

(Appendix)

## **Business Report**

(April 1, 2013 – March 31, 2014)

### **1. Current Situation of the Company Group**

#### **(1) Progression and results of business**

The Japanese economy during the consolidated fiscal year ended March 31, 2014 was on a recovery track with steady exports mainly towards the U.S. backed by the effect of the yen depreciation and recovery of overseas economies, as well as favorable domestic consumption due to a rush in demand prior to the consumption tax hike. Due to such economic situation, improvement was seen in production activity such as in the manufacturing industry and corporate revenue demonstrated an upward trend, which resulted in a recovery in capital investment. Further, personal consumption showed steady performance due to the effect of economic recovery including favorable corporate performance and improvement in the employment situation as well as a rush in demand prior to the consumption tax hike.

With regard to the electronics industry which we belong to, an increase sustained in demand for smartphones. On the other hand, in the computer market, the outlook for conventional PCs remained challenging due to a shift in demand to mobile terminals such as tablet PCs, although replacement demand for corporate PCs became apparent. In the consumer product market, although favorable performance was seen in interchangeable lens cameras targeting the Japanese market due to a rush in demand prior to the consumption tax hike, compact, digital, and steel cameras performed sluggishly due to the spread of smartphones. In relation to the automobile market, performance was solid due to global demand such as in the North American market and a rush in demand in Japan. In the industrial equipment market, a recovery trend was seen as a result of improvement in production activity and capital investment.

As a result, during the consolidated fiscal year ended March 31, 2014, Macnica recorded net sales of 255,967 million yen (30.3% increase year-on-year), operating income of 8,456 million yen (47.1% increase year-on-year), and ordinary income of 10,603 million yen (86.4% increase year-on-year) due to factors including the recording of a translation gain of 2,222 million yen. Accordingly, net income for the consolidated fiscal year ended March 31, 2014 was 6,382 million yen (90.6% increase year-on-year).

Performances by segment are as follows:

(IC, electronic devices and other business)

In the IC, electronic devices and other business, although products targeting the mobile terminal market were on a downward trend in connection with the termination in part of the business targeting mobile phones and smartphones, demand expansion in the smartphone market has continued leading to facility expansion and reinforcement. As a result, PLD and ASSP targeted for the LTE terminals and telecommunication equipment demonstrated favorable performance. For the consumer product market, although analog ICs targeted for compact, digital, and steel cameras was affected by the partial production adjustment, favorable performance was seen overall due to expansion of commercial rights with regard to other consumer products. In the automobile market, with a favorable demand environment such as in the U.S. in addition to the launch of new businesses, analog ICs and other products expanded steadily. The industrial equipment market, PLD and analog ICs showed favorable performance as a whole as a result of the effect of economic recovery. As a result, during the consolidated fiscal year ended March 31, 2014, the IC, electronic devices and other business recorded net sales of 236,000 million yen (30.8% increase year-on-year), and operating income of 5,694 million yen (66.0% increase year-on-year).

(Network business)

In the network business, although demand for communication boards for carriers settled after experiencing an increasing trend, expansion was seen in network equipment for government and municipal offices as well as telecommunication-related corporations, and security-related equipment for targeted attack measures and others due to a recovery in domestic IT investment demand. Further, continued growth was seen in security software for corporations, and experienced favorable performance as a whole. As a result, during the consolidated fiscal year ended March 31, 2014, the network business recorded net sales of 19,997 million yen (24.3% increase year-on-year), and operating income of 2,735 million yen (12.9% increase year-on-year).

(Net sales by segment)

Category	Period	42nd Term (From April 1, 2012 to March 31, 2013)	43rd Term (From April 1, 2013 to March 31, 2014)
		Amount	Amount
		Million yen	Million yen
IC and electronic devices and other business		180,401	236,000
Network business		16,082	19,997
Elimination		(32)	(30)
Total		196,452	255,967

## (2) Capital investment

The total amount of capital investment conducted during the consolidated fiscal year ended March 31, 2014 was 1,051 million yen. In the IC, electronic devices and other business, investments mainly consisted of construction of domestic offices for the purpose of improving operation efficiency and related system repairs as well as repairs of core operation system. In the network business, investment was conducted in order to expand verification equipment and reinforce maintenance equipment.

## (3) Fund raising

Not applicable.

## (4) Matters to be addressed

The environment surrounding our group and the future outlook will be affected by capital investment trends including domestic and international telecommunication infrastructure, and will inevitably face economic highs and lows in the mid- to long-term due to fluctuation in demand and supply balance of the electronics industry centering on computers, consumer products, automobiles, and industrial equipment, etc. With regard to the electronics industry, the growth of the domestic market is expected to slow down, and thus, a strategy from a global perspective will become important for further enhancement of business performance. For domestic corporations, further increase in shift of production, design, and development function to overseas is expected. The Asia Pacific region such as China and Taiwan, is expected to become a large market for semiconductors amid this situation with rapidly growing local corporations in addition to a number of global electric and information-related equipment manufacturers which have transferred their production bases to the region.

Amid such circumstance, our group has established local subsidiaries in Singapore, Hong Kong, Taiwan, Shanghai, and Thailand in line with the transfer of production bases mainly of Japanese manufacturers. As one of the measures to strengthen our capabilities to deal with local corporations, we have established a structure that accelerates development of strategies over the entire Asia Pacific region by gaining recognition from local corporations such as CYTECH TECHNOLOGY LIMITED in the Chinese market, GALAXY FAR EAST CORPORATION in the Taiwanese market, and CYTECH GLOBAL PTE. LTD. in the ASEAN region including India. Furthermore, we cover a seamless support structure from design, development to production globally by making companies with high technological ability into our group in the U.S. and Europe.

Moreover, in addition to the conventional design and development support conducted by each group company, we have set up a structure to make proposals on more advanced and comprehensive solutions globally by gathering technological and development solutions of each group company. In the future, we intend to generate further synergy effect by combining the strong product lineup which is the advantage of our group and technical support capability as well as by leveraging the high technical support capability and broad customer base of each group company, and aim to provide unique customer value and further expansion on a global level.

In addition, we endeavor to further enhance the level of in-house technology and share technological knowhow among our domestic and global group companies in order to more clearly differentiate and proclaim superiority over our competitors amid intensified competition such as price competition, thereby contribute to the value enhancement of customer products. Our group as a whole will work to ensure profit and improve performance taking advantage of our strengths including product ability, capability to discover new products, and technical support capability.

We ask our shareholders for their continued support and understanding.

**(5) Transfer of business, absorption-type company split, or incorporation-type company split**

Not applicable.

**(6) Acquisition of business**

Not applicable.

**(7) Succession of rights and obligations in relation to businesses of other corporations, etc. through merger or absorption-type company split**

Not applicable.

**(8) Acquisition and disposal of shares and other equity interests or stock acquisition rights, etc. of other companies**

Not applicable.

**(9) Property, profit and loss**

(Millions of yen)

Items	40th term (From April 1, 2010 to March 31, 2011)	41st term (From April 1, 2011 to March 31, 2012)	42nd term (From April 1, 2012 to March 31, 2013)	43rd term (From April 1, 2013 to March 31, 2014)
Net sales	188,440	188,893	196,452	255,967
Ordinary income	6,395	6,638	5,689	10,603
Net income	4,476	3,337	3,348	6,382
Net income per share	252.89 yen	188.53 yen	189.15 yen	360.39 yen
Total assets	103,305	110,979	115,315	139,715
Net assets	59,719	62,724	67,186	75,255

Note: Net income per share is calculated based on the average number of issued shares during the period. Treasury stocks are excluded from the total number of issued shares upon the calculation.

**(10) Principal business**

Our group is an independent trading company specialized in electronics principally engaging in export and import, and sale of industrial electronic components, mainly semiconductors, network-related equipment, and software from domestic and overseas manufacturers. We also conduct planning and design of cutting-edge electronics products.

**(11) Principal business locations**

(i) Principal business locations of the Company

Headquarters	Kouhoku-ku, Yokohama City, Kanagawa
West Japan Branch	Kita-ku, Osaka City, Osaka
Nagoya Sales Office	Nishi-ku, Nagoya City, Aichi
Utsunomiya Sales Office	Utsunomiya City, Tochigi
Matsumoto Sales Office	Matsumoto City, Nagano
Operations Department	Kanagawa-ku, Yokohama City, Kanagawa
[Logistics / Programming Center]	

(ii) Principal business locations of subsidiaries  
(Japan)

ALTIMA Corp.	Kouhoku-ku, Yokohama City, Kanagawa
Macnica Networks Corp.	Kouhoku-ku, Yokohama City, Kanagawa
ELSENA, Inc.	Shinjuku-ku, Tokyo
KOGENT, Inc.	Kouhoku-ku, Yokohama City, Kanagawa
Macnica Solutions Corp.	Kouhoku-ku, Yokohama City, Kanagawa

(Overseas)

MACNICA HONG KONG, LIMITED	Hong Kong
MACNICA ASIA PACIFIC PTE LTD	Singapore
MACNICA TAIWAN, LIMITED	Taiwan
MACNICA SHANGHAI, LIMITED	China
MACNICA (THAILAND) CO., LTD.	Thailand
CYTECH TECHNOLOGY LIMITED	Hong Kong
CYTECH TECHNOLOGY INTERNATIONAL TRADING (SHANGHAI) LIMITED	China
CYTECH GLOBAL PTE. LTD.	Singapore
SHENZHEN CYTECH ELECTRONICS CO. LTD.	China
GALAXY FAR EAST CORPORATION	Taiwan
GFE INTERNATIONAL (HONG KONG) LTD.	Hong Kong
GFEI CYTECH TECHNOLOGY (SHENZHEN) LTD.	China
GALAXY TECHNOLOGY HOLDINGS CO., LTD.	the United Kingdom
MACNICA CHUNGJU CO., LTD.	Taiwan

**(12) Employees**

Name of business units	Number of employees	Change from the previous consolidated fiscal year-end
IC, electronic devices and other business	1,466	12
Networks business	257	34
Administration	104	0
Total	1,827	46

Note: Number of employees refers to the number of employees on duty.

**(13) Material parent companies and subsidiaries**

(i) Relationship with the parent company  
Not applicable.

(ii) Material subsidiaries

Name	Capital	Percentage of voting rights (%)	Principal business
ALTIMA Corp.	339 million yen	100.0	IC, electronic devices and other business
Macnica Networks Corp.	300 million yen	100.0	Networks business
ELSENA, Inc.	350 million yen	100.0	IC, electronic devices and other business
KOAGENT, Inc.	100 million yen	100.0	IC, electronic devices and other business
Macnica Solutions Corp.	100 million yen	100.0 (100.0)	Networks business
MACNICA HONG KONG, LIMITED	3,500,000 HKD	100.0 (100.0)	IC, electronic devices and other business
MACNICA ASIA PACIFIC PTE LTD	31,938,000 USD	100.0 (100.0)	IC, electronic devices and other business
MACNICA TAIWAN, LIMITED	4,000,000 TWD	100.0 (100.0)	IC, electronic devices and other business
MACNICA SHANGHAI, LIMITED	3,400,000 USD	100.0	IC, electronic devices and other business
MACNICA (THAILAND) CO., LTD.	100,000,000 THB	100.0 (100.0)	IC, electronic devices and other business
CYTECH TECHNOLOGY LIMITED	304,556,000 HKD	100.0	IC, electronic devices and other business
CYTECH TECHNOLOGY INTERNATIONAL TRADING (SHANGHAI) LIMITED	830,000USD	100.0 (100.0)	IC, electronic devices and other business
CYTECH GLOBAL PTE. LTD.	500,000 USD	100.0 (100.0)	IC, electronic devices and other business
SHENZHEN CYTECH ELECTRONICS CO. LTD.	1,000,000 CNY	100.0 (100.0)	IC, electronic devices and other business
GALAXY FAR EAST CORPORATION	761,117,000 TWD	66.7 (66.7)	IC, electronic devices and other business
GFE INTERNATIONAL (HONG KONG) LTD.	2,924,000 USD	100.0 (100.0)	IC, electronic devices and other business
GFEI CYTECH TECHNOLOGY (SHENZHEN) LTD.	1,000,000 HKD	100.0 (100.0)	IC, electronic devices and other business
GALAXY TECHNOLOGY HOLDINGS CO., LTD.	2,150,000 USD	100.0 (100.0)	IC, electronic devices and other business
MACNICA CHUNGJU CO., LTD.	905,000,000 TWD	100.0 (0.6)	IC, electronic devices and other business

Notes: 1. Number in parentheses stated in the percentage of voting rights column denotes indirect ownership.

2. Name of principal business stated in the principal business column is same as those stated in segment information.

**(14) Principal lenders (as of March 31, 2014)**

Name of lenders	Balance of borrowings
	Million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,552
Sumitomo Mitsui Banking Corporation	4,000
The Daishi Bank, Ltd.	1,000

**2. Shares of the Company (as of March 31, 2014)**

- (1) Number of shares authorized to be issued 70,000,000 shares  
 (2) Number of issued shares 17,732,665 shares (excluding 377,587 treasury stocks)  
 (3) Number of shareholders 7,362  
 (4) Major shareholders

Name of shareholders	Number of shares held	Shareholding ratio
	Thousand shares	%
Haruki Kamiyama	7,574	42.7
BBH Fidelity Puritan: Fidelity Series Intrinsic Opportunities Fund	1,060	6.0
Yuko Kamiyama	632	3.6
Japan Trustee Services Bank, Ltd. (trust account)	587	3.3
The Master Trust Bank of Japan, Ltd. (trust account)	509	2.9
The Chase Manhattan Bank, N.A. London S. L. Omnibus Account	489	2.8
Japan Trustee Services Bank, Ltd. (portion entrusted with Sumitomo Mitsui Trust Bank, Limited under a saishintaku (re-trust) arrangement for the Sumitomo Mitsui Banking Corporation retirement benefit trust account)	283	1.6
The Nomura Trust and Banking Co., Ltd. (investment trust account)	276	1.6
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	264	1.5
Macnica Employee Shareholding Association	263	1.5

Note: Treasury stock of 377 thousand shares held by the Company at the end of the fiscal year under review are excluded from the above table. Shareholding ratio is calculated by deducting the treasury stock.

### 3. Stock acquisition rights, etc. of the Company

(1) Stock acquisition rights held by officers of the Company

Stock acquisition rights issued by resolution at the Board of Directors held on August 23, 2010

	Directors (excluding Outside Directors)
Number of persons holding stock acquisition rights	1
Number of stock acquisition rights	1,200 units
Class and number of shares subject to stock acquisition rights	Common shares: 120,000 shares
Amount to be paid in for stock acquisition right	Payment not required.
Exercise price of stock acquisition rights	184,100 yen per unit
Exercise period for stock acquisition rights	April 1, 2013 to March 31, 2018
Conditions for exercise of stock acquisition rights	<ul style="list-style-type: none"> <li>· Those who are allotted stock acquisition rights shall be in a position of Director of the Company or a subsidiary of the Company even upon the exercise of rights; provided, however, that this shall not apply when it is recognized as an exception at the Board of Directors, taking into account various factors.</li> <li>· Stock acquisition rights shall not be succeeded; provided, however, that this shall not apply when it is recognized as an exception at the Board of Directors, taking into account various factors.</li> <li>· Stock acquisition rights shall not be pledged or otherwise be disposed.</li> <li>· Other conditions pertaining to the exercise of rights shall be governed by the underwriting agreement for stock acquisition rights to be entered into between the Company and the holder of stock acquisition rights based on a resolution at the Board of Directors to issue the stock acquisition rights.</li> </ul>

(2) Stock acquisition rights issued to employees of the Company and officers, etc. of subsidiaries during the fiscal year under review

Not applicable.



#### 4. Corporate officers

(1) Names, etc. of Directors and Corporate Auditors (as of March 31, 2014)

Name	Position	Material concurrent position
Haruki Kamiyama	Director and Chairman	
Kiyoshi Nakashima	President and CEO	
Shigeyuki Sano	Director	
Fumihiko Arai	Director	
David Daekyung Seu	Director	Director of SUMITOMO MITSUI TRUST INVESTMENT CO., LTD.
Takashi Ito	Audit & Supervisory Board Member	President and Representative Director of Sou Consulting Inc.
Yutaka Usami	Audit & Supervisory Board Member	
Yoshiaki Asahi	Audit & Supervisory Board Member	President and Representative Director of GPC, Ltd.

Notes: 1. Messrs. Takashi Ito and Yoshiaki Asahi are outside corporate auditors as stipulated in Article 2, Item 16 and Article 335, Item 3 of the Companies Act.

2. Messrs. Takashi Ito and Yoshiaki Asahi are independent officers required to be secured by the Tokyo Stock Exchange, Inc. for the purpose of protecting general shareholders. Mr. Takashi Ito is qualified as certified public accountant and has a considerable degree of knowledge regarding finance and accounting.

(2) Amount of compensation for Directors and Corporate Auditors

Directors	5 Directors	158 million yen
Audit & Supervisory Board Members	3 Audit & Supervisory Board Members	17 million yen (of which 10 million yen to 2 Outside Audit & Supervisory Board Members)

Note: The above compensation amount includes provision for retirement benefits for directors of 19 million yen (of which 1 million yen to Audit & Supervisory Board Members) for the fiscal year under review.

- (3) Outside officers
- (i) Relationship between the Company and entities where outside officers hold concurrent positions  
 Mr. Takashi Ito, Audit & Supervisory Board Member of the Company, is President and Representative Director of Sou Consulting Inc. There is no special interest between said company and the Company. Mr. Yoshiaki Asahi, Audit & Supervisory Board Member of the Company, is President and Representative Director of GPC, Ltd. There is no special interest between said company and the Company.
- (ii) Major activities during the fiscal year ended March 31, 2014

Title	Name	Activities
Audit & Supervisory Board Member	Takashi Ito	Participated in 16 of the 17 Board of Directors and in all 13 Audit & Supervisory Board during the fiscal year ended March 31, 2014; and represented appropriate opinion, as necessary, from a technical perspective as a certified public accountant.
Audit & Supervisory Board Member	Yoshiaki Asahi	Participated in all 17 Board of Directors and in all 13 Audit & Supervisory Board during the fiscal year ended March 31, 2014; and represented appropriate opinion, as necessary, based on extensive knowledge and experience mainly in the field of corporate management and capital market.

#### 5. Accounting Auditor

- (1) Name of Accounting Auditor of the Company Ernst & Young ShinNihon LLC
- (2) Amount of compensation, etc.

Category	Amount payable
Amount of compensation, etc. during the fiscal year ended March 31, 2014	59 million yen
Total amount of monetary and other property benefits of the Company and its subsidiaries payable to Accounting Auditor	61 million yen

Notes: 1. As the audit agreement between the Company and the Accounting Auditor does not clearly classify the amount of compensation for audits based on the Companies Act and those based on the Financial Instruments and Exchange Act, nor can they be practically classified, the amount of compensation, etc. during the fiscal year ended March 31, 2014 stated above represents the total amount of the two classifications.

2. The Company pays compensation to the Accounting Auditor with regard to services other than those stipulated in Article 2, Item 1 of the Certified Public Accountants Act (non-audit services),” which is “advisory services pertaining to transition to International Financial Reporting Standards (IFRS).”
3. Out of our material subsidiaries, MACNICA HONG KONG, LIMITED, MACNICA ASIA PACIFIC PTE LTD, MACNICA TAIWAN, LIMITED, MACNICA SHANGHAI, LIMITED, MACNICA (THAILAND) CO., LTD., CYTECH TECHNOLOGY LIMITED, CYTECH TECHNOLOGY INTERNATIONAL TRADING (SHANGHAI) LIMITED, CYTECH GLOBAL PTE. LTD., SHENZHEN CYTECH ELECTRONICS CO. LTD., GALAXY FAR EAST CORPORATION, GFE INTERNATIONAL (HONG KONG) LTD., GFEI CYTECH TECHNOLOGY (SHENZHEN) LTD., GALAXY TECHNOLOGY HOLDINGS CO., LTD., and MACNICA CHUNGJU CO., LTD. undergo audits by the auditing firms other than the Accounting Auditor of the Company.

(3) Policy for determining dismissal and non-reappointment

When an Accounting Auditor falls under any of the items in Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board may dismiss the Accounting Auditor with the approval of all the Audit & Supervisory Board Members. In addition, when it is judged that an Accounting Auditor does not qualify the eligibility and reliability according to both the Japanese accounting standards and international accounting standards, the Company may, with the approval from the Audit & Supervisory Board or based on a request by the Audit & Supervisory Board, place the matter before the general shareholders' meeting with regard to the dismissal and non-reappointment of the Accounting Auditor.

## 6. System to Secure the Appropriateness of Business

The following describes matters resolved by the Board of Directors of the Company as a system the Company adopts to secure the appropriateness of business.

(1) System to ensure that the Directors and employees perform their duties in compliance with relevant laws and regulations and the Articles of Incorporation

- i) Directors shall strive to take initiative in ensuring the completeness of MACNICA group's compliance with laws and regulations as a whole from a company-wide viewpoint, recognizing that compliance with laws and regulations, etc. is prerequisite for conducting corporate activities. Directors shall conduct decision-making and perform their duties for MACNICA group and mutually observe and supervise the performance of their respective duties in accordance with the "Regulations on the Board of Directors" and other relevant rules.
- ii) The Company shall stipulate "Compliance Regulations" in accordance with the Code of Conduct of MACNICA as a basis for a compliance system. The Company shall establish a Compliance Risk Management Committee headed by the President and CEO as a body to improve and maintain the compliance system, and each department in charge shall decide rules and guidelines and conduct relevant training as necessary.
- iii) The Company shall develop and maintain internal control in order to secure the reliability of financial reporting and appropriately evaluate its effectiveness.
- iv) The Company shall appoint Compliance Department as a Compliance Management Control Division that supervises the compliance of each division of the Company and each company of MACNICA group and carries out awareness campaigns for employees.
- v) The Audit Office in charge of internal audit shall audit compliance with laws and regulations, etc., report the results to the President and CEO, and further report the results to the Board of Directors or the Audit & Supervisory Board when necessary.
- vi) In accordance with the "Regulations on Whistle Blowing," the Company shall establish and manage a whistle-blowing system whereby external lawyers, third party organizations, etc. directly receive information, as a system for internally reporting violations of laws, regulations, and other matters related to compliance.
- vii) When Audit & Supervisory Board Members find problems with the management of the legal compliance system and whistle-blowing system of MACNICA group, they may express their opinions and request the Board of Directors to formulate improvement measures.

(2) System to retain and manage information relating to the performance of duties by Directors  
Information on the performance of duties of Directors shall be retained and managed in ways appropriate for the storage media used and maintained in a steadily searchable condition in accordance with the "Regulations on Document Management," and shall be kept available for perusal for a certain period.

(3) Rules and other systems related to the management of risk of loss

In order to establish a risk management system, the Company shall stipulate the "Risk Management Regulations" and establish a Compliance and Risk Management Committee to prevent various forms of risk. In addition, if unforeseen circumstances occur, the Company shall establish an emergency headquarters headed by the President and CEO, keep damage to a minimum by rapidly responding to such circumstances, and conduct appropriate risk management to rapidly restore business operations, in accordance with the provisions of the "Crisis Management Regulations" stipulating the organizational system and chain of command.

(4) System to ensure that the Directors perform their duties efficiently

- i) As the basis for a system to ensure that the Directors perform their duties efficiently, the Directors and Audit & Supervisory Board Members shall attend a weekly Management Meeting to thoroughly grasp the management circumstances of the Company at all times. In addition, important matters related to management policy and management strategy shall be sufficiently analyzed and deliberated in advance at a regular Board of Directors meeting held monthly and at an extraordinary Board of Directors meeting held whenever necessary.
  - ii) When performing their duties based on the decisions of the Board of Directors meeting, Directors shall strive to effectively perform their duties according to the division of roles and chain of command as stipulated in the “Regulations on the Division of Duties,” the “Regulations on Official Authority,” and other related regulations.
- (5) System to ensure the appropriateness of business operations of the business group consisting of the Company and subsidiaries
  - i) The Company’s regulations and other relevant rules shall apply mutatis mutandis to domestic group companies, and each overseas group company shall establish an appropriate system in consideration of the actual circumstances of the country in which it is located.
  - ii) The Company shall manage and, if necessary, monitor each company of MACNICA group based on the “Regulations on the Management of Affiliates.”
  - iii) If a Director of the Company discovers any violation of laws, regulations, or other significant matters related to compliance at any company of MACNICA group, he/she shall report the fact to an Audit & Supervisory Board Member.
- (6) Matters concerning employees who assist the Audit & Supervisory Board Members when requested by the Audit & Supervisory Board Members and the independence of such employees from Directors
 

If Audit & Supervisory Board Members so request, the Company shall appoint an assistant of the Audit & Supervisory Board Members from among its employees. A performance evaluation of the assistant of the Audit & Supervisory Board Members shall be conducted by the Audit & Supervisory Board, and the appointment, dismissal, transfer, and wage revisions of the assistant of the Audit & Supervisory Board Member shall be decided by the Board of Directors with the consent of the Audit & Supervisory Board. Through these measures, the Company shall secure the independence of the assistant of the Audit & Supervisory Board Members from the Directors.
- (7) System for reporting to Audit & Supervisory Board Members by Directors and employees, and other systems for reporting to Audit & Supervisory Board Members
  - i) If the Audit & Supervisory Board Members so request, Directors and employees shall report to the Audit & Supervisory Board Members on important matters likely to affect the business operations or operating results of MACNICA group each time such matters arise. Further, Audit & Supervisory Board Members may request Directors and employees to report whenever else they deem necessary.
  - ii) The Company shall secure a system for appropriate reporting to Audit & Supervisory Board Members on violations of laws and regulations or other compliance issues by stipulating the “Regulations on Whistle Blowing” and maintaining the appropriate management of those regulations.
- (8) Other systems to ensure that Audit & Supervisory Board Members conduct audits effectively
  - i) When Audit & Supervisory Board Members investigate the business operations and assets of MACNICA group and perform other audit duties, the Audit & Supervisory Board Members may receive reports on the results of internal audits, etc. from the Audit Office and request the Audit Office to perform investigations if necessary. The Audit & Supervisory Board Members shall maintain close cooperation with the Audit Office and thus secure a system to conduct efficient audits.
  - ii) If the Audit & Supervisory Board Members consider it necessary, Directors shall cooperate with the Audit & Supervisory Board Members to enable the Audit & Supervisory Board Members to appropriately exchange information with the President and CEO and other executive divisions and seek cooperation with corporate lawyers, etc.

**Consolidated Balance Sheet**  
(As of March 31, 2014)

(Millions of yen)

Description	Amount	Description	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
<b>Current assets</b>	<b>125,696</b>	<b>Current liabilities</b>	<b>59,971</b>
Cash and deposits	18,637	Notes & accounts payable	31,266
Notes & accounts receivable	47,710	Short-term loans payable	10,552
Products	48,576	Lease obligation	51
Deferred tax assets	1,503	Accrued income taxes	3,126
Other	9,583	Accrued bonuses	2,203
Allowance for doubtful accounts	(314)	Reserve for bonuses to directors	14
<b>Fixed assets</b>	<b>14,018</b>	Other	12,755
<b>Tangible assets</b>	<b>7,558</b>	<b>Long-term liabilities</b>	<b>4,488</b>
Buildings and structures	2,518	Lease obligation	377
Equipment and fittings	13	Retirement benefits for directors	459
Land	3,558	Liability for retirement benefits	3,231
Leased assets	467	Other	420
Other	999	<b>Total liabilities</b>	<b>64,459</b>
<b>Intangible assets</b>	<b>1,861</b>	<b>(Net assets)</b>	
Goodwill	1,083	<b>Shareholders' equity</b>	<b>70,846</b>
Other	777	Paid-in capital	11,194
<b>Investments and other assets</b>	<b>4,599</b>	Additional paid-in capital	19,476
Investment in securities	2,788	Retained earnings	41,186
Deferred tax assets	1,290	Treasury stock	(1,011)
Other	574	<b>Total comprehensive income</b>	<b>2,927</b>
Allowance for doubtful accounts	(54)	Unrealized holding gain on securities	366
		Translation adjustments	2,561
		<b>Stock acquisition right</b>	<b>81</b>
		<b>Minority interest</b>	<b>1,399</b>
		<b>Total net assets</b>	<b>75,255</b>
<b>Total assets</b>	<b>139,715</b>	<b>Total liabilities &amp; net assets</b>	<b>139,715</b>

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

**Consolidated Statement of Income**  
(April 1, 2013 - March 31, 2014)

(Millions of yen)

Description	Amount	
<b>Net sales</b>		<b>255,967</b>
<b>Cost of sales</b>		<b>222,223</b>
<b>Gross profit</b>		<b>33,744</b>
<b>Selling, general &amp; administrative expenses</b>		<b>25,288</b>
<b>Operating income</b>		<b>8,456</b>
<b>Non-operating income</b>		
Interest income	38	
Dividend income	48	
Rent income	33	
Translation gain	2,222	
Right of indemnification for product loss	34	
Gain on investment in investment association	9	
Reversal of allowance for bad debt	19	
Other	67	
		<b>2,473</b>
<b>Non-operating expenses</b>		
Interest paid	82	
Loss on transfer of receivables	171	
Expense for business compensation	16	
Other	56	
		<b>326</b>
<b>Ordinary income</b>		<b>10,603</b>
<b>Extraordinary income</b>		
Proceeds from sale of fixed assets	5	
Proceeds from sale of investment securities	154	
		<b>160</b>
<b>Extraordinary losses</b>		
Loss on disposal of fixed assets	33	
Loss on valuation of [claim] of affiliates	201	
Loss on valuation of investment in affiliates	131	
Provision of allowance for doubtful accounts from subsidiaries and affiliates	164	
		<b>531</b>
Income before income taxes		<b>10,231</b>
Corporate, inhabitant and enterprise taxes	4,263	
Income tax adjustment	(484)	
		<b>3,779</b>
<b>Income before minority interests</b>		<b>6,452</b>
<b>Minority interests</b>		<b>70</b>
<b>Net income</b>		<b>6,382</b>

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

**Consolidated Statement of Changes in Net Assets**  
(April 1, 2013 - March 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Paid-in capital	Additional paid-in capital	Consolidated retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at start of period</b>	11,194	19,476	35,765	(1,090)	65,346
<b>Changes in the fiscal year</b>					
Dividends			(885)		(885)
Net income			6,382		6,382
Change in scope of consolidation			(62)		(62)
Acquisition of treasury stock				(0)	(0)
Disposal of treasury stock		(0)	(13)	80	66
Changes other than shareholders' equity (Net)					-
<b>Total changes in the fiscal year</b>	-	(0)	5,421	79	5,500
<b>Balance at end of period</b>	11,194	19,476	41,186	(1,011)	70,846

(Millions of yen)

	Other accumulated comprehensive income				Stock acquisition right	Minority interest	Total net assets
	Unrealized holding gains on other securities	Gain (loss) on deferred hedge	Translation adjustment	Total comprehensive income			
<b>Balance at start of period</b>	192	(622)	903	473	92	1,274	67,186
<b>Changes in the fiscal year</b>							
Dividends							(885)
Net income							6,382
Change in scope of consolidation							(62)
Acquisition of treasury stock							(0)
Disposal of treasury stock							66
Changes other than shareholders' equity (Net)	174	622	1,657	2,454	(11)	125	2,569
<b>Total changes in the fiscal year</b>	174	622	1,657	2,454	(11)	125	8,069
<b>Balance at end of period</b>	366	-	2,561	2,927	81	1,399	75,255

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

## Notes to Consolidated Financial Statements

(April 1, 2013 – March 31, 2014)

### Notes on significant matters forming the basis for preparing consolidated financial statements

#### 1. Scope of consolidation

(1) There were 19 consolidated subsidiaries as follows:

ALTIMA Corp.  
Macnica Networks Corp.  
ELSENA, Inc.  
KOGENT, Inc.  
Macnica Solutions Corp.  
MACNICA HONG KONG, LIMITED  
MACNICA ASIA PACIFIC PTE LTD  
MACNICA TAIWAN, LIMITED  
MACNICA SHANGHAI, LIMITED  
MACNICA (THAILAND) CO., LTD.  
CYTECH TECHNOLOGY LIMITED  
CYTECH TECHNOLOGY INTERNATIONAL TRADING (SHANGHAI) LIMITED  
CYTECH GLOBAL PTE. LTD.  
SHENZHEN CYTECH ELECTRONICS CO. LTD.  
GALAXY FAR EAST CORPORATION  
GFE INTERNATIONAL (HONG KONG) LTD.  
GFEI CYTECH TECHNOLOGY (SHENZHEN) LTD.  
GALAXY TECHNOLOGY HOLDINGS CO., LTD.  
MACNICA CHUNGJU CO., LTD.

From this consolidated fiscal year, Macnica Solutions Corp. which becomes material is included.

(2) There were 14 unconsolidated subsidiaries.

Major unconsolidated subsidiaries were as follows:

MACNICA USA, INC.

(3) Reason for exclusion of unconsolidated subsidiaries from the scope of consolidation

Unconsolidated subsidiaries were excluded from the scope of consolidation since all of them are small-sized companies and their total assets, net sales, net income (loss) for the term (amount corresponding to ownership share) and retained earnings (amount corresponding to ownership share), etc. have immaterial impact on the consolidated financial statements.

#### 2. Application of the equity method

There were 14 unconsolidated subsidiaries which were not accounted for using the equity method (MACNICA USA, INC. and others), since their net income (loss) for the term (amount corresponding to ownership share) and retained earnings for the term (amount corresponding to ownership share), etc. have immaterial impact on the consolidated financial statements even if they are excluded from the scope of application of the equity method, and their significance as a whole was minor.

#### 3. Accounting policies

(1) Evaluation basis and methods for significant assets

1) Evaluation basis and methods for securities

Securities with market quotations: Stated at fair value method based on the market price, etc., on the consolidated closing date (Unrealized holding gains and losses are accounted for as a component of net assets; cost of sales is determined based on the moving-average method.).

Securities without market quotations: Stated at cost by the moving-average method.

The investments in limited investment partnerships and other similar partnerships (those deemed as “securities” according to the Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are reported, using the equity method, based on the latest financial statements available as at the closing dates stipulated by the respective partnership contracts. However, the method whereby the amount under the equity method of profit or loss of the relevant investment partnerships, etc. is recorded in the case where such partnerships, etc. are managed by affiliates of the Company.



- 2) Evaluation basis and methods for inventories  
Mainly stated at cost using moving-average method (Cost of inventories is written-down when their carrying amounts become unrecoverable.).
  - 3) Evaluation basis and methods for derivatives  
Stated at fair value method.
- (2) Depreciation and amortization method of significant depreciable assets
- 1) Tangible assets (excluding leased assets)  
The Company and its domestic consolidated subsidiaries use the declining-balance method. However, the straight-line method has been used for buildings (excluding facilities attached to buildings) acquired after April 1, 1998.  
Overseas consolidated subsidiaries use straight-line method based on estimated useful life.  
Useful lives of assets are principally as follows:  
Buildings and structures: 3-65 years
  - 2) Intangible assets (excluding leased assets)  
Stated at straight-line method.  
Software for internal use is amortized by the straight-line method over an estimated useful life of 5 years.  
In addition, software for commercial sales purposes is amortized by the straight-line method over an estimated useful life of 3 years.
  - 3) Leased assets  
Leased assets concerning non-transfer ownership finance lease transactions:  
Depreciated using the straight-line method, defining the lease term of respective assets as their useful lives, without residual value.
- (3) Basis for recording significant reserves
- 1) Allowance for doubtful accounts  
To provide for the bad debts loss, the Company makes an allowance for the expected amount of irrecoverable loans. Allowances for ordinary debts are computed, based on the historical rate of defaults. For specific debts where recovery is doubtful, etc., the Company considers the likelihood of recovery on an individual basis.
  - 2) Accrued bonuses  
The estimated amount of payment attributable to this consolidated fiscal year is recorded to provide for payments of bonuses to employees.
  - 3) Reserve for bonuses to directors  
The estimated amount of payment attributable to this consolidated fiscal year is recorded to provide for payments of bonuses to directors.
  - 4) Provision for retirement benefits for directors  
To provide for the payment of retirement benefits for directors, the amount based on the Company's Retirement Benefits for Directors Rules at the end of this consolidated fiscal year is recorded.
- (4) Other significant matters for the preparation of these consolidated financial statements
- 1) Accounting method relating to retirement benefits  
Periodic allocation of projected retirement benefit  
In calculating retirement benefit obligations, the straight-line attribution is applied for allocation of projected benefits to the periods until the end of this consolidated fiscal year.  
Amortization of actuarial differences and past service costs  
Actuarial differences and past service costs are mainly expensed within the fiscal year incurred.  
(Changes in method of accounting)  
The "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012; hereinafter the "Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012; hereinafter the "Guidance") have been applied, effective from the end of this consolidated fiscal year, except for the provisions of Paragraph 35 of the Accounting Standard and Paragraph 67 of the Guidance. According to this application, an amount obtained by deducting the amount of plan assets from retirement benefit obligations is recognized as the liability for retirement

- benefits.
- 2) Conversion of major foreign currency denominated assets and liabilities to yen  
 Receivables and payables denominated in foreign currencies are translated into yen at the spot exchange rates on the consolidated closing date, and differences arising from the translation are treated as gains or losses. Assets and liabilities of the foreign consolidated subsidiaries are translated into yen at the spot exchange rates on the closing date of such subsidiaries, and revenue and expense accounts are translated at the average exchange rates during the year. Differences arising from the translation are presented as translation adjustments and minority interests in net assets.
  - 3) Significant hedge accounting method
    - i) Hedge accounting method  
 The deferred hedge accounting has been applied.
    - ii) Hedging instruments and hedging items  
 Hedging instruments and hedging items for this consolidated fiscal year for which hedge accounting has been applied are as follows:  
 Hedging instruments: Forward- exchange contracts  
 Hedging items: Forecasted transactions denominated in foreign currencies
    - iii) Hedging policy  
 Forward-exchange contracts are used to hedge risks in fluctuations in the exchange market for contracts denominated in foreign currency.
    - iv) Method for evaluating hedging effectiveness  
 For forward-exchange contracts, evaluation of hedging effectiveness is omitted as significant conditions for hedging instruments and hedging items are identical and they have a high correlation.
  - 4) Method and period of amortization of goodwill  
 Goodwill is amortized equally during the relevant period upon estimated the expected period for return on investment. However, one-time depreciation in the fiscal year incurred is adopted if the amount is not considered significant.
  - 5) Accounting for consumption tax, etc.  
 Transactions subject to consumption tax, etc. are recorded at the amount exclusive of consumption tax, etc.

#### Notes on consolidated balance sheet

1. Assets pledged as collateral
 

Cash and deposits (Note 1)	75 million yen
Investments and other assets (other) (Note 2)	122 million yen

 Notes:
  1. Pledged as collateral for bank transactions (business transactions, letter of credit transactions, etc.)
  2. Pledged as collateral for tariffs, duties and consumption taxes, etc. associated with import transactions.
2. Accumulated depreciation of tangible assets      6,149 million yen
3. Guarantees
 

Guarantees for the trade payables of following non-consolidated subsidiaries to business partners	
MACNICA GmbH	196 million yen
MACNICA AMERICAS, Inc.	25 million yen
4. Other  
 The maximum amount for obligations to repurchase trade notes accompanying liquidation of trade notes are 394 million yen.  
 Balance for liquidation accompanying declaration of trust is 101 million yen.

**Notes on consolidated statement of changes in net assets**

1. Types and total number of shares issued at the end of this consolidated fiscal year  
Common stock 18,110,252 shares
2. Matters related to dividends from surplus executed in this consolidated fiscal year

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of the shareholders on June 26, 2013	Common stock	354	20	March 31, 2013	June 27, 2013
Meeting of the Board of Directors on October 28, 2013	Common stock	531	30	September 30, 2013	December 3, 2013

3. Dividends whose record date falls under this consolidated fiscal year and whose effective date falls after the end of this consolidated fiscal year

The following matters related to dividends for common stock were proposed at the annual general meeting of shareholders held on June 26, 2014:

- 1) Total dividend 531 million yen
- 2) Dividend per share 30 yen
- 3) Record date March 31, 2014
- 4) Effective date June 27, 2014

In addition, the source of dividends shall be dividends from surplus.

4. Number of shares to be issued upon exercise of stock acquisition rights issued by the Company as of the end of this consolidated fiscal year  
Common stock 220,000 shares

**Notes on financial instruments**

1. Financial instruments

- (1) Policy for financial instruments

Our group has a policy that fund operation is limited to short-term deposits, etc., and fund raising is made through bank borrowings. Derivatives are used for the purpose of hedging the risks below and are not used for speculative purposes.

- (2) Content and risk of financial instruments and risk management system

Notes and accounts receivable which are operating receivables are exposed to customer credit risk. We manage such credit risk on the basis of credit management guidelines of our group, which include monitoring of payment terms and balances of each customer to regularly identify the credit situations of major customers. Although operating receivables in foreign currencies due to global operations are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged principally by using forward foreign currency contracts and currency options in relation to operating receivables in denominated foreign currencies.

Investment in securities are exposed to the risk of market price fluctuations but are managed by monitoring market values and the financial position of issuers on a regular basis.

Payment terms of notes and accounts payable which are operating payables are less than one year. Although some of them are payables denominated in foreign currencies, which are associated with the import of products, are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged principally by using forward foreign currency contracts and currency options in relation to operating payables denominated in foreign currencies.

Short-term loans payable and long-term loans payable (principally due within three years) are mainly related to operating transactions.

Derivative transactions are forward foreign currency contracts and currency options, to hedge the market risk of fluctuation in foreign currency exchange rates regarding operating receivables and payables denominated in foreign currencies as well as forecasted transactions denominated in foreign currencies.

The financial department enters into derivative transactions based on the basic policy, which is approved in the management meeting in accordance with derivative transactions guidelines of the Company that regulate the authorization and other matters. Monthly results for derivative transactions are reported to officers in charge of the financial department and also reported to the management meeting when necessary. Consolidated subsidiaries also manage their derivative transactions in accordance with derivative transactions guidelines of the Company.

## 2. Fair value of financial instruments

The carrying amount, fair value and the differences between these values as of March 31, 2014 (the consolidated closing date of this fiscal year) are described below. Financial instruments whose fair value appears to be extremely difficult to determine are not included in the table.

(Millions of yen)			
	Carrying amount	Fair value	Difference
(1) Cash and deposits	18,637	18,637	–
(2) Notes & accounts receivable	47,710	47,710	–
(3) Securities and investment in securities			
Other securities	31	31	–
(4) Notes & accounts payable	31,266	31,266	–
(5) Short-term loans payable	4,000	4,000	–
(6) Long-term loans payable *1	6,552	6,558	6
(7) Derivative transactions *2	[104]	[104]	–

\*1 Includes current portion of long-term loans payable.

\*2 The receivables and payables attributable to derivative transactions are shown in their net amounts. If the aggregate outcome of the derivative transactions results in net payables, the amount is shown in brackets “[ ]”.

Notes:

### 1. Calculation method of the fair value of financial instruments and matters relating to securities and derivative transactions

#### (1) Cash and deposits and (2) Notes & accounts receivable

Fair value is calculated based on the book value as these are settled within a short time and the fair value is almost equal to the book value.

#### (3) Securities and investment in securities

The fair values are based on prices quoted on the stock exchange.

#### (4) Notes & accounts payable and (5) Short-term loans payable

Fair value is calculated based on the book value as these are settled within a short time and the fair value is almost equal to the book value.

#### (6) Long-term loans payable

Fair value of long-term loans payable with floating interest rates is calculated based on book value as the fair value is close to book value since it reflects the short-term market interest rate and the credit standing of the Company has not fluctuated significantly after execution. Fair value of long-term loans payable with fixed interest rates is calculated based on the present value estimated by discounting the total principal and interest, using discount rates which would be applicable for similar new borrowings

#### (7) Derivative transactions

Fair value is calculated based on forward exchange rates.

2. Financial instruments for which fair value is deemed as extremely difficult to determine

(Millions of yen)

Category	Carrying amount
Stock of subsidiaries and affiliates	2,381
Investment in investment partnership, etc.	158
Non-listed stocks	216

The above do not have a market value and excessively large expenses are required to estimate their future cash flows. As such, since the fair values of the above are deemed as extremely difficult to determine, they are not included in “other securities” under “(3) Securities and investment in securities.”

**Notes to per share information**

Net assets per share	4,160.37 yen
Net income per share	360.39 yen

**Notes to significant subsequent events**

Not applicable.

**Non-Consolidated Balance Sheet**  
(As of March 31, 2014)

(Millions of yen)

Description	Amount	Description	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
<b>Current assets</b>	<b>56,907</b>	<b>Current liabilities</b>	<b>33,343</b>
Cash and deposits	8,548	Notes payable	241
Notes receivable	682	Accounts payable	9,358
Accounts receivable	20,044	Short-term loans payable	4,000
Products	16,901	Current portion of long-term loans payable	5,000
Advance payments	1,040	Lease obligation	51
Prepaid expenses	317	Accounts payable - other	860
Deferred tax assets	904	Accrued expenses	319
Short-term loans receivable	7,270	Accrued income taxes	1,473
Other	1,364	Advances received	1,181
Allowance for doubtful accounts	(167)	Deposits received	9,667
<b>Fixed assets</b>	<b>26,724</b>	Accrued bonuses	1,080
<b>Tangible assets</b>	<b>6,762</b>	Reserve for bonuses to directors	14
Buildings	2,449	Other	94
Structures	4	<b>Long-term liabilities</b>	<b>4,071</b>
Machinery and equipment	9	Lease obligation	377
Tools, furniture and fixtures	273	Accrued retirement benefits	3,224
Land	3,558	Retirement benefits for directors	459
Leased assets	467	Other	10
<b>Intangible assets</b>	<b>553</b>	<b>Total liabilities</b>	<b>37,414</b>
Software	544	<b>(Net assets)</b>	
Telephone subscription right	8	<b>Shareholders' equity</b>	<b>45,767</b>
Other	0	<b>Paid-in capital</b>	<b>11,194</b>
<b>Investments and other assets</b>	<b>19,408</b>	<b>Additional paid-in capital</b>	<b>20,333</b>
Investment in securities	406	Legal capital surplus	20,333
[Claim] of affiliates	15,080	<b>Retained earnings</b>	<b>15,250</b>
Investments in other securities of affiliates	2,091	Legal retained earnings	95
Investment	58	Other retained earnings	15,155
Investment in affiliates	344	General reserve	13,170
Long-term prepaid expenses	5	Retained earnings brought forward	1,985
Deferred tax assets	1,269	<b>Treasury stock</b>	<b>(1,011)</b>
Other	154	<b>Valuation and translation adjustments</b>	<b>367</b>
Allowance for doubtful accounts	(3)	Unrealized holding gain on securities	367
		<b>Stock acquisition right</b>	<b>81</b>
<b>Total assets</b>	<b>83,632</b>	<b>Total net assets</b>	<b>46,217</b>
		<b>Total liabilities &amp; net assets</b>	<b>83,632</b>

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

**Non-Consolidated Statement of Income**  
(April 1, 2013 - March 31, 2014)

(Millions of yen)

Description	Amount	
<b>Net sales</b>		<b>120,634</b>
<b>Cost of sales</b>		<b>108,648</b>
<b>Gross profit</b>		<b>11,986</b>
<b>Selling, general &amp; administrative expenses</b>		<b>10,355</b>
<b>Operating income</b>		1,630
<b>Non-operating income</b>		
Interest income	44	
Interest on securities	0	
Dividend income	1,132	
Rent income	390	
Translation gain	1,202	
Other	104	2,875
<b>Non-operating expenses</b>		
Interest paid	52	
Sales discounts	11	
Loss on transfer of receivables	98	
Depreciation and amortization	31	
Other	13	207
<b>Ordinary income</b>		<b>4,297</b>
<b>Extraordinary income</b>		
Proceeds from sale of investment securities	135	<b>135</b>
<b>Extraordinary losses</b>		
Loss on disposal of fixed assets	30	
Loss on valuation of [claim] of affiliates	201	
Loss on valuation of investment in affiliates	131	
Provision of allowance for doubtful accounts from subsidiaries and affiliates	164	528
<b>Income before income taxes</b>		<b>3,904</b>
Corporate, inhabitant and enterprise taxes	1,757	
Income tax adjustment	(378)	1,379
<b>Net income</b>		<b>2,525</b>

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

**Non-Consolidated Statement of Changes in Net Assets**  
(April 1, 2013 - March 31, 2014)

(Millions of yen)

	Shareholders' equity			
	Paid-in capital	Additional paid-in capital		
		Legal capital surplus	Other additional paid-in capital	Total additional paid-in capital
<b>Balance at start of period</b>	11,194	20,333	0	20,333
<b>Changes in the fiscal year</b>				
Dividends				-
Net income				-
Provision of general reserve				-
Acquisition of treasury stock				-
Disposal of treasury stock			(0)	(0)
Changes other than shareholders' equity				-
<b>Total changes in the fiscal year</b>	-	-	(0)	(0)
<b>Balance at end of period</b>	11,194	20,333	-	20,333

(Millions of yen)

	Shareholders' equity					
	Retained earnings				Treasury stock	Total shareholders' equity
	Legal retained earnings	Other retained earnings		Total retained earnings		
		General reserve	Retained earnings brought forward			
<b>Balance at start of period</b>	95	13,070	459	13,624	(1,090)	44,061
<b>Changes in the fiscal year</b>						
Dividends			(885)	(885)		(885)
Net income			2,525	2,525		2,525
Provision of general reserve		100	(100)	-		-
Acquisition of treasury stock				-	(0)	(0)
Disposal of treasury stock			(13)	(13)	80	66
Changes other than shareholders' equity				-		-
<b>Total changes in the fiscal year</b>	-	100	1,526	1,626	79	1,705
<b>Balance at end of period</b>	95	13,170	1,985	15,250	(1,011)	45,767



(Millions of yen)

	Valuation and translation adjustments			Stock acquisition right	Total net assets
	Unrealized holding gains on other securities	Gain (loss) on deferred hedge	Total valuation and translation adjustments		
<b>Balance at start of period</b>	193	(31)	162	92	44,317
<b>Changes in the fiscal year</b>					
Dividends			–		(885)
Net income			–		2,525
Provision of general reserve			–		–
Acquisition of treasury stock			–		(0)
Disposal of treasury stock			–		66
Changes other than shareholders' equity	174	31	205	(11)	194
<b>Total changes in the fiscal year</b>	174	31	205	(11)	1,900
<b>Balance at end of period</b>	367	–	367	81	46,217

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

## Notes to Non-Consolidated Financial Statements

(April 1, 2013 – March 31, 2014)

### **Notes to significant accounting policies**

#### 1. Basis and methods for the valuation of assets

##### (1) Basis and methods for the valuation of securities

###### Subsidiaries and affiliates' stocks

Stated at cost by moving-average method.

###### Other securities

Securities with market quotations: Stated at fair value method based on the market value, etc., on the closing date unrealized holding gains and losses are accounted for as a component of net assets; cost of sales is determined based on the moving-average method.

###### Securities without market quotations:

Stated at cost by moving-average method.

The investments in limited investment partnerships and other similar partnerships (those deemed as “securities” according to Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are reported, using the equity method, based on the latest financial statements available as at the closing dates stipulated by the respective partnership contracts. However, the method whereby the amount under the equity method of profit or loss of the relevant investment partnerships, etc. is recorded in the case where such partnerships, etc. are managed by affiliates of the Company.

##### (2) Basis and methods for the valuation of inventories

Stated at cost by moving-average method (Cost of inventories is written-down when their carrying amounts become unrecoverable.).

##### (3) Basis and methods for the derivative transactions

Stated at fair value method.

## 2. Depreciation and amortization methods for fixed assets

### (1) Tangible assets (excluding lease assets)

Stated at declining-balance method. However, the straight-line method has been used for buildings (excluding facilities attached to buildings) acquired after April 1, 1998.

Useful lives of assets are principally as follows:

Buildings: 3-65 years

### (2) Intangible assets (excluding leased assets)

Stated at straight-line method. Software for internal use is amortized by the straight-line method over an estimated useful life of 5 years.

In addition, software for commercial sales purposes is amortized by the straight-line method over an estimated useful life of 3 years.

### (3) Leased assets

Leased assets concerning non-transfer ownership finance lease transactions:

Depreciated using the straight-line method, defining the lease term of respective assets as their useful lives, without residual value.

## 3. Basis for recording reserves

### (1) Allowance for doubtful accounts

To provide for the bad debts loss, the Company makes an allowance for the expected amount of irrecoverable loans. Allowances for ordinary debts are computed, based on the historical rate of defaults. For specific debts where recovery is doubtful, the Company considers the likelihood of recovery on an individual basis.

### (2) Accrued bonuses

The estimated amount of payment attributable to this fiscal year is recorded to provide for payments of bonuses to employees.

### (3) Reserve for bonuses to directors

The estimated amount of payment attributable to this fiscal year is recorded to provide for payments of bonuses to directors.

### (4) Provision for retirement benefits

To provide for retirement benefits for employees, it is recorded based on the estimated amount of retirement benefit obligations and related pension assets at the end of this fiscal year. However for the multi-employer pension plan that the Company adopted, the required contribution amount is recognized as retirement benefit expenses.

In addition, actuarial differences and past service costs are expensed within the fiscal year incurred.

### (5) Provision for retirement benefits for directors

To provide for the payment of retirement benefits for directors, the amount based on the Company's

Retirement Benefits for Directors Rules at the end of this fiscal year is recorded.

4. Other significant matters for the preparation of financial statements

(1) Hedge accounting method

- 1) Hedge accounting method  
The deferred hedge accounting has been applied.
- 2) Hedging instruments and hedging items  
Hedging instruments and hedging items for this fiscal year for which hedge accounting has been applied are as follows:  
Hedging instruments: Forward- exchange contracts  
Hedging items: Forecasted transactions denominated in foreign currencies
- 3) Hedging policy  
Forward-exchange contracts are used to hedge risks in fluctuations in the exchange market for contracts denominated in foreign currency.
- 4) Method for evaluating hedging effectiveness  
For forward-exchange contracts, evaluation of hedging effectiveness is omitted as significant conditions for hedging instruments and hedging items are identical and they have a high correlation.

(2) Accounting method for consumption tax, etc.

Transactions subject to consumption tax, etc. are recorded at the amount exclusive of consumption tax, etc.

**Notes to changes in method of presentation**

1. For non-consolidated balance sheet

“Accounts receivable” under “Current assets” which had been stated separately in the previous fiscal year (1,021 million yen in this fiscal year) becomes minimal, thus it has been included in “Other” in this fiscal year.

“Deposits and guarantees” under “Investments and other assets” (89 million yen in this fiscal year) becomes minimal, thus it has been included in “Other” in this fiscal year.

2. For non-consolidated statement of income

“Gain on investments in investment partnership” under “Non-operating income” (9 million yen in this fiscal year) becomes minimal, thus it has been included in “Other” in this fiscal year.

**Notes to non-consolidated balance sheet**

1. Accumulated depreciation of tangible assets: 3,794 million yen

2. Guarantee obligation

(1) Guarantees for the trade payables of following affiliates to business partners.

(Millions of yen)

ALTIMA Corp.	15,296
ELSENA Inc.	92
MACNICA ASIA PACIFIC PTE LTD	55
MACNICA HONG KONG, LIMITED	306
MACNICA GmbH	196
MACNICA AMERICAS, Inc.	25
CYTECH TECHNOLOGY LIMITED	3,340
CYTECH GLOBAL PTE.LTD.	1,313
GALAXY FAR EAST CORPORATION	226

(2) Guarantees for the banking transaction (trade and letter of credit transactions, etc.) of following affiliates.

	(Millions of yen)
CYTECH TECHNOLOGY LIMITED	328

### 3. Others

The maximum amount for obligations to repurchase trade notes accompanying liquidation of trade notes are 174 million yen.

### 4. Monetary claim and liabilities for affiliates

	(Millions of yen)
Short-term monetary claim	15,380
Short-term monetary liabilities	9,463

**Note to non-consolidated statement of income**

Aggregate amounts of business transactions and other transactions with affiliates

	(Millions of yen)
Net sales	37,495
Purchase amounts	339
Other business transactions	2,638
Transactions other than business transactions	1,590

**Note to non-consolidated statement of changes in net assets**

Types and the number of treasury stock at the end of this fiscal year

Common stock	377,587 shares
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**Notes to tax-effect accounting**

Breakdown of major factors giving rise to deferred tax assets and liabilities.

	(Millions of yen)
(Deferred tax assets)	
Reserve for retirement benefits	1,147
Loss on valuation of investments in capital	442
Loss on valuation of goods	402
Accrued bonuses	389
Extraordinary losses	256
Loss on valuation of stock of subsidiaries and associates	234
Reserve for retirement benefits to directors	163
Loss on valuation of investment in securities	158
Accrued income taxes	118
Other	378
Deferred tax assets	3,691
Valuation reserve	(1,299)
Total deferred tax assets	2,391
(Deferred tax liabilities)	
Valuation difference on other securities	(203)
Other	(14)
Total deferred tax liabilities	(217)
Net deferred tax assets	2,174

### Notes to fixed assets used under lease arrangements

Other than the fixed assets recorded on the balance sheet, certain office equipment is used under non-transfer ownership finance lease agreements.

### Notes to transactions with related parties

#### 1. Officers and individual major shareholders, etc.

(Millions of yen)

Category	Company Name	Capital	Holding Ratio of Voting Rights (%)	Relationships		Transaction Detail	Transaction Amount	Item	Term-End Balance
				Concurrent officers	Business Relationships				
A company (including its subsidiaries) of which majority of voting rights are held by major shareholders (individuals) and their close relatives	Nichiei Electronics Corporation	30	None	—	Sales of products of the Company	Sale of products (Note 2)	13	Accounts receivable	0
A company (including its subsidiaries) of which majority of voting rights are held by officers and their close relatives	Nichiei Electronics Corporation	30	None	—	Sales of products of the Company	Sale of products (Note 2)	13	Accounts receivable	0
Officers and their close relatives	Kiyoshi Nakashima	—	0.16 Direct ownership	—	President and CEO of the Company	Exercise of stock acquisition rights (Note 3)	55	—	—

Terms of transactions and decision policy for terms of transactions, etc.

Notes:

1. The transactions amounts stated above are exclusive of consumption taxes, etc., while amounts stated under term-end balance are inclusive of consumption taxes, etc.
2. Terms of sales of products are determined in the same manner as terms of general transactions.
3. Exercise of stock acquisition rights issued in accordance with the resolution of the Board of Directors held on August 23, 2010.

2. Subsidiaries, etc.

(Millions of yen)

Category	Company Name	Capital or Investment	Holding Ratio of Voting Rights (%)	Relationships		Transaction Detail	Transaction Amount	Item	Term-End Balance
				Concurrent officers	Business Relationships				
Subsidiary	ALTIMA Corp.	339 million yen	100.0 Direct ownership	2 officers	Sales of products of the Company	Lending and depositing of funds (Note 3)	80	Deposits	1,218
						Guarantees (Note 4)	15,296	—	—
	Macnica Networks Corp.	300 million yen	100.0 Direct ownership	1 officer	Purchase of products	Purchase of products (Note 2)	—	Advanced payments	949
						Lending and depositing of funds (Note 3)	81	Deposits	4,999
	ELSENA Inc.	350 million yen	100.0 Direct ownership	3 officer	Sales of products of the Company	Lending and depositing of funds (Note 3)	178	Deposits	2,110
	MACNICA HONG KONG, LIMITED	3,500 thousand Hong Kong Dollars	100.0 Indirect ownership	—	Sales of products of the Company	Sales of products (Note 1)	10,595	Accounts receivable	1,170
						Loan transactions (Note 3)	4,073	Short-term loans	1,029
	MACNICA ASIA PACIFIC PTE LTD	31,938 thousand U.S. Dollars	100.0 Indirect ownership	—	Sales of products of the Company	Sales of products (Note 1)	8,233	Accounts receivable	837
	MACNICA SHANGHAI, LIMITED	3,400 thousand U.S. Dollars	100.0 Direct ownership	—	Sales of products of the Company	Sales of products (Note 1)	8,280	Accounts receivable	1,498
	MACNICA (THAILAND) CO., LTD.	100,000 thousand Thai baht	100.0 Indirect ownership	—	Sales of products of the Company	Sales of products (Note 1)	4,893	Accounts receivable	1,270
	CYTECH TECHNOLOGY LIMITED	304,556 thousand Hong Kong Dollars	100.0 Direct ownership	—	Supporting of funds and guarantees	Loan transactions (Note 3)	10,042	Short-term loans	2,573
						Guarantees (Note 4)	3,668	—	—
CYTECH GLOBAL PTE. LTD.	500 thousand U.S. Dollars	100.0 Indirect ownership	—	Guarantees	Guarantees (Note 4)	1,313	—	—	
GALAXY FAR EAST CORPORATION	761,117 Thousand Taiwan Dollars	66.7 Indirect ownership	—	Supporting of funds	Loan transactions (Note 3)	1,231	Short-term loans	617	



Category	Company Name	Capital	Holding Ratio of Voting Rights (%)	Relationships		Transaction Detail	Transaction Amount	Item	Term-End Balance
				Inter-locking Directorship	Business Relationships				
Subsidiary	MACNICA AMERICAS, Inc.	9 thousand U.S. Dollars	55.7 Direct ownership	—	Supporting of funds	Loan transactions (Note 3)	5,205	Short-term loans	1,358
	MACNICA GmbH	2,902 thousand Euros	100.0 Direct ownership	—	Supporting of funds	Loan transactions (Note 3)	2,113	Short-term loans	591

Terms of transactions and decision policy for terms of transactions, etc.

Notes:

1. Terms of sales of products are determined in the same manner as terms of general transaction based on market price.
2. Terms of purchase of products are determined in the same manner as terms of general transactions based on market price.  
In addition, a large portion of the products purchased from Macnica Networks Corp. are transactions whereby sold through the Company from a commercial perspective, and as net sales is offset with the cost of sales based on the accounting concept regarding representation of the full amount for income as described in “Practical Solution on Revenue Recognition of Software Transactions” (ASBJ PITF No. 17, March 30, 2006), it is not included in the transaction amount above.
3. Lending, borrowing and depositing of funds includes the transaction amount by the cash management system, and the average balance during the period is presented.  
In addition, interests received and paid are determined on reasonable grounds based on the market interest rate.
4. The amount of guarantees are guarantee obligations for the trade payables to business partners and banking transactions (trade and letter of credit transactions, etc.).
5. Of the above amounts, transaction amounts are net of consumption taxes, etc., and term-end balances include consumptions taxes, etc.

#### Notes to per share information

Net assets per share	2601.74 yen
Net income per share	142.61 yen

#### Notes to significant subsequent events

Not applicable.

## Accounting Auditor's Report on the Consolidated Financial Statements

### Independent Auditor's Report

May 15, 2014

To the Board of Directors

Macnica, Inc.

Ernst & Young ShinNihon LLC

Hidetsugu Kaneko (Seal)

Certified Public Accountant

Designated Limited Liability Partner, Engagement  
Partner

Kayoko Kitamoto (Seal)

Certified Public Accountant

Designated Limited Liability Partner, Engagement  
Partner

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements for the consolidated fiscal year from April 1, 2013 to March 31, 2014 of Macnica, Inc., that is, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements.

#### Responsibility of the Company's Management for Consolidated Financial Statements

The responsibility of the management is to prepare and present properly consolidated financial statements in accordance with accounting standards generally accepted in Japan. This includes establishing and operating internal control that the management considers necessary to prepare and present properly such consolidated financial statements free of any material misstatement due to dishonesty or an error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements as independent auditors on the basis of the audit we conducted. We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we draw up an audit plan and conduct audit based on the audit plan to obtain reasonable reassurance about whether the consolidated financial statements are free of any material misstatement.

In our audit, we perform the procedure for obtaining audit evidence as to the amounts and disclosure of the consolidated financial statements. The audit procedure is selected and used, according to our judgment, on the basis of the assessment of the risk of material misstatements on the consolidated

financial statements due to dishonesty or an error. Although the purpose of our audit is not to express our opinion on the validity of the internal control, we examine the internal control related to the preparation and proper presentation of consolidated financial statements in order to plan a proper audit procedure according to the situation in conducting the assessment of the risk. Our audit also includes examining the overall presentation of the consolidated financial statements, including the assessment of the accounting policies and their application methods adopted by the management and of the estimates made by the management.

We believe that we have obtained the sufficient and appropriate audit evidence that serve as a basis for expressing our opinions.

#### Audit Opinion

In our opinion, the above consolidated financial statements present properly in every material point the situations of the assets as well as the income and losses of the group composed of Macnica, Inc. and its consolidated subsidiaries for the year related to these consolidated financial statements in accordance with the accounting standards generally accepted in Japan.

#### Interests

Neither the above audit corporation nor its engagement partners have any interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

End

## Accounting Auditor's Report on the Non-Consolidated Financial Statements

### Independent Auditor's Report

May 15, 2014

To the Board of Directors

Macnica, Inc.

Ernst & Young ShinNihon LLC

Hidetsugu Kaneko (Seal)

Certified Public Accountant

Designated Limited Liability Partner, Engagement  
Partner

Kayoko Kitamoto (Seal)

Certified Public Accountant

Designated Limited Liability Partner, Engagement  
Partner

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements for the 43th fiscal year from April 1, 2013 to March 31, 2014 of Macnica, Inc., that is, the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, the notes to the non-consolidated financial statements and their supplementary schedules.

#### Responsibility of the Company's Management for Non-Consolidated Financial Statements

The responsibility of the management is to prepare and present properly non-consolidated financial statements and their supplementary schedules in accordance with accounting standards generally accepted in Japan. This includes establishing and operating internal control that the management considers necessary to prepare and present properly such non-consolidated financial statements and their supplementary schedules free of any material misstatement due to dishonesty or an error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the non-consolidated financial statements and their supplementary schedules as independent auditors on the basis of the audit we conducted. We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we draw up an audit plan and conduct audit based on the audit plan to obtain reasonable reassurance about whether the non-consolidated financial statements and their supplementary schedules are free of any material misstatement.

In our audit, we perform the procedure for obtaining audit evidence as to the amounts and disclosure of the non-consolidated financial statements and their supplementary schedules. The audit procedure is selected and used, according to our judgment, on the basis of the assessment of the risk of material misstatements on the non-consolidated financial statements and their supplementary schedules due to dishonesty or an error. Although the purpose of our audit is not to express our opinion on the validity of the internal control, we examine the internal control related to the preparation and proper presentation of non-consolidated financial statements and their supplementary schedules in order to plan a proper audit procedure according to the situation in conducting the assessment of the risk. Our audit also includes examining the overall presentation of the non-consolidated financial statements and their supplementary schedules, including the assessment of the accounting policies and their application methods adopted by the management and of the estimates made by the management.

We believe that we have obtained the sufficient and appropriate audit evidence that serve as a basis for expressing our opinions.

#### Audit Opinion

In our opinion, the above non-consolidated financial statements and their supplementary schedules present properly in every material point the situations of the assets as well as the income and losses for the year related to these non-consolidated financial statements and their supplementary schedules in accordance with the accounting standards generally accepted in Japan.

#### Interests

Neither the above audit corporation nor its engagement partners have any interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

End

## **Audit Report by the Board of Corporate Auditors**

### Audit Report

Regarding the performance of duties by the Directors for the 43th fiscal year from April 1, 2013 to March 31, 2014, the Board of Corporate Auditors hereby submits its audit report, which has been prepared through discussions based on the reports prepared by each corporate auditor.

#### **1. Auditing Method Employed by the Corporate Auditors and the Board of Corporate Auditors and Details Thereof**

The Board of Corporate Auditors determined the auditing policies, the assignment of tasks to corporate auditors, etc., and received reports from each corporate auditor the situation of auditing work and its result. In addition, it received reports on the performance of duties and, when necessary, asked for explanations, from the directors, etc., and the accounting auditors.

In accordance with the auditing policies and the assignment of tasks to corporate auditors, etc., each corporate auditor kept up communications with the directors, internal audit office and other employees, etc., and worked to collect information and improve the auditing environment. Corporate auditors also attended the meetings of the Board of Directors and other important meetings, received reports on the performance of duties from the directors and employees, etc., asked for explanations whenever necessary, read important authorized documents, etc., and studied the operations and financial positions at the head office and principal business offices. In addition, they regularly received reports and asked explanations whenever necessary from directors and employees, etc., and expressed their opinions about the content of the resolutions of the Board of Directors regarding the development of the system for ensuring that the performance of duties by the directors stated in the business report conforms to laws and regulations as well as to the Articles of Incorporation and other systems provided for in Article 100, Paragraphs 1 and 3 of the Enforcement Regulations of the Companies Act as necessary to ensure the proper conduct of business of a corporation and about the establishment and operating situation of the system (internal control system) established according to the resolutions. As for the subsidiaries, we worked to keep up communications and exchange information with the directors and corporate auditors, etc., of these subsidiaries and, when necessary, received reports on business from the subsidiaries. We examined the business report and its supplementary schedules for this fiscal year in the way described above.

In addition, the corporate auditors monitored and inspected to check whether the accounting auditors maintain their independence and conducted their audit work properly, and received reports from them about their performance of their duties and, when necessary, asked them for explanations. We also had a report from the accounting auditors to the effect that they established the “System for ensuring that the independent auditors properly perform their duties” (matters stated in each Item of Article 131 of the Regulations for Corporate Accounting) according to the “Standards for Quality Control of Auditing”

(Business Accounting Council; October 28, 2005), etc., and, when necessary, asked them for explanations. We examined the non-consolidated financial statements for this fiscal year (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets and notes to non-consolidated financial statements) and supplementary schedules thereto as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and notes to consolidated financial statements) in the way prescribed above.

## 2. Audit Results

### (1) Audit Results of the Business Report, etc.

- 1) In our opinion, the business report and its supplementary schedules fairly represent the Company's conditions in accordance with the laws and regulations and the Articles of Incorporation.
- 2) With regard to the performance of duties by the Directors, we have found no evidence of wrongful act or material facts in violation of the laws and regulations or the Articles of Incorporation.
- 3) In our opinion, the resolution of the Board of Directors regarding the internal control system is fair. As for the statement regarding such internal control system in the business report and the performance of directors' duties concerning the internal control system, we have found no matters to point out.

### (2) Audit Results of the Non-Consolidated Financial Statements and their Supplementary Schedules

In our opinion, the audit methods and results employed and rendered by Ernst & Young ShinNihon LLC, the accounting auditors, are fair and reasonable.

### (3) Audit Results of the Consolidated Financial Statements and their Supplementary Schedules

In our opinion, the audit methods and results employed and rendered by Ernst & Young ShinNihon LLC, the accounting auditors, are fair and reasonable.

May 16, 2014

Macnica, Inc.	Board of Corporate Auditors
Full time Corporate Auditor	Takashi Ito (seal)
Full time Corporate Auditor	Yutaka Usami (seal)
Corporate Auditor	Yoshiaki Asahi (seal)