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FORWARD-LOOKING STATEMENTS

Many of the statements included in this annual report contain forward-looking statements and information such as forecasts, plans and targets identified by the use of terminology such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “will” or similar phrases. CYBERDYNE, INC. (the “Company”) bases these statements on beliefs as well as assumptions made using information currently available to the Company. As these statements reflect the Company’s current views concerning future events, these statements involve risks, uncertainties and assumptions. The actual future performance of the Company, its consolidated subsidiaries and its affiliates accounted for by the equity method (the “Group”) could differ materially from these forward-looking statements.

In addition, information relating to companies other than the Company and the Group that is included in this annual report has been derived from public sources. As a result, the Company has not verified this information from the standpoints of accuracy and appropriateness. Moreover, the Company in no manner guarantees this information.

Accordingly, please refrain from making investment decisions that are overly reliant on the forward-looking statements contained in this annual report. The Company cautions prospective investors not to place undue reliance on these forward-looking statements when making investment decisions. All written and oral forward-looking statements attributable to the Company or persons acting on the Company’s behalf are qualified in their entirety by these cautionary statements.

Cybernetics

“Cybernetics” (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. Cybernetics is championed by Yoshiyuki Sankai, a professor at the University of Tsukuba in Japan. Cybernic Technology means the practical application of Cybernetics to technology.

CYBERDYNE, INC.

The Company name is derived from the utilization of innovative “Cybernic” technologies and the word “Dyne,” which means power in Greek. The Company was named “CYBERDYNE” to express the meaning of “Power generated by Cybernetics.”

Robot Suit HAL®

Robot Suit HAL® is the world’s first cyborg-type robot. HAL was designed to improve, support, expand and regenerate 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®.

Cybernic Treatment

Cybernic Treatment is described as “Functional Regenerative Medicine” realized by devices like Medical HAL that are developed using Cybernic Technology, and it is an innovative treatment technology that promotes the functional improvement/regeneration of the brain-nerve-physical systems*. HAL establishes interactive biofeedback according to intension-based motion information from the brain-nervous system and activating sensory systems like muscle spindle fibers to form a neural loop between the brain-nerve system and the musculoskeletal system. Even if the patient is unable to generate enough muscle strength to move due to motor dysfunction, the treatment is able to repeatedly realize actual movement that is in sync with the motion intent of the brain while avoiding excessive burden on the brain-nerve-muscle systems, thus making functional improvement/regeneration possible. A physician can intervene by tuning the many adjustable parameters related to the patient’s motor and neurological information built into the device, in a way that appropriately circulates the patient’s neurological information through the neural loop between the brain-nerve system and the musculoskeletal system. Treatment with Medical HAL has been approved by the regulatory authorities in Japan and has been listed as a new treatment procedure that is distinct from other traditional rehabilitation procedures, with a different reimbursement price.

*Cybernic Treatment is not limited to Medical HAL and can be administered by other Medical Cybernic Systems that take on various forms using Cybernic Technology.

Society 5.0

a concept of super-smart society of the future, promoted by the Japanese government. It is the fifth society after “hunter-gatherer society (Society 1.0),” “agricultural society (Society 2.0),” “industrial society (Society 3.0) and “information society (Society 4.0).” It is a new image of a society brought by science and technological innovation, where technologies such as artificial intelligence (AI) and Internet of Things (IoT) will be fully implemented into the society. It was stated in the 5th Science and Technology Basic Plan that Japan is going to start their endeavor ahead of other countries to realize this society. As Japan was the host of the G7 Meeting that was held in May 2016, Japanese government projected this concept to the world as the ideal future society where humans and technology coexist.

CYBERDYNE, INC. President and CEO

Yoshiyuki Sankai, Ph.D. in Engineering

Important positions held

Professor at the Graduate School of Systems and Information Engineering, University of Tsukuba, Japan
 Director at the Center for Cybernetics Research, University of Tsukuba, Japan
 The President and CEO of CYBERDYNE, INC.
 Program Manager of the Impulsing Paradigm Change through Disruptive Technologies (ImPACT) Program

Education

Completed the Ph.D. course of Engineering at University of Tsukuba (March, 1987)
 Degree: Ph.D. in Engineering

Summary

Yoshiyuki Sankai is well known as a pioneer of a new academic field, "Cybernetics: the fusion and combination of humans, machines and information systems," and as a developer of an innovative cyborg type robots utilizing Cybernetics Technologies. He is the leading figure in the practical application, production and social implementation of innovative robotic medical devices such as Medical HAL and various medical technologies. He is also focused on R&D related to innovative Cybernetic Systems, next generation network medicine as well as medical and welfare systems towards realization of "Zero Burdening-care Society" and "Society 5.0."

After serving as a Research Fellowship for Young Scientists in Japan Society for the Promotion of Science, Research Associate at Institute of Engineering Mechanics and Systems of Tsukuba University, Assistant Professor, Associate Professor, Visiting Professor at Baylor College of Medicine in Houston and Professor of Institute of Engineering Mechanics and Systems of University of Tsukuba. He also served as a core researcher of Cybernetics in the Cabinet Offices' FIRST program, and served multiple roles in Robotic Society of Japan such as director, committee member, director and head of committee of its international journal "Advanced Robotics." He now serves as a professor at the Graduate School of Systems and Information Engineering at the University of Tsukuba, CEO of CYBERDYNE, INC, program manager of ImPACT, Director of Japan Society of Embolus Detection and Treatment, Council Member of the Global Future Council on Human Enhancement of the World Economic Forum and as Fellow of the Society of Instrument and Control Engineer (SICE).

Yoshiyuki Sankai establish a new academic field of Cybernetics. With Cybernetics, Yoshiyuki Sankai aims to shape the future by, structuring a global education system to nurture personnel capable of shaping the future, and also by creating innovative technology, new industry and nurturing personnel simultaneously in order to overcome various problems caused by aging and decline in birthrate.

Yoshiyuki Sankai founded "CYBERDYNE, INC." to research, develop, manufacture and sell cutting edge robots and services in the field of medicine, welfare, personal care, business and labor support, as his endeavor to make further contribution to the society with his researches.

Major awards

2005	World Technology Award by World Technology Network
2006	Gold prize for Good Design Award by Japan Institution of Design Promotion Japan Innovators Award Excellence Award by Nikkei BP
2007	METI ministers award of Contribution to Industry-Academia-Government Collaboration Award by the Cabinet Office of Japan
2009	Invention of 21st Century Award by Japan Institute of Invention and Innovation
2011	NetExplorateurs of the Year by UNESCO French HQ
2012	Capek Award by INNOROBO
2013	The 2014 Technology Pioneer by World Economic Forum Annual Meeting at Davos
2014	Gold Prize in the Edison Award by Edison Universe IPO of the Year in the DealWatch Awards by Thomson Reuters
2015	Innovative Equity Deal of the Year in the DealWatch Awards by Thomson Reuters
2016	Outstanding Contribution to Health Award by DIA Japan Ministers of Health Labor and Welfare Award in Robot Award by METI and The Japan Machinery Federation
2017	The Prime Ministers Award in Nippon Venture Award by METI



CYBERDYNE's philosophy and business vision

"Technology exists for humans and society."

When I established CYBERDYNE, 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.

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.

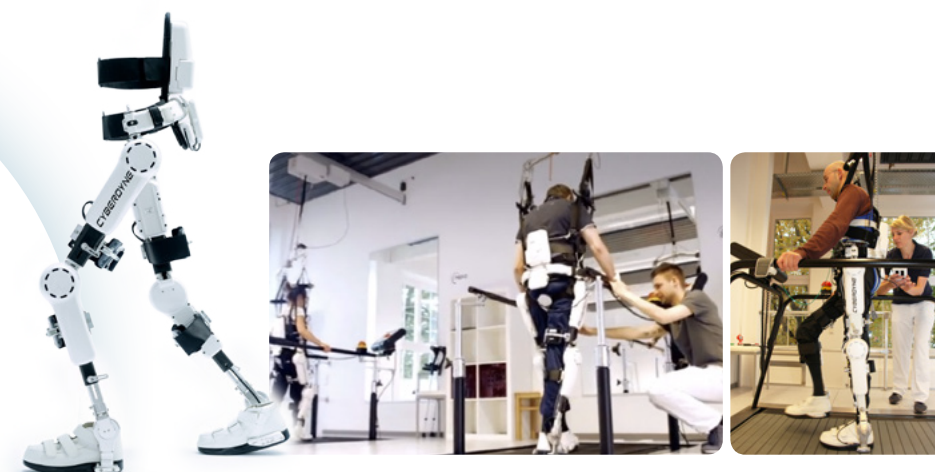
The Group researches and develops Cybernic Technology as a technology that can support human beings in a fully comprehensive manner, especially covering fields ranging from medicine and living support (at home and in work environment) to labor support. The Group is engaged in creating a total system 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.

Business fields

MEDICINE

In this business field, the Group administers robotic medical devices (medical robots), such as Medical HAL, which provide Cybernic Treatment services for patients with disorders related to the brain, nerves, or muscular system. The Group is also involved in development, manufacturing and rents Vital Sensor, which is a palm size device that would monitor electrical-cardiogram and hardening of arteries. 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 promote 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 stress applied on the lower back during heavy labor operation, such as transferring care aid and bathing aid, for elderly or disabled people.

LIVING SUPPORT



LABOR SUPPORT

In this business field, the Group provides HAL for Labor Support (Lumbar Type) that supports the heavy-labor operations in various industries. The Group also provides Cleaning Robots and Transport Robots with built-in artificial intelligence ("AI"). The Group also researches disaster relief robots that would support the rescue missions in disaster sites.

LABOR SUPPORT



The world's first cyborg-type robot, HAL

When a wearer intends to move their body, various signals are sent from the brain to the muscles through the nervous system, and these signals leak onto the skin surface as bio-electric signals ("BES"). By using this BES, Medical HAL is able to realize the wearer's intended movement.

Out of the various HAL systems, Medical HAL is known to be the world's first robotic treatment device that could improve the function of patients suffering from brain-nerve-muscle disease. This innovative medical device has drawn a lot of attention since its introduction.

What HAL changes is the brain map

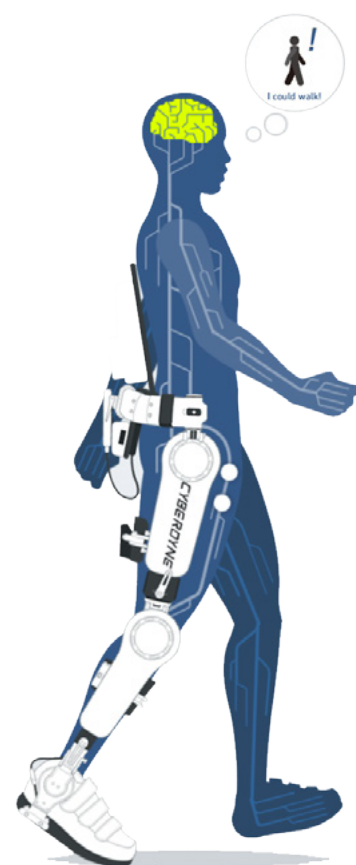
Major causes of lower limb disabilities are disorders of the neuromuscular system. In those cases, the brain cannot use ordinary neural pathways and cannot order the legs to move.

Medical HAL 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"). Medical HAL 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.

Flow of improving physical functions with HAL



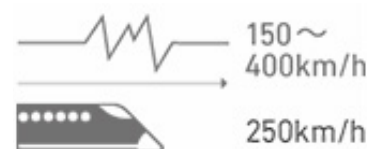
1 GENERATE

an intent to move with the brain

When a person tries to move their body, the brain sends a command signal through the nerves to the muscles.

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 RECEIVE

the signals at the muscles

Each muscle group can contract and provide power when it receives the appropriate command signal from the brain through the nerves.

However, if the flow of the command signal from the brain through the spinal cord to the muscles is affected due to disease or injury, the muscles may not receive the command signal as well, resulting in an impediment to their physical functions.

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

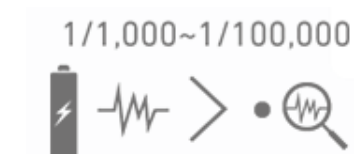
the signals with HAL

The signals that are sent from the brain through the nerves to the muscles leak onto the skin surface as very faint signals known as BES. HAL reads this BES through sensors placed on the surface of the skin.

Combined with other types of information like the center of balance or angles of the joints, HAL recognizes the kind motion the wearer is trying to do.

MORE INFO

BES that leaks onto the skin surface is very faint. 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

as you intend with HAL

HAL controls the power units at each joint independently based on the BES that reflects the wearer's intent as well as other motion information.

Even if the command signals from the brain to the muscles are weak or sparse due to disease or injury, as long as signals linked to the wearer's intent can be detected, the power delivered by HAL allows the wearer to perform voluntary intentional movements without excessively burdening the muscles and brain.

MORE INFO

While extremely short, there exists a delay between the moment the signal from the brain arrives at the muscles and the moment the muscles begins to move the joint.

Because HAL is able to instantly process the detected BES and quickly control its power units, the timing of the device's delivery of power feels natural, as if HAL is part of the wearer's body. This timing enables the functional fusion/unification of humans and HAL.

5 IMPROVE

the connections between the brain, nerve, and muscle systems

Through steps 01-04, an interactive biofeedback loop between the central nervous system and the peripherals is established. In other words, nerve information is sent from the brain [brain→spinal cord→motor neuron→muscle→HAL], goes through HAL, and returns back [HAL→sensory receptors like muscle spindle fibers→sensory neuron→spinal cord→brain] to the brain to form a loop.

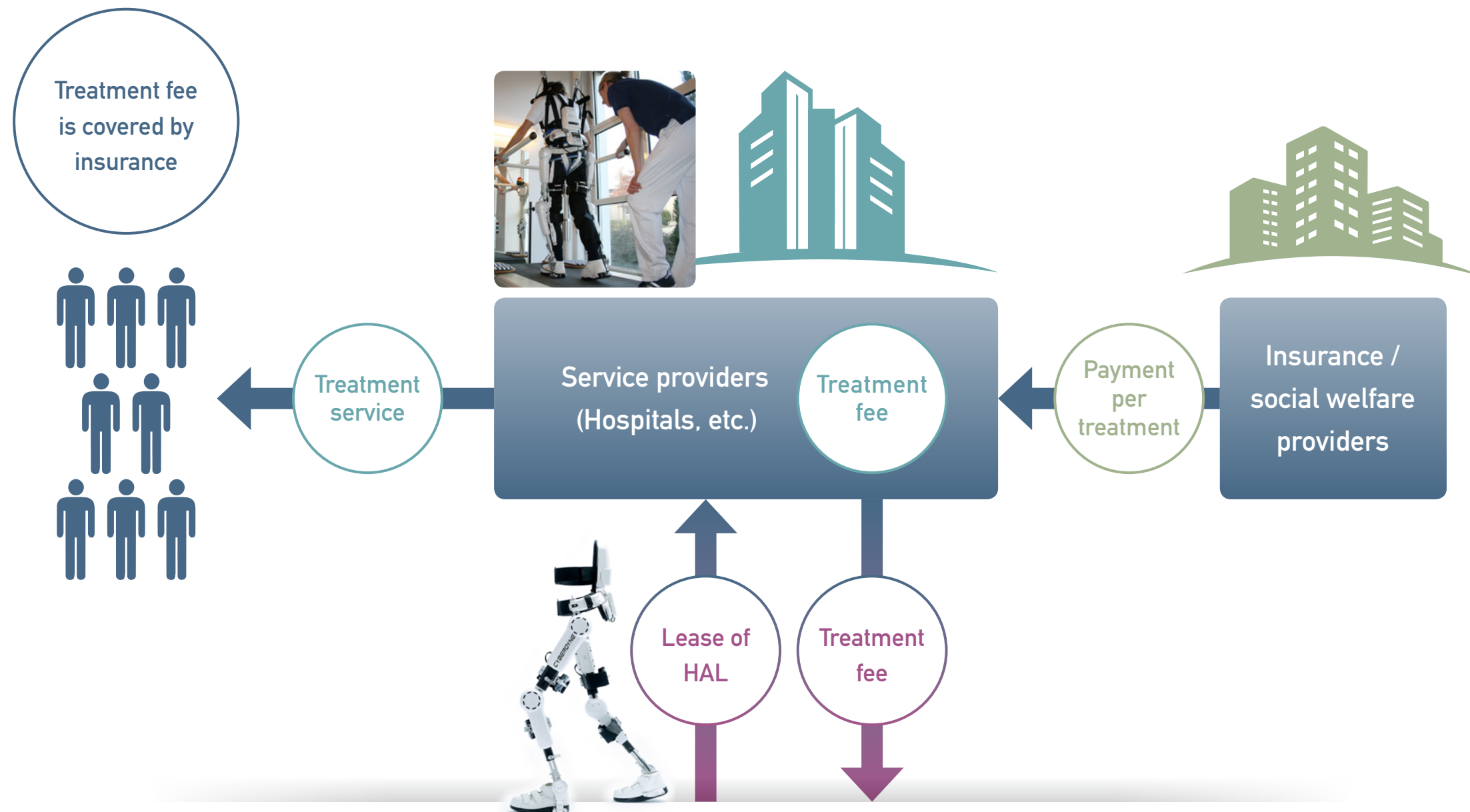
Parameters like the amount of assistance provided by HAL can be adjusted to meet the conditions of the wearer, so he/she can move their body as intended without excessively burdening their brain, nerve, and muscle systems. This repeated movement strengthens and adjusts the connections between the neurons in the brain and spinal cord and the connections between the neurons and muscles, promoting improvement and regeneration of physical functions.

Treatment with Medical HAL (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.

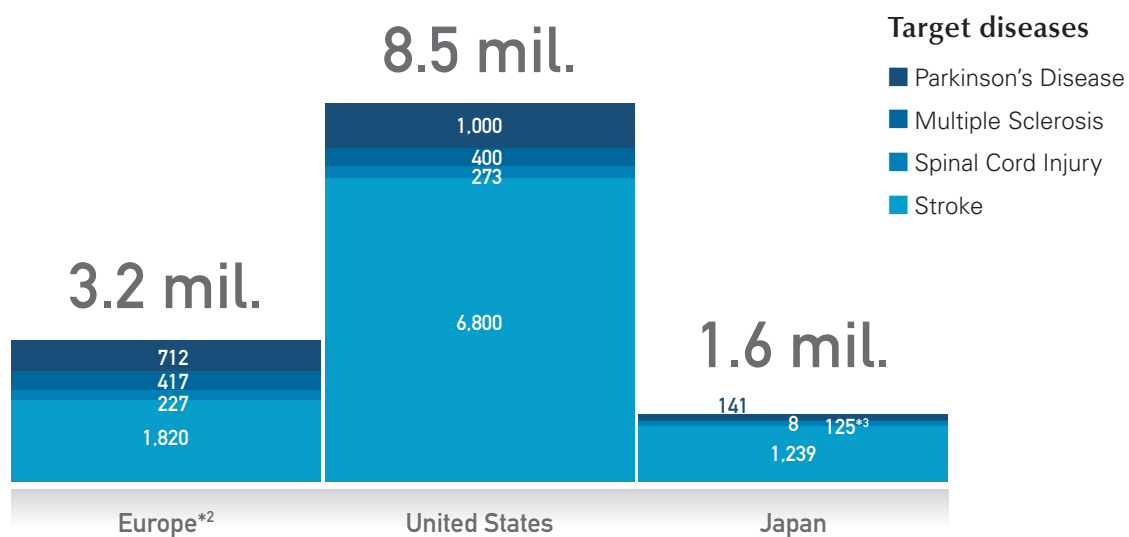
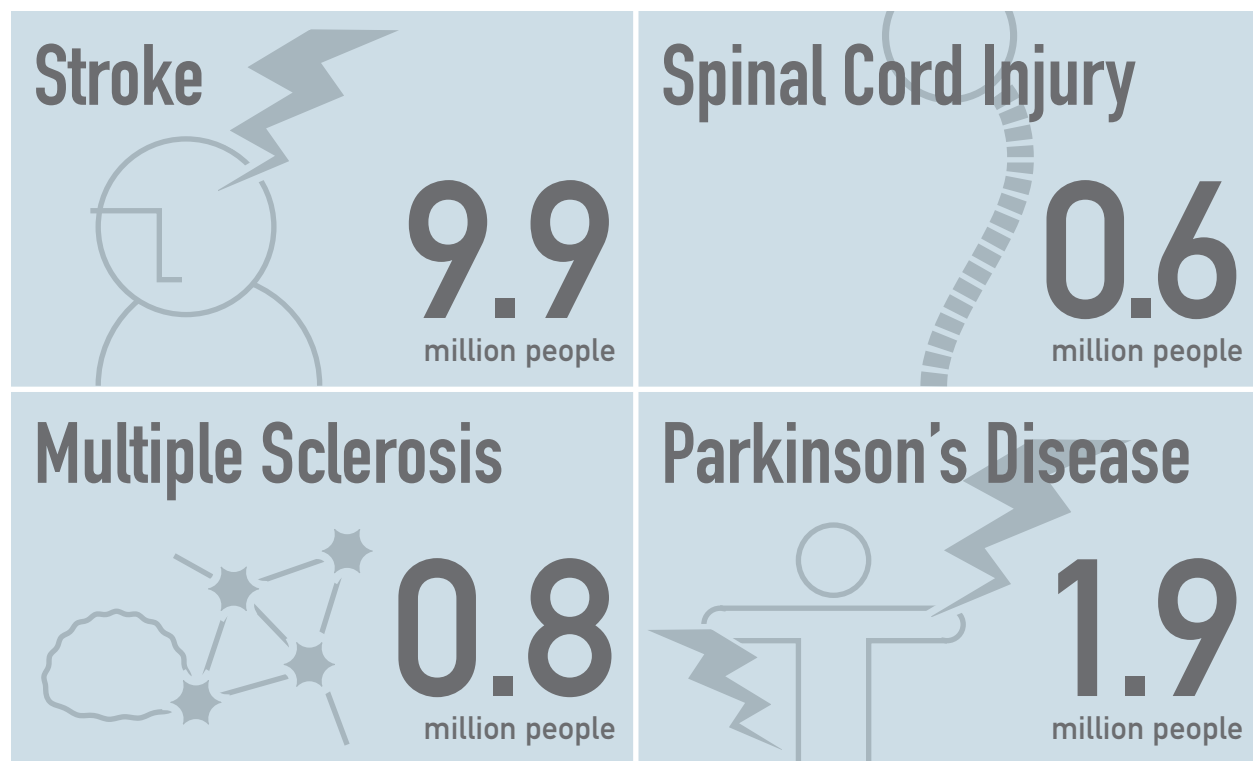
The principal form of the billing mechanism available in most countries occurs when a patient with a disability goes to a hospital where HAL is provided by the Group and is made available for medical treatments. The hospital receives payments for treatment using HAL from the patient (or if the treatment 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 Group will structure a revenue scheme similar to Germany.



Headquarters

Number of patients with notable diseases to which Cybernic Treatment is applicable



*1 Number of patients in the three top regions on medical device expenditure.

*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)

List of notable related journals

Spinal Cord Injury

1. Functional Outcome of Neurologic—Controlled HAL—Exoskeletal Neurorehabilitation in Chronic Spinal Cord Injury: A Pilot With One Year Treatment and Variable Treatment Frequency (2017)
2. Against the odds: what to expect in rehabilitation of chronic spinal cord with a neurologically controlled Hybrid Assistive Limb Exoskeleton. A subgroup analysis of 55 patients according to age and lesion level (2017)
3. The Effectiveness and Safety of Exoskeleton as Assistive and Rehabilitation Devices in the Treatment of Neurologic Gait Disorders in Patients with Spinal Cord Injury: A Systematic Review (2016)
4. "Voluntary driven exoskeleton as a new tool for rehabilitation in chronic spinal cord injury — A pilot study" The Spine Journal (2014)
5. "Locomotion training using voluntary driven exoskeleton (HAL) in acute incomplete SCI" Neurology (2014)

Stroke

1. "Gait training early after stroke with a new exoskeleton — the hybrid assistive limb: a study of safety and feasibility" Journal of Neuro Engineering and Rehabilitation (2014)
2. "Pilot study of locomotion improvement using hybrid assistive limb in chronic stroke patients" BMC Neurology (2013)

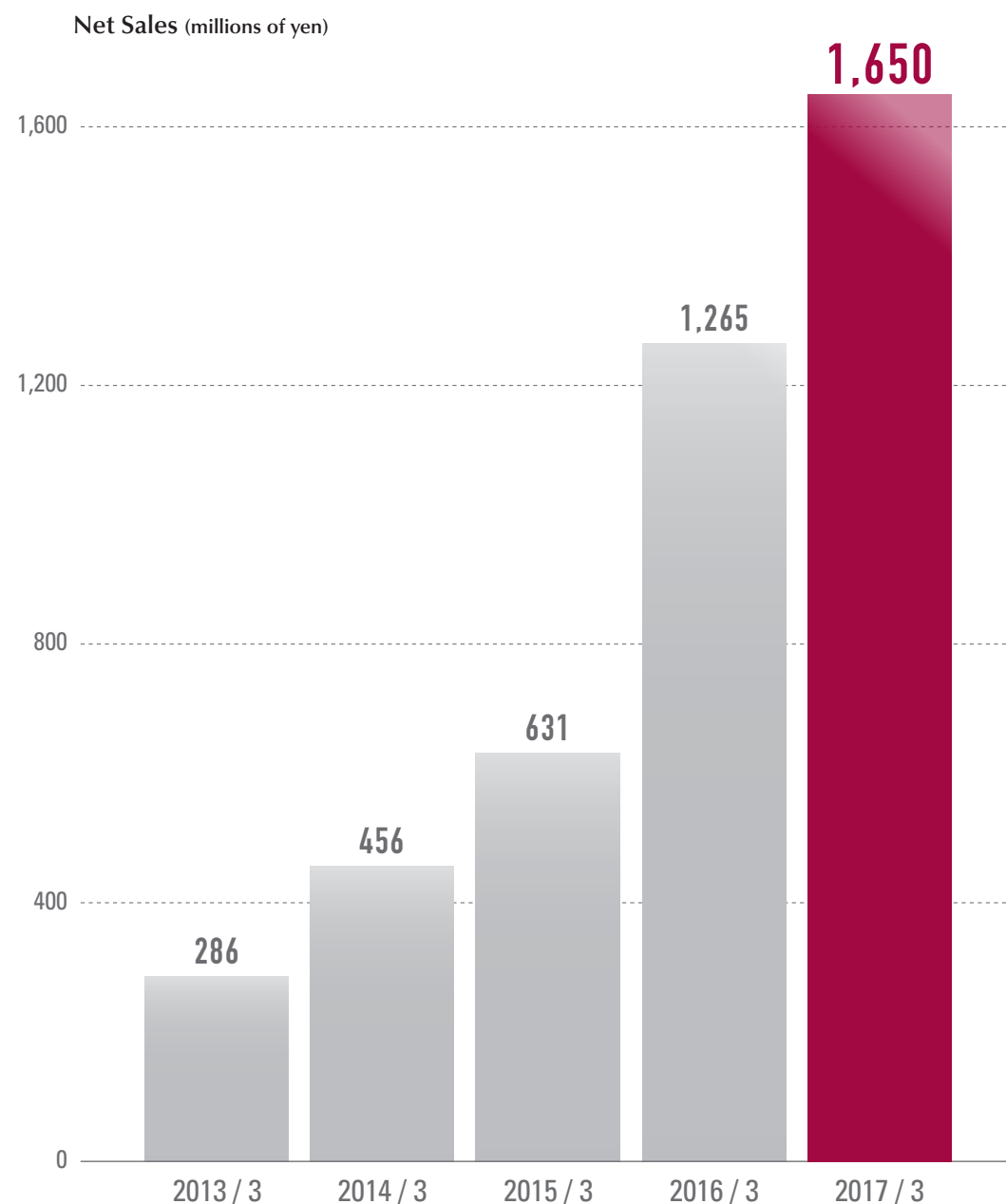
Other researches

1. "Feasibility of rehabilitation training with a newly developed wearable robot for patients with limited mobility" Archives of Physical Medicine and Rehabilitation (2013)

Results of operation

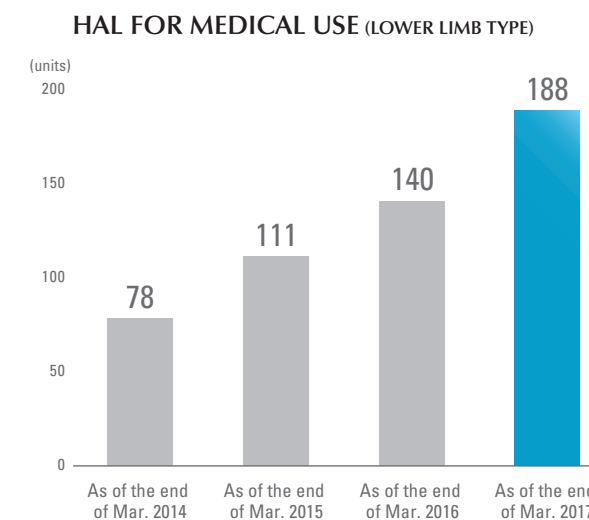
In the fiscal year ended March 31, 2017, net sales recorded an increase of 30% compared to the net sales of the previous year. This was mainly due to the following reasons

- Treatment with Medical HAL covered by public health insurance started on September 2016.
- Improved model of HAL for Care Support (Lumbar Type) was introduced and recorded a significant increase in its number of operating units.

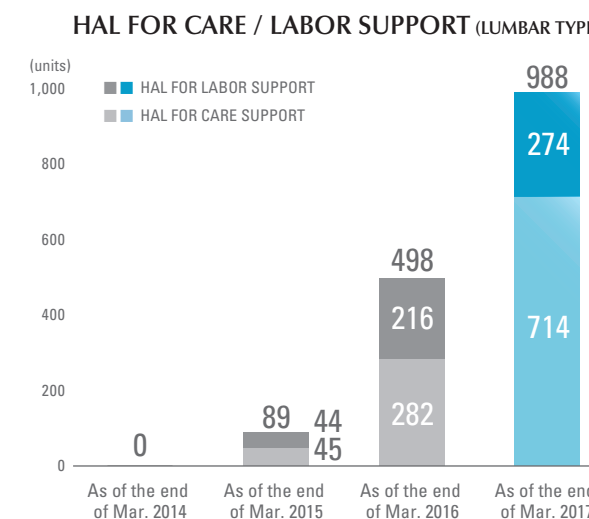


In fiscal year ended March 31, 2017, the following products led the sales of the Group.

For the Medical HAL, in addition to the treatment covered by public workers' compensation insurance that was already introduced in Germany, insurance covered treatment with public health insurance commenced in Japan on September 2, 2016 for neuromuscular diseases. The Group will continue to collaborate with Japanese and overseas hospitals to conduct various clinical tests towards expansion of Medical HAL's target diseases. Investigator-initiated clinical trial for stroke started on September 30, 2016 towards obtaining medical device approval for stroke and functional improvement, regeneration with Medical HAL (Single-Leg Model).



HAL for Care Support recorded a significant increase in its operating units due to introduction of the improved model with waterproof function allowing the device to be used for bathing aid. Increase was also due to subsidy project by the Ministry of Health Labour and Welfare to support installation of robotic devices in care facilities. HAL for Labor Support also recorded an increase due to practical implementation to Haneda Airport Limousine Bus.



“CYBERDYNE’s Challenges to Shape the Future”

Shigemura: The Company filed their FDA application for Medical HAL in June 2017. Now we can see treatment with HAL spreading out of Japan and Germany to the rest of the world. The global circumstances surrounding HAL at the moment look entirely different from last year. Can we discuss the status of the Company as of this date?

Sankai: The Company is currently spreading its Cybernic Treatment with Medical HAL around the world as the first step towards the grand plan of a Cybernic Revolution. The reason is because Cybernic Technology, such as HAL, is designed to connect humans and the physical and information spaces. I also see this as the core technology towards shaping the super smart society of “Society 5.0.” The other day, I was invited to the World Economic Forum in Dalian, China, which is also known as the “Summer Davos,” to give a keynote speech on “Augmenting Humanity,” as part of the Cybernic Revolution based on Cybernic Technology. The gist of the speech is that the world is now following the Company’s challenge to shape the future. In the last 12 months after the G7 meeting in Japan, I visited a few

countries that participated in the meeting, and talked with relevant ministers on related topics. I exchanged views in this regard with eminent figures who participated in the Summer Davos mentioned above.

There is a term “IoT” that stands for Internet of Things. This concept is centered around “Things,” but I think “Humans” must be included in this concept. So the new buzzword should be “IoH” that stands for Internet of Humans. This keyword popped up around the community in the past few years but the idea is to put this together with IoT to make IoH/IoT. Instead of just adding the two concepts together, the idea is to combine the two concepts at a high level. So every human and thing will be connected, and this connection will evolve the entire world.



This is actually what the Company is good at and strongly promotes as its main business line. The Company has finally reached this phase and, I believe, it is ready to push this concept strongly.

Shigemura: Let’s discuss the business of the Company. In Japan, the insurance for treatment with Medical HAL under public health insurance was announced in 2016, followed by the start of Cybernic Treatment for neuromuscular disease patients. When a patient receives Cybernic Treatment, how does it contribute to your revenue? In other words, could you tell us the revenue scheme of Medical HAL?

Sankai: With the scheme of the Japanese health insurance system, the Company sets a minimum monthly rental fee for Medical HAL to secure baseline revenue. Once the number of treatments goes above a break even figure, both the Company and the hospital operating the system will become profitable and they will share the profit.

Shigemura: In Japan, an investigator-led clinical trial for stroke patients is in progress. Will this expand the target diseases of Medical HAL?

Sankai: Very likely. Medical HAL is currently approved as a medical device for neuromuscular orphan diseases. Once Medical HAL obtains approval as a medical device for stroke, the Company will see an increase in patients using HAL by two or three digits. So the outcome of this trial will have a huge impact on the Company’s business. Japan, by the attempt of the Company, is leading a clinical trial of Cybernic Treatment with Medical HAL for stroke patients. Certification for manufacturing and marketing Medical HAL as a medical device for expanded target diseases from orphan neuromuscular diseases to stroke in Japan will have a positive impact on the certification process of Medical HAL for stroke patients by the U.S. Food and Drug Administration (“FDA”) and similar processes in other countries will be expedited.

Interviewer:

Kyoichiro Shigemura

*Executive Director
Head of Medicine and Healthcare Team
Nomura Securities Co., Ltd.*

Kyoichiro Shigemura joined Nomura Securities Co., Ltd. in 1991 and started serving as an analyst from 2000. He now works as the head of the Medicine and Healthcare Team. He has extensive knowledge in Japanese medical and long-term care system as well as the analysis of healthcare companies. He is passionate about discovering companies that seek to break the stereotypes within the existing industry. His major was psychology at Waseda University. He is a member of the Securities Analysts Association of Japan. He is a 3rd dan in Aikido.



Shigemura: In April 2018, prices of pharmaceuticals as well as treatment fees will be reviewed. How should we interpret the economic value of treatment with HAL?

Sankai: I think insurance payment for treatment with Medical HAL is adequate and will not be revised downward. People involved in this discussion know large insurance cost reduction effect of the treatment with HAL in comparison to existing treatments. Part of this would-be reduced insurance amount is added on insurance payment for treatment with Medical HAL. So I think the pricing will at least stay around the current level for the time being. When a patient with an intractable disease is hospitalized, it is said that the individual part of annual costs which is not covered by national health insurance can go over ten million yen. If the patient could use Medical HAL to extend the period without hospitalization for three years, he/she could save nearly thirty million yen worth of medical expenses. So, even if the treatment with Medical HAL is priced at a fraction of the hospitalization fee, it can still be considered a bargain. I think this pricing of treatment with Medical HAL was a result of thorough consideration and discussion about medical expenses as a whole.

Another matter I want to point out is that, once patients start to recover their bodily functions, their mental state significantly changes. In other words, physical improvement changes their way of living. It's hard to calculate the monetary value of this change, which overwhelmingly exceeds the amount of treatment fees. Moreover, I think the mental effects of Medical HAL on the patients, as well as their family members, are significant.

Allow me to give you an example of a patient in Germany. This patient lost motor function in her lower limbs after she fell off her horse. However, as she went through the treatment with HAL, she gradually recovered her physical function. Finally, she became able to ride a horse again. HAL changed her life and last year, she became a student of a medical school. Let me give you another example. This patient was infected with a virus and she lost motor function in her lower limbs. Before she used HAL, it took her 23 seconds to walk 10 meters no matter how hard she tried. Now, after using HAL, she can walk the same distance in 8 seconds. For her, this seems to be a life-changing experience. She now aspires to become a doctor, and she is studying hard to get into a medical school. HAL does not only change the lives of the patients but it could also change them from benefit receivers to taxpayers in the future. HAL treatment gives the patients an opportunity to get into good jobs so that they can pay taxes rather than receiving the benefits. This positive cycle is now apparent in Germany and I anticipate the same in Japan.



Shigemura: What is the status of public health insurance application in the EU? Also, recently it was announced that a Polish insurance company called WARTA decided to provide insurance coverage for Cybernic Treatment in a facility called Constance Care. Do you think that we'll see more of these schemes to utilize private insurance for Cybernic Treatment in other countries?

Sankai: In Germany, insurance coverage for treatment with Medical HAL is insured by public workers' compensation insurance and the Company is currently going through procedures to obtain public health insurance coverage for the treatment. The Company's subsidiary in Germany, Cyberdyne Care Robotics GmbH ("CCR"), receives patients coming from various countries. When I spoke with a patient who came from the Netherlands, for example, he told me that he individually arranged with a Dutch insurer to cover his medical expense in Germany. It seemed to be the same for patients who came from other countries. They arranged coverage for the treatments with their insurers as individual cases before they started their treatments.

Alongside these cases where individual arrangements exist, the Company is coordinating with private insurers as in the cases of Poland and Japan's Daido Life

Insurance. In that sense, I think the Company has a very good trend in terms of insurance.

Shigemura: How do you plan to disseminate Cybernic Treatment in the U.S.? How will you disseminate HAL to hospitals and gather patients?

Sankai: The Company is discussing U.S. business with a partner organization to build up a business model that suits the situation in the U.S. The Company is in close contact with a medical institution located on the West Coast that is part of a big hospital group and has good clinical research teams. The Company is also in contact with a medical institution located on the East Coast that is known to be one of the busiest hospitals in the U.S. and I think the institution and the Company could build a good relationship. The medical institution is planning to coordinate with an influential research institute in the U.S. to promote the business. Through the aforementioned coordination, I think the Company could make a positive start in the U.S.

Shigemura: Allow me to ask about other types of HAL. HAL for Care/Labor Support (Lumbar Type) seems to be spreading rapidly in the last few months. What is the situation at the moment and what are your plans for further dissemination?

Sankai: The Company plans on applying additional functions to HAL (Lumbar Type) to release upgraded versions and this will be done in a very fast cycle.

For example, the Company received a request for a waterproof function of HAL for Care Support (Lumbar Type) from its customers so that caregivers could use the device for bathing aid. The Company worked on it from scratch and managed to release the waterproof version of the device. Likewise, the Company will continue to apply various upgrades to the device, so that it can rapidly close in on practical field requirements.

From time to time, even HAL breaks. One day, the Company received contact from its customer. The customer claimed that their robot broke and they would not be able to work without the device. So the Company fixed it very quickly. It was the first time the Company heard such a thing from a customer. This comment was severe, but, at the same time, the fact that the Company's technology became an indispensable part of its customers' operation made me happy.

HAL for Labor Support (Lumbar Type) is now disseminated to new fields, for example, work places like orange farms or post offices. Workers in these places are forced to work with their back bent while they do sorting work and so on. It is exciting to go into fields and industries that the Company did not imagine going into. For some work places, HAL (Lumbar Type) will do no good, as the movements of the worker do not involve the lower back too much. Notwithstanding that, as a result, the Company now has a better understanding of the industries and occupations that need its devices.

Shigemura: Could you tell us about the new devices that you are working on?

Sankai: The Company has concluded the preliminary consultation with the Pharmaceuticals and Medical Devices Agency ("PMDA") for the Vital Sensor, which could detect hardening of arteries and an irregular pulse. The Company is now preparing documents to apply for medical device approval.

Also for Medical HAL, which has already been approved as a medical device, the Company is now able to manufacture a very small size of this device. The Company has renewed motors, substrates and circuits. Once this very small-sized device comes out, HAL could be available for patients with heights from 100 cm. The Company also completed a preliminary consultation with the PMDA for the very small-sized HAL and it is now adjusting the timing to introduce this product to the market. This will be the Company's giant leap forward in this year.

Transport Robot is currently working day and night in a pharmaceutical company and the customer seems to be very satisfied with it. Now, a new unit of this robot is installed every time the customer makes a new factory.



Cleaning Robot is currently being verified in Haneda Airport, and the Company actually applied an upgrade that takes the technology to the next level. Its artificial intelligence and sensors enable Cleaning Robot to conduct environmental cognition at the world's most advanced standard.

These devices, robots and humans will all be connected through IoH/IoT. The Company is preparing to introduce these various technologies, centered around IoH/IoT, to the market.

Shigemura: Last year, the Company made an announcement on combining regenerative medicine with iPS stem cells and Medical HAL with Keio University.

Sankai: The Company approaches coordination with regenerative medicine based on the key phrase "new combination."

What we witness here is a new challenge of combining the revolutionary robotic technology of HAL together with regenerative medicine, which is another revolutionary technology in a different field. This is what we call "innovation." HAL on its own is a result of innovation. HAL is formed from an essence of a) sensing technology for information from human brain-nerve systems, b) robotic technology, c) artificial intelligence technology, d) IoH/IoT technology and e) various other technologies. It's difficult to create anything by mixing up ordinary things that have been around for years. However, if we combine extremely good things together, we can create something that has never existed in the world.

Multiple "new combinations" lead to highly innovative devices. When those devices are combined with equally innovative technologies from different fields, such as regenerative medicine, a giant wave of innovation occurs. The Company is also planning to combine these devices with pharmaceuticals. The Company does not intend to stick with one type of pharmaceuticals or regenerative medicine. So in regenerative medicine, the Company is also coordinating well with a group that is not involved with iPS stem cells.

Shigemura: The Company has many projects. Please tell us about the production structure, capacity, staff members, etc. Could you also tell us how you plan to gather human resources and material resources?

Sankai: Sophistication of production has an important role in the Company. It could contribute to enhancement of products reliability, reduction of costs and detection of problems. The whole process is literally a matter of research and development. In the early stage such as establishment of production procedure, the Company will have to do everything within the Company. However, once the Company has established an efficient routine, it can outsource production to external collaborators. Production of HAL (Lumbar Type), for example, is outsourced.

Regarding the Company's facility in Fukushima prefecture, the development of a next-generation production facility where veteran workers and robots can collaborate is the most important mission. The Company will increase the capacity of the facility while converting the entire place "Cybernic" to take it to the next level.

As such, the Company needs versatile staff members in its R&D team, someone capable of covering individual technologies to the entire systems. Competent R&D staff with experience at different companies joined the Company. The Company also employs most of doctoral degree holders as project leaders, who earned their degree in the academic field of Cybernics. Joining the Company, they could develop their projects in the university into more sophisticated ones here. Some succeeded in turning their projects into actual products. They made their dreams come true. I think this is a great ecosystem.

Shigemura: When I talk with Dr. Sankai, you always say, "all devices are connected through data." What is your strategy towards social implementation of "Society 5.0"?

Sankai: The important strategy is to start from the medical field. When I think about the "world" that is approaching the Company, I think the boundaries between the medical field and the non-medical fields gradually start to overlap each other, creating a vast field in between. This grey zone will be the Company's new market.

Lets say a person who was hospitalized becomes able to leave, and he/she moves on to follow-up visits. The person would visit the hospital from house or from work. The person will spend his/her life according to this triangular pattern. At that time, what if the Company's Vital Sensor is introduced at this person's house? The same device could also be introduced at work places and hospitals, being connected to each other with the same format of data. What if these work places happen to be somewhere more delicate like hospitals? If a nurse has to use a device in an ICU, the device must be compatible with other medical devices in the ICU. If the Company could design this device according to this standard from the beginning, there wouldn't be any problems in the place where it is used.

Therefore, in the world of Society 5.0, humans and technology will be connected in the physical space as well as the information space, regardless of whether they are in the field of medicine, nursing care or living support including work places and houses. This society that is centered around technology will support every treatment, at work and in daily lives. In anticipation of such a society, the Company will continue its challenge to shape the future with its next-gen research and development capacity under its business strategies.

Shigemura: To me, Cybernic Technologies have the potential to turn themselves into fundamental infrastructure capable of supporting people in the hyper-aging society, which is becoming a trend worldwide. Please tell us your take on the importance of this technology, and your challenges to realize a "Zero Burdening-care Society."

Sankai: As you mentioned, the number of elderly person is increasing and we have entered into the hyper aging society. According to the estimation, it will reach its peak from 2055 to 2056 and the number of Japanese citizens over 65 years old will go over 45% of the entire population including infants. As the number of elderly people increases, those who need long-term care will increase accordingly. Likewise as the birthrate decreases, people capable of providing care will decrease too. So we must think how to overcome these situations.

In the industrial sector, the concept of Industry 4.0 is popular. The idea behind it is to increase the mass of production and sales by increasing the efficiency of production. This concept seemed feasible when our planet was relatively much larger and the effect of human activities on it was minimal. However, the era we live in today is different. The world is much smaller and under these circumstances we should not be wasting anything. We must work to solve the problems in our society and turn this process into an economic cycle.

If a technology could get rid of the heavy, long and harsh parts of long-term care into "Zero" it will make life easier for long-term care providers. It would also increase the independence of the long-term care receivers. The technology of HAL could be used to promote the function improvement and regeneration of patients and care receivers. When the technology takes the shape of HAL (Lumbar Type), the device reduces the stress applied on the lumbar part of a care giver so as to make heavy work easier and protect users. The device could also be used for a person in the need of care, improving his/her bodily function to stand up and sit down. As you can see from the examples of the world's first cyborg-type robot HAL, Vital Sensor and so forth as the practical application of Cybernic Technology, the technology is so innovative it is being utilized for various purposes in the fields of medicine, long-term care and living support. Implementation of Cybernic Technology will connect humans and technology in the physical space and the information space. Such connection has never happened in human history. This is when the social revolution of Society 5.0 is realized on the basis of all the past and the current social development stages, from the Hunter-Gatherer Society (Society 1.0) to the Information Society (Society 4.0). Perhaps this very moment is the beginning of the next evolution. I think Cybernic Technology is capable of driving our society that far.

Shigemura: We look forward to a day when we can witness these cutting-edge endeavors coming into reality and feel them in our daily lives.

Sankai: Thank you very much. The Company will continue its business, in line with its challenge to shape the future. The Company wants to make its shareholders glad that they hold the shares of CYBERDYNE.



Contribution to the society

Based on the philosophy of “technology exists for humans and society,” “the Group works on social implementation of innovative Cybernic Technologies to overcome various problems caused by aging and the declining birthrate, which modern society faces.

Through innovative Cybernic Treatment that was made possible by Medical HAL, patients for whom it was difficult to improve their physical functions can now get back to work. HAL for Living Support would reduce dependence of disabled and elderly people on their caregivers in daily life.

HAL (Lumbar Type) mitigates the risk of back pain and it has proven effective through multiple verification sites. Installation of this device would improve the work environment in long-term care, construction, logistics, agriculture and any other industry where workers are required to perform heavy physical work on a regular basis.

Together with the autonomous Cleaning Robot and Transport Robot with built-in AI designed to free workers from heavy labor, the Group aims to create a work environment where workers can work longer and safer.

The Group leads the endeavors to realize “Society 5.0” by forming a system where humans, society and the environment can be connected, various data can be extracted and vast amounts of that data can be gathered and analyzed. Data gathered could lead to a discovery of new information that could be helpful to prevent diseases or improve work environments. By forming this system, a hyper smart society where everyone can live safely and prosperously at a very high level can be established.

The Group continues to stay involved in the entire process from basic research of innovative technologies to their social implementation. At the same time, the Group will continue its endeavors to create new industries and nurture human resources, in order to solve various problems in the society and to shape the future.

Endeavors to establish a peaceful society

In order to prevent Cybernic Technologies being used for military purposes, the Group has a Peace and Ethics Committee that is mainly composed of the outside board members. The Peace and Ethics Committee discusses and verifies the possibility of whether the technology could be used to damage people or as a weapon.

The Group designs its product pursuant to the international standard of ISO to ensure its safety. For example, Medical HAL is designed pursuant to the quality management system of ISO 13485 and risk management for medical devices of ISO 14971. HAL (Lumbar Type) are designed pursuant to ISO 13482. The Group also conducts multiple endeavors throughout the entire process from manufacturing to disposal, in order to minimize the influence on the environment caused by the Group’s activities.

Upon manufacturing, the Group is only involved in the assembly of the final product and it does not use or produce any materials that are considered to be hazardous. The Group only uses materials that can be recycled as the packing materials for its devices. As the Group uses a rental business model, it collects devices that must be disposed. Collected devices are dismantled and parts are sorted by material type. Materials that can be used again are reused for the new devices. If the materials must be disposed, the Group will assign specialized companies to dispose the materials. The disposal process will be tracked and rated by the Group.

The Group recognizes that product design to ensure safety and preserve the environment is an important issue, and it intends to make further commitments to the issue.

Endeavors to create a pleasant workplace environment

The Group adheres to the Labor Standard Act and related laws. The Group also prepares various work arrangements such as flextime, exemption and compressed work schedules to suit different lifestyles. Furthermore, in order to create an environment that suits the needs of women, which comprise 30% of the workers, the Group prepared employee benefits such as maternity leave and menstrual leave. The Group also prepared parental leave as well as shortened working hours due to child/long-term care and many workers use these benefits.

The Group has a variety of workers of different ages, sexes and nationalities. The Group established a system to ensure that all the workers can work pleasantly and perform at their full potential. A clinical psychologist of the Group and an industrial physician work together to conduct interviews with the workers on a regular basis and respond to any requests for consultation to maintain good physical and mental state. Furthermore, the Group has an Improvement Office, which receives various requests related to the work environment. Requests received will be considered in coordination with the related units and if they are deemed to be reasonable, requests are adopted.

Other activities that contribute to the society

In order to contribute to the development of the society, the Group sponsors organizations for social contributions and events for development of the local community. For example, the Group is one of the sponsors of Paralympic Art, which is an organization that promotes the independence of people with disabilities. In acknowledgement of the Group’s sponsorship, Paralympic Art provided the CYBERDYNE Award in the SOMPO Paralympic Art Soccer Art Contest.

SOMPO Paralympic Art Soccer Art Contest CYBERDYNE Award



Title: Soccer Ball

Artist: Reo Murai

Members of Board of Directors

Yoshiyuki Sankai

Born June 24, 1958 (59 years old) (Male)

Director

Ph.D. in Engineering

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

2003/7 Professor of Functional Engineering, University of Tsukuba	2014/6 Program manager of the Impulsing Paradigm Changes through Disruptive Technology Program (ImPACT) hosted by the Cabinet Office of Japan (present)
2004/4 Professor at the Graduate School of Systems & Information Engineering, University of Tsukuba (present)	(Important positions held outside CYBERDYNE)
2004/6 Director at incorporation of CYBERDYNE	Professor at the Graduate School of Systems & Information Engineering, University of Tsukuba
2006/2 Representative and CEO of CYBERDYNE (present)	Director of the Center for Cybernic Research, University of Tsukuba
2011/10 Director of the Center for Cybernic Research, University of Tsukuba (present)	Program Manager of ImPACT hosted by the Cabinet Office of Japan

Years in service as Director
13 years

Special interest in CYBERDYNE
none

Number of company shares owned
Common 3,042,000 Shares
Class B 77,696,000 Shares

Fumiyouki Ichihashi

Born May 1, 1978 (39 years old) (Male)

Director

Ph.D. in Engineering

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

2004/6 Director at incorporation of CYBERDYNE (present)	2007/10 Head of Research and Development Unit at CYBERDYNE
2005/5 Representative Director of CYBERDYNE	2013/12 Team leader of the Information Strategy Team in the Improvement Office of CYBERDYNE (present)
2006/2 Representative Director of Medical Interface Incorporated	

Years in service as Director
13 years

Special interest in CYBERDYNE
none

Number of company shares owned
Common 20,000 Shares

Shinji Uga

Born February 15, 1970 (47 years old) (Male)

DirectorCertified Public Accountant
MBA

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

1994/4 Joined Tomen Corporation (Now known as Toyota Tsusho)	2008/9 Joined CYBERDYNE
2001/10 Joined Chuo Aoyama Audit Corporation (Now known as PricewaterhouseCoopers)	2009/2 Director (present) and head of Financial Affairs and Accounting Unit of CYBERDYNE
2005/10 Assigned to PricewaterhouseCoopers Shanghai office	2013/12 Head of the Corporate Unit of CYBERDYNE (present)
2007/6 Joined Ridgeway Capital Partners Ltd.	

Years in service as Director
8 years

Special interest in CYBERDYNE
none

Number of company shares owned
Common 60,000 Shares

Hiroaki Kawamoto

Born August 25, 1974 (43 years old) (Male)

Director

Ph.D. in Engineering

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

2004/6 Director at incorporation of CYBERDYNE	2015/4 Associate Professor at the Graduate School of Systems & Information Engineering, University of Tsukuba (present)
2005/8 Researcher at Japan Association for the Advancement of Medical Equipment	(Important positions held outside CYBERDYNE)
2006/2 Director of CYBERDYNE (present)	Associate Professor at the Graduate School of Systems & Information Engineering, University of Tsukuba

Years in service as Director
13 years

Special interest in CYBERDYNE
none

Number of company shares owned
Common 14,000 Shares

Kinichi Nakata

Born May 12, 1962 (55 years old) (Male)

Outside Director

Ph.M.D. in Medicine

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

1989/7 Worked for Nippon University School of Medicine	2008/3 Councilor at Japanese Association for Coronary Artery Surgery (present)
1996/10 Councilor at Japanese Society for Artificial Organs	2008/6 Outside Director of CYBERDYNE (present)
2003/3 Technical Committee on Industrial Promotion of Medical Electromagnetic Drive Systems	(Important positions held outside CYBERDYNE)
2003/10 Lecturer at Nihon University School of Medicine (present)	Lecturer at Nihon University School of Medicine

Years in service as Outside Director
9 years

Special interest in CYBERDYNE
none

Number of company shares owned
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Kazumasa Yoshida

Born August 20, 1958 (59 years old) (Male)

Outside Director**Independent Officer**

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

1984/10 Joined Intel Corporation	2016/7 Outside Director of FreeBit Co., Ltd. (present)
2003/6 President and CEO of Intel Kabushiki Kaisha	(Important positions held outside CYBERDYNE)
2012/6 Outside Director of Onkyo Corporation (present)	Outside Director of Onkyo Corporation
2013/2 Outside Director of Gibson Guitar Corporation (present)	Outside Director of Gibson Guitar Corporation
2013/6 Outside Director of CYBERDYNE (present)	Outside Director of TDK Corporation
2014/6 Outside Director of TDK Corporation (present)	Outside Director of Mamezou Holdings Co., Ltd.
2015/6 Outside Director of Mamezou Holdings Co., Ltd. (present)	Outside Director of FreeBit Co., Ltd.

Years in service as Outside Director
4 years

Special interest in CYBERDYNE
none

Number of company shares owned
Common 60,000 Shares

Hikari Imai

Born July 23, 1949 (68 years old) (Male)

Outside Director

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

1974/4 Joined Yamaichi Securities Co., Ltd.	2015/6 Outside Director of CYBERDYNE (present)
1986/1 Joined Morgan Stanley Securities Co., Ltd.	2016/6 Outside Director of PACIFIC METALS CO., LTD. (present)
1993/4 Joined Merrill Lynch Securities Company	2016/12 Chairman of 3DOM Inc. (present)
1999/1 Vice Chairman of Merrill Lynch Japan Securities Company, Limited	(Important positions held outside CYBERDYNE)
2007/11 Director, Vice President of RECOF Corporation	Outside Director of PACIFIC METALS CO., LTD.
2008/4 President and CEO of RECOF Corporation	Director and Chairman of 3DOM Inc.
2012/4 Outside Director of Olympus Corporation	

Years in service as Outside Director
2 years

Special interest in CYBERDYNE
none

Number of company shares owned
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Members of Audit and Supervisory Board

Yutaka Fujitani
Born April 1, 1953 (64 years old) (Male)
Outside Audit and Supervisory Board Member (Full-time)

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

1975/4 Joined The Mitsubishi Bank, Ltd. (Now known as The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
2005/1 Joined KPMG AZSA LLC.
2011/6 Outside Audit and Supervisory Board Member of CYBERDYNE (present)

Years in service as Outside Audit and Supervisory Board Member 6 years	Special interest in CYBERDYNE none	Number of company shares owned —
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Cees Vellekoop
Born May 4, 1956 (61 years old) (Male)
Outside Audit and Supervisory Board Member

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

1981/5 Registered as attorney-at-law at Court of Rotterdam District and Court of Amsterdam District
1992/5 Admitted in Japan as attorney for foreign law
2003/5 Joined Allen & Overy Gaikokuho Kyodo Jigyō Horitsu Jimusho
2005/10 Admitted in England and Wales as attorney-at-law
2007/6 Audit and Supervisory Board Member of CYBERDYNE (present)

Years in service as Outside Audit and Supervisory Board Member 10 years	Special interest in CYBERDYNE none	Number of company shares owned —
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Mr. Vellekoop relinquished his certificate as attorney-at-law in Britain and in the Netherlands

Kenichiro Okamura
Born August 18, 1971 (46 years old) (Male)
Outside Audit and Supervisory Board Member
Independent Officer
Certified Public Accountant

Descriptions of the positions, personal history, assignments and other important positions held outside the Company

1994/4 Joined Chuo Audit Corporation
2007/2 Representative Director of Kabushiki Kaisha BizNext (Now known as Kaede Accounting Advisory Inc.) (present)
2009/9 Representative Director of Tokyo-IAS Inc. (present)
2011/6 Senior Partner of Akasaka Sogo Accounting Firm Co., Ltd. (Now known as Kaede Tax Corporation) (present)
2011/6 Outside Audit and Supervisory Board Member of CYBERDYNE (present)
2015/6 Outside Audit and Supervisory Board Member of SG Holdings Co., Ltd. (present)
2016/6 Outside Director of Kanematsu Sustech Corporation (Audit Committee) (Important positions held outside CYBERDYNE)
Representative Director of Kaede Accounting Advisory Inc.
Outside Audit and Supervisory Board Member of SG Holdings Co., Ltd.
Outside Director of Kanematsu Sustech Corporation (Audit and Supervisory Committee)

Years in service as Outside Audit and Supervisory Board Member 6 years	Special interest in CYBERDYNE none	Number of company shares owned —
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1. The Company's 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.

The Company believes that it is vital to build constructive relationships with all of its stakeholders as part of corporate governance. Corporate governance is important from the standpoint of, not only making sure the decisions the Company makes and actions it takes do not violate laws and market regulations, but also ensuring that it has not ignored the demands of the society and that it is indeed contributing to the society. The company also believes 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, which 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 Members of the Board of Directors (also referred to as "Director(s)") as they execute their duties. The Board of Directors is comprised of seven Directors, three of whom are outside Directors, forming a structure that enables the Board of Directors to efficiently reach decisions and make business judgments.

The Company also has an Audit and Supervisory Board. The Audit and Supervisory Board consists of three outside Audit and Supervisory Board Members who proactively voice their opinions at Board of Directors Meetings to enhance supervision. The Audit and Supervisory Board Members perform audits from an

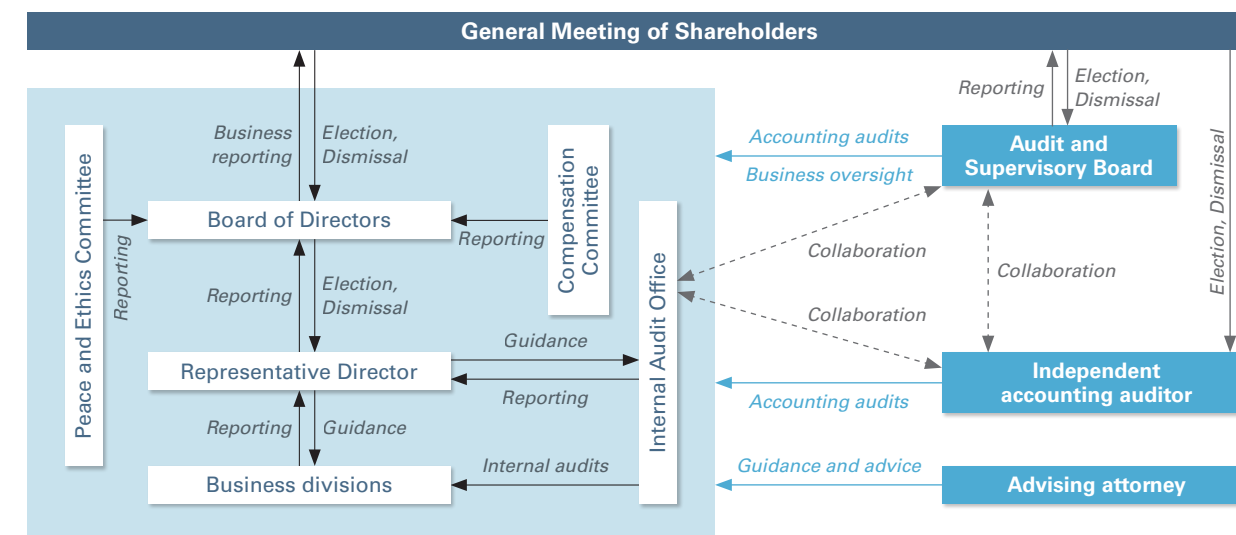
objective standpoint with regard to business execution and important decision-making by the Board of Directors.

Directors' compensation is debated by the Compensation Committee which consists of at least three Directors or Audit and Supervisory Board Members appointed by the President and CEO of the Company. The Compensation Committee then submits its opinions about compensation to the Board of Directors.

With the objective of preventing problematic 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 outside Directors with no affiliations with the University of Tsukuba than the number of Directors (e.g., internal Directors), excluding internal Directors with potential conflicts of interest with the university.

As a result, outside Directors have the ability to veto ordinary resolutions as necessary during Board Meetings when there are problematic conflicts of interest with the University of Tsukuba, thereby establishing an effective system to prevent problematic conflicts of interest.

For the purpose of protecting the interests of non-controlling 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 Yoshiyuki Sankai, who is a controlling shareholder of the Company, and the Sankai Health Foundation and the Sankai Science and Technology Promotion Foundation (collectively referred to as the "Foundations"), both of which are represented and managed by Yoshiyuki Sankai, as well as transactions between the Company and 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 Meetings 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 regulations 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 an opinion box shall be the subject of the compliance hotline policy.

(b) System to store and manage information related to the execution of duties by the 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 policy, 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) Regulations 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 Board Meetings shall be conducted whenever necessary.
- Regarding the execution status of matters resolved by the Board Meeting, 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 policy that timely reflects the changes in the business environment shall be established. The Companies progress towards the relevant policy shall be reported to the Board of Directors whenever necessary.
- The Company shall also establish the Affiliated Company Management Policy in order to manage the subsidiaries under the supervision of a 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 Board of 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 Regulations of Audit and Supervisory Board Meeting established by the Audit and Supervisory Board, 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's Audit and Supervisory Board

- The Director 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 the 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 systems to ensure appropriate execution of duties.

The Group shall work to maintain the aforementioned systems and its operation. Notable actions conducted within this fiscal year which are thought to be important in regards 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 for the fiscal year (including 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.

As the head of Internal Audit Office also belongs in the Corporate unit as the team leader of General Affairs and HR team, internal audit on General Affairs and HR team are conducted by an auditor selected by the president and CEO.

Audits by the Audit and Supervisory Board involves operational audits, such as audits of the business execution by Directors, based on Auditing Standards and Regulation of Audit and Supervisory Board Meeting. Outside Audit and Supervisory Board Members include an experienced business person (SVP of a large bank), a CPA and an attorney elected 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.

Internal Audit Office coordinates with full-time Audit and Supervisory Board Member upon establishment of annual internal audit plan. Results of internal audit are reported to President and CEO and each of the Audit & Supervisory Board Members. Furthermore, if issues related to internal control are found in the midst of internal audit, Internal Audit Office provides proposals for improvement to the unit in charge of the internal control process. Internal Audit Office coordinates with Audit & Supervisory Board Members as well as accounting auditors by exchanging opinions or information, so that audit can be executed effectively.

5. Status of accounting audits

For the fiscal year ended on March 31, 2017, the Company entered into an audit engagement contract with Deloitte Touche Tohmatsu LLC, and received accounting audits performed by this accounting auditor. Auditing team of twelve people, comprising three CPAs and nine other professionals performed the audits.

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

The Company elects 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 superb 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.

Outside Director Kazumasa Yoshida provides his opinions and proposals regarding management in general in the Board Meetings from the standpoint of the experienced executive in a global company. While Kazumasa Yoshida holds 60,000 shares of the Company as of June 26th, 2017 when the securities report was submitted, it was deemed to have no significance. Furthermore, between the Company and Kazumasa Yoshida, there is no human, capital, business affiliation or any other conflicts of interests. In addition, while Kazumasa Yoshida also currently serves as the outside Directors of Onkyo Corporation, Gibson Guitar Corporation, TDK Corporation, Mamezou Holdings, Co., Ltd., FreeBit Co., Ltd., and previously served as President and CEO of Intel Kabushiki Kaisha and vice president of Intel Corporation, the Company does not have any human, capital, business affiliations or other conflicts of interest with the seven aforementioned companies.

The Company does not have any human, capital, business affiliations or other conflicts of interest with other outside Directors and outside Audit & Supervisory Board Members.

7. Implementation status of risk management structure

The Group continues to enhance its risk management system in the context of its Code of Conduct, risk management regulations, Hotline System Policy and other 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 a law firm "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 Audit and Supervisory Board Members 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	13,200	13,200	—	—	—	6

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

Since there are no Directors or Audit and Supervisory Board Members who have received a total consolidated remuneration of more than ¥100,000 thousand no items are reported.

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

The Group established a Compensation Committee to discuss the remuneration of the Directors and the 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 Directors, set by a decision made at the 2nd Ordinary General Meeting of Shareholders that took place on May 31, 2006, is ¥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 ¥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 of Directors (excluding executive Directors) and Audit and Supervisory Board Members for damages 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 pledgee of shares on record as of the close of September 30 each year.

16. Requirements for special resolutions on important matters at General Meeting of Shareholders and General Meeting 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 regulations 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 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 caused by aging and declining birth rate. To realize this vision, the Company must coordinate business management with research and development in Cybernic Technologies. Yoshiyuki 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), Yoshiyuki 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, Yoshiyuki 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 Directors 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.

1. Process and outcome of the business (from April 1, 2016 to March 31, 2017)

In the "5th Science and Technology Basic Plan" of Japan, a new concept of super smart society led by scientific and technological innovation called "Society 5.0" is promoted. Society 5.0 is a human centric society where physical space (real world) and cyber space are initiatively merged to solve economic and social problems so that people can enjoy good quality of life. The plan states that research, development and social implementation of AI, IoT and human assistive robots are the fields that should be focused on. These robots are designed to assist the elderly and disabled people for their safe and secured life, promote independence of people in need of support and reduce burden of long-term care. As a hosting country of G7 Science & Technology Minister's Meeting ("the Meeting") that was held in Tsukuba, Japan in May 2016, Japan projected this concept as the future society where humans and technologies coexist.

As one of the driving forces that aim to realize Society 5.0, the Company made contribution in the aforementioned Meeting. CEO Yoshiyuki Sankai presented a keynote speech at the Commemorative Symposium, gave an address at the Meeting and hosted the group of representatives during their visit to the Company headquarters. The Joint Statement "Tsukuba Communiqu" that was adopted on the final day noted the importance of innovation based on science to establish a social structure that allows its senior citizens to age healthily including provision of high quality care in G7 countries and many emerging countries, which face the hyper aging society. The statement noted the possibility of robotics as the means of improving the quality of welfare as well as quality of life for the elderly, and also (as the mean of) reducing the workload for the caregivers. The statement expressed their determination of integration of social science research and support for medicine, ICT and Robotics in order to reduce the burdens on families and the society.

Also, in February 2017, the Company became the winner of the Prime Minister's Award in the third Nippon Venture Awards, which is an award ceremony hosted by the Ministry of Economy, Trade and Industry along with other organizations. The Company won this award as it was highly rated for

- i) the novelty and innovativeness of its business
- ii) its visions to expand into the global market and solve various problems that the society faces today.

By utilizing innovative Cybernic Technology, the Group aims to accelerate its research, development, and business development, in order to provide solutions to the problems that the society faces while firmly establishing an economic cycle at the same time. The Group will continue to attempt Cybernic Revolution through social and industrial transformation in the fields of medicine, living support and labor support, as one of the driving forces that aim to realize "Society 5.0."

Medical field

During the fiscal year ended March 31, 2017, in the field of medicine, the Ministry of Health, Labour and Welfare ("MHLW") announced public health insurance coverage of the technical fee for the treatment of rare neuromuscular disease patients using HAL for Medical Use (Lower Limb Type, Double-Leg model) ["Medical HAL" or "Medical HAL (Double-Leg)"] on April 25, 2016. On September 2, 2016, the treatment with Medical HAL started in Japan, as the world's first treatment with robot covered by public health insurance. The Company will continue to accelerate its clinical studies and investigations with Japanese hospitals as well as hospitals in other countries, in order to expand the range of diseases such as stroke and spinal cord injury to which the treatment with Medical HAL is applicable. For stroke, investigator-initiated clinical trial on HAL for Medical Use (Lower Limb Type, Single-Leg model) ["Medical HAL" or "Medical HAL (Single-Leg)"] commenced on September 30, 2016, which is the necessary procedure to obtain the manufacturing and distribution approval of the medical device under Pharmaceutical and Medical Device Law of Japan, aiming at functional improvement and regeneration of the patients' impaired mobility. Furthermore, the Company also started a joint-research project with notable hospitals to accelerate the realization of the cutting-edge research on functional regeneration treatment, which could make the treatment with HAL applicable to an even wider range of patients suffering from paralysis. In addition, to further spread this innovative medical technology, the Company announced collaboration with private insurance companies, Daido Life Insurance Company in the life insurance sector and AIG Japan Holdings in the accident insurance sector, which will be proceeded alongside its endeavors to apply for public health insurance coverage. As a result of this business collaboration, Daido Life Insurance Company announced the release of its new insurance product "HAL Plus rider," the world's first insurance product offered by a private insurance company that covers treatment of intractable diseases with the Medical HAL on May 8, 2017. In Europe, the Company already acquired medical device certification for Medical HAL, and has been providing the medical treatment service with the device covered by public workers' compensation insurance in Germany and the Company is processing applications to obtain public health insurance coverage in the country. In the United States, the Company found that the United States Food and Drug Administration's ("FDA") understanding of HAL for Medical Use's innovation to use Cybernic Technology to provide functional improvement/regeneration treatment of impaired functions of the brain and nervous system has been deepened as a result of continued discussions. The Company begun its reapplication process toward obtaining medical device approval in a format that allows for Medical HAL to be identified as a new and unique robot treatment device by submitting Pre-Submission to the FDA in November 4, 2016.

The Company continues to advance its clinical researches for the light-weighted and compact HAL for Living Support (Single Joint Type), which is a device designed to be applied on the knee or the elbow. The Company has completed preliminary consultation with the Pharmaceuticals and Medical Devices Agency about the necessary procedures to obtain medical device approval and commenced preparation to file the necessary documents for the Vital Sensor, which is a palm-size device for monitoring indices of arteriosclerosis and electrocardiogram. The Company continues to advance its clinical trials of the Medical HAL in Japan and other countries to enlarge the range of targeted diseases. In Japan the world's first coverage of the treatment with HAL as a medical device by the public health insurance has been approved and installation of HAL for insured treatment by hospitals has commenced. 188 units of the Medical HAL were in operation as of March 31, 2017, including those used outside of Japan and those used for clinical research. Out of the aforementioned number, 38 units were rented out in Japan. The Company will continue to coordinate with numbers of core hospitals in each region, which would become the "bases" for further expansion. 208 units of HAL for Living Support (Single Joint Type) were in operation as of the end of March, 2017, which are mainly used for clinical studies by hospitals in Japan.

Living support field (including at home and in work environment) and labor support field

In the field of living support, HAL for Living Support (Lower Limb Type) has been used in care facilities and hospitals within Japan to promote independent movement of their users, and as of the end of March, 2017, 422 units were in operation. HAL for Care Support (Lumbar Type), a device capable of reducing the load on the lower back of caregivers, which would result in improving the work environment of care facilities that suffer from high turnover rates, recorded an increase of 411 units in operation since the end of September 2016, due to the subsidy program of the MHLW for assisting care facilities with installation of robotic devices and introduction of waterproofed new model of HAL (Lumbar Type) which allow users to provide bathing aid for example, and as of end of March, 2017, 714 units were in operation.

In the field of labor support, as of the end of March, 2017, there were 274 units of HAL for Labor Support (Lumbar Type), a device capable of reducing the load on the lower back of workers and improving the work environment in order to maintain the labor force in distribution warehouses, construction sites and factories of various types that suffer from serious shortage of labor force as a result of an aging population and declining birthrate. Implementation by Haneda Airport Limousine Bus and major construction companies contributed to the increase of the rented units. Furthermore, starting from April 2017, All Nippon Airways group plans to implement 25 units

to Narita Airport as well as notable domestic airports for various airport tasks. Operating number of HAL for Labor Support (Lumbar Type) is expected to grow significantly once improvements such as waterproofing are installed. The Cleaning Robots and Transportation Robots were introduced to Haneda airport and a major pharmaceutical factory and there were 21 units in operation as of the end of March, 2017.

Furthermore, on May 15, 2017, the Company announced an investment in Works Applications Co., Ltd. based on business alliance. This alliance will allow the two companies to make progress towards the realization of Society 5.0 by developing the next-generation systems that integrate the Company's Cybernic Technologies. To accelerate the realization of Society 5.0, the Company will continue to collaborate with companies with unique and specialized technologies.

Business performances

As the result of the aforementioned, in the fiscal year ended March 31, 2017, the Company recorded net sales of ¥1,649,940 thousand (30.4% increase year on year), mainly due to an increase in the operating numbers of the Medical HAL and HAL for Care Support (Lumbar Type), increasing the gross profit to ¥1,078,953 thousand (24.9% increase year on year). Research and development expenses were recorded at ¥902,867 thousand (9.9% decrease year on year), mainly due to consigned research projects of "Realization of Zero Intensive Care Society through Innovative Cybernic System," which are part of the projects under the Impulsing Paradigm Change through Disruptive Technologies Program ("ImPACT") hosted by the Japan Science and Technology Agency ("JST"). On the other hand, other selling, general and administrative expenses were recorded at ¥1,348,201 thousand (16.8% increase year on year), mainly due to the increase of taxes and dues such as business tax (capital base) due to exercise of Stock Acquisition Rights included in the Company's convertible bonds. As a result, operating loss improved ¥120,016 thousand to ¥1,172,115 thousand.

Non-operating income were recorded at ¥1,242,386 thousand (76.0% increase year on year), mainly due to an increase of subsidy income in relation to construction of Next-Generation Multipurpose Robotized Production Facility in the Fukushima Prefecture ("Fukushima Production Facility"), while ordinary loss (income/loss before income tax, also called "Pretax income" or "Ordinary profit") were posted at ¥782,653 thousand due to ¥96,231 thousand in the share issuance cost caused by the exercise of Stock Acquisition Rights included in the convertible bonds as well as ¥852,923 thousand (589.7% increase year on year) from an increase of loss on reduction of non-current assets in relation to construction of Fukushima Production Facility.

Furthermore, because income taxes were recorded at ¥6,417 thousand, net loss attributable to CYBERDYNE, INC. for the fiscal year ended March 31, 2017 was recorded at ¥789,332 thousand.

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 Group 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. The Group business in a novel business category

The Group's main product is HAL, the world's first Cyborg type robot^{*1}, developed by Yoshiyuki Sankai, President and CEO. The Group is currently developing business of Medical HAL in Germany and Japan. Also in Japan, the Group is developing business of HAL for Living Support (Lower Limb Type), HAL (Single Joint Type), HAL for Care/Labor Support (Lumbar Type), and others. The Group's technologies are thought to be applicable to various fields, including medicine, living support, labor support, entertainment and so on. 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 Cybernic voluntary control technology that utilizes BES originating from the brain is the Group's original technology. Due to this differentiation of technologies, the Group can maintain its competitive edge. Intellectual properties related to HAL such as the basic principles of Cybernic voluntary control are jointly held by the Group and the University of Tsukuba. The Group has exclusive rights to use all of the patent rights that give 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} HAL, a Cybernic System capable of fusing/integrating the functions of humans and robot, is the world's first technology that improves, supports, and enhances the wearer's body functions. Vast numbers of intellectual properties related to this technology are obtained, in order to promote this technology as a platform in a global scale. Following patents described below are the basic patents of this technology.

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

- The Group heavily relies on Yoshiyuki Sankai, the founder and President and CEO, in terms of management and development of new technology. If he becomes unable to perform his duties in the Group for some reason, the Group's business performance and future business development might be affected.
- 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.
- As business expands, the Group intends to 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 the Group's net sales as of the end of March 2017. 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 United States Food and Drug Administration, or a delay in creating 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 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 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 country or region. Even if approval can be obtained, the timing of the approval may differ by countries and regions. Furthermore if laws and regulations in respective countries and regions were to be revised after approval is obtained, the 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 Cybernic Treatment using HAL and other Group products is reliant to a certain extent on such treatment being covered by public and private health insurances 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 into 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 into 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) Medical HAL 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) admitted the application of labor insurance, the entire fee for the treatment with HAL for member patients of public labor insurance institution, "the Berufsgenossenschaft Rohstoffe und Chemische Industrie (Professional Association of Raw Materials and Chemical Industry; "BG RCI")." Currently, the Group provides therapeutic services mainly to those patients 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 including terrorism, 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 systems employ unique technology that utilizes a wearer's BES. The patent rights for technologies used in HAL are jointly held by the University of Tsukuba and the Company, except for patents independently owned by the Company. The Company 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 an approval could be 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

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 of the Company, 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 Yoshiyuki Sankai and another 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 Yoshiyuki 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, the University of Tsukuba and ImPACT Program are integral and inseparable, the influence of duties of a faculty member of the University of Tsukuba in Japan (lectures, attendance at intramural meetings as a university professor, etc.) and 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.) are limited and do not disturb performance of duties as President and CEO at all. However, should Yoshiyuki 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 technology 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 entail 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, long-term care, etc.). However, there is no guarantee that the Group will expand its business domains as planned, and exists a risk 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/Living Support (Lower Limb Type), HAL (Single Joint Type) as well as HAL for Care/Labor 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 research and development oriented company 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 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 Group's 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 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 to 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 and declining birthrate. To realize this vision, the Group must coordinate business management with R&D of Cybernic Technologies. Yoshiyuki Sankai created the Group'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 the society. For the Group to increase corporate value (i.e., common interest of shareholders), Yoshiyuki 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 from Common Shares in traded units. 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 Yoshiyuki Sankai, the founder and President and CEO of the Company, and the foundations (hereinafter referred to collectively as "the Foundations") of which Yoshiyuki Sankai serves as Representative Director. As of March 31, 2017, Yoshiyuki Sankai holds 3,042,000 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	Receive the same amount of dividends of surplus per share in the same rank	
The number of shares constituting one unit	100 Shares (1 voting rights per 100 shares)	10 Shares (1 voting rights per 10 shares)
Article of incorporation to preclude a resolution of the Common Shareholders' Class Shareholders' Meeting	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 into the same numbers of shares simultaneously	
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, 2017, the number of shares of each class issued is 137,347,609 Common Shares and 77,700,000 Class B Shares. Yoshiyuki Sankai, the President and CEO of the Company, holds 3,042,000 Common Shares and 77,696,000 Class B Shares, which represents approximately 38% of all issued and outstanding shares of the Company. Also, Yoshiyuki 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 26, 2017 or other internal personnel of the Company, the Articles of Incorporation of the Company states that

- 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
- 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 Article 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 26, 2017 are Yoshiyuki 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, Yoshiyuki 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 technologies from being used to harm people or to create military weapons, damaging the Group's corporate value.

The Foundations will exercise its 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 will lead to the misuse of the Group's innovative technology or damage 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 provision

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 provision (see note) stated in the Articles of Incorporation.

(note) The Breakthrough provision refers to the provision 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, Yoshiyuki 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 Yoshiyuki Sankai, who is the developer of the Group's innovative technologies, or his death.

However, since there is the possibility that the decision made by the Foundations after Yoshiyuki 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 Yoshiyuki 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 right (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, 2017, Yoshiyuki Sankai holds 3,042,000 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 provision 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.

Consolidated Balance Sheet

CYBERDYNE, INC. and Consolidated Subsidiaries
March 31, 2017

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
ASSETS			
CURRENT ASSETS:			
Cash and bank balances (Notes 3 and 14)	¥10,375,733	¥14,458,798	\$ 92,483
Marketable securities (Notes 3, 4 and 14)	23,000,000	25,500,386	205,009
Receivables:			
Trade accounts (Note 14)	247,451	217,347	2,205
Other (Note 14)	125,233	349,259	1,116
Allowance for doubtful receivables	(1,355)	(758)	(12)
Inventories (Note 5)	526,545	449,626	4,693
Prepaid expenses and other current assets	117,807	76,021	1,050
Total current assets	34,391,415	41,050,680	306,546
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 7):			
Land	3,118,558	3,214,303	27,797
Buildings and structures	1,783,431	1,430,082	15,896
Assets for rent	794,514	743,047	7,081
Construction in progress	6,003,880	699,992	53,515
Other assets	1,140,719	1,050,808	10,167
Total property, plant and equipment	12,841,104	7,138,234	114,458
Accumulated depreciation	(1,975,508)	(1,806,022)	(17,608)
Property, plant and equipment—net	10,865,595	5,332,211	96,849
INVESTMENTS AND OTHER ASSETS:			
Intangible assets (Note 6)	66,026	65,658	588
Investment securities (Notes 4 and 14)	1,360,838	914,830	12,129
Investments in unconsolidated subsidiaries and associated companies (Note 4)	13,854	14,512	123
Others	150,537	156,576	1,341
Total investments and other assets	1,591,256	1,151,578	14,183
TOTAL	¥46,848,267	¥47,534,470	\$417,579

LIABILITIES AND EQUITY

CURRENT LIABILITIES:

	¥	¥	\$
Payables—trade accounts (Note 14)	20,758	48,120	185
Current portion of convertible bond-type bonds, with subscription rights to shares (Notes 7 and 14)		19,927,483	
Income taxes payable (Note 14)	151,632	63,804	1,351
Other current liabilities	320,052	283,151	2,852
Total current liabilities	492,444	20,322,560	4,389

LONG-TERM LIABILITIES:

Asset retirement obligations (Note 8)	73,081	71,613	651
Deferred tax liabilities (Note 11)	13,853	11,027	123
Other	42,741	65,335	380
Total long-term liabilities	129,676	147,975	1,155

EQUITY (Note 9):

Capital stock	26,743,881	16,511,767	238,380
Common shares—authorized, 618,300,000 shares; issued, 137,347,609 shares in 2017 and 125,576,000 shares in 2016			
Class B shares—authorized, 77,700,000 shares; issued, 77,700,000 shares in 2017 and 2016			
Capital surplus	26,679,881	16,447,767	237,809
Stock acquisition rights	12,468	536,847	111
Deficit	(7,222,347)	(6,433,015)	(64,376)
Treasury stock—at cost, 138 shares in 2017 and 2016	(204)	(204)	(1)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	8,966		79
Foreign currency translation adjustments	3,502	772	31
Total accumulated other comprehensive income	46,226,147	27,063,934	412,034
Non-controlling interests			
Total equity	46,226,147	27,063,934	412,034
TOTAL	¥46,848,267	¥47,534,470	\$417,579

See notes to consolidated financial statements.

Consolidated Statement of Operations

CYBERDYNE, INC. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥ 1,649,940	¥ 1,264,902	\$ 14,706
COST OF SALES	570,987	401,121	5,089
Gross profit	1,078,953	863,780	9,617
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12):			
Research and development costs	902,867	1,001,547	8,047
Other selling, general and administrative expenses	1,348,201	1,154,365	12,017
Total selling, general and administrative expenses	2,251,068	2,155,912	20,064
Operating loss	(1,172,115)	(1,292,132)	(10,447)
OTHER INCOME (EXPENSES):			
Interest income	8,902	32,846	79
Subsidy income	879,669	399,574	7,840
Income from consigned research	283,805	235,330	2,529
Interest expense	(7,999)	(46,142)	(71)
Stock issuance costs	(96,231)		(857)
Loss on write-down of carrying value of fixed assets for tax purposes	(741,755)	(72,517)	(6,611)
Gain on sales of fixed assets	40		
Loss on disposal of fixed assets	(302)		(2)
Other—net	63,072	32,960	562
Other income—net	389,201	582,052	3,469
LOSS BEFORE INCOME TAXES	(782,914)	(710,079)	(6,978)
INCOME TAXES (Note 11):			
Current	7,534	13,481	67
Deferred	(1,116)	(2,307)	(9)
Total income taxes	6,417	11,173	57
NET LOSS	(789,332)	(721,253)	(7,035)
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		(3,195)	
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ (789,332)	¥ (718,057)	\$ (7,035)

	Yen		U.S. Dollars (Note 1)
	2017	2016	2017
PER SHARE OF COMMON SHARE (Notes 2.t and 16):			
Basic net loss	¥(3.69)	¥(3.53)	\$(0.03)

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

CYBERDYNE, INC. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET LOSS	¥(789,332)	¥(721,253)	\$(7,035)
OTHER COMPREHENSIVE INCOME (Note 15):			
Unrealized gain on available-for-sale securities	8,966		79
Foreign currency translation adjustments	2,730	1,776	24
Total other comprehensive income	11,696	1,776	104
COMPREHENSIVE LOSS	¥(777,636)	¥(719,476)	\$(6,931)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the parent	¥(777,636)	¥(716,723)	\$(6,931)
Non-controlling interests		(2,753)	

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

CYBERDYNE, INC. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Thousands of Shares		Thousands of Yen			
	Number of Common Shares Outstanding	Number of Class B Shares Outstanding	Capital Stock	Capital Surplus	Stock Acquisition Rights	Deficit
BALANCE, APRIL 1, 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)
Net loss attributable to owners of the parent						(789,332)
Issuance of new shares	11,771		10,232,113	10,232,113		
Net change in the year					(524,378)	
BALANCE, MARCH 31, 2017	137,347	77,700	¥26,743,881	¥26,679,881	¥ 12,468	¥(7,222,347)

	Thousands of Yen					
	Treasury Stock	Accumulated Other Comprehensive Income		Total	Non-controlling Interests	Total Equity
		Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments			
BALANCE, APRIL 1, 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
Net loss attributable to owners of the parent				(789,332)		(789,332)
Issuance of new shares				20,464,227		20,464,227
Net change in the year		¥8,966	2,730	(512,682)		(512,682)
BALANCE, MARCH 31, 2017	¥(204)	¥8,966	¥3,502	¥46,226,147		¥46,226,147

	Thousands of U.S. Dollars (Note 1)									
	Capital Stock	Capital Surplus	Stock Acquisition Rights	Deficit	Treasury Stock	Accumulated Other Comprehensive Income		Total	Non-controlling Interests	Total Equity
						Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments			
BALANCE, MARCH 31, 2016	\$147,176	\$146,606	\$ 4,785	\$(57,340)	\$(1)		\$ 6	\$241,233		\$241,233
Net loss attributable to owners of the parent				(7,035)				(7,035)		(7,035)
Issuance of new shares	91,203	91,203						182,406		182,406
Net change in the year			(4,674)			\$79	24	(4,569)		(4,569)
BALANCE, MARCH 31, 2017	\$238,380	\$237,809	\$ 111	\$(64,376)	\$(1)	\$79	\$31	\$412,034		\$412,034

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

CYBERDYNE, INC. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Loss before income taxes	¥ (782,914)	¥ (710,079)	\$ (6,978)
Adjustments for:			
Depreciation and amortization	341,191	280,299	3,041
Loss on write-down of carrying value of fixed assets for tax purposes	741,755	72,517	6,611
Interest income	(8,902)	(32,846)	(79)
Interest expense	7,999	46,142	71
Stock issuance costs	96,231		857
Changes in assets and liabilities:			
Increase in accounts receivable—trade	(30,104)	(9,724)	(268)
Decrease in accounts receivable—other	224,026	200,633	1,996
Increase (decrease) in allowance for doubtful receivables	597	(592)	5
Increase in inventories	(76,919)	(110,417)	(685)
Decrease in accounts payable—trade	(27,361)	(44,074)	(243)
Other—net	95,454	32,644	850
Subtotal	581,053	(275,497)	5,179
Interest received	6,982	33,553	62
Interest paid	(1,785)	(2,632)	(15)
Income taxes—paid	(10,813)	(13,706)	(96)
Net cash provided by (used in) operating activities	575,438	(258,282)	5,129
INVESTING ACTIVITIES:			
Decrease in restricted deposits		20,000,000	
Purchases of securities	(20,000,000)	(20,000,213)	(178,269)
Proceeds from redemption of securities	20,000,213		178,270
Payments into time deposits		(1,500,000)	
Proceeds from withdrawals of time deposits	1,500,000	3,000,000	13,370
Purchases of property, plant and equipment	(6,596,919)	(1,354,938)	(58,801)
Purchases of intangible assets	(18,003)	(25,228)	(160)
Purchases of investment securities	(433,099)	(599,980)	(3,860)
Other—net	1	(2,314)	0
Net cash used in investing activities	(5,547,807)	(482,675)	(49,450)
FINANCING ACTIVITIES:			
Payments for issuance of new shares	(88,131)		(785)
Other—net	(21,676)	(21,185)	(193)
Net cash used in financing activities	(109,807)	(21,185)	(978)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	(1,060)	(743)	(9)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,083,237)	(762,887)	(45,309)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,458,970	19,221,857	164,533
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	¥ 13,375,733	¥ 18,458,970	\$ 119,223
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common shares	¥ 20,464,227		\$ 182,406

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

CYBERDYNE, INC. and Consolidated Subsidiaries
Year Ended March 31, 2017

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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

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 ¥112.19 to \$1, the approximate rate of exchange at March 31, 2017. 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, 2017, include the accounts of the Company and its five (four in 2016) 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
CYBERDYNE USA Inc.

CYBERDYNE USA Inc. is newly established for the year ended March 31, 2017, and included in the scope of consolidation since the date of establishment.

Investments in the remaining five (five in 2016) 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 fiscal year-end date of two consolidated subsidiaries, Cyberdyne Care Robotics GmbH and CYBERDYNE USA Inc., is December 31. To prepare the consolidated financial statements, the Company used financial statements based on a provisional statement of accounts as at the fiscal year-end date of the Group. The fiscal year-end date of all other consolidated subsidiaries is the same as that of the Company.

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

Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," 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 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 research and development; 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—

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. 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. 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. The acquirer recognizes any 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. 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 non-controlling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary, while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the non-controlling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. Cash Equivalents—

Cash equivalents are short-term investments that are readily convertible into cash and 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 cost method
(2) Raw materials, merchandise:	Moving-average cost method
(3) Supplies:	Last purchase price 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 a 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.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average cost 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—

An allowance for doubtful receivables is measured at the amount that may not be recoverable, based on collectability assessment of receivables with reference to historical credit loss record.

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, except for buildings (excluding structures), building improvements and structures acquired after April 1, 2016, assets for rent, and certain furniture and fixtures, which are depreciated using the straight-line method.

The range of useful lives is principally as follows:

Buildings and structures:	3 to 38 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 computed by the straight-line method over three to five years for software and eight years for patent rights.

k. Asset Retirement Obligations—

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset, and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement, and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

l. Stock Options—

The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

m. Research and Development Costs—

Research and development costs are charged to income as incurred.

n. Leases—

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.

o. Revenue Recognition—

The Group's revenue mainly consists of rental revenue from leasing and sales of products. The Group recognizes rental revenue each month over the rental period based on the rental agreements. For sales of products, the Company recognizes revenue upon the completion of acceptance inspection by the customers.

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.

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

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

Net loss per share is computed assuming this share split was conducted at the beginning of the years ended March 31, 2017 and 2016.

u. Accounting Changes and Error Corrections—

Under 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 are required 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, 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. Accounting Change

Change in Depreciation Method—Pursuant to certain changes of the Corporate Tax Act, the Company adopted ASBJ PITF No. 32, "Practical Solution on a change in depreciation method due to Tax Reform 2016," and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining balance method to the straight-line method.

There was no material impact from adoption of this guidance for the year ended March 31, 2017.

3. RECONCILIATION BETWEEN CASH AND BANK BALANCES AND CASH EQUIVALENTS

A reconciliation between cash and bank balances in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2017 and 2016, was as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Cash and bank balances	¥ 10,375,733	¥ 14,458,798	\$ 92,483
Marketable securities	23,000,000	25,500,386	205,009
Time deposits that mature or become due over three months from the date of acquisition		(1,500,000)	
Bonds and other debt obligations due in three months or later	(20,000,000)	(20,000,213)	(178,269)
Cash and cash equivalents	¥ 13,375,733	¥ 18,458,970	\$ 119,223

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Current—Securities classified as:			
Held-to-maturity—commercial paper		¥ 1,499,963	
Available-for-sale—negotiable certificates of deposit and public and corporate bond in 2017 and negotiable certificates of deposit and joint-managed money trust in 2016	¥23,000,000	24,000,422	\$205,009
Total	¥23,000,000	¥25,500,386	\$205,009
Noncurrent—Securities classified as available-for-sale—investment securities in 2017 and unlisted stocks in 2016	¥ 1,360,838	¥ 914,830	\$ 12,129

The costs and aggregate fair values of marketable and investment securities as of March 31, 2017, were not disclosed, since the carrying values of negotiable certificates of deposit and public and corporate bond approximate their fair values because of their short maturities. In addition, investment securities do not have quoted market prices and their fair values cannot be reliably determined.

The costs and aggregate fair values of marketable and investment securities as of March 31, 2016, were not disclosed since the carrying values of commercial paper, negotiable certificates of deposit, and joint-managed money trust approximate their fair values because of their short maturities. In addition, unlisted stocks do not have quoted market prices and their fair values cannot be reliably determined.

Investments in unconsolidated subsidiaries and associated companies as of March 31, 2017 and 2016, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Investments in unconsolidated subsidiaries and associated companies:			
Investment securities (shares)	¥10,896	¥11,555	\$ 97
Investment securities (investments in capital)	2,957	2,957	26
Total	¥13,854	¥14,512	\$123

5. INVENTORIES

Inventories as of March 31, 2017 and 2016, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Merchandise and finished products	¥ 96,708	¥149,939	\$ 862
Work in process	9,569	13,519	85
Raw materials and supplies	420,267	286,167	3,746
Total	¥526,545	¥449,626	\$4,693

6. REDUCTION ENTRIES

By receiving government subsidies for purchases of fixed assets, the Company has reduced the acquisition costs of related fixed assets for tax purposes.

The amounts deducted from the acquisition costs of fixed assets for tax purposes as of March 31, 2017 and 2016, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Land	¥ 95,744		\$ 853
Buildings	631,457		5,628
Machinery and equipment	144,555	¥144,555	1,288
Furniture and fixtures	189,458	174,904	1,688
Software	14,174	14,174	126

7. LONG-TERM DEBT

Long-term debt as of March 31, 2017 and 2016, consisted of the following:

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

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

(1) Type of shares to be converted:	Common shares 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 (\$178,269 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.

The carrying amounts of assets pledged as collateral as of March 31, 2017 and 2016, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Buildings	¥280,000	¥280,000	\$2,495
Total	¥280,000	¥280,000	\$2,495

There are no secured liabilities, though the buildings disclosed above are pledged as collateral.

The Company has overdraft agreements with a maximum limit of ¥900,000 thousand (\$8,022 thousand) and ¥900,000 thousand with banks as of March 31, 2017 and 2016, respectively, in order to efficiently fund ongoing operations.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2017 and 2016, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Balance at beginning of year	¥71,613	¥70,171	\$638
Reconciliation associated with passage of time	1,468	1,442	13
Balance at end of year	¥73,081	¥71,613	\$651

Asset retirement obligations are obligations to restore sites to their original condition in accordance with lease contracts of the head office building and exhibition facilities, etc. The amounts of the asset retirement obligations are computed at discount rates of 1.98% to 2.07% by estimating the expected use periods to be 18 to 20 years from the date of 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 and 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 distribute dividends due to its deficit as of March 31, 2017 and 2016.

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 share. 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 share, 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, 2015	62,788,000	38,850,000	101,638,000
Balance, April 1, 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
Increase	11,771,609		11,771,609
Decrease			
Balance, March 31, 2017	137,347,609	77,700,000	215,047,609
Treasury stock:			
Balance, April 1, 2015			
Increase	138		138
Decrease			
Balance, March 31, 2016	138		138
Increase			
Decrease			
Balance, March 31, 2017	138		138

For the year ended March 31, 2017, reasons for the changes in the number of issued shares of each class of shares are as follows:

March 31, 2017	Shares
Common shares—Increase—conversion of Euro-yen zero coupon convertible bond-type bonds with subscription rights to shares	11,771,609

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 shares—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 stock options of ¥12,468 thousand (\$111 thousand) during the year ended March 31, 2017.

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 and ¥6,318 thousand, respectively, during the year ended March 31, 2016.

The change in shares to be converted is as follows:

	Thousands of Shares
Common shares:	
Balance, April 1, 2015	5,277
Balance, April 1, 2015 (as restated to reflect the stock split on August 1, 2015)	10,554
Increase	1,217
Decrease	
Balance, March 31, 2016	11,771
Increase	
Decrease	11,771
Balance, March 31, 2017	

For the year ended March 31, 2017, the decrease of 11,771 thousand shares was due to the exercise of Euro-yen zero coupon convertible bond-type bonds, with subscription rights to shares.

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

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

10. STOCK OPTIONS

Expenses related to stock options for the years ended March 31, 2017 and 2016, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Selling, general and administration:			
Share-based compensation expenses	¥6,054	¥6,318	\$53

The stock options outstanding as of March 31, 2017, are as follows:

	2015 Stock Option	2016 1st Series Stock Option	2016 2nd Series Stock Option
Date of resolution	July 28, 2015	May 24, 2016	July 26, 2016
Persons granted	1 external consultant of the Company	1 external consultant of the Company	7 directors of the Company 3 Audit and Supervisory Board members of the Company 102 employees of the Company 17 employees of subsidiaries
Number of options granted	Common share 7,800 shares	Common share 4,600 shares	Common share 47,700 shares
Date of grant	August 12, 2015	June 8, 2016	August 25, 2016
Exercise period	From July 29, 2017 to July 28, 2025	From May 25, 2018 to May 24, 2026	From July 1, 2017 to August 24, 2021

Notes: 1. Stock acquisition rights for the 2016 2nd series stock options can be exercised only if they meet the conditions set forth in (a) and (b) below as of the fiscal year ended March 31, 2017, and the fiscal year ended March 31, 2018, from the first day of the month following the filing date of the securities report of the period in which these conditions are first met.

(a) Sales exceed ¥3,000 million.

(b) Loss before income tax becomes positive.

In the determination of sales and ordinary income mentioned above, the sales and loss before income tax presented in the consolidated statement of operations (if a consolidated statement of operations has not been prepared, then the amounts presented in the nonconsolidated statement of operations) and entered in the Company's securities report shall be referenced, and if any significant changes to the referenced items occur as a result of the application of international financial reporting standards, indices that ought to be referenced separately shall be determined by the Board of Directors.

2. In the event that a stock option holder dies, and one of the heirs of the stock option holder (hereinafter referred to as the "Heir") inherits all of the stock options held by the departed, the Heir is able to exercise the stock options. If the Heir dies, the heirs of the Heir cannot inherit the stock options.

3. If the total number of issued shares will exceed the number of authorized shares due to the exercise of stock options, the stock options cannot be exercised.

4. The stock options less than one (1) cannot be exercised.

5. Other conditions for the exercise of the stock options will be determined by the stock option allotment contract signed between the Company and the allottee based on the resolution of the Board of Directors of the Company.

The stock option activity is as follows:

Year Ended March 31, 2017	Shares		
	2015 Stock Option	2016 1st Series Stock Option	2016 2nd Series Stock Option
Non-vested			
April 1, 2016—Outstanding			
Granted		4,600	47,700
Canceled			
Vested		(4,600)	
March 31, 2017—Outstanding			47,700
Vested			
April 1, 2016—Outstanding	7,800		
Vested		4,600	
Exercised			
Canceled			
March 31, 2017—Outstanding	7,800	4,600	
Exercise price	¥ 1,806 (\$ 16)	¥ 3,060 (\$ 27)	¥2,355 (\$20)
Average stock price at exercise			
Fair value price at grant date	¥81,000 (\$721)	¥131,630 (\$1,173)	¥ 200 (\$ 1)

The Assumptions Used to Measure the Fair Value of Stock Options

	2016 1st Series Stock Option	2016 2nd Series Stock Option
Estimate method	Black-Scholes option pricing model	Monte Carlo simulation-pricing model
Volatility of stock price	59.7%	58.8%
Period to maturity	10 years	5 years
Estimated dividend	¥— (\$—) per share	¥— (\$—) per share
Risk-free interest rate	(0.2)%	(0.3)%

11. INCOMETAXES

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 30.7% and 32.8% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, are as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Deferred tax assets:			
Research and development expenses	¥ 84,156	¥ 64,761	\$ 750
Write-off of inventories	11,255	7,618	100
Lump-sum depreciable assets	2,974	3,062	26
Accrued enterprise tax	44,740	18,103	398
Impairment loss	2,235	2,250	19
Depreciation	99,581	90,627	887
Asset retirement obligations	22,128	21,819	197
Loss on valuation of shares of unconsolidated subsidiaries and associated companies	7,231	7,073	64
Tax loss carryforwards	1,737,495	1,595,422	15,487
Accrued enterprise tax	376		3
Other	15,159	17,998	135
Less valuation allowance	(2,027,336)	(1,828,737)	(18,070)
Total			
Deferred tax liabilities:			
Retirement expenses for asset retirement obligations	(9,493)	(10,211)	(84)
Unrealized gain on available-for-sale securities	(3,942)		(35)
Other	(417)	(815)	(3)
Total	(13,853)	(11,027)	(123)
Net deferred tax liabilities	¥ (13,853)	¥ (11,027)	\$ (123)

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, 2017 and 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.7 %	32.8 %
Expenses not deductible for income tax purposes	(0.1)	(0.1)
Impact of change in tax rate	(1.6)	(13.4)
Inhabitant tax, flat rate	(0.8)	(0.9)
Valuation allowance	(25.4)	(17.9)
Other—net	(3.6)	(2.1)
Actual effective tax rate	(0.8)%	(1.6)%

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)
	2017	2016	2017
Research and development costs:			
Salaries	¥191,952	¥187,411	\$1,710
Material costs	337,069	450,892	3,004
Rental expenses	77,182	118,227	687
Other selling, general and administrative expenses:			
Salaries	290,194	283,281	2,586
Tax and dues	216,846	137,865	1,932

13. LEASES

Obligations and future minimum payments under non-cancelable operating leases for the years ended March 31, 2017 and 2016, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Due within one year	¥400,572	¥268,145	\$3,570
Due after one year	174,254	170,216	1,553
Total	¥574,826	¥438,361	\$5,123

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

a. Company Policy for Financial Instruments

The Group finances its daily operations by borrowings from banks or other financial institutions, such as 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 carry out 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, mainly include shares, held-to-maturity bonds, and money trust, are exposed to credit risk.

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 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 Group 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 Unit.

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 measured are excluded from the table below.

	Thousands of Yen			Thousands of U.S. Dollars (Note 1)		
	Carrying Amount	Fair Value	Unrealized Gain/Loss	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2017						
Cash and bank balances	¥10,375,733	¥10,375,733		\$ 92,483	\$ 92,483	
Marketable securities	23,000,000	23,000,000		205,009	205,009	
Receivables—trade accounts	247,451	247,451		2,205	2,205	
Receivables—other	125,233	125,233		1,116	1,116	
Total	¥33,748,418	¥33,748,418		\$300,814	\$300,814	
March 31, 2016						
Payables—trade accounts	¥ 20,758	¥ 20,758		\$ 185	\$ 185	
Income taxes payable	151,632	151,632		1,351	1,351	
Total	¥ 172,391	¥ 172,391		\$ 1,536	\$ 1,536	

March 31, 2016

Cash and bank balances	¥14,458,798	¥14,458,798
Marketable securities	25,500,386	25,500,386
Receivables—trade accounts	217,347	217,347
Receivables—other	349,259	349,259
Total	¥40,525,790	¥40,525,790
Payables—trade accounts		
	¥ 48,120	¥ 48,120
Current portion of convertible bond-type bonds, with subscription rights to shares		
	19,927,483	19,927,483
Income taxes payable		
	63,804	63,804
Total	¥20,039,408	¥20,039,408

Cash and Bank Balances

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

Marketable Securities

The carrying values of marketable securities approximate their fair values because of their short maturities.

Receivables and Payables

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

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

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

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

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Investment securities	¥1,360,838	¥914,830	\$12,129

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

March 31, 2017	Thousands of Yen			
	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	¥10,375,733			
Marketable securities	23,000,000			
Receivables—trade accounts	247,451			
Receivables—other	125,233			
Total	¥33,748,418			

March 31, 2017	Thousands of U.S. Dollars (Note 1)			
	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	\$ 92,483			
Marketable securities	205,009			
Receivables—trade accounts	2,205			
Receivables—other	1,116			
Total	\$300,814			

15. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2017 and 2016, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥12,908		\$ 115
Reclassification adjustments to profit or loss			
Amount before income tax effect	12,908		115
Income tax effect	(3,942)		(35)
Total	¥ 8,966		\$ 79
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 2,730	¥1,776	\$ 24
Reclassification adjustments to profit or loss			
Amount before income tax effect	2,730	1,776	24
Income tax effect			
Total	¥ 2,730	¥1,776	\$ 24
Total other comprehensive income	¥11,696	¥1,776	\$ 104

16. NET LOSS PER SHARE

The calculation of net loss per share ("EPS") for the years ended March 31, 2017 and 2016, is as follows:

	Thousands of Yen	Thousands of Shares	Yen	U.S. Dollars (Note 1)
	Net Loss Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Year Ended March 31, 2017				
Basic EPS—Net loss available to common shareholders	¥(789,332)	213,822	¥(3.69)	\$(0.03)
Year Ended March 31, 2016				
Basic EPS—Net loss available to common shareholders	¥(718,057)	203,275	¥(3.53)	

Diluted EPS is not disclosed due to negative EPS, even though dilutive shares exist.

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

EPS is calculated assuming this share split was performed at the beginning of the 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 of business related to robotics, 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 a 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)		
	Japan	EMEA	Total	Japan	EMEA	Total
March 31, 2017						
Net sales	¥1,566,199	¥83,740	¥1,649,940	\$13,960	\$746	\$14,706
March 31, 2016						
Net sales	¥1,181,838	¥83,063	¥1,264,902			

(2) Property, plant and equipment

Since the amount of property, plant and equipment located 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

For the year ended March 31, 2017, since there is no external customer whose sales exceed 10% or more of the net sales in the consolidated statement of operations, information about major customers is omitted.

March 31, 2016
Sales to—Kanagawa Prefecture

Thousands of Yen
¥172,227

Deloitte.

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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, 2017, 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, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 23, 2017

Member of
Deloitte Touche Tohmatsu Limited

Matters regarding the Company shares

Status of shares (as of March 31, 2017)

Class	Total number of authorized shares (shares)	Total number of shares issued (shares)	Number of shareholders (shareholders)
Common Share	618,300,000	137,347,609	86,822
Class B Share	77,700,000	77,700,000	3

Major shareholders (as of March, 2017)

Name of shareholder	Number of shares held (shares)	Shareholding ratio (%)
Yoshiyuki Sankai	Common Share 3,042,000 Class B Share 77,696,000	37.54
Daiwa House Industry Co., Ltd.	Common Share 37,690,000	17.53
GCAS BANA LONDON US CLIENT	Common Share 3,726,000	1.73
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS* UNITED KINGDOM	Common Share 3,580,500	1.66
BBH FOR MATTHEWS JAPAN FUND	Common Share 2,943,600	1.37
Japan Trustee Services Bank, Ltd. (Trust Account)	Common Share 2,669,700	1.24
SBI SECURITIES Co., Ltd.	Common Share 1,733,500	0.81
The Master Trust Bank of Japan, Ltd. (Trust Account)	Common Share 1,635,500	0.76
Japan Trustee Services Bank, Ltd. (Trust Account 9)	Common Share 1,263,100	0.59
THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL ACCOUNT NO.1	Common Share 841,713	0.39

(Note) 138 shares in the treasury stock was excluded upon calculation of the shareholding ratio

[Classification of shareholders by shareholder types]

Common Share As of March 31, 2017

Classification	Status of shares (100 shares per 1 share unit)							Total	Status of shares less than one share unit (share)
	Government and local governments	Financial institution	Financial instrument service operators	Other corporations	Foreign inverters		Individual investors etc.		
					Non-individuals	Individuals			
Number of shareholder (person)	—	22	66	531	372	93	84,881	85,965	—
Number of shareholder (Unit)	—	97,306	45,532	401,086	233,696	1,260	594,275	1,373,155	32,109
Shareholding ratio (%)	—	7.09	3.31	29.2	17.02	0.09	43.28	1.00	—

Class B Share As of March 31, 2017

Classification	Status of shares (100 shares per 1 share unit)							Total	Status of shares less than one share unit (share)
	Government and local governments	Financial institution	Financial instrument service operators	Other corporations	Foreign inverters		Individual investors etc.		
					Non-individuals	Individuals			
Number of shareholder (person)	—	—	—	2	—	—	1	3	—
Number of shareholder (Unit)	—	—	—	400	—	—	7,769,600	7,770,000	—
Shareholding ratio (%)	—	—	—	0.01	—	—	99.99	1.00	—

Main offices of operations and factories

Division	Name	Location
The Company	Head Quarters	Tsukuba, Ibaraki, Japan
	Next-generation multipurpose robotized production facility (Fukushima office)	Koriyama, Fukushima, Japan
Subsidiaries (Outside Japan)	Cyberdyne Care Robotics GmbH	Bochum, Nordrhein-Westfalen, Germany
	CYBERDYNE USA Inc.	State of Washington, United States of America
Subsidiaries (within Japan)	Suzuka Robocare Center Co., Ltd.	Suzuka, Mie, Japan
	Shonan Robocare Center Co., Ltd.	Fujisawa, Kanagawa, Japan
	Oita Robocare Center Co., Ltd.	Beppu, Oita, Japan

Status of employees

(i) Status of employees in the Group (as of March 31, 2017)

Number of employees	Change from previous fiscal year
71 members (94 members)	Increase of 6 members (Increase of 1 member)

(Notes) (1) The number of employees includes full-time employees and members on temporary transfer assignments. It does not include the numbers of Directors who also hold positions as a Company employees or dispatch workers sent from a temp agencies.

(2) The number in the brackets () represents the number of contract employees (includes part-time workers but excludes those who work in the Company as their second jobs)

(3) Since the Group is involved in a single segment of business related to robots, information of employees for each segments is omitted.

(ii) Status of employees in the Company (as of March 31, 2017)

Number of employees	Change from previous fiscal year	Average age	Average years of continuous service
61 members (61 members)	Increase of 6 members (Increase of 2 members)	39.5 years old	4.5 years

(Notes) (1) The number of employees includes full-time employees and members on temporary transfer assignments. It does not include the numbers of Directors who also hold positions as a Company employees or dispatch workers sent from a temp agencies.

(2) The number in the brackets () represents the number of contract employees (includes part-time workers but excludes those who work in the Company as their second jobs)

(iii) Status of trade unions or related association

There are no trade unions or related association comprised by the employees of the Company.

However the Company have been in good relationship with its workers and there are no special matters that must be reported.

