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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.

In the fiscal year ended March 31, 2018, we succeeded in achieving a very important milestone of obtaining marketing clearance for HAL for Medical Use Lower Limb (“Medical HAL”) from the U.S. Food & Drug Administration (“FDA”), as a medical device with treatment effects. FDA’s summary report states that intended use of Medical HAL is to improve ambulation upon completion of HAL gait training intervention.



We are pleased to learn that the report reflects our concept of Cybernic Treatment with Medical HAL (“Cybernic Treatment” or the “Treatment”) for improvement and regeneration of gait functions. Immediately after we received the marketing clearance, we started selecting executive class leader for the U.S. market to accelerate the business and we are almost ready to spread our technology across the states. Besides the offering of Cybernic Treatment in the U.S., we also started that in Poland and Saudi Arabia in the fiscal year under review, so we saw a steady progress towards offering the treatment around the world.

Furthermore for HAL Lumbar Type, we provided further upgrades to the initial models used to support the workers by adding new functions, such as communication, waterproof and dust proof functions. In addition to existing HAL Lumbar Type for Care Support for a caregiver, we also succeeded in commercializing HAL Lumbar Type for Well-being, to support a care receiver by inducing improvement in the wearer’s ability to stand up and down, so he/she can grow more independent from the need of care.

In addition, we introduced a new model of our Cleaning Robot, “CL02” as the world’s top class cleaning robot., CL02 incorporating reinforced sensing components and AI systems. We have started distributing CL02, in cooperation with several large companies. We developed a palm-size medical device, “Vital Sensor” capable of measuring hardening of arteries and cardiac functions at home and hospitals. We also submitted a medical device application for Vital Sensor to Pharmaceuticals and Medical Devices Agency in Japan (“PMDA”). The device will join our line-up of medical devices. Once this process is complete, we will be cleared to commence selling of this device.

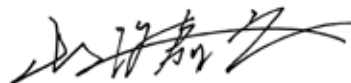
We also started selling Cyin for Living Support for a patient with much deteriorated bodily functions due to severe disorders has difficulty to speak and/or move with existing communication devices. Utilizing the patient’s bio-electrical signal, Cyin enables him/her to manipulate various environment controlling devices and communication tools. Preparations for distributing this device are proceeding. As listed above, we have been advancing preparations to create the new “Cybernic Industry” through these products incorporating AI and IoH/IoT (Internet of Humans/ Internet of Things) functions. We have worked at full speed since our listing on the stock market and we can now see the entire picture of our business better.

In order to create Cybernic Industry, not only we have to continue our research and development of the Company’s products but also we need a bigger framework of business. In order to formulate this framework, we entered into business alliances with insurance companies and companies with unique technologies. To reinforce this framework further, we started “CEJ Fund” in July, 2018 as a scheme to support and nurture venture companies. CEJ stands for Cybernic Excellence Japan.

Ever since its foundation in 2004, CYBERDYNE,INC. has challenged to explore the new market with its innovative technology. Because this is an endeavor to create a new market that no other has explored before, at times we are forced to face difficult situations and advance through trial and error. Despite these circumstances, the reason why we were able to proceed steadily and overcome many difficulties is due to support from all of our investors. The challenge to form the new industry and shape the future society is about to enter into the next stage. We will continue to develop our business as quickly as we can in order to meet the expectations from all of our stakeholders that support us.

CYBERDYNE, INC.  
President and CEO

**Yoshiyuki Sankai**



**List of main events in fiscal year ended March 31, 2018**

- 2017.05.08 Daido life insurance launches world’s first product to guarantee treatment with Medical HAL for intractable diseases
- 2017.06.22 Treatment with Medical HAL covered by private insurance company starts in Poland
- 2017.08.07 CYBERDYNE Omni Networks, INC. (joint venture with Covia) established for communication/device business on IoH/IoT
- 2017.08.09 Medical HAL obtained medical device approval in Saudi Arabia
- 2017.10.02 HAL Lumbar Type for Well-being launched as a device that supports both caregivers and care receivers
- 2017.12.01 New model of HAL Lumbar Type for Labor Support launched as upgraded device with waterproof and dust proof function
- 2017.12.17 (U.S. Time) Medical HAL obtained marketing clearance from U.S. FDA as a medical device
- 2017.12.18 CEJ Fund announced as a new industrial infrastructure to assist and nurture venture companies
- 2018.01.09 Cyin for Living Support announced as a device that supports patients who have difficulty in speaking or moving
- 2018.03.02 CYBERDYNE & Brooks, Inc. established to commence operation of first Cybernic Treatment Center in the U.S.
- 2018.03.09 Domestic gathering of users of HAL Lumbar Type for Care Support 2018 hosted to present excellence use case of HAL Lumbar Type
- 2018.03.26 New model of Cleaning Robot launched as upgraded robot with cutting-edge autonomous navigation and cleaning capability

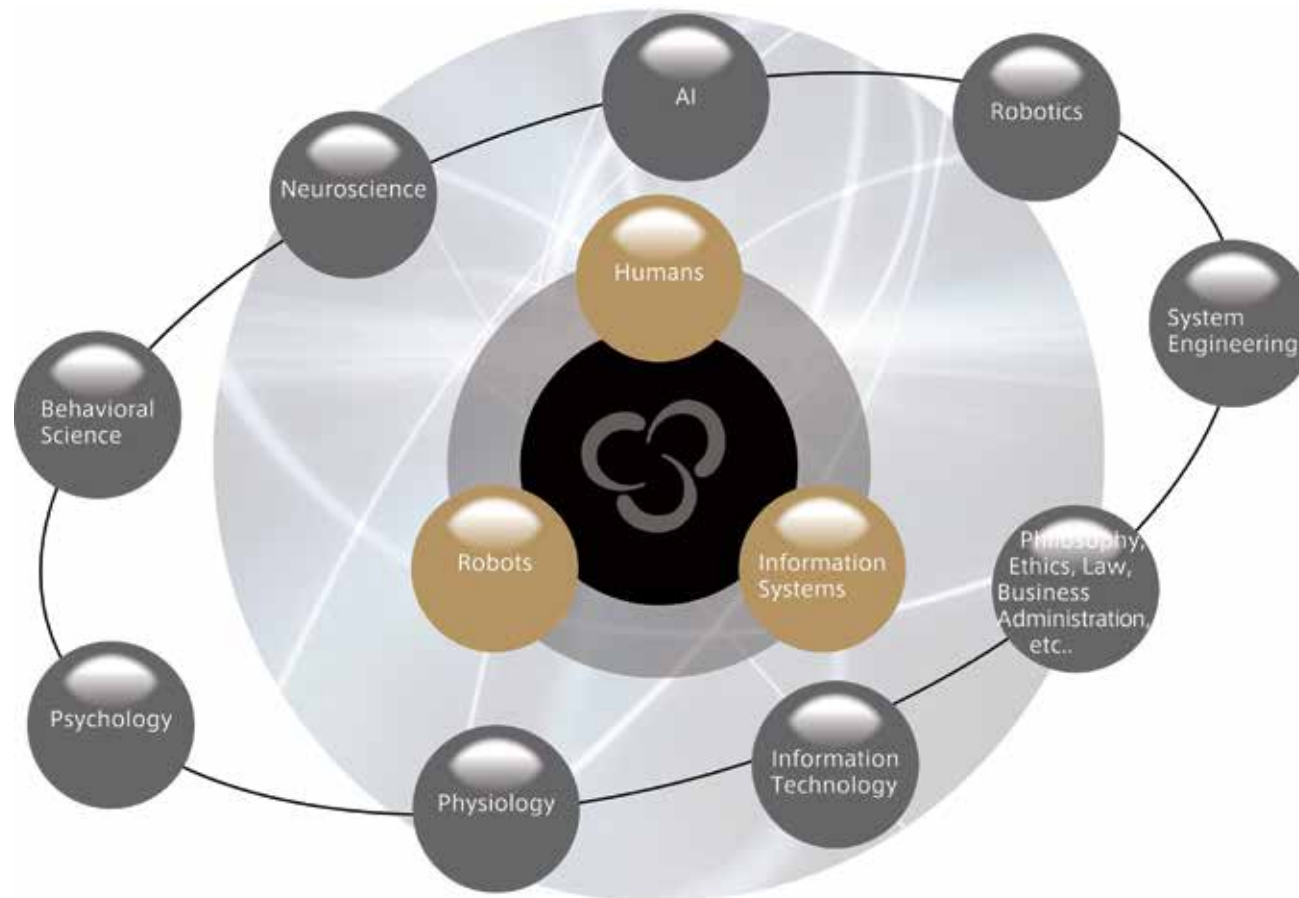
## About Cybernics

Cybernetics is a new academic field that fused/combined cross-disciplinary fields. The core disciplines of Cybernetics are field academic field related to human, robots and information systems; however, it also embraces various fields such as neuroscience, AI, Robotics, system engineering, information technology, physiology, psychology, behavioral science, philosophy, ethics, law, business administration and etc.

Various social issues that people and the society face today are so complex that cross-disciplinary approach is necessary to tackle them. Yoshiyuki Sankai, a professor at the University of Tsukuba in Japan, who is now also President and CEO of CYBERDYNE, INC. (the "Company") championed Cybernetics as a new academic field that could approach these issues from multiple perspectives.

Most renowned research result of Cybernetics is the world's first cyborg-type robot "Robot Suit HAL", which is now commercialized as a product of the Company.

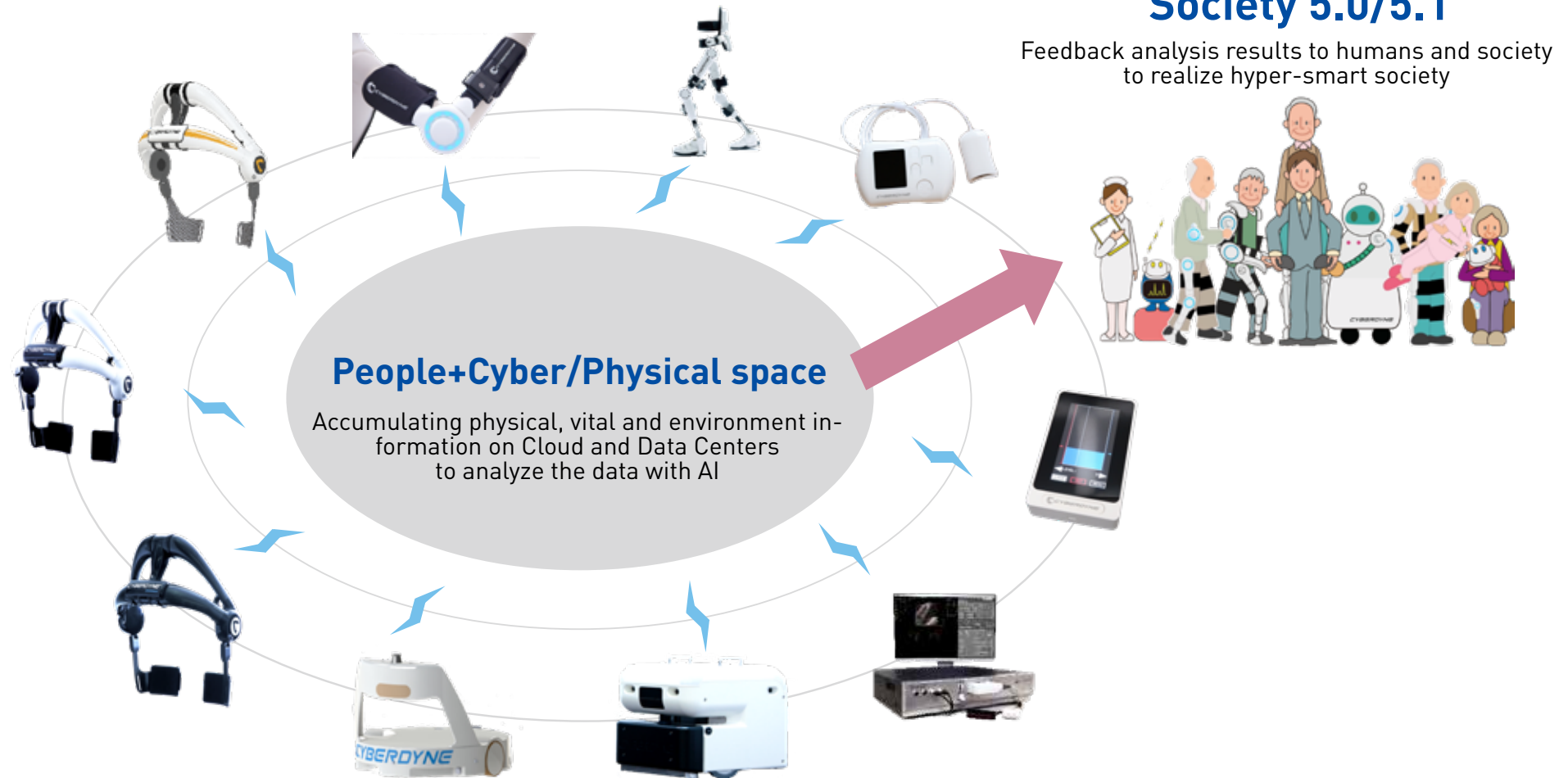
The company name is derived from the utilization of innovative "cybernetic" technologies and the suffix "dyne" which derives from the Greek dynamis meaning force/power. "CYBERDYNE" therefore means "power generated by Cybernetics" and expresses the company spirit that all employees hold to dearly.



The corporate philosophy of CYBERDYNE and its subsidiaries (the "Group") is "technology exists for humans and society." Based on this philosophy, the Group engages in the entire process from research, development and social implementation of technology towards solving various problems in the society. The Group will continue to work on upgrading its technology in line with endeavors to further coordinate with start-ups and other companies with unique technologies as well as companies in other business fields such as insurance companies.

Furthermore, the greatest feature of all products developed by the Group, including HAL, is that they are all loH/loT devices. They can obtain information related to humans such as physical information, vital information, and information related to the surrounding environments.

The Group works to formulate a scheme to connect those information gathered from the physical space to the cyber space. This way, large amount of data could be accumulated and analyzed, so new discoveries can be fed back to humans and the society. The Group will continue to work on this new business model based on loH/loT to lead the endeavor to realize Society 5.0/5.1, the future society centered around human where all people could live prosperously.



HAL, or Hybrid Assistive Limb, is known to be the world's first cyborg-type robot, designed to improve, assist, expand and regenerate the wearer's physical function.

The most significant feature of HAL is its control system called "Cybernic Voluntary Control." This control system makes HAL to provide motor assistance, based on the signal generated when the wearer tries to move his/her body.

HAL's potential applications now extend beyond the medical fields, for which it was initially designed. HAL is also being used in welfare and labor support. In addition to the products currently provided, a wide range of new applications for it are also currently being researched.

## Motion principle of HAL



**01**

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

*MORE INFO*  
The speed of the signals that are conveyed from the brain to each muscle is approximately between 150km/h and 400km/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.

**02**

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

*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.

**03**

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 of 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.

**04**

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.

*MORE INFO*  
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.

**05**

Through steps 01-04, an interactive biofeedback loop between brain, spinal cord, muscles and HAL is established.

By integrating the function of the wearer's brain-nerve systems and HAL, physical function of the wearer is improved, assisted, expanded and regenerated.

### HAL for Medical Use

HAL for Medical Use Lower Limb Type ("Medical HAL") is the world's first robotic treatment device designed to improve the brain, nerves and muscular system of the patient. It is approved as a medical device in Japan, U.S. and Europe.

### HAL for Well-being

By using HAL for Well-being, people whose physical function has been reduced by aging or disuse can expect it to promote improvement of physical function and level of independence in activities of daily living.

### HAL for Care/Labor Support

HAL for Care/Labor Support is designed for care facilities/workplaces with heavy-labor operations in mind to lessen the load in the lumbar region for people who lift heavy weight every day, thereby lowering the risks of back trouble.



Cybernic Treatment is described as “Functional Regenerative Medicine” realized by devices like Medical HAL. It is an innovative treatment technology that promotes the functional improvement/regeneration of the brain, nerves and muscular system.

Even if the patient is unable to generate enough muscle strength to move due to dysfunction, in accordance with the aforementioned motion principle, Medical HAL is able to assist the patient to repeatedly realize actual movement that is in sync with the motion intent of the brain without placing excessive burdens on the brain, nerves and muscular system.

A clinician can intervene in this process by tuning the many adjustable parameters related to the patient’s motor and neurological information, which has been built into the device, in a way that appropriately circulates the patient’s motor and neurological information through the neural loop between the brain-nerve systems and the musculoskeletal system. This treatment program with Medical HAL has been certified for certain diseases by the regulatory authorities in the EU, Japan, the U.S. and other countries.



Image of treatment with Medical HAL  
Cyberdyne Care Robotics, Bochum, Germany

## List of notable related journals

### Spinal cord injury

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

### Stroke

- “Combined therapy using botulinum toxin A and single-joint hybrid assistive limb for upper-limb disability due to spastic hemiplegia”, Journal of the Neurological Sciences (2017)
- “Gait training with Hybrid Assistive Limb enhances the gait functions in subacute stroke patients: A pilot study”, NeuroRehabilitation (2017)
- “Gait training of subacute stroke patients using a hybrid assistive limb: a pilot study” NeuroRehabilitation (2017)
- “Tailor-made rehabilitation approach using multiple types of hybrid assistive limb robots for acute stroke patients: A pilot study”, Assistive Technology (2016)
- “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)
- “Pilot study of locomotion improvement using hybrid assistive limb in chronic stroke patients” BMC Neurology (2013)

### Other researches

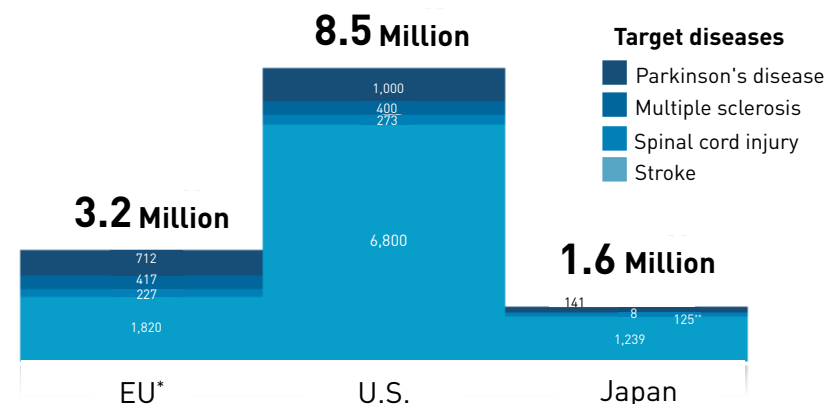
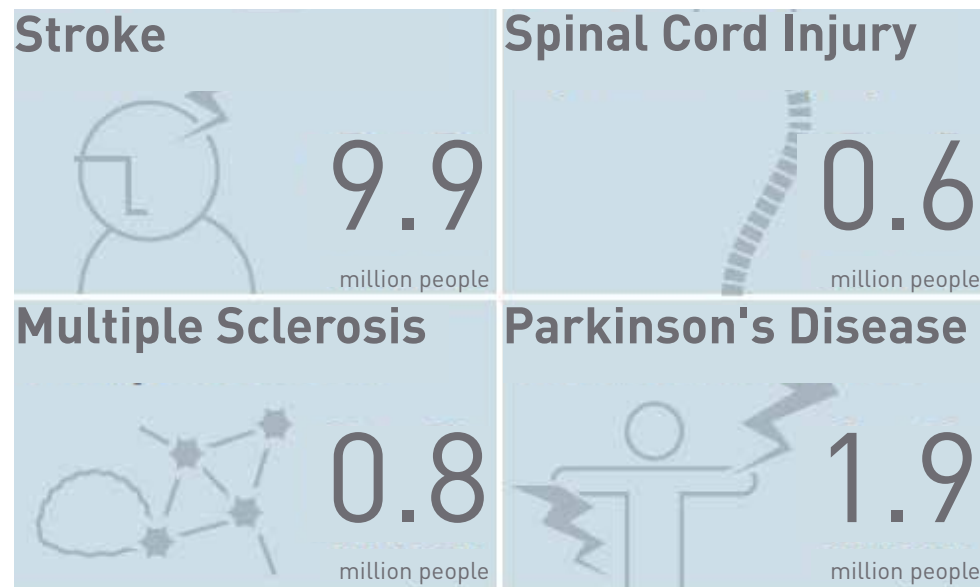
- “Feasibility of rehabilitation using the single-joint hybrid assistive limb to facilitate early recovery following total knee arthroplasty: A pilot study”, Assistive Technology (2017)
- “Feasibility of rehabilitation training with a newly developed wearable robot for patients with limited mobility” Archives of Physical Medicine and Rehabilitation (2013)

Medical HAL is designed to be used for treatment of a wide range of patients with difficulties to move due to malfunctions of the brain, nerves and muscular system. The Group sets priorities of clinical researches on intractable neuromuscular diseases, for which a treatment method other than HAL does not exist and spinal cord injury in the chronic phase, for which improvement of physical function is deemed to be very difficult.

Now the Group is proceeding with a clinical trial on treatment with HAL for stroke patients of which population is vast. Also, clinical researches towards Parkinson's disease, multiple sclerosis and so forth are in progress to expand target diseases of HAL. The table below represents the number of patient of aforementioned diseases in the Group's key regions of the U.S., EU and Japan.



### No. of patients with notable disease to which Cybernic Treatment is applicable in top three regions of medical device expenditure



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)

\* Europe includes Germany, France, the United Kingdom, Italy and Sweden.

\*\* Average of the estimated range from 100 thousand to 150 thousand.



The Group announced the launch of a new model of the Cleaning Robot (CL02) in March 2018. CL02s have already been used at some facilities owned by companies with which the Group is partnered. Currently, the Group is providing on-site support to staff members of the partner companies so that they can improve the efficiency of operating CL02. The Group is also making preparation for full-scale launch of this product sometime in the latter half of the fiscal year ending March 31, 2019.



The Company's Cleaning Robots, installed with cutting edge technology, enable interactive co-work of the robot and cleaning staff on a cleaning site where lack of manpower along with aging of the staff is becoming a primary concern. The device also contributes to safe and efficient cleaning and improves the cleaning quality on the site.

## Main features of CL02

### 1. Easy to set route

- Follows cleaning route pre-determined by its operators via tablets or by manually pushing the robot to memorize its route
- Automatically generates its cleaning paths within the set areas.
- Stores the cleaning pattern with QR codes. Operator can then make the robot read the QR code to start cleaning the pre-set route



### 3. Secures the safety

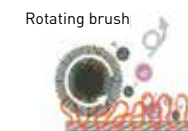
- Detects obstacles in its pathway using 3D camera
  - Recognizes its position in spacious area
  - Adapts to complex structures such as curved walls
- For safety reasons, the robot is programmed to clean areas that is at least 20 cm away from the walls



If the robot detects obstacles in its pathways, it will stop temporarily. Once the obstacle is removed, it will continue to clean. Otherwise, it will alert the operator.

### 2. Fast and autonomous

- Covers maximum of 3000m<sup>2</sup> \* with fully charged battery
- \* May vary depending on the assigned cleaning areas or setting of speed
- Fast autonomous navigation and extensive cleaning efficiency
- Rotating brush to punch the dust that is caught deep in the carpet



### 4. Improves quality

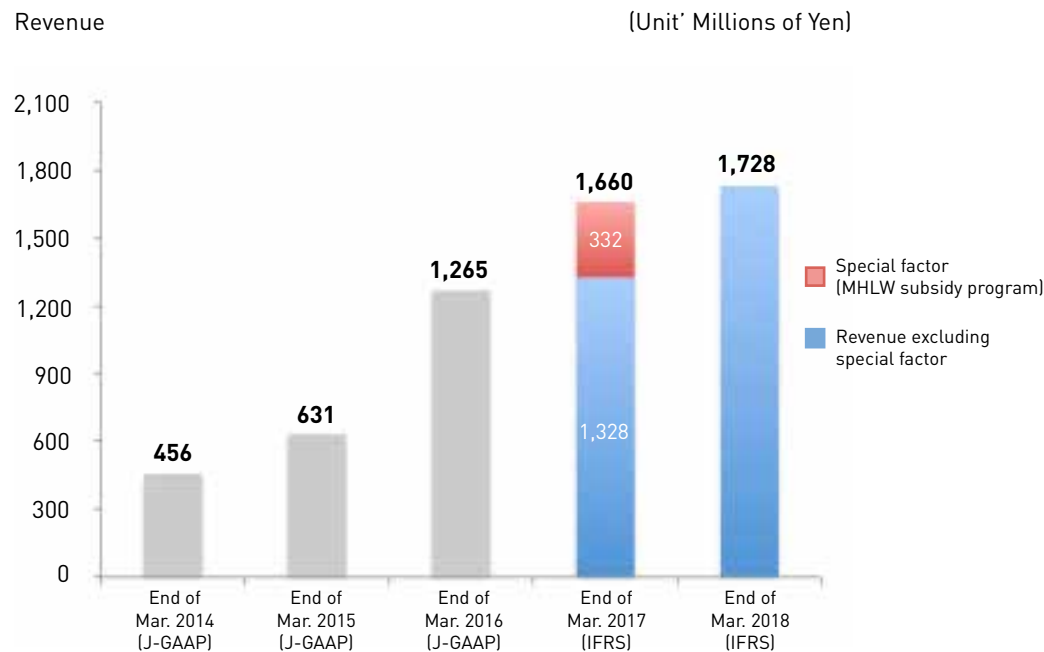
- Visualizes the cleaned area, which will enable the operator to plan efficient and effective cleaning



Visualized dust map ■ Cleaned areas ■ Area with higher density of dust

### Status of operation

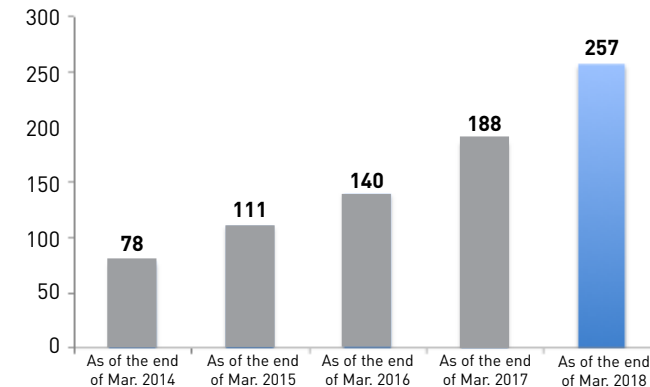
Revenue increase by 4.1% year on year. In the previous fiscal year, program hosted by the Japanese Ministry of Health, Labour and Welfare (“MHLW”) led to selling of HAL Lumbar Type for Care Support, generating revenue of ¥332 million. In the fiscal year under review, the Group generated revenue exceeding that of the previous fiscal year mainly from its rented devices.



### Changes in operating number of HAL

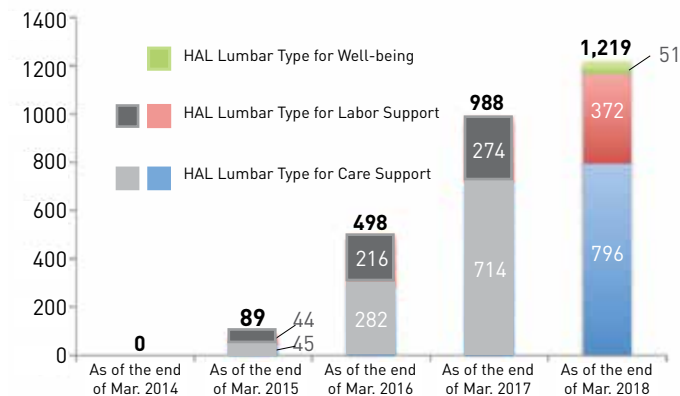
#### HAL for Medical Use Lower Limb Type

During the fiscal year under review, the Group has commenced its business promotion in Poland, Saudi Arabia and the U.S. The Group will continue promoting its clinical trials and researches to expand the device’s target diseases while working towards obtaining insurance coverage and promoting business overseas.



#### HAL Lumbar Type

A new model of HAL for Care Support is currently under development. In addition, it is becoming easier for facilities to introduce HAL through such developments as the MHLW added the category of the “Wearable-Transferring Aid device,” a category that includes HAL Lumbar Type for Care Support, into a list of eligible products to its subsidy program to secure human resources in care facilities. Rental and sales of HAL for Well-being began in October 2017 as new products to support not only caregivers but also care receivers. A new model of HAL for Labor Support (LB03) with dust proof and waterproof function was released in December 2017.



In September 2015, Sustainable Development Goals ("SDGs") were adopted in the UN Sustainable Development Summit. SDGs are a collection of 17 global goals and 169 targets that constitute an action plan for humans, the planet and prosperity. The global goals of SDGs are common goals for all people on earth, including industry and civil society, not only for the government. As a member of the society, the Group will make a contribution to achieve the SDGs, which is relevant to its business activities.



### Endeavor of the entire Group towards achievement of the SDGs



Based on the philosophy "Technology for humans and society," the Group sets forth "research and development of technologies and business activities that can be used for peaceful purposes" as a corporate principle. The focus of the Group is currently on solving social issues related to aging population and declining birthrate. In order to address these issues, the Group develops innovative Cybernic Technology mainly in the three fields of medicine, care support and living support (including work environment). Furthermore, based on the above philosophy, the Group will not consider using its technologies for military purposes because if they are used for the development of weaponry or support to military action, that would damage people and society rather than serving them. As an additional measure, upon entering a new business field or offering the Group's products, the Company's Peace and Ethic Committee will discuss whether there is a possibility that its technologies would be used for military purposes.

The Group's business activities and activities related to generating the Cybernics industry currently contribute to some of the SDGs that are colored on the chart above, such as "Good Health and Well-Being," "Industry, Innovation and Infrastructure," "Peace Justice and Strong Institutions." The Group recognizes other goals as issues that people and society needs to solve and it will contribute to solving these issues in the future.

### Contribution to solving social problems through the Group's products



Based on its corporate philosophy, the Group performs research and development and social implementation of its innovative products to solve issues that people and societies are currently facing. For example, Medical HAL is used for treatment of patients with difficulties to move due to diseases and injuries. Medical HAL is expected to induce improvement and regeneration of the physical functions of a patient, to the extent that the patient no longer requires the device to move. Furthermore, the Group also works on Cyin for Living Support, a communication device designed for a patient with difficulties in verbal communication or physical movement due to severely progressed diseases. These products could promote independence of a disabled person and reduce the burden of a caregiver. As such, the Group makes a contribution to reduce inequalities between the disabled and the non-disabled through the aforementioned products. The Group also makes contribution to solve other issues such as problematic work environment and workplace with shortage of manpower.

Products of the Group are worn by their users or operated beside the users. As such, the Group regards safety of the products as the highest importance. To guarantee the safety of the products, the Group ensures they are made to conform to standards of International Standards Organization ("ISO") and various other standards.

### Endeavor to promote coordination with partners



The Group works to promote industrial and social transformation from the current "consumption-based economy" to next-generation "social problem solving economy" through creation of Cybernic industry. To that end, the Group led the establishment of the "CEJ Fund (CEJ stands for Cybernic Excellency Japan)" as a framework to shape new industry. The fund provides both business and financial support to startup companies that contributes to the development of people and society. This endeavor contributes to one of the SDGs, "Industry, Innovation and Infrastructure." It also promotes collaboration among industry, academia and government in Japan and overseas.

Through this endeavor, the Group works to build a foundation to promote the entire process of the research and development to social implementation. In this way, the Group will quickly implement innovative technologies to contribute to solving social problems related to the aging population, declining birthrate and disabilities, as well as to providing advanced standards of prevention and treatment for diseases and injuries.

### Endeavors to create a pleasant workplace environment



The most important management resource for sustainable business development is human resources. In order to nurture and reinforce the human resources, the Group conducts various endeavors. The Group prepares various work arrangements such as irregular working hour system, flextime system and discretionary work system to suit the nature of the work and the different needs of the employees. Furthermore, it also prepares parental leave and family care leave, and there are records of employees using these benefits regardless of genders. With regard to nurturing of human resources, the Group creates training plans annually to improve individual skills and knowledge. The Group holds a number of internal seminars and also provides support for employees to participate in external seminars related to their jobs.

Also, a clinical psychologist of the Group and an industrial physician work together to conduct interviews with employees on a regular basis to maintain good physical and mental state of the employees.

We invited Hidemaru Yamaguchi, an eminent analyst in a field of medicine and health care, for an interview with Yoshiyuki Sankai, President and CEO of the Company, to discuss the Company's challenges to shape the future.

This interview took place on July 10, 2018.

**Yamaguchi** First, could we have a review of the events in the last 12 months. I presume, the biggest event was the marketing clearance of Medical HAL from the U.S. Food and Drug Administration ("FDA"). Please walk us through what obstacles were faced, the business going forward now that approval has been cleared, and the situation right now.

**Sankai** I heard that obtaining clearance from the U.S. FDA for medical devices with regard to effect of treatment is one of the most difficult certification processes in the world. It was really difficult to come this far. We repeatedly explained the therapeutic effects and the technical feature of HAL and the FDA team gradually understood more about our device. FDA gave us the marketing clearance in December 2017. When we looked closely, FDA acknowledged that Medical HAL was a) designed to improve the wearer's own ability to walk rather than assisting them only when they are wearing a device, b) the device with technical feature that is unique and, c) the device with a clinical evidence that is both statistically and clinically significant, which was almost everything that we hoped for. Medical HAL became the only device cleared for the classification combination of Neurological Devices and Physical Medicine Devices. FDA even rewrote the definition of the Physical Medicine Devices so Medical HAL can be included.

At times, dealing with the FDA was difficult and it didn't always roll in our favor, but they always dealt with us sincerely. At the very end the FDA blessed us saying "It was a huge accomplishment! Congratulations," so it was nice to reach a result where both sides can celebrate. Then in March 2018, we formed partnership with Brooks Rehabilitation Group in Florida to open our first "Cybernic Treatment Center" in the U.S. Brooks is a very large and influential hospital group that not only has a considerable number of patients but also has its own facility to research cutting-edge technologies.



It also has strong connection with local university hospitals and research institutes. So we were fortunate to start running our business with a good partner like Brooks.

While the PR activities in Japan are restricted by "Medical Advertisement Guidelines," the regulation in the U.S. is said to be generous compared to Japan. So we will be able to do more PR in the U.S. to spread Cybernic Treatment to the entire country.

**Yamaguchi** So your first partner in the U.S., Brooks Rehabilitation, is located in the East Coast. Are there any plans on the West Coast?

**Sankai** On the West Coast, we are actually running clinical researches with a medical institute called Swedish Neuroscience Institute that is located in Seattle. This institute and the medical institute in Germany have been helping our clinical researches outside of Japan thus far. Using our cooperation with Brooks, we are working to build our West Coast operations from a clinical-research-only model to one that includes business operations. Through these partner hospitals, we can get connected to other hospitals and insurance companies that they work closely with. Through these efforts, we are building the bases for Cybernic Treatment.

Interviewer: Hidemaru Yamaguchi

Managing Director, Pharmaceutical & Health care, Citi Research, Citigroup Global Markets Japan Inc.

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





**Yamaguchi** The next big milestone after FDA clearance would be expansion of HAL's targeted disorders to stroke. How is the ongoing clinical trial towards stroke progressing? Also, will we see Medical HAL being used towards stroke outside of Japan soon?

**Sankai** The clinical trial for stroke that we are doing in Japan is done in a format called investigator-initiated clinical trial. Under this format, the device manufacturer side is not allowed to know the progress. However, the pilot study conducted in the past was able to generate a very good medical effect and this study became the basis to determine the conditions of this clinical trial.



In this pilot study, 16-stroke patients who reached a plateau were studied. Plateau is a state where amount of improvement becomes flat and significant improvement can no longer be expected through the traditional rehabilitation. These 16 patients were split into an "intervention group" that received HAL treatment and a "control group" that continued the traditional rehabilitation. When we compared the results between the two groups, we found that the improvement in the intervention group was approximately five times greater than the improvement in the control group. Currently the stroke clinical trial is using Medical HAL Single-Leg model, but we are currently preparing for stroke clinical trial using HAL for Well-being (Single Joint Type) and Medical HAL Double-Leg model.

In the U.S., we will run clinical trials towards spinal cord injury based on the clearance from the FDA. But with the help of our U.S. partners, we will prepare stroke clinical trials in the U.S. as well.

**Yamaguchi** In Japan, the treatment with Medical HAL that is covered by public insurance started in September 2016 and 68 units have now been deployed in the rental business. How do you feel about the speed of spreading so far and how will it spread in the future.

**Sankai** According to the request from the regulators, we started with the treatment of eight types of progressive neuromuscular diseases. Towards these intractable diseases there was no method of treatment, including methods like drugs, which could even delay the progress of the disease.

But using Medical HAL, the progress of the disease can be delayed. In addition, if it is used at the suitable frequency, it could maintain and improve the physical function of the wearer. There are two reasons why the increase of units seems to look slow. The first reason is because neuromuscular diseases are rare diseases and there are not too many patients. The second reason is post-marketing surveillance. Medical HAL is the first of its kind used in Japan for treatment, we were asked to do this.

This post-marketing surveillance requires us to test Medical HAL on number of patients that is greater than the clinical trials.

At times, we are also requested to do test items that were not required in clinical trials. It took us sometime to determine the protocol and pick hospitals that could process these tests. As a result, 68 units of Medical HAL so far are used in 46 medical institutions in Japan as of the end of March 2018. We identified facilities that were good at operating HAL, so we will ask those hospitals to become the "base hospitals" to help spread our treatment with Medical HAL faster.

**Yamaguchi** Medical HAL is now available in Japan, Germany, the U.S., Poland and Saudi Arabia. How do you plan to spread it to other regions?

**Sankai** As I mentioned before, we obtained the marketing clearance from the U.S. FDA last December. This allowed us to take our development of Medical HAL to the next level. We will continue to spread it across Japan, the U.S. and in Europe, but we will also start spreading to Asia. A lot of Asian countries also require approval before we are allowed to export Medical HAL, but most of this process seems to adopt systems that are similar to the U.S. or EU, so the application is expected to be straight forward. We hope to maintain the high value of HAL as an innovative remedial device in Asia as well by making careful efforts to put in place a good team and deploy our business.





**Yamaguchi** Medical device application for the Vital Sensor was submitted. How long would it take until it is approved?

**Sankai** The Vital Sensor that we applied for is using a different measuring method from conventional similar devices. However, the indices for arteriosclerosis can also be measured by existing devices.

So the application will be submitted for the category called “improved medical device.” So in comparison to new medical devices, the approval is likely to be granted faster. Through the Vital Sensor, we will get access to more information on human-beings. But if we are to gather these human data, we will be obliged to handle it appropriately. So we will process these personal data into a format where individuals cannot be identified. We will then utilize these highly valuable IoT (Internet of Humans/Internet of Things) data to make further contribution to the society.

**Yamaguchi** Over the past 12 months, we were introduced to a number of new products. Please let us know some of the products that the Company introduced and what products we could expect, as far as it’s all right with you.

**Sankai** We have been offering HAL Lumbar Type for Care Support that was initially designed to support the caregivers, as the name shows. Furthermore, we began offering HAL Lumbar Type for Well-being that can promote the improvement of function in the body trunk and etc., for care receivers through simple training. We also succeeded in developing the 2S size model of HAL Lower Limb Type and we are currently making arrangements with the Japanese regulatory organization (Pharmaceuticals and Medical Devices Agency) to obtain medical device approval. The existing HAL Lower Limb Type can be used only by a wearer who is taller than 145 cm, but the 2S Size will expand this lower limit to 100 cm. So these exciting products joined the lineup.

Furthermore, we started renting out the new model of Cleaning Robot. With the cutting-edge sensing technology, this robot became one of the world’s fastest cleaning robots. I believe the technology could be applied to other usages. For example, if I take off the cleaning unit of the robot, it can easily be changed to Transportation Robot.

The technology could be used also towards many problems in nursing-care sites, such as mobility, transfer from a wheel chair to other equipment, toileting assistance, watching over the safety and diet. To give you an idea, if we use this technology for mobility, the robot is capable of moving in-house using its cutting-edge sensors. If it goes outside, it can switch its guidance system to GPS.



So we hope to announce these robots one by one, which are capable of moving in and out of the buildings freely.

**Yamaguchi** Some people say that CYBERDYNE is in possession of extensive technologies, but on the other hand it is struggling to develop them into profitable businesses. What would you say to them?

**Sankai** If we drive selling HAL, we can generate a higher one-off type of revenue. We, however, believe it is more important to disseminate the technology of HAL so that the vision of the Company and the society we aim to create can be realized. We believe we can achieve sustainable growth of the Company by following through this endeavor.

We are working closely with medical institutions and insurers to, step by step, develop the market of Medical HAL. We accumulate clinical data, obtain a medical device approval and also an insurance coverage in each country. Eventually, a unified treatment protocol will be spread to medical societies and hospitals around the world.

When it reaches this stage, treatment using HAL will become “de facto” and the doctors will think of HAL before any other methods. Even if in the future there are devices released from others that hope to become a HAL alternative, the doctors will not think of substituting HAL. At the moment, we see no alternative to treatment using our Medical HAL, so even if it takes some time, we will develop the market steadily to turn HAL into a new platform of treatment.

Some of our shareholders who support our endeavors request the Company to become profitable or request for dividends at the earliest opportunity and this was especially evident in the previous General Meeting of Shareholders. We too believe that profit is necessary for sustainable business and that we need to work harder and better to get profit.

At the same time, it is also important for us to realize our vision. We cannot allow ourselves to chase after short-term profit to the point where we lose our causes. So we would like to move forward having a balance between our vision and profitability. The fact that we mostly follow a rental business model for HAL is another reason why our short-term revenue seems slow, but we believe this is the way to reserve a stable profit over the medium to long term.

**Yamaguchi** CYBERDYNE develops various products that could gather various data. It plans to create Big Data Business utilizing the cumulated big data mentioned above. In line with this, the Company established a joint-venture called "CYBERDYNE Omni Networks, INC." When and what will be done with this company?

**Sankai** Ever since the Company's foundation, it has been our vision to utilize various devices manufactured using our Cybernic Technology to improve the function of a person, detect early signs of diseases, support both caregivers and care receivers and support workers etc. In our efforts to create a comprehensive scheme that realizes these objectives through combining technologies that can detect the health condition of the wearer and with those that support the wearer's work, we have been working to lead the world in this field of endeavor under the keyword of IoH/IoT (Internet of Humans/Internet of Things), which refers to combining the information on humans with information on things.

In the process of transmitting information from all devices to one place, we were in need of a communication function. CYBERDYNE Omni Networks is the company that develops communication functions for medical, welfare and living support fields and it also works to prepare an environment capable of collecting information.

Our devices are installed with a communication function that does not interfere with other networks, even in hospitals where isolated network systems are installed. So this allows us to establish our own network system even in those places. Preparation is in progress and we will be able to finish preparation and run an actual operation next year.

**Yamaguchi** You have announced the concept of CEJ Fund. How do you plan to proceed with this?

**Sankai** CEJ Fund was designed as a scheme to promote the generation of an industry by investing and supporting start-ups and personnel who could contribute to development of the Cybernic Industry.

For example, if we look at the field of robot, it was merely a field composed of mechanical engineering, electrical engineering and computer science. Now the robot industry is recognized to be an independent field, but at the same time it was integrated into the society as one small part. When you look at the field of robot on its own, it is no longer considered to be the field that has to be explored. It enters the new phase, the field that we have called Cybernics since the early stage of it where fields of human, machine and information are fused and combined. Now we are about to enter into creation of a new industry, called Cybernic Industry. Robot industry and the IT industry grew rapidly with the help of funds and CEJ Fund will speed up the process to grow Cybernic Industry. We led the endeavor for a long time as a front runner, but the world is starting to catch this concept. For example, Japan made a keyword Society 5.0, but this was inspired by our challenges and this keyword is spread across the world.

**Yamaguchi** The Group bought the land in Tonomachi, Kawasaki. What would be the role of the facility that you are planning to build there and how is the plan going?

**Sankai** The role of the facility that we plan to build is Cybernic International Innovation Base. We plan to gather the start-ups in the field of Cybernics and personnel related to it in this facility. However due to Tokyo Olympics that is planned for 2020, the construction cost rose rapidly, so we are reviewing our plans. We are now considering if we could change something to reduce the cost and still maintain the same function. Or whether we could transfer some of the function to other location.

**Yamaguchi** We appreciate your time to cover many topics. Thank you very much.



## Members of Board of Directors

### Yoshiyuki Sankai

Born June 24, 1958 (Male)

**President and CEO**

Ph.D. in Engineering

#### Description of the positions, personal history, assignments and other important position held outside the Company

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

Years in service as Director <b>14 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned Common 3,042,000 Shares Class B 77,694,000 Shares
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### Fumiyuki Ichihashi

Born May 1, 1978 (Male)

**Director**

Ph.D. in Engineering

#### Description of the positions, personal history, assignments and other important position 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 <b>14 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned Common 20,000 Shares
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### Shinji Uga

Born February 15, 1970 (Male)

**Director**

Certified Public Accountant  
MBA

#### Description of the positions, personal history, assignments and other important position 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 Corporate Unit of CYBERDYNE (present)
2007/6	Joined Ridgeway Capital Partners Ltd.		

Years in service as Director <b>9 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned Common 60,000 Shares
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### Hiroaki Kawamoto

Born August 25, 1974 (Male)

**Director**

Ph.D. in Engineering

#### Description of the positions, personal history, assignments and other important position held outside the Company

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

Years in service as Director <b>14 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned Common 14,000 Shares
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### Kinichi Nakata

Born May 12, 1962 (Male)

**Outside Director**

**Independent Officer**

Ph.M.D. in Medicine

#### Description of the positions, personal history, assignments and other important position held outside the Company

1989/7	Worked for Nihon University School of Medicine	2008/3	Councillor at Japanese Association for Coronary Artery Surgery (present)
1996/10	Councillor 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 position held outside CYBERDYNE)
2003/10	Lecturer at Nihon University School of Medicine (present)		Lecturer at Nihon University School of Medicine

Years in service as Director <b>10 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned -
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### Kazumasa Yoshida

Born August 20, 1958 (Male)

**Outside Director**

**Independent Officer**

#### Description of the positions, personal history, assignments and other important position 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	2017/12	Outside Director of Mynavi Corporation (present)
2012/6	Outside Director of Onkyo Corporation (present)		(Important position held outside CYBERDYNE)
2013/6	Outside Director of CYBERDYNE (present)		Outside Director of Onkyo Corporation
2014/6	Outside Director of TDK Corporation (present)		Outside Director of TDK Corporation
2015/6	Outside Director of Mamezou Holdings Co., Ltd. (present)		Outside Director of Mamezou Holdings Co., Ltd.
			Outside Director of FreeBit Co., Ltd.
			Outside Director of Mynavi Corporation

Years in service as Director <b>5 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned Common 60,000 Shares
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### Hikari Imai

Born July 23, 1949 (Male)

**Outside Director**

**Independent Officer**

MBA

#### Description of the positions, personal history, assignments and other important position held outside the Company

1974/10	Joined Yamaguchi Securities Co., Ltd.	2015/6	Outside Director of CYBERDYNE (present)
1983/1	Joined Morgan Stanley Co., Ltd.	2016/6	Outside Director of PACIFIC METAL CO., LTD. (present)
1993/4	Joined Merrill Lynch Securities Company	2016/12	Director and Chairman of 3DOM Inc. (present)
1999/1	Vice Chairman of Merrill Lynch Japan Securities Company, Limited		(Important position held outside CYBERDYNE)
2007/11	Director, Vice President of RECOF Corporation		Outside Director of PACIFIC METAL CO., LTD. (present)
2008/4	President and CEO of RECOF Corporation		Director and Chairman of 3DOM Inc. (present)
2012/4	Outside Director of Olympus Corporation		

Years in service as Director <b>3 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned -
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## Members of Audit and Supervisory Board

<b>Yutaka Fujitani</b> Born April 1, 1953 (Male)	<b>Outside Audit and Supervisory Board Member (Full-time)</b> <b>Independent Officer</b>
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**Description of the positions, personal history, assignments and other important position 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 Director <b>7 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned -
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<b>Cees Vellekoop</b> Born May 4, 1956(Male)	<b>Outside Audit and Supervisory Board Member</b>
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**Description of the positions, personal history, assignments and other important position held outside the Company**

1981/5	Registered as attorney-at-law at Court of Rotterdam District of Amsterdam District	2003/5	Joined Allen & Overy Gaikokuho Kyodo Jigyo Horitsu Jimusho
1992/5	Admitted in Japan as attorney for foreign law	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 Director <b>11 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned Common 20,000 Shares
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<b>Kenichiro Okamura</b> Born August 18, 1971 (Male)	<b>Outside Audit and Supervisory Board Member</b>	<b>Certified Public Accountant</b>
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**Description of the positions, personal history, assignments and other important position held outside the Company**

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

Years in service as Director <b>7 years</b>	Special interest in CYBERDYNE <b>none</b>	Number of company shares owned -
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### 1. The Company's basic approach to corporate governance

The Company takes measures 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 that 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 go beyond the legally required level.

### 2. Corporate organization

CYBERDYNE, INC. is a company with a Board of Directors that holds a meeting (the "Board Meeting") at least once a month to rapidly make decisions and supervise whether the Members of the Board of Directors (the "Board Members") appropriately execute their duties. The Board of Directors is comprised of seven Members of the Board of Directors, three of whom are Outside Member of the Board of Directors, forming a structure that enables the Board of Directors to efficiently reach decisions and make business judgments.

The Company is a company with 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 the Board Meeting to enhance supervision.

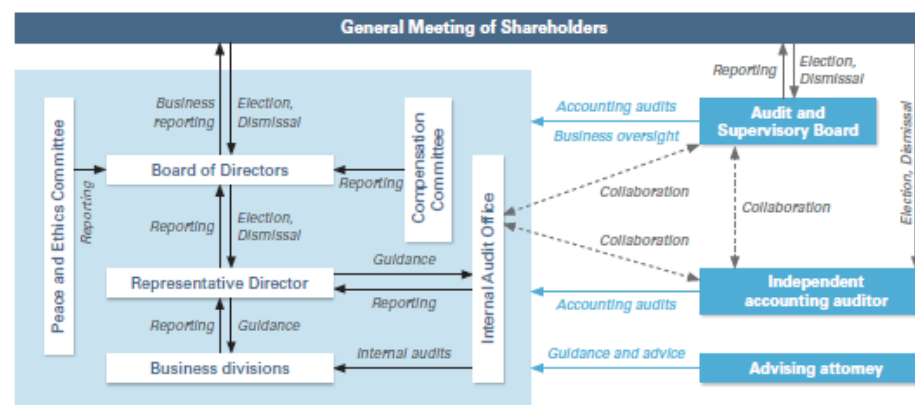
and perform audits from an objective standpoint with regard to business execution and important decision-making by the Members of the Board of Directors.

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

With the objective of preventing problematic conflicts of interest in the Company's relationship with the University of Tsukuba and Japan Science and Technology Agency (JST), the Company ensures there is at least the same or a higher number of independent Outside Board Members with no affiliations with the University of Tsukuba and JST than the number of Internal Board Members excluding the Members with potential conflicts of interest with the university and JST.

As a result, Outside Member of the Board of 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 and JST. The Company thereby, has an effective system to prevent problematic conflicts of interest.

For the purpose of protecting 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 Board Members 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 from harming people or creating military weapons. All Outside Board Members 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 eventually be used to harm people or to create military weapons. The committee then submits its findings to the Board of Directors.

### 3. System to ensure the appropriateness of business operations and implementation status of the system

#### i. System to ensure the appropriateness of businesses

The Company resolved a system to ensure the appropriateness of business operations of Members of the Board of Directors in compliance with laws, regulations and Articles of Incorporation and the structure to ensure the appropriateness of other business as below at the Board of Directors' Meeting.

(a) Systems to ensure that Members of the Board of Directors and employees of the Company and the subsidiaries (collectively the "Group") perform their duties in accordance with laws, regulations and the Articles of Incorporation

- The Company shall establish compliance-related internal regulation embodying the Company Code of Conduct, for the Group's Member of the Board of Directors and employees to ensure adherence to laws, regulations, the Articles of Incorporation and other internal regulations.

A designated Member of the Board of Director of the Company shall have cross-organizational control over the Group's compliance initiatives. The designated Member of the Board of Directors (the "Risk and Compliance Director") shall disseminate the spirit of compliance to Members of the Board of Directors and employees of the Group to identify and solve problems.

- The Company shall establish the Affiliated Company Management Policy and in conformity with that, appoint Members of the Board of Directors of subsidiaries and, if necessary, Members of Audit and Supervisory Board Member of subsidiaries. The Company shall approval subsidiaries' important matters and take up part of their administrative works. Consequently the Company shall ensure the appropriateness of the affected companies' business pursuant to the Affiliated Company Management Policy.

- The Company shall establish the Internal Audit Office who will work directly under the Company CEO. The Internal Audit Office shall conduct internal audits of the Group in accordance with the Internal Audit Policy and Affiliated Company Management Policy to check the compliance status with laws, the Articles of Incorporation, and other internal

regulations and monitor the overall risk management status. The Internal Audit Office shall report the results of the internal audits to the Company CEO, the Audit and Supervisory Board, and the Board of Directors.

- The Company shall establish and operate the Hotline System Policy as a mean for employees to directly provide information about legally suspicious behaviors. The method of providing information by means of oral communication, e-mail, chat and opinion box shall be the subject of the Hotline System Policy.

(b) System to store and manage information related to the execution of duties by the Company's Member of the Board of 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.
- Members of the Board of Directors and Members of the Audit and Supervisory Board shall be able to browse the information at all times.

(c) Policies, procedures and other systems of the Company and the Group to manage the risk of losses

- In order to strengthen the risk management structure of the Group, the Risk and Compliance Director shall put a relevant operating unit in charge of each risk category and each operating unit in charge shall define 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 Member of the Board of Directors or a head of operating unit in charge of handling such risks.

(d) System of the Group to ensure the efficient execution of duties by Members of the Board of Directors of the Company and the Group

- As a system to ensure the efficient execution of duties by Members of the Board of Directors, the Board of Directors shall meet once a month and shall conduct extraordinary meetings whenever necessary.
- Regarding the execution status of matters resolved by the Board of Directors, each in-charged Member of the Board of Director or in-charged head of operating unit shall report on a regular basis and the Audit and Supervisory Board shall perform audits.
- The Company shall establish Medium-term business policy and, if necessary, update them to cope with the changes in the business environment. The status of business performance in that regard shall be reported to the Board of Directors' whenever necessary.

- The Company shall also establish the Affiliated Company Management Policy in order to manage subsidiaries under the supervision of a related units of the Company. Consequently, Members of the Board of Directors of the subsidiaries can execute their duties efficiently.

(e) System to ensure reporting on the performance of duties by subsidiaries' Members of the Board of Directors to the Company

- The Company shall establish the Affiliated Company Management Policy. Pursuant to the Policy and the subsidiaries shall report the status of their duties to the Company's supervisory units where necessary.

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

- When the Audit and Supervisory Board requests assignment of staff to assist with its duties, the Board of Directors may designate appropriate employees who shall serve as assistants or as assistants with a concurrent post upon consulting with Audit and Supervisory Board.
- During the assistance period, the supervisory 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 personnel changes concerning the assistant shall require the consent of the Audit and Supervisory Board.

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

- Members of the Board of Directors and employees of the Company as well as Members of the Board of Directors and employees of subsidiaries shall report any significant matters that i) are against the law or the Articles of Incorporation and ii) are considered dishonest acts iii) may have a significant impact on the Company, to the Audit and Supervisory Board immediately. In addition, if a Member of the Audit and Supervisory Board asks for a report from Members of the Board of Directors or employees of the Group pursuant to the law, Auditing Standards or Regulations of Audit and Supervisory Board Meeting established by the Audit and Supervisory Board, the relevant Members of the Board of Directors or employees in concern shall report promptly.

In order to improve comprehensiveness of the report regarding any significant matters i), ii) and iii) above, Members of the Board of Directors and employees of the Company as well as Members of the Board of Directors and employees of the subsidiaries shall endeavor to conduct hearing and gather information from the reports stated in this clause and matters stated in Internal Audits, hotlines and Accounting Audits.

- Pursuant to the Hotline System Policy, if matters that may violate the law or corporate compliance in the Group are reported, the Risk and Compliance Director shall report the contents reported and the research results to the full-time Members of the Audit and Supervisory Board.

- The Internal Audit Office of the Company shall report the status of the internal audits of the Group to Audit and Supervisory Board Members of the Company. Furthermore, the Risk and Compliance Director shall report the status of the Group to Audit and Supervisory Board Members of the Company when necessary.

(h) System to ensure that a person who made a report to an 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 his/her report made to an Audit and Supervisory Board Member.

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

When a Member of the Audit and Supervisory Board requests an advanced payment or quick reimbursement of expenses necessary for their duty, the Company shall pay them promptly unless the expenses are recognized unnecessary for their duty.

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

- Members of the Board of Directors and employees of the Company and the subsidiaries shall comply with requests for hearing, visitation and other methods of examination by Member of the Audit and Supervisory Board in order to secure the effectiveness of the audits.
- The Company shall provide enough opportunities for Members of the Audit and Supervisory Board to exchange opinion with Member of the Board of Directors, Accounting Auditors and any other personnel required to appropriately execute the duty as an auditors.
- Upon request of Members of the Audit and Supervisory Board, the Company shall also provide enough opportunities for them to coordinate with subsidiaries' Member of the Audit and Supervisory Board and to gather information from employees of the subsidiaries.

#### ii. Implementation status of the systems to ensure appropriateness of business operations

The Group established and implemented the aforementioned systems. Notable actions conducted within this fiscal year, which are thought to be important with regard to internal control are stated below.

(a) Corporate Compliance System

All members of the Group endeavor to be compliant with the laws and regulations in execution of their duties in accordance with internal policies, such as the Company Code of Conduct based on the aforementioned compliance systems. 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 Risk and Compliance Director of the Company determines the operating unit in charge of each risk category, monitors the risk status and responds accordingly. Furthermore, the status of this risk management is subject to internal audits and audits conducted by the Audit and Supervisory Board Member.

(c) Efficiency of the duty by Members of the Board of Directros

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 an Internal Audit Office that consists of one internal auditor and performs necessary operational audits based on the Internal Audit Policy. Internal Audit Office contributes to the enhancement of the Company's internal control systems.

As the head of Internal Audit Office concurrently belongs in the Corporate sector as a leader of General Affairs and HR team, an internal audit on General Affairs and HR team shall be conducted by a substitute 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 puts in place a system with effective management oversight functions.

Internal Audit Office coordinates with full-time Audit and Supervisory Board Member upon establishment of an annual internal audit plan. Results of internal audits are reported to the President and CEO and Audit & Supervisory Board Members. Furthermore, if issues related to internal control are found in the midst of internal audits, 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, 2018, the Company entered into an audit engagement contract with Deloitte Touche Tohmatsu LLC, and received accounting audits performed by this accounting auditor. Its Auditing team consists of two partners

and twenty three support members which comprises five CPAs and eighteen other professionals, to perform audits.

6. Relationships with Outside Members of the Board of Directors and Outside Audit and Supervisory Board Members

The Company has three Outside Members of the Board of 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 Members of the Board of Directors and Outside Audit and Supervisory Board Members.

Instead, the Company appoints Outside Members of the Board of Directors and Outside Audit and Supervisory Board Members based on their extensive experience as management, as well as their deep insight about 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 Members of the Board of Directors and Outside Audit and Supervisory Board Members to supervise the business execution of its Members of the Board of 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 25th, 2018 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 currently serves as the outside Directors of Onkyo Corporation, TDK Corporation, Mamezou Holdings, Co. Ltd., FreeBit Co., Ltd., MyNavi Corporation 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 Members of the Board of Directors and Outside Audit & Supervisory Board Members.

Outside Audit and Supervisory Board Members supervise the business execution of Inside Members of the Board of Directors and other management. Audit and Supervisory Board Members conduct an audit of the business execution of Members of the Board of Directors and an audit of accounting documents and the methods and results of audits performed by the accounting auditor. As it is stated in "4. Status of internal audits and audits by Audit and Supervisory Board Members," Audit and Supervisory Board Members coordinates their audits in terms of scopes, risk profiles, schedules, communication and so on. Audit and Supervisory Board Members report the process and results of their audits at the Meeting of the Board of Directors on a regular basis.

This activity is a significant support to the supervision of each Board Member's business execution by the Board of Directors.

7. Implementation status of risk management structure

The Group continues to enhance its risk management system implementing and/or updating its Code of Conduct, the Risk Management Policy, etc., in alignment with changes in the risk environment. 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 Members of the Board of Directors and Members of the Audit and Supervisory Board

i. Total compensation for Members of the Board of Directors and Members of the Audit and Supervisory Board Members by officer type, breakdown by compensation type and number of them

Officer type	Total compensation (Millions of yen)	Breakdown of compensation (Millions of yen)				Number of applicable officers (people)
		Base salary	Stock options	Bonus	Retirement benefits	
Directors (Excluding outside directors)	33	33	—	—	—	4
Audit and Supervisory Board Members (Excluding outside Audit and Supervisory Board Members)	—	—	—	—	—	—
Outside directors and Audit and Supervisory Board Members	13	13	—	—	—	6

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

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

iii. The policy to determine amount and calculation method of compensation for Members of the Board of Directors and Members of the Audit and Supervisory Board

The Company established a Compensation Committee to discuss compensation for the Members of the Board of Directors and Audit and Supervisory Board Members. The Compensation Committee will determine the amount of compensation within the limits approved by the Ordinary General Meeting of Shareholders.

The upper limit of compensation for a Member of the Members of the Board of Directors, resolved at the 2nd Ordinary General Meeting of Shareholders on May 31, 2006, is ¥100 million per year.

The upper limit of compensation for a Member of the Audit and Supervisory Board, resolved at the 3rd Ordinary General Meeting of Shareholders on June 28, 2007, is ¥50 million 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 Members of Board of Directors (excluding Internal Directors) and Members of the Audit and Supervisory Board 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 Members of the Board of Directors (including former Members of the Board of Directors) and Members of the Audit and Supervisory Board 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 fulfilment of their expected roles.

### 13. Number of Members of the Board of Directors

The Articles of Incorporation state that the Company shall have no more than eight Members of the Board of Directors.

### 14. Election requirements for Members of the Board of Directors

The Company's Articles of Incorporation state that resolutions for the election of Members of the Board 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 Members of the Board of Directors.

### 15. Matters subject to resolution by the General Meeting of Shareholders, which 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, who are registered or recorded on the last shareholder registry 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 (see 2. Corporate Organization, Paragraph 6), 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 Cybernic 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 a Member of the Board of Directors, where the Member of the Board of 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.

### 18. Status of shares held by the Company

The number of issuing entities of shares that the Company invested for purposes other than pure investments and its total value on the balance sheet 9 issuing entities, ¥2,314 million

### 1. Explanation of operating results

The Group continues to research, develop and socially implement Cybernic Technology\* (See below.) that combines and fuses people, robots and information in the medical, nursing-care and living support (at home and in work environments) fields. By achieving physical, informational and vital interaction with Cybernic Technology, the Group aims at solving various problems that the hyper-aging society faces.

Cybernic connects humans, robots and information functionally and establishes physical, informative and biological interaction. Utilizing Cybernic, the Group pursues to establish a new vision of Society 5.1, where "human" is centered and combined with cyberspace (virtual world) and physical space (real world) of Society 5.0. The Group will continue to drive the movement to realize Society 5.0/5.1 as a future society where human and technology coexist.

During the consolidated fiscal year ended March 31, 2018, the Group carried out the following activities.

In the field of medicine, the Group continued business promotion of HAL for Medical Use Lower Limb Type ("Medical HAL") Double-Leg model, which is designed as a device to improve ambulation. In Japan, Medical HAL is used mainly for treatment of intractable neuromuscular disease, which is now covered by public health insurance. The device is promoted to hospitals that would become the "base" hospitals for the treatment with the device in Japan. In line with this promotion, an investigatorinitiated clinical trial on the use of Medical HAL Single-Leg model on stroke patients, which commenced in September 2016, is in process.

In Europe, the Group already acquired medical device certification for Medical HAL for a wider range of diseases such as stroke, spinal cord injury and intractable neuromuscular diseases etc. The Group has been providing the medical treatment service with the device covered by public workers compensation insurance in Germany. The Group is taking procedures to obtain public health insurance coverage in the country. Furthermore, a private insurer started providing insurance coverage for the treatment with Medical HAL in Poland in July 2017.

In the United States, the Group obtained marketing clearance from U.S. FDA in December 2017. Upon this clearance, the following points were reflected.

- The Indication for Use: Medical HAL is a gait training device intended to temporarily improve ambulation upon completion of the HAL gait training intervention.

Note 1: Other devices in the category are intended to enable individuals to perform ambulatory functions while it is worn.

Note 2: Long term use of over 12 weeks (60 treatment sessions) has not been clinically tested and therefore the term "temporarily" is used.  
- The therapeutic effects: The results of HAL gait training intervention suggest a statistically significant improvement in the gait related outcome measures collected without wearing HAL, and clinical significance was acknowledged.

Following this announcement of the FDA marketing clearances, the Company set up a joint venture, CYBERDYNE & BROOKES, Inc., with Brooks Rehabilitation, which is known as one of the busiest rehabilitation hospital groups in the U.S. The Group created Cybernic Treatment Center in Jacksonville, Florida in March 2018, to provide the treatment service with Medical HAL. The Group regards this as its first step to disseminate the treatment services with Medical HAL in the U.S., which is the largest medical device market in the world.

In another region, the Group obtained medical device approval for manufacturing and marketing of Medical HAL from The Saudi Food and Drug Authority in August 2017. Treatment with Medical HAL commenced in Abdul Latif Jameel Hospital, which is the hospital owned by the Company's business partner Abdul Latif Jameel Group.

As of the end of March 2018, 257 units of Medical HAL were in operation in Japan and foreign countries including those used for clinical research. Out of the aforementioned number, 68 units were rented out in Japan.

With regards to the light-weighted and compact HAL for Well-being (Single Joint Type), 234 units were in operation as of the end of March 2018 and most of the project in October 2017. Once this clinical trial is complete, the Group will go through necessary steps to obtain a medical device approval for this device. For Vital Sensor, which is a palm-size device for monitoring indices of arteriosclerosis and electrocardiogram, the Group completed making arrangements with the Pharmaceuticals and Medical Devices Agency about the necessary procedures to obtain a medical device approval and entered into the final phase of preparing necessary documents.

In the field of care support, HAL for Well-being Lower Limb Type was introduced as the successor model of HAL for Living Support (Lower Limb Type) in April 2018. These devices are designed for chronic stage patient with disability in their lower limb or the users with weakened lower limb function. HAL for Well-being induces the improvement in the lower limb function. As of the end of March 2018, 398 units of HAL for Well-being Lower Limb Type and HAL for Living Support (Lower Limb Type) were in operation. The Group also started to market its new product, HAL Lumbar Type for Well-being in October 2017. This product is capable of inducing the maintenance and improvement of the weakened bodily functions of a care receiver in the core and lower body. Quality of his/her life will improve with this product, as it would enable him/her to stand and sit without the help of caregivers. It will also greatly reduce the physical burden of the caregivers. 51 units of HAL Lumbar Type Well-being for were in operation as of the end of March 2018.

Furthermore, in January 2018, the Group announced to commence selling of Cyin for Living Support ("Cyin"). Cyin applied the technology of HAL to allow patients with difficulties in verbal communication or physical movement due to disease etc., to transmit their intention and operate other communication and environmental control devices, such as a nurse call button. The Group delivered Cyin to 11 patients' associations/support associations of patients (as a donation from Daido Life Insurance Company) who helped the clinical research of Cyin and HAL Systems. The Group is currently making preparation towards the general market. The Group will develop Cyin even more, so that it could be used by more patients with difficulties in verbal communication or physical movement due to diseases, etc. The Group also anticipates to develop a sensing device that can analyze vital information such as bio-electrical signals using the technology of Cyin.

Regarding HAL Lumbar Type for Care Support that reduces the load on the lower back of caregivers and would result in improvement of the work environment at care facilities that suffer from high turnover rates, 796 units were in operation as of the end of March 2018. As the Ministry of Health, Labor and Welfare of Japan added the category of the "Wearable-Transferring Aid devices", a category that includes HAL Lumbar Type for Care Support, into a list of eligible products to its subsidy program to secure human resources in care facilities, the Company anticipates an increase in the operating number of HAL Lumbar Type for Care Support.

In the field of living support, the Group focuses its development on labor support. HAL Lumbar Type for Labor Support is utilized to reduce the load on the lower back of workers and improve the work environment in order to maintain the labor force in distribution warehouses, construction sites and factories of various types, which suffer from serious shortage of labor force as a result of an aging population and declining birthrate. The new model (LB03) that was announced in November 2017 is expected to significantly multiply the usage scenes of HAL Lumbar Type for Labor Support. This new model with waterproof and dust proof functions will allow the product to be used in various situations such as rainy or dusty outdoor construction sites and humid indoor sites. Since the end of December 2017, the operating units of HAL Lumbar Type for Labor Support increased 88 units to 372 units as of the end of March 2018, following the events such as adoption of 30 units by Daiwa House Industry Co., Ltd.

Furthermore, the Group completed the development of the improved new model of the Cleaning Robot (CL02) in March 2018. The Cleaning Robot can flexibly clean buildings with wide cleaning areas or complex shapes utilizing cutting-edge technology. As such, the Group anticipates implementation of Cleaning Robots to various large-scale facilities such as commercial buildings, office buildings and airports. In March 2018, the Group delivered the new Cleaning Robot to Diversity Tokyo Plaza that is operated by Mitsui Fudosan Co., Ltd. The Group also announced to work together with Sumitomo Corporation on automation and streamlining of office buildings. The Group and Sumitomo Corporation will implement the Cleaning Robots to office buildings that is operated by the Sumitomo Corporation Group. 27 units of Cleaning Robots and Transportation Robots in operation were recorded as of the end of March 2018.

In order to disseminate Cybernic Technology further, the Company established a business alliance with a private insurer and promoted a private insurance coverage of the treatment with the device in addition to the public health insurance. In addition to the promotion of "HAL Plus rider" Daido Life Insurance Company donated Cyin to 11 patients' associations/support associations of patients. AIG Holding Japan KK is covering the fee for the training program with HAL for 50 students in Kanagawa Prefecture, who suffer from spinal cord injury as part of their contribution to their society. Furthermore, the Company has entered into comprehensive business alliance with Sompo Japan Nipponkoa Insurance in October in order to fuse innovative Cybernic Technology with risk financing facilities of the insurer to structure healthy and rich social system, starting with the field of long-term care.

The Group continues to revolutionize both industries and the society through Cybernics in order to solve problems related to the super aging society. In line with that, the Group announced to establish "CEJ Fund" with Mizuho Bank, Ltd. and Global Brain Corporation in December 2017. CEJ Capital, Inc. (CEJ stands for Cybernic Excellency Japan) was established in December 2017 and preparation is currently in process to start the operation of CEJ Fund.

As the result of the aforementioned, in the fiscal year ended March 31, 2018, the Company recorded revenue of ¥1,728 million (4.1% 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 gross profit to ¥1,204 million (12.3% increase year on year).

Research and development expenses were recorded at ¥834 million (7.5% decrease year on year), main due to development of new products at the Company's own expense and 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") and other selling, general and administrative expenses only increased to ¥1,390 million (2.1% increase year on year).

Other income was recorded at ¥364 million (27.0% decrease year on year), mainly due to income from consigned research project, while other expenses were recorded at 4 million (41.9% decrease year on year) leading to improvement of ¥39 million to ¥659 million (5.4% decrease year on year) in operating loss.

Furthermore, because of finance income was recorded at ¥13 million (77.3% decrease year on year), finance costs were recorded at ¥6 million (33.2% decrease year on year), share of loss of investment accounted for using the equity method was recorded at ¥21 million and income tax expense was recorded at ¥6 million, loss improved ¥19 million to ¥678 million (2.7% decrease year on year).

## Risks associated with business operations

Set out below are some of the major risks associated with the business operations of the Group as well as other potential risks that the Group may face. Listed items include risks that may not apply directly, but have been included in order to disclose information fairly and accurately as they are thought to be important for investors upon making sound investing decisions. While the 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, 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 Well-being Lower Limb Type, HAL Single Joint Type, HAL Lumbar Type for Care/Labor Support, 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, care support and living 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.

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. Risk associated with internal organizational structure

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

- i) The 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.
- ii) The Group has secured a sufficient number of excellent research and development staff. If vital staff members were to resign, the Group's speed of product development might be affected.

- iii) As business expands, the 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, U.S., Saudi Arabia 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/Well-being Lower Limb Type, HAL Single Joint Type as well as HAL Lumbar Type for Care/Labor Support, 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 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, 2018, 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

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

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

### 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

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

\* A request for approval as set down in 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, 2018, 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.

(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 financial statements and notes to consolidated financial statements

### (Consolidated Balance Sheet)

CYBERDYNE, INC. and Consolidated Subsidiaries March 31, 2018

	Transition date	2017	2018		Transition date	2017	2018
	As of April 1, 2016	Millions of yen	Millions of yen		As of April 1, 2016	Millions of yen	Millions of yen
<b>Assets</b>				<b>Liabilities and equity</b>			
<b>Current assets</b>				<b>Liabilities</b>			
Cash and cash equivalents	18,462	13,378	10,820	<b>Current liabilities</b>			
Trade and other receivables	573	379	385	Convertible bonds with stock acquisition rights	19,926	—	—
Other financial assets	21,501	20,002	20,004	scheduled for redemption within one year			
Inventories	450	527	565	Trade and other payables	252	197	274
Other current assets	77	119	32	Other current liabilities	204	370	386
<b>Total current assets</b>	<b>41,062</b>	<b>34,405</b>	<b>31,807</b>	<b>Total current liabilities</b>	<b>20,382</b>	<b>567</b>	<b>659</b>
<b>Non-current assets</b>				<b>Non-current liabilities</b>			
Operating lease assets	462	480	401	Other payables	36	14	—
Property, plant and equipment	5,084	10,603	11,339	Provisions	91	91	91
Intangible assets	66	66	90	Deferred tax liabilities	64	275	145
Investments accounted for using equity method	—	—	474	Other non-current liabilities	29	29	29
Other financial assets	975	2,069	2,406	<b>Total non-current liabilities</b>	<b>220</b>	<b>408</b>	<b>265</b>
Other non-current assets	96	88	81	<b>Total liabilities</b>	<b>20,602</b>	<b>975</b>	<b>925</b>
<b>Total non-current assets</b>	<b>6,681</b>	<b>13,307</b>	<b>14,791</b>	<b>Equity</b>			
<b>Total assets</b>	<b>47,743</b>	<b>47,712</b>	<b>46,598</b>	Share capital	16,512	26,744	26,744
				Capital surplus	16,331	26,495	26,495
				Treasury shares	(0)	(0)	(0)
				Other components of equity	536	432	(65)
				Retained earnings	(6,227)	(6,903)	(7,476)
				<b>Total equity attributable to owners of the parent</b>	<b>27,151</b>	<b>46,768</b>	<b>45,698</b>
				Non-controlling interests	(10)	(31)	(24)
				<b>Total equity</b>	<b>27,141</b>	<b>46,737</b>	<b>45,674</b>
				<b>Total liabilities and equity</b>	<b>47,743</b>	<b>47,712</b>	<b>46,598</b>



## Consolidated statement of profit or loss and consolidated statement of comprehensive income

### (Consolidated statement of profit or loss)

CYBERDYNE, INC. and Consolidated Subsidiaries March 31, 2018

	2017	2018
	Millions of yen	Millions of yen
Revenue	1,660	1,728
Cost of sales	(587)	(523)
Gross profit	1,072	1,204
Selling, general and administrative expenses		
Research and development expenses	(901)	(834)
Other selling, general and administrative expenses	(1,361)	(1,390)
Total selling, general and administrative expenses	(2,262)	(2,223)
Other income	499	364
Other expenses	(7)	(4)
Operating profit (loss)	(697)	(659)
Finance income	59	13
Finance costs	(9)	(6)
Share of profit (loss) of investments accounted for using equity method	—	(21)
Profit (loss) before tax	(648)	(672)
Income tax expense	(49)	(6)
Profit (loss)	(697)	(678)
Profit (loss) attributable to		
Owners of parent	(676)	(673)
Non-controlling interests	(21)	(5)
Profit (loss)	(697)	(678)
Earnings (loss) per share		
Basic earnings (loss) per share (yen)	(3.16)	(3.13)
Diluted earnings (loss) per share (yen)	(3.16)	(3.13)

### (Consolidated statement of comprehensive income)

CYBERDYNE, INC. and Consolidated Subsidiaries March 31, 2018

	2017	2018
	Millions of yen	Millions of yen
Profit (loss)	(697)	(678)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	417	(394)
Total of items that will not be reclassified to profit or loss	417	(394)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	2	(12)
Total of items that may be reclassified to profit or loss	2	(12)
Total other comprehensive income, net of tax	420	(406)
Comprehensive income	(278)	(1,084)
Comprehensive income attributable to		
Owners of parent	(256)	(1,076)
Non-controlling interests	(21)	(8)
Comprehensive income	(278)	(1,084)

Consolidated statement of changes in equity

CYBERDYNE, INC. and Consolidated Subsidiaries March 31, 2018

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Share acquisition rights
April 1, 2016	16,512	16,331	(0)	—	—	536
Profit (loss)	—	—	—	—	—	—
Other comprehensive income	—	—	—	417	2	—
Total comprehensive income	—	—	—	417	2	—
Issuance of new shares	10,232	10,165	—	—	—	(530)
Share-based payment transactions	—	—	—	—	—	6
Total transactions with owners	10,232	10,165	—	—	—	(524)
March 31, 2017	26,744	26,495	(0)	417	2	12
Profit (loss)	—	—	—	—	—	—
Other comprehensive income	—	—	—	(394)	(9)	—
Total comprehensive income	—	—	—	(394)	(9)	—
Share-based payment transactions	—	—	—	—	—	7
Transfer from other components of equity to retained earnings	—	—	—	(100)	—	—
Equity transaction with non-controlling interest	—	—	—	—	—	—
Total transactions with owners	—	—	—	—	—	7
March 31, 2018	26,744	26,495	(0)	(77)	(7)	19

	Equity attributable to owners of parent				
	Other components of equity	Retained earnings	Total	Non-controlling interests	Total equity
	Total				
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
April 1, 2016	536	(6,227)	27,151	(10)	27,141
Profit (loss)	—	(676)	(676)	(21)	(697)
Other comprehensive income	419	—	419	0	420
Total comprehensive income	419	(676)	(256)	(21)	(278)
Issuance of new shares	(530)	—	19,867	—	19,867
Share-based payment transactions	6	—	6	—	6
Total transactions with owners	(524)	—	19,873	—	19,873
March 31, 2017	432	(6,903)	46,768	(31)	46,737
Profit (loss)	—	(673)	(673)	(5)	(678)
Other comprehensive income	(403)	—	(403)	(3)	(406)
Total comprehensive income	(403)	(673)	(1,076)	(8)	(1,084)
Share-based payment transactions	7	—	7	—	7
Transfer from other components of equity to retained earnings	(100)	100	—	—	—
Equity transaction with non-controlling interest	—	—	—	15	15
Transfer from other components of equity to retained earnings	(93)	100	7	15	21
March 31, 2018	(65)	(7,476)	45,698	(24)	45,674

## Consolidated statement of cash flow

CYBERDYNE, INC. and Consolidated Subsidiaries March 31, 2018

	2017	2018
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit (loss) before tax	(648)	(672)
Depreciation and amortization	335	399
Loss on reduction of non-current assets	742	—
Finance income	(59)	(13)
Finance costs	9	6
Share of loss (profit) of investments accounted for using equity method	—	21
Decrease (increase) in inventories	(77)	(38)
Decrease (increase) in trade and other receivables	194	(6)
Increase (decrease) in trade and other payables	(56)	85
Other	130	157
Subtotal	570	(62)
Interest received	7	10
Interest paid	(2)	(1)
Income taxes paid	—	—
Net cash provided by (used in) operating activities	575	(53)
Cash flows from investing activities		
Purchase of investments	(20,000)	(43,000)
Proceeds of redemption of investments	20,000	43,000
Proceeds from withdrawal of time deposits	1,500	—
Purchase of property, plant and equipment	(6,597)	(1,077)
Purchase of intangible assets	(18)	(48)
Purchase of investment securities	(433)	(1,563)
Proceeds from sale of investment securities	—	700
Purchase of investments accounted for using equity method	—	(495)
Other	0	0
Net cash provided by (used in) investing activities	(5,548)	(2,484)
Cash flows from financing activities		
Payments from issuance of shares	(88)	—
Other	(22)	(23)
Net cash provided by (used in) financing activities	(110)	(23)
Net increase (decrease) in cash and cash equivalents	(5,083)	(2,558)
Cash and cash equivalents at beginning of fiscal year	18,462	13,378
Effect of exchange rate changes on cash and cash equivalents	(1)	2
Cash and cash equivalents at end of year	13,378	10,820

## Notes to consolidated financial statements

Notes to consolidated financial statements following the conversion to IFRS standards are disclosed on CYBERDYNE website.

Please refer to “English translation of the financial reporting parts of the Annual Securities Report for the Fiscal Year Ended March 31, 2018”, which can be accessed from the Investor Relation Page.

## Matters regarding the Company shares

## Major shareholders

		As of end of March 31, 2018		
Name of shareholder	Number of shares held (shares)	Shareholding ratio (%)	Voting rights ratio (%)	
Yoshiyuki Sankai	3,042,000 (common) 77,696,000 (Class B)	37.54	85.31	
Daiwa House Industry Co., Ltd.	30,000,000	13.95	3.28	
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS* UNITED KINGDOM	4,337,300	2.02	0.47	
Japan Trustee Services Bank, Ltd. (Trust Account)	4,317,700	2.01	0.47	
GCAS BANA LONDON US CLIENT	3,726,000	1.73	0.41	
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,586,900	1.20	0.28	
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,036,100	0.95	0.22	
BBH FOR GLOBAL X ROBOTICS AND ARTIFICIAL INTELLIGENCE ETF	1,461,867	0.68	0.16	
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1,390,122	0.65	0.15	
Rakuten Securities, Inc.	1,210,000	0.56	0.13	
Total	8,310,680	61.29	90.90	

## (Classification of shareholders by shareholder types)

## Common Share

Classification	Status of shares (100 shares per 1 share unit)								Total	Status of shares less than one share unit (share)
	Government and local government	Financial institution	Financial instrument service operators	Other corporations	Foreign investors		Individual investors etc.			
					Non-individuals	Individuals				
Number of shareholder (person)	—	22	65	482	412	100	77,725	78,806	—	
Number of shareholder (unit)	—	147,849	48,379	318,146	296,134	767	561,890	1,373,165	31,109	
Shareholding ratio%	—	10.77	3.52	23.17	21.56	0.06	40.92	100	—	

Note 1. Yoshiyuki Sankai is in possession of both Common Share and Class B Share

Note 2. Out of 138 shares in the treasury stock, 100 was included in "Individual investors etc." and 38 was included in "status of shares less than one share unit"

## Class B Share

Classification	Status of shares (100 shares per 1 share unit)								Total	Status of shares less than one share unit (share)
	Government and local government	Financial institution	Financial instrument service operators	Other corporations	Foreign investors		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	100	—	

## 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.	Jacksonville, Florida, USA Seattle, Washington, USA
	CYBERDYNE & Brooks, Inc.	Jacksonville, Florida, USA
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, 2018)

Number of employees	Change from previous fiscal year
75 members (63 members)	Increase of 4 members (Decrease of 31 members)

(Notes)

- (1) The number of employees includes full-time employees and members on temporary transfer assignments. It does not include the number of Members of the Board of Directors who also hold positions as Company employees or dispatch workers sent from a temp agencies.
- (2) The number of contract employees are stated in the brackets []. This number includes part-time workers but excludes those who work in the Group as second jobs.
- (3) Since the Group is involved in a single segment of business related to robots, information of employees for each segment is omitted.

## (ii) Status of employees in the Company (as of March 31, 2018)

Number of employees	Change from previous fiscal year	Number of employees	Change from previous fiscal year
62 members (44 members)	Increase of 1 members (Decrease of 17 members)	40.4 years old	5.1 years

(Notes)

- (1) The number of employees includes full-time employees and members on temporary transfer assignments. It does not include the number of Members of the Board of Directors who also hold positions as Company employees or dispatch workers sent from a temp agencies.
- (2) The number of contract employees are stated in the brackets []. This number includes part-time workers but excludes those who work in the Group as second jobs.



