiscal year.

3. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policy for financial instruments

The Group does not permit the investment of surplus funds in transactions other than short-term bank deposits and uses financing from banks and other financial institutions. Derivative transactions are used for the purpose of hedging against the risk of fluctuations in interest rates on borrowings. The Group does not enter into any derivative transactions for speculative purpose.

(b) Financial instruments and risk management

The Group is exposed to credit risk primarily with respect to trade receivables. In order to reduce the credit risk of these receivables, the Group manages settlement dates and amounts due for counterparties according to internal rules and reviews the credit capacity of principal customers on a regular basis. Investments in securities, primarily equity securities of corporations with which the Group does business, are exposed to the risk of fluctuations in market prices. The Group regularly monitors the market prices of such securities in order to mitigate such risk.

Trade payables are generally due within one year. The funds acquired from bank borrowings and the issuance of bonds payable are intended to be used based on the business plan. Borrowings with floating interest rates expose the Group to risks associated with fluctuations in interest rates. In connection with some long term borrowings, the Group enters into interest rate swaps to avoid the risk of interest rate fluctuations and fix interest payments. The Group is a party to derivative financial instruments such as interest rate swaps in the normal course of business. Pursuant to the Group's internal rules for risk management, contract balances for derivatives are limited to certain anticipated transactions and credit risk is reduced by limiting counterparties to highly creditworthy financial institutions. Payables are exposed to liquidity risk that the Group manages in ways such as preparing monthly cash management plans.

(2) Fair values of financial instruments

The fair value and carrying value of financial statements other than unlisted equity securities for which the fair value was extremely difficult to determine at March 31, 2016 and 2015, were as follows.

	<u>Carrying value</u>	<u>Fair value</u>	<u>Differences</u>
	Millions of yen		
At March 31, 2016:			
Financial assets:			
Cash and cash equivalents	¥ 59,357	¥ 59,357	¥ -
Short-term investments	1,290	1,290	-
Trade notes and accounts receivable	19,930	19,930	-
Investment securities:			
Available-for-sale securities	<u>18,258</u>	<u>18,258</u>	<u>-</u>
Total	<u>¥ 98,835</u>	<u>¥ 98,835</u>	<u>¥ -</u>
Financial liabilities:			
Trade notes and accounts payable	¥ 4,428	¥ 4,428	¥ -
Bonds	<u>10,050</u>	<u>10,520</u>	<u>470</u>
Total	<u>¥ 14,478</u>	<u>¥ 14,948</u>	<u>¥ 470</u>

	<u>Carrying value</u>	<u>Fair value</u>	<u>Differences</u>
	Millions of yen		
At March 31, 2015:			
Financial assets:			
Cash and cash equivalents	¥ 54,207	¥ 54,207	¥ -
Short-term investments	207	207	-
Trade notes and accounts receivable	17,450	17,450	-
Investment securities:			
Available-for-sale securities	<u>21,598</u>	<u>21,598</u>	<u>-</u>
Total	<u>¥ 93,462</u>	<u>¥ 93,462</u>	<u>¥ -</u>
Financial liabilities:			
Trade notes and accounts payable	¥ 4,676	¥ 4,676	¥ -
Bonds, including current portion	<u>600</u>	<u>604</u>	<u>4</u>
Total	<u>¥ 5,276</u>	<u>¥ 5,280</u>	<u>¥ 4</u>

	<u>Thousands of U.S. dollars</u>		
At March 31, 2016:			
Financial assets:			
Cash and cash equivalents	\$ 525,283	\$ 525,283	\$ -
Short-term investments	11,416	11,416	-
Trade notes and accounts receivable	176,372	176,372	-
Investment securities:			
Available-for-sale securities	<u>161,575</u>	<u>161,575</u>	<u>-</u>
Total	<u>\$ 874,646</u>	<u>\$ 874,646</u>	<u>\$ -</u>
Financial liabilities:			
Trade notes and accounts payable	\$ 39,186	\$ 39,186	\$ -
Bonds	<u>88,938</u>	<u>93,097</u>	<u>4,159</u>
Total	<u>\$ 128,124</u>	<u>\$ 132,283</u>	<u>\$ 4,159</u>

Notes:

(1) Details of the methods and assumptions used to estimate the fair value of financial instruments are summarized below:

(i) Cash and cash equivalents and trade notes and accounts receivable

The fair value is approximately equal to the carrying value due to their short-term maturities.

(ii) Short-term investments and investment securities

The fair value of investment equity securities is based on quoted market prices. The fair value of debt securities is based on prices provided by corresponding financial institutions. The fair value of short-term investment is approximately equal to the carrying value due to their short-term maturities.

(iii) Trade notes and accounts payable

The fair value is approximately equal to the carrying value due to their short-term maturities.

(iv) Bonds

The fair value of convertible bonds is principally based on prices provided by correspondent financial institutions.

(2) The following securities were not included in the table above because their fair values were extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	2016	
Unlisted equity securities	¥ 157	¥ 74	\$	1,390

(3) Expected maturities of financial assets at March 31, 2016 were as follows:

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
	Millions of yen			
Financial assets:				
Cash and cash equivalents	¥ 59,357	¥ -	¥ -	¥ -
Trade notes and accounts receivable	19,930	-	-	-
Investments	1,290	-	100	200
Total	¥ 80,577	¥ -	¥ 100	¥ 200
	Thousands of U.S. dollars			
Financial assets:				
Cash and cash equivalents	\$ 525,283	\$ -	\$ -	\$ -
Trade notes and accounts receivable	176,372	-	-	-
Investments	11,416	-	885	1,770
Total	\$ 713,071	\$ -	\$ 885	\$ 1,770

(4) Contractual maturities of bonds at March 31, 2016 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 10,000	\$ 88,496
	¥ 10,000	\$ 88,496

4. Notes and Accounts Receivable

At March 31, 2016 and 2015, notes and accounts receivable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Trade	¥ 19,930	¥ 17,450	\$ 176,372
Other	3,080	3,429	27,257
Less allowance for doubtful accounts	(64)	(65)	(567)
	¥ 22,946	¥ 20,814	\$ 203,062

5. Inventories

At March 31, 2016 and 2015, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Finished goods	¥ 6,231	¥ 6,573	\$ 55,142
Work-in-process	15,256	14,571	135,009
Raw materials and supplies	5,839	6,767	51,672
	¥ 27,326	¥ 27,911	\$ 241,823

Loss on the write-down of ¥284 million (\$2,513 thousand) and ¥180 million were recognized as costs of goods sold for the years ended March 31, 2016 and 2015, respectively.

6. Investments Securities

At March 31, 2016 and 2015, short-term investments consisted of time deposits with an original maturity of more than three months.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Securities with fair value:			
Equity securities	¥ 17,938	¥ 21,483	\$ 158,743
Bonds	320	115	2,832
Total securities with fair value	18,258	21,598	161,575
Other securities without fair value	157	74	1,390
Total	¥ 18,415	¥ 21,672	\$ 162,965

At March 31, 2016 and 2015, the cost and fair value of available-for-sale securities were as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Millions of yen				
At March 31, 2016:				
Equity securities	¥ 10,173	¥ 8,028	¥ (263)	¥ 17,938
Bonds	321	0	(1)	320
	<u>¥ 10,494</u>	<u>¥ 8,028</u>	<u>¥ (264)</u>	<u>¥ 18,258</u>
At March 31, 2015:				
Equity securities	¥ 10,153	¥ 11,356	¥ (26)	¥ 21,483
Bonds	118	-	(3)	115
	<u>¥ 10,271</u>	<u>¥ 11,356</u>	<u>¥ (29)</u>	<u>¥ 21,598</u>
Thousands of U.S. dollars				
At March 31, 2016:				
Equity securities	\$ 90,026	\$ 71,044	\$ (2,327)	\$ 158,743
Bonds	2,841	0	(9)	2,832
	<u>\$ 92,867</u>	<u>\$ 71,044</u>	<u>\$ (2,336)</u>	<u>\$ 161,575</u>

7. Intangible Assets

At March 31, 2016 and 2015, intangible assets consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Software	¥ 5,841	¥ 5,314	\$ 51,690
Other intangible assets	22	18	195
	<u>¥ 5,863</u>	<u>¥ 5,332</u>	<u>\$ 51,885</u>

8. Notes and Accounts Payable

At March 31, 2016 and 2015, notes and accounts payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Trade	¥ 4,428	¥ 4,676	\$ 39,186
Other	907	442	8,026
	<u>¥ 5,335</u>	<u>¥ 5,118</u>	<u>\$ 47,212</u>

9. Long-term Debt

At March 31, 2016 and 2015, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unsecured bonds through March 2016 at a rate of 1.180% per annum	¥ -	¥ 600	\$ -
Zero coupon unsecured convertible bonds, due March 2021	10,050	-	88,938
Less current portion	-	(600)	-
	<u>¥ 10,050</u>	<u>¥ -</u>	<u>\$ 88,938</u>

At March 31, 2016, the exercise price of the zero coupon convertible bonds due March 2021 was ¥1,468 per share subject to adjustment in certain circumstances, including in the event of a stock split. The Company may, at its call option, redeem all, but not some only, of the zero coupon convertible bonds due March 2021 for the period from November 26, 2020 at 100% of the principal amount, subject to certain conditions.

At March 31, 2016, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 6 million.

To secure effective financing, the Company had committed line-of-credit agreements with six principal financial institutions as of March 31, 2016. The cumulative status of such agreements as of March 31, 2016 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Committed lines of credit	¥ 12,000	\$ 106,195
Loans utilized	-	-
Available credit	<u>¥ 12,000</u>	<u>\$ 106,195</u>

10. Employee Retirement Benefits

The Company has adopted defined contribution retirement plans, employees' pension fund plans and defined benefit pension plans.

The employees' pension fund plan is a multi-employer pension plan. As information that would allow a determination of whether the value of the pension plan assets has been reasonably calculated in proportion to the contributions made by the Company is not available, the contributions required were accounted for using the accounting treatment similar to that used for defined contribution plans.

A domestic consolidated subsidiary participates in a small- and medium- sized enterprise mutual aid plan. Net defined benefit liability and retirement benefit expense of the consolidated subsidiary are calculated using the simplified method as permitted by the accounting standard for employee retirement benefits. The other certain consolidated subsidiaries have adopted defined contribution plans.

Information about employee retirement benefits for the years ended March 31, 2016 and 2015 was as follows:

Defined benefit plan

(1) Movement in retirement benefit obligations:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at April 1	¥ 7,232	¥ 8,413	\$ 64,000
Cumulative effects of changes in accounting policies	-	(1,958)	-
Restated balance	7,232	6,455	64,000
Service cost	616	577	5,451
Interest cost	42	57	372
Actuarial differences	494	264	4,372
Benefits paid	(301)	(121)	(2,664)
Balance at March 31	¥ 8,083	¥ 7,232	\$ 71,531

(2) Movements in plan assets:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at April 1	¥ 6,932	¥ 5,509	\$ 61,345
Expected return on plan assets	190	151	1,681
Actuarial differences	(457)	801	(4,044)
Contributions paid by the employer	587	568	5,195
Benefits paid	(280)	(106)	(2,478)
Other	4	9	36
Balance at March 31	¥ 6,976	¥ 6,932	\$ 61,735

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligations	¥ 8,083	¥ 7,232	\$ 71,531
Plan assets	(6,976)	(6,932)	(61,735)
Total net defined benefit liability at March 31	<u>1,107</u>	<u>300</u>	<u>9,796</u>
Net defined benefit liability	1,107	300	9,796
Total net defined benefit liability at March 31	<u>¥ 1,107</u>	<u>¥ 300</u>	<u>\$ 9,796</u>

(4) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 616	¥ 577	\$ 5,451
Interest cost	42	57	372
Expected return on plan assets	(190)	(151)	(1,681)
Amortization of actuarial differences	<u>(537)</u>	<u>(287)</u>	<u>(4,753)</u>
Total retirement benefit costs for the fiscal year	<u>¥ (69)</u>	<u>¥ 196</u>	<u>\$ (611)</u>

(5) Remeasurements of defined benefit plans included in other comprehensive income (before adjusting for tax effects):

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial differences	¥ 1,488	¥ (250)	\$ 13,168

(6) Remeasurements of defined benefit plans included in accumulated other comprehensive income (before adjusting for tax effects):

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized actuarial differences	¥ 950	¥ (537)	\$ 8,407

(7) Plan assets:

(i) Plan assets comprise:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Bonds	¥ 2,766	¥ 2,654	\$ 24,478
Equity securities	2,632	2,722	23,292
Short-term funds	115	140	1,018
General accounts of life insurance	690	656	6,106
Other	773	760	6,841
Total	¥ 6,976	¥ 6,932	\$ 61,735

(ii) Long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2016 and 2015 were as follows:

	2016	2015
Discount rate	0.1%	0.6%
Long-term expected rate of return	2.8%	2.8%

The index of increase in salary by age at March 31, 2013 was used as the rate of increase in salary.

Defined contribution plan

The amounts of required contributions to defined contribution plans of the consolidated subsidiaries were ¥132 million (\$1,168 thousand) and ¥120 million for the years ended March 31, 2016 and 2015, respectively.

Multi-employer pension plan

The amount of required contribution to multi-employer pension plans was ¥325 million (\$2,876 thousand) and ¥441 million for the years ended March 31, 2016 and 2015, respectively.

The conference of representatives of the employees' pension fund in which the Company participated decided to dissolve the employees' pension fund on February 23, 2015. The employees' pension fund plans made an advance payment of ¥109,600 million on November 27, 2015 as a part of the policy reserves based on the approval of the future transfer of the substitutional portion on November 1, 2015.

Information regarding the funded status of the entire corporate pension plan available as of the latest calculation period-end was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Latest calculation period-end	March 31, 2015:	March 31, 2014:	
Plan assets	¥ 141,420	¥ 126,998	\$ 1,251,504
Total of actuarial obligation and minimum policy reserve	157,294	146,473	1,391,982
Difference, resulting primarily from unamortized past service cost	¥ (15,874)	¥ (19,475)	\$ (140,478)
Ratio of the Company's contributions to total contributions to entire plan	6.8%	6.8%	

11. Lease Commitments

At March 31, 2016, The Group had annual commitments under operating leases as lessee. The aggregate future minimum payments for non-cancelable operating leases were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Operating leases:		
Due within one year	¥ 4	\$ 35
Due after one year	23	204
	¥ 27	\$ 239

The Group had no annual commitments under operating leases as lessee at March 31, 2015.

12. Contingent Liabilities

There were no contingent liabilities at March 31, 2016 and 2015.

13. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of the additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The additional paid-in capital and legal earnings reserve have been included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At March 31, 2016 and 2015, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal earnings reserve of the Company in the amount of ¥1,450 million (\$12,832 thousand) and ¥1,450 million at March 31, 2016 and 2015, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations. During the year ended March 31, 2016, the Company paid interim dividends of ¥14.00 per share, amounting to ¥1,369 million (\$12,115 thousand). In addition, on June 29, 2016, the annual meeting of stockholders of the Company approved cash dividends as an appropriation of retained earnings in the amount of ¥1,346 million (\$11,912 thousand, ¥14.00 per share) to the shareholders at March 31, 2016.

14. Impairment Loss on Fixed Assets

Impairment loss recognized on the fixed assets for the years ended March 31, 2016, and 2015 was as follows:

Location	Usage	Assets	Millions of yen	Thousands of U.S. dollars
			2016	2016
Kunshan, China	Factory	Building and other assets	¥ 982	\$ 8,690
			¥ 982	\$ 8,690

The Group has recognized impairment loss on fixed assets for the year ended March 31, 2016 because the recoverability of investment amounts was projected as difficult due to declines in profit of an overseas subsidiary. The recoverable amounts are measured by net realizable values which are determined based on real estate appraisal values.

Location	Usage	Assets	Millions of yen
			2015
Aichi, Japan	Idle assets	Land	¥ 40
		Building and other assets	26
			¥ 66

The Group recognized impairment loss on fixed assets for the year ended March 31, 2015 because the fixed assets were idle and their fair value against the carrying amount of the assets declined. Recoverable amounts are measured by net realizable values which are determined primarily based on the sales values on the real estate purchase application forms.

15. Income Taxes

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of
	2016	2015	U.S. dollars
Deferred tax assets:			2016
Loss on the write-down of inventories	¥ 1,136	¥ 1,161	\$ 10,053
Intercompany unrealized gains on inventories	777	800	6,876
Accrued expenses	660	697	5,841
Loss on the write-down of investment securities	469	493	4,150
Impairment loss on fixed assets	355	433	3,142
Provision for product warranties	264	290	2,336
Accrued enterprise taxes	63	275	558
Net defined benefit liability	340	98	3,009
Other	296	362	2,619
Subtotal of deferred tax assets	4,360	4,609	38,584
Less valuation allowance	(980)	(1,088)	(8,672)
Total deferred tax assets	3,380	3,521	29,912
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	(2,222)	(3,230)	(19,664)
Other	(18)	-	(160)
Total deferred tax liabilities	(2,240)	(3,230)	(19,824)
Net deferred tax assets	¥ 1,140	¥ 291	\$ 10,088

In assessing the realizability of deferred tax assets, management of the Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. At March 31, 2016 and 2015, a valuation allowance was provided to reduce deferred tax assets to the amount the management believed would be realizable.

Reconciliation of differences between the Japanese statutory tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2016 and 2015 was as follows:

	Percentage of pretax income
	2015
Japanese statutory income tax rate	35.5 %
Increase (decrease) due to:	
Tax exempt income	(0.5)
Changes in valuation allowances	(1.6)
Tax credit	(3.7)
Effect of income tax rate changes	1.3
Other	1.5
Effective income tax rate	32.5 %

For the year ended 31 March 2016, a reconciliation of the differences between the combined Japanese statutory income tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income was not disclosed as the difference between the rates was not material.

“Act on Partial Amendment to the Income Tax Act, etc.” (Act No. 15, 2016) and “Act on Partial Amendment to the Local Tax Act, etc.” (Act No. 13, 2016) were enacted on March 29, 2016, and accordingly, the corporate tax rate and other rates have been lowered from the fiscal year beginning on or after April 1, 2016. Due to this change, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been revised from the previous rate of 33.0%. A rate of 30.8% has been applied to temporary differences expected to be either deductible, taxable or expired in the fiscal years beginning on April 1, 2016 and 2017, while a rate of 30.6% has been applied to temporary differences expected to be either deductible, taxable, or expired in or after the fiscal year beginning on April 1, 2018. As a result of this change in tax rates, at March 31, 2016, deferred tax assets decreased by ¥2 million (\$18 thousand), deferred income taxes increased by ¥101 million (\$894 thousand), net unrealized gains on available-for-sale securities increased by ¥114 million (\$1,009 thousand) and remeasurements of defined benefit plans decreased by ¥15 million (\$133 thousand).

“Act on Partial Amendment to the Income Tax Act, etc.” (Act No. 9, 2015) and “Act on Partial Amendment to the Local Tax Act, etc.” (Act No. 2, 2015) were promulgated on March 31, 2015, and accordingly, the corporate tax rate and other rates have been lowered from the fiscal year beginning on or after April 1, 2015. Due to this change, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been revised from the previous rate of 35.5%. A rate of 33.0% has been applied to temporary differences expected to be either deductible, taxable or expired in the fiscal year beginning on April 1, 2015, while a rate of 32.2% has been applied to the temporary differences expected to be either deductible, taxable, or expired in or after the fiscal year beginning on April 1, 2016. As a result of this change in tax rate, at March 31, 2015, deferred tax liabilities increased by ¥176 million, deferred income taxes increased by ¥168 million, net unrealized gains on available-for-sale securities increased by ¥326 million, and remeasurements of defined benefit plans increased by ¥18 million.

16. Business Combinations

Business combinations due to acquisition

1. Outline of business combination

(1) Name and business description of the acquired company

Name of the acquired company: Fuji Do Brasil Maquinas Industriais Ltda. (hereinafter, “FDB”)

Business description: Sales of electronics assembly equipment

(2) Principal reasons for carrying out the business combination

The Company made FDB, which was owned by Sojitz Corporation and was an affiliated company not accounted for the equity method before the business combination, a subsidiary in order to promote prompt decision-making, to increase net sales in the market of South America and to improve customer services.

(3) Date of business combination

August 22, 2014

(4) Legal form of business combination

Share acquisition with cash compensation

(5) Name of company after the business combination

There is no change.

(6) Share of the voting rights acquired

Voting rights before the business combination: 35%

Voting rights additionally acquired on the business combination: 25%

Voting rights after the business combinations: 60%

(7) Main reason determining the acquiring company

The shares were acquired by the Company using cash consideration.

2. Period of operations of the acquired company included in the consolidated financial statements

From July 1, 2014 to December 31, 2014

3. Acquisition cost and breakdown of the acquired company

		<u>Millions of yen</u>	
Consideration for acquisition	Fair value of the shares held immediately before the additional acquisition as of the date of business combination	¥	209
	Fair value of the shares acquired as of the date of business combination		150
Acquisition cost		¥	<u>359</u>

4. Difference between the acquisition cost of the acquired company and the total amount of the acquisition cost arising from transactions

Gain on step acquisitions ¥77 million

5. Amount of goodwill, reason for recognition and amortization method and period

(1) Amount of goodwill

¥30 million

(2) Reason for recognition

The acquisition cost exceeded the fair value of the net assets of the acquired company at the time of the business combination.

(3) Amortization method and period

As the impact was not material, goodwill was amortized for the year ended March 31, 2015

6. The major assets and liabilities of the acquired companies as of the date of the business combination

	Millions of yen	
Current assets	¥	606
Non-current assets		292
Total assets		898
Current liabilities		350
Total liabilities		350

7. Estimated impact on the consolidated statements of income if the business combination had been completed at the beginning of the fiscal year ended March 31, 2015

	Millions of yen	
Net sales	¥	339
Operating income		6
Ordinary income		27
Income before income taxes and minority interests		43
Net income		32

	yen	
Net income per share	¥	0.33

(Calculation method for the estimated amount)

The difference between the information about sales and profit/loss which were calculated on the assumption that the business combination was completed at the beginning of the fiscal year and these in the consolidated statements of income is used as the estimated amount of effect. In addition, there is no audit certification regarding the estimated effect.

17. Segment Information

(a) General information about reportable segments:

The reportable segments of the Group are those units for which separate financial statements can be obtained among the constituent units of the Group and which are regularly examined by the board of directors of the Company to determine the allocation of management resources and to assess business performance.

The Group operates separate divisions based on the products and services provided. Each division plans comprehensive domestic and international strategies for its products and services and is engaged in developing its respective business activities. Thus, the Group has two reportable segments based on the two main types of products and services offered: Electronics Assembly Equipment business and Machine Tools business. In the Electronics Assembly Equipment business, we produce mainly robotic mounters for electronic parts. For the Machine Tools business, we are focused on producing automatic lathes and other specialized machines.

(b) Basis of measurement about reportable segment net sales, income, assets and other items:

The accounting procedures applied to the reportable segments are basically the same as those described in Note 2, "Summary of Significant Accounting Policies." Reportable segment income is based on operating income. Intersegment sales and transfers are based on prevailing market prices.

	Reportable segments					Adjustments	Consolidated financial statements
	Electronics Assembly Equipment	Machine Tools	Total	Others (*1)	Total		
	Thousands of U.S. dollars						
For the year 2016:							
Net sales:							
External customers	\$ 626,434	\$ 129,407	\$ 755,841	\$ 10,902	\$ 766,743	\$ -	\$ 766,743
Intersegment sales/transfers	18	-	18	26	44	(44)	-
Total	\$ 626,452	\$ 129,407	\$ 755,859	\$ 10,928	\$ 766,787	\$ (44)	\$ 766,743
Segment income (loss) (*2)	128,557	5,434	133,991	(3,150)	130,841	(25,514)	105,327
Segment assets (*3)	656,991	133,381	790,372	10,778	801,150	587,859	1,389,009
Other items:							
Depreciation (*4)	37,708	3,522	41,230	505	41,735	1,929	43,664
Increase in property, plant and equipment and intangible assets (*4)	\$ 42,310	\$ 4,725	\$ 47,035	\$ 823	\$ 47,858	\$ 2,062	\$ 49,920

*1) "Others" is a business segment that is not considered a reportable segment. It includes the manufacture of control equipment, PCB designing and manufacturing, software development and others.

*2) Segment income adjustment consisted of corporate expenses amounting to ¥(2,888) million (\$ (25,558) thousand) and ¥(2,856) million, net of intersegment elimination of ¥5 million (\$44 thousand) and ¥1 million for the years ended March 31, 2016 and 2015, respectively. Such corporate expenses mainly consist of general and administrative expenses and technical research expenses not attributable to the reportable segments.

*3) Segment assets adjustment consisted of corporate assets amounting to ¥66,429 million (\$587,867 thousand) and ¥65,290 million, net of intersegment elimination of ¥(1) million (\$ (8) thousand) and ¥ (11) million at March 31, 2016 and 2015, respectively. Such corporate assets consist mainly of surplus funds (cash and deposits), long-term investments (investment securities), assets related to technological research and administration divisions and other assets, which are not attributable to the reportable segments.

*4) Adjustments were attributable to technological research and administration divisions related items.

(d) Information about reported segments:

For the year ended March 31, 2016

(1) Information about products and services:

As this information has been presented under the segment information above, such information has been omitted.

(2) Information about geographic areas:

As of and for the years ended March 31, 2016, net sales and property, plant and equipment by geographic area were as follows:

	Japan	China	Other Asia	United States	Other North America	Europe	Other	Total
	Millions of yen							
Net sales	¥ 15,337	¥ 32,166	¥ 10,559	¥ 12,383	¥ 4,042	¥ 10,438	¥ 1,717	¥ 86,642
Ratio	17.7%	37.1%	12.2%	14.3%	4.7%	12.0%	2.0%	100.0%
	Thousands of U.S. dollars							
Net sales	\$ 135,725	\$ 284,655	\$ 93,442	\$ 109,584	\$ 35,770	\$ 92,372	\$ 15,195	\$ 766,743
	Millions of yen							
Property, plant and equipment	¥ 15,523	¥ 912	¥ 1,191	¥ 44	¥ 124	¥ 17,794		
Ratio	87.2%	5.1%	6.7%	0.3%	0.7%	100.0%		
	Thousands of U.S. dollars							
Property, plant and equipment	\$ 137,372	\$ 8,071	\$ 10,540	\$ 389	\$ 1,097	\$ 157,469		

(3) Information about major customers:

For the years ended March 31, 2016, information about major customers was as follows:

Name of customer	Millions of yen	Thousands of U.S. dollars	Segment
	Net sales	Net sales	
American Tec Company Limited (China)	15,010	132,832	Electronics Assembly Equipment

For the year ended March 31, 2015

(1) Information about products and services:

As this information has been presented under the segment information above, such information has been omitted.

(2) Information about geographic areas:

As of and for the years ended March 31, 2015, net sales and property, plant and equipment by geographic area were as follows:

	Japan	China	Other Asia	United States	Other North America	Europe	Other	Total
	Millions of yen							
Net sales	¥ 9,903	¥ 37,856	¥ 12,083	¥ 11,100	¥ 2,695	¥ 9,954	¥ 1,675	¥ 85,266
Ratio	11.6%	44.4%	14.2%	13.0%	3.1%	11.7%	2.0%	100.0%

	Japan	China	United States	Europe	Other	Total
	Millions of yen					
Property, plant and equipment	¥ 15,785	¥ 2,131	¥ 1,316	¥ 23	¥ 187	¥ 19,442
Ratio	81.2%	10.9%	6.8%	0.1%	1.0%	100.0%

(3) Information about major customers:

For the years ended March 31, 2015, information about major customers was as follows:

Name of customer	Millions of yen		Segment
	Net sales		
American Tec Company Limited (China)	14,047		Electronics Assembly Equipment

(e) Information about impairment loss on fixed assets in reportable segments:

For the years ended March 31, 2016 and 2015, impairment loss on fixed assets of ¥982 million (\$8,690 thousand) and ¥66 million was recognized. However, as reportable segment income has been based on operating income, the impairment loss was not allocated to each reportable segment.

(f) Information about goodwill in reportable segments:

As this information was not material, it has been omitted.

18. Other Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized gains on available-for-sale securities			
Increase during the year	¥ (3,562)	¥ 3,828	\$ (31,522)
Reclassification adjustments	-	-	-
Subtotal, before tax	(3,562)	3,828	(31,522)
Tax effect	1,008	(902)	8,920
Subtotal, net of tax	(2,554)	2,926	(22,602)
Foreign currency translation adjustments			
Increase during the year	(1,480)	2,402	(13,097)
Remeasurements of defined benefit plans			
Increase during the year	(951)	537	(8,416)
Reclassification adjustments	(537)	(288)	(4,752)
Subtotal, before tax	(1,488)	249	(13,168)
Tax effect	464	(71)	4,106
Subtotal, net of tax	(1,024)	178	(9,062)
Total other comprehensive income	¥ (5,058)	¥ 5,506	\$ (44,761)

19. Cash Flow Statement

Assets and liabilities of newly consolidated subsidiaries through acquisition of shares:

Assets and liabilities of FDB, newly consolidated subsidiaries acquired through the purchase of investments in capital and the net cash inflow for such acquisitions, which are included in "Proceeds from investments in capital of subsidiaries resulting in change in scope of consolidation," for the year ended March 31, 2015 were as follows:

	Millions of yen
Current assets	¥ 606
Non-current assets	292
Current liabilities	(350)
Minority interests	(219)
Goodwill	30
Subtotal	359
Purchase cost of shares before acquisition of control	(132)
Gain on step acquisitions	(77)
Additional purchase cost of shares	150
Cash and cash equivalents of the newly consolidated subsidiary	(320)
Difference: Proceeds from investments in capital of subsidiaries resulting in change in scope of consolidation	¥ 170

Independent Auditor's Report



Independent Auditor's Report

To the Board of Directors of FUJI MACHINE MFG. Co., Ltd.:

We have audited the accompanying consolidated financial statements of FUJI MACHINE MFG. Co., Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management of the Company 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 audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is 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 present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to Consolidated Financial Statements.

KPMG AZSA LLC

July 5, 2016
Nagoya, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

