

AICHI CORPORATION
Audited Financial Statements
(English Translation)

March 31, 2016

Independent Auditors' Report
(English Translation*)

May 16, 2016

To the Board of Directors of AICHI CORPORATION

PricewaterhouseCoopers Aarata

Sakae Toda, CPA
Engagement Partner
Yoshiyuki Ohashi, CPA
Engagement Partner

We have audited, pursuant to Article 444 (4) of the "Corporate Law" of Japan, the consolidated financial statements, which consist of the consolidated balance sheet, consolidated statement of income, consolidated statement of change in net assets and notes to the consolidated financial statements of AICHI CORPORATION (hereinafter referred to as the "Company") for the fiscal year from April 1, 2015 to March 31, 2016.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements from an independent standpoint based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and adopted depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and the results of operations of the corporate group which consists of the Company and its consolidated subsidiaries for the period covered by the consolidated financial statements in conformity with accounting principles generally accepted in Japan.

Interest

We have no interest in or relationship with the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountant Law of Japan.

* The original audit report is in Japanese. This English translation is for readers' convenience and reading this translation is not a substitute for reading the original audit report in Japanese.

AICHI CORPORATION
Consolidated Balance Sheet
As of March 31, 2016

In Thousands of Yen

Assets

Current assets:

Cash on hand and in banks	¥	1,790,474
Deposits receivable		22,426,153
Notes and accounts receivable – trade		21,841,882
Finished goods		830,483
Work in process		1,448,296
Raw materials and supplies		1,091,497
Deferred tax assets		660,928
Other current assets		789,329
Less, allowance for doubtful accounts		(26,998)
Total current assets		50,852,048

Fixed assets:

Property, plant and equipment:

Buildings and structures		7,042,754
Machinery, equipment and vehicles		4,274,268
Tools, furniture and fixtures		459,842
Land		8,714,481
Construction in progress		643,817
Other property, plant and equipment		577,135

Total property, plant and equipment 21,712,299

Intangible assets 1,183,395

Investments and other assets:

Investment securities		4,858,595
Deferred tax assets		535,856
Other assets		1,315,331
Less, allowance for doubtful accounts		(5,394)

Total investments and other assets 6,704,388

Total fixed assets 29,600,083

Total assets ¥ 80,452,131

	<u>In Thousands of Yen</u>
Liabilities	
Current liabilities:	
Trade notes and accounts payable	¥ 14,379,241
Income taxes payable	1,211,780
Accrued bonuses to directors and corporate auditors	78,000
Allowance for product warranty	114,506
Other current liabilities	7,266,420
Total current liabilities	<u>23,049,950</u>
Long-term liabilities:	
Deferred tax liabilities for land revaluation	616,398
Net defined benefit liability	4,034,768
Accrued retirement benefits to directors and corporate auditors	75,400
Other liabilities	931,658
Total long-term liabilities	<u>5,658,226</u>
Total liabilities	<u>28,708,176</u>
Net assets	
Shareholders' equity:	
Capital stock	10,425,325
Capital surplus	9,923,342
Retained earnings	33,062,277
Less, treasury stock	(915,770)
Total shareholders' equity	<u>52,495,173</u>
Accumulated other comprehensive income:	
Net unrealized gains on other securities	2,120,101
Less, land revaluation	(2,338,847)
Foreign currency translation adjustments	172,660
Remeasurements of defined benefit plans	(705,133)
Total accumulated other comprehensive income	<u>(751,218)</u>
Total net assets	<u>51,743,954</u>
Total liabilities and net assets	<u>¥ 80,452,131</u>

AICHI CORPORATION
Consolidated Statement of Income
Fiscal Year from April 1, 2015 to March 31, 2016

In Thousands of Yen

Operating revenue:	
Net sales	¥ 57,107,866
Operating costs and expenses:	
Cost of sales	43,882,409
Gross profit	13,225,456
Selling, general and administrative expenses	6,906,575
Operating income	6,318,881
Non-operating income:	
Interest and dividend income	173,883
Miscellaneous incomes	272,745
	446,629
Non-operating expenses:	
Interest expense	67
Foreign exchange losses	66,908
Miscellaneous expenses	4,521
	71,497
Ordinary income	6,694,013
Extraordinary gains:	
Gain on sales of tangible fixed assets	8,385
Gain on sales of investment securities	487
	8,873
Extraordinary losses:	
Loss on sales of tangible fixed assets	7,900
Loss on retirement of tangible fixed assets	292,545
Loss on valuation of investment securities	2,450
Impairment loss	2,481
	305,377
Income before income taxes	6,397,509
Income taxes-current	1,816,317
Income taxes-deferred	(19,807)
Net income	4,600,999
Net income attributable to owners of parent	¥ 4,600,999

AICHI CORPORATION
Consolidated Statement of Change in Net Assets
Fiscal Year from April 1, 2015 to March 31, 2016

(In Thousands of Yen)

Items	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	10,425,325	9,923,342	29,315,188	(914,980)	48,748,874
Changes of items during the period					
Cash dividends			(853,910)		(853,910)
Net income attributable to owners of parent			4,600,999		4,600,999
Purchase of treasury stock				(790)	(790)
Other changes					
Total changes of items during the period	—	—	3,747,089	(790)	3,746,299
Balance at the end of current period	10,425,325	9,923,342	33,062,277	(915,770)	52,495,173

Items	Accumulated other comprehensive income		
	Net unrealized gains or losses on other securities	Less, land revaluation	Foreign currency translation adjustments
Balance at the beginning of current period	2,403,102	(2,371,226)	476,809
Changes of items during the period			
Cash dividends			
Net income attributable to owners of parent			
Purchase of treasury stock			
Other changes	(283,000)	32,378	(304,148)
Total changes of items during the period	(283,000)	32,378	(304,148)
Balance at the end of current period	2,120,101	(2,338,847)	172,660

Items	Accumulated other comprehensive income		Total net assets
	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at the beginning of current period	(103,507)	405,178	49,154,053
Changes of items during the period			
Cash dividends			(853,910)
Net income attributable to owners of parent			4,600,999
Purchase of treasury stock			(790)
Other changes	(601,626)	(1,156,397)	(1,156,397)
Total changes of items during the period	(601,626)	(1,156,397)	2,589,901
Balance at the end of current period	(705,133)	(751,218)	51,743,954

AICHI CORPORATION

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

1. Basis of consolidation

The accounts of AICHI CORPORATION (the “Company”) and all of its 2 subsidiaries are included in the consolidated financial statements.

Name of the consolidated subsidiaries

Aichi Training Center Co., Ltd.

Zhejiang Aichi Industrial Machinery Co., Ltd.

2. Application of equity method

(1) Overview of affiliates accounted for by the equity method

One affiliate is accounted for by the equity method.

Name of the affiliate

Hangzhou Aichi Engineering Vehicles Co., Ltd.

(2) Special matters concerning application procedures of the equity method

Although the fiscal year end date of Hangzhou Aichi Engineering Vehicles Co., Ltd. is December 31, when preparing the consolidated financial statements, the Company uses the affiliate’s provisional financial statements, which are calculated assuming the fiscal year end date is March 31.

3. Fiscal year of consolidated subsidiaries

Although the fiscal year end date of Zhejiang Aichi Industrial Machinery Co., Ltd. is December 31, when preparing the consolidated financial statements, the Company uses the subsidiary’s provisional financial statements, which are calculated assuming the fiscal year end date is March 31.

4. Accounting policies

(1) Valuation method of significant assets

① Inventories

Inventories are stated at cost (computed by reducing the book value to reflect deterioration in profitability).

Finished goods and work in process are evaluated using specific identification method.

Raw materials are mainly stated at cost, cost being determined by moving average method.

Supplies are stated at cost, cost being determined by last purchase price method.

② Securities

Securities are classified in accordance with “Accounting Standard for Financial Instruments.”

Other securities whose market quotations are available are stated at fair value. Net unrealized gains or losses are reported as a separate component in net assets, net of applicable income taxes. Gains and losses on disposition are computed based on moving average method.

Other securities whose market quotations are not available are stated at cost, cost being determined by moving average method.

(2) Method of depreciation or amortization

- ① Property, plant and equipment (except for lease assets) are depreciated mainly on declining-balance method. In addition, buildings (except for its accessory structures) acquired on and after April 1, 1998 are depreciated on straight-line method.
- ② Intangible assets (except for lease assets) are amortized based on straight-line method. In addition, software for internal use is amortized on straight-line method over estimated useful lives (5 years).
Goodwill is amortized on straight-line method over eight years.
- ③ Depreciation of leased assets regarding finance leases other than those for which the ownership of the leased items is transferred to the lessee is computed with the straight-line method over the lease period with no residual value.
- ④ Long-term prepaid expenses are charged to income on straight-line method.

(3) Significant allowances and provisions

- ① Allowance for doubtful accounts
The Company provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivable balances. The Company reviews individual financial condition for doubtful or troubled receivables and provides for losses on uncorrectable amounts. In addition, general reserve for other accounts receivable is provided based on historical loss experience for certain past periods.
- ② Accrued bonuses to directors and corporate auditors
The Company provides for estimated payment of bonuses to directors and corporate auditors.
- ③ Allowance for product warranty
The Company provides for estimated warranty costs based on the Company's prior experience and estimated costs to be incurred individually for certain products.
- ④ Accrued retirement benefits to directors and corporate auditors
The Company provides for estimated cost for retirement benefits to directors and corporate auditors based on the amount which would be payable under internal rule if all directors and corporate auditors retired at fiscal year end date.

(4) Retirement benefits

- ① Method of attributing projected benefit obligation to periods
In calculating retirement benefit obligation, projected benefit obligation attributed to the current fiscal year is determined using the benefit formula basis.
- ② Calculation treatment for actuarial gains or losses and prior service costs
Prior service costs are amortized as incurred by the straight-line method over a fixed period (10 years), which are shorter than the average remaining years of service of the employees.
Actuarial gains or losses are amortized in the fiscal year following the fiscal year in which the gain or loss is recognized primarily by the straight-line method over a fixed period (10 years), which is shorter than the average remaining years of service of the employees.

(5) Hedge accounting

Hedge accounting is applied for foreign currency forward contracts when certain conditions are met.

(6) Consumption taxes

Consumption taxes are separately recorded at each transaction.

Changes in Accounting Policies

(Adoption of Accounting Standard for Business Combinations and other standards)

Effective from the consolidated fiscal year ended March 31, 2016, the Company has adopted “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013) and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013). The Company has also changed the presentation of net income, etc., and the presentation of “minority interests” is changed to “non-controlling interests.”

Notes to Consolidated Balance Sheet

	<u>In Thousands of Yen</u>
(1) Accumulated depreciation of property, plant and equipment	¥ 16,114,052
(2) Land revaluation	
<p>Pursuant to the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and the Law to Partially Amend the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001), the Company revalued lands for business activities on March 31, 2002.</p> <p>Pursuant to the Law to Partially Amend the Law Concerning Revaluation of Land (Law No. 24, March 31, 1999), the effect of this revaluation has been recorded as deferred tax liabilities for land revaluation in liabilities and as land revaluation in net assets.</p> <p>Revaluation was carried out based on an amount rationally calculated using the land value for local government tax and roadside land assessment as prescribed in Article 2, Paragraph 3 and Article 2, Paragraph 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (No. 119 of the 1998 Cabinet Order, promulgated on March 31, 1998), respectively.</p>	
Revaluation date	March 31, 2002
Difference between the market value on the land revaluation date above and the carrying amount of the land after the revaluation	¥(2,810,166) thousand

Notes to Consolidated Statement of Income

	<u>In Thousands of Yen</u>
Amount of reduction in book value of inventories held for normal sales purpose due to the lowered earnings	
Cost of sales	¥ 8,948

Notes to Consolidated Statement of Change in Net Assets

(1) Class and number of issued shares

Class of stock	As of April 1, 2015	Increase	Decrease	As of March 31, 2016
Common stock	79,453,250	—	—	79,453,250

(2) Stock acquisition rights, etc.

There is no applicable item.

(3) Cash dividends

① Amount of cash dividends

Resolution	Class of stock	Amount of cash dividends	Cash dividends per share	Record date	Effective date of distribution
Annual general shareholders' meeting on June 26, 2015	Common stock	(Thousands of Yen) 388,142	(Yen) 5.00	March 31, 2015	June 29, 2015
Board meeting on October 29, 2015	Common stock	465,768	6.00	September 30, 2015	November 26, 2015

② Dividends whose record date falls in the fiscal year ended March 31, 2016, but the effective date of distribution falls in the fiscal year ending March 31, 2017

Resolution (Planned)	Class of stock	Resource of dividends	Amount of cash dividends	Cash dividends per share	Record date	Effective date of distribution
Annual general shareholders' meeting on June 23, 2016	Common stock	Retained earnings	(Thousands of Yen) 698,647	(Yen) 9.00	March 31, 2016	June 24, 2016

Notes to Financial Instruments

(1) Status of financial instruments held by the Group

The Group's fund management is limited primarily to short-term deposits while working capital and capital investments are financed by the Group's own fund without involving borrowings from banks or other financial institutions.

Credit risk of customers in respect to notes and accounts receivable – trade is mitigated by credit control. Investment securities held by the Group are mainly company shares, and the fair values of listed stocks are verified on a quarterly basis.

Regarding derivative transactions, we use forward exchange contracts in order to mitigate the exchange risks associated with export transactions in the normal course of our business.

(2) Fair value of financial instruments

Consolidated balance sheet amounts, fair values and their differences as of March 31, 2016 are as follows.

(In Thousands of Yen)

	Consolidated balance sheet amounts	Fair values	Differences
① Cash on hand and in banks	1,790,474	1,790,474	—
② Deposits receivable	22,426,153	22,426,153	—
③ Notes and accounts receivable – trade	21,841,882		
Allowance for doubtful accounts (※)	(26,971)		
	21,814,910	21,814,910	—
④ Investment securities			
Other securities	4,425,035	4,425,035	—
Total assets	50,456,574	50,456,574	—
⑤ Trade notes and accounts payable	14,379,241	14,379,241	—
⑥ Income taxes payable	1,211,780	1,211,780	—
Total liabilities	15,591,022	15,591,022	—
⑦ Derivative transactions	—	—	—

(※) Allowance for doubtful accounts corresponding to notes and accounts receivable – trade is deducted.

Notes:

① Cash on hand and in banks, ② Deposits receivable and ③ Notes and accounts receivable – trade
These are settled on short-term basis where their book values approximate their fair values, thus they are stated at book values.

Accounts receivable – trade under designated hedge accounting (“Furiate-shori”) are evaluated at an amount accounted for integrally with the forward exchange contracts.

④ Investment securities

Fair values of shares are based on stock exchange quoted prices.

Unlisted shares (with consolidated balance sheet amount of ¥433,560 thousand) are not included in “Other securities in ④ Investment securities,” as their fair values appear extremely difficult to determine because they do not have market prices and it is impossible to estimate future cash flows.

⑤ Trade notes and accounts payable and ⑥ Income taxes payable

These are settled on short-term basis where their book values approximate their fair values, thus they are stated at book values.

⑦ Derivative transactions

Fair values of these are based on the account statements from the concerned financial institutions.

The fair values of forward exchange contracts under designated hedge accounting (“Furiate-shori”) are included in the amount of accounts receivable – trade as they are accounted for integrally with accounts receivable – trade which are hedged items.

Notes to Rental Property

Disclosure is omitted as the information is insignificant.

Per Share Information

	In Yen	
Net assets per share	¥	666.57
Net income per share		59.27

Notes to Subsequent Event

There is no applicable item.

Other Notes

Changes in the amounts of deferred tax assets and liabilities due to income tax rate change

The “Act for Partial Amendment of the Income Tax Act, etc.” and the “Act to Amend the Local Taxation Act, etc.” were passed by the Diet on March 29, 2016. As a result, for the fiscal year ended March 31, 2016, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities (applies only to temporary differences realized or settled on or after April 1, 2016) was changed as follows: from 32.8% in the previous fiscal year, to 30.6% for those expected to be settled or paid from April 1, 2016 to March 31, 2018, and to 30.4% for those expected to be settled or paid on or after April 1, 2018.

The effect of the announced reduction of the effective statutory tax rate is immaterial.

Notice to Readers:

The amounts in thousands of yen in the accompanying financial statements are stated, omitting any fractional sums.

Independent Auditors' Report
(English Translation*)

May 16, 2016

To the Board of Directors of AICHI CORPORATION

PricewaterhouseCoopers Aarata

Sakae Toda, CPA
Engagement Partner
Yoshiyuki Ohashi, CPA
Engagement Partner

We have audited, pursuant to Article 436 (2) i of the "Corporate Law" of Japan, the financial statements, which consist of the balance sheet, statement of income, statement of change in net assets and notes to the financial statements, and the supplementary schedules of AICHI CORPORATION (hereinafter referred to as the "Company") for the 68th fiscal year from April 1, 2015 to March 31, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements and supplementary schedules in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements and the supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and supplementary schedules from an independent standpoint based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected and adopted depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations for the period covered by the financial statements and the supplementary schedules in conformity with accounting principles generally accepted in Japan.

Interest

We have no interest in or relationship with the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountant Law of Japan.

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AICHI CORPORATION
Balance Sheet
As of March 31, 2016

In Thousands of Yen

Assets

Current assets:

Cash on hand and in banks	¥	805,626
Deposits receivable		22,426,153
Notes receivable – trade		4,810,803
Electronically recorded monetary claims		1,034,642
Accounts receivable – trade		16,080,675
Finished goods		837,322
Work in process		1,413,273
Raw materials and supplies		888,204
Deferred tax assets		532,384
Short-term loans receivable		901,440
Other current assets		773,096
Less, allowance for doubtful accounts		(2,132)
Total current assets		50,501,488

Fixed assets:

Property, plant and equipment:

Buildings		5,829,460
Structures		738,110
Machinery and equipment		4,112,957
Vehicles		11,706
Tools, furniture and fixtures		419,560
Land		8,714,481
Construction in progress		642,341
Other property, plant and equipment		577,135
Total property, plant and equipment		21,045,754

Intangible assets:

Telephone use rights (not depreciable)		33,529
Water supply utility rights		673
Telephone rights to use public facility (depreciable)		14
Software		497,181
Goodwill		152,625
Other intangible assets		131,585
Total intangible assets		815,610

Investments and other assets:

Investment securities		4,858,595
Investments in subsidiaries and affiliates		30,000
Investments in partnerships		1,220
Investments in affiliated partnerships		1,234,069
Deferred tax assets		253,559
Long-term prepaid expenses		71,477
Lease deposits		69,720
Other assets		161,158
Less, allowance for doubtful accounts		(5,394)
Total investments and other assets		6,674,405

Total fixed assets

28,535,770

Total assets

¥ 79,037,259

Liabilities**Current liabilities:**

Notes payable – trade	¥	2,412,748
Electronically recorded obligations – operating		8,372,367
Accounts payable – trade		4,029,521
Accounts payable – other		3,775,822
Income taxes payable		1,211,275
Accrued expenses		1,407,406
Deposits received		222,256
Deferred income		285
Accrued bonuses to directors and corporate auditors		78,000
Allowance for product warranty		114,506
Notes payable – equipment		985,965
Electronically recorded obligations – equipment		565,562
Other current liabilities		190,698

Total current liabilities		<u>23,366,416</u>
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Long-term liabilities:

Deferred tax liabilities for land revaluation		616,398
Accrued retirement benefits		2,995,406
Accrued retirement benefits to directors and corporate auditors		75,400
Other liabilities		931,658

Total long-term liabilities		<u>4,618,863</u>
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Total liabilities		<u>27,985,280</u>
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Net assets**Shareholders' equity:**

Capital stock		10,425,325
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Capital surplus:

Additional paid-in capital		9,941,842
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Total capital surplus		<u>9,941,842</u>
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Retained earnings:

Other retained earnings		31,819,328
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Retained earnings carried forward to the following period		31,819,328
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Total retained earnings		<u>31,819,328</u>
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Less, treasury stock		<u>(915,770)</u>
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Total shareholders' equity		<u>51,270,725</u>
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Valuation and translation adjustments:

Net unrealized gains on other securities		2,120,101
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Less, land revaluation		<u>(2,338,847)</u>
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Total valuation and translation adjustments		<u>(218,746)</u>
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Total net assets		<u>51,051,978</u>
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Total liabilities and net assets	¥	<u>79,037,259</u>
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AICHI CORPORATION
Statement of Income
Fiscal Year from April 1, 2015 to March 31, 2016

In Thousands of Yen

Operating revenue:	
Net sales	¥ 56,991,401
 Operating costs and expenses:	
Cost of sales	44,408,290
Gross profit	12,583,111
Selling, general and administrative expenses	6,709,218
Operating income	5,873,892
 Non-operating income:	
Interest and dividend income	360,119
Miscellaneous incomes	68,328
	428,448
 Non-operating expenses:	
Interest expense	353
Foreign exchange losses	10,403
Miscellaneous expenses	2,272
	13,028
Ordinary income	6,289,312
 Extraordinary gains:	
Gain on sales of tangible fixed assets	1,058
Gain on sale of investment securities	487
	1,545
 Extraordinary losses:	
Loss on sales of tangible fixed assets	7,900
Loss on retirement of tangible fixed assets	288,695
Loss on valuation of investment securities	2,450
Impairment loss	2,481
	301,528
Income before income taxes	5,989,329
Income taxes-current	1,814,263
Income taxes-deferred	100,567
Net income	¥ 4,074,498

AICHI CORPORATION
Statement of Change in Net Assets
Fiscal Year from April 1, 2015 to March 31, 2016

(In Thousands of Yen)

Items	Shareholders' equity		
	Capital stock	Capital surplus	
		Additional paid-in capital	Total capital surplus
Balance at the beginning of current period	10,425,325	9,941,842	9,941,842
Changes of items during the period			
Cash dividends			
Net income for the year			
Purchase of treasury stock			
Other changes			
Total changes of items during the period	—	—	—
Balance at the end of current period	10,425,325	9,941,842	9,941,842

Items	Shareholders' equity			
	Retained earnings		Treasury stock at cost	Total shareholders' equity
	Other retained earnings	Total retained earnings		
Balance at the beginning of current period	28,598,740	28,598,740	(914,980)	48,050,927
Changes of items during the period				
Cash dividends	(853,910)	(853,910)		(853,910)
Net income for the year	4,074,498	4,074,498		4,074,498
Purchase of treasury stock			(790)	(790)
Other changes				
Total changes of items during the period	3,220,587	3,220,587	(790)	3,219,797
Balance at the end of current period	31,819,328	31,819,328	(915,770)	51,270,725

Items	Valuation and translation adjustments			Total net assets
	Net unrealized gains or losses on other securities	Less, land revaluation	Total valuation and translation adjustments	
Balance at the beginning of current period	2,403,102	(2,371,226)	31,876	48,082,804
Changes of items during the period				
Cash dividends				(853,910)
Net income for the year				4,074,498
Purchase of treasury stock				(790)
Other changes	(283,000)	32,378	(250,622)	(250,622)
Total changes of items during the period	(283,000)	32,378	(250,622)	2,969,174
Balance at the end of current period	2,120,101	(2,338,847)	(218,746)	51,051,978

AICHI CORPORATION
Notes to Financial Statements

Significant Accounting Policies

(1) Valuation of securities

Securities are classified in accordance with “Accounting Standard for Financial Instruments.”

Investments in subsidiaries and affiliates are stated at cost, cost being determined by moving average method.

Other securities whose market quotations are available are stated at fair value. Net unrealized gains or losses are reported as a separate component in net assets, net of applicable income taxes. Gains and losses on disposition are computed based on moving average method.

Other securities whose market quotations are not available are stated at cost, cost being determined by moving average method.

(2) Valuation of inventories

Inventories are stated at cost (computed by reducing the book value to reflect deterioration in profitability).

Finished goods and work in process are evaluated using specific identification method.

Raw materials are evaluated using moving average method.

Supplies are stated at cost, cost being determined by last purchase price method.

(3) Method of depreciation or amortization

Property, plant and equipment (except for lease assets) are depreciated mainly on declining-balance method. In addition, buildings (except for its accessory structures) acquired on and after April 1, 1998 are depreciated on straight-line method.

Intangible assets (except for lease assets) are amortized on straight-line method. In addition, software for internal use is amortized on straight-line method over estimated useful lives (5 years). Goodwill is amortized on straight-line method over eight years.

Depreciation of leased assets regarding finance leases other than those for which the ownership of the leased items is transferred to the lessee is computed with the straight-line method over the lease period with no residual value.

Long-term prepaid expenses are charged to income on straight-line method.

(4) Allowances and provisions

① Allowance for doubtful accounts

The Company provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivable balances. The Company reviews individual financial condition for doubtful or troubled receivables and provides for losses on uncorrectable amounts. In addition, general reserve for other accounts receivable is provided based on historical loss experience for certain past periods.

② Accrued bonuses to directors and corporate auditors

The Company provides for estimated payment of bonuses to directors and corporate auditors.

③ Allowance for product warranty

The Company provides for estimated warranty costs based on the Company's prior experience and estimated costs to be incurred individually calculated for certain products.

④ Accrued retirement benefits

The Company provides for estimated cost for future severance payments to employees based on actuarial present value of retirement benefit obligation and pension plan assets.

1) Method of attributing projected benefit obligation to periods

In calculating retirement benefit obligation, projected benefit obligation attributed to the current fiscal year is determined using the benefit formula basis.

2) Calculation treatment for actuarial gains or losses and prior service costs

Prior service costs are amortized as incurred by the straight-line method over a fixed period (10 years), which are shorter than the average remaining years of service of the employees.

Actuarial gains or losses are amortized in the fiscal year following the fiscal year in which the gain or loss is recognized by the straight-line method over a fixed period (10 years), which is shorter than the average remaining years of service of the employees.

⑤ Accrued retirement benefits to directors and corporate auditors

The Company provides for estimated cost for retirement benefits to directors and corporate auditors based on the amount which would be payable under internal rule if all directors and corporate auditors retired at fiscal year end date.

(5) Hedge accounting

Hedge accounting is applied for foreign currency forward contracts when certain conditions are met.

(6) Other

① Accounting treatment for retirement benefits

The accounting treatment for unrecognized actuarial differences for retirement benefits and unrecognized prior service costs differ from that of the consolidated financial statements.

② Consumption taxes

Consumption taxes are separately recorded at each transaction.

Notes to Balance Sheet

	<u>In Thousands of Yen</u>	
(1) Accumulated depreciation of property, plant and equipment	¥	15,658,342
(2) Receivables from and payables to subsidiaries and affiliates:		
Short-term receivables	¥	24,320,302
Short-term payables	¥	520,350
(3) Land revaluation		
<p>Pursuant to the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and the Law to Partially Amend the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001), the Company revalued land used for business activities on March 31, 2002.</p> <p>Pursuant to the Law to Partially Amend the Law Concerning Revaluation of Land (Law No. 24, March 31, 1999), the effect of this revaluation has been recorded as deferred tax liabilities for land revaluation in liabilities and as revaluation reserve for land in net assets.</p> <p>Revaluation was carried out based on an amount rationally calculated using the land value for local government tax and roadside land assessment as prescribed in Article 2, Paragraph 3 and Article 2, Paragraph 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (No. 119 of the 1998 Cabinet Order, promulgated on March 31, 1998), respectively.</p>		
Revaluation date		March 31, 2002
Difference between the market value on the land revaluation date above and the carrying amount of the land after the revaluation		¥(2,810,166) thousand

Notes to Statement of Income

	<u>In Thousands of Yen</u>	
(1) Transactions with subsidiaries and affiliates:		
Operating transaction		
Net sales	¥	2,863,996
Goods purchased	¥	3,271,029
Selling, general and administrative expenses	¥	29,554
Non-operating transaction	¥	68,648
(2) Write-down due to decreased profitability of inventories held for sale in the ordinary course of business		
Cost of sales	¥	(20,404)

Notes to Statement of Change in Net Assets

Class and number of treasury stock

Class of stock	As of April 1, 2015	Increase	Decrease	As of March 31, 2016
Common stock	1,824,787	1,012	-	1,825,799

Note: Increase of treasury stock is due to acquisition of stocks less than one unit.

Deferred Tax Assets and Liabilities

(1) The significant components of deferred tax assets and liabilities were as follows:

	<u>In Thousands of Yen</u>
Deferred tax assets	
Inventories	58,942
Accrued enterprise tax and office tax payable	89,119
Allowance for product warranty	35,142
Accrued retirement benefits	914,169
Accrued bonus	293,048
Buildings, structures, machinery and equipment	60,037
Land	293,841
Investment securities	173,620
Others	322,681
Sub total	<u>2,240,602</u>
Valuation allowance	<u>(708,834)</u>
Total deferred tax assets	1,531,768

	<u>In Thousands of Yen</u>
Deferred tax liabilities	
Net unrealized gains on other securities	¥ (737,575)
Others	<u>(8,249)</u>
Total deferred tax liabilities	<u>(745,824)</u>
Deferred tax assets (Net)	785,943

(2) Deferred tax assets in relation to land revaluation

	<u>In Thousands of Yen</u>
Deferred tax assets	
Unrealized loss on land revaluation	1,141,056
Valuation allowance	<u>(1,141,056)</u>
Deferred tax assets (Net)	—
Deferred tax liabilities	
Unrealized gain on land revaluation	¥ (616,398)
Deferred tax liabilities (Net)	<u>(616,398)</u>

Related Party Transactions

Related party transactions are as follows:

(1) Parent company and major corporate shareholders, etc.

Type	Name of the related company	Capital (in thousands of Yen)	Description of business or occupation	Equity ownership percentage	Relationship of related company		Nature of transactions	Transaction amount (in thousands of Yen)	Account	Balance at year-end (in thousands of Yen)
					Interlocking directorate	Business relationship				
Parent company	Toyota Industries Corporation	80,462,672	Manufacture and sale of automobiles, industrial vehicles, and textile machinery, etc.	(owned) direct 52.2%	Cross-company transfer 3 persons	Sale of specially equipped vehicles as well as sale and purchase of their parts; deposits of funds	Deposits receivable ※	1,488,645	Deposits receivable	22,426,153
					Interlocking directorate 1 person		Receipt of interest ※	51,648	-	-

Note: 1. Commercial terms and condition

※ The Company charged interest on deposits receivable in accordance with market interest rates.

2. The above transaction amounts do not include consumption tax, etc.

(2) Subsidiaries, etc.

Type	Name of the related company	Capital (in thousands of US Dollars)	Description of business or occupation	Equity ownership percentage	Relationship of related company		Nature of transactions	Transaction amount (in thousands of Yen)	Account	Balance at year-end (in thousands of Yen)
					Interlocking directorate	Business relationship				
Subsidiary	Zhejiang Aichi Industrial Machinery Co., Ltd.	15,000	Manufacture and sale of special machinery	(owning) direct 100.0%	Executive Officers 3 persons Employees 3 persons	Sale and purchase of special machinery and parts; working capital loans	Loans receivable on working capital ※	540,600	Short-term loans receivable	901,440

Note: Commercial terms and condition

※ The Company charged interest on loans receivable on working capital in accordance with market interest rates.

Per Share Information

	In Yen	
Net assets per share	¥	657.65
Net income per share		52.49

Notes to Subsequent Event

There is no applicable item.

Notes to Companies to Which the Restriction on Consolidated Dividends Applies

There is no applicable item.

Other Notes

Changes in the amounts of deferred tax assets and liabilities due to income tax rate change

The “Act for Partial Amendment of the Income Tax Act, etc.” and the “Act to Amend the Local Taxation Act, etc.” were passed by the Diet on March 29, 2016. As a result, for the fiscal year ended March 31, 2016, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities (applies only to temporary differences realized or settled on or after April 1, 2016) was changed as follows: from 32.8% in the previous fiscal year, to 30.6% for those expected to be settled or paid from April 1, 2016 to March 31, 2018, and to 30.4% for those expected to be settled or paid on or after April 1, 2018.

The effect of the announced reduction of the effective statutory tax rate is immaterial.

Notice to Readers:

The amounts in thousands of yen in the accompanying financial statements are stated, omitting any fractional sums.